Capital League outlook

November, 2018

Indian Economy

- India's ranking in the World Bank's Ease of Doing Business Index has jumped to 77 from 100, on account of a marked improvement in indicators like 'Construction Permits' and 'Trading across Borders".
- Corporate earnings for Q2 FY19 have grown highest in last seven quarters on account of low base effect and better than expected performance by metal and mining companies. The aggregate results of 1889 companies across sectors for Q2 FY 19 are:

	% Change for Q2 FY19 on Y-o-Y basis	
	All Firms	**Excluding Financial & energy companies**
Net Sales	19.6	14.9
Net Profit	16.2	24.8

Source: Capitaline

- However, the combined net profit of the listed companies is lagging the nominal GDP growth rate for last 10 years. The comparison of net profit vis-à-vis nominal GDP for 868 companies:

	CAGR growth over last 10 Years (FY08 –FY18)
Nominal GDP	12.9%
Net Profit of all sectors combined	4.1%
Net profit excluding Financial companies	6.0%
Market Capital	10.8%

Source: Capitaline & RBI

This indicates that companies have not been able to deliver earnings growth inspite of top line growth as the pricing power has not kept pace with operating costs. High growth in market capitalisation and low earnings growth can be attributed to uneven economic recovery as growth is mainly visible in consumer oriented sectors and private capital expenditure is yet to recover.

- GST collections crossed the INR 1 Lac Cr mark for the second time in current fiscal after Apr'18, alleviating concerns on revenue collection.
- The recent relaxation in the external commercial borrowing (ECB) norms by RBI is broadly supporting the Indian currency. INR has now stabilised after depreciating in Oct'18 vis-à-vis US dollar and currently trades around sub-72 mark.
- Retail inflation (CPI) eased to 3.31% in Oct'18 as compared to 3.77% in Sep'18. This is a 13-month low figure due to softening of food prices. Fall in crude oil price will

further exert downward pressure on inflation. This alongside stabilizing rupee indicates a turn in the macro situation for the country.

- Index of Industrial Production (IIP) rose to 4.5% in Sep'18 as compared to 4.3% in Aug'18 mainly pulled by manufacturing, electricity and construction.
- The RBI conducted Open Market Operations (OMO) worth INR 36,000 Crs in Oct'18 and is expected to conduct an additional OMO of INR 40,000 Crs in Nov'18.
- FII flows have turned positive in the last two weeks infusing INR 4153 Cr compared to a record outflow of INR 38,906 Cr in Oct'18.

Global Economy

- US Federal Reserve in its latest meeting this month has decided to keep interest rates unchanged. The Fed rate will continue to be in the range of 2-2.25%.
- The European Central Bank (ECB) reiterated its plans to end its massive stimulus programme in Dec'18 even as the IMF trimmed its Euro Zone 2018 growth forecast to 2.0% from 2.2%.
- US has granted waivers to eight countries (including India and China) to continue importing crude oil from Iran for 180 days. This has provided relief to the markets against the expectation of drop in crude oil supply in the global markets and increase in oil prices after sanctions of Iran crude oil.
- Brent crude oil has fallen from high of USD 86 per barrel to USD 65 per barrel in a span of 2 weeks on account of concerns of oversupply. Crude price outlook has changed from USD 100 per barrel to USD 60 per barrel amid projection of slowdown in some major world economies, higher output from the US, Russia and Saudi Arabia and waivers on Iranian sanctions by US.

Outlook

- Valuations have moderated and provide a reasonable risk-reward in long term. NIFTY is trading at a forward P/E of 15.7 X of FY20 expected earnings.
- However, equity markets are expected to remain volatile in view of upcoming state elections and general elections on the domestic front. The global headwinds from Fed rate hike and US-China trade tensions remain a cause of concern.
- We continue to maintain caution and recommend staggering of investments over next 7- 8 months to de-risk from the volatility.
- The RBI may continue to pause on policy rates as long as CPI remains sub 4%.
- On the fixed income side we continue to focus on Accrual funds, Fixed Maturity Plans (FMPs) and Tax-free bonds to lock-in better yields.