

Equity Outlook (May 2020)

The country has been divided in green, orange and red zone. The pockets which are safe and are not impacted by the pandemic are in the green zone, Red zone are the ones which are impacted the most and the orange lies somewhere in between. It also means that people with immunity power even in the red zone will be relatively safe and similarly if the immunity is weak, people could perish in the green zone as well.

We would like to draw a similar analogy for the markets. The sectors that can be placed in the green zone would be ones of FMCG, Healthcare, Telecom, Broking, Insurance. As tendency of people shift from growth to survival, basic instinct would ensure demand stays for FMCG, Healthcare, Telecom, Insurance. Companies in this pocket have relatively inelastic demand and the products of these companies would be consumed irrespective of the economic situation. Market too has rewarded this pocket of green stocks handsomely, this bucket continues to trade at rick valuations.

Red zone – this segment of stocks shall see delayed recovery in their businesses, Movie chains, Airlines, Travel Tourism, Hospitality, Capital Expenditure Oriented segments, Realty and the like fall in this category. Since the business recovery will be prolonged, Survival for them will be difficult, also given the nature of their business, they have high fixed costs and inability to cut variable costs. This Red zone also has a cascading impact on economic demand as job loss, unemployment created in this segment will be most and will drag the multiplier of growth at lower levels for the economy.

Orange zone – This zone lies somewhere in between. We would place segments of Metals, Automobiles, Consumption products like Textiles, Footwear, Banking, Mining, Infrastructure etc in the orange zone. These business have inherent nature of growth for a growing economy but has taken a pause for the time being. Government too shall incentivise spend in this segment as it has multiplier impact on the economy.

Poor Immunity – Just as a person with poor immunity shall perish even if he is in green zone, similarly companies that have high debt, high working capital and low operating leverage and needs incremental capital for incremental growth shall not stand the test of this difficult times. A corollary is that the companies that survive these unbelievable and unexpected tough times shall stand to gain market share and shall emerge stronger in times to come.

Positive factors – In this entire mayhem there are positive factors too. The entire world of science is not working on the medicine, if the medicine is found early on than the world can come back to normal times in shorter times and that will act as a shot in the arm to the sagging world economy. A fruitful medicine shall make this disease just as another Flu and human kind shall get accustomed to the new norm. Let's keep our fingers crossed for it. The second part is the quantum of liquidity that is getting printed; G-7 nations have committed a money supply of \$ 16,000 billion in near term. The amount of Equity selling by FII in India is close to \$ 8 billion. This money supply shall result in asset price inflation across the world. Soft interest rates and lower crude price act as blessing for capital starved country like India.

Negative Factors – Delay in medicine and spread of pandemic can result in prolonged recession in the country. A situation could emerge in terms of job loss and Unemployment. From the government side we still haven't opened our doors completely for aid, there is room to do more, however delay on that front can have negative impact with every passing day. First quarter results for companies are a washout.



Portfolio action – We have companies in the portfolio that fall in the orange zone, We believe most of them have strong immunity to withstand this storm. Majority of them are market leaders and have cash rich balance-sheet. They are aptly placed to gain market share from their weak counterparts in the industry. When the tide turns, they shall be able to ride better. We are going through a phase where things cannot be predicted with certainty hence we believe taking a safe course is the best course of action in this torrid times.

We from the Turtle Star Portfolio Managers family wish safety for all of you and your loved ones.

Sunil Shah

Co-Founder Turtle Star Portfolio Managers

Disclaimer:

This report is for personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and A C Choksi Share Brokers Private Limited and its Associate or Group Company is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The information and views presented in this report are prepared by A C Choksi Share Brokers Private Limited. The information contained herein is based on study of available charts, statistical data and their interpretation of the same, our analysis and upon sources that we consider reliable. Accordingly the views and opinions expressed in the report may or may not match or may be contrary at the times with views, estimates, ratings, target price etc. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information.

The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither A C Choksi Share Brokers Private Limited nor any person connected with any associated companies of A C Choksi Share Brokers Private Limited accepts any liability arising from the utilization of information and views mentioned in the report.

Caution:

Risk of loss in trading can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.