

## Here is why SP Tulsian is negative on the white goods space

In an interview with CNBC-TV18, SP Tulsian of sptulsian.com expresses his concerns over the white goods space and spells out the negatives of the recently listed Sheela Foam. He also talks about Bajaj Finance, Pidilite and Asian Paints.

Below is the verbatim transcript of SP Tulsian's interview to Anuj Singhal and Sonia Shenoy on CNBC-TV18.

Anuj: Did you go through what Bajaj Finance management put out in the exchange statement look like there has been quite a bit of an impact, but the stocks have also fallen?

A: Lately this stock has become a high beta kind of stock. Definitely, management has cautioned, but that caution only should be confined to Q3, because you don't find any reason to extrapolate that for Q4 unless until you see the expiry of December 31, you allow this calendar year to get expired and then only take a call on the ground, because the way the experts have all been taking a view in the month of December, changing the view one day very positive then again negative effect of the demonetisation whether on NBFCs, cement so these things seesaw flip-flop will keep happening, but yes the Q3 numbers and probably management is trying to make the market don't expect the things to happen or normal kind of Q3 numbers, because market has all been expecting that probably Bajaj Finance is better placed amongst all the NBFCs, because of their significant rural presence probably they are also taking a hit and that is what is being warned by them that should only be confined to Q3.

Sonia: I know that a lot of this news flow is known that there will be a demonetisation hit on demand. What do you then in a space like white goods which have been great wealth creators like Hitachi Home for example, Whirlpool do you buy into the dip or do you wait a bit maybe you can get better levels?

A: I have already expressed my view last week also when we have seen a good amount of surge happening in these stocks that I won't be keeping a positive stance on these stocks, because if you see largely amongst these white goods space air-conditions have always found a major contribution in their better performance whether you talk of Hitachi or Whirlpool, Voltas, Blue Star and with the winter seen coming in the things always go on a lower level and if you see the recovery on account of the demonetisation that is going to be seen only in the Q4, you are not expecting any kind of better numbers to get reflected in Q3, so why to plunge maybe

when you have that kind of certainty and the valuation vis-a-vis on a relative basis has not corrected so much.

If we are taking a call on any NBFC stock and the expected bad numbers for Q3 the relative valuations have also corrected, the stock prices have corrected by 20-25 percent, but that kind of weakness has not been seen in any of the stocks maybe Voltas, which has corrected from Rs 400 to Rs 300 has also been having corrected because of the technical factors and not otherwise, because Rs 400 was not justified at that point of time also, so overall I will be keeping away from this white goods space because of the other reasons as well apart from demonetisation.

Anuj: Your thoughts on Pidilite it's down 5 percent right now. It is a stock that we normally don't discuss but it is a huge wealth creator in the past. Any sense of how you should approach this stock?

A: Two things firstly the victim of the rising crude prices, because Pidilite is using many of this and the crude prices will directly be affecting them number one. Number two, if you see the price chart of the stock maybe in the last 4-5 months it has really run up a lot, because all the people have taken a view and generally what happens this I have cautioned in the start of the series that whenever you see the advance tax payments coming in -- I will in fact add that point also to the today's weakness, which I have warned that I will be seeing the weakness till December 13 that is the weakness will continue till tomorrow and the kind of liquidations which we have been seeing from the investors from the mutual funds that is forcing even the individual investors those who are all HNIs will all be paying advance tax and for that the selling has to be done by tomorrow that is seen the culprit with like Asian Paints or maybe like Pidilite both are having the same common cause of liquidation ahead of advance tax and secondly the rising crude prices.

Sonia: On Asian Paints, what your view because the stock has lost considerable amount of steam over the last two months if you look at it. At the start of October it was Rs 1,200 and now back at Rs 900, for the long term investor how would you approach this?

A: That what I said that I will be placing Asian Paints also along in the same category of Pidilite because seeing the victim of the rising crude prices, the kind of run up which we have seen in the stock prices in this last six months was unwarranted definitely has made the valuations so rich quite steeper and if you go for the working for the Q3 and Q4 numbers they are definitely because Q2 are always the best number, Q3 also demonstrate the better picture because of the rural spending and all that, but that is going to get impacted partly because of demonetisation. Maybe Q4 will see the recovery again but till because of this all rising crude prices already seen stock ruling at a very rich valuations are all seeing share getting sold and profit getting booked by the investors.

Sonia: What about the oil marketing companies?

A: I am not too negative on oil marketing companies, because if you see the seamless transmission of the price increase which has been happening every fortnight on the petrol and diesel and ATF has not been issue otherwise also in the past that is happening a very smoothly. Only concern is now that about 0.75 percent cashless transaction how they are going to manage and I don't think the marketing margin which is at around Rs 2 per litre of this oil marketing companies is going to get disturbed, because either that will get passed on with the blending of the cashless and cash transaction with the mixture of that, which will get passed on, because as such also if you see this marketing margin transparency is not very clear. Oil marketing companies have never been able to reveal the true marketing margin, but if you go by the inventory gain and all that which they generally hold for 7-10 days they are going to see the good gain coming in, in this Q3 numbers because of that.

Anuj: I want your thoughts on some of these smaller IT companies RS Software, HCL Infosystems the likes of these stocks where we have seen some gains, but clearly there are no fundamentals at least as of now. Is the market betting too much on this cashless story, do you think some of these stories will go turtle?

A: Definitely, market is going crazy on all these and in fact we have discussed that I have said that 3-4 days back take the case of TVS Electronics I am just giving an example stock hitting upper circuit even I think today it was upper circuit about 10 percent. Just to give you an example for FY16 they had a turnover of sub Rs 600 crore, for Q2 they had a turnover of Rs 700 plus crore of which Rs 500 crore was a trading turnover. If you see the financial performance I don't think that earnings per share (EPS) is going to be more than Rs 5.

Now come on the other cashless transaction kind of this IT companies those who have been getting all this business allotted with the names of Aadhaar based, PAN based - - I have heard the management of Alankit the name having changed, their business model, their operations, their shareholding pattern I am just trying to single out I am not against any particular company, but with Alankit again the float is just 5 percent. The major stocks are held by the closely held and group kind of thing with Rs 500 crore market cap they are just mesmerising the retail traders those who try to lap this kind of stories. Take it from me that they all will end up buying them at the super rates and all that and will see them keep holding all these things at a fabulous prices once the results are out whether you wait for Q3, Q4 FY17, I don't think that things are going to get reflected, so my caution or my big caution is definitely earning on all these stocks.

Sonia: Any thought on Vakrangee and whether there is any kind of benefit that company would see because of digitisation?

A: Again if you see the Vakrangee pattern in this last maybe one month or so the stock has been steadily rising, maybe I can say that the stock seems to have reached to its full value, but the kind of strength it has been showing if you plot the one month's chart I think it has moved up by about 5 percent and if you they have this all Vakrangee depot, which have run into the maybe 20,000 plus they have the tie-up with the IOC where they are setting up another 25,000 Vakrangee Kendra in next 2-3 years. They are banking correspondent with many of the banks maybe 7-10 banks, so ultimately what kind of revenue flow but they don't have the e-wallets that seem to be in my view maybe where they will be seen lacking or maybe left behind in the competition. Things are looking reasonable for Vakrangee going by the price chart.

Anuj: Your thoughts on Axis Bank ?

A: Maybe I will be little more vocal than what Sanjiv had said just now. I have not seen I am giving my experience all this zero tolerance, internal corporate governance I have not seen honestly believe me the mockery. I am not trying to say that, in fact, I have shifted all my accounts one year back and I don't want to narrate the instances which have been clear case of financial I would say that maybe many fraud kind of things - - I just don't want to sensationalise the things and you can make out from the things the way they harass the customers.

Apart from the customer service and when you see the depositors giving them huge lakh of current account savings account (CASA) deposit the kind of treatment that we get and the lenders they just get money at any price, so obviously if you have seen my view for last one year I have never given a buy call on Axis Bank not because of my experience, because ultimately that has to get reflected at some point of time and maybe market has not been very charitable in taking this service part. In fact, I have said that earlier also that service is going to play very important role in case of telecom companies and the private sector banks and that is seen missing apart from the asset quality which has been horrible and the kind of corporate governance which has been assured that we have booked it fully in March quarter, then first quarter, then second quarter, but anyway I am keeping my negative stance on the Axis Bank and this news of licence cancellation speculation I am not going by those things, but I give thrash to all this zero tolerance and the statements issued by the bank.

Anuj: Your thoughts on Sheela Foam of course the start was good today because of the pending demand from last week, but at what price will this be a buy again?

A: On Friday when they got listed I cautioned that I won't be going for it, this is just frenzy and if you recall at that time I have said that if you take a comparative play, because 30 percent is sold as polyurethane foam to the industrial customers and I just gave an identical comparable example of Harita Seating though it is not strictly comparable, but they also have 51 subsidiary, because these kind of things in the case of newly listed stocks you see lot of volatility.

I am not too positive on the stock with the PE multiple running into 30 plus kind of things. Maybe a small debt, I am not saying that this is a debt ridden company but if you take an overall scenario the kind of growth which we have only seen in this last two years prior to that what was the performance. Maybe prior to FY15 the things all were looking very stable kind of thing, but in this last couple of years because of this falling crude prices they have been able to perform, so I have cautioned that I won't be taking a positive view and my view continues to remain neutral. I think it has seen maybe languishing at the level where it was ruling on Friday so even at the current level I won't be a buyer.

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