

## Equity outlook- December 2019

As usual whenever we have to talk about the future, we have to understand the past. Let's talk about the recent events that have happened, India has been on a clean-up mission like never before. The nexus between bankers, corporate, politicians, promoters is out in the open and companies that took the path of crony capitalism are now licking the dust. The verdict that came from Supreme Court for Essar Steel is indeed an historic one and sets a precedent for many other cases to follow. The circle is now complete, companies and management that have taken loans and going through the NCLT route and the new promoter is now acquiring a financial sick company through the legitimate route.

Moving to the future – we believe the theme to invest shall be that of “Change of Hands” The opportunity of change of hands shall emerge from two factions – A – The private sector companies that are unable to repay their debts and are bed ridden. The death knell is sounded by the regulatory process and the last nail in the coffin is hit, only for a re-birth with the new promoter. B – The public sector companies that could get privatised.

Clearly one segment that has been the biggest wealth destroyer has been the Public Sector Units – billions of dollars of tax payers money has been sucked by black holes created by the likes of Air India, BSNL, MTNL and many more. This Government has clearly realised the pitfalls of managing business by the government, also in many of the listed PSUs the government stake is close to the border of 50% and to meet the fiscal deficit – the only room left is to privatise these PSUs. Successful privatisation and value unlocking shall result in re-rating of the entire PSU pack. The writing is on the wall – Government has provided for Rs 1.05 lakh cr in the budget and for this privatisation is the only way out. The value of government Holding in these listed PSU comes close to Rs 8 lakh cr.

BPCL, Concor and SCI are first on the list. We believe this is in sync with our theme of “Change of Hands” to just recollect Maruti and Hindustan Zinc too were PSU and post there privatisation lot of value creation was done for Shareholders. History can repeat or surely can rhyme. We can know only after the new promoter comes in but we consider it as an opportunity for investment.

The PSU are generally managed inefficiently. These leaves lot of scope for new promoter to turnaround operations and bring in efficiency. There is a scope for both earnings growth due to efficiency and re-rating due to better quality of business management. The same principle can be applied to companies in the private sector as well. Nippon AMC is a case in point.

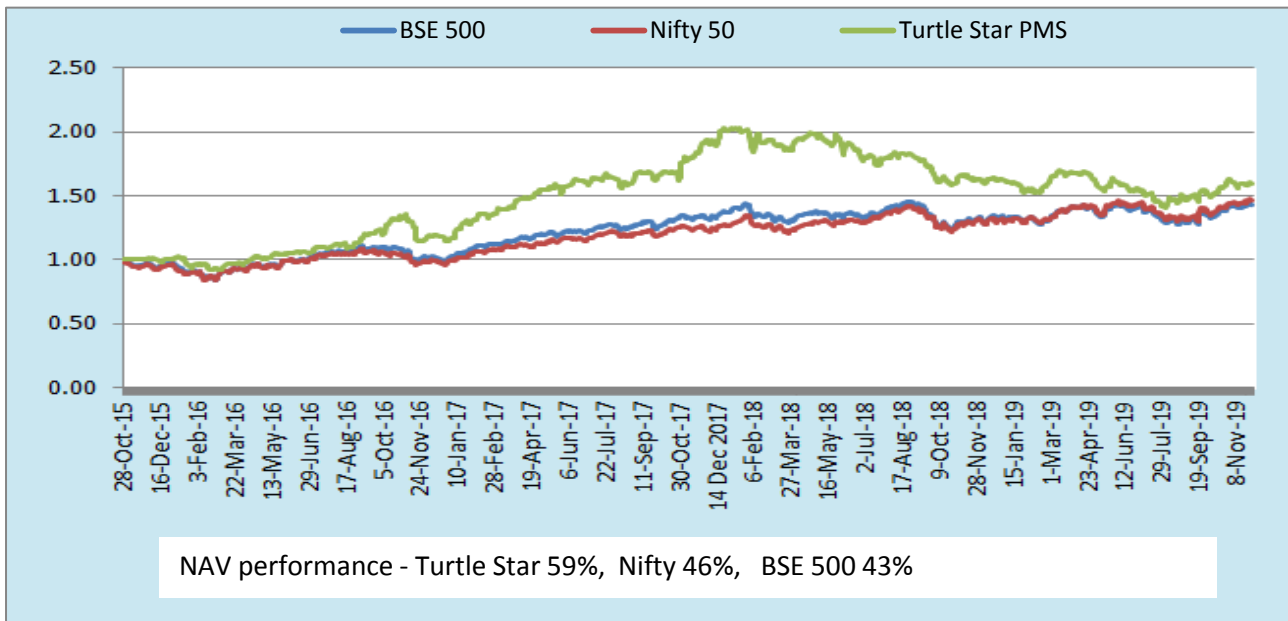
We are looking at such opportunities to invest for the clients. We invested in private sector banks wherein new management has taken the reins in their hands and markets have rewarded such companies, we are also invested in gold finance companies and with the run up in their prices, we intent to take some profits home. Also we believe that the auto recovery is still some time away and are hence trimming select few auto ancillary companies and switching to this new opportunity.

We are in the process of reshuffling the portfolio with the intent to generate better returns on the investments.

Warm Regards.

Sunil Shah

Portfolio Manager – Turtle Star.



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