Indian savings are strong and we need to get them into the market: Milind Barve, HDFC AMC

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In a chat with ET Now, Milind Barve, MD, HDFC AMC, says If you really are risk-averse, we could be buying into just fixed maturity plans right now

ET Now: We are going to get into conversation at a time when nothing is going the markets way?

Milind Barve: No, I do not think nothing is going. I do not know why you say that, as I said to you earlier it is easy to be pessimistic but I do not think we are. Yesterday the index was at a 52-week low and people were talking about some reports on global recession. I do not believe that India is a complete island of safety for the rest of the world but our growth numbers do stand out in terms of comparison with regional EM markets and the global

appetite is looking for growth fundamentally. Obviously we have challenges in the way our economy is structured and the way our whole market cap ownership is. We can talk more about that later but we do believe that basically we take a lot of comfort from the fact that if you are in the hands of people who are the most talented and qualified to handle the situation, you do not worry about what exactly is going on. So I I would say between the government, the Ministry of Finance and the RBI, we have the right team handling the issues. We obviously cannot ignore the fact that we are now bigger part of the market. I mean if you look back just into about 15-20 years back, we opened our arms to foreign institutional investors. Today almost 25 per cent of our market cap is owned by them and that is just one way of looking at it. If you take away the promoter holding which is about 50-55 per cent, then almost more than half of the free float is in foreign hands. So what we now need to do is have a three-year plan which says how do we increase a domestic ownership of a market cap from about 20-22 per cent to 30 per cent over three years time. If we do not do that, I would worry that our debates on markets will continue to be cornered around what foreigners and what international capital allocators will think about India. India all said and done will always be a part of the emerging market community. It will be very difficult for us to make a case that ignore all of emerging markets and just look at us and just to give you one data point single country fund, India single country fund less than 30-35 billion that is it and total size of the foreign ownership is probably at '$350 billion may be little over now. So this is not just about selling India so that we have to look at the domestic constituency and Indian savings are strong and we need to just get them into the market.

ET Now: But the point is at a time like this when there is almost a global rout playing out, there is talk about a global recession as well. Again playing out capital protection is key so what do you do right now. Do you get out of the market wait for some signs of its turnaround and then jump back in because one worries that with names like HDFC Bank at a 52-week low, quality is now caving in?

Milind Barve: Let us be realistic. Nobody knows when that turnaround is going to happen.

ET Now: Absolutely not but it will reflect in earnings would not it...

Milind Barve: So clearly the mother answer to everything is earnings. So the question on the table is when do we see the visibility of earnings a little more clearer and when can we start betting on not just the macro being very strong but seek it in corporate earnings. There are analysts who tell us that the third and the fourth quarter of the next financial year will see the turnaround. I really do not know how you can get that so accurately. I wish they are right but I do not think you can sort of even time that. We have always believed that you cannot bet on timing the market and it is better you put money through SIPs. If you are a little aggressive and if you believe that a recovery is going to be faster than slower, you could finish off your investing in six months or one year and if not, you can elongate the period of your investment or entering the market over one to two years. If you follow that strategy which is boring but simple and probably the most effective, then that is what your viewers and investors should be doing, rather than trying every day to say this is the new bottom,

ET Now: But how are you convincing people out there to actually deploy money in a market like this?

Milind Barve: I do not think in the last two or three years I recall any fund house or distributor talking to any investor saying this is the time to enter the market. We have all the time said do not time the market, if you do not have an investment horizon of less than three years, do not enter equity as an asset class and certainly not equity mutual funds. I think there has been just one single voice. This industry has gone and said do not invest short-term look at SIPs. A year and a half back, we used to have one lakh new additions in SIP, now it is more than 2 lakh. Forty per cent of the new flows that come into our industry are coming through SIPs and even in the last two or three months, where we have seen some real sort of gash in terms of market caps, the flows from SIPs have not reduced. Even the addition to SIPs are continuing, so there is a lot of resilience which the domestic investors are showing which also underlines the fact that the fundamental faith in a turnaround in a recovery is not still impacted. Yes, there could be some unanticipated turbulence. Most fund managers have got it wrong and one should admit that. We still believe that the turnaround may be another year or year-and-a-half ahead and investors are well off looking at that. That said, we are talking about when to enter equity in the markets. Mutual fund is not just about mutual but equity funds. So there are a whole lot of other products we can pick on. If you really are risk-averse, we could be buying into just fixed maturity plans right now.

ET Now: Look at the bond markets. There is a carnage there as well. I mean really wonder which asset class to put money in?

Milind Barve: Looking at the risk carnage, if you are taking sort of duration call or you are investing in funds which have an extremely high risk credit profile. But if those issues are not there, today a money market fund or a liquid fund is earning returns of about 7.5 per cent. So to my mind, there are a range of options to choose from. There are no sitting ducks, there is nothing like oh, this is like such a nice safe investment and it is going to give you 16 per cent return. You do not have to worry, there is nothing like this, there never was. But that said, you need to sort of stay aligned to what your basic asset allocation is and not deviate too much from it. I do not believe when people say "if the index goes at this level" -- and I have heard this many times in various media -- "sell your house and buy into markets". I have not seen any fund manager sell their house and buy in some great funds.

ET Now: I do not have a house. What should I do?

Milind Barve: If they are, they are probably selling their fourth house and buying into the market but certainly not the one.

ET Now: The reason I am asking this to you is, when we drive from home to office and office to home nowadays, I see a lot of advertisements from your fellow peers talking about how safe debt funds are. I see hoardings which say stay invested, do not get out of the markets right now. My question is would it be a prudent strategy right now to go for the safety net right now because equities are just looking that bit more volatile and therefore debt funds is a better option? Are you seeing more inflows there?

Milind Barve: We are seeing good inflows in debt funds as well -- whether it is in credit funds or it is in simple short medium duration funds. I think the best thing if you want to do is to allocate a certain part towards equity. You get into a liquid fund or a money market fund which is a low risk fund and you sign off for a systematic transfer over the next one year or 18 months into equity. So that gives you the safety and your money is not idle. It is earning you a reasonable return and then you are also timing your entry. But at the end of the day, you cannot just simply put all your money in equities which is not the asset allocation anyway. So you have to have some allocation where it can be a mix of either medium duration. About interest rates, while there could be a debate about the trajectory of interest rates coming down along with inflation going forward ,-the direction is clear. So we still remain confident on duration funds and high quality debt. So I think there is a range of things to choose from. I agree there are no easy choices and I think investors, particularly retail investors are best served by engaging with the distributor and advisor and spending some quality time. I think that this is a need to spend more time in environments or timings like this to just understand what is happening and not get really into any panic mode and start selling.

ET Now: You represent a fund house and you have got variety of products, no bias, everyone needs to understand their risk profile and then invest. If I look at the secondary market equity, there is an inherent advantage that if you are a genuine long term investor you do not pay taxes. There is a talk that long-term taxation structure could be tweaked. Is the mutual fund industry prepared for it?

Milind Barve: Let us look at this way; if you look at it in hardnosed manner, we have just been talking about if you are not-- investment horizon is not less than three years do not come into equities, it is hard to say this will make no difference. But given the fact that we are at an index which is close a 52-week low and we have, as you just said, the global environment which looks a little hostile towards emerging market capital allocation, I am not so sure of whether the timing of doing something like this would be appropriate. That said if they do it in way that is staggered which is slightly small tax for one and one to two year and then after three years making it exempt, I do not think it is going to sort of completely rock the boat. I would still debate on the timing but I do not think it is going to make equity as an asset class any less attractive. Also you have to look at the fact that at least over the 12-month period there is not any capital gain to book.

ET Now: That is the key point. Look at what the government did with the debt funds wherein the impact was immediate, the next

day onwards. Even if you had invested ahead, if you indeed go ahead and liquidate your investments, you had to pay tax. My question is if there is a capital gains tax, will it only be on a prospective basis? Will the market take it very negatively? For them, it is easy because it will only happen if you start buying equities post April 2016.

Milind Barve: Obviously, it will be better if they make it prospectively in respect of the investments you have made.

ET Now: Which is fine, but will the market take it negatively if that is the provision or will the market believe it is alright?

Milind Barve: Look at it this way, if you have actually been an investor anywhere, in the gap between one year and three year, you are probably sitting on some capital gains. If you look at the behaviour of investors when this happened with debt funds, most of them stayed on to full complete the three years. So the issue and this is often being asked is, will there be redemption? I actually believe no but when a new investor is coming in, he may just want to think again before saying if I buy now am I going to have a minimum period of three years before I can get out? So it is not about whether we will face redemption pressures. It will be whether we will be able to continue the momentum of getting the new customer because the new customer has to be mindful that now this is a three-year call and therefore I need to be sure that I want to be in it.

ET Now: So if you have to give an asset allocation pie chart to our viewers, would it be 50 per cent liquid funds, 25 per cent debt, 25 per cent equity?

Milind Barve: Even when I see or meet two people in a room, I cannot give them the same allocation because it does not suite them. So to give an allocation to everyone of your viewers in general is almost impossible.

ET Now: Predictably what would make better returns in the next one year considering how volatile the global scenario is?

Milind Barve: There are interesting things that I have learnt as a part of what we do. There are people who might be 60 plus or more. They have more than 70-80 per cent in equities and when the market goes up, they worry about the 20 per cent which they missed out. Then you have people who are young and who have 25-30 per cent in equities and when they lose that, they are losing their sleep. So essentially, I would still not get into this allocation business.

ET Now: Allocation is based on the risk appetite.

Milind Barve: Yes so it is basically as simple as either you sleep well or eat well, you cannot do both.

ET Now: Somewhere it is compulsion also. So let me phrase my next question slightly differently. Markets are low and yields are high. On just purely from and asset allocation perspective, do you think fixed income also is a big scope right now? We always tend to over emphasise equities and we only tend to talk about earnings and PE multiples. But if you are buying into a debt scheme right now, you are pretty much buying when yields are nearing 8 per cent. So can fixed income give a handsome return in next two years?

Milind Barve: I genuinely believe so. If you look at the nominal yields on reasonably high quality paper, I think they are very good. So they are excellently priced and there is a huge arbitrage if I can say that if you hold these papers over the next three to five years. So yes we could always argue that does not cover you for inflation so on and so forth but if you hold it for three years, you have indexation benefits. So you do not get that there is as much of tax benefit in debt. So I always like it when the discussion shifts away and is not always focussed on equity mutual funds but also on debt because I do not think India as an investing population, is ready to be talking and hearing about only equities.

ET Now: But the answer which I am looking from you is that in this market, rout adjustment, or volatility you may call it, has happened to SIPs. What has happened to inflows? Are you getting any redemptions' heat anywhere?

Milind Barve: If you look at SIPs as I mentioned, the industry has about 94 lakh SIPs and an average of about little under Rs 3000 per instalment. So the SIP flows continue to be strong. There is no short of redemption pressure per se. The non-SIP buying into the funds if you use November, December as the months when you had normal flows, then January is about 10-15 per cent less and February might be 10-15 oer cent less. But I have been surprised to see the kind of resilience and the maturity of the retail investors. So they continue to come in, so as I said before they continue to believe on the recovery story.

ET Now: So keep the faith, that is the market...

Milind Barve: Keep the faith. I am a firm believer. You need to keep the faith and I think there is no need to sort of be despondent because you are obsessed with what the market levels are. You are obsessed with what the headline news about index is and how much market cap have been wiped out. I think we are far better off not being distracted by all the news. These are tough times. It is not very common that you see a 20 per cent negative return on one-year basis. But if you look at history and if you look at what has happened in the years that followed a year like this, investors in most cases, almost in all cases, have been rewarded. So I think if you have been part of the pain, you need to be a part of the recovery as well.