ETMarkets Smart Talk: Smart money moving towards these 4 sectors: Satish Ramanathan

By Kshitij Anand, ETMarkets.com • Last Updated: Sep 21, 2022, 09:00 AM IST

Synopsis
"Smart money is moving to industrials, auto, consumption, BFSI and capital goods sectors. Our mantra is to invest in high growth with a mix of superior quality for compounding returns. We are very process-oriented in our investment approach with a focus on quantitative factors like high earning growth, high cash flow generation, superior ROE, low debt, and reasonable valuations."

*"While corporate performance is expected to be strong, valuations leave little room for further upside unless there is a sharp decline in inflationary pressures," says **Satish Ramanathan**, CIO – Equity, **JM Financial Asset Management Limited**.*

In an interview with ETMarkets, Ramanathan, said: "We have seen higher allocations being made to Industrials, auto, consumption, BFSI and cap goods sectors" Edited excerpts:

What is your view on US Fed policy meeting? Another rate hike – 75 or 100 bps?
Given the inflationary pressures globally and in the US, we have been of the firm belief that inflation will be higher for longer and hence it would merit strong policy actions from global central banks.

We do expect a 75bps rate hike in the September 2022 meeting. In India, as well, we are likely to see further rate hikes although our view is that the pace and the quantum will be more calibrated than in the US and other developed economies.

A large part of this inflation is on account of bottlenecks and higher energy prices which could roll over, and hence Central Banks will monitor the situation closely.

In the US, the employment market is still tight, and some sectors are struggling to get an adequate workforce; hence, there are structural issues there as well warranting a sharper rate hike.

Do you see further tightening by RBI and will that derail momentum on D-St?
We are cognizant of the fact that increasing rates will cause a moderation in market valuations and cause volatility. That said, the fact remains that Corporate India's balance sheets are robust, and these rate hikes do not pose any major risk to earnings.

Business momentum can moderate slightly but India's growth story remains robust given the relative strength of our economy and the corporates balance sheet.

Further, India's debt-to-GDP ratio has not moved up nearly as much as other countries during the COVID period and hence the impact of retail and corporate balance sheets will be lower.

MF data is encouraging when it comes to equity funds but the pace seems to be slowing down. More money is moving towards debt – why are investors putting money in safe haven?
It is natural that as the fixed income rates rise, relative attractiveness of equity will reduce and consequently, the flows into equity will slow down.

Geopolitical conditions and volatility would also cause risk-averse capital to move to alternative avenues. However, it is important to note that domestic flows into equities are on a much stronger wicket now than ever in the past.

There are several structural stabilizers for domestic inflows such as SIP, EPFO, and increased allocation to financial assets that will continue to dominate this trend.

Sensex reclaimed 60K recently while Nifty50 also managed to hit 18000 for the first time since April. The recent price action makes benchmark indices vulnerable to profit booking. Where do you see markets in the medium term?
We have rallied nearly 20% from mid-June 2022. This period was also marked by a reversal of flows by the FPIs who resumed buying after selling Indian equity after a 9-month hiatus.

Higher cash levels with domestic mutual funds would have contributed to the speed of this up move.

While corporate performance is expected to be strong, valuations leave little room for further upside unless there is a sharp decline in inflationary pressures.

Consequently, while the India story looks good, its rich valuations may delay inflows.

In a summit, FM asked India Inc. why they are not getting into manufacturing. Do you see an increase in buying interest in this sector?
We have been overweight on the industrial sector for the last few quarters given the favourable macro environment for the manufacturing ecosystem driven by strong balance sheet position, low taxation for new plants, PLI scheme incentives, China +1, and now energy crisis in Europe.

We are increasingly seeing fresh capital commitments to new capex with Corporate India being increasingly confident of the growth prospects in manufactured exports.

We are seeing some of these tailwinds already support growth in certain sectors and expect it to continue. We have seen some announcements as well for assembling phones by large corporate houses but will wait for actual fruition to take place.

In some sectors, China is so large and cost-efficient, it will still be difficult for India to match cost levels and export. We, therefore, anticipate manufacturing to be sector specific. We also expect defence manufacturing to emerge as a reasonably big theme, as India's cost efficiency is a significant advantage.

Which sector will produce the next set of multibaggers?
With per capita Income rising above $2,000, consumption will likely play a big factor in India's growth in the coming decade. Consumer discretionary sector will be the direct beneficiary of rising spends.

We are also seeing a whole new digital ecosystem taking shape with vibrant start-up culture. We may see more action on this front as valuations become rational and growth prospects become more certain.

Indeed, the last decade saw the emergence of private insurance with the insurance sector growing 5x in 10 years as also the mutual fund space.

As India's per capita GDP grows, we need to follow the money - auto, luxury products, higher disposable income leading to leisure activities etc. So, exciting times still await us.

What is working in favour of specialty chemical space? What are your top bets?
Specialty chemical space is a beneficiary of India's superior skills in chemistry as well as our strengths in complex manufacturing.

Add to this ability, China's reluctance to grow this sector due to pollution issues has helped the Indian industry.

Our industry has focused on high value - low volume complex chemistries where Chinese competition has been limited and created a great niche with several products.

Where is the smart money moving?
We have seen higher allocations being made to Industrials, auto, consumption, BFSI and capital goods sectors.

Please share your investment mantra. Any checklist you follow before buying the stock?
Our mantra is to invest in high growth with a mix of superior quality for compounding returns.

We are very process oriented in our investment approach with a focus on quantitative factors like high earning growth, high cash flow generation, superior ROE, low debt, and reasonable valuations.

How important is booking profits in MFs or direct investing? Or should one adopt a buy-and-hold strategy?
In equity investing, it is best to invest for the long term. This approach, we have seen, has yielded investors with superior returns versus other asset classes which may be perceived as less risky.

Our benchmark indices have given 14-15% over the previous decade, where the markets have faced various challenges like demonetization, GST implementation, COVID pandemic, and now high inflation.

We would advocate systematic investment with a medium to long-term focus as the best way to ride out macro uncertainties that may emerge.

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