March 20, 2020

Update on the present situation

Given the outbreak of Coronavirus / COVID-19, there has been understandably a lot of panic about personal health and the health of loved ones.

Aggravating the anxiousness on the health front, people are concerned about finances as well. This can be in the following forms

Concern about income for freelancers, daily wage earners, professionals etc.

Concern about job losses in vulnerable sectors like airlines, hotels, restaurants, amusement parks etc.

Concern about the declining value of investments (especially equity investments and in some cases debt investments as well).

We will try to address these issues in the update.

Health front

The following is not to minimise the seriousness of the issue. One should fully cooperate with the authorities in trying to contain the disease. Again, we are lay persons in this matter. For authentic updates please follow WHO and Ministry of Health and Family Welfare websites.

The numbers look scary. The number of infections, deaths, complications etc. tend to numb the mind.

However, it is important to keep this in proper perspective and be driven by data rather than opinion or narrative in the media.

The outbreak started about 3 months back. Today while it is widespread, we are not as defenseless as we were in the earlier days.

Medical professionals now have some idea of how to tackle this. There are about 6 drugs which have shown encouraging results in treating the disease and vaccination trials have begun. Blood plasma of recovered patients is helpful in treatment. Social distancing has taken roots in most places. We will surely overcome the virus in the not so distant future.

Finances

Daily wage earners, freelancers etc are the most vulnerable and our hearts go out to such people. Some people may have savings to see them through while a lot of people may not. Governments the world over are aware of the issue and one hopes that early measures will be taken. The US government, for example, is talking about transferring $ 1,000 for each adult and $ 500 per child. These kinds of measures will help tide over the difficult times.

Vulnerable sectors will also get help. There is already talk of bailing out vulnerable sectors like airlines. We have seen governmental help in 2008-09 and we will surely see that this time around as well. Remember the Auto bailout the US in 2008 and JNNURM scheme in India. Surely these sectors will not go away and will come back. Employees in this space should keep the faith. Even after the closure of multiple airlines (Air Damania, East West Airlines, Kingfisher Airlines etc.), there will always be air travel and newer airlines will provide employment. The interim may have some hardships but again we shall see this through.

Investments

Just as the virus is most harmful to people of fragile health, it will also be harmful to fragile businesses.

Excessively leveraged businesses in the discretionary space could face survival risk (say a hotel with lots of borrowing which was facing difficulty meeting interest and principal before the start of this crisis).

One should stay away from fragile businesses and not get into the temptation of buying more or averaging in such companies. We try to stay away from fragile businesses and to our mind, there are no companies in our portfolio that we see folding up due to this crisis.

Stance for the future

The indices in India as well as abroad have fallen about 35%. Even assuming one year of zero earnings at the aggregate, this fall is excessive. People who view equity investing as owning a business would find this an opportune time to invest. This is however contingent on the investment horizon being at least 5 years.

We are not saying that these levels are the absolute rock bottom and that prices cannot go down from here.

Proof of the fact that equities are quite cheap is the promoter and senior management buying of shares from the open market (eg. Bajaj Group, N Chandra of the Tata Group).

While the following are well known, it is important to reiterate these positives which are completely getting ignored right now

- Very low to negative interest rates the world over.
- Massive fiscal stimulus on the way
- Rock bottom valuations
- Low energy and commodity prices (These may be negative for producing countries like Saudi Arabia and Russia but massively positive for consuming countries).
- China where it initially began seems to have largely recovered, there are no fresh cases, death rates have come down. Just as a random data point, 90% of Starbucks outlets in China are open again and functioning as normal. China, in fact, would like Disney to open Disneyland Shanghai!

Given that the fall has been in India as well as globally there is no meaningful shift between domestic and foreign investments.

We had some cash going into the fall. Given the attractive valuations, we have been buying shares on a daily basis in the last few days. We will be fully deployed in the coming days.

We will be discussing the general outlook in today's AMA on Twitter and not be focussing on individual companies. We can take those questions in the regular AGMs.

Warm Regards,
Rajeev Thakkar