

Mid- & Small-caps Still Look Fairly Richly Valued

ET Q&A

SHIV PURI

MD, TVF Capital Advisors

Mid and small-cap stocks are still relatively expensive with valuations not factoring in the challenges from technology disruption, said Shiv Puri, managing director at TVF Capital Advisors. In an interview with **Sanam Mirchandani**, Singapore-based Puri said he is most bullish on financial and domestic healthcare companies.

Indian markets managed to end the year 2018 with positive returns. How are Indian markets likely to fare in 2019?

Volatility rising globally in 2018 and that is likely to continue in 2019. If anything, it is only picking up. However, what is interesting from the Indian context is that we have had very significant reforms, whether it is GST, RERA, IBC or even demonetisation. We have taken the pain upfront, but we have not seen the benefits of it yet. All these reforms tightened liquidity significantly. A slightly more accommodative monetary policy to balance this will be very good for

growth. We expect to see a reduction in interest rates in 2019. I think there is too much attention paid to whether the fiscal deficit is 3.3% or 3.5%. I don't think foreign investors pay as much attention to it as it is discussed locally. In the medium term, the real issue will be whether growth picks up or not. If growth picks up in the second half of 2019, that is positive for currency and flows.

Do you think it will be a year of single-digit returns again?

If earnings grow mid- to high-teens, markets could quite likely follow that unless there is some big global problem.

What are markets pricing in terms of the national elections? Has the BJP's loss in three state elections recently heightened uncertainty?

It seems to me that the markets are pricing in that the current national leadership will continue. As we have seen in 2004, 2009, 2014, every time



around the April-May time period, regardless of the outcome, there is significant volatility and it is likely that could happen again.

What is your outlook on the mid- and small-cap space going forward?

By and large, the mid-cap and small-cap companies are not being as responsive to the changes caused by technology disruption. That will become a fundamental issue two to three years down the line. The valuations today don't account for that

level of uncertainty that is coming in the future. Even though the mid-cap index was down 15%-16% in 2018, I still think that they are fairly richly valued. Now, there might be a few exceptions. There always are. But by and large they are still relatively expensive when compared to the business disruption risk that exists for many of them couple of years down the line.

What is your expectation from the Budget?

Anything that is focused on growth-oriented policies is much needed. However, the focus is really going to shift to the polls by then, so the Budget, especially since it is only an interim Budget, may not be as relevant for the markets.

What are the main triggers for this year besides the elections?

It comes down to one thing and that is earnings. Earnings for the last five years have been overestimated. Actual earnings have consistently come in below estimates. It is likely that in the second-half of the year, if things align, you could have real material earnings growth coming

through. If that were to happen, that is the most critical thing for the market. I am yet to see a market where earnings growth is going up, RoE is going up, and multiples go down from current levels.

Do you expect more populist measures going ahead?

It is possible, but that would be something that could happen in the short-term. In the medium- to long-term, you will still need earnings growth for the markets to revive. Both fiscal and monetary policy have been tight, and inflation has come well below expectations. As a result, you could see a little more focus on growth in the second-half of the year. If that happens, it is possible that you can actually see a nice pick-up in earnings growth and everything works out well.

Which are the sectors you would be betting on this year?

Financial services offers a great opportunity for the next five years. Domestic healthcare will also offer some good opportunities now. I also like companies that are more geared towards industrial consumables.