From the CIO's Desk

TATA MUTUAL FUND

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No Fast Lanes

Election results and RBI governor's surprise resignation notwithstanding, markets have held up well. The list of post-facto justification includes

i. High level of cash in domestic funds that absorbed FPI selling

ii. Long market correction in 2018 especially in midcaps

iii. Close vote share in the three key states which can potentially reverse the verdict in the 2019 elections.

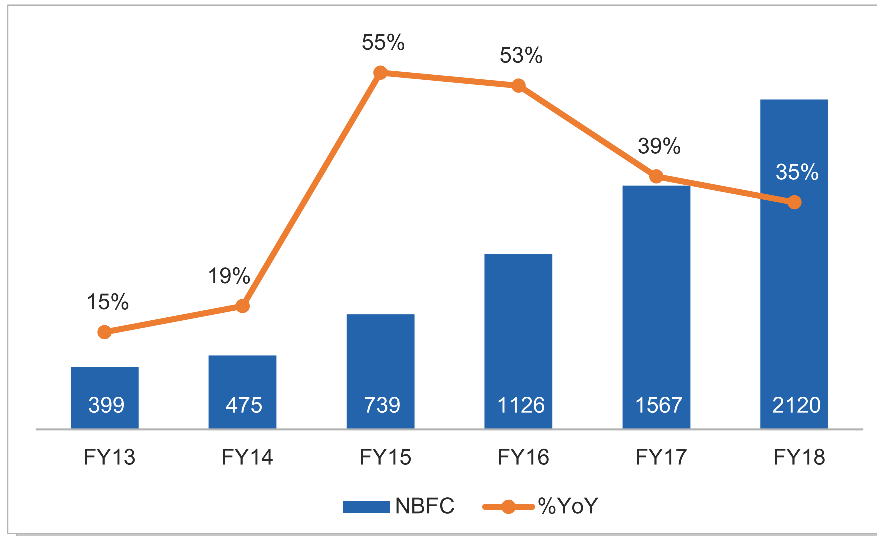
On the more fundamental side, under the new RBI regime, there is also an expectation built-up regarding easing of liquidity (relaxation of PCA norms for PSU banks, credit lines for NBFCs/HFCs) and availability of RBI's reserves for distribution. Though a lot of it appears wishful at this stage, if it were to happen, it may somewhat soften the case for corporate banks. The corporate banks and wholesale lending segment look poised to do well in 2019 with i) sustained

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

market share gains, ii) pricing power and iii) normalisation of credit costs. An easy liquidity scenario with lower funding constraints could dilute the first two factors but there will still be enough reason to stay positive.

Meanwhile, in our interactions with banks, NBFCs and other market participants, it is evident that the funding concerns at HFCs/NBFCs have receded materially in the near term. But growth expectations have been calibrated downwards sharply while the stress point has shifted downstream i.e. to the wholesale borrowers specifically in the real estate sector. Slowdown in real estate sales could compound the refinancing risks now evident in the developer financing segment which remains a significant part of AUM of the Housing Finance Companies and some NBFCs. Infact, share of non-banks in developer financing has increased from 24% in FY14 to 53% in FY18. This remains a key segment to monitor for signs of either worsening of asset quality or cut in real estate prices as a last resort.

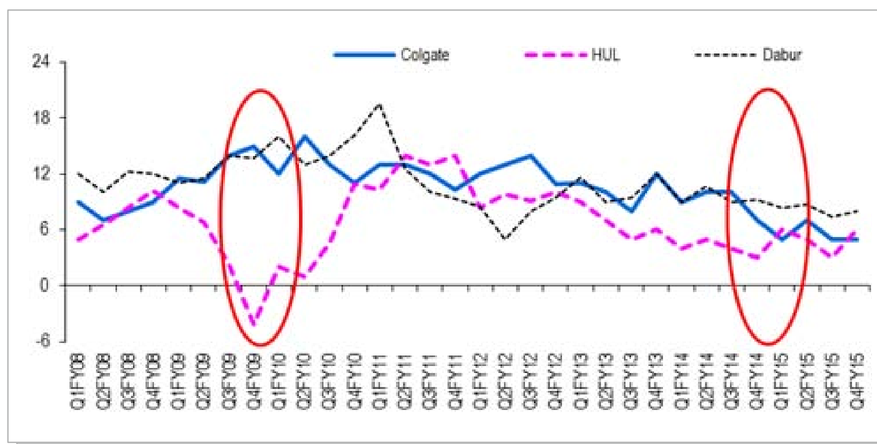
Non-banks gained share in last 5 years in developer financing (INR Bn)



Source: Industry

FMCG and consumer discretionary valuations remain healthy despite some weakness in demand especially in passenger vehicles. Can election spending and the consequent support to rural consumption be a reason to stay bullish despite stocks trading above long term average PER multiples? In order to assess that, we revisited the FMCG volume growth for the representative companies in the six months preceding the last two general elections i.e. 2009 and 2014. And the data in the chart below seems inconclusive.

FMCG volume growth y-o-y (%)



Source: Company Reports

Continuing with the defensive sectors, IT services must contend with the rising risks of global slowdown which could affect growth prospects beyond FY20. Meanwhile pharma continues to give mixed signals thus reducing it to a bottom-up sector at best.

We continue to favour corporate banks and industrial capex recovery plays as long-term themes for 2019 and beyond.

In the short term however, there seems to be no fast lane.

Happy Reading!

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