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ETMarkets Smart Talk: Vinay Jaising decodes 3 reasons why India could outperform global peers in 2H2023

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Synopsis
We are now trading at 20 x F2024 earnings, which is in line with our 5-year average multiples. However, if we were to look at YTD numbers, MSCI India is down 2%, underperforming NASDAQ by 23% and MSCI World by 10% and MSCI EM by 4%.

This humongous growth clearly shows a strong retail appetite which has grown enormously and which is more important than just opening the Demat accounts.

*"India's higher valuation compared to the rest of the world which had peaked at 110% compared to EM; and 60% compared to MSCI World and now stands at 72% and 22% premium respectively which could be justified," says Vinay Jaising, **MD, Portfolio Management Services, JM Financial Services Ltd.***

In an interview with ETMarkets, Jaising said: "Indian market is only 3% below its peak, we have been largely in the 16k-18k band for the Nifty50 for the last two years despite a 25% CAGR in earnings in the same period suggesting absolute valuations have become cheaper" Edited excerpts:

Indian market has steadily climbed the wall of worries and is trading closer to record highs. Weak global cues triggered some volatility but where is the market headed in 2H2023?
Though the Indian market is only 3% below its peak, we have been largely in the 16k-18k band for the Nifty50 for the last two years despite a 25% CAGR in earnings in the same period suggesting absolute valuations have become cheaper.

We are now trading at 20 x F2024 earnings, which is in line with our 5-year average multiples. However, if we were to look at YTD numbers, MSCI India is down 2%, underperforming NASDAQ by 23% and MSCI World by 10% and MSCI EM by 4%.

Thus, a lot of the premium is largely behind us. India's higher valuation compared to the rest of the world which had peaked at 110% compared to EM; and 60% compared to MSCI World now stands at 72% and 22% premium respectively which could be justified due to our higher growth. (Source-Bloomberg)

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Index / Sector	Returns %					
	1w	1m	3m	6m	CYTD	FYTD
NASDAQ	2	5	10	13	21	1
MSCI World	1	1	4	6	8	0
MSCI India	-1	4	4	-3	-2	1

(Source- Bloomberg)

Going ahead in 2H2023, we expect the Indian market to outperform global peers as -

a) Valuation: India's higher valuation compared to the rest of the world had peaked at 110% compared to EM; and 60% compared to MSCI World and now stands at 72% and 22% premium respectively which could be justified. (Source- Bloomberg)

b) Macro Cues: The World seems to be going back to a Risk off trade and appreciating higher Earnings visibility and economic stability and betting on India. This can be seen in the 2-year – 10-year Interest rate of the US which has virtually been constant in April at 3.8% and 3.34% respectively showcasing a negative 47 bps year. As against this India has witnessed almost 20-25 bps reduction in the 2-year – 10-year Interest rates which are 6.84% and 7.01% respectively, with a positive yield of 17 bps. The positive yield of India and lowering rates as against the negative yield in the US suggests a possible recession in the US as against steady-state economic growth in India especially in its domestic front. (Source- Bloomberg)

c) Earnings: Quarterly results of ~303 companies have come out for 4QF23 showcasing sales growth of 15% and PAT growth of 19%. The importance of this result and strong growth is shown in its QoQ growth of 21% overall and 30% excluding financials. In F2023 the Non-financial sector had a de-growth for the first nine months and hence the sequential growth is a big step in the positive direction. (Source- Capitaline, JM Financial)

You have been tracking earnings very closely – any standout themes which have come across from the recent numbers?
There have been three themes, which have stood out in F4Q23.

1) Indian banks have been in a sweet spot and this is reflected in the Q4 earnings that are out. F2023 has seen a robust 15% credit growth for the banking system led by retail and services growth of ~20%. Banks do well in a rising rate environment as deposits get repriced with a lag as compared to loans.

So far, F4Q23 has been a stellar quarter for the banks with the key banks having reported an impressive Net Profit growth of ~46%.

This is aided by strong loan growth (~18% YoY) and benign asset quality even as MTM gains are negligible to negative.

Margins have also held up well across the board rising on an average by ~11bps

sequentially. We believe that NIMs are likely to have peaked out as the rising cost of funds starts seeping in.

2) Overall growth in revenues has been an impressive 11-12% excluding Financials driven by higher value realization, relatively lower volume growth in most spaces but margin expansion of 150 bps QoQ due to lower commodity prices

3) All the misses came in Global facing sectors – IT, Healthcare, and Metal; largely due to the global slowdown and hence weaker revenue growth

What is the sense you are getting from the management commentary? Are they more upbeat about the next few quarters as commodity prices have cooled off or there are some concerns about a possible slowdown?
Management commentary is a mixed bag, with Domestic facing sectors suggesting strong growth ahead and a possible capex cycle; whereas Global facing sectors are concerned on slow down due a possible recession and El Nino.

Banks are more upbeat on Retail demand than corporate demand in the medium term.

In terms of valuations how are Indian markets placed when compared to peers?
India's higher valuation compared to the rest of the world which had peaked at 110% compared to EM, and 60% compared to MSCI World and now stands at 72% and 22% premium respectively which could be justified.

India's growth of around 15% F2023-F2025 is relatively higher than its peers and so also our GDP growth which is higher than its peers. (Source-Bloomberg)

Which themes are you tracking or likely to see some traction in 2023 in the run-up to the National elections exactly in the next 12 months?
In the run-up to elections we are excited about four themes -

a) High for long interest rates – here we like Banks with strong Deposit franchise
b) The Domestic Consumption theme – here we like Credit card spend companies, certain stocks in the QSR chain as well as in the Retail segment. Retail spend is the highest growth loan book growth for the country
c) Capex cycle. The Indian budget raised the guidance for capex spending by the country for the government as well as PSU to 4.9% of GDP from 4.1%. Also we believe in the next 12 months the private capex too should rise up
d) Make in India story or those sectors replacing exports – Here we are particularly fond of Chemical and Defence names

Will ONDC disrupt the new-age companies' model? What are your views?
Open Network for Digital Commerce (ONDC) - a set of protocols built on an open network with the objective to create new opportunities. It will help support micro, small, and medium enterprises (MSMEs) and small traders to become hyper-local.

The platform will permit the display of goods from all collaborating e-commerce companies in the search results throughout all apps on the network.

Thereby, allowing MSMEs to list their products at a lower cost, without any discrimination between big and small traders on the platform. E-commerce is becoming more formalized and democratic.

There are many opportunities to be searched and compare the available prices. It will help with a wide range of options for buyers. In fact, it will help with auxiliary support and services for both buyers and sellers.

The sellers stand to gain the most due to the open platform of ONDC. This will lead to a reduction in the e-commerce industry's monopoly, reduced prices, and better quality services for consumers.

Most importantly, the platform will provide a level playing field for most MSMEs, as it gets them at par with the big players.

How do you pick stocks for your portfolio?
We use a two-prong approach for our portfolio construction:

First, we focus on our Macro view of India; the key themes we think will play out in the current environment and which has longevity in earnings.

Then we look at the bottom-up analysis on look at each company individually focusing on a) Industry and b) Company strengths. On Industry, we focus on finding those which have a growing secular market, which is scalable and sustainable.

The industry should be in the growth stage on the business cycle with pricing power and higher margins leading to consistency of ROCE and high FCF and high-quality profits.

We focus on their moats and competitive advantage which could be a Cost or Technology advantage. Management quality, Corporate Governance, and Valuation play an important role along with the Margin of safety and earnings growth viability.

We also characterize stocks in our portfolio as Strategic which we play for the longer term, or Tactical which we play for the shorter term.

The tide seems to be reversing in favor of India as FIIs are buying Indian equities and DIIs are booking profits. What has changed? Is it the economy or cool-off in valuations?
FII ownership is at a multiyear low in our eyes ranging around US$ 530-540 billion, from around US$ 640 billion in Jan 2022. Partly this has happened due to the Rs/$ falling from 74 in Jan 2022 to Rs/$ 82 currently.

Partly FII were net sellers of as much as US$ 18 billion in C2022 and another US$ 2.5 billion Jan to March 2023. Post that we have seen inflows of as much

as US$ 4.9 in FY2024YTD.

DII has had an outflow of US$ 300 million in F2024, after an impressive US$ 10 billion inflow Jan to March 2023 and a US$ 36 bn inflow.

So, yes there has been a reversal but a small one from the DII front is possible to catch up on increasing debt allocation since we are close to peak interest rates currency which will start correcting downwards shortly.

New demat accounts have come down according to NSE data. Can we say that initial euphoria among retail investors is coming down?
Demat accounts have increased from 12 million in 2008 to 114 million in Mar 2023, an impressive 9-fold jump in 15 years. During Covid years i.e. FY21 and FY22, the new account additions propelled to 14 million and 35 million, respectively. This is slowly stabilising.

In our eyes, equity inflows from retail have been on the rise either directly or using the mutual fund route. SIP inflows have been an impressive US$1.6 billion month currently up from US$ 0.6 billion in F2017 up almost 2.7 times in 6 years.

This humongous growth clearly shows a strong retail appetite which has grown enormously and which is more important than just opening the Demat accounts.

(Disclaimer: Recommendations, suggestions, views, and opinions given by experts are their own. These do not represent the views of Economic Times)

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