Can slowdown in China benefit Indian equity markets? Yes, say experts

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NEW DELHI: Indian markets are clearly in a structural bull run and even if we compare the core fundamentals of the economy with that of China - they look much more alluring, say experts. India may end up getting more flows compared to other markets in 2015, they say.

A falling economic growth scenario does not really auger well for Chinese markets and foreign institutional investors may actually shift some part of their investment to a more stable country, with steady growth potential such as India, if the trend continues, say experts.

China recorded its slowest pace of growth in 24 years in 2014 and is expected to lose more momentum this year. China's economy grew 7.4 per cent in 2014, barely missing its official 7.5 per cent target, but the slowest since 1990.

Indian fundamentals are much better than the Chinese fundamentals and the outlook for India over the next few years is even better in terms of growth which could easily surpass that of China in next 2 years, say experts.

Prime Minister Narendra Modi wants India to become a $20 trillion economy in the future and much of the emphasis by government is now moving towards pushing growth-focused reforms to revive investment cycle and push GDP growth to 7-8 per cent in the next 24 months.

India is projected to grow at 6.3 per cent in 2015 and 6.5 per cent in 2016, when it is likely to cross China's projected growth rate of 6.3 per cent, the IMF has said.

Earlier this week, World Bank also projected that the Indian economy will grow at 6.4% in 2015-16, from an estimated 5.6% in 2014-15.

"FIIs could prefer India over other emerging markets due to moderate valuation, stable government and positive economic outlook. The business friendly policies of the new government would keep the sentiments positive towards India," says Tushar Pendharkar, Equity Strategist at Right Horizons Financial Services.

"Other emerging and developed markets are facing several issues such as unstable government, manufacturing slowdown, weak commodity prices, slower than expected economic recovery, etc. However, in case of India, these factors are aiding economic recovery," he adds. Weak commodity prices are impacting Brazil and OPEC nations, but easing trade deficit in India.

Pendharkar further adds that China is facing a manufacturing slowdown, while India is promoting 'Make in India' and 'Make for India' campaigns.

China is looking at a situation where it is hugely leveraged and is highly dependent on exports to the global economy. Further, it has overinvested in a very large amount of infrastructure which cannot be utilized in the next several years, maybe even a decade, or so, say experts.

"The domestic Chinese economy was also highly dependent on construction and real estate. All of that is going to have huge repercussions, given that their export targets viz. Europe and other developed countries are not in such good shape and are looking at shrinking economies," says Dr. Vikas V Gupta, EVP, Traded Markets and Investment Research, ArthVeda Fund Management Pvt. Ltd.

"India is getting the reforms right and some infrastructure pieces are already in place and the rest will be taken care of by the domestic consumption-led growth," he adds. Also, FDI is likely to come in large numbers later. Given that, FIIs have all reasons to increase their India exposure further.

Growth expectations continue to be tamed down for Eurozone as well as for China. Rather, China has started resorting to monetary easing. India has a different story to offer.

"We are the beginning of earnings growth cycle and moderation in interest rates, events which trigger a long enough bull market. In our opinion, investors will be looking at the long term prospects that India has to offer at the cost of short term bumps that the markets may face," says Vijay Singhania, Founder-Director, Trade Smart Online.

"India couldn't have had it better - a decline in commodity prices, crude prices and interest rates and increasing forecasts on GDP growth and earnings outlook - making it an ideal investment destination, especially within EMs," he adds.

Foreign flows will continue to favour India:

The current government has already shown its intent on fuelling growth with clearance of infrastructure projects, Digital India, smart cities and clean India initiatives. Make in India will capitalize on these things being in place more and that will push growth rate even higher which will attract incremental flows to India.

"We still see funds flowing into India. Overall, in the EM context, we are underweight on it. Having said this, we must point out that there are some bright spots, and we believe that India certainly stands out on those fronts," says Clive McDonnell, EM Equity, Standard Chartered.

"The government does seem to be doing a great job in terms of under promising and over delivering on the reform front. Investors are loving it," he adds.

McDonnell believes that India can see continued inflows into the domestic market. Given the better outlook for easing interest rates, banks are probably one of the better sectors to play.

However, the given the fact that India has a lower base, the quantum of flows may not be the same as that of China. In terms of volume, much more FII money will go to China even in near future, until India attains a certain size.

"It is sheer market share of the emerging market capitalization which drives the major FII flows. However, incremental FII flows will be tilted to be "overweight" India. So one cannot compare FII flow to China in quantum," adds Gupta.

Year 2014 was exceptional in the sense that FII bond flows actually exceeded that of equity flows. But, analysts are confident that India should be able to attract $15-20 billion of flows in 2015.

"Even as the $40 billion-mark may be bit difficult to achieve in 2015, I am still confident that FII flows could be in the range of $15-$20 billion for the equity market," says Tai Hui, Chief Market Strategist-Asia, JP Morgan Asset Management.

"This would be possible on account of economic reforms by Prime Minister Narendra Modi, the upturn in the economic cycle and the rate cuts," he adds.