

IT is best bet for investors against a shifty rupee: Arthveda

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In an interview to ET Now, Vikas Gupta, EVP, Arthveda Fund Management, explains the IT can spring a few surprises and why the FM should rationalise tax rules to boost FII inflows.



Vikas Gupta of Arthveda Fund management believes that nearly half the IT stocks are significantly undervalued, even as the companies are doing well.

ET Now: What's your call on the market in the run-up to the Budget? Many believe the current rally is a bit overdone. Is a correction in the offing?

Vikas Gupta: They say buy on rumour sell on news. A lot of stocks have run up and there is a lot of speculative froth in the market. There are huge expectations from the Budget and if there are some positive announcements, investors will price them even higher than they should be. However, when the senses come back, there would be some near-term analysis and rationalisation that may end up in little bit of correction in the markets.

ET Now: The performance of your fund has been pretty remarkable over the last calendar year. Your fund has outperformed the benchmark indices by good 8-9 per cent return. Tell us about the contrarian calls you made that has really helped your fund outperform the broader market?

Vikas Gupta: We go by undervalued strategy, not by themes.

When we searched for undervalued stocks, we came across a couple of names. Last year, Infosys was sitting on nearly \$5 billion of cash...it was valued at 10 times price-to-earnings ratio. Thus, it was extremely cheap as in positive cash flows making lot of profits.

Despite this, the stock was not the darling of the market because of various short-term news flows.

But when we sat down and analysed its long-term trend, we saw a great opportunity in it. We did not know when the catalyst would come, but it has come. We all know where it is now, isn't it?

Hero MotoCorp is yet another example. It was in news for negative reasons. We saw Honda splitting off and consequently there was loss of R&D capabilities and market share. But if you analyse, it was a similar story.

The company was doing very well as far as fundamentals were concerned. They were sitting on a lot of cash, they had all the opportunity to grow and export abroad as well. The investment have also played out now. There are many other examples on how undervaluation works out.

ET Now: What are the sectors that may outperform this year? Which are the sectors that seem little undervalued? Which are the ones that look a bit bloated to you?

Vikas Gupta: The easiest pick where you have at least a 50 per cent chance of finding an undervalued stock is the IT segment. We believe that half the IT stocks are significantly undervalued, even as the companies are sitting on huge cash and are doing well. Majority of them have at least 50 per cent or more exposure to US markets. There is no doubt that the world's largest economy is faring well.

The dollar is also strengthening. These are undervalued, contrarian plays. IT stocks may also be benefitted from 'Make in India' push, though it is very difficult to prove the point. In the long run, your currency has to depreciate against the US dollar.

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ET Now: Your expectations from the Budget from a market standpoint? After all, you represent fund management community.

Vikas Gupta: From the fund management community viewpoint, we have an expectation on [taxation](#) at the permanent establishment factor, which leads to the fund management getting offshored from India. So there is half a trillion dollars of FII money into India being managed by Indians sitting out of Singapore, Luxembourg, Mauritius.

Now all of that or significant portions of that can be brought into India if government gives clarity that foreigners who are investing into India will not be taxed on their capital gains at the likes of 40%...you are potentially targeting \$5 to \$6 billion of revenues from pure fund management fees and this is just the Indian part.

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