# ‘Moderation in FII selling may drive market’

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Indian equity markets cheered on Tuesday as positives outweighed negatives in the Union Budget. Ritu Arora, CIO, Canara HSBC OBC Life Insurance, is happy with the Budget, especially on the commitment to the fiscal deficit target. However, execution will be key, as she believes that the government will have to walk a tightrope of managing the deficit target along with targeted spending.

*Excerpts:*

**What is your view on the markets for 2016?**

At an aggregate level, market valuation is at the long-term average of 15.5 times for FY17. However, specific pockets have started looking attractive after 22 per cent correction in the Nifty from its peak.

**Do you think FIIs will continue selling in India?**

FIIs have been big sellers in FY16, largely due to global concerns and challenges. We should see these flows return if global stability is achieved and Parliament approves key legislations.

**With the Budget out of the way, what are the major positive and negative triggers?**

Any easing of global uncertainty and moderation in FII selling would drive the markets in the short term. The possible domestic triggers, going forward, would be legislative action and good monsoon. With the Budget behind us, the focus will shift back to fundamentals. Revival of economic growth, improvement in earnings growth of companies, passage of key legislations in Parliament and easing of global uncertainty will define the future course of the equity markets.

**Have the measures announced in the Budget related to banks changed your sentiments positively for Bank Nifty and PSU Bank index?**

The measures announced in the Budget are positive from the longer term perspective as strengthening of the resolution mechanism for stressed assets is very good for the banking system and would benefit over time. The recapitalisation of PSU banks of ₹25,000 crore is slightly conservative but more money has been assured as and when it would be required by the banks.

Our stance on the banking sector remains unchanged. We continue to prefer select retail private sector banks given the better earnings growth visibility in the space.

**What is your view on the infrastructure sector after the Budget?**

Infrastructure continues to enjoy the focus and allocations from the government. The government has demonstrated its commitment in the form of increased spending on roads, railways, ports, rural infrastructure and rural electrification. The percolation of these spends will only be seen in company order books and profitability over time. We remain selectively positive on the infrastructure space.

**Do you see a fast shift in preference for renewable stocks from thermal due to doubling of cess on coal?**

We believe that implementation of environmental cess on coal is a good move from the environment perspective. This cess on coal will lead to increased power cost, but that is usually a pass-through to the consumers and has little impact on thermal power producing companies. We believe that thermal power would still remain a major source of power in the energy basket and hence, this move should not materially change preference between renewable and thermal power.

**Do you think the government has done enough to revive rural markets?**

We believe that the rural thrust was very much required, and the commitment is very evident in the Union Budget 2016-17. Rural spending has been increased by 22 per cent this year, compared an increase of 5 per cent in the previous year.

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**RITU ARORA**

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