TURTLE STAR Equity Outlook - February 2019

Markets on a clean up mission.

As usual whenever we are attempting to talk about the future, we should know and learn from the past. One of things, we have learnt from markets is that there are bull and bear market cycles and each time there is a new set of sector that emerges as a clear winner. Let us elucidate the same with historical evidence. The bull run from 1998 to 2002 can be classified as a dot.com bubble when the sectors in the new economy namely Telecom, Media and Technology were rewarded handsomely, the bull run then values the incompetent companies (K-10 companies) too on the same scale as that of gold and then when the bust comes, these incompetent companies (Global, DSQ, Pentafour, Silverline, Aftek etc etc) die the death of an orphan.

Take the next period 2003 to 2008, it was a period when global liquidity came into India and they saw that Indian power and infra sector were way below global standards and markets rewarded anything to do with power and infra again (Reliance Energy, Reliance Infra, GVK, GMR, HCC, IVRCL etc etc) handsomely in that said period. It was the bust of Lehman brothers that bought sanity to the bull markets.

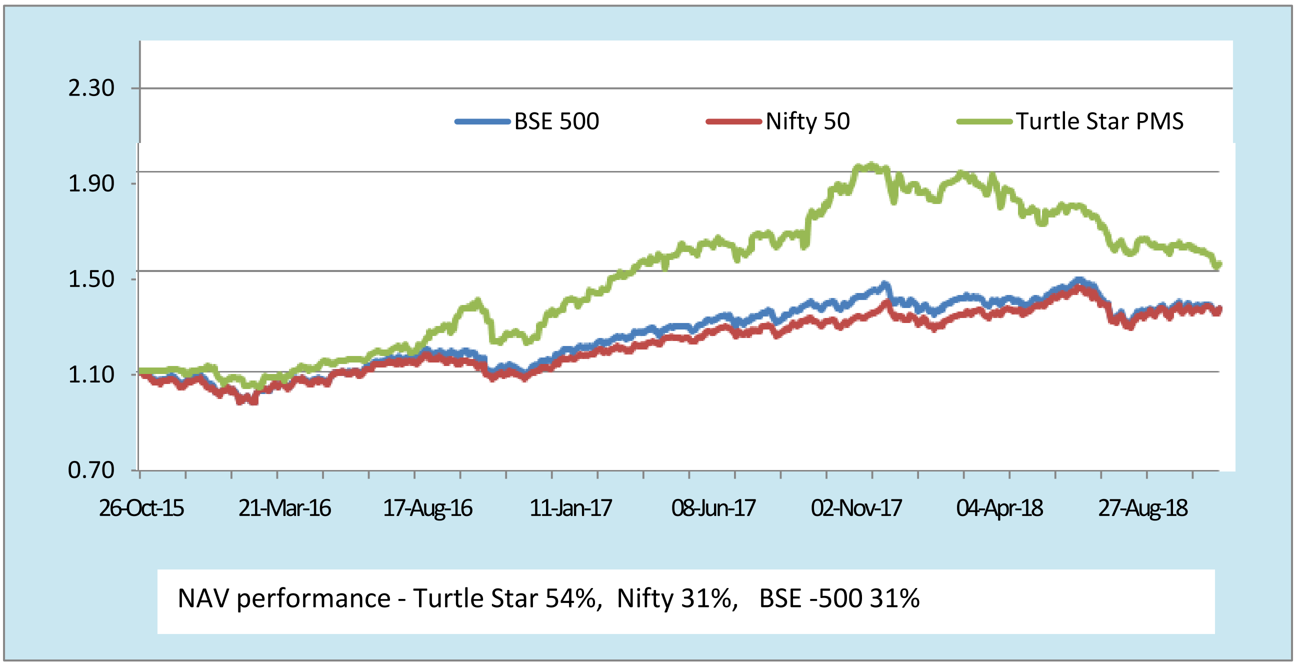
The period that followed from 2008 was one where global liquidity was abundantly available – this resulted in boom for anything to with consumption. Liquidity also resulted in massive bull run in consumption ancillary related sector like pipes, ceramics, branded apparel, footwear etc etc. Spending nature became a virtue and saving a vice. What added fuel to the fire of consumption was the zero or negative to very very low rates of interest in the world. This also resulted in bankers resorting to poor quality borrowers. Now we are entering a phase of deleveraging.

The big question to address is what is the pocket of opportunity that we think lies in the markets and why? To our mind, days of reckless lending are behind us. The strict implementation of IBC is bringing the promoters on their knees to negotiate with the bankers. The banking sector has had maximum ills so the magnitude of clean-up too shall be high there. Like it has happened in all previous bull runs, there is a macro catalyst that plays a role of igniting the fire. Likewise we see lot of positive things that can materialize in the banking sector over the next few years. First the NPA recognition is in place. Second the process and procedure is in place to recover the proceeds from defaulting promoters. Third, Checks and balances are being installed at the lending level to prevent such ills from happening in future. Fourth, Market is still not willing to recognize this change and stocks are reeling at pre-modi or pre 2014 levels. This to our mind is seeds of a bull run in the said sector.

Companies where there is any doubt of corporate governance or pledge are being punished recklessly – Zee group, Vedanta, Sun Pharma, DHFL, ICICI Bank etc. At the same time, Banking as a sector is at a point of inflection where the cyclical story is likely to turn around and we believe the same will be rewarded in times to come. We are looking at Banking companies where the top management baton is getting passed to good quality leadership with eye on growth, profits and sustainability. We believe the sector has levers of scale and operating leverage. If risk is properly managed, the room for growth is tremendous, that makes us bullish on the same. Given the political uncertainty – we are preparing our buy list to be added in the portfolio and to act when Mr. Market provides the opportunity.

Sunil Shah

Portfolio Manager, Turtle Star.



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