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INTERVIEW

Profile


Dwijendra Srivastava,Head of Fixed Income, Sundaram Mutual Fund

Dwijendra Srivastava is a CFA Charter Holder. He is a Textile Engineer from The Technological Institute of Textile and Sciences and Post Graduate Diploma in Management from Goa Institute Of Management. He has over 15 years of experience out of which 13 years are in financial services industry.

(1) Could you please share your views on the near term trend of short term rates.

We believe that the LAF (Liquidity Adjustment Facility) corridor has been functioning well in the current central bank regime. Taking this into account, we believe in a liquidity deficit scenario (which we believe is likely to continue) the three month prime money market CDs (Certificate of Deposits) are likely to trade at a spread of 30 to 50 basis points and 2 months and below CDs at 10 to 30 basis points. The higher current account gap and fiscal deficit is likely to keep the liquidity deficit at the higher end.

(2) What are the concerns on the credit quality front with rising NPA of banks as well as a slowing economy? What measures have been adopted at Sundaram Mutual Fund to counter the change in business environment?

Very few companies can survive without debt in their capital structure and in India traditionally the banks have been a source of debt funding for corporate. The process of credit disbursal also varies from bank to bank – keeping this background in mind it is not surprising that in a slowing economy the trend is of rising NPAs and higher restructured assets. Hence for such entities the leverage or debt equity ratio increases causing deterioration in the credit profile. This scenario makes funding to such entities/sectors from the mutual fund space difficult. We at Sundaram Mutual have a credit appraisal process where the fund management function is disjointed from the credit appraisal process making the appraisal process an independent function reporting into the risk manager and an independent board. Further we have kept some sectors on hold which have shown a marked rise in leverage.

(3) In the current market scenario, what investment strategy can an investor follow while investing in different kinds of debt/income based funds? Is it time to move to longer maturity bond funds?

We believe that investors should invest as per their risk appetite. Taking a view based approach and taking into account that an investor has chosen fixed income as an asset class and he is having risk appetite to invest across duration buckets. We believe next 6 to 12 months can pay off on the duration play. In Indian context the investor should be careful about the intermittent volatility as the transient factors like supply side issues, pickup in economic growth can bring in losses in higher duration products. We recommend investors to take a balanced view as per their risk appetite and invest accordingly.

(4) What are your views on liquidity in the Indian bond markets? How does the investment team at Sundaram tackle such illiquidity?

In the fixed income markets, the most liquid markets are government securities market and CDs (Certificate of Deposits) market, the corporate bond markets and CP (Commercial Paper) markets are relatively illiquid. We think the liquidity in the market is an outcome of all kind of players and trading systems and as the participants increase their holdings on the other markets and better trading systems evolve the liquidity will be there. We at Sundaram mutual fund follow an asset liability management approach based on our fund size and investor profile and construct the portfolios accordingly.

(5) Where do you see the benchmark 10 year G-Sec yield heading in the short term? What will be the key drivers for this?

We believe that the 10 year G-sec yield will be trading at 7.90% to 8.10% band in the near term. The key drivers will be the central banks stance to induce liquidity via OMOs (Open Market Operations), Possibility of the core inflation moving downwards and government striving to limit the fiscal deficit to revised estimates of 5.3%.

(6) RBI left the cash reserve ratio and lending rate unchanged in its monetary policy meet. What is your view on the near term action by the RBI?

As mentioned by the central bank they believe the current liquidity shortage in the system is due to unspent cash balances of the government with RBI and is transient thus a cut in CRR is not required as it is more enduring in nature. They have resorted to OMOs which are ad hoc in nature and can be resorted to depending on the liquidity view. We believe that the central bank is likely to cut the repo rate by 25 basis points in the upcoming policy with a possibility of 50 basis points if the inflation print shows a declining trend. The constraining factor to this view could be the deterioration in current account gap and fiscal position.

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