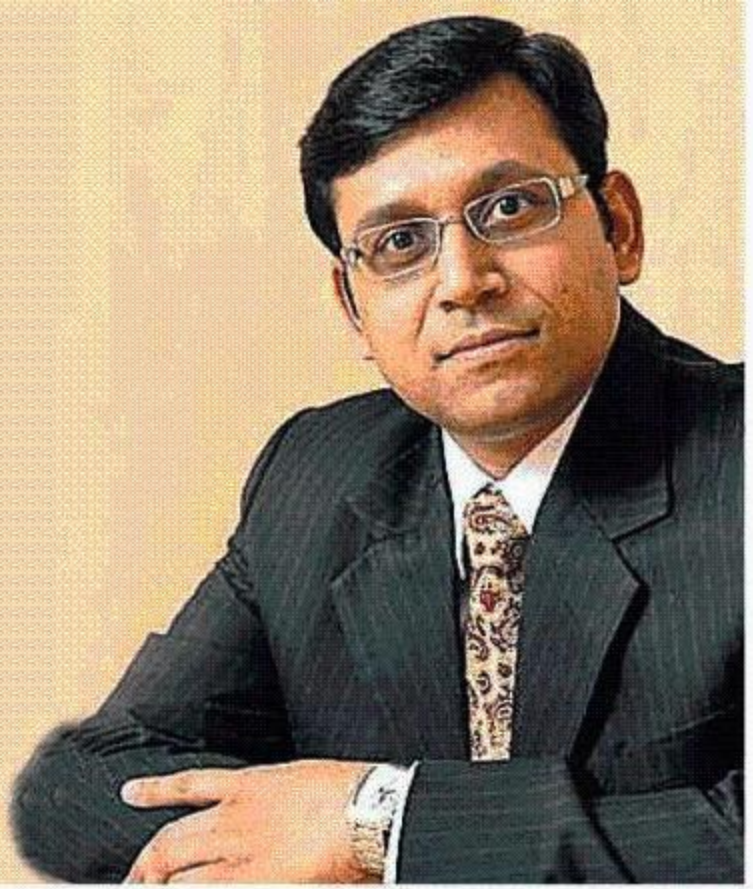




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PRASUN GAJRI
CIO, HDFC STANDARD LIFE INSURANCE



India growth story clear, but global worries remain

The market has given good returns this fiscal. But it may not repeat the performance anytime soon, says HDFC Standard CIO Prasun Gajri

INDIAN equities are unlikely to repeat the 2009-10 performance any time soon, as the market is fairly valued at current levels, says **Prasun Gajri**, chief investment officer (CIO), HDFC Standard Life Insurance. In an interview with **Apurv Gupta**, Mr Gajri, who manages assets worth Rs 19,400 crore, says he is bullish on the domestic economy, but anticipates negative surprises in world markets as stimulus packages are gradually being withdrawn. Excerpts:

How do you expect Indian equities to perform in the foreseeable future? What will be your investment strategy hereon?

The Indian market has given extraordinary returns in the current fiscal. But it's unlikely to repeat the performance anytime soon. However, we continue to believe in the India growth story and are therefore quite bullish as far as equities as an asset class are concerned. The key factors contributing to the economic growth are in good shape and while there could be hiccups on the way, the broad direction is positive. We prefer to play the domestic themes. We are structurally bullish on both domestic consumption as well as investment themes and our portfolio is aligned accordingly. We are not yet comfortable with global economy. We believe that more negative surprises can emerge globally.



Which are the key triggers you see driving the stock market performance in the near term? Which sectors will benefit from the Budget proposals over the medium term?

Near-term triggers are primarily related to inflation levels, expected monetary tightening by the Reserve Bank of India (RBI) and movement in interest rates. Besides, the paper supply from the government and global events will continue to impact the market. The Budget is pro-consumption, as it puts more money in the hands of individuals and doesn't completely reverse the fiscal stimulus.

What are your key concerns about the market?

Given our investment horizon, we are not worried about the market. We believe at current valuations of around 17 times (estimated) FY11 earnings, the market is fairly valued. However, there are some

headwinds the market has to negotiate with. How interest rates shape up is something to watch out for. While the market expects RBI to tighten rates, the pace and the extent of tightening may surprise negatively. Also, global market cues will be crucial and we believe that negative cues will surface from various parts of the world, periodically. One needs to see how these will impact inflows into emerging markets. Then, there are crude prices gradually inching up again. What the market may have overlooked is that the government has provided only Rs 3,000-crore subsidy for this purpose, and any rise in oil prices can impact fiscal deficit targets. Finally, one has to be cognisant of the large disinvestment programme. If inflows tighten, it may not be an easy task to execute the disinvestment programme in FY11.

What is your outlook on earnings for the current quarter? Do you expect any earnings upgrades, going forward?

Broadly, earnings will be in line with market expectations. There could be some impact of rising input prices on margins and also of inflation on consumption patterns. But we don't expect these issues to dominate in this quarter. At the same time, we are not expecting significant positive surprises either. We feel that we are done with earnings upgrades, for now. The next cycle of upgrades is likely to be after the corporate capex kicks in fully in the second half of FY11.

How do you expect RBI to respond to inflationary pressures in the April policy review?

The IIP data point to a strong recovery. Inflation has been moving up and is likely to be around double-digit levels soon. While there is merit in the argument that inflation has been driven by supply-side constraints, we feel that the demand element has been picking up as well. The fact that IIP growth is strong and inflation is still rising makes us believe that RBI will be forced to take action. Also, globally, inflation fears are increasing in some countries and policy tightening is already under way. Stimulus is getting withdrawn gradually across economies. Given this context, it is almost certain that RBI will tighten. We expect a 50-basis-point hike in the April policy review.

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