

'Corp earnings recovery likely in a few quarters'

Dalal Street is witnessing an upsurge with both key indices breaching record highs and **Sundeep Sikka**, executive director and CEO, Reliance Mutual Fund sees the uptrend continuing. The recent rally has stemmed from hopes of recovery in company earnings, he said in an interaction with **Arpita Saxena**.

■ How is the current market situation playing out for investors?

The current valuations are at a premium to the long-term averages, however, our view is India is likely to witness a structural growth trajectory for the next 8-10 years. We have the best-ever macros with low oil prices, low inflation, lower interest rates, a very stable currency and lower fiscal deficit. Domestic investors have become more matured and are systematically investing in equities.

■ What are your expectations from the corporate earnings?

We remain confident of earnings recovery over the next few quarters as macro-economic variables like interest rates remain supportive for overall earnings growth recovery. Over the last two financial years, the index earnings were compressed due to sectors like banking and metals,

which had witnessed much lower growth. This lower base of earnings should also facilitate an uptick going forward. Stabilisation in export growth will also be another supportive factor to drive earnings in the next 12-18 months.

■ Nifty has breached the 9400 mark and is at an all-time high while. Is 9700 in sight?

Even though markets have risen, earnings are still behind. Total India Inc earning is around \$69 billion which is barely 3% of GDP. Again, normalised corpo-

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rate profits to GDP are 4.5-6%, which suggests markets are on a very low base, thereby implying markets have run-up in anticipation that earnings are going to rebound. While markets are risen to 9400, it's just a number. We feel the market will keep scaling higher and absolute market should not

matter at all.

■ What is would be their growth trajectory of midcaps and small caps?

Midcaps and smallcaps tend to outperform large-caps when there is uptrend in the markets, broad-based market movements and risk-seeking behaviour. Given the strong rally in the mid-cap space over the last two years, from a valuation perspective, large-caps appear to be relatively attractive. Also, in case there is some correction post the strong rally the mid-cap space can correct more than its large-cap peers. However, if we take a medium- to long-term view and expect the domestic growth to improve further, the mid-cap space can continue to outperform over the next three-four years. That said, the extent of outperformance can be lower, given the run-up we have seen in midcaps in the last couple of years.

■ How will exchange traded funds (ETFs) challenge large-cap funds?

ETFs can offer a competitive investment alternative to large-cap investors. However, given the domestic growth prospects, there can be alpha-generating opportunities especially in the mid- and small-cap space, which can witness emergence of new themes, new sectors, etc, providing alpha opportunities. Hence the actively-managed multi-cap/mid-cap funds can continue to outperform for the medium- to long-term funds, while investors seeking market returns with lower deviations can evaluate the ETF option.

