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ETMarkets Smart Talk: Capex, industrials, energy transition, and pharma among top bets till next Diwali: Rakesh Parekh

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Synopsis
Markets had crossed all-time highs last month and despite the recent correction valuations are not cheap, trading at premiums to historic averages especially in the small & mid cap segments.

However, the fact that Indian markets have a strong domestic support base is not only admirable by acknowledging the inherent LT growth opportunity recognised by investors, but also that this would send a positive signal to foreign investors too.

"We would continue to remain focused on India centric sectors such as Capex, Industrials, The Energy transition, Select Financials and broader domestic consumption themes," says Rakesh Parekh, MD & Co-head, Portfolio Management Services, JM Financial Ltd.

In an interview with ETMarkets, Parekh said: "We are also very positive on the Healthcare & Pharma space, especially high quality CDMO & Speciality API Mfg companies" Edited excerpts:

It is turning out to be a volatile October but it looks like Nifty has good support around 24500-25000 levels. What is your take on markets?
Markets had crossed all-time highs last month and despite the recent correction valuations are not cheap, trading at premiums to historic averages especially in the small & mid cap segments.

We still believe 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; especially in the Short-Med term if earnings growth begins to get challenged.

However, a combination of persistent strong liquidity, sensible government policy direction, investments and corporate balance sheets that remain conducive for investments would be the key drivers longer-term. The progression of US Fed rate cuts would also provide a boost across emerging markets as we head into 2025.

Another interesting feature is that despite ~$7bn of FII Selling in October so far, Net FII flows in FY25 YTD are still $2bn positive. Domestic flows are even more resilient at $36bn in FY25 YTD and Domestic SIP's continue to clock >$2.5bn monthly in FY25 YTD.

We saw the biggest IPO to hit D-Street this month. History suggests most of the big-ticket IPOs with issue size of more than Rs 10,000 cr have failed to deliver. What are your views?
It is correct that Mega-IPO's (>10,000 crores issue size) have historically not fared well post listing. Some of the largest have given dismal returns for instance; LIC, One-97 and Reliance Power to give a few examples.

However, each IPO should really be assessed on its individual merits especially the strengths of the business and its outlook longer-term. If these factors are attractive in spite of issue size and pricing dynamics, then even very large issues do have the potential to provide good returns to investors.

What is your take on Gold? The yellow metal is trading near record highs, and we are approaching Dhanteras as well. Time to invest in physical or digital Gold?
We continue to like Gold as an inflation hedge and store of value. We would expect Gold to continue to perform well in the near future also. Whether the investment should be in Physical or Digital Gold would be dependent on investor preferences on how to maintain the asset.

What are your expectations for Samvat 2081? Any top picks you have on your radar?
We remain optimistic on India's economic growth trajectory. We have had a normal monsoon season and the positive impact of this would be felt across a number of consumption related sectors as we cross the festival season.

Govt policies also remain fiscally prudent and on track to deliver responsible investment and growth. We would remain positive on all India centric sectors which reflect this positive direction.

What about sectors – which sectors are looking bullish till the next Diwali?
We believe a more balanced portfolio strategy would be the way to position heading into next year. 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 in the last few years, although earnings growth remains firm in many pockets.

We would continue to remain focused on India centric sectors such as Capex, Industrials, The Energy transition, Select Financials and broader domestic consumption themes.

We are also very positive on the Healthcare & Pharma space, especially high quality CDMO & Speciality API Mfg companies. We believe focused stock selection driven more by fundamental and structural attributes would be better served going ahead regardless of mkt caps as equity markets would continue to remain volatile.

Any sector which you recommend investors to pare their positions?
Some sectors which were strong performers over last year like Power, Industrials, Defence, Capex etc., still reflect elevated valuations despite their recent corrections. We expect select profit-booking to continue in this space.

Additionally, many stocks in the Auto sector which have run up over the last 1-year are also likely to witness selling pressure as clearer signs of some weakness in volumes and demand get more evident during the 2QFY25 results season. Consumer companies, especially FMCG names have also posted weak and uninspiring results so far in 2QFY25 which also highlights a demand slowdown.

Big ticket IT firms have declared their results for Q2. The BSE IT index has risen more than 20% in the last 6 months. What is the sense you are getting from the management commentary?
Based on 2QFY25 results so far of some of the larger IT Services companies; it appears that we could be over the worst and management commentary appears to be incrementally more positive on the demand environment, particularly for a pick-up in activity on large segments such as Banks & Financials.

Expectations of continued rate cuts by the US Fed could also be positive for a pick-up in IT spends as we head into 2025. Despite the recent rally in IT stocks, valuations are not too stretched considering that earnings momentum may start improving as we head into the New Year.

We are getting Rs 24000 SIP every month – a new record from retail investors. Can retail money save us if global slowdown hits D-Street because earnings will take a hit which are already showing signs of slowdown?
The fact is that FII portfolio flows remain an integral and important part for the longer-term growth trajectory of Indian Equity markets.

What is definitely comforting is that a combination of domestic flows as well as the current run-rate of SIP's (at >Rs.24,000 crores monthly), has been holding up very well. Markets would continue to remain volatile and as expected earnings are clearly in a phase where some slowdown is now inevitable.

However, the fact that Indian markets have a strong domestic support base is not only admirable by acknowledging the inherent LT growth opportunity recognised by investors, but also that this would send a positive signal to foreign investors too.

(Source: Bloomberg, CapitalLine)