Takeaways from Prashant Jain's Concall on Economy & Market Outlook

- **Except 91/92 crisis, every crisis turned out to be an opportunity. All these were opportunities as challenges were short term in nature.**
- Fundamentals of economy are quite strong.
- From Few weeks to few months, whenever world will overcome the challenges, India will be one of the markets to bounce back faster.
- Correction highlights basic natures of equities – **Equities are very volatile and short term views don't matter. With long term perspective, it creates significant wealth.** This is not the first time and certainly not the last time that we face situations like these. When a correction like this happens, the perceived risk is very high at times like these, but actually the risk is very less as market valuations translate into great opportunities.
- Fortunately, except weak growth for India pre-Corona all other parameters were quite strong - Forex reserves touching 500 Billion USD, Interest rates, inflation under control and government carried out large number of reforms.
- Lot of selling from FIIs (flight to safety from emerging economies to developed economies).
- Positives due to this situation – **India's Export dependence very low. If world economic growth suffers, export oriented economies will not grow, but Indian is fairly insulated from this.** We are more domestic consumption and investment based. Even in Lehman crisis, our economy grew 5% when the whole world was reeling under de-growth.
- Savings due to Oil will be around 40-50 Billion USD!
- What we need from outside world - Lower interest rates and cheap Oil. If these 2 things are cheap, then it's a great environment for us.
- **Our increase in cases is lowest in the World. No transmission based cases, that means all cases are from people who travelled abroad, which is quite encouraging.** However, having said that, next few weeks are crucial.
- **Consumption - Consumer discretionary and some impact on non-discretionary as well due to wages delay and cuts. Small ticket personal loans will also get affected.** Personal loans in the last few years have supported consumption in India. Banks to a certain extent will be affected little bit. **But NBFCs, who have lent to weaker sections of society, will be affected quite a bit.** Maybe RBI will allow special window to them.
- Banks reasonably are insulated; large banks especially in Nifty are well placed. Due to Yes Bank scenario, top banks will garner more deposits and advances.
- Larger part of NPAs is behind us. In retail loans, some spike may come. Corporate Loan NPAs are behind us.
- **Oil and Gas space - Refining Margins should improve.** Their performance will be good or will not be adversely affected.
- **Engineering and Construction – Things won't change in a matter of weeks or months.** May be delay of 3 to 6 months or lesser. Impact on this sector will be minimal.
- Oil prices will fall, inflation will fall, growth will fall, and hence Central bank should lower rates.
- **Metals – Adverse impact as commodity prices have fallen and we don't know long they will be at lower price.**

- In conclusion, India is uniquely placed. Near term impact will be there on 1-2 quarters but by and large we will benefit in the medium to long term.
- **Comparison to Lehman not correct at all -**
- **India Before Lehman - 150% market cap to GDP, economic growth was healthy, signs of economy overheating before Lehman, corporate debt extremely high, corporate profits to GDP all-time high. All factors were pointing to cyclical tops.**
- **India Before Corona – Economy growth struggling, corporate debt significantly lower in 3-5 years, corporate profits to GDP all time low, market cap to GDP ratio was around 70% which was around half pre-Lehman. Whatever factors you look at, it would be fundamentally wrong to compare this to Lehman Crisis.**
- US markets were probably at a cyclical top before correction.
- 9/11 or Lehman – Whenever there is sharp correction in outside capital markets, or economies outside India we are challenged as well as India also faces redemption and correction in our economies and capital market. Our markets fell only because of sentiments not fundamental changes majorly.
- Reliable indicator for medium to short term – Valuations when you are investing. Whenever in the history you have invested at valuations below average, significantly below average, your outcomes will be good even though the perceived risk is at its highest (though the actual risk is at its lowest).
- **Valuations down by 20-30% but businesses have not fundamentally worsened by 20-30%.** When stock markets correct heavily, it's a good time to participate in the stock markets.
- **In 2008-09 :**
- **HDFC Bank and a prominent NBFC had same market cap! Jaiprakash Industries had more market cap than Hindustan Zinc! This is what happens when momentum becomes too much!**
- "We are focussed on long term fundamentals and we get out of momentum early. Not driven by momentum but valuations/fundamentals. One example – **Banks with rapid growth but deposit concerns were priced at 5-10x PBV but 20-50-100 year old banks were priced below book value."**
- **It's only during such corrections that sanity comes back to the markets.** The fundamentally strong overvalued companies recover extremely fast. Next few weeks are extremely interesting.
- For us most important is not ownership (promoter, professional, Government owned). We focus on how it is valued and how strong the business. Not all PSU is bad, all Pvt is good.
- IF you look at power sector all successful companies, all PSUs are only successful.
- **Before 30 years, when HDFC Bank pioneered retail loans, every Bank grew on corporate loans.**
- **Banking has 2 sides – strength of liability franchise (which takes decades) and asset quality. Liability franchise is only appreciated during tough times like these.**
- Therefore, only judging a company on ownership is wrong. There are good PSU companies and bad PSU companies, good private companies and bad private companies.
- **The only sentiment hurting PSU companies is due to continuous divestment which has hurt valuations. But DIPAM has said they will now emphasize on strategic sales.**

- **In 2002-03 when there were strategic sales; one should see the amount of massive wealth creation which was created. Look at value of BSE PSU Index and BSE Sensex in 2000 and returns of 2 indices in 2017. After 17 years, both these indices were exactly the same! (Which shows the return was with part at private sector) Last 2 years they have underperformed. Business has done well, but stock has fallen sharply. Dividend yield on some of these stocks is 2 times of Bond yields!**
- **Big returns are preceded by painful periods!**
- In 2008 – We didn't participate in utility or infra companies, we participated in FMCG. 2007 was bad for us but then we created a lot of Alpha.
- We are not holding any weak companies, only strong companies having good business. Pain is due to momentum.
- Don't move money out of funds which aren't doing well as they are doing something differentiated, as they may perform when the market moves.
- **Correct Strategy to follow now – Have faith in India. Don't be overly pessimistic (150 cases in a country of 1.35 billion). Take precautions.**
- Even though business is doing well but don't buy at crazy valuations. Don't extrapolate last 10 years performance to the future.
- Companies which are experiencing a lot of pain may very well be the leader in the next cyclical upturn. The sectors could be Oil and Gas, Could be metals (very risky), could be corporate banks, utilities, engineering and construction
- **Invest decent portion to take 30% fall advantage but leave some corpus so as to benefit from more fall in future.**
- Prefer large cap multi cap funds as they offer more liquidity.

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