

ET EXCLUSIVE Q&A

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Valuations Looking Good, It's Time to Buy

Even as corporate earnings expectations are muted for the fourth quarter, stock prices over the next few months will be driven by the guidance and commentary on demand, pricing power and margins for the next year, says Sampath Reddy, chief investment officer at Bajaj Allianz Insurance. In an interview with **Shilpy Sinha**, Reddy says the equity market has seen a lot correction in the past few days, which has made valuations look attractive. Edited excerpts:

Has the 2016-17 Budget met the investors' expectations?

Post the Budget, both debt and equity markets rallied – equity market has seen an almost 10% rally, as the long-term capital gains tax was not tinkered with and also there was a considerable increase in allocation towards infrastructure. The budgeted increase in plan expenditure is healthy. The government has retained its fiscal deficit target at 3.5% due to which the bond markets have rallied as the yields have come down by 15-20 basis points on the longer tenure bonds. Overall, the



WHAT TO BUY?

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Budget has met most of the expectations of the capital markets.

Do you see RBI cutting rates in its monetary policy review on April 5?

CPI inflation for February came in at 5.18% against the consensus of 5.5%, down from 5.69% in the previous month. The improvement is mainly due to a decline in food inflation. Also, the Index of Industrial Production (IIP) contracted by 1.5% in January, which indicates continued slowdown in industrial activity. We believe the RBI would cut rates in the forthcoming monetary policy, if not before. In addition, the RBI has been supportive to the bond market and liquidity through open market operations.

What could be the next big trigger for the market?

With the Budget and the April RBI monetary policy event largely factored in, the market would now shift its focus back to micro factors. The focus will be on corporate earnings in the fourth quarter of FY16. Even though expectations are muted for the quarter, the guidance and the commentary on demand, pricing power and margins for the next year will drive stock prices.

What do you make of the FII selling and its impact on the equity market?

The outflow of FII funds from emerging markets has led to overall selling in the market, which has caused this correction. Markets, I think, have overreacted and are now on the recovery path. Also, corporate earnings have been muted. Lot of correction has happened due to lower-than-expected earnings growth in the last three-four quarters. Given the markets have fallen so much, valuations are looking attractive. It is a good time to buy.

Which sectors are you looking to invest in?

Excluding pharmaceutical and consumer, everything else has corrected substantially and thus, looks attractive on valuations. Within that, large caps are more attractive than



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mid-caps as the recent selling by FIIs had a bigger impact on large-cap companies than mid-cap companies. Some selective mid-cap companies are also attractive.

I think banking stocks will do well. With the recent RBI's measures on non-performing assets, most of the asset quality issues of the banks are addressed. Telecom stocks are beaten down on expectation that Reliance Jio could be a disruptive player. Utilities are doing good and with demand coming back, we can see pick up in earnings growth of power sector. Commodity stocks such as aluminium producers are also attractively priced, and are trading at huge discount to their replacement cost.

Insurance companies have been net sellers in stock markets for some time. When will the tide turn?

In the past three years, most life insurance companies have seen net outflows from their Ulip portfolios, as large Ulip portfolios that were acquired during the initial years of private life companies' existence were facing withdrawals by policyholders. We believe, in the next financial year,

Ulips will see net positive inflows, as sales have picked up momentum.

How soon can banks come out of the crisis? Are you looking to buy?

Most of the banks indicated that they will provide fully for the non-performing assets (NPAs) by the March quarter, hence, this quarter also we could see higher NPAs from PSU banks. They have recognised the problem and are moving in the right direction to resolve it. As RBI has allowed the banks to consider the revaluation reserves as tier-1 capital and with the expected capital infusion by the government in PSU banks, they could see a turnaround.

Will fund flow into India continue when it dries up in other EMs?

If there is a general aversion towards global emerging markets, India will suffer too. As most of the emerging markets are facing slowdown and the hard landing of China, there has been risk aversion from foreign portfolio investors, which would have an impact on all emerging markets, including India, even though India is relatively doing better.