

Markets pricey with modest EPS growth; autos, hospitality offer opportunities: Venkatesh Balasubramaniam of JM Financial

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Synopsis

Venkatesh Balasubramaniam highlights expensive Indian markets with muted EPS growth, cautious sector bets, and selective opportunities in autos, hospitality, mid-cap IT, and energy amid rising oil prices and IPO exuberance.



Markets trade at high valuations with modest EPS growth; autos, hospitality, and select mid-cap IT and energy stocks offer opportunities amid cautious sector bets.

Venkatesh Balasubramaniam of **JM Financial** shared a comprehensive view of the **Indian equity markets**, highlighting the challenges and opportunities amid the current environment. He emphasized that the markets are trading at elevated valuations, with the headline indices priced at nearly 23–24 times one-year forward earnings—roughly one standard deviation above the mean.

While such valuations could be justified by high earnings growth, actual EPS performance has been disappointing. FY25 began with expectations of 15% **EPS growth** but ended at 3.4%, and current-year projections have been revised down to roughly 7%, implying modest returns at best. Given this context, Venkatesh believes meaningful gains are unlikely from the broader indices, though individual stocks may still offer opportunities.

"So, earnings have got revised up. Similarly, third quarter again while on a quarter-on-quarter basis the EPS growth will be maybe a little less of a decline and fourth quarter you will see an improvement, but these are already factored in the numbers. I mean, it is not like numbers for the index as a whole are getting revised up and please remember banks are almost 30% of the index," he said.

Earnings rerating appears muted, particularly as banks constitute about 30% of the index. While bank earnings have slightly exceeded expectations, the broader EPS trajectory remains flat, making double-digit EPS growth this year improbable. Overvalued sectors include pharmaceuticals and NBFCs, while Venkatesh remains underweight on infrastructure, defence, and certain industrial plays. Metals, meanwhile, are neutral.

On energy, recent U.S. sanctions on Russian oil firms have caused crude prices to rise, negatively impacting refiners like **Reliance**, but benefiting upstream producers such as **Oil India** and **ONGC**, with a preference for Oil India in a rising oil-price scenario.

Regarding IT, Venkatesh cautioned that large-cap IT growth will remain limited (~5%) due to factors like AI-driven deflation. Mid-cap IT names such as **Coforge** may see stronger growth (15–20%), but large-cap gains are already priced in, warranting a neutral stance. He favors domestic consumption plays, particularly autos and hospitality.

In autos, **Maruti Suzuki** and Mahindra & Mahindra are top picks for four-wheelers, while **Hero MotoCorp** and **TVS Motor** lead in two-wheelers, driven by strong demand and electric vehicle adoption. For hospitality, Leela and Ventive are preferred due to strong demand and underinvestment in hotel supply.

"Consumption is strong and there has been gross underinvestment when it comes to hotel infrastructure in India. So, while demand is growing at 8%, the supply is growing only at 5%. So, we remain very positive on hotels. The problem with hotels is everyone is always scared when the new hotels will come online," he said.

On IPOs, Venkatesh observed that market exuberance and rapid reratings indicate expensive valuations, supported by mutual fund inflows despite FII selling. Finally, on financials, he has moderated his earlier negative stance but remains cautious, awaiting full earnings results before potentially adjusting sector allocations.