‘India’s retail investors are underweight on equities’

Relentless selling over the past few months notwithstanding, foreign investors are looking at India as a ‘bright spot within the large global economies’, says **JYOTIVARDHAN JAIPURIA**, founder and managing director, Valentis Advisors, in conversation with **Puneet Wadhwa**. India, he says, is a great story, but one that is expensive in a relative context. Edited excerpts:

What’s a bigger worry for markets now: stagflation? Rising interest rates? Geopolitical tensions? Or liquidity-related dilemmas?

We must remember that after a sharp rally in the markets, valuations have become expensive. Against this backdrop, inflation has reared its ugly head. We are caught in a spiral where global central banks are raising interest rates, even at the cost of a heavy-footed economy.

Central banks were behind the curve. If they had started raising rates last year, we could have seen a steady increase. With inflation not transitory, central banks are now forced to slam the brakes. Unfortunately, the Russia-Ukraine stand-off has further aggravated the inflation situation.

Central banks are willing to slow down the economy in an effort to rein in inflation. From a market standpoint, historically, they have rarely achieved a soft landing in similar situations and fears of recession are mounting.

The Fed ‘put’ (the ‘Alan Greenspan put’ was a monetary policy response to financial crises) is no longer a given, with the US central bank probably happy to see a correction in asset prices.

JYOTIVARDHAN JAIPURIA
Founder & MD
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What’s the sense you’re getting from your foreign clients?

I was in the US for a few weeks. At most of my meetings, the one message that clearly stood out was of foreign investors looking at India as a bright spot within large global economies. Investors feel India will be the fastest-growing economy over the next few years. But India seeing huge foreign institutional investment outflows begs the question of why this is happening.

One, India is a great story, but very expensive in a relative context. India’s price-to-earnings (P/E) valuation is at around 85 per cent premium to the P/E valuation of the Emerging Market (EM) Index.

Two, most investors are already overweight on India, which has been a strong performer relative to other EMs. We expect foreign institutional investors to gradually start buying Indian equities once valuations get better.

Are investors back home still willing to invest despite the headwinds?

Retail investors in India are underweight on equities. Structurally, we have maintained that we will continue to see increased retail participation in Indian equities. Even in the present correction, we are seeing inflows into our fund. In the near-term, there is a possibility of some retail selling, given many new investors entered the market after the pandemic and are seeing a correction for the first time in their career.

What has been your investment strategy in the middle of these developments?

We have been cautious on markets since late 2021 (calendar year). We had summed up our thoughts by saying that the Twenty20 phase in markets was behind us and we are entering the Test cricket phase. As a nod to that analogy, we have built better-than-average cash levels across our portfolios and have been sitting on 15-20 per cent cash across portfolios. While we have reduced cash to some extent, we are still sitting on high double-digit cash levels and will use corrections to deploy it.

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Which are the sectors and stocks on your shopping list?

We like the banking sector for three reasons. One, provisioning is likely to go down. Two, an increase in interest rates is good for near-term margins since deposits reprice with a lag, while floating-rate loans reprice immediately. Three, credit growth is picking up, led partly by inflation. This will help in the profitability of banks.

We also like automotive.

The information technology sector is also a steady growth story with top-draw companies and free cashflows. But at current valuations, we are ‘neutral’. They currently offer a hedge against possible rupee depreciation.

We are ‘negative’ on global metals since the cycle has peaked.

What’s your assessment of corporate earnings growth in 2022-23 (FY23)?

We are positive on corporate earnings for FY23 with a likely 15-plus per cent earnings growth. Earnings in the April-June quarter will see downgrades due to margin pressure as input costs start to pinch profitability. As companies pass on increased costs, there will be some impact on volumes since higher prices lead to reduction in demand. However, the economy is still resilient and demand will gradually recover over the next two quarters. We hope slower demand will also reduce inflation, consequently normalising margins steadily.