ETMarkets Smart Talk: Rs 8-trn opportunity! AIF is growing much faster than MFs: Ajay Vora

By Kshitij Anand, ETMarkets.com Last Updated: Oct 02, 2023, 08:30 AM IST

Synopsis
Ajay Vora of Nuvama Asset Management, believes that alternative investment funds (AIFs) are growing faster than mutual funds (MFs) and this trend will continue. He also stated that with the Nifty at 20,000, the Indian market is still not expensive and has strong earnings growth potential. Vora mentioned that there is growing interest in alternative investments, particularly from Tier-II and III cities. He also noted that investors are moving away from traditional fixed income products towards higher-yielding structured credit products.

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*"Entire **AIF** category put together is approximately Rs.8trn vs Rs.45trn for MF. AIF is growing much faster than MFs and we believe this will just accelerate from hereon as well," says **Ajay Vora**, Head Equities, **Nuvama Asset Management**. In an interview with ETMarkets, Vora said: "NIFTY @ 20k is still not into expensive valuation zone especially when earnings growth is likely to be strong at 14%-15% over the next 2-3 years" Edited excerpts:*

IPO mania is back, and we are seeing a flurry of companies launching their public offerings in the past few months as Nifty scales Mt 20K. What are your views on this exuberance?
We have seen these kinds of phases multiple times over the last 1.5 decades whenever mid and small cap indices rally sharply in a short span of time.

Opportunistic unlisted companies do get an opportunity to raise money on the back of rich valuations, ample liquidity and euphoric sentiment.

However, investors should always exercise caution and invest only in quality companies at reasonable valuations as most of these companies would have limited track record vs already listed peer set.

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Nifty@20K – how are your reading India compared to peers?
NIFTY @ 20k is still not in the expensive valuation zone especially when earnings growth is likely to be strong at 14%-15% over the next 2-3 years.

However, considering the sharp run of 20% over the last 6 months, one should expect some sort of consolidation, or a range bound market till we get further clarity on the certainty of this earnings growth for FY25 as well.

If we look around most developed or emerging economies, India clearly stands out in terms of long-term growth potential and that is what will excite the FII community who are still underinvested vs their historical holdings.

There is growing interest in alternates especially from Tier- II and III cities. How are you reading this trend?
Entire AIF category put together is approximately Rs.8trn vs Rs.45trn for MF. AIF is growing much faster than MFs and we believe this will just accelerate from hereon as well.

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Alternatives are meant to offer customised and scalable solutions to investors which can consistently deliver higher returns.

With the knowledge arbitrage gradually narrowing we are seeing investors from smaller cities too demanding these alternative solutions.

Between Debt and Equity where are your investors looking at when it comes to funds?
Within debt we are seeing investors moving away from traditional fixed income products, especially post changes in tax regulation. This in a way has helped other long-duration structured credit products which are offering much higher yields.

Additionally, equity as an asset class where Indian households are significantly underinvested is seeing increasing allocation, evident from rising monthly SIP amount.

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SMID as a category has benefited from higher inflows which clearly shows investors' improving long term investment horizon.

We have also seen encouraging responses to our recently launched PMS "NEXT" which is based on key themes of Premiumisation, Globalisation and Transformation.

Are we seeing any FOMO in the small & midcap space? What are your views?
There is clearly a lot of interest in SMID as a category from domestic investors due to stark outperformance over the last 6 months. However, this has been backed by a strong corporate earnings outlook and years of underperformance.

We believe that there can be some consolidation after such a sharp rally but companies which are aligned to this theme with strong earnings outlook run by quality management can significantly outperform.

SIP money crosses more than Rs 15000 cr for the second straight month – can we say that retail investors have come off age and we are looking at more matured
As we discussed, Indian households are significantly underinvested in equities, and we have gradually seen this monthly SIP number doubling over the last 2 years.

This clearly shows investors' confidence in the India story and if earnings continue to compound at 12%-13% we should definitely see much higher allocation going ahead.

Although FIIs flows have been negative but there is tremendous push from the FDI route which is more long-term capital for India. Is it the growth prospects which is pulling money into Indian markets?
India is clearly an oasis of growth across developed and emerging economies. It is very difficult to find an economy which can have a nominal growth rate of 10-12% for the next 3-5 years at least.

Additionally, we are seeing the emergence of newer sectors like renewables, semiconductors, data centres etc which can absorb huge long term capital through the FDI route.

If someone wants to invest fresh money into Indian markets say Rs 10L in the age bracket of 30-40 years – how should one go about it. What should his/her portfolio look like?
Investing has always been very subjective based on various factors like risk appetite, financial goals, lifestyle aspirations etc.

I would say one should ideally have an allocation across all asset classes which can eventually help investments compound at 12-15% over the long term.

This will ensure much higher inflation adjusted earnings and will can care of all financial goals.

Is there any sector(s) which according to you is/are looking overheated?
We are still not in that euphoric valuation zone across most sectors, however sectors like capital goods which are order book driven and have limitations on execution are trading at the upper band of their historical valuation range.

Any slowdown in incremental order inflow closer to election period can

potentially pose risk to valuation.

Things which one should avoid doing at a time when markets are trading at record highs?
Whether markets are at record highs or lows, investing principles should never change and not losing capital is of paramount importance.

And therefore it is very important to focus on basics like the nature of business, quality of management, return ratio metrics, free cash flow generation and finally valuation.

(Disclaimer: Recommendations, suggestions, views, and opinions given by experts are their own. These do not represent the views of the Economic Times)

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We could test 18,900 and possibly even 18,400-18,500 by Diwali: Gautam Shah

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Synopsis
"In terms of numbers, if we are able to stay in that 18,900-20,400 kind of a band till Diwali, we would have done very well for ourselves. But I do believe at some point of time, we could test 18,900 and possibly even 18,400-18,500. On an overall basis, one should be aggressively booking profits in midcaps and smallcaps."

Gautam Shah, Founder & Chief Strategist, Goldilocks Premium Research, says "we are focussing right now on committing into stocks with quality institutional interest, quality fundamentals, great structural stories, which I do not think will be impacted if the markets were to correct. But on a general basis, on an overall basis, one should be aggressively booking profits in midcaps and smallcaps ."

Shah says: "markets have moved to a risk-off mode and pharma could lead the market move from here in terms of strengths and sectors doing well. We have been a big bull on the entire IT pack for a while now. We maintain that stance.

So, these two spaces look great. Auto is considered high beta but it has the potential to be a big structural story for the next 6 to 12 months. Every small dip is a buying opportunity there."

20,000 may be psychological or it may be technical, but so far, it has acted as a swift or a stiff resistance for the market. Do you think we have a top in place at least in the short term and that could be 20,000?
Yes, I think we had a top in place because all kinds of ingredients were coming in together to suggest that the market did top out at that level of 20,200. We have always read in the textbooks that when you have madness on the screen and madness on the charts, typically euphoria happens and when euphoria takes place, markets top out.

That was the classic case last month with largecaps, midcaps and smallcaps all running away at the same time with all kinds of talks on the upside. So, 20,200 was definitely a short-term top which might not be taken out in a hurry. The market, given the way it has corrected in the last 10 days, has just validated that view and the evidence that has come up on the charts has not looked good. In fact, we have been maintaining a cautious stance for the last seven-eight days and we continue to do so.

From a Dow theory perspective, we still need a break below 19,500 which is just a formality and if and when it happens, the market has the potential to lose another 4% to 5%, at least, if not more. So, things have changed quite a bit. In the last four or five months, whenever there has been a correction, we have always said buy the dip, be a buyer because the market will go on and make new highs. But this time, we have not maintained that stance. Our stance has changed quite a bit in these last 10 days.

So, should investors now be locking some gains? If your advice is that the path of least resistance is on the downside, is it time to at least book 25% profits?
Absolutely, 25% or more in all the stocks and sectors that have run up substantially in the last four to five months. One should take profits and realise that suddenly you have just too many headwinds. Look at global markets. They have corrected quite a bit. Look at US markets, European markets, Asian markets, look at what Hang Seng has done today. Many world markets have actually seen a large correction in the last 10 days. That has not looked good.

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We are getting closer to the Assembly elections, we are getting closer to the general elections, oil has been quite a headwind and FII money has not been as strong as it used to be. Let us not forget the big underperformance of **Reliance** and HDFC Bank –which if you compare with the **Nifty**, are at 52-week lows on a relative basis. These are not factors that are very positive and I think the momentum will pick up on the downside below 19,500.

What is the stance when it comes to stocks that have really powered up like railway and defence stocks which had really boomed? Does one need to be very selective when it comes to this space or do you believe that the party is really over?
The party is either over or close to getting over for most of these stocks and sectors. A lot of the basis was on the Excel sheet over the next five to ten years. But, when trends turn abruptly, it happens really fast and a lot of these stocks went through a parabolic move in the recent past.

Railway and defence clearly are spaces where one should take profits and we are focussing on stocks which have quality institutional interest because let us agree to the fact that there is still a lot of liquidity in the system and domestic liquidity is coming into the midcaps and smallcaps, so fund managers in the midcap and smallcap space have a lot of money to actually commit in their own stocks.

What we are focussing on right now is committing into stocks with quality institutional interest, quality fundamentals, great structural stories, which I do not think will be impacted if the markets were to correct. But on a general basis, on an overall basis, midcaps and smallcaps one should be aggressively booking profits here.

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What could be the duration of the decline? Could it be a multi-month decline? Could it be just a bad patch in a bull market, swift, sharp and before you realise a correction has started, it gets over?
It does not look of that variety. We have seen markets over a couple of decades and every time this market tries to do something new, in the last five months, it has always been on a quick decline. So a bias is there in our minds that this time also something similar will happen. But when I look at the leadership, I clearly see it missing. We released our big picture report, a 47-page report yesterday describing the long-term trends and if I were to just go by that, I feel that this could be a multi-week, maybe even a multi-month kind of a consolidation/corrective phase.

So, broadly, in terms of numbers, if we are able to stay in that 18,900-20,400 kind of a band till Diwali, we would have done very well for ourselves. But I do believe at some point of time, we could test 18,900 and possibly even 18,400-18,500.

You are not of the view that we could see a pre-budget or a pre-election rally because that has always happened?
Well, things change. In fact, a lot of smart money has been putting this question that should we take on the assembly election results, a lot of people want to get cautious before that. I do not think you are going to have any sort of pre-budget or pre-election rally. This time, it is pretty much a different. Let

us not forget we still live in synchronised world, till a month back world markets were all positive or range bound, the Dow is now close to a multi-month low, S&P 500 has stopped outperforming, the Russell 2000 in the US is actually near a 52-week low. Despite all that, we talk about the US markets and European markets and Asian markets do not look good. So, in a challenging global environment, global equities environment and with oil continuing to rise and I do believe NYMEX crude will move towards $104. Given all of these factors it does not seem as if the market will see a bump up very quickly.

What do you believe is looking attractive as a buy right now from a just a stock specific angle? What would you bet on in say largecaps?
We have moved to the defensive stocks. We love IT. We have been a big bull on the entire IT pack for a while now. We maintain that stance. I feel in a difficult market environment, IT will stand out and this 31,000-31,500 area is an important support.

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Secondly, the sector that we feel could make a big comeback is pharma. I think it is very clear looking at Friday's action that the market has got into risk off mode. For the last four months, we were in risk on mode, so everything and anything that was high beta did well.

I think we have moved to a risk-off mode and pharma could lead the market move from here in terms of strengths and sectors doing well. I do see the pharma index appreciating 15% from here. Our working target is about 17,000. So, these two spaces look great. Auto is considered high beta but if you really marry in the fundamentals and the technicals, it has the potential to be a big structural story for the next 6 to 12 months. So every small dip is a buying opportunity there.

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