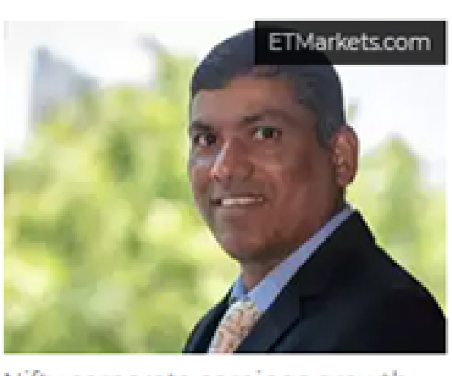
ETMarkets Fund Manager Talk: Prolonged stagnation in equities could hurt SIP inflows: Sampath Reddy, Bajaj Allianz

Synopsis
China's weight in the MSCI Emerging Market index had fallen from a high of 42% in October 2020 to 26% in October 2022, and picked up to 33% as of January 2023.



Nifty corporate earnings growth for FY23 and FY24 is projected at 12% and 15% respectively, which is still quite healthy.

The mutual fund industry saw inflows through the systematic investment plan (SIP) route hit a record high of over Rs 38,000 crore in January.

But the volatility in equities in the recent months has somewhat hurt returns.

"If equity market returns stagnate for a prolonged period, then this could impact the pace of SIP flows to some extent, especially with interest rates and bank FD rates going up in India," said Sampath Reddy, CIO at Bajaj Allianz Life Insurance, in an interview with ETMarkets. Edited excerpts:

The selling by FIIs has turned India the worst performing market in the world in 2023 from best performing in 2022. Do you think this change in the tide is here to stay and hurt absolute returns for investors?
Yes, the $4 billion plus of FPI equity selling in CYTD23 has caused the Indian markets to relatively underperform during this calendar year so far. This has to do partly with the higher valuation premium of India to peer emerging markets, and also with the opening up of the Chinese economy post the change in stance with respect to their Zero-Covid policy.

As result of this, foreign inflows returned back to China and other key emerging markets like Taiwan and Korea.

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However, DII equity inflows have been quite robust in CYTD 2023 and higher than FPI equity outflows over the same period.

As a result, the absolute correction in Indian equity markets has been minimal in this calendar year so far. Also, with India relatively underperforming both emerging and developed markets over the past few months, its valuation premium has come down from earlier highs and appears more reasonable now.

With India being better placed from a macroeconomic perspective amidst the global growth slowdown the prospects for Indian markets seem better placed now.

How much AUM do you manage and can you quantify the performance of your top funds in 2022 vis-a-vis the benchmark?
Bajaj Allianz Life Insurance has an AUM of Rs 89,000 crore as of January 2023 end. Our key large-cap equity funds have outperformed their benchmark index in CY2022, but the key active mid-cap equity fund has underperformed its benchmark index during the same calendar year.

Over the long-term (10 years), all our key active equity funds have outperformed their respective benchmark indices from a trailing (point-to-point) returns and risk-adjusted returns perspective.

What is the kind of cash level you are sitting at – are you putting aside more cash amid the volatility in the market?
We are pretty much fully invested in our large-cap equity funds and have minimal cash exposure. In our key active mid-cap equity fund we have a relatively higher cash exposure presently and will look to deploy the same as the opportunity arises.

Which sectors within the mid- and smallcap segments look attractive to you and have investment opportunities?
In the mid/small-cap segment, we are positive on sectors like the QSR (Quick Service Restaurant), diagnostics, auto ancillaries, capital goods and gas/utilities.

QSR segment has seen some slowdown in demand recently, but the long-term outlook for this space is still good on the back of India's domestic consumption story. The diagnostic sector valuations are now looking attractive after the correction and the prospects of gas/utilities are also looking better from a valuation perspective.

Auto ancillaries sector will benefit from a pick-up in volumes, reduction in supply-chain issues in semiconductor chips, and also reduction in commodity prices. Capital goods will benefit from the revival in the investment cycle.

The latest AMFI data showed that SIP inflows continue to hit record highs. But do you see risks to this if equity market returns stagnate in the coming months?
Yes, MF SIP flows hit a record high of more than Rs 13,800 crore in month of January 2023 and is an encouraging sign of domestic retail interest in equities, and faith in India's long term growth story.

If equity market returns stagnate for a prolonged period, then this could impact the pace of SIP flows to some extent, especially with interest rates and bank FD rates going up in India.

But, we don't expect a major impact on SIP flows and historically, they have been stable and growing even in periods of market volatility.

The Budget has given greater impetus to capital spending. In view of this, which sectors are you bullish on and would look at increasing your exposure?
The core focus of the budget has been to provide a boost for infrastructure/capital expenditure (capex). Central government capex is budgeted to rise by 37% to Rs 10 lakh crore in FY24. Therefore, from pre-pandemic levels of 1.5% of GDP, the capex is now budgeted to increase to 3.3% of GDP in FY24.

Given this greater impetus to capital spending, we continue to be positive on the capital goods sector as the investment cycle continues to recover in India.

Other sectors that we are positive on is private banks (with robust credit growth, strong margins and benign asset quality trends), technology sector (with valuations looking attractive in this segment and expectations that global economic slowdown may not as severe as expected earlier), domestic consumer-oriented plays (as domestic economy is not expected to see a severe slowdown).

Do you see a pick up in private sector capex in FY24 in the backdrop of higher government spending?
With capacity utilization above the long-term average, and the large government thrust to infrastructure / capex, we should start to see a gradual pick up in private sector capex as well.

Furthermore, the possible extension of Production Linked Incentive (PLI) scheme in other sectors also bodes well for the investment cycle and for the manufacturing sector in India, which has been sub-par in recent years.

PLI linked capex has exponentially grown in recent years and is projected at more than $10 billion in FY23 vs just $2 billion in FY22.

What are your takeaways from the Q3 results announced so far? How do you expect FY24 to pan out for India Inc?
Q3 results were in-line with expectations, and therefore, any large cut in earnings estimates are not expected. Sectors like financials, auto, capital goods and FMCG saw earnings beat, and the IT sector also witnessed an upgrade in earnings. Meanwhile, sectors like cement, metals, oil & gas and pharma saw earnings misses.

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