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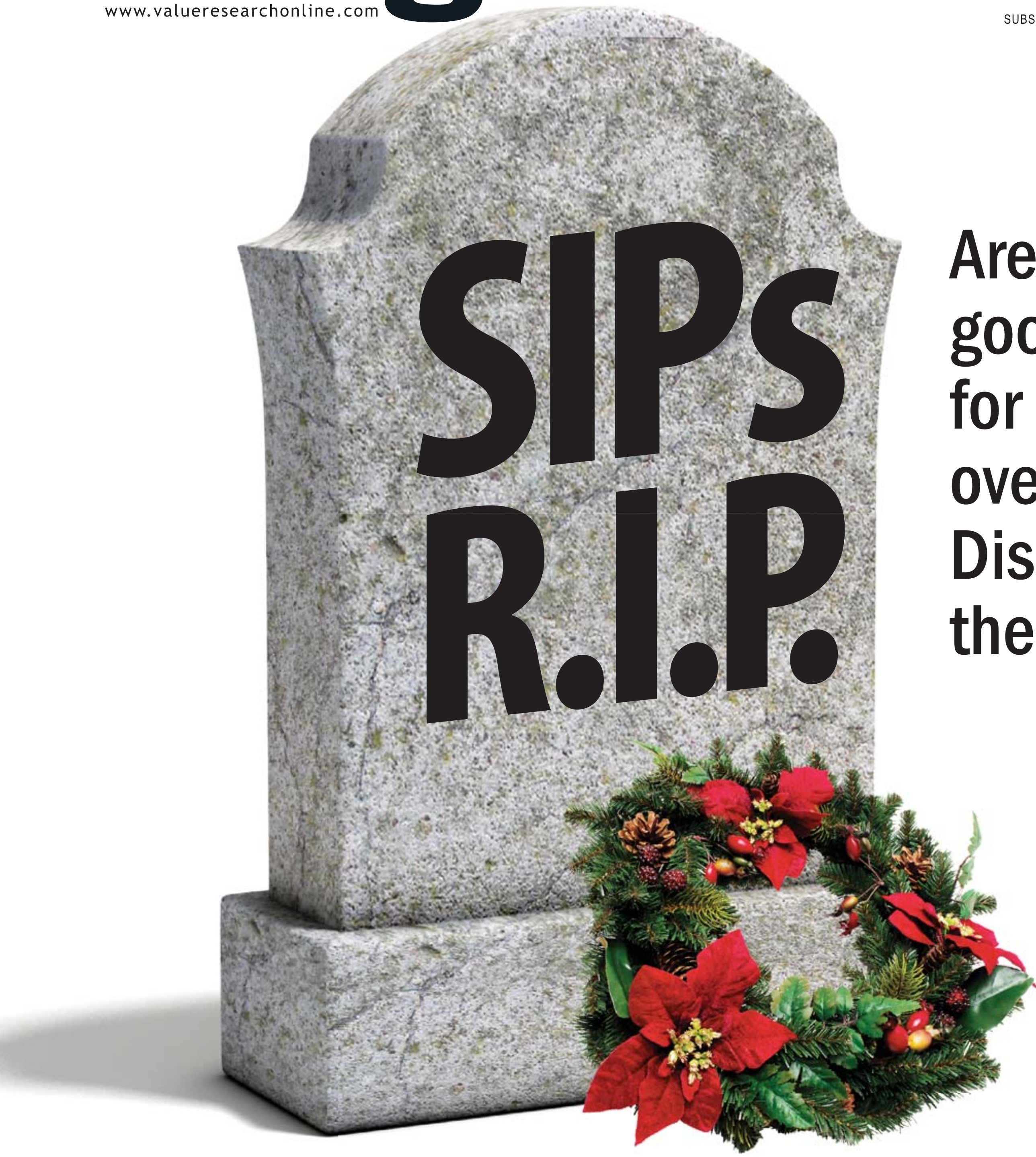

Are the good times for SIPs over? Discover the truth.

GETTING PERSONAL

SUREH SONI

CEO of DHFL Pramerica Asset Manager

Scaling mountains

Aarati Krishnan

Equity-fund managers in India often get superstar status. But if you're a debt investor, you would surely agree that debt-fund managers don't have it easy. India's fixed income markets have been anything but 'fixed' in recent years. Market interest rates have swung to a different tune from the RBI's repo rate, FIIs have rushed in and out at whim and corporate-debt downgrades have sprung nasty surprises on investors.

That's is why I decided to catch up with Suresh Soni, one of the most seasoned debt managers in the country and one who has navigated many a rate cycle, for an interview on what debt investors should expect. Suresh, recently appointed as the CEO of DHFL Pramerica Asset Managers Private Limited (the investment manager to DHFL Pramerica Mutual Fund) acceded to my request for a telecon at short notice.

We both flag off our conversation with the same question: 'Do you remember me?' I laugh and recall that Suresh and I had last met at Sundaram Newton Mutual Fund 20 years ago. That's where he earned his stripes as a skillful fund manager, steering Sundaram Bond Saver through the stormy nineties.

Like all investment managers who have graduated to the CEO role, Suresh speaks rather wistfully of his fund-management days. Having completed his chartered accountancy, Suresh was recruited by SBI Capital Markets for its mutual-fund business in 1993. Of the 23 years since then, Suresh has spent 16 years managing money and seven years building a business (heading Deutsche Mutual Fund).

So given that the top ten AMCs in India have only got bigger, what are the chances for a smaller AMC? "When I took over as CEO at Deutsche Mutual Fund in 2008, our assets were about ₹6,000 crore and we were loss making. From there, we grew to over ₹20,000 crore over the next seven years, doubling market share and building a profitable business," says Suresh. When Deutsche Bank decided to exit the business due to strategic reasons, it was acquired by DHFL Pramerica, which manages about ₹25,000 crore today.

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"I think the differentiators in our business come not only from what you do but also how you do it. So we have put together a solid 20-member investment team. We have drawn on the 140-year lineage of our global partner, Prudential Financial of the USA, for a water-tight investment and risk processes. We are defining our products very clearly. I am looking forward with energy to building this out," he ends.

No Quit India

So why are foreign sponsors of mutual funds always in the 'Quit India' mode, I ask him. Suresh disagrees. "When the JP Morgans, or INGs or Deutsches exit India, they make big headlines. But we have an equal number of foreign investors who have entered this business in India – Invesco, Schroeders and Prudential Financial of USA via Pramerica. But this fact tends to be underplayed. In our case, Pramerica has clearly increased its commitment through the acquisition of Deutsche's assets." He points out that out of the top ten players in India, eight are JVs which draw on global lineage as well as local knowledge.

NPA surgery

I get down to the brass tacks by asking about the darkest cloud on the horizon – bad bank loans. Quarter after quarter, more skeletons are tumbling out of the closets of banks. With the sector in such a bad shape, can a new bull market begin? Unlike some market players, Suresh turns out to be a staunch supporter of the NPA clean-up. "These measures were long overdue. For one, there has

Suresh Soni

CURRENT POSITION
CEO OF DHFL PRAMERICA ASSET MANAGER

CAREER
2008 to 2016: MD & CEO of Deutsche Asset Management India
2002 to 2008: Fund Manager/CIO of Deutsche Asset Management India
2000 to 2002: Fund Manager at Kothari Pioneer AMC
1996 to 2000: Fund Manager at Sundaram Mutual Fund
1993 to 1996: SBI Mutual Fund

ACADEMICS
CA, ICMA

INVESTMENT PREFERENCE
Large-cap equity funds, VPF, credit funds and short-term debt funds

CREDO
Don't time the bond market. Stick to short-term and accrual funds

LIKES
Travelling to the hills, watching Bollywood flicks

DISLIKES
Working on weekends

FITNESS REGIME
Swimming

been a considerable amount of work from the RBI on recognising the problem and correctly reflecting it in the bank books. The Centre is creating the right framework on early resolution of it. Therefore, though quarterly results from banks have been a shocker for the markets, we believe the worst for the sector is behind us. Empowering banks on recoveries augurs well for the sector in the long term."

I remind him that Indian banks seem to get into a bad-loan tangle every ten years and usually get bailed out. Suresh believes that this trend is unhealthy. "Bringing in stricter norms on how to deal with NPAs is far better than finding creative short-term solutions. Sometimes surgeons need to take hard decisions and the patient may bleed a bit, but surgery eventually cures the body."

Negative rates?

I turn to the question that's been haunting me (and other financial planners too, I am sure). Today, India is an island of high interest rates, while many global economies feature negative rates. Will Indian savers also have to prepare for that awful day when our bank FDs or debt funds give us 2 to 3 per cent or, god forbid, ask us to pay for accepting FDs?

Suresh thinks that may not happen and offers a strong argument. "India has had interest rates coming down aggressively over the last 20 years. Government bond yields fell from 14 per cent in the mid-nineties to around 6 per cent in early 2000s. Since then over the last 15 years, they have hovered between 6 and 9 per cent. With the evolution of the economy, you would expect rates to come down. But this country still needs to make massive infrastructure investments. We will need plenty of capital for this big build-out. India has a deficient balance sheet on capital. So, I would not see a dramatic fall in interest rates to 2 to 3 per cent," he says, comfortingly.

Does he hold the same rate view for the shorter term? We have seen some smart money exiting gilt funds. Is that a sign that we are at the bottom of this rate cycle?

"No, I don't agree. To put it in context, you are earning 7.5 to 8 per cent on bank deposits, while the WPI inflation is a negative 1 per cent. The last time we had negative WPI of 1 per cent was in 2003 and then bank deposits used to pay you 5 per cent. So, India's interest rates are still high in comparison to both inflation and global rate trends. With the RBI easing liquidity and inflation remaining moderate and credit growth weak, I think there is a possibility for rates to fall by another 100 basis points or thereabouts in the next 12 to 18 months," he asserts.

Credit is good

I turn to the controversial question. Debt funds that take on lower-rated corporate bonds (credit funds in industry jargon) have delivered good returns in the last five years. But after recent episodes, like Amtek Auto–JP Morgan, that have jolted these funds, does it make sense at all to invest in them?

I get a categorical answer – yes, credit funds still make sense for investors. Suresh challenges me to compare the way the fund industry has handled the current downturn and the corporate default problem with the banking industry. "I think mutual funds have done a fantastic job of managing the credit quality of their portfolios. As against the wide prevalence of NPAs in banks, mutual-fund portfolios have faced just a couple of isolated incidences of stress. In fact, even in the cases you mention, we saw funds recovering bulk of investments rather than a complete write-off. Overall, debt-fund portfolios are in a far better shape than the overall credit situation in the economy. So I think investors will benefit by continuing to invest in these funds." In his assessment, though not strictly comparable, the median credit-rating quality of debt mutual funds would be close to AA, whereas the median credit quality of the banking industry portfolio is likely to be between BB and BBB.

He gives me three reasons why mutual funds tend to have better credit quality. One, they invest only in operating firms and don't usually fund long-gestation projects which are yet to generate cash flows. Two, they tend to invest only in marketable

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instruments, which are more liquid than bank loans. Mutual funds also invest in larger companies on which public information is available. Three, they have a transactional approach to investing in debt, while banks may have a relationship-based approach.

"Typically, if a bank manager has built up a promoter or a firm from ground up, he is inclined to stand by him through thick and thin. But if a fund manager finds a company is not performing well after buying its bonds, he will certainly not buy more of it.

"As I think this over, he lobs a question back at me. "So does that mean that there will be no more episodes like Amtek Auto? Well, my answer is – you can make excellent cars, have skilled drivers and have a great signaling system in place. But will that completely do away with possibility of accidents? No. But by doing all this, we can reduce the incidence of accidents. It is the same with debt funds."

paying capital gains tax if you hold for less than three years. So my medium term allocation is to credit-opportunities funds and the rest is in short-term funds."

His money

After talking shop, I switch gears to the personal stuff. Usually, the equity-fund managers I interview claim they have invested much of their portfolio in their AMC's equity funds. Given that Suresh is a bond guru, is all his money in debt funds? Not really! "I like to invest my money in the AMC I am working with and so much of my portfolio is with DHFL Pramerica now. But I can withstand some volatility and thus the bulk of my money is in equity funds," he says.

So does he go for mid and micro caps? "Right now, my portfolio is tilted towards large-cap stocks, mainly through the DHFL Pramerica Large-cap Fund. From a valuation standpoint, large caps are trading at a discount to mid and micro caps, despite stronger business profile. That is the one call I do take in equities – that of relative valuations," he adds.

Does he have any inside tips on debt investments? "It is inefficient to try and time the market in debt funds," he says. "You also end up paying capital gains tax if you hold for less than three years. So my medium term allocation is to credit-opportunities funds and the rest is in short-term funds."

Chilling out

So what does he do to chill out? He loves family time and tells me that he has two kids. "My elder son is a young man of 17 and the younger one is just five years old. The elder fellow keeps me updated on the latest in technology, sports and cars, and the younger one is curious and has a lot of questions. It's amazing how much one can learn from the new generation."

What does he do to keep fit? Run marathons? Play golf? Suresh doesn't make up something that sounds fancy. "My wife keeps asking me to get a personal trainer but I haven't managed to do so. But I do swim for about an hour every day, four to five days a week, he says. On holidays, Suresh is a 'mountain' person and loves to head out to the hills.

Given all the reading he puts in at work, Suresh freely admits that he buys more books than he manages to actually read. He likes television time and says he can watch anything from a comedy show to a Hindi serial. He is a Bollywood buff. "I make sure to catch one or two movies every week in a theatre with family, whether it's the latest Bollywood flick or an animation movie. I have absolutely no problem leaving my brains at home while going to the theatre."

Given how much of a Brainiac one needs to be to track India's stressed-out banks and bond markets and to manage an up-and-coming AMC, it is good to know that this mutual-fund honcho takes stress in his stride. ■