Don't miss rally, up equity exposure to 30-35%: Nirmal Jain

India is shining again. After a robust rally of almost 11% in January, Indian market is charming foreign investors. Given that bad earnings season is over and no negative news is expected in the domestic front, experts feel that the market is likely to continue its uptrend for some time now.

Nirmal Jain of IIFL thinks that investors should make hay while the sun shines and advises to increase equity exposure to 30-35%. In an interview to CNBC-TV18, he said that easy liquidity has propelled global equities including India.

Lauding the Reserve Bank of India (RBI's) move to cut cash reserve ratio (CRR), Jain said that it has improved liquidity and sentiment.

Below is an edited transcript. Watch the accompanying video for more.

Q: It's been a terrific run in January. Do you think it's sustainable or would you take profits here?

A: At this point in time market sentiment has improved FII monies coming in. This is the first time that the FOMC gave some guidance on interest rates and they said they are not going to increase them for three years. Liquidity is benign all over the world and though that liquidity can flow into emerging markets, like in markets like India which is what is happening. A lot of monies are coming into the primary market because they find Indian stocks cheaper in the long-term.

So, even if growth tapers off to 6.5-7% that is still good. A good amount of money has come in. From now on market will consolidate. I don't think that this runaway rally can continue for too long because the key attractions that valuations are attractive will now become little less attractive as we go forward. Now investors would look forward to policy actions what comes in budget, what happens on the macro front here as well as any news from Europe.

Q: In what kind of range do you think the market will consolidate?

A: As of now around 17,000. In fact USD 2 billion has come in this month and it looks like more money can flow in. This kind of scenario can continue for some more time. We can see a range of 16,000-18,000 in the current market environment. Another positive thing that has happened for the Indian market was the CRR rate cut which has boosted the hope that the interest rate maybe cut in the March policy meeting or if not March then April for sure.

That was one key problem with the Indian economy that the investment cycle had collapsed because of high interest rates and tight money market conditions. India is in a unique scenario where monetary conditions are very tight because the rest of the world is having very easy liquidity at this point in time. So this will trigger growth with a lag but from a stock market investors' point of view they will look forward to that kind of positive development and more money can come into the market.

Q: What is it that you guys here about the money? Is it basically ETF laid money that's chasing momentum in the market? Are you hearing of long only funds getting into stocks and sectors now for a longer-term call?

A: I think it's both because this morning itself if you see two large blocks of HDFC Ltd and Kotak Bank have been trading on the exchange. These I think should be on long only funds. It's not that they are only hedge funds but even long only money when the market went down to 14,000-15,000 levels. They found valuations compelling and with liquidity becoming easy, particularly, in the US and the world over it's both. So it's not only hedge funds but I would guess long only funds as well.

Q: Do you think we have a floor? Can you say that with confidence that 4,500 Nifty or 15,000 Sensex is a floor for 2012?

A: Nobody can be 100% confident, but with this scenario, at least 90% confidence can be there on these levels.

Q: What is the general domestic situation now? Do you think people have participated? Is there a change in sentiment that you can sense from the retail HNI fraternity or do you think most people have missed out on the January rally?

A: Most of the people have missed out on the January rally but the mood is changing. Now people are getting more confidence in the market and they are looking forward to a similar kind of rally continuing in the midcap and smallcap. We haven't seen much retail volumes changing in January if you look at numbers in the retail volumes particularly the cash market which has not moved up much but as you talk to people, it appears that if this rally sustains for sometime then retail investors will start coming back to the market.

Q: Where is it that you have seen a pickup in interest because for the last 15 sessions domestic institutional investors are being sellers. Is it institutional guys, mutual funds or HNIs who are getting back into the market?

A: HNIs and retail investors have started enquiring and talking. For retail and HNI investors, if the rally continues for a couple of months more then they will start coming back to the market. As you talk to people at various branches and they talk to customers, we get a feel that many of them are looking at the market more positively now than what they have done in the last two years.

Q: How big an event will the budget be in terms of making or breaking the market's direction? Or do you think liquidity is pretty strong right now and that we may tide over the budget unharmed?

A: No, budget will be an important event this year because the entire liquidity has come from foreign investors who will be looking at fiscal numbers and the current account deficit very keenly. Elections are two years away, so this maybe just one budget in which the government can at least take some difficult decisions because next year's budget will be the last budget before the elections.

So, most investors are hopeful that if the UP elections are a bit positive for the Congress they will have more courage to take a few tough decisions in this budget. Many people are expecting that taxes may go up because fiscal deficit is a bit of a challenge but how the Finance Minister manages this will be important because the rally is driven by foreign investors who are looking at these events very carefully.

Q: Do you think stocks like L&T and ICICI Bank which were among the biggest underperformers in 2011 have bottomed out because their numbers this quarter were received with quite a bit of optimism by investors?

A: Yes, both these stocks are blue chip long-term core holdings as their portfolios and valuations have become quite attractive in the last couple of quarters. Both these stocks, more or less at least seem to have bottomed out for the time being and they can attract good long-term investors. Fundamentally, they have strength, their large stock is a sort of proxy play on the Indian economy and therefore FIIs and long-term investors will definitely look at these stocks.

Q: How would you shape your portfolio allocation right now? Last time, you were advocating to investors that they tilt their portfolio towards fixed income; gilt funds, high yielding deposits etc. Would you change those picks around given what your expectation is this year from government securities or from some of the high yielding tax free deposits etc?

A: Yes, last time when we spoke I had said that we were quite risk averse and were saying that equities should be just about 20-25% of an investors portfolio but now investors can increase allocation to equity to 30-35%. We are still not out of the woods in terms of risk. There are two major risks; one is if some accident in Europe occurs then that can impact global liquidity because if there is a big blow-up in Europe or European banks that can squeeze liquidity for a few months at least.

The second is on the Indian political front or even the macroeconomic situation, if it worsens because of crude oil prices or current account deficit. These two risks one should bear in mind and be still risk averse but the scenario and the sentiment has definitely improved from what it was just about a month ago. Now we can advice investors to increase their equity allocation from 20-25% to 30-35% in the current environment.

Q: Do you think any of the stock specific leverage issues may see some relief this year in terms of companies being able to go ahead and block deals or QIPs in order to just cut their debt levels a little bit or would you still be very cautious of some of these leverage type issues?

A: The equity valuations were very high in 2007-08. So most of the promoters benchmarked their equity valuations to those levels and did not raise equity. They in fact leveraged more than what they probably could sustain from a long-term. This is particularly true for infrastructure companies. As soon as market sentiment recovered a little bit they realised how risky it is so they will be looking at equity market opportunities as soon as they are available.

In the second half we can see a good number of equity issues, particularly from the infrastructure sector as well as other sectors. They will try and deleverage their balance sheet by issuing equities wherever market opportunity opens up and for that this rally has to sustain for at least one or two quarters. When I say rally sustains, it's not that the market has to move up every day but even if it consolidates and sentiment remains a little positive, the IPO market and QIP market will see a lot of activity in the second half. There is a lot of pent-up demand which is just waiting for some market opportunity.