



TURTLE STAR Equity Outlook – (May 2019)

Question we need to ask ourselves at all times is what drives the stock market over long periods of time? The answer no matter whichever stock market guru you follow on twitter or anywhere else would finally boil down to “Earnings” or profits of companies. It is the single most reason that profits grow over a period of time and hence equity remains as a preferred asset class amongst investors.

Equity is also an asset class that is volatile. The volatility can largely be attributed to changing PE ratio or the sentiment that changes with time. As we had stated in our last month article of mastering the market cycle – we need to understand two aspect's of – Why would PE ratio change in the near term and second of how earnings would change over long period of time. As wise men have stated we overestimate the change in the short term and underestimate the change that occur over long periods of time.

Let us first talk about how will earning will change over long periods of time. One of very good article we read was by Mr. Akash Prakash of Amansa Capital – wherein he depicts a study done by GAVEKAL and summaries that “If an economy has bell shaped income distribution curve and the average income of the economy were to grow by 25% from \$10,000 to \$12,500, then the % of population earning more than \$15,000 would not increase by mere 25%, it would increase seven fold from 2.3% to 15.9%”. He further adds – “Over the last decade passenger car sales grew from 1.2 million to 2.2 million, and the sales trajectory should accelerate in the coming decade, as by 2025 10 million new consumers will enter the potential car purchasing income bracket per annum. Branded clothing and foreign travel are other categories poised to explode for exactly the same remains”

Overall it clearly means that India is on a growth path because of the demographic dividend it enjoys in the world. Irrespective of any short term cyclical changes that occur – this phenomenon is structural and unlikely to change. It is this factor that makes us bullish over long period of time and gives us confidence of earnings growth for Indian corporate.

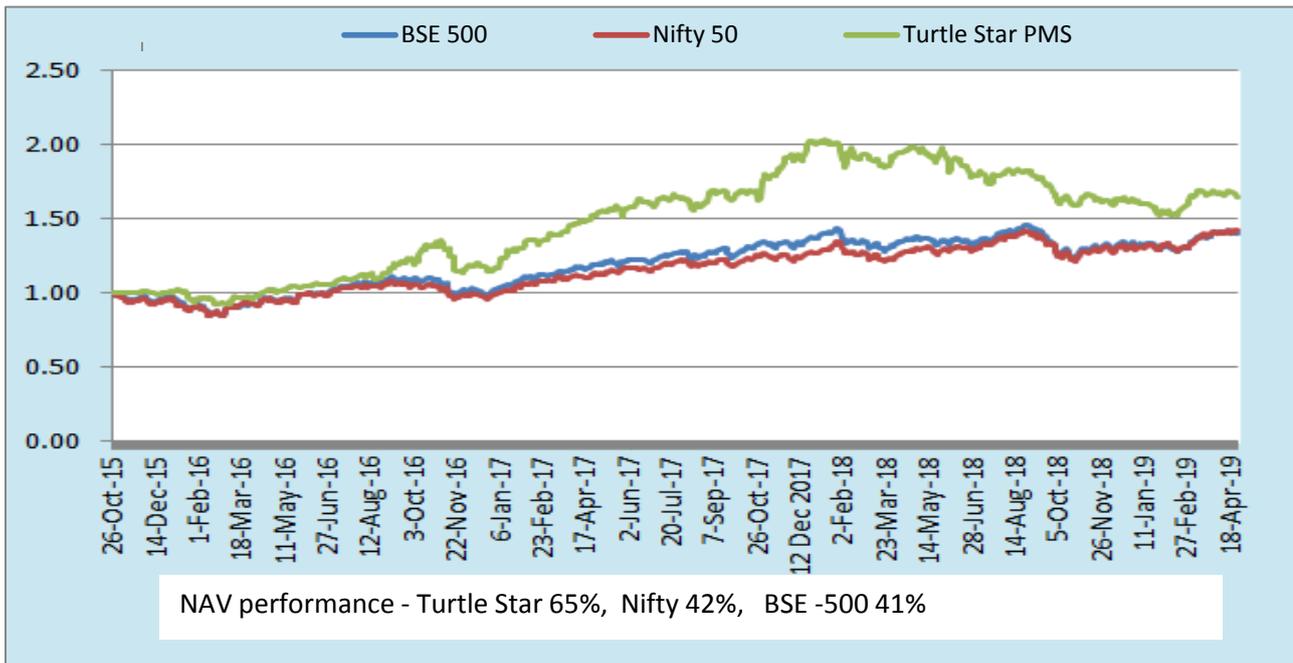
Now coming to the volatile part – what changes the PE ratio? Before we send you our next communication – election mandate would be out. We would like to share some of the data points here. India's population is 130 crore people, of that about 90 crore are eligible to vote, rest are below the age of 18. Last election pan – India the voting % was around 66-67%, this time assuming on the higher side 70%, we will have 63 crore Indians casting the vote in 2019. Of the 63 crore, any collation needs $\frac{1}{3}^{\text{rd}}$ of the votes to comes to power, meaning about 21 crore votes are needed to be in favour of the winner. The big surprise comes here – India's population grows at almost 1.6 crore people every year. It implies the first time voters in this election will be about 8 crore people and of that assuming 70-75% vote – there would be about 5.6 to 6 crore votes. This first time voters will decide who comes to power in India.

If we believe that the real young India is under the influence of social media, portraying a strong leader or young India believes that the current government has the right for one more chance it will be a BJP led government. Vice-Versa if the young India believes that lot had been promised and there has been an under-delivery of promises then we could have opposition coming to power. Basically the first time voters shall decide the outcome of Elections 2019 and that shall cause the PE ratio to expand or contract in the short term.

As stated the long term irreversible growth lever's are in place, whether in terms of GST, IBC, DBT, RERA etc. Opportunity is one for who is prepared or has the ability to realize one and act accordingly. We remain committed to wealth creation over long term.

Happy Investing

Sunil Shah – Portfolio Manager – Turtle Star Portfolio Managers



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