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WEEKLY INTERVIEW

India has strong domestic consumption and investment stories that have stood the test of time, says **Peeyoosh Chadda**, executive vice-president of Edelweiss Mutual Fund. In an interview with **Bijoy Sankar Saikia**, he says India is firmly on the radar of many long-term investors and they will invest when the time is right. Excerpts:

■ High interest rates, high inflation and margin pressure. Are we heading for a subdued phase of growth over the next two quarters or so?
Growth is likely to be below trend for the next couple of quarters. However, this is in part keeping with the economy, which is on a steady long-term course. Inflation at 9 per cent level is a threat to longer-term growth and stability and needs to be controlled.

■ We had seen a sudden turnaround in FII inflows since the middle of February and then they started withdrawing again. Why don't they look comfortable in spite of big growth projections for the Indian economy?
Foreign institutional investors (FIIs) evaluate investments in India against a wide variety of global options. Evaluations are made over differing time horizons by different players. Those that have a shorter-term point of view have been looking for alternative investment options with greater short-term clarity. However, India is firmly on the radar of many long-term investors, who are looking to invest in India when the time is right. There is comfort with India in terms of growth and the investment infrastructure that the country has to offer. For most global investors, allocations for India are a question of when, not whether.

■ What are the key risks to the market at this moment? If at all, how much of a downside do you see for the market over the next two quarters and when do you expect the market to see a turnaround?
We expect greater clarity to emerge over the next six months as inflation is bought under control in India. Our belief is that the downside for the market is limited as valuations will provide significant support.

■ How have you been playing the market of late; cautious, aggressive or conservative? What kind of cash holdings are you keeping?
We have been positioned conservatively with a focus on larger stocks and high-quality companies. Typically, we do not hold cash in our portfolios. However, we have a product known as absolute return fund (ARF), which manages market exposure dynamically. The ARF has been keeping a very low market exposure of late, usually around 10 per cent.

■ After disappointing numbers from SBI, Infosys and Reliance, how would you look at fourth quarter earnings? Is there a case for earnings downgrade for the Sensex going forward?
The fourth quarter has been a mixed bag with some disappointing numbers, while others have been on track. There is a chance that Sensex earnings will be downgraded, but the real risk to Sensex earnings comes from changes in earnings of commodity-focused stocks, which in a perverse sense may be positive for India.

■ There are warning signals on the US. They have crossed the debt limits, which means huge spending cuts or other drastic measures are imminent. We will also have the QE2 ending shortly. Interest rates are moving up across economies. What will be the net impact of all this on the developing world?
Global uncertainty is an issue, but at the same time, India has strong domestic consumption and investment stories that have stood the test of time. We may see slower global growth, but India seems to be getting its act right on the export front as shown by healthy export growth over the past few months.

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■ How do you look at the slow takeoff of capex plans of Indian companies in spite of a good demand scenario? Is there some sort of a confidence deficit or is it a liquidity issue?
We believe getting projects executed has been challenging for a whole host of reasons over the past couple of years. There is no lack of liquidity in the system or financing of worthwhile projects. FDI in core projects has been keen to enter India, but on the ground, they are facing challenges in getting appropriate clearances and land acquisition has delayed a few projects. It is important to take care of all relevant stakeholders in projects that have a large social impact and we should see (and have seen) resolution of some of these issues.

■ By when do you expect the interest rate cycle to peak? There have been speculation of another 50-75 basis points rate hike as early as June or July. Can that mark a turnaround for the economy?
Most attempts to forecast inflation have failed in the recent past. We are confident that RBI will take all steps needed to tame inflation. Whether that involves 50 basis points of tightening or more is speculation that is not required. As and when inflation comes under control, which would definitely be a key turning point. It is more important to focus on identifying that event as it happens rather than focus on forecasting when it will happen.

■ Which are the sectors you would like to stay with for the next two quarters and which ones would you avoid?
We believe banks and select financial sector stocks offer a good risk-reward, though there may be some pain left to come. Likewise, select consumer goods companies should continue to do well.

■ March quarter shareholding data shows FIIs sold in most large-cap banks and bought into some mid-cap stocks? How would you look at this strategy?
From the highs of early November 2010 to the lows of February 2011, while the Nifty fell by around 15 per cent, mid-cap indices fell over 25 per cent. Such deep falls do tend to attract a degree of fresh buying as value emerges. In the light of market action, the strategy makes good sense — Indian mid-caps tend to be volatile but rewarding, especially if one can get into the right stocks. Many FIIs would have shifted money into mid-caps where they like the company and the stocks had become cheaper. ■

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