DHIRAJ RELLI, MD & CEO, HDFC SECURITIES

‘India still a buy-on-dips market; better growth likely than most EMs’

A strong macro environment relative to other emerging markets and interest rates topping out globally may aid flows from overseas investors this year, according to **Dhiraj Relli,** *MD & CEO, HDFC Securities. In an interview*
1 *with* **Ashley Coutinho,** *he says global recession and geopolitical conflicts remain the key risks for Indian equities. Edited excerpts.*

Q&A

What is your outlook for Indian equities for CY23?

Aggressive front-loaded policy rate increases by the US Fed will weigh on the US and other economies. If the global economy slips into recession, it would not be good news for India, which exports about 20% of its output. India's equity return correlations with the world are elevated and a further fall in global share prices may be a headwind for Indian stocks. Going into the second half of 2023, the market should start factoring in its view on the general elections (slated for May-24) with outright repositioning or considerable hedging of portfolios.

What are the key positives?

Optimists feel that most of the negative triggers of 2022 are out of the way. Inflation seems to have peaked, crude oil, commodity and food prices have fallen, Russia-Ukraine conflict cannot get worse, US bond yields have started to fall, China is looking to boost economy and go light on Covid curbs, and expensive stocks have got derated sufficiently.

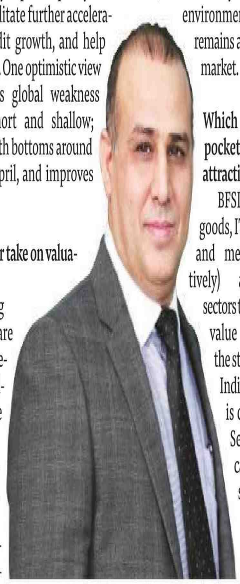
Pessimists feel that corporate earnings expectations still need to come down to reflect the recessionary environment, rising inventories, increasing input costs and rates, and a stronger US dollar. Geopolitical pressure and an intensifying US-China confrontation are key risks.

What is your view on the interest rate trajectory this year?

RBI could exit the current rate cycle at 6.5%, based on the view that inflation is heading lower in 2023. This will likely improve liquidity conditions, facilitate further acceleration in credit growth, and help share prices. One optimistic view is that this global weakness remains short and shallow; global growth bottoms around March or April, and improves thereafter.

What is your take on valuations?

Emerging markets are likely to benefit from a relatively more benign world relative to CY22. However, India's trailing outperformance could take a breather in the first half this year, given high relative valuations. That said, India is likely to have better growth than most parts of EM, and a relatively strong macro environment. India remains a buy on dips market.



Which sectors or pockets still seem attractive?

BFSI, capital goods, IT, chemicals and metals (selectively) are some sectors that still have value given the stage at which Indian economy is currently at. Select small-cap stocks also offer value given the low base and the growth runway available to them.

What are your expectations from the Budget?

The need of the hour is to maintain the growth path while keeping fiscal deficit and inflation in check. The Centre is likely to over-achieve its receipts in FY23, allowing it to meet higher-than-budgeted spending without breaching its fiscal deficit targets. The Centre wants to achieve a deficit of 4.5% by FY26. To reach there, it must reduce the same to 5.6-5.8% of GDP in FY24 versus 6.4% in FY23. The market is hoping that the Budget will not tinker with capital gains taxation or direct tax rates, remove double tax on buyback through open market, and keep borrowings under check.

> **If the global economy slips into recession, it would not be good news for India, which exports about 20% of its output... a further fall in global share prices may be a headwind for Indian stocks**

What is your outlook on FPI flows?

FPIs were net sellers of $16.5 billion last year, mainly triggered by the confluence of negatives including the Russia-Ukraine war and US Fed rate tightening. We do not expect such a large negative number from FPIs this year, despite outflows in January. Interest rates globally may top out and this could create favourable ground for India. A relatively strong macro environment will also aid flows. FPIs will also look at the Union Budget provisions and the corporate performance in India to decide on their allocations into India relative to China.

The private capex cycle did not take off as expected in FY22 and has lagged government capex. How long before things turn around?

The Chief Economic Advisor recently said private capex in the first half of this fiscal year has crossed ₹3 trillion and we could see the number surpassing ₹6 trillion by the end of this year. The value of new investment proposals jumped sharply, by 69%, in the December-ended quarter after sequentially contracting in the past two quarters.

Private players have been slow in stepping up capital expenditure due to rude shocks from various quarters such as pandemic, inflation, geopolitical turmoil, energy and food crisis, fragile supply chain, and a historic peak in the cost of fuels. Corporates will only go for capital expansion when they feel the economy is stable and will not face any shocks. Inflation and an increase in the cost of borrowings are deterrents while taking a call on capex.