Do you think 'Grexit' is still a possibility despite the bailout package?

After a resounding rejection in the referendum by the Greek electorate, the alacrity with which the Greek Prime Minister Alexis Tsipras agreed to the bailout terms and the approval accorded by the Greek Parliament had opened up a possibility of early resolution of the imbroglio. The acceptance by the creditors of the bailout package after hard fought negotiations by countries led by Germany and supported by others such as Finland, Netherlands etc has ruled out any possibility of a Grexit that would have injected massive instability in global markets.

Are the markets **factoring in a rate hike by the US Fed?**

The fear of an increase in interest rates by the US Federal Reserve (Fed) before September 2015 has been allayed by Fed's dovish commentary. In its latest assessment, the Fed has lowered its growth forecasts for US GDP growth. Even if Fed were to raise rates by 0.25% sometimes between September and December 2015, the pace of any further rate increases is expected to be very gradual.

What are the domestic headwinds that could impact the Indian growth story?

Foremost among the domestic headwinds was the Indian Meteorological Department's (IMD) bleak initial forecast in May wherein it predicted a 'below normal' monsoon at 93% of long-period-average (LPA) and revised it down in June to a 'deficient' monsoon at 88% of LPA. The rainfall for the month of June has been 10% above normal, beating the forecast of both IMD and Skymet.

The other major domestic concern pertained to revival in investment cycle. The latest CMIE data shows an 8.4% rise in projects under implementation in the quarter ending June 2015 (1QFY16) which is fastest since quarter ending September 2012. There is also a significant dip in the stalled projects from a peak of 8.4% of GDP in 4QFY14 to 6.6% in 1QFY16.

Do you agree with reports that the next rate cut by RBI could be as early as August? How should investors position themselves vis-à-vis interest rate-sensitive stocks?

In wake of the Greek vote, crude prices have plunged with Brent trading below $ 60/barrel. With nearly 80% of its crude requirements being imported, India would be a massive beneficiary of falling crude prices with narrowing of its trade deficit, CAD & fiscal deficit. This would also lower the pressure on fuel component in CPI. In its last monetary policy statement, RBI had flagged-off three concerns regarding a possible spike-up in CPI by the end of CY 2015. One of them was pertaining to rise in fuel inflation which would get addressed if crude prices remain benign.

The other concern was regarding earlier-than-expected rise in US interest rates. The Greek imbroglio would weigh on the minds of the US Fed which would like to tread more cautiously on any rate increase. Lastly, if monsoon turns out to be better than IMD's bleak projections, the RBI may have to re-assess its stance and the current belief that there would a 'prolonged pause' in rate cuts could get reversed.

How do you see the Indian equity markets panning out in light of ongoing socio-economic developments, both global and domestic?

As opposed to a credit-fuelled retail rally in China, the Indian rally has been primarily driven by institutional inflows and is on a far firmer footing. The Nifty is trading at a reasonable valuation of 18.5 times FY16 estimated earnings of Rs 449.80 (with an estimated earnings growth of 21.5% y-o-y).

With an expected pick-up in investment cycle, RBI's success in tamping down on consumer inflation, stable currency, better-than-expected rains, the government's resolve in adhering to medium-term fiscal consolidation targets, coupled with its strenuous attempts to revive the investment cycle and adhere to a forward-looking reforms agenda by trying to create consensus on the landmark GST bill and land acquisition bill, expected jump in FDI in the medium-term in sectors such as defence, insurance and railways, we expect Indian equity markets to outperform in the medium term.

What investment themes look attractive at current levels?

We would advocate playing the investment cycle revival theme through beneficiaries of large capex in the road construction sector, such as Ashoka Buildcon and Sadbhav Engineering. L&T and Cummins will benefit from a capex revival in transportation (roads, railways, ports etc), metros & mono rail projects, defence and ship-building, oil and gas as well as other process industries.

One should be overweight in interest rate sensitive cyclical sectors such as BFSI, autos and cement; these would benefit from an easing rate cycle over the medium-term as well as a perk-up in aggregate demand due to improvement in economy. In the BFSI sector, we favour private sector banks such as HDFC Bank, Axis Bank and YES Bank.

Among autos, we like Maruti Suzuki and Ashok Leyland. In the auto ancillaries, we are positive on Motherson Sumi & Bharat Forge due to their large, scalable business models with well-diversified revenue streams across geographies, sectors and clients. Ultratech Cement and JK Lakshmi Cement are our preferred plays in the cement space.