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## Selected names in 3 sectors may drive Q4 earnings: Lalit Nambiar, UTI MF

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In a chat with ET Now, **Lalit Nambiar, UTI Mutual Fund**, says only a few companies are holding it up and saving the blushes. Some PSU banks, metals and oil and gas could see good results in Q4

*Edited excerpts:*

**9300 seems to be a level which is becoming difficult to surpass. Do you think it is here for some time as we are not getting any global triggers either? In fact, due to geopolitical reasons, we are under pressure. Back home, is it earnings that we have to watch out for?**

Obviously earnings are something the markets would look for, expectations are not too high. A broad understanding is you would just about get barely double digit top line growth and more or less the same in the bottom line as far as the Nifty is concerned.

But there is a lot of skew. A few companies are holding it up and saving the blushes while the rest are expecting pretty pedestrian kind of earnings. So markets have bid themselves up and are in a little bit of a worry and it is that standard wall of worry which we seem to be climbing.

As you mentioned, there are a bit of a question mark on global events. Closer home, some policy announcements by the government may not cut to the core of what we want in terms of policy direction and perhaps the market is waiting for more from the government in terms of reforms, regulation and as their mandate is now much stronger, hopefully we will get something somewhere there and especially in the area of assets, asset quality and bank asset quality resolution.

**We have seen some forward movement in the field of NPA. The finance minister yesterday promised Parliament that new measures would also be taken. Let us just stay with the earnings. Tomorrow comes InfosysBSE 0.17 % results. The expectations are not very high from the fourth quarter. What it is that the street is expecting from the Q4 earnings and are things going to improve substantially in the new financial year?**

As far as the numbers themselves for the quarter are concerned, obviously it is a summation of many different types of stocks. There are some commodity names there, some PSU names which will see sharp reversals simply because they had pretty bad numbers in the same time last year and that is shoring up the numbers. It could be possibly in PSU banks, it could be a couple of metal stocks, it could be some gas names and that is broadly the numbers. If you knock these out you are actually not getting

too much. In fact, we are getting a nearly flat earnings number for the Nifty and that is what I was trying to say.

So the underlying skew is quite strong with respect to companies within the Nifty which essentially tells us that not much is happening in terms of earnings. There is not much of a read out there for the coming year as well. There is always expectation at the beginning of a year that things would be hunky dory and earnings would see a turnaround but as we have seen in the last couple of years that has not happened.

The market stance is more to look at the government policy for direction. We have had some announcements on the railway front and some expenditure there. There is some talk that there is a possibility of a cyclical pickup somewhere along the line, companies which have put of capacities earlier in earlier cycles should see their capacity utilisations move up. and as they hit that 76-77% capacity utilisation rate. Usually at 72-73% capacity utilisation, people start planning capacities and capex happens and the investment cycle takes off. So I think the market is somewhere between looking at earnings and looking at when the next capex cycle will happen.

Funds are flowing in because alternate assets are not as attractive as equity in terms of risk and return.

**What is the expectation from IT as a sector because we are staring at Infy's numbers tomorrow and the sentiment so to speak for IT does not seem to be the strongest given the competitive nature of the sector. There is still that big overhang of H-1B visa policy and Infy wherein it is such an individual case given the spat between the founders as well as the top management. Expectations are extremely heightened as to what they are going to do with all that cash on their books and whether or not there is going to be a buyback announcement tomorrow?**

There are company specific issues. There are some headwinds in some cases but overall our view is that as a sector you will have to really pick and choose the secular situation in the sector. It could have been much better. Unfortunately, the policy announcements from the US are not very positive and there is also a broad secular kind of decline of opportunity in that space. But at the same time valuations also have corrected, So it is a bit of an opportunity but at the same time there is also risk. The markets are trying to look at things bottom up and trying to see which companies perhaps are better placed in the next one year in terms of their immediate opportunity space, in terms of their verticals and try and play them.

At best, once can try to get bargains but I would say that would be scrapping the bottom of the barrel. If there is negative news tomorrow, next week you will probably see quite an adverse reaction from the IT companies.

**Where is it that you are expecting an earnings surprise to come in and where do you think there is scope for disappointment? PSU banks could be one such case if the NPA policy is not really announced anytime soon. But for the quarter gone by, do you sense that perhaps the NPA pressure is going to remain on the PSBs?**

Hopefully we do not see too many fresh NPAs getting added unless there is one or two funny cases which just pop up but broadly it seems to look like the market broadly knows what kind of NPAs these banks have, how they are going to move them from restructured to NPA which may hold some surprise but at the margin or perhaps generally speaking, the market is well aware of where the banks are with respect to NPAs. I do not think there will be any nasty surprise.

**The government is hoping there will only be positive surprises coming in if it indeed comes out with that comprehensive policy. The other thing to watch out for will be the official expectations on the monsoon. So far, Skymet says it might be below expectations and met department is indicating it is going to be a good monsoon. Anyway, monsoon is going to be a big trigger for the markets?**

There are those who believe that a very good monsoon after two bad monsoons which we saw last year should more or less insulate us from one more bad monsoon, That is the broad line to take because a lot of the rain which came in last year should have recharged a lot of our aquifers and our dams and lakes and to that extent we are better placed this year than we were last year to face a not so good monsoon. In general, it is something which has an impact on sentiment but perhaps less so this year than last year because we have had a very good spell of rain last year, especially in the north.