Business Standard

Thu, 29 Apr-21; Business Standard - Mumbai; Size : 323 sq.cm.;
Circulation:30029; Page : 10

'Mkt valuation not as fair compared to March '20'

With the second wave denting investor appetite, **SATISH RAMANATHAN**, MD and CIO (equity), JM Financial Asset Management, tells **Nikita Vashisht** that investors must build their portfolio with large-cap and mid-cap stocks, along with offshore funds, to tide through the current volatility. Edited excerpts:

Do you see any further market correction over the next three months?
The sudden spike in Covid-19 cases has derailed expectations and growth to some extent. However, a supportive and pro-growth Reserve Bank of India (RBI) offers relief. We believe it is too early to call a slow-down, and are in the wait-and-watch camp. If the surge in cases continues or there are forced lockdowns that inhibit economic activity, we believe markets will then cool off, given the high expected growth rate and valuations.

What could pull the markets out from the current phase?
Attributing market recovery to only fiscal and monetary policy support would be inadequate, given that India Inc did its bit by cutting costs and improving efficiency. This trend was observed globally, as companies realised that business could be conducted online or with a tighter cost structure. Companies in India, too, reduced their wage cost but did not lay off people, which helped in recovery. However, it is the SME segment that we are worried about in the longer term. In the event of a second lockdown and slowdown, we do not expect a similar V-shaped recovery to necessarily play out, as the base effect turns unfavourable and pent-up demand is no longer present. Further, market valuations are not as attractive as they were in March 2020.

Q&A

SATISH RAMANATHAN
MD & CIO (equity), JM Financial Asset Management

Outlook for foreign portfolio (FPI) flows into equities?
They will be weak owing to Covid issues, but will improve once the fears are behind us. In terms of growth and potential, India still offers one of the better markets globally. So, FPI inflows will continue to hold or improve when sentiment improves.

Will 2021 be the year of defensives again?
Defensives will continue to do well and help in a volatile environment. The three classical defensive industries — pharma, IT and consumer — will continue to demonstrate high cash flow conversion. However, we are also seeing other sectors fit the bill, such as commodities and industrials. Supply chain disruptions and a stress to localise across the world is helping in margins moving up across sector. It is too early to make contra bets, as the markets have not corrected significantly. That said, we believe chemicals, industrials and commodities will continue to recover and gain strength.

How big a risk are inflation and bond yields?
The RBI has rightly waited to make inflation as a key risk, when growth could falter. The bond market is at an interesting place, as there is an absence of borrowers in both retail and corporate, and the only borrower is the government. Inflationary concerns are definitely an issue if growth sustains in China and the US does embark on an infrastructural spend. This is at a global level and in the domestic economy while inflation will nudge up, Covid-19 fears will dominate the bond market for the short term.

Suggestions for investors to tide through the current market?
We recommend equities with a blend of large- and mid-cap, along with sectoral funds (some offshore). One should be prepared for bouts of volatility. Systematic investment plans (SIPs) will be the preferred mode of portfolio building at this juncture.