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Sensex likely to hover around 22,000; Cairn India, Hero, M&M, Maruti top bets for 2014: Dr Vikas Gupta

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Kshitij Anand, ECONOMICTIMES.COM Mar 22, 2014, 03.39PM IST

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In an exclusive interview with Kshitij Anand of EconomicTimes.com, Dr. Vikas Gupta, Executive Vice President, Arthveda Fund Management Pvt Ltd, says that the markets are likely to hover around 22,000 in near term, and shares his outlook for some sectors and stocks. Excerpts:



Q) Disappointing data from China and the burgeoning crisis in Ukraine. Where do you think the markets are headed from here? Is it routine profit booking that we are witnessing in markets or have the markets peaked out ahead of elections and are going to hover around 22k?

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Dr Vikas Gupta: The markets already understand these factors. They expect that China will face a weak macroeconomics for the next several years. The Ukraine crisis is also expected to continue for a long period of time. These should not have too much impact on the markets. Global markets are likely to go up slowly over this year.

A word of caution here: We at ArthVeda don't believe in taking investment decisions based on a top-down approach about where the markets are headed or where the economy is headed. Our decisions are guided by bottom-up analysis based on the discount-to-intrinsic value for each stock.

So we would not recommend taking investment decisions based on the market levels. The markets are likely to hover around 22K. There is nothing that is expected in terms of data or events before the elections (except opinion polls and exit polls) that should move the markets.

Q) Coming to defensive, Infosys is clearly going through a rough patch. After the latest management commentary on revenue growth outlook, what should investors do with the stock? Should they book profits or remain invested (outlook for a period of 1 year or more)?

Dr Vikas Gupta: Infosys is at fair to slightly higher valuation levels. Long-term investors who bought it at low levels can book profits and move to more undervalued stocks if they have spotted other good opportunities. Others, who would like long-term exposure to large-cap IT stocks, can continue holding their positions. We don't recommend large new positions in it.

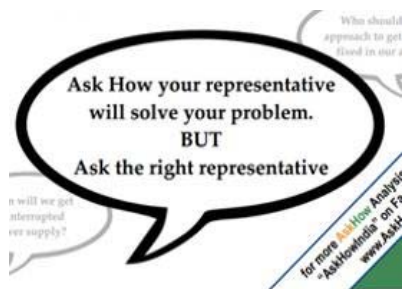
Q) What are your top ideas for the year 2014?

Dr Vikas Gupta: The top 10 companies coming up in our ArthVeda Alpha L50 and L10 strategy are: Axis Bank, Bajaj-Auto, Cairn India, Coal India, Hero MotoCorp, IDFC, M&M, Maruti Suzuki, NMDC and Tata Motors.

Q) Last year nobody liked PSU banks or for that matter capital goods stocks. Nothing has changed in the terms of fundamentals, valuations are still stretched. But in the last month or so, both the

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sectors are outperforming the index. What is your call? Are they pricing economic recovery? Your top bets in the space?

Dr Vikas Gupta: We don't know what people are pricing in PSU banks. But we don't like them with their declared and latent NPA levels. We will wait for them to declare the full NPAs when the new government and new Chairmen take over.

Capital goods look good. We think this is the bottom of the cycle for them and, yes, as the economy picks up, they will perform well. Be careful to avoid any companies with high debt levels. In capital goods, the top bet is BHEL.

Q) What do you have to say about AAP? Do you think markets may come face to face with a hung Parliament or fragmented mandate with AAP in picture now?

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Dr Vikas Gupta: We don't know much about AAP's electoral prospects. But there is a reasonable possibility and the probability of a fragmented Parliament. However, I don't think most parties will have energy and resources to go for another election. So it is likely that with some kind of outside support or other semi-neutral looking mechanism, a new government will be formed even in the fragmented Parliament scenario.

Q) The pharma sector was considered to be a safe bet apart from one or two stocks. But with Sun Pharma coming under the USFDA lense after Ranbaxy & Wockhardt, do you think that there is more pain in the sector going forward?

Dr Vikas Gupta: We don't like the pharma sector since the largest pharma companies from India repeatedly face problems from USFDA. This means that either the Americans are trying to put some kind of barriers to Indian pharma exporters or there is actually some kind of a problem with the Indian pharma manufacturers. In both cases, we don't like it.

Q) CPI has been lower and WPI has come in a way lower than expectations. Do you see RBI easing rates in near future? If yes, then how much and timeframe?

Dr Vikas Gupta: We don't think the actual inflation levels are going away that soon. We will need to see consistent low CPI for a few quarters before expecting lower interest rates from RBI. RBI is in a neutral situation at least until the new government is formed. We think they will use the opportunity to make sure that inflation is dead before tinkering with the rates in terms of easing. We think RBI will try to hold rates for at least a couple of quarters. Or they will do a very slow easing.

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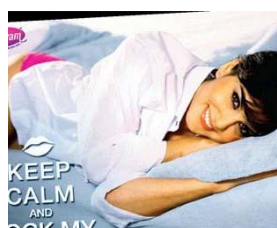
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