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Pharma, Housing Fin Cos Good Opportunities

The ongoing collapse in commodities is similar to the dotcom bust in 2001, said Shiv Puri, managing director of Singapore-based TVF Capital Advisors. In an interview to **Dia Rekhi** and **Nishanth Vasudevan**, Puri said housing finance companies and pharma companies are good investment opportunities after the recent correction. Edited excerpts:

What will be the impact of the collapse in global commodity prices on financial markets?

I think the commodity downcycle is a slightly longer-term structural issue rather than a cyclical bounceback. This is the first phase where you have seen the equity prices correct globally. The second phase usually comes when credit defaults pick up. **The trigger for credit defaults will be a 2016 event when the hedges that companies have in place will start rolling off.** Today, some of the largest oil and metal companies have their hedges coming off. The general consensus is that there will be a bounceback. So banks are still lending but the moment banks feel this is not happening, liquidity will start getting tight. And when liquidity starts getting tight, defaults will pick up.

So, will we see a repeat of 2008?

We can see a repeat of 2001, where the collapse in commodities might be similar to the dotcom bubble that collapsed. 2008 was basically a US

subprime default issue with massive leverage. Today, because of the regulations that have happened, US banks are in pretty good shape. So I think the leverage on leverage that was there in 2008 is no longer there.

There is a view that the emerging market story may be over.

I think the emerging market term is going to get over. The BRICS term should also be over. Certain EMs – India being one of them – will have to walk alone and chart their own path.

How long will the foreign investor sell-off continue?



TREND SPOTTING

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A lot of the foreign investor-related selling is coming out of baskets where India has its share. Second, India has been a bit of an overweight in most categories of people who allocate top-down to these EM buckets. Third, there is some concern over when growth will pick up. And finally, people want to see the reform process move forward. If you add up all of these four things, you see that redemptions are happening but the amount is still very small.

How will you approach public sector banks after the correction?

Public sector banks continue to have a short-term cyclical problem and a long-term structural problem. And usually those are both very difficult times to invest in any company. The short-term issue is that they still have a lot of pain to take in terms of their books. The long-term structural problem is in terms of how far they have fallen in terms of technology and costs. It is a difficult uphill battle for them.

Have pharma stocks discounted regulatory issues from the USFDA?

This is a cyclical problem and not a structural issue. The chemistry scales in India hit that inflection point a few years ago. And we have the ability here to capture a large share of the global pharma market. In Western markets, especially the US, everyone out there wants to lower the cost of drugs. Large-sized pharma companies focusing on complex generics have a great growth opportunity. While stocks have cor-

CHART NEW PATH



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rected due to FDA concerns, I don't think the execution, the quality of the management, the business opportunity remain concerns. And the track record of these company's acquisitions so far has been phenomenal.

Are you still bullish on housing finance companies?

Housing finance companies, especially rural, are a 20-year story because of the huge market size while the companies are so small. They should follow the HDFC model and grow sensibly so that they don't have credit quality issues later on. A lot of them are now getting their liability side stronger. Companies like Repco earlier had to borrow largely from the wholesale market. Then they got their credit rating which lowered the cost of funds. This segment is getting more institutionalised. Valuations have become a little more reasonable. My view has always been don't try and find poor quality companies to buy cheap, but wait for high quality companies to correct.