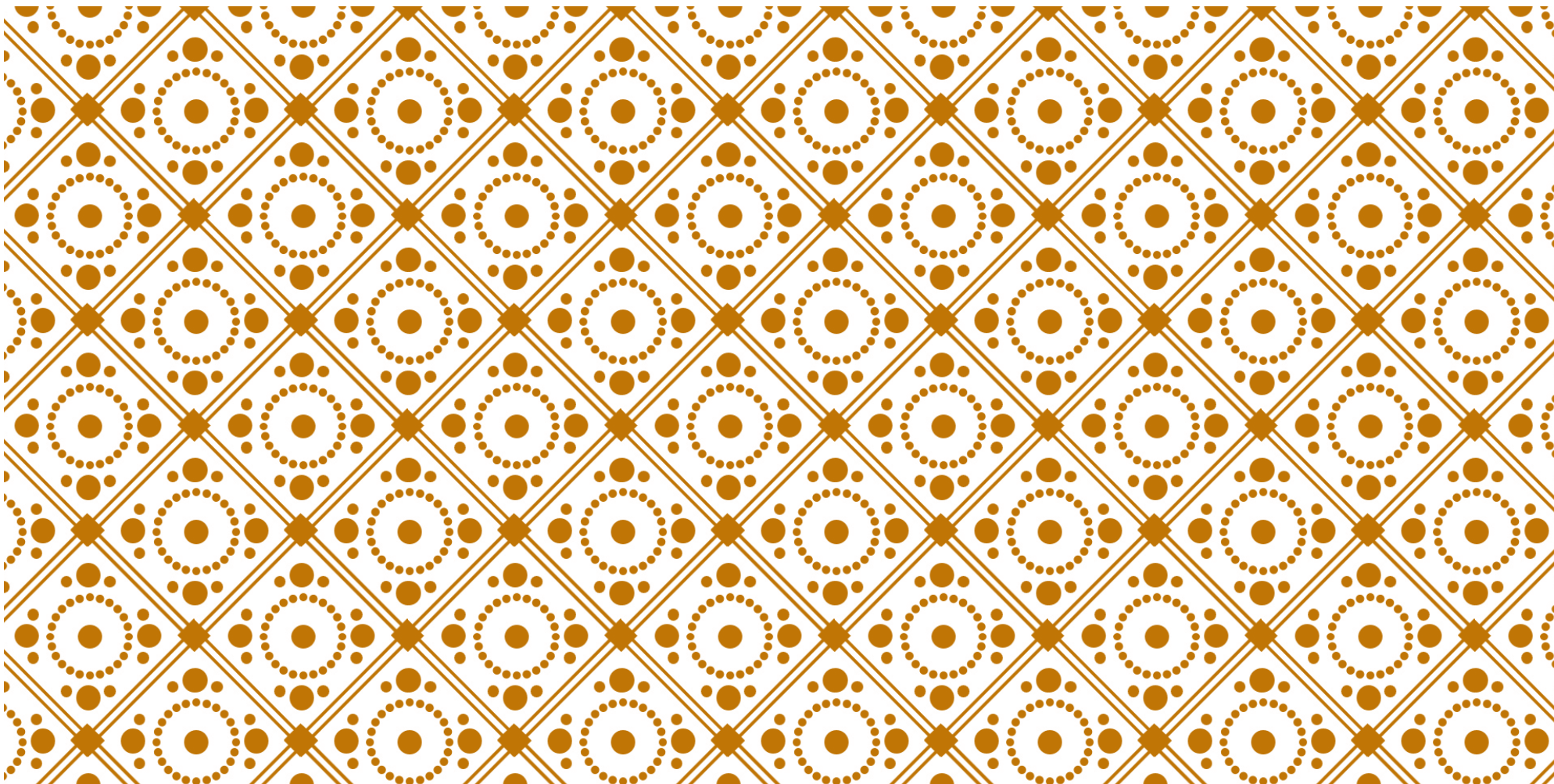




TOP 10 ISSUES FOR 2018



WILL THE GOVERNMENT CONTINUE TO PURSUE THE PATH OF BOLD ECONOMIC REFORM?

Will the budget be populist?

Not likely because -

- Demonetisation was taken up before UP elections
- GST implementation before Gujarat elections

If the Government did not back down from strong measures then, it is unlikely that they will do so now.

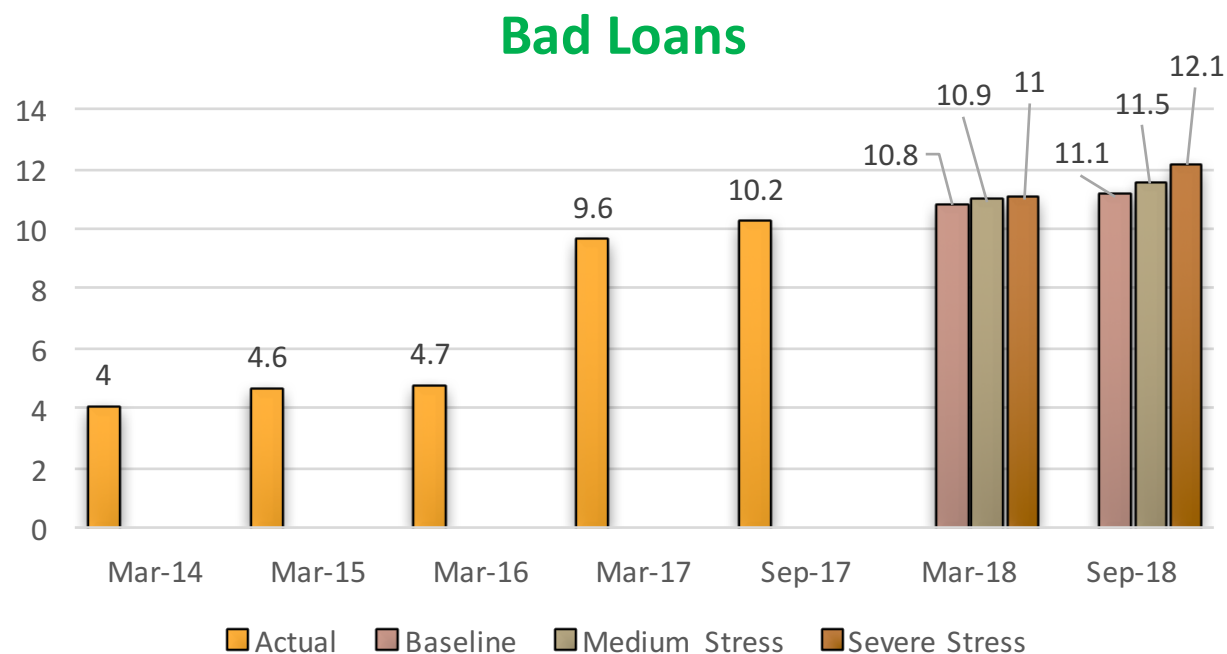


WHAT MAY SUFFER	WHAT MAY NOT SUFFER
- Privatisation of PSUs Rs 53,833.05 crore raised from stake sale and Rs 72,500 crore target for Budget 2017-18 Companies on the block: Air India, Dredging Corporation, IMPCL, IRCTC, IRCON, Mishra Dhatu Nigam, Mazagon Dock - Labour Reforms	- Fiscal discipline - Banking sector reforms

Eyes are on 2024 re-election rather than 2019

BANKING SECTOR

A. BAD LOANS



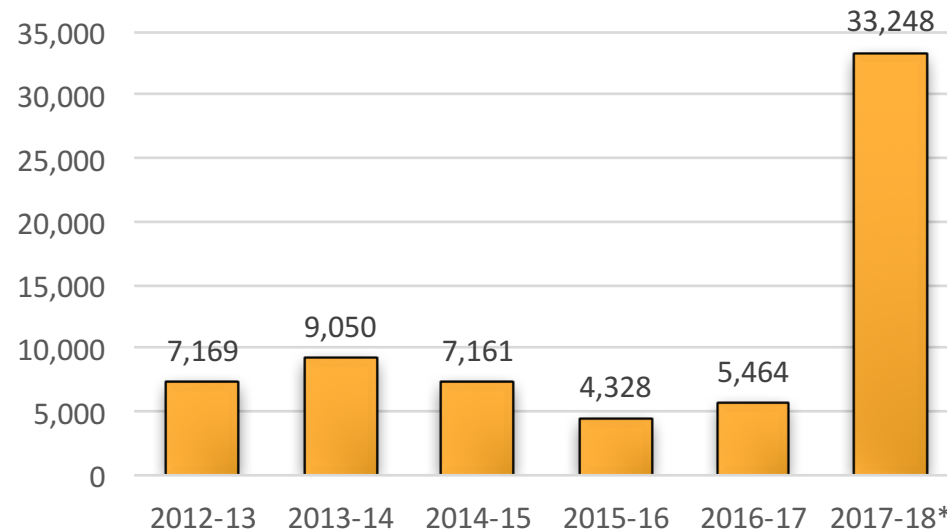
Figures for March'18 and Sep'18 are estimates
Source: RBI Financial Stability Report

BANKING SECTOR

B. CAPITAL RAISING

Banks have raised a record Rs 33,248 crore via QIPs and an additional Rs 40,000 crore is planned

QIP Issuances by banks (in Rs Cr)



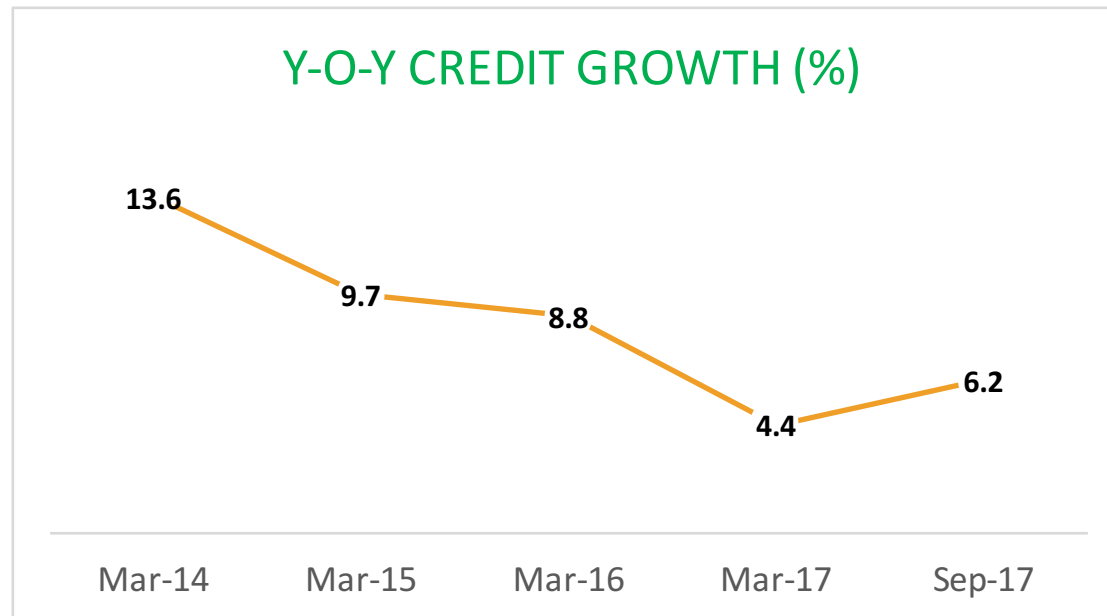
*till December

Source: Prime Database

BANKING SECTOR

C. CREDIT GROWTH

Credit growth fell for 3 straight years. The increase in bad loans reduced the ability of banks to lend.



Source: RBI Financial Stability Report

BANKING SECTOR

D. WHAT WILL HAPPEN TO PSU BANKS

Recapitalization



Mergers



NPAs



INTEREST RATE TRAJECTORY

The 10-year Government security yield went up from 6.52 to 7.33% in 2017.

Impact of crude prices

- Latest MPC raises concern about crude prices
- Can be a spoil sport if shale gas from USA doesn't offset production cut by OPEC

Food Inflation

- Monsoon has been deficient in certain parts of the country
- Rabi output is important
- So are vegetable prices

CURRENCY

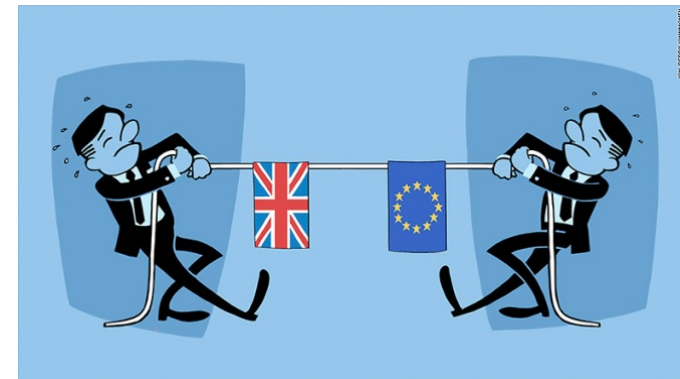
Implications of the US tax cuts
on USD/INR rates



Impact of monetary
policy/Interest rates on currency



Brexit and EU



REVIVAL OF PRIVATE CAPEX CYCLE?

- Projects being announced across sectors:
 - Cement
 - Steel – Tata Steel (Rs 23,500 crore)
- Trends in the capex cycle-
 - Increase in order books of infrastructure companies
 - In the last 2 years project completions increased but fell sharply this year.
 - Construction of new roads has accelerated because of orders given out during the previous government's tenure
 - Increase in revival of stalled projects
 - Capex seen by way of construction activity (for eg, metro) in cities like Mumbai
 - There is excess capacity so the demand has to go up by 10% for new investments to happen – which will take longer than a quarter or two

GST AND EASE OF DOING BUSINESS

GST has eased procedures for small and medium business owners, but they have faces some issue while filing returns

	Jul'17	Aug'17	Sep'17	Oct'17	Nov'17
GST Collections (Rs cr)	92,283	90,669	92,150	83,346	80,808
Returns filed (mn)	3.83	3.83	4.29	5.01	5.30
Total Registrations (mn)	5.95	6.82	8.00	8.08	8.24
% of filers to total no of assessees	64.37	56.15	53.62	62	64.30

Source: Finance Ministry

Demonetisation and GST behind us – is the corporate sector gearing up for surge in demand and order flows?

GEOPOLITICS AND FUND FLOWS

North Korea



Middle East



Brexit



COMMODITY PRICES

2018 will be a year of rising commodity prices

Factors driving prices

- Aluminium: Production cuts in China
- Copper: Labour strikes in major producing countries like Chile, Peru and Indonesia.
- Zinc: Increased consumption in the US and Europe
- Nickel: High demand from steel industries and electric vehicles
- Lead: Strong demand from automobile sector

LME (in \$/tonne)	Return in 2017 (%)
LME Aluminium	34.0
LME Copper	30.9
LME Zinc	28.8
LME Nickel	27.3
LME Lead	23.4

COMMODITY PRICES

Gold & Silver

- Gold prices, which have been in a phase of consolidation went up by 12.6% (in \$/oz) in 2017.
- The rise of cryptocurrencies may hurt commodities like gold and silver
- Factors which may work in favour of gold
 - Lower mining output
 - Stock markets correction
 - Rising geopolitical tension
 - Higher demand in countries like India (India's gold imports surged 67% in 2017 due to revival in retail demand)

CY	Gold (\$/oz)	Change (%)	Silver (\$/oz)	Change (%)
2011	1,563.7	10.1	27.8	-9.9
2012	1,675.4	7.1	30.3	9.0
2013	1,205.7	-28.0	19.5	-35.8
2014	1,184.9	-1.7	15.7	-19.3
2015	1,061.4	-10.4	13.8	-11.9
2016	1,152.3	8.6	15.9	15.0
2017	1,297.3	12.6	16.9	5.9

STATE ELECTIONS

- Volatile times ahead
- Upcoming state elections will keep markets on their toes!

Setting the stage for
2019 General
elections

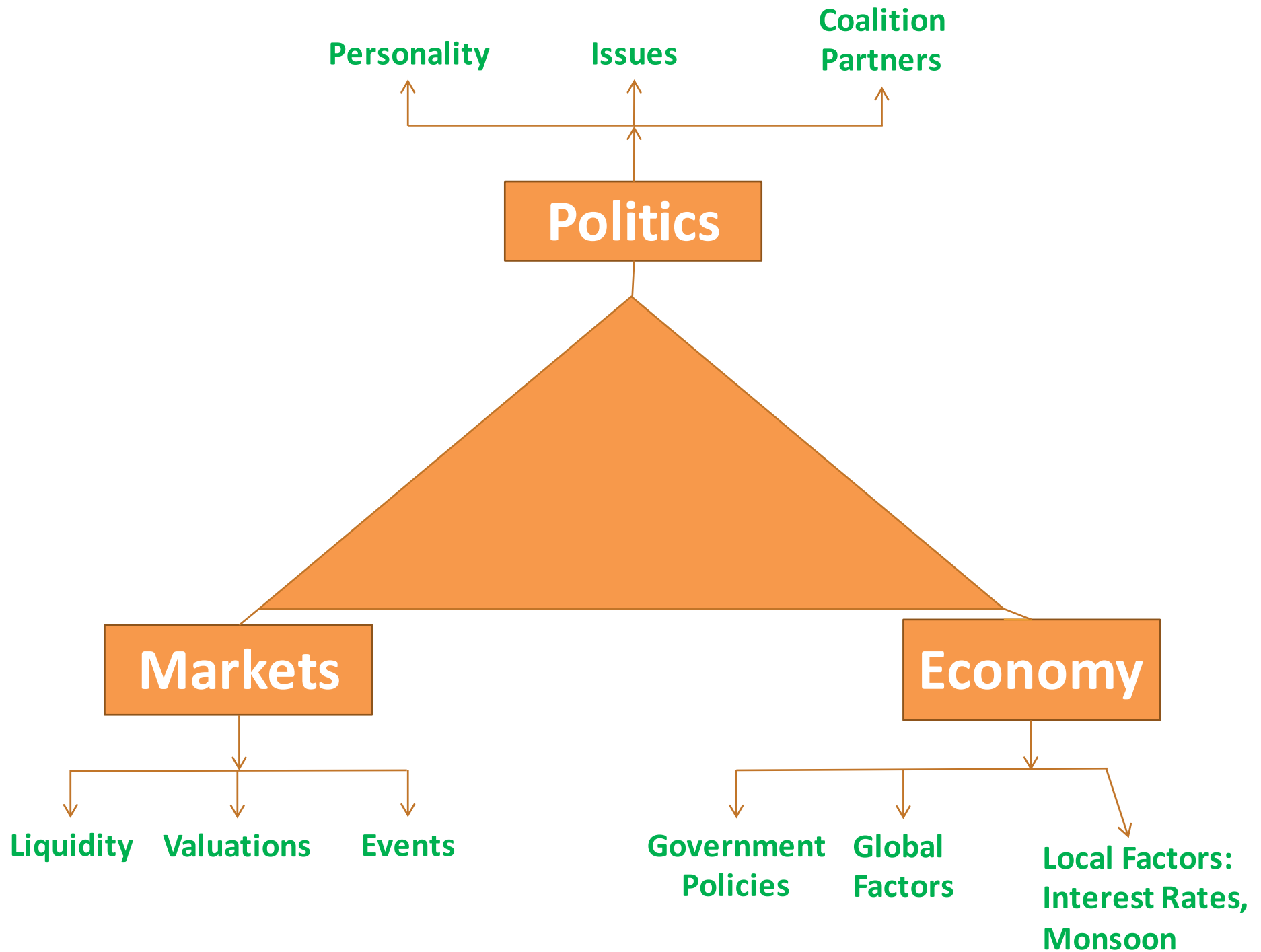
Elections due next year	Incumbents	% of India's population
February'18		
Meghalaya	Congress	Less than 1%
Nagaland	Naga People's Front	Less than 1%
Tripura	CPI (M)	Less than 1%
May'18		
Karnataka	Congress	5%
December'18		
Madhya Pradesh	BJP	6%
Chhattisgarh	BJP	2.1%
Rajasthan	BJP	5.5%
Mizoram	Congress	Less than 1%

POLITICS: SEAT COMPOSITION IN RAJYA SABHA

To push through important bills, the ruling party will need numbers in the Rajya Sabha

The ruling National Democratic Alliance (NDA) has 78 seats and the opposition UPA has 74. The top 5 states based on population have 100 seats in the Rajya Sabha. BJP is in power in 2 out of these 5 states.

Party	No of seats
Indian National Congress	57
BJP	57
Samajwadi Party	18
AIADMK	13
Trinamool Congress	12
Others	11
Nominated	8
Biju Janata Dal	8
Janata Dal United	8
CPI M	7
Telugu Desam Party	6
Independents & Others	6
Nationalist Congress Party	5
Bahujan Samaj Party	5
Dravida Munnetra Kazhagam	4
Shiromani Akali Dal	3
Rashtriya Janata Dal	3
Telangana Rashtra Samithi	3
Shiv Sena	3
J&K People's Democratic Party	2



LIQUIDITY

FII Inflows in 2017 totaled almost Rs 2 lakh crore!

Month	Net Equity (Rs. Crore)	Net Debt (Rs. Crore)
Jan-17	-1,176.6	-2,319.2
Feb-17	9,902.2	5,960.3
Mar-17	30,906.0	25,354.9
Apr-17	2,394.5	20,363.8
May-17	7,711.4	19,154.8
Jun-17	3,616.8	25,685.1
Jul-17	5,160.7	18,867.2
Aug-17	-14,293.5	15,249.1
Sep-17	-11,392.3	1,348.9
Oct-17	3,055.0	16,063.7
Nov-17	19,727.7	530.5
Dec-17	-5,882.7	2,350.2
Total	49,729.2	1,48,609.1

DII inflows totaled more than Rs 7 lakh crore!

Month	Net Amount (Rs Crore)
Jan-17	91,065.1
Feb-17	86,316.2
Mar-17	85,380.9
Apr-17	89,776.5
May-17	80,529.1
Jun-17	76,252.0
Jul-17	69,724.4
Aug-17	64,938.1
Sep-17	48,732.9
Oct-17	27,707.3
Nov-17	17,924.3
Dec-17	8,681.0
Total	7,47,027.7

Expect strong inflows in 2018 as well

LIQUIDITY

B. MF INVESTMENTS IN SECONDARY MARKETS

Month	Net Investment - Equity (Rs Crore)	Net Investment - Debt (Rs Crore)	Total
Jan-17	5,233.6	31,104.9	36,338.5
Feb-17	2,039.6	38,829.6	40,869.1
Mar-17	4,191.6	34,894.1	39,085.6
Apr-17	11,244.3	55,932.9	67,177.1
May-17	9,357.7	9,514.4	18,872.0
Jun-17	9,106.1	12,617.9	21,724.0
Jul-17	11,799.9	40,387.5	52,187.4
Aug-17	17,941.1	36,466.8	54,407.9
Sep-17	17,456.8	31,855.2	49,312.1
Oct-17	9,990.5	29,088.5	39,079.0
Nov-17	12,080.1	41,978.4	54,058.5
Dec-17	8,333.3	18,997.6	27,330.9
Total	1,18,774.4	3,81,667.7	5,00,442.1

SURGE IN MF INFLOWS

Very high inflows into the mutual fund industry witnessed in 2017, so much so that asset managers are looking for ways to curb the flows.

The inflows are expected to be strong in 2018

Source: AMFI

(Rs. Crore)	Inflows in Equity MFs	Total inflows in MFs	SIP Inflow	Total Industry AUM
January	4,880	53,817	4,095	17,37,087
February	6,462	30,273	4,050	17,89,047
March	8,216	-54,883	4,335	17,54,619
April	9,429	1,50,703	4,269	19,26,302
May	10,739	-40,711	4,584	19,03,975
June	8,164	-16,592	4,744	18,96,291
July	12,727	63,504	4,947	19,96,905
August	20,362	61,701	5,206	20,59,289
September	18,936	-16,604	5,516	20,40,301
October	16,002	51,148	5,621	21,41,346
November	20,308	1,26,172	5,893	22,79,032
December	16,087	-1,75,023	6,200	21,26,665
Total	1,52,312	2,33,505	59,460	

EQUITY ISSUANCES

Indian Equity Capital Market Issuances were the highest in the last 10 years

Year	Proceeds (\$ billion)
2008	7.6
2009	20.4
2010	24.3
2011	8.8
2012	14.9
2013	9.4
2014	11.1
2015	18.7
2016	9.2
2017	28.5

DISRUPTIVE FORCES

Technology

- Artificial intelligence, voice based virtual assistants to be of significance



Clean Energy

- Today, 20% of the world's electricity is produced by renewable energy
- Many countries have ambitious capacity installation targets over the next 10-15 years
- Unprecedented drop in cost of production
- Electric vehicle market growing rapidly



Crypto-currency

- Businesses beginning to accept digital currencies
- Central banks could enter the market



EQUITY OUTLOOK

EQUITY OUTLOOK

- The year will see volatility
- Expect mid caps to outperform large caps
 - But margin of outperformance is likely to diminish

	2017	2016	2015
Sensex	29.11	1.78	-4.90
NIFTY	28.29	3.28	-3.87
NIFTY Mid-Cap	44.80	5.48	3.07
S&P BSE Mid-Cap	42.57	6.99	7.71
S&P BSE Small-Cap	53.66	0.88	6.37

EQUITY OUTLOOK

- Sector choices will change
- Expect outperformance of private banks to reduce
- Engineering, capital goods and construction to outperform

Benchmark	1 Year
NIFTY 50	29.11
BSE SENSEX	28.29

What did well in 2017	Benchmark	1 Year
Consumer Durables	S&P BSE Consumer Durables	107.3
Real Estate Stocks	S&P BSE Realty Index	89.17
MNCs	NIFTY MNC	53.97
Small Caps	S&P BSE Small Cap	53.66
Consumption	NIFTY Consumption	46.24
Midcaps	S&P BSE Mid-Cap	42.57
NBFCs	NIFTY Finance	42.31
Energy Stocks	NIFTY ENERGY	41.15
PVT Sector Banks	NIFTY Bank	40.86
Metals	NIFTY Metal	39.22
Oil and Gas	S&P BSE Oil and Gas	36.61
Capital Goods	S&P BSE Capital Goods	35.95
FMCGs	S&P BSE FMCSG	35.52
Autos	S&P BSE AUTO Index	32.95
Infra	NIFTY INFRA	30.37
What didn't do well in 2017	Benchmark	1 Year
PSU Banks	NIFTY PSU BANK	22.15
IT	NIFTY IT	9.95
Pharma	NIFTY PHARMA	-11.90

EQUITY OUTLOOK

ATTRACTIVE SECTORS TO FOCUS IN 2018

1	2	3	4	5	6	7	8	9
LARGE/MEGA CAP SECTORS								
Banking	Metals	IT	Engineering	Auto	Cement	OMC & Refining	Pharma	
MID CAP SECTORS								
PSU Banks	Defence	Real Estate	Construction	Logistics	Retailing	Tiles/Sanitary-ware	Media	Airlines
SMALL CAP SECTORS								
Agrochemicals	Auto Ancillaries	Beverages	Brewery/Dis-tillery	Carbon Black	Dairy	DTH	Fasteners	Forgings

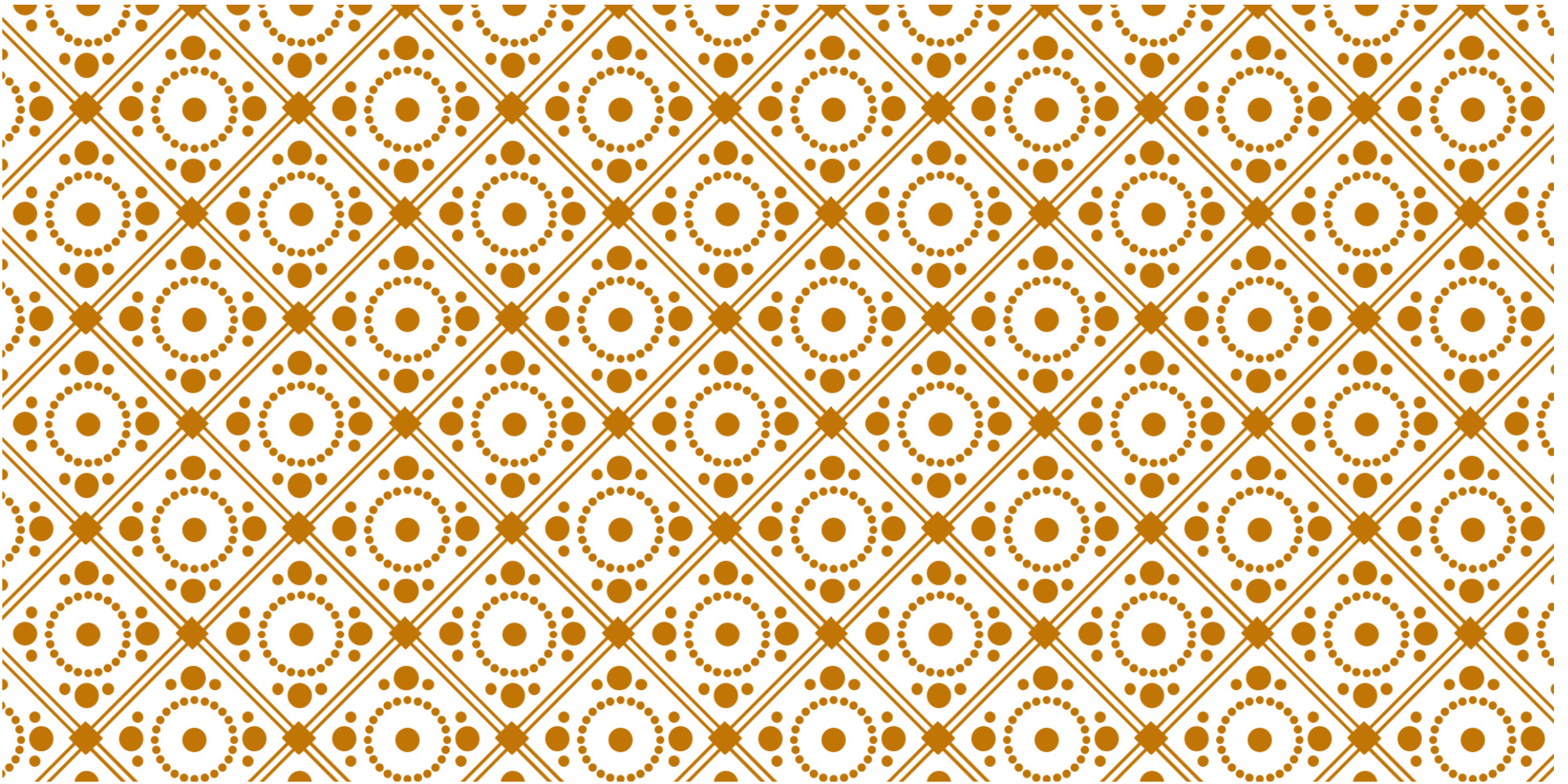
DEBT OUTLOOK

DEBT OUTLOOK

- Long dated securities (Gilts particularly) to be underperforming till the rate cycle begins to reverse
- Good time to lock in to FMPs or similar products
- Stay with Liquid and Ultra short term funds till inflation fears subside

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THANK YOU

