

Invest in this market only if you get stocks with decent valuations: Neeraj Deewan, Quantum Securities

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ET Now: I personally believe that the operating leverage story is here to stay. The same set of people instead of managing Rs 200 crore are probably managing Rs 4000 crore or Rs 5000 crore. It is a great win for the organisation. However, is that convincing enough leg to go out and buy these stocks at these levels wherein all of them are probably 50%, 60%, 70% at times? In case of Edelweiss, almost 100% higher than what they were about a year ago. They have had a bit of rally. Is the story still looking convincing enough?

Neeraj Deewan: From a long-term perspective, the financial sector related companies will definitely benefit going ahead. The growth will continue for the next two-three years when our country is doing better and so much money is actually coming into whether it is AIF funds or the equity funds.

After the run-up, maybe a lot of things get priced in and you might get a period of consolidation where you do not get returns for five-six months. Maybe, if you are talking about two years hence, even at these levels it will make sense investing in more of these companies, though I do not have a specific valuation call on Edelweiss.

ET Now: What has done well in the last few sessions are a lot of these white goods stocks, a smallcap BPL is up, Whirlpool has been active, Symphony has been a tremendous wealth creator all these years. Where are you on these set of stocks?

Neeraj Deewan: I think these stocks will continue doing well. For me stocks which have more diversified product portfolios like a Whirlpool or IFB Industries, are the kind of companies which can do better because they do not have a lot of products which are just cyclical in nature or seasonal nature. So, in these companies whether it is Whirlpool or whether it is IFB Industries, growth will come because of good monsoon, Seventh Pay Commission, money coming into peoples' hands, festival season coming ahead and the economic recovery which is happening which we are seeing some benefits will start coming to people also there. So I think I will look at more diversified companies like a Whirlpool or an IFB Industries.

ET Now: Munjal Showa, you probably believe that it remains on buyers list. Now why is that the case? What is with Munjal Showa?

Neeraj Deewan: Actually, Munjal Showa we have been covering, this stock has been growing, the company has been growing. Normally, all these Munjal Group companies they do a capex and then two-three-four years they utilise that capacity and then go for another capex. So for them, the return ratios are really good when the capex has already happened and we are process of utilisation that capex. So Munjal Showa also is in that category. They had done a capex for three-four years back and with the kind of up move we are expecting from two wheelers, motorcycles sales they also benefit and their sales are related to the kind of move you see there. So I think even at the current levels Munjal Showa for one, one-and-a-half years still looks attractive.

ET Now: You are preferring Tata Motors DVR to Tata Motors. This is essentially the discount theory which you would want to derive benefit from?

Neeraj Deewan: Yes, actually I am positive on Tata Motors as a company. I think the company should keep on doing well, there is also encouraging even global sales where people had concern has seen a good month on month figures coming in. But Tata Motors DVR specifically of the discount I think going ahead this discount should narrow down and that is why we prefer Tata Motors DVR amongst the two.

ET Now: What does the strength in the markets today signify to you, how would you be approaching trade tomorrow?

Kunal Bothra: Well I think the best part today was Nifty crossing this gap -- 8860 spot level. N the markets would probably gain towards sort of lower in terms of volatility and probably rise in the trend. I think that would be one key part. The other part is you need to see the behaviour of the largecaps, how they try and maintain their gains throughout the session and whether you see large bit of profit booking or not. I think we saw a good amount of largecaps maintaining their good gaps which they saw in the morning. So I think that is also the other positive. Maybe, tomorrow if the Nifty opens even flattish, maybe a 10-20 points up also, I think that would be taken as a good buy. Bank Nifty remains to be a trade. So, I think if I have to take a trade on the index, I would probably look at Bank Nifty as a trade, maybe a target of 20,300-20,350 on spot levels is what I would eye out for a day or two.

ET Now: Looking at some of your other names as well, you are positive on JK Tyres. You believe that there is margin improvement there. Why among the pack would you like this name?

Neeraj Deewan: Actually they had gone in for a capacity expansion in Chennai facility where more capacity is getting added by early next year. So I think that will keep on lending growth to this top line. Plus rubber prices have been low. The benefit

has been come into these companies and the kind of demand that we are seeing for vehicles will translate into demand for their tyres also. So, I think going ahead also, they have a large share in the radial truck, radial tyres so I think that will also give some fillip to the margins going ahead so I think that is why even at these levels JK Tyres should be a good stock to hold on to.

ET Now: Any thoughts on Jubilant Foodworks though?

Neeraj Deewan: I think though we have never been very positive on the stock. Because of higher valuation, it has been trading even after so much addition to their stores, I think the bottom line did not move. We did not see any growth happening there. I think one needs to see who the new person joining is and what kind of visibility he has. Only after seeing the name and with the visibility and the growth prospects which are there as per that person's vision and his business plans we can take a further call on the stock. But right now, I will avoid the stock as such.

ET Now: I want you to give me one high conviction mid-sized idea. But also the fact that this market seems to be a lot more about ignoring a Nifty level or a Sensex level and look at stories beyond that because the strength out there is palpable. You can almost feel the strength almost every single day in a stock.

Neeraj Deewan: Actually it is more about stock specific approach now. I think market, everyone is talking about higher valuations, do not invest in this market right now but if you look down you will get stocks which are still available at decent valuations. One example is CARE Ratings-- Credit Rating, the stock was trading at 17-18 times sometime back with a buy report on the company, even after the run up now it is at 23 times FY18 for a business which is giving you a 36-37% ROC, they have a 66% EBITDA margin because most of the business is rating revenues and we have seen some improvement happening in the top line revenue improvement in the last quarter, margins are further improved, there was Rs 400 crore cash in their books, they are looking at some acquisitions.