Despite the high valuations, opportunities exist in equities across large-,mid-and small-caps, says **Rajesh Iyer**, MD & CEO of DHFL Pramerica Asset Managers. In an interview with ***Ashley Coutinho***, he adds that markets may witness volatility in the next 6-12 months and investors should stick to quality businesses. Edited excerpts:

What changes do you foresee for the mutual fund industry as it grows in scale?

Manufacturers will have to invest substantially to enhance servicing capabilities and devise ways to handhold investors through market volatilities. As the industry matures, manufacturers will have to become more solution-oriented rather than product focussed. Reach and simplicity of solutions will be critical as contribution from mass affluent and retail segments outpace others. On the retail side, distributors have so far focussed on equity assets. We believe that there is an equally compelling opportunity on the fixed income side that will be tapped in the near future. Migration to digital platform is inevitable and technology will give players an opportunity to serve clients in any part of the country without having to deploy physical infrastructure. Investors will benefit as the number of investment choices will go up along with ease of transacting.

The regulator has introduced norms for categorisation of schemes. Is it a step in the right direction?

Standardisation will reduce the possibility of mismatch between investor expectation and product attribute. Even after standardisation, fund managers have enough leeway to generate alpha. For example, in the case of short-term funds (between one and three years), the choice of going for a duration-led or credit-led strategy is with the fund manager and it can make a meaningful differentiation. For equity categories, complementary styles applied over changing market environments can lead to significant alpha generation.

What are your plans for 2018?

Ours is a strong fixed income franchise primarily catering to institutional clients. Our focus is to build equity assets. We are looking to scale up our existing products that have a five-year track record and launch different schemes on the AIF platform. We have started unique value-added initiatives to engage our distribution channels by opening new avenues of growth for them. There is substantial investment being made in technology both from the perspective of business development as well as enhancing the investor experience. We are looking at ramping up the number of people and physical infrastructure also.

What is your market outlook for 2018?

There are green shoots signalling revival of the economy with strong capacity utilisation numbers along with growth momentum in industries such as automobiles and consumption. In the run-up to the general elections, the investment spend by the government and push for agri or rural growth should be good from the economic growth standpoint. But the deteriorating fiscal situation along with rising oil prices and shortfall in GST collections are adding to investors' woes. It will be a stock picker's market with a strong bias for quality businesses. The political developments emanating from Eurozone, aggressive stand taken by the US on trade tariffs, and the buoyancy in commodity and oil prices will be factors to look out for.

Some believe that the markets are factoring in a 'Modi victory' in the general elections. Do you see a reversal in mutual fund flows in case this is proved wrong?

It is early to attempt a guess on the outcome. MF flows today have a monthly contribution of about Rs 70 billion which is growing as more investors opt for financial assets. SIPs are unlikely to get significantly affected by the election outcome. If anything, investors may use corrections to deploy additional amounts.

Are Indian equities overvalued?

Some segments of the market are at the higher range of historic median levels. From the broader index perspective, on a relative valuation basis, large caps look more attractive. However, at a stock specific level, there are opportunities available across market capitalisations. It will not be a good idea to completely shun mid and small caps. Maintaining an appropriate allocation in the overall portfolio will be the key.

We expect volatility in the next 6-12 months across mid and large caps and investors should do a systematic investment plan and stick to quality businesses.

What is your view on earnings growth for FY19?

We expect Nifty companies to clock earnings growth of 18-20 per cent, led by financials, metals and automobiles.

Which sectors are you betting on?

We are bullish on industrials, metals, consumer discretionary and private sector banks. Also, pharma as a sector is on our radar. Rural economy is expected to do well in an election year, giving a strong fillip to consumption demand. Private sector banks are poised to grow at a faster pace as more and more PSUs are coming under the PCA framework and facing a freeze on credit. Rising interest rates put NBFCs at a disadvantage compared to private banks.