ET Q&A

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'Earnings will Start Taking Off... We See North of 15% Growth'

India is steadily moving towards becoming a cashless society, and in this scenario, digital infrastructure is a game changer, says Shiv Puri, managing director at Singapore-based TVF Capital Advisors. Puri says one can play this theme in the equity market through well-run private sector consumer-focused financial services companies, which are best positioned to take advantage of this. In an interview with **Sanam Mirchandani**, Puri says he expects corporate earnings in India to catch up by the year-end and grow at over 15% going forward. Edited excerpts:

Indian markets are near record high levels. What have been the key contributing factors to this rally? Will the trend continue?
It should consolidate a little bit from here, waiting for earnings to catch up. There are few positive things about India. Demonetisation did not have a negative impact but, in fact, it encouraged the adoption of digital infrastructure. GST (Goods and Services Tax) is going to be a huge positive. It is still being under appreciated because it is new. The housing focus is also a huge positive. Not only it is positive for the real estate sector but it also has a positive influence on many other sectors such as cement, steel and home improvement companies. The Uttar Pradesh elections also gave comfort to investors as to how the next few years can play out.

Are you concerned about market valuations?
Selectively there are good opportunities in the market. There might be some pockets of small and mid-cap segment where valuations are concerning. The larger, well-run companies' valuations are reasonable. I see an earnings catch up coming through by year end.

Domestic institutional flows have lent a lot of stability to the market in recent months. How do you expect this trend to pan out going ahead?
Lower inflation generally encourages people to move from hard assets into financial assets. We are in a lower inflation environment as compared to the past. Fair amount of capital is coming from SIPs (systematic investment plans). Usually, SIP money tends to be a lot stickier. Domestic inflows into the market should continue.

The Modi government is going to complete three years in power soon. What is your assessment of its performance so far?
The government is getting a lot of credit for playing the long game. It is not doing any short quick fixes but has made a constructive foundation that can lead to very long-term growth.

What is your expectation on earnings growth going forward?
Earnings growth is going to be strong because of the base effect. Last year, PSU banks had taken huge write-downs and they are not going to do the same this year. Secondly, commodity companies had reported poor set of numbers. That is now changed already. These two sectors will add a fair bit to market growth. Good quality financial services firms and non-banking financial companies will continue to grow at a healthy rate. Earnings will start taking off in other sectors also. We will see north of 15% growth.


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IT SECTOR PROSPECTS

The new lower growth normal for IT cos is here to stay. It is probably not a 20-25% growth business, but maybe 10-12% growth

What are the investment themes you are looking at currently in the Indian markets?
The biggest game changer in the country is digital infrastructure. We are entering into a world of digital KYCs, cashless, paperless transactions etc and the implications will be huge given that millions of people will move into the financial system. It is also very beneficial for the well-run private sector financial services companies. Those that can leverage it to their benefit will see significant growth and those that are unable to do will be left behind very quickly.

How does one play this theme in the stock market?
Well-run private sector consumer-focused financial services companies are best positioned to take advantage of this.

With steps being taken to resolve bad loan issues, what is your outlook on PSU banks?
Structurally, many of the PSU banks still have a lot of work to do in terms of embracing technology and being more customer-centric. The way the banking industry is evolving, it will be very difficult to compete. Just having a large physical branch network is not going to be enough in the years to come.

Is the worst over for the information technology sector?
The new lower growth normal for technology companies is here to stay. It is probably not a 20-25% growth business, but maybe a 10-12% growth business. Valuations are reasonable especially because these are high free cash flow generating businesses. The big issue though is that the transition to digital and cloud are disrupting even their business. It is not as exciting a sector as it had been the past.

BIG OPPORTUNITY

The biggest game changer is digital infrastructure... well-run private financial services cos are best positioned to take advantage

Crude oil prices saw a sharp fall recently. What does this indicate about strength of the global economy?
The steep fall in oil price is a reflection of the fact that the OPEC (Organization of the Petroleum Exporting Countries) cartel is non-functioning and the tremendous quantities of shale gas in the US, which keep a lid on prices. I don't see it as a reflection of any sudden weakness in the global economy.

US-North Korea tensions have been rising recently. What will be the impact on markets if geopolitical tensions escalate from here?
There is always a major geopolitical or economic risk to worry about each year but one should remain focussed on investing in great companies, which have a long run way for growth and a solid economic moat. The major global economic dislocation can still come from China although the risks seem to be slightly lower than this time last year.