

Expert view: Nifty 50 may remain rangebound in the short-term, says Dimplekumar Shah of JM Financial

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Managing director and co-head of investment advisory and distribution at JM Financial Services

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Expert view: **Dimplekumar Shah**, managing director and co-head of investment advisory and distribution at **JM Financial Services**, believes the Indian stock market benchmark [Nifty 50](#) will remain rangebound in the short term and rate cuts from major central banks will be a key trigger for the markets. In an interview with Mint, Shah shared his views on the sectors he is positive about and how investors should play mid and small-cap segments.

Edited excerpts:

What is the short-term outlook of the market?

Despite the hike in capital gain taxes, equity markets have focused on the positive fiscal intent and continuity of capex and focus on reviving consumption.

High cash with MFs (mutual funds), positive retail flows and lower intensity of FII (foreign institutional investor) selling have led to the Nifty 50 index gaining by 11 per cent year-to-date.

Investors have used the market fall (post-election and budget) as an opportunity to further accumulate stocks.

However, Q1FY25 earnings print so far suggests a mediocre show for Nifty 50 companies and the ask rate for remaining quarters would be higher given street expectation of 13 per cent earnings growth for Nifty 50 companies for FY25.

With major events over (election and budget), we expect the Nifty 50 to remain rangebound in the short-term and broader markets would take clues from any likely cut in the interest rate by the major global central banks.

Is the market fairly valued or overvalued?

We believe that the one-year forward PE (price-to-earnings ratio) of 21 times for Nifty 50 is fairly valued as largely it is in-line

with a long-term average (LPA) PE of 21 times. India's market capitalization-to-GDP ratio at 140 per cent is also significantly above the LPA of 80 per cent. From here on, any material outperformance or re-rating would depend upon a beat in earnings expectations (Nifty 50 earnings are expected to grow at 14 per cent CAGR over FY24-26E).

Despite valuation concerns, mid and smallcap segments have continuously risen. What should be our strategy for these segments?

With the Nifty Mid/small cap 100 index rallying and also at a premium valuation to the Nifty 50 index, it has become increasingly difficult to identify stock ideas in the SMID (small and midcap) space.

As our investment strategy, we would focus on themes which provide a long runway for growth. We like sustainability (renewable energy and recycling), Make in India and housing finance themes.

What could be an ideal portfolio for the next five years? What portion of the portfolio should be exposed to equities and other assets?

We believe that the majority of portfolio bias should be towards Equity, given the track record of inflation-adjusted higher returns versus other asset classes, expectation of 8%+ GDP growth and political/policy stability.

We advise investors' equity portfolios to be in the ratio of 60:40 per cent for large/SMID with a focus on capital preservation, as we see profit booking in richly valued spaces.

What sectors are you positive about for the next one to two years?

We are positive on IT, agrochemicals, specialty chemicals, healthcare and real estate sectors from one to two years' perspective.

We believe that these sectors have favourable risk-reward scenarios given that improving earnings outlook provides upside to earnings estimates, which makes valuations reasonable.

Further, management commentaries have also been positive in the Q1FY25 results season so far.

Is there some steam left in the PSU segment?

PSUs with very high valuations (like defence stocks) do not offer a margin of safety, and any disappointment on the earnings front would result in profit booking.

However, pockets like oil and gas, power, and energy are still at reasonable valuations (despite the run-up in their stock prices) and offer healthy dividend yields, which can be looked upon from an investment perspective.