

## Seven examples of Self-belief

A NATION ON THE MOVE,  
FUELED BY SELF-BELIEF.



"Self-belief is the biggest investment" – As a society, India has been shaped by Values that encourage us to "live within our means". Today, as a nation, we are all seeking an escape velocity for a better station in life and opportunities to add to our wealth. (Tata Mutual Fund - Believing in yourself is the greatest investment - [click to see the film.](#)) Like many this has struck a chord immediately with me also. In the last twelve months, there have been a lot of parallels with the "Self-Belief" theme in the equity markets and away from it, on the domestic and global front and lastly on the cricket pitch.

This newsletter is therefore devoted to this theme as we look back on some of these defining examples of discovered self-belief during the last financial year.

- I. Corporate earnings benefited from collective self-belief:** Let us start with something closer to the markets first. The broad corporate sector (as indicated by S& P BSE 200) has continued on the earning upgrade cycle starting with sectors which benefited from Covid (IT, Pharma), and expanding to widespread cost cuts and lower than anticipated stress in the banking system. By the time we ended this financial year (FY2021), the profit estimates for next financial year (FY2022) could be very close to the estimates that prevailed before the pandemic i.e. February 2020. Infact, there are multiple sectors contributing to earnings recovery this time with equal contribution from deep domestic cyclical sectors like banks, industrials, commodities & real estate and defensive export driven sectors (IT, Pharma). The multiple drivers of profit growth and upgrades has never been so wide in the last 5-10 years providing better visibility. There could be more to come as the investment cycle (public, private, household) joins the recovery.

- II. Sharp pivot in Government Policy:** Government has seized the moment and capitalised on the greater acceptance of higher deficits globally to present a counter-cyclical fiscal policy in the last Union Budget. The impact will be felt over next 12-24 months especially if tax revenue growth continues to recover giving more room for public spending. This has been a sharp turn in policy and stems from the belief that its necessary to lift the economic growth to 6-8% from the 4% which it had declined to even before Covid. Similar has been the stance on PSU privatisation; although execution of that could be more challenging, the shift from earlier piecemeal stake sales is partially driven by necessity but also reflects strong self-belief in the same. While the second Covid wave and its impact on economic activity is still to be felt and can disrupt the math, the self-belief in these measures is likely to stay on longer.
- III. Corporate strategies on the mend:** One of the new emerging themes have been some of the traditional old-economy dominant industrial groups displaying significant shift in strategies which can lead to value creation for shareholders in the next 12 months. The range of changes have included better capital allocation, well laid out ROE/ROCE targets, closure of loss-making businesses, entry into new value-accretive businesses and avoiding wasteful expenditure. In an era dominated by soaring valuation of the new economy sectors, these industrial groups now have the self-belief and seem to be on the right track.
- IV. IT services – right place right time:** Indian IT services companies had been spending throughout the last 3-4 years to build digital capabilities, This is now in demand as digital adoption has accelerated by 2-3 years given the new reality of physically remote and digitally connected world. Commentary by leading IT services companies indicate a multi-year demand opportunity for the sector as a result. The second covid wave will only cement the trend further.
- V. India's opportunity in the global manufacturing:** It's a tall order to compete with the head start that China has in the global manufacturing and supply chain. But Covid has provided a timely break that has given impetus to the shift away from China. Government policy (PLI scheme) is working overtime and has never looked more potent. More will be needed in terms of infrastructure investment and ease of doing business. However, the timing of the Covid crisis and the early success of the PLI scheme has given the nation the "self-belief" that its possible.
- VI. Healthcare and Vaccine breakthroughs:** India's positioning as the pharma powerhouse has been strengthened by the critical role played in the global vaccine supplies. Besides healthcare, which was has been ignored sector, is coming into its own as big private hospital chains and labs take this as an opportunity to expand their footprint, both physical and digital.
- VII. Last but not the least in Cricket:** No discussion on "self-belief" can be complete without the mention of tremendous attitude shown by debutants on the cricket field in the last few months, starting with the Test Series in Australia and continuing in the domestic series against England. A team crippled by absence of key players to injury (akin to lockdowns in economy) still managed to deliver the goods as youngsters (read silver linings from covid) came to the fore.

Even as markets factor the above, the strong second wave of Covid means that following the basic safety protocols is a must and that is one area where too much self-confidence can end up doing more harm than good!

The past was lived thorough with hope and self-belief, while the coming year will be about persistence and self-belief. Well begun is half done and the other half needs a more determined sheen to the fibre of self-belief.

## Happy Investing!



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