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Investing in the Times of
COVID -19

April 1,2020

Rapid spread of Covid-19 globally seems to be peaking out

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- Covid-19 has spread rapidly to all parts of the world over the past few weeks
- The rapid spread of Covid -19 risked overwhelming healthcare in various countries given
  - ✓ Very Infectious nature of the disease
  - ✓ Need for 10-20% of infected people to get hospitalized
- Only option to decrease the spread of the disease was to implement unprecedented social distancing measures
- Such measures have brought the world to a virtual standstill and is hurting the global economy substantially
- The question now is how long will this last and what will be the path to recovery

Unprecedented measures taken by Governments globally

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Measures taken by some of the Governments globally

Date	Country	Total cases	Action taken	Current cases	Current status
23 Jan 2020	China	643	Lockdown of Hubei province	81,518	Slowdown in new cases from mid Feb onwards. No new domestic transmission related cases currently.
09 Mar 2020	Italy	9,172	Nationwide lockdown	1,05,792	Daily new additions peaking out at ~5000 cases. New cases expected to gradually decline from here on.
13 Mar 2020	Iran	11,364	Nationwide lockdown	44,605	Daily new additions peaking out at ~3000 cases
14 Mar 2020	Spain	6,391	Nationwide lockdown	95,923	Daily new additions expected to remain high in the immediate future. Should decline thereafter.
16 Mar 2020	USA	53,740	Social Distancing Guidelines issued	1,88,530	First daily addition of over 20,000 cases. US to remain the epicentre of Covid-19 globally for next few weeks.
22 Mar 2020	**India**	**396**	**Nationwide lockdown**	**1,397**	**Daily additions still very low. Proactive measures taken can help prevent an outbreak in India.**

Current cases are as on EOD 31/03/2020

Shutdowns seem to be slowing the pandemic finally

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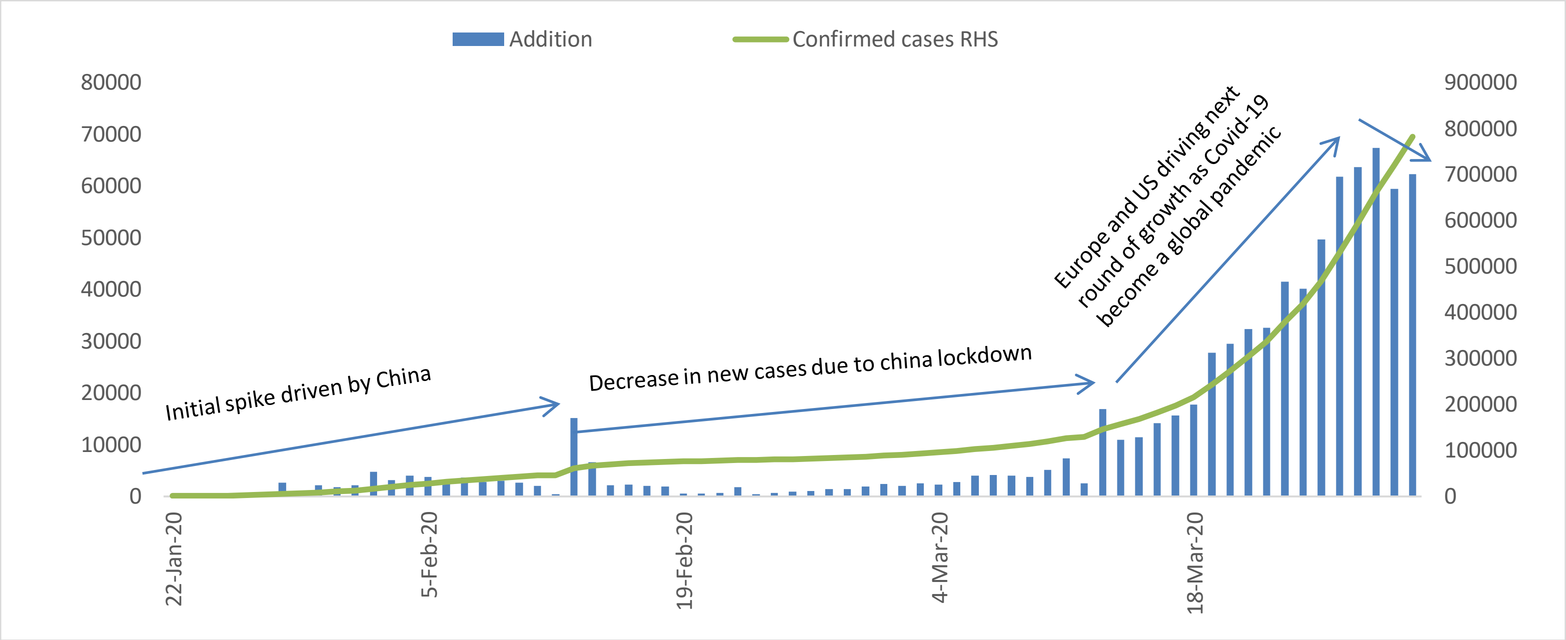

Data as of 30/03/2020

China & Korea witnessed decline in new cases post measures

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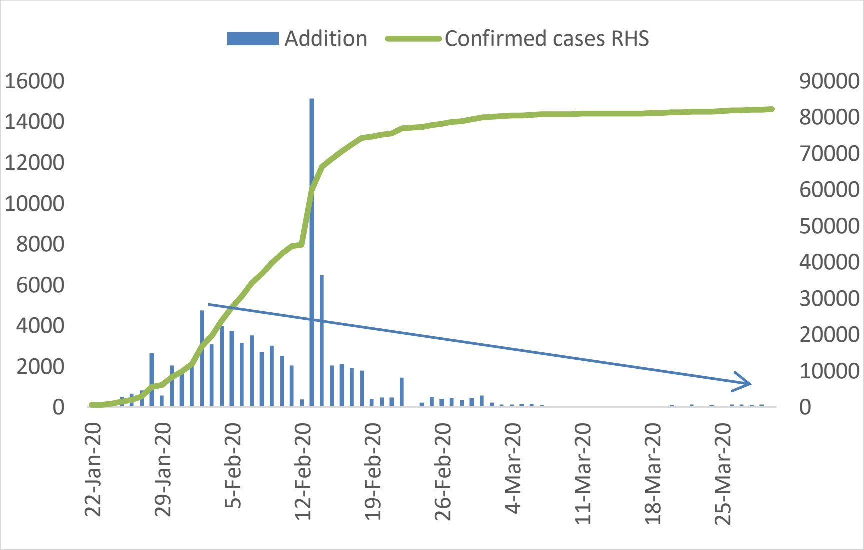
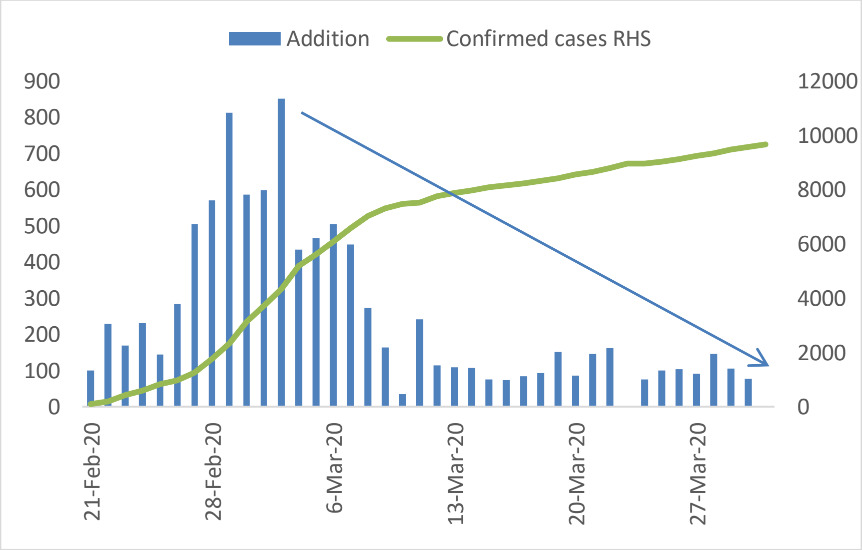
China – New cases almost down to zero



South Korea - New additions have slowed down significantly



Data as of 30/03/2020

Europe – New additions slowing in response to the measures

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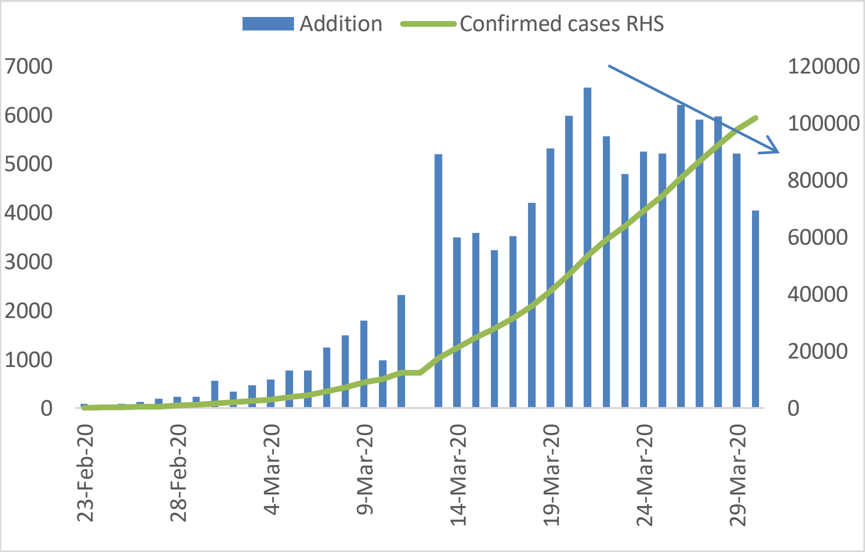
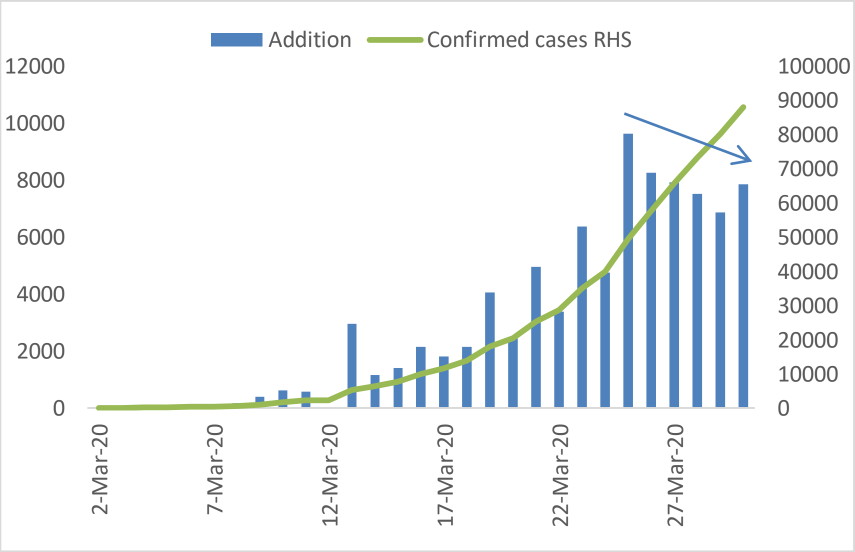
Italy - New additions are firmly on the downswing



Spain – New additions seem to have peaked out



Data as of 30/03/2020

USA driving new global additions currently

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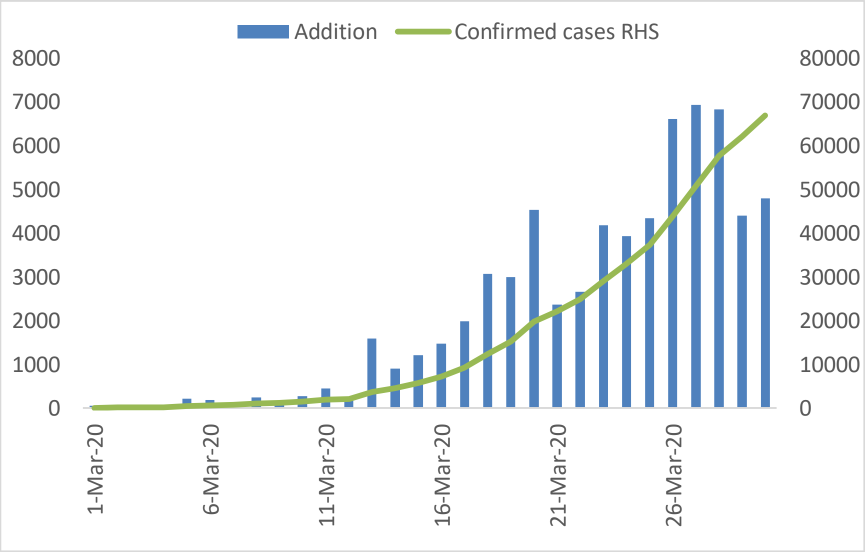
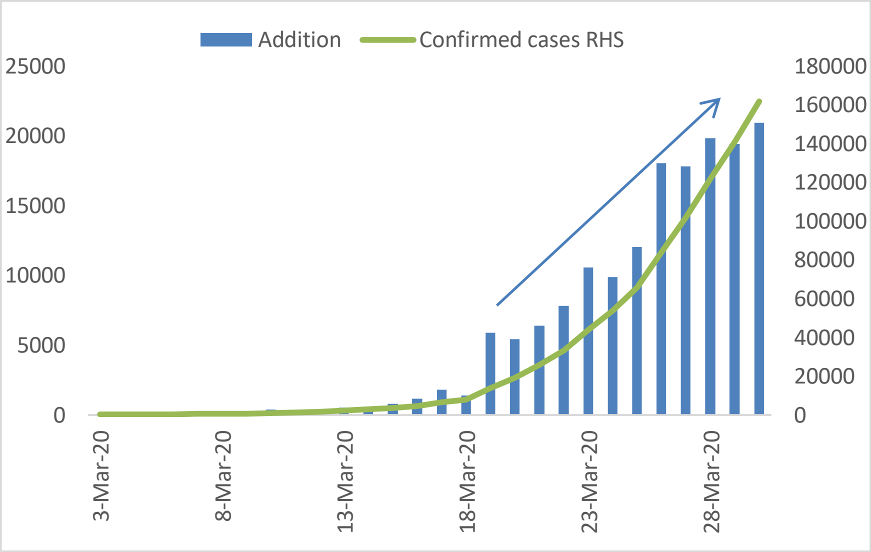
Germany – Also witnessing peak in cases in line with Spain



USA – Rapid increase in cases and new additions



Date as of 30/03/2020

But what about the cost of shutdowns and life post shutdown?

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- Due to lockdowns the rate of spread of Covid-19 is coming down in various countries, but at a huge economic cost
- The biggest worry is that the outbreak can re-emerge if measures are rolled back. However, key positives are:
  - ✓ Healthcare facilities around the world are being scaled up significantly (This includes hospital beds, ventilator manufacturing and testing capabilities)
  - ✓ Vaccines and cures are being worked upon frantically, though they may be 12-18 months away
  - ✓ Logistically governments are far better placed to handle any re-surge once they start rolling back the social distancing measures
- China offers the biggest encouraging data, as they have brought the outbreak under control and are now in the process of opening up their economy again

Monetary & Fiscal measures will limit fallout from shutdown

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In order to counter the impact of the slowdown in global growth, central banks and governments have announced monetary and fiscal measures even bigger than the ones announced during the peak of the global financial crisis.

Global central banks have cut rates in a coordinated move

Country	Last Move Date	Central Bank Rate	
		Cut (bps)	Rate (%)
US	Mar-2020	100	0.25
UK	Mar-2020	0	0.10
New Zealand	Mar-2020	75	0.25
Australia	Mar-2020	25	0.25
Canada	Mar-2020	50	0.25
India	Mar-2020	75	4.40

While Governments have announced fiscal packages

Country	Stimulus (US$ bn)	2019 GDP (US$ bn)	% of GDP
United States	2,200	21,200	10.4
Germany	171.6	4,040	4.5
Australia	62	1,450	4.3
UK	48.4	2,910	1.7
Italy	28	2,030	1.4
China	186	14,200	1.3
India	22.7	2,875	0.8
Japan	4.05	5,110	0.1

Source: imf.org

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Previous such falls have been good opportunities to Invest

Market Corrections – A buying opportunity

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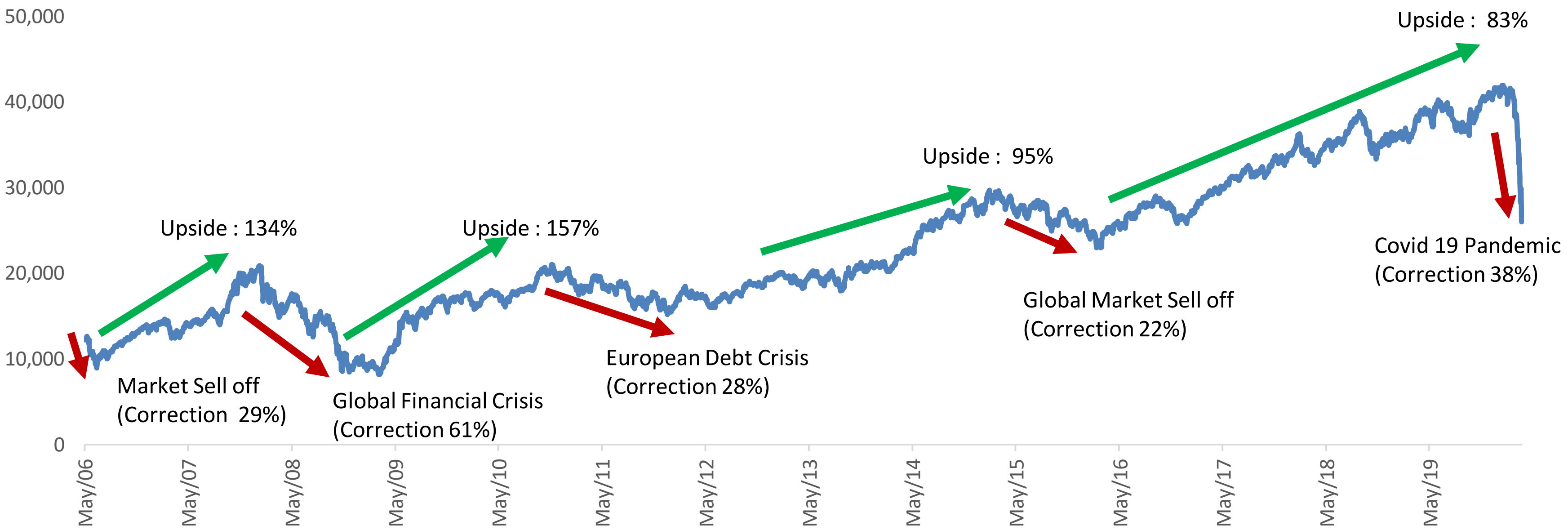
Every Correction in the market has been followed by an upside and has turned out to be a buying opportunity



Data for BSE Sensex

Market Corrections – A buying opportunity Contd..

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Markets usually recover back from sharp corrections in a year or two

Dates	Correction	Upside needed to recover to previous levels	Previous levels achieved on	Time taken for recovery
May 06 - Jun 06	-29%	41%	Oct-06	3 months 1 day
Jan 08 - Mar 09	-61%	156%	Nov-10	1 Year 8 Months 5 days
Nov 10 - Dec 11	-28%	38%	Oct-13	1 Year 10 Months 20 days
Mar 15 - Feb 16	-22%	29%	Mar-17	1 Year 1 Months 9 days
Jan 20 - Mar 20	-38%	61%	-	-

Valuations are becoming attractive

On a P/BV ratio markets at same level as 2008

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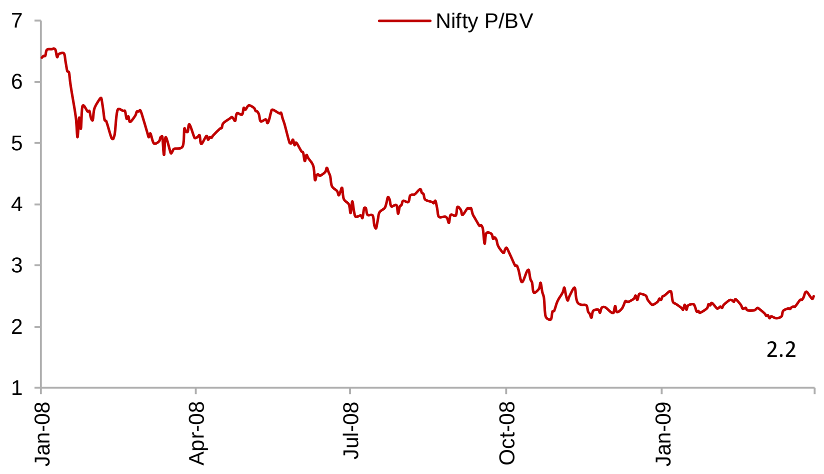
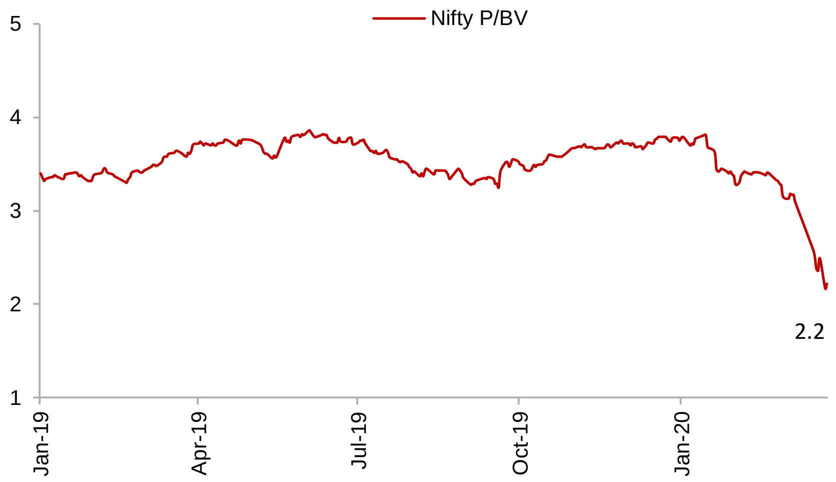
Nifty Trailing P/BV (Jan 2008 – Mar 2009)



Nifty Trailing P/BV (Jan 2019 – Mar 2020)



Data as of 30/03/2020

On a market cap to GDP basis markets as cheap as 2008

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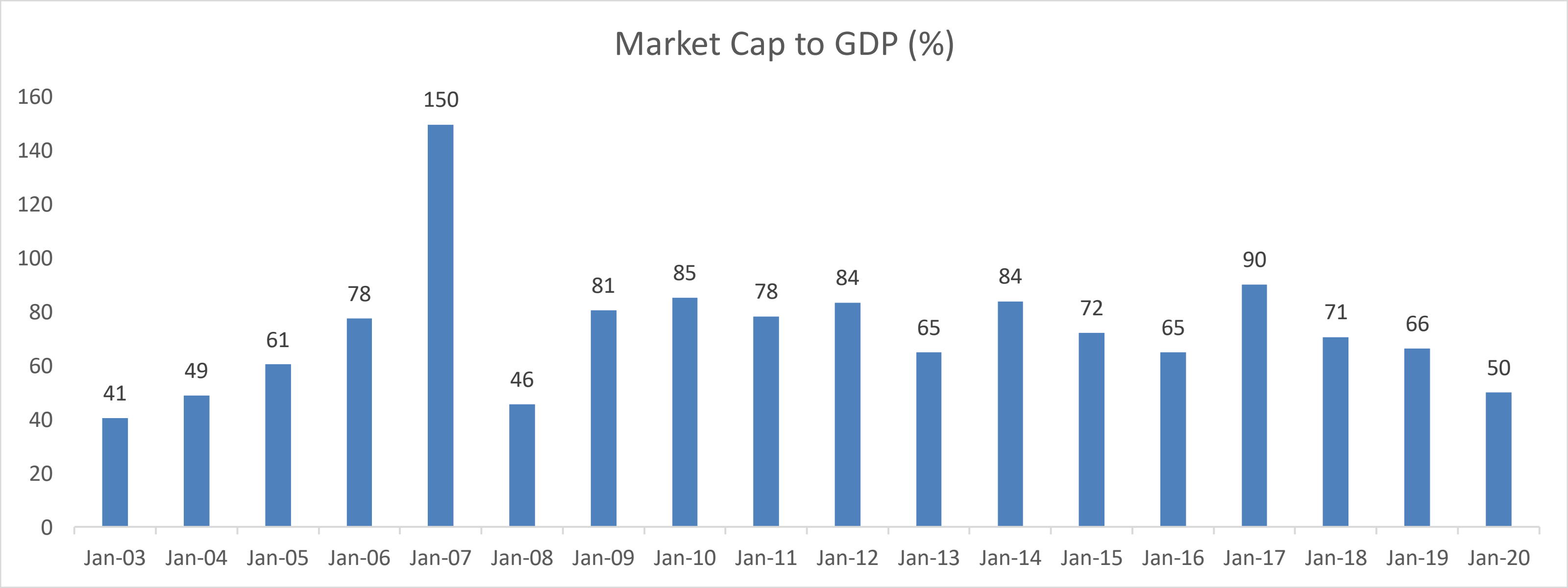

Data as of 30/03/2020

Though on P/E basis markets still more expensive than 2008

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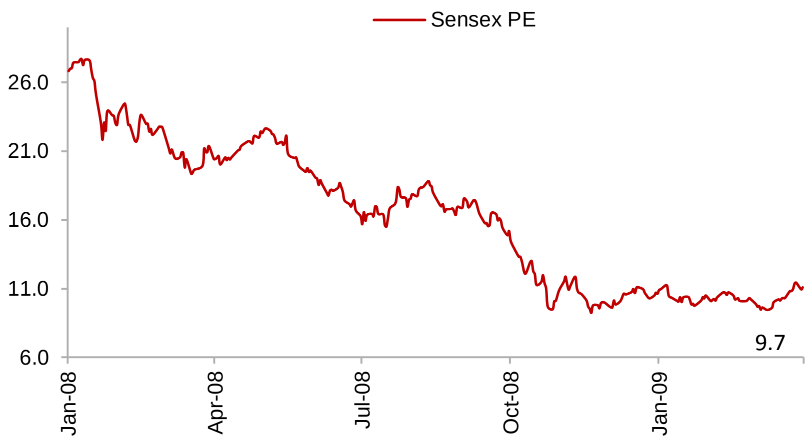
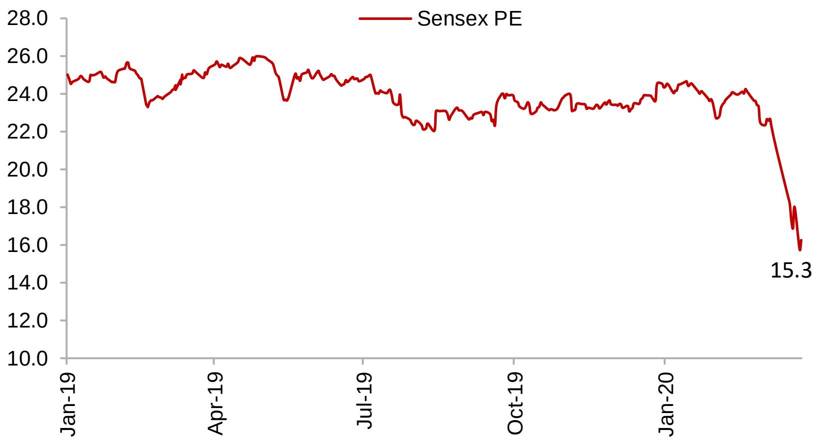
Sensex Trailing P/E (Jan 2008 – Mar 2009)



Sensex Trailing P/E (Jan 2019 – Mar 2020)

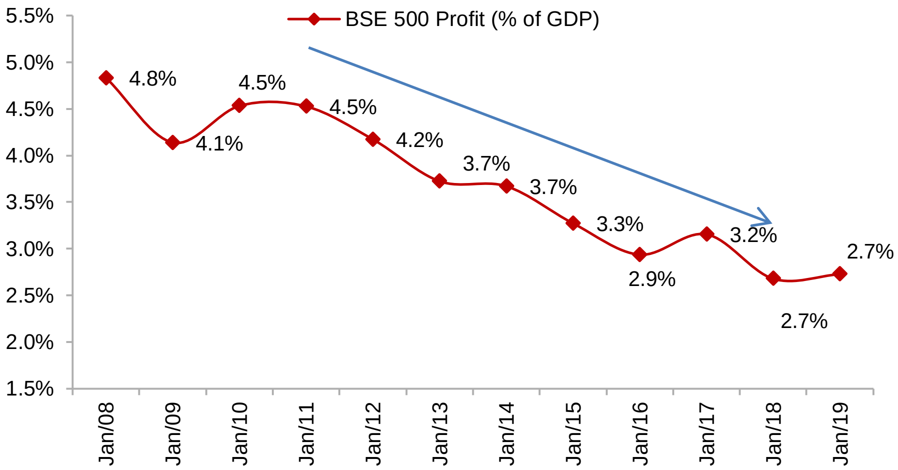


Data as of 30/03/2020

However, P/E not ideal measure currently

- Structural reforms and the NBFC crisis had an adverse impact on growth and profitability
- Current low corporate profit to GDP is an aberration which will normalize over next 3-5 years
- Pick up in growth, increase in profitability and P/E rerating will drive markets over next 3-5 years

Corporate profit to GDP ratio at decade lows



Source: Bloomberg, RBI, Capitaline, Angel Broking

Major events during last few years that impacted earnings

Date	Reform/Event
28 May 2016	Insolvency & bankruptcy Code
08 Nov 2016	Demonetisation
01 May 2017	RERA
01 Jul 2017	GST
27 Sep 2018	IL&FS Default & NBFC Crisis

India’s Macros are supportive

Fall in Crude prices is a big positive for India

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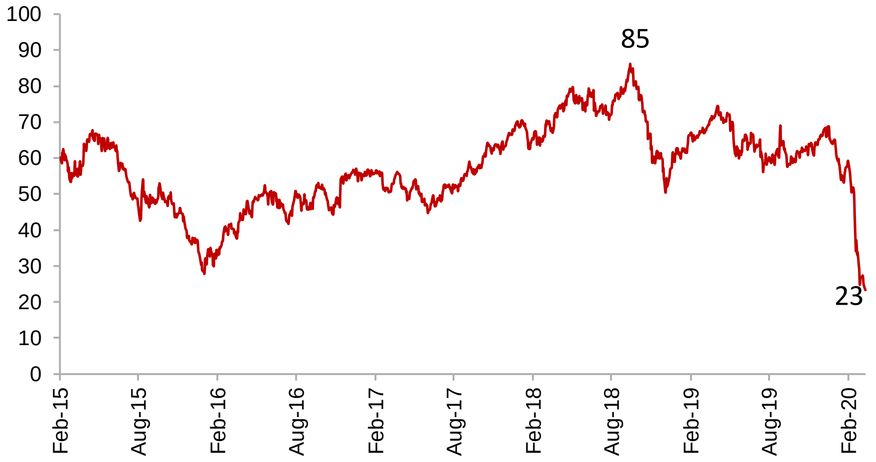
Brent price (USD/bbl)



Source: Bloomberg, Angel Broking

- ❑ India Imported 4.48 mn bpd of oil in 2019
- ❑ 10% fall in fuel price will have 40-50bps direct impact on CPI
- ❑Every USD 10/bbl drop in crude price would save USD 16.3bn of forex
- ❑ Lower fuel price also increases disposable income for consumers

Twin deficit is well under control as compared to 2013

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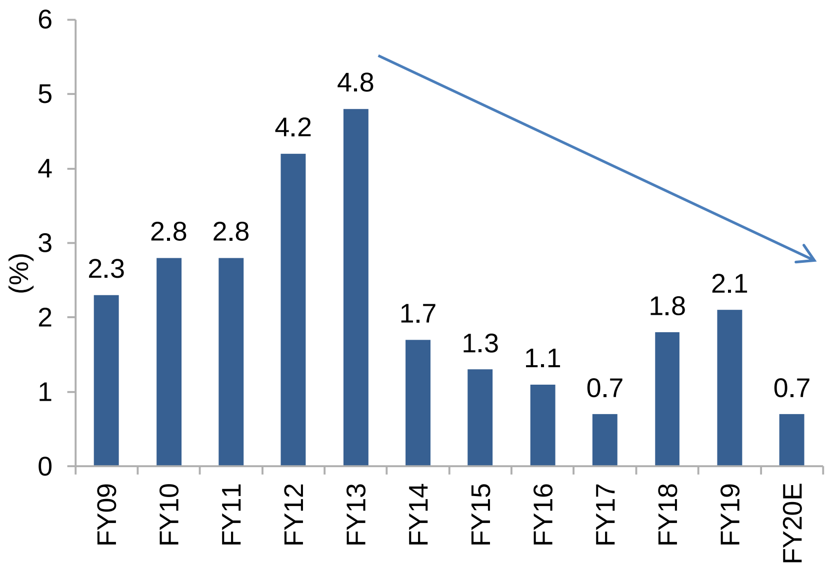
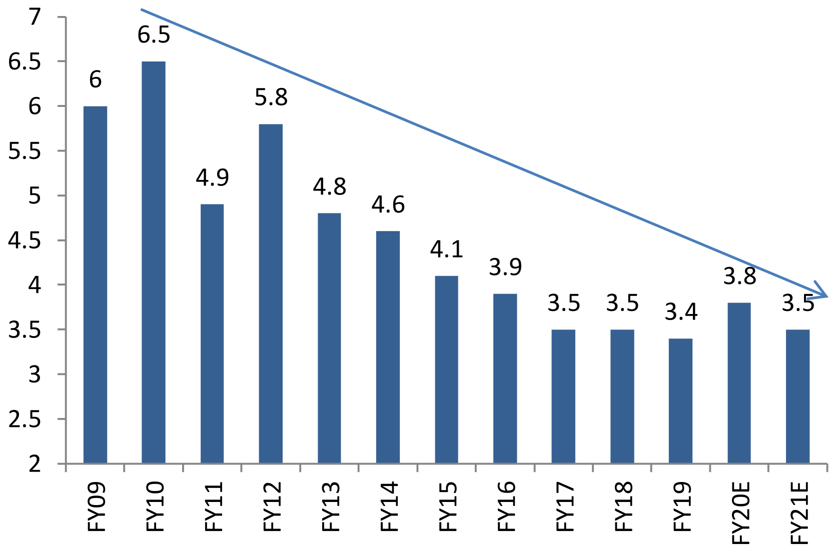
India Current account deficit (%)



India Fiscal deficit (%)



Source: Bloomberg, RBI, Angel Broking

Which along with healthy Forex Reserves will prevent a BoP crisis

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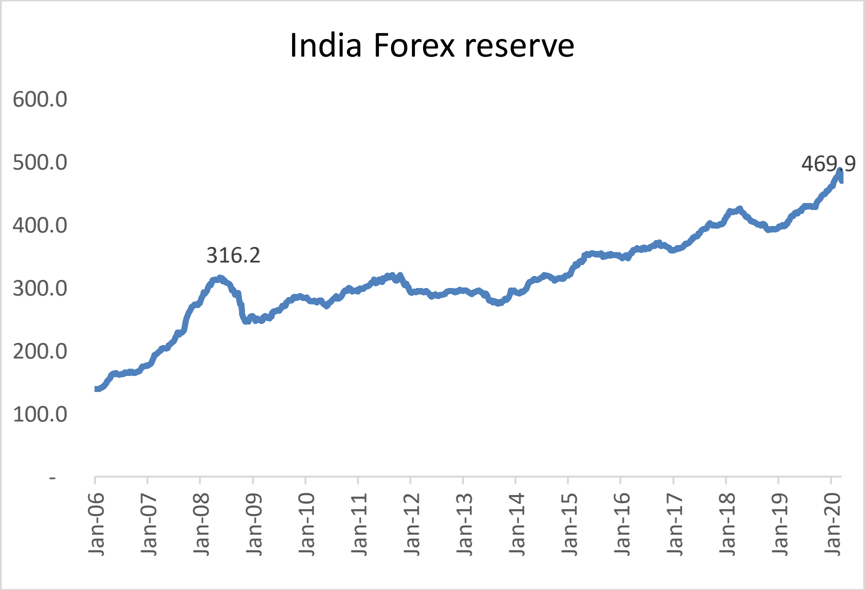
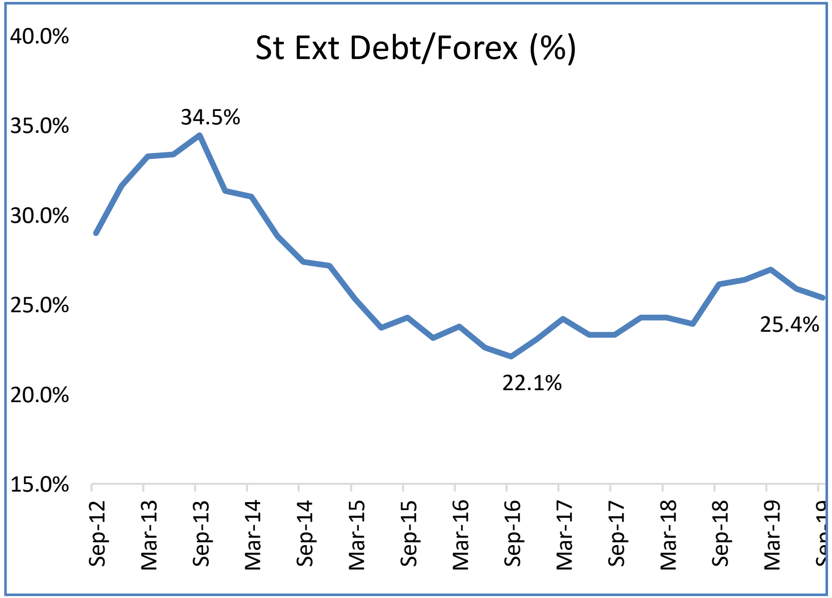
Forex reserves almost at all time highs (US$ bn)



Short term external debt to Forex reserves very comfortable



Source: Bloomberg, RBI, Angel Broking

RBI has announced various measures… has headroom for more

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- **Rate cut:** Repo rate cut by 75 BPS to 4.4%; reverse repo rate by 90 BPS to 4 % to encourage banks to lend; CRR reduced by 100 bps from 4% to 3% of NDTL for one year.
- **Liquidity measures:** RBI had injected liquidity of up to Rs 2.8 lakh cr (1.4 % of GDP) since the last MPC meeting on Feb. 6, 2020. The RBI measures announced (TLTRO, CRR and MSF) on Friday will help inject liquidity further by Rs 3.7 lakh cr or 1.8 % of GDP.
- **Moratorium on term loans:** All lenders are allowed to permit moratorium for a period of three months on all types of term loans outstanding as on March 1, 2020.
- **Deferment of interest payments:** Working capital borrowers can defer interest payments by three months.
- **Regulatory relief:** Deferment of capital conservation buffer’s (CCB) last tranche of 0.625% now stands deferred by six months.

Source: Bloomberg, RBI,GOI, Angel Broking

Fiscal measures to compliment monetary measures

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- The Indian Government has announced a fiscal package of Rs. 170,000 cr. (0.8% of GDP) which is meant to benefit the poorest of the poor. Some of the key highlights of the package are:
  - ✓ Under the Pradhan Mantri Gareeb Kalyan Ann Yojna (PMGKY), at least 80 cr. poor people will be provided an additional five kilos of rice/wheat per month.
  - ✓ 8.69 cr. farmers will receive the first installment of Rs 2,000 in the first week of April under the PM – KISSAN scheme
  - ✓ Wages under MNREGA will also be increased by Rs 2000 per worker on an average as additional income to help daily wage labourers
  - ✓ BPL families will get free cylinders for three months under the Ujjawala scheme as well
  - ✓ For the welfare of building and construction workers, the central government has passed orders to states to use funds worth Rs 31,000 crore to provide relief.
- **We believe that this could be the first among a series of measures announced by the Government and we expect more stimulus measures announced by the Government**

Source: Bloomberg, GOI, Angel Broking

Where to put your money

Investing in current market environment

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- Proactive measures by Indian Govt should help preventing a widespread Covid 19 epidemic
- However, global GDP impact could last longer as developed countries may take time to fully roll back all restrictions
- Some sectors of the global and domestic economy like aviation, entertainment, hotels, travel & tourism, international trade, etc. could take longer time to fully recover
  - ✓ For instance, though the Chinese economy is gradually normalizing it is still away from pre-crisis levels, esp. in abovementioned sectors
- Therefore, given uncertainty over economic impact, we would recommend:
  - ✓ Investing in 3-4 tranches
  - ✓ Investing in very high quality businesses initially, which will out-perform markets
  - ✓ Avoid sectors which are more vulnerable to economic slowdown

Investing in current market environment (Contd…)

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- Sectors which will be adversely impacted due to economic shutdown and can be avoided for the time being are:
  - ✓ Auto & Auto Ancillary
  - ✓ Aviation
  - ✓ Weaker Financials and NBFC
  - ✓ Hotels, tourism, multiplexes and retail
  - ✓ Metals & Commodities

- However certain sections of the markets which are expected to out perform even during tough times:
  - ✓ FMCG
  - ✓ Select Pharma stocks
  - ✓ Diagnostic and healthcare sectors

High Quality Equity Portfolio

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FMCG	CMP (Rs.)	Mkt Cap in Cr
Colgate-Palm.	1,253	34,079
Hind. Unilever	2,298	4,97,514
Nestle India	16,302	1,57,180
Procter & Gamble Hygiene	10,447	33,913
Other Consumer Goods		
Asian Paints	1,667	159,869
Bata India	1,231	15,824
Hawkins Cookers	3,884	2,054
Healthcare & Pharma		
Dr Lal Pathlabs	1,401	11,680
Ipca Labs.	1,388	17,535
Others		
Avenue Supermart	2,201	1,42,556
Bharti Airtel	441	2,40,372

CMP as of closing on 31/03/2020

Note: We recommend keeping cash up to 25-30% of your desired investment amount handy for investing in more stocks as economic clarity emerges

ARQ Recommended Mutual Funds

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Category	Scheme	Sub - Category
Equity Funds		
1	Axis Bluechip Fund	Large Cap
2	Canara Robeco Bluechip Equity	Large Cap
3	Kotak Standard Multicap	Multi Cap
4	DSP Equity	Multi Cap
5	Axis Midcap	Mid Cap
Balanced Funds		
1	SBI Equity Hybrid Fund	Aggressive Allocation
2	Canara Robeco Equity Hybrid	Aggressive Allocation
3	ICICI Pru Regular Savings	Conservative Allocation
4	Kotak Debt Hybrid	Conservative Allocation
Debt Funds		
1	LIC MF Banking and PSU Debt	Banking and PSU Fund
2	IDFC Ultra Short Term	Ultra Short Duration fund
3	Aditya BSL Savings	Ultra Short Duration Fund
4	Axis Short Term	Short Duration Fund

Basic Principles for Long-Term Investing Success

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- **Invest monthly rather than lumpsum.**
  - ✓ Catching the bottom is practically impossible. Investing at regular intervals (ideally Monthly) averages your cost at various market levels and maximises returns

- **Invest for at least 3 years. Ideally 5-10 years.**
  - ✓ Invest surplus money only - Any surplus that you don't expect to use for any essential expenses over the next 3 years should be considered for equity investments

- **Invest in a diversified portfolio.**
  - ✓ Around 15-20 stocks which are spread across sectors compared to investing in a concentrated portfolio with investment in fewer stocks

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