FUND MANAGERS, FUND SELECTORS

by Indira Vergis | Sep 11, 2017

Weak India GDP growth flashes warning sign to investors

Weaker growth numbers and high equity valuations could lead more foreign investors to trim positions amid some profit taking, say market experts.

Investors and economists are at loggerheads over whether India's GDP growth will weaken further in the coming months following disappointing performance between April and June. Further drops could dampen the country's investment appeal and would leave its expensive equity market vulnerable to sell-offs.

India's economy slowed to year-on-year growth of 5.7% in the first quarter of its 2017-2018 fiscal year, below the 6.1% growth rate it had recorded in the first three months of the year. The fall was largely due to the fallout from the government's expected introduction of a national goods and services tax (GST), which took place on July 1, plus the lingering effects from a drastic demonetisation of the economy in November 2016.

But India's equity markets have generally ignored this slower momentum, in part because of broader investor confidence over emerging markets. The benchmark S&P Sensex index had risen 19% since the start of this year, from 26,595 to 31,882 by September 8.

Foreign institutional investors poured $6.7 billion into local equities in 2017, outpacing the $3.2 billion they invested in all of 2016, according to data from the National Securities Depository Ltd. However, they've turned into net sellers since August, dumping $2.3 billion in stocks.

Yet equity valuations remain high despite this pullback. The forward price-earnings ratio for the Sensex stands at above 19 times—a 10-year high—Suresh Tantia, an investment strategist for Credit Susise Private Banking Asia Pacific, told *AsianInvestor*.

Some economists believe the Indian economy is in for a tough few months. In a September 6 research note, Trinh D. Nguyen, senior economist for emerging Asia at Natixis Global Market Research, forecast India's GDP growth in the third quarter to slip even further to 5.2%.

"There is an expectation that the June to September numbers could still be distorted given an extension of deadlines to help companies adjust to the new tax regime," agreed Leong Lin Jing, investment manager for Asia fixed income at Aberdeen Standard Investments (ASI). She also expects the central bank to slash rates by 25 basis points by the end of the year.

That outlook has raised some concerns about market performance. "India still looks like a good [investment] story but with warning signs," Karsten Junius, Bank J Safra Sarasin's Geneva-based chief economist and head of research, told *AsianInvestor.*

S&P BSE Sensex performance

Sept 8, 2016 - Sept 8, 2017

Market performance

Not everybody is so downbeat on India's econoomic outlook.

Tantia predicted to *AsianInvestor* that India's GDP growth numbers could recover in the third quarter. Adrian Lim, senior investment manager with the equities team in Asia with ASI also noted that the lack of consumer demand is mainly a cyclical issue. "It will come back," he asserted, arguing it shouldn't impact long-term market appeal.

Munish Randev, chief investment officer at Waterfield Advisors, an India-based multi family office, expects the current quarter (July-September) GDP print to improve because of good monsoon rains, which should improve farm incomes and consumer demand.

But even the optimists believe India's equity markets will remain rangebound, amid some overseas investor selling and more local investor support.

"The emergence of domestic investors as a serious player in the market has provided strong support to markets, hence medium-sized exits by overseas investors are balanced by domestic inflows," said Waterfield Advisors's Randev.

Sanctum WM's Pant says his investment team is underweight Indian equities, while favouring fixed income. However he is recommending clients to buy during market dips, and hedge portfolios completely.

Waterfield Advisors' Randev added that his firm has been booking profits in client portfolios. "Also, new money is not being fully invested at current market levels."

But while India's equity market looks expensive and its economy could face some short-term hiccups, most experts told *AsianInvestor* the country remains a long term bet with investors who believe it should recover once it has worked out the kinks of the GST and more cashless transactions.

Economic growth in the high 5% to low 6% range is difficult to find, after all.