Below is the edited transcript of his interview with CNBC-TV18's Udayan Mukherjee and Mitali Mukherjee:

Q: What's it looking like? It's been a difficult year last time around? Do you expect things to be different for the next one year or the turf to remain challenging?

A: I think the coming year should be better than last year. It's very hard to forecast equity markets, very hard to time them. The market has been range-bound around 17,000 Sensex levels, plus-minus 5-10%. That's what's been happening for the last five or six quarters.

PE multiples have come down from 25 odd times to 15 odd times. Interest rates are close to peaking out. So, if you look at moderate PEs, below long-term average PEs and peaking out in interest rates, I think the next big move in the market should be on the way up. But timing is very uncertain in equities all the time.

Q: The thing that's got the equity market quite nervous though is the indications from the money market and the yield. What is your experience of how equities perform, when yields are at this high and liquidity is this tight in the market?

A: I think equities depend more on the long end of the yield curve. I think interest rates again have come down slightly, if you look at the 10-year yields. But as we go into the future the interest rates should come down quite meaningfully over time.

The fiscal side has done what it could do in one year. Given the high fiscal deficits of two-three years, they cannot be done away within one year. Except the increase in diesel prices, I think whatever the fiscal could do by and large it has largely been done.

Going forward, the monetary policy should now be supportive of growth. If you look at the repo, reverse repo rates over long periods of time, the room for downward movement in interest rate is quite meaningful. Ofcourse timing is uncertain here as well, but I think interest rates appear to have peaked out.

Q: The frustration with a lot of longer term mutual fund inventors or equity investors is that for nearly five years now equities have not generated great returns, barring small pockets in between. Do you think that should change soon because that's frustrating not just the trader, but even longer term investors?

A: If you are genuinely a long-term investor, you should love a phase like this because equities are a very simple asset class. The longer the time period for which they don't give returns, the higher will be the future returns.

The way I look at this period of consolidation in equity markets is that PEs have come down. So, markets are actually giving long-term investors an opportunity. Most of us typically are monthly savers. We can go on accumulating equities at lower index levels. And one day, it may come in one year or it may come in two years or more, we will be rewarded for the entire holding period.

Q: What about earnings? That's where investors would want some confidence this year after the fairly poor performance that has happened in FY12. Do you think we will get that over the next four quarters?

A: Earnings, yes. By and large, in India, the long-term trend growth rate of earnings is around 15-17%. There are variations in between, when you run into somewhat slower growth or interest rates go up or depending on how commodity prices behave. So, there is some variation around that. But in the long-term, I don't see any reasons to be pessimistic on that front.

Q: For most people stepping into this year, the expectation was that this year would be the year the market will see that turn in events in terms of macro sentiment performance and this would be where performance would start switching on the upside. Do you still have that confidence on what you are seeing in terms of the rate action or the lack of rate action, the macros and how sticky they are?

A: Markets are quite forward looking. The slowdown or other issues are there with the country economy. These tend to get discounted over time. I don't think it would be possible to say how the markets will behave in the current year, but fact remains that PE multiples are reasonably below the long-term average PEs.

Interest rates should ease in the current year and both these should support an upmove in the markets whether it happens this year or next year. It can happen very quickly also, it may take a bit of time. I don't think that it is really possible to forecast that.

Q: We have seen phases in the past where the markets have got trapped in a relatively narrow trading range for many years on the trot. Do you think we could be in a situation like that passing through a situation like that or do you think a secular trend will emerge anytime in the next 12-24 months?

A: I think it should not take more than one to two years to my mind. For 10 years markets did not move. At the beginning of that phase, the PE multiples were almost 45 times, in 1992. The PEs today are nowhere close to that. We are seeing 14-15 PEs. In two years time, they should look closer to 10-11 PEs. Indian markets I don't think they will trade at those low PEs, unless there is a complete crisis. So, in normal operating conditions, I think there is room for PEs to move up. In my very personal opinion, I don't think it should take more than one to two years.

Q: What's your biggest worry as an equity fund manager? What's the biggest source of market risk according to you which might derail this hypothesis that you are talking about that eventually and not very far away you should start making serious money as an equity investor again?

A: I think this we have discussed many times in the past. Crude prices are the single biggest worry to my mind. Rest of the things are in control of the country, whether our leaders or policymakers. But crude is something which is not in our control. We are a price taker clearly. So, I think globally how crude prices behave that would be very important.

Having said that, how global prices are passed onto the end consumer, I think is equally important. So, the second factor is in our control. It's a local issue, but the global crude prices are clearly out of our control.

Q: Even your infra front actually has more representation from financials and commodity heavyweights. I don't see that much from any of the core infra names. Is that a sign of the fact that you are cautious on the space or do you think it is not just the best time to buy?

A: I think for that you need to look at how we have structured this product. We have said that in the infrastructure space, there are three ways or three parts of this. One is the asset financiers- the banks. Second is the asset constructors which make the engineering companies, the construction companies and the third is the asset owners. I think we have a fair exposure to all. Since banking we think the valuations are better the business models are better, the number of banks is more. Also, it is a very large part of the market that is why we have more banks than other infra companies.

Q: It's been a challenging space though, this whole infrastructure space over the last one year. Do you think we have turned the corner or do you think this space will continue to underperform the market as it did last year?

A: Clearly, the risk in this space is higher because it is more sensitive to interest rate movements, economic conditions and also to oil prices. But having said that, I think valuations at this point of time to my mind are quite reasonable. As I said earlier that interest rates have peaked out. Our bias is towards owning stocks which will benefit from lowering of interest rates.

Q: What is your expectation from the earning season? Do you think most of the damage in terms of earnings degradation has been done or would you expect this to be a tough kind of a quarter?

A: Last quarter again the earnings were slightly better than what many people were expecting. I think interest rate downgrade cycle has played out. As interest rates go lower, as economic conditions improve, hopefully sometimes over the next few quarters, I think the earnings should turn out to be better than what the markets are currently estimating. As I said the key risk continues to be oil prices globally. The sooner and the more diesel prices are passed onto the end consumer, I think things could improve sooner and better.

Q: Over the last year or so, a lot of funds have found it increasingly difficult to beat the Index that they are benchmarked to. If the market were to remain relatively range-bound over the next few quarters, do you think mutual funds such as yours will be able to pick stocks and beat the index by a margin or do you think it will continue to a challenging one?

A: Our funds have done better than the benchmarks with a fair degree of consistence. It is very hard to say how future will pan out, but I think our best efforts will continue. We have seen range-bound markets in the past as well. If you look at the long-term history of our funds, the most challenging period for us have been periods which are extremely bullish, which are very optimistic periods and in periods where not so good quality stocks do exceedingly well. But other than in such environments, we have done reasonably well against our benchmarks.