

**Issue 12: Long-term growth potential justifies high valuations****Financial Express, October 09, 2010****Sanjay Sinha, CEO, L&T Mutual Fund**

With over two decades of experience in the asset management, Sanjay Sinha, chief executive officer, L&T Mutual Fund, says when it comes to intangible products like mutual funds, people prefer to buy it offline through someone who can guide and provide service. In an interview with FE's Saikat Neogi, he says that in the medium to long term, more people will move to online purchases of mutual funds. Excerpts:

**What explains the relatively high valuations of Indian equities? Does it signal an impending correction?**

India's long-term sustainable growth is likely to further increase the growth differential across markets. Global liquidity and the shift towards emerging markets have led to strong FII investments, leading to greater valuations of Indian equities. However, valuations are reasonable given the long-term growth expectations.

**What would you advise retail investors now? Which sectors are you overweight or underweight?**

The market looks attractive from a medium- to long-term perspective. While the recent run-has been is sharp and market might consolidate before moving ahead, we believe, equities are expected to perform well over the longer term. With India becoming one of the strongest growth countries, we expect companies to continue to do well. There may be sectoral variations, but therein lie the opportunities. We expect FII fund flows to continue. Hence, we advise retail investors not to get swayed by volatility if the objective is to gain in the medium to long term. Infrastructure, automobiles and cement sectors look attractive considering growth and valuation. With the recent rally in financial stocks, we believe they may consolidate in near term. We are underweight on telecom.

**Globally, mutual funds are retail investors' avenue to invest in equities. Why has this trend failed to catch up in India?**

In India, the mutual fund industry is still in its infancy. If you see its evolution, we are witnessing the fifth phase of growth. Investors like mutual funds to be sold to them rather than buy on their own initiative. The lack of equity culture and awareness are also deterrents. Investors still feel that mutual fund means stock market. Having said that, we should not understate the growth of mutual funds' retail assets. The industry is servicing almost 4.5 crore folios and attracting 45 lakh systematic investment contributions every month.

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**With rising household savings, do you see greater expansion in non-metros?**

Mutual fund is a true savings product and has all the characteristics of an ideal investment product. It provides liquidity, tax-efficient returns, flexibility and ease of transaction. This makes mutual funds one of the best vehicles for an individual investor to route savings. Currently, investors are savers, parking money in bank deposits. As awareness grows, people will start searching for the right avenues which can give tax-efficient returns and returns above inflation. Non-metros are yet to see the reach of mutual fund companies in true sense. I am very bullish about mutual funds expanding in non-metros.

**After the ban on entry load, how will fund houses reduce the cost of MFs and attract investors?**

After the ban on entry load, there is going to be a paradigm shift in product and sales and distribution strategy by fund houses. I feel three fundamental changes are going to happen. First, more and more transactions will become paperless. Fund house will promote online/web as a channel to attract retail investors. This will reduce the cost significantly and bring scale to overall distribution. Second, optimisation of resources is going to be a key differentiator. The resources may be of any kind. It can be in terms of time, manpower, de-duplication of administrative jobs etc. This can be made possible by the use of technology. Thirdly, fund houses will have to take collective efforts to graduate distributors to the next level by new ways of training/engagement/promotion and so and so forth.

**How will the online model of selling mutual funds pan out?**

People are beginning to fancy buying products offline. This is true for tangible products like white goods, food items, clothes etc. When it comes to intangible products like MFs, people currently prefer to buy them offline and that too through someone who can guide and provide service. However, the change in demographic profile is bringing an online culture. Youngsters — potential savers of tomorrow — are quite fond of Twitter, Facebook and other such media. This clearly indicates the evolving atmosphere in the buying pattern of an individual. I feel in medium to long term, more and more people will gravitate towards buying mutual funds online.

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