

Bajaj Allianz Life
Insurance –
Market & Macro
Review for 2017
& Outlook for
2018



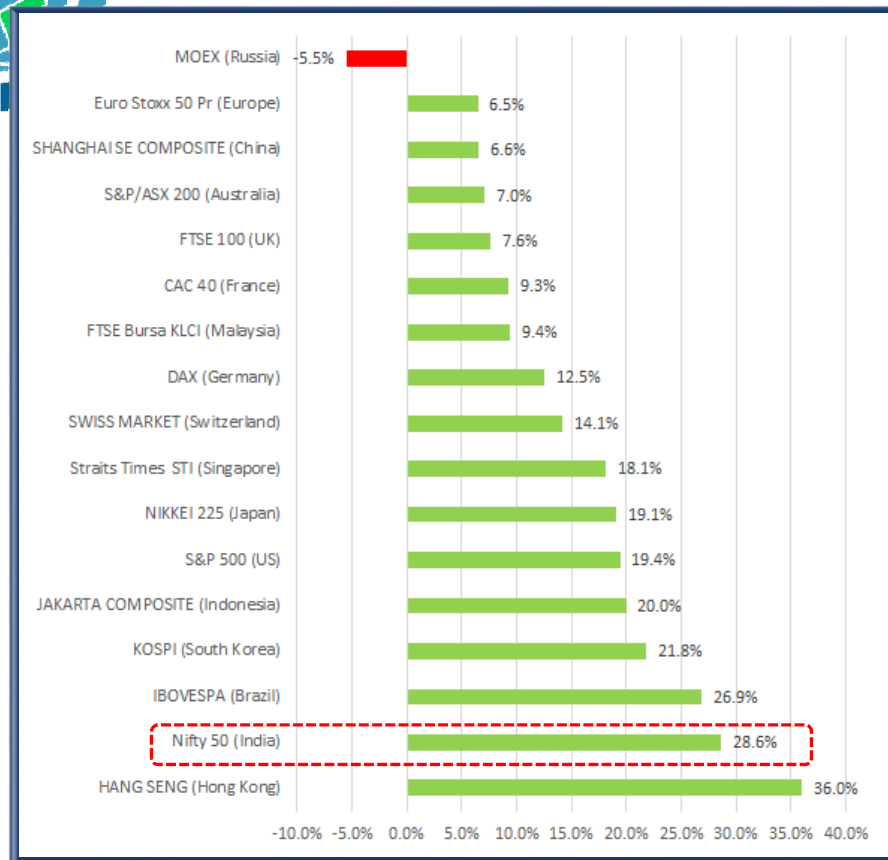
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India Among The Top
Performing Major
Global Markets In
CY2017



Major International Indices Returns – CY 2017



Source: Bloomberg. Returns in base currency of index.

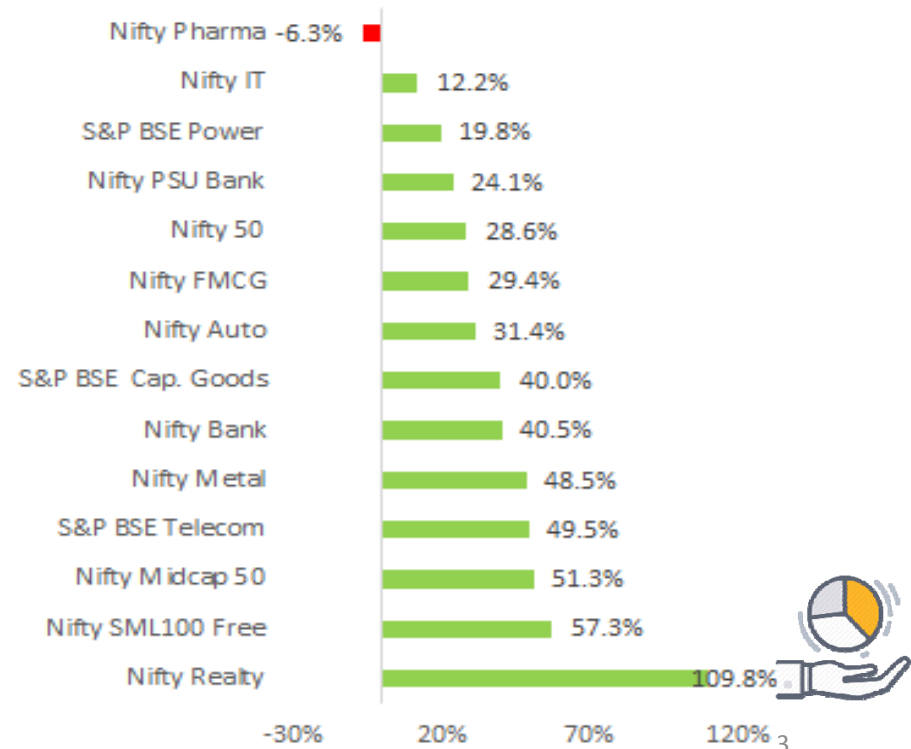
Domestic Index Returns



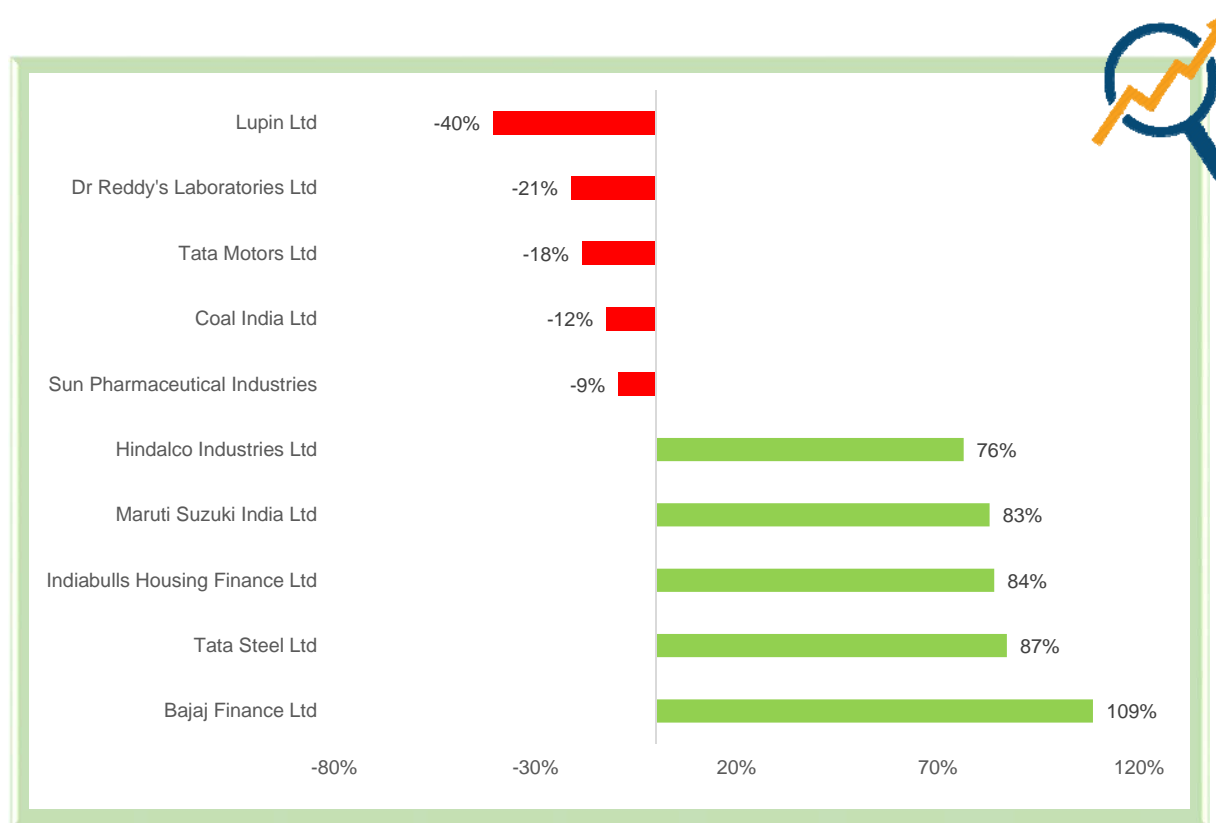
Realty, Small/Mid-caps, Metals were the Winners & Pharma, IT were the Losers in CY 2017

- Nifty returns stood at 28.6% in CY2017
- Small/Mid-cap indices outperformed
- All sectors except Pharma have given positive returns in CY2017
- Defensives have underperformed the Cyclical
- Out-Performing Sectors
- Realty, Telecom, Metals, Banks and Capital Goods were the outperformers.
- Under-Performing Sectors
- Sectors like Pharma, IT, and Power, were underperformers

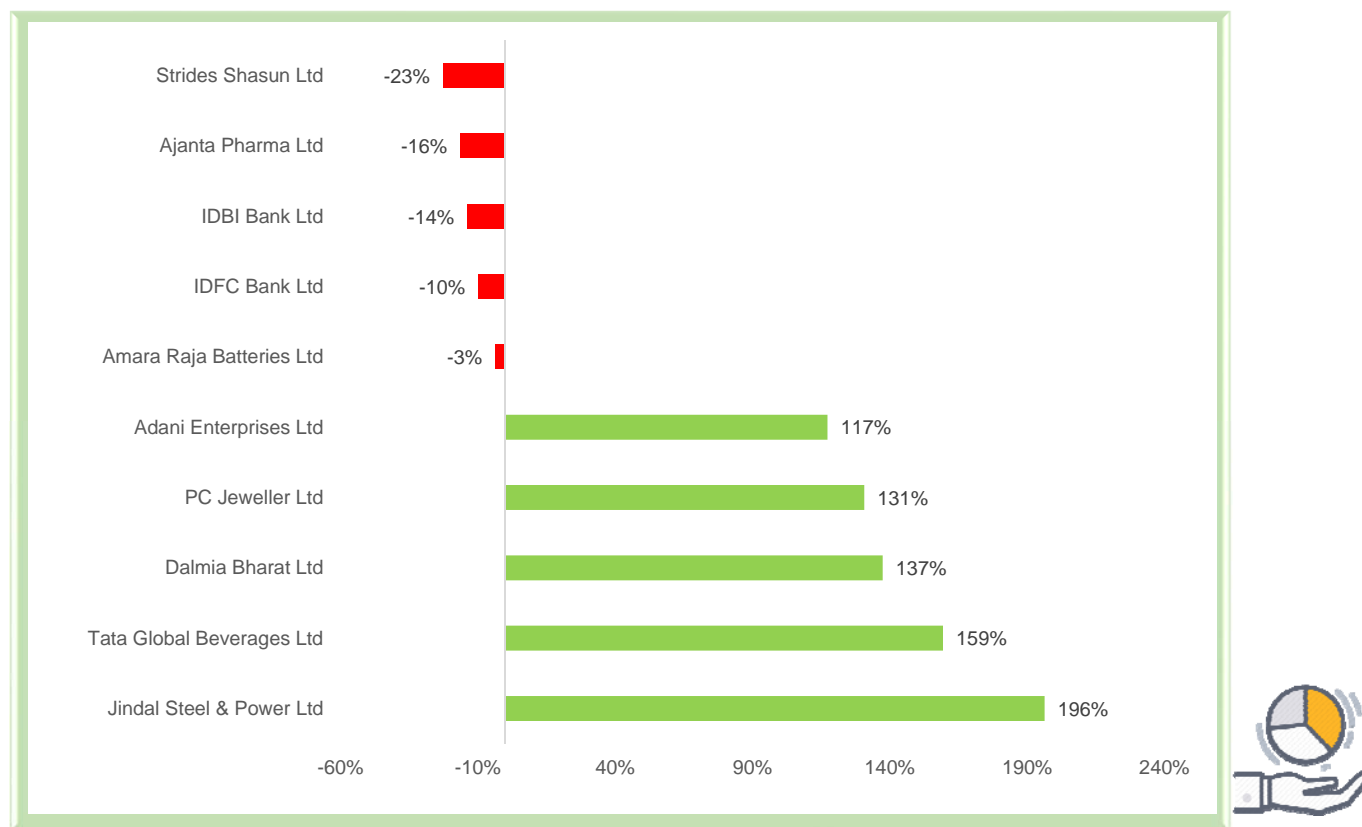
Domestic Indices Returns – CY 2017



Top & Bottom Five Nifty Performers (in % terms) – CY2017

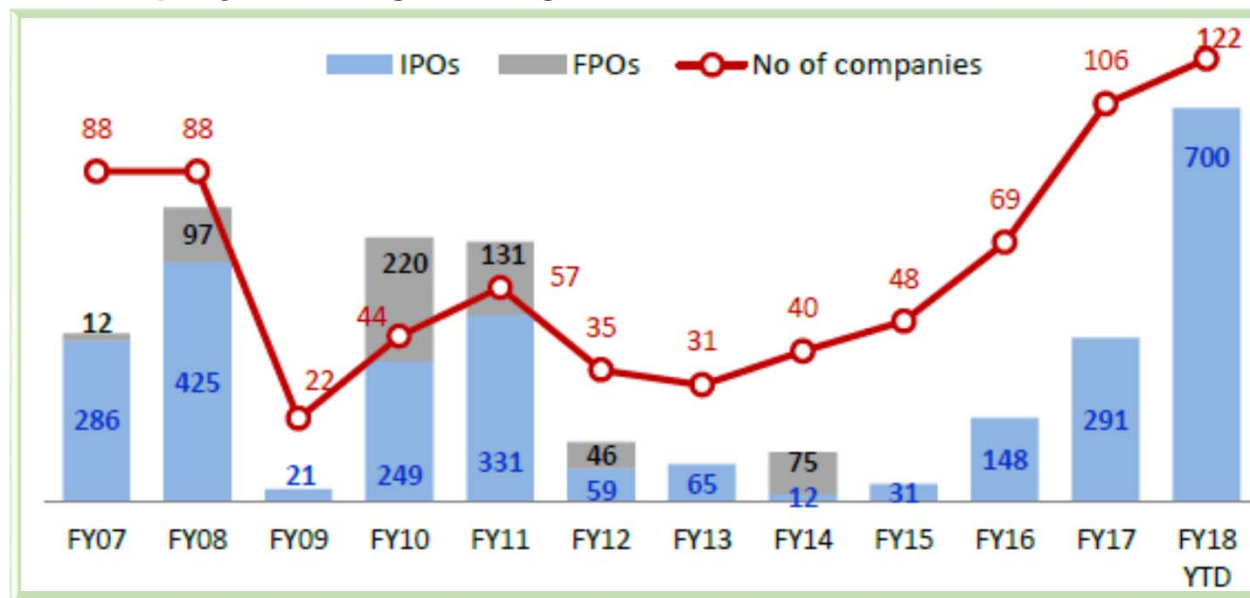


Top & Bottom Five Nifty Midcap 50 Index Performers (in % terms) – CY2017



Equity issuances through IPOs at a record high this year

Equity Raising through IPOs & FPOs (INR in bln)



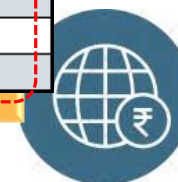
- ✓ Equity IPOs raised a record sum of around Rs. 700 bln FYTD in 2018—surpassing the earlier high recorded in FY08.
- ✓ Contribution of new listings to India's Market Cap was at a 7-year high of 3% in FYTD 18.
- ✓ IPOs were dominated by the Insurance and NBFC sectors in FYTD18

IPO Performance: 2017



Some of the biggest IPOs of 2017 & % gain over offer price

Company Name	Issue Close Date	Issue Size (INR in bln)	Times over-subscribed (X)	Offer Price INR	Market Price INR (Dec 29, 2017)	% Gain over Offer Price
GIC	13-Oct-17	111.8	1.4	912	754	-17%
New India Assurance	3-Nov-17	94.7	1.2	800	601	-25%
HDFC Standard Life	9-Nov-17	87.0	3.8	290	386	33%
SBI Life Insurance	22-Sep-17	83.9	3.6	700	694	-1%
ICICI Lombard	19-Sep-17	57.0	2.4	661	775	17%
IRB InvIT Fund	5-May-17	50.3	4.7	102	88	-14%
India Grid Trust (IndiGrid InvIT)	19-May-17	22.5	1.1	100	94	-6%
AU Small Finance Bank	30-Jun-17	19.1	53.6	358	668	87%
Avenue Supermarts (D-Mart)	21-Mar-17	18.7	104.6	299	1180	295%
ERIS Lifescience	20-Jun-17	17.4	2.3	603	789	31%
Reliance Nippon Life AMC	27-Oct-17	15.4	57.3	252	299	19%
Cochin Shipyard	3-Aug-17	14.4	75.8	432	553	28%



Mutual Funds were the big buyers in equities in 2017



FII's bought a net Rs.7,210 crore in YTD FY18 (till Dec) and DII's bought a net Rs.88,352 Cr in YTD FY18, mainly helped by strong inflows from mutual funds.

Source: SEBI, BSE	Rs in Crore			
Year	FII's	DII's	MFs	Insurance
FY2008	52,572	47,794	15,948	31,846
FY2009	(48,250)	60,040	6,962	53,078
FY2010	110,752	24,211	(10,235)	34,446
FY2011	110,121	(18,709)	(19,974)	1,265
FY2012	43,738	(5,347)	(1,384)	(3,963)
FY2013	140,032	(69,069)	(22,008)	(47,061)
FY2014	79,709	(54,161)	(21,069)	(33,092)
FY2015	111,445	(21,446)	40,087	(61,533)
FY2016	(14,171)	80,416	66,143	14,273
FY2017	60,196	30,787	56,209	(25,422)
YTD FY2018 (upto Dec)	7,210	88,352	103,838	(15,882)



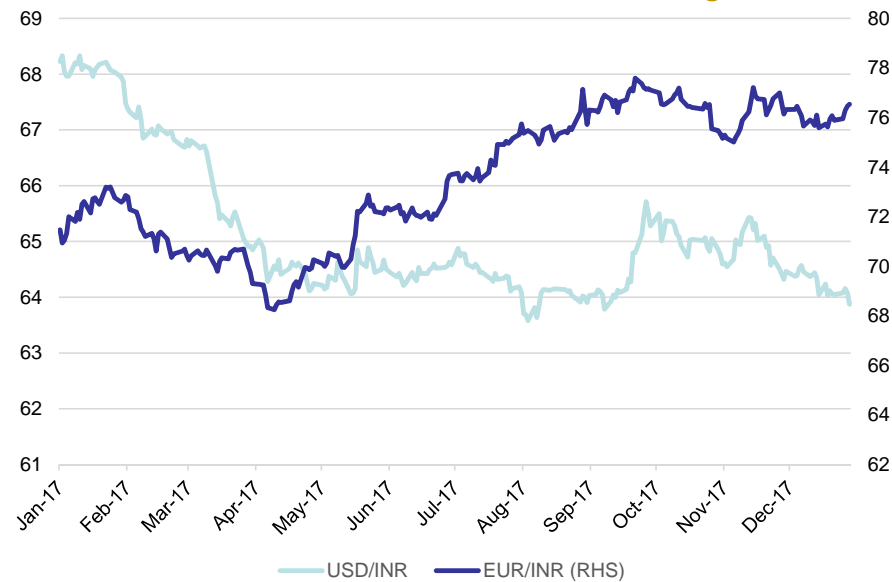
	Rs in Crore			
Month-end	FII's	DII's	MFs	Insurance
30 April 2017	(2,209)	9,248	11,244	(1,996)
31 May 2017	9,957	4,277	9,358	(5,081)
30 June 2017	2,485	5,333	7,853	(2,520)
31 July 2017	2,488	4,786	11,800	(7,013)
31 August 2017	(11,108)	16,205	17,941	(1,736)
30 September 2017	(10,759)	21,026	17,457	3,569
31 October 2017	1,923	10,091	9,991	100
30 November 2017	19,783	9,243	12,080	(2,837)
29 December 2017	(5,350)	8,143	6,114	1,633

USD/INR & EUR/INR movement during CY2017



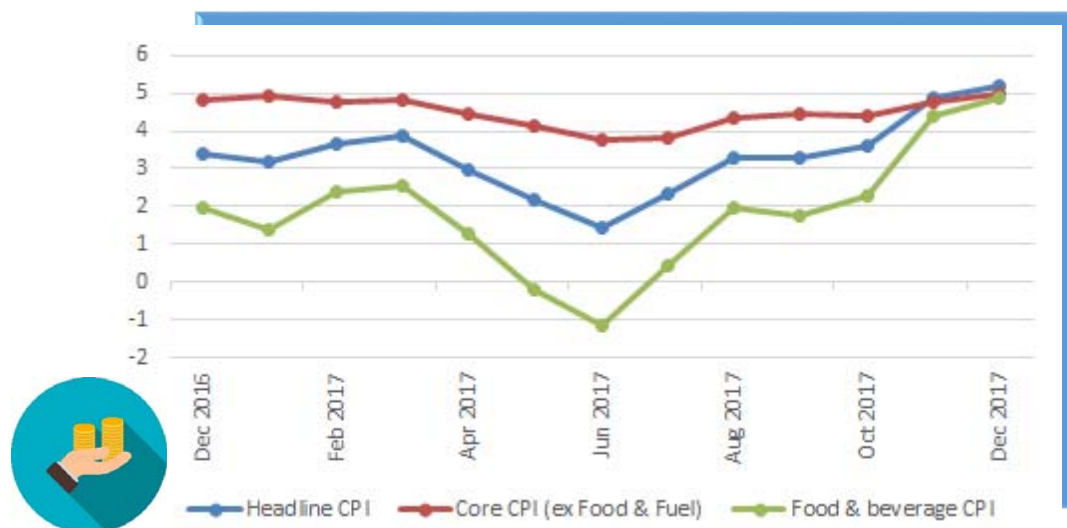
Rupee appreciated 6% Vs USD in CY2017, due to global weakness in Dollar,
(Rupee depreciated 6% Vs Euro in CY2017)

USD/INR & EUR/INR movement during CY2017



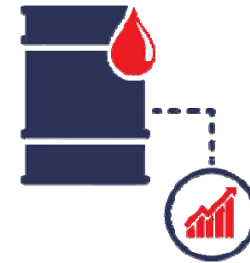
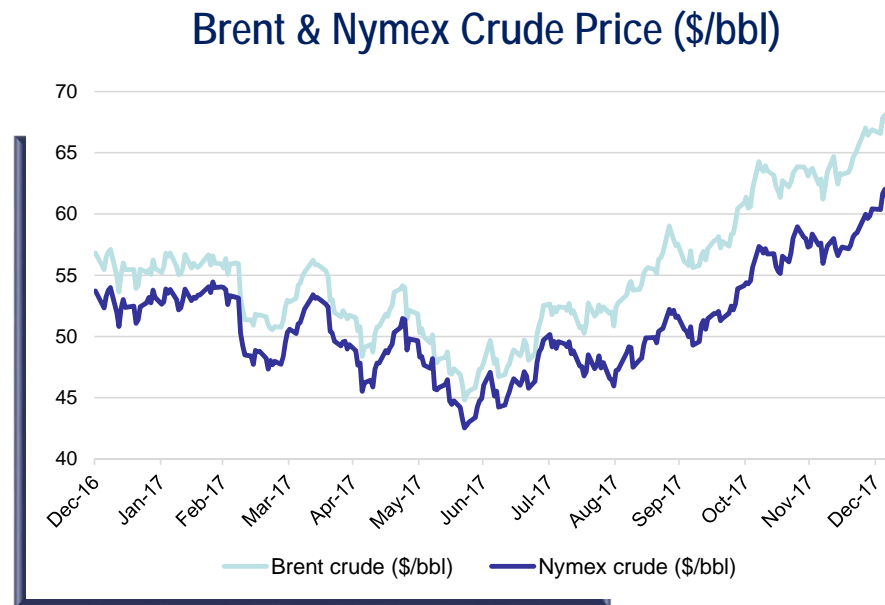
India CPI Inflation Trend & its Components (% YoY)

CPI Inflation was benign for first half of the year, but picked up recently



- ✓ CPI inflation rose above expectations to 5.2%YoY in Dec 2017, from low of 1.5%YoY in Jun 2017.
- ✓ Core inflation (ex food & fuel) rose to ~5%YoY in Dec 2017 from a low of 3.8%YoY in Jun 2017.
- ✓ Inflation is expected to be in the range of about 4-6%, hence we expect RBI to remain on prolonged pause.

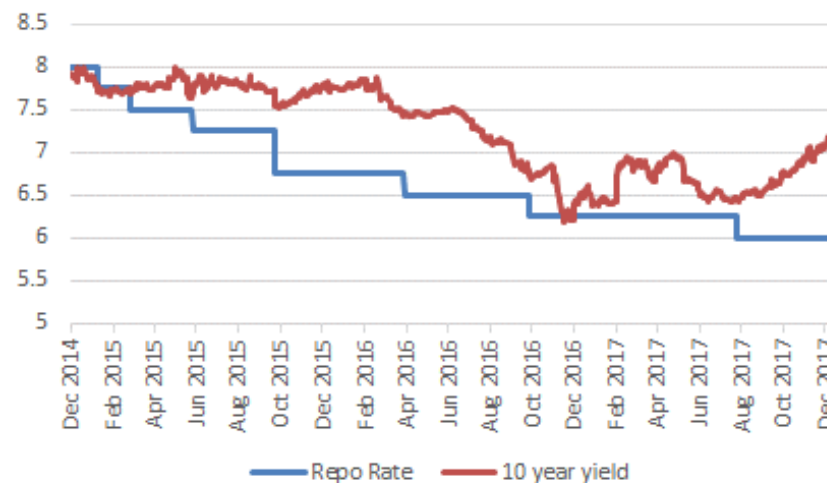
Crude on the boil, in the second half of the year



- ✓ Brent crude closed the year up ~18%, near the \$67/bbl mark. Nymex crude closed the year up 12.5%, near the \$61/bbl mark.
- ✓ OPEC's decision to extend production cuts from an earlier deadline of March 2018 to December 2018, and geo-political tensions lead the crude price higher.
- ✓ Crude rising further from current levels to have an impact on inflation and current account deficit.

India 10 Yr Bond Yield Vs Repo Rate Movement (%)

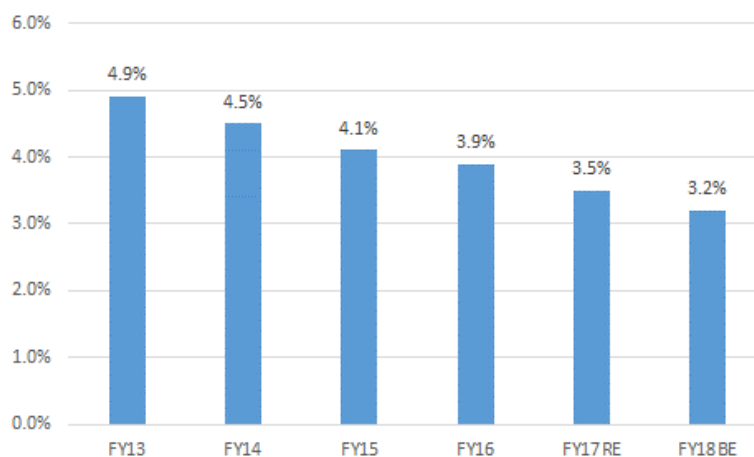
Bond yields hardened due to rising inflation, crude prices & concern of fiscal slippage. We believe that most of the negatives are priced in.



- Bond yields have hardened primarily due to rising inflation and crude oil prices, and some concerns of fiscal slippage. The benchmark 10 year bond yield has hardened by 82 bps in CY2017.
- The Crisil Composite Bond index and Long Term Gilt index returned 4.7% and 1.4% respectively in CY2017 as yields moved up.

Fiscal Deficit Target in FY18

Additional borrowings in Jan – March 2018, may lead to overshooting of fiscal deficit target in FY18



Source: Ministry of Finance. RE=Revised Estimate, BE = Budgeted Estimate

- ✓ Fiscal deficit for FYTD 18 (April – Nov) came in at 112% of BE, compared to ~86% in the year ago period.
- ✓ With additional borrowing, the fiscal deficit is likely to overshoot to ~3.4% in FY18 from BE of 3.2%.

Global Factors to watch for in 2018



- US Rate Hike Cycle
- Geopolitical Risks
- Fall out of Brexit
- US Policies / Tax Reforms
- Commodity Prices (Esp. Crude)
- ECB Taper & BOE Rate hikes
- Global & EM Economic Recovery
- Currency Movement & Dollar Index
- Monetary tightening by other central banks



India Equity Market Outlook



Corporate earnings to drive markets

With corporate earnings being muted over the past few years, equity markets have been driven by PE expansion.

We expect earnings growth to pick up over the next couple of years, and that will drive markets, rather than PE expansion



Globally, easy monetary policy on its way out

Major central banks (like US Fed, European Central Bank and Bank of England) have started to tighten monetary policy or withdraw stimulus, as global growth and inflation pick up.

Any pick-up in pace in monetary tightening or hawkish signals by the central banks may pose some risk to flows into emerging markets, thereby causing some headwinds to the Indian markets as well.



Economic growth in on recovery path

We expect growth to recover in the coming year, led by pick-up in consumption and a gradual recovery in investment.

We expect the PSU bank recapitalization initiative to contribute to a pick-up in credit growth, which could trigger a gradual capex recovery over the coming yr



Liquidity & Flows to guide markets

Flows in India have been dominated by domestic mutual funds in 2017, and picked up pace post demonetization.

FPI flows also picked up pace in CY2017, compared to the earlier year. Typically, over the long term, FPIs have been net buyers of Indian equities.

India Fixed Income Market Outlook

 Interest rate easing cycle seems to have ended

RBI Monetary Policy Committee (MPC) is expected to be on long pause, with a “neutral” stance.

However, you could see a more hawkish RBI, if the upward trajectory in global crude prices and inflation continues. Future policy stance of RBI MPC would continue to be data dependent.

 Bond yields are expected to remain range-bound

We think that most of the risks like rising inflation, crude prices and fiscal slippage have broadly been priced in by the market. Therefore, we expect yields to remain range-bound, provided there are no more negative macro surprises.

We are presently more positive on the shorter to medium term segment of the yield curve.



 Factors to watch out for

Fiscal situation, impact of crude oil on inflation and growth, RBI policy, Union Budget, tax collections, liquidity

Geo-political issues, monetary tightening by global central banks and their impact on INR as well as FPI flows

THANK YOU

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