IndiaFirst LIFE INSURANCE

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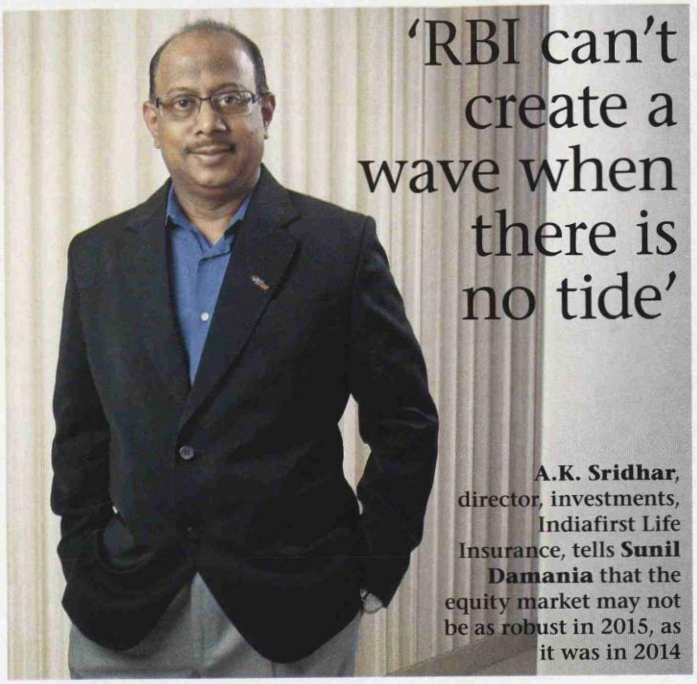

'RBI can't create a wave when there is no tide'

A.K. Sridhar, director, investments, Indiafirst Life Insurance, tells **Sunil Damania** that the equity market may not be as robust in 2015, as it was in 2014

How serious is the situation in Europe and other parts of the world?

I won't use the word severe, but it is significant and we cannot ignore it. This is a unique situation in which every country is looking at things in a different way and in a different direction. Earlier, there used to be a little lead and lag in terms of their economic policies. One country talks of increasing the rate, while another talks about decreasing it. And, yet another works on reducing the inflation, while a fourth tries to increase it. So, it's complex. We cannot ignore the situation.

The Indian stock market and valuations have got little to do with India. We are far more deeply integrated with the rest of the world. That is purely on account of ownership issues. The free flow is predominantly dominated by non-Indian players (FIIs). There are more companies in India that are owned by foreigners than Indian institutions.

Will the Indian market correct by about 10-15 per cent?

It is quite possible for the market to correct by 10-15 per cent. The stakes are high.

Inflation has fortunately been coming down. Do you think the RBI will reduce the rate of interest soon?

We do not think the RBI will lead the interest rate movement. It is only going to be a follower of the market. Every time the RBI has led the interest rate movement, it has gone wrong. It may be a central bank, but it cannot work against the tide. It doesn't want to create a wave, when there is no tide. Governor Rajan will look for a tide and then create the waves. He is not going to lead the reduction. The market is not going to keep quiet. The market will reduce the rates, if there is supply. And the RBI will follow it up.

Come January, if there is a hike in the US interest rate will it impact the Indian companies that have borrowed from the US market?

That is why I said the coming 3-4 months are going to be important. If the interest rates go up, there is a tendency for the money to flow out, because India is perceived as a risk country, as it is an emerging market. So, the cost of borrowing goes up, the hedging goes up. If they have to pull money out, then India will be the first country from where they will do so. So, we have to cautiously watch for a dramatic, or step-by-step, increase in the US interest rate as it will have an impact. We will have to watch how it will unfold in the next 3-4 months.

How should one play the next few months?

One thing is sure. It is better to have a reasonable amount of exposure to the debt market, as we will see a high single-digit or double-digit return by the end of these three months – even if there is a rally of 50 basis points. You play because you've made money in equity; if someone has never come into equity, then that is not the prescription I would give. So, play a little cautiously for the next 4-5 months. By then, it will be clear how the rest of the markets are doing. And we will also be clear on how banks are doing vis-a-vis dealing with npa problems, how the turnaround is taking place, etc. Clarity will emerge by February-March.

If you look at the larger part of 2014, equity has performed better than other asset classes. How do you see its performance in 2015?

The best that could happen is that the Indian equity market will remain flat. I'm talking about the broad market. There are always individual sectors and companies that will continuously outperform the market.

You don't believe that FII inflows will be significant in 2015?

We will have to wait and watch these three months and then we will know. But they may not be as aggressive as we saw them in 2014.

So, you are saying that 2015 will be a challenging year for the Indian equity market?

You will not see it outperform. It could remain flat for the entire year. ♦