Don’t fear LTCG tax, stocks still give best returns;

Prabhudas Lilladher PMS head Ajay Bodke picks top sectors

Ajay Bodke, CEO & Chief Portfolio Manager (PMS) at Prabhudas Lilladher tells FE Online that retail investors need not worry about the imposition of LTCG tax, as equities still provide the most attractive returns among all other asset classes.

By: Sushruth Sunder | Updated: March 20, 2018 12:16 PM

Ajay Bodke of Prabhudas Lilladher says that retail investors need not get jiitery about LTCG tax as as equity remains the only asset class giving inflation-beating returns, and paying 10% LTCG appears to be fair.

Even as investors feel the jitters of imposition of LTCG tax, Ajay Bodke, CEO & Chief Portfolio Manager, PMS at Prabhudas Lilladher says that retail investors need not worry, as equities remains the only asset class giving inflation-beating returns on a post-tax basis. Further, the expert points out that while the Sensex has given 4-6x returns every 10 years, other asset classes including gold have much inferior returns. He sees various upside triggers for the stock markets including revival in corporate earnings, relatively better macro-economic outlook as compared to emerging economies and range-bound crude oil prices. Ajay Bodke shares his valuable insights on the stock market outlook in an interview with Sushruth Sunder and Shaleen Agrawal of FE Online. Here are edited excerpts:

Q. What are the key upside triggers for the Indian equity markets in the near-medium term?

Revival in corporate earnings is a theme that we are bullish on. Most of the managements we have interacted with are confident of posting strong earnings in the upcoming quarter. One-off policy related factors such as GST and demonetization that had led to temporary disruptions in supply chain and aggregate demand are now well behind us. The macro factors relating to fiscal deficit, current account deficit and inflation though somewhat higher than what they were when oil was hovering at significantly lower levels are still within reasonably attractive levels especially when compared with other emerging economies. I believe that global crude oil prices will remain range bound between US $60-70 per barrel offering India a breather. With India's GDP estimated to grow at 7.5% in FY18-19, macro-economic outlook will continue to provide strong tailwinds. Post GST roll-out there is a discernible shift from unorganized to organized players in many sectors. This will have important medium-term consequences on tax compliance standards and potential to increase tax collections. Given these positive factors the medium-term outlook for Indian equities looks bright.

Q. What is your view on interest rates. Will we see some tightening in RBI's monetary policy?

With global Central banks like the US Fed in a tightening mode and worries on fiscal slippage in FY19 domestically, RBI will find it tough to continue with its neutral stance on monetary policy.

Q. We have seen unprecedented inflows into the Indian capital markets. The retail investors have also taken to investing via SIPs. Will this trend continue?

Today, the DIIs have emerged as a strong counterforce to FIIs. Net equity purchases by DIIs in CY 2017 were to the tune of Rs 90,835 crores and in Jan-Feb 2018 were Rs 18,212 crores. FII purchases during CY 17 were Rs 52,885 crores and in Jan-Feb 2018 were Rs 2,211 crores.

Demonetization was the genesis of this change which ensured financialization of savings. In the US 401(K) accounts ensure that every working individual has some exposure to equity. In India’s case the scenario is better as the entire inflows in equity market is totally voluntary. Rs 5,000-6000 crores of equity inflows in Indian mutual funds are coming in the form of SIPs every month. SIP inflows are sticky and allow an investor to average his investments in the markets over the ups and downs.

Q. Imposition of LTCG tax has spooked the domestic stock markets. Should investors be worried?

We don’t think the retail investors need to worry as equity remains the only asset class giving inflation-beating returns and paying 10% LTCG appears to be fair. Grandfathering of gains up to January-31 was a masterstroke. Even here, the government has provided a relief for LTCG up to Rs 1 lakh per year. A strong case though, can be made for retaining either STT or LTCG tax and we believe that once GST collections stabilize in a year or two, government can consider this move. Equities as an asset class continues to remain attractive with a medium to long term perspective and any dips must be utilized by investors to buy into Indian equities.

Q. Given today’s context, how does investing in equities compare with other asset classes?

Investment in equities as an asset class has provided the best CAGR returns globally as also in India. Also, longer the holding period the probability of losing money reduces exponentially. Longer holding period also ensures higher returns. When inflation is benign, investors look to invest in financial assets. According to a report, the Sensex has given 4-6x returns every 10 years. In comparison, gold as an asset class has provided returns which are far inferior vis-à-vis equities. It has traditionally been observed that people shift to physical assets such as gold when inflation is high as gold acts as a hedge & protects the value of their investments in real terms. As inflationary expectations in the Indian context appear to be well-anchored, we expect inflows into financial assets to rise going forward.

Q. Any specific sectors which investors can look to make attractive returns in the near-medium term?

We have a very under-penetrated Insurance sector (both life & general) in India. This sector looks very promising with a medium to long term perspective. Leading retail-focused private sector players in BFSI also look attractive.