Capital League outlook

Sep, 2019

Indian Economy

- Government announced various measures to boost the economy
  - Merger of 10 Public Sector Banks into 4,
  - Additional liquidity support of INR 200 Bn to Housing Finance Companies,
  - Rollback of enhanced surcharge on FPIs levied in the Union Budget; Withdrawal of surcharge on long- and short-term capital gains arising from transfer of equity shares,
  - Fast-tracking of GST refunds
- Index of Industrial Production (IIP) increased to 4.3% Y-o-Y in Jul'19. Manufacturing, which contributes about 77% to the IIP, has shown a rebound. Consumer Non-Durables is also growing at a faster pace.
- India has witnessed growth in net FDI to the tune of USD 14.5 Bn during Q1 FY20 as the government has taken various steps to boost the FDI inflows
  - 100% FDI allowed in commercial coal mining and contract manufacturing under automatic route,
  - Approval of 26% FDI in digital media,
  - 100% FDI allowed in insurance intermediaries,
  - Easing of local sourcing norms for single-brand retailers with FDI.
- Cumulative rainfall has improved in Aug'19 and now the 2019 monsoon figures are the best in the last five years with 3% excess. The acreage under kharif crops has almost touched last year's level.
- India's gross domestic product (GDP) growth decelerated to a seven-year low of 5% in the Q1 FY20 compared to 5.8% growth in the previous quarter and 8% in Q1 FY19.
- The slowdown had been across all segment of demand. Only government expenditure rose in Q1FY20 whereas Manufacturing, Services, Private consumption and Investments remained low.
- The RBI has decided to transfer a surplus of INR 1.76 Lac Crs to the government. The transfer has three components viz; an interim dividend of INR 28,000 Crs already paid out in FY19, a dividend of INR 95,000 Crs to be transferred in FY20 and one-time transfer of INR 52,000 Crs from the RBI's contingency reserves. Although the aggregate transfer appears large, the excess capital is only INR 52,000 Cr (0.3% of GDP) which will most likely be used to plug government's potential revenue shortfall.

Global Economy

- Central banks around the world are cutting interest rates and trying to encourage borrowing as more and more indicators point to a global slowdown. The European Central Bank has announced cut in interest rates.
- As a conciliatory gesture, China has waived import tariffs on nearly 16 US goods, before the talks between US and Chinese officials in Washington. US President postponed an increase in tariffs on USD 250 Bn of Chinese shipments by two weeks
- Crude Oil prices rose after the drone strike at the heart of Saudi Arabia's oil processing facility which has disrupted the global oil supply.

Outlook

- Economy has slowed down but reduced borrowing costs, favorable monsoon and stability on the current account will be key drivers of growth going forward.
- NIFTY 50 is trading near 19x FY20 (E) and 15.8x FY21 (E) which is close to its long-term average.
- Equity market performance and returns could be modest in the near term due to current economic turmoil. However, some recovery is expected in the economy in the festive season ahead which could lead to improvement in market sentiment.
- On the fixed income side, investment in short term funds, tax free bonds and fixed deposits are recommended based on the tax slab of the investor.