# Stay Defensive & Nimble, Stock Selection Holds Key

ET EXCLUSIVE Q&A

**MANISH CHOKHANI**
Director, Enam Holdings

**"India has a unique opportunity to attract disproportionate foreign capital as it is the only large economy with a natural bias towards unit volume growth. Unfortunately our stated intent of creating an easier business environment, a stable and friendly tax administration and enabling infrastructure to support growth are not yet comparable to economies we aspire to compete with"**

FILE PHOTO

Foreign investors' interest remains high but they are losing patience with India's inability to execute on its promise, said **Manish Chokhani**, director at Enam Holdings. In an interview with **Biswajit Baruah**, he said returns from the stock market may range between -5% and +15% in 2016, and sectors such as FMCG, consumer-focused lenders, automobile, and media may perform well. Edited excerpts:

**What will your investment strategy be in 2016?**
We enter 2016 with a brittle and volatile global macro environment helmed by over-indebted central banks unable to fight reducing liquidity, profitability and savings. In India, we have a recovering economy but that does not necessarily translate into a profit expansion across all sectors as globally linked sectors, especially commodities witness unparalleled headwinds. It would be best to stay defensive and nimble in such an environment, and keep expectations low.

**What is your idea of realistic return expectations for 2016?**
Markets may range from -5% to +15%, while stock selection will remain the key.

**Which sectors are you looking at for your portfolio?**
I have been focusing on innovative, consumer facing companies across FMCG, media, auto and consumer focused financial lenders. Contrary to sectoral trends, it could be a great new cycle for RIL as its capex phase ends and capacities come on stream. Jio could also be a game changer.

**Which are the sectors you would advise investors to avoid in 2016?**
I would avoid all commodities and capital goods.

**Foreign investors have pulled out of stocks worth about ₹35,000 crore in the second half of 2015. Do you expect this pressure to persist?**
Yes, liquidity is on the wane globally. India will attract incremental capital only where new profit opportunities arise owing to reforms or liberalisation or new listings in sectors such as insurance and healthcare, but not limited to them.

**Do you think the delay in reforms such as the GST is hurting global investors' sentiment on India?**
India has a unique opportunity to attract disproportionate foreign capital as it is the only large economy with a natural bias towards unit volume growth. Unfortunately our stated intent of creating an easier business environment, a stable and friendly tax administration and enabling infrastructure to support growth are not yet comparable to economies we aspire to compete with. I am dismayed by the lack of urgency and the sheer obstructionism that defines the political environment. In a competitive world, we have to stand out and lead, not be held back by our own internal differences. Foreign interest is high but losing patience with India's inability to execute on its promise.

**FII INFLOWS**
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**When are you expecting the earnings cycle to turnaround?**
Earning recovery comes from positive factors such as volume or margin expansion, or removal of negative factors like reduction in interest and tax burden. We do seem to have all four already pointing in the right direction for India.

**How aggressive would the RBI be in reducing interest rates in 2016?**
The RBI has a mandate to fight inflation. Until our domestic supply side response massively expands or the fiscal position shows major improvement, their attempt is to dampen demand by curbing liquidity creation. Until industry gets globally competitive capital, they will not create fresh supply. Therefore, the answer lies with how the government curbs its revenue expenditure and redirects resources for infrastructure spending. We remain uncompetitive on land, labour, capital. The entire burden seems to be on enterprise!

**Markets expect more interest rate hikes from the US Fed. Do you think India will again see increase bouts of volatility going ahead?**
The EM asset class predicated on commodities is history. Capital is fleeing from these EMs. We must make all efforts to define India as an asset class of its own if we truly believe we will be the third largest economy by 2030.

**Should investors bet for commodities recovery in 2016?**
Commodity prices may bounce from oversold levels. However the underlying hyper steroid growth period fuelled by China and easy finance is over. Investors should not fish in murky waters.

(Views expressed are personal)

**GOOD HABITS**

## Ten Resolutions for Financial Fitness in 2016

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It wouldn't be a New Year without resolutions. Here are some to help you get started on the road to financial fitness and to maximise your wealth in 2016:

**1. I will not let my cash lie in the bank:** The average inflation rate from 2012-15 is 8%. This means, if your money is not growing at least 8%, your savings are actually shrinking. So, it's time you move the cash lying in a 4% savings account invest it. The laziest thing you can do is book an FD that will give you 8% plus returns.

**2. I will not invest in an instrument I do not understand:** While it is important to invest, do not randomly pick any instrument, especially, those you do not understand. The authorities are doing their bit to protect you. The Ministry of Finance came out with an extensive report on measures for curbing mis-selling and rationalising distribution incentives in financial products last August. Insurance regulator Irda has completely restructured Ulips and mutual fund houses raised the bar of investment for high-risk schemes to ₹1 lakh from ₹5,000. However, it is equally your duty as an investor to take precautions and not to buy a product you do not understand.

**3. I will teach my children the basics of personal finance:** While you are educating yourself, make sure to impart a lesson or two to your child as well. After all, personal finance, although a life skill, is the only subject not taught in most of our schools yet. In October 2015, CBSE launched the School Bank Champs project that aims at educating students of class IX and X on managing finances and investments. Currently this is available only at select few schools and is a voluntary subject. In lieu of schools, the child depends on you for financial guidance. So, while teaching them about the birds and the bees, add SIPs and EMIs as well.

**4. I will not be careless with credit:** Retail loans have been primarily responsible for driving credit growth of banks in 2015. Easy credit and swiping facility at shop can be a dangerous combination. Add to that the easy-to-use eWallets luring you with offers and online discounts. You need to be a yogi to resist such temptations. Make a budget, stick to it and make it a habit to pay back on time. Also, keep checking your credit score regularly, now that they are available for free on many websites.

**5. I will update my knowledge on e-frauds:** Barring, may be, the house and your jewellery, all your assets can be accessed online. In 2014-15, as reported to RBI, cyber frauds relating to NEFT/RTGS transactions alone were worth ₹80 crore. So, if you do not know about the frauds and take necessary precautions, you you probably are committing financial hara kiri.

**6. I will not put off paperwork or planning:** Be it that mandatory KYC, filing the tax returns, renewing an insurance plan or FD or planning your goals, do not stall those tasks anymore.

**7. I will plan my taxes starting April:** Instead of making hasty investments in January, start thinking about your tax bill at the beginning of the financial year. Also, mark the calendar for advance tax deadlines.

ANIRBAN BORA

**8. I will not ignore my insurance needs:** Life and health insurance are not enough, they should be adequate as well. The government has been promoting social security and it's time you upped your risk protection level. A personal accident cover and a critical illnesses plan has become absolutely necessary. Don't forget the travel insurance, especially on those international trips. Also, do not wait for a disaster like Chennai to buy that home insurance plan.

**9. I will build an emergency fund:** Not all risks can be insured. Although all predictions for job and hiring prospects for 2016 are positive, you still need that emergency fund worth at least six months of your salary. Moreover, stop accumulating the fund in your savings bank account. Move it to a liquid fund.

**10. I will prepare a will:** All the planning and hard-earned savings will be useless if you forget estate planning. If you think it is a tedious legal task, you may be wrong. The exercise has actually become easy with banks and NBFCs offering eWill services online. Also, do not forget to specify a nominee when you make an investment or purchase insurance.

**DEBT CALL** Experts say interest rate trajectory for long term not quite clear, with a host of factors at play

# Short-term Gilts Have the Edge Amid Rate Uncertainty

Joel Rebello & Saikat Das

**Mumbai:** The interest rate trajectory in 2016 will depend on three key factors: how the government manages its fiscal deficit, how inflation pans out and how central banks across the world react to global uncertainties. So what should debt market investors do?

Investing in short-end government bonds appears to be a better bet in 2016, according to money managers mainly, because taking a long-term call on rates is fraught with danger in the current scenario.

"Taking a call on interest rates in 2016 is challenging because of many X factors like how the US Federal Reserve will move, what direction oil prices will take and also how the government will achieve its fiscal deficit target," said Dwijendra Srivastava, chief investment officer, debt, at Sundaram Asset Management.

According to Srivastava, investors should look at a short-term horizon for their debt investment this year.

"If a retail investor goes through mutual fund schemes, it makes sense to invest in shorter-maturity funds like accrual or corporate debt funds," said Raghvendra Nath, managing director of Ladderup Wealth Management, a financial advisory firm. "If investors stay invested for three years, they can expect 8-8.50% post-tax returns.

Expectations are that the RBI will reduce its benchmark repo rate by a quarter to half percentage point this year after cutting it by 1.25 percentage point in 2015. However, the interest rate trajectory will depend on how the government manages its fiscal balance which will be under stress from the implementation of the Pay Commission award and One Rank One Pension.

"The government sticking to its fiscal deficit target will be crucial for interest rates because it will give more room for the RBI to cut rates and push up bond prices. However, there is every chance that rates may not move at all, especially if the government fails to meet its target," said SP Prabhu, head of fixed income at IDBI Federal Life Insurance.

**DEBT FIRST**

# Accrual Funds in Spotlight as Rate Cut Hopes Muted

**Fund Performance**

| Category | Return 1-yr (%) |
|---|---|
| Liquid | 8.05 |
| Ultra Short term | 8.37 |
| Short term | 8.33 |
| Income | 7.55 |
| Gilt-Short term | 7.95 |
| Gilt-Medium & Long term | 6.81 |

As on Jan 1, '16 SOURCE: **Value Research**

These schemes are set to gain from falling rates and economic revival

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**Mumbai:** The jury is still out on whether fixed income would beat equities in 2016. But, investors preferring debt over stocks in the new year could opt for accrual funds as the possibility of aggressive rate cuts by the RBI over the next few months appears remote.

In accrual funds such as credit opportunity and corporate bond funds, the focus is on earning interest income and rate-related risks are lower.

With policy rate cuts expected to be modest, fund managers do not expect funds, which rely on capital appreciation in bond prices, to lead the performance charts. "We expect at best a rate cut of 50 basis points in the coming year. Investors could consider investing in accrual funds, with a maturity of 2-3 years," says Lakshmi Iyer, chief investment officer, debt, Kotak Mutual Fund.

Bond prices and interest rates move in opposite directions; when rates fall, prices go up and vice-versa .

The RBI cut rates by 125 basis points during 2015 following the drop in inflation on account of a crash in commodity prices and oil prices. But, investors were unable to reap the full benefits as transmission of these cuts happened at the shorter end of the yield curve and not at the longer end, belying expectations of strong gains in gilt funds.

Fixed income schemes such as gilt, income or liquid returned anywhere between 7-8% in 2015.

Distributors said various large mutual fund investors have shifted from duration funds — where they bet on the rise or fall in interest rates — to accrual funds. "As rates ease and the economy revives in the second half, accrual funds with a small proportion of investment in non AAA paper, with maturity of 2-3 years, could be beneficiaries," said Rupesh Bhansali, head (distribution), GEPL Capital.