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Markets can deliver 15-20% CAGR return over the next 5 yrs: Pankaj Murarka

There is deep value in many PSU stocks as they have had significant valuation derating over the last 10 years

Saloni Goel | New Delhi March 31, 2021 Last Updated at 09:24 IST

Pankaj Murarka, founder and CIO at Renaissance Investment Managers

As markets prepare for India Inc to unveil their performance for the quarter ended March 2020, **PANKAJ MURARKA**, founder and CIO at Renaissance Investment Managers tells Saloni Goel in an interview that they expect Nifty companies to report an earnings growth of 35 per cent YoY. Edited excerpts:

How should investors approach the markets now?

We are in a bull market and equity as an asset class tends to be volatile. However, the volatility reduces with a longer-term time horizon. So, investors should have a long-term investment horizon and stay invested without getting too perturbed by short-term volatility. I believe equity markets can deliver 15-20 per cent compounded annual returns (CAGR) over the next 5 years. As economies recover from lockdown, mid-cap businesses will have a sharper rebound in their operating performance and hence they should outperform the large-caps.

How much of an impact do you see from the second wave of Covid on India Inc earnings?

The second wave will have some near-term impact on the economy, but I don't think we should fear that as it is a passing phase. All major economies across Europe and the US have gone through the second wave and were able to tame it. It is part of the process of evolution for the virus. In the March 2020 quarter (Q4FY21), we expect Nifty companies to report an earnings growth of 35 per cent year-on-year (YoY), partially aided by the low base of last year.

Your sector preferences?

The domestic economic recovery will surprise on the upside. As a result, we are bullish on domestic-oriented businesses such as banks and autos. Within autos, the commercial vehicle segment will have a strong growth recovery over the next two-three years. Likewise, we like the leading private sector banks as well as the State Bank of India amongst the state-owned banks.

We believe there are green shoots of revival in India's investment cycle, which has been missing for the last decade. In many core industries, we shall be close to peak capacity utilisation in two-three years, if growth revives. Some companies across core sectors such as steel, power, coal, railways have started making investment plans for capacity augmentation. Remain constructive on industrials and capital goods sectors.

What about metals?

There has been a sharp rebound in metal prices globally, driven by robust demand and short term supply-side disruption. In the case of many metal companies, there has been no fresh investment in capacity creation over the last 10 years. As a result, if demand buoyancy sustains, then metals prices will remain elevated and the sector should do well.

Any dark horses?

There is deep value in many PSU stocks as they have had significant valuation derating over the last 10 years. The intrinsic value of many of these companies is much higher than what the markets are awarding. The government has announced a disinvestment plan to sell companies across sectors to strategic buyers. This, we believe, can act as a catalyst to unlock value across the PSU group of companies as they are trading at very cheap valuations.

What should an ideal portfolio look like in this market?

The asset allocation will depend on the age, income and risk profile of the investor. But equities have to be the core part of any portfolio. Investors are apprehensive about equities due to short-term volatility and they believe investing in equity is riskier. I have always said that 'not investing in equities is a bigger risk' because over the long-term, no asset class can beat inflation other than equities. Equity is a serious asset class and disciplined investing over the long-term can change fortunes. Use equities as a tool for wealth creation and stay committed to it for life.