Invt should buy across sectors: Quantum Advisors

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With weak global cues, the markets began that familiar drift downwards. The indices posted fresh lows for 2008 before staging a recovery in the last hour of trade. The Nifty closed down 51 points at 4,450, the Sensex shut shop at 14,889 down 177 points.

Ajit Dayal, Founder and Director, Quantum Advisors, sees tremendous value in stocks now. "One should look at businesses from a long-term perspective and invest with a 4-5 year view point. We bought some infrastructure stocks recently and see value across sectors after the current correction."

On fund flows, he said, short-term money invested a few months back is going out. "A lot of the long-term money like pension funds are waiting to come in."

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High crude oil prices are not as big a problem as it is made out to be, he said. "India needs to clean up the equation of fuel prices, subsidies, and duties. Global markets will be in trouble if crude stays at USD 130 barrel."

Excerpts from CNBC-TV18's exclusive interview with Ajit Dayal:

Q: Are we close to the bottom? Do you think this painful period might be somewhat protracted?

A: In June 2006, the markets fell from 12,500 in May 2006 to below 9,000 by June 14, 2006. We don't understand bottoms or tops; we understand valuations. To us, the stocks are quite cheap today and it is a fabulous buying opportunity. So, we are recommending to our clients to add more to the stock positions they already own.

A lot of what is happening today is our own stupidity as a country. We had made a criminal mistake in many ways of taking short-term capital from P-Note holders to build a long-term economy. We talk about the subprime crisis in the US. We have got a kind of a crisis in India, where short-term capital is looking out for exit doors as soon as they can find it.

We are sitting here with companies that are trying to build businesses that are trying to grow their next 5-10 year business plans, and are basically being punished very viciously in this market.

We are optimistic and are telling our clients that it is a fantastic buying opportunity. India's GDP will continue growing at 6.5% plus in real terms over the next decade and that itself will give a lot of stock market returns in the long haul.

Q: Why is there this sudden pessimism or disenchantment for India? We have seen quite a bit of FII money leave the country this year. People generally seem to be saying that India and China are not the places to be and may be Brazil and Russia are better. Is it the macros or is it the currency? What has gone sour for India suddenly?

A: You have talked to the wrong people and that is part of the problem. A lot of people have got the short momentum thing in mind. India and China were the drivers in the BRIC equation till 2007. Thereafter oil and commodities, which appreciated from 2003-04 onwards, have been star performers in terms of asset classes since the middle of 2007, with oil going from the low USD 60 per barrel to USD 130 per barrel. So, Russia and Brazil have risen up on that and one has got India and China, for their own reasons, have sort of slipped completely.

If you look at year-to-date emerging markets as a whole, it is down about 6% in US dollar terms versus the BSE 30 index, which is down some 32% year-to-date in US dollar terms.

This underperformance is because of the short-term momentum money, which sold USD 3 billion in January, sold some more in February, had a marginal plus month in March, and again minus in May. It is looking for the asset class that are moving up.

There are a lot of pensions and a lot of long-term money that is still waiting to enter India. We need our Ministers and analysts to go out to meet FIIs and talk about the 5-10 year India story, as opposed to the one-quarter story or two-quarter story that may exist in many other parts of the world.

Q: How worried are you about this whole oil situation, because it has almost become an inverse correlation between crude and the Indian market performance now?

A: That is right. Given the fact that we spend a fair amount of money in buying our one billion barrels of oil ever year, it is a problem. It will be a bigger problem if it remains USD 130 per barrel for the rest of the year or goes upwards.

But oil is something more than just pure economics. There is demand-supply from India and China but a lot of it is also supply constraint driven. The oil producing nations are pretty happy to hold back oil supply. This is because they have done the calculation that the less you supply the more spike in the price of oil.

Yet, they have oil lying underneath their ground. So, they are getting more for what they produce and have more reserves under ground. But I will leave that for the geo-politicians to work on.

We do want stocks like ONGC, HPCL and BPCL and they have been battered pretty badly. Our reason for buying these sort of stocks is that on a valuation basis they are pretty attractive. We recognize that this government for the last 3-4 years has been very reluctant to increase the price of oil for richer consumers to the international prices. We are not sure how long they can continue trying to bleed these companies. Obviously, we are a little wrong because they have announced a few weeks ago that they have raised the price of oil but not enough.

They have got to start charging people closer to the real price of oil or petrol. They can have subsidies but there is some sort of a messy calculation going on in the government's books.

Look at the price of oil per barrel, the taxes levied on it and look at the subsidy. It is like the government is taking money that is due to the oil companies. Somewhere down the line that whole equation needs to be cleaned up.

Oil prices going up and staying at USD 130 per barrel is problematic. If it stays at USD 130 per barrel for the rest of the year, the whole world will be in a problem.

I don't worry too much about oil but do worry about who is getting the oil cash. Whether it's the government through their various taxes or it is the oil companies because they own stakes in the oil companies.

Q: Where do you stand on the two sectors, which were the leaders in 2007?

A: We did not really own any infrastructure-related stocks for much of 2007. So, we have become buyers of some of the stocks recently. On the banking side, we do own some banking stocks. The banks that we own are of very high quality.

One of the problems of owning high quality financial institutions is that the whole world owns them. When the Citibanks, SocGens and every global bank in the world has a problem at the parent company balance sheet, the immediate reaction is sell what you have got outside your home country and bring capital back home because they need the money back home to stay alive.

There has been a sell-off in some of the banking stocks that we own. But we love those stocks and are putting more money into those stocks as they come down. We are valued investors. Right now, there is so much to buy and it is really a challenge to build a portfolio for the next two years.