

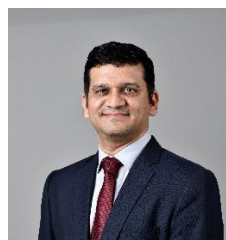
TRADING INDIA

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“Expect equities to end the year higher, Chemicals a great structural story”



Sushant Bhansali
CEO
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Sushant joined the Trading India chatroom on Refinitiv Messenger on the 27th of April '21 to discuss the Indian equities space for 2021. Below is his conversation with **Savio Shetty, Editor of Trading India**. To join the community and know more about Refinitiv Messenger please email Savio.Shetty@tr.com

Q: While we have seen some lockdowns in specific regions, they do not seem to be as severe as last year. The markets too for their part, barring bouts of volatility, have held on. Do you expect equities to continue to see edge higher over the course of this year?

A: As you rightly pointed out the lockdowns have been in bits and pieces and we expect them to continue like that. Mumbai is recovering well but Delhi is still bad. This probably will continue like this for next 1-2 months till we see the wave slowing down gradually (like it happened in the first wave). Q1 this year is now expected to be a tad lower than expectations few months back but will still show good growth due to the low base of last year. We expect economy to come back to normal levels from Q2 onwards. A result of good earnings growth will keep equities in demand during the year.

Q: Would you say equities will end significantly higher from here? >5% by Dec 2021?

A: That is the base case in our view, expecting a good festive season like last year with some pent-up demand and a good monsoon currently expected

Q: Which pockets would you bet on. The recovery ones? Assuming we have a muted 3rd/4th wave? Or would you still wait to see how it plays out?

A: Free money (like last year) is no more available, we are seeing more sanity in last couple of months and would expect it to continue for the rest of this year. Most of the stocks had bottomed out over a two-year period by last March hence almost every stock delivered. We are not expecting a big correction as a lot of money is waiting on the side-lines and organised economy in decent shape. The focus will be thus to invest in companies which will deliver earnings in line with the valuations they are currently commanding. Slip ups on earnings will lead to underperformance and vice-versa. While the third wave came back between 2-4 months from the second wave in most of the large countries, given the vaccination drive and its progress in next few months it will be difficult to predict wave 3 and 4 for India

Q: What is your general view on inflation? Do you think economists and the central bank are underestimating it? Can it be a big enough risk for equities?

A: Inflation is a concern for everyone. I don't think people are underestimating it. The Central bank has broadened its view expecting it to inch up but given the state of economy we can't afford rates to go up. Globally raw material prices of key commodities have moved swiftly in last few months and that will impact us too. What we are expecting is that this is temporary and more because of supply chain issues than actual imbalance between demand and supply.

Q: What is your view on the auto space Especially 4-wheelers with higher commodity prices and the global chip shortage in tow?

A: We are expecting margins to take a hit for 1-2 quarters due to lower volumes (negative operating leverage) and high commodity prices. While price hikes have been taken by most of the OEM's, but the operating leverage is probably negating that. Volumes might back in Q2 and Q3 on account of a good monsoon and pent up demand thereby providing solace to Auto OEMs. The drop of volumes in near term might provide an opportunity to enter some good franchises

Q: Are there any sunrise sectors that you are quite bullish on? May be the payments space?

A: The issue with sunrise sectors in India (like Payments) is that investors do not have a chance to play on them. Chemicals is one sector which we believe has a great structural story for the next decade and can be considered as a sunrise sector with investment potential too. This is a sector where barriers to entry are quite high while demand is increasing every day for multiple reasons

Q: How do you think FPI's view India in the current scenario?

A: Equity markets are in a consolidation phase since last couple of months post the rally we saw after budget. Valuations have sort of peaked given the earnings momentum getting hit due to the second wave. We expect them to continue in a range for another quarter or so before breaking out for newer highs, but it will all depend on the underlying economic recovery. FPIs despite being bullish are concerned with the valuations, when markets provide an opportunity, they will lap it up or if the economy comes back on track, they are expected to take a 2-3 year view and start investing