THE ECONOMIC TIMES Markets
English Edition | 25 January, 2022, 10:40 AM IST | E-Paper

Budget to have short-term impact; risk is with Rupee: Devina Mehra

Synopsis
"India is going to be one of the better performing markets compared to the rest of the world. That still does not mean that one might see a huge increase."

"The risk in India is still a little limited compared to what it is in the richly valued technology companies globally," says **Devina Mehra**, Chairperson, **First Global**.

Would it be fair to say that we are entering a risk-off phase right now and is the primary mover over the next few days going to be what the Fed does or hints at? Or are you looking at the geopolitical situation which is developing between Russia and Ukraine?

I think the Russia and Ukraine thing is a bit of a red herring in the sense that those kinds of things keep happening. So the more fundamental thing, especially if one is looking at a slightly longer term, is that over a period of time both the Fed as well as the ECB and the other major central banks will raise rates and that much is a given. How much, when, those things are being debated. Now what does that mean when interest rates go up? We all talk of PEs. It is earnings by price. It is how much you are earning on something when you are investing in equity and that is compared to interest rates. That is always the benchmark.

So whenever anyone says that PEs are historically too high or too low, one has to compare it with interest rates. So, as interest rates go up, PEs shrink. As interest rates go up, companies which have earnings way out into the future – those earnings and cash flows get discounted at a higher rate. That means the value of those cash flows reduces, value of those earnings reduces and companies which are generally called growth companies where one does not have much to show just now and all of it is out into the future, those companies will show the biggest hits. That sets the global stage.

According to me, India is going to be one of the better performing markets compared to the rest of the world. That still does not mean that one might see a huge increase.

Also in India, I caught the tail end of the conversation on these hotly valued IPOs. It had been my view even while those IPOs were getting listed that this is the extremely high risk part of the market. People should not jump in thinking that if they get these shares they have won the lottery. Unfortunately, as usually happens, most of the IPO frenzy has come just before the market fall but I would also like to say that there is the old saying that all past crashes are opportunities and all future crashes are risks. So when you are in it, how do you look at it? The risk in India is still a little limited compared to what it is in the richly valued technology companies globally.

What are the other factors that you would watch out for? Is the Budget a big factor at this point or do we just have to brace ourselves for what happens after the Fed meet and what kind of hint comes out this Wednesday-Thursday?

What comes out in the Budget will have an impact in the short term. But I do not think that is going to determine market direction in the very long term unless there is some drastic change. My experience has been that the budget gyrations are mostly temporary, barring for specific industries.

But let me tell you where I think the risk in India lies, it is the currency. So, while in rupee terms, I do not see a lot of risk in India, but the currency remains a risk because the rupee has been in a band for a very long time and more than that India has been reluctant to raise rates. While the Fed also has not raised rates, a lot of the emerging market central banks have raised rates. Right from Russia, Brazil, Chile, a whole lot of countries have raised rates not just once but even three, four, five, six times.

India has held on and the RBI has held on to the interest rates being rightly concerned about growth. But coming at a time when the inflation is high as well as the fact that the rupee has been in a band, makes me think that the risk is on the rupee. If one looks at a six month-one year perspective that is where one major risk area will be.

In the economy, there are many areas of concern. Even last year, while the stock market investor did well, the rest of the economy has not done well and unemployment numbers are high. The two-wheeler sales are at a 10-year low and that means upward mobility is very limited.

In the case of real estate also, housing loans at the high end are doing well but below that it is not. So, in the Budget also, the focus should be on the economy which means employment and longer term education and health. That would be my wish list for the Budget but as far as the markets are concerned. I do not think that is a major event barring the short term.

The platform companies or the new age internet companies have taken such a beating and to be fair the broader market has also taken a beating. But we are singling them out because they have fallen quite a bit from their highs and there is a sense of a reality check. Do you think that this trend will continue for these companies?

They remain high risk. When you do not have earnings, any number can be justified. Even when they were getting IPOed, the question used to be how to value these companies and what are the valuation parameters to look at? I said often when you are looking for that answer, you are looking for is a justification for whatever value you have in mind and you can always do some math on a spreadsheet to show that number is justified. But really, whether it is old, new, new age or old age there is only one way to value companies which is really looking at what cash flows they are going to generate over a period of time.

The estimation of that becomes another issue but if you have companies that may never become profitable, I would say, be very wary.