

# **In an interaction Jaiprakash Toshniwal Senior Equity Research Analyst and Fund Manager (Equity), LIC Mutual Fund Asset Management Ltd**



## **"We continue to maintain our positive stance on the market"**

**What is your general evaluation of the current equity market situation?**

Before commenting on the current equity market situation, let me take a step back and evaluate how Indian equities have done in the last 20 years. During this timeframe, the Indian economy has grown seven-fold and the nominal GDP grew by approximately 10 per cent. Equity returns have matched this trend and seen a strong positive correlation. During this period, the Nifty 50 index, which is the broader market index, has given return of approximately 15.7 per cent. Apart from the broader market performance, I have seen a large number of stocks outperform the index.

Coming to the present times, the equity market has been flat for the last two years and if we evaluate the last three to four months, the market performance has been positive. In the last two years, while the market has remained flattish on point-to-point basis, there has been sharp volatility during which the equities have seen both sides' movement of approximately 10 per cent. There are a number of factors contributing to this volatility, including rising interest rates, inflation and global geopolitical realignment. Despite the recent volatility, there are still some positive trends in the equity markets.

The corporate earnings are still growing and management commentary remains moderate to positive while the macro indicators are showing an improving trend which points towards moderate to improving demand trend in India. I am optimistic about recovery in consumption demand in the medium term as rural income level improves, the overall per capita income grows and prices remain moderate. On the other side, valuation seems to have moderated which is visible from the one-year forward PE ratio which has moderated from highs of approximately 23 times two years back to the current level of approximately 18 times.

The domestic interest rate also seems to be stabilising at the current level, suggesting that the valuation may bottom out at the current level. Overall, in the long term we have seen that equity markets tend to have a positive correlation with corporate earnings' growth which in turn has high correlation with nominal GDP growth. India's real GDP growth is projected to be 6.5 per cent which means nominal GDP in the range of 11-12 per cent. This positive trend may continue in the medium to long term. Hence, we continue to maintain our positive stance on the market.

### **In your view, how has the Q4FY23 earnings' season fared? What were the hits and misses?**

During Q4FY23, the Nifty 50 companies have seen PAT growth of approximately 19 per cent year-on-year (YoY). Banks (especially PSUs), automotive ancillary manufacturers, tyres and OMCS (falling commodity prices) had a strong quarter, witnessing margin expansion and strong PAT growth. IT had a muted quarter. Slowdown in consumer demand became apparent with the poor showing by companies in the segments of consumer discretionary, retail and consumer goods. During the year, metals, oil and gas and media have seen ROEs fall significantly. The management commentary has been moderate to positive as they see demand recovering in the next two quarters. On the manufacturing side, we see capacity utilisation reaching the peak level and thus announcing capex plans. During the quarter, companies from the automotive sector, metals and other industrial goods along with OEMs have announced capacity expansion plans.

### **Given the current market situation, what advice would you offer to investors?**

Over the long term I believe the equity markets have delivered returns and shielded investors from inflation risk. However, the return from equities has always been choppy and witnessed sharp volatility with a tendency to follow a skewed pattern.

Thus, an investor should continue to have a long-term investment horizon. Investors should be aware that the short-term volatility could continue. If you are investing for the long term, it is important to stay focused on your investment goals and not let short-term fluctuations distract you.

One should always stay calm and avoid panic. Re-evaluate your risk tolerance. We continue to remain constructive on the growth trend in the Indian economy and per capita GDP to reach USD 5,000 by FY30. This should stimulate the demand in the domestic economy. Along with this, favourable policy environment should also support the manufacturing sector. Initial signs of success have been visible in terms of the sharp growth in exports, especially engineering and electronics.

The domestic macro environment has been stable as inflation and the rate cycle seem to be peaking out and both current account deficit and fiscal deficit are at a manageable level. This trend is further

supported by strong merchandise and services' exports and robust inward remittances. I believe the stable macro and improving micro environment creates a reasonable pathway for strong medium-term Indian GDP growth trend. However, I believe an investor should continue to remain watchful and evaluate these trends on a continuous basis, positioning the portfolio to benefit from these megatrends.

**What, in your opinion, are the relevant risks that the equity markets could face in FY24?**

The equity market may always be exposed to risks in the near term. At present, we remain watchful of the slowing trend in the macro economy, global slowdown and corporate earnings. Any negative developments on these factors may negatively impact our assessment, thus posing a risk to the equity markets. Investors should be aware of these risks and take steps to mitigate them. This could include diversifying their portfolios, investing in defensive stocks and keeping some cash on hand. It is important to note that these are just some of the risks that could impact the equity markets in the near term. There are many other factors that could also play a role and so it is important to stay informed and make investment decisions based on individual circumstances.

**What are the three sectors that you think appear promising for the long term?**

In the medium to long term, we remain positive on lenders (banks and NBFCs), consumption and the manufacturing sector. I believe the current macro and micro trends are positive for these sectors and can deliver growth higher than the nominal GDP growth.

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