Current market offers a great accumulation opportunity; concerns over IT sector overblown, says Karan Doshi of LIC MF

Investors have an opportunity to accumulate quality stocks in the Indian market due to long-term growth prospects and reasonable valuations, says Karan Doshi of LIC MF.

Premium

*Karan Doshi, Fund Manager and Senior Equity Research Analyst of LIC Mutual Fund **(LIC MF)***

*Given the longer-term growth story of Indian markets and current reasonable valuation levels, investors have an opportunity to accumulate quality stocks at the current juncture, said **Karan Doshi**, Fund Manager and Senior Equity Research Analyst of **LIC Mutual Fund**, in an interview with Mint. He underscored one should invest in companies with good corporate governance, a healthy balance sheet, strong growth potential over the next three to five years and valuations at reasonable levels.* **Edited excerpts:**

What is your assessment of the current market situation?

Indian economy is at an inflexion 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 globalisation 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-teen earnings growth in FY24 and correction of commodity prices) and recovery of 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.

What is your take on the current market valuation? Is there a margin of safety at the current juncture?

Market valuations based on Bloomberg consensus are reasonable at 20-21 times one-year forward PE (price-to-earnings ratio), limiting any major downside. Market valuation is a factor of future earnings growth and liquidity.

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 that could hamper earnings growth.

To avoid major downside, invest in companies with good corporate governance, a healthy balance sheet, strong growth potential over the next three to five years and valuations at reasonable levels.

What should be the strategy for the IT sector? When can we expect a rebound in the sector?

A key concern around the IT sector for the past year has been the global recession which could significantly slow down technology spending and in turn, hurt IT companies.

I believe these concerns could be short-lived or overblown. Demand environment for IT services continues to be reasonably good which is reflected by deal wins and potential deal pipelines.

In a recessionary scenario, the industry would see a higher cost takeout and vendor consolidation which in turn will benefit the Indian IT vendors. I believe a recession, in case it happens, will be in the midst of a massive systems and tech upgrade cycle and will be short-lived.

July inflation numbers came as a shock. What could be the RBI's move now? Is the possibility of a rate cut in this financial year completely gone now?

The unexpectedly large spike in inflation in July 2023 to 7.4 per cent was driven primarily by the food category. Despite upwardly revising inflation forecasts, the RBI has kept the repo rate unchanged at 6.5 per cent for the third consecutive meeting, citing the fact that CPI inflation remained inside its targeted range.

A sharp increase in vegetable inflation recently is expected to be transitory. Future rate actions will depend on the impact of 250 bps rate hikes already done till now, evolving El Nino conditions, and the trajectory of oil prices.

The US economy has been resilient despite such aggressive monetary tightening. Do you think the 2 per cent inflation target of the US Fed is a tough goal and the era of low policy rates is over?

Inflation in the US has been running well above the Fed's target for most of 2022, and the Fed has been raising interest rates to bring inflation under control.

There are several factors that have contributed to the rise in inflation, including the Covid-19 pandemic, the war in Ukraine, and supply chain disruptions.

The Fed is walking a tightrope between raising interest rates enough to bring inflation under control and not raising them so much that they cause a recession.

It is too early to say whether the Fed will be successful in achieving its goal of bringing inflation back to its 2 per cent target. However, it could be possible that the era of low policy rates is over.

The Fed has been keeping interest rates low for the past few years to stimulate economic growth. However, with inflation rising, the Fed is now raising interest rates. The Fed will continue to monitor economic conditions and adjust interest rates accordingly.

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