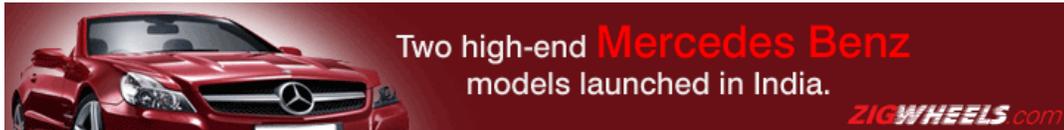


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Like Noida Toll Bridge, Mphasis & IL&FS Investment Managers: Parag S Parikh

May 5, 2011, 01.06pm IST

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In an interview with ET Now, [Parag S Parikh](#), Chairman, Parag Parikh Financial Advisory Services, talks about the market, sectors he is most bullish on as well as his portfolio, among others. Excerpts:

You have always been a contrarian buyer. Are you using the current market condition to your advantage and are you buying and shopping?

As long as the market offers good opportunities to buy good businesses available at good prices, we definitely buy those stocks. We do not normally chase the fancies of the market.

Which sectors are you most bullish on right now?

For us, a good business run by a good credible management is very important. We prefer business that takes care of its minority shareholders. If these two things are there and we have a good business model available at a good price, then it attracts us. We are open for any ideas.

What is a good business available at a good price and where you are a buyer?

I like NOIDA Toll Bridge. Although since I recommended it last, it has gone down, nothing has changed in the business dynamics. I also like IL&FS Investment Managers. There was big selling which took the stock down, but the business fundamentals remain the same. [Mphasis](#) is also the same because the market had overreacted to certain things, which were later clarified by HP. I would maintain that all these three stock are still good value buys.

Are you betting on financials and do you think the value factors are again visible in financial stocks?

If you are asking me about [IL&FS Investment Managers](#), they are managing money. It's a PE fund. They get their percentage 1.5-2% as their professional charges and the money is growing. It is not like investing in a mutual fund where everyday the NAV changes. It is a long-term 7 or 10 year fund. So, I know what the flow of the money is going to be. Just looking at some quarterly result upsets gives me an opportunity to look at this business in a very different way because I am looking at the long term.

You are a portfolio manager. Characterise your portfolio for us. Are you fully invested?

We are sitting on cash also and as and when good opportunities come, we buy stocks. But just because one stock is very good, we have certain disciplines to be maintained, not more than about 8-10% in a single stock. We have a good portfolio of about 15-20 stocks because we believe that you go for over-diversification only when you feel that this is not a profession and it has become a business, and then you try to justify that you are doing a whole lot of things. So, if something goes wrong, you are just trying to see that your backs are secure.

What are the spaces that you would completely avoid at this point in time?

We avoid sectors that we do not understand and where there is a big fancy, everyone is chasing it. We do not look at sectors or stocks that the news channels are talking about. It is very easy to find out because you open all the business channels and you will know what's the fancy in the market.

Are you sensing that in the medium term, growth could slow down? The Reserve Bank of India wants growth to slow down and demand to come down, but the markets hate the word slowdown.

Today in our life also, it is not that we just go one way up. We have certain bumps. Life is never black or white. It is always the shades of grey. And so is the case with the markets. If the RBI feels that they have to slow down, then there is nothing wrong about it because if so much money is going to be chased only, it will create bubbles. And today, the worst bubble is that of the education sector. Education has become very expensive and people are spending so much money for just those four years to get a degree, so that they get a good job. We are in a fast-changing situation where we have to upgrade our skills everyday I would call it. So, what happens to a person who has taken a big loan on education? If he has taken a loan on housing, he can at least sell the house if he is not there.

Will you be a buyer in Aptech, Everonn or Educomp?

I am talking about paying so much money for education. I am not commenting on any education stocks.

What are your thoughts on typical Buffet-based model companies like Gillette, Nestle and Colgate? Are these expensive stocks or you would gladly like to buy them even at these levels?

They are expensive in the Indian markets, but if you go to the US markets as I have been mentioning since the last about six months that there existed a great opportunity. Like ADR is listed in the US markets and you could pick it up at 16-17 times earnings. And here you have Nestle at 46 times earnings. These are global companies and the only problem is they are listed in stock markets where the euphoria is not there. Of course slowly in the US market, the euphoria is building but not on these stocks. These stocks are still available at good rates.

In the last one month, oil and marketing stocks have appreciated by 5-7%. This is one sector which has immense value, strong replacement cost, and you cannot create these companies again. Are you tempted to buy some of these stocks on a decline?

No because there pricing is controlled by the government. If I look at a business, I also see whether it has got a pricing power. This sector does not have a pricing power. So it does not pass my test.

Which are the sectors or companies you think enjoy pricing power and despite strong inflation, their profitability will not come down?

You will have to look at certain characteristics of businesses - having a strong brand, strong distribution network, having a good weight around the business where competition cannot come in easily, there has to be least amount of debt so that they can work for the shareholders rather than the creditors, and a good business model. If you look at all these things, certain good brand companies like [Gillette](#) have good business models, but I would not buy them at these rates because the market will always give you an opportunity to buy such companies later on.

What about the overall market on a valuation basis? What's the downside that you are factoring in? Most people talk about the range of 5200-5400. Where do you think the pain would end?

I would not be able to comment on this because it is very difficult for anybody say how it is going to go. Even I do not know how the market will do tomorrow. These are just guesswork, making the markets exciting.

On a 5% or 10% decline, what are the three stocks you would like to buy and where you are convinced that it makes sense to be a buyer?

I like [Noida Toll Bridge](#), [Mphasis](#) and [IL&FS Investment Managers](#).

Do you see these three stocks having potential to appreciate by about 50% in the next three years?

Yes, definitely. If you are looking at the long term, there is nothing like it.

What are your disclosures?

I own all of them. I do not talk about stocks I do not own. I do not waste time that way.

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