Sadanand Shetty's Interview in DALAL TIMES

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FUND MANAGER INTERVIEW

TIME TO BECOME AGGRESSIVE ON EQUITIES

India is fast becoming a preferred destination for multinational corporations and portfolio investors for making investments, says ***Sadanand Shetty, Vice-President & Senior Fund Manager, Taurus Asset Management*** in an interaction with ***Nutan Gupta***.

Sadanand Shetty
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Please share your journey with us.

It has been almost 20 years in the market. The initial ten years were spent doing hard-core research on various platforms. I worked with Société Générale Securities for four years on the sell side and Kotak Securities for six years on the buy side. That has been a journey on both sides of the markets over the last 20 years. I have seen business cycles and economic cycles. In the last 20 years, everything has happened in the world financial markets, whether it is the dotcom and media boom in late 2000 or the currency crisis prior to that, Indian supernormal growth of 7-8 percent, global financial crisis, Lehman Brothers' bust, European crisis and so on. So, I have practically witnessed everything over the last 20 years. It has been an exciting journey and I am happy that I am still in this industry in spite of the huge volatility in the markets.

Indian equity markets are at a life-time high. What is your opinion about the road ahead? Is the market's optimism sustainable?

The market's new high is a reflection of tremendous faith from global and domestic institutional investors. Collectively, they have invested over $50 billion in the Indian market since January 2014 in both equities and debt. It is justified as the economic turnaround and political stability provides immense optimism about the future. On a fundamental basis, valuation is reasonable. The NDA alliance, which has come to power with the mandate of growth and governance, has a clear roadmap to deliver. Multi-year political stability has eliminated one of the key risks for equity investments. In the past, total collapse of investments and lack of visionary leadership in India clouded the environment for equity investments. However, an unprecedented flow of money deployed in start-up companies over the last 12 months has clearly indicated the changed environment for business and it is a boom time for entrepreneurship. Confluence of forces are coming together to make it an exciting journey for the equity investors.

How would you compare India with other emerging markets?

India tops the league in comparison to other emerging markets and BRIC countries. It is perhaps one of the few countries that will demonstrate sustainable economic growth in the coming period and has managed to keep its fiscal balance sheet resilient in spite of turbulence in the global financial markets. Today, the focus of discussion has shifted to India vs China as we will surpass China's rate of economic growth very soon. India is positively contributing to global economic growth especially when half the world is witnessing an economic slowdown. The country is becoming a preferred destination for multinational corporations and portfolio investors for investments.

In your view, what are the domestic and global triggers that would drive the market going forward?

The new government has come to power with a clear mandate of growth and governance. The market will reflect the corporate and economic earnings growth that will happen in the coming years. As long as the government shows commitment and intention to deliver, we will see a positive impact on the market. We have seen sincerity in its action so far. Passage of Land Acquisition Bill and further progress on GST in the current session of Parliament will provide an incremental boost to the market sentiments. Cycle of earnings upgrades for FY16 and FY17 is critical for the markets to sustain the up-swing. The government should continue its focus on revival of investment cycle as it has successfully completed coal and spectrum auction. Interest rate cut by the Governor will add short triggers to the market. Globally peaceful resolution of the Greek bailout, gradual and dovish stance of US Fed (FOMC) and soft landing of China would help the market. Most of these developments could also disrupt the market in the short-term if there are undesirable outcomes.

RBI surprised everyone on the street with a rate cut in January 2015, while it kept the rates unchanged in April. Where do you think are the interest rates headed in the next fiscal? Do you feel there is room for more rate cuts and if yes, when do you foresee those cuts coming?

There is a general belief that we are headed for a lower interest rate regime on the back of lower trending CPI and WPI. We do believe that interest rate cut will accelerate in the second half of this fiscal year. There is enough room for RBI to cut the interest rate considering the stated aim of G-sec differentials with inflation. We would not like to base too much of our decision on the timing of interest cut. We are firm believers of the lower interest regime happening in the coming years.

Looking at the current valuations, do you think the stock markets have run ahead of fundamentals?

There is a real change in sentiments. A stable government with an agenda of growth allows organizations to make multi-year business plans possible. Analysts and fund managers are factoring the estimates for FY17 on the back of these developments. We see many companies projecting to deliver >20 percent CAGR growth with escalating margin and higher return ratios. There are material changes in the fortunes of many industries like defence, railways, tourism, digital and so on due to policy changes through 'Make in India' policy. Some of the businesses may look expensive but for their high growth and return ratio, there is a lot of upside left in them. Sensex valuation is still around its multi-year average range. There is always short-term irrational swings on both sides of the market. We would like to buy into the market for any sharp reversal of the market. Reversals are a great opportunity to build and align and re-allocate the assets, on our journey to multi-trillion dollar economies. There are enough opportunities available beyond the top 100 companies today.

What are your views on the performance of the new government under the leadership of Prime Minister Modi? What according to you, is needed on the policy and reforms front that will help India Inc. to put up a better show?

There is a positive change in sentiments across all the stakeholders of the economy and significant improvement in the portfolio investments. We believe that significant FDI flow will come into the country. There is an overall change in perception of India across the globe in trade and commerce as well as geo-political perception of the country. Most global agencies (including rating agencies) have a positive word about India. This is clearly a reflection of the leadership of the country. Re-defining India's subsidy mechanism and breaking crony capitalism is what our Prime Minister aims at. The ability to accelerate and implement the growth agenda will work in favour of the government.

Could you briefly tell us what is your investment philosophy?

We have a mix of growth and value philosophy imbibed in our portfolio construction. It depends on our medium and long-term strategy of the portfolio and mix that we use for the portfolio. We are evaluating many high-growth businesses at reasonable value to be a part of our portfolio.

What are the sectors that you are currently betting upon?

Confluences of forces are helping the investment environment in India. These forces include i) The need to revive investment cycle, ii) Fresh initiatives of the Government of India, iii) Cyclical opportunity, iv) Macro tailwind through imported inflation, v) Ease of doing business, vi) Technological innovation vii) Existing core investment theme of consumption, viii) Outsourcing ix) Regulatory changes and x) Executive and administrative actions. All these factors have significantly expanded opportunities for corporate India. We find most of these opportunities in beyond the top 100 companies and make a disproportionate impact on the profitability of mid-cap companies. We have a significant presence in capital goods, engineering companies, consumer internet, defense, railways infrastructure, logistics, oil marketing companies, banking and financial services companies including NBFCs. We have good but not overweight presence in IT, FMCG and pharmaceutical companies in the schemes.

Most of the retail investors choose the MF route while investing. Now that the market has hit an all-time high level, how has the participation of retail investors been?

Indian retail investors are a lot more mature today, and well aware of the happenings in the economy and markets. Explosive growth of media and access to information has made it possible. Today, retail investors have the accessibility and the opportunity to have a direct interaction with fund managers via various platforms. Net inflow growth in MFs reflects this trend. Hence, the faith of retail investors in Indian equities has reached a new level altogether. They understand the changes in the economy. They base their decision on the underlying fundamentals rather than the headline Sensex level. We continue to see a significant inflow of funds in the industry.

What advice would you like to give the retail investors at this juncture?

It is time to go aggressive on equities. There is a multi-year political stability in the country which eliminates many domestic risks that had an impact on equity market performances over the last decade. Large-cap companies have demonstrated a track record of efficiencies and productivity. These factors have helped them to grow big and create phenomenal wealth for the investors. The economic recoveries have shown accelerated the growth rate for mid-cap companies, usually through higher capacity utilization and expanding operating margins. The investment opportunity in new emerging industries like consumer internet, ready-to-wear apparels, digitization and digital media can be explored through mid-cap companies due to disproportionate impact on their profitability and its positive influence on the stock performance. A portfolio built across these themes should deliver above market performances to the investors. Allocation to mid-cap should go up in one's asset allocation from a medium-term perspective. DT