

Market to judge current IPO euphoria over time: Satish Ramanathan

By Shivendra Kumar, ETMarkets.com • Last Updated: Dec 09, 2023, 11:51:08 AM IST

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Synopsis

"We believe that the incumbent government might continue with regards to the general election in 2024 in all probability and that is a base case scenario. There could be a little bit of volatility but that said, the excitement in India and its economy is primarily because of its unique advantages of demographics, its cost of manufacturing in terms of competitiveness and it is also becoming an export story and is not just limited to local consumption."



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The current traction in IPOs is primarily led by liquidity in the market which is driving the demand, **Satish Ramanathan, CIO – Equity at JM Financial Asset Management** tells ETMarkets.

We are seeing new themes coming into the stock markets so there will be an initial leg of fancy and markets will judge over time if the initial euphoria is justified based on the growth trajectory, Ramanathan adds. Edited excerpts:

Nifty is trading at lifetime highs. Do you recommend taking positions at these levels or are valuations too high?

Nifty itself was consolidating for one and half years until it reclaimed the 20K mark. What happened in the meantime was that some of the Nifty stock became attractive as regards to valuation. On the one side, there were PSU stocks and the BFSI pack which seem attractive now.

PSU stocks seem attractive in terms of valuation; they are planning for future growth by investing in capex, and that means that their earnings growth is also likely to come through.

In terms of the valuation comfort in the Nifty stocks, we believe that if they move to their fair value, that itself could push the Nifty beyond current levels.

The election results have fired up the markets. Do you see the momentum continuing as we head towards the general election in 2024?

We believe that the incumbent government might continue with regards to the general election in 2024 in all probability and that is a base case scenario. There could be a little bit of volatility but that said, the excitement in India and its economy is primarily because of its unique advantages of demographics, its cost of manufacturing in terms of competitiveness and it is also becoming an export story and is not just limited to local consumption.

All these aspects do not change with the outcome of the general election. Priorities of the government may change from time to time but I don't think it to be irrational to the extent that it impacts corporate earnings.

I think the policies are laid out and they will likely continue on the path of investments and growth and that has been happening continuously. There could be some volatility in the event of some surprise results but the overall economy and the market view will remain constant.

Have the FII selling trends in Indian equity markets reversed in November with Rs 9,000 crore buying and Rs 7,200 as on December ??

As regards FII money leaving Indian markets, there was a case sometime last year when US interest rates were very high and investors wanted to take advantage of those high yields and pulled out money from emerging markets to put into developed market bonds. With inflation under control in the US, there is a likelihood of interest not going up, if not, they may start coming down and that in general is positive for emerging markets. As we know that Japan, China and the US will be exporters of capital next year, it could be positive for emerging markets.

Q: What themes would you suggest to investors considering the current uncertainties?

The basic theme that we suggest over the next 5-7 years will be capex and capex-led themes. India is an under-penetrated market across new products and product categories. On one side you will see online retail doing well and on the other side, IT and manufacturing doing well. Broadly, you can expect to see these sectors doing well, albeit with sector rotation because of valuations and the market being overbought and oversold.

We assess that companies with online products and services are gaining ground in Tier-2 and Tier-3 cities. The second sector could be infra led by power and followed by railway and defence and the third may be manufacturing which will primarily be engineering and engineering goods and could be pharma.

The direction of the government policy is quite clear, which is to develop in-house demand and supply and therefore an inbound economy. That is the thrust of the government and we are well on that path.

How do you see midcap and smallcap stocks performing considering a great run this year?

Midcaps are currently more expensive than the **largecaps**, especially if we talk about the traditional larg caps. But some companies in the manufacturing sector and financial services are attractively valued. These stocks stand out among the midcap stocks as their stability and growth prospects have not diminished over time and have only improved.

Midcaps and **smallcaps** benefit for 2-3 reasons -- one is that they are typically newer companies which grow faster and more new companies are coming in the mid and smallcap space via the **IPO** route. The other advantage is that there is higher retail participation, though it creates more volatility. Investors also have a larger pool of businesses to choose from.

In the current context, I would go on to say that midcaps are showing more growth and stability than largecaps and are currently less volatile than largecaps and smallcaps. Indian corporate earnings have been robust and will continue to be robust. There is a growth momentum which is coming in due to internal requirements of capex which is a positive and it is not an external-led growth that will come in and go out. We are optimistic over the medium term.

Your thoughts on IPO markets?

The current traction in IPOs is primarily led by liquidity in the market which is driving the demand in these sectors and stocks. Moreover, we are seeing new themes coming into the stock markets so there will be an initial leg of fancy and markets will judge over time if the initial euphoria is justified based on the growth trajectory.

What are your key takeaways from 2023?

2023 has been a very interesting year. In 2022 we had the Russia-Ukraine war and in 2023 we are seeing the Israel-Hamas war. Investors may focus more internally rather than externally. India continues to remain vulnerable as far as energy is concerned, though the government is working towards making India energy sufficient.

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