

ETMarkets Fund Manager Talk: Capex investment likely to be enhanced in Budget 2024: Vinay Jaising, JM Financial

By Vidya Sreedhar, ETMarkets.com • Last Updated: Jan 11, 2024, 09:45:00 AM IST

Synopsis

Vinay Jaising says: Capex investments have grown 5.6x in the last decade and now account for 3.3% of the GDP (not including PSU spend or state spend). In absolute terms, we expect over 30% growth YoY in capex expenditure by the government. Rural investments, which were a bit lower in the last two years, should get a fillip as well in both the budgets of at least 10% YoY.



"The year 2024 should initially see a slowdown of the world due to consumption and economic growth slowdown hit by high interest rates."

*A stable economy, coupled with impressive tax collections in GST as well as advance income tax should give the current government the power to maintain its capex investments in the Budget, says **Vinay Jaising**, managing director and co-head, portfolio management services at **JM Financial Services**. "Capex investments have grown 5.6x in the last decade and now account for*

3.3% of the GDP. This should enhance in both the interim and the final budget for the year," Jaising said in an interview with ETMarkets.

*He also believes that 2024 would be the year for **Indian equities** on both an absolute and relative performance basis versus the rest of the world. Edited excerpts:*

With 2023 turning out to be one of the best times for Indian equities, did you manage to generate alpha returns for your clients?

Vinay Jaising: In the last year, three out of four of our Discretionary platforms, which have over a year of history, outperformed the benchmark BSE 500 TRI Index handsomely from 2.6% to 6.9%; with the fourth being largely a market performer.

So, what's your overall outlook for equities for 2024, and what are the key factors that will drive inflows?

Vinay Jaising: We believe 2024 would be the year for Indian equities for both an absolute and relative performance versus the rest of the world.

The year 2024 should initially see a slowdown of the world due to consumption and economic growth slowdown hit by high interest rates.

From Q2 of 2024, we should start seeing interest rate cuts to balance the slowdown with inflation coming in control world over, and the focus moving from absolute interest rates to real interest rates. This should bring cheers to the equity markets globally.

We believe India's strong earnings growth trajectory and strong macro environment should help India relatively regain its outperformance in the months to come.

Technical factors like FII ownership being amongst the lowest in a decade, coupled with strong retail **domestic inflows** augur well for the Indian equity markets in the longer term. However, the three key risks are geopolitical, elections outcome and crude oil prices.

According to you, what **Budget 2024** could look like in February given it'll be an interim one?

Vinay Jaising: A stable economy, including impressive tax collections in GST as well as advance income tax, gives the current government the power to maintain its investments in capex, which has been rising for the last 10 years.

Capex investments have grown 5.6x in the last decade and now account for 3.3% of the GDP (not including PSU spend or state spend). This should enhance in both the interim and the final budget for the year.

In absolute terms, we expect over 30% growth YoY in capex expenditure by the government. Rural investments, which were a bit lower in the last two years, should get a fillip as well in both the budgets of at least 10% YoY.

Domestic inflows surpassed FII inflows by a significant margin in 2023. Do you see this trend continuing in 2024?

Vinay Jaising: We think the year 2024 would be all about equity inflows being at record levels.

Domestic inflows have been very strong with SIP inflows crossing \$2 billion on a monthly basis and PPF, EPFO and NPS inflows adding over another \$1 billion a month. However, we think the positive surprise would come from **FIIs**, who would probably play the catch up game and increase their weightage from 17% shareholding ownership, which is at a decade low of the BSE 500 cos, to probably 20%.

This does not include fresh issuance inflow by FII which could make the overall numbers even higher. The most important risk to these estimates coming up is an unstable government with a weak majority.

Which themes in India are likely to do well no matter what may be the outcome of the general elections? Which are the top 5 sectors that you will be betting on in 2024?

Vinay Jaising: India is the most populous country in the world having the highest literate and skilled workers. This can give an edge to India's move from the 5th largest GDP country to the 3rd largest.

The government is clearly cognisant of this advantage and, hence, we believe the capex cycle is here to grow at least for the next decade.

Even, "Make in India" theme is here to stay. We are betting capex and Make in India as the two long-term themes in India.

Sectors we are betting on are capital goods, industrials to target our capex theme. For our Make in India theme, we are betting on agro and speciality chemicals and healthcare. The telco infrastructure is a must for both the themes to succeed. With Indian tariffs for data and voice and ARPU being amongst the lowest in the world, we are confident on ARPU hikes and strong earnings trajectory for the sector which was historically riddled with spectrum related balance sheet liabilities.

After a strong run in the midcaps and small-caps, do you think flows could move to largecaps in the near to medium term?

Vinay Jaising: At JM Financial, we look at our macro and top-down to select any sector. Post that, we build models for every company and select stocks on a bottom up approach.

This process does not focus on the market cap of the stock today but its potential in the future. Most of the sectors we like happen to be in the mid-cap and small cap space.

Having said that, liquidity in small and mid-cap are much lesser than large cap and this could lead to increased volatility for them.

Do you see funds increasing cash levels closer to the big event like general elections?

Vinay Jaising: Funds are already pre-empting election outcome and the call they would take would mostly be on valuations of stocks to sell out of them or change in business models, which are both not related to elections.

We do not see any massive change in Indian policy making, irrespective of the election outcome. This to us is more a P/E re-rating or de-rating sentiment and less an earning change post-election as our base case.

However, based on news flow, we are certain the volatility factor in the markets would be high till elections.

What kind of investment strategy would you advise clients in the run-up to the event-heavy 2024?

We believe discipline is key to investments and one must follow one's strategy and not be swayed away by herd mentality.

Discipline for us means – Right Sector, Right Company, Right Return ratios, focus on cash conversion cycles and a strong balance sheet.