

expected to give returns higher by 500-600 basis points over the Sensex. But as we have always cautioned, in mid-caps and small-caps one has to select companies with good corporate governance and also sound fundamentals.

The reason for the spurt in stock prices could be either domestic or international. On the domestic front, the immediate concern is: how would the budget fare. Any adverse factors like tax on equity, for example, are going to harm sentiment. While clarity on GST may also help improve sentiment, it will be of limited gains. We also believe corporate earnings will show growth because of the base effect. Also, even small efforts on the part of the government, like road projects, spending on the rail-ways or improving the macro-economic data, would start reflecting on the ground level.

One of the key indicators that would show that the Indian economy is on the mend is the domestic sales data of medium and heavy vehicles (M&HCV). According to SIAM, domestic sales of passenger carriers have improved by 22 per cent for the 11 months ended January 2016, while that of goods carriers touched 32 per cent during the same period. And, since freight rates have remained quite firm during the time, the data suggests that there has been better movement of goods and services in the country. Even data from the DGCA shows that domestic passenger aviation traffic has increased by 20 per cent for the year ended December 2015.

Right now, the urban economy is in good shape and, if India is lucky, we should receive a good monsoon that can perk up demand from rural economy too. In the absence of any strong positive news on the domestic front, the Indian market is moving on global cues. But once the strong domestic triggers start functioning, the

market is likely to ignore international cues. We also believe that by the second half of the current year, the Indian stock market would decouple from international stock indices. This has happened in the past too. In other words, Indian stock market is expected to chart its own path soon, relatively insulated from what happens to international stock indices.

### Higher NPAs: good or bad?

One of the triggers that has spooked market sentiment is the higher NPAs reported by public sector banks. This is in fact good for the country and the Indian banking system, though not many have realised it. As Raghuram Rajan, governor, RBI, stated during the CII-Banking Summit on 11 February 2016, the AQR (asset quality review) process would help a bank's balance sheet represent a true and fair picture of the bank's health. Once the AQR process is done, each and every bank in the public sector would be healthy and would lend more, thereby improving their financials. "It's important to recall that underlying many of these stressed loans is an economically viable productive asset, not ghost townships," Rajan said. He believes that after the cleaning up

process banks will emerge stronger and more capable.

Many PSU bank stocks have taken a huge beating. In fact, the market caps of all PSU banks together equal HDFC Bank alone! This shows the sentiment towards PSU banks and how badly they have been hammered by investors. Many of the PSU banks are available at attractive valuations and, hence, it makes sense to be part of one's portfolio. They may take a further 10-15 per cent beating after they are bought but that can happen to any stock. But if one has a two-year time horizon, it is probable that they would give higher returns than the overall market. Any kind of over-pessimism is not warranted on PSU banks, as none of them are going to go bust.

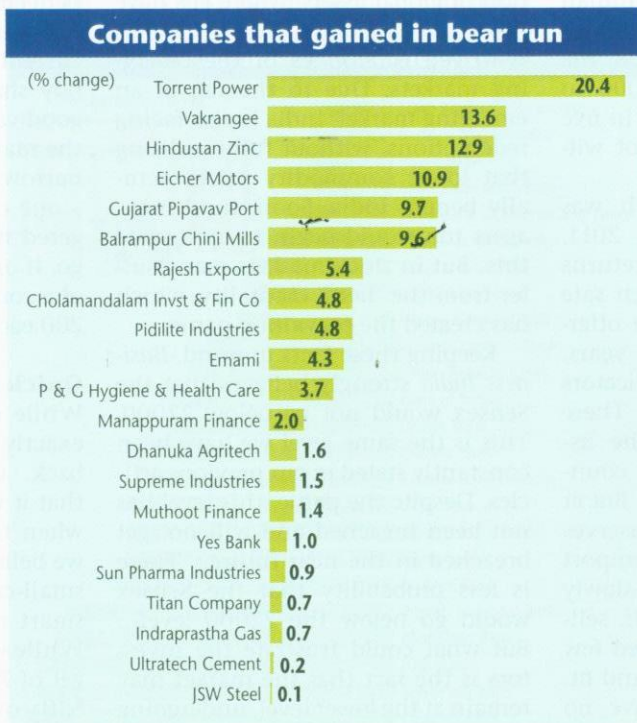
### Time to build long-term portfolio

We believe this is a good time to build a long-term equity portfolio. If one invests now and waits for 24 months, one is likely to get about 20 per cent CAGR returns, as all the negatives would have been priced in by then and any positive news can only make equity a better asset.

After touching 21000 in 2008, the Sensex is now at 24000 levels. In other words, during the last eight years, the Sensex has gone up by less than 15 per cent. The law of averages has to kick in somewhere and should take the Sensex higher. Even Jaipuria's advice reflects the same logic: "One can start putting some money at the present level, with a time horizon for 18-24 months," he says. As the Mountain Dew ad goes: *darr ke aage jeet hai*. Also worth remembering is the Gabbar Singh one-liner in *Sholay*: *Jo darr gaya woh samjo mar gaya*. So, control your fears and start building your equity portfolio and you would be laughing all the way to the bank in a couple of years.

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As on 16th Feb. Gain is for 2016 among BSE 500