ETMarkets Smart Talk: At 22K on Nifty, market is trading in line with 5-year average: Rakesh Parekh

By Kshitij Anand, ETMarkets.com • Last Updated: Apr 19, 2024, 09:07:00 AM IST

Synopsis
Rakesh Parekh talks about the key drivers for the market -- a combination of ample liquidity, pro-growth government policy direction, investments and capex entering an upcycle as well as corporate balance sheets that remain conducive for investments. He says: "We are encouraging clients to add to their equity positions with a long-term perspective in mind to take advantage of this opportunity."

"While some pockets of exuberance are inevitable, on a broader basis, we continue to remain constructive on the overall direction of equity markets."

*"At around 22,000 levels, the **NIFTY index** is trading at ~20x **FY25E consensus earnings**, and ~18x FY26E consensus earnings, which is broadly in-line with the 5-year average PE of ~20x," says **Rakesh Parekh**, MD & Co-Head, Portfolio Management Services, **JM Financial Ltd**.*

*In an interview with ETMarkets, Parekh said: "While some pockets of exuberance are inevitable, on a broader basis, we continue to remain constructive on the overall direction of **equity markets**." Edited excerpts:*

Sensex@75K, Nifty@22K – should investors be worried or do you see FOMO in the market? Where do you see the market headed?
Rakesh Parekh: The Indian economy is expected to grow by 7.6% in FY24, significantly higher than the 6%-6.5% consensus estimates at the beginning of the year. As we enter FY25, consensus estimates for economic growth are around 6.5%.

With the global economy likely to be avoiding a deep recession and election uncertainty behind us in 1Q FY25, it is likely that the Indian economy outperforms expectations yet again in the coming two years with a nearer 7%-7.5% growth.

After a strong ~20% **NIFTY** earnings growth in FY24 driven by margin expansion, consensus earnings growth will likely taper off to 10-12% in FY25E and 12-14% in FY26E as margin levers have largely run their course.

Incrementally, as Oil and Commodity prices inch upwards, margins may also come under pressure in FY25.

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While some pockets of exuberance are inevitable, on a broader basis, we continue to remain constructive on the overall direction of equity markets.

What are you suggesting to your clients now? What are the general queries that you are getting?
Rakesh Parekh: Our view is that the Indian economy and markets will provide tremendous scope for growth and wealth creation in the coming years.

Of course, there would be market ups & downs along the way; however, a combination of ample liquidity, pro-growth government policy direction, investments and capex entering an upcycle as well as corporate balance sheets that remain conducive for investments would be the key drivers for this.

We are encouraging clients to add to their equity positions with a long-term perspective in mind to take advantage of this opportunity.

A common question raised by clients gravitate around current market levels being at all-time highs and whether valuations are stretched wherein we reassure them about having a LT perspective in light of the wealth creation opportunity which is unfolding for the Indian economy in the coming years.

What could derail the bull rally in FY25? Any important factors that one should watch out for?
Rakesh Parekh: The key risks for Indian markets remain global. Geopolitical risks continue to remain heightened with the latest Israel-Iran incident adding to the tensions.

The repercussions of this are felt in India largely through potentially higher Oil & Energy prices.

As long as oil prices remain contained below $100/bbl, India's economy should continue to remain comfortable. However, the risks start rising once oil prices breach $100/bbl or move higher.

However, as per Morgan Stanley research, India's Oil Intensity has materially reduced over the years in response to various policy initiatives of electrification, road-tolling, usage of alternative fuels etc.

When the Indian economy was at around $1trillion, Indian oil imports were ~8% of the GDP. At the current $3.5trillion, Indian Oil imports are around ~4% of GDP. A significant reduction in Oil intensity.

We are already seeing outflows from small & midcap funds – and inflows into equity funds also saw a decline. Are MF houses booking profits or staying cautious?
Rakesh Parekh: Small Cap Funds in the month of March 2024 saw a marginal outflow as compared to average monthly inflows of ~Rs 3,000cr to Rs 4,500cr over the last six months.

Similarly, Mid Cap Funds had lower inflows in March compared to the approx. Rs 1,700cr to Rs 2,700cr over the last six months.

Surprisingly, Large Cap Funds saw a positive inflow of >Rs 2,000cr in March, the highest over the last six months.

As far as FY24 is concerned, S&P BSE Small Cap and Mid Cap Indices have delivered >65% returns while Nifty-50 and BSE-Sensex delivered 31% and 27% respectively.

Given the magnitude of outperformance, it is likely that there would have been some profit booking in the smaller and midsized funds as well as some re-allocation to the larger caps.

We believe it is more of a combination of profit booking and some reallocation rather than becoming overly cautious as the earnings outlook largely remains on track.

SIP amount stays above Rs 19000 cr for the second month in a row. Where do you see the monthly contribution headed in FY25?
Rakesh Parekh: SIP flows have steadily increased every month over the last 3 years post Covid-19 and has more than doubled from ~Rs 9,200 crores in Mar'21 to Rs 19,300 crores currently.

We believe investors are looking at the longer-term **investment** horizon and then deciding on SIP investments.

According to AMFI, the number of Net SIP's registered (new minus completed/discontinued) are also trending upwards from 6.35 lakhs in Apr'2023 to 19.5 lakh in Mar'2024.

As more and more younger people enter the Indian workforce with higher savings potential, SIP's would continue to increase, especially if they are able to beat returns from fixed income instruments.

What will work in FY25 – which could turn out to be a volatile year for investors amid elections, US Fed interest rates as well as crude oil prices?
Rakesh Parekh: We believe a more balanced portfolio strategy would be the way to position heading into FY25. Perhaps a bit more exposure to the larger-cap space would be more appropriate considering the significant run-up in the mid and small cap space during FY24.

However, we would remain focused on India-centric sectors such as Capex, Industrials, Power & Renewables, Financials and the broader domestic consumption themes including Auto's which we believe would continue to do well in FY25.

We believe stock selection driven by more by fundamental and structural attributes would be better served in FY25 regardless of larger or more mid-size mkt caps.

We would still limit our exposure to global facing sectors such as Broader IT Services, which still depends significantly on the outlook for the US Economy in particular and there is still uncertainty regarding the outlook here.

In this space though we prefer some of the smaller IT companies who are in specialised verticals like ERRD (Engineering Research & Development Services) catering to the Auto, Transportation and Defence / Aerospace industries in particular.

We also believe the Pharma sector would continue to do well and would add some defensive attributes to the portfolio. There may also be some opportunities in select Chemical stocks if there is a turnaround in pricing and volumes in the latter part of FY25 dependent on some pick-up in the global economy.

Mutual funds' equity buying has hit a record Rs 45,120 crore in March 2024. How do you foresee the trend going forward?
Rakesh Parekh: We expect the trend to continue to remain positive. As long as overall flows remain strong and the Indian economy continues to deliver growth, we do not foresee any material change regards incremental inflows towards MFs as a vehicle for wealth creation amongst the broader investing public.

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