

Betting on domestic consumption

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Why is Taurus AMC betting on domestic consumption sector?

One space that has seen a lot of outflows and drying up of liquidity is the mutual fund space. Sadanand Shetty, VP & Sr Fund manager, Taurus AMC however says the markets upward momentum will continue since they are well backed by liquidity. Some of the sectors that he is positive on is financials, auto ancillaries, media and a few select pharmaceutical stocks. While he has noticed trickle of money coming in, not much has been flowing into the retail space. This is why retail investors have lucked out. "There is an opportunity to be made in the market over the mid to long-term period, so we are seeing that happening in the market," he said.

Below is a verbatim transcript of Sadanand Shetty's interview with CNBC-TV18's Latha Venkatesh and Gautam Broker.

Q: What is the retail picture looking like? Are people looking to pull out, book profits or are they lured by the rally and want to invest in systematic investment plans (SIP) at least at this point?

A: There are signs of silver rays we are seeing ahead. We are seeing a trickle of money coming across our funds, midcap and largecaps. There is a sense of belief that tremendous opportunities are there. It is not about timing the market. In a secular high growth market you do not try to time for 5-10% kind of market because eventually mid term and longer term it nets off the short term corrections. There is a sense of confidence although we have not seen recently large flow of money coming in to retail side but we are seeing signs of improvement as we see money flow happening in various schemes.

Q: The mutual fund industry went through its tribulations after the DSA system got kind of dismantled and the rules changed regarding how you compensate the exit loans. Has it stabilized after that? Are you beginning to see the early arrivals of money in a steady form?

A: Our side we do see that happening. When you see the everyday data we see a trickle of money across largecap, midcap portfolios keep coming in. From the industry perspective there is a huge opportunity to be made. Unfortunately most retail investors have not participated. Perhaps one of the most quality rally in the recent times that we have seen in the market whether it is a broad based indices or the narrow based indices, the retail investors have missed out. That sense of missing out we are seeing in the market. There is an opportunity to be made in the market over the mid to long-term period, so we are seeing that happening in the market.

Q: Have people at least started calling up in the last two weeks. At least after that 5,500 or 5,400 was crossed. Are you seeing return of the retailer in any form?

A: Basically our marketing and sales gives us a feedback and from their perspective there is interest being generated across the market. They are seeing incremental enquires about several schemes, whether it is a tax planning scheme or midcap schemes, largecap schemes. We are seeing those signs of improvement happening in the market.

Q: What would you put your faith in now that the markets have run up significantly? Midcaps have given a lot of returns over the last 12 months. Is it a safe bet now or is it a time to get out would you cash out of some of your investments?

A: As an asset manager as a fund manager when I look back and see it is one of the most quality rally in the market in the recent times if you try and reconstruct the broad market there are several components to this market. Clearly companies which have performed well which have shown earnest growth, robust earnings have done well. If you look at the gainers and losers of this market there is a big leap of faith. The market has demonstrated on the government policy actions. If you look at the winners of this market the last three months it is the companies which have partly re-rated due to government policy action or impending action whether it is a fertilizer, media, retail, oil and gas. There is also another section of market which has done well because we are going through another strongest M&A action currently so that is unlocking value across many peer companies in the equity space.

On the retail side nearly one third of BSE 500 has actually delivered return in the range of almost 100% return in the last three months. Instant gratification is not always good for the market. It is a time in certain select counters one could book profit something which we are seeing across our portfolios. Whenever we see a price objective achieved within a short period of time which is in a span of three-four months we are not hesitating partly booking profit and taking cash home. At the same time we are not creating huge cash in the portfolio because we do see several other underperforming sectors where there are opportunities. We are deploying some of the cash into sectors which we think will eventually do well.

Q: What are you churning out of and what are you churning into in the midcap space sectorally speaking?

A: If you look at the domestic consumption, the domestic has done very well. Very rarely we are seeing consumer durable hitting the chart. Companies which are direct and indirect beneficiaries of domestic consumption have done very well whether it is tyre, autos, liquor, breweries, watches or partly if you look at hotels or airlines there is a strong momentum going on in the domestic consumption sector which we think could emerge one of the biggest investment theme in the near future over next one-two years period of time. We have a significant allocation to that sector. We also see a company which is getting benefit of policy action from the government. We have seen several companies in India which have been making profits out of the regulated business where the profit composition of those companies is changing over a period of time. They are able to generate a return. One of the deregulated businesses which actually calls for a de-rating of such companies.

Clearly we are betting on domestic consumption company, we are betting on oil and gas sector, we are also looking at the banking sector. Consumption sector itself has a wide variety of sectors within India particularly the midcap space we are betting on those sectors. Wherever we have seen some of those returns are very large, phenomenal. One third of BSE 500 companies have delivered returns in the range of 20% to 100% wherever we are seeing such large return we are partly willing to take home the money. At the same time we are deploying same amount of cash in the other segment of economy.

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