It is going to be 'buy on decline' market: Rajesh Kothari, AlfAccurate Advisors

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In a chat with ET Now, Rajesh Kothari, CIO, AlfAccurate Advisors, says good money is chasing the right stocks which are going to move up further because valuation wise, we are probably at 10 years average from FY18 perspective. Edited excerpts

ET Now: We are at about 8750 but we are talking about individual movers. What would direct the course of the market higher from these levels? What is it that you are recommending?

Rajesh Kothari: The market upmove over the last two weeks after a little bit of disappointment on Fed front has seen a continuing rise in earnings. The earnings growth in the first quarter has been slightly better than street estimates. The worst is over. There are no major downgrades post first quarter earnings and hence there are a lot of positive factors which leading to good money chasing the right stocks which are going to move up further because valuation wise, we are at 10 years' average from FY18 perspective. I think we are on a structural bull run and correction may come. It is very difficult to time the correction but I think it will be buy at decline market.

ET Now: I am looking at the notes that you shared with us and you seem to be in favour of consumer durables. Now is this because of the festive season push that is coming in or is your call more on the basis of CAGR for the next two or three years. Do you like names like WhirlpoolBSE 0.03 % and Bajaj ElectricalsBSE 1.21 %?

Rajesh Kothari: We are holding consumer durables because we are very bullish from the long-term perspective over next two to three years. We have been positive on consumer as a theme whether it is consumer financers or consumer lenders. Whether it is car manufacturing companies like Maruti, whether it is consumer durable companies like the names what you have mentioned. A disclaimer, we hold some position in few for our PMS clients and also we are positive on consumer FMCGs, for example BritanniaBSE 2.44 %. This sector has a good structural upside over next two to three years.

ET Now: Would you go with the premium player like Eicher MotorsBSE 0.10 % where price is coming at a premium or would you look at a value play lime Bajaj AutoBSE -0.63 %?

Rajesh Kothari: We sold Eicher some time back because we believed that valuations have peaked out and kind of PE what right now we are giving it assumes a very-very significant earnings growth from current level. To our mind there is little bit of risk because the company is now diversifying into out of India market and it is very-very difficult to build a brand, it takes probably 5, 10, 15, 20 years to build a profitable brand and make return on equity of 25-30-40%. So it is a great company, great business model but I think whenever you go to the other market for B2C segments it is not very easy to ramp up the volume.

Having said that, valuations are also reasonably high despite having one of the highest valuations on the street and there are better alternatives. That is the reason why we sold Eicher Motors some time back.

Compared to two-wheelers, we prefer passenger car players, consumer durables whether it is air conditioning player or a a washing machine player. We prefer consumer finance companies like Bajaj FinanceBSE 1.57 % which we own as well as Repco Home. We also own some microfinance companies.

ET Now: If you are at a liberty to talk about what is the latest addition that you have done to your portfolio and why?

Rajesh Kothari: In auto ancillary, one of the stocks we added recently is Minda Corp. Again, it fits into our three M investment approach - market size, market share and margin of safety. Minda is one of the top five players in the industry with a consistent track record. Last year, the turnover was close to Rs 2500 crore with the net profit of around Rs 100 crore plus with a return on net worth of close to about 18%.

The company is trading close to about 14 or less than 15 times price to earning multiple on FY18 basis. There are probably only 250 to 280 companies in India which makes Rs 100 crore plus profit and Minda is one of them. This company has the potential to deliver 18-20% compounded returns over next one to two years.

ET Now: Do you have an in house view on MCX and a target as well?

Rajesh Kothari: Yes, we have a small holding for our PMS clients and basically when we bought and even today it fits into our 3M classic, our unique approach of investment, that is market size, market share and margin of safety. So market size, the size of potential is huge. If you look at the global exchanges compared to the volume what we are doing in India I think size surely it is going to be much bigger.

As for market share, it is one of the leading players and probably there are only couple of players which are in this business. Even if they are allowed entry in equity exchange, right now it is only a three-player market. It fits into our 3M approach and I think the opportunity is huge. Of course it has its own risk as well in terms of the what kind of regulatory regime it can be. It has its own positive and its own negatives.