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INTERVIEW: AMIT TRIPATHI

CIO, FIXED-INCOME INVESTMENTS, RELIANCE CAPITAL AMC

Expect another 50-bps rate cut this fiscal

Amit Tripathi, *CIO, fixed-income investments, Reliance Capital Asset Management, expects the RBI to cut rates by another 50 bps by the end of this financial year. Excerpts from an interview with* **Chirag Madia:**

What is your view on interest rates?

We expect a gradual decline in interest rates over the next 2-3 years because of some fundamental reasons, such as improvement in the fiscal deficit situation and inflation. As it's a structural thing, this change is not going to be a 3-6-month phenomenon; it will extend to 3-5 years. So, our expectations in the near future will be of another 50-bps rate cut in FY16. We will re-assess our target by the end of the financial year.

Where do you think the benchmark bond yield, which is currently close to 7.9%, will settle?

Honestly, it's difficult to make predictions. But with the the repo rate at 7.5% — amid hopes of another 50-bps cut — and the 10-year G-Sec at 8.10% in annual terms, it's not a bad buy. From an investment perspective, we are well placed as far as current yields are concerned.

I would not wait for yields to move further before I commit more investments; as we stand today, we have committed a very large portion of our investments in both the dynamic and income fund categories to medium- and long-dated G-Secs. We believe that, over the next 12-18 months, it will play out very well. I won't be surprised if we see 10-year bonds reaching 7-7.25% by the end of this fiscal.

So, what is your current investment strategy?

Like I said, investment strategy is driven by fund positioning. As far as gilt, dynamic and income funds are concerned, we are running reasonably long duration on hopes that interest rates will fall. For others, such as short-term and floating rates funds, we have a time horizon of close to two-and-a-half years, which is the upper band of fund positioning.

For corporate bond funds, we have to look at how balance sheets are improving, what the potential upgrades are and where we can invest in the private sector for the next 3-5 years. So, for these funds, the timeline is of nearly three years.

As a debt fund manager, what is your biggest concern?

For a country like India, fiscal prudence is the most important factor. If the government adheres to fiscal prudence — and here, I am not talking only about numbers but also quality — we will see long-term interest rates trending down and that can have a big impact on inflation, saving behaviour and current account deficit.

The important factor is how the government responds on the fiscal side, whether it is disciplined and the quality of expenditure is good. We are all too much concentrated on the GDP number — it will eventually go up but, for me, the process has to be right. We had high GDP numbers in FY09-12 as well, but it was led by a very high inflation. So, the overall quality of growth was not that great. Now, we are seeing a 7.5% growth, which is a good number if it is qualitative. So, any faltering on fiscal prudence is a cause for concern.

What strategy should investors adopt at the moment?

Historically, fixed-maturity plans are a good product to introduce retail investors to the debt capital market because they are simple to understand.

Income and gilt funds are for more informed investors who know when to enter into and exit from such funds. Having said that, now investors are increasingly looking at the duration space. Dynamic bond funds are suited for investors who want to participate in the duration story, but are not sure about entry and exit. Such funds make more sense for retail investors as fund managers modify portfolios on the basis of their interest rate outlook.