"Investors must not panic over shell company ruling"

Anurag Jain

CIO, Canara HSBC OBC Life Insurance

There is reason to be optimistic about the Indian economy and equity markets over the medium- to long-term, Anurag Jain tells ***Hiral Thanawala.***

How would you evaluate the current equity market?

We are optimistic about the Indian economy and equity markets over the medium- to long-term. A number of reforms undertaken over the past few years coupled with a favourable macro environment can drive sustained growth in corporate earnings over the next few years. We believe that in the near term, the markets may remain sideways and will be driven by growth recovery as it materialises over the next few quarters. Enhanced investment flows both from domestic and foreign investors should provide downside support to the markets.

What are the global risks to watch out for?

Globally, equity markets, both developed and emerging, have had a great run over the last year, hitting new highs or testing previous highs. Valuations are also at peak levels. This has been driven by expectation of synchronous global recovery as well as unprecedented inflows into equity mutual funds. However, we believe growth recovery is at risk as indicated by falling yields, flattening yield curves and inflation having come off sharply indicating weak demand recovery.

Besides this, emergence of geo-political risks also poses a threat in the near to medium term. We believe any risk aversion arising out of sharp global market correction on the back of either global growth concerns or geo-political reasons, is the biggest risk that we need to keep an eye on.

Are you comfortable with the current valuations in large- and mid-cap stocks?

Though current valuations may look stretched, when compared historically, it may not be the case. The quality of Nifty has improved with a greater mix of high quality companies. Consumer-oriented names and private sector banks are commanding premium valuations over other sectors. Hence, we are paying slightly higher multiples for a much better quality of the benchmark. Also, valuations today are lower than previous market peaks.

It is more of a bottom up approach to valuations of a stock/sector in the light of its earnings growth potential which drives investment decisions. We believe that there are always pockets of opportunities available to invest and pockets of exuberance to be avoided.

> **"An appreciating rupee adversely impacts export-oriented sectors, which are already suffering from weak global demand."**

As rupee hits a two-year high, which sectors will benefit?

The rupee has appreciated by around 8% over the last nine months. It has been driven by significant dollar depreciation against all other global currencies. All time low inflation differential and high real rates in India are also helping. We expect the rupee to remain firm against the dollar.

An appreciating currency adversely impacts rupee realisation of export-oriented sectors, which are already suffering from weak global demand and business disruptions. This has severely impacted the earnings growth for these companies even though valuations in many of these pockets may have started looking reasonable.

A strong rupee benefits the economy and the markets because as an economy we are net importers and cost of our imports goes down. On the other hand, companies with imported raw materials, high import content and foreign currency debt tend to do well when the rupee appreciates.

What's your outlook for infrastructure and heavy-engineering stocks?

Infrastructure and heavy engineering offers a good long-term opportunity in India but given the constraints of balance sheet leverage and quality of companies, we are very selective while investing in the sector. We believe that outlook for private capital expenditure (capex) is still weak as capacity utilisation remains low and balance sheets are stretched. Going forward, as economic growth improves, private capex would revive. Over the last two quarters, we have seen some greenshoots in terms of a few companies at least talking about capacity expansions. This period of weak private sector capex has been one of the longest periods after capex peaked in the country in 2008-10.

Notwithstanding the state of private capex, improvement in public finances has significantly increased the potential for spending in infrastructure both at the centre and state level. Spending by the government is focused on transportation, housing, urban infrastructure, irrigation, water etc and is continuing.

What is your advice for investors after the recent announcement by Sebi regarding shell companies?

We would advise investors not to react in panic. These companies constitute a very limited segment of the market and would have no impact on the broader market. These would need to be evaluated on a case to case basis depending on merit. Many of these companies have legitimate businesses and as they present their respective case to the Securities Appellate Tribunal (SAT), the stay on their trading may be lifted.

At a broader level, these efforts are extremely important and in the long term interest of the capital markets and investors. This will clean up the financial system and make the markets more robust and ensure that quality companies get traded on the exchanges. A robust and well-functioning capital markets is good for investors as well as the economy.

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