

HDFC MF

Weekend Bytes

A weekly series from HDFC Mutual Fund

Investing in Equities

Don't Let Premium Valuations
Hold You Back



Amit and Ravi are old college friends. One evening, over chai, they start talking about investing in equities.


Ravi

Amit, the market looks expensive these days. I'm wondering if it's still a good time to invest.

"That's a fair concern, Ravi. But let me share a simple way to look at it.

With geopolitical tensions subsiding, Equity markets have seen a good run recently. And hence, valuations are at a premium to long term averages. However, I will make 3 simple points to explain that these valuations don't necessarily mean you don't invest at all.


Amit

01) Firstly, India's Growth Story Is Strong

India's economy is expected to grow at a nominal rate of ~10.5% per year between 2025 and 2030, as per IMF estimates.

In the long run, Indian market returns and Corporate earnings have followed economic growth in the long run. Take the below

Chart 1 – Markets followed earnings and GDP growth

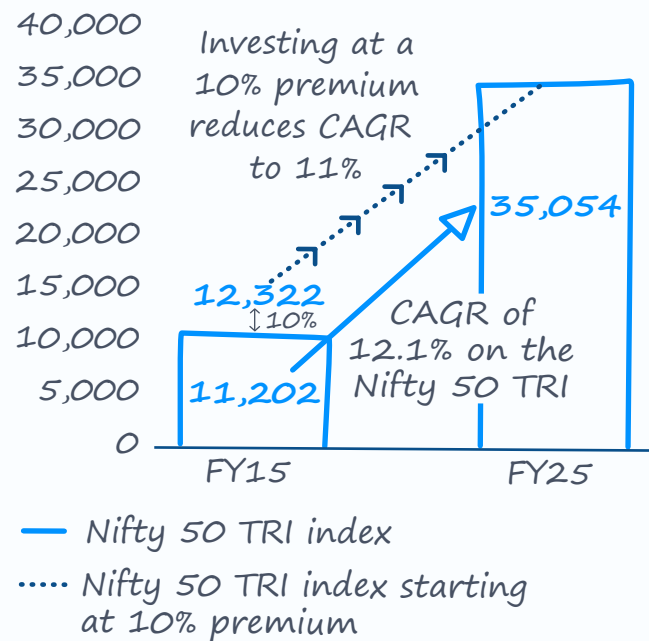
	India GDP (Rs Lakh Crores)	Nifty50 Profit before tax (Rs Crores)	Nifty50 Profit after tax (Rs Crores)	Nifty50 TRI
FY15	125	3,97,676	2,67,429	11,202
FY25	331	11,42,628	8,61,118	35,054
CAGR over 10 years	10.2%	11.1%	12.4%	12.1%

02) Paying a Small Premium May Be Okay

If the underlying economy and profits continue to grow at a healthy rate, investment at premium valuations could lead to lower but still healthy returns.

Over the long term, growth can justify a moderate premium. The longer you hold, lower is the potential impact of having invested at premium valuations

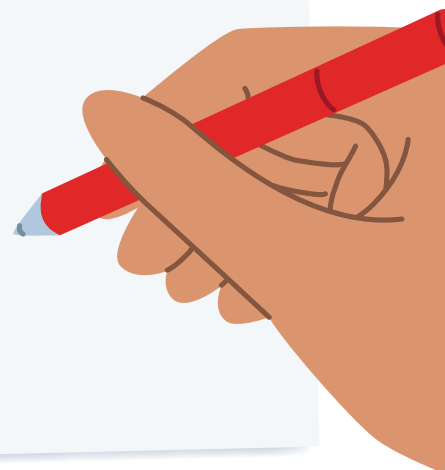
Chart 2 – having paid a 10% premium in 2015 could still have yielded decent returns



03) Premiums Can Sustain in a High-Growth Economy

- ✓ The above example doesn't factor into account that the premium over true value could sustain
- ✓ With India's unique position with strong demographics, digital transformation, and policy support, high growth could sustain through Amrit Kaal.
- ✓ High potential growth could help sustain higher valuations for longer periods.

So, a market that looks "expensive" today may still offer good long-term value. In fact, a lot of other asset classes are also showing signs of expensiveness / prospects of potentially lower returns. Interest rates are lower, precious metals such as gold and silver have also seen significant run ups.





That makes sense, Amit. I guess I understand that I should not wait for the 'perfect' time to invest. But, what next?



All you need to do, my friend, is to stay focused on the long term, and ensure right Asset Allocation

- ▶ Short-term market movements can be unpredictable.
- ▶ But over 10–15 years, growth and compounding can work in your favor.
- ▶ Don't let short-term price increases stop you from investing.
- ▶ Equities are just one part of your investment portfolio. Your allocation to equities should depend on:
 - ✓ Your financial goals
 - ✓ Your risk tolerance
 - ✓ Your investment horizon

A balanced portfolio with the right mix of equity, debt, and other assets can help you stay on track.

- ▶ Consider investing through mutual funds or SIPs to stay disciplined.
- ▶ Don't try to time the market-focus on time in the market.



Thanks, Amit! You are always so helpful

Anytime! Remember, Equity investing is about participating in India's growth. Even if valuations are slightly high, long-term investors can still benefit. Just make sure your investments are aligned with your goals and risk profile.



*Dear Reader, hope you found the above exchange useful. Please refer to the **MF Handbook** for more insights on Asset Allocation, Long Term Investing, and Power of Compounding!*

Disclaimer: The persons mentioned above are fictitious characters, there is no resemblance to any person. The strategy explained in this document is for general purposes only and not an investment advice. Readers should seek professional advice before taking any investment related decisions

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READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

Mission: To be the wealth creator for every Indian

Vision: To be the most respected asset manager in the world