

In conversation with Amit Nadekar, Senior Equity Fund Manager, LIC Mutual Fund



"The current market phase is that of consolidation"

Following the Reserve Bank of India's recent decision to pause its policy rates, which sectors, according to you, will be in focus?

The RBI's decision to pause the hiking rate cycle is an acknowledgement of the cooling off of inflation and slowing economic growth. Correction in the stock market, thus far, has largely been driven by the rising rate cycle, which leads to higher cost of capital and lower price-earnings multiple (PE ratio). Going ahead, the equity market movement would be more driven by earnings' downgrade and upgrade cycle rather than interest rates. From the stock market perspective, interest-sensitive sectors like real estate, automotive and non-banking financial companies (NBFCs) could be the direct beneficiaries of the rate pause. From a business perspective, the demand and inflationary movement on input cost will be the more dominant factors for earnings and stock price movement.

With India's IT sector facing macro headwinds, what is your approach towards IT stocks currently?

The IT sector has been in a correction mode for more than a year since it peaked out in January 2022 when very high valuations and expectations hit the wall of recessionary fears. Even today, price damage is in the range of about 25 per cent to 40 per cent, as per Bloomberg. The moot point here is

that the IT sector has seen substantial time and price correction, bringing down both valuations and expectations to a reasonable level. We believe that the Indian IT story is a structural story and the current sector headwinds are more temporary than permanent in nature. Given the indomitable competitive position of the Indian IT sector globally and the highly profitable and cash-generative business models of large Indian IT companies, the sector offers attractive risk-reward from a 2-3 years' perspective.

Can you share your investment philosophy and approach when it comes to selecting equities for your portfolio?

Our investing philosophy is 'quality at reasonable price'. We define quality businesses as those run by honest and capable management with demonstrated track record of corporate governance. They should be businesses having long runway, enabling growth at above the GDP rate and with strong cash-generating capabilities with consistent returns above the cost of capital. However, we would not overpay for these businesses. Our experience suggests that most of the growth investors make the typical mistake of overpaying for growth. In fact, the stellar re-rating of quality stocks post the 2008 global financial crisis led to certain sections of the market participants believe that it is okay to pay any price for the quality growth franchise. The last two years post the pandemic have been an awakening call for these investors as growth portfolios underperformed value portfolios and, in many cases, witnessed sharp draw-downs on capital. Price discipline is embedded in our philosophy.

"The current market phase is that of consolidation"

What would be your advice to retail investors in the present scenario?

It has been a tough period over the last 18 months for retail investors as the Indian equity markets have delivered almost zero returns. Retail investors must understand that returns in equity markets don't come in a linear fashion in a way that fixed income instruments do. Just as a reminder, the period of October 2021 to May 2023 spelt zero returns for the stock market and was on the back of the period of April 2020 to October 2021 when the Sensex more than doubled from the depth of the pandemic-driven lows of around 28,000 in April 2020 to a peak of around 61,000 by October 2021, as per Bloomberg.

The current market phase should be considered as a 'consolidation' phase for the equities and from the retail investor portfolio's perspective it should be considered as an 'accumulation' phase where one can use every dip to allocate more to equities. A systematic investment plan (SIP) is the best way to approach the market. Investors can have a long-term horizon, stick to their asset allocation and not interrupt with their investment plan. It is a given fact that the markets will always swing up and down depending on a variety of reasons, as for example, the ongoing Russia-Ukraine war. Investors, however, should remain firm on their long-term plan.

Rate this article:

2.3