

'Gains will become more broad-based this year'

The current volatility is throwing opportunities to accumulate quality stocks, says **B GOPKUMAR**, executive director and CEO, Reliance Securities. In an interview with Ashley Coutinho, he says investing in quality mid- and small-caps is the best way to generate returns. Edited excerpts:

It was a bumpy ride for Indian equities in 2018. Will the volatility continue in 2019?

Volatility is intrinsic to the way equities behave. The year 2016 was a rollercoaster ride, while 2017 was one of best years marked by very stable up-trending markets and 2018 was a bumpy year. Also, 2019 is unlikely to be smooth due to the volatile macro environment as well as the upcoming general election. The good news is that earnings visibility is improving and index heavyweights are performing well. So, while volatility is likely to continue, there are opportunities to get returns this year.

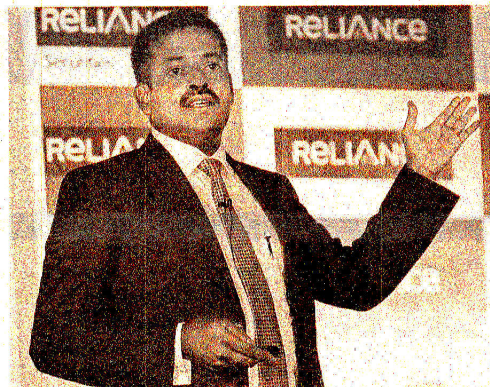
How are overall market valuations? What is your view on the mid- and small-cap space?

The Indian market is not overvalued and in the last one year, we have seen some de-rating because of higher market volatility. India still presents one of the best long-term growth prospects with enough quality stocks across the board.

Mid- and small-caps present good opportunities to generate long-term returns. In the short term, however, there could be challenges. Investing in quality mid- and small-caps is the best way to generate superior returns. There are good opportunities available, especially in the IT and the banking sectors.

How will the general election play on the market?

Elections are very complex variables for the market. Typically, the market looks at



the probability of the formation of a stable government. So, in the near term, there could be volatility if opinion polls suggest an unstable government, but Indian voters have been much more decisive in recent times. It is very likely that the outcome of this election could be decisive eventually. Thus, the ensuing short-term volatility presents with a good opportunity to accumulate quality stocks in the short term.

Polarisation in Indian equities became acute last year with a handful of stocks driving the Nifty50 basket. Will money continue to chase select names this year as well?

The market is likely to become more broad-based this year as valuations for many quality stocks have come off significantly. Businesses tend to be

much more resilient than what the stock price volatility indicate. As volatility stabilises, the market is more likely to become broad-based on the challenges of liquidity ease.

Emerging markets (EMs) took a beating last year with investors shifting their attention away from risky assets. Do you see the pain getting worse going ahead? How is India placed in the EM pack?

The market correction has

factored the challenges. Global liquidity challenges are not going to be as significant as they were last year. So, the pain for emerging markets is likely to be much less this year. India is a domestic consumption-driven economy with one of the best GDP growth rates. Inflation is under control and as the macro situation stabilises, the Indian market is likely to perform quite well this year.

What is the outlook on foreign and domestic flows for the year?

Foreign portfolio investors (FPIs) are affected by multiple factors. This year we could see some money coming back from FPIs, especially during the second half of the year. Domestic money is driven by systematic investment plans (SIPs), which have a very long persistent rate. While FPIs selling could continue in the first half, the second half of the year could very well see healthy participation by both FPIs and mutual funds.

Which sectors are you betting on?

We have been bullish on the IT and the banking sectors for quite some time now. IT offers earnings visibility, while banking is seeing improvement in core metrics. Both these sectors could very well outperform in 2019.

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