'Building blocks for sustainable recovery in place'

Though the stock market has fallen around 10 per cent from recent highs, the number of investing opportunities hasn't expanded, with slow recovery in earnings, says **JANAKIRAMAN R**, vice-president & portfolio manager–equity, Franklin Templeton Investments. He tells **Samie Modak** an easing of interest rates will play a pivotal role in boosting corporate earnings. Edited excerpts:

Q&A

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Indian markets have come off from their highs. Are there more investing opportunities?

The broader market has come off by more than 10 per cent over the past six months. Over this period, there has been a gradual realisation that the recovery in earnings is likely to be slower than current expectations. This has led to a less than commensurate correction in market valuation. So, from the perspective of valuation and growth, the number of opportunities has not expanded materially. Also, the gradually increasing Initial Public Offer (IPO) pipeline has brought forward some attractive opportunities.

What are the near-term headwinds the market faces?

Global demand weakness has hurt exports. Even after adjusting for price deflation, our exports have been weak for almost a year. In addition, the pace of recovery in domestic demand has been less than expected. These two factors will have a bearing on corporate earnings. We have indeed seen a correction in the market expectation of the index earnings growth rate for 2015-16. Downward correction of growth estimates, till they persist, are likely to be a drag on market performance.

Are there any positive triggers for the market?

Falling cost of borrowing will play a significant role in improving discretionary demand and corporate earnings. Continuing softness in commodity prices will be another factor that helps recovery of aggregate demand. Low commodity prices and falling interest rates helps India's fiscal balance. This, in turn, should keep governmental spending at robust levels. Improving quality of government spending is another positive factor to take note of. The aggregate impact of all these is likely to gradually catalyse growth and earnings.

What are your expectations from the market over the next one year?

Despite recent market volatility, we believe India seems better placed, on the back of improved macro economic variables. These include a lower current account deficit than earlier, moderation in inflation and consistent focus of the government to improve the investment environment. The building blocks required for sustainable economic recovery seem in place. While urban discretionary demand has shown decent signs of revival, rural demand has been weak, owing to a slowing in rural wage growth and rural inflation. However, the Reserve Bank's recent rate cut is likely to translate into reduced cost of borrowing and, hence, would bode well for household spending, providing some impetus for consumption-led recovery.

When do you expect a recovery in corporate earnings?

Interest rates are expected to play a pivotal role in shaping up the corporate earnings, as well as stimulating consumer spending. With markets valuations close to the long-term average and expectations regarding the trickle-down effect of interest rates, corporate earnings are likely to improve in the next financial year and, hence, prospective market returns will be a function of corporate earnings growth.

Which sectors or themes do you find interesting?

While there are pockets of over-valuation in the market, there are enough opportunities that offer an attractive mix of acceptable levels of growth, quality and valuation. The high end of 'quality and growth' is probably overpriced and people are giving excessive premium in such segments. At this juncture, stocks that are of high quality and high growth are getting the highest valuations.

Are the flows coming into equity schemes sticky? Will they continue?

From a medium-term perspective, equity returns appear better than alternative asset classes. As long as this view persists, flows are likely to be sticky. While short-term performance is important, we urge investors to look at performance metrics of a fund over a longer period and identify schemes that suit their risk profile.