From the CIO's Desk

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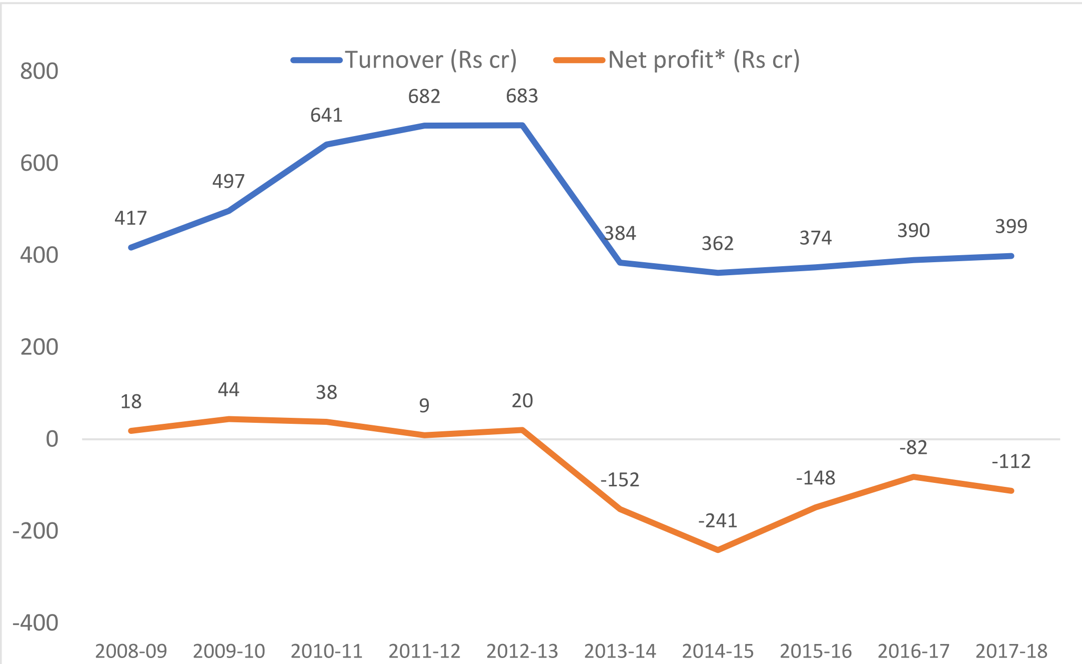
Festival of Change

We are now in the middle of the festival season as the Diwali week went past and markets reached new highs. Many of us took a short break or visit our respective hometowns/families during Diwali. I did the latter as I visited Ranchi for a short trip.

What struck me during the trip was that the airfares had not sky-rocketed and tickets were still available till a few days before Diwali. Infact, the return flight was not fully occupied, which is rare given high migrant working population and only 3-4 daily flights to Mumbai. Such signs of consumption slowdown however should not come as a surprise anymore. Meanwhile, there have been reports of retail sales being strong in autos, consumer electronics and e-commerce this season. Easy consumer credit, lower interest rates and good monsoons offer hope of a demand recovery going ahead, which will gradually reduce inventory in the system.

The pre-winter temperatures in North India makes it an ideal weather for outdoor running at this time of the year. During one of the runs through the green and expansive Heavy Engineering Corporation (HEC) campus in Ranchi, the importance of Government's evolving thought process of monetising surplus land assets of PSUs became quite evident. While strategic divestment of PSUs can trigger value unlocking in PSUs (see October newsletter - Can the Chhichhore come back), PSUs are usually asset-rich (although with poor P&L) and can monetise the surplus land over a period of time.

HEC is a perfect example of that. Set up in 1958 as a 100% subsidiary (unlisted) to manufacture steel, mining and mineral processing equipment, the company is a shade of itself with revenues broadly same as what was 10 years ago. Employee cost is 30% of revenues now, a familiar story in lot of other PSUs which have outlived their utility. Quick look at their FY17-18 annual report reveals continued losses and worsening working capital leading to higher debt. The Company has also had significant underachievement of the annual MOU based targets and barely has positive net worth despite some asset sales.



*Source: Company Annual Reports, * Net profit is before extraordinary items*

Despite all the problems in its P&L and no sight of recovery, company has outlined 3800 acres for own use (total land holding is 7200 acres of which a significant portion has been transferred to state government and CISF over last few years). This is in a growing part of the city with new urban development and hence can command good prices. Quick back of the envelope calculation yields a value in thousands of crores providing an opportunity to identify and monetise the surplus land.

While the example above if of an unlisted PSU and hence not directly relevant for equity markets, a lot of the listed PSUs are also similarly placed. Thus, surplus asset monetisation and PSU privatisation can emerge as significant themes in 2020 providing selective opportunities from stock point of view. As we had highlighted in the Oct-19 newsletter, PSU stocks are trading at a valuation discount to their own historical averages, have high dividend yields and the discount has widened vs. growth since 2010. The table below gives the scheme-wise portfolio weights in PSUs.

Scheme-wise portfolio weights in PSUs

Scheme Name	PSU Stocks as % of Net Assets
Tata Large Cap Fund	18.5
Tata India Tax Savings Fund	14.9
Tata Balanced Advantage Fund	9.4
Tata Large & Mid Cap Fund	8.9
Tata Hybrid Equity Fund	7.8
Tata Equity P/E Fund	4.7
Tata Multicap Fund	4.3

Based on Portfolio holdings as on 31st October 2019

Meanwhile broad market has done well as September-quarter corporate bank results (something on which we have been positive and Overweight in Tata Scheme portfolios) showed bad/stress loans coming back on track after a shaky June quarter. Also, there have been reports of equity funding for some of the i) stressed banks and ii) HFCs focused on developer loans. While the fresh equity funds will mostly get used for writing off bad loans and not for growth in those companies, these are significant developments as they can slowly ease the credit squeeze that has played a big role in economic slowdown. Normalising of the fears coupled with lower rates, good monsoons and corporate tax cut can set the stage for a gradual economic recovery.

Happy Investing!

Rahul Singh
Chief Investment Officer (CIO) – Equities

Product Label and Risk-O-Meter of the Schemes:

These products are suitable for investors who are seeking*:

Tata Large Cap Fund: • Long Term Capital Appreciation. • Investment predominantly in equity & equity related securities of large cap companies.

Tata India Tax Savings Fund: • Long Term Capital Appreciation. • An equity linked savings scheme (ELSS) Investing predominantly in Equity & Equity related instruments.

Tata Balanced Advantage Fund: • Capital Appreciation along with generation of income over medium to long term period. • Predominant investment in equity and equity related instruments as well as in debt and money market instruments.

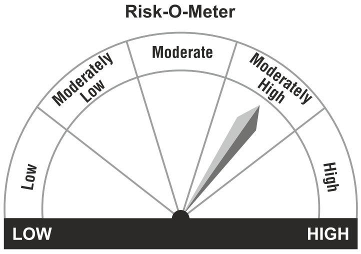
Tata Large and Midcap Fund: • Long Term Capital Appreciation. • Investment in equity & equity related instruments of well researched value and growth oriented Large & Mid Cap Companies.

Tata Hybrid Equity Fund: • Long Term Capital Appreciation. • Investment predominantly in equity & equity related instruments (65% - 80%) & some portion (between 20% to 35%) in fixed income instruments.

Tata Equity P/E Fund: • Long Term Capital Appreciation. • Investment (minimum 70%) in equity & equity related instruments of companies whose rolling P/E is lower than rolling P/E of S&P BSE Sensex.

Tata Multicap Fund: • Capital Appreciation over medium to long term. • Investment in a diversified portfolio consisting of equity and equity related instruments across market capitalization.

Tata Retirement Savings Fund - Progressive Plan : • Long Term Capital Appreciation. • An equity oriented (between 85%-100%) savings scheme which provides tool for retirement planning to individual investors.



Investors understand that their principal will be at Moderately High risk

***Investors should consult their financial advisors if in doubt about whether the product is suitable for them.**

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