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# Continue to bet on India's outperformance in new Samvat but one should be more choosy: Devina Mehra

**Synopsis**
"One has to construct the portfolio skilfully and not in a very concentrated manner. So, have 25-30 stocks across industries and if you have chosen them well, maybe some of them will turn out to be multibaggers; but some will also turn out to be duds. One should be careful and tell oneself that yes I will make some mistakes and I will need to exit some of these names."


"I would still say that the risk is in sitting it out but unlike 2021 this is not a market where everything will go up so be choosy about sectors, about companies, but be invested," says **Devina Mehra**, Chairperson, MD & Founder, **First Global**

**How much is the role of skill and how much is the role of luck in really attracting goddess Lakshmi's ashirvad in your portfolios over a period of time?**

It is a game of both skill and luck. In fact, I can only think of chess which is a game of skill; everything else has elements of skill and luck. Now the trick is in your own mind. What the human mind does is when markets are doing well, like last year when markets were just booming, we attributed it all to our skills and if there is a fall as there was in the first half of this year, then we started to blame the market or the operator or politicians or policymakers or someone or the other. Basically, we humans attribute the successes to skill and the failures to bad luck.

**That is very wonderfully put and it is so true.**

**One can position in such a way that luck helps.**

I will just give you one example. People tell me you picked HDFC Bank NSE 0.34 % back in 1996 or Amazon in 2001 and they have made so much wealth. Tell us which is the next Amazon or HDFC Bank for the next 25 years? But the thing is that no one knows in advance which are going to be those multibaggers! Jeff Bezos or Aditya Puri also did not know this at the beginning. So one has to construct the portfolio skilfully and not in a very concentrated manner. So, have 25-30 stocks across industries and if you have chosen them well, may be some of them will turn out to be multibaggers; but some will also turn out to be duds.

So one should be careful and tell oneself that yes I will make some mistakes and I will need to exit some of these names.. So always you know more than anything else; it is also a mental game.

**I must congratulate you last year at the same time around Diwali, you had made certain estimates. I would not say forecast because we are not in the forecasting game. Nifty was around 15,000 at that time. You had said that the rupee will depreciate and also one should not run after new age IPOs and that cryptos will see big drawdowns. In fact between last Samvat and this Samvat, the market has almost gained just a little bit.**

**Midcaps are still down. What is the data point suggesting looking into the next Samvat?**

Besides two things, one of the things which I had said was that India will outperform and that is something I have been saying from last Diwali, this January, all the time that in 2022 also India will outperform which it has done so far. My call remains unchanged on that.

There were two main reasons why I said that. One, relative to its own history, the Indian equity market may go up and down but on an average, they give 15%-16% return because that has been the return since the Sensex started in 1979. But in 2010 to 2020, the equity markets had compounded only about 8.5% which is less than what the FD rates were then. So they had given much below trend returns for a whole decade.

So, once it started moving, I knew that this would be a good run because you are far below the trend line. The risk of a crash comes when you are way above the trend line and that was not the case. On a relative basis also, India had been an underperformer for years and years. 2021 was the first year when India started to outperform and this year also if we look at the first nine months, while we were down in dollar terms, out of 42 country indices, we are number 8. So we are very high up.

So that outperformance will continue and that still remains my bet and you are right, I had advised to steer clear of new age IPOs. In fact I remember the show where Nikunj said that if I put a gun to your head which one would you buy and I said even gun to my head I would not buy any of them. I had also made remarks on the rupee depreciation. All these are data based calls. They are not like some flashes of an insigts coming to me.

One cannot be certain but one can see the probabilities. For example, look at the global markets, look at the S&P as US is the market that most people follow. The first three quarters have all been negative for the S&P. Now how often has that happened? This is only the fourth time in 50 years that has happened and once that happens, what is the probability that things look better from there on? The probability is quite high though it is not 100%.

If you look at the bond and stock markets in the US, because that is where the data is available the longest, both are significantly negative which and that has happened only the third time in 100 years. So this has been an unusually bad period for global markets but then the question is what do you do?

One thing which again we have studied in detail and we have seen is that when sentiment is poor, after that, the next quarter returns are above normal. It is the opposite when sentiment is very good as it was for the Nasdaq in 2021, when I was sounding a warning last year not to buy the Nasdaq ETFs.

After everything crashes, then people want to get out. If you look at India as I said a) the outperformance will continue; b) I had made a call in June this year that now the risk of not being in the market is higher than being invested. So, it is the risk of a downside in case investment is lower than if you are not in the market you will miss an up move. I was checking what was the Nifty on that day and it was 15,293 in June.

So we have got that 18-19% run in two months and then it was like sideways or up and down for a while. But I still think the risk is in not being in the market. So, whatever is your equity allocation, if you are not fully invested, if not in one shot but over two-three months, get back into the market.

One data point which I think I have shared in the past but let me share it again is that if you look at the compounding, if you had invested Rs 100 in 1979 which is the Sensex base year, that Rs 100 would have become Rs 44,000. Now we said that suppose you miss out 10 good days in the market over more than 40 years. 10 days does not seem like much but if you miss out 10 good days, that Rs 44,000 goes down to Rs 15,000. There is a two-thirds reduction in your return.

If you miss out 30 good days which is less than one day a year, you are down to less than 4000, 90% of your returns go so it is very important not to miss out those big days because if you look at the COVID crash also we had warned that the crash was coming but we had also turned around very quickly and said on March 23, 2020 that it is time to get back into the markets.

But what happens is that people just are scared. They say let me wait till the dust settles but by the time that dust settled in five weeks, all markets were up 30%. So there is danger to not being in the market because that 30% you could never make up, however, smartly you invested thereafter. I would still say that the risk is in sitting it out but unlike 2021 this is not a market where everything will go up so be choosy about sectors, about companies but be invested.

**So a keen advice coming from a very seasoned mind: Do not try to time the market lest you land up having a way smaller net in this market and you may end up missing the roaring moves and your overall return over a period of time will get severely impacted.**

Yes, I would like to add to that there are times when the risk in the market is high. I am not saying that we do not try to manage risk when we think the risk is high and just ride the ups and downs together. Try to avoid the big drawdown like in Covid time it was a very clear beginning in March 2022 that something very strange was happening and we went into cash, we went into non-equity assets and all that.

At times we buy insurance so the day the Russia-Ukraine war broke out, markets were down 5% but we were down 1.6%. So one has to protect the downside. You cannot just say that ups and downs will come and I will just keep investing. But I am saying sitting today that yes the risk is more in not being invested. It has gone up more from the time we have made that call in June.

**A lot of times in the market, the biggest cushion to falls is earnings growth and management quality. Where in this market do you find best balance sheets and earnings cushions which would cushion the blows of volatility?**

It is also at what valuation you buy something which was my point when FMCG was so hot in 2020 that it is not as if you can buy “good companies” at any price and make money. That is not what history shows. At times in fact you can make a lot of money in not so good companies. A very seasoned international fund manager told me that the biggest bang for your buck comes from when a company goes from very bad to less bad, rather than when the company goes from good to great. I think there is great wisdom in that.

Coming back to what you were saying in terms of which sectors to stay in, our big call since October last year has been to go overweight on capital goods and industrial machinery. This sector came out of 10-12 years of being absolutely down in the dumps both in terms of fundamentals as well as stock performance, That sector compounded only some 2.6% when the index compounded 9% plus. So we were watching that at some point you will see a turnaround which we saw last year in terms of fundamentals because there was some amount of private sector capex in some sectors thanks to China plus one, PLI scheme as well as government capex.

These companies after having come through a drought were very lean and mean and that has been a big winner for us past year. We still remain overweight on it, I do not know whether that will last another full year. I do not know because we evaluate everything from base zero at every quarter beginning. That still remains our most overweight sector.

In textiles and chemicals it is not even a sector wide call because the companies have very different dynamics. Chemicals is an overarching umbrella and there are companies where their output prices are going up which are doing well. There are companies where input prices are going up which are seeing a margin squeeze. So selectively, we will be somewhat overweight there. In the last six months, we would have added a couple of FMCG names, a few four-wheelers, auto components and IT which we used to be overweight on, we are about market weight now.

Banks is one case where there are some fundamental changes and banks generally is a sector that I do not like simply from a risk perspective because it is a leveraged sector and where from the outside it is very difficult to make an assessment when and where the negative surprises would come. We have generally been very underweight banks. We would have negligible weight in 2020 and 2021 considering it is such a big weight in the index which served us well because in 2020 it was the only sector that was negative for the year. In 2021, it was not negative but it went up only half as much as the market.

But now it is at a place where the NPAs are largely behind, credit growth is going up. Also when interest rates go up, that is in the beginning at least positive for the banks because your loans get re-priced immediately, interest rates go up but deposit side the interest rates go up more slowly. So those are the positives.

It is a change for us and we are still not overweight but now we would be about market weight on banks which is as I said a change for us. So that could broadly be the sectors we are looking at. Pharma has done well of late when the market was in turmoil because it is a relatively defensive sector but not something we plan to be overweight on. FMCG, we have added a few names.

**But I will go back to that initial point of capital goods and engineering because it is coming back after a 10-year hiatus. What kind of order book visibilities are you seeing there?**

First of all you talked of being agile and our mascot is a hare. We say do not be a bull, do not be a bear, be a hare. The hare moves fast but it can change direction fast too and it has 360-degree vision which is something one aspires to. So capital goods again is fairly diverse sector in that. There are many companies – some making very small equipment, some making giant size equipment but the broad theme has been that there are several segments where the demand is coming and the order books remain healthy.

We re-evaluate it again because this was the beginning of the quarter and till now it still looks good. One other thing which I forgot to speak in the last segment is that our systems now are liking small and midcap more than they used to. So we have done some switches but as a house, for us risk management remains number one so we never have a very high weightage in small caps but we are about as high as we can really go.

So we have shifted some from largecaps to small and midcaps but the sector story fundamentally still remains reasonably good and this is a sector with some visibility of order books.

We have to look at not just the P&L but also the balance sheet because many times trouble starts first in the receivables and so on. Overall there has been a clean-up, financials are cleaner, visibility is better and still appears to have juice left in our systems. In fact, like a lot of stocks there.