Canara HSBC Life Insurance

Media Coverage Report

"ETMarkets Smart Talk: Focus on green energy to lead to multi-billion dollar enterprises over next decade: Jyoti Vaswani"

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ETMarkets Smart Talk: Focus on green energy to lead to multi-billion dollar enterprises over next decade: Jyoti Vaswani

Jyoti Vaswani discusses the potential of multi-billion dollar enterprises in the green energy space and its impact on equity markets. She provides insights on the US Fed moves, RBI, inflation, Q4 earnings, management commentary, Nifty performance as well as May trends. Vaswani says that since FY24 has seen a broad-based rally, FY 25 can be expected to be driven by sustained corporate earnings growth and policy continuity.

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"This transition is expected to give rise to numerous multi-billion dollar enterprises over the next decade. The shift in the energy landscape is making investors excited about the green energy space," says Jyoti Vaswani, Chief Investment Officer, Canara HSBC Life Insurance.

In an interview with ETMarkets, Vaswani said: "Markets will be driven more by sustained earnings growth, policy continuity and a favorable geopolitical landscape and any disappointment on these fronts may have negative ramifications on the market," Edited excerpts:

Market is consolidating around record highs despite muted cues. What is your view? Can we see 80,000 on Sensex by December 2024?
Jyoti Vaswani: Last financial year stood great for equity investors as equity markets especially stocks in mid/small cap segment, delivered superlative return.

The rally in the markets echoed the strong macro backdrop, sustained earnings growth, political stability and favorable domestic liquidity.

Post a strong FY24, equity markets have been consolidating around record highs looking for the next trigger for an up move.

We reckon RBI's timing and magnitude of interest rate cuts along with policy continuity will be of paramount importance and the key defining factors for the market at the current economic juncture.

We see limited triggers for a significant rally although an eventual rate cut in the global rate cycle bodes well for asset classes including equities.

Also, reform measures, if any, to be announced by the new Government will have a bearing on equity market performance this year.

Since FY24 has seen a broad-based rally, we expect FY 25 to be driven by sustained corporate earnings growth and policy continuity.

Albeit markets have already discounted the general election results with the expectation of the incumbent ruling party to continue, we do not rule out any potential volatility in the near term.

Overall, we expect the equity market returns to be positive in FY25 (in line with moderate earnings growth). However, the market is likely to see divergent trends across sectors based on earnings performance.

The US Fed did signal some concerns about inflation – what is the kind of rate trajectory you foresee for RBI and its impact on markets?
Jyoti Vaswani: Given the stickiness in the US inflation prints, monitoring the Fed's approach to managing the final stages of disinflation will be crucial. This stickiness in CPI is driven by Shelter CPI, which accounts for nearly one third in total CPI basket and still remains elevated.

Although inflation has moderated, the last mile of disinflation is proving a bit of a challenge due to delayed transmission of shelter price weakness into the CPI print. The weakness in Shelter prices is expected to reflect in the CPI prints in the second half of 2024. This has delayed the rate cut cycle in the US and markets have tempered their expectations around quantum of rate cuts from nearly five to six rate cuts this year to two cuts now. Also, these cuts are likely to be back ended.

Prima facie, from a domestic standpoint, inflation and growth have not been a major source of worry in India when compared to global counterparts. Domestic growth has been largely resilient despite the 250 bps rate hike since May 2022.

Although there have been instances of high inflation prints in India, the trajectory is now seemingly aligned to RBI's target range, unless there are some unprecedented food and geopolitical shocks.

Key indicators continue to portray robust growth picture and GDP growth is largely projected around 7% levels for FY25 reflecting expectation of strong corporate earnings and strong consumer demand prospects.

In this backdrop, in terms of rate trajectory, RBI MPC is expected to follow its global counterparts, primarily US Fed. However, it is expected to be a shallow rate cut cycle in FY25, given a stable macroeconomic environment.

Although rate cuts bode well for equities, equity markets have mostly factored in expected rate cuts. Hence, from here on, markets will be driven more by sustained earnings growth, policy continuity and a favorable geopolitical landscape and any disappointment on these fronts may have negative ramifications on the market.

What is the sense you are getting from Q4 earnings as well as management commentary?
Jyoti Vaswani: Nifty has seen a mid-teen earnings growth so far, broadly in with expectations. Consumption and outsourcing continue to be weak, while financials continue to exhibit strength.

Strong profit growth has been observed in sectors like Auto, Construction materials, Financials while Chemicals and IT continue to face challenges.

Consumer staples saw tepid volume growth again, however, consumer and rural demand seems to be finally showing incipient signs of recovery. In FY24, earnings growth was largely driven by margin expansion due to lower input costs.

From here on, the corporate results will be primarily driven more by topline growth as raw material prices have more or less stabilized. We believe growth and domestic plays will be the key themes to watch out for in FY25.

We believe key domestically focused sectors such as consumption, infrastructure, construction and allied sectors will continue to do well. Besides new age and sunrise sectors like green energy are also likely to do well.

We are now in May and there is popular adage 'Sell in May and go away'. FIIs sold more than 35000 cr. in the cash segment of equity markets in April. What is the trend you foresee in May post the US Fed policy stance?
Jyoti Vaswani: While the popular adage has been holding true so far for foreign investors with significant outflow by FIIs continuing this month, domestic investors have countered the outflow well on the back of strong monthly SIP inflows.

Also, in spite of a delay in rate cuts in US, US markets have been resilient thus providing positive global cues to Indian markets.

However, the result of General Election is looming on the horizon which will have a significant bearing on the equity markets.

With such an important event around the corner, investors may remain on the sidelines for a while resulting in a range bound market. Thus, we foresee a phase of consolidation in equity markets during the month of May.

What is fuelling optimism in energy stocks? We have seen many energy and power stocks hitting fresh record highs last week?
Jyoti Vaswani: India is heading into a potential multi-year growth in the power sector cycle, led by rising peak power deficits, shift to renewable sources and efforts to improve India's energy security.

There have been several years of underspending after regulatory issues reduced capital flows to the sector. With the prevailing mismatch between energy supply and demand, as well as the government's focus on manufacturing and infrastructure, power demand is expected to grow at 0.8-1x of nominal GDP growth rate till 2030.

To support the power sector, the government has been encouraging the use of renewable energy and is also encouraging investments in thermal capacity.

These efforts made by the government and focus on green energy have resulted in increasing private interest and investments in the energy sector across players.

India Energy stocks have been by driven multitude of factors such as a favorable refining demand-supply balance, steady oil prices between USD 80-90/bbl range and expected uptick in upstream production volumes following several years of declines.

Optimism on the ruling party emerging victorious in the ongoing General Elections which would result in a continuity of conducive policies and regulations for the sector has also been a key factor.

There is a lot of focus on green energy, EV from the government. Do you see the next wealth creators coming from these new themes?
Jyoti Vaswani: Green energy is a sunrise sector with continued focus on themes of decarbonization linked capex and electric vehicles. Although these sectors are still in a nascent stage, they do have tremendous potential for growth, given the size of the Indian economy and focus of the government on clean energy.

As the world is moving full throttle towards the goal of zero carbon emissions, so is India. India has set a goal of net zero carbon emissions by 2070.

The green energy sector is in limelight as India has an ambitious target of reaching 500 GW of non-fossil fuel capacity by 2030. With renewable energy contributing more than 70% of the new power generated in India in FY24, green energy stocks have created significant wealth for investors.

With focus on achieving energy security and self-reliance, coupled with regulatory advancements, improved technology and reduced costs, a substantial shift is underway across all aspects of energy value chain i.e. generation, transmission, distribution and consumption.

This transition is expected to give rise to numerous multi-billion dollar enterprises over the next decade. The shift in the energy landscape is making investors excited about the green energy space.

In case of EVs, we have seen significant investments by auto majors which has led to incremental wealth creation for these companies.

It is critical to keep an eye on innovations in this space as this is an evolving theme and one can participate in this story via companies where valuations are not stretched.

How will the IPO story fold out in FY25? We have seen some slowdown in SME IPOs hitting the Street after SEBI comments.

Jyoti Vaswani: There will always be investor demand for good IPOs and this year will be no different as seen from some of the very successful primary issues since beginning of FY25.

Market has good appetite for IPOs in upcoming sectors like new age technology, clean energy, electric vehicles etc. where innovation or regulatory tailwind is involved.

However, this year investors could expect more rationale valuation compared to last year in the primary market. This could limit the number of IPOs especially in the SME segment.

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