PROJECTING THE WAY FORWARD FOR INDIA POST ELECTION RESULTS

A Q&A with Fund Managers

by

PMS AIF WORLD

Views By:

- Mr. Anand Shah, ICICI Pru AMC
- Mr. Anup Maheshwari, 360 ONE Asset
- Mr. Arun Subrahmanyam, Ampersand Capital
- Ms. Sonam Srivastava, Wright Research

By Anand Shah

Head – PMS & AIF,
ICICI Prudential AMC

1. How good is your confidence in Indian equities for the next 5 years, given the 2024 election results, and why?

Looking at the election results, the incumbent alliance seems to have the requisite numbers which gives confidence on policy continuity and stability. Coming to the outlook on the Indian economy and equities, we remain positive. The macroeconomic indicators provide a solid foundation for the new government, compared to its previous two terms. Notable factors include benign inflation, a narrowed current account deficit, substantial foreign exchange reserves, strong GDP growth, strong tax revenue growth, and continued fiscal discipline. We expect macroeconomic stability, and the backdrop of past structural reforms likely providing benefits that can propel strong GDP growth and reasonable earnings growth for India Inc. over the ensuing five years.

2. What kind of new reforms and areas of focus do you see from the new policymakers?

We expect fewer big ticket reforms compared to last two terms which I believe is not such a bad thing. Big Bang reforms / decisions viz; demonetisation, GST reforms, RERA implementation, Jan Dhan, UPI, DBT, capital gain tax, PLI, Atmanirbhar Bharat etc…have been done over last 10 years. Many of these decisions did lead to short term pain to economy while they have turned out to be beneficial in the long run. We believe over the next 5 years the economy can benefit from the past reforms. The government is expected to continue on its reformist mindset and carry on its good work, particularly with regards to supporting better infrastructure for manufacturing projects, capex plans in new emerging areas and technologies as well as implementing policy measures to attract inward FDI into the country.

By Anand Shah
Head – PMS & AIF,
ICICI Prudential AMC

3. Going forward, which sectors should command higher weights in an investor's portfolio?

We remain committed to a bottom-up investment approach, focusing on earnings growth and return on equity (ROE) improvement when building a portfolio. Given we strongly believe that domestic economy is in good shape, we are positive on domestic cyclical sectors and corporate banks, select manufacturing, manufacturing allied sectors, as well as select consumer companies that are gaining market share and could be assigned higher weights. We remain underweight in Technology, Consumer staples and equal weight on Healthcare.

4. What is your view on India's dream of becoming the 3rd largest economy & touching $5 trillion GDP, in the next 5 years?

For India to become a $5 trillion economy, it requires a nominal GDP growth of 9-10% over the next three to four years, which, in my opinion, is achievable goal. Further, if we maintain the domestic growth pace and receive a favorable global economic environment, with focus on manufacturing goods exports alongside services exports, we can surpass the above target.

5. Which is the one theme you are bullish on from here on?

We don't decide on themes based on a top-down approach; it is always from the bottom up. We are continuing with our theme of manufacturing and manufacturing-allied sectors where we have visibility of earnings growth and Return on Equity (ROE) improvement. Along with that, we also see opportunities in select consumption spaces (experiential consumption) where we could observe a delta in Earnings Per Share (EPS) and Price to Earnings (P/E) re-rating.

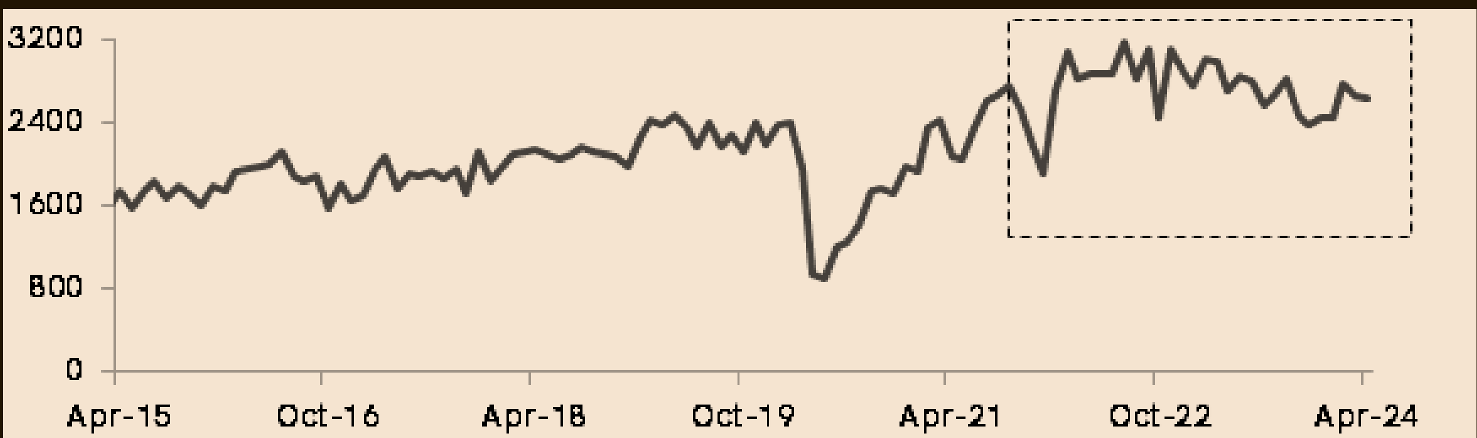
By Anup Maheshwari
Co-Founder & CIO,
360 ONE Asset

1. How good is your confidence in Indian equities for the next 5 years, given the 2024 election results, and why?

Broadly, NDA 3.0 is poised to emphasize 'continuity' over 'change,' ensuring macroeconomic stability. India has made significant strides in various macroeconomic aspects. The country has achieved a stable current account balance, increased government capital expenditures, witnessed a resurgence in private investments, undergone fiscal consolidation, strengthened its banking sector, and reduced corporate leverage. These positive trends are expected to persist. Furthermore, structural factors such as a burgeoning middle class, favourable demographics, rapid digitalisation, and economic reforms contribute to a promising outlook for India.

2. What kind of new reforms and areas of focus do you see from the new policymakers?

Weak employment generation was one of the key issues in the General Elections. Hence, given the significant loss of seats, employment will appear prominently on the government agenda. This could boost lagging consumption. We anticipate that rural consumption will rebound with a normal monsoon, while the recovery of urban consumption might be sluggish.



Naukri JobSpeak Index (Measure of Hiring Activity)

By Anup Maheshwari
Co-Founder & CIO,
360 ONE Asset

3. Going forward, which sectors should command higher weights in an investor's portfolio?

The BJP/NDA remains committed to increasing the share of manufacturing in GDP from 17% to 25%. Electronics, such as mobile phones, have benefited from the government's focus on domestic manufacturing Defence, food processing, pharma, and auto industries are also expected to benefit. The domestic manufacturing sector is also poised to benefit from the trend of diversifying supply chains away from China, commonly referred to as China+1. The new government will continue pursuing Free Trade Agreements (FTAs) to boost exports.

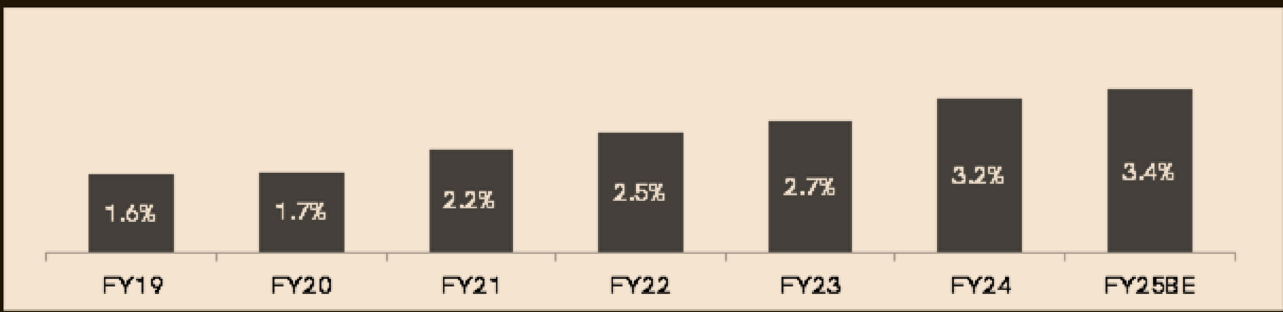
4. What is your view on India's dream of becoming the 3rd largest economy & touching $5 trillion GDP, in the next 5 years?

We are on track to achieve $5 trillion Indian economy dream and becoming the 3rd largest economy in the next 5 years. There are several mid- to long-term positives for the economy. Firstly, a well-distributed monsoon could improve monsoon crop (Kharif) production, bring down food inflation, and enable the recovery of rural consumption. Secondly, urban consumption should pick up, as indicated by the improvement in consumer confidence in RBI's April 2024 survey round. Thirdly, prospects for fixed investment remain bright with healthy corporate and bank balance sheets, robust government capital expenditure, and signs of an upturn in the private capex cycle. Fourth, the expected easing of monetary policy could also support economic activity. Lastly, a potentially strong policy regime post-elections would catalyse growth.

By Anup Maheshwari
Co-Founder & CIO,
360 ONE Asset

5. Which is the one theme you are bullish on from here on?

Government capital expenditure has increased substantially over the past five years , and there has been significant infrastructure expansion over the past decade. The commitment to infrastructure development and improving the quality of government spending is expected to continue under NDA 3.0, which is promising for sectors such as roads, power, railways, logistics, cement, steel, and industrials.



Capital Expenditure as Percentage of GDP

By Arun Subrahmanyam
Founder & Managing Partner, Ampersand Capital

1. How good is your confidence in Indian equities for the next 5 years, given the 2024 election results, and why?

Indian equities are likely to deliver similar or higher returns compared to the past, in our view. The key reasons supporting our thesis being, (1) Strong fundamentals of the corporate sector, compared to the past decade (2) Macro factors such as Fiscal deficit, Trade deficit, FX reserves and inflation, all of which are well under control, and (3) Likely continuation of government policies, as leading coalition partners are inherently pro-growth.

We also believe that the incoming government will have better checks and balances. While this may result in a slowdown in reforms, it won't allow rash decisions like demonetisation to happen. Also, the key concern about shift of government capex to social spending is not substantiated, since the earlier dispensation of BJP also focussed on welfare schemes such as free ration, housing etc. Creation of jobs rather than freebies seems to be the takeaway from election results.

Finally, the electoral process again demonstrated the strength of India's democratic system. And this should increase the country's goodwill on the global stage.

2. What kind of new reforms and areas of focus do you see from the new policymakers?

Under this coalition government, some of the BJP-led areas of focus such as CAA and UCC, and reforms like 'One nation, One poll' could be temporarily put on the backburner. Just as well, as the focus could be more towards economic betterment. So, we expect the government to continue to focus on, (1) infrastructure development, (2) import substitution, in areas of manufacturing, defence and technology, and (3) foreign trade, through trade agreements. Also, as investors once can hope for better execution in divestment of PSUs, also to meet government's social objectives.

By Arun Subrahmanyam

Founder & Managing Partner,
Ampersand Capital

3. Going forward, which sectors should command higher weights in an investor’s portfolio?

Historically, our portfolio has been dominated by Capital goods, followed by Consumer discretionary, and we see little reason to alter this meaningfully. Perhaps the order could change. Pharma & Healthcare will also form an important constituent of our portfolio, as has been over the past couple of years. We continue to like the capital goods and engineering sector, due to (1) Energy security and transition in the face of environmental change, and adoption of newer technologies, and (2) Alteration in global supply chain network, following recent spate of hostile geo-politics and need of developed countries to reduce dependence on China. Our preference for Consumer discretionary which include Automobiles, Durables and Real estate is driven by a combination of under penetration and rising wealth effect. In Pharma/Healthcare, apart from the traditional generics theme, we like the CDMO/CRAMs players, due to India's clear advantage of low cost, skilled talent to meet the requirements of global innovators.

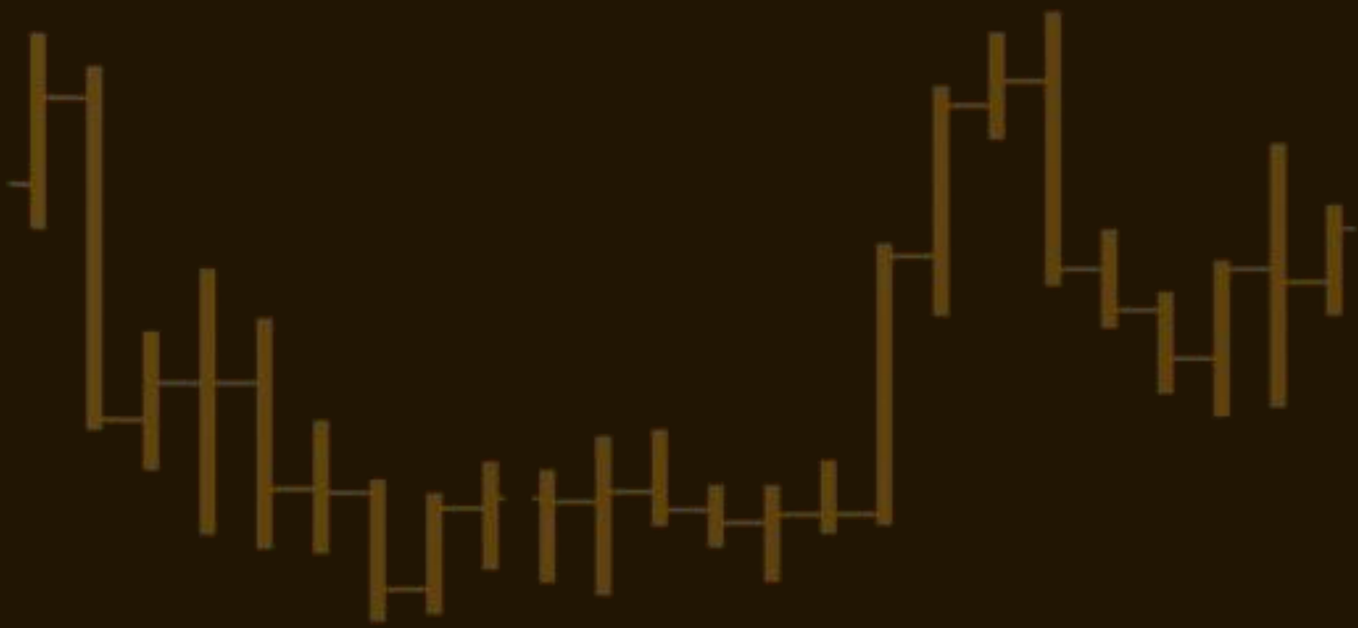
4. What is your view on India’s dream of becoming the 3rd largest economy & touching $5 trillion GDP, in the next 5 years?

India’s dream of becoming a USD5trn economy seems well within reach and can be achieved in the next 4 to 5 years on realistic assumptions of 6-8% GDP growth rate. IMF expects India to cross this mark in FY28. As such, India's manufacturing sector will have to play the most significant role to meet this target. Among the leading economies in terms of size, India is still highly dependent on agriculture at 18% of GDP. On the other hand, manufacturing constitutes a similar 18% of India's GDP, much lower than the 23%-35% band for USA, Europe and China. Thrust on manufacturing through PLI schemes, Trade agreements with friendly counties and Trade restriction with China will likely boost the manufacturing sector. This should help create jobs and result in shifts from low paying agricultural jobs to the manufacturing sector. This will also mirror the political aspirations of the new government.

By Arun Subrahmanyam
Founder & Managing Partner,
Ampersand Capital

5. Which is the one theme you are bullish on from here on?

We are most bullish on the Energy transition theme. Over the next 5 years, India needs to take its annual renewable energy resources 5x, compared to what it added last year. India's goal of manufacturing-led, environmentally suitable, sustainable growth thereby depends on the successful ramp up of renewable energy capacity. This surge is needed to meet environmental goals as well as meeting rising energy demand in India. However, the volatile nature of renewable energy will warrant significant investment in Transmission and Distribution requirements.



By Sonam Srivastava
Founder,
Wright Research

1. How does your quantitative model assess the confidence in Indian equities for the next 5 years, given the 2024 election results?

The 2024 Indian general election results, leading to a coalition government, present both challenges and opportunities for Indian equities over the next five years. Despite not securing an outright majority, the BJP-led NDA remains a significant political force, ensuring a degree of stability. The recalibration of policies to address rural and agricultural distress could boost bottom-of-the-pyramid consumption and inclusive growth. India's GDP growth remains robust, with projected double-digit earnings growth for FY25 and FY26, driven by financial services and broad-based economic momentum. Market corrections post-election create opportunities for investors to enter at more reasonable valuations. Sectors like consumption, agriculture, infrastructure, and pharmaceuticals are poised for growth, benefiting from increased focus on rural policies and healthcare. While global economic pressures, such as elevated interest rates and protectionism, pose challenges, India's resilient domestic market offers a buffer. Strong domestic investor confidence and the potential return of foreign investors further bolster the outlook. Overall, despite short-term volatility, the confidence in Indian equities remains high, supported by robust economic fundamentals and proactive policy measures.

2. What kind of new reforms and areas of focus do you see in the new government's policies?

In the wake of the 2024 election results, the new coalition government is expected to implement reforms and policies aimed at addressing rural and agricultural distress, which were highlighted by the election outcome. Key areas of focus will likely include enhancing rural infrastructure, increasing support for agricultural productivity, and expanding social welfare schemes to boost bottom-of-the-pyramid consumption. Reforms in GST and direct taxes are anticipated to simplify the tax structure, improve compliance, and enhance economic efficiency. Additionally, efforts to pursue free trade agreements (FTAs) will aim to bolster international trade and economic integration. While significant changes in minimum support prices (MSP) and employment through low-productive government jobs are unlikely, the government may increase spending on direct social schemes. Environmental considerations and sustainability will remain integral, with continued emphasis on infrastructure development, including renewable energy projects. These reforms and policy focuses are designed to promote inclusive growth, enhance economic resilience, and sustain long-term development, ensuring that the benefits of economic progress are widely distributed across the population.

By Sonam Srivastava
Founder,
Wright Research

3. What specific factors or signals will you prioritize on, in identifying alpha for clients?

In identifying alpha for our clients, we employ a multi-factor approach that adapts to changing market conditions. While we prioritize momentum during certain periods, we tactically shift our focus to specific factors like quality, value, and growth as market dynamics evolve. This flexibility allows us to capitalize on emerging opportunities and mitigate risks effectively. Our approach goes beyond merely analyzing price and fundamental data; we also closely monitor market sentiments, forward looking estimates in the market, macroeconomic trends, and potential risks. This comprehensive perspective ensures that our investment decisions are well-informed and resilient.

For instance, our strategies are designed to be hedged against market volatility. During the recent post-election market correction, where the market fell by 6.5%, our portfolios were only down by 3.5% due to strategic hedging. This allowed us to protect our clients' investments and take advantage of buying opportunities at the market bottom. By incorporating a blend of quantitative models, sentiment analysis, and macroeconomic insights, we aim to deliver consistent alpha while navigating the complexities of the market. This holistic and adaptive approach ensures that we remain proactive and responsive to market changes, ultimately driving superior returns for our clients.

4. What is your view on India's dream of becoming the 3rd largest economy & touching $5 trillion GDP, in the next 5 years?

The goal of India becoming a $5 trillion economy and the 3rd largest in the world within the next five years is ambitious but achievable with the right strategies and policies. India's robust GDP growth, driven by strong domestic consumption, infrastructure development, and a burgeoning digital economy, lays a solid foundation for this aspiration. Continued structural reforms, including simplification of GST, expansion of direct benefit transfers, and enhancement of the business environment, are crucial. Investment in infrastructure, renewable energy, and technology will further accelerate growth. Additionally, focusing on skill development and job creation will harness the demographic dividend. However, challenges such as global economic uncertainties, geopolitical risks, and the need for inclusive growth must be managed effectively. With proactive government policies and resilient economic fundamentals, India is well-positioned to achieve this milestone, transforming its economic landscape and enhancing its global standing.

By Sonam Srivastava
Founder,
Wright Research

5. Which investment theme do you think is the most promising one from here on?

The most promising investment theme going forward is a sectoral rotation towards consumption, pharmaceuticals, and agriculture-led themes. The election results indicate a likely shift in government policies to address rural and agricultural distress, which will significantly benefit these sectors.

Consumption will be driven by increased support for bottom-of-the-pyramid consumers, leading to higher spending in rural areas. The pharmaceutical sector is poised for growth due to ongoing healthcare needs and increased focus on public health infrastructure. Agriculture and related industries will see a boost from policies aimed at improving rural income and agricultural productivity.

Additionally, while sectors like defense, railways, and PSUs have experienced significant corrections, their long-term growth potential remains intact. However, valuations in these sectors have likely peaked in the near term, making the shift to consumption, pharmaceuticals, and agriculture more attractive. This strategic pivot aligns with the new government's policy focus and offers substantial growth opportunities, making it the most promising investment theme from here on.

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