

India will be a \$4 trillion economy in the next 6-7 years: Reliance MF

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With new sectors gaining prominence

and achieving strong growth, diversified funds deliver better returns than index funds, said Sunil Singhania, chief investment officer, equity, at Reliance Mutual Fund. In an interview, he said India will become a \$4 trillion economy in six to seven years, and advised systematic investment plans for investors. Edited excerpts:

Are you amazed at the growth of assets under management (AUM) and the retail participation we are seeing in the mutual fund industry?

Obviously, the last one to one-and-a-half years has surprised us positively on the intensity of the growth. But, in 2014 itself, we had actually come out with a public statement saying that we expect the mutual fund industry to hit Rs20 lakh crore by 2020. In fact, last year, we sort of upgraded the target to reach Rs20 lakh crore by FY18. So, to that extent we were expecting this, you always have a tipping point, just to give you an anecdotal evidence in US, one of the largest asset management company took 80 years to reach a size of \$2 billion. Then from \$2 billion to 2 trillion took them only 35 years. So, I think we always have a tipping point and we believe that in India the tipping point started in 2014-2015 and it is only going to accelerate going forward.

The monthly systematic investment plan (SIP) numbers are also very strong, right; from retail investors Rs4,100 crore and I think last, if I go back in five years it was only Rs1,000-1,500 crore?

Four-five years back the concept of SIP had started, but because the markets were very volatile there was also this



Reliance Mutual Fund CIO, equity, Sunil Singhania.

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phenomena of investor sort of stopping their SIPs in between. I think investors are becoming more matured, more intelligent and over the last few years, we have seen that in volatile times, in fact, the intensity of SIPs increasing has taken credence, so we do expect that in the next one year to 18 months this number of Rs4,000 crore will exceed a \$1 billion a month.

A lot of people invest via you. I think you are one of the longest serving fund managers having an experience of two decades. Where does Sunil invest his money? Where do you invest—do you invest in mutual funds?

I have reasonable exposure to equity and also some exposure to fixed income to have my near-term needs met because I have two school going kids. But, I think, very clearly the personal confidence in the Indian economy and the equity market is very strong and that is also reflected in our advice which we give to our investors that India is a country to invest and you have to invest in equity if you are looking at long-term wealth creation.

One problem which some of the retail investors tell me how to choose a good equity fund because whatever they see on money control is the past performance and then the disclaimer comes past performance is not indicative of the future returns of course? There are so many equity funds these days in the market, how to judge a good fund?

I will give you an anecdotal sort of an example, in India, cricket and Bollywood are the two most followed things maybe stock market after that.

If you actually see Sachin Tendulkar and Virat Kohli will not hit a century every match, but they will continue to be good batsmen. Shah Rukh Khan, every movie will not be a hit, but he will continue to be a good actor. I think mutual fund managers are also similar; you will not have the same fund manager being the best every year but what you have to look at it is the consistency and the long-term duration and the track record of that fund manager. So, instead of hopping in and out of each

fund based on Morningstar rating or a Moneycontrol rating or XYZ rating every quarter, I think you just have to look at three-four-five fund houses which have good fund managers and have confidence in the Indian economy and those fund managers to deliver returns. Frankly, whether you make 30% return or 32% return or 28% is not as important as whether you have 50% of your investment in equity or 5% in equity. If you have 5% in equity and you make 100% and if you have 50% in equity you make 30%, I think that the second option will be much better.

Let us talk about the market a bit, is it too good too soon?

Market will always have a habit of being slightly overvalued or undervalued from time to time. I think the beauty is in the eyes of the beholder. So, if someone who is optimistic about the Indian economy growing with maybe some speed breakers in between like me I think any level is a good level to invest, if you have a view that finally we are going to be a \$4 trillion economy in the next six-seven years. But, if you are looking at one or two

months or may be three months then maybe you would want to wait for some sort of correction because you have already seen a 1,000 point rally as far as Nifty is concerned over the last two months. So, it depends on a time horizon.

Your views on IT and Pharmaceuticals space which you have mentioned earlier as well?

IT—our view has been consistent that the growth rates have slowed down, but at 14 time valuations, 13 time valuations at a cash price-earnings (P/E) multiple of like 10-11 times which is better in terms of earnings yields and even the G-sec bonds and with a lot of negatives already been into the price our view would be that it would be a decent sector. It would not give you phenomenal return but it would give you decent mid-teen returns.

Obviously, there is a lot of rhetoric going on right now with Donald Trump view's about H1B visa and all but we have also started to hear about Indian government taking up the issue with the US government.

So, I think it is a decent sector to invest. India has world class capabilities and cost advantages there. Even in pharma, we saw in 2015 a huge run-up maybe the stocks had become too overvalued. In 2016 it was exactly the opposite. I think a lot of these stocks are now reaching a good price from a two to three years perspective.

Speech of Donald Trump, the first speech after he took over as a President apart from his induction speech, clearly said that he is focusing on reasonable drug prices and I think that is where the Indian pharma companies will come into play. So, I think both the sectors are getting interesting and in fact IT sector last one month has been a good sector to invest.

You were very bullish on NBFCs, if I remember it correctly and the private sector banks. Private sec-

tor banks have done phenomenally well and now the smaller private sector banks are jumping since last many days. Is it only valuations or other things which are going into the market?

It is a cycle, if you look at NBFCs over the last five years, one NBFCs has tripled every year. That was a phenomena, it was a new NBFC. So, maybe there was some catching up being done by one looking at the valuation of the other. I think right now our focus on NBFC space is still there but we believe that gold finance companies have some way up to go still because they are relatively very cheap compared to some of the micro finance companies.

At least from our perspective, we believe that the gold finance companies are secured micro finance companies. So, a secured micro finance company is available at less than 2 times book and an unsecured micro finance company available at 4 times book.

So, we will go for the secured micro finance book. In terms of old generation private sector banks,

some of them have transformed gradually over the last four-five years and we are seeing the results.

A lot of them would transform as you move forward because talent now is willing to join these banks and take them to the next level. So, there is a lot of action in those banks. We are also sort of certainly trying to play the worst public sector bank theme, so it will be a small allocation for us.

But, we believe that the worst public sector bank might turn out to be the dark horse if bad bank and a lot of other announcements which the government is certainly making come through.

Do you think that the asset quality issues are behind now in public sector banks?

They are not worsening, how soon they recover will obviously depend on the econ-

omy. So, steel sector for example, is recovered. Some part of textile sector has recovered. Maybe the demonetization has deferred the realty and the construction sectors recovery a little bit towards the back-end, but with again the focus being on growth some of these sectors can definitely also start to turn around. So, the worst is behind.

You have also got the contra call in telecom, right?

Not to the extent which we would have liked specifically in one of the largest company but yes, it is a market position.

Liquor hasn't played the way you were expecting?

I think investors are not drinking enough. However, we continue to be quite optimistic. The regulatory hurdles have been quite there but with India's demographics with 25-30% of every citizen in the world born after the January 2001 being an Indian and they still have to come to that drinking age. Social drinking is now acceptable. Women are drinking. Even in our weddings now, we have cocktail parties. So the consumption of responsible drinking is only going to increase. This is one fast moving consumer goods (FMCG) sector where the penetration levels are very low. So let us hope that they start to perform.

We all heard what Warren Buffett said and he made a very interesting point that index funds are the place to be in rather than going for diversified funds; does the same apply to Indian markets as well?

In India, if you look at the history of the mutual fund industry put together, we have comfortably beaten the index, which clearly shows that there is a good alpha, which is being generated by the fund managers. It is a reflection of two things. The fund management community overall is very efficient but India is a developing economy and there are a lot of new sectors, which come up, for example IT in 1990s did not exist and it has become now almost 10-12% of the index. Telecom did not exist till mid-1990s and we have real estate, organized retailing, e-commerce, hospitality, pharma which were very small sectors. If you invest in a Nifty fund or an index fund, you will not be able to invest in these upcoming sectors till they become large.

So as long as the country is growing fast, there is definitely scope of alpha generation and therefore the actively managed funds are significantly outperforming the benchmarks.

For example, Reliance Growth Fund is 95 times in 21 years. The index in the same times is up only 10 times. So that kind of alpha has been generated over the last 21 years. However, we believe that you have to offer the investors both active and passive and that is the reason why we have one of the largest players in the ETF side.

A lot of fear was there in the market when this demonetisation happened but the gross domestic product (GDP) numbers coming yesterday do not reflect that. You talk to a whole lot of people whether it is corporates or investors, do you think all this phase is now behind us in terms of numbers?

The attitude and the nature of an individual cannot be changed. So post demonetisation, there was deferment of demand but if you are a young country, young population and if you want to go out drinking, shopping, watching a movie, you are not going to stop it just because instead of cash, now you have to use your cards. We have adjusted and over the last 15 years I have seen that Indians are resistant to change but the moment change is thrust upon them, they are very fast in adapting the change. We saw screen based trading, complete dematerialisation of shares, maybe demonetisation, so we are very adapt to change. So it is obviously a near-term road block but eventually, the country is becoming more efficient.

A lot has happened and is happening in the oil and gas space. How do you view that space as a fund manager?

Our view is that oil prices should be stable at least from oil producers' or explorers' perspective, it is going to be a stable scenario. Our view is that refining margins may have seen the best and from hereon they might—not collapse but—see some downturn. So the big outperformance, which we saw specifically in the oil marketing companies might be behind us and from hereon at best they can be market performers.