Equity outlook (September 2019)

WAKE UP CALL – MORNING ALARM RINGS !!!!

The stock market has a natural character to be volatile. There are lots of factors that have an impact on the stock price. In the current environment, selling from FIIs has created panic in the stock markets. The reason for FII exit is also mani-fold – however the prime one is the lack of visibility of earnings of corporate. The slowdown in earnings growth, the lull in the corporate sector, the tepid sentiment, the rise in unemployment etc. is visible to all and is the root cause of problem. The first step in solving the problem is to accept that there is a problem and then the steps can be taken to resolve the same.

The recent measures announced by the Finance Minister are clear indication that there is a realisation that there is a problem of economic growth in the country. The FM not only meet up with the industry veterans but also gave them an ear and came up steps that could help to the first step towards reviving growth and more importantly changing sentiments. The FM has also committed that more shall also follow in time to come. Clearly the mandate in the 2019 election for the PM was one sided. The PM has taken up the task of ease of living, in such a context, the media headlines of dampening sentiments are disturbing and hence the initiatives from the FM to kick start the economy.

At the same time, there are concerns too. Reviving of economy could take time, the global trade war continues unabated, the industry disruption continues at a fast pace to disturb the traditional business models, FIIs are exiting from emerging markets and moving to developed nations. Also the transition in India for a cleaner economic system, efforts towards more honest and transparent methods of doing businesses is also affecting the SME sector. The merger of various public sector banks could result in lending controls in near term. If we give time and think and try to visualize all the action is more towards a better economic system in future and pain in present. The country is going through a phase of painful surgery to remove the tumor and for a healthy well being in future.

From the stock market action perspective, we continue to sip in companies that we like. The chief ingredients of our investment rationale has been to look at companies in the Business to Customer (B2C) segment. The companies we are investing in are generating free cash flow and have the strength of operating leverage playing out for them. Also few of them have change of guard at helm and the new key personnel are working aggressively towards improving RoEs for their companies.

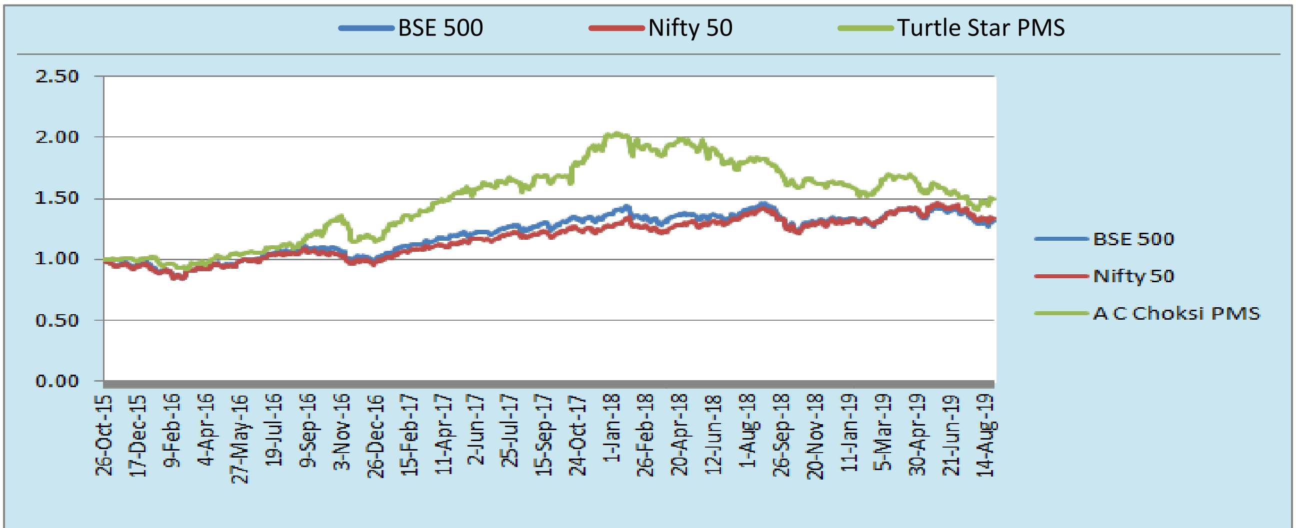
We also have exposure to the auto ancillary segment. These companies are facing the burnt of the on-going slowdown in the auto sector. However most of our companies have an investment rationale of increasing their content per vehicle, but the over 20 % + of negative auto sector growth is affecting their volumes as well. Most of our auto ancillary picks have the new OE entering the Indian auto sector as their customer too. We believe the auto ancillary pack provides tremendous value. In case the FM takes further steps to boost the economy, the positive impact of monsoon results in higher demand for Auto in the festive season, the low base effect of auto kicks in from November – December than we might have a different story to tell in the next 6-9 months, however there is no taking away from the fact that the market is disowning growth or is not willing to bet on the probable.

We continue with our investment process of Sipping into our ideas and disowning the ones where there are structural flaws emerging.

Warm Regards

Sunil Shah

Portfolio Manager – Turtle Star



NAV performance - Turtle Star 49%, Nifty 33%, BSE 500 31%

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