

## EQUITIES

# Long-term investors need not worry about volatility

Uncertainty creates opportunities to snap up quality stocks at attractive prices

E A SUNDARAM

India's GDP growth rate, according to estimates, could be less than 5 per cent this year. Many agencies, including the International Monetary Fund (IMF), have lowered their growth estimates. Auto sales are down. Job growth is sluggish. The long-awaited turnaround in corporate profit growth hasn't materialised yet. Micro, small and medium enterprises (MSMEs) are in deep trouble. Indian banks have not overcome their non-performing asset-related issues, and now non-banking financial companies are also in trouble. Despite all these problems, the Nifty 50 index is trading close to its all-time high valuation. How does one make sense of such an environment and invest confidently?

**Learn to live with uncertainty:** Uncertainty about the future is an intrinsic feature of equity investing. We can be confident, but we can never be entirely sure about what the future holds. When uncertainty about the future is high, it impacts stock prices. If investors are to wander into "uncharted territory", they should ensure they do so with strong companions.

Investors can derive confidence from what Warren Buffett has said about uncertainty: "The future is never clear. You pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values."

One needs to recognise that we can't predict the future. We may make some extrapolations based on our past observations or experiences, but in reality, no one can consistently make correct predictions about what the future has in store. Especially in the stock market, where future stock price movements are a function of literally thousands of variables, it is simply impossible for any investor to correctly predict the interplay of all these variables and



their impact on the movement of the concerned stock's price. So, let us not even try.

**Look for companies with strong fundamentals:** The next thing is to recognise that what ultimately matters in the stock market is, one, the continued competitiveness of the company concerned, and two, the price at which the stock is purchased.

We can discuss until eternity about slowdowns, political uncertainty, war fears, oil price spikes, elections, foreign exchange woes, and so on. But ultimately, we will be much better off if we spend time assessing the continued competitiveness of the company and assessing the price at which the stock should be purchased. Strong business models, the extent of difficulty competitors would face in competing against the company, the brands it owns, its distribution network, the quality of the people running the company, and the working capital cycle are all indicators of a company's competitiveness. Such a company would be a good companion when coursing through the uncharted territory — the future.

## LOWER P/E STOCKS MOSTLY PERFORMED BETTER

Market cap	(₹ crore)		CAGR	P/E on
Top BSE stocks	Feb-2000	Dec-2007	return (%)	Feb 29, 2000
Infosys	56,550	1,01,131	7.7	210.8
Hindustan Unilever	67,416	47,179	-4.5	57.4
Ranbaxy Lab	11,080	15,874	4.7	52.4
NIIT	9,349	2,582	-15.1	48.9
Reliance Industries	31,607	4,19,043	39.1	39.1
Nestle India	3,336	14,461	20.6	32.8
Larsen & Toubro	9,568	1,21,331	38.3	25
ITC	19,952	78,856	19.2	23.6
MTNL	19,117	12,115	-5.7	16.2
Hindalco Industries	5,883	26,365	21.1	15.7
Asian Paints	1,504	10,576	28.3	15.7

Data sources: Bloomberg, Ace Equity, BSE

**Buy at attractive valuations:** The price paid at the time of entry into a stock is equally important. The return made from an investment in a stock is inversely proportional to the price paid at the time of entry. It, therefore, makes sense to avoid paying an exorbitant price for a stock. It is difficult to buy a stock at the bot-

tom price, but at least we can stay away from those that are exorbitantly valued.

If we want to buy only good-quality businesses (because they make good companions during times of uncertainty), but also wish to avoid paying too high a price (because that makes economic sense), one should

bear in mind that such companies are available at a reasonable price only when "fear of uncertainty" is high.

When we can clearly see robust profit growth in a company, so can the rest of the world. When high profit growth continues for several quarters, expectations from the stock rise. These high expectations also drive the stock price up.

That is why it is preferable to buy such a company when profit growth is not robust enough, or when the company is caught in a whiff of "uncertainty", so that its future appears murky.

If we are confident that the difficulties the company is facing are temporary and not terminal, uncertainty around a stock is a very good opportunity to pick up a good company at a not-too-exorbitant price.

**High valuations translate into poor returns:** A couple of examples would illustrate these points well. In February 2000, at the peak of the tech boom, stocks in a few sectors were quoting at valuations well above their historical averages. They had also delivered fantastic returns in the years prior to 2000, and that was one of the primary reasons for investors not having "fear of uncertainty" about them. By and large, these stocks gave mediocre returns over the next few years. On the contrary, stocks that were dubbed as "old economy" and those that were gripped by the "fear of uncertainty" did very well in the subsequent years.

The same pattern was repeated in 2007. Only this time the favoured sectors were infrastructure, real estate and power.

As can be seen from the table, stocks that were purchased without any "fear of uncertainty" did worse than the group of stocks where investors were gripped by this fear. With the important caveat of restricting choices to companies with strong balance sheets and business models, almost uniformly, the rule is that when there is no "fear of uncertainty", investors tend to buy at exorbitant prices. And almost inevitably, such stocks tend to disappoint. On the other hand, stocks buffeted by "fear of uncertainty" (provided they are competitive) tend to give strong returns over the next few years.

Long-term investors should, therefore, welcome the "fear of uncertainty" that affects stock prices. That is when good opportunities arise.

The writer is chief investment officer of a3 Capital PMS. Views are personal

## BS TUTORIAL

Jayant Pai  
Financial literacy

1. Which of these countries is not a member of the Frugal Four?

- A. Austria  
B. Denmark  
C. Germany  
D. Sweden

2. PrestiFi are often regarded as the world's first \_\_\_\_.

- A. Liquid asset  
B. Convertible asset  
C. Sovereign asset  
D. Collateral asset

3. \_\_\_\_\_ launched the world's first sustainability-linked bond recently.

- A. E.On  
B. Shell  
C. Enel  
D. Elf

4. Which is the world's richest horse race?

- A. The Kentucky Derby (USA)  
B. Epsom Derby (England)  
C. The Saudi Cup  
D. Dubai World Cup

5. \_\_\_\_\_ committed to be the world's first carbon-neutral airline last week.

- A. Emirates  
B. RyanAir  
C. Singapore Airlines  
D. Delta Airlines

**Solutions:**  
1. C. The missing one is the Netherlands. The group advocates fiscal prudence and balanced budgets.  
2. A. Launched in Venice in 1772, these perpetual bonds could be freely transferred and are hence regarded as the world's first liquid asset.  
3. C. The 1.5 billion US dollar bond, whose payouts are linked to Intel (an Italian electricity company) achieving environmental milestones.  
4. C. It takes place in Riyadh on February 29 and has a purse of US \$20 million. The winner gets US \$10 million.  
5. D. The 10-year pledge will focus on improving jet efficiency and reducing fuel usage, as well as investing in carbon removal.

The quiz master is a certified financial planner and head-products, PPFAS Mutual Fund.  
Send your queries and feedback at yourmoney@bsmail.in

## ECONOMY

### PEOPLE IN THE NEWS

BINAY SINHA



Sriharsha Majety-led food delivery startup Swiggy has raised \$113 million as part of its Series-I financing round, led by Prosus Ventures, the biggest venture capital for food delivery start-ups



Microsoft co-founder Bill Gates may be the world's leading philanthropist and also have a liquid hydrogen-powered superyacht, but Tesla CEO Elon Musk finds him underwhelming for "choosing Porsche over Tesla"

## SBI to hold mega e-auction for 1K stressed assets

ABHIJIT LELE  
Mumbai, 22 February

In a bid to recover dues, the State Bank of India (SBI) will conduct a mega electronic auction for 1,000 properties on February 26.

These include houses, industrial and commercial units of defaulters.

These are stressed assets and the bank has made provisions or exposure in accordance with the Reserve Bank of India norms.

While provisions cover regulatory requirements, the bank has the right to get back dues through a legal process, said a senior executive.

SBI, in a statement, said it is very transparent when putting immovable properties, mortgaged with it or attached

by a court order, to auction.

It furnishes all relevant details that can make it an attractive proposition for bidders to participate in the auctions. The bank will offer loans to successful bidders.

The recoveries and upgrades for stressed accounts stood at ₹13,553 crore in the third quarter ended December 31, 2019, up from ₹6,617 crore in the quarter ended December 31, 2018.

The bank published the advertisement for the proposed auction in newspapers as well as the social media.

The advertisement contains information about websites where bidders can access details about the properties. It also gives details on the requirements for participating in the e-auction.

## Centre pays over ₹50K cr to farmers under PM-KISAN

PRESS TRUST OF INDIA  
New Delhi, 22 February

The Centre on Saturday said it has disbursed ₹50,850 crore to farmers so far under its landmark scheme PM-KISAN, enabling them to meet farm input cost and household expenses.

The agriculture ministry shared the progress made under the scheme, ahead of its first anniversary on February 24.

The PM-KISAN was formally launched on February 24 last year by Prime Minister Narendra Modi at Gorakhpur, Uttar Pradesh.

Under the scheme, the Centre transfers an amount of ₹6,000 per year, in three equal instalments, directly into the bank accounts of the farmers, subject to certain exclusion criteria relating to higher

income status.

"February 24, 2020 is the 1st anniversary of starting of a new Central Sector Scheme, namely, the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)," an official statement said.

The scheme was launched to provide income support to all landholding farmers' families across the country and enable them to meet expenses related to agriculture as well as domestic needs, it added.

"The Central Government has already released more than ₹50,850 crores till now," the ministry said. Total number of beneficiaries covered under the scheme is about 14 crore, based on estimates of the Agriculture Census 2015-16.

As on February 20 this year, 8.46 crores farmer families have been given the benefits.

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## PMO seeks post-merger...

One advantage of the merger cited by the banks to the government is that their capital base would go up, helping them provide big-ticket loans.

The latest financial results of Bank of Baroda, which took over Dena Bank and Vijaya Bank in April 1, 2019, came as a cause of concern for the government. The bank posted a net loss of ₹1,407 crore in the third quarter, mainly because of higher provisioning. The bank's fresh slippages rose to around ₹10,387 crore — the amount of loans which turned from good to bad. The credit growth was flat, as compared to a projection of 10 per cent growth in the December-end quarter. The government's notification related to the amalgamation scheme has been delayed, sparking concern among the boards of banks about a possible delay in the merger process, which was supposed to take place by April 1, 2020 — the beginning of the next financial year. However, Sitharaman had said in a press conference that he saw no reason for a delay in issuing the notification. "You will hear on it as and when a decision is made," the FM had said on Saturday.

On August 30 last year, Finance Minister Nirmala Sitharaman had announced the biggest PSB merger exercise. PNB, Oriental Bank of Commerce, and United Bank of India were supposed to combine to form the nation's second-largest lender. Canara Bank was to take over Syndicate Bank; Union Bank of India is planned to be amalgamated with Andhra Bank and Corporation Bank; and Indian Bank was to be merged with Allahabad Bank.

The Union Cabinet is set to hold at least one more meeting in the upcoming week. In the case of BoB, the process of finalising the swap ratio, for the integration of market stocks, took 49 days after the government's notification came out.

## 3,000-tonne gold reserves claim...

Under the new regulation, which came into effect from 2015, the GSI has to inform the state government when ore deposits are discovered. Earlier, no such action was mandatory. In its report, the GSI estimated that only 3.03 gm of gold can be extracted from a tonne of ore. It also clarified that even the extraction amount was tentative and could not be established for certain.

Moreover, Sridhar said the deposits were spread across only 0.5 sq km in forest land, which made the mining of ore economically unviable. "When there are several mines nearby, we can club it into a block and then it makes sense to mine the ore. But in this case, the deposits are too small to make it viable for any company to mine it," he said. The GSI usually prioritises its exploration work based on the needs of the Centre. While strategic minerals like tin,

cobalt, lithium, beryllium, germanium, gallium, indium, tantalum, niobium, selenium, and bismuth are atop the list in GSI exploration, gold is another commodity on its priority list.

According to the World Gold Council, India has reserves of 630 tonnes of gold.

## Taj gets picture-ready...

His daughter and son-in-law are part of the delegation to India.

Close to 20 electric golf carts have been taken away by the UP Police and CISF to reserve them for VVIP use on Monday. The cart drivers were even asked for a trial run before they were selected for the final drill. However, with two dozen carts missing, tourists were in a tizzy as they were forced to pile up on each other in whatever cart or e-bus available two days ahead of the famous visit. Entry of vehicles in the vicinity of the Taj Mahal is restricted, according to a Supreme Court judgment. That had prompted the state government to run electric carts and buses to ply tourists from the parking area to the monument and back.

**Whiter Taj, but...**

The activity is at another level inside the Taj Mahal as officials of the Archeological Survey of India (ASI) are trying to keep pace with the changing plans of the US President. "Earlier he was coming from the Oberoi Amarvilas Hotel. Now, we are being told he will come directly from the airport," an ASI official pointed out while still not sure if that's the final decision. Although shops will remain shut, tourists will be able to visit Taj till 2 pm, after which the premises will be emptied out.

The official denied the reports that Taj would be shut the whole day.

Cagey about revealing too many details, officials remained tightlipped about the special arrangements. "What if he doesn't come? If his security says no, he won't," a worker said. But he quickly added that a lot of pending work at the monument was concluded because of Trump's visit.

The Taj Mahal looked whiter, the fountains cleaner and the Yamuna adjacent brimming with water. But a peep into the narrow lanes close by shows a free zone of flies. The stench of open drains takes you to a place where the garbage collected from the Yamuna was dumped. That's the cost of beautifying a part of the river visible from Taj Mahal, a local pointed out.

**Fuller Yamuna and how**

The UP government released 500 cusecs of water from the Upper Ganga Canal in Uttarakhnad to replenish the depleting water level in the Yamuna that runs next to the Taj. Dussehra Ghat, which overlooks the monument, is slowly seeing the water rise. Hathi Ghat, the other end near the Agra Fort, is bereft of even a single stream of Yamuna. "I don't think there's so much water that it will come till here. Rather, the

construction work has stopped here and I will not be paid for a week," said a daily wage labourer who was working on a bridge being constructed near the Hathi Ghat. In anticipation of water gushing through the area, all work has been stalled.

"How will the last-minute cleaning help the river? It should be done periodically, not just to show off. A river is dying and they are doing temporary facelift," said a pollution department official.

After Trump's whistle-stop visit is over, one will know if the speed cleaning will continue for a real makeover. As of now, that's not a pressing matter for the administration as Agra gears up to receive Air Force One with its famous occupants.

## India needs pro-business...

He also made a strong case for not depending only on recent work in economics to make policy choices and neglecting age-old texts like the Arthashastra.

"Scholarly work isn't something that was written in the last 100 years, but dates back millennia," he said. The Arthashastra stresses on ethical ways of creating wealth, he said, adding that we need to focus on creating trust in the markets as well. If governance standards have to be increased in the country, there has to be a greater focus on disclosing related-party transactions, the CEA said. The comments come in the wake of frauds like the one at non-banking lender DHFL. The Union Budget's thrust on 'Assemble in India' should not be seen as substitute to the government's flagship 'Make in India' programme, but as a complementary aspect which would act as a precursor to other goals, he said.

Pointing out to the recent Economic Survey, he said over 40 million well-paying jobs could be created in the country by 2025 by focusing on assembling for the world, and the same could go up to 80 million by 2030. Asked about the Budget's thrust on imposing tariffs on certain sectors and how it has been criticised as being protectionist by some, Subramanian said we needed to make a distinction between duties that are imposed on finished products against those on raw materials or intermediate goods, which hurt exports.

## Coronavirus may be the 'disease X'...

"Clinical progression of the illness appears similar to SARS; patients developed pneumonia around the end of the first week to the beginning of the second week of illness." Older adults, especially those with chronic conditions, such as hypertension and diabetes, have been found to have a higher risk of severe illness. Still, "the experience to date in Singapore is that patients without significant co-morbid conditions can also develop severe illness," they said.