Interview with Yogesh Patil of LIC Mutual Fund Asset Management Ltd | Value Research

We speak with Yogesh Patil, Head - Equity, LIC Mutual Fund Asset Management Ltd., about equity markets, the AMC's investment philosophy, and his learnings from evaluating businesses over the last decade and a half.

With alternating phases of rallies and declines, we've seen equity markets being range-bound for the better part of the last year. How long do you think before we see a more sustainable growth phase given the current economic and geopolitical tugs, and what would be its key drivers?

Equity markets have never been a one-way journey. Markets, even in the past, have remained volatile. We believe that market will continue to remain volatile in the short term due to uncertainties related to inflation, rising interest rates and geopolitical events.

We should be focusing on the medium to long term potential and value creation. India is one of the fastest-growing economies in the world with the highest proportion of millennials, and we believe formalisation, consolidation, digitisation, urbanisation, Make in India (China +1 Policy), and certain structural changes are here to stay and will continue to support India's growth story in the long term. Indian economy is at an inflection point that marks the start of a new virtuous growth cycle. We believe that in the medium to long run, the confluence of demographics, productivity and globalisation will be structurally supportive of a higher growth rate. We continue to remain bullish in the medium to long term on domestic consumption and export-driven business.

We had seen growth stocks do well for most of the last decade when inflation was largely under control, and interest rates declined. But with the rise in inflation now, we are likely to witness a high interest rate regime for the foreseeable future. Do you see the value theme making a comeback, particularly when central banks globally have started mopping up excess liquidity and demand is likely to be subdued?

The battle between growth and value investing has been going on for years, with each side offering statistics to support its arguments.

We consider growth and value stocks depending on macro and micro outlook. But at the same time, India is one of the fastest-growing economies in the world with the highest proportion of millennials. We believe formalisation, consolidation, digitisation, urbanisation, Make in India (China +1 Policy) and certain structural changes are here to stay and will continue to support India's growth story in the long term. In my opinion, in a growing country like India, where high growth is structural in nature, and the nominal GDP growth rate is higher than 10-year Gsec. yield, it makes sense to focus more on growth stocks.

Despite technology stocks being the worst-performing sector in the last couple of months, in one of your recent interviews, you've said that the IT sector, among others, could prove to be relatively more immune to inflation. Given that you continue to be overweight in your flexi cap and aggressive hybrid fund portfolios, what drives your conviction here?

We have been overweight IT consistently for the last two years. Also, in an uncertain macro environment, the stability and visibility of the business and earnings of the sector give us a lot of comfort.

We are seeing a major technology refresh as enterprises are changing their whole ecosystem and beginning their Digital Transformation journey. Technology demand post-COVID has seen a meaningful acceleration led by cloud adoption and the push for digitalisation. For an enterprise, modernisation of core IT infrastructure with real-time data flow and customer experience has become utmost important. Also, if one looks at the various parameters like Total Contract Value (Deal won during the quarter), Deal Pipeline and incremental employee hiring, each of these parameters stand at an all time high, which is indicative of a robust demand environment.

To reiterate, we see a major technology upcycle in the coming years and incremental growth potential for the IT sector. In an uncertain macro environment, IT sector gives enough visibility of the business and earnings.

You've highlighted geopolitical tension and high inflation as the big risks in the market today. What specific measures have you taken in your fund portfolios to guard against these?

Our investment philosophy and the stock selection itself take care of funds. The only way one can try and contain volatility is by investing in good businesses with predictable earnings.

What has worked in your large and mid-cap fund for it to have performed reasonably well over the last one-year horizon?

The key reason for the fund's performance is our unbiased stock selection criteria and investment philosophy, which focuses on business sustainability, management capability, capital efficiency, competitive edge and scalability of business.

Given the performance of your large and mid-cap fund, it seems odd that your other diversified equity funds in the flexi cap and ELSS categories have not been able to deliver returns as good as their respective peers. What, according to you, has inhibited the performance of these funds?

The short-term underperformance in the fund is largely a function of investment strategy and our assessment of valuation parameters. In the last year, we maintained our stance of staying away from certain pockets of markets where there was a clear divergence between valuation and company fundamentals. We believe the current positioning of our fund captures a large part of the emerging themes such as digitisation, consolidation, Reforms and Domestic manufacturing and should help us deliver superior risk-adjusted returns in the long term.

In one of your recent media interactions, you've said that the most newly listed companies prefer 'Operating Expenditure' over 'Capital Expenditure'. With growth likely to take a backseat for some time, given the current economic backdrop, how do you evaluate the prospects of such new-age companies?

While our core philosophy of evaluating companies as long term remains intact, we need to take a different approach while valuing the new-age companies. We tend to focus more on the segment or opportunity size (i.e. Total addressable market, TAM) of the business and what sustainable market share the company can achieve in the medium term. The next step is to determine the capital efficiency to achieve the market size, unit economics once the company gets a decent market share and durability of such unit economics. These are a few of the key attributes we look for while evaluating the long term wealth generation potential of new-age companies.

Which three major investment trends do you see emerge and dominate in the next decade?

The Indian economy is at an inflection point that marks the start of a new virtuous growth cycle and is structural in nature. India is one of the fastest-growing economies in the world, with the highest proportion of millennials. We see Make in India (Export enhancement and Import substitution), Domestic Consumption (Trend in rising working-age population and increasing disposable income), Urbanisation and Digital as major themes for the next decade.

You have been with the AMC for almost four years and have completed a year as Head of Equities with LIC Mutual Fund. What are the changes you have brought about in terms of investment framework and the portfolio composition of your funds? What are your goals for the next five years for the equity fund offerings at the AMC?

A good equity team is what we need to take care of the investment process, so the stock selection part is automatically taken care of. We have added and modified certain changes in our systems and processes in the equity function to increase effectiveness. Fund managers and analysts have clear KRAs, criteria of the stock selection is a collective job of the equity team. As a house, we believe in transparency, a clear focus on process, performances and a motivated team that will help create investors' wealth in the long term.

As a brand, LIC Mutual Fund aspires to be a trusted partner in creating value for its clients and stakeholders. We believe that we can deliver long-term benefits to our clients by staying true to our core values. That is our strength. We shall continue to build on this essence & philosophy to inspire trust and create value for our esteemed customers.

With an experience of more than a decade-and-a-half in the Indian equity markets, what have been your key learnings from evaluating businesses and managing portfolios? What is that one piece of advice you would give to your younger self as an investor?

Investment framework helps as a guiding principle to find a suitable company that may help in generating returns over the long term. Every investment framework looks similar, but discipline and temperament make a big difference in the long-term returns. It's basically to figure out risk elements and capture growing companies. So, coming to the point, the investment framework will reduce mistakes or risks and figure out quality at the right price, but at the same time, it may also cap the upside in the short term.

Investors should have clarity about the investment objective in terms of time horizon and specific financial goals to be met. It should be complimented with their understanding of where they stand on risk-taking ability and appetite. This will give clarity about how an individual can plan optimal asset allocation. Sticking to your optimum asset allocations and following a disciplined investment process is key to wealth creation.

Other interviews:

Interview with Ashish Naik of Axis Mutual Fund

Interview with Aniruddha Naha of PGIM India Mutual Fund

Interview with Sandeep Tandon of quant Mutual Fund