

Daily Voice | Won't be surprised if Q2 GDP growth comes in at 7.6-7.7%, says Satish Ramanathan of JM Financial

India's economic expansion may be less than expected due to supply chain issues, lagging manufacturing, higher crude oil prices and slowing services growth on account of the pandemic

SUNIL SHANKAR MATKAR | NOVEMBER 23, 2021 / 09:43 AM IST



Satish Ramanathan, MD & CIO-equity at JM Financial Asset Management, says the trajectory of central banks on interest rates on the back of inflation will be the single largest influence on the equity markets. Inflation on the back of labour shortages and commodity price increases will need to be watched, he told Moneycontrol in an interview.

Corporate performance has been strong and is improving and earnings are expected to grow, although at a slower pace, said Ramanathan who has about three decades of experience. Edited excerpts:

What are your broad expectations for Q2FY22 GDP growth that's expected to be announced at the end of this month?

GDP expectations of 7.9 percent in Q2FY22 is as per International Monetary Fund expectations. We will not be surprised if it is lower than this due to supply chain issues and manufacturing lagging. Also, higher export growth and imports growth due to higher crude prices may impact GDP growth to some extent. Further, services growth has also lagged due to Covid restrictions and hence we will not be surprised if GDP growth is around 7.6-7.7 percent.

At the current juncture, should one increase exposure to debt and reduce equity given the expected changes in the stances of central banks?

RELATED STORIES

 **Satish Ramanathan**
MANAGING DIRECTOR & CHIEF
INVESTMENT OFFICER -
EQUITY|JM FINANCIAL ASSET
MANAGEMENT

Central banks are trying to walk a fine line by trying to control excess liquidity and yet maintain the incipient growth momentum. Many of the factors causing inflation have been pent-up demand across the board for goods and services, as well as sporadic shortages in semiconductors and key components. Hopefully, China's slowdown will reduce demand for commodities and release some capacity for a broad-based recovery.

If central banks do decide to raise rates, then it is likely that all asset classes will underperform, with equities taking a greater hit. Consequently, investing in short-term debt would be the only recourse in that scenario. We believe Indian equity markets will consolidate for some time on account of its sharp outperformance. Further, **IPOs** will continue to soak up excess liquidity in the equity markets.

What are the two sectors that one must have in the portfolio now to get healthy returns by the end of 2022?

Corporate capital expenditure has remained at a very depressed level as the primary focus has been cost and debt reduction in recent times. We expect that corporate capex will start some time in FY23 and government capex will continue to benefit construction companies. There are signs of a housing revival as well, which will benefit home improvement companies. Consumption, export-oriented sectors and fintech will continue to do well.

[Click Here](#) for all IPO-related news

The IT story is expected to remain solid. But is it the time to reduce exposure to the segment as the number of positive surprises has reduced?

While we do not comment on sectors per se, the IT sector has seen good tailwinds on record outsourcing with a revival in spends in the US and Europe. There have been increases on the cost side as well in terms of employee costs and increasing office and travel expenses. We expect margins to stabilise here and incremental gains to be minimal. Some longer-term challenges are that migration to the cloud will imply shorter projects and lower maintenance.

That said, the IT sector is one of the few sectors that offer high margins and significant free cashflows. Smaller IT companies which operate in niche segments such as automation and auto sectors are exhibiting higher rates of growth than mainstream IT companies, which we expect to continue.

Also read - [MedPlus Health](#), [Fusion Micro](#), [RateGain Travel](#), [3 others get Sebi nod for IPO](#)

What are the biggest events to watch out for in the rest of FY22?

Clearly, the trajectory of central banks on interest rates on the back of inflation would be the single largest influence on the equity markets. Inflation on the back of labour shortages and commodity price hikes will need to be watched.

The other key risk area is a surge in Covid and its variants. Europe is experiencing a sharp increase once again, so we need to observe this closely as well. Apart from these two large factors, China's economy slowing down needs to be watched as this can dramatically alter assumptions on inflation and yields. We need to watch if China's slowdown impacts the global financial markets as well.

Have you changed your **earnings** estimates for FY22-FY23 after the September quarter earnings season?

We have observed that corporate performance has been strong and improving. However, material-intensive businesses have faced a cost increase, which has not been passed on fully. Consumer companies such as paints and FMCG have been impacted by lower gross margins and they will need to increase prices as well. So, we expect **earnings** to continue to grow, albeit at a slower pace. We have marginally decreased our earnings expectations based on these factors.

Disclaimer: The views and investment tips expressed by investment experts on Moneycontrol.com are their own and not that of the website or its management. Moneycontrol.com advises users to check with certified experts before making any investment decisions.