Reliance Industries - Will the stock deliver negative returns in 2024, after 10 years

With just about 2 weeks to for the year to end, it looks like Reliance Industries may end up giving negative returns for the year. This comes after a paltry 1.5% returns in the year 2023; a sharp fall.

Negative returns after 10 years?

As of date, Reliance stock is down 2.3% for the year. It may still close in green, but it looks very likely, a year of price fall for RIL. If it happens, it will be the first time since 2014 that RIL has given negative annual returns. Between 2010 and 2014, RIL gave negative returns in 3 out of the 5 years. But, it was a true-blue golden period for Reliance from FY16 to FY21, when it surged 4.56X, delivering 356% returns. In last 3 years, growth has slowed quite substantially.

Golden years in retrospect

There were several factors that drove the golden phase for Reliance stock in between FY16 and FY21. First, there was the launch of Jio, which disrupted the entire telecom market and emerged as the veritable leader in no time. Then came the big decision by Reliance to sell stakes in its Jio and Retail business to global investors. More importantly, the monies so raised were used to make the company zero net debt (net of cash). The combination of debt reduction and the growth in Jio and Retail gave a big boost to the Reliance stock. However, a solid narrative has been missing for the Reliance stocks in last 3 financial years.

Triggering a sharp fall in 2024

The stock of Reliance Industries fell by close to 17% from the peak level that it achieved in September this year. The dampener for the stock came from the latest AGM of Reliance Industries. The stock markets were eagerly awaiting for news on the listing timeline for Reliance Jio and Reliance Retail. However, the AGM did not give any timeline for that, barring mentioning that more as a broad statement of intent. That was rather a disappointment for the markets, as the belief was that Jio Financial had set the trend for RIL monetization of stakes in subsidiaries

and Jio and Retail would follow soon. When that did not happen, the Reliance stock almost fell vertically.

O2C is the other missing link

The oil to chemicals (O2C) vertical has been in flux for some time; despite being the cash cow. Weak crude prices and tepid gross refining margins (GRMs) in last few months took its toll on the profit-making machine of RIL. Also, the plans on green energy front are still too hazy and does not justify the market giving the stock any premium value at this point of time. Above all, there is the change of guard that has already been signalled by Mr. Mukesh Ambani. It is not yet clear whether they can deliver the goods like their predecessors did. That has also been an overhang on the stock. The need of the hour is a brand-new narrative for Reliance Industries!

Algo Trading - Retail traders in algo trading will add one more level of speculation

A recent SEBI paper has decided to put algo trading on the palate of the retail investors. That is not a bad idea, but it comes with a lot of risks. Also, we could see a host of disputes in this matter.

Still in concept stage

To be fair, the idea of algo trading for retail investors is still in the early stage. The SEBI has put out a paper and has invited public comments. The final call will be taken only after the comments are received from the stakeholders. The whole process could take time and may even be shelved if the regulator does fell that it adds to risk. However, in the last few years there has been persistent demand from retail investors and also from brokers to extend algo trading in a more organized way to re-tail investors.

How do you manage the risk?

That is the million-dollar question. Algos can be black box or white box and can either be broker algos or client level algos. The big challenge is that algos have to be rigorously tested and past experience tells that algos can give real atrocious results even after all that is done. More importantly, there is the risk of fat finger trades, which can also hit algos. For retail brokers with very large retail franchise, the big challenge will be to manage limit risks, stock risks and client level risk. Algos at a retail level may introduce a very high level of risk and can also increase stock volatility.

Opens the gates for disputes

For those who have seen the early stages of derivatives, we have seen so many disputes. Retail investors enter into positions without understanding the implications and then blame the brokers for not explaining the impact. This leads to a slew of complaints, disputes, etc. A similar situation can be envisaged in the case of algo trades also. What is ironic is that on the one hand, SEBI has been trying hard to curb speculation in the F&O market. On the other hand, it plans to allow retail investors into algo based trading, a move that could intrinsically add to the level of speculation in the stock markets. It is tough to fathom, how SEBI would explain the dichotomy.

Algo trading in a phased way

Retail investors must realize that when the algo trading is actually launched, it will be done by brokers with water-tight legal contracts. Unless the retail really understands the implications, they may end up paying for the losses that were not in their control. Once you open the floodgates to algo trading for retail, it is very tough to put checks and balances. Risk can be managed, but what about the risk arising from lack of awareness of the product or lack of implications. No amount of risk management can help. The only way is to do it in a phased way and start with just off-the-shelf products that are offered as part of the exchange platform. Other algo ide-as can wait!

Fiscal Deficit - Government glide path is correct and CII is absolutely wrong

In a recent statement the CII has urged the government not to get too obsessed with controlling fiscal deficit and boost growth instead. CII is wrong and the government is right in its fiscal focus.

Why CII wants fiscal profligacy

The Confederation of Indian Industry or CII, which is a lobbying body for the Indian industry has been urging Indian government to go slow on fiscal curbs. In the last few years, the government has shown remarkable success in cutting the level of fiscal deficit from COVID highs. After promising to take fiscal deficit to 4.8% of GDP in FY25, the centre wants to take fiscal deficit to under 4.5% by the year 2026. The CII feels that the centre should, instead, focus on letting the fiscal deficit expand and use the borrowings for pump priming India's economic growth.

Thematically, the CII has a point. Indian economy has seen GDP growth taper to 5.4% in Q2FY25 and at the same time the CAD is also likely to surge in Q2. In August, the economy also saw IIP and the core sector growth contracting after a long gap. Of course, both these have turned around after just one month in the negative, but corporates blame limiting of capex growth by the centre as the reason for growth coming down. In the latest budget, the government had cut the capex growth from 30% in the last 2 years to just 11%. CII is of the view that it is time to rectify this situation and to invest more in capex, even via debt.

Government may not buy it

However, going by recent statements by the finance minister, the government continues to be paranoid about letting the level of borrowings rise. That means any hike in the borrowing limit does not look too likely. Also, the FM has been quite categorical that cutting the fiscal deficit would be their top priority. Their argument is that the government has taken the initiative by boosting capex for two years in a row. Now it is for the lag effect and the private participation in capex to do the rest of the job. That is absolutely correct. We have a robust private sector

banking space, that is more focused on consumer lending. Unless banks lend to industry at very competitive rates, capex is going to be hard to come by. That is the missing link.

Fiscal deficit needs to be low

High fiscal deficit is bad in a number of ways. Firstly, it forces the government to borrow too much and in the process, it also crowds out the private sector. Also, high government borrowing is normally the reason for rates to remain high. The other key issue is that Indian debt is already much higher than other similar countries in a similar rating band. For India to get a rating upgrade, the only way is to cut debt levels and bring the fiscal deficit back to the FRBM levels. The CII advised profligacy will make a mess of the finances, with limited tangible gains. It is time to be very prudent!

Disclaimer: *The content of this newsletter published by HPMG Shares and Securities Private Limited (Big News Blogs) are not intended to serve as a professional advice or guidance and the newsletter takes no responsibility or liability, express or implied whatsoever for any investment decision made or taken by readers of this newsletter based on its content thereof. The readers of this newsletter should exercise due caution and/or seek independent professional advice before entering into any commercial or business relationship or making any investment decision or entering into any financial obligation based on any information, statement or opinion which is contained, provided or expressed in this newsletter.*