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Interview

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“Our long-term view on the market remains constructive”

The equity market is making new highs, causing even experienced investors to feel a bit uneasy, valuation-wise. What is your general evaluation of the current equity market situation?

We would like to answer your question in two parts, namely, in terms of short term (12-24 months) and long term (greater than 24 months). The important backdrop to consider in the current economic environment is that earnings' growth for corporate India is likely to continue to deliver healthy double digits. The period of FY09 to FY20 was a weak phase for corporate India with high NPAs in the banking sector and the real estate sector going through a long period of consolidation. Over the past few years, we are seeing a sharp improvement in fortunes for both the banking and the real estate sectors. Our sense is that the cyclical upturn in both these sectors is in early stages and likely to remain on the positive side over the next 3-5 years.

Additionally, we have the manufacturing segment of the economy showing early signs of scaling up with China +1 being a global trend where India stands to benefit the most if we

execute well. Short-term valuations have started to reflect these positives and hence we see some amount of consolidation starting to build in the market. We at Tata Asset Management believe that in the near term some amount of consolidation or correction in the markets would be very healthy. Our long-term view on the market remains constructive given the positive outlook about the business environment in India.

In your view, how has the Q1FY24 earnings' season fared? What were the hits and misses?

The Q1FY24 earnings' season continued to see some minor earnings upgrades for major indices like S & P BSE Sensex or NSE Nifty 50. Sales growth is stable along with sharp margin improvement leading to strong double-digit profit growth. The base effect of FY23 on the margins on account of high commodity prices has been reflected in the sharp improvement in margins during Q1FY24. Among the major hits were banks, automotive, government oil companies and pharmaceuticals while commodity, IT and consumer goods were among the misses for the quarter.

Which three sectors do you believe hold promise for long-term investments?

We expect consumer discretionary, manufacturing, financials and real estate to contribute the most to performance over the long term. India may grow at a nominal GDP with healthy 10+ per cent CAGR with per capita improving towards USD 5,000 over the next 5-7 years. The consumption basket is likely to move towards more discretionary goods, thus leading to a strong upturn in prospects for many businesses.

According to you, will small-caps and mid-caps continue to outperform large-caps in both the medium and long term?

In the short to medium term we expect the performance of both mid-caps and small-caps to be more or less similar given the earnings' growth outlook and valuations. However, if the manufacturing scale-up takes place in India as is being talked of with the country's share going up relative to China in the world, there is a high possibility of the small-cap segment scoring higher over the mid-cap segment in the long term. Execution risk remains and hence one needs to monitor the progress closely.

What are the relevant risks that the equity markets could face in FY24? What possible triggers will dictate stock prices in the coming quarters?

Risks generally come from unknown quarters and hence one needs to keep looking for any untoward development. Generally, whenever valuations for the market are on the higher side, risks increase since even a small event can impact the market in a large manner. Today's market is at a similar juncture with valuations on the higher side. Among the few short-term risks that we would recommend focusing on would be crude price and general elections in India in May 2024.

