



Interview

Tea with Mr. Sumeet Mehta

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Sumeet Mehta

Sumeet Mehta is **Chief Executive Officer and founder of Paradigm Advisors**. Paradigm is a boutique corporate finance, investment research and advisory and corporate strategy advisory firm based out of Mumbai. He is Chartered Accountant by qualification and brings more than a decade of experience in corporate finance, investment research and investment banking with leading national and multinational corporations like **Bennett, Coleman and Co (The Times Group), HDFC Securities, Jones Lang LaSalle and Edelweiss Capital**. He has worked closely with institutional money managers and companies for raising debt and equity capital from private and public markets. Prior to Paradigm Group, Mr. Mehta was a Fund Manager with **Edelweiss Alternate Asset Advisors**, Associate Director – India Capital Markets with **Jones Lang LaSalle Meghraj**.

Last few days the market has seen lot of momentum. This is really fruitful moments for Indian capital market. This shows investors' confidence against country's economical growth. ISE Research agrees it, but the same time we have to analyze the situation and motivation of the rally, should be investigated its undercurrent of the money flow etc. When we sit with **Mr. Sumeet Mehta** who is notable intellectual and entrepreneur of the Indian Financial Sector for discussion about this rally, market has touched its psychological mark 20k. Mr. Sumeet reminded to small investors to be more cautious "I would advise retail investors to remain cautious about the market and undertake detailed research" Mr. Mehta said. ISE Research observes that this is the time small investors fading into the magic spell of stock market!. All Medias are creating a festival mood around financial sphere. Intelligent people also perverting to the irrational world. The thing is; Investors behave irrationally when they don't correctly process all the available information while forming their expectations of a company's future performance.

Mr. Mehta says "I believe market is fully valued to overvalued depending on stocks, on the back of strong liquidity. We do not have adequately strong earnings growth to justify these valuations.." We ISE Research undersign in this statement of the Mr. Mehta. Because "V share" believes that proper valuation and research is key for the successful investment.

Highlights of the conversation...

In the past few days Sensex has performed great momentum and jumped over 19000 mark. What is your rational approach to the market? Is the market fairly valued?

Market surged significantly on the back of hopes of global economic recovery and strong domestic recovery backed by more than adequate liquidity. While hopes of global recovery remains to be a concern area especially with a double dip recovery expected to be a more possible possibility, interest rate hike, high inflation and slower corporate earnings growth on domestic front could pose to act as a speed breaker to a surging market. Given the possibility to interest rate hikes and

slower corporate earnings growth, I believe that market could take a breather and show reasonable valuations to consolidate before surging ahead in a rally.

Whether it will sustain at that level in near future?

It seems difficult for markets to sustain at these levels in absence of any external positive impetus and triggers, especially in wake of fact that we are anyways expecting a rate hike and stimulus pullout amidst rising inflation.

What do you think the current shot up in the market fairly represent market strong fundamentals or it's inflated?

I believe market is fully valued to overvalued depending on stocks, on the back of strong liquidity. We do not have adequately strong earnings growth to justify these valuations.

Should small investor enter in the market at this level, if yes then what's strategy they have to follow?

I would advise retail investors to remain cautious about the market and undertake detailed research and due diligence of company, business, outlook and valuations before deciding to commit their capital at this point of time.

Are you sensing 2008 crash like environment?

2008 was a different scenario, which seems unlikely in current scenario. I don't expect the markets to really crash, but depending upon withdrawal of liquidity and pullback by FIIs, we could see a correction.

What are the main sources of money inflow e.g. Hedge fund, FIIs, DIIs, PEs, Pension Funds.....?

To the best of my understanding, I understand that major chunk of recent inflow seems to be hot money looking at arbitrage.

If interest rates do go up, do you think the markets will just shrug it off or how would you position yourself in the rate sensitive sectors like banks now?

I believe that rate sensitive stocks like banks, consumer durables, automobiles and real estate could see a short term breather. We could then expect banks to post mark to market treasury losses which could also be a short term deterrent for investing in the sector. Real estate could possibly witness more strong correction, on the back of price cuts which the developers could have to explore.

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In the Present conditions which sector do you find attractive?

At the present moment I would prefer to wait and watch how the market is shaping up.

From an investment perspective, what are the concerns you see in India?

Indian economy has been quite resilient and despite global financial meltdown India was least affected. I believe Indian economy could marginally be affected by a double dip recession, if any. On domestic economy front, withdrawal of

stimulus and rate hikes would have a short term impact, which I believe would be marginal.

Investment has had some values like father planting tree for his next generation it is heredity.... Do you believing the Benjamin Graham theory relevant in the turbulence market? What is the relevance in the today's market?

I don't believe in any theories. If I understand the company and its business and valuations I buy.

What were your experiences from the last recession?

I believe recessions are a good time to accumulate stakes in quality companies in which you firmly believe in. Recessions especially offer you extremely good quality stocks at attractively compelling valuations.

Do you think separate Trading Platform of SME Companies will help to Indian SME Sector?

India has earlier tried it with other similar exchange as well and I am not sure whether the exchange was able to attract investors and retain them on the platform. Setting up a SME platform is different and attracting quality investors with deep pockets and long term vision and investment horizon to invest in companies listed on this platform is very different. In absence of quality investors on the platform, one can not attract quality investment grade companies and retail investors.

Inter-connected stock exchange's SME trading platform will go alive in November 2010...(your comments)

I appreciate this endeavor and look forward for this initiative to be successful. It would of course face competition from other platforms which are also coming up, and I wish luck and success to Team ISE for this wonderful initiative.