

Iran-Israel conflict: How HNIs with Rs 1 crore can create a portfolio in this market?

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The rally in Midcap and Smallcap indices this financial year signifies a strong rebound. This upturn, however, follows a correction from October 2024 to March 2025.

Sentiment on Dalal Street again turned cautious amid heightened tensions in the Middle East after the US bombed three major nuclear sites in Iran. The 30-share index BSE Sensex traded more than 600 points down in the morning trade. Where is the market headed? How can an investor make money in this market? Which sectors may generate robust alpha? In an interaction with **Business Today**, Prabhakar Kudva, Director and Principal Officer-Portfolio Management Services, Samvitti Capital, said that the next significant upward movement is likely to commence around Q4 FY26, as broader economic clarity emerges. Edited excerpts:

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BT: The BSE Midcap and Smallcap indices have rallied over 10% in FY26. What key factors have been driving the broader markets this financial year?

Kudva: The rally in Midcap and Smallcap indices this financial year signifies a strong rebound. This upturn, however, follows a correction from October 2024 to March 2025, during which these segments, along with the broader market, experienced declines of 15-30%. The dip was primarily driven by slower-than-anticipated GDP growth, global "tariff tantrums" impacting trade sentiment, and the fallout from the Indo-Pak conflict. As these pressures abate, market confidence is returning, fuelling the current rally from those oversold lows.

BT: What should investors expect from the markets amid ongoing geopolitical tensions?

Kudva: Amidst ongoing geopolitical tensions, FY25- 26 should be viewed as a year of consolidation for the markets. After the last few years of exceptional returns, this period represents a natural phase for the market to digest gains and re-align valuations. Consequently, we anticipate subdued returns for the current fiscal year.

BT: Your PMS Aggressive Growth Strategy has delivered over 25% annualised returns in the past five years. Could you shed some light on the investment approach behind this performance?

Kudva: Our PMS Aggressive Growth Strategy owes its success to a disciplined investment philosophy: careful selection of stocks enjoying earnings tailwinds. We rigorously identify companies with strong underlying growth drivers, robust competitive positions, and superior management, ensuring our portfolio is invested in opportunities poised for significant earnings expansion. This earnings data analysis is powered by our Quant model Sattva.

BT: Tell us about your other PMS—Long Term Growth Strategy. How has it managed to deliver more than 20% annualised returns over the past five years?

Kudva: The Long Term Growth Strategy mirrors the Aggressive Growth approach but focuses on large mid-cap and large-cap companies. This strategic distinction aims for more stable, yet still substantial, growth by investing in established market leaders and fundamentally strong businesses that demonstrate consistent earnings visibility, often with greater liquidity.

BT: Mutual funds have also helped investors create wealth. In that context, why is there still a need for portfolio management services (PMS)?

Kudva: While mutual funds democratise wealth creation, there remains a distinct need for Portfolio Management Services (PMS). Mutual funds typically offer standardised, moderate risk-reward products. In contrast, PMS offers differentiated, bespoke strategies designed to generate superior, alpha-driven returns. The core objective of a PMS should always be to demonstrably outperform the average of top-quartile mutual funds, offering specialised approaches to the investors.

BT: Which sectors have the potential to generate robust wealth over the next three years?

Kudva: Looking ahead to the next three years, several sectors and themes hold potential, as per our analysis. This includes:

Power: Driven by India's escalating energy demand and the strong push towards renewable energy infrastructure. Also, the anticipated power demands from AI infrastructure are a major tailwind.

CDMO/API/Formulations: Benefitting from global supply chain diversification and India's growing prominence as a pharmaceutical manufacturing hub. Specifically, the GLP-1 drugs going off patent provide a big growth opportunity.

Wealth Management: Poised for growth due to rising disposable incomes and increasing financialisation of savings in India.

Textiles: Undergoing a renaissance through government incentives, domestic consumption, and shifts in global sourcing led by FTAs.

BT: How do you assess the overall health of India Inc. based on FY25 results? What were the key positives and negatives?

Kudva: Overall, the FY25 results indicate a well-recovered growth trajectory for India Inc. Key positives include resilient domestic demand, especially in the latter half of the year, strong performance from domestic-oriented sectors like capital goods, and improved corporate profitability. However, negatives involved a moderation in growth compared to previous year, with export-oriented sectors still facing global headwinds due to tariff uncertainties.

BT: Real estate stocks have performed strongly in FY26 so far. What are the key drivers behind this rally, and do you believe the momentum is sustainable?

Kudva: The strong performance of real estate stocks in FY26 stems from factors like supportive government policies, anticipated interest rate reductions boosting affordability, and sustained demand. While these drivers are currently robust, the real estate sector is inherently cyclical and sensitive to economic shifts and policy changes. Therefore, while momentum is strong, its long-term sustainability will depend on continued favorable macroeconomic and regulatory conditions. We maintain a cautious stance due to the sector's inherent lumpiness and unpredictability.

BT: At a time of rate cuts and a volatile market environment, how can high net worth individuals build a portfolio with an investment of Rs 1 crore?

Kudva: For HNIs, the allocation strategy is highly contingent on individual risk appetite. There is no one-size-fits-all approach. Conservative investors might cap equity exposure at 20-25%, diversifying the remainder into various debt instruments and precious metals. Aggressive investors, conversely, could consider a higher equity allocation of 60-75%, balancing it with strategic investments in debt and precious metals to provide diversification and stability.

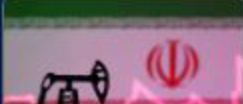
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