‘Samvat 2076 will be a better year for investors’

As an eventful Samvat 2075 draws to a close this week and investors prepare to usher in the new Hindu calendar year, **JYOTIVARDHAN JAIPURIA**, founder and managing director, Valentis Advisors, tells **Puneet Wadhwa** that the markets hope the economy is close to bottoming out. Investors, he says, are now waiting for signs of an economic and earnings revival. Edited excerpts:

Your market outlook for Samvat 2076?

Samvat 2076 will be a better year for investors, especially since we expect the broader markets to do better after the battering that the small- and mid-cap stocks have seen over the past 18 months. Falling interest rates and likely revival in corporate earnings should aid sentiment. However, there will be continued volatility in the markets, especially given the threat of a global recession. The silver lining is that we will hopefully see global central banks ease monetary policies to offset the slowing economy. Domestically, the biggest threat continues to be lack of confidence in the finance sector. In the absence of normalisation in lending, the risk is that the long-awaited earnings revival eludes us for another year.

Q&A

JYOTIVARDHAN JAIPURIA
Founder & MD, Valentis Advisors

Do you think the economic slowdown could get worse?

The market has been generally aware that the economy is slowing. At the same time, they hope the economy is close to bottoming out. Investors have been waiting for signs of an economic and earnings revival. Market returns, going ahead, will mirror earnings growth. While the economic slowdown is visible and will take a few quarters at least to normalise, three factors will help revival. First, liquidity in the system has turned positive. Second, the government is now spending aggressively on capital expenditure (capex) after the absence of capex in the first quarter of FY20 (Q1FY20). Last, the anniversary of the ILF&S crisis means the base will start getting more favourable in the latter part of the year. However, the challenge for the government remains the crisis of confidence in the financial sector.

Can a cut in personal income tax rate/rejig of tax slabs revive demand?

A cut in tax rates, especially in the lower-income group, will help demand by boosting disposable income. However, as we all know, no single measure is enough to boost confidence. A tax cut, along with a package of other measures, will be required to help recovery in the economy. Similarly, domestic private sector capex will not spurt just with tax cuts. A revival in demand and higher capacity utilisation will be required before the capex revival starts. We think this is an 18-24-month process but tax cuts are an important measure to help the revival process.

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Is ‘protection of capital’ now the priority for investors as against a ‘return on capital’?

Protection of capital is always the priority before we start thinking of returns. But in some sense, I guess investors have indeed become more risk-averse than they were 18 months ago. We are seeing a divergence. Many value-oriented investors are starting to find beaten-down names very attractive and are willing to take a two-year view and add to positions. They are turning more positive on the markets and are gradually putting money in mid-cap names and out-of-favour large-caps.

How do you see the September 2019 quarter (Q2FY20) earnings season play out? Estimates for FY20?

The September quarter will be weak. Lead indicators already point to a slowdown in the economy. Weak sales and margin pressure will be visible in the quarter similar to Q1. The financial sector will relatively perform better due to the easing of NPL (non-performing loan) provisioning for corporate banks. Lower corporation taxes will help net profit. These two factors will help offset some of this slowdown in the aggregate numbers. We like the banking space with a mix of corporate and high-quality retail banks, select capital goods and sectors like cement, which are gainers from the government capex. We remain cautious on consumer staples due to high valuations.

Seeing the response IRCTC IPO received, do you expect the government’s ambitious FY20 divestment agenda to sail through?

The message was that there is a demand for good quality companies at a decent valuation. We think investors will continue to selectively buy companies that have good long-term prospects. However, the more interesting thing to watch for would be not so much the government's primary issuance, but its strategic disinvestment. If the government succeeds in selling a couple of large PSUs to strategic investors, it will improve market sentiment dramatically.