THE FREE PRESS JOURNAL

'Take exposure in equities through SIP'

Equity markets posted their biggest monthly decline in six months as investors dumped shares after the steep interest rate hike by the Reserve Bank of India this week. In this interview with Anju Yadav, Sanjeev Zarbade, Vice President (Private Client Group Research), Kotak Securities says investors must take the Systematic investment plans (SIP) route to invest in equities and tide over volatility.

While the RBI rate hike rattled investor, the US debt crisis drama only accentuated the pain. Going forward, high input cost and inflation may squeeze margins, hurting share prices.

Kotak Securities says investors should not give equities a miss but instead invest through SIPs. Under SIP, a fixed sum is invested in the fund on a predetermined date every month.

He adds that in the short-term, Fixed Deposits (FDs) may score over equities but FD returns cannot beat inflation on a post-tax basis.

How did you read the interest rate scare by the RBI?
The economic activity and project investments have already slowed down. The latest rate hike will pull down credit growth further. We remain concerned on the downside to GDP growth due to this latest move by the apex bank.

The markets were clearly jolted by RBI's actions. Will equities recuperate or drift down further?
The quantum of rate hike surprised the market, hence the sell-off. Furthermore, RBI seemed willing to hike rates further to contain inflation. So in a way, it was a signal for the markets that interest rates have not peaked just as yet. Our view is that markets should remain range-bound with a downward bias.

The macro economic picture is nothing to cheer- inflation hovering near double digits, monsoon pattern still not certain and concerns that fiscal deficit may exceed 4.6% target. In light of these factors, how will markets move and what will be your targets for the Sensex for the next quarter or so?
Over a longer-term, we are positive on the markets given that the structural drivers are in place. Market valuations are reasonable at this juncture at around 15x forward earnings.
We believe, once there is respite on inflation and interest rate front, markets can rally from thereon.

The results season has been a mixed bag. Many PSU banks have disappointed. How will the results season pan out?
For the banking sector, the results were in line with expectations. Few public sector banks reported higher slippages as they migrated to system recognized NPA model.
From hereon, the credit growth for the sector could come down due to higher interest rates. The infrastructure creation activity has slowed down. Growth in project investments have also moderated.

The government seemed to have come out of policy paralysis, particularly with some action on FDI in multi brand retail. Do you expect more such decisions and faster policy moves from the government?
Given that the economy is slowing down, inflation is high, business confidence is down, the need to drive reforms is more pressing than ever. However, on critical reforms like GST, the government has not been able to reach consensus and that is a concern.

In times of hardening interest rates, what would you advice retail investors. With equities trading range bound, are FDs a safer bet?
It is a question of asset allocation. True, in the short-term, the FDs score over equities. However, it is also true that FD returns cannot beat inflation on a post-tax basis. Hence one needs to have some portion allocated to equities in the portfolio. A Systematic Investment Plan is a smart way of taking exposure in equities.

Which sectors/stocks could fetch better earnings with lower downside risks?
We see IT/private banks/media performing better. We are bullish on TCS, ICICI Bank and ITC.