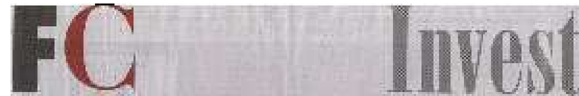

Infrastructure, IT, sugar stocks to do well in short term

EVEN though the market has risen quite steadily over the past few days, raising hopes of an early revival, **Dipen Shah**, *vice-president of private client group at Kotak Securities, in an interview with* **Vikas Srivastav**, *says he expects the market to fall from the current high in the immediate term, as there is no important trigger. He, however, maintains that green shoots are already sprouting and market recovery should start sooner than later. Excerpts:*

■ India's gross domestic product (GDP) rate is expected to grow 5-6 per cent this year, which means there is genuine demand. Where are the problems then? Why are banks not lending?

Till last year, banks did not hesitate to lend, as their overall sentiment toward the economy, production and profitability of the companies was strong. Banks would lend on the premise that after two-three years when the projects fructify, there would enough demand to help the companies repay their loans. Now, the situation has reversed. Despite the projected GDP growth of 5-5.5 per cent, consumption has fallen and there is no export demand. Credit growth has gone down to 18 per cent on a year-on-year basis on concerns that banks may have to face more non-performing assets. Sectors where lending is scarce are also the ones that are relatively more affected, such as real estate, textiles and auto.

■ When can we expect some recovery?

There are some green shoots visible in demand for auto, cement and steel. Production in companies such as Tata Steel and JSW has picked up. There is some demand in the realty sector as well. But we need to see if this is a year-end phenomenon or genuine demand. If the commercial vehicle demand or the demand for steel, cement and realty picks up in another few months, then we can say that recovery has started.

■ Do you think the economy has entered a deflationary stage?

Despite the rate of inflation being at close to zero level, prices have not fallen. I will not call it deflation, because the wholesale price index has not fallen and the consumer price index is still high at 10 per cent. It is only due to the base effect that the rate of inflation has come down. If commodity prices shoot up with the global recovery, we will see the rate of inflation inching up in the next six months. For the next two to three months, the rate of inflation will continue to hover around zero level. When commodity prices start rising, it will be an early sign of inflation increasing again.

■ Do you think this is the right time for further rate cuts or are they at optimum levels?

I think the interest rates will stabilise at these levels. But there is scope for reduction in key Reserve Bank rates by another 25 basis points. The RBI has indicated that it is not going to reduce the interest rates further. But banks may now start reducing the interest rates slowly, as there is a significant amount of liquidity in the system. Also, they have reduced the interest rates on deposits and taken bulk deposits at 2-3 per cent levels, bringing down the cost of funds significantly. This, I think, presents enough scope for further reduction in lending rates.

■ In the present environment, what would be the right mix of equity and debt?

For an investment with a horizon of two to three years, equity has always given better returns. We are overweight on equity compared with debt, as banks are not giving more than 6-7 per cent interest rates and companies are giving 8-9 per cent, which after tax deduction would come to 6-7 per cent only. However, since equity comes with a risk attached to it, we are advising our clients to add close to 20-25 per cent of debt to their portfolios. The return on equity is expected to be in the range of 10 to 12 per cent per annum.

■ How do you expect the market to perform in the next quarter?

In the immediate term, we expect the market to fall from the current high, as there is no important trigger. But with the green shoots visible and demand picking up in a few sectors, it is expected to start recovering soon.

■ Which sectors are expected to perform well in the short term?

Companies that are more dependent on government projects will do well as the government is expected to continue with its spending, especially in infrastructure and other associated projects, even after elections. Besides, interest rate-sensitive sectors such as banks, IT and auto should do well due to softening of interest rates. Apart from these, sugar companies should do well as prices are expected to firm up due to shortage of production. Sugar production fell around 45 per cent this year. ■

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