Indian markets will keep on making news highs over next five years: Vikas Gupta

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Post a Comment

Indian equities over the next 5 years should escalate to new highs on the foundation of impressive fundamentals, attractive valuations and a new and able government, says **Dr. Vikas V Gupta** - EVP Traded Markets & Investment Research at ArthVeda Fund Management Pvt. Ltd*, in an exclusive interview with* ***Kshitij Anand*** *of EconomicTimes.com. Excerpts:*

Market is in a positive sentimental bias. Given the strong domestic govt and a focused policy approach, the positive bias is going to continue.

The Indian markets managed to hit fresh record highs in October itself. Do you think the momentum is likely to continue? And, if yes, what is your target for the Sensex and the Nifty for Dec-end and for the next 12 months?

Vikas Gupta: The momentum is likely to continue for the next 5 years, driven by solid fundamentals and the scope for a valuation re-rating. Currently the market is in a positive sentimental bias. Given the strong domestic government and a focused policy approach, it is likely that the positive bias is going to continue.

Nothing known across the global markets indicates the likelihood of negative sentiments developing, although black swans, i.e. unknown negative factors, are always a possibility. With this positive bias, our expectations are as follows:

For Dec-14, we estimate the Sensex to reach 30,000 and the Nifty price index to reach 9,000 roughly.

For Oct-15, we expect the Sensex to reach 34,300 and the Nifty price index to reach 10,400 roughly.

We would suggest that a market position below current numbers in the next one year is hardly likely to sustain for long.

The US Federal Reserve might have done away with the QE, but Japan has already started its own rounds of quantitative easing and Europe is expected to join soon. Do you think India will be a big beneficiary of that and the flow of liquidity will continue? If yes, then why?

Vikas Gupta: India stands to be a beneficiary from the potential QE in Europe and Japan. If a QE happens to ensue in these regions when the government reduces the supply of bonds in the capital markets, bond prices are bound to escalate and investors likely to sell off relevant debt instruments.

Given excess liquidity now at their disposal, getting back into the already-inflated bond market does not make sense. The next sensible allocation from their investible savings should be equities.

Within equities, emerging markets have a greater scope for appreciation compared to the more relatively saturated developed markets. Within emerging markets, India appears to have the strongest potential on the back of solid fundamentals, enough potential for a re-rating in valuations and a stable-yet-dynamic government at the helm.

With FIIs having pumped in already $14bn into domestic equity capital markets to date, we can expect a total of $24bn for FY15, continuing at the same rate. This should be a fair indicator of the base foreign inflow (excluding favourable stimuli like global QEs) given that the major US QE3 is on the wane. We can expect an additional $10bn of foreign inflow each driven by excess liquidity from Japan and Europe, making the total FII equities inflow next fiscal (FY16) amount to about $40-50bn.

What is going on with the rupee? The Indian currency is near its two-week low on the back of strong dollar. Where do you see the currency headed in the near term?

Vikas Gupta: While on a weekly/fortnightly basis, the Indian rupee might have weakened, over the last 1 month it has strengthened marginally (0.5%). As of today, lasted traded price for USDINR currency contracts expiring 29-Dec-14 indicates a possible weakening in the near term as the effect of US tapering off its QE3 and rising dollar demand overshadows the potential stimulus from the ECB and Japan.

However, we have no view on near-term currency movements. What we do take cognizance of is that in the long term the rupee is expected to depreciate by 2-5% pa against the dollar.

What do you think will be the next big trigger for the markets? Will it be reforms, interest rate cut or Budget that will drive the next wave for the markets?

Vikas Gupta: With respect to interest rates, given the strict goals of sustaining CPI inflation below 8% by Jan15 and 6% CPI inflation by Jan16, the possibility of a rate cut in FY15 can be questioned. Any cut that happens will be very small, of the order of 25 to 50 bps, and this is unlikely to be sustained on every review meeting.

Further, a rate cut alone does not qualify as a major trigger for a sustainable market movement. In terms of policy reforms, the current government has already made several reforms (part of which has already been reflected in the recent run-up in markets), which we expect would be highlighted and showcased during the Budget.

Consequently, we expect the Budget to be the next big trigger for the equity markets. Major rate cuts should not be expected before 12-18 months.

The Indian economy is already showing signs of recovery, inflation is falling and the government has already pushed some big-bang reforms and more are in the offing. Keeping all that in mind, where do you see FII investment in equities for this fiscal?

Vikas Gupta: Given the strong internal fundamentals, scope for valuation re-rating, global cues such as potential QE from ECB and Japan and a recently-instated reform-oriented government, we can expect strong FII inflows into domestic equities.

For the remaining part of the fiscal year, based on the above, we can expect $24-30bn in FII inflows into equities. Though for the next fiscal (FY16), we estimate a fillip to the tune of $40-50bn in FII inflows.

The Indian markets have rallied over 30% so far in the year 2014. What is you assessment of the Indian market with the rest of emerging markets? Where are we placed in terms of FII flows and economic fundamentals? Most analysts say that there are some value pockets coming up in other EMs which were underweight for some time now?

Vikas Gupta: Indian equities over the next 5 years should escalate to new highs on the foundation of impressive fundamentals, attractive valuations with scope yet available for re-rating and a new and able government.

Along these lines, one can expect a higher allocation of India in an investor's portfolio as well as in terms of FII flows vis-a-vis other emerging markets. While it is true that there can be pockets of inefficiencies in other emerging markets, the larger EMs are looking quite weak on their projected fundamentals and India is one of the few EMs that is showing strong fundamentals and reasonable valuations.

India is a pure play fundamental story, while others might be more undervaluation-driven selective stock picks.

Give me any five stock ideas which are low value, but have a lot of potential in the coming years and why?

Vikas Gupta: *1) Infosys:* Coupled with attractive valuations, potential gains from a growing US economy and a struggling rupee, Infosys' strong quality and top-notch management should ensure that the company continues to perform well. This fact has been corroborated by the recently strong reported results as well.

2) Bajaj Auto: The company belongs in the top 3 bracket of the Indian 2-wheeler segment and is backed by a robust product pipeline. Bajaj Auto has a dominant market share across several products and regions, and has excellent profitability and ample cash (along with no debt) for future high-NPV, low-risk projects. Bajaj Auto has significant revenue from exports. So a depreciating rupee provides a further fillip to the revenues and provides some hedging.

3) Wipro: Like Infosys, Wipro also stands to gain from potential gains from exposure to the fast-growing US economy and a weakening Indian currency. The company has a wide portfolio of IT services for a huge gamut of multinational clients, all of which translates to a solid top-line and robust fundamentals. Available at attractive valuations, the stock offers a good entry point.

4) NMDC: It has a monopoly position in iron ore. With the market and GDP growth set to escalate to new highs in the coming 5 years (refer our Market Outlook report published 28-Jul14), iron demand for Indian infrastructure projects is bound to increase. Further, the company is highly profitable, cash-rich and very safe (no debt).

5) Coal India: Good fundamentals in the sense of high profitability, zero-debt and rich in cash accompanied with favourable undervaluation. The company has monopoly position in coal supplies to the power sector. With the Indian GDP growth story panning out strongly (as per our M Market Outlook report published 28-Jul-14) electricity production and consumption is also set to rise, thus assisting Coal India.

Which are the sectors to bet on as the markets hit a record high? And, the sectors where one should book some profits or go underweight on?

Vikas Gupta: Metals and mining, IT services and autos should be good bets on the basis of strong sector fundamentals and good valuations. On the other hand, sectors such as FMCG, while being fundamentally strong, have high entry valuations and hence are underweight for our strategy, while construction and power have weak fundamentals and should be avoided as there is a lesser probability of making money here.

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