Business Standard - Pune;Fri, 03 Mar-17;Size : 326.43 sq.cm.;Page : 13

'This should be a benign year for FII flows into India'

The market's direction in the near term would be driven by global factors, rather than local ones, says **AKASH SINGHANIA**, deputy chief investment officer (equities), at DHFL Pramerica Asset Managers. In an interview with **Ashley Coutinho**, he says implementation of the goods and services tax (GST) and a lacklustre export environment could drag earnings growth below consensus expectations. Edited excerpts:

Your outlook for the market?
Indian equity markets have shrugged off domestic and global concerns and moved up this year, in line with other emerging markets (EMs). A good macro, continuation of reforms and domestic liquidity has contributed. Despite differing fundamentals, in terms of a strong and relatively decoupled domestic economy, Indian market returns have been correlated to EM performance. Market direction in the near term would be driven by global factors, rather than local ones. Key triggers include pick-up in global GDP (growth), fiscal stimulus in the US and earnings growth back home.

What are the global cues to watch for in 2017?
The extent and pace of rate hikes by the (US) Federal Reserve would affect liquidity and the dollar. Aggressive rate hikes would not bode well for EMs. Economic and trade policies under the Trump administration would be keenly watched. Any signal or move towards protectionism or trade wars or tariff increases in global trade would be viewed as negative for global equity markets. Stability in the euro zone, growth concerns in China and overall liquidity and fund flows are other areas to watch for.

> "THE EXTENT AND PACE OF RATE HIKES BY THE (US) FEDERAL RESERVE WOULD AFFECT LIQUIDITY AND THE DOLLAR. AGGRESSIVE RATE HIKES WOULD NOT BODE WELL FOR EMs. ECONOMIC AND TRADE POLICIES UNDER THE TRUMP ADMINISTRATION WOULD BE KEENLY WATCHED"

FIIs (foreign institutional investors) have come back to the market in 2017 after a heavy bout of selling in the last quarter of 2016. How do you see FIIs allocating money to Indian markets in 2017?
FII equity investments (annually) in India have been in excess of $13 billion on an average in the past five years. Over the past two years, we have seen it slowing to an average of $3 bn. We expect calendar year (CY) 2017 to be a benign year for FII investments in India, surpassing those in the past two years. This is based on the premise that India's macro remains strong, in terms of growth, inflation, interest rates and the twin deficits (meaning the current account balance and the government budget balance). Even on a relative basis, India remains an attractive EM, in terms of robust fundamentals and reasonable valuations. The quantum of investment would primarily depend on global risk appetite and liquidity flow. Visible signs of earnings growth acceleration and continuation of reforms would boost inflow.

Q&A
AKASH SINGHANIA
Deputy CIO (equities), DHFL Pramerica Asset Managers

How do you see the year for EMs?
Overall, we are somewhat overweight on EMs and expect earnings growth for the region to pick up from nine per cent in CY2016 to 13 per cent in CY2017. Global EMs' GDP (gross domestic product) is expected to grow 4.6 per cent in CY2017, compared to 4.2 per cent in CY2016, with India and China leading the pack. EM inflation is still declining across most markets, driven by lower food prices. Liquidity and the interest rate backdrop are still supportive but less favourable than in CY2016. Stimulus from the European Central Bank and the Bank of Japan is likely to continue and we expect gradual rate hikes by the US Fed.

Your estimates on domestic corporate earnings for FY18 and FY19?
We expect low double-digit earnings growth (10-12 per cent) in both. A low base of growth for the past three years and pick-up in economic activity would be the catalyst. As stress asset quality recognition in banks would also recede in the next two years, a favourable base will also play out. Rebound in metal and commodity prices would form the bulk of incremental growth in earnings. Greater utilisation, higher operating leverage and lower interest rates would facilitate this recovery.

However, our earnings growth expectations are below the consensus numbers on the Street. Gradual recovery after demonetisation, implementation of GST and a lacklustre export environment could drag earnings growth below consensus expectations.

More on business stanrad.com