INTERVIEW: RITU GANGRADE ARORA

CHIEF INVESTMENT OFFICER, CANARA HSBC OBC LIFE INSURANCE

Don't see lending rates rising in a hurry

Although the RBI surprised many with a rate hike, **Ritu Gangrade Arora**, *chief investment officer, Canara HSBC OBC Life Insurance, feels there are chances of reduction in inflation in the coming months. In an interview with* **Mithun Dasgupta**, *Arora said she also expects the RBI to slash rates later this year. Excerpts:*

While the markets were expecting that the RBI would hold rates, governor Raghuram Rajan surprised many by raising the key lending rates by 25 bps. What is your expectation on the RBI's next move going forward?

The RBI did surprise the financial markets with a rate hike. The governor has clarified that inflation remains the primary focus and will guide the monetary policy. Rajan also said he expects rates to remain stable for the next few months and does not envisage further hikes going forward. I would thus expect a pause in the near future. Hopefully, inflation will be on a declining trajectory over the next few months and give RBI the confidence to initiate rate cuts later this year. I think it will be a few months before CPI will be in a range which supports a rate cut. Hence, the high interest rate cycle may be a little prolonged.

The Urjit Patel committee recommended shifting the goalposts to consumer price inflation target to manage monetary policy. Where do you see the CPI-based inflation going?

The RBI's focus is clearly on CPI. Fortunately, food prices are moderating and fuel inflation also seems to be stable. We expect the CPI-based inflation to be around 6% in the next 12 months. As inflation starts easing over next the few months, hopefully RBI will consider rate cuts and help revive growth.

Following the RBI's recent move, the cost of funds for banks is expected to go up further. Based on the current macroeconomic conditions, do you expect banks to raise lending rates?

Any hike in repo rates will definitely impact the cost of funds for banks. After the

credit policy, many senior bankers have assured the market that they do not envisage a full transmission on this hike to customers and borrowers. Although the rates were hiked by 75 basis points since September last year, there has been no significant transmission of the same. Given the sober credit demand and offtake, I do not anticipate that banks will be looking at raising the lending rates in a hurry.

The stock market is expected to be volatile, with the Federal Reserve sticking with its plan to scale back stimulus and general elections round the corner back home. What will be its impact on the currency and foreign investment going forward?

The only certainty in Indian equity markets over the next few months is volatility. The economic fundamentals remain strained and concerning — inflation and interest rates high, growth weak, investment cycle broken, FII flows fickle and uncertain in midst of tapering and a high focus on general elections.

The currency has remained reasonably stable, CAD position strong, valuations reasonable and fundamentals seem to be bottoming out. All these will pull the market in opposite directions and result in sharp volatility. I expect the markets to be range bound and volatile with sharp sectoral and stock specific swings. I do not see possibility of a big rally in the equity market and expect it to oscillate in a range over the next 6 months.

Given the market conditions, how can a retail investor gain?

Retail investors can create wealth only through regular, disciplined investing in asset classes as per individual risk appetite. Every time is good to invest in equities. But it is important to remember that wealth is created over a long period of disciplined investing. Analysis of the last 35 years of Sensex data demonstrates that there are many periods (rolling 2-5 years) when equity markets generate volatile and negative returns. But once the time horizon is expanded to over 10 years, a healthy double digit CAGR (compounded annual growth rate) return is generated in equity markets.

Currently, debt offers a promising investment opportunity, with a better visibility to good returns over the next couple of years. A debt investor can lock into high current yields and further benefit from mark-to-market gains as interest rates and yields start falling later in this year. This offers investors a possibility of double-digit return in debt investments over the next couple of years.