

Change in business mix may cut insurers' money in equity



WEEKLY INTERVIEW

HDFC Standard Life chief investment officer Prasun Gajri doesn't expect significant earnings upgrade in June quarter results. If at all, it's the base impact that will help the numbers, he says. In an interview with Bijoy Sankar Saikia, Gajri also anticipates margin erosion due to an increase in input costs. Excerpts:

■ Will the recent developments on the Ulip front result in a drastic reduction in insurers' portfolio investment in equities?

It is too early to comment on this. It all depends on how insurance companies respond to the new guidelines and the subsequent product mix. The inflow into equities is expected to reduce if the business mix moves towards traditional products. However, one will have to wait and watch.

■ Petrol price deregulation is the first major reform measure of the UPA government in its second term. How is it going to change the arithmetic at the macro level?

I feel this is indeed a step in the right direction. It points towards the fact that the government is serious about setting the fiscal house in order and that there is a determination to take tough political decisions. Clearly, this is good from a macro-economic perspective, but more such steps are needed to ensure that fiscal issues do not become a hindrance to the growth cycle.

■ Given the pressure of fuel prices on inflation, do you think another round of interest rate hike is a given now? How real is the risk of tightening liquidity slowing down the pace of recovery?

Our belief is that inflation pressures have been under-estimated and that there is enough evidence to show that the demand traction in India is strong. The credit growth too has picked up.

Therefore, we do believe RBI will tighten further. The extent of the tightening and the timing, however, is difficult to predict. As for liquidity, we believe the situation is temporary and it will improve over the next few days. However, we do have a concern on the deposit growth lagging credit growth.

■ The advent of the base rate regime is expected to restrict cheaper debt to companies? Will it have any impact on corpo-

rate finances? Do you see banks taking a hit on bottom lines because of this shift?

It will be premature to take a call. Our view is that there will be a shift from the lending book to the investment book at the short end of the curve, especially for large companies. Also, we feel banks will calibrate their base rates based on their experience with borrowers and we may see changes in these rates over the next three to six months. It is an interesting development, but it is too early to judge the implications. Our current belief is that this will be neutral for banks.

■ The first quarter results are round the corner. What are your expectations? Which sectors do you bet on to fare better?

The results are expected to be more or less in line with expectations. The year-on-year growth will look good on account of the base impact. It will be interesting to see if the increase in input costs has led to any margin erosion. We do not anticipate any significant earning upgrades after the results.

■ The macro factors for the Indian mar-

ket look pretty stable at this stage — be it in terms of the government's fiscal discipline, availability of liquidity or industrial growth. What are the concerns that have kept the market choppy in recent times?

■ What could be the next big trigger for a fresh rally in the market? Where do you see Sensex by year-end?

We do not like to speculate on the year-end value of Sensex as that is too short term for us. We are confident that the Indian equity market is a good long-term story and it will generate wealth for investors who are patient and disciplined. The key trigger for the market has to be the easing of the global concerns.

■ The fluctuation in the domestic currency or rather the volatile dollar and euro have been quite a headache for export-oriented sectors? What's your outlook on the rupee?

The rupee has been volatile and our view is that it will continue to be so. Rising interest rates and good capital inflows are expected to move the rupee up, but growing concerns on the current account deficit will limit the rise. However, from a 12 to 18 month viewpoint, we expect the rupee to appreciate.

■ There is a view that the market may not have further upside from present levels this year. How should a small investor trade in such a situation? Will it be a good strategy to stay invested in equities?

The way a small investor should approach the market is always the same and that is not to be dependant on market conditions. The approach clearly has to be long term, disciplined, regular investment and, most importantly, following an asset allocation plan. The asset allocation plan has to be customised to every investor and among other things it depends on goals, risk profile, return expectations, analysis of existing financial conditions and the life cycle stage the individual is in. Therefore, the buy and sell decisions need to be driven by the asset allocation plan rather than market movements. We believe such an approach will be suitable for small investors as we remain positive on the fundamentals of the Indian economy and believe that the equity market will allow investors to generate wealth in the long run.

■ Which are the sectors you are bullish on and why?

We are bullish on sectors that are aligned to the domestic economy. They include both domestic consumption and domestic investment themes. We are underweight on sectors linked to the global economy like the commodities. Also, tactically we are underweight on the financial sector, given the asset quality concerns.