

What Are We Worried About? | Sankaran Naren | IFA Galaxy 2025

Welcome to all of you, and thank you for giving this opportunity. I think it's the nth time, maybe the 12th time, that I'm speaking, or I must have come almost all the years. So I enjoy speaking here. It's Elevate, Educate, and Excel, but I actually went back and thought I would say that, you know, people would say that why not think of 10 years ahead?

But when I went back and thought, I think this is the most dangerous year after 2007-2008 from a 10-year point of view. Because, you know, what happens is that when you think of 10 years, actually, if you go back and think, it was one of the, you know, after a very, very good run from 2020 to 2024, I said, let's not look at 10 years, let's worry about the present. And why did I come to this conclusion?

The reason is that your job has become very, very important. In 2007-2008 cycle, what happened was any company which did a project, and many companies made mistakes at that point of time, they went abroad, they did acquisitions. I can't name them, but they made so many mistakes. And when they made mistakes, what they did was they went and borrowed from banks.

Investors did lose money in those companies. Investors did lose money by investing in those banks. Many real estate companies also made mistakes by borrowing too much. But essentially, the mistakes happened indirectly through the banks, through the corporates, and the mistakes did not happen directly. In this cycle, when I went back and thought about speaking to all of you today, I realized that the entire mistakes are going to be committed by you and your investors.

Because what happens now is that when any company decides to do an acquisition or put up a project, they don't borrow from banks. What they do is they announce a qualified institutional placement, or they do an IPO and raise money from you. A mutual fund is just an agent. Actually, the investor is you or your customer. Because what happens is what we will tell you is you are giving money to us in small cap, we invest in small cap.

If you give us money in midcap, we invest in midcap. If you give us money in multicap, we invest in multicap. If you give us money in large cap, we invest in large cap. So the entire risk now is borne by you and your customer, 100%. So the entire problem of any loss will also be borne by you, 100%. The company is taking no risk.

The company, what every company is doing at this point of time, what they're doing is they're raising money from equity. Banks are also taking no risk. If you look at bank balance sheets today, they are absolutely fantastic. Banks are taking very, very little risk on the corporate side. All the risk is being taken by all of you.

I don't think either the investor or the wealth manager is really thinking at this point of time that all the risks are being taken by all of you in this room. And I spent the last three months, six months, trying to explain that the risk is with you, not with the mutual fund also. Because the mutual fund will tell you, you are giving money in small cap, so you are taking the risk. I am not taking the risk.

So I think this is one thing which I want all of you to think. Don't think 10 years, think immediate. So this is one very important thing. Second thing, luckily, I am talking now in January 20th and not in October. Why? Because see, SIP is a product.

See, mutual funds have done a brilliant job of saying SIP, but you have to remember, a SIP is an investment in the market. So if you make a SIP investment in the wrong product at the wrong time, you are headed for trouble. So if you had done a SIP investment between 1995 and 2002 for seven years in India, the return would have been zero or negative.

If you had done a SIP investment in midcap between 1995 and 2002, the return would be big negative. If you had done a SIP investment between 1994 and 2002, it would have been even more negative. If you had done a SIP investment in midcap between 2006 and 2013, the return would have been negative. If you had done a SIP investment in China, in Brazil, between 2014 and 2024, the return would have been a very big negative.

So everyone says SIP, but if you do investment in SIP in the wrong product, you are headed for trouble. SIP has to be invested in undervalued asset classes. SIP has to be invested in asset classes which will go up substantially. And if you do SIP in the wrong asset class, you

are headed for trouble. And the best way to look at it is look at SIP returns over the last one year.

I think you will get an idea. So when people come and tell me I'm doing a SIP for 20 years, I have zero problem. But you have to do a SIP for 20 years. If you do a SIP for one year, if you have done SIP for one year, the return is staring it you in the face at this point of time. Go and look at the SIP on SIP return of one year.

Definitely, if you're going to do a SIP for 20 years, it is fantastic. So if you've done a SIP in Value Discovery for 20 years, that would have been fantastic. Are there investors who have done SIP in Value Discovery for 20 years? I'm yet to find out, but maybe there will be one or two or maybe 20 or 30, but I doubt.

But if there were 20 years Value Discovery SIP investors for 20 years, it would be great, but there aren't. That is the problem. The problem is the SIP in Value Discovery investor stopped doing in 2008 or stopped doing in 2017 or stopped doing in 2020. So is there a Value Discovery SIP investor for 20 years? The answer is no.

If there was a Value Discovery SIP investor for 20 years, I would be very happy, but I doubt that is the problem. So SIP has to be done in undervalued asset classes. SIP has to be done in volatile asset classes, but it has to be done in volatile and undervalued asset classes. So if you do SIP in overvalued asset classes, you have only yourself to blame.

If you do SIP in overvalued asset classes like China was three years back or Indian equity was in 1994 or Indian equity was in 2007-2008, you have only yourself to blame. You cannot blame SIP. You have to blame yourself. You cannot blame SIP. You have to blame yourself. So this is a very important point which no one in the mutual fund industry, in the distribution P&A, is thinking that SIP has to be done in undervalued asset class or volatile asset classes.

Because the problem is that I went through the SIP data in 2020-2021. I found no one was investing enough in small cap and midcap. That is the worry I have. There is a third point which I'm worried about. See, when people manage small amounts of money, whether as an AMC or a scheme, it is very easy.

You have a 2 crore scheme where you made a mistake in a 2% stock, it becomes 20 crores to sell. Then that 20 crores can be very easily sold. But when you have 80,000 crores of AUM and you have a 2% mistake, it becomes 1,600 crores of stock to be sold. Then you have made a mistake in that 2%. It is 1,600 crores of stock has to be sold. That is not easy.

Similarly, if you make a mistake in a company where you own 9%, it is a problem. People don't realize that to sell a mistake in a company where you have 9% is not easy. That is why, if you ask me, we at ICICI Prudential have spent so much of time trying to see how to manage mistakes. It is not that mistakes won't happen, but how to manage mistakes.

Because if you make a 1,600 crore mistake or you make a mistake in a company where we own 9%, it is a big challenge. And this is something that people don't understand. And there is another problem which people have to understand, which is that over the last many years, most mutual fund fund managers haven't seen redemption. So what happens as a result of that is there it is not most people have not seen a redemption cycle.

The last redemption cycle in the mutual fund industry virtually happened in 2011-2013. So in my team, every day I spend time with my colleagues on whether their portfolio can handle redemption. Even in my team, there are at least two to three people who actually tell me, you are talking nonsense. There will be no redemptions ever in my fund. So what nonsense are you talking about?

But I can tell you, at least I have seen redemption cycle in 2008 to 2013. So the challenge is our portfolios. SEBI last year in January, February, March, they actually started this process worrying about it. But frankly, if you ask me what we learned in the credit fund in 2019-2020 was that you don't need to, you think that you don't need to worry about redemption, but if the market sees a redemption, you also can get redemption.

So after 2020, we never got inflows in the credit fund, not because we made any mistake in the credit fund, but the market got redemptions and after that we never got, we also got redemptions and after that we never got inflows. So frankly, are all your schemes that you

are invested in capable of handling redemptions? This is a question that you will have to ask, and that is a question that most people don't even think about.

And why they don't think about, I don't know, because finally you are the person who has to think about all these things. As an AMC, we think about all these things and maybe we keep worrying about it, worrying about it, worrying about it. That is why if you look at what has happened at this point of time, most of our monthly calls are not very positive because of all these worries.

So let us look at the bright picture. The bright picture clearly is macro. There is zero problem on macro as we speak, whether it is the government focus on macro, whether it is the government finances, if you ask me, whether it is the balance sheet of banks, whether it is the corporate balance sheet. As I told you, corporates have basically transferred all their problems to all the people in this room.

There is zero problem in all these things. Even the household balance sheets of all the people who are rich, they are all in fantastic shape. If you ask me, it is only the people at the bottom of the pyramid, there seems to be a problem, but the people at the top of the pyramid seem to be very, very good shape in India. So I would say that there is zero problem in macro as a country at this point of time, and India is one of the best macros in the world, if you ask me, compared to most other countries.

But valuations, clearly, I mean when we looked at it and we looked at the situation as far as small cap and midcap is concerned at this point of time, small cap and midcap is something which is absolutely absurd on the market cap side. In 2013-14, it was very, very cheap, and from 2013-14, it has gone to extremely absurd levels on the market cap side. Okay, we said, are we looking at it wrongly?

Because after all, India is growing, so midcap, small cap will keep growing. Then we looked at median PE. We found that, we looked at median PE as a model. When we looked at median PE as a model, we found that the median PE of midcap has touched 43, and the median PE of small cap has reached 43 again, observed at this point of time compared to what it used to be.

And then we looked at what is the entire PAT contribution versus the market cap on small mid. That again shows that small mid, the PE market cap contribution is much higher than the PAT contribution. So okay, so there were people who said you're looking only at valuation, is momentum changing? So we started to look at midcap momentum over Nifty.

Even on midcap momentum over Nifty, we have a situation where the momentum has started to weaken and it has cut its DMA. I'm not the expert on momentum, so I went to one of my colleagues who is a very good quality momentum person. He says that you are very early, but now the momentum is cut. So on momentum also now midcap has cut, and similarly on momentum also small cap has cut.

These things have happened in the last one, one month or so, that today on momentum indicators also both midcap and small cap are broken completely and decisively at this point of time. And we have a situation where on valuation, on PE rating and derating also, it has reached a situation where the momentum has also again weakened. So first we talked of valuation, then we talked of momentum.

On momentum also indicators, we have a situation where it is derated very clearly at this point of time. Then we looked at sentiment. On sentiment, we have a situation where the flows into the mutual fund industry have just zoomed, as you know, and we have a situation where the investor interest has been very good, but as a result of that what has happened is there is a huge amount of leverage, and that leverage has just kept going up.

And clearly, when you have so much leverage, we have a situation where at any point of time you can have a problem. And that leverage is very clearly a challenge at this point of time. So we are in a situation where it is a sitter to take out money from midcap and small cap. It is a sitter that long-term midcap and small cap SIPs are also unlikely to deliver returns.

Because, you know, when you invest in SIPs in small cap and midcap, basically you're averaging at very high levels. So the chances of medium-term returns in SIPs are likely to be low. Um, if you're going to do a 20-year SIP from 2025 to 2045, will it be low? The answer is

no. But is the chances of a bad return in SIPs is also very, very high at this point of time, particularly SIPs which have started after 2023 or so.

I think the chances of them which have started from 2023, I think the outlook for those SIPs look pretty bad unless they're going to be 20-year SIPs, my own view. And unfortunately, I spent 35 hours in the market. I've seen 1992, 94, 99, 2007, 2012, 2017, etc. I believe that very few are going to be 20-year SIPs.

So I believe that investors who have started SIPs from 2023 in small and midcap, they're going to have a very bad, very bad experience. Is this a time to take out money from small and midcap? We think it is a clear time to take out lock, stock, and barrel from small and midcap. We don't have our schemes open. I believe that this is not even a time to invest in SIPs in small and midcap.

But I'm not able to convince my sales colleagues. So I tried my best to do that, but failed miserably. But I believe this is a time to actually even stop small and midcap SIPs at this point of time because they're so overvalued at this point of time. But I'm not able to convince my sales colleagues. That is where we are.

So what we like at this point of time clearly, hybrid, I think hybrid schemes are absolutely attractive at this point of time, depending on how positive you are on the market. If you are very positive on the market, it would be equity and debt. If you are less positive, it would be multi-asset, particularly if you like gold. If you are slightly even less positive, it is multi-asset allocator and balanced advantage.

If you're negative, it is equity savings. Clearly that would be one area very clearly. On market capitalization, FIIs have just sold so aggressively at this point of time that we are very, very clearly in favor of funds which invest in mega caps, like minimum variance fund clearly. Within within the market space, we are much, much more focused on quality at this point of time because we think quality as a factor did very badly after some period of time.

We do like the banking space, but banking has never done well on big declines, but we think banking will at least at least reasonably attractive at this point of time. So we believe that, you know, India's macros are extremely strong at this point of time. We can't, we can't have

a country whose macros are very, very strong. That is the reason we believe that this is not the time, this is not the time to stop SIPs in flexi-cap funds.

This is not the time to stop funds in SIPs in large-cap funds. This is the time in my opinion to start aggressively SIPs in hybrid funds. Uh, this is the time to do SIPs maybe even in large-cap and flexi-cap funds. Uh, this is the time to clearly take out money from small cap and midcap funds. You can't think of 2035 in my opinion.

If you start thinking of 2035, there is a period where you will regret before that in my opinion. There's a time to take out money from small and midcap in a very big way at this point of time. Clearly, we like asset allocation. We like themes like minimum variance which are very defensive ways to play a large cap at this point of time. We clearly like quality as a theme if you ask me.

We clearly like banking as a theme. Bulk of our time has to be spent how to manage large sums of money, and in my opinion that is a very, very interesting and very, very difficult period at this point of time. I think there is a complete challenge at this point of time that there are junk IPOs which are happening at this point of time in the space. Uh, in the '90s, I became a member of uh, OTC exchange of India. In that OTC exchange of India, there were so many IPOs which got created.

I have some pieces of paper in my house. All of those stocks went to zero. Similar, I believe, will happen in SME IPOs. Many of the smaller IPOs in the small-cap space also, something can happen like that at this point of time. I believe the IPO market has got completely disjointed from the overall market at this point of time.

And uh, people who are trading in the IPO market have to be extremely careful at this point of time. I believe that the derivative segment is another very, very dangerous segment for people to trade on the direct side at this point of time. And I believe that uh, in that area, uh, if you ask me, uh, we believe that there is a lot of excess, but that excess is coming down because what is happening at this point of time is that there are too many hedge funds in the market.

Those hedge funds use the derivative market to also short stocks. So that is why you'll find that there are, there are results after which the market actually shoots up. There are a lot of stocks which shoot up after the results because the derivative market till September, October was a market where only people were bullish all the time. Today, I'm seeing a situation where in the derivative market, there are a lot of shorts being created in large caps also.

That is why you'll see the day after results, there are some stocks which shoot up, there are some stocks which come down sharply. So I believe that's why today at this point of time, if you had to be bullish, clearly mega-cap is one area to be very bullish on compared to anything else in the market because there you can see massive selling has happened from FIIs. That massive selling from FIIs has happened due to the big boom in the dollar against everything else.

At some point, that dollar move will change, and at that point of time, I believe that dollar move will lead to a situation where the dollar move will lead, will go down. When the dollar move goes down, I expect FIIs to start buying large-cap stocks in a big way again in India. When that will be, if I could tell you in terms of timing, it'll be good, but I don't know.

That is why I believe that this is the best time to actually do SIP and STP in large-cap oriented funds or hybrid-oriented funds because in that area at least, we have seen a situation where there has been a fair amount of purge and that purge has happened, and I believe it is a very, very good timing from that point of view. So this is where we are, and at ICICI Prudential, we have tried our best to communicate those of you who have continuously heard our monthly call.

I'm, I'm trying my best to communicate as truthfully as possible without looking at what happens to our AUM or anything else. Thank you all for all the support you have given in Chennai. My best wishes to all of you. Thank you.