Aditya Birla Sun Life AMC Ltd.

ADITYA BIRLA CAPITAL
ALTERNATE INVESTMENTS



> **"While some sectors may see corrections, these adjustments can create entry points for long-term investors looking to capitalize on under-priced assets within the mid and small-cap space"**



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EXCLUSIVE INTERVIEW

1 Indian equity markets have been on quite a rally this year, though there were some minor corrections. What is driving this rally? Do strong fundamentals back this trend or is it more investor sentiment

The rally in Indian equity markets can be attributed to a combination of strong economic fundamentals and positive investor sentiment.

On the fundamentals side, several key factors have supported this upward trend. A good monsoon season bolstered the overall demand especially rural demand, while election-related capital expenditure has spurred infrastructure development and related economic activity and strong consumption patterns. We're also seeing the effect of post-Covid growth, with many companies reporting improved earnings.

Investor participation is another crucial driver. Robust SIP and equity inflows highlight the commitment of domestic investors, and the broadening of capital markets with diverse IPOs attracting fresh capital has further fuelled the momentum.

2 Valuations in the mid and small-cap segments appear to be stretched. Are these justified or are huge corrections expected? What could trigger such corrections

The valuations in the mid and small-cap segments had indeed become stretched, creating the potential for corrections. Some corrections have been witnessed recently due to factors including FIIs pulling out as they rebalance toward opportunities in China, fuelled by recent stimulus, as well as volatility due to the upcoming US elections and potential Fed rate cuts resulting in flight to safety, influencing global liquidity.

However, amid these valuation concerns, pockets of opportunities are emerging where fund managers can selectively find value. While some sectors may see corrections, these adjustments can create entry points for long-term investors looking to capitalize on under-priced assets within the mid and small-cap space.

3 Finding value buys in a volatile market is challenging. How do you find opportunities? Also, are there any specific sectors or industries where you see potential

Finding value in a volatile market requires a disciplined approach focused on high-quality franchises with the potential for healthy earnings growth over the medium to long term. We prioritize companies with strong balance sheets and a proven track record of capable management, as these attributes are key indicators of resilience during market fluctuations.

In terms of sectors, we see compelling opportunities in capital goods, power and utilities, and service-related businesses. These sectors are well-positioned to benefit from domestic growth drivers, particularly as consumer demand is expected to recover in H2 given better-than-expected agricultural output.

Ultimately, our strategy is to seek out quality companies with solid fundamentals that can generate sustainable growth, even in challenging market conditions.

4 What are some of the key near-term headwinds for Indian equities

Indian equities face several near-term headwinds that may add volatility to the market. A significant factor is the outflow of FIIs, as global investors revaluate their positions amid uncertainties about U.S. policy directions post-transfer of power.

China's recent stimulus also poses a challenge, as they may attract companies and capital away from India, with businesses potentially recalibrating their regional investments. Domestically, stretched valuations and sticky inflation rates further weigh on investor sentiment, creating concerns about market sustainability and cost pressures that could affect corporate earnings.

5 ABSLAMC has been in the industry for a long time, even within the alternative industry. What has changed and what has remained the same

ABSLAMC has adapted to the evolving alternative industry landscape by embracing new asset classes and innovative products. The introduction of RERA has made real estate investments transparent and manageable for fund managers, allowing us to tap into this sector with greater confidence. Additionally, private credit has emerged as a prominent investment avenue, especially as mutual funds have vacated this space.

We have also responded to the growing demand for global investment access. With the GIFT City initiative, resident investors can now easily access Global markets through mechanisms like LRS (individuals) and OPI route (non-individuals). Likewise, GIFT allows NRIs and foreign investors to invest in India with less hassles on documentation, compliance and taxation fronts.

Meanwhile, in the domestic equity space, the mutual fund industry has become more commoditized with less scope for innovation & differentiation in categories other than Index & thematic segments. This has resulted in a shift towards AIF & PMS products unconstrained by market caps, themes or investment styles, allowing greater flexibility and customization and targeting absolute returns.

Despite these evolving industry dynamics, we remain committed to the core principles by maintaining a diversified investment strategy, balancing both traditional and alternative assets.

6 Your PMS investment approaches have performed well, even during volatile market conditions. How would you describe your investment philosophy? And what has helped in the performance

Our investment philosophy revolves around three core pillars designed to identify and capitalize on market inefficiencies in a simple, timely and efficient manner.

The first pillar focuses on investing in businesses that have growth runway and cost structure to deliver earnings faster than nominal GDP. The second pillar emphasizes purchasing stocks at reasonable prices – ensuring entry-level valuations that provide a margin of safety.

The third pillar targets companies with a large opportunity canvas with the scope of non-linear growth, credible management and a strong emphasis on capital efficiency & returns.

Our investment process is driven by a rigorous approach to stock screening and monitoring. During the screening phase, we focus on evaluating a company's fundamentals, governance, and valuation metrics. Once investments are made, periodic monitoring ensures we maintain discipline, with particular attention to stop-loss triggers and strict sell discipline to protect our returns.

In terms of risk management, we employ a robust mechanism that includes diversification, focus on low volatility, high liquidity and low turnover ratios ensuring better tax and risk-adjusted returns.

7 What are your thoughts on asset classes other than equities, in terms of investment potential? Specifically on debt and real estate investment avenues

As an AMC, we maintain a bullish sentiment towards private credit instruments that offer returns in the range of 10% to 16%. These instruments present an attractive opportunity, offering higher yields than traditional debt instruments. Similarly, real estate investments have seen a positive shift due to the registration of projects under RERA which has significantly improved accountability and transparency in the sector. The added reliability enhances investor confidence and contributes to the growing optimism surrounding real estate opportunities, particularly those offering returns between 14% to 18%.

Furthermore, diversification through international equities is increasingly seen as a good investment avenue. GIFT City platform has significantly enhanced the potential for global investments.

