5 MOST IMPORTANT QUESTIONS THAT INVESTORS HAVE ON THEIR MINDS RIGHT NOW!

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High Performance Investing

PMS AIF WORLD INTERVIEWED INVESTMENT THOUGHT LEADERS AND TRIED TO FIND OUT VIEWPOINTS AND ANSWERS TO 5 MOST IMPORTANT QUESTIONS INVESTORS HAVE TODAY

HEALTH IS PARAMOUNT, BUT HOW SHOULD INVESTORS DEAL WITH THE 2ND WAVE OF COVID-19?

Q1 Is the 2nd wave of COVID-19 a 2nd chance for investors to invest, or one should wait and watch, and just focus on health at the moment?

Prashant Khemka
Founder & CIO, White Oak Capital Management

In the first wave, a broader index such as the BSE-500 crashed by nearly 40% from its peak. Interestingly, this sharp fall happened in Mar 2020 in the very initial days of the pandemic whenthe total number of Covid cases in India were hardly 500. This time, despite a far higher number of Covid cases, the BSE-500 has corrected by only 4% from its peak. One possible reason is that vaccination has emerged as a mitigating factor. Last year there were many things which were unknowns like transmission rate, fatality rate, vaccine availability etc., but this time there is a little more understanding of the pandemic. Our firm belief is that it is impossible to time the market and thus it is advisable to stay invested at all times

Sunil Singhania
Founder, Abakkus Asset Management

After a strong start to the year, markets have turned volatile as India saw the second wave with spurt in Covid-19 cases, imposition of lockdowns and night curfews in some parts of India. We see his as an opportunity as we believe the economic impact of second wave will be much limited than the first one. The good thing this time is that everyone around is aware of the symptoms plus precautions that they must take. The State governments too have rightly imposed more localised lockdowns and curbs on mobility against a full lockdown earlier. With cases largely localised and concentrated, and with momentum of vaccination likely to increase significantly, there are expectations that the second wave can be controlled soon. Expectations are of the 2nd wave to peak out somewhere in May 2021 and that should be heartening. India's vaccination roll-out phase has also been encouraging, though it needs to be rolled out much faster than at present to cover the vast population. Given the decent pullback in the headline indices, market has provided a reasonable opportunity to investors who have been waiting on the side lines for a correction in the market to enter gradually.

Anup Maheshwari
CIO & Joint CEO, IIFL AMC

Health is always of utmost importance irrespective of the pandemic and we hope that people are able to tide through these times by taking due precautions and staying safe. Based on the long-term valuations, we use Price to Book - P/B as one of the key indicators, to monitor valuations. When P/B in the range of 3.5 or below, the markets are in the fair valuation zone and at such valuation levels, the allocation should continue. Further, given our emphasis on bottom up stock picking, we continue to focus on company specific opportunities to invest & hence would recommend investors to stay invested.

Vaibhav Sanghavi
Co-CEO & Portfolio Manager, Avendus Capital

First and foremost, one should surely focus on health by masking up & stick to Covid appropriate behavior. Coming to investments, it is very easy to get bearish amid the shorter term noise trying to extrapolate and extend it to long term. We already have a template of last year where after the initial panic in the markets, things recovered very swiftly. We think that post the shorter term uncertainty, we will again focus on economic & earnings recovery, leading to better market performance. If an investor has longer term investment horizon, it's a good time to invest, however, for shorter term traders, it is advisable to wait, till volatility ebbs.

Hiren Ved
Co-Founder & CIO, Alchemy Capital

Firstly, nothing is as important as one's health. Looking after oneself and the family should be everyone's priority. Having said that the second wave is a great opportunity for investors to invest in the markets because the next couple of years could deliver double digit compound return which looks difficult in any other asset class.

Saurabh Mukherjea
Founder & CIO, Marcellus

Factors like Covid don't impact stock prices for horizons longer than 3-6 months. Furthermore, factors like Covid or monsoons cannot be predicted successfully on a consistent by professional experts (virologists for Covid, meteorologists for monsoons). So, investors – who have no expertise in forecasting Covid or monsoons - should not even think of trying to bring Covid or monsoons into the equations. Equity investing in India should always be done with a forecasts on three factors: (a) are the financial statements of a company accurate or fabricated; (b) is the company selling products or services which are essential; and (c) does the company have a dominant franchise with high barriers to entry

Q2 What lies ahead for the economy and corporate profits, in FY 22?

Prashant Khemka
Founder & CIO, White Oak Capital Management

As per sell-side consensus, India's GDP growth estimates for FY22 is 10% YoY while earnings growth rate is a steep 30% YoY. The sharp rise in Covid cases and the accompanying lockdowns do pose downside risks but with manufacturing activity being allowed in most areas the impact is likely to be contained as compared to 1QFY21 (Apr-Jun'20). Accommodative monetary policy, a likely pick up in vaccination rate and an improving global growth outlook can drive recovery in subsequent quarters.

Sunil Singhania
Founder, Abakkus Asset Management

The expectations for Nifty 50 earnings for FY21, post the onset of Covid-19 pandemic in March 20 were for a 25-30% drop. As time passed by, the recovery in economy & corporate profitability turned out much better than expected. What helped the trend was the resilience in demand plus the formal segment of the economy was less impacted and this is what gets represented in equity markets. In fact, after a long time, we are seeing many more upgrades than downgrades over the last three quarters. The earnings season for the December quarter was one of the best in the last 13 years and the March 21 quarter earnings are also expected to be quite good. Thus, from a scenario of a 25-30% drop in FY21 Nifty 50 earnings projected in April 20, it is now expected that there will be a healthy 13% earnings growth in FY21 Nifty 50 earnings, despite the challenges posed by the Covid-19 pandemic (Motilal Oswal Research estimates). Adjusting for the base effect of Fy21, we see healthy high double digit earnings growth. The idea is to pick the winner sector and stockswithin them which will do better than the averages

Anup Maheshwari
CIO & Joint CEO, IIFL AMC

The corporate earnings growth has remained lackluster in the last few years. Further, India's corporate profit to GDP ratio at 1.8% for FY20, was the lowest in the last two decades. We have seen that the long term average of corporate profit-to-GDP ratio is around 4.4% (FY01-FY20). While the improvement in some of the domestic high frequency indicators has been indicative of a potential macro recovery underway, the vaccine inoculation for masses at large will be instrumental in determining the pace of recovery. Given the single point focus on making vaccine available for all, we believe that recovery in corporate earnings will pave the way for corporate profits in the coming fiscal

Vaibhav Sanghavi
Co-CEO & Portfolio Manager, Avendus Capital

After very encouraging initial forecasts on potential GDP growth for FY22, post the fresh lockdowns / restrictions, estimates have been cut by about 100 bps. We are yet to see how much do these restrictions extend and depending on which we will see revisions of estimates. Estimates on Corporate profits, will also likely be trimmed for FY22. However, it still would be a good growth vis a vis FY21, with estimates unlikely to be changed for FY23 yet.

Hiren Ved
Co-Founder & CIO, Alchemy Capital

In FY22 we will see a double-digit GDP growth and 20%+ earnings growth. But that's not the point. We are at the cusp of a new economic growth cycle in India as well as a new earnings cycle. We will see massive improvement in productivity driven by digitalization of the economy. People are underestimating that digitization will drive velocity of money and velocity of money in a productive and growing economy creates a virtuous cycle.

Saurabh Mukherjea
Founder & CIO, Marcellus

We have no ability to predict the outcome of the economy or corporate profits over a time period as short as 6-12 months. Our investment philosophy does not depend on forecast of profits for the next quarter or for the next year. We invest basis the 3 parameters given in the preceding answer for our portfolio companies.

Q3 During this 2 nd wave of COVID-19, given the prevailing valuations, what are the top 3 Key Sectors that you would like to add?

Prashant Khemka
Founder & CIO, White Oak Capital Management

We do not make any top-down allocation decisions on sector weights or thematic exposures. The sectoral weights are an outcome of our bottom-up stock selection process. Having said that, we continue to find compelling opportunities across private financials, technology, & healthcare.

Anup Maheshwari
CIO & Joint CEO, IIFL AMC

We have been increasing our exposure to companies which are poised well to benefit from the cyclical recovery within our SCDV framework. Continued government thrust on capex led recovery and infrastructure, has increased our conviction on the cyclical uptick ahead. Sectors such as Financials, Industrials, and Building materials are best placed to benefit from the acceleration in the growth trajectory.

Sunil Singhania
Founder, Abakkus Asset Management

We have not materially changed our portfolio positioning over the last 2-3 months. Our focus is on fundamentals and not on short term news flow. We continue to have decent share of Export driven sectors like IT and Pharma. At the same time, we continue to have exposure to economy related stocks. In terms of consumption, we have a bias towards rural consumption companies as monsoon is expected to be strong for third consecutive year and these companies are growing at reasonable pace but at the same time are at reasonable valuations as well. Currently financials is our largest exposure and we remain positive on the outlook as this sector will see maximum benefits from an acceleration in economic activity and valuations are reasonable giving us superior risk reward equation

Hiren Ved
Co-Founder & CIO, Alchemy Capital

1.Cyclical sectors – Cement, Metals, Logistics, Auto 2.Technology 3.Pharma & Specialty chemicals

Vaibhav Sanghavi
Co-CEO & Portfolio Manager, Avendus Capital

We are positive on the economy facing sectors like banking and financials, industrials and materials for medium to long term. In the shorter term our preference would be towards defensives like Pharmaceuticals

Saurabh Mukherjea
Founder & CIO, Marcellus

We don't add or subtract sectors from a portfolio due to such events. Sectoral considerations play no role in our stock picking. We look for companies which satisfy the 3 parameters given in the first answer. About 30 companies in the entire Indian market satisfy these 3 criteria. Such companies accelerate market share gains in a difficult external environment, and they also grow at a healthy pace in an environment which is supportive of all players in their industry. Hence, we pick stocks from this list of 30 companies whether Covid is happening or not happening.

Q4 Would you allocate more to Seculars like Asian Paints, HDFC Bank, Nestle, Bajaj Finance OR Cyclicals like ICICI Bank, Maruti, L&T, ACC?

Prashant Khemka
Founder & CIO, White Oak Capital Management

We seek to maintain a balanced portfolio with a mix of both pro-cyclical and counter-cyclical companies. The aim is to consciously avoid sector rotation, market timing or other such top down bets. As such, generally we would expect the portfolio to outperform through various sub segments of the market cycle.

Hiren Ved
Co-Founder & CIO, Alchemy Capital

Except for Bajaj Finance (yes) from the first cohort and yes for all stocks (or similar proxies) from the second lot

Anup Maheshwari
CIO & Joint CEO, IIFL AMC

In our SCDV framework which we follow, we are overweight secular stocks at all points of time, which is also the core allocation in our portfolio. This entails from the fact that companies in this segment have historically displayed superior business economics. Allocation to cyclicals and defensives is more on a tactical basis which could keep changing as per the prevailing market conditions. At this stage, where we anticipate economic recovery to pick up in coming months (provided a third wave doesn't derail the growth), we are focusing on opportunities across these defensives and cyclicals based on our ROE and PAT growth parameters.

Sunil Singhania
Founder, Abakkus Asset Management

An interesting aspect of the markets, particularly over the last 6-8 months has been change in stocks and sectors that have been outperforming. Broader markets have significantly outperformed, with the midcap and small cap indices doing much better. It has been a combination of massive underperformance from 2017 to 2020, faster growth and deep discount in valuations compared to their historic ratios as well as their large cap peers. Institutional apathy towards them, reflected by almost zero to very low holdings in these stocks, also has been a reason for the strong performance by this segment. Another interesting trend has been the move away from "Quality at any Price" to "Growth at Reasonable Price". The point we want to reiterate is that quality is always a key factor while investing, but "Buy at any Price" will not work eventually. Also, quality exists even in sectors that maybe cyclical but over a period even they report decent return ratios and are opportunities to invest in. We continue to believe that a good company also has to be a good investment and here valuations play a major role. There is always more money to be made in identifying a good company which becomes great than investing in an already great company.

Saurabh Mukherjea
Founder & CIO, Marcellus

As mentioned in the preceding answer, we don't think about the stock market in this manner. We look for companies which satisfy the 3 parameters given in the first answer. About 30 companies in the entire Indian market satisfy these 3 criteria. Hence, we pick stocks from this list of 30 companies whether Covid is happening or not happening.

Q5 Are there any economic risks that the markets are ignoring at the moment?

Prashant Khemka
Founder & CIO, White Oak Capital Management

A prolonged or a stricter lockdown like the one which we saw in 1QFY21 can be a risk to market sentiments in the near term. The ramp up of the vaccination process will be closely watched out for. Apart from that, volatility in commodity prices, especially crude oil and reversal in global growth sentiments are also some of the perennial risks that exist

Anup Maheshwari
CIO & Joint CEO, IIFL AMC

In the last few years, we have seen equity markets pricing in future economic recovery and policy reforms which at times was not in sync with the prevailing macro-economic environment. Currently, the markets are not pricing in a prolonged lockdown and hence any negative surprises on that front could have a short-term impact on the market performance. Nevertheless, there are estimates showing that nearly 40% of the population may start having antibodies by the end of April, so we believe while there are risks, but a successful vaccination drive may be instrumental in containing the downside risk.

Sunil Singhania
Founder, Abakkus Asset Management

The biggest driver for the global market rally has been abundance liquidity. There is consensus view that this liquidity will stay for a long time. Any pullback of liquidity is not priced in the markets currently. With inflation risks also rising, there is a possibility of rates inching higher. However, in our opinion, a gradual increase in rates is not going to spook the markets. Also, any re-emergence of currency or trade war can be a potential risk

Hiren Ved
Co-Founder & CIO, Alchemy Capital

A national lockdown (very very low probability event) or rapidly rising inflation

Vaibhav Sanghavi
Co-CEO & Portfolio Manager, Avendus Capital

I think the risks to economy are playing out in the shorter term, as lockdowns / restrictions get implemented. However, from medium to long term perspective, we have to keep a close eye on the expectations of interest rates moving higher basis strong inflation. Markets are cognizant of this second wave of Covid as a risk factor and thus have seen heightened volatility with change in the composition of sectors outperforming.

Saurabh Mukherjea
Founder & CIO, Marcellus

We honestly don't know what the markets are factoring or ignoring. We look after around a billion dollars worth of equity assets for 6000 families. These monies are invested in around 30 stocks. We focus on ensuring that the promoters of these 30 stocks are doing a good job in terms of corporate governance, in terms of building dominant monopolistic franchises and in terms of reinvesting their free cashflow so that the franchise grows at 20-25% per annum.

KAMAL MANOCHA
Founder, CEO & Chief Strategist

While today's time is confusing, eventually, all this experience of Covid related stress is making all of us realise the importance of a finite life that we have been given. And once things settle, we could see an era of revenge spending and consumption. People will no longer procrastinate their aspirations for things, and would like to fulfil them. We've always talked about festival quarter (Oct to Jan); in year 2021, we could see and experience this real time. Covid has brought many pains, but at the same time, it has given many learnings, many realisations about Life, about China, about Health, about India. Thus, impact on businesses, earnings and economy after a pause could be very positive.

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