Capital League outlook

Dec, 2019

Indian Economy

- A number of policy steps taken by the Government are likely to support growth in the coming quarters: (a) setting up a fund (INR 25000 Cr) for reviving stalled real estate projects, (b) NBFCs brought into the purview of bankruptcy proceedings under IBC, (c) Supreme court ruling in the Essar Steel case upholding primacy of secured financial creditors, (d) positive incremental changes in the Telecom sector.
- Cabinet Committee on Economic Affairs (CCEA) approved strategic disinvestment of government stake in 5 PSUs and bringing down government stake below 51% in select PSUs. These stake sales are critical to meet FY20 disinvestment target of INR 1.05 Lac Cr.
- The government has garnered INR 729 Cr from divestment of 10% stake in RITES Ltd. and process for sale of stake in other PSUs has started.
- The government has approved the launch of the Bharat Bond Exchange Traded Fund (ETF) which will invest in a basket of bonds issued by CPSEs/CPSUs/CPFIs and other government organizations. This is expected to raise around INR 15,000 Cr.
- To generate additional revenue, GST council is deliberating the increase of GST rates on some items and this may pave the way for a three-slab GST.
- The Cabinet has approved The Industrial Relations Code Bill, 2019 which allows for greater flexibility to government on the threshold requirement for retrenchment and enables companies to hire workers on fixed-term contracts of any duration.
- The GDP Q2 FY20 decelerated to 4.5% from 7.1% in Q2 FY19. Among the major GDP components, Government consumption was strongest at 15.6% in Q2 FY20 followed by growth in private consumption at 5.1%.
- Services Purchasing Managers' Index (PMI) saw the rebound in November to 52.7 after two months of decline, driven by new business orders, faster job creation and strengthening business confidence. Manufacturing PMI also showed an improvement in November to 51.2 from 50.6 in October.
- RBI kept policy rate unchanged at 5.15% in its last monetary policy review in Nov'19 maintaining the accommodative stance. So far, in 2019 RBI has reduced the policy rate by 135 bps but the transmission has been muted through bank lending rates.
- In Nov'19, Indian markets appreciated by approx. 2% driven by optimism around trade deal between the US and China, buoyant FII flows and announcement of measures for real estate sector by Government. In 2019, FIIs have bought net equities worth USD 13.4 Bn and DIIs bought USD 6.1 Bn.

Global Economy

- While the Global manufacturing PMI improved for the first time in Nov’19 after seven months, growth outlook continues to hinge on the outcome of US-China trade talks.
- China’s global exports were down by 0.3% at USD 2.3 Tn in Jan-Nov’19. Exports to US fell by 23% in Nov’19 however this was offset by rise in exports to other countries.
- To address the supply surplus and to boost crude oil prices the Organization of the Petroleum Exporting Countries (OPEC) and its non-OPEC allies decided to cut oil production by another 500,000 bpd. This is over and above the production cut of 1.2 mbd announced in December last year.

Outlook

- Going forward, lower tax burden due to recent corporate tax cuts and lower interest rates will directly aid profitability and lead to a new earnings cycle.
- NIFTY is trading at P/E of 17 -18X on FY21E. Going forward market movement will be dependent on liquidity in the system, improvement in the high frequency data, further policy initiatives of the government and developments in US-China trade war.
- Investors are recommended to maintain their equity allocation as per their risk profile. We recommend staggered investments in equities through SIP or STP.
- RBI maintains its accommodative stance and is trying to balance growth and inflation dynamics. Any future rate cut will be more data dependent viz., liquidity situation, growth impulses, inflation, credit growth momentum and global policy rates.
- In the fixed income category, investment in short term funds, tax free bonds and fixed deposits are recommended.