




# THE ECONOMIC TIMES

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**MONEY  
MATTERS**

## **Must Focus on Reforms for Growth**

HDFC Life's Prasun Gajri on  
likely rate cut and market  
uncertainties ►► **PAGE 11**

A red rectangular graphic containing a black and white line drawing of a man with glasses, identified as Prasun Gajri. To the right of the drawing is text in white and black, including the section title "MONEY MATTERS", the main headline "Must Focus on Reforms for Growth", and a sub-headline about a rate cut and market uncertainties, ending with a page reference "PAGE 11".



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# Must Focus on Reforms for Sustainable Growth

**A**mid global slowdown, India needs to keep solving domestic structural issues and focus on reforms because that is where sustainable growth is going to come from, says Prasun Gajri, chief investment officer, HDFC Life. The life insurance joint venture between HDFC and the UK's Standard Life expects corporate earnings growth to recover during the next financial year to end FY17 with low- to mid-teen earnings growth, Gajri said in an interview to **Shilpy Sinha**. Edited excerpts:

**As the government has stuck to fiscal deficit target and not tinkered with capital gains tax in the Budget, where do you expect markets to be in the next 6-12 months?**

In my view, sticking to the fiscal deficit target was an absolute must. We are living in a world where growth is scarce and key central banks are on a divergent trend. The degrowth in global trade continues and the debt problem has shifted from the developed world to the developing world. In this uncertain environment, it is imperative that, we as a country have stable to improving macroeconomic parameters, be it fiscal deficit, current account deficit or inflation. It is this macroeconomic stability which will help us in case any global macro crisis emerges out of the current uncertainty. This obviously has a positive impact on the market from a sentiment perspective. However, I would not want to put a number to

the market performance over the next 6-12 months.

**What would be the next big trigger for Indian stock and debt market? Do you expect RBI to cut rates before April 5?**

We do believe that the RBI has further scope for cutting rates and the market is clearly expecting a 25bps rate cut in the April policy. Our view is that RBI will deliver the same. It will be important to understand from RBI on how they view the inflation trajectory going forward. As for the equity markets, there are two possible triggers. One is the foreign flows coming back to the emerging markets. Other, and the more impor-



**RBI RATE CUT**

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tant one, is the revival in earnings growth of corporates. While the market has been wrong for some time on the earnings revival, it would be wrong to be pessimistic. We do believe that the earnings growth will recover during FY17 and a low- to mid-teen earnings growth is certainly possible for the full year.

**The market has been volatile in the last few months. How are you reading the trend?**

After sharp fall in January and February, we have seen a rally in March. This correction has provided opportunities for longer term investors, especially with the correction in large caps. From a longer term perspective, I am quite bullish on the market because valuations are looking pretty reasonable. Even if you assume that earnings growth is not going to touch high teens in the next financial year, we are still talking about a valuation of 15x, which is not bad. In the short term, it is not possible to really take a decisive call though.

**Do you believe in the GDP numbers, or do you think the actual growth is slower?**

We don't agree that the growth is as strong as the numbers indicate. However, I am also not in the camp that growth scenario is very gloomy either. While the growth may not be 7.5%, we believe it is more than 6%. This growth is coming when there is no support from trade and is coming without any uptick in private capex.

**BATTLE UNCERTAINTY**



**It is imperative that, we as a country have stable to improving macroeconomic parameters – be it fiscal deficit or inflation**

Improvement in growth is possible only if there is support from global growth and there is an improvement in private sector capex. Neither of the two is around the corner. We, therefore, have to keep solving domestic structural issues and focus on reforms because that is where sustainable growth is going to come from.

**Which are the sectors you are bullish on?**

We believe this is a very stock specific market and building a portfolio purely on basis of sectoral allocation will not work out. Having said that, we are bullish on sectors linked to domestic economic recovery, domestic consumption and economic reforms. From a sectoral perspective, we continue to be focused on discretionary consumption, private sector financials, cement, select capital goods and select oil & gas plays. If you look at FMCG sector, valuations are still high in our view. Between IT and pharma, we prefer pharma.