Business Standard

I am a serious buyer in the mid-cap segment: Equirus Capital's Ajay Garg

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Puneet Wadhwa & Swati Verma | New Delhi Last Updated at August 1, 2019 13:12 IST

Ajay Garg, Managing Director, Equirus Capital| Photo: Dalip Kumar

The markets have mostly been a one-way street wince the presentation of the Union Budget in July. **AJAY GARG**, managing director, Equirus Securities tells ***Puneet Wadhwa* and *Swati Verma*** that given the resounding mandate that the Narendra Modi-led government received, he expected the first half of the fiscal year 2019-20 (H1FY20) to be much better than what it is now. The market, he says, has been underestimating the impact of how the corporate results will play out. **Edited excerpts:**

What's your take on the on-going correction in the market?

The market correction has been much sharper than anticipated. Given the resounding mandate that the Narendra Modi-led government received, we expected the first half of the fiscal year 2019-20 (H1FY20) to be much better than what it is now. Macro-economic scenario has not been that great, corporate earnings have also been weak. We had expected all these factors to come to the fore in the second half. As a result, we had estimated market to deteriorate more in the second half.

What are the key risks to the markets?

The economic and growth challenges have been overstated. Also, the market has been underestimating the impact of how the corporate results will play out. There's also been disappointment as resolutions are not happening quickly, whether it is IL&FS issue or any other case. This is causing discontentment among the market participants. That apart, there are liquidity-related issues. I don't think the Budget has been a missed opportunity via-a-vis the fiscal element. But yes, it would have been a good opportunity for the government to layout or propose a five-year plan.

What's your view on the midcaps?

The broader market, no doubt, is down in the dumps. However, I am a serious buyer in the mid-cap segment at the current juncture. The best money is made when you are buying something which is available cheap. And cheap is always a function of distress. So, I believe things will fall in place and in the next three years, one can get a phenomenal return from these stocks.

Where do you see value emerging in the mid-cap and small-caps?

There is value across-the-board. It's true that the last 18 months have been different for midcaps vis-a-vis large caps. If you look at ten years' data, midcaps have always outperformed the large-caps. I personally feel things will change for good.

Your view on corporate earnings for FY20?

I expect a flat growth in corporate earnings in this fiscal. To achieve this, there should be a rebound in earnings in the last two quarters. Sector-wise, information technology (IT) sector is likely to give a steady return. There is some uncertainty due to rupee, but overall the sector will continue to do well. Banks' slippages remain a concern. In 2018, it was only public sector banks (PSBs) that were grappling with this, but now private banks have also started getting hit.

Telecom is struggling as companies are not able to increase ARPU (average revenue per user), let alone subscriber base. Metals and agri-related sectors, too, face challenges. Domestic pharma companies should do well, but it's difficult to say about overseas-focussed pharma players due to USFDA-related issues. Chemical sector stocks should continue to do well. I am positive on cement, too.

How do you see companies utilising the idle cash given the tax on buybacks and dividends?

Buybacks came to the limelight only last year with Rs 70,000-75,000 crore being paid out as buyback. Companies used the tax arbitrage between dividends and buybacks. That has been plugged now. I feel the companies will go back to paying more dividend to the shareholders than doing a buyback. The latter will be used only where company wants to reduce the capital base. The bigger thing here, however, is that there is not that much investment happening. There's a whole debt overhang. The focus of the companies, now, is to make the balance-sheet cleaner.

Where is the Indian economy headed in the next six-12 months? Are the markets factoring in the worst?

There is one school of thought which feels that bottom has come. Everything is bad. Then there some who believe things will improve and there will be revival in sentiment by Diwali. I belong to the latter. Growth this year will obviously be lower than what most people expect. I believe GDP (gross domestic product) growth for FY20 could be around 6 per cent.