moneycontrol

Be a PRO

DAILY VOICE | Four sectors from midcap space that Deven Sangoi of Canara HSBC OBC Life is bullish on

We think rising US bond yields could be an irritant in the short term, which may cause volatility in market.

Deven Sangoi, chief investment officer (CIO) at Canara HSBC OBC Life Insurance feels that the broader markets have seen a sharp recovery on the expectations of broadening of growth, and expects broad economic recovery to sustain for the next couple of years, which may result in wider market participation.

"In the midcap, we prefer sectors like chemicals, IT, pharma and financials in which select stocks can sustain earnings by 15-20 percent CAGR creating long term wealth," he said in an interview to *Moneycontrol*'s Sunil Shankar Matkar.

At present, market corrections (after sharp rally) should be considered as healthy buying opportunities, Sangoi advised.

Key risk, according to Sangoi**,** is faltering of growth due to a spike in energy prices or inflationary pressure due to poor monsoon, resulting in change in accommodative monetary policy stance by RBI.

Mr. Deven Sangoi

CHIEF INVESTMENT OFFICER|CANARA HSBC OBC LIFE INSURANCE

Q Do you think rising US bond yields is a big risk for India and will it really reverse FII money? Also what does the rising bond yield mean for investors and traders?

We think rising US bond yields could be an irritant in the short-term, which may cause volatility in market. US Fed's goal is to return to full employment and maintain stable prices. Until we see recovery in labour market to pre-COVID levels, Fed would continue to keep an accommodative stance. On the bond side, RBI has sufficient tools at its disposal to manage the 10-year government bond yield near current levels. Inflation would be the key data to watch out for given higher commodity and energy prices. Any unexpected rise in inflation may lead to rise in bond yields.

While 2013 surge in US yields and the subsequent sell-off in emerging markets (EM) are often considered as a reference point for some (famously known as Taper tantrum), one must not forget a fundamental difference between then and now - in 2013 Fed had hinted at reducing its pace of purchases. This time Fed continues to buy USD: $80 billion in Treasury bonds, $40 billion in mortgage-backed securities every month.

Q There has been a gradual increase in oil prices in the last few months given the vaccination and hope for rising demand over the coming months. On the other side, the government has also been increasing petrol, diesel and gas prices. Do you think it will have a major impact on the fiscal deficit when the government already announced growth-oriented Budget at the cost of fiscal expansion?
Recent rise in crude has been mainly driven by supply side control measures implemented by OPEC and voluntary cut of 1 million barrels by Saudi Arabia. With the rise in crude oil price, cuts may reverse as demand normalises. OPEC is still producing about 10 million barrels a day lower than pre-COVID levels. Oil between $55 - $65 a barrel would not be a major concern for India and the rise in oil prices is also a signal of global economic recovery which would help India.

In Budget FY21, Government projected gross tax revenue to fall by 5.5 percent whereas till January 2021, the degrowth has been only -1 percent suggesting there could be a reasonable upside in the tax revenue. Every Re 1 per litre cut in excise duty would reduce government's revenue by Rs 13,000 crore. We estimate that the government tax revenue will overshoot the revised estimates presented in the Budget by around Rs 1 lakh crore - thus providing enough fiscal headroom for the government to cut fuel excise duty without compromising the spending targets.

Q Will the broader markets outperform benchmarks in the coming years and will it be same like 2016-2017? What could be reasons behind it?
Broader markets have seen a sharp recovery on the expectations of broadening of growth. What we have seen is that earnings growth is now broad-basing as cyclicals are participating in the earnings upmove. While the usual sectors like technology, consumer, private banks have delivered on growth numbers, even cyclicals such as metals, cement and autos are seeing strong growth numbers on the back of global and domestic economic recovery. We expect broad economic recovery to sustain for the next couple of years, which may result in wider market participation.

Q Among midcaps, what are the sectors that look attractive for investment and why?
In the midcap space, we are very stock-specific and selective in our choices. We prefer sectors like chemicals, IT, pharma and financials in which select stocks can sustain earnings by 15-20 percent CAGR, creating long-term wealth.

Q Do you expect around 10-15 percent correction in the Indian equities after more than 35 percent rally seen in last five months? If it happens, which sectors one should invest in? What could be major risks for India in the coming months?
While correction can never be ruled out, our say is a 10-15 percent correction would be steep. After a long time, we have seen consecutive two quarters of earnings beats and upgrades across sectors. Consensus Nifty EPS for FY22 is around Rs 700 and Rs 830 for FY23.

We think one needs to continue to invest into long-term structural sectors in India like private banks, NBFCs, technology and consumer sectors which have seen secular growth trends. With PLI, government is focussing on privatisation as well as capex due to which we think India may be on the verge of economic upcycle. At present, market corrections (after sharp rally) should be considered as healthy buying opportunities.

Key risk is growth faltering due to spike in energy prices or inflationary pressure due to poor monsoon resulting in earlier change in accommodative monetary policy stance by RBI.

Q What could be the major impact of Budget on the insurance sector?
Budget has increased FDI in insurance to 74 percent, which is quite positive reform. We may see some foreign players enter as insurance sector continues to remain an underpenetrated market in India. The big players may be able to raise future growth capital to grow faster.

Q Have your made large reshuffle in your model portfolio after December quarter earnings? What is your view on December quarter earnings and do you expect the better-than-expected earnings in coming quarters as well?
FY21 corporate earnings saw big beats and upgrades across the sectors. The underlying recovery has led to broad-based growth. Key factors which drove recovery were (1) sharper-than-expected demand recovery with the opening up of the economy; (2) continued cost optimisation measures; (3) the festive season boosting consumption demand across the Staples, Durables, and Discretionary sectors; (4) strong operational delivery by the BFSI sector (especially large banks with over 70 percent PCR and low restructuring of sub 1%) (5) Cyclical sectors – such as Metals, Autos, Oil & Gas (O&G), and Cement.

We believe government's focus on liberal fiscal consolidation and capex spending augurs well for the revival of the long-anticipated private investment cycle. We expect earnings momentum to sustain with further revival in the economy, vaccination drive and low-base effect.

Q What did the Q3 GDP indicate and has it really showed the impact of measures announced by the government so far? Also, did it indicate that the government spending has been slowing down?
Real GDP for Q3 grew by 0.4 percent, clear reflection of recovery since the low in June quarter. Gradual unlock and liquidity measures announced by the government and Reserve Bank of India have helped the supply side to stay nimble while festive demand helped in demand side recovery in Q3FY21. Growth in real GDP was largely attributable to a 2.1 percent YoY growth in gross capital formation (GCF).

The recent government spending data for January 2021 grew to a 10-month high of 45.9 percent YoY in January 2021 driven by capital spends. The decline in government expenditures by 1.1 percent in Q3FY21 indicate that states' spending might have fallen since Centre's spending has gone up sharply during the quarter. Gross fixed capital formation also grew by 2.56 percent YoY in Q3FY21 – first positive prints in six quarters.