'FY14 will be a year of volatility'

S. Naren, CIO, ICICI Prudential AMC has been in the industry for 23 years and currently manages a total AUM of ₹87,954 crore of which ₹16,800 crore is in equities. A management graduate from IIM-Kolkata, he has also worked with various institutions like Refco Sify, HDFC and Yoha Securities. In conversation with Sunil Damania, he shares his views on the equity markets

Why hasn't the market been able to sustain above 20000 levels?

In the last one year we have seen an improvement in fiscal deficit and inflation. What we need to see is growth acceleration. In early 2003 we saw a drop in interest rates, and then growth picked up, following which we had a good market rally. We are currently in a phase where interest rates are falling; what we need is people to have confidence in this phase. The confidence can come if the Current Account Deficit (CAD) and trade deficits are reduced. Then the government will have conviction to accelerate growth. That's why the RBI keeps issuing cautious, periodic statements. The government has taken steps to reduce the CAD by increasing diesel prices. However, the increase in gold imports seems to have undone some of the government's good work.

How long will the government take to reduce CAD?

If oil prices correct to $90 or $95, then the job will be very easily done. We've worked on reducing our oil consumption but now we need to rework on reducing gold imports. We also need to work on increasing our exports which I don't see happening in the current financial year. We definitely see the CAD improving in this financial year but we would like to move towards a model in which we only care about growth. This will probably happen in 2014-15 as it will have the advantage of elections. Secondly, the US economy is improving and it might cut quantitative easing. So 2013-14 will be a year of volatility; 2014-15 and 2015-16 are the years we expect actual growth to take place.

The rupee has been quite volatile; will it depreciate further?

The 2012 move in the rupee was more concerning as it was the only currency which corrected that year. Year 2013 is more about dollar movement, rather than an anti-rupee trade. This year, currencies like the South African rand have performed worse than the rupee. I think India's attractiveness in emerging markets clearly seems to be there. However if emerging markets are compared to the US, there is a worry that the money would go into US. If the CAD doesn't reduce, the rupee will depreciate.

Did you see any positive surprises in the March 2013 results?

On an aggregate basis, it was in line with what we expected. On an individual stock basis, there have been different trends across companies. We believe that some of the public sector financials will do better; however our expectations were belied in that sector.

Which sectors are you overweight/underweight on?

We are overweight on telecom, as that is one sector wherein the revenue per minute has to go up. We are bullish on export-oriented sectors like technology, pharmaceuticals, select textiles and select auto ancillaries.

All the stocks in which the FIIs have not invested have become extremely attractive. I think midcaps and infrastructure sector are most attractive in the next five years. If, over the next five years, infrastructure doesn't improve, the country won't be able to function properly. In the infrastructure sector, a lot of companies are in trouble, but from an infrastructure fund perspective, we are picking stocks which are mostly in the top end and not the mid end.

We are underweight on consumer staples. A lot of consumer staples and related stocks are trading at 40 PE, and cannot give good returns over the next five years. Those are the stocks, which have seen a CAGR of PE. On a valuation basis, public sector banks are much cheaper and we are neutral on that sector. But the risk of NPAs is perceived to be much higher in public sector banks than private sector ones.

Your views on the equity markets one year down the line?

While most people are underweight on equities, we think they should be neutral on a five year basis, equity should deliver good returns. We can only afford to become overweight on equities if CAD comes down and if there are better indicators of industrial growth acceleration. I really cannot comment on equities on a 12 month basis as we have two events: the elections and the Federal Reserve's quantitative easing and interest rate policy. ◆

Nothing contained in this document shall be construed to be an investment advise or an assurance of the benefits of investing in the any of the Schemes of ICICI Prudential Mutual Fund. Recipient alone shall be fully responsible for any decision taken on the basis of this document.

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