'Equity: the most attractive asset class'

Anand Rathi, a market veteran, has worn many hats in the last three decades – from being CFO of a leading business house and president, Bombay Stock Exchange, to managing a leading broking firm. He tells Sunil Damania that the GDP in the fourth quarter could be more than 7.5 per cent

SANJAY BORADE

You recently acquired Religare's wealth business. The broking business is under stress on two counts: investors prefer the mf route; and the discount broking business model is gaining traction. How do you see the broking business going forward?

We have acquired only the wealth business of Religare. We do have our own equity broking business – institutional, as well as retail. Yes, the equity broking business is facing challenges, but we are handling them effectively. Allocation in equities – both directly and through mutual funds – by the Indian households remains minuscule, judged by the global average or even our own past standards. In recent years, equity allocations have been increasing and we expect the trend to strengthen further, especially with the ongoing drive towards digitalisation and weeding out of black money. These measures bode well for the brokerage business. We prefer our smaller clients invest through mutual funds.

Whether the clients invest directly in stocks or through mutual funds through us, our revenue does not get affected. As a group we aim to facilitate our clients' asset allocation and management through knowledge sharing and trust building. This is different from the discount brokerage model, which is purely transactional and execution-based. Clients ultimately pay brokerages based on the contributions made to their portfolio, rather than just the transaction costs borne for order execution. You will be happy to know that with the knowledge and trust-based approach, we are seeing growth in our equity brokerage business.

The recent GDP data surprised everyone. How do you see GDP growth in Q4FY18?

The third quarter's GDP figures have in fact been pleasantly surprising. It is now clear that the dampening effect of demonetisation on economic activities has been far lower than what was earlier anticipated. We expect Q4 growth to be more than 7.5 per cent. Incorporation of income declared under the voluntary disclosure of unaccounted income schemes – one prior and other after the introduction of demonetisation – would add to the size of India's accounted-for (white) economy in the fourth quarter.

The RBI seems to have indicated that no rate cuts may happen in the near future, but the US Fed is threatening to hike the same. What is your assessment?

I do not expect retail inflation in India to flare up a lot in the next 12 months, which may open the window for the RBI to effect a rate cut during the year. Despite this, and also because of the likely rate hike by the US Fed, the real policy rate in India would remain higher than as compared to the US. More importantly, the transmission of the past policy rate cuts in India in bank lending and now even in debt market rates remain incomplete. Consequently, I would expect these rates to fall during the current year.

Export-related sectors are under pressure due to Trump's policies. In this context, what are your views on it and pharma?

We do have slightly negative views on both the sectors at present, and the Trump policies are important ingredients. There are also other serious issues facing companies in these two sectors. That said, on a bottom-up basis, there are several scrips here that could offer interesting buying opportunities.

Your firm closely tracks mid-caps and small caps, which have run up significantly. Do you think they will sustain this outperformance?

Large cap companies are generally well-researched and, therefore, the prospects of these companies are generally reflected in their scrip prices. In contrast, in the absence of quality research there are often significant information gaps about mid-cap and small cap companies among investors. We try to bridge this gap and create value for both corporates and investors. Despite recent investor interest in many mid-cap and small cap companies, we remain confident about the outperformance of mid-cap and small cap quality stocks over their larger cap peers in the 12-24 month horizon.

Recently, a leading broking firm raised its Sensex target to 33000 by December 2017. Where do you see the Sensex at the end of the year?

I believe investments in equity should be only for long term, and investors should not make their decisions on short-term Sensex targets. Hence the Sensex, in my view, will give a return of 12-15 per cent over the next three years. Equity is the most attractive asset class in the present scenario and shall remain so over the next three years or even longer. ◆

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