

Nimesh Shah took up the baton of Managing Director & CEO at ICICI Prudential AMC in the year 2007. He has an experience of over 18 years in the banking and financial services domain. In an interview with **Saikat Mitra**, he shares his take on the Indian Mutual Fund industry and his views on the domestic and global economic conditions.

Nimesh Shah

Managing Director & CEO
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Can you describe your fund management philosophy for us? What strategies do you follow to deliver a sustainable performance?

The biggest advantage for us has been our investment process. We have always been fairly process oriented. We follow a model portfolio-based approach, where analysts give inputs to fund managers, who build model portfolios and review them once a month. Fund managers manage schemes based on these inputs. Analysts are measured for the documented advice that they give fund managers, which is captured in the systems. Fund managers are measured for performance vis-à-vis the benchmarks and relevant peers. This ensures a clear team-based approach rather than a 'star fund manager' approach, and is more scalable and sustainable.

Our other key advantage that has helped us do well is the purity of our product positioning. We believe that fund management becomes more efficient and benefits investors if the parameters of expectations are well defined. This means that an investor knows what to expect from a fund.

The most significant edge that we have is our performance. At the end of the day, if we are able to demonstrate consistent performance, investors will continue to invest in our funds. As of September end, almost 100 per cent of our equity funds have beaten their benchmarks on a three-year basis.

What is your take on the current overall macroeconomic scenario of India?

While the macroeconomic scenario is improving, it requires further improvement from the standpoint of imperative moderation in the fiscal and current account deficit and inflation, as well as an impetus to growth. Therefore, there is significant scope for the scenario to improve further. The recent progressive steps taken with regard to energy reforms, FDI, etc. have set the ball rolling, but would need to be supplemented by many more steps to aid the continuous improvement of economic indicators. Taxation on select goods along with a timely, well executed disinvestment plan, which are already on the government radar, will be crucial going forward.

How do you perceive the MF industry scenario and the way forward? Do you see any consolidation happening in the coming years?

The Indian mutual fund industry is still at its nascent stage, with a relatively much smaller number of players than globally, particularly as compared to mature markets like the US. The industry is currently under-penetrated, leaving tremendous scope for expansion and sufficient space for more international players. We believe that we have just started. We need to do a lot more on the retail side of the business. It is very important that the 'aam aadmi' invests in equities

because in the long-term, this is the only instrument that can beat inflation.

In your view, what are the challenges for the Indian MF industry?

Mutual funds are one of the best investment avenues today, and add tremendous value to an investor's portfolio. However, in the process of giving good products, somewhere the commercial requirements of manufacturers and distributors were being impacted. The recent regulatory developments are a step towards addressing this issue.

The other and most important challenge has come from the economy and markets itself. Over the last five years, weak markets and domestic and global factors have continued to impact investor sentiment. The fact of mutual funds being relative performers has also had an impact on investor interest in the category. With the latest reforms announced by the government, the economic fundamentals have improved significantly and we expect the sentiment to improve as well. Finally, the biggest test is to get more and more retail investors into mutual funds.

How do you expect the corporate earnings to pan out?

The corporate earnings will be muted in the near term. They are a function of the economy, and that is a bit backward looking. Hence, corporate earnings are less of a worry in comparison to fiscal

consolidation, which is imperative.

What are the triggers that you are looking forward to with regard to the markets?

The government has finally bit the bullet on implementing the long-pending diesel price hike. We had communicated earlier that a diesel price hike of ₹5 per litre is a big positive. With this hike, the risk of a credit rating downgrade is mitigated. On the monsoon front too, things look much better now. These two triggers indicate a limited downside to equities.

What is worrisome is that the hardening of crude prices in the past few months and the liquidity gush on account of QE3 may push the asset prices up. We continue to believe that the markets will remain volatile with an upward bias. The triggers from here on will be the successful execution of the disinvestment programme, government focus on infrastructure development. The most important trigger will be the continuous work towards fiscal consolidation, which will provide necessary the headroom for the RBI to reduce interest rates.

How important is the selection of a correct sector for a stock's performance?

Sectoral selection is very important from the standpoint of portfolio construction. The market today moves in a global, domestic as well as region-specific risk on/off trade mode. In such a scenario, identifying sectoral trends becomes key towards generating an alpha in a portfolio by identifying sectors with a better upside potential.

What are the sectors that you are currently betting on, and in which areas should investors take caution?

In the current context, we are overweight on Telecom and Pharma due to their relative attractiveness in terms of valuations. We are also positive on select mid-caps based on their growth outlook and valuation. We are relatively underweight on consumer discretionary sectors, given the high valuations in this segment.

What are your expectations about



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FII flows into India, especially after the quantitative easing measures being announced?

FII's are not a homogeneous group of investors. They look at the relative attractiveness of markets, based which they decide on the geographic allocation of investments.

In our opinion, FII inflows are coming out of the fact that most global economies except countries like India, Thailand, Philippines and Indonesia are suffering from a credit crisis. With reference to India, it is a structural growth story with favourable demographics, robust domestic consumption and strong balance sheets across banks/corporates. As the Indian economy is not leveraged, there is no risk of a credit bubble to impair long-term growth potential as against Europe and other emerging economies like China. Therefore, India will continue to grow in the long term. In an environment where liquidity is being created by the central banks globally, an emerging market without a credit bubble like India is benefitted.

Additionally, the recent reforms like the diesel price hike and allowing FDI in select sectors demonstrate positive government action, adding to India's attractiveness as an investment destination.

What is your take on the INR and gold as asset classes?

While it is difficult to predict the INR, directionally speaking, the rupee is well poised. The recent positive steps by the government towards reducing the fiscal deficit as well as the opening

of FDI in several sectors is expected to improve the overall investor sentiment, followed by good inbound capital flows via the FII route as well as the FDI route. This, in turn, may help the Indian rupee appreciate in the near term.

There is no right or wrong time for gold investments. Gold is an asset class that offers the benefit of diversification. There is an increasing demand for gold, while the supply-side constraints are high. However, investors need to remember that buying jewellery should not be categorised as an investment. From the perspective of asset allocation, gold ETFs are a good investment option for the long term at any given time.

What would be the most important advice that you would like to give to retail investors?

We believe that three themes that will help investors to get risk-adjusted returns over the next year will be volatility, value and asset allocation. Let's dwell further on each of these.

It is difficult to predict market direction. However, volatility will clearly be the order of the day, i.e. the market will not be unidirectional. Globally, economies are going through a debt de-leveraging cycle. In such a scenario, equities seldom provide unidirectional multi-bagger returns. Therefore, with volatility emerging as the new normal, investors should look towards capitalising on this trend. Today, mutual funds offer schemes that are positioned to capitalise on volatility, such as flexi-cap dynamic funds. Investors should consider including these as part of their core portfolio.

The second prominent theme will be value investing. This involves investing in funds that invest in value stocks, i.e. stocks that have high potential but are quoting at a discount to their fair/intrinsic value. Even in scenarios where the markets are fairly valued, there exist pockets of valuation attractiveness, which can be capitalised upon by value funds.

The other crucial factor is following asset allocation through investing in debt mutual funds.

These apart, the common mantras that are regularly enforced are those of following SIPs and STPs, which should continue to form the basis of retail investment philosophy. ■

Mutual Fund investments are subject to market risks, read all scheme related documents carefully