Customised investment

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In these choppy market conditions, what is your advice to investors especially retail investors?

From the economic standpoint, corporate India experienced a downturn till FY2020, when the earnings came down from 7-7.5 per cent to 1.6 per cent of the GDP, thereafter rebounding on its growth trajectory to 2.6 per cent of the GDP in FY21. On the investment side, a two-decade-high cash flow to capex ratio is a robust sign of growth revival. Corporate balance sheets are therefore projecting sturdy numbers. 'China plus one strategy' also seems to have a positive prospect for India. In conjunction with the Production Linked Incentive (PLI) scheme, this could do wonders for the manufacturing sector of the country. Overall, the earning and the investment cycle are, thankfully, not at their peak. However, the above average valuations pose a slight discomfort. Given the sudden market run up in the last 18 months, caution must be exercised by the retail investors in the near term. In the long run, the investor will most likely be on a strong footing.

Now that the central banks in developed countries are withdrawing the special windows created to fight Covid, what would be the impact on Indian Capital Markets?

Plagued by Covid-19, the world is fighting a huge supply shock. Critical economic inputs are therefore likely to cost dearer in the near term, thereby pushing inflation upwards. Further, due to the energy shortage, draconian regulatory restrictions on the corporate sector, and an irresolute housing sector, a steep fall can be seen in China's economy. This will undoubtedly have a ripple effect on the global economy and ours will be no exception. To add fuel to fire, the US Federal Reserve appears keen to exit its loose monetary policy thereby pushing the monetary flow back to the US. The dollar will thus appreciate and this will have a negative impact on the Indian import bill. The Indian capital markets, as a result, will remain tepid and may see a correction in the short term.

Primary market is abuzz with record number of issues and investors are just lining up to take part. What would be your advice to investors and how they should select new IPOs?

The year 2021 has experienced nearly 51 initial public offerings (IPOs). Through these IPOs more than ₹90,000 crore has already been raised. Before investing, due diligence is required as IPOs are fairly risky. The following is a list of five key considerations for investing in an IPO: financial health and corporate valuations, key strengths and corporate strategy, investors' investment horizon, promoter background and management team, and provisions of the Red Herring Prospectus. An informed and sceptical investor is nonetheless more likely to fare better in the IPO market.

SIPs are receiving record sums; do you advise first time investors to choose SIPs as entry point to capital markets?

Lately, Systematic Investment Plans (SIPs) have been gaining popularity among Indian mutual fund (MF) investors, as it helps in Rupee Cost Averaging and investing in a disciplined manner without worrying about market volatility and timing. Indian mutual funds have currently about 4.64 crore SIP accounts through which investors regularly invest in Indian mutual fund schemes. India's monthly MF SIP book has grown thrice in the last five years to nearly ₹10,500 crore. A first-time investor, enthused by the charm of a sudden market rally, should nevertheless not invest a lump sum amount in the pure equity segment of MFs which are subject to market risks. So, it's advisable that investments in equity-oriented funds should be made through the SIP way.

Multi-cap funds look attractive in the current market scenario; would you share your views on multi-cap funds for the benefit of investors?

Multi-cap funds invest in diversified stocks of large-cap, mid-cap, and small-cap companies. By capitalising on the opportunities across market caps, these funds generate optimal investor returns. Moreover, in an effort to ensure a completely diversified portfolio, the market regulator altered the guidelines last year. Accordingly, multi-cap funds now have to invest a minimum 25 per cent each in largecap, mid-cap, and small-cap stocks. Investors are wary that the bullish momentum in the mid-and small-cap funds could see a reversal in the long run. Besides, the majority of new investors who have started investing in the equity market in the last 15 months have not experienced a meaningful correction in the markets. Multi-cap funds are therefore a preferred option, providing the stability and low volatility of large-caps and higher returns of mid- and small-cap stocks. ◆