TATA MUTUAL FUND

From the CIO's Desk

Volume 11 • October 2019

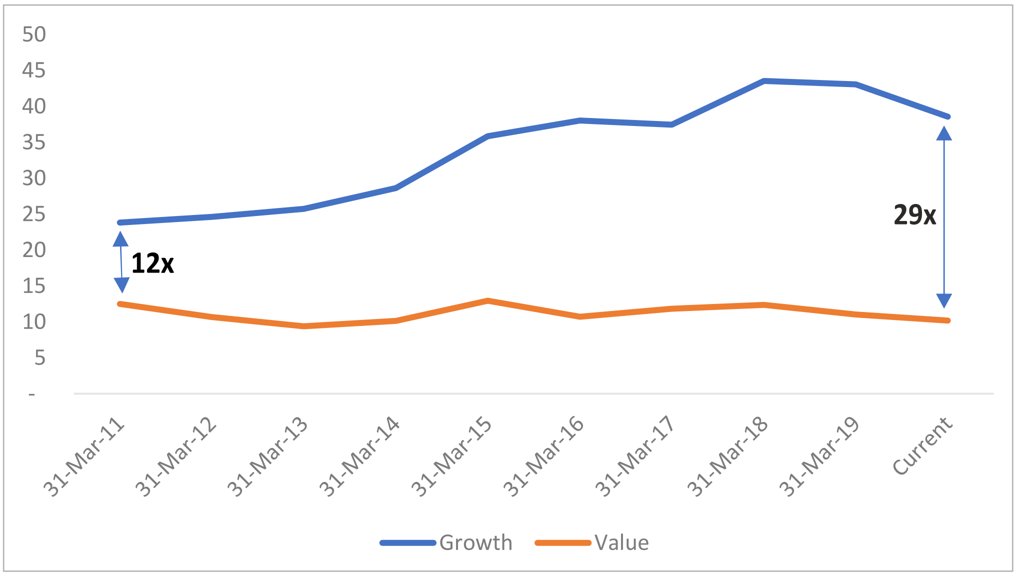
Can the Chhichhore come back!

Chhichhore – छिछोरे / Meaning: Hindi for worthless. It's often used for boys who do nothing but wander around, troubling people. It is also the title of a recent hit bollywood movie.

The above description perfectly fits Value stocks and PSUs in particular. Last few years, Quality & Visibility of growth has got significantly revalued even if the growth itself has slowed down in some of the companies in this category. See chart below for the difference in their P/E valuation which has widened significantly in the last decade.

One explanation for this that the premium for visible growth has risen on a relative basis as the global economy has slowed down. In addition, there have been other parameters that have defined quality and driven the valuation premiums i.e. debt free balance sheet, high payout, clean corporate governance and usually associated with structural consumption led businesses.

12-month forward P/E multiple



The underperformance of value stocks is also because they typically belong to cyclical sectors which have been impacted more by the economic slowdown. Then there is another big segment of "Value" which is the Public Sector Undertakings (PSUs). Most of the PSUs are trading at valuation discount to their own history and have high dividend yields. The latter should have ideally helped the stocks do well given lower bond yields globally (and reducing in India too).

However, that has not happened and what has been missing is the "trigger" which leads to rerating of this value. **In other words, the value stocks have behaved like the Chhichhore - worthless stocks whom the market has cared less and less over last 5-10 years.**

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

That could start changing now.

Government's initiative on privatisation has picked up and strategic sale option is unexpectedly back on the agenda, which was unthinkable a few months back and during the entire duration of the previous few governments. This could unlock the value in some stocks (which are identified for strategic sale) and will activate one of the pillars of our investment philosophy based on Growth at Reasonable Price (GARP) i.e. "Value with triggers".

Government's revenue shortfall especially after (i) the corporate tax cut and (ii) slowing GST collections has obviously resulted in an unexpected urgency on privatisation. Whatever be the cause, it is a welcome step and can also slow down the regular piecemeal divestment by Government that has been one of the key reasons for the underperformance and value destruction in the PSUs. There also seems to be a growing realisation that the piecemeal approach will not yield the scale of revenues required given the shortfall.

Scheme-wise Portfolio weight in PSUs

Scheme Name	Portfolio weight (%)
Tata Balanced Advantage Fund	7.4
Tata Equity P/E Fund	4.4
Tata Hybrid Equity Fund	4.8
Tata Large & Mid Cap Fund	4.0
Tata Large Cap Fund	16.0
Tata Multicap Fund	3.6
Tata Retirement Savings Fund - Progressive Plan	4.1

Meanwhile, the NBFC stress has not abated as the ultimate stress in real estate lending exposure has not gone away. The continued decline in stock prices of capital-starved banks and "unknown" stress in co-operative banks seems to be happening at the same time thus making the situation more complicated. While the asset quality and balance sheet issues are real in some of these cases, stock reactions appear exaggerated by the technical factors. Exposures on our fund schemes is predominantly restricted to higher quality retail banks and corporate banks although there has been a collateral damage on some of the exposures too due to the ongoing credit stress. NBFC exposures in our schemes is limited to higher quality franchises and face much lesser issues on their funding profile.

Corporate tax cut is a pro-investment stimulus but will take time to show results, given the nature of economic slowdown. In the meantime, an EPS lift of 8-9% in Nifty-50 post the corporate tax cut will provide support to equity valuations, in addition to the fact that India's valuation premium to other emerging markets is at a more acceptable level now. The recent privatisation initiative indicates government's seriousness in tackling the economic slowdown and we believe that there is more to come in the coming weeks and months.

Happy Reading!

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

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.

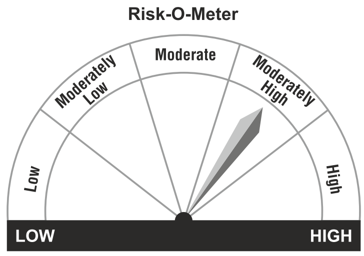
Tata Large and Midcap Fund: • Long Term Capital Appreciation. • Investment in equity & equity related instruments of well researched value and growth oriented Large & Mid Cap Companies.

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



Investors understand that their principal will be at Moderately High risk

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