Equity Outlook - January 2020

Let's welcome 2020 and consider it as another opportunity for us to be a better human being. At attempt has been clearly made in the last few years to make India a better country too. The rules crafted in terms of Insolvency and the Bankruptcy code (IBC), Demonetization, GST, ReRA etc are all attempts to made India a better country. As usual there are no gains without pains and the pain of this transition is being reflected in macro economic data as well. The GDP, IIP, Inflation, Employment creation, Credit off-take, Capex cycle have all taken a back seat. The passenger vehicle industry in 2019 showed worst performance in last 20 years. There is marked slowdown in consumption, business expansion and even exports. The money multiplier is shrinking. The Government has realised the pain of slowdown and is working to revive the economy. They have announced sops in terms of tax cut for corporates and recent is the active tracking of the important infra projects to remove any impediments in the shortest possible time.

The stock market is a lead indicator and prompts economic activity in advance. The stock market has started to factor in the impact of change that is being bought about in the economy. The stock market can be looked upon from three angles – the set of companies where both the profit and loss as well as the balance sheet were healthy and were managed by quality management have been trading at expensive valuation. The second set of companies are the ones wherein the visibility on the profit and loss is weak but their balance-sheet strength and management quality is unquestionable. The last set of companies are the ones that are deep down in debt, have issues of management integrity and uncertain profit and loss. We believe market shall reward companies in the second set in this year. The second set of companies offer value too. These set of companies have been resilient to the changes in new set of regulations of IBC, GST, ReRA etc and are poised for growth as the economy turns around.

Budget can be a platform to revive sentiments. The key thing to watch out for could be reduction in rates of taxes at individual levels in sync with the corporate rates – this could result in increased appetite for consumption and revive demand. Secondly if there is relaxation of interest cap of Rs 2,00,000 for home loans, this could revive demand in the construction space and have multiplier impact on the overall economy. From an immediate shot in the arm – any positive tinkering of long term capital gains could be a short term booster for the markets.

As we move in 2020 – we shall see more resolution of IBC and more recoveries could happen for corporate banks. Also companies that have change seen of leadership could start seeing improvement in their RoEs and consequently valuations. The flows from both SIP and FII remain sticky in the markets. Our pocket of liking remain in Private banks with change in leadership, Auto Ancillary companies, Gold Finance companies, Select Insurance Companies, Order backed PSUs, We also find value in few debt free companies with high RoE of 20% plus.

We largely own companies in the second set mentioned above in the portfolio and look forward to better year in 2020. We think this shall be the year when the impact of change being brought about by policies in the last few years shall bear fruits for all.

Warm Regards,

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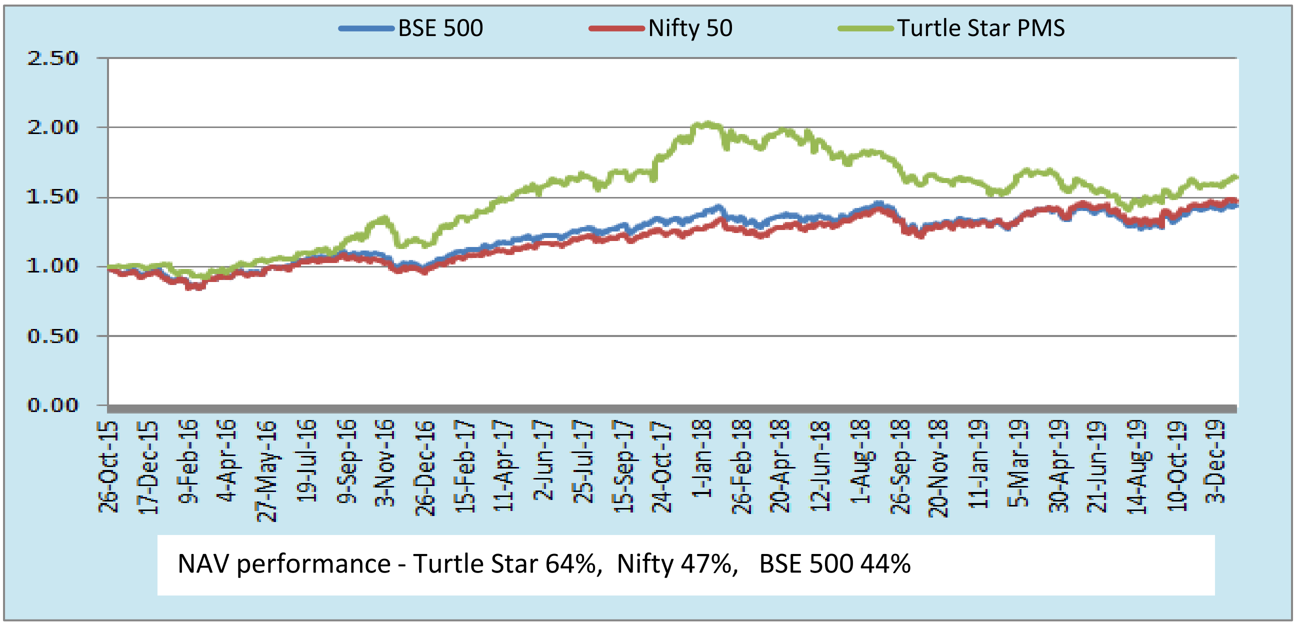
Turtle Star Portfolio Managers.



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