INTERVIEW: SATISH RAMANATHAN

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Positive steps on GAAR and infrastructure will restore investor confidence

The Indian equity market has struggled over the past year on the back of a weaker global outlook, flat corporate earnings and an extremely confusing political situation, says **Satish Ramanathan,** *head, equities, Sundaram Mutual. However, Ramanathan believes that India is still among the few countries with a GDP growth in excess of 6% and it could see a rebound in the market if a few policy decisions are reversed. In an interview with* **Ashley Coutinho,** *he says decisions on issues, such as GAAR and infrastructure, will be important. Excerpts:*

Indian equities have stayed volatile in the past few months. Where do you see the market headed in the coming months?

The Indian equity market has struggled over the past year on the back of a weaker global outlook, flat corporate earnings and an extremely confusing political situation. We expect the market to trade in a range, though a panic sell-off cannot be ruled out. We are not committing to any specific number. A high current account deficit and trade deficit are feeding inflation. Consequently, growth will slow down in the interim.

What are the key positives for the market?

There are a few positives. India is still among the few growth markets with a GDP growth in excess of 6%, and has the benefits of a demographic dividend. Also, if a few of the policy decisions are reversed, we could see a rebound in the market. What also needs to be borne in mind is that India still remains one of the under-penetrated markets in the world; in the sense that there is ample scope for growth on the consumption as well as the infrastructure fronts.

What are the global cues to watch out for? How grave is the threat from the euro crisis?

There are signs that economic growth in Europe and, to some extent the US, is flagging. The growth data in Asia is not too encouraging either. The crisis in

Europe will lead to volatility in global financial markets and result in the liquidity drying up. Overall, risk levels are coming down and liquidity is declining which, then, implies that valuations can decline. Apart from that, India will also face a liquidity crisis as the country enters an election year next year and there could be a stress on the fiscal situation and a further increase in interest rates.

What is your assessment of the first quarter results so far? Do you expect downgrades in the coming quarters?

The results have been tepid with earnings growth being very low and this is likely to continue into this year. Earnings downgrades will continue as well for the next few quarters. It will be difficult to forecast earnings as a global slowdown could result in a deflationary environment and this could, then, turn into a vicious cycle. Any erosion in the pricing power could impact corporate profitability further. So far, analysts are just looking at the GDP data and trying to extrapolate the profitability. However, a small drop in GDP numbers could result in a sharper fall in corporate earnings. We have to be careful and worried about that.

What is your outlook on FII inflows in the year ahead?

FII inflows have been positive on a year-to-date basis at close to $9 billion. However, much of the money coming in is from the ETFs, which is short-term in nature and could leave the country just as quickly, exerting pressure on the currency. Typical long-term investors have been slow to buy into the country and are extremely defensive. The market will be keenly tracking the kind of decisions taken by the new finance minister. Decisions on issues, such as GAAR and infrastructure, will be important. Positive steps in this direction will bring back the confidence of overseas investors.

Which sectors are you bullish and bearish on?

We are negative on financials and infrastructure. The asset quality of financial firms is still a bit of a bother; there are also concerns that, in a pre-election year, the government might resort to loan waivers. The business models of several of the infra firms do not seem viable.