In an interaction with Karan Doshi, Senior Equity Research Analyst and Fund Manager, LIC Mutual Fund Asset Management Ltd

Indian Economy At A Turning Point For Virtuous Growth

How would you assess the current situation in the equity market?

Equity markets have more than doubled from the lows in March 2020 due to an uncertain environment during Covid. Market valuations based on Bloomberg consensus are reasonable at 20x one-year forward PE, limiting any major downside. I don't foresee any major risks to earnings growth except for a few factors like weak global macroeconomic conditions, higher interest rates or some incremental event which could hamper earnings growth.

Indian economy is at an inflection point that marks the start of a new virtuous growth cycle. I believe that in the medium to long run, the confluence of demographics, productivity and globalization will be structurally supportive of a higher growth rate. A combination of strong Marcos (healthy GDP growth, peaking out of inflation and interest rate cycles, robust external balance etc.), stable micros (decent FY23 corporate earnings, expectation of mid-teens growth in FY24 and correction of commodity prices) and recovery of FII's flows.

India is also benefiting from the fact that post-Covid-19, the world is looking for an alternative to China as a global manufacturing hub. This has expanded the addressable market opportunity and improved the growth prospects for various sectors in India such as pharma, chemicals, textile, and manufacturing across electricals, electronics and engineering products.

Given the longer-term growth story of Indian markets and current reasonable valuation levels (particularly considering the top of the rate cycle) the current phase of the market may be a great accumulation opportunity for the investors. To avoid major downside, invest in companies with good corporate governance, a healthy balance sheet, strong growth potential over the next 3-5 years and valuations at reasonable levels.

In your opinion, which three sectors do you believe hold promise for long-term investments?

I am bullish on manufacturing and consumption theme-based sector, particularly banking and financial services, capital goods, auto, chemicals etc.

Two key advantages for India- Demographics and the rising middle class are expected to continue to drive India's growth for the next decade. With the current median age at just 28 years, the working-age population can be the key driver for India as an attractive manufacturing base. These factors coupled with continued reforms like Production linked incentive scheme for manufacturing across sectors are expected to create jobs, which in turn may lead to a burgeoning middle class and drive per capita income growth. This bodes well for sectors like discretionary consumption, manufacturing, exports, and financial services for the next decade.

Considering the macroeconomic perspective, do you agree that the worst of inflation is behind us? If so, what does this mean for the equity market?

Given that Inflation is moderating, and the economy is slowing down, there is no great urge to hike the interest rates any further. But given the stickiness of inflation and a very strong labour market, central banks globally would prefer a wait-and-watch policy. This might mean there is a prolonged pause on the interest rates.

From the business perspective, individual company dynamics on demand and inflationary movement on input cost will be the more dominant factors for earnings and stock price movement.

What are your expectations from the Q1FY24 results? Which sectors are likely to perform well and which ones may face challenges?

Expectations of Q1FY24 results are mixed. While sectors like BFSI, auto and industrials would report good numbers, IT, FMCG and consumer discretionary earnings would be subdued.

BFSI, especially lenders have been performing, with most banks reporting healthy credit growth and further improvement in asset quality. Indian Automobile industry seems to be uptrend both in volume as well as premiumization. It’s a direct play on the improving consumption trend in India.

The IT sector has also expressed some concern about near-term demand visibility due to turmoil in the global banking sector and the postponement of discretionary IT spending. The FMCG sector is seeing lower demand growth on the rural front while margins have started to improve on the back of a correction in input prices. The consumer discretionary sector is likely to face headwinds from rising inflation and interest rates.

Market having already anticipated misses on the earnings expectations front, in most cases price corrections have already been played out and hence the overall market has held up firmly. Investors should capitalise on the current weak earnings season by identifying the strong franchises with long-runway which are temporarily reporting disappointing numbers and staying away from the weak franchises which had super-normal profits and growth due to Covid-19 supply chain disruptions.

5.0
Tags: MF InterviewinterviewsLIC Mutual Fund