ArihantCapital
Generating Wealth

Arihant PLATINUM

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VOLUME XIV

MONTHLY MARKET UPDATE

- In May 2020, Domestic market moved positively with benchmark Sensex and Nifty Index ending the month with 2.2% & 3.1%gains respectively. During the end of May month, markets moved higher on hopes that the government would give more relaxations and give states more autonomy in case it imposes the fifth phase of the nationwide lockdown. In the month of May government announced Rs 20 lakh crore-relief package to help Indian economy to kick-start its slowing engine.

- Nifty Auto and Metal were the best performing sectors, while Nifty PSU Bank and Financial services experienced decline. Nifty Auto was the top Performer at 13.6%, followed by Nifty Metals with 9.7% gain for the month. While Nifty PSU banks was the top loser at 9.3%. Other major sectoral indices saw positive momentumin the month of May. Nifty Pharma index gained by 4.3%, followed by Nifty Media, which rose by 6.3%. Nifty Reality & IT also gained by 3.3% & 4.1% respectively. Nifty 100 Midcap and Nifty 100 Small Cap ended the month with a gain of 2.8% and 1.4% respectively.

- The Reserve Bank of India on 22nd May 2020 announced a surprise 40 basis points repo rate cut in an off-cycle policy review. The short-term lending rate now stands at 4%, down from 4.4% earlier. The repo rate has, thus, fallen to the lowest level since 2000. The reverse repo rate has also been reduced by a similar measure to 3.35% from 3.75% earlier.

- India's economic growth slumped to 3.1% in the March quarter. Data released by the statistics department showed GDP grew at 4.2% in the year ended 31 March, compared with 6.1% in the previous year, as private consumption slowed down and investment demand contracted even before the pandemic hit the economy.

- Manufacturing output shrank 1.4% in the quarter, the third straight contraction. Agriculture and government spending are the only silver linings, growing at 5.9% and 10.1%, respectively, in the March quarter.

- In May 2020, Worldwide, Major countries have started lifting to varying degrees some of their restrictions on economic and social activities. While there has been an uptick in infections in some of the states that have re-opened.

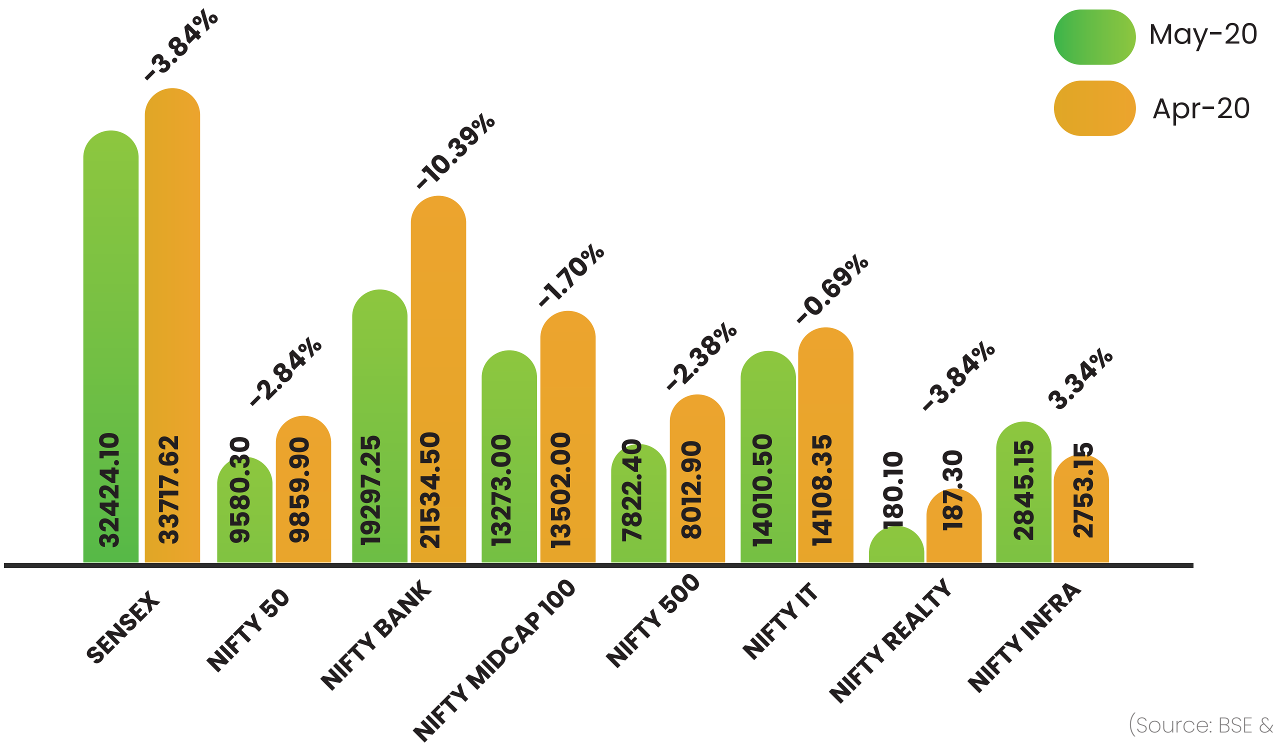
- The S&P 500 index, ended the month with positive territory pf 7.55%. On the commodity markets front recovery was witnessed as Crude has risen more in the month of May as production cuts have kicked in and demand has started to return. WTI crude surged 33.62%, while gold up by 2.12% The USD/INR flat at 0.19% in the month of 2020.

- US' Nasdaq 10.28%, UK's FTSE and US' Dow Jones closed in positive territory with 5.44% & 6.99% respectively. Whereas, Hong Kong's Hang Seng, ended the month with negative territory of 6.83% respectively, Japan's Nikkei gained 11.51%.

- Yield of 10 yr government bond closes at 5.79%

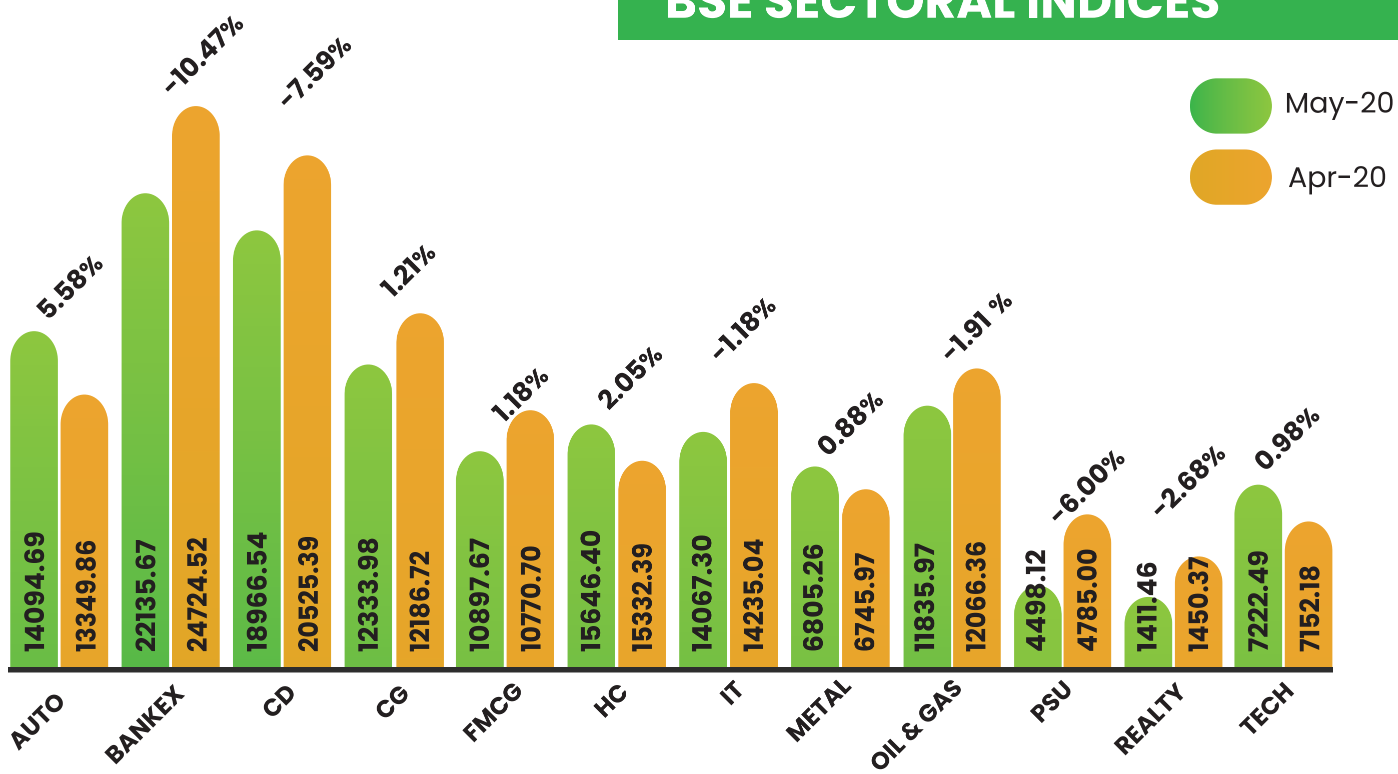
MONTHLY INDICES PERFORMANCE

INDIAN INDICES



(Source: BSE & NSE)

BSE SECTORAL INDICES

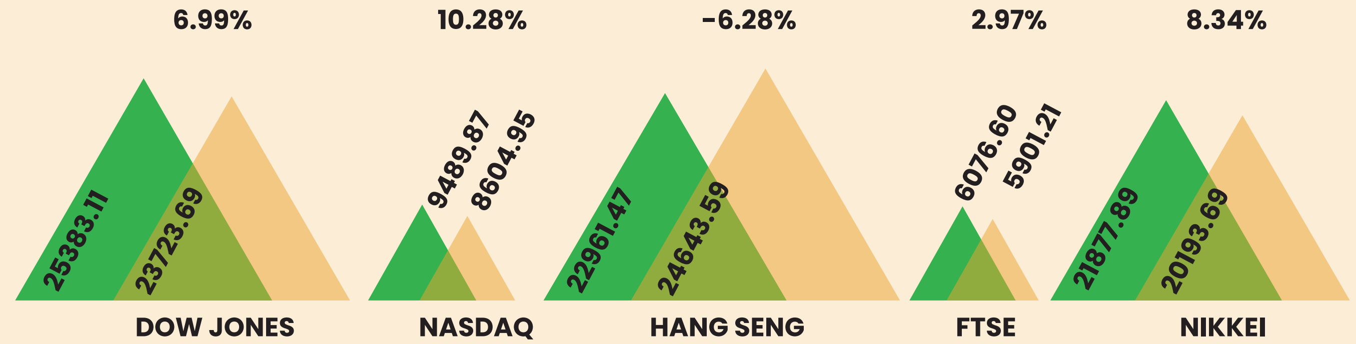


(Source: BSE & NSE)

MONTHLY INDICES PERFORMANCE

GLOBAL INDICES

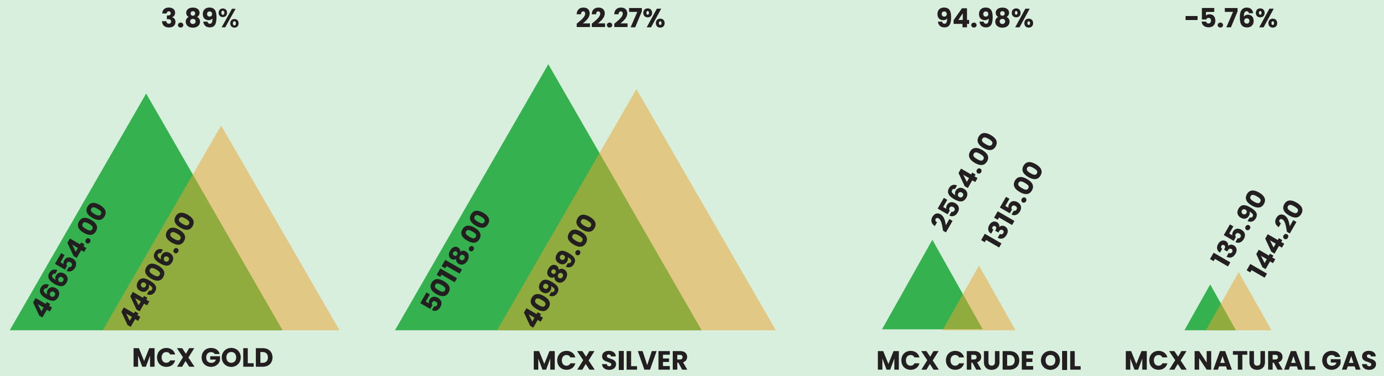
May-20 Apr-20



(Source: CNN)

May-20 Apr-20

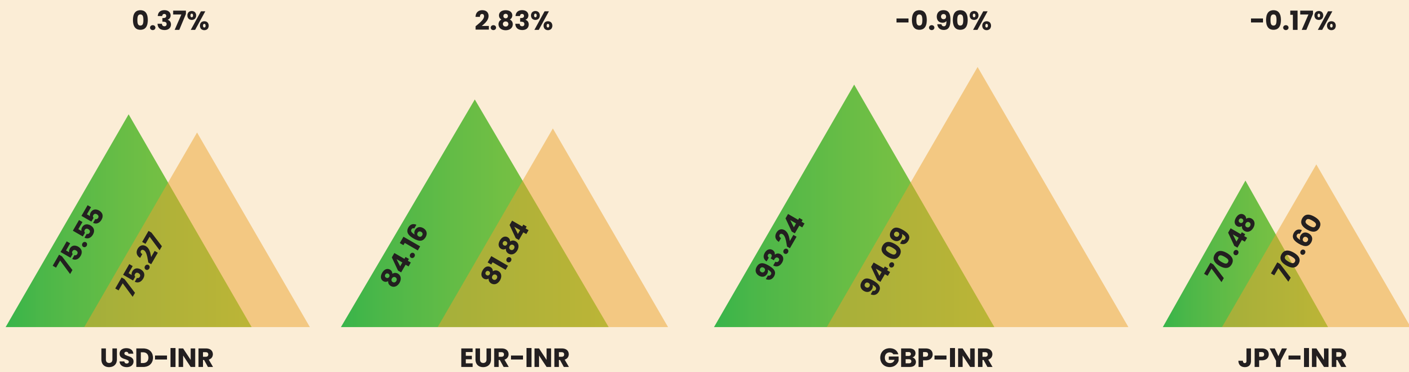
COMMODITIES



(Source: Falcon)

FOREX

May-20 Apr-20

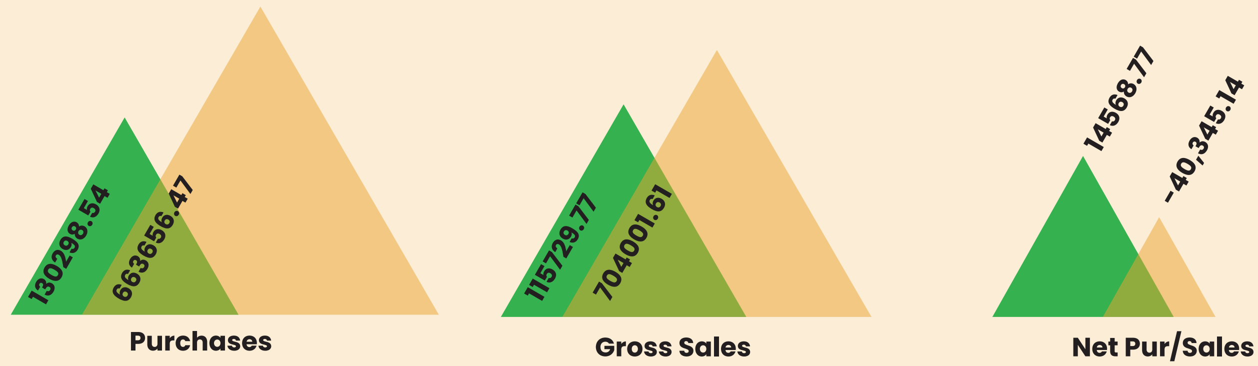


(Source: Falcon)

MONTHLY INDICES PERFORMANCE

FII Activity (Rs cr)

Total for May 2020 | Total for 2020*

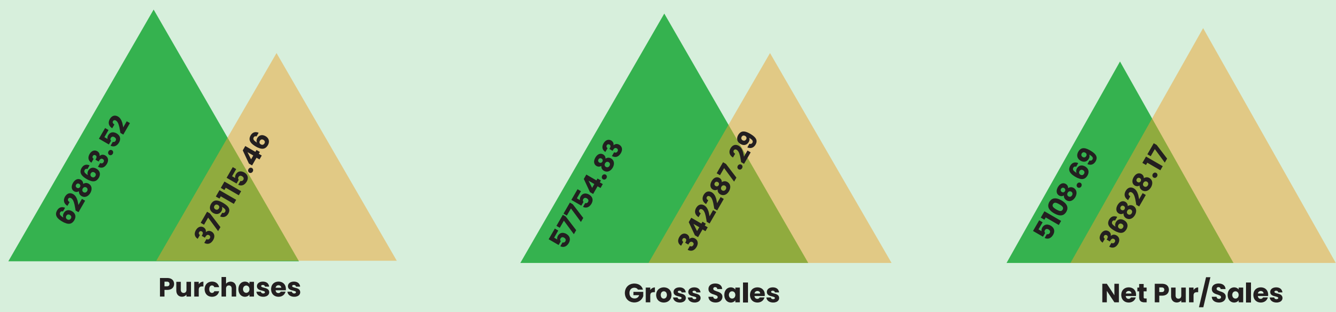


*Till May 2020

(Source: SEBI)

Total for May 2020 | Total for 2020*

MF Activity (Rs cr)



(Source: SEBI)

*Till May 2020

FOUR MONEY LESSONS FROM WARREN BUFFETT'S AGM

With the covid-19 pandemic hitting markets and the liquidity situation, globally, people are worried about how to manage their investments and debt alike. Legendary investor Warren Buffett, in the annual general meeting of Berkshire Hathaway, his holding company, had some advice that can help ease such troubles.

The AGM, an annual pilgrimage of sorts for dedicated equity investors, was conducted over video conferencing this year due to the worldwide travel bans and lockdowns. Here are some important take aways.

PAY ATTENTION TO RISK

Despite Buffett's famous quote about being greedy when others are fearful, he made just $1.8 billion of net equity purchases in January-March 2020 (the company has a cash pile of $137 billion). Moreover these purchases were more than offset by net sales of equity amounting to $6.1 billion in April 2020. When asked why he had not bought more, he answered that the cash pile is there to protect against a number of risks, not just one.

- **Your take away:**
Equity investors raring to take advantage of the stock market drop, should keep this conservatism in mind. Keep a large emergency fund, ensure near-term financial goals are funded and only then invest in equity and that too if you have the risk appetite. Don't interpret Buffett's net equity sales as a signal that the market will fall further. Not everyone is Buffett and has his ability to time the markets or wait. The next best thing is to do what he advised his heirs to do after this death—put the money in an index fund and stay invested at all times. In a market recovery, gains come in a few trading days in the year, and you won't know which ones they will be.

ACCEPT YOUR MISTAKES

Berkshire Hathaway posted a loss of about $50 billion in the January-March quarter. To put this into perspective, the market capitalization of the company is $443.79 billion. Berkshire stock was down about 17% over the past year, at the time of writing this report.

In the AGM, Buffett admitted he had made a mistake by buying about 10% stakes in the four largest US airlines, a move he initiated in 2016. Buffet completely exited these in April, citing uncertainty post the lockdown and an oversupply of aircraft even if there is partial recovery in travel.

- **Your take away:**
If you have pointed sectoral exposures or are too much into some segments like small-caps, don't be afraid to acknowledge your mistakes and correct them. Investors hang on to dud investments, waiting for their cost price to come back. In some cases, this never happens. If circumstances change from your original investment thesis or the fund is not up to the mark, don't be afraid to rebalance even if it is at a loss. Consult an adviser before making such shifts. But as a thumb rule, for instance, a change in fund manager or a needlessly diversified portfolio are triggers at which you should look to switch.

UNDERSTAND LONG-TERM

Buffett went over about 244 years of US history since its independence in 1776 to make the point that the long-term direction of the US economy is up.
This was not evident during challenging times such as the US Civil War or the Great Depression, he noted, but a broad bet on US economic growth helped him build his fortune. Long-term economic growth is also true of countries such as India, particularly after the economic reforms of 1991, although investors should diversify across countries to reduce their risk.
In financial terms, this translates into equity working well for investors over the long term.

FOUR MONEY LESSONS FROM WARREN BUFFETT'S AGM

However, the time period of this long term trend can be highly unpredictable. Buffett said it took the US stock market 25 years to reach the peak of 381 it had touched in 1929. The subsequent 66-odd years have been one of solid equity returns if you consider the current Dow level of about 23,000 (a compounded annual growth rate of about 6.5% in dollar terms).

- **Your take away:**
  Although stock markets can take many years after a collapse to stage a recovery, in the very long term equity works best for investors. Build a high level of patience and tolerance for volatility. For equity, ask investors to have at least a five to seven years' time horizon. If you are investing in systematic investment plans (SIPs), this is even longer at seven to 10 years because the initial few years are spent accumulating mutual fund units.

CLEAR DEBT, THEN INVEST

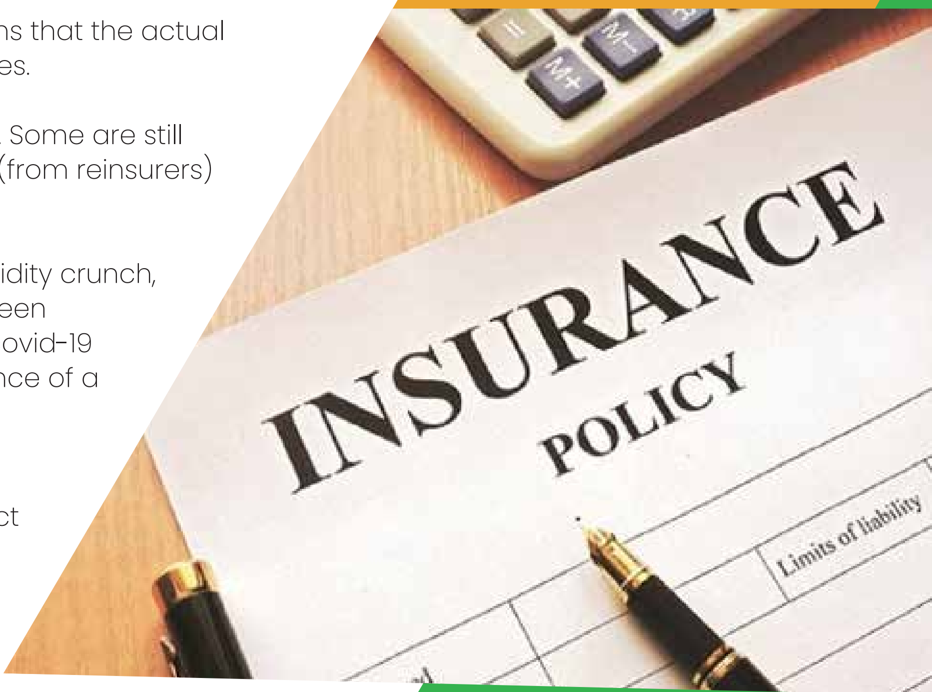
Recalling a discussion with a friend, who asked him what to do with the money she had, Buffett said he first asked her what she owed to her credit card. The interest rate the friend was paying on her card was around 18%. "I don't know how to make 18%. If I owe money with 18% interest, the first thing I would do with any money I have is to pay it (credit card dues). It's gonna be way better than any investment idea I have got," he said.

- **Your take away:**
  Before investing, clear off high-interest debt, such as credit card dues. In India, the interest rate on credit cards can go up to 36% per annum. Also, avoid overuse of credit cards to tide over cash flow problems. Buffett advised people to not use credit cards as a piggy bank.
  You can see many people using their credit cards thinking they can pay it off later. This leads to a false sense of financial security. One needs to live life on savings and not credit. You can delay payments through the card, but finally you need your savings to pay for it.

- **The pandemic has put us at risk, both health-wise and money-wise. So tread cautiously.**

TERM INSURANCE PLANS SET TO BECOME COSTLY, BUT THEY REMAIN A MUST-BUY

- Premiums for term insurance plans are expected to rise by up to 40% in the next three-six months as the companies take into consideration the emerging mortality experience.
- ICICI Prudential Life Insurance Co. Ltd, HDFC Life Insurance Co. Ltd and Tata AIA Life Insurance Co. Ltd have hiked premiums on term plans, starting 10 April. ICICI Prudential bumped it up by 40%. Others too are expected to follow suit.
- There has been an increase in the rates, but our prices are based on previous mortality experience. These companies may file for another round of increase, if the current hike was less than 40%.
- Term policies are a fairly new product in India, and the premiums are lower compared with most of the developed nations. If you compare premiums with 10 years ago, you'll realize that they're almost 50% lower now.
- Reinsurers, which cover insurers for risk, calculate premiums on actual by expected ratio of deaths. If expected deaths are three for every 10,000 policies and actual deaths are four, then it's a negative experience for reinsurers, which could result in a rise in premium because they bear a large part of the risk.
- If reinsurers are asking for a 40% hike, it means that the actual mortality is nearly 4.5 deaths for 10,000 policies.
- Not all companies have hiked premiums yet. Some are still deliberating on whether to pass on the hike (from reinsurers) to the customers or absorb some of it.
- The timing for the hike is unfair given the liquidity crunch, but we were notified by reinsurers only between December and January. But some believe covid-19 has helped people understand the importance of a term plan.
- You must buy a term plan if you have dependants. Insurance fills the gap to protect your family from 'what is' to 'what must be'.
- You should have a term plan because it is cheap (it just charges for mortality) and flexible.
- So don't let slightly high premiums hamper you. It's important to remember that most term plans are level paying policies, which means that premiums are set for the duration of the plan.
- The hike, therefore, would only apply to new policies.



ARE COVID-19 LOANS FOR YOU?

If you have a salary account or an ongoing loan for which you have not missed a single **equated monthly instalment (EMI)** in a **public sector bank (PSB)**, you may be able to avail a new personal loan product called the covid-19 loan. Priced much lower than regular personal loans, this product aims to help existing bank customers to tide over a temporary crash crunch due to the effects of the covid-19 pandemic. Some of the banks offering covid-19 personal loans are **Bank of Baroda (BOB)**, **Punjab National Bank (PNB)**, **Union Bank of India (UBI)**, **Bank of Maharashtra (BOM)** and **Bank of India (BOI)**. Many of our customers are facing temporary cash flow problems as their employers are paying them lower salaries during the lockdown. For such individuals, we have launched covid personal loans with lower interest rates and relaxed assessment norms.

Since these personal loans are for a specific purpose, the interest rates are as low as 7.2% per annum (for the UBI product). Typically, personal loans from PSBs charge 14-18% per annum. But should you go for them?

THE CONDITIONS

The eligibility criteria for these loans are different from that of regular personal loans. BoI, for example, is giving loans to customers who have been drawing salaries through the bank for at least a year, or to those who have an existing home or personal loan. PNB, which has named its product Sahyog covid-19, is also offering it to existing customers who are drawing their salaries through the bank.

UBI is offering it to customers who have a salary account or have availed of a housing, mortgage, vehicle, personal or pension loan from the bank. It is giving a loan amount equal to six times the last credited salary or pension of the applicant. It is a floating rate personal loan. They are also giving moratorium for the initial months (till June-end). The interest accrued during the moratorium would be added to the principal. The customer has to make the payment in 57 EMIs. Since it's a floating rate loan, the interest rate will change whenever the Reserve Bank of India (RBI) revises the repo rate.

BoB is giving covid-19 loans to those who have availed of home, mortgage or car loans from it. The loan amount will depend on the EMI of the existing loan.

The maximum amount that can be taken is 10% of the sanctioned limit of an existing housing or mortgage loan and 20% of an existing car loan. So, if a person is paying an EMI of ₹30,000 for an ongoing home loan, the bank will sanction the loan in such a manner that the EMI of the covid-19 loan is ₹3,000 (10%) or less.

"It does not matter whether the borrowers are salaried or self-employed. He should be loan customer for six months or more and should have paid their EMIs on time for the past three months.

ARE COVID-19 LOANS FOR YOU?

The maximum loan limit for most banks is in the range of ₹3 lakh-5 lakh, and there is no processing fee. The minimum ticket size varies with the bank. BoB, for example, is sanctioning a minimum amount of ₹25,000. These loans are also available to those who have sought a moratorium on their ongoing loans.

MANY TAKERS

The initial response to BoB's product was encouraging. Within six to seven days of the launch about a month back, the bank had sanctioned at least 3,500 loans. UBI had disbursed around ₹26 crore in the initial few days of the launch in early April. The average ticket size of the loan also varies with the bank. BoB is expecting it to be ₹1.5 lakh, while UBI has got applications for an average ticket size of
₹3 lakh. In tier-II and tier-III cities, many employers have not been able to distribute salaries to workers due to the lockdown. The PSBs are flush with cash. They are parking money with RBI at a much lower rate. Even if they are able to lend at their benchmark rate, they would still be happy as there's no lending in any other product category.

SHOULD YOU TAKE THEM?

These loans make sense for those looking at consolidation of their debts. Say, you have a credit card outstanding. You can use these loans, which are available at a much lower interest rate, and repay the credit card issuer. Covid-19 personal loans can work for lowering the debt burden if used smartly. A borrower can replace high-cost loans with them. However, you should avoid taking these loans to meet your cash flow requirement. "To avail this loan to meet cash flow problems, a person needs to be confident that the issue he is facing is temporary. But we have a lockdown in place and no one knows yet how and when it would be lifted.

Most people will not be confident about whether the cash flow problem is temporary or if it can stretch further, If the situation does not improve, companies can further reduce salaries or opt for cutting down the workforce. When the future is uncertain, it doesn't make sense to take on more liabilities. Don't be swayed by the product only because the cost is lower.
It's best to avoid fresh leverage in the current environment. Usually, planners advise against liquidating investments if they are giving higher returns than the cost of the loan. But this doesn't hold true when there is no predictability about future income. So if you don't have an emergency fund, the best option is to liquidate your investments. Do take the penalty and tax into account before deciding which one to liquidate first.

ARE DEBT MUTUAL FUNDS SAFE INVESTMENTS?

The virus pandemic is taking its toll and Indian debt mutual funds are one of the victims. The first casualty is definitely the winding down of six debt funds by Franklin Templeton India. This unprecedented move has put many debt investors in a fix. They are now apprehensive that this may soon impact other funds and so the question is whether they should remain invested in debt funds. Is the closing down of this fund the beginning of the end of debt funds as a relatively safe investment? Our analysis shows that the impact will largely remain contained and is not likely to spread to other funds or fund houses. To fully grasp this we will have to go through the sequence of events that led to such a closure and why there is less chance of it being spreading.

FAST AND FURIOUS GROWTH

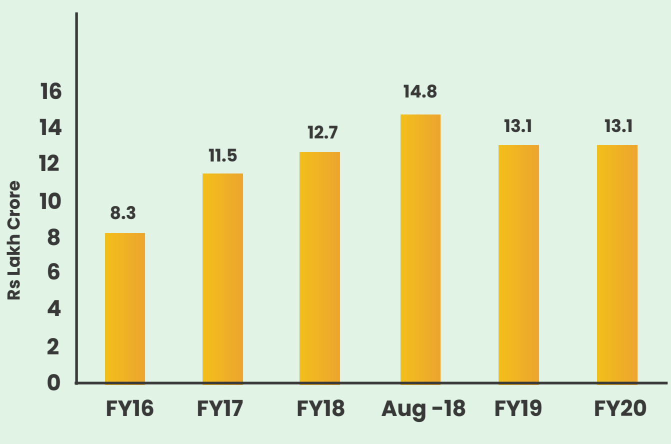
Debt funds were always considered as boring and lacklustre investments, especially by retail investors, who consider bank fixed deposit as a better option. Nonetheless, there was a paradigm shift post demonetisation. It changed the very nature of investments by individuals. They were compelled to deposit their savings in banks. This made the Indian banking system flush with cash, leading to a lower interest rate on fixed deposits. At the same time, the performance of physical assets such as gold and real estate were not as exciting. Mutual funds, therefore, became a natural gateway for investments.

They were inundated with flows. Both equity as well as debt funds saw huge inflows post demonetisation. In the quarter of December 2016 to March 2017, debt funds registered a growth of 50 per cent in the debt AUM. Nevertheless, on a yearly basis, the AUM of debt mutual funds increased by almost 39 per cent in FY17 against FY16. The AUM of the debt funds reached its peak before the IL&FS crisis that put a screeching halt to growth in debt mutual funds. From the high reached in the month of August 2018, the AUM of debt mutual fund is down by 11.5 per cent.

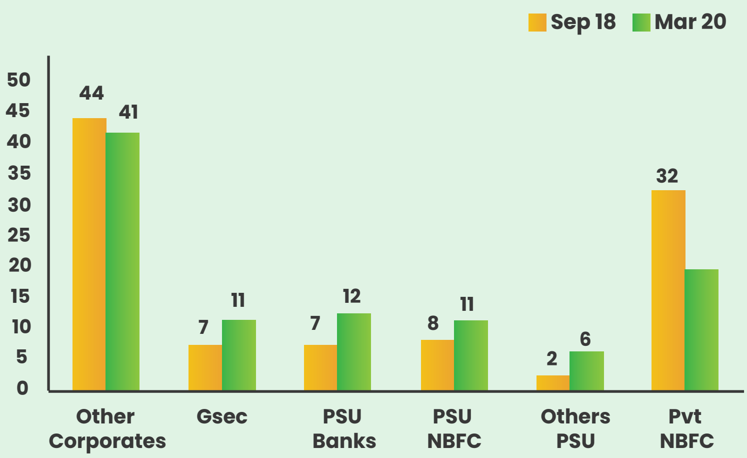
IL&FS DEFAULT: A TURNING POINT

The default of IL&FS in the month of September 2018 was a turning point for debt mutual funds. The growth rate of debt AUM dropped from a high of 50 per cent to a single digit. The cascading effect of the IL&FS crisis was felt in the entire NBFC sector. There was a squeeze in liquidity which was followed by a downgrade in credit papers of troubled entities such as ADAG stocks and the Essel Group coupled with Yes Bank and DHFL. This forced many of the funds to write off their investments in some of such entities. Besides, funds also re-valued select investments downwards. All this in a way helped the entire industry to emerge stronger and withstand the current situation arising out of the pandemic along with the sharp downturn in economic activity. Even the closing down of the Franklin Templeton India's funds is more of a liquidity issue rather than a quality issue.

DEBT AUM (RS LAKH CRORE)



CHANGE IN BORROWER MIX (%AUM)



ARE DEBT MUTUAL FUNDS SAFE INVESTMENTS?

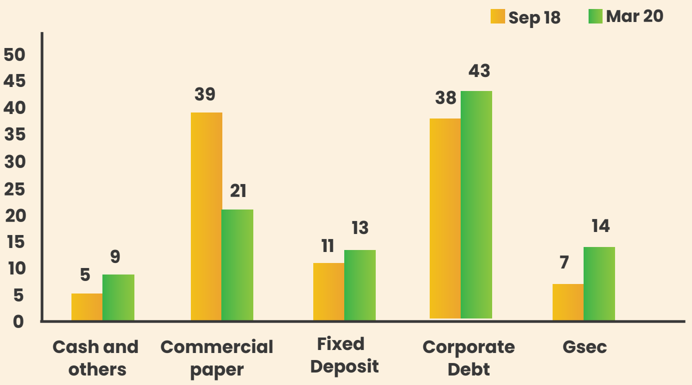
BIG SHIFT IN AUM MIX

The industry has learned its lesson from its previous mistakes and is now on a solid footing. The AUM mix of the fund has shifted towards stronger borrowers between September 2018 and March 2020.

Private non-banking financial companies, which remained vulnerable to any economic shocks, saw their share of funding by mutual funds dropping by 1,300 basis points and now forms 19 per cent of the total debt AUM compared to almost one third at the end of March 2018. The share of strong borrowers such as PSU and G-Sec increased from 24 per cent to 40 per cent in the same duration. Besides the borrowers there is even a change in the type of instruments held by the fund houses. Earlier, their concentration was more in commercial papers.

Commercial papers (CPs) are the short-term debt instruments issued by companies to raise funds, generally for a time period up to one year. It is an unsecured money market instrument and doesn't have any collateral against it. After the IL&FS crisis, there was a drop in the share of CPs in the overall industry AUMs from 39 per cent to 21 per cent. Fund managers took a conscious decision to shift their debt books away from the CPs. At the same time, the exposure to 'cash and others' and 'G-Sec' increased. The share of corporate debt also saw an increase in the same period.
Another major significant improvement was seen in rated papers held by the debt funds. Post IL&FS, the fund houses became more conservative and increased the share the debt funds registered an increase in the of highest rated papers in their books.

CHANGE IN INSTRUMENT MIX (AUM%)



CHANGE IN RATED PAPER MIX (AUM%)

The AUM of share of sovereign and AAA-rated funds in their books. Their share increased from 59 per cent at the end of September 2018 safer than papers rated to 78 per cent at the end of FY20. These papers are below AAA, which shows that the risk profile of the holdings of debt fund has improved.

DEBT FUNDS LOOK SAFER

Based on the above analysis of the debt mutual funds, we see that there is a structural shift in the assets held by debt mutual funds. Best rated papers backed by strong companies or parentage are being preferred by the mutual funds. According to a report by Morgan Stanley, at the end of September 2018, debt mutual funds had invested one-fourth of their corpus in companies that were facing funding constraints. This has come down to 6 per cent now. In the same period, the share of investment in companies with strong parentage or companies having little funding constraints has increased to 83 per cent from 59 per cent.

It shows that the debt MFs have become more risk-aversive and are not chasing returns, instead focusing on quality of the instruments held by them. Even the current event is more of a liquidity issue instead of a quality issue that we saw in earlier cases such as Essel Group or DHFL. Moreover, the most vulnerable category - credit risk fund - forms only 5 per cent of the total debt mutual fund AUM.

The fact that the RBI has come out with special liquidity facility for mutual funds to the tune of Rs 50,000 crore offers hope in the sense that we may not see closing or shutting down of any debt funds.

INVESTOR SHOTS

HOW NOT TO LET THE VIRUS AFFECT YOUR LONG-TERM GOALS

- Continue with your SIPs, do not stop them
- If you decide to exit from a fund, redeploy the amount into another suitable fund
- Rebalance your portfolio over a period of time to keep your asset allocation intact
- For those investing in stocks this could be a good time to buy If your goal is near, cut down on expenses & liquidate some of your investments.
- If possible, postpone your goals by a couple of years
- Stay invested in gold asset class based on your asset allocation

LOAN MORATORIUM - THINGS TO KNOW

- The moratorium is an option to suspend payments
- Interest would continue to accrue on all outstanding loans
- Those with sufficient cash flow should continue to pay EMIS
- Those who are cash strapped or are staring at job loss should opt for it
- Prioritise obligations, continue to pay high-interest loans like credit card bills
- Ask the bank about how it would affect your EMI amount and loan tenure
- If you avail the moratorium, make some bulk payment and increase EMI amount whenever cash flow situation eases

INVESTOR'S PLAN OF ACTION

- Define your financial long-term & short-term goals based on your age and the risk appetite you can take
- As an investor, your choice of asset class or funds could vary based on the risk appetite
- In order to strick a risk-return balance, investors must adopt two strategies based on asset allocation and diversification
- It is crucial to have the right asset allocation as each asset comes with its set of risk and is suitable for a certain time horizon
- Investors must review their investments periodically to ensure that they are on right track in meeting their financial goals
- As the strategies could go out of sync with the goals due to a change in the prospects of a particular asset, investors must conduct periodical checks on the performance of funds and review the potential for future growth
- In the end, investors must not act based on short term volatility as it is a part and parcel of market behaviour

IS INDIA TO FACE ITS FOURTH RECESSION?

As per a report issued by CRISIL, the economy may face its fourth recession since Independence. Now comes the question what exactly is recession?

A recession occurs when there is a massive decline in economic activity. There is no stern guideline, Economists define recession if GDP has a negative growth rate for atleast 2 consecutive quarters. In the last 69 years India has gone through recession thrice - fiscals 1958,1966 and 1980 (when negative GDP growth was observed). CRISIL expects real GDP to shrink by 5% in FY21 and a 10% permanent loss of GDP over the next 3 years.

GROUNDS FOR NEGATIVE GDP

Economic activity is enormously affected due to lockdown. The country has literally come to a stand still. Recent phase of lockdown has relatively eased restrictions but economic activities are still disrupted. Also covid patients are rising and the covid curve is yet to flatten. Fragmanteray lockdowns are expected to hinder economic activity even further.

The economic package declared by the government is subdued and focused on medium term reforms. There are chances that second wave of covid-19 outbreaks.

HOW WILL IT AFFECT YOUR INVESTMENTS?

Many companies as facing is a severe liquid crunch. Also demand for various sectors has hit a all time low and if the same continues many small and medium companies would not be able to pay off their debts and some debt intensive companies may have to undergo bankruptcy.

And this will directly affect our debt investments. Bonds having lower grades may experience a steep downfall and chances are that lot of them will default. Therefore it is necessary to stick to high quality debt. Financial sector would be massively impacted as they are the primary loan givers to these companies and this would notably lead to increase in NPA's. Large enterprises with low debt service obligations have high probablility of sustaining this crisis, but still it will be a challenge to continue growth and profitabilty due to huge decline in demand.

Their valuations would discount these factors and go down further.

SO WHAT SHOULD YOU DO NOW?

- **DEBT INVESTMENTS:** Invest only in AAA rated high quality short duration bonds and debt funds.
- **EQUITY INVESTMENTS:** Invest in companies that have zero to negligible debt and high cash reserves to survive the turbulent period. Their profits might decline for a short period, however they should recover once the economic conditions become better.
- **Some part of portfolio can be invested in gold as hedge.**
- **Sway your investments, i.e. avoid large lump sum investments.**
- **Always keep in mind that right asset allocation leads to a strong portfolio**

HOW RBI IMPACTS MY LOANS?

MORATORIUM EXTENDED FOR ANOTHER 3 MONTHS INCLUDES

- HOME LOAN
- BUSINESS LOAN
- PERSONAL LOANS
- LOAN AGAINST PROPERTY
- CONSUMER DURABLE LOANS
- CREDIT CARDS

WILL IT IMPACT MY CREDIT SCORE

- Once your bank has informed that you do not need to pay an EMI for three months, your Credit Score will not be impacted.
- Your Payment Tenure will increased by 3 Months

DOES IT MAKE SENSE TO OPT FOR IT NOW ?

- Your Interest Rate will continue to accrue on Outstanding Loan Amount so if you can service your dues you should continue doing it.
- In case you wish to know how much additional interest you will pay.

WILL LOAN INTEREST RATES DECLINE ?

- RBI has cut Repo Rate further by 40bps, earlier in March it reduced Repo-Rate by 75bps this should increase the interest rate of Term Loans.
- If you have a Repo-Linked Home Loan then your interest rate will reduce.
- Transmission of the benefits is handled by individual banks, in the coming weeks we will be communicating about exact benefit your bank should pass to you.

50 DAYS OF LOCKDOWN: FROM BAD TO WORSE

Fifty days into the lockdown following the coronavirus pandemic, India's economic growth has only worsened. Except for some good news such as the 45 per cent fall in crude oil prices and 10-year government bond yields falling by 57 basis points since the start of March, almost all leading indicators have worsened.
For instance, auto sales were almost zero for the month of April, and companies are still limping back to produce vehicles. The average power demand after lockdown, compared to demand during March 1-22, is down by 16 per cent, while the Index of Industrial Production plunged 17 per cent for March, and rupee is down four cent versus the US dollar since the start of March.

Similarly, rail freight traffic has plunged to a third as compared to March figures.
Consequently, GDP forecasts have been cut further by leading agencies. Foreign investors, which had sold heavily since February, are on the back foot. Not surprisingly, Indian markets are among the biggest losers globally, and gold prices are inching up each day with increasing desire to protect capital.

INDIA'S GDP GROWTH PROJECTIONS SLASHED

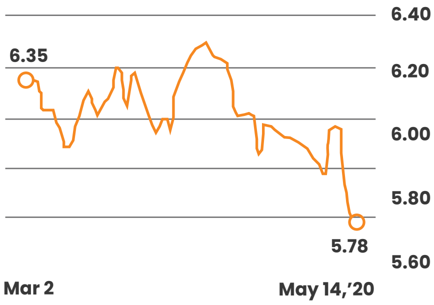
	Forecast (%)
CII	-0.9 to 1.0
Nomura (for 2020)	-5.0
Fitch Ratings	0.8
Moody's Investors Service	0.0
Goldman Sachs	-0.4
World Bank	1.5 to 2.8
IMF	1.9
Asian Development Bank	4.0
India Ratings	-2.1 to 1.0
ICRA	-1.0 to-2.0

All projections for 2020-21, except Nomura and Moody's which are for CY2020

Source: Respective agencies

BOND YIELDS SINK

India G -sec 10 year Yield (%)

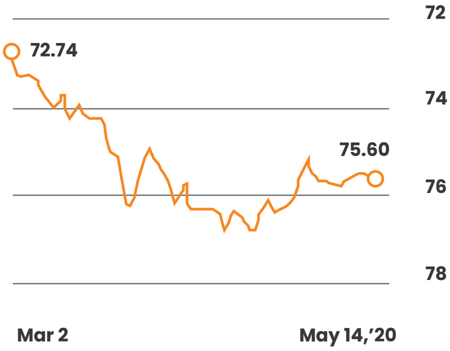


New Bonds introduced on May 13, 2020

Source : Bloomberg

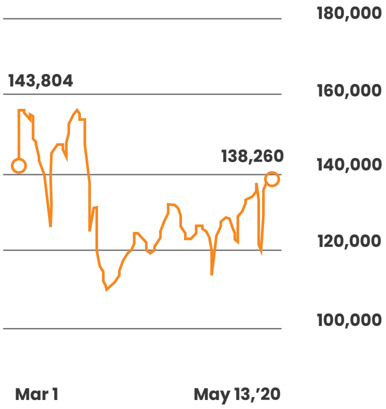
RUPEE DOWN 4% VS $

₹ vs $ (inverted scale) (₹)



POWER DEMAND SINKS

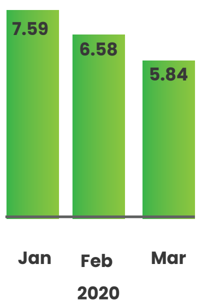
(Max power demand in Mw)



Source : Power System Operation Corporation

HIGHER PRICE HURT CONSUMERS

Inflation (CPI YoY in %)

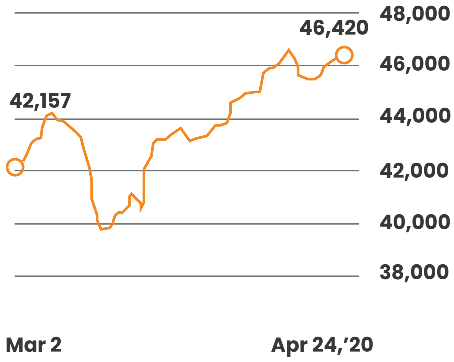


INDUSTRIAL PRODUCTION SHRINKS

IIP (% chg YoY)

GOLD PRICES UP 10% ON SAFE - HAVEN DEMAND

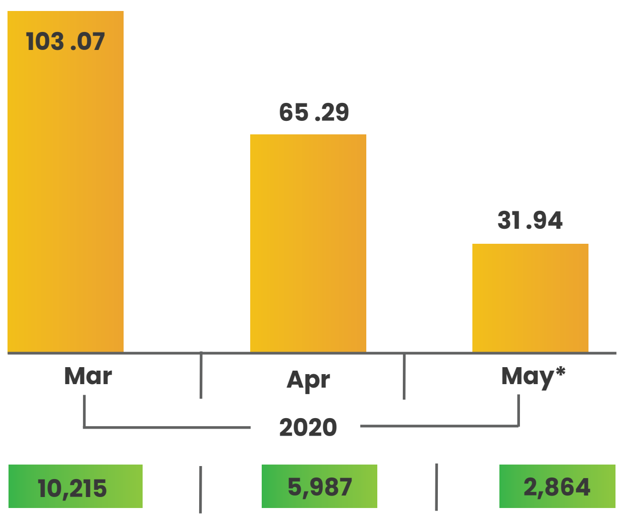
Domestic gold ₹ / 10gm



50 DAYS OF LOCKDOWN: FROM BAD TO WORSE

FREIGHT TRAFFIC PLUNGES

Originating Traffic (mt) Earnings (₹ cr)

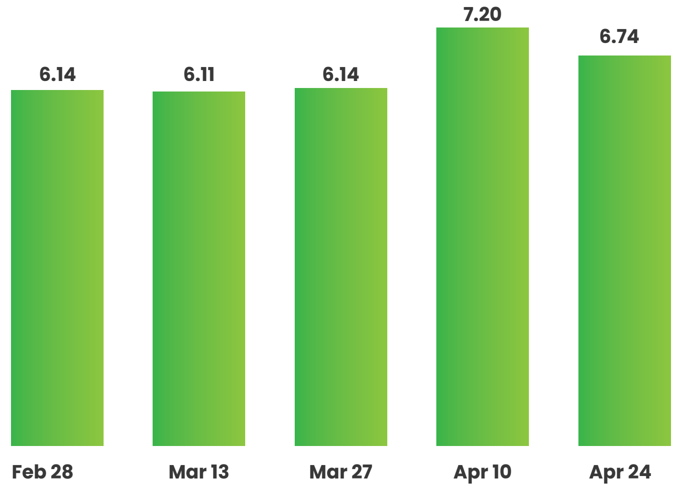


MT : Million tonnes * For May 1-13

Source : Indian Railways

CREDIT GROWTH NEGLIGIBLE

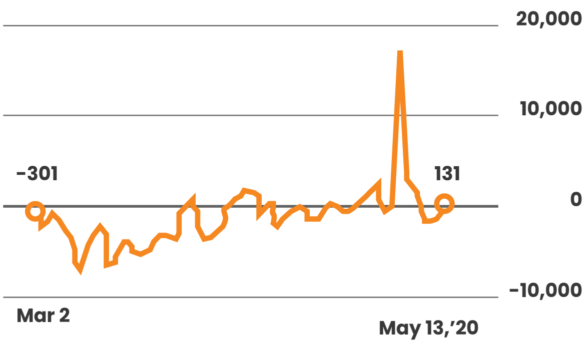
yoy in%



Source : RBI

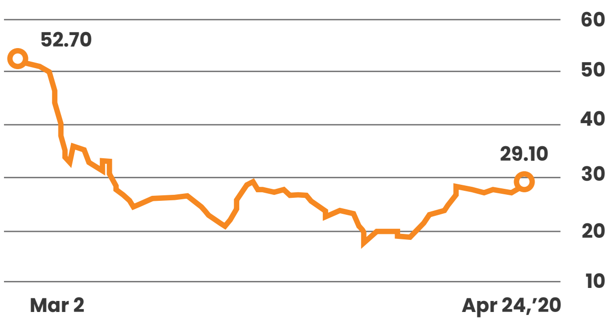
AFTER HEAVY SELLING IN MARCH, FPI SALES HAVE SLOWED

FPI net investment in equity (₹ cr)



INDIA GAINS AS OIL PRICES PLUNGE 45%

Brent crude oil ($ / bbl)



SENSEX AMONG BIGGEST LOSERS

% chg

INDEX	VALUE ON MAY 14	SINCE MAR 1
Americas (May 13)		
Dow Jones	23,248	-8.5
S&P 500	2,820	-4.5
Ibovespa	77,587	-25.5
Euro Stoxx 50 2,735		
CAC 40	4,230	-20.3
Euro Stoxx 50	2,735	-17.9
DAX	10,272	-13.6
FTSE 100	5,716	-13.1
ASIA		
Sensex	31,123	-18.7
Jakarta Comp	4,514	-17.2
Straits Times	2,522	-16.2
Hangseng	23,830	-8.8
Nikkei 225	19,915	-5.8
FTSE Bursa	1,397	-5.8
Taiwan	10,781	-4.5
SET	1,280	-4.5
Kospi	1,925	-3.1
Shanghai Comp	2,870	-0.3

Source: Bloomberg

ANALYSIS OF GOVERNMENT'S 20 LAKH CRORE PACKAGE

IMPACT ON DEBT MF/FD INVESTORS

High-quality debt MFs will face lesser volatility as the government will invest in investment grade instruments of NBFCs/HFCs/MFIs. The liquidity risk of these funds will also reduce. Top NBFC's which had experienced rating/outlook changes because of the COVID induced liquidity crisis should witness an improvement. Especially NBFC's such as Bajaj Finance, Muthoot Finance, Shriram Transport, and Power Finance Corporation should have better liquidity & credit flow

FIXED DEPOSITS:

With this additional liquidity and credit support, corporates (highest credit quality and strong business fundamentals) should be able to service their debt obligations. Top NBFCs such as Bajaj Finance and HDFC Ltd (Housing Finance) should see a heightened investor interest, and a consequent surge in deposits. We continue to recommend exiting papers/ bonds/ MF debt instruments which are below AAA rated or the ones that have been marked as high probability of default

IMPACT ON SALARIED INDIVIDUALS

Your in-hand pre-tax cash in hand may increase on the back of EPF employee contributions cut from 12% to 10%. If your employer chooses to go this path, your post tax salary will actually reduce and also reduce your long-term compounding savings.

On a practical note: most Indian salaried employees are on a CTC compensation (Cost to Company) hence, we do not think that reducing EPF will actually play out as there are no savings for the employer. We also recommend that you ask your employers specifically not to reduce the EPF as it will impact your post tax salary and also reduce your compounding effect on your savings.

EPF is perhaps one of the safest and the most tax efficient savings systems in India. Tax filing dates have been delayed till 30 November'20, however there is no Tax holiday. Further, you will still have to pay and compute Advance Taxes and the statutory taxes have to be paid as per schedule.

IMPACT ON MSMES/SMES

MSMEs/SMEs will get a liquidity boost of Rs 3 Lakh crore ($40 bn) automatic, collateral free loans with 100% credit guarantee and a moratorium of 12 months. Emergency Credit Line to Businesses/MSMEs from Banks and NBFCs up to 20% of entire outstanding credit as on

29/2/2020: What this means an MSME that has Rs. 8 cr outstanding of loan on 29/2/20: this MSME can now get Rs. 1.6 cr immediately as top up loan. Borrowers with up to Rs. 25 crore outstanding and Rs. 100 crore turnover eligible Loans to have 4 year tenor with moratorium of 12 months on Principal repayment (Interest to be capped) 100% credit guarantee cover to Banks and NBFCs on principal and interest Scheme can be availed till 31st Oct 2020 No guarantee fee, no fresh collateral with equity infusion of worth Rs 50,000 crore through the fund of funds, MSME can focus on capacity expansion. MSME re-classification will help more companies to enjoy the above mentioned liquidity benefits.

ANALYSIS OF GOVERNMENT'S 20 LAKH CRORE PACKAGE

IMPACT ON NON-SALARIED INDIVIDUALS

The TDS rates have been slashed by 25% for non-salaried till 31 March'21 - What this means is that there will be an increased cash-in-hand for fixed deposit holders, holders of dividend plans of mutual fund units/shares and rental income for landlords. Postponement of Tax filing dates/ GST dates may impact revenues for Chartered Accountants and various such facilitating agents. There are tens and thousands of such CA/ facilitators etc. We expect that their income will be impacted and postponed.

MACRO ECONOMIC IMPACTS

On the back of a special liquidity scheme of Rs 30,000 crore for NBFCs, HFC's, and MFIs, the credit flow will improve among NBFCs, HFCs and MFIs. We shall see a rerating of business prospects of firms with quality management and strong financials.

NBFCs, HFCs and MFIs

To fund the Rs. 20 lakh crore stimulus, the government will have to borrow money leading to an increase in overall debt. With the expected fall in the government revenue, fiscal deficit and inflation should increase. The Indian Rupee will depreciate even further. Also, with India's debt level rising, the probability of a sovereign rating related action has also increased

HOW DOES THE PACKAGE AFFECT YOU AS A CONSUMER AND INVESTOR.

SECTORS POSITIVELY IMPACTED	SECTORS WITH NO IMPACT
Agriculture	**Tourism**
Housing	**Aviation**
Rural FMCG	**Hotels/Restaurants**
Discoms	**Infrastructure**
NBFC/HFCs	**Automobile**
Power	**Manufacturing**

ANALYSIS OF GOVERNMENT'S 20 LAKH CRORE PACKAGE

FOOD AND SUPPLIES

- **Better supply chain:** The government announced measures to provide farmers and cooperatives with access to funds and support to build better infrastructure. These measures will enable better logistics, supply chain, and lower wastage. This should result in more affordable products for you.
- **Better quality of products:** India has for long grappled with poor cold storage and post harvest facilities for perishable produce. Strengthening this area through the 1 lakh crore Agri-Infra Fund will result in better quality of products and lower wastage of crop in the long-run.
- **Street Food vendors to be incentivised to use Digital payments:** With 5,000 crore special credit facility a working capital loan will be given for upto 10,000 to street vendors. Under the scheme, 'Digital payments will be incentivized through monetary rewards and enhanced working capital credit would be made available for good repayment behavior.

AGRICULTURE

The agriculture sector's supply chain has been severely impacted. Agriculture remains the primary source of livelihood for 55% of India's total population. Impact of cheaper loans, emergency working capital will be felt in the post harvest season. The support of the government to make money available even at the small and micro level will lead to a medium term boost for this sector to pay off debt and have working capital to grow.

TRAVEL/ AVIATION SECTOR

This is the worst affected sector. Government's decision to ease restrictions on the utilisation of Indian air space will help in improving margins post lockdown. Airline companies would be able to plan more efficient routes and thus decrease their fuel utilization cost (40% of the cost of an air ticket are fuel charges).

Although this would help the sector once the lockdown is lifted, a lot more is required in terms of stimulus in this sector to ensure airlines don't go into bankruptcy. Listed companies in this space like Interglobe Aviation and Spicejet are suffering in an uncertain business environment though the analysts are still positive.

CORE SECTORS (COAL, POWER, ELECTRICITY)

- Coal-fired plants produce 72% of India's electricity. The Government has opened up the sector and allowed other companies to mine coal and sell it commercially. This is a transformational reform. Increasing competition helps improve operational efficiency across the sector.

- There are about 5 lakh coal miners in India. A large number of indirect jobs are also connected to the broader Coal industry (logistics and transportation)

- The Government New coal blocks will be offered through auction with minimal eligibility criteria. A revenue sharing mechanism for coal mining companies will be introduced to encourage new players. This will further stoke competition, boost quality and output in the sector.

ANALYSIS OF GOVERNMENT'S 20 LAKH CRORE PACKAGE

WHAT DOES THIS MEAN TO YOU?

If you own Coal India, you may witness a fall in its share price as its monopoly is about to end. Revenue of the company is expected to take a hit. On the other hand, companies like Hindalco, Adani and JSPL already have coal mining operations for their personal consumption. Now they will be able to extend their business and add coal as a separate product with minimal efforts. This will be an additional source of revenue for such companies.

COMPANY REFORMS

- **More leeway to defaulting companies:** Currently for a company unable to repay banks and financial institutions, there is a 6 month window during which the company can't be forced to liquidate to repay loans. This has been increased to up to one year. This is a massive blow for banks leaving them no choice but to make huge provisions in an already uncertain environment. Banks will be even more cautious to lend in this environment as they are left completely exposed.
- **More protection for MSMEs:** In another blow to bank balance sheets, The government increased the minimum threshold of default in payment by an MSME to a financial institution from Rs 1 Lakh to Rs 1 crore. This is a massive jump that will allow a lot of MSMEs time to recover while putting more strain on banks and financial institutions who will have an even longer cycle to initiate insolvency against MSME's in case of bad loans. Expect even more provisioning and eventual losses by banks while these debts sit on their books.
- **Raising funds becomes easier:** Now, the government has permitted Indian companies to directly list in foreign exchanges, without the requirement of first listing in India. This will help unlisted firms to raise capital from primary markets abroad. Start-ups and unlisted technology firms would benefit from this, as it provides an easy exit route for foreign VC funds and angel investors. However, more clarity is needed on this reform.
- **More unskilled employment:** MNREGA, a government of India scheme that aims to provide at least 100 days of employment to every rural household every financial year, gets a boost with increase in basic wage. This aims to address the massive unemployment problem India is staring at which currently is estimated at almost 24%! While the scheme is a welcome step, employment will need to be created at the industry level.

STIMULUS MEASURE	COST (Lakh Cr)
Part 1: Business including MSMEs	5.94
Part 2: Poors, including Migrants & Farmers	3.1
Part 3: Agriculture	1.5
Part 4 & 5: Infra, Ease of doing Business	0.48
Total of 5 tranche of stimulus	**11.02**
Measures announced earlier	1.92
RBI Measures	8.01
Grand Total	**20.97**

TECH REVIEW: DOZEE

DOZEE: A NOVEL SOLUTION FOR KEEPING TABS ON YOUR HEALTH

- Health monitors sometimes sound quite fruitless and they often are, if you're usually hale and hearty. However, for patients coming out of a hospital stint, senior citizens, and people with chronic diseases, they can be quite useful. Dozee is one such device, made by Indian startup Turtle Shell.
- Dozee is a thin sensor sheet that's placed under your mattress and essentially measures your sleep. The company also has a version of the device that's meant for hospitals. The primary difference between the consumer and medical versions is that doctors have access to a wider data set as the medical version can be hooked up to more medical devices.
- The company says there is no difference between the medical and consumer versions in terms of hardware. It measures micro-vibrations in the body produced when the heart pumps blood, detects respiration, muscle twitches, tremors, and other movements. Its algorithms use this data to present the user with an analysis of how they're sleeping, through a smartphone app. It gives you a sleep score, determines stress levels, and heart rate. It also, of course, records how long you've slept. The data can be used by a health professional to monitor abnormalities in a patient's heart rates, sleep patterns, and more. The sensor sheet has been tested for mattresses up to 18-inch thick and can eliminate the noise from a partner on the same bed. The device is meant only for one person at a time, though, sleeping right over the sheet. It's a novel alternative to sleeping with a cumbersome smartwatch on your hand, or wearing intrusive health monitors. The accuracy levels seem similar too. We tested that by matching Dozee's stress graphs with exact times when we woke up from a bad dream, noting the specific time we went to sleep and sometimes just lying still without actually going to sleep. It also detects snoring patterns.

- The only downside, in our experience, was that it misrecorded data thrice in the six-day period that we used it. This happened because the device looks for the tiniest of vibrations, and since our bed is attached to the wall, the window air conditioner (AC) next to it created such vibrations from the wall to the bed. This can also be caused by things like room coolers and more, which could be a problem for many in India. It might take the monitor some time to figure out sleep patterns. Confidently it would get a hold of it within a few days. Dozee's app is well designed, data is presented in an easy-to-read manner. It also gives you points based on your activities, which can be used to purchase special meditation plans. The idea right now is to gamify the experience, with no plans to monetize this as a marketplace, Dandawate says. However, He didn't eliminate the possibility either.

- All health data being moved to Dozee's servers is anonymized and used only to improve its own algorithms. It also lets users share data with other people. Overall, Dozee is a novel solution for health monitoring. It doesn't necessarily have the mainstream appeal of a wearable, but it's much less intrusive than other solutions.

PROS	CONS
Unintrusive and contact-free	Outside vibrations can offset data
Portable	Too expensive for some

- **Get it for**
  ₹ 7,499
- **Highlight**
  REMOTE MONITORING OF HEALTH

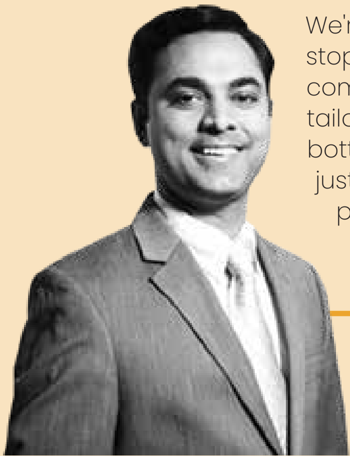
WORDS WORTH NOW

I have to be ready (going ahead)... because no one knows how this lockdown is going to to turn out, how this is going to end, how this is going to withdraw. So, obviously I have to be ready. I can't finish my story with these announcements.

Nirmala Sitharaman
Finance Minister

In past difficult times, entrepreneurs have displayed farsightedness and creativity that could not have been believed to exist. These became the flagpoles of innovation and new technology today... I hope that the ability to find another way to build a product, run a company, run operations in a better way will emerge as the outcome of the current crisis.

Ratan Tata
Chairman Emeritus, Tata Sons



We're not closing the doors as that would stop competition and lead to complacency... Atmanirbhar Bharat means tailoring products and services for the bottom of the pyramid and not catering just for the top 30 per cent of the population.

Krishnamurthy Subramanian
Chief Economic Advisor, Business Standard

In this hour of crisis, local suppliers have met our demands. Indians have to be vocal about local and buy products from them... In order to fulfil the dream of making the 21st century India's, the way forward is through ensuring the country becomes self-reliant.

Narendra Modi
Prime Minister

Order Me will only supply and endorse swadeshi products. It is Patanjali's effort to contribute to our long-standing swadeshi movement by connecting all the local retailers and small shop owners so that those selling swadeshi products can benefit from our platform. They can join the platform and the plan is to deliver their products free of cost.

Acharya Balkrishna
Chairman, Patanjali

Prime Minister Narendra Modi's call for swadeshi was misinterpreted by some. We have been here for 108 years. We have 7.200 Indian employees. We work with over 100,000 Indian farmers. Our brands are known for their Indian-ness and consumers have loved them for decades. Nestle India is all about Made in India, Made for India, and serving India and the Indian consumers. We also contribute $3,600 crore yearly to the Indian exchequer

Suresh Narayanan
Chairman & MD. Nestle India.

ArihantCapital
Generating Wealth

WHAT SHOULD YOU DO IN VOLATILE MARKET CONDITIONS?

Always aim to "buy low and sell high", redeeming now means you are doing exact opposite.

Despite short termvolatility, markets have created wealth over the long term

Staying invested across market cycles helps you to reap the benefit of compounding

Spend more time in the market to create potential wealth than timing the market

Missing just a few best days in market can substantially reduce your returns potential as shown in the illustration below.

	Compounded Returns	Value of Rs. 10 lakh invested on Jan 3, 2005 (Rs.)
Missed 5 Best Days	7.83%	31,74,400
Missed 10 Best Days	5.67%	23,29,210
Missed 15 Best Days	3.78%	17,65,313
Missed 20 Best Days	2.00%	13,53,776
No Missed Days	11.14%	50,48,152

So stay invested through market ups and downs and you could benefit over the long-term

www.arihantcapital.com

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Security Code- 511605 CIN of the company- L67120MP1992PLC007182