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'Our FY19-end target for Sensex is around 34,000'

At a time when the markets are grappling with rising bond yields, a ₹114-billion fraud in India's second-largest public sector lender and the possibility of the US Federal Reserve raising interest rates, **SAURABH MUKHERJEA**, chief executive officer, Ambit Capital, tells **Puneet Wadhwa** that he expects double-digit corporate earnings growth in FY19. Edited excerpts:

Q&A

SAURABH MUKHERJEA
Chief executive officer, Ambit Capital

Do you see the markets drifting lower over the next few months?
The overall market is still overvalued. The fair value for the S&P BSE Sensex at FY18-end is around 30,000 and the fair value for a year hence is around 34,000. At present, large-caps are around 10-15 per cent overvalued and small-caps are overvalued twice as much.

What are the key triggers for markets?
An economic recovery is underway in India and that should help corporate earnings grow in double digits in FY19 -- the first in five years in which we will see double-digit earnings growth. That, in turn, should lend support to the stock market, especially if more bearish catalysts like rising global oil prices, rising US bond yields and adverse political outcomes for the National Democratic Alliance (NDA) take hold. Our FY19-end target for the S&P BSE Sensex is around 34,000. The domestic bond and stock markets have already started factoring in slippage in the fiscal deficit in FY19 given that it is an election year.

Can the long term capital gains tax (LTCG tax) and the development with respect to India's weight in MSCI index take the sheen off the markets?
The manner in which LTCG is being introduced, we could see some profit-taking by investors as we approach the end of FY18. Over a longer term, while the introduction of LTCG tax is not a positive, it is hard to be definitive about whether it is a negative for the country. Regarding the MSCI, they are like any other corporate house with a profit motive. If their commercial interests are attacked, they are obviously going to do something about it.

What is your reading of bond markets?
We repeatedly warned our clients in April 2017 that Indian bond yields were all set to rise. Even then, we have been surprised by the rapidity with which the 10-year government bond yield rose. This indicates a decisive increase in the cost of capital. This, in turn, has adverse implications for the long-awaited capex recovery in India. Government bonds also have a place in a high-quality well-diversified Indian portfolio and higher yields on these bonds are good news for investors who need to see yield.

How hard will it be for public sector banks to restore investors' confidence given the PNB episode?
Public sector banks in India have had a chequered track record. So, I can't imagine that too many people are surprised by the latest scandal. It wasn't the first such scandal in a PSU bank and it won't be the last. I am not sure that serious investors will bother taking minority stakes in the PSU banks but the top two. Unless you invest in Indian stocks with at least a three-year horizon, you are making it hard for yourself to make a good return. For those who want to take the long-term route, i.e. 5-10 year investments, to generate wealth, investing in private sector banks with good liability franchises is a sensible strategy.

Which sectors make it to your investment list?
The fact that we are in the early stages of a recovery predisposes me towards private sector banks with a strong current account, savings account (CASA) franchises, metals & mining companies and strong consumer discretionary plays. I have also repeatedly pointed out that the market overdid the cynicism last year regarding information and technology (IT) and pharma stocks. Some of these appear to be undervalued.

What are the key takeaways from your latest book *Coffee Can Investing*?
We wrote *Coffee Can Investing* to lay out a simple, low-cost, low-risk method for long-term investing (across equities and bonds) that allows investors to grow their wealth at a reasonable rate. Such an investment method is especially useful in volatile markets. Given that we are in an election year and the world economy is breaking out of the post-Lehman era of super cheap money, *Coffee Can Investing* is a good strategy to adopt going ahead.

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