

'It's time to stay with business leaders with good managements'

Ritesh Jain, head of investments at Canara Robeco Asset Management, believes that equity markets may face tough times for a few more quarters, considering the headwinds like moderation in growth, high inflation and lack of capital formation. Speaking to **Neelasri Barman** and **Nitin Shrivastava**, he says that investors would be better off investing in short-term debt funds and gold, which are expected to continue doing well. Excerpts:



Monday Interview

Ritesh Jain

How do you see inflation? What can be expected?

There has been a continuous rise in inflation in India. This was ignited by rise in food prices, primary articles and finally into generalised inflation. With global commodity and crude prices at elevated levels, it looks difficult for inflation to come down quickly. Also, the inflationary expectations are rising, which makes things even more unclear. The Reserve Bank of India (RBI) is also concerned about this and has kept a hawkish stance for long time, but in the last policy review it took aggressive steps to tame demand side inflation. But still, we believe that inflation will remain on an elevated level, and it is difficult to control inflation without compromising on some growth.

Do you expect further rate hikes?

With inflation remaining at elevated levels and inflationary expectation reigning high and the RBI being behind the curve, we believe the RBI will increase rates by another 50 basis points (bps) during FY11-12. Though this might lead to some compromise on growth, but it is needed for ensuring price stability and long-term growth. Going forward, I believe we will have two rate hikes of 25 bps each.

How are you going about stock selection at this point in time when the equity markets are witnessing lot of volatility?

We, as a fund house, believe strongly in macroeconomic research and have developed reasonable capabilities there. We follow the 'BMV model' while investing in companies, which is nothing but investing in strong business with good management and rea-

sonable valuations. A top down approach has helped us navigate volatile business cycles, like the one we are facing today. For example, if we believe the potential growth rate for the Indian economy is between 7 to 8% and we grow by more than that during the year, then the initial benefit of that growth flows down the chain, but inflation quickly catches up, which then effects the long-term sustainable growth equation and thus multiples. For the current year, we expect GDP to grow 7.5%, which basically means it is time to stay with the business leaders with good managements and not venture out too much.

When you buy debt papers, which are your preferred sectors?

Most of them are banking sector certificate of deposits (CDs). Some of them are commercial papers (CPs) of non-banking finance companies (NBFCs). In the manufacturing sector, we only go for the highest rates ones. We mostly go for public sector bank papers.

What is your outlook on CD rates?

With liquidity remaining negative (and

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expected to remain the same) and with government finances remaining in deficit, we believe short-term rates will continue to be under pressure. We expect that short-term rates will go up by 25-50 bps as liquidity deficit in system rises to Rs 1 lakh crore by June-end. For boosting systemic liquidity there are three options—a cut in cash reserve ratio (CRR), open market operations (OMO) of gilts or intervening in USD/INR. CRR cut is not possible and inflows are not sufficient for the RBI to intervene and create unsterilised liquidity. I feel the RBI will do OMO to infuse liquidity and support government borrowing programme.

With equity markets having corrected a lot, what do you make out of current valuations? Is the pain over for markets?

If you look at the broad market, I believe there is some pain left. This year GDP is likely to grow at moderate pace of 7-8% and there's not much capital formation taking place either as inflation continues to remain high. In such a scenario, it is very difficult to sustain the price-to-earning (P/E) multiples. May be by the end of the year you might get more clarity. Looking at these headwinds, I feel we might see some tough time for a couple of more quarters. Equity might not shine as a whole, but one may witness rotation in few sectors.

So are you holding cash in your equity portfolios at this point of time? Which are the sectors you see doing well in the near term?

We normally don't take too big cash calls. We do not take cash calls of more than 10-15%. We are bullish on consumption theme with preference for the FMCG and pharma sector; we are cautious on banking and interest rate sensitive sectors and neutral weight on IT.

Which asset class will outperform this fiscal?

We have seen lots of volatility in past few months and will continue to witness the same. With countries facing fiscal stress, inflation inching up globally, jittery economic recovery, and various asset classes witnessing temporary charm, we believe that sovereign debt, equity and currencies will remain lacklustre. This would mean that gold will remain strong. Actually gold is not going up, it is the value of currencies that is coming down and flight to asset class, which acts as a natural hedge to inflation.

How should retail investors go about investing in different asset classes then?

Apart from gold, if one were to invest in equities, they should look at diversified equity funds. Also, in this volatile environment one should put money in equity by way of systematic investment plans (SIPs). In debt, investors should look at short-term debt funds.