Scrutiny on quality to trump short-term risks in India

Buoyant markets continue to generate good returns for the country's investors. But caution is needed in determining where to invest as a way to protect riskier portfolios, says Yogesh Kalwani of BNP Paribas India Wealth Management.

India's risk-takers are on a roll. They have been benefitting from booming markets and seemingly ever-rising valuations – in turn making it tricky to get them to pay attention to any efforts to encourage them against acting in the short term.

But words of caution are needed in the current environment. "There are risks around today because when markets move up, everything rises. So investors feel they are experts and they buy any stock they like the look of," says Yogesh Kalwani, Senior Director and Head of Investment Services for India at BNP Paribas Wealth Management. "The challenge," he explains, "however is that not every stock which has gone up will see earnings growth and this might disappoint the market. That is when stocks which fail to deliver will see a huge downside as it is priced to perfection."

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To address this, the focus should be on quality – or, in Kalwani's words, "stocks that will deliver earnings growth". Yet this caution exists only in a select number of stocks, and current investments are not as selective as they could or should be.

Instead, they are all-too-often guided by market rumours and second-hand information. "Those are the kinds of stocks that tend to be a risky," he emphasises, adding that he sees mid-cap valuations as being ahead of the curve – and ripe for a correction. More specifically, this means that if a narrow index such as the NIFTY 50 declines by 5% to 10%, for example, mid-cap stocks could well fall in value by between 15% and 20% from the recent highs.

"These are the types of risks clients have to be aware of," says Kalwani.

"If investments have made good money already, one should keep in mind that there might be an interim shake-out where companies that are not doing well may get punished a lot more."

CHOOSE MORE WISELY

Yet a correction certainly doesn't mean the rally has come to an end or that there won't be a recovery. But when recovery happens, it will be the better-quality stocks which will rebound first and hardest. This will apply to good businesses with good management.

According to Kalwani, this is where investors need a professional adviser or wealth manager to guide them, including in terms of avoiding being too short term in their thinking and actions.

This will become increasingly vital over the next three to five years, which he predicts – at least from a trajectory perspective – will see many capital appreciation opportunities. "A section of clients think very short term and are more opportunistic in their [investment] decision making, and that's a challenge," says Kalwani. "This is where we need to explain investors the risks of taking a short-term view."

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ENHANCING ACCESS AND EXPERIENCE

A separate but related way that an investor may stand to gain going forward will be via the further introduction of digital tools and platforms. "Digital is definitely a priority for us now from an organisation perspective," says Kalwani. "We are improving the way clients, and also the relationship managers, see the portfolio information."

Indeed, providing information which is more relevant from clients' perspective and in a manner that is more effective for client decision-making, has been a key focus area as part of the broader platform development efforts. Tied to this, innovation in products is also a priority. "This means we want to get more meaningful products to offer as new opportunities for our clients," explains Kalwani.

This involves working with various investment managers to fill gaps in client portfolios, such as impact investing. "Impact investing is relatively new and emerging in India," he says, "we are looking to create a product that can offer opportunities that are equally good from the perspective of financial return as they are in causing social change. New products across various themes are a big priority for us in order to break new ground." ■

Hot on equities and alternative investments

For the time being, Kalwani sees equities and alternative investment products as the flavour in near term.

Within equities, consumption, GST beneficiaries (switch from informal to formal economy), turnaround opportunities and banking & financial services are near term themes and will attract strong flows.

Alternative Investments have good opportunities in pre-leased commercial assets, infrastructure investment trusts (InvIT) and structured products.

However in case of equities, since there is a mix across the market, one has to be careful about what is shown to the investors. "India is more a bottom-up market, meaning it is a lot more stock-specific," he adds.