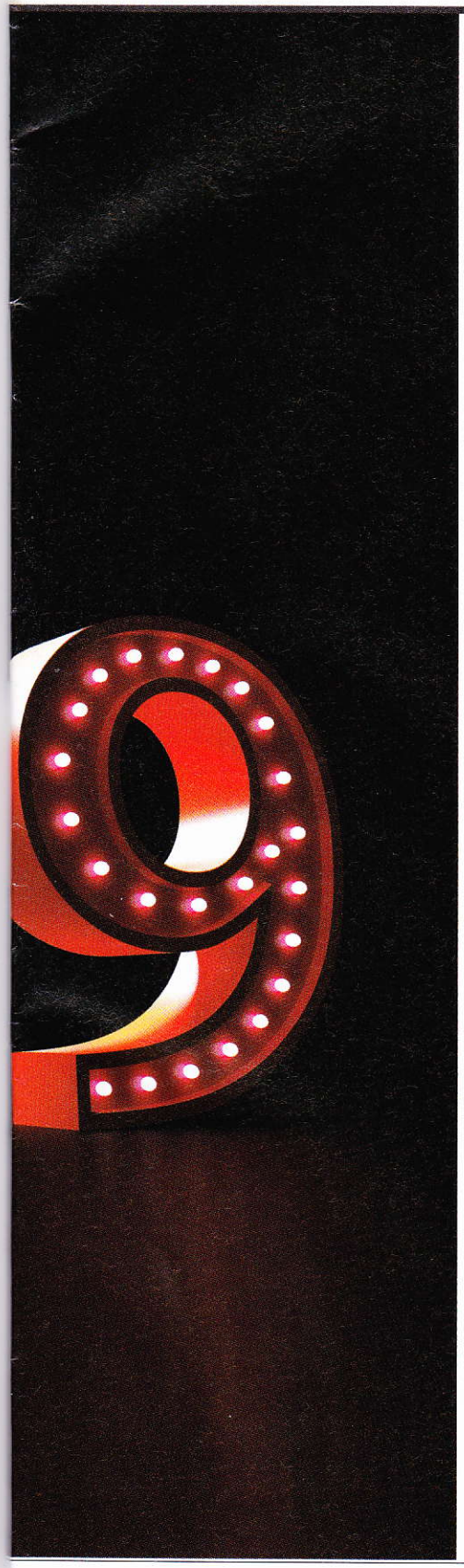
Where To Invest In 2019

After a difficult 2018 the year 2019 promises to be a year full of action for investors. **Yogesh Supekar** talks how the year 2018 has been while **Karan Bhojwani** shares outlook for markets in 2019.



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With 2017 being a darling year for most investors, everyone expected a smooth 2018 that will further improve the market sentiments for investors. The story was not so good for investors in 2018 as was expected by most of the investors. Now the multi-million-dollar question is: how will be year 2019 and whether investors can create some wealth for themselves in 2019 or will it be another painful year like 2018. Says Ajay Pisute ,"Nothing can be more painful than 2018. The portfolios, including that of mine, and other investors whom I know kept on eroding in value even as the key benchmark index such as Sensex kept on making all-time highs. The best of fund managers could not beat the markets in 2018 and the broader markets simply eroded wealth. I hope, and I think the next year can't be more or as painful as 2018. Having said that, I really am not sure where (sector) should I park my money as very few options are looking like bargain to me at this juncture."

2018: A difficult year for investors

Sensex was up by merely 3 percentage points on a YTD basis as on December 12, 2018. Once again, Sensex proved to be a world-beating index (in domestic currency). Whether it will continue to do so in 2019 is the million-dollar question.

Out of 30 Sensex stocks, 16 generated negative returns, while 14 stocks managed to deliver positive returns in 2018. TCS was the best Sensex performer and Tata Motors remained the worst Sensex performer.

Performance Of World Global Indices

Indices	Change (YTD)	P/E *
Sensex	3.39	22.83
Nifty	0.51	22.04
Nasdaq	0.36	19.53
FTSE 100	-12.11	15.61
CAC 40	-10.33	15.15
Dax	-17.48	11.96
Nikkei	-9.73	14.94
Hang Seng	-15.61	9.94
Dow Jones	-1.61	16.36
S&P 500	-2.15	18.11

* Source : Bloomberg Data As On 11 Dec

The performance of global indices in 2018 is in sharp contrast to that of year 2017 when all the indices had managed to close in the green. Our own Sensex was up by 25 per cent in 2017.

YTD Sectoral Performance

Sectoral Index	Change (YTD)
BSE MidCap	-26.89
BSE SmallCap	-17.75
BSE LargeCap	-0.38
BSE AllCap	-7.35
BSE 500	-6.04
BSE PSU	-26.58
BSE Energy	-2.73
BSE FMCG	7.27
BSE IT	27.30
BSE Auto	-24.8
BSE Bankex	2.06
BSE Consumer Durables	-9.81
BSE Metals	-23.09
BSE Oil and Gas	-20.75
BSE Power	-21.71
BSE Realty	-33.62

Data As On 11 Dec, 2018

Cover Story

Nirmal Jain

Founder and Chairman, IIFL Group

"Global funds are cautious and it is not only the local factors that play on their minds or their decision-making process, even the global factors"

What is your Outlook for the Indian markets?

The markets did very well from 2014 when the new government came to power, given their reforms and the improved outlook on the economy. I think it is a short-term corrective phase of one or two quarters. One should not get too perturbed about it.

But if you are a long-term investor and look at the next three to five years, then I am personally very optimistic and very bullish on the Indian economy and the performance of the stock markets here.

The corrective phase that we are seeing also has made valuations more reasonable. So, if long-term investors have not allocated enough on equities, they get an opportunity to increase their weightage in equity assets. Regardless of what happens to the global environment and local politics, these things will play out for a few quarters at best. But if you are a long-term investor looking at three-five years or longer, then India is a great market to invest in.

What are your views on financial space in India?

We have been passing through an interesting phase. For the sector to do well as a whole, credit and insurance growth has to do well. Within that, PSU banks have been waiting for infusion of capital to revive, resuscitate and get out of the historical legacy of bad assets that they have. This government has tried to do a little bit, but unfortunately few things developed and a lot of work and even the courageous bold step of infusion of more than ₹2 lakh crore has been negated for the time being at least. If the government comes back to power, then we expect the PSU banks to revive in a sustainable manner.

NBFCs now account for more than a third of the incremental credit. This is not a small sector and plays a very vital role in the economy's growth and this sector is here to stay.

But the latest regulatory crisis have been a wake-up call. People who have been trying to work on the edge in terms of liquidity or in terms of managing their cost of funds, have got a wake-up call and hopefully the balance will return. When the stock blows over and the dust settles, we will see that the men are separated from boys and the good players will become stronger and play a meaningful role. Private sector banks have been doing well by and large. I do not think there is any challenge there. ..

Please share your views on NBFC sector in specific.

NBFCs have filled the void created by PSU banks crippled for capital. They bring new borrowers in the ambit of formal finance by developing unique underwriting standards and inculcating financial discipline. Although NBFCs do not have access to RBI as a lender of last resort or for liquidity, they are much lesser leveraged than banks. Banks require lesser capital adequacy and have lesser risk weightage for most assets. NBFCs had debt/equity ratio of 5.4X as at end March 2018 and banks have twice that much. In the last 20 years, many banks had to be rescued by forced merger into larger banks, whereas no large NBFC has faced solvency risk. NBFCs have demonstrated superior asset quality with gross NPL ratio of 4.3% as at end March 2018.

As NBFCs grow in their size, capitalisation and reach faster than most other sectors, they deserve larger share of bank credit as well. For the economy, credit delivery through NBFCs is superior for two levels of capital cushion, lower cost of last mile delivery and specialised underwriting and collection skills.

Regardless of recent panic and meltdown in NBFCs market values, they are here to stay and play an important role in the economic growth and financial inclusion. In fact, as the economy becomes larger and grows faster, need for credit will rise more than proportionately. We need both banks and NBFCs to rise to the occasion and provide the economy with its lifeblood, i.e., credit.

How are global funds looking at India at this juncture?

Global funds are cautious and it is not only the local factors that play on their minds or their decision-making process, even the global factors. When the US Fed is hiking interest rates, obviously there is a tendency for the funds to move back to the US which is a relatively safer haven. So, global investors have to take cognisance of factors like China, US, what is happening in other countries and also what is happening locally here in India.

Most of the global investors are watching the developments carefully but most large high quality investors are serious about India and are looking for opportunity in terms of valuations, stability and environment.

Milan Vaishnav

Consulting Technical Analyst, Gemstone Equity Research & Advisory Services

"Investing in more than one markets helps investors to benefit from global growth"

Is it high time Indian investors explore international equity investing opportunities?

Yes, certainly! It is high time that Indian investors should consider international investing. Financial markets are now inter-connected and any event of any nature has its global impact. Also, having access to and investing in the international equities comes with its benefits.

Investing in the international equities ensures diversification. Well-diversified portfolios often provide harder hedge against any downside market risks. Spreading your risk across nations is one of the major benefits of investing internationally.

What are the key risks of international equity investing?

Besides all the benefits that one can have from investing abroad, the investment in international equities often comes with its own set of risks. First comes the political risk.

Among other risks associated with investing in international equities is the general market risk that can come from a general slowdown, regional trade wars, volatile currency movements. One may also face liquidity risk while investing in emerging markets.

Investor has to remember that though investing in the international equities is certainly a great way to diversify the portfolio and get potentially higher returns, it also comes with the set of risk elements discussed above.

What is the outlook for global equities and whether India will underperform in the coming year?

The outlook on the global equities remains stable. We may not see major downsides anywhere globally, but the markets may remain in a prolonged wide-ranged consolidation type of moves. The US markets still continue to remain well within the decade-old upward rising channel. This 10-year bull trend is intact as of now, though it has showed some signs of a slowdown, which may lead to some intermediate corrective moves.

Coming to emerging markets in general, and India in particular, Indian market may take some time before it breaches the life-time high, which it formed near 11760. If we examine the long term monthly charts of Nifty, the second phase of the rise that took the markets to 11760 came with a big negative divergence on the lead indicators. We may not see any major downsides in the Indian markets, but a secondary or intermediate trend arising out of range-bound corrective moves cannot be ruled out.

With regard to relative performance of Indian markets against global equities, I feel that emerging markets in general, and India in particular, is set to relatively outperform the global equities.

There are a couple of factors that work in favour of the emerging markets relatively outperforming. The US is witnessing some slowdown and the short term yield curve became inverted. Though this may not bring recession overnight, but Fed is seen certainly likely to stop raising rates. This will also keep the strength of the US dollar in check. With crude prices coming off rapidly, all these factors are likely to work out in favour of emerging markets in general, and India in particular.

DSIJ Portfolio Performance

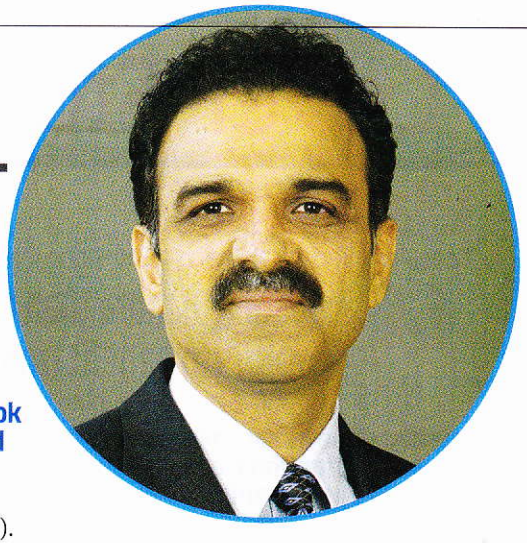
'Where to invest' portfolio has a track record of beating the benchmark index on a consistent basis. The recent 'where to invest in 2018' portfolio has underperformed the benchmark mainly due to its bias towards mid-caps and small-caps. The DSIJ portfolio in 2014, 2015 and 2016 managed to beat the benchmark by a good margin, while the DSIJ portfolio matched the Sensex performance in 2017. If we consider the average returns generated by the DSIJ portfolio over the five years, the average returns of the portfolio is nearly 21 per cent per year, which is almost double that of the average returns of Sensex in the past five years. We accept that the performance in 2018 portfolio has been disappointing, however we are confident that the year 2019 is going to be a different narrative altogether.

Some of the stocks such as Avanti Feeds Ltd and Force Motors pulled down the portfolio by sliding more than 50 per cent in 2018. The low performance in 2018 makes us resolve to be more laser focussed in identifying investment opportunities for year 2019.

	Year					
	2014	2015	2016	2017	2018	Avg
Portfolio (%)	76	29.7	12.64	27	-41.82	20.70
Sensex (%)	31	-9	5.42	27	4.50	11.78

Kamlesh Rao

Managing Director & CEO - Kotak Securities



"Bulls can push Nifty to 13,000 by Dec' 19"

What is your advise for investors at this juncture and what may impact stock prices in 2019?

The first-half is going to be volatile. The risk-reward will be in favour of investors, though in 2019. The valuation gap between mid/small-caps and large-caps has narrowed substantially after the recent correction. In spite of the correction, we do not see mid-caps and small-caps bottoming out yet.

Globally, the trade war, Fed rate action and outcome of Brexit will be crucial for the markets. Locally, the next six months will be challenging and volatile (due to the forthcoming general elections). However, these six months will also provide investment opportunity for investors. Good prices and good news will not come together. In the case of bear market, expect the Nifty to average between 10,000-10,500. In the bull case, expect the Nifty to average between 12,500-13,000 by the end of Dec '19.

Investors should focus on good quality management driven companies having high earnings growth and reasonable valuations. The scope of re-rating is less in 2019. The stocks returns may mimic earnings growth. Hence, it is ideal to focus on growth stocks. Equity valuations could be a function of bond yields. If yields go lower, then equity markets will have room to get re-rated.

What is your Nifty earnings outlook for 2019 and which sectors should investors focus on in 2019?

We expect Nifty earnings to show a double digit growth in FY19 (~14-15%). Kotak Institutional Equity (KIE) is building in 29% earnings growth for Nifty in FY20E. The earnings growth will be mainly led by banking. Please note here that the previous five years' earnings CGAR for Nifty has been ~4%.

As far as sectors go, we have positive outlook on automobiles, auto ancilliaries, corporate banks, buidling materials, construction, metals and mining and information technology.

Lower crude oil price is expected to help the auto sector. In general, the stock prices are looking attractive for auto stocks after the current slowdown in volumes. We expect the raw material price situation to improve in FY20. We also find auto ancillaries and tyre stocks appealing at this juncture. Healthy replacement demand and recovery in volume growth is expected in FY20. Again, the exports and currency may aid growth in FY20.

We see some steady recovery in corporate banks. There is a good possibility of sharp surge in earnings of corporate banks due to a steep decline in loan-loss provisions. The NPL cycles have clearly peaked and NCLT resolutions happening is a great news for the corporate banks.

Did you see more participation from retail investors this year?

The retail trading volumes grew by 22 per cent this year. Demat accounts have reached 3.4 crores across 2 depositories with some clients having multiple accounts. The penetration of demat accounts vis-a-vis India's population is ~2.23%. As per our estimate, the penetration of demat account in China is 10%. We still have a long way to go.

Among the accounts opened, the active trading accounts are around 24% and derivatives penetration is just 1/10th of that. We are seeing more and more investors and traders using online platforms to buy and sell equity. The growth in mobile trading is impressive compared with offline trading.

This year, we saw options volumes constitute 87 per cent of the total market volumes even as the index options contributed to more than 94 per cent of the options volumes.

Top Small Cap Performer 2018

Company	YTD returns (%)
Excel Industries	113.55
HEG	108.80
Nelco	94.28
Infinite Comp. Solu. (I)	93.98
NIIT Technologies	72.44
Excel Crop Care	62.62
HIL	62.37
Intellect Design Arena	58.61
Mindtree	58.06
Aarti Industries	57.17

Data As On 11 Dec, 2018

Top MidCap Performer 2018

Company	YTD returns (%)
Adani Power	45.36
Divis Laboratories	41.42
Mphasis	36.40
Reliance Comm.	32.30
Havells India	28.53
Torrent Pharmaceuticals	26.72
Berger Paints India	23.67
Glenmark Pharmaceuticals	22.81
Exide Industries	22.02
The Indian Hotels Company	20.17

Data As On 11 Dec, 2018

TOP 3 IPOs IN 2018

Company Name	Listing Day Gains (%)
HDFC Asset Management	65.01
Apollo Micro Systems	65.13
Amber Enterprises India	44.03