

SUNIL SINGHANIA/RELIANCE MUTUAL FUND

It is only a matter of time before the capex cycle in India picks up

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The fallout of Britain's decision to quit the European Union has been milder than expected at least from an India perspective, from an emerging market (EM) perspective, said Sunil Singhania, chief investment officer, equity, Reliance Mutual Fund.

"Currencies globally has been pretty stable and that has also added to lot more stability and confidence," Singhania said in an interview. Edited excerpts:

As luck would have it, it is raining right now and the market choosing to respond to that than Brexit. Your first thoughts on how the market has been so resilient whether it was bad news across the board which was thrown at market over 10-15 days?

Yes, what you said is perfectly bang on dot. No one expected the kind of movement which we have seen today but the fun on the markets is always being surprised. So, we are here. The good thing about this event was that it has happened on Friday and we got Saturday and Sunday for people to do their analysis and umpteenth research report has come in and when people have started to go into the fine print obviously we are still not completely out of the event but at least from an India perspective, from an emerging market (EM) perspective, the fever has turned out to be much less than what was earlier expected. And the good thing is that currencies globally has been pretty stable and that has also added to lot more stability and confidence.



Taking stock: Singhania says Brexit impact on India has been less severe than what was feared.

INTERVIEW

One feedback that we are getting is that don't look at just one or two day movement and one or two day resilience because the Lehman crisis just hit us and it was over in terms of market reaction in a week or so but this could be much prolonged and much more protracted and the market may have to deal with uncertainty from the euro zone for a bit longer. Your call on that?

You are absolutely right that we are not out of the woods as yet and it is too dynamic a situation. But having said that last five years frankly I have learnt more than what I have learnt in the previous 20 years. We had the quantitative easing (QE) tapering, we had Brexit and so on and so forth. So, one thing is that we have to take all of this in stride. The problem obviously will be reinforced or will get amplified if more countries join in. At this point of time, the remaining 27

countries have pledged that they would be staying with the EU. But I agree with you, it is a situation worth watching.

Let us talk about how to play this market from portfolio point of view. It has been a bottom up stock pickers market. But broadly what are the sector calls that you are taking. I believe right now your finance and banking exposure is at a 52-week high and that sector has done, specially NBFCs (non-banking financial companies). Do you think you can still make a lot of money in this space?

Clearly, with the world where it is it would make more and more sense to shift focus more towards domestic economy and luckily as you said it has been raining here, it has been raining all over the country. So, hopefully the domestic economy both on the consumption as well as capital expenditure (capex) sides should do well. As far as financials are concerned we shifted a little bit of tilt towards niche financials.

So, select NBFCs, wealth management, insurance, AMCs (asset management companies), that is one focus area. We believe India is a land of savings and increasingly savings are moving away from hard savings or sort of real estate and gold towards financial savings which is where the insurance companies and the asset managers do better. So, there is a little bit of tilt there and that is the reason you are seeing more exposure towards financial services. We continue to be confident there.

Midcaps might be more expensive than large caps without the cushion of the safety of the large caps. Do you think if the time has come to look at some of the top down approach as well for our market now?

One good thing about India is that India is a large country and have a lot many companies listed and there are opportunities both in the large and the midcap space. Having said that you can't look midcap as a basket. So, if you look midcap index it will look expensive compared to the large cap index but within some sectors you still have an opportunity of either lower valuation or maybe same valuation with faster growth. So, I mentioned about niche financials. You couldn't buy a niche financial company in the large cap space. You have to buy a midcap space. Suppose if you have to buy an exchange you mentioned about NSE listing, you will have to buy something on midcap space. You don't have a large cap listed so far. So, there are still lot of niche opportunities which are available on the mid and small cap space.

The other space that has done

remarkably well over the last fortnight is public sector undertaking (PSU) banks. Is it just valuations placing out here or are you sensing something more here in terms of a much bigger move?

The good thing is that both the Reserve Bank of India (RBI) governor as well as the finance ministry has taken the problem head on as far as the NPAs are concerned. We have the banking bureau board which is becoming very aggressive. We have at least some steps forward towards resolving the non-performing asset (NPA) issues. Obviously the economy hopefully reviving a little bit will also help but things are getting in place for a few public sector banks (PSB). Having said that there are smaller PSU banks which will continuously need capital which are under more stress. There is an uncertainty towards their merger. So, even within the PSU banks one has to be more bank specific rather than classify them as one basket.

So, the large ones like State Bank of India, Punjab National Bank, Bank of Baroda.

So, our house view has been that structurally PSBs are losing their competitiveness but in the near term a few large public sector banks because of the valuation play might be sort of a tactical play.

The other thing that stands out, I am looking at some of your portfolios, is your large holdings of agro chemical stocks. 8.3% sector allocation, large part of which I believe could be UPL but as a space are there enough opportunities here or only couple of stocks, or two or three stocks here?

I think four or five years back, we basically were doing a lot of research on the chemical space generally and agro chemical obviously and we realised that there were characteristics similar to that of pharmaceutical. Low cost manufacturing, highly skilled manufacturing, the world as a market and that is when across the spectrum we have some decent exposure. So, in our flagship fund growth we have an agro chemical exposure but in

our midcap funds also we have a good mix of good quality, long standing chemical company. I think it has worked out well, we still believe that India stands out in terms of global opportunity and the stocks are not that expensive if you see the growth potential.

Do you think that this is a great opportunity to buy into IT names or would you be concerned for a while?

IT, the growth rates have slowed down compared to what they were four to five years back and we have to accept the fact. Automation is playing a big role, the world itself is not a great place for growth and therefore the growth rate of IT companies has also slowed down. There have been cross currency impact for quite a large number of IT stocks, you have exposure to British pound, euro and across currency is not helped. However, having said that, some of these companies are large in size, they are competitive globally and also the fact that they are not now valued at some obscene PE (price-to-earnings) multiples, so, given their cash flow, given their predictability of decent profit growth, we believe that it makes sense to be at least equal weight as far as the IT sector is concerned and that is where most of our funds are being positioned. So, we are not quite gung-ho but we are not bearish also. So, we will be more or less equal weight as far as this sector goes.

I don't know what you hold yet but some of the stocks like Cummins have destroyed a lot of wealth over the past 12 months. What is the sense you are getting, have these stocks stopped out you think?

We are obviously optimistic on the Indian economy and we do believe that it is a matter of time before the capex cycle in India picks up.

Having said that, we wanted to be in companies which have good technology, which are leaders in their respective segment and at the same time they have balance sheet which will enable them to grow.