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The ICICI Prudential Focused Bluechip Fund is another nominee to ***MF Superstars***, an initiative of *Moneycontrol.com* and ratings agency Crisil.

In a free-wheeling chat with *Moneycontrol.com*, the managing director of ICICI Prudential, Nimesh Shah, says that what sets his fund apart is the brilliantly conceptualized structure of the fund and its strict stock-picking discipline.

Shah says that there are a lot of opportunities in this market, but one needs to be careful about which scrip from which sector you buy and when you buy. "Ideally, a timeframe of minimum two-three years is suggested so that the economy itself revives and returns are higher," he says.

Below is the edited transcript of Nimesh Shah's interview with Padma Venkatraman of Moneycontrol.com. Also watch the accompanying video

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Q: Is it a good time to invest lump sum in equities at all considering the sharp correction that the stock prices have had over the past few months?

A: The way the world is there today, the way India macro economics are positioned and the way the stock markets have behaved, I feel it's not a market whereby investing in the market itself will make money. If you invest in equity markets today, you have to be very selective where you are investing. In 2003-04, if you would have invested in any of the funds, there was a huge probability that you would make very good money over the next three-four years because the economy was repositioning itself. The whole country was going through a different phase.

Today, we are in a very different phase as a country. It is not that each and every equity or sector will go up or will make money for investors. It is where the investor invests because as we call it in funds, it's a bottom-up stock-picking market. So which scrips you buy, which sectors you buy, when you buy... all that will become very important. It's a much more challenging today than what it was, say in 2003-04.

Q: So what do you see as the key concerns for the stock market over the next four to six months?

A: On the macro economic front, whether it is a fiscal deficit, the twin deficit that we are having, those corrections will take a period of time. There will be opportunities within the markets which are always available. Today, there are lots of companies in the largecap segment also which are available cheap, and in the midcap segment, practically the whole market is available cheap. But if we invest in those segments of the market, you will have to wait because I don't know whether you will make money in three-six month's time, but over a period of two-three years, there is a very good chance that economic factors will be back in place.

It's not that the current account fiscal deficit in India has come for the first time. We know how to manage situation. It takes time. My sense is that midcaps will make money over a period of time. If people have got a paradigm of two-three years, they should invest in value style of investing today because there is lots of value available in the market. In a very retail term if I explain, it is like a sale going on. In that sale, things are available cheap. So if you have got the waiting time with you, you have got a good opportunity to buy good stocks at very good prices.

Q: Considering that largecaps have been under quite some pressure in the past year, how do you rate the ability of your fund to stay afloat going ahead?

A: If you see, the ICICI Prudential Focused Bluechip Fund has been existent for almost 14-15 quarters. Out of the 15 quarters, it would have beaten the benchmark in 13 quarters.

At the cost of sounding very immodest, I would say that this fund is structured brilliantly. Why I am saying it has been conceptualized quite well is, there are a lot of focused funds in the market, but this particular fund has been consistently doing well because of the way it is constructed. It invests only in largecap; it will not invest in midcap stocks at all. To generate alpha, we do not go away from the discipline of investing in largecap. Sector diversification is very close to Nifty in this particular fund. So the way Nifty weightages are, the same way we do sector weightages in this fund also. These two disciplines and then, if I have got the right source, the portfolio construction and the product conceptualization has been done very well.
Within a sector, I pick up better stocks - the fund will invest only in top 100 stocks and that is controlled by us - and within that 100, with all the research that we have, if my stock selection process is right, there is a very good chance that I would pick up (only a few) within a sector. For example, in the banking sector, it is more or less given that Nifty weightage, if it is 19.5%, I would be around that weightage too. Out of this seven-eight banks, if I choose the right three banks, the whole research of the company comes into play and creates a model portfolio for largecap, within which the fund manager has to pick up some scrips.
In other terms, as a company, we identify 30 largecaps at all points of time. We pick up that 30 out of this 100 stocks. There is a whole process behind it. We all come together and pick those 30 stocks and out of that 30, the fund manager picks 20. Because of that disciplined process we have been following, I think the product is constructed brilliantly.

Q: I believe you have maximum exposure to banking. Considering there is quite some pressure there, will you now be looking at portfolio reallocation or do you see the sector reviving? What are the triggers to watch out for?
A: The investment turnover from the focused mutual fund is very low. We believe in some companies and we stick to those companies for a relatively longer period of time. Banking is a very strong long-term business and we do believe that banking in this country is set to grow for the next five years. If I trace the past six months, you will have three different views at some point of time. So forget the short-term fluctuations. Fundamentally, banking in India is growth sector. A country which is growing at 7% per annum or even 6.5% per annum, and throw in an inflation of another 6% on a conservative basis, if the nominal growth has to be 12-13% in a country, banking has to grow by more than 15%. India is a quite an under-banked society and banking has to grow in this country. If that is the scene, there might be some problems. Our basic view is that banking in India will do well.
We know how to identify good managements who have got good credit processes and if the credit process is okay over a period of time, banking should do well. So we are not unduly worried about banks. If you see the banks that we have taken in Focused Bluechip, the scrips that we have taken, we have not changed them. It is not that suddenly we see a report on banking and we change the banks that we own. It does not happen because it is backed by fundamental research.

Q: I understand that concentration of individual stocks has decreased from 6-8% in 2010 to about 3-5% now. Should that be viewed as a risk minimizing strategy?
A: I don't see it that way. The fund size has grown over the last 3.5 years. When we were Rs 700 crore, we had identified some 20 scrips in which we had invested. Over a period of time, as the fund size went on growing, we have increased the number of scrips from 19-20 to 23. So arithmetically calculated, even if I say 25 scrips; Rs 1000 crore I had invested in 20 scrips; now the fund size is around Rs 3500 crore invested in 23 scrips. So, on an average, we would have invested 4-5% in each of the individual scrip and that strategy will continue, there is no change in that. The whole portfolio is designed to take 4-5% bet in each of the stocks that we have.
So, in the large cap segment, if you have got Rs 5000 crore fund and if you own Rs 200 crore of one large cap, it is not a big deal vis-�-vis the market capitalization of that particular scrip.

Q: From your interaction with FIIs and other players, where do you see the India growth story? Do you think it is getting a little shaky now?

A: Again I will go to the basic fundamentals of the country. If you have spent more than what you had, if your expenditure was more than your income, if you have imported more than what you exported, if that has continued for some period of time, at some point some correction has to happen. To a certain extent, that will affect the growth because if you have earlier spent more than required, then you have to spend less.
We are not talking about double digit growth at all now. But India has seen those phases earlier; this is nothing new that has happened. We have had twin deficits earlier and in a country which is growing at 7% per annum, those deficits will be taken care of over a period of time.

Q: So what will trigger the return of investments now? What are the major risks that you in our market?
A: It is a stock-picker's market. It is not that the whole segments are going to go up, so you have to be very careful in the stocks that you select. The researching ability that will be required now is much more than it was required earlier. Earlier, you could have taken sector calls and it would have made you money. Now, within sector, you have to take precise calls. For example, pharma looks like a very good sector. All of us are going to consume much more medicines than we have consumed, and therefore, pharma sector looks good. But at what value it is available is very important. So it is the stock-picker's market, and whether one has the right research capabilities to get into stock picking is going to be important.

Q: What type of investors must look to invest in your blue-chip fund?
A: People who have three years timeframe, who want to grow, who want to beat inflation. This is a largecap fund. So, it will focus on blue-chip, invest in 20 strong companies of India.
If you expect India to grow at 6.5-7% a year then the nominal growth, once you add back inflation, would be anywhere between 13-15%. So, if the nominal growth of a country is 15%, it will be reflected in the corporates of India, in their earnings growth. So, corporates will tend to grow at that rate.
If you believe that you need to invest in a sector, which will beat inflation then you should invest in stocks and you should invest in top stocks of India. Focus blue-chip is one of the few funds in India. It is concentrated only on the large companies in India. So, anybody, who wants to grow his wealth more than what the inflation is growing in this country, should invest in ICICI Prudential Focus Mutual Fund.-