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ET EXCLUSIVE Q&A

SUNIL SINGHANIA
CIO-EQUITIES, RELIANCE MUTUAL FUND

Despite knowing India-specific problems, FIIs have pumped in over $20 billion in 2013

'Markets will Respond If Decisive Leadership Emerges at Centre'

The country stands out among investors due to stable core policy despite changes in political dispensation, says Singhania

Elections in India are becoming less and less relevant for the equity markets, says **Sunil Singhania,** chief investment officer for equity investments at Reliance Mutual Fund. Singhania, whose company manages assets over ₹1 lakh crore, says foreign institutional investors have in the past seen that core policies remained more or less stable under different governments. In an interview with ET's **R Sriram and Biswajit Baruah**, Singhania says markets are looking at a decisive leadership at the Centre post the 2014 general elections. Edited excerpts:

The general elections are just a few months away. Over the past four months, we have seen markets rally over 10%. How much do elections matter to Dalal Street?

Elections are becoming less and less relevant from the equity market's perspective. It is a market clearly dominated by global investors and their perspective. The change in political scenario and leadership has become very important, but most of the global investors have a long-term view. They have seen in the past that core policies more or less remained stable. FIIs (foreign institutional investors) have seen reforms carried out by different political parties. Elections only matter in the near term on sentiment basis. If one looks at 2005 and 2009 elections, the markets witnessed wild movement two months before and after the elections, but it remained stable six months before and after the polls.

When it comes to elections, do you think markets are putting all the eggs in the Modi basket?

From the markets' perspective, we are looking for decisive leadership. Whether it is from one party or many parties, we do not have any view as such. If a decisive leadership comes at the Centre, the markets will definitely respond, and I do not think it has to do with any political party. The market will like to have a major party to be part of the coalition government and not a fragmented party.

Despite macro economic concerns, FIIs have invested over $20 billion in India last year. Do you think the pace of foreign inflows will be maintained in 2014?

India-specific problems are known to FIIs and despite that they have invested over $20 billion in 2013 and over $70 billion in the last three-and-a-half years. We think India relatively stands out when it comes to appetite from foreign investors. I have been travelling abroad and have met many global investors and, interestingly, the appetite for Indian stocks is very high. We have discounted almost everything which could have gone wrong in India. For example, till 3-4 months back, there was a lot of noise about current account deficit (CAD), but all of that is behind us. Now, we are down at 3%. We believe that the finance minister's assurance to contain fiscal deficit at 5% stays as it is. Regarding inflation, the RBI governor has also taken note of high food prices. Now, with good sowing, thanks to monsoon, the food prices are expected to come down. Already vegetable prices have started to soften, the core inflation is seen below 8%. We had estimated growth at such lower levels that from here it can only move upwards. Morgan Stanley has recently upgraded Indian economy, which is the first upgrade to happen in last many quarters.

Do you think the market rally that we have seen over the past few months has become more broad-based?

The market rally is getting broad-based. In the last 2-3 months, the usual names are not participating. It is the broader markets which have started to participate — the midcap IT companies, the chemical sector have started to perform. I think across sectors, the broader second and third-tier companies are doing much better, as they are available at 5 to 6 times of their earnings. Many sectors have started to perform. The capital goods and select banking stocks are performing better. The rally is now more broad-based.

Energy, banking and PSU stocks need to participate in a big way for rally to become broad-based. Do you see that happening?

PSU banks, from tactical play, look good, but from a long-term view, they have to do a lot in terms of improving their core operations. Some of them might do well, but some of them are losing deposits. CASA (current and savings account) advantage and cost advantage. They are, in fact, deteriorating as costs are going up and the balance sheets are not keeping up the pace with cost. Within the PSU banks, one has to figure out who has been able to keep pace with innovation and core banking in terms of growth. In the energy sector, the markets don't like regulated sectors, there is obviously an overhang about what will happen after the elections. We are neutral as far as public sector oil companies are concerned, but for the private sector, we are getting more positive. Whether it is metal, power or oil companies, the growth has got impacted due to no support from the government in terms of clearances. But that is now happening, whether in the oil sector in terms of gas prices getting approved, or infrastructure, or power sector, issues are being addressed by the government, we are positive about it.

on Hot Sectors

We are positive on IT, pharma . For the longer term, we prefer pvt sector banks. Then, there are many debt-free cap goods companies

on Fed Taper

Tapering will be very gradual as the US cannot afford tight monetary regime, and that will be quite fine with the equity markets

Which are the sectors you are overweight on and what is the rationale behind it?

We are positive on IT, the currency is trading at ₹61-63. The second reason is that the global environment is still better, there is huge under investment in technology, new disruptive technology is coming day by day, there is a huge focus on online, internet, apps, social media. All these need huge capex, and volume upside can be huge for Indian companies. We continue to be positive about pharma. Indian companies have now the scale, they have money for investments. Indian companies are more mature in terms of their chemical and biological skills, and now they can compete with the best of the world. Domestic pharma sector can grow at 10-15%. From the longer-term perspective, we prefer private sector banks. On the capital goods side, we are positive, but we would bank on companies that would survive. There are lots of capital goods companies, which are debt-free and have large operating leverage. As growth comes back, their utilisation levels will go up and their fixed cost will remain the same. This also applies to cement, as these companies have huge operating leverage.

The FMCG sector has not performed well in the recent past despite strong triggers such as rural demand and good monsoon. Is not this a contradiction?

In the last few years, money has come into these sectors, thus stocks have discounted the growth factor, which is expected to come. The earning multiples have already factored in. These companies always got the extra premium in the markets, as some or the other always kept on making open offers. Though there are expectations that demand in the FMCG sector may be coming back, but for the time being, the demand is looking muted and the valuations have already discounted that. The other thing is that money is now looking at other sectors and we are clearly seeing money flow shifting to other sectors.

The earnings season for the Dec quarter is expected to start soon. What are your expectations from the third quarter earnings?

Equity markets always react to actual versus expectations, thus the expectations in the markets are so low that even bad numbers have started getting reactions if it beats market expectations. If one looks at earnings season for September, we had 14% quarterly growth, which was better than analysts' expectations marginally, but for the first time in six quarters, growth has happened. On the earnings side, we have such low growth expectations that a small uptick can beat analysts' expectations.

How has the economic slowdown impacted India Inc's profitability?

Things are definitely looking challenging at the grass-root level. Capital spending is still not happening, demand growth is a lot more muted. But, this time, we are seeing companies keeping their belts tight. Except a few sectors, most of the sectors are financially pretty stable. Thus, companies have adapted to the slowdown. Profitability has taken a hit in certain sectors, but the companies are surviving and the balance sheets are looking much stronger.

Investment experts are getting concerned about the pace of QE tapering, which can impact fund flows into emerging markets, including India. What's your take?

In the last 2-3 months, we have been talking about tapering so much that on the day when it was announced, the markets started to shoot up in the US, which we had already expected. Our view is that tapering will definitely happen as free money cannot go on for ever, but the pace of tapering will not be aggressive, which has clearly come out. Tapering will be very gradual, as the US cannot afford tight monetary regime, and that will be fine with the equity markets.