Business Standard
MUMBAI | TUESDAY, 5 JANUARY 2016

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# 'The trend of rising domestic investment is likely to continue'

Q&A

S KRISHNA KUMAR
CIO, Equity, Sundaram Mutual Fund

India should view the coming rate increases in the US as positive, as they show the Federal Reserve's confidence on US growth, says **S KRISHNA KUMAR**, chief investment officer, equity, at Sundaram Mutual Fund. He tells **Ashley Coutinho** the trend of rising domestic investment is likely to continue, reflecting a conviction in the India story. Edited excerpts:

**Equity markets have seen a sustained fall since March last year. What is your outlook for the year ahead?**

India stands out purely on its macro credentials. This macro strength is visible in the rupee's resilience, fourth among a pack of 24 emerging markets(EMs). Being the largest growing economy in the world, with inflation containment and fiscal prudence, India will continue to remain differentiated in the EM space.

**Will EMs such as India be in trouble if the US Fed goes aggressive on rate hikes this year?**

The Fed's December policy statement broadly clarifies three aspects — the policy stance, policy pace and balance sheet size. First, it has announced an end to an early decade-long policy of near-zero interest rates and is looking to normalise. On the pace of rate rise, it indicates a rise of around 100basis points for the year, implying 25 bps each quarter. However, a cut of 50 bps over 2016 is more likely. Third, and more important, it indicated the balance sheet size would not see a contraction and there would be a rollover of maturing treasuries and reinvestment of principal payments. This is of greater importance, as any balance sheet contraction would mean liquidity contraction and a rise in the effective Fed funds rate.

The Fed rate rise comes as a big relief for Indian markets, removing a large cloud of uncertainty. In fact, India should view the moderate rate increases in the US as positive, as this is clearly reflective of the Fed's confidence on US growth. And, as we all know, better US growth is good for global growth and certainly positive for India.

**Your assessment of the third-quarter performance of Indian companies?**

We expect it to be much better than the previous quarters, from a year-on-year growth perspective. Further, the profitability improvement due to input cost savings will play a much bigger role in offsetting the deflationary impact of revenue growth. However, we see the global cyclical like commodity players continuing to suffer earnings erosion.

**It's largely the domestic institutional players that supported the market last year. Do you expect this trend to continue in 2016?**

The trend of rising domestic investment is likely to continue, reflective of conviction in the India story. More important, in this volatile phase, the average investor has shown remarkable maturity and resilience. The structural increase in households' savings rate, on the back of falling inflation, coupled with the unattractive returns from physical assets, will continue to support the domestic equity flows.

**Which sectors are you bullish on?**

The economy is getting back on track, while benefiting from lower inflation and rates. As investors, we are positive on cyclical sectors that feed on the economic recovery theme, such as industrials, engineering & capital goods,transportation and financials. The potential rise in disposable income, on the back of softening inflation in urban India and the seventh pay commission largesse, will definitely help consumer discretionary sectors like automobiles, lifestyle products, durables, retail and entertainment. These represent our positive bias. We remain negative on pharmaceuticals, fast moving consumer goods, telecom, information technology and metals.

**Your advice to retail investors?**

Retail (small) investors appear to have as much conviction in the India story asus. Still, they need constant support and reiteration in these volatile times. Invest regularly with an asset allocation that is suitable to your needs and risk appetite. Discipline, patience and diversification are important to being successful in long-term wealth creation. After the recent correction, I would recommend investors to also look at lump-sum allocation to equities.

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