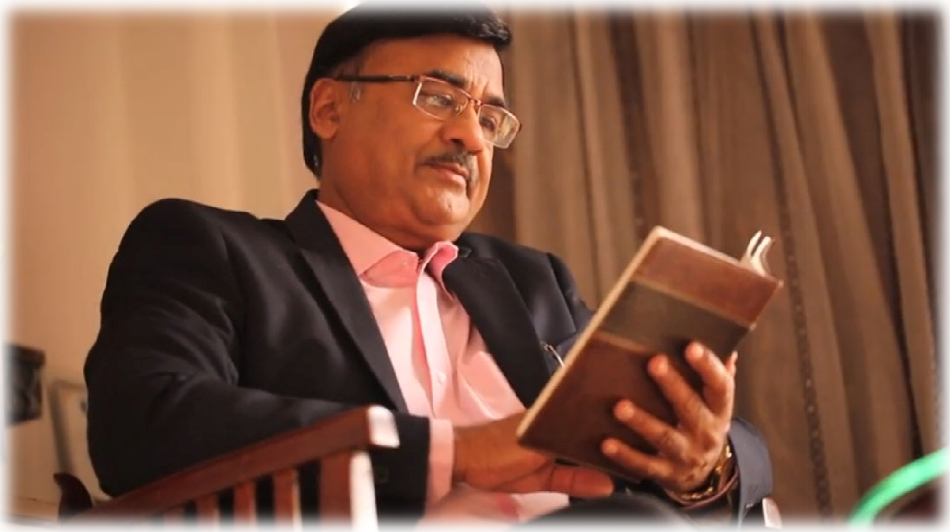

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on May 30, 2020

Recent rally may fizzle out soon on poor ground situation; some more stimulus and relaxations expected..

On a weekly basis, the Sensex was up by 5.7 per cent while the Nifty rallied by 6 per cent. The recent run in equities is owing to positive global cues like Euro 750 billion stimulus plan by European Union and gradual opening of global economies. In addition, partial resumption of economic activities in India has also supported rally amidst rising COVID-19 cases. However, rising US – China tensions would remain an overhang. To add to the ongoing woes, US President Donald Trump on Friday said that US is terminating its relationship with the World Health Organization as he believed that WHO and China were responsible for the deaths and destruction caused by the COVID-19 pandemic across the globe. "Chinese officials ignored their reporting obligations to the World Health Organization and pressured the World Health Organization to mislead the world when the virus was first discovered by Chinese authorities. Countless lives have been taken, and profound economic hardship has been inflicted all around the globe," he said. Trump also announced that the US will end special treatment of Hong Kong in response to Chinese imposition of new controls. He said that the US will revise its travel advisory to warn of surveillance in Hong Kong.

Domestically, disappointing GDP data would take a toll on Indian equities which is expected to clock negative growth during COVID-19 crisis. The GDP growth for FY2019-20 stood at 4.2 percent as against 6.1 percent in FY 2018-19. India's gross domestic product (GDP) witnessed s growth of 3.1 percent during January-March 2020. At 3.1 percent, India's "real" or inflation-adjusted GDP growth was the lowest in 44 quarters, national income data released by the Central Statistics Office (CSO) on May 29, 2020 showed. According to RBI, economic activity Q2FY21 may remain subdued due to social distancing measures and the temporary shortage of labour. Recovery in economic activity is expected to begin in Q3FY21 and gain momentum in Q4 as supply lines are gradually restored to normalcy and demand gradually revives. Domestic economic activity has been impacted severely by the lockdown which has extended over the past two months.

Ajcon Global's view

The crisis caused by COVID-19 has been very harsh and unimaginable. Threat to life and threat to livelihood have rattled people. This crisis has spared no one and affected every common man. The situation has become so scary that even after COVID-19 era people would be reluctant to move freely, meet people, travel in public transport and eat in restaurants etc. Naturally, containment measures like the lockdown of the entire country to break the chain of virus will have significant effects on the global economy. As I have been saying for some time now, COVID - 19 indeed seems to fast-forward the future of humanity. It does not matter what is your physical age now. The new yardstick is one's ability to adapt to technology. The truth of hard work leading to success may have a new meaning. One can be sitting at home and yet become very rich or lose everything. An individual's talking and demonstrating skills on line will be the key to success in selling any product or services. In this era of COVID-19, if one is not successful in marketing to a customer online in Jhumri Tallaya or Amsterdam, one will not succeed. The three Ps i.e. Product, Price & Parity will be paramount and not brand loyalty. Gone are the days when you walk into a Louis Vuitton Show Room, at least for next one year.

The fear of unknown has created panic amongst investor community. These are unprecedented times and uncertainty is very high. The current crisis has left investors anxious and tensed as this type of crisis has never occurred before. Always remember, tough times never last but tough people do. As it is said, that change is only constant in this world. We believe, that this phase of crisis, uncertainty will change too.

We expect Indian equities to follow global cues and ongoing Q4FY20 earnings season. As the economic situation is bad, we expect profit booking and expect the rally to fizzle out soon as on ground situation has not improved.

The disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis will also remain an overhang. We like the agriculture reforms announce; major announcements made in sectors like Coal, Mining, Aviation, Defence and Power sector were also good and long term in nature.

However, certain announcements by Finance Ministry were not taken well by street participants with regards to measures like MSME loan not being interest free, ambiguity with regards to MSMEs who do not have an existing credit facility, market sentiments getting affected as the reduction in rate of TDS to increase liquidity in the system was announced as part of stimulus package etc.

The announcements with regards to MSMEs in first tranche of Stimulus Package like Emergency Working Capital Facility for MSMEs and small businesses worth Rs. 3,00,000 crores + Subordinate debt for stressed SMEs worth Rs. 20,000 crores + Fund of Funds for MSME worth Rs. 50,000 crores was not implemented in a timely manner. However, big PSU Banks have now formulated their policy which will provide some relief going forward.

We believe the real stimulus would have been:
1) Waiver of interest on MSME loans for 4 to 6 months
2) Interest subvention of at-least 4 percent on all other borrowers
3) Non refundable payroll subsidy equal to at-least 4 months' salary to small business and MSMEs
4) Loans up to 4 months of working capital to all the non borrower small businesses and MSMEs at concessional interest rate of 7 percent pa.
5) Reduction in the Income Tax rates of flat 15 percent on all non salaried individuals, small businesses and MSME
6) Waiver from advance tax payment for FY 20-21 (AY 21-22)
7) Deferment of GST payment for small businesses & MSMEs till 30th September, 2020
8) No deduction and payment of TDS until 30th September, 2020
9) Interest free Working capital assistance equal to 6 months expenses to all the non borrower business enterprises
10) Direct credit of at least Rs. 10,000 each to daily wage workers and farmers

Sectors like Pharma and Healthcare, Speciality Chemicals, Insurance, E-Commerce, Companies with innovative business models especially in facility management, housekeeping and digital space would benefit from the COVID-19 crisis while sectors like over leveraged NBFCS including micro finance, real estate, construction, hospitality, tourism and aviation sector would be affected significantly.

Going ahead, all eyes would be now on in Lockdown 5.0 relaxations amidst rising COVID-19 cases especially in majorly affected states of Maharashtra, Gujarat, Tamil Nadu, Delhi. Mood of investors may change after easing of lockdown restrictions in few days time as economic activity would pick up.

We believe domestic bourses would continue to remain volatile and may fall further on negative global cues, worsening relations between USA and China, street participants. Any newsflow regarding reduction in COVID-19 cases in India would improve sentiments.

We advise investors to not lose hope in Indian equities as historically it is proven that market do witness recovery post an epidemic. Historically, Indian equities have always bounced back strongly post a Black swan and key events like Global Recession (1986-88), Gulf War/India Fiscal Crises (1990-91), Harshad Mehta Scam (1992- 93), Stock Market fall (1994-96), 97 Market Meltdown (1997-98), Dot-Com Bubble (2000-01), Central Election Results (2004), High Inflation (2006), Global Financial Crisis (2008), European Sovereign Debt Crises (2010-11) in the past ranging from a fall of 11 percent to 65 percent and bouncing back in three years time frame by ~73 percent to 300 percent in the above events. Globally in the past, during the Great Depression, the US market declined steeply and made record highs later on. Any news of faster discovery and launch of vaccine for COVID-19 may fuel the market. Investors having surplus cash with horizon of at-least 3 years can start fresh and add stocks in a staggered manner on every steep fall comprising of quality companies.

Dr. Ashok Ajmera (FCA), CMD & CEO

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