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## MONDAY MUSINGS MADHUSUDAN KELA

Chief Investment Strategist,  
Reliance Capital

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# Many PSU Banks Offer Great Value Post the Fall

Indian markets have recovered in line with global stocks but some near-term pain cannot be ruled out, said Madhusudan Kela, chief investment strategist, Reliance Capital. In an interview to **Nishanth Vasudevan**, the former star fund manager said public sector banks offer great value after the recent fall. Edited excerpts:

### Is the worst over for the market or is the recent bounce back temporary?

What we are witnessing is a downtrend within a larger bull market in India. In the previous bull market of the last decade, our market had similar sharp pullbacks in 2004 and 2006 where markets had sharply fallen but recovered strongly over the next 1 year as bigger uptrend was intact. Right now, we are witnessing some bounceback not only in the Indian market but also in other global markets as global central banks have turned dovish and oil too has stabilised. That said, I can’t completely rule out some near-term pain remaining as volatility hasn’t settled down fully. However, there may be stocks which have already made durable bottom in the recent sell-off. Rather than thinking too much about what index is likely to do in coming weeks, we are evaluating specific risk-reward opportunities at this point.

### The crash in the oil market seems to be rubbing off on all asset classes and global economy. What are the chances of a severe global recession?

The oil collapse situation is not necessarily a reflection of the weakness in global demand. Rather it’s a case where

increased supply is resulting into small yet sustainable gap between demand and supply. This is having an impact on the financial economy through liquidity channel while global growth impact is eventually positive. Current prices are significantly below the cash cost of major non OPEC private producers. This may not be sustainable and the present excess supply of 1.5% can become balanced in due course, bringing the stability in oil prices. That said, while we anticipate stability in oil prices we don’t expect any bull market in oil either.

**Recently, you said one could buy in hordes if the Nifty slipped below 7500. Do you maintain this view?**  
There was some euphoria in the market given that the growth has been



### NEAR-TERM OUTLOOK

**% Earnings shall certainly improve over the next 12-24 months and market will reward investors who take the advantage of this fall**

slow to recover in India. However, after the correction, valuations are better and growth expectations have also declined. The advice was and still remains for those who look to invest for 3-5 years rather than for 3-6 months as what happens in the near-term is difficult to anticipate. However, earnings shall certainly improve over the next 12-24 months and market will reward investors who take the advantage of this fall.

### What are your expectations from the government in the Budget?

I have high expectations from not only Budget but the entire Budget Session per se. There are two important legislations GST and Bankruptcy Code that could finally get cleared in Parliament. Since, there are no immediate important state elections and the fact that it’s the mid-cycle budget where government doesn’t have to be populist, I expect the Budget to be reformist and pro development. Fiscal consolidation while important, should not be over-emphasised. While Pay Commission should be a boost to consumption, I expect government to be innovative in terms of raising revenues for developmental spending on capex.

### How much more do you expect mid- and small-cap shares as a category to fall from current levels?

There are some really good companies which are small today but have potential to meaningfully scale up as they are rightly placed in great businesses. The corrections like these are only times when you buy those selected companies at preferred valuations. So, rather



### BUY LOW

**There are good companies which are small but have potential... Corrections are times when you buy at preferred valuations**

than being worried about the whole mid- and small-cap indices, the idea is to focus increasing stakes in such companies from a 3-5 year perspective. Only factor one should consider is that the upside should offer ample potential which takes care of the illiquidity premium for these companies.

### Will you buy public sector banks?

Many public sector banks offer great value at these levels. Even accounting of worst case stress, the current valuations of many PSBs provide meaningful upside potential for patient investors. However, one needs to separate the wheat from the chaff as balance sheets of some of these banks are irreparable.