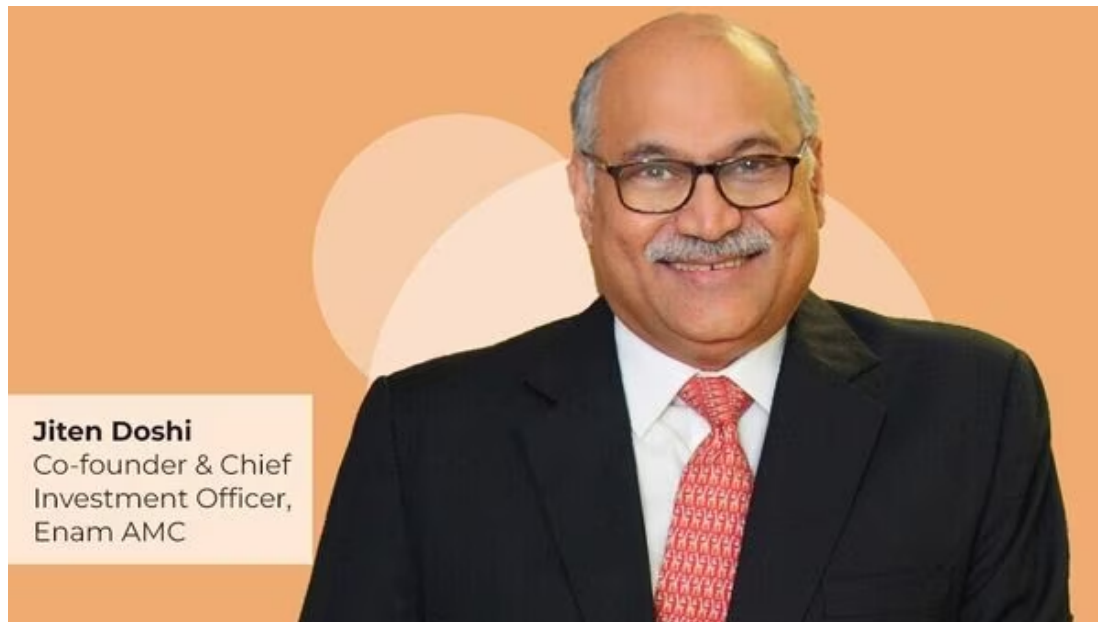


Buoyant on industrials, financial, real estate, infra, says Jiten Doshi of Enam AMC

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Unlike most of the world markets, India is blessed with proactive regulators when it comes to each segment, be it insurance, capital markets, or banking, says Jiten Doshi, Co-Founder and CIO, Enam AMC.

In an interview with *MintGenie*, Doshi said that the concurrent uncertainties on global geopolitics and volatility in asset classes can build up to a rare period where almost every asset class (equities, bonds, real estate, and gold) can participate in terms of returns.

Edited Excerpts:

What is your overall view on the Indian equity market? Which sectors do you think would be bullish and bearish in the long run?

We are perma-bulls on Indian equities. India ended the CY23 on a high note, with the Nifty delivering 20% returns, marking the eighth consecutive year of a positive close. Even over the long term, India continues to be one of the top-performing markets with a 3/5/10-year return CAGR of 16%/15%/13%.

We are in an era where we are witnessing the convergence of all the core variables like democracy (the law of the land), demography (scale, diversity), digitization (DPI, G2C, etc), and development (soft & hard infra, policy & execution) to create a multi-year growth runway for the Indian economy. We expect megatrends such as premiumization, digital

money, financialization, industry consolidation, formalisation, urbanisation, health care, import substitution, manufacturing renaissance, and once-in-a-century capex creation to pan out during this period. This makes segments like aspirational consumption, consumer discretionary (durables, mobility, retail, QSR, etc), home improvement, BFSI, capex recovery, and healthcare interesting investments from long-term perspectives.

In which sectors do you foresee investment opportunities for HNIs & UHNIs in equity markets?

Any investment has three core objectives to serve – returns, risks, and time horizon. Every investor (small or big) needs to get this sorted before he starts exploring opportunities. When we look at HNI as a class, we get varied strata of investors in each of these counts. As a category, these investors are primed to hold longer-term and consummate higher risks than an average investor. Concentrated, low-churn, long-term investing is a more suitable style for this investor class. As things stand, the narrative suggests moderating inflation and a possible pivot in 2HCY24E for the interest rate cycle. The concurrent uncertainties on global eco-politics and volatility in asset classes can build up to a rare period where almost every asset class (equities, bonds, real estate, and gold) can participate in terms of returns.

Looking at the current market scenario, what is your take on the right asset mix between active and passive investments today?

Unlike most of the world markets, India is blessed with proactive regulators when it comes to each segment, be it insurance, capital markets, or banking. The regulations have been removing friction, bringing more transparency and a better buck to the end-user/beneficiary. With among the best TER structures in the world, India offers an active plus passive opportunity for equity investors. Being proponents of direct investments and a predominant pedigree of equity – we remain advocates of concentrated, long-term, low-churn investing as a proven path to the creation of generational wealth.

Given the growing contrast in FII and DII flows, what pulse do you read of the Indian investors?

When it comes to capital markets – in terms of architecture, technology, regulations, as well as risk controls, India is in pole position. Add to this the sheer scale – it has among the most balanced structures in terms of participants, sector spread, and disclosure standards.

Money seeks asset classes that are sitting with better prospects, better visibility, relative opportunity, and recency bias on the asset performance. Global investors are slowly waking up to the reality of the long-term nature of the India opportunity and are actively

engaged in shifting their incremental EM exposures. FIIs turned net buyers with inflows of USD 21.4bn in CY23 (vs. outflows of \$17 bn in CY22).

Increased retail participation, rising SIP flows, and higher allocations from pension and insurance flows – have outweighed the FII flows. The on-ground domestic inflows were resilient at ~USD 22.3bn in CY23 and monthly SIP inflows of ~USD 2bn (scaling a new high) on the back of super-trends of financialization and digitization (driven by rising penetration, heightened retail interest, next-generation investing, sustained market buoyancy and increased financial literacy).

This juggernaut has since nullified the high dependence of equity market performance on FII flows. One can only imagine when the buying panic sets in from this segment, what would happen to the equity markets. Indian equities is a must-have asset class in an economy that is set for its break-out decade and has a median working-age population of less than 27 years.

Is India's growth story intact given the fact it's election year? What is your sense of global sentiments?

A fair reality check reflects on a changing world; that is changing slowly, steadily, ... permanently. The easy money period is gone; capital is costlier. The world is fragmented with broken supply chain(s), fractured socioeconomics, simmering conflicts, and deep polarization. The existing economic frameworks, capital market rulesets, and the global powers are under challenge. These long decadal shifts take years, are incremental, slow, and subject to persistent bouts of volatility where the established order and emerging order are at crossroads. The established template(s), formula(e), and equation(s) might not work during this phase. We expect most of the asset classes (currency, commodities, and capital) to display persistent volatility during this period. The hiding places amidst these uncertainties which offer stability, visibility, and growth are rare to find in one place.

As regards the effects of the election – the current market rally has extended positivism further upon the favourable results of recent state elections for the national ruling regime. Post this, the markets seem to be factoring among the most favourable scenarios when it comes to economic, political as well as corporate performance like possible policy continuity, acceleration of next-gen reforms post-election, and sustained better-quality consistent earnings trajectory. While this does risk an erosion in margin-of-safety to an extent, the positive surprises from higher-than-expected government spending, higher FPI flows on the back of better allocations and a hint of rural resurgence (on a weaker base) can balance the same over the medium-term.

Corporate earnings growth in FY24 has been strong at double-digits, driven largely by the domestic-oriented sectors. Which sectors would continue to demonstrate

such growth? Additionally, are there any sectors you are cautious of?

India is an oasis in a growth-deserted world. The sheer scale, backed with multiple sizable cohorts makes it a multi-segment market. The economic performance has been driven predominantly by consumption. We witnessed that in CY23 there was broad-based growth, with all indices and sectors delivering positive returns. The recovery of the underperforming sectors from the past decade, such as real estate, capital goods, PSUs, industrials, defence, etc., led the rally. As discussed earlier we remain buoyant on sectors like financials, aspirational consumption, industrials, consumer discretionary, capital goods, real estate, and infrastructure to participate this year also. Export-linked businesses would remain partially affected till global growth comes back.

In light of current global economic conditions, how has the company adjusted its investment strategies to navigate uncertainties and capitalise on emerging opportunities?

Like life, investment is a process of continuous learning. One needs to reinvent himself to changing realities and learn from his/her mistakes. As discussed earlier, we are in a world where the only constant is uncertainty with violent volatility. The unknown-unknowns have expanded exponentially. This makes noise a dominant reality in markets. Our investment ethos relies on three friends – business, price, and time. We have re-invented our internal framework to a deeper engagement in understanding business, and assessing a fair margin of safety. We have further enhanced our focus on digging deep, which helps us make time as our companion to wither the periods of value/time pain and right position-sizing decisions.

Considering the ongoing climate crisis, what role does sustainability play in your investment decisions, and how do you incorporate environmental, social, and governance (ESG) factors into your portfolio management approach?

We genuinely feel that corporate value is a slave of how well the company treats all its stakeholders including employees, society, and the environment. As a group and specifically at the AMC, we have been pioneers in implementing Socially Responsible Investing and were early adopters to ESG and PRI standards into our work processes. We have an in-house ESG research team committed to this purpose. This dedicated ESG vertical deep-dives in both assessment and engagement to provide an efficient overlay of ESG to our investment process. While these are early days, the regulatory push, improving disclosures, and committed functions in corporations – have enabled us to leverage the publicly shared data points to create our proprietary models.

Considering the uncertainties, how important is portfolio diversification for investors, and what strategies would you recommend to enhance portfolio resilience?

We are bottom-up stock-pickers looking to create opportunities that can create multi-year returns. Resilience comes from buying the right business at the right price. Long-term returns are slaves to business economics and the price you pay. Our central operative is to invest in a focused few, dig deep, and stay long.

Our core investment tenets rest on the five pillars of compounding (long-term accretion), focus (few good businesses), deep work (intense engagement), mean reversion (respecting cycles), and risk management (avoiding permanent loss of capital). While decisions are taken by humans, a set process guide does help stay away from distractions to pick the signal from noise in each of the tenets. We believe in focused diversification – where diversification is a result of focused effort (rather than lack of it). Staying focused on absolute long-term performance at the expense of comparisons (which bring distractions) is key to building long-term outperformance.

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