

PRASUN GAJRI/HDFC STANDARD

Investors can expect 15-20% return over a two-year period

BY VIVEK LAW

BLOOMBERG UTV

Prasun Gajri, chief investment officer, **HDFC Standard Life Insurance Co. Ltd.**, said in an interview that while the market has factored in slower corporate earnings growth and other risks, it has priced in a reversal of interest rates or a fall in inflation over the next six months or so. Edited excerpts:

The big change that has happened, which seems to have spooked the markets as a whole, is Operation Twist. What are you making of it?

I find it a little difficult to understand. I don't think anyone was not anticipating Operation Twist. It was pretty much known that is what the Fed is likely to do. I guess people were waiting for it and after that suddenly, I think, it's not Operation Twist. It's just the overall sentiment which has suddenly turned weak. People are just very apprehensive of any major event happening and I don't think anyone is willing to listen to any facts at the moment. So it's just a panic reaction which is happening and people are just selling out, moving to dollar assets. Don't know how long it can continue, though, because you have already seen the 10-year yields in the US fall to 175 now; 30 years is below 3%. So how long and how much can it do. So my sense is this will subside in a couple of days time and markets will then assess where really are we headed for.

When we last spoke you mentioned you continued to see a lot more pain coming out of Europe and that's continued to happen and that still weighs heavily. You also said these are things we have to live with, whether it's Europe or the US, and beyond a point you are not really too concerned. Do you still hold that view?

Absolutely. See, the way I

INTERVIEW

look at things is that I don't think anyone believes that problems in either the US or Europe are going to be solved in the next three months. All people are hoping for is that the problems kind of keep getting kicked along the road and they tend to solve themselves over a long period of time. In the short term, they have seen some patch work, which is done to make sure that there is no major catastrophe in the markets.

If that kind of a scenario plays out, frankly markets will get fatigued of watching those small problems erupting from Europe and the US from time to time. I think the fear which is there in the market is not of a growth slowdown or some sort of maybe a double dip in the US or Europe, it's that the financial system in Europe could come to a complete halt.

There could be some major collapse; the market is worried about that tail risk. If that does not play out or there is some evidence to say that it's not going to play out for the next three-six months, I think, you could see a sharp recovery in the market post that.

Markets are pretty much priced in for a low growth in the western world and I don't think that is something which is new, that was known six months back. What is unknown and what is making the markets now worse is some maybe Lehman-like event in Europe or maybe something similar, I think that is what is unnerving and the problem is that you are not seeing that cohesive action from Europe, which gives confidence to the investing world that they will be able to solve the problems and they will not let anything major happen. Now, whenever we say in evidence of that



Taking a tumble: Gajri says investors are worried the financial system in Europe could come to a complete halt.

happening, my sense is markets will recover. If we don't, markets will continue to tumble around the way it is and how long can you keep waiting for that risk event to happen.

Are you willing to wait for next three months, six months, how long can you keep hammering the markets just because you believe some tail risk events can happen?

My sense is I don't think I would position my portfolio weighting particular to risk events and that is what we are trying to do. We understand that's what can happen, but I don't know when, I don't know what the probability of that is today.

Is it possible that it doesn't happen?

Sure it is possible that it doesn't happen. So given that context I want to really look beyond that and then position my portfolio.

You have been bullish on the Indian macro story. I haven't really heard you plan it the way other experts have. One of the points that you made the last time was that the sweet spot for the Indian market is that as long as some inflows keep coming in, whether it is \$10 billion or \$20 billion, that's not important, but that hasn't happened. When I said sweet spot, what

I meant was, let's look at what the sweet spot is for the Indian markets. You could have a situation where the western world really doesn't fall into a pit but keeps growing at some very nominal pace, may be 1% or 4%. The growth kind of slows down across the world. India continues to grow whether it's 7.5% or whether it's 8% or 7%. One can really argue, but it continues to grow at that kind of a pace. I think that is where the sweet spot will be and once you get into that kind of a space, money will come back. It's very difficult to say what happens to the fund flows in the next month, two months, three months...

But that's the whole point, that we are still growing at over 7%, which is the worst case scenario for many experts. The government even as of yesterday says we will end the year at 8%. But perhaps because of the global factors, the mood itself among foreigners has changed so much and now we can't even say that we are expensive because we have corrected so sharply, but yet we are not seeing foreign inflows coming.

Fair enough, because the market is not getting dominated by facts and fundamentals today. You are only looking at

sentiments and when sentiments dominate it is very easy to ignore the facts, it is very easy to ignore the valuations. I don't think any investor today is looking at valuations to sell. We have enough examples in the market, of people buying at 20,000 and selling at 16,000.

So, I think, it's more the fear and in a fear kind of environment one tends not to be rational. So our sense is that while this can continue, it's very difficult to predict how long it can go. But the idea is as a long-term investor one has to start looking at the fundamentals beyond this haze of uncertainty. And when I say the Indian macro is reasonably strong, I am not saying India can continue to grow at 8.5-9%.

What is your sense? Have you cut your targets?

I think it's somewhere between maybe 7.5% is a more likely growth, which is not bad in a scenario and if that is accompanied by a situation where commodities come off, we are in a situation where we have been maintaining that we are pretty much done with interest rates hike.

Do you still believe that? Because I remember you predicted the 25 basis points that happened. Do you think this is the end of it (rate hikes)?

My sense is there is a 75% probability to saying it's the end of it. But given the way the rupee movement has been, I think that is a little bit difficult to call. But I sense that if we see a bit more evidence of inflation coming off or either a bit of growth slowing down, RBI will stop and they may just want to wait and watch in the next policy statements. So by and large either way, even if it's 25 basis points more, we are pretty much done with it. Market rates are not rising.

What about corporate earnings? We are going to go into another fresh cycle. Do you think this is going to be something troublesome because while RBI may be looking at an overall growth picture but individual sectors, corporates say they are getting hurt?

I agree corporates are getting hurt but the earnings degrowth is already priced in. If I look at the entire Indian market valuations today, what I sense is, what is priced in today is the corporates earnings

growth falling from where it was. I think the buy side has pretty much discounted for that. What the market is not pricing is the tail risk, but you can't keep playing that. So, as long as we are comfortable, the earnings are now pretty much priced in, the policy in action is more or less priced in at these levels. But what I don't think is priced in is the reversal of interest rates over the next six months or so.

I don't think the market is really anticipating that or fall in inflation or fall in commodity prices. Those events can happen. In this kind of an environment what stops crude from falling below \$100 and suddenly that could start looking positive for India... We have priced in what's the worst that can happen in the market except for the tail risk, which we really have no clue on when that can play out, or how severe that would be.

Are you shuffling your portfolio? I was going through your growth fund investment and I get a sense the bell wethers that are there in your portfolio, you have pretty much maintained them. You haven't started getting out of them.

We haven't got out of them; we are not trying to play the sentiment. We do believe that we have long-term investors with us and they are willing to wait out for the next 12, 18 to 24 months. If I look at the next 12-24 months, my sense is you can still make 15-20% from this market. I don't see a problem with that. If you look historically, whenever you have brought at these kinds of valuations, over the next three-five years the returns have been pretty good. So, I am not too concerned on a medium- to long-term return... We are trying to play for the next rise.

feedback@livemint.com

BLOOMBERG UTV

Catch Market Guru **Nilesh Shah**, head-corporate banking, Axis Bank, in a conversation with Vivek Law at 10 am on **Monday**

