ETMarkets Smart Talk: July 2024 final Budget likely to be more populist, no tax changes expected: Aditya Khemka

By Kshitij Anand, ETMarkets.com Last Updated: Jun 20, 2024, 09:01:00 AM IST

Synopsis
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Agencies

The biggest risk to the Indian bull market is geopolitical disruptions to the supply chain and demand. We also see domestic inflation as a derivative risk of such possibilities.

"We expect the Indian 2024 Budget in July to be slightly more populist than the previous few Budgets," says Aditya Khemka - Fund Manager, InCred Asset Management.

In an interview with ETMarkets, Khemka said: "There may be more incentives given to the manufacturing sector and more social expenditure in rural India to fuel consumption. We do not expect any radical changes in taxes," Edited excerpts:

After a sharp selloff seen post-election results Indian equity markets quickly recouped losses and hit a fresh record high. What is fuelling the optimism?

We believe the sell-off was on the back of fears of a weak coalition-driven mandate which could have potentially paralyzed policymaking.

However, post-election results and allocation of ministries to various candidates, it is perceived that there will be continuity in policy making and reforms may continue as earlier. This is fuelling the optimism.

What is your take on the Fed decision and possible rate trajectory?
Driven by the strong employment data and inflation refusing to fall below 3%, we believe that the Fed may at best do one 25 basis point rate cut in 2024. There may be more cuts in 2025 if the data supports it.

The next big event that markets will track is the Final Budget 2024. What are your expectations from the big event?
We expect the Indian 2024 Budget in July to be slightly more populist than the previous few budgets.

There may be more incentives given to the manufacturing sector and more social expenditure in rural India to fuel consumption. We do not expect any radical changes in taxes.

How are FIIs looking at India in the Modi 3.0 era?
FIIs have been largely sellers for the past few months in the Indian market and may be allocating more capital to US treasuries or Chinese equities.

However, we believe that FII flows will be positive over the medium term for India as India remains the fastest-growing large economy globally.

How should one play small & midcaps in Modi 3.0? There are mixed voices - some say that large caps are likely to do better while some are looking at moderate returns from broader markets. What are your views?

The Nifty 50 Index has a historical P/B multiple of 2.8x (25 year average) while it is currently trading at 3.7x (source: Bloomberg). Hence, we expect the large caps to yield moderate returns over the next few quarters.

We expect select small and mid-cap stocks where earnings momentum is good and valuations are reasonable to do better than the broader market.

Which sectors are on your buy list and sectors could see some profit-taking after the recent rally?
We expect Healthcare, staples, discretionary consumption, NBFCs, and IT to do better in the next few quarters as these would likely see a revival in earnings that have been subdued for the past couple of years. We expect some time correction in sectors like manufacturing (EMS, Autos, etc).

We are almost through with the first half of 2024 – how do you see H22024 for India Inc. in terms of earnings?
As per Bloomberg consensus, Nifty earnings are expected to grow at 12% for 2024. We expect that the earnings trajectory for larger companies could be inline with consensus.

What is the biggest risk this bull market faces?
The biggest risk to the Indian bull market is geopolitical disruptions to the supply chain and demand. We also see domestic inflation as a derivative risk of such possibilities.

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