

● **INTERVIEW: A BALASUBRAMANIAN, MD & CEO, Aditya Birla Sunlife MF** **‘Price increases are not sustainable and some adjustment will happen’**

Raging raw material prices are likely to squeeze demand and affect earnings, but they may cool in 2022. A Balasubramanian, CEO and MD of Aditya Birla Sunlife Mutual Fund, in an interview with Malini Bhupta, says these price increases are not sustainable and some adjustment will happen as companies cannot pass on these increases to the end consumer. Excerpts:

Last two years have been good for markets, will 2022 be disappointing for investors?

Normally markets go through different cycles of 12 to 36 months – both bull and bear cycles. Historically whenever the market has given spectacular returns, returns in the subsequent period are moderate. My assumption is that post the pandemic, the market gave substantial returns unexpectedly as hope was rising. Keeping that in mind, the market will go through a consolidation phase. The current flat market is an adjusting phase. Ultimately, the market should not give more than normal GDP plus risk premium of 4-5%.

How are you viewing the current scenario where commodity prices are rising, the Federal Reserve is expected to taper its balance-sheet and geopolitical risks remain?

As far as commodity prices go, it is not that demand has gone up. Supply has been affected in most sectors today, which resulted in price increases. Supply disruptions have impacted prices. For instance, China has an embargo in dealing with Australia and Russian supplies have been disrupted. These price increases are not sustainable and some adjustment will happen as companies cannot pass on these increases to the end customer beyond a point. The last two years China has tightened regulatory framework for tech and banking industries. But growth has to return, as supply-chains normalise. Higher prices are hurting certain sectors like automobile and those that use derivatives of petroleum. So far companies are using inventory from the past, the challenge will come in the future if prices remain high. If prices are increased then it will impact demand so it will impact production. Therefore, these things are not good for the economy.

Do you see earnings impact?

Earnings will be very good during the March quarter. There is no impact as companies have



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lowered debt, balance sheets have improved and cost of capital has declined. Companies which have seen raw material prices go up will see some impact in the coming quarter. What everyone is hoping for is that economy will return to normal and so consumer spending will come back. If that happens, then the ability to pay more will help price increases.

How does India appear from a macro point of view given the challenges that face the economy? Will RBI hike rates?

Of course, today inflation is high but it is not because of demand but supply constraints. The RBI knows about it so it has to decide how long it can wait to increase rates. Growth is expected to return big time even though Ukraine has put a question mark on how fast it is coming back. Having said this, global

continued focus on reforms. Third, the tax system is aimed at ensuring higher compliance. With improvement in tax filing system, compliance is rising. Government spending also remains high despite challenges and it will help growth. The domestic economy is on a very strong wicket compared to the rest of the world. The performance linked incentive system to bring new manufacturing sectors to India is making progress.

Do you expect tapering of balance-sheets by central banks to see continued outflows from India?

I expect money to come back to India. If you look at it, domestic investors were buying when FPIs were selling as dollar strengthened. Looking at macro fundamentals, I would assume that flows will reverse in 2022.

Retail investors have supported markets, do you expect this trend to continue?

There is a fundamental shift in India towards capital markets. And this shift happened immediately after demonetisation since it made people think of alternate ways of looking at investments. If you see, the biggest flows to capital markets came over FY16-17 and FY18-19. During the pandemic, thanks to the low interest rate regime the industry saw higher flows. This has created a positive experience for investors as they have made money.

Fixed income went through a churn and credit funds have suffered the most. How is the industry dealing with it as investors get cold feet?

Fixed income is a space where there is merit for long-term investments. Fixed income has been affected in the last one year, due to RBI's action and the credit crisis. Risk appetite also came down as nobody wanted to invest in anything below AAA.

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inflation remains high and FOMC has started hiking rates now, RBI has to decide on whether it should wait or start increasing rates in a calibrated fashion. Going by historical approach, they will marginally increase rates in April or the next policy. The market will also prefer a calibrated approach.

How is India poised from a growth point of view?

India is poised very well from a growth point of view. Reason for this is political stability and