

# In companies with high quality growth, valuation is not a concern: Richard Liu, JM Financial



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## Synopsis

"Two-wheeler growth precedes consumer staples growth by about two to three quarters. It is a bit counterintuitive, but that is what data suggests. I think we are on a recovery path. The mood will incrementally get better as we get into 2024. Given that growth is so scarce globally, and India is one of the spaces where there is a very good level of growth and that is where the premiumness in terms of people's willingness to pay for is coming."



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***Richard Liu, MD-Institutional Equities Research, JM Financial Institutional Securities, says "the way a lot of businesses are going about doing their business planning is that the endeavour is actually to grow faster than the GDP of the country. There are many categories of consumption, which are able to do that. If you are able to do that sustainably and profitably, that is where you have the winners."***

## **Overall, from the investor's point of view, where does the interest lie and what is the view on India right now?**

The mood is bullish. I was having lunch with a couple of fund managers, and I think the question really is where could the downside lie because that is what everybody is trying to grapple with. And believe it or not, there were not many convincing answers where the downside could lie. So the mood is overall bullish. To give you an anecdote, there were some people complaining that it took about five minutes for them to be able to get lunch at the JM conference because of the crowd. That is not a bad problem to have. The problem of plenty is not as bad as the problem of poverty.

## **Why is it that the economy is looking strong, but the bottom of the pyramid is not growing? If the bottom of the pyramid will not grow, which is 80% of the population and maybe 20-25% of the total spending, that is called the foundation. If the foundation is shaky, then how can the economy grow per se?**

Yes, I think, this is really the typical K-shaped recovery that people have been talking about, right. K-shape is something that we have all been talking about in economics and this is something that is as clear as it could get. If you talk to a lot of the businesses, and a lot of the corporates who are presenting at the conference, also talk about the inflation pressure that the country and the consumers have gone through. That has impacted the lower end of the consumption spectrum.

Let us start with Covid. People like you and me, we continued working. We continued to earn. We maybe even saved a lot more on costs because we did not have to travel so that is fine and you double that up with the kind of inflation that we have seen in the last year-year and a half. That has really hit hard on that section of the population. But it is getting better.

So I was, again, talking to somebody during lunch. I think he was referring to the kind of growth that we have seen in two-wheelers, for example. If you look at historical evidence, and we have done this work some years back from what I can recollect, the two-wheeler growth is a very good precedent to growth in other parts of the rural economy including consumer staples.

If I remember the coincidence correctly, two-wheeler growth precedes consumer staples growth by about two to three quarters. It is a bit counterintuitive, but that is what data suggests. I think we are on a recovery path. The mood will incrementally get better as we get into 2024. The one risk was about how the weather pans out because that is not really under anybody's control. There were some newspaper clippings that I have read about the 2024 calendar turning out to be a super El Nino year. That, I guess, is the risk to the whole narrative. But otherwise, we are on pretty good footing.

## **The area of your specialisation is consumption. Now, everybody says the India romance is about consumption. We like what the economy is doing. We like the per capita binge that is happening. We like the fact that air travel, footfalls are moving in the right direction. How much of this is something markets are pricing in?**

Given that growth is so scarce globally, and India is one of the spaces where there is a very good level of growth and that is where the premiumness in terms of people's willingness to pay for is coming. If you look at a lot of the stocks and let us take consumption stocks since you referred to that, this is probably one of the most expensive spaces and what we have seen happen in recent months and even years is as long as the growth comes by and it is good [quality growth](#). I do not think people mind paying for that level of growth. That is also an outcome of the fact that growth is pretty scarce in the world.

Let us take India for example. In whichever companies, you see high quality growth, I do not think valuation is per se a concern.

## **You talked about how staples follow the two-wheelers. I am guessing you are telling your clients to buy into staples as well. But what would be that peaking point for discretionary, because affluent India and that premiumization wave seems to be doing very well? What would tell you that it is nearing peak, if not peaked?**

Bhaskar Bhatt of [Tata Sons](#) was at the conference yesterday. He has made a very interesting point regarding premiumisation. The point he made is that you need to really distinguish between [premiumisation](#) and luxury. According to him and I totally agree with that viewpoint, premiumization is going to be a way of life as far as a country like India is concerned because there is a large working population. Aspiration for a better lifestyle is something that everybody is looking for. So to that extent, I do not think we are in a situation where we are going to be talking about premiumization peaking because it is going to be a part of everybody's life.

Also, premiumization in this context needs to be differentiated from luxury because luxury is something which is more discretionary. But as far as premiumization is concerned, one can be premiumising in every aspect of life. It depends on the income spectrum that you are in. And yes, at every level, there is a relative level of premiumisation and that will continue. I do not think that is going to peak, so to say, to answer your question.

## **This good old comparison is China is selling X million cars, India is selling one-tenth of that. China's footfalls are X, India's footfall is X divided by 10. Where do you think that realistic catch up with global averages will happen?**

I do not think one should look at it that way. Obviously there is this expectation and it differs from category to category, whether \$2000 per capita GDP is the tipping point for some categories, it could be \$3000 GDP per capita for others. As investors, the way we need to look at it is in terms of the growth that is palatable to us.

The way a lot of businesses are going about doing their business planning is that the endeavour is actually to grow faster than the GDP of the country. There are many categories of consumption, which are able to do that. If you are able to do that sustainably and profitably, that is where you have the winners.