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'Indian market's valuation is at good levels'

Devina tells Meghna Sinha that the best returns come from asset allocation and not from security selection.

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The risk is often in not being invested in the market, says Devina Mehra, chairperson and managing director of First Global. Devina tells Meghna Sinha that the best returns come from asset allocation and not from security selection.

How do you see the valuation of the Indian market? Is it still an attractive entry point or the market is too over heated?

I have been positive about Indian market's performance for the past two years. It has come out of a very long period of under-performance, both relative to its own history as well as to the globe. The valuation of our market is at good levels and not at extreme ends. I believe, the risk is often in "not being invested".

Do you anticipate any correction in the index in near future?

Minor corrections might happen but I am not anticipating any deep crash. The state of economy worries me more than the market. We need to track the affordability of housing, health and food, along with the number of people working and their productivity rate. We are falling short of generating jobs for everyone and especially the youth, which may hinder our efforts to become a nation with a higher income group.

If interest rates continue to move higher, will the interest in equity market wane?

I don't expect the RBI will increase rates in a hurry. They have been reluctant to increase rates, especially as growth concerns on a broader economy basis still remain. We are in an equilibrium situation. The markets are at record highs and fixed income interest also look attractive. Therefore, I always suggest investors to not put all their wealth in equity and have a diversified portfolio.

Now that the result season has begun, how do you view the first quarter for FY24?

In the last quarter, the overall earnings grew around 8%. If you remove the commodity driven companies, then the index grew almost 25%. I expect the earning growth to be good this quarter as well. One of the major reasons is the significant decline in the crude prices from last year. It not only reduces inflation but also gives room to the RBI to refrain from hiking rates. Input prices have gone down which will benefit a range of industries from FMCG, textiles to chemicals and paints. Companies can either decide to pass on those input price drop and get a boost on demand or have higher margins.

Can you elaborate on the opportunities in the mid and smallcap space?

We are a conservative portfolio manager as our priority is to manage risk. We limit our exposure to smallcaps and invest only in companies which have good liquidity and market cap above Rupees 1,000 crore. But if the sector is doing well, we increase our exposure in smallcap from 13-14% to 22-23% but not beyond it.

What are your thoughts on the financial sector, which is heavily represented in the index?

Even though financials have a reasonable weight in the index, I have always been a nervous investor in lenders. When we started our portfolio management system in 2020, we barely had exposure in banks. In the first two years, it performed half as well as index. It is only in mid-2022, we went index weight in banks, which has now become a little overweight as fundamentally things are changing for the sector. We continue to like banks but NBFCs we are more wary of.

As a portfolio manager, which sectors are you most capitalised in?

Our highest overweight sector is industrial machinery and capital goods. There has been a rising interest in this sector among people in the past few months, but we have been overweight on it since October 2021. In this calender year, we have added auto, auto components, pharma, construction and some specific stocks which are not really sectoral driven.

Is there a new fund or scheme you are planning to launch anytime soon?

I have a particular problem with proliferation of schemes. Most of the new schemes or funds, particularly thematic funds, are launched to improve the AUM and not in the interest of investors. By the time retailers understand the ongoing theme and rush to buy, it is already peaked out. The best returns come from asset allocation and not from security selection. It can be across asset classes, geographies or sectors. Therefore, my main job as a fund manager is to get this allocation right. We are not initiating anything new.

Do you see Indian indices outperforming emerging market peers in near future?

Last year, I said that India is certain to outperform global markets which it did. It may not be positive in dollar terms, but it was very much in the outperformance category. I always look at long-term data rather than giving knee jerk reaction to the situations. Hence, I maintain a positive outlook on our market.