



Knowledge Pro Series

Tête-à-Tête with the Investment Manager Anand Shah, CIO - PMS & AIF

Anand shared his views on various aspects of markets, correction and his investment style. Here are the excerpts.

On recent market correction

A: We had not seen a significant 10%+ correction since the past couple of years. Over the past six months, the market correction appears to be healthy following an extended period of exuberance. While this pullback may be uncomfortable in the near term, it is believed to help recalibrate valuations for the longer term. We believe, such corrections are a part and parcel of the market cycle and is nothing out of the ordinary.

The recent FII selling has also led to amplified volatility; however, robust domestic flows have cushioned this impact. The weakening rupee is driven largely by global capital flows and external pressures. While a softer rupee can help increase import costs and contribute to inflationary pressures, it is believed to simultaneously boost the competitiveness of export-oriented companies. In essence, while FII outflows and currency weakness are posing as short-term challenges, the broader fundamentals may remain intact for the economy and that can be a positive indicator.

Take on corporate earnings and economic growth

A: Looking ahead to CY2025, one needs to reset their earnings expectations. In CY2025, Nifty 50's earnings growth may moderate. While the near-term outlook might be challenging due to global economic uncertainties, India's long-term growth story does remain strong. Key drivers include demographics, digitalization, infrastructure development, financialization, and a growing middle class. Structurally, we believe India Inc. can sustain earnings growth rate in line with nominal GDP growth.

We expect corporate earnings to benefit from a revival in capital expenditure—both on the government and private fronts—supported by healthy balance sheets and improved operational efficiencies witnessed over the recent years. *

Global trends, including synchronized rate cuts and easing monetary conditions in major economies and domestically, may support this outlook. That said, we remain mindful of headwinds such as persistent geopolitical uncertainties and inflationary pressures. Our investment approach for CY2025 shall be more of bottom up v/s top down (i.e. theme/sector agnostics). Companies with resilient business models, prudent capital allocation and improving RoEs are likely to contribute towards earnings growth.

*The aforesaid factors are only indicative. There may be other factors that may be relevant.

An Insight on Sectoral opportunities

A: In the Financials space, we believe larger private banks have not seen any substantial stress, and they seem positioned well to continue delivering healthy performance on asset quality front. The regulations can potentially become more growth supportive with further rate cut expectations. We notice a shift in the capital markets as well.

The consumer services segment too is evolving favorably. As consumer preferences shift from mere products to value-added services, businesses in retail, healthcare, digital platforms, and financial services are likely to be poised for growth. Rising disposable incomes and changing consumption patterns may drive demand in these sectors.

We also believe select capex-driven sectors/stocks (infra, manufacturing, utilities etc.) could still be one of the biggest beneficiaries of revival in investments demand. Further, as India's demand for power grows in tandem with urbanization and industrial expansion, companies involved in power generation, transmission, and distribution are positioned to gain traction. Even with the outperformance of this theme in the past few years, the investment approach this year is likely to be more of bottom up than top down.

Together, these themes may reflect structural trends in the economy. Primarily, our investment approach remains more of bottom up v/s top down (i.e. theme/sector agnostics). Our focus has been towards companies with earnings growth, prudent capital allocation, and improving RoEs. Combining that with the right risk-reward that these companies offer, through our BMV (Business, Management and Valuations) framework is what seems to have worked for us in the long run and we strive to continue the same.

The Stock(s)/Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios/Scheme may or may not have any future positions in these Stock(s)/Sector(s).

Please note that BMV framework mentioned above is developed in house and only indicative in nature. The strategies offered by the Portfolio Manager may or may not follow the above framework at all times. The framework is developed in order to select the right companies through a filtration process and endeavor the strategy to attain their investment objective. These models are based on various broad market parameters prevalent in the market and are dynamic in nature.

Our Investment approach

A: We aim to remain bottom up in our approach. That said, this approach may throw more names in the large cap market space. Even when we look at this at the market cap index level, large-cap indices seem to offer better valuation comfort, notwithstanding intermittent bouts of volatility—a reflection of both global uncertainties and resilient domestic fundamentals. Small and Mid-cap indices (particularly the latter), meanwhile, are still trading at premium to their own historical valuations and hence are unlikely to offer as much risk reward on a relative basis.

We believe that maintaining a disciplined investment process is required to navigate the cyclical nature of the market. In this phase, while the market may not offer immediate short-term bargains, the long-term growth story may remain intact. Market's performance is likely to largely depend on improvements in earnings quality, supportive macroeconomic policies and possibly also sustained domestic flows. With improving fundamentals in many companies, we expect a gradual, steady upward trajectory over the medium to long term. Nonetheless, short-term fluctuations driven by FII flows, currency pressures, and global geopolitical events are likely to persist, making active management crucial.

Risk Factors & Disclaimers

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