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ETMarkets Smart Talk: 2023 showed us that despite headwinds Indian market will continue to attract capital: Neha Agarwal

Synopsis
"India is the 5th largest in the world by equity market capitalisation, after the US, China, Japan and Hong Kong. The rally in domestic equities is backed by strong fundamentals, which is reflected in India's growth and inflation dynamics, healthy fiscal situation, unleveraged corporate balance sheets, macro stability, political stability, and policy push towards capex and Make in India. Taking cue from these factors, we believe India provides a secular growth story to global investors which is unique amongst emerging and developed economies."


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*"2023 showed us that despite global headwinds in the short run, the Indian markets will continue to outperform and attract capital from investors," **Neha Agarwal**, MD & Head, **Equity Capital Markets**, **JM Financial Ltd**.*

In an interview with ETMarkets, Agarwal said: "We believe that India will continue to outperform in 2024 as well because of strong macro environment, earnings growth trajectory, and expected equity market inflows in the backdrop of a slowing global economy," Edited excerpts:

We are in the last month of the year 2023. Any key learning's that you would like to share?
High inflation, rising interest rates and geopolitical risks were some of the factors that were overshadowing the Indian markets in 2023.

Despite these headwinds, the Indian equity markets showed resilience and moved up to reach a market cap of $4tn. India is now the 5th biggest economy by market capitalisation.

In the primary markets as well, we saw a slowdown in the first half but there was a sharp surge in activity in the second half, defying the global slowdown, as investors' showcased their strong confidence in the Indian economy.

Investors are willing to bet on companies with differentiated and profitable business models, sound corporate governance standards, and quality management teams.

Given favourable demographics, strong macro environment, digitalisation, and stable political environment, India is well poised to witness a multi-decade rally.

2023 showed us that despite global headwinds in the short run, the Indian markets will continue to outperform and attract capital from investors.

Indian m-cap hit $4 trillion market in November – we are now 5th biggest market in the world. What is fuelling the rally and are we in the race to become top 3?
India is the 5th largest in the world by equity market capitalisation, after the US, China, Japan and Hong Kong.

The rally in domestic equities is backed by strong fundamentals, which is reflected in India's growth and inflation dynamics, healthy fiscal situation, unleveraged corporate balance sheets, macro stability, political stability, and policy push towards capex and Make in India.

Taking cue from these factors, we believe India provides a secular growth story to global investors which is unique amongst emerging and developed economies.

Rising income among India's young labour force is being channelised into domestic markets which is visible in the flows from the domestic institutions into the equity markets - 2023YTD - c.$20.3bn.

The proliferation of the number of SIP accounts and the increased velocity of inflows from the domestic mutual funds is validating the trend of financialisation of savings. Strong domestic inflows from mutual funds will cushion Indian markets from global headwinds.

Charlie Munger passed away at 99. Any anecdote or lessons you would like to highlight?
Charlie Munger was a living legend and a role model for all investors. He always emphasised on learning, both in one's area of expertise as well as outside; he himself was considered a learning machine.

Munger always advised to focus on "buying wonderful businesses at fair prices" instead of "buying fair businesses at wonderful prices". I feel this is quite apt in the Indian context as there are many quality companies available in India with strong business moats.

However, they have run up quite a lot and are trading at expensive valuations.

BACK TO TOP

Despite high valuations, these businesses continue to outperform and give stellar returns as the underlying business is solid. Investors should identify these companies and look to add them in their portfolio at every dip.

How does the market look in 2024? Any big headwinds that investors should watch out for?
We will have to watch out for US growth rates in CY24. We expect a soft landing in the later part of 2024. Secondly, we may see some volatility in the markets around general elections.

However, after recent state election results, markets are expecting the political environment to remain stable, and we may see a pre-election rally similar to the past few times.

Another key thing to watch out for is crude oil prices. Any significant geopolitical risk may result in a spike in crude oil prices which may result in higher inflation and wider current account deficit.

Despite these risks, we believe that India will continue to outperform in 2024 as well because of strong macro environment, earnings growth trajectory, and expected equity market inflows in the backdrop of a slowing global economy.

In the primary markets side as well, there is a strong pipeline of issuance, and we expect 2024 to be another great year for the Indian markets.

November was the month of IPOs for both mainboard and SME – how should retail investors decide which one to pick?
Retail investors usually see the momentum in the grey market which is reflected in the premiums before investing in an IPO.

While these premiums could be reflective of the listing day gains, retail investors should focus on quality companies that have strong moats and are available at reasonable valuations.

Other criteria they should focus on are sound corporate governance standards, quality management teams and strong business models which tend to be winners in the long run.

Which sectors are looking attractive for the year 2024?
Indian economy grew 7.6% during Q2FY24, remaining the fastest growing economy in the world. There is a major opportunity for India to capture the global manufacturing space. The government is undertaking various initiatives in this direction.

We continue to believe that the re-shoring theme and the Indian government's push towards infrastructure spending and 'Make in India' will provide ample opportunities.

Unlevered corporate balance sheets, strong policy thrust on making India a global manufacturing destination, emerging signs of capacity addition in some large sectors have created opportunities around capex revival over the medium to long term.

BACK TO TOP

This sets the stage for healthy credit demand. Banks' balance sheets are in solid shape and profitability is at decadal highs with comfortable capital levels. This implies Indian lenders are rightly positioned to satiate this large credit opportunity.

Retail credits remain an underpenetrated opportunity and despite some emerging worries around unsecured loans largely remain a structural opportunity.

Valuations are close to long-term means and some of the frontline banks are trading discount to historical valuations.

The election wins in key states give further clarity on policy continuity in India. This creates a plethora opportunities in banks, microfinance, diversified NBFCs in our view.

All-in-all sectors should take leadership as interest rates soften globally and capital moves to growth markets such as India.

Sectors like Automobile and Capital Goods are anticipated to rise rapidly due to growing consumer demand, rising incomes and favourable government policies.

Another area of interest would be companies in the power sector, as we believe rising urbanization and increased demand from manufacturing and services' sectors will entail additional capacities in this space.

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