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**BUDGET EXPECTATIONS**

Aditya Birla Financial Services CEO Ajay Srinivasan hopes for more capex, more directional cues than big-bang p6

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# 'More money must be put into capex'

## I expect directional cues from the Budget rather than any thing big bang: Aditya Birla Financial Services CEO

ANUPRIYA NAIR

Bloomberg TV India caught up with Ajay Srinivasan, CEO of Aditya Birla Financial Services, to discuss market returns, corporate earnings and the government's reform agenda. Excerpts:

**As we step into 2016, do you see much change from 2015, or will it be a slow trudge up?**

The big thing in 2015 is the way the global economy has panned out and I don't see that changing very much in 2016. I think 2015 has shown there is a fair amount of fragility and we are more likely to look at downside now in terms of global growth compared to upside.

The US looks like one possible oasis of growth both in the developed world. But there too, growth is not really convincing yet. We are living in a world where the global economy as a whole is generally slowing down and India is the proverbial oasis in this desert, we do look quite good relatively. But I think there is much more to be done.

**We are going to start focusing on the Budget soon. Is 2016 going to be the inflection point? What is at stake here since the government is the only spending engine for the economy?**

My expectation is to look at this more for directional cues rather than expecting any big bang. If you look at where this year will end for the government, my guess is government revenues may not be that disappointing, indirect taxes have done well, and direct taxes are slightly behind, and they are slightly behind on divestment. But on revenue, overall, they may not be that far behind the target. On expenses, I think they will be in line with the estimate. So net-net we will be in line with the fiscal deficit target which is a good, going forward.

The key theme next year is going to be two things. One is what they do with service tax, as they start bringing it in line with the GST. That would give you some indication of what the GST rate they will arrive at. Second is the composition of the government expenditure. Because what we are looking for is the government putting in some more money at work and that is going to be critical as we look at the base and break-up of expenditure for the government. So the more money they put into Plan Expenditure or capex that will be good. We are already seeing more money going into OROP and the 7th Pay Commission, that should boost consumption to some effect. We now want to see some more capital expenditure coming through.

***The RBI is being very clear that inflation is the key target for them and I think they have been consistent in that regard.***

**It's also been a year where the RBI has moved significantly - by 125 basis points. What is the value of money right now in the economy?**

Rates have indeed come down. The RBI is being very clear that inflation is the key target for them and I think they have been consistent in that regard.

But if you look at financial services in general, two or three big things have been happening and the RBI is putting some of those in place. First is real rates, they are reasonably high which is very good for financial savings in general and therefore you should start seeing more money going into financial assets as against physical assets.

The second thing started with the Budget last year, which is that we are seeing more of monetisation of assets. You are seeing much more money moving from other parts of the sector into the formal banking sector, whether through the Jan Dhan Yojana scheme or through the DBT scheme. The more that happens, the bigger multiplier you get. The third is that many new banks are going to come up next year. Between payment banks and small banks, you are going to get another 20 banks that are going to get more money into the formal system.

**What about retail money? Do you see a revival of that coming into the markets and sustaining through the next year?**

There are two things at play here. This year, we have seen good money coming into equities from retail flows but they are still coming from the top 20 cities. Payment banks have the opportunity to take that spread a little further. The second is that we really need to strengthen our institutional mechanism in terms of participating in the market.

**Although the headline return on the index has been negative, it has been a good year for mutual funds. As we step into 2016, how are earnings going to pan out after two extremely disappointing years?**

Yes, I think that should start happening. Some of the base effect should play through on corporate earnings.

If you assume that the market does not change its P/E multiple, we expect to see returns in line with earnings growth, which we expect to be about 10 per cent. But there are a couple of things that could lead to a re-rating. First is the general direction of reforms by the government. If that gathers pace, it could lead to some bit of re-rating. Secondly, how India is positioned globally as we go into next year could lead to a second round of re-rating.

Both of these could lead to a market that grows faster because the future starts looking a little better.