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Market Dips Will Attract Investors Due to Strong Liquidity, Robust Inflows: JM Financial's Anuj Kapoor

Kapoor says equity investments are the primary focus for family offices and HNIs, with both public and private markets attracting significant interest

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Ahead of the Q2 earnings season, Indian stock markets are grappling with challenges both domestically and globally. Following a subdued Q1 earnings season, analysts are anticipating modest growth in July-September quarter. Short-term earnings surprises may cause volatility, but market dips are likely to to attract buying interest due to strong liquidity and inflows, says Anuj Kapoor, MD & CEO, Private Wealth and Alternatives, JM Financial Ltd.

In an exclusive interview with Outlook Business, Kapoor discusses the Indian financial markets ahead of Q2 earnings season, evolving investment preferences among high-net-worth individuals (HNIs), mutual fund inflows, and the talent gap in the sector.

Q Following a muted Q1 earnings season with few positive surprises, do you expect this trend to continue into Q2 FY24? How can it affect the Indian stock market's bull run?

A The Indian stock market is currently in a bull run, albeit with some volatility due to global geo-political concerns. The Q1 earnings season has been disappointing.

Looking ahead, I believe earnings growth will primarily align with top-line growth, as margins are close to their peak. anticipate low teens growth for FY25 and mid-teens for FY26, which is healthy given the high base of the past few years.

While short-term earnings surprises may create some volatility, I expect market dips to attract buying interest due to significant liquidity and robust inflows. Therefore, major corrections are unlikely, unless there is an unforeseen global macro event.

Q What current trends are you witnessing in the investor behavior of family offices or HNIs? What are the preferred sectors or asset classes?

A Currently, equity investments are the primary focus for family offices and high-net-worth individuals (HNIs), with both public and private markets attracting significant interest. There's a clear "risk-on" sentiment, driven by the rapid growth of the affluent segment, which is boosting enthusiasm for the Indian growth story.

Investors are increasingly exploring sophisticated products, particularly in the unlisted shares market, especially in near-IPO companies. This segment is gaining traction as investors aim to capitalize on favorable valuations before these companies go public.

Additionally, the high-yield credit space is becoming more attractive. Improved credit quality among corporates, healthy balance sheets and prudent fiscal management which pave the way for corporates to borrow, are amongst the factors attributing to decreased perceived risks in this segment. While still smaller than in markets like the US, high-yield credit offers attractive opportunities for diversification and income generation.

Q There are concerns around declining buy ratings from India's booming stock market. According to a Bloomberg data only 61 stocks out of NSE 200 have consensus buy ratings as of September 24. What is your take?

A We have to understand few things in this regard. These sell side analysts you are talking about look at next 12 months horizon, and they look for at least 10-15% upside to give buy rating. Stock performance is an outcome of earnings growth and changing valuation multiples.

Looking at the construct of the market, there are limited pockets where valuations are either in line with their long-term averages or at discounts. In general valuations are rich, if not frothy. So even if earnings growth is to remain healthy, high valuation multiples limit the upside in stock in the near term.

From our perspective, as a wealth manager we have a medium to long term view on markets, and are not too concerned about short term movements.

Therefore, to summarize, we are constructive on the Indian markets from a medium to long term perspective on the back of strong fundamentals and likely earnings growth. However, markets may remain volatile in the near term, which can be used in favour of an investor.

Q SEBI has introduced a new asset class for HNIs, as discussed in a consultation paper in July. What is your take on this?

A SEBI's initiative to introduce a new asset class for HNIs is a progressive move. This new structure, combining elements of a Portfolio Management Service (PMS) and mutual funds, will allow for more flexibility such as the use of derivatives other than for hedging purposes and higher exposure limits, therefore giving high risk-taking abilities to fund managers. Unlike traditional mutual funds, which hold 60-80 stocks, this offering will focus on a concentrated strategy of 25-40 stocks. It will give more evolved and sophisticated investment alternatives for investors depending on their requirements.

Overall, though clarity around it is still evolving we are optimistic about the potential of this new asset class and look forward to its market development.

Q With mutual fund inflows reaching record highs, what trends have you observed among high-net-worth individuals (HNIs) in the mutual fund sector over the past few quarters?

A Yes, there have been notable trends in mutual fund investments from HNIs over the past few quarters. Systematic Investment Plans (SIPs) have surged, reaching record inflows of over ₹25,000 crores per month. HNIs and family offices are increasingly allocating capital to equity markets through mutual funds, while more sophisticated investors are choosing direct investments.

As the sector rotation has been quicker over past few quarters, we are seeing an increased interest for sectoral/ thematic funds. With the evolving passive space, we are seeing interest especially in smart beta strategies.

Q Given the significant skill gap in the financial services sector, with around 1.8 million of the 4.7 million jobs created last year remaining unfilled, what strategies does JM Financial have in place to address this gap and attract new talent to the industry?

A The talent acquisition and upskilling strategies need to be aligned with the evolving market dynamics and demand. This holds true especially in areas like private wealth where quality professionals are in short supply.

To tackle the scenario, we have adopted a two-pronged strategy. First, we prioritize training our internal talent and promoting cross-divisional mobility among our 4,000 employees, allowing them to explore different areas based on their skills and aspirations. Second, we have a targeted recruitment program for business school graduates, aiming to attract young professionals with the right attitude and potential. We believe in nurturing them to become future leaders.

Additionally, thanks to a strong brand recognition and over 50 years of heritage, JM Financial is well-positioned to attract lateral talent, complementing our initiatives to bridge the skill gap effectively.

Q What strategies is your firm implementing to enhance growth in your wealth management and alternative investment sectors?

A We have several key initiatives in place. Talent acquisition is a major focus, as we aim to sustain the growth momentum we have built in recent years.

As a part of our growth strategy, we focus on deepening client relationships by leveraging existing connections across verticals including investment banking, NBFC lending, and equities. This integrated 'one bank' approach enhances our ability to serve clients and increases our cross-selling opportunities.

We manage clients throughout their entire lifecycle, addressing needs related to capital raising, mergers and acquisitions, and private wealth management. For example, a promoter seeking corporate financing may also require our expertise in legacy planning. By adopting a client-centric model and fostering integration among our divisions, we aim to provide comprehensive services that meet diverse needs, which is central to our growth strategy.

Q As investors in tier 2 and tier 3 cities transition from traditional investments like real estate and gold to equities and other emerging options, how is your firm capitalizing on this trend?

A We have a strong presence in tier 2 and tier 3 cities through our branches and retail businesses, including securities, broking, and housing finance. As we expand our private wealth and investment banking services, we recognize the emergence of new clients in these areas, particularly among successful entrepreneurs.

Our integrated approach enables us to engage with these prospects early, fostering relationships that allow us to grow alongside them. We are also focused on enhancing our private wealth and asset management services to meet the evolving demands of these markets, which are vital to our growth strategy in the coming years.