Capital League outlook

August, 2018

Indian Economy

- GST council has reduced tax rates for nearly 100 items and approved simpler GST return filing. Businesses with annual turnover up to INR 5 Cr will have to file their returns every quarter instead of every month. This will benefit nearly 93% of the GST registered taxpayers and will also improve compliance.
- After one year of GST implementation monthly GST revenues have stabilized with approx. INR 96,500 Cr collection in July'18. Also number of GST returns filed has increased sharply indicating the growing compliance.
- The savings and gains to the Government since the inception of Aadhaar-based Direct Benefit Transfer (DBT) is estimated at over INR 90,000 Crs till FY 18 end which is enormous if compared to the cost of Aadhar implementation at INR 10,000 Crs.
- Minimum Support Price (MSP) has been hiked by approx. 14% in paddy, the most popular Kharif crop. For other summer crops the average increase is around 25%. This is the sharpest increase in last six years.
- MSP hikes will result in higher disposable income in the hands of rural consumers which will boost rural consumption.
- Fiscal Deficit for Q1FY19 is nearly 69% of total FY 18-19 target. This is on account of front loading of expenditure by the government in the first half of the year.
- The PMI in July'18 decreased to 52.3 from 53.1 in June'18. The manufacturing sector activity moderated with lesser output, new orders and employment, though demand continues to be strong.
- Sale in passenger vehicle and commercial vehicle have registered growth of nearly 38% and 51.5% in June'18 on y-o-y basis due to lower base of last year as well as a lead indication of economic growth. In July'18, sale of passenger vehicles has dipped but sale of commercial vehicles grew by 38.7% on y-o-y basis.
- Corporate earnings of Q1 FY19 announced so far have been strong. The net sales for 113 companies including Financials & IT have grown by 17.6% and the net profit has grown by 20.3% y-o-y.
- Domestic flows have continued to lend support to the Indian markets resulting in a very resilient performance within the overall emerging market basket. Domestic institutions (MFs) invested UDS 10 Bn in equity, as against FIIs outflow of USD 700 Mn between Jan – Jul'18.
- After touching the peak at USD 79.4 per barrel, crude oil prices have softened to around USD 70 – 74 per barrel with increase in inventories.

- RBI increased rates by 25 bps while maintaining a neutral stance and mentioned that major upside risks to inflation are from higher crude oil prices, geopolitical tension and higher MSPs (Minimum Support Prices). Domestic growth remained strong while good monsoon and increase in MSPs are expected to boost rural demand.

Global Economy

- G-7 summit ended in disorder as the US President refused to endorse the summit's communiqué. Trade war has accentuated, with countries like Canada, Mexico, China, and Eurozone announcing retaliatory tariffs or trade restrictions, aimed primarily at the US. These developments could lead to depressed global growth and even US may face economic slowdown.
- With the US dollar strengthening and global financial conditions tightening, emerging markets (EM) have seen USD 12 Bn outflows from debt market in current year vis-à-vis an inflow of USD 55 Bn in 2017. As a result, EM bonds and currencies have fallen in value.

Outlook

- Corporate earnings for FY19 are expected to grow by 15-20%, aided by the growth tailwinds, low base, volume growth in the consumption sector owing to improvement in rural demand.
- Sensex is currently trading at a P/E of 19 -20X on FY19E. But for the broad market, valuation corrections have been pretty sharp especially for mid and small caps.
- Markets are likely to continue to be volatile considering global risks due to trade wars and crude oil supply constraints. On domestic front, fiscal numbers may weaken amidst populist measures expected in the run-up to elections.
- Fresh Investment in equities should be done in a staggered manner over the next 9 - 10 months and intermittent volatility should be utilized.
- Yields are already at elevated levels. Further rate hikes will depend on the inflation trajectory, fiscal position and impact of geopolitical tensions.
- On the fixed income side, investors should look to invest in accrual funds and short duration funds for better yields. We strongly recommend Fixed Maturity Plans (FMPs) to lock-in high yields.