Advantage India

Anup Maheshwari feels this could be an advantageous time for an investor to enter the Indian equity market

Anup Maheshwari, executive vice president, head equities and corporate strategies, DSP BlackRock MF says that his company is allocating money to large-cap companies in the consumer discretionary and healthcare sector. Although the global and domestic markets have experienced volatile trading in the past couple of month and negative sentiment still continuous to persist in the market, especially in the west, Maheshwari feels this could be an advantageous time for an investor to enter the Indian equity market, especially those looking from a three to five year perspective.

Speaking to Businessworld he opines that the Indian market is trading below its 15 year price-to-equity (P/E) average indicative of the fact that the market may be reasonably priced. Though he expect the December and March quarters to be challenging for companies, he believes given that much of the negative news is priced into the Indian markets, for FY 2013, he expects earnings growth to be near 13-15 per cent.

Excerpts from the conversation

1. Is the worst over for the financial markets? (Globally as well as India) What is happening in the market across asset class? Till when do you see such a drag market condition and why? What is your take on the Indian equity market and why?

Over the past couple of months, although the global markets have been trading range bound, they have experienced excessive volatility.

In addition, across asset classes we have seen continued volatility whether it is commodities or government securities. While there is no question that the US economy has done better than expectations, the sovereign debt crisis in the Euro-zone continues to keep the global markets and other asset classes on edge. Although the ECB has taken steps to assist the crisis by providing loans and continues to intercede, these measured steps do not provide a long-term solution to the current crisis.

In our view, the ECB should attempt to expand its balance sheet more aggressively and carefully monitor the fiscal situation in the debt-ridden countries. Unless these on-going problems are rectified with somewhat permanent resolutions, negative sentiment will continue to persist in the market, sovereign yields will remain high, commodities will trade with volatility and global growth will remain subdued. That being said, going forward we expect the global economy to continue to face headwinds and until these obstacles are overcome, growth will be muted.

Despite the current volatility in the global and domestic market, our view is that this could be an advantageous time for an investor to enter the Indian market, especially those looking from a three to five year perspective. Currently, the Indian market is trading below its 15 year P/E average indicative of the fact that the market may be reasonably priced.

Furthermore, as we expect a decline in interest rates and inflation and an increase in systemic liquidity, the risk-reward scenario in India appears attractive. In addition, although the rupee has significantly depreciated over the past month, given that India's GDP is primarily based on high domestic consumption, we do expect the rupee to appreciate and trade range bound going forward.

2. In your view what will be the next trigger for the Indian equity market? And why? And when do you see it coming?
Policy reforms continue to affect growth for the Indian equity market. Therefore, in our view, unless challenges with regards to land acquisition, mining, and infrastructure continue to persist, the Indian equity market will continue to face problems.

In addition, we are of the belief that FDI entry into retail would be beneficial to engender confidence of investors and businesses. Lastly, the continued respite in primary inflation and the minute correction in global commodity prices should help moderate the core inflation going forward and have a positive effect on India's economy. We hope to see policy reforms and inflationary moderation over the course of the following fiscal year.

3. What is your view on the overall corporate performance of Indian Inc? Till when do you think this dismal performance will continue? What is your expectation from December-ended quarterly results?
Although, we believe that the interest rate cycle has peaked and that inflationary pressures have eased, we expect the December and March quarters to be somewhat challenging for companies due to the volatile global backdrop, moderate growth, and recent rupee depreciation. More generally, we believe there will be continued financial market turbulence which will lead corporations to struggle to meet their initial expected profits. However, given that much of the negative news is priced into the Indian markets, for FY 2013, we expect earnings growth to be near 13-15% despite the current and near-term volatility in the Sensex/Nifty.

4. Though inflation numbers are on a decline, but excess borrowing program by the government and rising fiscal deficit, particularly due to lower exports, rising imports and the food bill, do you see RBI governor raising rates rather than cutting interest rate? When do you see RBI cutting rates?
We expect the RBI to maintain its neutral position on interest rates and not to reduce them. At the end of FY 2011-12 we expect the RBI to reflect on the inflationary trajectory, growth expectations and external factors to determine whether to start decreasing interest rates.

5. In current market condition where will you advise investors to invest? Currently where are you investing your own money? And why?
During the current economic scenario, we advise our investors to adopt a more conservative investment stance in addition to diversifying their portfolio by investing in both equity and income funds. We suggest that our investors consider portfolios comprised of large cap companies as these companies have strong management teams, are leaders in their specific industries, and have achieved scale. As such, they are better able to sustain growth during volatile times, such as today's persistent environment.

Furthermore, we also advise clients to spread risk by diversifying their portfolios and investing in income funds. Given that we believe that inflation is easing and that the interest rate cycle has peaked, income funds will start to appear more attractive going forward.

Currently, we are allocating a higher average to large cap companies in the consumer discretionary and healthcare sectors. We believe that the consumption theme will continue to be a positive driving factor to GDP growth and we perceive a large opportunity in the Indian pharmaceutical sector. In the next couple of years, high revenue generating drugs are losing their patents in the US. This will allow Indian pharmaceutical companies to enter the space with generics whereby increasing the profitability of these companies.

6. As a fund manager what call will you take on the overall portfolio of the mutual fund? What will be your short-term strategy in the current market condition?

Overall, we believe that companies which have strong business models, high cash flows, and low leverage will do well going forward. Hence, during the current market condition we look for companies which fit this profile.