May 23, 2013

S Krishnakumar is an engineer from REC (now National Institute of Technology), Trichy, he did an MBA from LIBA, Chennai. He has worked for 20 years of which the latest thirteen years relate to the equity markets. S. Krishna Kumar manages the following funds at Sundaram Mutual Fund: Sundaram S.M.I.L.E Fund, Sundaram Equity Multiplier, Sundaram Select Mid Cap, Sundaram Energy Opportunities and Sundaram Capex Opportunities.

1. What is your opinion on the current market situation? And where are your focus areas?

The Indian macro has significantly improved over the last 2 months. Inflation has fallen over 240 bps to under 5% in the last 2 months. The weakness in global commodity prices especially crude is favorably impacting our twin deficits. The global sell-off in gold / precious metals is another positive from the equity perspective too. The sustained implementation of diesel pricing reforms along with measures aimed at reducing fertilizer subsidies lends confidence on the trajectory of reforms.

We expect the Government to continue with more reforms centered on energy, fuel pricing, land acquisition and measures to fast track infra projects.

Inflation is expected to further decline and average around 4-5% levels for the next 3-6 months giving enough elbow room for RBI to ease further. Monsoon is another important factor that investors will watch out as an inferior one could impact the inflation trajectory and force Government's hand on populist measures. We would continue to watch for revival in the investment cycle that could create more jobs, improve disposable incomes and help India to move to the next level of consumption growth. The global liquidity continues to be extremely favorable while the tail risks of any adverse global event seem low.

We remain positive on the Indian equity markets on a medium term basis. The run up to the elections may provide investors buying opportunities as markets could turn more volatile.

2. In your opinion what are the challenges in managing a small sized equity fund? Do you think there is undue importance given to large size funds?

While there is no challenge in managing a small sized equity fund, the issue is that it hardly gets noticed by wealth managers, distributors and investors given its size.

Also, managing many small mandates may not be the most ideal situation from a resources perspective for an AMC.

3. Could you please brief us about Sundaram Select midcap fund's investment philosophy. What is the key strategy behind stock picking? What is the dependency on the internal research team for such a fund?

The stock selection is more bottom up with emphasis on buying midcaps which have a reasonable track of business model and exhibit promise to make it to the next level. We like companies that have scalable businesses, ability to sustainably grow, strong pricing power and long term competitive advantages that translate into strong operating cash flows and return ratios. Cash flows are more important than earnings for us. We are very conscious of getting invested at the right valuations meaning we buy growth at a reasonable price.

A significant part of the well diversified portfolio is core and the holding period typically ranges from 3-7 years. So the philosophy has been truly to buy a midcap and stay invested as it transforms into a large cap. The target market cap range of the fund would be Rs. 5,000-20,000 crs.

4. What are your key sector picks in the large cap and mid cap space, respectively?

We like the rate sensitive sectors now given the sharp fall in bond yields. We are positive on early cyclicals like four wheelers, lifestyle products, durables, media & entertainment, housing & real estate, retail financiers. Energy sector is again interesting given the reforms and better policy environment in the oil & gas space. We also believe that some of the infra companies & industrials could get back into the radar soon.

5. What is the stock picking strategy followed in case of the S.M.I.L.E fund? How is your research team positioned to identify such stocks?

SMILE is a aggressively managed multi-cap fund, with a huge bias towards small caps and midcaps. The strategy revolves around bottom up stock selection to buy into growth. Here we buy stocks which fit our PEG considerations and are comfortable to buy upto a PEG og 0.8. The target market cap range of the fund would be Rs.500-10000 crs.

We tread into areas wherein there may not be any meaningful research done by brokerages, do our own research and build conviction on the company. Hence the strategy is to be an early bird driven by our in house research in identifying stocks with huge growth potential. We have a large investment / research team of dozen professionals who continuously visit, interact and track target companies to develop the investment case. This is then backed by investment and holding that till the story matures and is discovered by the broad market

6. Sensex is currently trading at 20,000 level, what will be your advice to retail investors in the present scenario?

Given the strong rally in the markets driven by an improving macro, it would be advisable to wait for corrections to get into the markets. However, timing the market is never easy and hence a wise investor may choose systematic investment plans.

The rally has been driven by continued FII inflows into large caps while the broad market is yet rally hard. The expected fall in interest rates should benefit the mid and small caps more than their larger counterparts. The valuation differentials also are quite attractive. Hence it is advisable to plan for a reasonable exposure to this small midcap segment as one gets prepared for the next bull market.