Amish Munshi
Head-PMS
Tata Asset Management

In The Fast Lane

With the emergence of several positive factors such as infrastructure growth and the return of the capex cycle, the India growth story is well on track and will reward investors through wisely chosen sectors

With an all-time high FII inflow of more than USD 22 billion in CY2010 till date, India has been one of the best performing markets in CY2010. We are currently quoting around 18x 1-year forward P/E multiple which is a fair value zone as historically we have quoted at a median valuation of around 15/15.5x 1-year forward. So while we are not very expensive, at the same time we are also not cheap particularly in comparison to other emerging market peers. Considering the potential economic growth likely to be generated over the next few years (FY2010-11 GDP growth likely to be 8.50 per cent), the markets may look much cheaper in hindsight. However, one cannot rule out consolidation and a change in market leadership going forward.

The domestic consumption side of the economy has done well over the last 1.5 to 2 years which is reflected in valuations. Currently, considering the current capacity utilisation of corporate India, we feel that the capex cycle is now getting underway. Moreover, the focus of the government on infrastructure build will also help accelerate the growth of the investment side of the economy. Against this backdrop, infrastructure-related sectors are likely to come under greater investor focus.

In light of the sharp upward movement of the markets in the month of September 2010, the consensus negative investor sentiment in August 2010 has apparently transitioned to more of a consensus positive. With the Indian equity markets having reached their historical average valuation range (judging by several parameters like PE, P to BV, etc.), it is imperative for investors in search of long-term wealth creation to start treating the consensus with some caution.

It is unlikely that the returns generated in the last two years by beaten down highly leveraged or cyclical stocks will be repeated going ahead. Investors are more likely to be rewarded for focus on the dynamics of specific stocks and sectors, while keeping quality of earnings in mind. After the sharp rally we think the process of stock selection and investment has just got tougher and now requires a healthy dose of contrarian thinking, with a sharp focus on the long-term levers of the India growth story. Investors familiar with the cultural nuances and the background in which the India growth story is developing would be better able to leverage their understanding of the Indian markets for wealth creation.

The near-term markets will look forward to Q2FY11 results (the reporting of which is currently underway), domestic inflation, interest rate scenario, response to the IPO, current account deficit, expectation of monetary easing in the developed economies, and flow of economic data on the health of the global economy. Considering the long-term prospects of the Indian economy and performance of the corporate sector, a retail investor would be well-advised to regularly invest in a disciplined manner to build his equity exposure commensurate with his risk-reward profile and investment horizon.

*(As told to Dalal Street Investment Journal. The magazine may or may not subscribe to the views expressed in the article. Wish to comment on this article? Send your feedback to **comment@dsij.in**)*

BRICK AND MORTAR

Infrastructure-related sectors are likely to come under greater investor focus.

SLOW AND STEADY

A retail investor would be well-advised to regularly invest in a disciplined manner.