"We are heading towards a year of good earnings growth"

While the macros are no longer in the favour of investors, the market still offers a reasonable number of investing opportunities on a stock-specific basis, Shyamsunder Bhat tells **Hiral Thanawala.**

Shyamsunder Bhat

CIO, Exide Life Insurance

What is your outlook on the equity market after the recent correction?
We are still positive on the equity market, but returns in 2018 are unlikely to be as high as they were last year. We are heading towards a year of good earnings growth, as evidenced by the October to December quarterly results. However, valuations for several individual stocks are high.

Investors need to moderate their expectations about equity market returns this year, and should ideally have a horizon of more than five years for their investments. Since the macros are not in our favour anymore, a further re-rating of the overall market could be difficult. On a stock-specific basis, there are a reasonable number of opportunities.

How would you assess the government's reforms push?
The government's reforms push has been noteworthy. While it has resulted in short-term disruptions, as in the case of demonetisation and GST implementation, these measures will be beneficial in the long-term. The promise for a minimum support price of at least 50% higher than the cost for the farmer, in the recent Budget, could result in a slight increase in inflation, but would provide a much-needed relief for the farmer community and result in a revival in growth in rural consumption, which, in turn, would benefit several other sectors.

Where do PSU banks stand now that RBI has dumped all the restructuring schemes?
RBI has replaced the various restructuring schemes with a single framework related to the Insolvency & Bankruptcy Code, whereby accounts need to be resolved within 180 days, or referred to the National Co Law Tribunal (NCLT). This development followed large divergences in NPAs in some of the banks, between the reported figures and RBI's subsequent audits. This is a welcome move, as it increases transparency and eliminates incentives for delaying recognition of stress. We might soon witness the resolutions of a few big-ticket NPAs from the first list of 12 cases referred to the NCLT.

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Do you expect the government to impose any taxes on Ulips?
While the term Ulip is generally associated with equities, we must remember that this term extends to debt and various types of balanced Ulips as well, with varying proportions of equity and debt. In this Budget, LTCG has been imposed on equity and equity-oriented hybrid mutual funds, but the tax has been applicable to debt and debt-oriented mutual funds for several years. However, there has been no such taxation on debt and debt-oriented Ulips. A vast majority of our population still needs the twin-benefits of wealth-accumulation and life-cover which Ulips provide. Also, policyholders can switch from one type of Ulip to another, which could become complicated if each switch has a tax implication. In light these factors, we hope that there will no LTCG tax imposed on Ulips.

Do you see opportunities to invest in NBFCs at current valuations?
Many NBFCs have corrected significantly after a long rally, primarily driven by the change in the interest-rate environment. The borrowing cost of many of the NBFCs is set to increase, and there could be a trade-off between growth and margins. Some NBFCs also have asset quality issues, but others have reasonably good asset quality. This coupled with the high credit and earnings growth, and better financial ratios, could lead to select NBFCs sustaining a relatively higher valuation than most banks. There are opportunities, but we need to cherry-pick a select few.

Which sector stocks have you churned in the past six months, and which sectors are you overweight in?
Our largest holding is in the banking and financial sector. Our other large sectoral holdings are in the consumption space (FMCG as well as consumer durables), in the auto sector (including auto-ancillaries) and in the metals sector. We have reduced our exposure in some of the IT and pharma stocks in the recent stock-specific rallies, and also reduced our weight in the media sector, based on valuation considerations.

What is your advice for debt investors in the current scenario?
A large part of the fall in bond prices over the past 5-6 months appears to have factored in the concerns on higher crude oil and other commodity prices, rising consumer inflation, higher government borrowing, a higher fiscal deficit, and rising interest rates in major economies such as the US. Much of the hit in terms of NAVs for debt mutual funds and debt Ulips could now be behind us, and therefore, existing debt investors could remain invested. The current bond prices could provide a good entry-point for debt investors to add to their exposures, as accruals at current bond price are reasonably attractive from a long-term perspective.

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