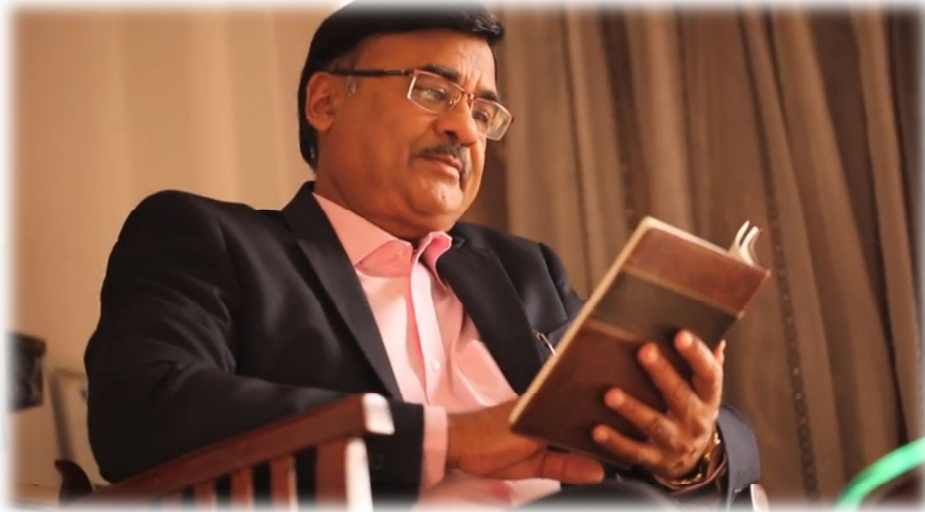




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on November 16, 2019

Domestic bourses remain rangebound on poor macroeconomic data; midcaps and smallcaps offer value..

During the week, the benchmark indices were rangebound. Sensex was up marginally by 33.08 points to end at 40,356.69, while the Nifty was down 12.65 points ended at 11,895.5.

India's retail inflation surged to 4.62 percent in October against 3.99 percent in September and 3.38 percent in October 2018.

India's industrial output contracted 4.3 percent month-on-month (MoM) in September, the second consecutive monthly fall. It had seen a contraction of 1.1 percent in August.

The country's GDP growth is likely to decline to 4.9 per cent in the second quarter of this fiscal due to sustained slowdown in virtually all the sectors, economic think-tank NCAER said on Saturday. India's economy grew at 5 per cent in the first quarter of 2019-20 - the slowest pace in over six years. For the full fiscal 2019-20, the Delhi-based National Council of Applied Economic Research (NCAER) has pegged GDP growth at 4.9 per cent as against 6.8 per cent in 2018-19.

The BSE mid-cap index was up 0.28 percent, while the small-cap index fell 1.10 percent and the BSE large-cap index was down 0.22 percent in the past week.

Foreign exchange reserves continued their upward march surging USD 1.710 billion to touch a new high of USD 447.81 billion in the week to November 8, according to weekly data released by the Reserve Bank.

In the previous week, the reserves surged by USD 3.515 billion to reach USD 446.098 billion. The increase was mainly on account of a rise in foreign currency assets, a major component of the overall reserves and jumped by USD 2.174 billion to USD 415.828 billion



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in the reporting week, as per the data released on Friday. Expressed in dollar terms, the foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and the yen held in forex reserves. During the week, gold reserves declined by USD 443 million to USD 26.910 billion. The special drawing rights with the International Monetary Fund (IMF) were down by USD 3 million to USD 1.44 billion during the week.

Foreign Institutional Investors (FIIs) remained net sellers the past week as they sold equities worth Rs. 321.30 crore, while Domestic Institutional Investors (DIIs) also sold equities worth of Rs. 514.61 crore. On Friday, FIIs sold worth Rs. 1,008.37 crores.

Volatility guage India VIX declined over 4 per cent on Friday to 14.96 levels.

Key developments

a) Landmark judgment by Supreme Court on Essar Steel sets good precedence..

On Friday, the Supreme Court (SC) delivered its verdict in the Essar Steel case.

SC has set aside the NCLAT judgment saying that operational creditors will not be treated at par with Financial creditors and the ultimate discretion on distribution of funds is with Committee of Creditors (CoC) (consists of Banks) which is favourable to lenders. The Supreme Court was acting on a bunch of petitions filed by financial creditors who opposed the NCLAT ruling.

Earlier, the NCLAT had said that the funds from winning bid should be distributed equally among operational and financial creditors. Essar was admitted to the bankruptcy court in June 2017 and several bidders showed interest including Arcelor-Mittal which finally won the race after several legal and procedural twists and turns. This decision clears all hurdles to the takeover of Essar Steel by ArcelorMittal for Rs. 42,000 crore. The issue witnessed a key tussle among the banks and separately between the financial institutions and Essar Steel's operational creditors.

The apex court has held that it is the Bank's decision to maximize the value of corporate debtor and added that the CoC should also balance the interest of shareholders. The National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) cannot interfere with the commercial decisions taken by the CoC. The Supreme Court on Friday also said the timeline for insolvencies can be extended in exceptional cases and the 330-day deadline prescribed by the government for completing insolvencies, including the litigation period, can't be mandatory.

The SC decision is positive for PSU banks as most of them have exposure to Essar Steel led by SBI having the highest exposure to the tune of ~Rs. 13,000 crores. SBI Chairman Rajnish Kumar on November 15 said the Supreme Court's judgment in the Essar Steel case with regard to rights of various creditors during insolvency proceedings would significantly reduce the scope for long-drawn litigations and eventually lead to faster resolution of stressed assets. "This much awaited judgment also settles to rest numerous points of law under the Insolvency and Bankruptcy Code which were tested in various courts" SBI Chairman said.

We believe the SC verdict on Essar Steel case would set a good precedence which would enable faster resolutions of NCLT cases which will create additional liquidity for lenders and curb intentions of rogue promoters which try to delay the resolution process.



b) Systemically Important Financial Service Providers to be covered in IBC

The government has put out detailed rules for the resolution of systemically important financial service providers under the bankruptcy law, opening the doors for resolution of stressed non-banking finance companies under this framework.

Financial service providers are ordinarily not covered under the Insolvency and Bankruptcy Code. Under the rules notified, the code can be invoked to find a resolution for stressed finance companies such as Dewan Housing Finance Corporation Ltd. (DHFL). These rules will not apply to banks.

Separately, the government will notify specific categories of financial service providers that do not fall under the systemically important category to be resolved as ordinarily applicable to corporate debtors.

“The government will notify specific categories of FSPs that do not fall under the systemically important category and shall be resolved under the normal provisions of the Code as ordinarily applicable to corporate debtors,” it said in a release, adding that the special framework will not apply to banks.

This will be decided in consultation with the appropriate regulators, which, in most cases, would be the Reserve Bank of India.

Indian rupee

On a weekly basis, the rupee fell 50 paise at 71.79 on November 15 versus the November 8 closing of 71.29.

Global markets

US Benchmark indices closed at record levels on Friday led by optimism over resolution of U.S.-China trade tensions and by big gains in shares of healthcare companies. The Dow Jones Industrial Average rose 222.93 points, or 0.8%, to 28,004.89, the S&P 500 gained 23.83 points, or 0.77%, to 3,120.46 and the Nasdaq Composite added 61.81 points, or 0.73%, to 8,540.83. The benchmark S&P 500 tallied its sixth straight week of gains, its longest such weekly streak in about two years, while the Dow breached 28,000 for the first time. Data on Friday showed U.S. retail sales rebounded in October, but consumers cut back on purchases of big-ticket household items and clothing, which could temper expectations for a strong holiday shopping season.

Ajcon's view

With Q2FY20 earnings season over, we believe that there would be lack of triggers for equities and all eyes would be on global cues especially US – China trade tensions, crude oil prices and rupee movement against the dollar. Going ahead we believe that domestic bourses would remain rangebound. Investors would remain stock specific as most of the largecaps have peaked out and profit booking may commence. Buying may be witnessed in selective midcaps and smallcaps with decent fundamentals, low debt and strong operating cashflows as they have become attractive at current low prices. We suggest buying in select PSBs. The Government has already taken big steps to improve deteriorating sentiments and tackle economy slowdown. No doubt that the steps taken in last 3 months would help in improving economic activity but we still believe some more steps are needed from the Government to increase the purchasing power of consumers which can result in revival of



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demand. In addition, to revive investment led spending, corporate advances growth should happen in PSU banks.

Long term investors with an horizon of more than 2 years should look at building long term portfolio in companies which have weathered the storm in different market cycles, suited to changing dynamics of the economy as business models are changing in new age economy and delivered decent financial performance. The strategy at present should to invest in phased manner only in companies which have a robust business model, strong earnings and cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

Dr. Ashok Ajmera, FCA



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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

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Website: www.ajcononline.com

Registered and Corporate office : 408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062