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

A stronger macro environment relative to the emerging markets and interest rate tapers and globally weak aid flows from overseas investors this year, according to Dhiraaj Relli, MD & CEO, HDFC Securities, have determined it’s not just about the US where evident growth has cooled, but also the emerging market countries where it has been done for a longer time. This is why, the global economy has moved into a new phase of recovery, with demand picking up and inflation concerns subsiding. The BSE Sensex has rallied 27% so far in 2023, outpacing the performance of global peers.

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 robust economy and go light on Covid curbs, and expensive stocks have got diluted 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 weaker US dollar. Geopolitical pressure and an intensifying US-Chinese confrontation are risks.

What is your view on the interest rate trajectory this year? RBI could cut the current rate cycle at 5.9%, based on the view that inflation is heading lower in 2023. This will likely improve liquidity conditions, fuel rate 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 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. Indian equity returns correlate with the world as a whole 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 a view on the general elections slated for May 2024 with outright expansion or considerable budgeting of portfolios.

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What is your view on valuation? Emerging market markets are likely to benefit from a relatively more benign world relative to developed world. However, select small-cap stocks are likely to 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 deficits and inflation under control. The Centre is likely to ease its stance in FY23, allowing it to meet higher-than-budgeted spending while reaching the fiscal deficit targets. The Centre wants to achieve a deficit of 4.9% by FY26. To meet them, it must make up $16.5 billion of GDP in FY24 versus 6.4% in FY23. The market is hoping that the Budget will not just plug fiscal shortfalls, but also release liquidity to the market through open market operations.

What is your outlook on FFIs flows? FFIs were net sellers of $16.5 billion last year, and are likely to continue investing. The Centre is likely to cut corporate tax rates, which might provide some lift to Indian equities.

What is your outlook on cost inflation? Cost inflation is expected to come down 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 robust stocks 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.