

MADHUSUDAN KELA/RELIANCE CAPITAL

Earnings expected to grow 18-20%

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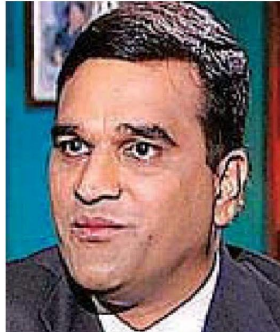
Post budget, the market rallied from 6,850 points on the National Stock Exchange's Nifty index to above 7,500, backed by foreign fund inflows.

Madhusudan Kela, chief investment strategist at Reliance Capital, said the worst seems to be over. The markets seems to have put a bottom in place for 2016-17 at around 6,800-6,900 and it is unlikely that these levels will be breached, Kela said. However, with the global environment still fragile it is also likely for market to see another down-leg later in the year. Edited excerpts from an interview:

How are things looking for our market now?

Now things are looking very stable to everyone, including me. I think the last data of the month of March specifically the auto sales, the cement sales everything seems to be pointing out that things are stabilising. On the domestic front, worries have receded significantly. However, we still live in a very fragile global environment and I will not rule out during the year that will there be another leg down because of the global factors. So, that is something which I can't see today but that is not ruled out.

What is your sense of earnings now because we are about to hit another earnings season very soon? The kind of green shoots that you are seeing in sectors like cement, autos do you think that will translate into any kind of earnings surprise in the current



Market watch: Madhusudan Kela.

INTERVIEW

quarter or do you still need to wait a couple of quarters before you can get something which cheers the market?

This is the most important and interesting question you raised today because earnings have been disappointed, disappointing for last 8-10 quarters. Every year in the beginning of the year we say that we are going to grow 18-20% and that is the consensus this time also. Broadly, the earnings are expected to grow 18-20%. There are some sectors which are even expected to grow 30-40% in this year because of the low base of last year.

So, I have much more confidence in the prediction this year than I have had in the last two years personally. I think the base is low, we are already seeing some kind of a revival in some of the sectors and the companies and in our interaction with the companies even they are sound-

ing far more positive and constructive.

Maybe in this current quarter again you will see challenges in some of the public sector banks results and some of the stressed companies results. However, if I take a 2016-17 call and if you tell me that am I convinced that the earnings growth will be our 15% for this year, so I can say with a very high degree of conviction that this year there will be a 15% plus earnings growth for the year as the whole 16-17.

The other point is that the stress sectors which have been disappointing for the markets as a whole their overall weightage has come down so significantly. All stressed sectors and companies put together only constitute may be 15% of the overall Sensex weightage. So, any which ways it doesn't matter if that stress marginally continues there.

Global volatility will be a part of life this year, but given that is your expectation that we have put in a bottom at 6,800-6,900? I mean none of us can predict indices regularly all the time, but what is your expectation?

Again, if you ask me what is my gut, my gut is that maybe we have seen the worst. Maybe we have put some kind of a bottom for 2016-2017 in place. That 6,800-6,900 looks very difficult to get penetrated, unless and until we see some real bad global chaos.

At the margin what gives me a lot of confidence, which I spoke to you in detail, all these clean-up which has happened had its own toll on the domestic earnings, on the domestic recovery, that seems to be behind us.

And those are things which are becoming, rather than it being a headwind, it is becoming a tailwind.

So, even if you have a global turbulence, the domestic factors are looking far more constructive and far more positive. In a situation which is visible today, it is very difficult to see penetration of 6,800 in this year.

What is your earliest expectation of when we can take that 9,000 level on the Nifty out? I will not hold you to it. It is a mug's game we know, predicting all these indices particularly in an environment that we live in. But, again, what does your gut feel?

In the next 24 months for sure. I thought you would compress that number a little bit, but fair enough.

But I thought you are asking me for a wide range. Even though you will not hold me, but I have to hold my own self.

You talk to a lot of global fund managers as well and we spoke about the fact that in March a lot of the foreign institutional investor (FII) money has come back. Do you get the sense that this is India funds or emerging market funds which have got most of the money? Could it be a lot of exchange traded fund (ETF) money which was playing for the emerging market bounce back? What is your sense of this money that generally emerging markets and India in particular has got over the last one month?

My interaction is that this is more of allocation money. It does not look like a lot of specific India funds have got this money. This looks like a larger global emerging market call, and within that, India's position is clearly more superior. Also with the correction which we saw, all these factors have come together for this money to be poured into India.