

ETMarkets Smart Talk: Why are FIIs turning net sellers in Indian markets? Aditya Sood decodes

By: Kshitij Arora, ETMarkets.com Last Updated: May 21, 2024, 09:00:00 AM IST Indian markets? Aditya Sood decodes

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Synopsis

Aditya Sood, Fund Manager at InCred Asset Management, analyzes the impact of NDA's performance, FPIs' net selling, and the attractiveness of MSCI China index on Indian markets. He highlights the crucial role of these factors in shaping investment decisions. Sood says: "Over the next decade, India will be a buy on dip market — all corrections should be used as buying opportunities to increase allocation to equities as an asset class."



"Over the next decade, India will be a buy on dip market — all corrections should be used as buying opportunities to increase allocation to equities as an asset class," says [Aditya Sood](#), Fund Manager, [InCred Asset Management](#).

*In an interview with [ETMarkets](#), Sood said: "FIIs were **net sellers** of approximately Rs 35,700 crore in April and Rs 33,539 crore, while **DIIs** were net buyers of over Rs 44,000 crore in April and Rs 26,500 crore in May," Edited excerpts:*

What a twist market saw in the week gone by. We retested crucial support levels. What is causing the panic on D-St?

Aditya Sood: A month ago, it was widely expected that the ruling party coalition NDA would aim for 400-plus seats. However, the turnout in the first three phases has been slightly lower, which might impact a few constituencies.

Despite this, it is unlikely to significantly alter the widely anticipated outcome of the NDA-led coalition returning to power, although they may fall short of the initial expectations.

This coincides with net selling by FPIs to the tune of Rs 25,000 crores until mid-May, which has been absorbed by domestic institutions and retail.

The ongoing earnings season is driving [market volatility](#), with financial results being reported by companies.

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FIIs are turning net sellers in India – is it the [election uncertainty](#) or something else?

Aditya Sood: FIIs were net sellers of approximately Rs 35,700 crore in April and Rs 33,539 crores, while DIIs were net buyers of over Rs 44,000 crore in April and Rs 26,500 crores in May.

Additionally, DII holdings have been increasing rapidly, narrowing the gap between DII and FII holdings to an all-time low.

Global emerging market allocations depend on various factors like geopolitical stability in a country, and leadership regime continuity.

The stability of the currency, which is a function of the fiscal deficit and current account surplus/deficit and inflation.

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Another factor that has led to the outflow has been the relative attractiveness of China as a market in terms of valuation. The MSCI China index has rallied by 17.9 percent from the bottom that it made in mid-April 2024.

How should one look at the current fall and the volatility could further extend as we approach the counting day – time to buy more?

Aditya Sood: One should look at the current fall as a healthy correction, which is a normal course in a bull market. Going into the election, one can expect some volatility. However, once the event is over, our markets will start to focus on the budget that the new government is expected to present in July and the fundamentals of [corporate India](#).

Over the next decade, India will be a buy on dip market — all corrections should be used as buying opportunities to increase allocation to equities as an asset class.

Monthly SIP surpassed Rs 20,000 cr mark for the first time. It has doubled in the last 2 years. So much money coming in --- is it good for markets because it might end up boosting P/E multiple while earnings stay as they are?

Aditya Sood: The size of the SIP book should be considered in conjunction with the overall market capitalization, which stands at USD 4.5 trillion.

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As of May 14th, 2024, India's one-year trailing P/E multiple of the Nifty is 21.2x, compared to 21.9 last year, which aligns with the historical average P/E of 21.8x.

India has consistently traded at higher valuation levels than other emerging markets, reflecting its superior profitability and [return on equity](#) (ROE) profile compared to its peers.

Going forward, we see limited scope for P/E expansion, and market returns would be a function of the earnings growth profile of Indian corporates, which is expected to be in the range of 12-14%.

If we get into some more consolidation what investors should ideally look at small & midcaps or large caps?

Aditya Sood: The small-cap index has a 20-year track record of outperforming the Nifty and the Sensex by 6 percentage points, with a 19% CAGR.

There are many opportunities in the small-cap space with market-leading companies that have a long history of creating wealth for shareholders.

One must be cognizant of the fact that post-COVID, small and midcap companies have meaningfully outperformed the large caps. The small-cap index 7-year average P/BV is 2.5x; currently, the index is trading at 3.5x P/BV, which is less than 1 standard deviation below the mean, with a peak P/BV of 4.3x in FY22.

Looking ahead, we expect the overall market returns to be in line with earnings growth. Although these periods of low returns could be used to back companies and increase conviction in high-performing companies. Consequently, portfolio returns may vary significantly from the benchmark.

What is happening with [banking stocks](#) especially the [private banks](#)?

Aditya Sood: Credit growth remains strong but sluggishness in deposit growth and elevated C/D ratios could restrict growth. NIMs have been declining from their peak levels due to deposit repricing.

Asset quality levels are at their 40-year best. We maintain an underweight stance on financials based on the above reasons.

Private banks, which were able to maintain stability in margins and asset quality, have been rewarded well by the market. Although a few private banks have lagged, which had uncertainties around management rejig or have faced sharp margin compression on account of a merger.

However, P/B multiple compression for high-quality lenders is behind us, and we expect these high-quality lenders, which have cross-cycle experience of managing credit cost, to do well.

Which sectors will drive the next leg of the rally on D-Street?

Aditya Sood: We have a positive stance on Manufacturing, Industrial, Healthcare, Cement, Consumer Discretionary, and Consumer Staples. Although IT&ITES companies have declined sharply and have provided an opportunity to increase weights.

We have a positive stance on discretionary consumption, which is driven by rising consumer discretionary spending as it gains a share in total consumption, as per capita GDP has crossed the important USD 2,000 mark.

The number of households earning more than USD 35,000 has the potential to grow fivefold over the next decade. People upgrading from the bottom of the pyramid make us constructive on low-unit consumption in India.

What about valuations? The Indian market hit a fresh record high in April at a time when other global markets are moving along. Do you think we will be able to hold on to the premium?

Aditya Sood: We have a constructive stance on the markets and believe that [equity](#) markets are in a mid-cycle, with market multiples not being inexpensive and earnings growth rebound supporting valuations.

There are several factors in favor of continued strong earnings growth in Indian equities, namely the start of the capex upcycle led by higher state outlays for infrastructure projects, PLI incentives for manufacturing, and deleverage balance sheets of Indian corporates; a strong recovery in consumption due to rising disposable incomes in the services sector, and real estate demand fueled by pent-up demand and increasing supply of credit.

Having performed so strongly in recent years, it's possible that India's equity market may take a breather for a period. Looking across the market today, we continue to see a range of bottom-up investment opportunities in companies that we think can meaningfully compound capital for years to come.

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