

## INTERVIEW

### JM Financial's Balasubramaniam says market returns unlikely for 6-9 months

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MUMBAI – The valuation of the Indian equity market is expensive but stocks are unable to go through a "cleansing" or correction phase despite selling by foreign investors, promoters, and private equity funds because of the heavy domestic inflows through mutual funds, Venkatesh Balasubramaniam, managing director and head of research at JM Financial Institutional Securities, told Informist in an interview. "I personally believe this is not the right time to invest in the market," Balasubramaniam said. "The market is not going to go anywhere over the next 6-9 months."

Balasubramaniam believes the market needs to fall at least 15% from the current level for the valuation to reach a reasonable level. "Due to strong domestic mutual fund inflows, the market is not correcting, which is preventing it from mean reverting to reasonable valuations," he said. The one-year forward price-to-earnings multiple is close to 23, which is higher than the historical average.

The domestic market had delivered around 18% return per annum on average after the COVID-19 pandemic, something no other equity market has been able to match, Balasubramaniam said. So far in 2025, however, the benchmark indices have risen 5%, far slower than the 19% growth posted in the year-ago period. The Indian market has also remained an underperformer compared to most other markets, some of which have seen double-digit growth. The Nifty 50 is still around 5% lower than the record high of 26277.35 points it had hit in September last year. Monday, the headline index closed at 25077.65 points.

While many market participants chant 'all is well' and focus on the long-term picture despite muted returns and earnings growth, Balasubramaniam said he is a firm believer in the adage, "When you do not know something, stay away from it." He suggests not to be too bullish about export-related sectors due to the risks associated with US tariffs.

He is "underweight" on pharmaceutical stocks and "neutral" on information technology given their exposure to the US market. US President Donald Trump had announced 100% tariff on imports of branded and patented pharmaceuticals. A key exemption applies to companies that are actively establishing domestic manufacturing facilities, defined as projects where "groundbreaking" or construction is already underway.

While the stated objective of the tariff is to encourage greater US-based production, the legal framework and practical aspects of implementation remain uncertain, Balasubramaniam said. Over time, there may be risks of expansion of the tariff to generics, or of stricter interpretations of what qualifies as "actively building" exempt manufacturing capacity. Such ambiguity could weigh on sector valuations, raising risk premia for generic Indian pharmaceutical players with significant US exposure, he added.

Balasubramaniam is positive about banking and financial services players but is "underweight" on the sector as a whole. Public-sector banking stocks are trading in line with their historical mean, but the challenge is that these banks are not growing, he said. While loan growth is 10%, net interest margins are being compressed and asset quality is deteriorating due to the interest rate cuts. There should be growth from next year once the rate cuts are factored in, but not much returns are expected from the sector for the next 6-9 months, he said.

However, he remains positive on banking and financial services stocks though their valuations are not cheap. "...the news flow in these sectors is positive, such as government's income tax cut (announced during the Union Budget in February), GST cuts, and the RBI's rate cuts (of 100 basis points so far in 2025)."

Balasubramaniam has an "overweight" view on automobile stocks, "marginally overweight" stance on consumer staples, and a "little bit positive" about consumer durables. These are among the sectors expected to benefit from the government's GST cuts announced last month. He said the GST cut should be good for volume growth in the automobile and consumer sectors from the December quarter, but it will "not be very positive" for revenue growth due to the fall in prices. "However, that should be a positive for EPS (earnings per share) growth in the second half of FY26," he said.

The bigger problem is that 30-31% of the Nifty 50 index is made up of banks and financials. A small negative in banking and financial services stocks can negate small positives in other sectors. "As of now, earnings growth expectation for the current year is 9% for Nifty 50 companies (down from 15%-plus at the start of FY26)," he said.

On incremental capital expenditure growth, Balasubramaniam said the metric's absolute growth is large. The government's capital expenditure has been growing since 2014 at a compounded annual growth rate of 25%. During the first four months of the current financial year, the government's capital expenditure was INR 3.47 trillion, up almost 33% on year, according to data from the Controller General of Accounts. There has to be economic sense to do capital expenditure-related projects as there aren't enough such projects to be done, he said.

There was hope that private-sector capital expenditure would pick up meaningfully after the corporate tax rate was cut to 25%, but that has not panned out, Balasubramaniam said. Companies are not seeing demand coming through, which is one of the reasons why private capital expenditure is not picking up, he said. Consumption trends are assessed through volumes of soap, toothpaste, or motorcycle sales of listed companies. However, the way people sell products has changed, he said. "There are several companies and start-ups that sell products on Facebook, Amazon, or Flipkart. This is not getting captured," he said. End

Edited by Rajeev Pai

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