

# Large part of correction in PSU stocks over: Dimplekumar Shah, JM Financial

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## Synopsis

Indian stock market outlook for the next year depends on earnings growth, new and repeat orders. Key sectors expected to perform well are Private Financials, Metals, Capital Goods, Specialty Chemicals, Healthcare, and Large cap IT. Domestic demand is showing signs of slowing but may recover due to festive season, weddings, and potential RBI rate cuts.



A large part of correction in PSUs is over and future stock price performance would be a function of earnings growth and visibility on new/repeat orders, says [Dimplekumar Shah](#), MD & Co-Head of Investment Advisory & Distribution, [JM Financial](#) Services.

"We expect [Private Financials](#), Metals, [Capital Goods](#) (new growth business), Specialty Chemicals, [Healthcare](#) and [Large cap IT](#) to perform well in the next one year," he says.

Edited excerpts from a chat:

## What is your outlook on Samvat 2081? Do you think Nifty would give double-digit returns in the new year as well?

Nifty50 and NSE Midcap indices delivered strong returns of ~26% and ~36% since Diwali 2023 and as we enter into Samvat 2081, the outlook for Indian equities remain very encouraging on long term basis given our confidence on 7%+ economic growth and India's potential toward entering into top three global economies in next couple of years. However, near-term concerns with respect to geopolitical tensions and a somewhat subdued FY25 earnings outlook (Nifty-50 companies' earnings are expected to grow by 6-7% in FY25 versus very high growth of ~24% in FY24), we expect market returns to coincide with earnings growth.

## As market cycles change, winners keep changing. Given the key events lined up - RBI rate cut cycle (which will eventually begin in next few months), US presidential elections, etc - for the next one year, where do you think the puck is going to be in Samvat 2081?

Although broader markets have witnessed correction from the recent peaks, we see volatility to continue given the upcoming US election as outcome would be important on policy front (especially tariffs against China). A likely accommodative RBI policy (rate cuts expected from 2025) and lower crude oil prices bodes well for the Indian economy. We expect Private Financials, Metals, Capital Goods (new growth business), Specialty Chemicals, Healthcare and Large cap IT to perform well in the next one year.

## Tell us which pockets of the market do you see most of the opportunity lying in the new year.

We believe themes like Recycling, Technology & Internet, Electronic Manufacturing and RE would be key focus areas as these spaces offer a long run-way for growth and create significant value for investors.

## Do you think earnings can be the biggest risk for the market? The Q2 earnings season isn't turning out to be good enough, particularly given the elevated valuations that the market is trading at.

The recent earnings print indicates subdued numbers from consumer companies which basically reflects a weak demand environment, especially in the urban pockets and a little slowdown in economic activity. Till now Q2FY25 earnings performance has been disappointing with the slight YoY PAT decline versus expectations of modest growth, except for a few pockets like banks and IT companies. Thus, risk to earnings downgrade persists unless there is pick-up demand in H2FY25 and valuation of broader markets remain elevated despite fall in the India equities (Nifty-50/NSE Midcap index down by 7%/8% from recent peak).

## Is domestic demand, which was one of the biggest drivers of earnings growth, giving enough signs of slowing down? Can the upcoming festive and wedding season change the narrative?

Weak consumption especially in urban pockets is a sign of near-term demand slowdown, but better-than-expected monsoons, the onset of the festive season, the upcoming wedding season and likely start of rate cycle by RBI bodes well for overall recovery in domestic demand. Management commentaries also indicate improving sentiments and consumption demand in rural areas.

## What is the kind of strategy that you're following at this stage of the market where FIIs are pulling out, DIIs and retail investors are super-bullish and Q2 results are leading to downgrades?

As part of our equity market strategy, we advise – 1) higher allocation towards largecaps given relatively reasonable valuation, 2) focus on sector rotations and 3) for Midcaps, focus should be on stocks which offer growth at reasonable valuation as premium valuation of Mid/Small cap offers little margin of safety.

## Do you think that the correction in PSUs and capex plays is now nearing its end before the market starts focusing once again on the 2025 Budget?

The stellar rally in [PSU stocks](#) in the last 1-2 years was led by political stability and the government's focus on themes like 'Make in India'. Post the rally, most of the PSUs were having expansive valuation and thus it witnessed massive profit booking especially in sectors like Defence and Railways. We believe that a large part of the correction in PSUs is over and future stock price performance would be a function of earnings growth and visibility on new/repeat orders. Until then the PSU space would see a phase of consolidation.

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