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'We continue to be bullish on pharma'

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With ongoing Euro crisis, overseas fund managers will be compelled to raise exposure to India, says Reliance MF's Madhusudan Kela

"Much of the bad news in the telecom sector is behind us. If telecom stocks see any sharp correction, we would definitely buy them

MADHUSUDAN KELA
HEAD-EQUITIES
RELIANCE MUTUAL FUND

*HIS rise within the organisation as well as in the fund management industry has been dramatic. But for the past few months, there has been speculation that **Madhusudan Kela**, head-equities, Reliance Mutual Fund, is quitting. Untrue, insists Mr Kela. In an interview with **Santosh Nair**, he says that he is still bullish on the big picture India story. However, in the short term, global sentiment will prevail, he cautions.*

How do you see the market playing out near term in light of global developments?
In the next 6-12 months, the market will still be ruled by global sentiment. The ongoing debt crisis in Europe can have a meaningful impact on markets globally as in India, if the situation worsens. If one or two Euro-zone countries were to default or the euro as a currency breaks down, there will be chaos. Similarly, if there is slowdown in China, the Indian market will be impacted. Currently, the Indian market is trading at a 25% premium to China. If China's earnings multiple contracts, there could be a valuation challenge for India as well. However, we have seen over the past six years that the market has produced significantly better returns than most countries in the world.
The India story is getting stronger. For instance, this year, you will see a significant fiscal consolidation, which was a major worry for the market. Over the next 2-3 years, the gas and oil reserves will materialise and this will further improve our fiscal position. And the real dark horse could be the UID project which can significantly prune the subsidies and improve tax collection. And hopefully, the pilferage will reduce. I believe a 8-9% growth with more reforms from the government looks real in the next five years.

How steep do you expect the correction, if it does come through, to be?
If the situation in global markets worsens, we could even see a 15-20% correction in Indian shares. But since India's fundamentals are only getting better, and viewed in the global context, overseas fund managers will be compelled to increase their exposure to India. Any meaningful correction will be a great buying opportunity for retail investors with a long-term view on equities.

Which are the sectors that interest you?
We continue to remain overweight on the pharma sector. We are bullish on companies which will benefit from the domestic consumption story in India. We like public sector banks. They have underperformed the market for a while due to concerns over rising bond yields and hence marked-to-market losses on the bond portfolio. Our view is that PSU banks can grow their loan books 25% for each of the next three years, and they have the capital adequacy to meet the loan demand. The stocks are available at 1.2-1.5 times their book value, and you can't go wrong if you have a 2-3-year perspective.

There is a lot of pessimism about the telecom sector, more so after the recent 3G bids. Would you take a contrarian view?
Much of the bad news in the sector is behind us. If these stocks see any sharp correction, we would definitely buy them. The stock prices may have underperformed over the past couple of years, but the customer base has more than doubled during the same period.

What about mid-cap stocks in general? Would you still go for them in current market conditions?
Yes, if there are opportunities, we will continue to invest in companies with scalable business models, with earnings growth faster than large-caps, and available relatively cheaper to large-caps.

FUTURE SIGNS

Your strategy of betting on mid-caps in a big way has been criticised by your peers. They accuse you of boosting portfolio returns by buying into firms with low-floating stock.
Companies like Siemens and Jindal Steel & Power were mid-caps when we first bought them. Not only have they delivered better returns, but are now ranked among the large caps. But I must admit that there have been some wrong bets as well. We have tweaked our mid-cap strategy a bit. We will not buy into very small companies, and would focus on companies with a minimum m-cap of Rs 1,000-1,500 crore.

Locally, what are the factors that could dampen sentiment for stocks?
Below average monsoon would rank high on that list. The reforms process needs to be accelerated. The government has shown resolve, but it needs to build on it, especially in terms of attracting more FDI flows. Rising instances of Maoist and Naxalite attacks could make foreign fund managers nervous. We are highly dependent on inflows at this stage, because there is not much money coming in locally.

How much cash on an average would you be keeping in your portfolio? Your strategy of aggressive cash positions last year was criticised in industry circles.
We will use it more as a tool to improve the portfolio mix. We will not shy away from keeping a higher cash level than our peers if market conditions warrant. But it will not be as high (25%) as was the case last year.

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