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IN
CONVERSATION
WITH
RAHUL SINGH
CIO-Equities
Tata Asset Management

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In conversaion with Rahu_3.pmd2

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In an exclusive interview with Amit Singh Sisodiya, Associate Editor, The Global ANALYST, Rahul Singh, CIO-Equities, Tata Asset Management, shares his views on a range of issues, from where does he see the Indian stock market headed in 2025 to the ongoing debate over large caps vs small- and mid-caps and if thematic funds have lost their sheen to the attractiveness of quick-commerce as a theme, etc.

Edited excerpts >>>>>

■ **How do you view the performance of the MF industry, in general, and your fund house, in particular, during 2024?**

Industry and Tata Asset Management AUM has grown by a healthy 29% till YTD 2024. Our Equity and Balanced AUM growth has been in line with the industry. Our AUM has grown higher in Debt and Ultra compared to the industry.

■ **The year saw large caps return in focus. Do you think that they will continue to be favoured as valuations in the mid-and small-cap segments remain overstretched, especially post the Q2FY25 earnings season?**

Mid and small caps are trading at premium to large caps. Some of that is justified by the nature of the economic growth that has been led by the investment cycle recovery which benefits the sectors that are small cap and midcap dominated. However, the risk-reward seems better in large caps at this stage. In significant part of the large cap sectors, the valuations have become reasonable and growth could surprise on the upside in FY26. On the other hand, the expectations on mid and small caps in terms of earnings growth are on the higher side and could see disappointment if there are execution challenges or persistent macro slowdown.

■ **Thematic funds had a dream run in 2023, however, they failed to meet expectations in 2024. Do you think they're on track to make a strong comeback in 2025?**

The trend for thematic returns in the market in the last 12-24 months has come to an end in our view. While sectors like manufacturing, defence, Capital goods and Power

still offer potential over the long run, it is likely to be a more stock-specific market from now on, even in these sectors with tailwinds. This is because of the raised expectations and valuations.

■ **What kind of investors do you think can take exposure to this category of funds?**

The sectors which might do well over the next two years in terms of returns could be very different from the sector which have done well over the last two years. So, investors who have the risk appetite and an aptitude for understanding the timing of entry and exit in the sectoral thematic funds can take exposure.

■ **How do you see Gold ETFs' performance, as a category, in 2025, after a lacklustre 2024, amidst a resurgent Greenback post the resounding victory of Donald Trump and his Republican Party in the recently held US presidential election?**

Gold will remain an important asset class over the next 3 years. While there is optimism around the dollar, a lot needs to be done to sustain the confidence especially in terms of the US fiscal position. Market will watch incremental moves by Donald Trump in terms of tax cuts, tariff cuts and cost cuts before arriving at a final view. We expect volatility in 2025 as a result. The geopolitical risks have also not gone away, and gold remains a good way to hedge against this unpredictable factor.

■ **How does the ETF space look to you? Do these products cater to everyone's needs or only a well-informed investor can take exposure to such a sophisticated product?**

ETFs, if efficiently managed with lower tracking error/tracking difference would be more cost efficient even if we account for Brokerage, STT, Demat annual charges over and above the expense ratio of the ETF. Thus, over a long run ETFs would compound better. The other side of the discussion is that ETFs provide intraday NAV and can capture intraday cycle well during volatile market phases, as compared to funds which have only one NAV at the end of the day.

ETF units are similar to stock units and can be conveniently bought through broking platforms online and fintech platforms. Thus, as adoption of digitization increases with financialization of savings, ETFs would also have an increase in their share of the pie. As the share of Passive AUM as a % of Total AUM increased from 3.7% to 16.6% and is expected to increase further, both Index funds and ETFs would find an increase in activity in terms of AUMs, net flows, count of folios and number of fund launches.

■ **Would you like to share themes which currently look exciting to you amidst the growing market cacophony?**

Banking and Pharma/Healthcare are the two sectors which look exciting. The former because of reasonable valuations and visible triggers in terms of growth and margins going into 2025. Pharma and Healthcare offers a good mix of cyclical recovery (generic pricing), outsourcing (CDMO/GLP) and structural potential in hospitals/diagnostics.

■ **How do you view emerging themes like Q-Commerce, EV, Clean Energy, ESG, etc.? Do you like any of these? If yes, what are the factors that add to their attractiveness from a long-term perspective?**

We evaluate each of these themes on its merit; Q-commerce has been a big positive surprise and could continue to be so as they grab more share of the wallet and expand geographically. EVs are an evolving space and the path to profitability and sustainable business model differs from segment to segment and company to company. Clean energy is definitely a high growth area especially in solar and remains a focus for us too. However, given the rise in power demand, there is a need for fossil fuel-based power generation to step up as well. So, both are going to grow hand in hand.

■ **What is your view on arbitrage funds? How do they work? Are they different from hybrid funds?**

Arbitrage funds generate returns based on the spread between the cash equity and the futures market.



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So, it remains a very low risk option to generate debt like returns (or in some market conditions even higher) as it does not take any long equity exposure. Along with the taxation benefits, arbitrage funds become a good low risk investment option on a tax-adjusted basis.

■ **Does your fund house offer such funds? If yes, would you like to discuss their recent performances?**

Tata Arbitrage fund is ranked in the top3/5 across various time horizons like 1yr/3yr/5 yr out of a total of 24 funds in the industry.

■ **Kindly tell us about your AMC's stock selection criteria?**

Tata Asset Management follows Growth at Reasonable Price (GARP) where we focus on companies in three categories i) Value with triggers where the stock is trading at a discount to its historical range and has visible triggers for earnings improvement over next 12-18 months, (ii) Earnings upgrade cycle where a combination of valuation and earnings surprises can generate alpha and iii) thematic category where we have exposure to new multi-year themes.

■ **At a time when markets are showing extreme volatility, owing to a range of both external as well as internal factors, do you think it makes greater sense to go for a bottom-up approach rather than following a top-down strategy?**

As mentioned earlier also, the trend of thematic investing in the market in the last 12-24 months has come to an end in our view. While sectors like manufacturing, defence, Capital goods and Power, which were the dominant themes in the last two years, still offer potential over the long run, it is likely to be a more bottom-up market with alpha creation being dependent on actual execution (vs. expectations) and relative valuations within the sector.

■ **What is your outlook on the Indian stock market in both the short-term as well as long-term?**

We could see more correction in the short term with the duration of the time correction depending on factors

like potential China recovery, US policies and India's GDP and earnings trajectory. While the first two remain difficult to predict, India's GDP and earnings growth should recover (after the cuts in FY25) as Government ramps up fiscal spending and liquidity concerns easing leading to better credit growth. In the long-run, India remains well poised to benefit from stable macros, tailwinds in investment cycle and global trend of increased outsourcing from India apart from the favourable demographics that provide a base level of GDP growth rate. In the long run therefore, equity returns should very closely track or exceed the nominal GDP growth rate of India which can be in low teens.

■ **Does your fund house take stake in startup/unlisted firms? Do your schemes also have exposure to overseas equities?**

No, we don't invest in startups or unlisted firms. Regarding investment in foreign equities, we have taken exposure to overseas equities primarily in the Tata Digital Fund.

■ **What are the major headwinds for Indian equities, going ahead?**

The major headwinds could come if Chinese economy recovers, it could raise commodity and other input prices which could constrain India's earnings growth. This will also reduce India's valuation premium over other emerging markets which is at 70% as present. In addition, if Trump is able to revive the US economy and fiscal position (through cost cuts to balance the tax cuts), it will be bullish for the dollar and could lead to continued outflows by FPIs from emerging markets. As far as our own fundamentals are concerned, the GDP growth and earnings growth have both disappointed in FY25. So, a recovery in both will be keenly watched in FY26 and any further slowdown in government spending or tightening of liquidity will be negative for FY26 earnings.

■ **Do you think the FPIs, who've been on a selling spree of late, will hold key to the Indian stock market's performance, or do you**

feel DIIs will continue to provide the needed support to the domestic market, going forward?

FPI flows are going to depend on factors like USD and India's own fundamentals. In case Indian markets go through time correction (after the recent price correction), it could make valuations more palatable for FPI selling activity to ebb. However, for a sustainable turn in the flows, India's macros and how that translate into earnings growth in the medium term will be key.

■ **What would be your suggestion to investors, in general?**

As for debt, given our view on rates, we believe investors should increase the duration and look to invest in longer duration funds. Gilt funds and corporate bond funds should be a good choice for the upcoming rate cycle. On the other hand, equity asset allocation can be 40% in Balanced/Hybrid/multi asset funds, another 30-40% in core diversified categories like large caps coupled or Large and Midcap and remaining in small cap/sectoral funds (Banking/Healthcare)

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