

Issue 13 - Stock markets are expected to yield 15-20 per cent over the next 2 years -  
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Sanjay Sinha. CEO, L&T Mutual Fund

*In conversation with Ritu Kant Ojha of The Indian Express, Sanjay Sinha says that a reasonable investment in the yield fund for the medium to long term horizon may make sense because the yields once they start coming down, hold promise of not only reasonable return but carry the scope of capital appreciation also. 'Due to the tight liquidity situation, the short term rates are also at attractive levels and therefore locking your investments into FMPs may make a good investment choice' he says. Excerpts*

**Last 2 years have been tough for the Mutual Fund industry. Still we are seeing more and more new entrants into the AMC business. What is the reason? What makes it so lucrative?**

The ban on the entry load may have an impact in the medium term and it is already showing in the growth of the industry in last 1 year. Mutual Funds as an investment product are one of the most cost effective vehicles for long term financial planning. This inherent virtue is slowly donning to a large universe of investors and we have therefore seen the number of SIPs growing from 30 lakhs in 2008 to 50 lakhs in 2010. This is a structural transformation and is expected to put the industry on a stronger foundation and is therefore likely to retain as well as attract the attention of those players who have a long term vision for the industry. But the challenge of distribution in the new environment has to be tackled and the solution will evolve over the next few months.

**What are your views on the Bimal Jalan committee recommendations?**

Dr Bimal Jalan Committee report in respect of non listing of Market Infrastructure Institutions (MIIs), capping of profits and fixing of executive remunerations, has not found market favour with larger audience. We believe that the essence of the report on differentiating conflicts of interest between commercial and regulatory roles of stock exchanges is a valid argument, but non listing of these institutions could also encourage monopoly and controlling profitability may result in complacency and lack of best practices introduction from MII. So some way has to be found out.

**With the expectation of the interest rates going up in next few months do you see an opportunity to make money in the debt funds for the short term, risk averse investors?**

In the next few months we can expect the G-Sec yields to harden some more before reaching a plateau. One will be surprised if they remain hard for long. Therefore reasonable investments in the yield fund for the medium to long term horizon may make sense because the yield once they start coming down, hold promise of not only reasonable returns but carry the scope of capital appreciation also. And at the same time due to the tight liquidity situation the short term rate are also at attractive levels and therefore locking your investments into FMPs may make a good investment choice.

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**Do you plan to launch a Debt Fund/Monthly Income Plan in the near future?**

There is one significant gap that we have in our product offering where we do not have a Monthly Income Plan with relatively higher, say 30 per cent, exposure to equity. We have therefore filed an offer document with SEBI for such a fund. We also plan to come out with a series of Fixed Maturity Plans as there is a fair appetite for them.

**What is your sector outlook for 2011? Which sectors you are bullish on and why?**

We like infrastructure and related sectors such as construction. The expectation from this sector is already at bottom due to slippages that happened in the last 3 years. We believe spending in infrastructure is at inflexion point as evident from the estimates of the XIIth Plan (2012-2017) wherein there is a growth of 100 per cent over the XIth five year plan. The infra spending for the XIIth plan is expected to be 10 per cent of GDP over the plan period as compared to 7.6 per cent in XIth Plan. Apart from Infrastructure, select stocks in pharmaceutical sector are expected to give superior returns than the broader markets as many of them are a play on increasing domestic consumption and rising interest of MNC's to set up base in India through inorganic acquisition giving fillip to the valuations of listed entities.

**Where do you see stock markets in the short term (1-2 years) and long term (3-5 years) in terms of levels?**

We believe corporate earnings growth will remain robust and grow at CAGR of 15-20 per cent over next 2 years on the back of strong consumption demand, leading to high capacity utilization and resultant fresh capex for new capacity creation. This will keep growth intact for most of the value chain in the economy. So Markets are expected to track buoyancy in earnings and should give returns in the range of 15-20 per cent CAGR. However, it is important to point out that this will not be very regular and there will be intermittent periods where returns will be higher and lower than this depending on what is being taken as the reference period. Over a slightly longer term we believe stabilization of developed markets and improving confidence on world growth can see incremental flows in emerging markets which can expand the valuation multiples which are currently 16x FY12 earnings.

L&T Finance Holdings Limited (indirect Holding Company of L&T Investment Management Limited) is proposing, subject to market conditions and other considerations, to make a public issue of securities and has filed a Draft Red Herring Prospectus (DRHP) with the Securities and Exchange Board of India (SEBI). The DRHP is available on the website of SEBI at [www.sebi.gov.in](http://www.sebi.gov.in) and the respective websites of the Book Running Lead Managers at [www.jmfinancial.in](http://www.jmfinancial.in), <http://www.online.citibank.co.in/rhtm/citigroupglobalscreen1.htm>, <http://www.hsbc.co.in/1/2/corporate/equities-global-investment-banking>, <http://www.barclayswealth.com/india-offerdocuments.htm>, <http://www.credit-suisse.com/in/ipo/> and [www.equirus.com](http://www.equirus.com). Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see 'Risk Factors' in the aforementioned DRHP

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