Make Volatility Your Friend Through SIP

Investors need to take advantage of the current market volatility by adding new positions in their portfolio, says Mr. Mahesh Patil, Co-CIO, Birla Sunlife Mutual Fund.

1. You are managing 7 different equity mutual portfolios across different market caps. In the last 1 year all your schemes have generated a whopping 63% return together (Nifty 1 year returns - 28%). These 7 schemes on an aggregate basis have been rated 4 star by thefundoo. Would you please highlight the key attributes that have helped you provide such Alpha?

Our outperformance across schemes over the last year has been a combination of early identification of the signs of revival in the economy, top-down call to bet on domestic cyclicals coupled with competent stock-picking.

With our belief of nearing the bottom of the economic cycle, we were focused on broad domestic cyclical strategies by being early on to invest in private sector financials, capital goods, and autos, which serve as a broad proxy of the economy. Furthermore, in anticipation of improved market participation and increased investor confidence, we as a house also increased the breadth of our investible universe by identifying new ideas particularly in the mid-cap space, which were then available at exceedingly reasonable valuations.

2. Equity outlook for the near term is apprehensive by relatively high valuations on one side and the worry on global front like US rate hikes expected in near future on the other side.Furthermore, nifty has experienced a correction recently. In this context, what is your near to medium term outlook on Indian equities?

While the market has run up on expectations largely led by PE re-rating, we are hopeful of revival in earnings over the next two quarters as low interest rates and policy initiatives by the government start to play out. In the interim we might see some bouts of volatility based on set of global events and Feds comments on easing. Domestically, a good line-up of fundraising by corporate India and PSU disinvestments could cap the near term upside from liquidity. Consequently, in the near-term market we expect the markets to be fairly range-bound.

Globally liquidity remains abundant with conducive monetary policy conditions in Japan, China, and Europe. In a situation where global growth remains a challenge, we may continue to see flush of funds in India on the back of better economic outlook. We expect earnings to pick up considerably in FY16, driven by a combination of GDP recovery and lowering of interest rates. Over a medium term basis we continue to be positive on markets as we see earnings catching up with valuations.

3. We have recently seen that bank nifty and other sectors have seen a correction. Going forward, which sectors do you think will perform well in the short-term and which will dowell in the long-term?

In near to medium-term domestic cyclical sectors such as financials, autos, and capital goods are poised to benefit from the cyclical recovery in the economy. Amongst the defensives we prefer pharmaceuticals on the back of strong growth seen in the US generic space.

With a bigger thrust on the infrastructure by the government over a longer term perspective we would look at infrastructure plays with selective bets on companies with strong earning visibility, coupled with healthy balance sheets.

4. What is your suggestion to investors on the asset allocation front, looking at the current market volatility?

Equity markets provide a great avenue for investors to invest with a medium-term to long-term view. We would advise investors to have a larger share of their portfolio in the equities. There would be bouts of volatility in markets, which could be used to add on to their positions. It is better to go for systematic investment plan to ride out the volatility than put lump sum. They should evaluate their risk appetite before taking exposure to equity markets.

In case of debt market, medium-term and short-term accrual funds look attractive because of higher yields and a possibility of ratings upgrade due to economic recovery.

5. What strategic changes have you made in your portfolio after the recent union budget?

This year's budget was focused on macros with strong long-term national building initiatives with a tremendous thrust on infrastructure and manufacturing. Post the budget we continue to maintain our positive stance in domestic cyclicals like financials and autos, with a renewed interest in capital goods and infrastructure space.

6. What is your take on SEBI's plan on IPO rule change in favor of startups? Will these stocks enter your watchlist in future?

SEBI's plan in favor of startups will indeed provide us a platform to participate in the emerging high-growth digital and ecommerce opportunities, which do not have much exposure in the secondary market. Nonetheless, we would be extremely careful and selective in our approach as they have been riding upon too optimistic hopes. They would certainly be on our watch list, though we may not buy into them on euphoria.