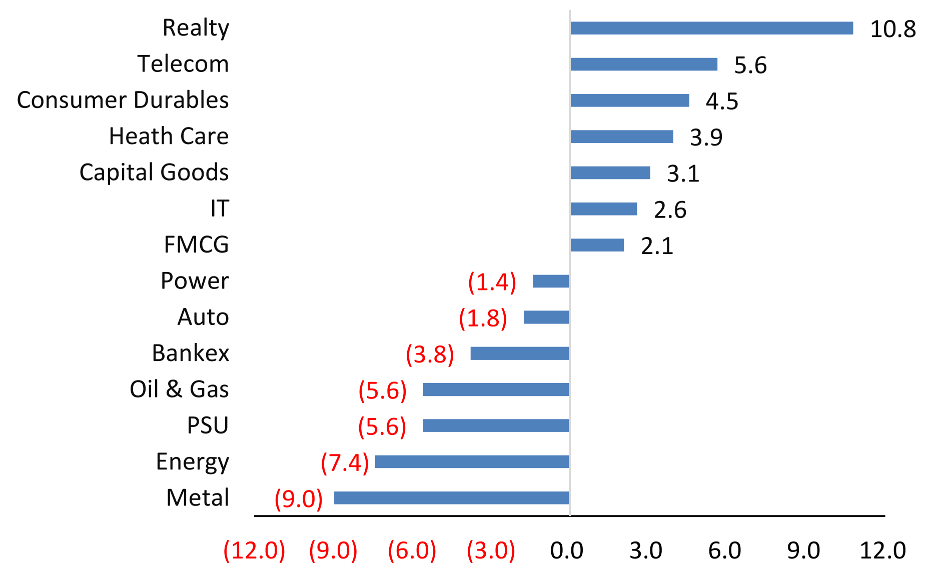
Market Outlook

February 2020

Equity Roundup - Movement in January

Index	Closing Value	1-Mth Return (%)	1 Yr Return (%)	Current Value		
				P/E	P/B	Dividend Yield
Nifty 50	11962	-1.70	10.44	26.41	3.37	1.27
Sensex	40723	-1.29	12.32	24.46	3.15	1.04
BSE Mid cap	15462	3.30	6.19	28.92	2.50	1.06
BSE Small cap	14668	7.07	5.33	87.66	2.04	1.04
BSE 100	12083	-1.25	9.30	24.66	2.85	1.20
BSE 200	5041	-0.73	9.89	27.11	2.83	1.16
BSE 500	15650	-0.11	9.55	27.53	2.72	1.16

Data as on 31 Jan'20; Source: ICRA MFI, NSE and BSE website.



*S&P BSE Sectoral Indices movement between 31 Dec'19 to 31 Jan'20 in % terms

- BSE sectoral indices ended on a mixed note in January. For the month, Realty sector was the major gainer that grew 10.8% followed by Telecom and Consumer Durables that grew 5.6% and 4.5%, respectively.
- The realty sector gained on hopes that the stimulus announced by the government for the sector will boost growth.
- On the other hand, Metal and Energy were the major losers that fell by 9.0% and 7.4%, respectively followed by PSU which fell by 5.6% for the month.
- Metal fell as the coronavirus outbreak has hit demand in one of the world's largest markets - China, and which is also posing challenge to world trade now.

Equity Market Roundup - Key Takeaways

- **Performance:** CY20 started with broadening of markets. BSE Midcap index was up by 3% and BSE Small Cap index was up by 7% during the month; while the headline Nifty and Sensex were down by 2% and 1%; respectively for the month of January 2020.

Factors which affected Indian Equity Markets:

- **Positive Factors:** Upbeat industrial output data and the U.S. and China signing a phase one trade deal buoyed sentiment.
- Positive GST revenue collection and manufacturing activity numbers also cheered investors.
- Buying interest in realty firms also supported the market to a certain extent. Also, easing of the US-Iran tensions too aided the local indices.
- Strong inflows from the foreign institutional investors (FIIs) augured well for the market.
- **Negative Factors:** Sentiments were dampened, in line with global equities, over fears of the economic impact of the coronavirus outbreak in China and investors feared its ripple effect on other countries.
- Lacklustre corporate earnings season and profit booking ahead of the Union Budget, weighed on the market.
- Sentiments were dented further after the International Monetary Fund (IMF) lowered India's growth forecast to 4.8% from 6.1% projected in October.
- **Budget:** Union Budget for FY21 was presented on Feb 1 and was aimed at reviving growth. Fiscal Deficit target for FY20 was revised to 3.8% of the GDP Vs. 3.3% estimated earlier. Overall, the first budget of the decade appears to be a balanced budget with a focus on growth; while maintaining fiscal prudence.
- **Outlook:** As the market digests the budget and given the cautious global environment owing to the spread of coronavirus, markets could stay volatile in the near term. However, eventually focus would shift back to corporate earnings and macro economic numbers.

Macro Economic Update

Inflation:

Consumer Price Index(CPI): CPI rate increased to 7.35% in Dec 2019 form 5.54% in Nov 2019 and 2.11% in Dec 2018. The increase came on account of rising food prices and the figure is well above the RBI's medium target of 4%. Consumer Food Price Index increased to 14.12% in Dec 2019 from 10.01% in Nov 2019 and a decline of 2.65% in the same period of the previous year.

Wholesale price index (WPI): India's WPI based inflation increased to 2.59% in Dec 2019 from 0.58% in Nov 2019 and 3.46% during the same month of the previous year. The WPI Food Index grew from 9.02% in Nov 2019 to 11.05% in Dec 2019. Food inflation increased to 13.24% in Dec 2019 from 11.08% in Nov 2019.

Deficit:

Fiscal Deficit: Fiscal deficit for the period from Apr to Dec of 2019 widened to Rs. 9.32 lakh crore or 132.4% of the budgeted estimate of Rs. 7.04 lakh crore for FY20. Revenue receipts during the same period stood at 58.4% of the budgeted target of Rs. 19.6 lakh crore.

Trade Deficit: India's trade deficit narrowed to $11.25 billion in Dec 2019 from $14.49 billion in the same period of the previous year. India's trade deficit narrowed as exports came down for the fifth consecutive month and fell 1.80% to $27.36 billion in Dec 2019 while imports came down at a comparative higher rate of 8.83% to $38.61 billion in the same month.

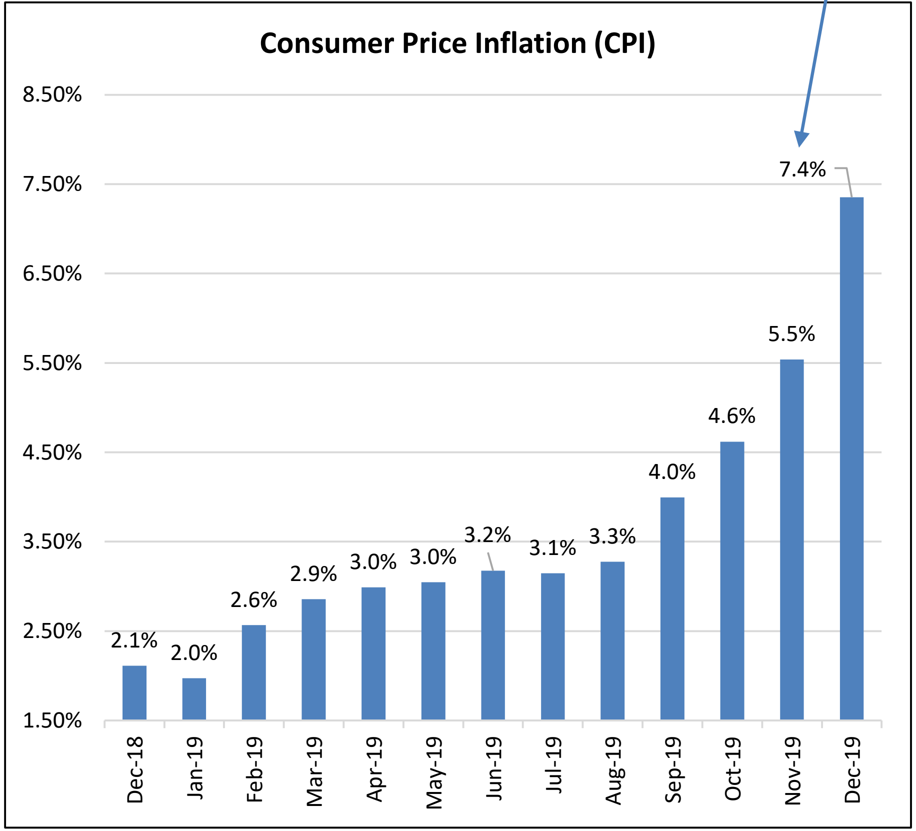
IIP and Manufacturing PMI:

Index of Industrial production (IIP): The IIP grew 1.8% in Nov 2019 compared with 0.2% in Nov 2018. Mining and manufacturing grew 1.7% and 2.7%, respectively, in Nov 2019, while electricity contracted 5.0%. From Apr to Nov 2019, IIP growth came in at 0.6% YoY from 5.0% recorded in the corresponding period last year.

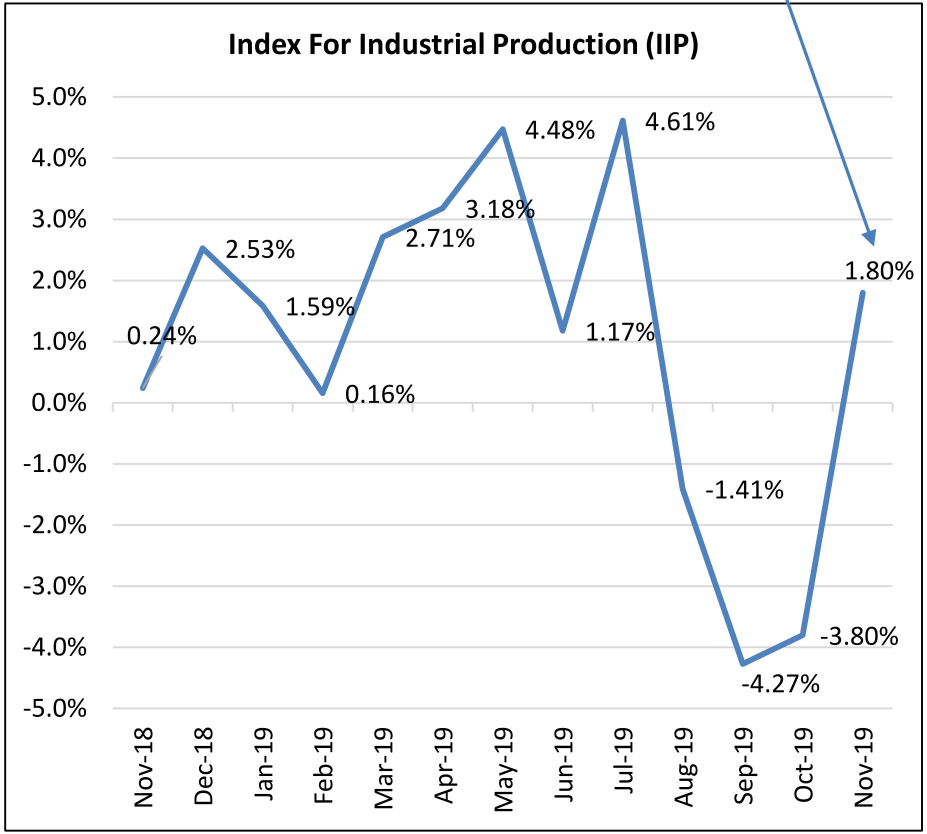
Manufacturing PMI: The IHS Markit India Manufacturing Purchasing Managers' Index (PMI) rose to 55.3 in Jan 2020 from 52.7 in Dec 2019. This is the highest mark in a little under eight years. The upturn came on the back of strongest growth in new business intakes for over five years.

Inflation and Industrial Production Trajectory

CPI index has breached the RBI's upper tolerance limit of 6.0%



IIP grew at 1.8% in Nov 2019; back in positive zone



Summary of Budget 20-21

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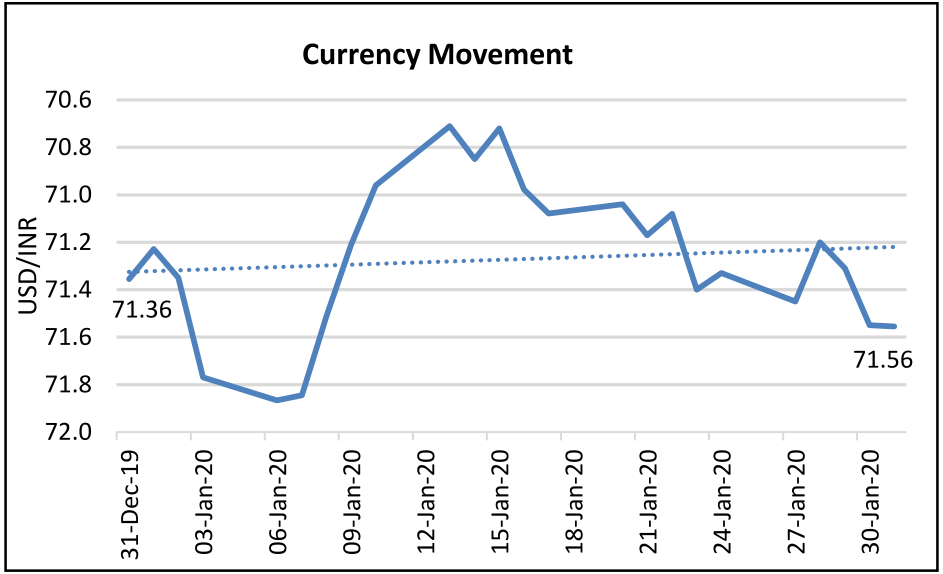
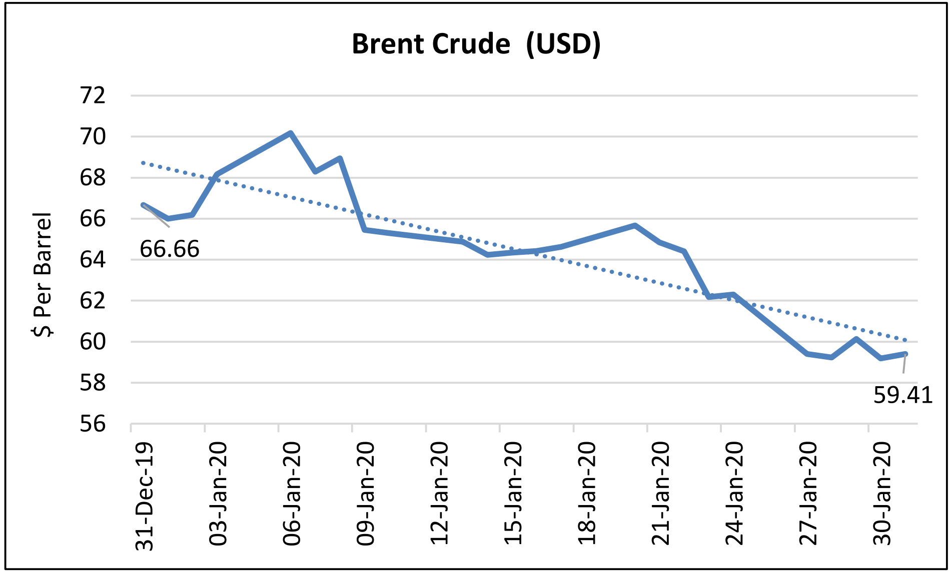
The first budget of the decade aims at some measured moves to bolster growth. The budget mainly focuses on agriculture, infrastructure, financial sector and lower middle class. The expansionary fiscal policy reaffirms that the revival of growth is the top priority for the government.

- **Infrastructure has been given big support:** Increased allocations towards infrastructure positive for cyclical sectors and economic growth. And, **concession to sovereign wealth funds in terms of tax exemption** for investment in infrastructure sector; positive move.
- **Boost to Affordable Housing:** Measures announced to induce speedier reduction in inventory by the developer **(by offering tax holiday)** and to home buyer **(extended loan facility)** is a positive for affordable housing sector.
- **Power sector**: **15% tax rate for power companies** in line with manufacturing companies boosts sentiments.
- **Consumption gets some boost: Consumers are likely to spend more** given the option of a new tax regime.
- **Boost for Oil & Gas sector:** Plans to **expand national gas grid to 27,000 km** from 16,200 km at present; will boost Oil & Gas sector.
- **Education & Healthcare:** Government has **allocated Rs 99,300 cr for Education Sector & Rs 69,000 cr towards Health Sector.**
- **Other key announcements:** Measures like **credit support to NBFCs and MSMEs**, technology upgradation financing for export-oriented sectors are some of the moves which will benefit in the long run.
- **More safety to bank depositors:** Insurance **coverage increased on bank deposits** from Rs. 1 lac to Rs. 5 lacs.

Overall, the budget appears to be a balanced budget with a focus on growth; while maintaining fiscal prudence.

INR and Brent Crude Performance





INR Performance: The Indian rupee ended marginally lower at 71.56 in Jan 2020 from 71.36 in Dec 2019. A spike in domestic retail inflation, and muted regional cues following the signing of phase one of the Sino–US trade deal, put the rupee under some pressure. Moreover, concerns about the spread of the new coronavirus from China, also dented sentiment for the local unit. However later during the month, the local currency got some support on back of fall in crude oil prices.

Brent Crude: Brent Crude prices plunged 12.2% in Jan 2020 to close at $59.41 per barrel vis-à-vis $66.66 per barrel on Dec 2019. Crude prices witnessed decline mainly due to ease in supply concerns after U.S. President Donald Trump's comments on the Iran conflict eased investor worries about further escalation of geopolitical risks in the Middle East and demand slump amid rising coronavirus cases in China and other regions.

Macro Indicators

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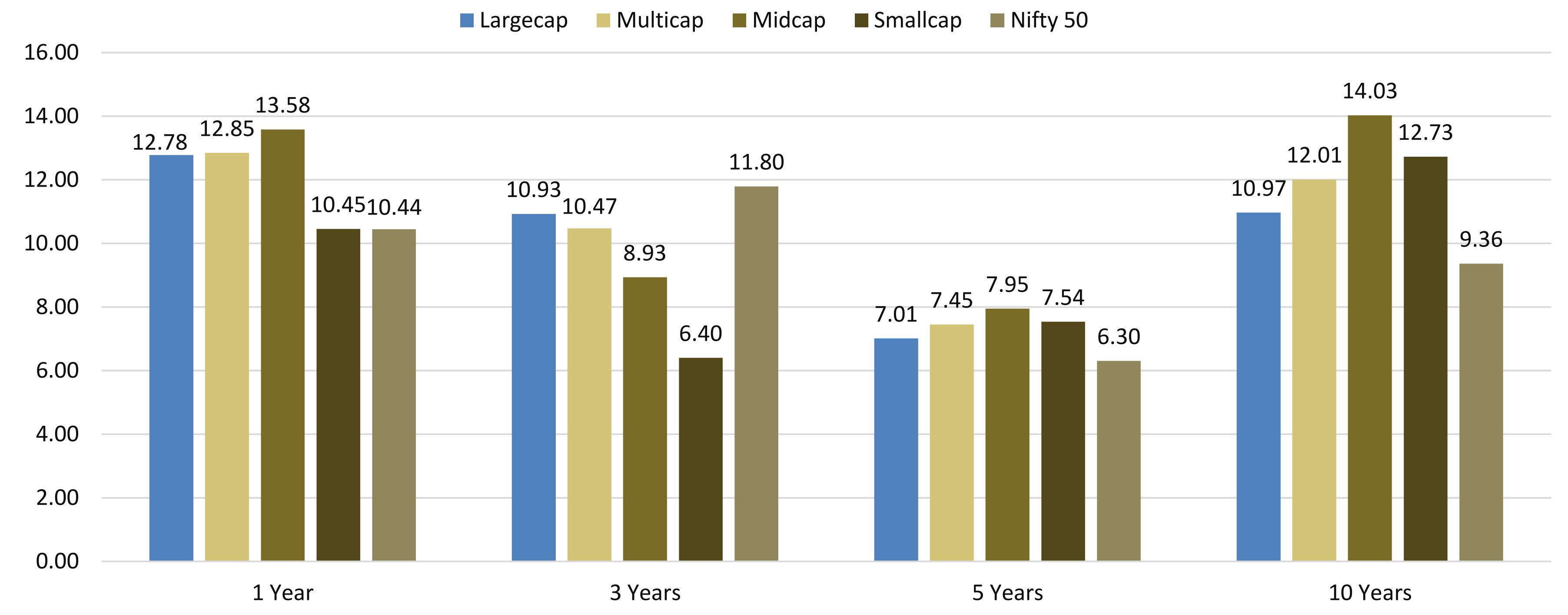
	Current	Quarter Ago	Year Ago
Equity Net Flows			
Mutual Funds (Rs. Cr)	1,384 (Jan-20)	3,486 (Oct-19)	7,161 (Jan-19)
FIIs (Rs. Cr)	12,123 (Jan-20)	12,368 (Oct-19)	-4262 (Jan-19)
Economic Indicator			
Consumer Price Index (CPI)	7.35% (Dec-19)	3.99% (Sep-19)	2.19% (Dec-18)
Wholesale Price Index (WPI)	2.59% (Dec-19)	0.33% (Sep-19)	3.80% (Dec-18)
Industrial Production (IIP)	1.80% (Nov-19)	-1.40% (Aug-19)	0.20% (Nov-18)
GDP	4.50% (Sep-19)	5.00% (Jun-19)	7.10% (Sep-18)
Trade Deficit ($ bn)	11.25 (Dec-19)	10.90 (Sep-19)	13.08 (Dec-18)
Commodity Market			
Brent Crude ($/barrel)	59.41 (31-Jan-20)	61.68 (30-Sep-19)	62.19 (31-Jan-19)
Gold ($/oz)	1571.91 (31-Jan-20)	1492.95 (30-Sep-19)	1319.40 (31-Jan-19)
Silver ($/oz)	18.01 (31-Jan-20)	18.07 (30-Sep-19)	15.91 (31-Jan-19)
Currency Market			
USD/INR	71.56 (31-Jan-20)	70.65 (30-Sep-19)	70.96 (31-Jan-19)
EURO/INR	79.38 (31-Jan-20)	79.16 (30-Sep-19)	81.68 (31-Jan-19)
GBP/INR	94.46 (31-Jan-20)	91.86 (30-Sep-19)	93.24 (31-Jan-19)
YEN/INR (per 100)	66.04 (31-Jan-20)	65.80 (30-Sep-19)	65.30 (31-Jan-19)

↑↓ signifies positive movement over Q-o-Q ↓↑ signifies negative movement over Q-o-Q

Mutual Fund Performance of Categories v/s Nifty

Funds across the market cap have outperformed Nifty 50 in the past 12 months; while, Mid cap funds saw huge bounce back and have outperformed the index with wider margin.



Returns below one year absolute and more than one year CAGR. Data as on 31 Jan 2020; Source: ICRA MFI

Debt Markets - Review

Debt Roundup

	31 Jan'20	31 Dec'19	31 Jan'19	M-o-M Change
Interest Rates				
Repo rate	5.15%	5.15%	6.50%	0 bps
SLR	18.25%	18.50%	19.25%	25 bps
CD Rates				
3 month	5.40%	5.10%	7.15%	30 bps
6 month	5.68%	5.68%	7.60%	0 bps
1 Year	6.00%	6.00%	8.00%	0 bps
CP Rates				
3 month	5.75%	5.40%	7.65%	35 bps
6 month	6.25%	6.20%	8.30%	5 bps
1 Year	6.60%	6.70%	8.50%	10 bps
T-Bill/G-sec				
91 Days	5.10%	5.00%	6.55%	10 bps
364 Days	5.26%	5.22%	6.77%	4 bps
6.45% GOI 2029 (10 Yr GOI) – New	6.59%	6.55%	7.31%	4 bps
7.26% GOI 2029 (10 Yr GOI) -Old	6.85%	6.79%	7.31%	6 bps
Corporate Bonds (PSU)				
3 Year	6.74%	6.78%	8.12%	4 bps
5 Year	6.92%	7.05%	8.27%	13 bps
10 Year	7.59%	7.54%	8.47%	5 bps
International Markets				
10 Year US Treasury Yield	1.59%	1.88%	2.68%	29 bps
3 Months LIBOR	1.78%	1.94%	2.74%	16 bps
12 Months LIBOR	1.85%	2.00%	3.02%	15 bps

Debt Market Roundup - Key Takeaways

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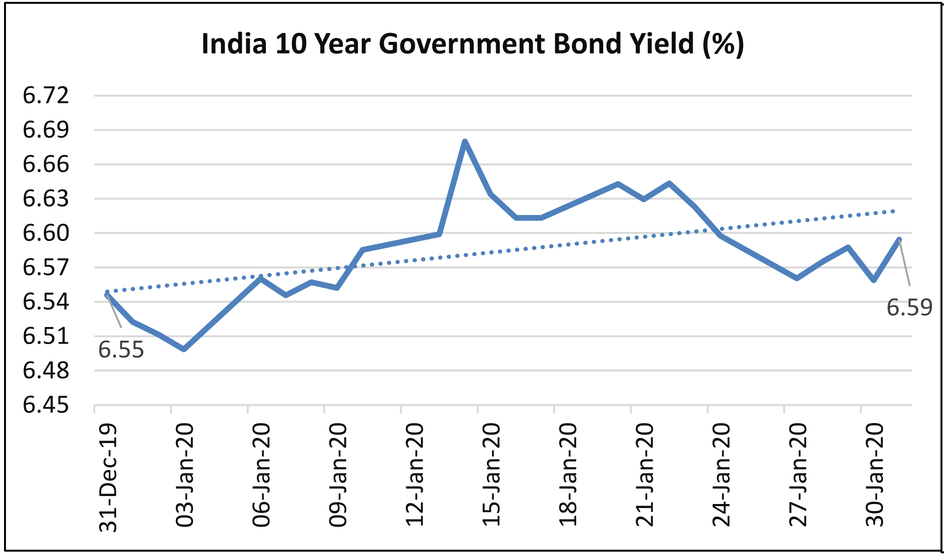
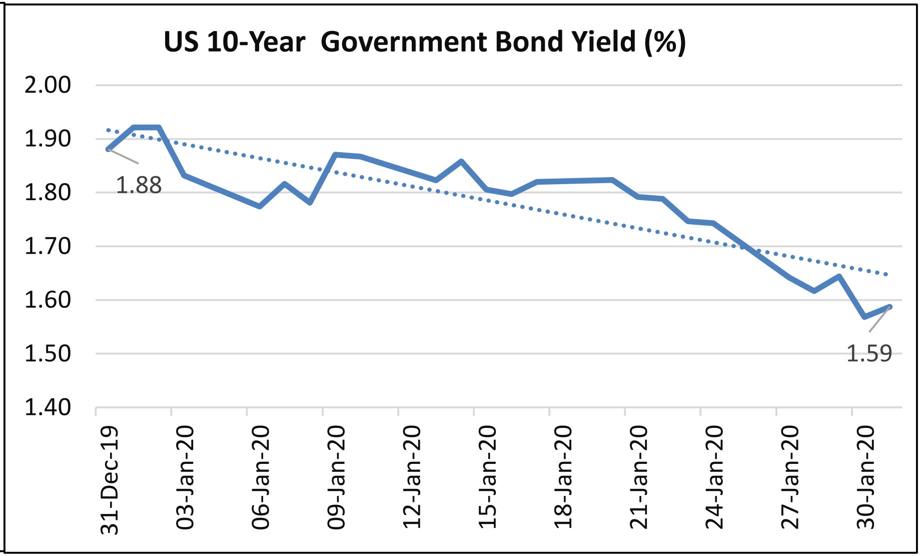
Factors that affected the Bond Markets:

- Initially, bond yields rose on worries over quantum of government borrowings and fiscal slippage.
- Furthermore, higher-than-expected spike in retail inflation led to further surge in bond yields. The country's CPI came in at 7.35%, which was way beyond the RBI's tolerance limit of 4%. This has now further raised concerns over future policy rate cuts.
- Moreover, uncertainty over the timing and quantum of future special open market operations (OMOs) by the central bank, contributed to rise in yields.
- However, some losses were restricted on back of decline in crude oil prices and falling US benchmark treasury yields due to concerns over the outbreak of the coronavirus in China.
- In addition, liquidity surplus in banking system and special OMOs undertaken by the government limited the rise in yields.
- **Performance of 10-year G-Sec Yield:** 10-year Government Bond yields rose marginally in January. The yield c**losed at 6.59% in Jan 2020, rose by 4 bps** from its previous close of 6.55% in Dec 2019.
- The Union Budget is positive for bond markets as there is no additional borrowing for FY20 despite of a fiscal slippage to 3.8% of GDP from the original budgeted of 3.3% of GDP. The budget also highlighted the government's focus on deepening the bond markets as it announced increasing Foreign Portfolio Investment (FPI) limit from 9% to 15% which may lift sentiments in the corporate bond space.
- **Outlook:** In the near term, fiscal worries, geo political risk which has now moved from U.S.-Iran to China due to coronavirus and higher near term inflation (CPI) prints could continue to concern market.
- On the other hand, the RBI kept the repo rate unchanged at 5.15% in its latest monetary policy meeting held in Feb. By keeping the monetary policy stance unchanged at accommodative, despite the recent surge in inflation, it shows that the RBI has indicated its willingness to ease monetary policy further as soon as inflation falls within its target range. Going ahead, the stance of RBI and quantum of rate cuts in 2020 will also be closely tracked by the bond markets.

Yields Movement Across - India and US





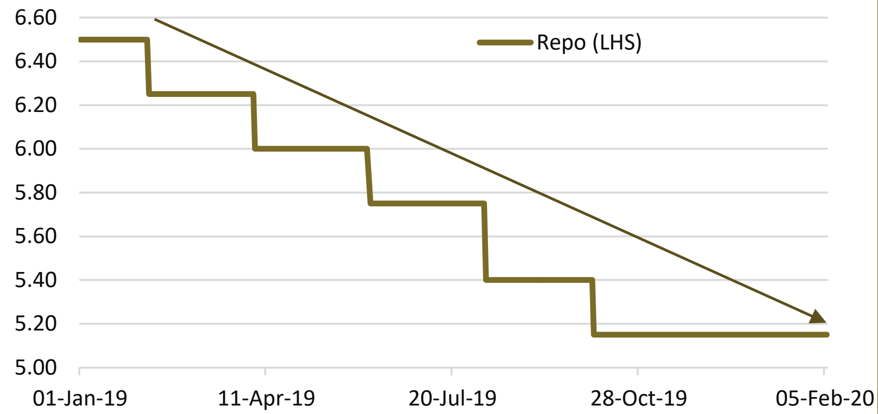
- **10-year India Government Bond Yield:** 10-year bond yield trended marginally upward and settled at 6.59% on Jan 31 as against 6.55% on Dec 31 ahead of budget with an expectation of a record borrowing plan under RBI's operation twist. Lowering U.S. treasury yields and drop in oil prices also supported Indian bond markets.

- **U.S. Treasury Yield:** US Treasury yield tumbled nearly 29 basis points in Jan, on pace for its biggest monthly decline in five months as investors were grappled with concerns over China's coronavirus epidemic post U.S. President announced coronavirus as public health emergency raising concerns about the likely impact on the global growth that drove investors away from the riskier assets.

Key Highlights of Sixth Bi-monthly Monetary Policy Statement, 2019-20

RBI's Stance → **Accommodative**

- **Policy Measures:** RBI kept the Repo rate unchanged at 5.15%. CRR remained unchanged at 4% and SLR was unchanged at 18.50%.
- **Stance:** RBI maintained its accommodative stance and reiterated that there is monetary policy space for future action.
- **Economic Growth**: MPC projected economic growth for fiscal 2021 at 6%-in the range of 5.5-6% in the first half and 6.2% in the third quarter.
- **Inflation:** MPC revised the CPI inflation projection upwards to 6.5% for Q4:2019-20; 5.4-5.0% for H1:2020-21; and 3.2% for Q3:2020-21, with risks broadly balanced.



Growth, Inflation projections and Credit Flow by the RBI:

- MPC projected economic growth for fiscal 2021 at 6%—in the range of 5.5-6% in the first half and 6.2% in the third quarter. This is in line with its past GDP growth projections and that of the Economic Survey, which has pegged growth at 6-6.5%. MPC revised the CPI inflation projection upwards to 6.5% for Q4:2019-20; 5.4-5.0% for H1:2020-21; and 3.2% for Q3:2020-21, with risks broadly balanced.
- The central bank has guaranteed long-term liquidity of up to Rs. 1 trillion at a cheap price through long-term repos of one year and three years to banks through LTRO (Long Term Repo Operation). This will add durable liquidity to the 1-3-year segment and is intended to push down rates further in this segment.
- **Policy Outlook:** The Feb 2020 policy statement indicates RBI's focus is on reducing interest rates broadly in the economy. The RBI is also signalling that it wants to reduce bank lending rate and ease funding availability. Over time, this should ease the funding crunch that some of these sectors are facing today and reduce credit spreads.

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