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Sensex may test 33,000-35,000 if there are no surprises: Vikas Gupta

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In an interview with Ashwini Kunder or myiris.com, **Vikas Gupta, Executive Vice-President & Fund Manager, Arthveda Fund Management** said, "Fundamentally there is nothing negative for Indian companies going forward. Global negative surprises could make it trade lower which would be a huge buying opportunity."

1. How do you see market post budget? Where do you see Sensex and Nifty levels by end of 2015?

Since most market participantâ€™s trade on events, now they are waiting for the new event which is the FEDâ€™s decision on interest rates. However, over the long-term markets look at the fundamentals and fundamentally there is nothing negative for Indian companies going forward. Things are likely to only get better. This will happen over next several quarters and market will wait for its first clue on the actual annual results of FY15 to judge how things are shaping up. Sensex should be about 33,000-35,000 in the most likely scenario if there are no surprises. Global negative surprises could make it trade lower which would be a huge buying opportunity.

2. According to you, which sectors will likely to outperform or underperform in near term?

Outperform:

IT/Computer Services represents the perfect investing gem as we believe the sector overall is highly undervalued. The profitability and cash war chests remain strong, translating to above normal robust returns on capital. Further, the sector also stands to gain from potential gains from exposure to the fast growing US economy and a weakening Indian currency. The â€œMake In Indiaâ€ policy actually finds a lot of relevance since all countries focused on export-oriented growth through manufactured products attempt to keep their currency undervalued. Since India is also embarking on that path, it is likely that the rupee will be kept undervalued over the long-term to help manufacturing exporters. This will indirectly help IT exporters too.

Metals and mining sector from an investment perspective stands to gain from a superb mispricing in terms of high degree of undervaluation and superb internal financial fundamentals. The sector stands to benefit from the strong India growth story that is expected to roll out in the coming few years particularly from Government and industrial spending as infrastructural development kicks in, in turn stemming from expected asset turnover and margin improvements.

Underperform

Financials possess relatively lesser quality fundamentals (asset quality issues continue) and high valuations given the low quality of assets which we believe overshadows the favorable rate cut scenario that could boost loan growth.

3. Recently RBI has reduced interest rate by 25 bps. There is expectation of further rate reduction in reminder of 2015. Considering this, do you think there is an opportunity to buy stocks from rate sensitive sectors?

In our opinion it is not a good idea to trade on events. We buy if things are undervalued. If they are undervalued then an RBI reduction could be a catalyst for bringing the valuations in line. However we would not look at the rate sensitivity first. We think a rate cut would help IT since the rupee is likely to drop in response. Selected stocks in Auto and Auto ancillaries will also benefit.

4. Fourth quarter earnings will be announced next month. How do you see corporate earnings performance for March quarter?

This yearâ€™s earnings could remain subdued but guidance for next year could be more optimistic. The FMâ€™s announcement on reduction in corporate taxes starting next year will also be a factor in deferring some of the earnings to later years from FY15.

5. Rupee weakened further and trading at a fresh two-month low of Rs 62.80 against the dollar. How do you see movement of rupee in near-term? How a rising dollar will impact markets?

We do think that rupee will face a little bit of downside and RBI has made enough noises to let people know that they donâ€™t think rupee can stay at this level for the long-term. Rising Dollar is not going to stop flows into the Indian market since it is driven more by expectations of long-term economic growth.

6. Five stocks you bet on and why?

>NMDC: The stock has a near-monopoly position in iron ore. With the GDP growth set to escalate to new highs in the coming 5 years , domestic iron demand for Indian infrastructure projects is bound to increase (which should boost top-line and offset the short term pricing impact). The â€œMake in Indiaâ€ push to the manufacturing sector should also boost demand for iron ore. Further, NMDC is highly profitable, cash-rich and very safe (no debt). Current short term share price weakness augurs as a good entry point.

>Goodyear India: Another company boasting of super fundamentals with a large pile of cash and strong profitability. This â€œsupplierâ€ company could benefit from the uptick in Autos sector, in turn strengthening from the potential release of pent up consumer demand.

>Gujarat Mineral Development Corporation: Debt free company, with excellent margins, the largest merchant seller of lignite in the country is a strong investment opportunity. Like NMDC, stands to benefit from the potential strong underlying impetus in Indian infrastructure projects, further boosted by the â€œMake in Indiaâ€ campaign.

>NIIT Technologies: Coupled with attractive valuations, potential gains from a growing US economy and a struggling Rupee (strong portfolio of services with customers across the globe, thus benefiting from probable potential currency tailwinds), NIIT Technologiesâ€™ strong quality should ensure that the company continues to perform well. The companyâ€™s strong fundamentals warrant the stock as an attractive investment.

>Munjal Showa: A zero debt, good cash position company capable of investing in high NPV projects and primarily manufactures shock-absorbers for both the two and four wheeler segments. Like Goodyear, the company being a supplier to the Autos sector could witness potential uptick from the likely spike in consumer demand in the coming years.

7. What is your advice for retail investors in current market scenario?

Invest in companies with strong balance sheets and undervalued primarily IT companies and PSU natural resources.