

## India Macros Amidst Covid-19

Global Financial Markets including credit markets are by and large driven by Wall Street which presently is severely weak and fearful as the western world lost precious time not preparing well during February 2020 to deal with the CV ( Corona Virus )

However the steps taken by governments across the world this month by way of lockdowns and quarantines should in our view bring down the growth rate in the number of new CV cases overtime. As Equity Investors it is important for us to realise that harsh measures taken this month to control the COVID-19 pandemic would lead to medium term pain globally across economies thereby forcing the already slowing world to slip into a recession in CY2020.

### Impact of COVID-19 on the Indian Economy

We have had a number of queries from our investors on Flows in the wake of large scale redemptions globally as FII's raised cash from Emerging Markets. We depict below the flows into/from India ( both foreign and domestic) over the past six calendar years.

While elevated debt levels make social distancing costly, nations have to do it so as to enable their health systems to manage RISK even at the cost of activity levels collapsing

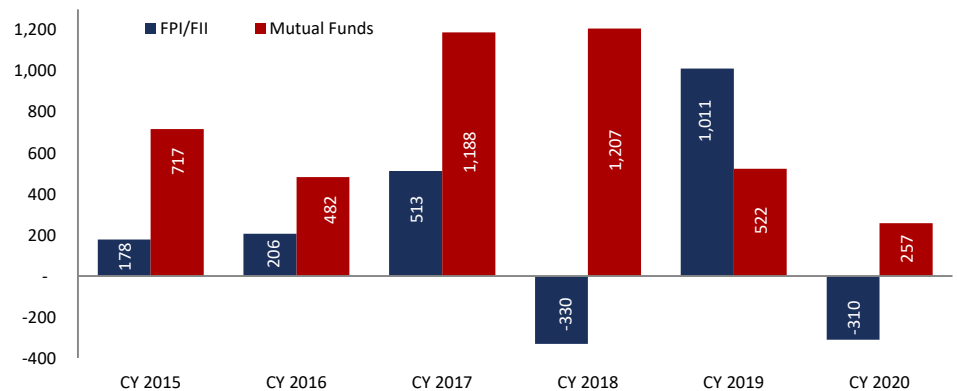
FPI/FII Net Equity Investment (₹ Cr)	
CY 2020	(30,982)
CY 2019	101,122
CY 2018	(33,014)
CY 2017	51,252
CY 2016	20,568
CY 2015	17,808

Source: NSDL

Mutual Funds Net Equity Investments (₹ Cr)	
CY 2020	25,706
CY 2019	52,237
CY 2018	120,735
CY 2017	118,774
CY 2016	48,169
CY 2015	71,681

Source: SEBI

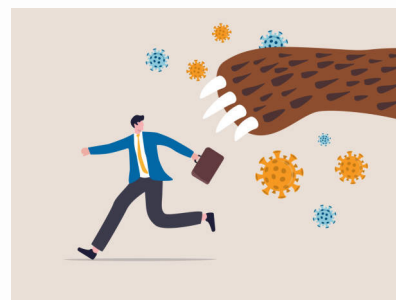
### FPI/FII & Mutual Funds Net Equity Investments (₹ bn)



Source: NSDL / SEBI

COVID-19 has no doubt adversely impacted India's short-term prospects amidst a structurally slowing economy. Our scuttle butt approach and channel checks with corporates, suppliers, customers, dealers and distributors suggest on the ground disruption in retail sales including supply chain disruptions, deferral and postponement in consumer discretionary segments, pressure on EMI for loans taken from Banks, NBFC and MFI and very high adverse impact on daily urban wage earners.

India in our view also has to contend with its share of pain on the export front as over 40% of its exports are to countries adversely impacted by the CV. However in our view the COVID-19 outbreak is an unprecedented event and jump starting the response to flatten the curve and lower the burden on the Health System holds the key. An apt example is Taiwan having high traffic with China which implemented a system whereby every citizen has their digital medical records along with their travel records updated so that authorities can isolate and treat them.



### MACRO ECONOMIC INDICATORS

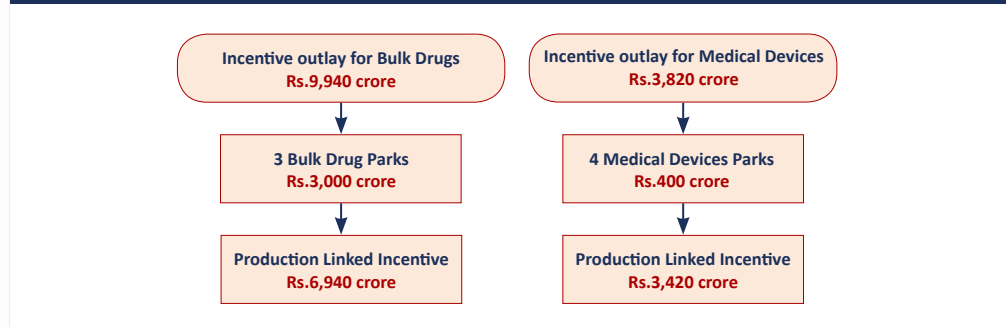
Indicators	Current Year	Indicators	Current Year
IIP (Gr. %)	2.0	Manufacturing PMI	54.5
Core Sector (Gr. %)	2.2	Services PMI	57.5
Exports (Gr. %)	2.91	Composite PMI	57.6
Imports (Gr. %)	2.48	CAD (% of GDP)	0.2
Trade Deficit (USD bn)	9.85	Fiscal Deficit (% of GDP)	3.8

In India the GST, Corporate Tax Cut and the Oil Price crash are in our view 3 big triggers that would help us navigate the present turbulence and emerge as a winner in CY 2021.

Going forward we expect many countries around the world to redefine their relationship with China as far as sourcing of products is concerned and India would be a major beneficiary of this move.

### Government of India announces Incentives for manufacturing of identified bulk drugs in the country

#### Total Proposed package of 4 schemes



Global Financial Markets were cruising along in a crazy bull market led by many unsustainable trends and corporate debt until COVID-19 proved to be the grain of the sand that tipped the sandpile thereby exposing the bloated balance sheets of companies.

However the silver lining is that the pandemic is not an economic disaster like a world war and half the fall could very well be recouped as the situation normalises.

India in our view could perhaps be among the few economies which can still exhibit a 3.5% - 4% positive growth at a time when the Global Economies slip into a recession because we are a large importer of Oil which has seen massive demand destruction and over supply. This benefit is more than 1% of our GDP in terms of a reduction in our net imports. Also the steep fall in crude and commodity prices implies better margins for companies having a certain degree of pricing power.

While the CV and the Yes Bank trauma are adversely impacting smaller banks as markets price in the adverse impact of retail loan defaults, the larger banks in our view should witness market share gains.

In India while the known sectoral damage to Airlines, Transportation, Multiplexes, Hotels, QSR, Travel & Tourism, IT/ ITES and small ticket personal loans are very obvious, one must not forget that in each of the above sectors emotions are short term while value is long term. Our Channel Checks does indicate higher revenues to certain FMCG companies selling essentials as consumers stock up in the wake of the pandemic.



**We present below a list of companies where the promoters have bought in such times as they seek to add to their holdings during such distressed valuations.**

Security Name	Promoters Name	Number of Shares	From	To
Bajaj Holdings & Investment	Bajaj Sevashram Private Ltd	85,400	11-Mar-20	12-Mar-20
Bajaj Holdings & Investment	Jamnialal Sons Private Ltd	135,662	12-Mar-20	17-Mar-20
Chambal Fertilisers & Chemicals	Jyotsna Poddar	200,000	11-Mar-20	12-Mar-20
Chambal Fertilisers & Chemicals	The Hindustan Times Ltd	1,057,695	11-Mar-20	18-Mar-20
Dwarikesh Sugar Industries	Smriti G Morarka	100,000	12-Mar-20	12-Mar-20
GHCL	Anurag Dalmia HUF	20,000	19-Mar-20	20-Mar-20
GMR Infrastructure	Gmr Enterprises Private Ltd	77,496,456	09-Mar-20	19-Mar-20
Great Eastern Shipping Co.	Ravi K Sheth	348,000	11-Mar-20	17-Mar-20
Indian Hotels Co.	Tata Sons Private Ltd	19,785,271	12-Mar-20	13-Mar-20
ISGEC Heavy Engineering	The Yamuna Syndicate Ltd	37,711	16-Mar-20	19-Mar-20
Jamna Auto Industries	SW Farms Pvt. Ltd.	1,000,000	12-Mar-20	13-Mar-20
Mayur Uniquoters	Kiran Poddar	16,915	16-Mar-20	18-Mar-20
Mindtree	Larsen & Toubro Ltd	855,000	16-Mar-20	19-Mar-20
Motilal Oswal Financial Services	Passionate Investment Mgmt (P) Ltd	36,576	12-Mar-20	18-Mar-20
Mphasis	Marble LI PTE Ltd	7,481,796	17-Mar-20	20-Mar-20
MRF	Braga Industries LLP	1,339	12-Mar-20	18-Mar-20
MRF	Comprehensive Invest & Finance	425	18-Mar-20	19-Mar-20
MRF	Jcee Manufacturing & Services P Ltd	425	18-Mar-20	18-Mar-20
NCC	Sirisha Projects Private Ltd	469,230	11-Mar-20	18-Mar-20
Tata Chemicals	Tata Sons Private Ltd	483,630	13-Mar-20	13-Mar-20
Tata Consumer Products	Tata Sons Private Ltd	2,285,491	13-Mar-20	13-Mar-20
Tata Power Co.	Tata Sons Private Ltd	27,278,779	12-Mar-20	13-Mar-20
Tata Steel	Tata Sons Private Ltd	15,535,057	12-Mar-20	13-Mar-20
Vinati Organics	Suchir Chemicals Pvt Ltd	38,442	16-Mar-20	19-Mar-20
Visaka Industries	Dr. G. Vivekanand	35,000	18-Mar-20	19-Mar-20
Welspun India	Balkrishan Goenka Trustee Of Welspun Group Master Trust	1,999,000	13-Mar-20	17-Mar-20

Source: BSE

Despite the RBI action and FII outflows from debt and equity markets, India's FX reserves is at a healthy \$480bn.

In the Indian context it is now emerging from the data post demonetisation that Indians will continue to own stocks despite FII selling as valuations fall below long term averages. Several PSU companies today are already having earnings yield greater than bond yields.

To conclude COVID-19 interplays with Human Health, Debt Levels and Capital Markets thereby raising the risk of a medium term global recession as CV is a 3 in 1 shock on Market, Demand and Supply

In India with MCAP to GDP ratio nearing GFC lows there are several emerging investment opportunities for long term investors with under allocation towards equities. We list below few such opportunities across sectors and across MCAP.

Company Name	Sector	Market Cap (Rs. Cr)
Bharti Airtel	Telecom	2,30,000
ICICI Bank	Banking	1,85,000
Larsen & Toubro	Engineering	1,06,000
Muthoot Finance	NBFC	22,000
Tata Consumer Products	FMCG	14,500
Dr. Lal Pathlabs	Diagnostic & Healthcare	11,700
Supreme Industries	Plastic Processing	11,000
<b>NSE Nifty: 7,730</b>		
<b>BSE Sensex : 26,350</b>		

**DISCLAIMERS AND DISCLOSURES**

LKP Sec.Ltd. (CIN-L67120MH1994PLC080039, www. Lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited(NSE), MCX Stock Exchange Limited (MCX-SX).LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report-:

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.