We are inclined to add sectors likely to benefit from softening of interest rate: Swati Kulkarni

``We expect a better year ahead for equity markets due to attractive valuations. The return expectations are in line with earnings growth, which is linked to nominal GDP growth rate. It is possible that due to couple of bad years the returns can bunch up as we move forward from lower levels. One can expect equity investments to generate higher returns in the long term compared to the fixed income products commensurate with higher risk,`` said **Swati Kulkarni, executive vice president (EVP) & fund manager, UTI Mutual Fund** in an exclusive interview with Varsha Inamdar.

Which are some of the sectors and themes that you find attractive in the market at present? How are you positioning your funds in the present context?
It is better to have a portfolio approach to investment. So, you may like sectors in the short term where there is visibility of earnings growth such as Consumer and also the sectors where the valuations are very attractive e.g Banks, Capital Goods etc. From a two years perspective Banks are looking attractively placed. It is always difficult to predict short-term movements but we are positive from 2-3 years investment horizon.

The domestic oriented sectors would continue to drive the Indian equity story for the next decade. The growing young working population, rising income levels and urbanization would be the drivers of consumption theme. Also we will need huge investments in building infrastructure to sustain GDP growth rate of above 8%. So, there will be opportunities in Healthcare, Education, Infrastructure, Banks etc. besides consumption plays like Consumer, Auto and Cement.

Monthly WPI inflation rate for November 2011 reported at 9.11%. What is your view on the numbers? Can inflation come down in CY 2012?
Strong domestic demand in an environment of soft monetary policies of developed economies resulted in high and persistent inflation. Commodity prices zoomed due to availability of cheap funds. Managing inflation has been a priority of RBI`s monetary policies since April 2010-375 basis point increases in Repo rate.

We expect moderation in inflation (due to favorable base of high inflation last year) and the monetary policy stance may focus on streamlining growth by lowering policy rates by the end of the first quarter of Fiscal year of 2013. Also, due to weaker global demand the commodity prices have started to soften. With the recent qualitative measures from RBI to address the speculative activity, the INR has started to stabilize.

What is your investment strategy at current levels? How have you churned your portfolio in the last three months? What is the strategy for 2012?
We have invested in companies that are not highly leveraged. The portfolios have a dominance of large cap companies, with about 20 to 30% exposure to small and mid cap companies. We believe this approach should help us in current risk-averse environment. We have started adding exposure to banks

and reduce exposure to interest rate insensitive sectors such as IT and FMCG. In 2012, we are inclined to add exposure to sectors which are likely to benefit from softening of interest rate, and look for high beta stocks.

What is the growth that you are expecting in assets of equity funds in FY12?
We expect a better year ahead for equity markets due to attractive valuations. The return expectations are in line with earnings growth, which is linked to nominal GDP growth rate. It is possible that due to couple of bad years the returns can bunch up as we move forward from lower levels. One can expect Equity investments to generate higher returns in the long term compared to the fixed income products commensurate with higher risk.

What is your market outlook for 2012? By the end of this year, do you see markets higher than current levels, lower or at similar levels?
BSE Sensex at 15,600 is 13.5 times FY 12 and 11.5 times FY 13 consensus EPS estimates is valued attractively. Hence, we are positive on equity from 2-3 years horizon though the short term will remain volatile.