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India will continue to outperform this year as it did in 2021: Devina Mehra

Synopsis
"India will continue to outperform as we did in 2021 simply because it has been a very long time of underperformance. Last year, India was number six in the reasonable size markets but for five years before that, it was number 19, 20, 24, in that range. So, that outperformance will continue and which is why in our global funds we are slightly overweight India."

*"India will do a bit better than the other emerging markets and do a bit better than overall markets also - not just emerging. But again one has to be choosy here. That is the broad theme that I still have because there will be many sectors that would be hurting," says **Devina Mehra**, Chairperson & MD, **First Global**.*

Last couple of sessions it has become quite clear that a fatigue is setting in when it comes to the blue chips. Look at the HDFC twins. We saw what happened with Infosys. Reliance Industries, of course, is the exception. What do you make of this fatigue for blue chips?

You will always see that happening in markets. I have said it many times that in the markets, nothing runs forever. So, this whole myth that there are stocks which do well no matter what, does not hold. Just look at the statistics. Hindustan Unilever is a case in point.

There was a 12-year period from 1999 to about 2010, when it did nothing, both fundamentally and as a stock. So this is only a myth that what you classify as a blue chip will always do well for you. If you go back to what were defined as blue chips 30 or 40 years ago, many of those companies would have disappeared. So that is not surprising that some blue chips aren't doing so well. And, of course, valuations in some of them are very high. One has to be wary of these stocks but on the other hand, I would also say that there is no point looking at these kinds of stocks going only by short-term movement.

We have steered clear of HDFC, HDFC Bank for a while now because even though as you know HDFC Bank was our original discovery in 1996, we rode a lot of that story but then at a point in time, one has to take a call. So even within the banks, that has not been our pick for a while.

Again, FMCG used to be a very hot sector and the valuations were totally out of hand. In 2021, when markets did so well, FMCG as a sector underperformed and this year again when the markets were down, it underperformed again.

It is all a myth that there are certain types of stocks which always outperform or they are defensive and therefore even if they have not done as well in runup, they will make it up when the market goes down but none of it holds because ultimately one has to look at data and not at stories.

Our strategies actually do not change that often. We normally look at the kind of base zero rebalancing every quarter and we just went through that and we changed maybe 10-12% of our portfolio in spite of so much news flow and so much volatility in the recent past.

Reliance is again doing well. ICICI Bank is commanding a premium to HDFC Bank which has never happened before. These are quite important changes when it comes to largecaps and heavyweights.

In our portfolios also, rather than HDFC Bank, we have held SBI and ICICI Bank and so that has been our bet also and in financials as a whole, we are not as underweight as we used to be, because after two years of massive underperformance, it is a little better this year. So yes, one has to make the choices and that is what this business is all about. Which is why I said that it is not as if there is any type of stocks or portfolio that you can just buy and say that this will do well forever.

One has to re-evaluate but if one has chosen well, it is not as if one has to look at everything, throw out everything every few months and start with a completely new set of numbers and companies. Right now, there are many things one has to keep in mind. So unlike 2021, which was like the rising tide lifting all boats kind of market, this is not the case in 2022. That is something I have been saying for the last few months that one has to be much more selective this year.

It is not even as if the companies on a broader spectrum will be in the same direction– that something will do well and something will do little better. It is not that. There are completely divergent moves in the market depending on which industry you are in and within that industry also exactly which segment you are in, how backward and forward integrated you are.

There are many things to be looked at just now because commodities have gone up. So if you are a seller of commodities, let's say metals or some of the basic chemicals, you are better off at least on the price front than the users of those commodities who are facing a huge pressure on margins.

The wholesale price index crossed 14% in the last print and even for the whole fiscal year 21-22, it is the highest it has been for three decades. I do not think we focussed enough on that and that has not all got passed on to the consumer price index which remains less than half those levels. So there is obviously margin compression for a whole long list of sectors and companies. One has to be very choosy this year for largecaps or below that as well one has to be extremely choosy this year.

Are you being very choosy in the auto, auto ancillary space? Like EV is the future, we are looking at a strong and promising growth track for the auto industry. Do the speed bumps along the way deter you?

I do not know how you come to this conclusion that the auto industry is looking that great! The volumes in two-wheelers are at a decade's low, in fact lower than what they were 10 years ago. That clearly shows me that space is hurting. In many things, there is a creamy layer which is doing well which reflects the fact that a part of the citizens and residents are doing well. That pattern is seen in many things. The high-end real estate is doing well; the so-called affordable housing is not.

Two-wheelers, which is actually a good indicator of people moving up the income ladder, are doing badly. The high-end SUVs or high-end cars may be doing well. So it is a very clear kind of split in the economic numbers. For example, even tax collections are good. In IT services, employee costs are going up which means people working in the organised sector and particularly in IT, are doing well but that is not true of the public at large.

EVs are a different thing altogether. On EVs, for a while, my case has been that while many new entrants have come and quickly launched products, ultimately my bet has been on the older, the existing incumbents because those are all smart companies with smart managements. It is not as if they will let this opportunity slide. They are not the Kodaks which will think that film-based photography will remain forever.

Bajaj Auto for instance has disrupted its own model so many times in history, right from stopping scooters altogether and moving completely into motorcycles or going on such a large scale in exports. They are not the kind of company which will say let somebody else do electrical vehicles, we will continue to do what we have forever been doing.

Also many of the startups have not done a very good job on the quality control front. That might even spook the market a bit that this is not a safe vehicle. I hope does not happen but my bet has been on auto companies with good managements like Bajaj Auto, Maruti, etc, I do not see them sitting out fundamental change in the industry like that.

How are you looking at the entire healthcare and diagnostic space as a whole?

For healthcare and diagnostics – both globally and in India – the good times are behind them. One might still find a stock or two that you like but as a whole that is not a sector that will outperform greatly. That is broadly our bet.

How is India placed versus the other emerging markets? Despite a lot of FII outflows, India is still standing at a premium versus other emerging markets. What are you hearing from the investors and other big players?

That is not something that I track because I do not think it is very useful trying to track where foreign flows are coming because it does not determine the market direction. It has not determined the market direction even when we did not have such a large domestic investor base, let alone now.

But having said that, as a whole, if you look at where we think the Indian market will be this year, we will continue to outperform as we did in 2021 simply because it has been a very long time of underperformance. Last year, India was number six in the reasonable size markets but for five years before that, it was number 19, 20, 24 in that range. So, that outperformance will continue and which is why in our global funds we are slightly overweight India.

So to answer your question, India will do a bit better than the other emerging markets and do a bit better than overall markets also, not just emerging, but again one has to be choosy here. That is the broad theme that I still have because there will be many sectors that would be hurting.

Also because of there is a difference between India and the developed nations. In the US, there is an overhang of the interest rate hikes but the demand side is not so bad. In India, food and fuel inflation will crowd out a lot of spending. So right from shampoos to consumer durables, we will see people cutting back simply because they have no choice in the household budget with prices of everything going up.

Inflation is now going outside directly impacted sectors like food and fuel. To me, that is the concern in India but as I said, as a whole, it looks like it will outperform. The concern in India will be over rupee depreciation this year. That is again something I have been talking about for some time. That to my mind is another macro risk this year.

Do you hedge against that rupee depreciation? Are you looking at IT in a favourable manner? Where are you looking at in the large cap IT, midcap IT space?

We have liked IT for a long while. In fact, we have been overweight IT right from the last quarter of 2020 because at that time, it was sort of an anti-FMCG bet in the sense that this was also a stable industry with reasonable predictability and also a dollar hedge which FMCG was not. Yet the valuations were much lower. Of course, since then, a lot of the valuations have gone up. The differential has narrowed but we still continue to like it reasonably because our base case is that this year we will see rupee depreciation. We have a mix of largecap and midcap IT stocks depending on the company fundamentals. Right now, there is that overhang of employee attrition and employee cost. That is the balancing factor to the reasonable news on the revenue front.

Are you looking at it as an incremental buy? Should investors be taking fresh positions given the fact the stocks have corrected or do you expect that this correction to last a bit more and will there be better entry opportunities?

That kind of timing is difficult to do. I think it would be a reasonable time to enter because you know it is fine. It might also fall a little bit more but if you do not have positions there, then you can look at entering. It is a reasonable range to enter I would say.

While we are having sector rotation and seeing the comeback of the PSU stocks, how are you reading into all of that?

As a firm, we are a little wary of PSUs. It's not that we do not invest at all, but I am a little careful investing there.

Obviously, it has done well even among the banks. If you look at last year, while the Bank Nifty hugely underperformed all the broad indices, the PSU bank index did reasonably well. So, yes, there have been opportunities and among banks for example, SBI has been among our major bets. It is not as if you can avoid PSUs, but be a little careful.

What is your take on that upcoming LIC IPO? Can it be India's Aramco moment?

I have not studied it in great detail. If it does come, it also mops up a lot of liquidity from the market. That is the other side of the IPO but let us see how it goes.