Q&A

Narrow Bull Markets Can Last Some Time, But They Always End Badly

Shankar Sharma, vice-chairman, First Global, in an interview with **Ayesha Faridi** of ET Now, spoke about the crisis in the NBFC and auto sectors and the current state of equity markets. Edited excerpts:

Is it time to take a step back and let four-five stocks continue to lead the market?

Narrow bull markets can last some time and they can confound logic. But narrow bull markets almost always end badly, because this is a classic that the market starts out broad and then slowly the leadership changes to a ever narrowing set of companies and that is exactly where we are now. These things do not have a good ending. I do not know when these things end but they always end badly. I do not think there is any exception in the history of markets where narrow bull markets went on to give you 20-year kind of returns. I am not saying it is a permanent end but the end whenever it happens will be very, very brutal.

So you are challenging the growth prospects of a Bajaj Finance, or HDFC Bank and the new corporate banks?

I have always said this publicly, Bajaj Group is the best corporate group in India. They have run every single business very wisely and it has escaped the NBFC crisis largely because it has got big retail play and not a wholesale book. Yes small ticket, and hopefully in small ticket, the defaults do not add up very quickly to 5-10%.

But remember one thing in India, any kind of retail lending by and large is to a very narrow set of people because the organised pool of salary earners in India, would not be more than a crore of people. You have two-three crore tax payers out there who are self employed.

You will exhaust that in no time and then you start going downhill in terms of your quality of the borrower, quality to the cities where you are going to lend.

I think it is a genuine risk for the overall sector. The NBFC boom drove the market for two or three years. They anecdotally drove a large part the consumption part of the GDP because there was no real wage growth in India worth the name but consumption was what kept GDP optically at 6-7%.

Why the crunch in consumption?

Dabur said a couple of days back that earlier the price points for a toothpaste or hair oil was ₹20 now we are all at ₹10. That is what the problem is, whether in package size or in terms of a lower brand, quality or perceived quality. Dabur hit the nail on the head saying that just simple down trading you will still buy the toothpaste but you will not buy a larger pack and you may buy a lower variant itself. That is where you are after so called great growth.

What about autos?

Looking at a 30% cut, it looks very difficult because then you are looking at a 50% rise to just to come back to where you were. That is the kind of headroom that has been created that you need to grow now.

Also, auto four-wheelers is one thing and two-wheelers are something else. On two-wheelers, the government's diktat is that by 2025 everything will be electrified. It is a huge employer and there is no infrastructure available to support that kind of electrification.

The other issue is that the whole tech of electric vehicles versus an internal combustion vehicle is completely different. The moving parts are probably like a 20th and that means, do you need so many ancillaries and so many people? We need to think through all these steps. But if the government is serious as it appears to be, then this sector is in even bigger trouble. The whole business model is being disrupted.

China's BYD has announced plans to come into India very conveniently following this 2025 directive. Auto industry is the sole manufacturing excellence industry that we know of. And you are going to give it away to foreigners just like that!

As an Indian equity investor, what is it that you do now? Sit on cash?

It is a very troublesome situation because real estate is not doing well, gold has suddenly perked up. Suddenly, real estate is gone, fixed income looks dicey and equities do not look as if they are going to give you even flattish returns let alone be hugely positive!