

'The days of top-down approach are over'

Ritesh Jain, CIO, Tata AMC, manages AUM of Rs25,000 crore, of which Rs5,100 crore is in equity. In conversation with Sunil Damania, Jain indicates that this is still not the right time to invest in infra stocks

Do you buy the argument that crude prices will sustain at lower levels? If that happens, will oil marketing companies outperform the stock market? The first question is difficult to answer - we have to look at the cost of extraction of crude oil in the world (\$80-90), which is probably near to the bottom. If the crude oil prices fall further, some of the capacities will go offline. If that happens, the crude prices will bounce back on their own.

To answer the second part of the question, obviously it will be easier to say that this is good for oil-marketing companies. But, what we have not factored in is that, along with the oil-marketing companies, a few private players also have petroleum pumps in India which, for the last few years, haven't been functioning because they did not get subsidies the way PSU OMCs have been getting them. Obviously, when it comes to competition, the private sector is better off than the public sector. I think the best of the news is already in the prices of PSU OMCs.

I was looking at your equity schemes, which suggest that you are extremely bullish on the banking sector...

If you look at the benchmark weight, we have given equal weight on the benchmark to private sector banks.

Unless some fundamental changes are made in public sector banks, it will be difficult for them to compete with private sector banks. The other thing which the market is not recognising is that most of the top people in public sector banks are retiring in the next 2-3 years. For almost 12 years, there was no recruitment taking place

in any of the public sector banks. So, the next generation of the top management at public sector banks is probably 10-12 years younger than the current generation. The retiring CMDs will be leaving banks in the hands of a younger generation, in an environment, where I would prefer the bank to remain in more experienced hands. This is why I feel private sector banks are the place to be - they are not hugely costly.

Similarly, you are also bullish on IT SECTOR...

Most people have reduced their weightage on IT. WE ARE MARGINALLY OVERWEIGHT ON IT. THIS HAS NOTHING TO DO WITH OUR DOLLAR-RUPEE VIEW, WHICH CONTINUES TO BE THAT RS60 IS THE BOTTOM. WE ARE LOOKING AT A DOUBLE-DIGIT GROWTH IN THE DOLLAR FOR THE NEXT 2-3 YEARS. SOME OF THE IT COMPANIES (EXCEPT THE TOP ONES) ARE VALUED NOT MORE THAN 15 TIMES THEIR EARNINGS.

Most people are going for capital goods and infrastructure. But you seem to be underweight on these two sectors. Why?

Interest rates will not be coming down in the near future. Our view is that the first interest rate cycle will be in the second half of 2015. Some of these companies will come to the market repeatedly to raise money in the form of equity - we'll take it at that time. For a company that is ready to share equity with me, I would be a little hesitant on that thing. OF ALL THE QIPS THAT HAVE COME UNTIL NOW, ALL EXCEPT ONE, ARE OUT OF MONEY. ON CAPITAL GOODS, I AM NOT MASSIVELY UNDERWEIGHT; WE WOULD RATHER INVEST IN ROAD CONTRACTORS. THERE ARE COMPANIES THAT HAVE NOT STRETCHED THEIR BALANCE SHEETS.



SANJAY BORA/PTI

The Indian stock market has given 35 per cent in the last one year. What kind of returns Indian equity market have given?

Let's say, 10-12 per cent. For me, China is the only wild card. China will give 20 per cent positive returns, or very close to that - which will affect the rest of the world. It is difficult to take that call. I'm making a call of India giving 10-12 per cent, based on valuations - they are cheaper. The cyclical over-defensive premium has shrunk a lot. I am still looking at 5-5.5 per cent GDP next year - it cannot grow more than that. I am taking into account the fact that public sector banks will now be wary of credit growth rate.

Even though the Narendra Modi government might clear infra projects, the public sector banks will probably delay in providing credit. You need an investment cycle for you to give up much higher returns. The investment cycle is coming, but it is not coming as early as most people think it might. So, the money will move into companies where balance sheets are good - the first part of the movement has happened to some of those cyclicals. Markets will move back to where there is reasonable certainty of returns and to those stocks which are not playing on more interest rates. The top-down approach is over, now there is a bottoms-up approach. India is made up of six sectors. It is possible that, if two sectors move up and the other sectors remain steady, you will get 10-12 per cent returns.

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