# 'Markets will be Volatile, but You can Make Money'

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>
> **MRINAL SINGH**
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**Mrinal Singh**, fund manager at ICICI Prudential Asset Management, believes investors would make money if they invest in the market at current values. Rallies will be driven by liquidity and will be contingent on reforms, he tells **Shailesh Menon**. Excerpts:

**How have the second-quarter results been?**
The results are not quite encouraging...We'll see more of a 'mixed bag' kind of numbers this time round. Corporates are still reeling under higher interest rates and input costs. The situation is even worse for capital-intensive industries. On top of all this, labour costs have gone up 14%-15% for most labour-intensive companies. Higher labour cost is the residual effect of inflation. The street estimates earnings growth of 11% and 14% for FY13 and FY14, respectively. Markets expect earnings to pick up over the next three-four quarters.

**So you are expecting downgrades to continue...**
No, I don't see that happening. The number of downgrades will come down this quarter. At the same time, we do not expect many earnings upgrades in the second quarter. Higher interest rates are the biggest problem faced by Indian companies. Companies with high leverage will continue to report poor earnings.

**What's your outlook for the markets?**
We expect markets to be very volatile over the next few months. For sure, there's room for further upside in market values. What we'll see over the next few months will be a liquidity-driven rally. There's a lot of money waiting to be invested in stocks. The direction could be contingent on how the government will implement its reforms programmes. Also, if the government could get some mainstream infrastructure projects on track, it will improve the sentiment even further... There's money to be made in equities now. Investors should allocate their money between large and mid-cap stocks. However, markets could get capped if the government fast-tracks its disinvestment programme.

**Are you comfortable with the current valuations?**
Valuation is not a cause for concern... Markets are quite fairly priced at this point in time... Investors should not be buying into indices; they should buy strong businesses. The ideal valuation matrix could be companies delivering 30% RoE and 15% growth rate at 10-11 times the price-to-earnings multiple.

**What could derail the market momentum?**
We'll have to see how the government acts on its reform policies... Another point of worry is crude prices. Markets could react negatively to higher crude prices. Inflation is another factor that could have a negative impact on markets. Persistent inflation could put pressure on the cost side for most companies.