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Invest

Currency fluctuations will not trigger FII exit, only hot money may flow out

Some bad vibes from the euro zone halted the bulls on their tracks on Thursday, reminding investors that global cues can spoil the party any time. However, ***Dipen Shah****, senior vice-president of private client group research at Kotak Securities, feels euro zone is not that big a worry. In an interview with* ***Bijoy Sankar Saikia****, he says rising prices of crude oil and other commodities pose a bigger hurdle. Excerpts:*

■ The Street is talking of stretched valuations, but the bulls look relentless. Do you see more upside? Or is a correction due?
If you take FY11 earnings into account, there is room for further upside. Having said that, there should be a slight correction in the near term, which will be healthy for the market. There are uncertainties in the form of global economic prospects, inflation, interest rates and monsoons, which we need to address. Too much too fast kind of a situation could be a problem in the near to medium term.

■ What's your outlook on Q4 numbers? Which sectors do you think will surprise us this quarter, and which ones will fall short of expectations?
I think fourth quarter numbers should be pretty good. In fact, we expect companies across sectors to report good growth in continuation of the results reported in the third quarter, which had seen a significant improvement.

■ Has the market built in too much of expectation for Q4 results? Do we really have something big in store?
As I have mentioned, we expect fourth quarter numbers to be pretty decent.

Now, will that be considered big by the market is something that remains to be seen.

The market has built in a fair bit of expectation and if the numbers are not up to the expectation, the market may react accordingly.

■ With the rate of inflation ruling high, another round of interest rate hikes looks very near. Will this hurt market sentiment?
The market is already expecting some increase in interest rates and also cash reserve ratio (the proportion of deposits banks need to keep with the RBI). So, when it comes, it should not hurt the market. I think the market is expecting a hike of 25 basis points or so and it will be okay as long as RBI keeps it around this. However, a bigger increase in rates, say 50 basis points or 75 basis points, will be a negative surprise. I think even RBI will be looking at a smoother transition out of the soft interest regime, instead of going for a big jump.

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■ On the global front, we have strong concerns over issues concerning the euro zone, rising crude oil prices, Chinese asset bubble and withdrawal of stimulus. Can any of these spoil the party in the Street?

What's your year-end target for Sensex?
Among all these, I think the biggest concern will be rising prices of crude oil and other commodities. This has the potential of spiking the rate of inflation further, which will then invite further rate hikes. As regards euro zone problems or stimulus withdrawal in the US and even China, we do not expect major negative surprises. But a rise in commodity prices is going to emerge as a real big issue going forward. As for the Sensex target, we see it around 19,500-20,000 level by the year-end.

■ Which are the sectors you are bullish on and why? Which ones have you been avoiding?
We like construction, capital goods, logistics, media and banking — preferably PSU banks, although we like some private players as well. We also like the IT space selectively despite the appreciation of the rupee. We feel the time for an infrastructure boom is now and capital goods and construction companies are going to benefit from this.

On the other side, we don't like oil marketing and cement sectors. We feel cement companies are going to face some price pressure because of high capacity addition. As for oil marketing companies, pending a government decision on subsidies, the stocks may remain subdued.

■ With the rupee appreciating sharply, is there a risk of some FII withdrawal? What do you think is driving FII inflows to India?
In case the rupee continues to appreciate, it will provide better gains to FIIs and, thus, it could be a welcome situation for them. Having said that, we believe the domestic currency may not appreciate much from present levels.

Fundamentally, FII inflows to India have not been because of currency fluctuations. Instead, it has been because of the inherent strength of the Indian economy and better growth in corporate profits. Rupee movement may impact flows of so-called hot money. But currency will not be a major determinant of fund flows, and inflows to India will continue, based on economic and corporate performances.

■ How active have you been in the primary market? What will be your suggestions for investors who want some exposure in this space, considering that it has not been a great experience for primary market investors in the past few months?
When we recommend an issue, it's always on the basis of valuations, quality of the company, business model and sound management. Frankly, whatever the market condition, these remain the basic thumb rules to judge an issue.

■ What has been your approach towards PSU issues? French auction and active futures market play by traders have allowed little room for small investors in these issues? How should a small investor approach PSU share sales?
I don't think futures market behaviour should impact an investor decision to invest or not to invest in an issue. The question to be asked is whether or not it has been priced at a good level. It's very much similar to secondary market investment. You have a price target, you find a price below that and you invest. We don't recommend people to look for listing gains. One should invest with a long-term horizon.

■ What's your outlook for different asset classes considering the many ifs and buts that qualify the outlook for the new financial year? What kind of weightage would you suggest for equity, fixed-income assets, gold, other commodities and realty for an individual of say 35 years of age with moderate risk profile?
I think an investor with a moderate risk appetite should spread investments equally across asset classes, going slightly slow on equity and commodities — which are high risk, high return options. Maybe, he or she will be better off giving a higher weightage to fixed-income assets and then divide the rest equally among equity and commodities. ■

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