HIREN VED/ALCHEMY CAPITAL MANAGEMENT

# Narrow down your investment thesis to a set of few sectors

By Vivek Law

BLOOMBERG UTV

INTERVIEW

Hiren Ved, director and chief investment officer at **Alchemy Capital Management Pvt. Ltd**, doesn't expect Indian stocks to return to a bull market until 2014, when fresh blood is infused within the political system and the euro debt crisis is resolved. In an interview, Ved said some of the problems that we are facing such as high commodity prices and inflation will not go away in a hurry. Edited excerpts:

**Going through the recent note that you put out and you mentioned very candidly that there is a situation of deep despair and uncertainty out there and, therefore, all this has left investors wondering as to what's in store for them from the equity market. So my first question, what's in store?**

The macroeconomic situation both outside of India and in India is pretty challenging at this point in time. So I think, we are going to be in one of those phases in the markets where it will go through a long phase of consolidation before it is ready to take the next leap forward. We do believe that India is still in a long-term structural bull market, but if you look at the last two decades, what happens is that every decade you have a major rerating, then you have a long phase of consolidation, then you have the next rerating, and then again you have a long phase of consolidation. So what I think investors should look at is that we had that one big rerating that happened between 2003 and 2007-08 and now we are entering a phase of consolidation. It's not necessarily bad; you do have mini bull and bear market cycle within that long phase of consolidation. But people tend to look at markets from an index perspective and say where has the index gone. And like it was between 1992 and 2003, the index kept fluctuating between 2,500 and 4,500, so for a good 10-12 years, you had the index kind of bouncing around a particular range and investors felt the market isn't going anywhere.

**You had articulated that there were very strong gains during that period? Can you elaborate a little on that?**

When I say we are now entering a long phase of consolidation, we have already by the way spent the last four years in a range. If you really look at it, we were at 15,000-16,000 in 2007. We are already in 2011 and the markets are still hovering in that range. I think that between 14,500-15,000 and probably 20,000-21,000, the kind of peak that we made, is the range that we will continue to go on, probably till 2014, till there is fresh blood within the political system where things can move much quicker. Hopefully by that time, the markets would have worked itself through some of the problems in the euro crisis that is not going to go away in a hurry. Some of the problems that we are facing in terms of high commodity prices, inflation and those kinds of challenges will take a bit of time. So is it possible to make money? Yes it is possible, but you can't make money in the broad markets, you have to kind of narrow down your investment thesis to a set of few companies and sectors that you think will do well despite these challenges.


**Dismal outlook:** *Ved says that India could post sub-7% growth for a couple of quarters due to adverse economic conditions.*

**Would you say that right now, when according to you we are at a phase of consolidation for a bigger jump at some point of time, this perhaps is a time where you should actually be looking at some investment into the equity markets?**

Sure. In fact, every significant correction in a consolidation phase should be looked at as an opportunity to invest. You can't really time these because you don't know when all the factors will converge together for you to get that big leg-up. But my sense is that if you look at either 1992, after the crash, or if you look after the 2000 crash in 2002-03, there were a few things which were there. Markets were cheap, so valuations were reasonable, interest rates were low and there was a lot of despair, which means that people had really lost interest in the equity markets because they had seen strong returns, and then you see huge negative returns and nothing happens for a period of time, so people tend to lose interest. Those are the kind of conditions that one sees when it is ripe for the next big leg-up.

**How much do you expect the economy to slow down, people are talking of sub-7% now. What's your view?**

I think it's possible, we could see one or two quarters of sub-7% growth. I am not saying that probably the whole year would be less than 7%, but it really depends how the international situation pans out. So if you have a double-dip recession, coupled with tough economic conditions locally, then may be 7%. So you have to really look at the probability; you can't rule out, but you have to say what is the probability that it goes down below 7%.

I think couple of quarters can't be ruled out, but hopefully I think that this elevated interest rate will start falling, and then over the next 12 to 18 months, they will come down. People would have kind of lost interest because markets will just wear out investors, and hopefully some time in the next 12-18 months, you will see the things are ripe for the next move-up.

*feedback@livemint.com*