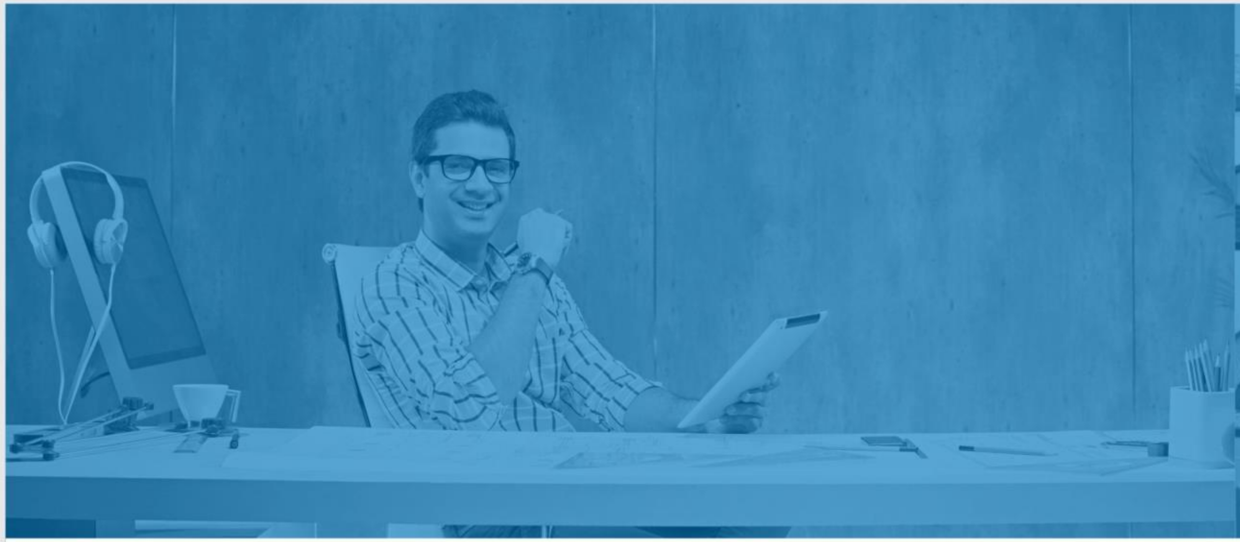


Quarterly Market & Macro Review & Outlook

As of September 2018

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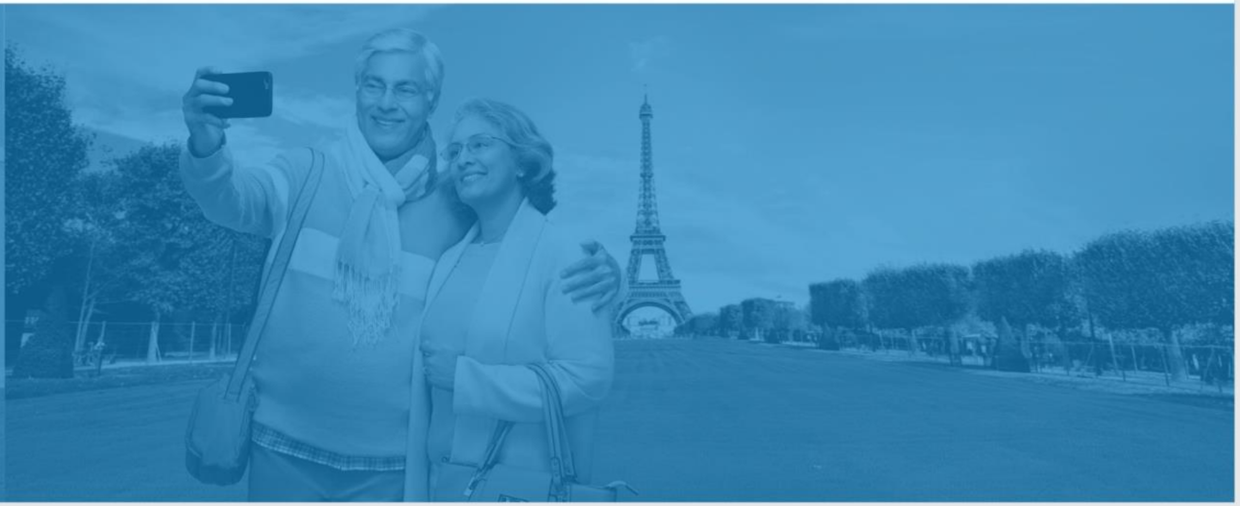


Equity Markets & Flows

Amidst the correction, globally, India has managed to fare relatively well this year

Performance of International Indices (ended Sep 2018 in %)					
Index Name	**Country / Region**	**3 mths**	**6 mths**	**CYTD**	**1 Yr**
S&P 500	United States	7.2	10.3	9.0	15.7
BOVESPA	Brazil	9.0	-7.1	3.8	6.8
MSCI World PR USD	World	4.5	5.7	3.8	9.2
Nifty 50	**India**	**2.0**	**8.1**	**3.8**	**11.7**
TSEC TAIEX	Taiwan	1.6	0.8	3.4	6.0
CAC 40	France	3.2	6.3	3.4	3.1
RTS RTSI PR USD	Russia	3.3	-4.6	3.3	4.9
S&P/ASX 200	Australia	0.2	7.8	2.3	9.3
FTSE SET	Thailand	10.8	-0.7	-0.1	4.8
FTSE Bursa Malaysia KLCI	Malaysia	6.0	-3.8	-0.2	2.1
FTSE 100	UK	-1.7	6.4	-2.3	1.9
FTSE/SGX STI	Singapore	-0.4	-5.0	-4.3	1.2
KOSPI Korea	South Korea	0.7	-4.2	-5.0	-2.1
FSE DAX TR	Germany	-0.5	1.2	-5.2	-4.5
JSX Composite	Indonesia	3.1	-3.4	-6.0	1.3
Hang Seng	Hong Kong	-4.0	-7.7	-7.1	0.9
MSCI Asia Ex Japan PR USD	Asia ex Japan	-2.5	-8.5	-8.1	-0.9
MSCI EM PR USD	Emerging Markets	-2.0	-10.5	-9.5	-3.1
Shanghai Composite	China	-0.9	-11.0	-14.7	-15.8

Source: Morningstar Direct. Returns are absolute and in local currency of index.
Date sorted on the basis of YTD return in descending order

CYTD in 2018 (ended Sep 2018)

- ❑ Despite the sharp correction seen in the month of September, **India has managed to perform relatively well CYTD in 2018**

- ❑ **Most Asian / Emerging markets (EMs) corrected due to**
  - Rising risk aversion
  - US tightening of monetary policy
  - Depreciation of EM currencies
  - Asia Ex-Japan & emerging market (EM) funds seen large outflows
  - Trade war concerns

- ❑ **Developed markets fared relatively better.** US has been the top performing market this year.

India has seen relatively lower FII outflows than other peer Asian markets in 2018

Foreign Equity Flows within Emerging Asian region ($ in bln)

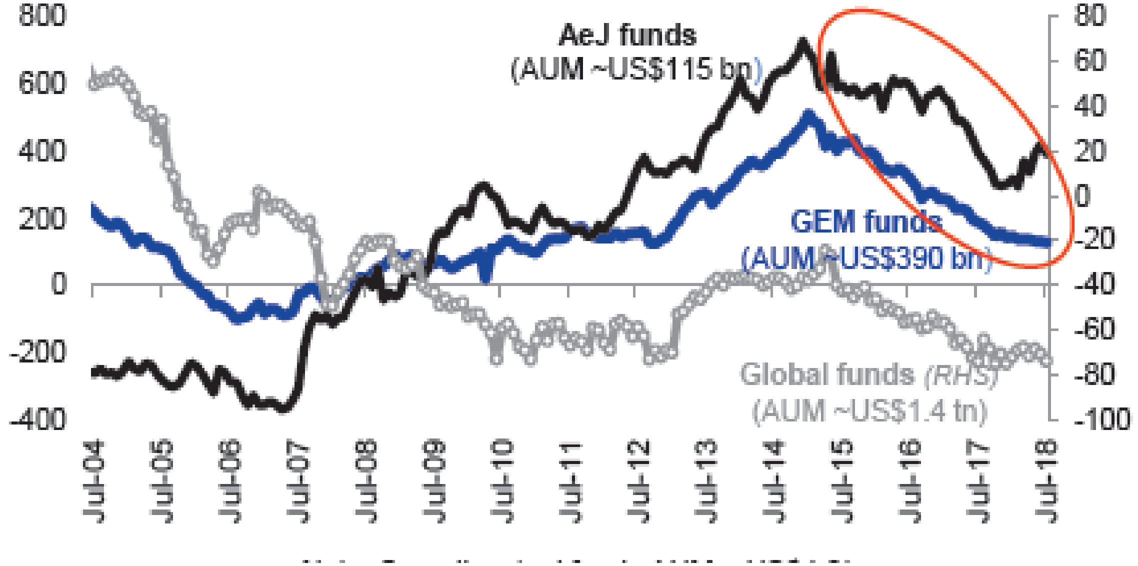
Country	2016	2017	YTD
India	2.9	8.0	(1.9)
Korea	10.4	8.1	(1.8)
Taiwan	11.0	6.1	(5.8)
Philippines	0.1	1.1	(1.6)
Indonesia	1.2	(3.0)	(3.6)
Thailand	2.2	(0.8)	(6.5)
Malaysia	(0.6)	2.5	(2.2)
ASEAN	2.9	(0.2)	(13.8)
Emerging Asia	$27	$22	-$23

Source: Goldman Sachs, Bloomberg

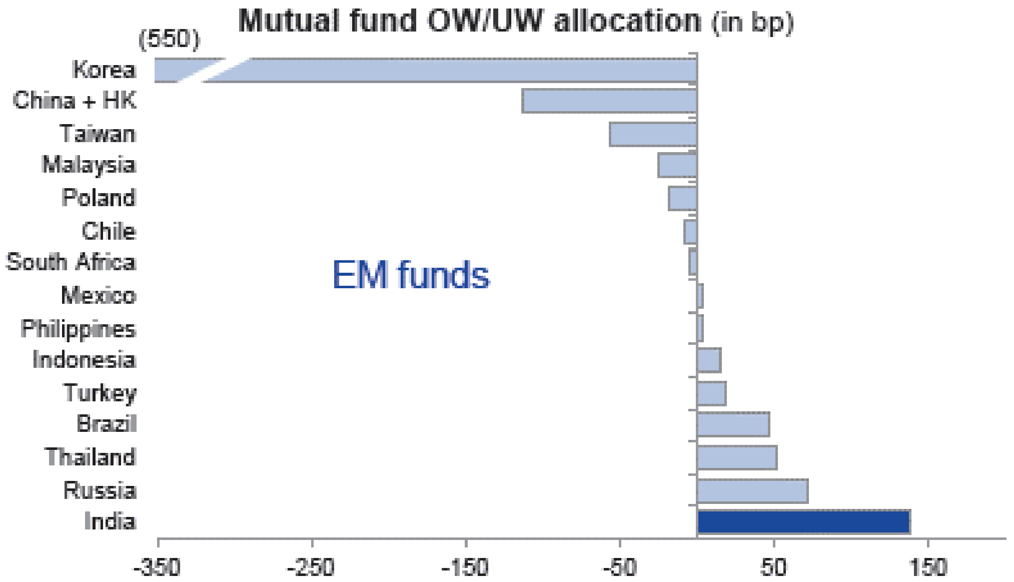
- India is less affected due to its relatively better Macro
- However, the pace of foreign outflows is picking up, with the rupee under pressure

India still has overweight allocation in portfolios of EM & Asia ex-Japan equity funds; albeit it has come down gradually over the past few years

India's allocation in mutual funds globally (OW / UW in bps)



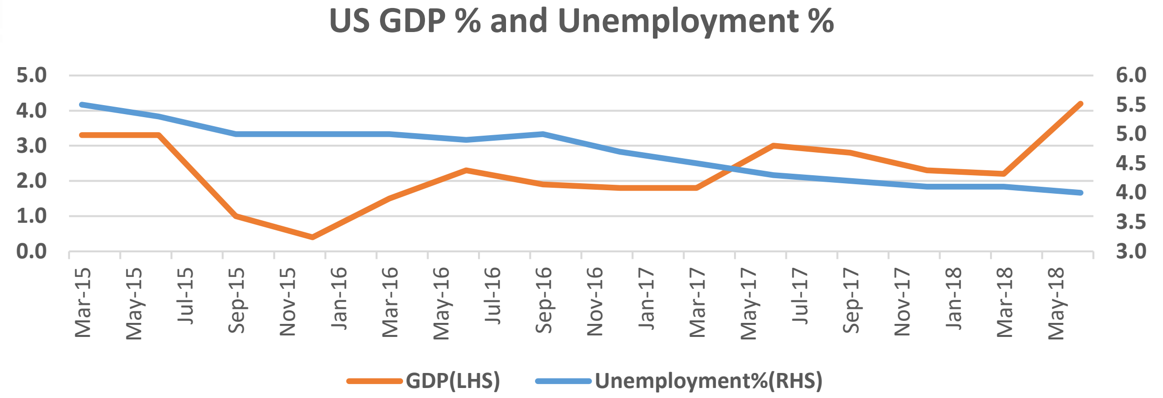
Allocation to various countries in Emerging Market Funds (OW / UW in bps)

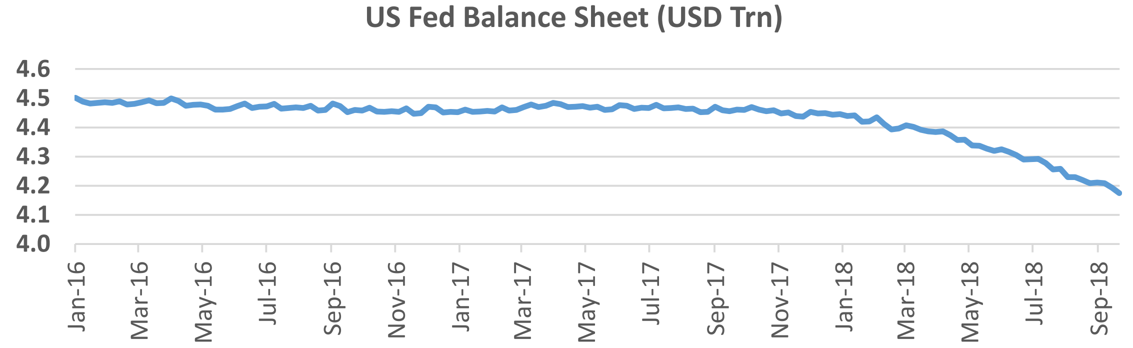


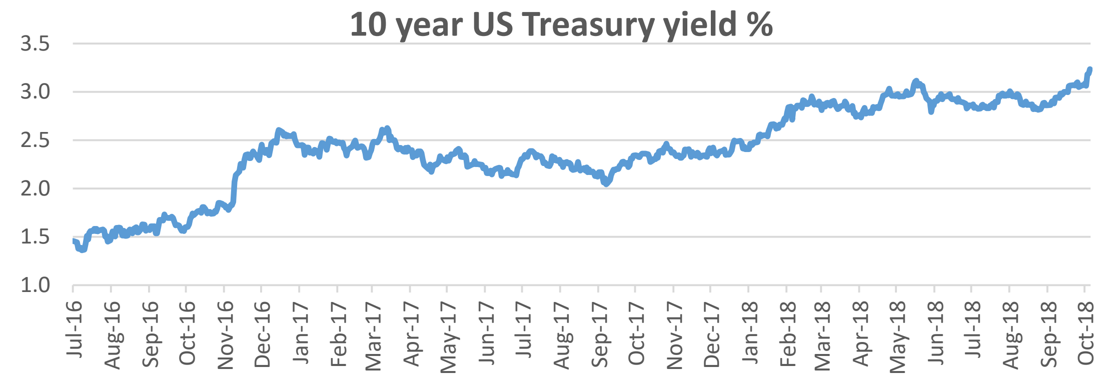
Source: Goldman Sachs, EPFR. GEM = Global Emerging Market Funds, AeJ = Asia ex Japan funds

- India still has an overweight (OW) allocation of 125 bps (1.25%) in Emerging Market Equity Funds, and 400 bps (4%) in Asia ex-Japan equity funds, when compared to it weight in the respective MSCI index. Albeit the allocation has come down gradually over the past few years
- India has the highest overweight allocation in portfolios of emerging market equity funds. Korea and China / HK are biggest underweight positions in emerging market fund portfolios

Dollar strength is leading to a flight of capital from EMs







- **US GDP**: is accelerating, led by fiscally expansionary policies viz. corporate tax rate has been reduced from 35% to 21%. US GDP growth rose to 4-year high of 4.2% in Q2 2018, and is expected at above 3% in CY2018

- **US Fed:** is on a tightening path with 3 rate hikes in CY2018, and additional 3-4 rate hikes are expected in the next 12 months

- **Tapering & Unwinding**: Fed has commenced with balance sheet tapering of USD10 bn/month from Oct'17, which has now increased to $50 bn/month from Oct'18 onwards

- **US 10yr yield** has moved past 3.2% mark recently

- **All this is causing strength in the dollar and leading to EM outflows** (due to currency depreciation)

Domestically, its been a narrow market performance

Performance of Domestic Indices in % (ended Sep 2018)				
Index Name	3 months	6 months	CYTD	1 Yr
S&P BSE IT	12.3	29.2	38.6	57.1
S&P BSE FMCG	2.6	11.8	7.6	17.7
S&P BSE SENSEX	2.3	9.9	6.4	15.8
Nifty 50	2.0	8.1	3.8	11.7
S&P BSE Healthcare	7.3	14.2	1.5	11.4
S&P BSE BANKEX	-4.3	2.9	-3.0	3.6
Nifty 500	-0.5	2.3	-3.9	6.0
S&P BSE Oil and Gas	8.8	1.6	-8.8	0.1
S&P BSE Capital Goods	-2.2	-7.4	-10.6	-0.4
S&P BSE Metal	1.6	-0.3	-11.1	-2.1
S&P BSE Consumer Durables	-5.3	-14.0	-15.7	9.0
Nifty Midcap 50	-4.7	-7.1	-16.6	-1.4
S&P BSE Power	-0.9	-9.2	-19.0	-12.5
S&P BSE Auto	-9.9	-10.7	-19.7	-11.2
NIFTY Smallcap 100	-14.3	-21.1	-32.4	-18.9
S&P BSE Realty	-17.9	-23.6	-34.7	-17.5
Source: Morningstar Direct. Data sorted in descending order on the basis of CYTD return				

CYTD in 2018 (ended Sep 2018)

- **Defensives like IT & FMCG Outperformed.** Healthcare has also started to do well. Despite the sharp correction in the month of September, banks have managed to fare better than other sectors YTD
- **Small and mid-cap segment has underperformed** by a large margin this year.
- Other sectors that have **underperformed** significantly this year are **Realty, Power, Auto, and Consumer Durables**

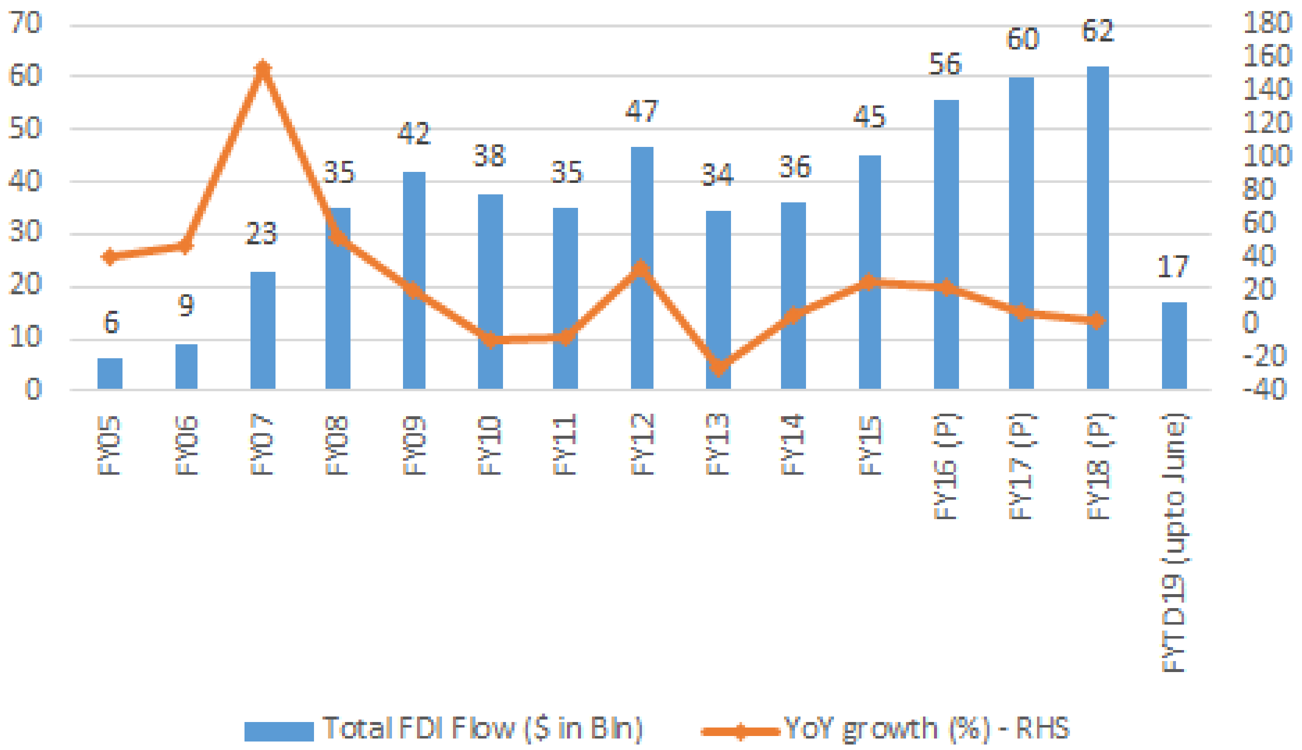
FIIs have been net sellers in equities, but countered by inflows from DIIs

Source: SEBI, BSE	Rs in Crore			
Year	**FIIs**	**DIIs**	**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)
FY2018	21,074	113,258	140,517	(27,259)
FY2019 (upto Sep)	(28,928)	57,253	53,585	3,981

Source: SEBI, BSE	Rs in Crore			
Month-end	**FIIs**	**DIIs**	**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	8,333	(190)
31 January 2018	12,984	399	9,023	(8,624)
28 February 2018	(12,492)	17,813	16,181	1,632
31 March 2018	13,372	6,694	9,256	(2,562)
30 April 2018	(6,468)	8,511	11,294	(2,782)
31 May 2018	(9,660)	15,055	13,619	1,436
30 June 2018	(2,577)	14,146	9,231	4,915
31 July 2018	1,429	4,213	3,995	218
31 August 2018	(2,029)	2,823	3,808	(673)
30 September 2018	(9,623)	12,505	11,638	867

- DIIs have been a strong force, and have helped to counter FII equity outflows
- FIIs turned net sellers of a large quantum in the month of September

FDI Flows still healthy



Source: DIPP. P = Provisional. Total FDI flows includes re-invested earnings and other capital

- FY18 growth is flattish, but absolute numbers are healthy, and at record high
- Financial Services, IT & Telecom are the key sectors receiving FDI
- Infra & investment led FDI is muted

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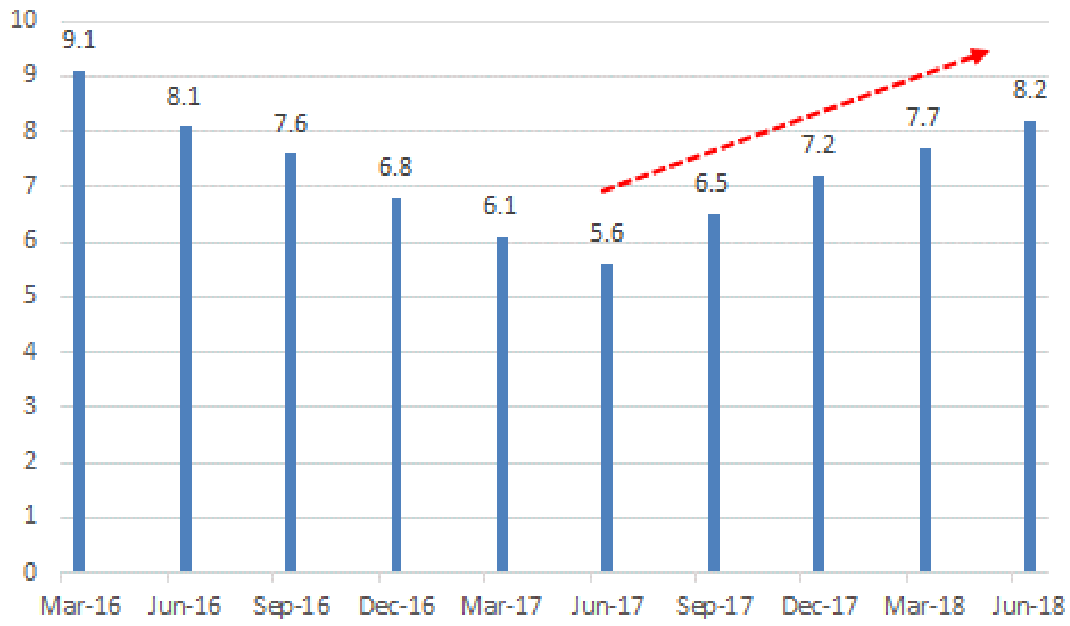
Economic growth is recovering

GDP growth is picking-up

GDP Growth Trend (in %)

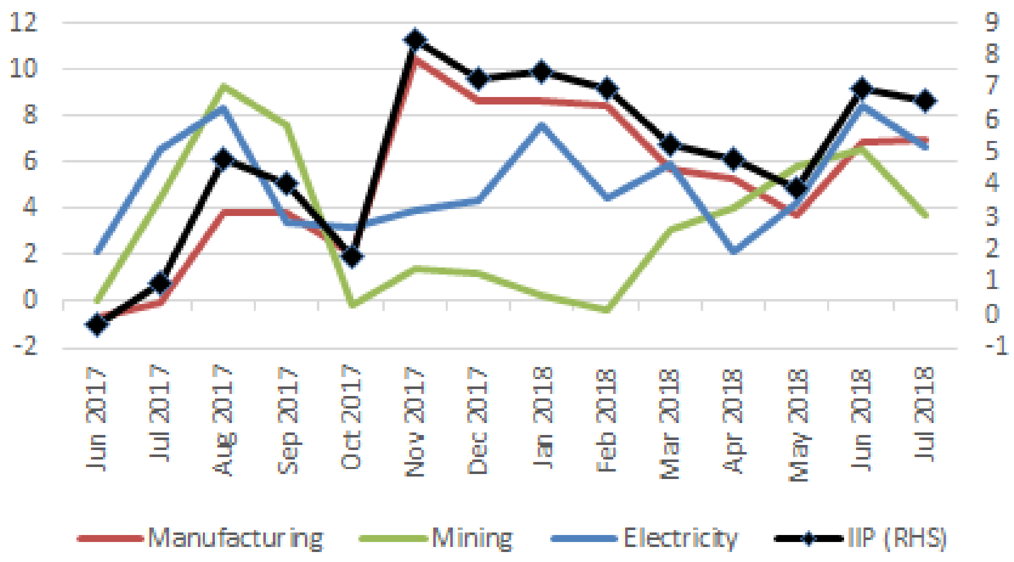


Source: MOSPI, Bloomberg

- GDP growth for Q1 FY19 came in above expectations at 8.2%YoY, even if we consider the favourable base due to GST implementation
  - Gross fixed capital formation (or investments), grew 10%YoY in Q1 FY19, compared to subdued growth of 0.8%YoY in the corresponding quarter a year back
  - Private consumption growth also picked up to 8.6%YoY in Q1 FY19, from 6.9%YoY in the corresponding quarter a year back
- **RBI forecasts GDP growth to pick-up to 7.4% in FY19 from 6.7% in FY18.** This puts India as among the top performing major economies during the year

Industrial Production picks up

IIP & Industry Components Growth (%YoY)

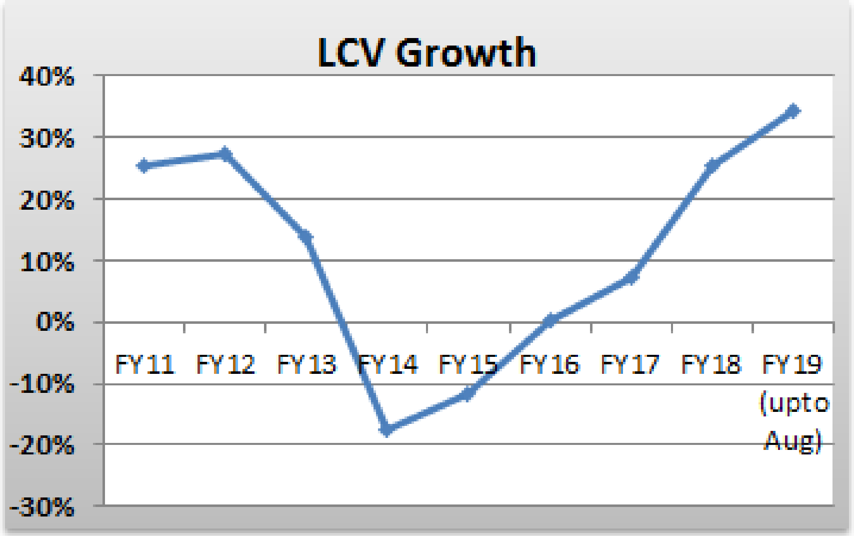


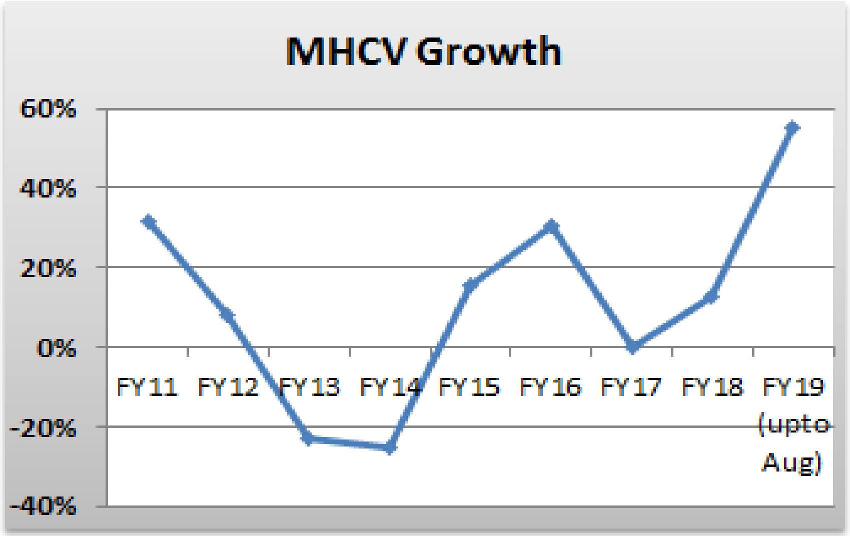
Source: Bloomberg

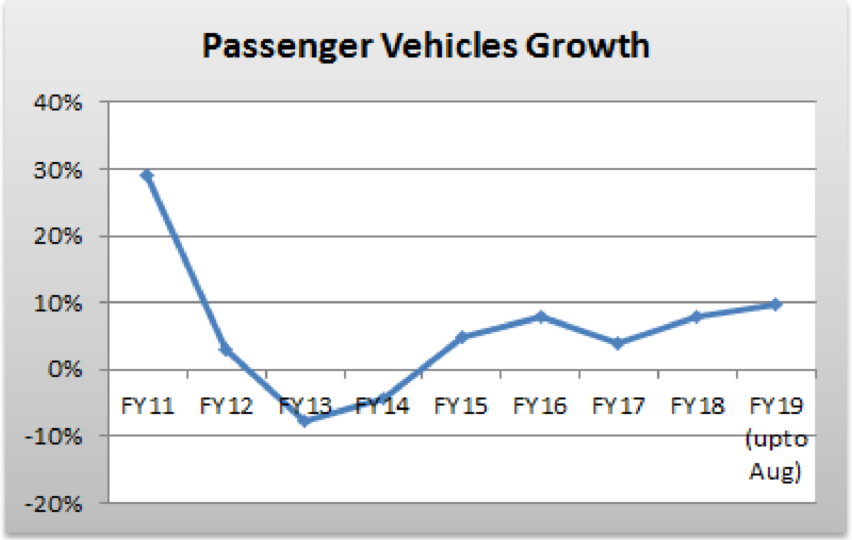
- Index of Industrial Production (IIP) growth remained healthy at 6.6%YoY in July2018—led by Manufacturing sector (78% weight in index), where growth was 7.0%YoY in July 2018. The higher growth was aided by lower base effect, as GST was implemented from July 1, 2017

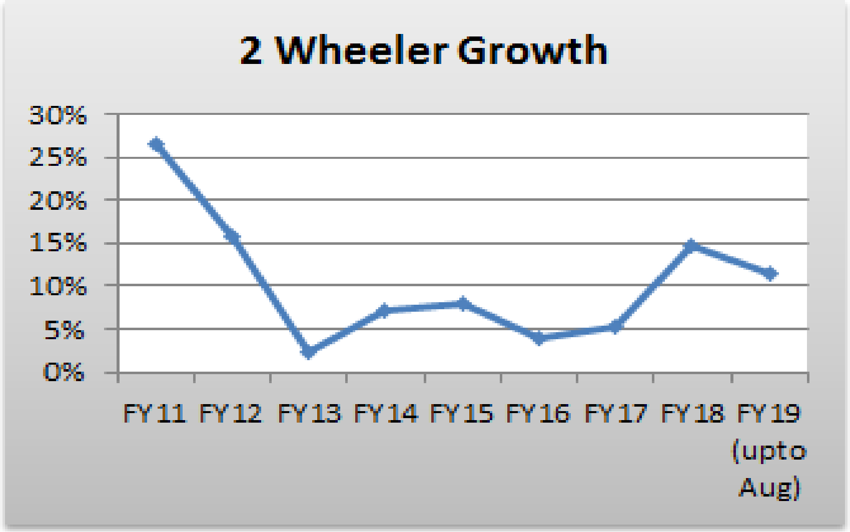
- IIP growth for FYTD 19 (upto July) was 5.3%YoY, versus 2.3%YoY in the year ago period

High Frequency Indicators: Automobile





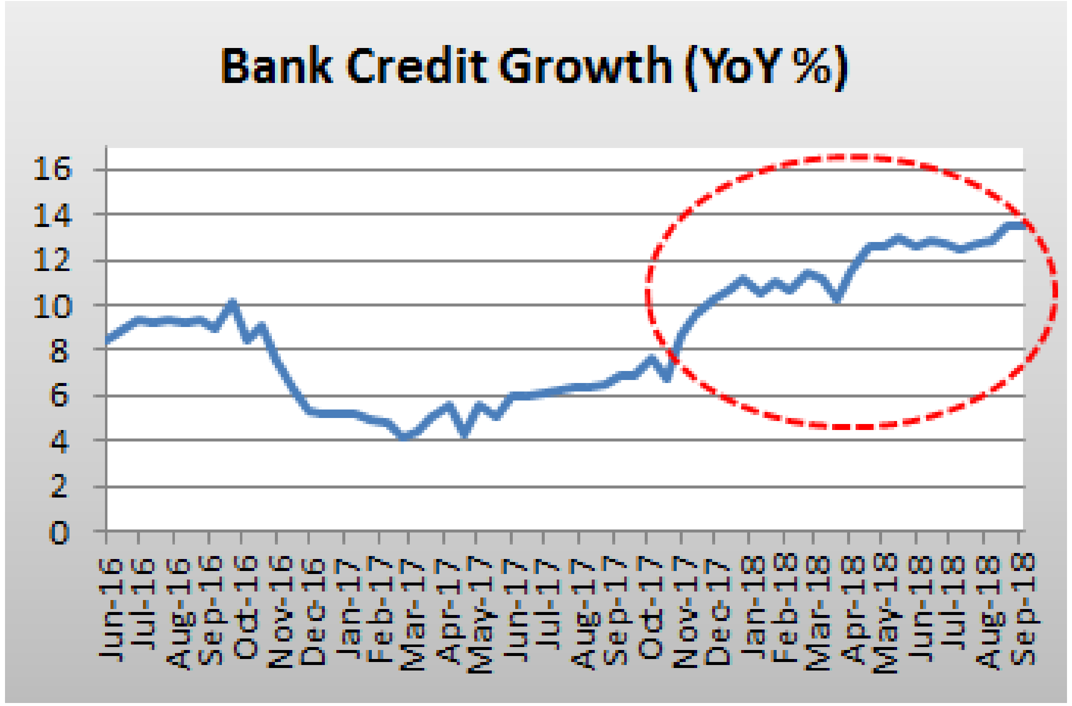




- CV on low base showing strong uptick
- 2 Wheelers growth slowed down a bit, but still healthy
- Passenger vehicles growth although strong, has slowed down in recent months

Source: SIAM, Bloomberg, LCV = Light Commercial Vehicles, HCV = Medium & Heavy Commercial Vehicles

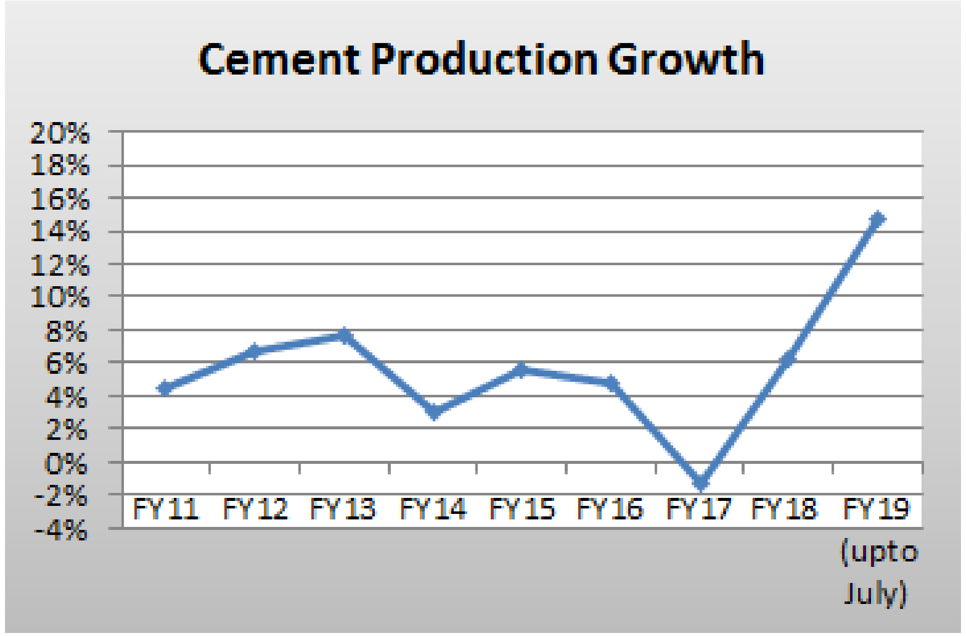
High Frequency Indicators: Credit growth

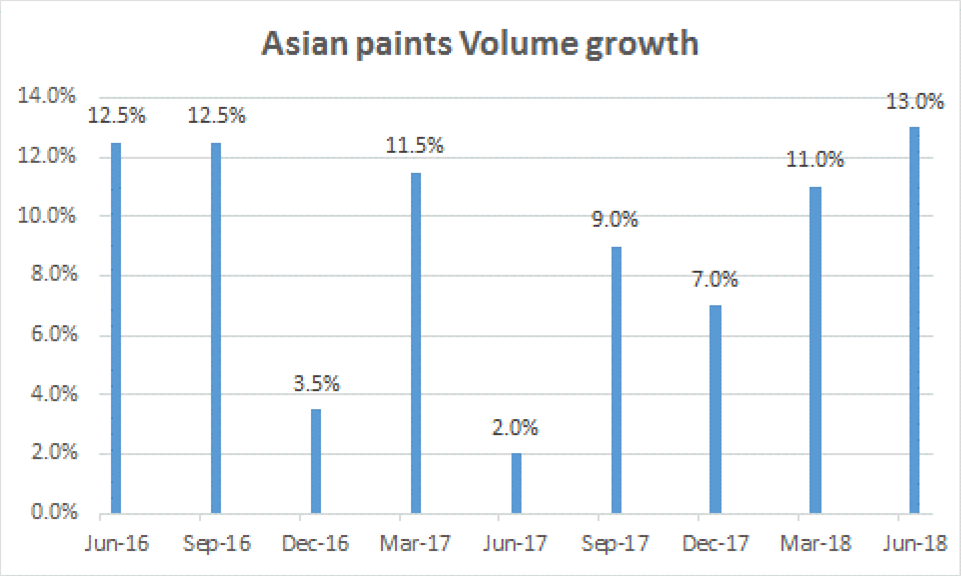


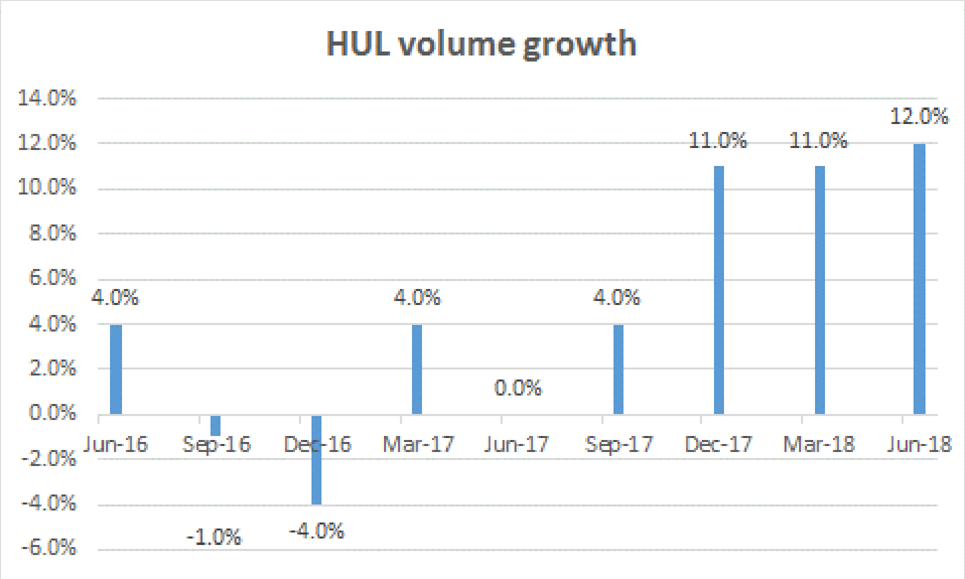
Source: RBI, Bloomberg

- Retail loans are the key driver
- Credit growth to corporates is still weak
- Pvt sector credit growth is strong at above 20%YoY, while PSU credit growth is still weak at ~5% YoY
- We like Private banks more

High Frequency Indicators: Basic Industries & Consumption







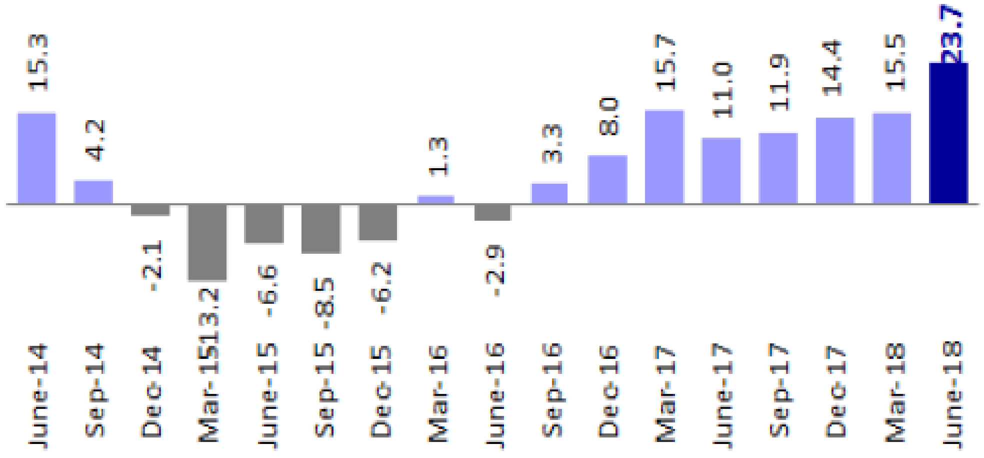
- Affordable housing and road construction driving cement growth
- Steel and metals are driven by price rise
- Hindustan Lever volume grew by 12%YoY in Q1 FY19, compared to flat growth in Q1 FY18
- Asian paints volume grew ~13%YoY in Q1 FY19, compared to 2% growth in Q1 FY18

Source: RBI, Bloomberg

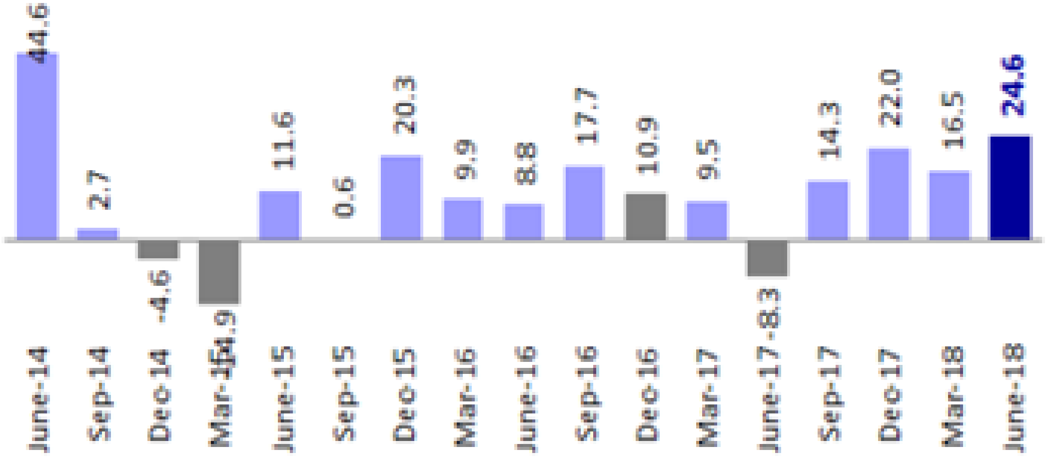
Earnings growth is recovering & Forward valuations near long term average

Corporate Earnings Growth is picking up

Nifty Quarterly Sales Growth Trend (YoY in %)



Nifty (ex-Corporate Banks) Quarterly PAT Growth (YoY in %)



Source: Motilal Oswal

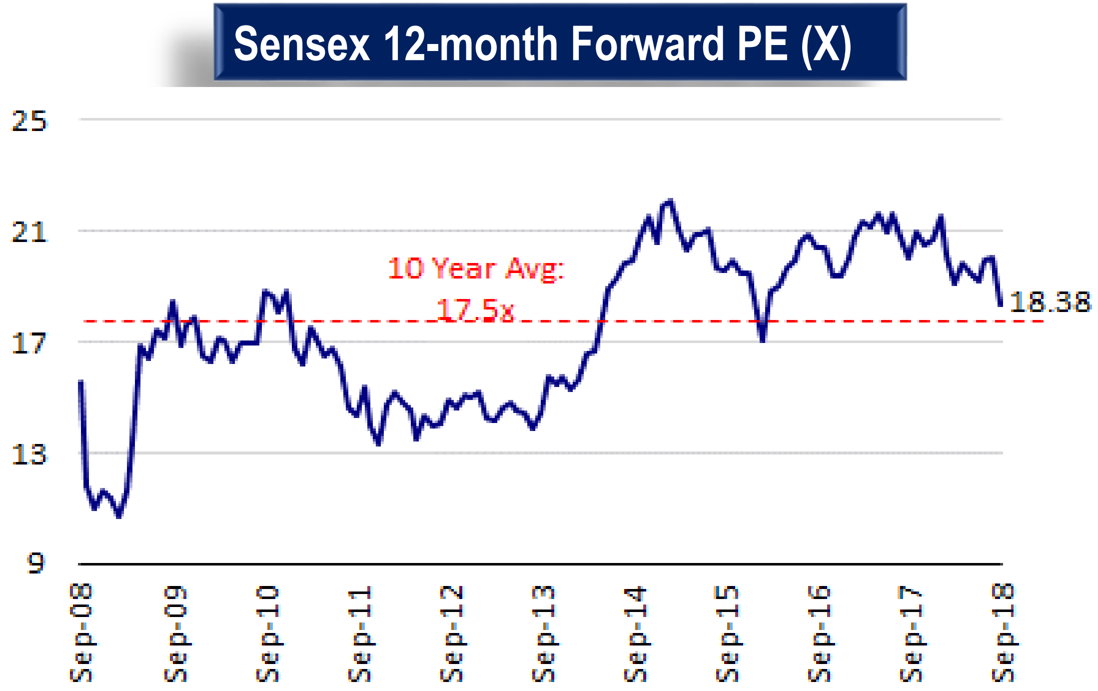
- ✓ Q1 FY19 corporate results were good due to a favourable base. Nifty index sales growth was at a multi-year high of 23.7%YoY during the quarter
- ✓ Nifty Profit after Tax (PAT) growth was below estimate at 10%YoY for the quarter, mainly dragged down by corporate banks, which declared lower growth due to higher provisioning during the quarter. Excluding Corporate banks, Nifty PAT growth was at a healthy 25%YoY
- ✓ Earnings growth is expected to accelerate and sectors like consumption and private financials will primarily drive earnings growth. Earnings growth is also expected to be aided by earlier underperforming sectors, which we feel may have bottomed out—like Corporate banks and Pharma

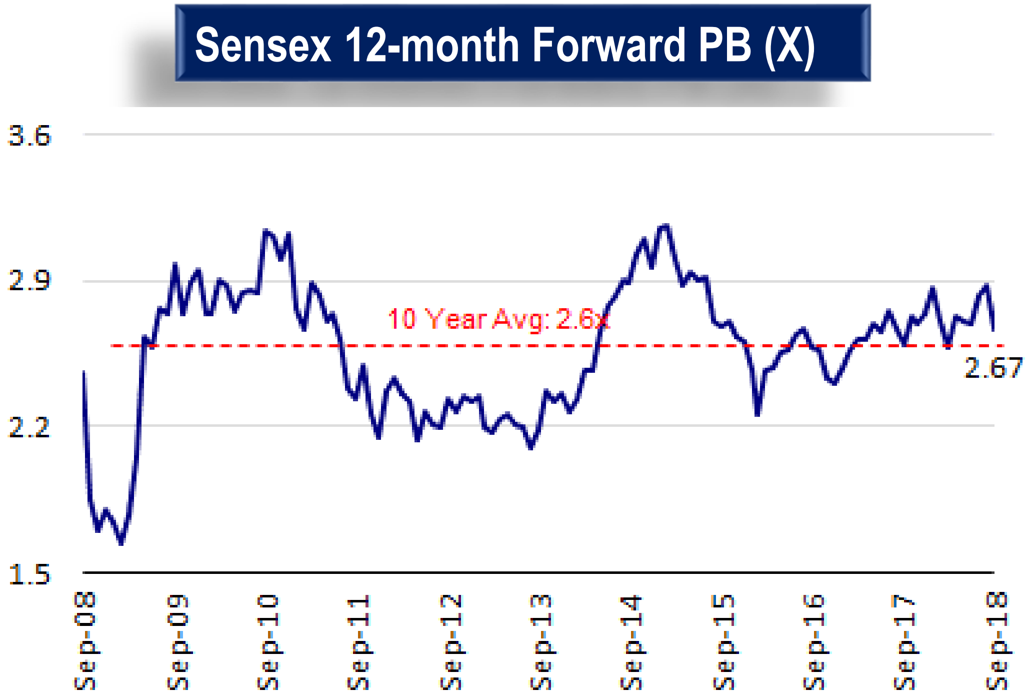
Corporate earnings growth expected to accelerate to mid-teens in FY19 & FY20, after subdued growth over the past few years

Nifty Earnings Per Share (EPS) Trend

Source: Bloomberg, Bajaj Allianz Research

Market Fwd P/E near the long term average, after the correction in September

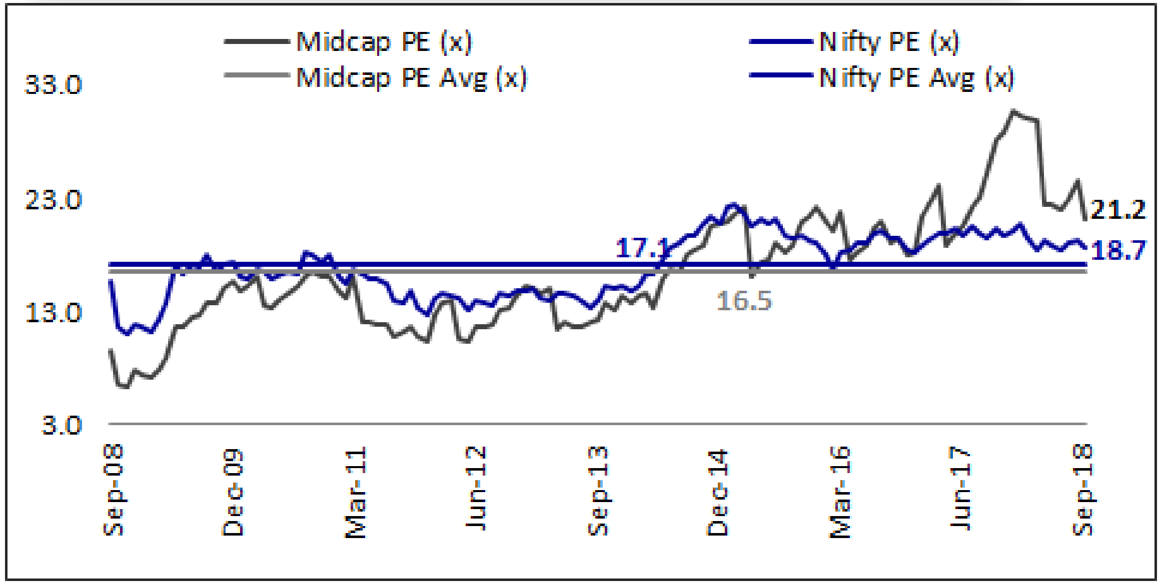




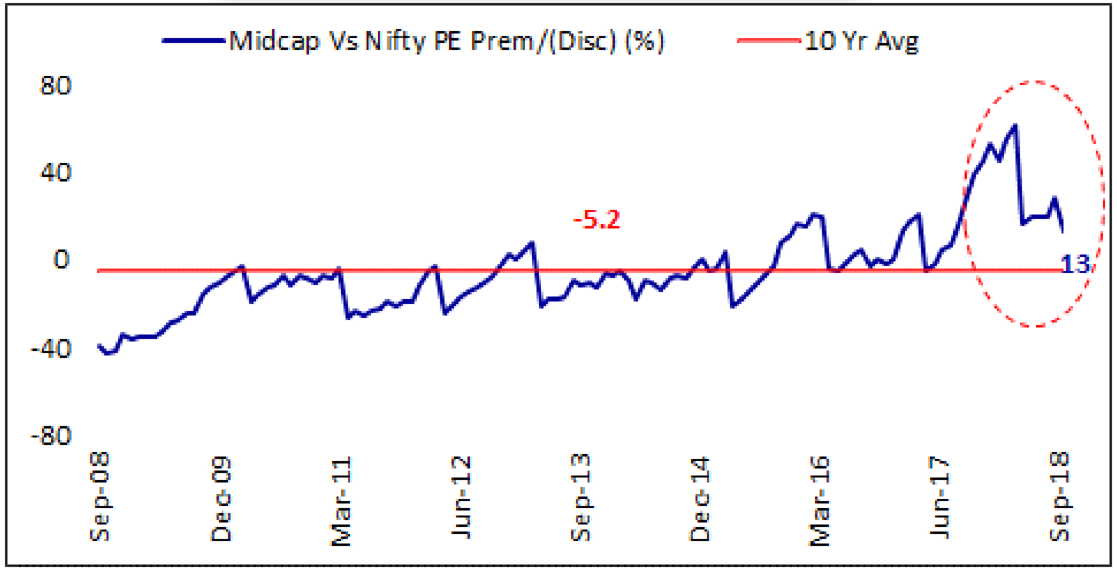
Source: Motilal Oswal & Bloomberg

Midcap companies have seen their valuation premium fall considerably, amidst the correction

12-month Forward PE of Nifty Vs Midcap Index (X)



Midcap Vs Nifty Premium (in %)

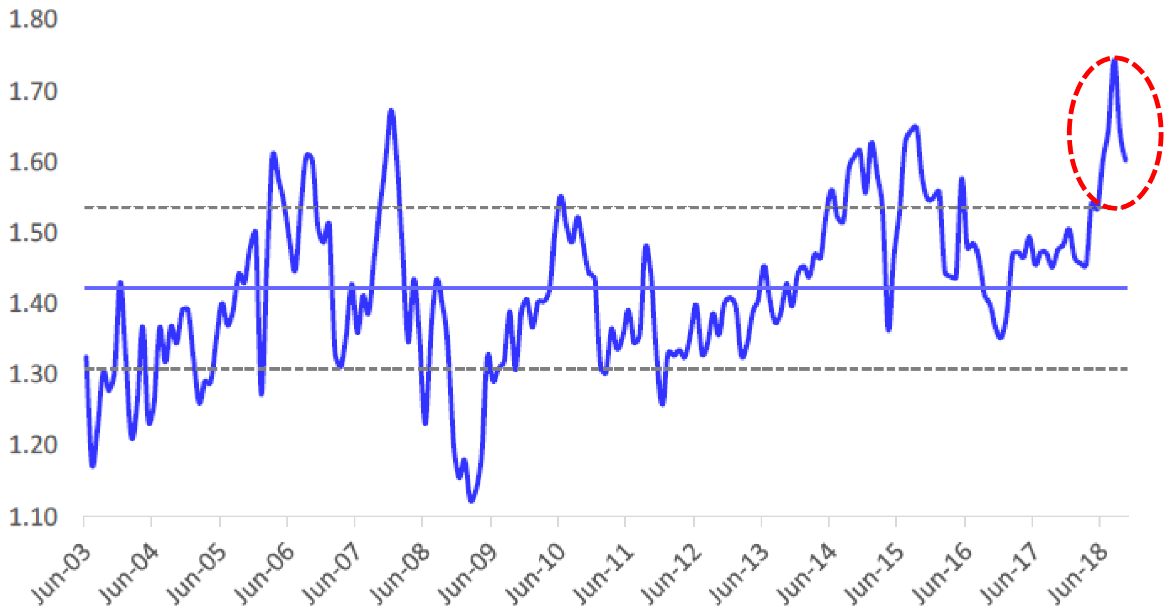


Source: Bloomberg, Motilal Oswal

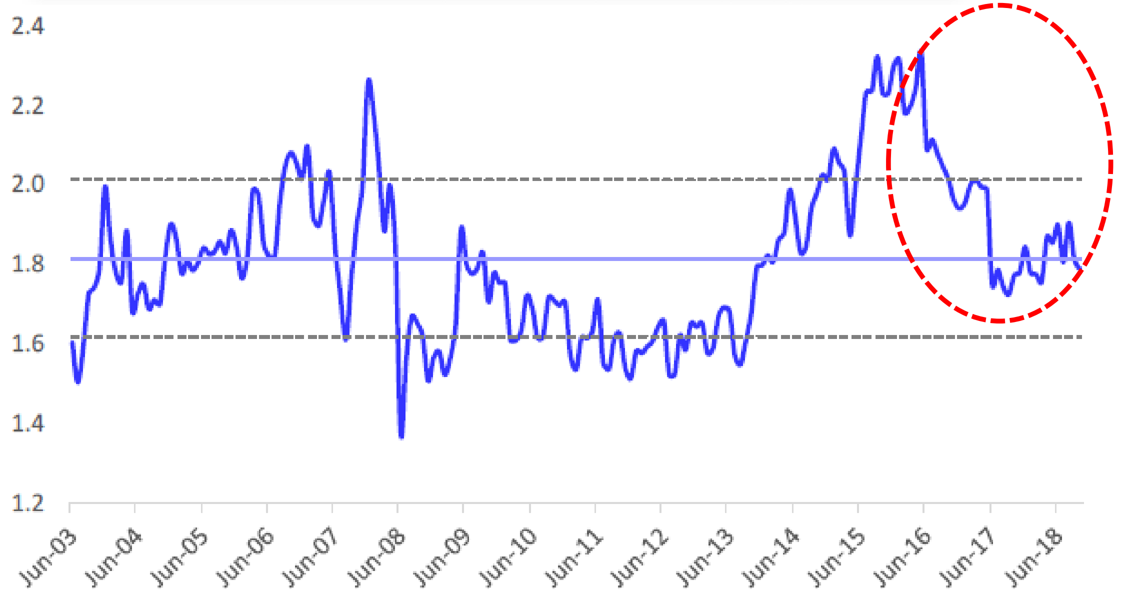
- ✓ With the correction in mid-caps this year, their valuation premium to large-caps has fallen considerably
- ✓ However, we continue to prefer large-cap companies: Risk-reward more favorable. Historically, large caps have traded at premium, but now it is the reverse
- ✓ Having said that, we are now seeing some selective value in the mid-cap space as well, after the correction

India’s valuation premium to Emerging Markets has also come down with the recent correction

MSCI India Vs MSCI EM 12-mth Forward PE



MSCI India Vs MSCI EM 12-mth Forward PB



Source: Bloomberg, Deutsche Bank

But there are some headwinds as well

The rupee has fallen to life-time lows, but it has fared better than other fragile EM currencies

Performance of Currencies Vs USD in % (as of Sep 2018)				
Currency Name	3 mths	6 mths	CYTD	1 Year
Thai Baht	2.4	-3.3	0.8	3.1
Swiss Franc	1.7	-2.0	-0.2	-0.9
Japanese Yen	-2.5	-6.4	-0.8	-0.9
Singapore Dollar	-0.2	-4.0	-2.2	-0.6
Malaysian Ringgit	-2.4	-6.5	-2.2	2.0
Euro	-0.5	-5.6	-3.3	-1.8
Pound Sterling	-1.2	-7.0	-3.6	-2.8
Yuan Renminbi	-3.7	-8.6	-5.4	-3.5
Australian Dollar	-2.1	-5.7	-7.5	-7.8
Philippine Peso	-1.2	-3.4	-7.6	-6.0
Indonesian Rupiah	-3.8	-7.6	-9.0	-9.6
Indian Rupee	**-5.5**	**-10.0**	**-11.9**	**-9.9**
Russian Ruble	-4.3	-12.2	-12.1	-12.1
South African Rand	-3.1	-16.3	-12.5	-4.6
Brazilian Real	-3.7	-16.8	-16.9	-20.8
Turkish Lira	-23.7	-34.1	-36.9	-40.8
Argentine Peso	-29.2	-50.6	-53.8	-57.4

Source: Morningstar Direct. Data sorted in descending order on the basis of YTD return

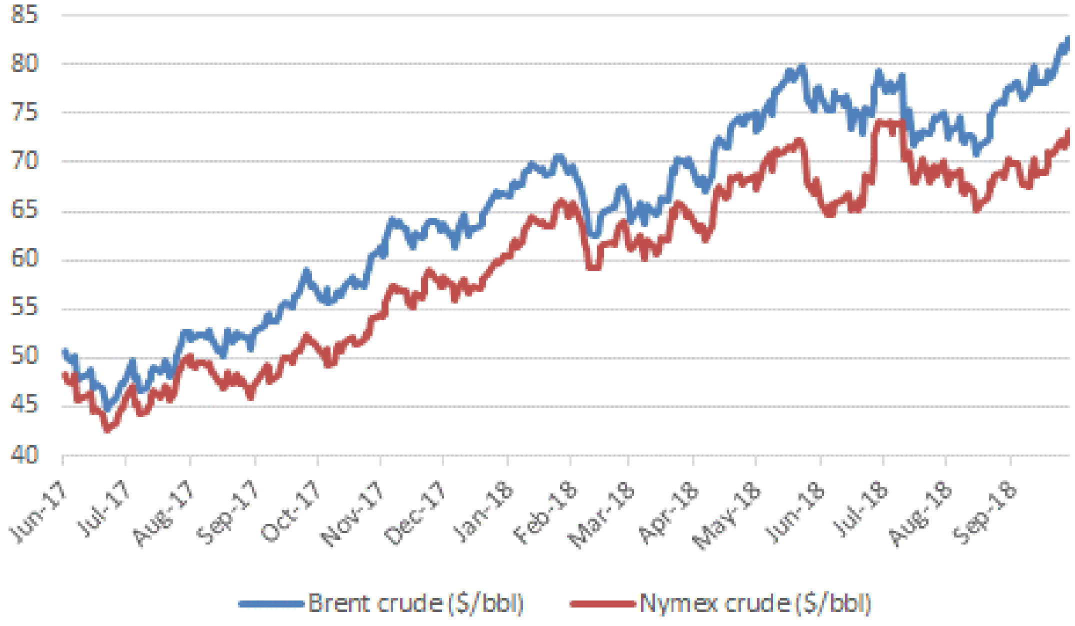
- The rupee has been under pressure, due to weakness in Emerging Market currencies, foreign outflows, rising trade & current account deficit, and rising crude oil prices
- Currencies like Turkish Lira and Argentine Peso have seen sharp depreciation, due to economic & political crisis
- Rupee has fallen to life time lows, but has fared relatively better than other fragile EM currencies CYTD in 2018 like Brazilian Real, South African Rand, and Russian Ruble
- The rupee is relatively better positioned than during the Taper Tantrum of 2013, during which time it had depreciated by 18-20%

The govt. has recently announced some measures to stem weakness in the rupee; more measures expected

Boost Capital Flows	• Allow manufacturing companies to access ECBs upto $50 mln with a minimum maturity of 1 yr (vs 3 yrs earlier) • Removal of exposure limit of 20% of FPIs corporate bond portfolio to a single corporate group • Exempt Masala bonds issued this financial year from withholding tax, and remove restrictions on Indian banks' market making in Masala bonds
Cut Imports	• The government has announced customs duty hike on "non-essential" imports; primarily consumption goods (avoided capital goods for now)
Boost Exports	• Details to be announced later
Stick to fiscal deficit target	• To stick to fiscal deficit target of 3.3% of GDP in FY19

Brent crude has been on an upward trajectory

Brent & Nymex Crude Price ($/bbl.)



Source: Bloomberg

- Crude prices have been hardening over the past 2 months. Brent crude is up 24% CYTD in 2018, and 58% over the past year (ended Sep 2018)
- Poses inflation and current account deficit (CAD) challenges, if it doesn't stabilize. India is a large net oil importer, and oil imports account for around 80% of domestic oil demand

CAD rises due to widening trade deficit

India CAD & BOP Trend ($ in billion)

India Current Account Balance & Balance of Payment Trends ($ in billion)					
	FY15	FY16	FY17	FY18	FY19 (F)
Current Account (CA)	-26.8	-22.2	-14.9	-48.7	-79.6
CA as % of GDP	-1.3	-1.1	-0.7	-1.9	-2.9
Trade Balance	-144.9	-130.1	-112.1	-160.0	-195.3
Capital Account	89.3	41.1	36.5	91.4	54.0
FDI	31.3	36	35.6	30.3	32.0
FPI	42.2	-4.1	7.6	22.1	2.0
Balance of Payments (BOP)	61.4	17.9	21.6	43.6	-25.6

Source: RBI. Data for FY2019 is forecasted assuming crude oil at $ $75/bbl

- Current Account Deficit (CAD) in FY19 expected to rise to 2.7 to 3% of GDP due to higher crude prices
- If FII flows continues to be weak, Balance of Payments (BOP) may turn negative in FY19
- Current account deficit widened to 2.4% of GDP in Q1FY19 from 1.9% in previous quarter. Balance of payments, turned into a 7-year high deficit of $11.3 billion, due to widening CAD and sharp slowdown in capital flows

Trade war between US & China is escalating and leading to uncertainty

Timeline for Trade Tariffs between US - China

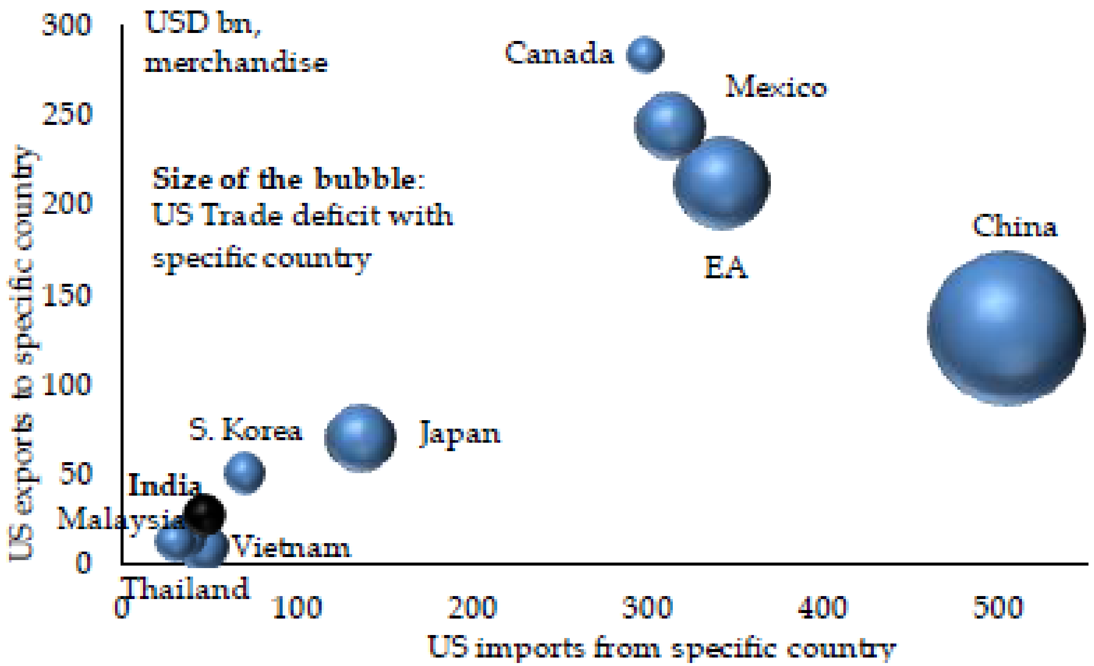
Key Dates	US Action	China Action
23 March 2018	US imposes a 25 % tariff on all steel imports (except from Argentina, Australia, Brazil, and South Korea) 10 % tariff on all aluminium imports (except from Argentina and Australia)	
02 April 2018		China imposes tariffs ranging 15 %-25 %) products worth US$3 billion) in retaliation to the US' steel and aluminium tariffs
06 July 2018	Implemented - List 1 - USD 34 bln of Chinese imports @ 25 %	Implemented - List 1 - USD 34 bln of US imports @ 25 %
23 Aug 2018	Implemented 2 – List 2 - USD 16 bln of Chinese imports@ 25 %	Implemented - List 2 - USD 16 bln of US imports @ 25 %
17 September 2018	Implemented - List 3 – USD 200 bln of Chinese imports @ 10 %	China retaliates and imposes tariffs @ 10% on USD 60 bln of US imports
17 September 2018	Proposed – List 4 – USD 267 bln of Chinese Imports	
01 January 2019	Proposed and to be Implemented - List 3 – USD 200 bln of Chinese imports @ 25 % from the current 10 %	

- Till date US has imposed tariffs on $250 bln of Chinese imports, and China has imposed tariffs on $110 bln of US imports
- The escalating trade war, is also putting pressure on currencies, and it has raised concerns of disruption in world trade (possibly leading to currency wars if it spirals out of control)

Source: http://www.china-briefing.com/news/2018/08/31/the-us-china-trade-war-a-timeline.html

India’s exposure to US is limited, on the merchandise front

US Goods Trade Deficit & Imports / Exports with various countries ($ in bln)



Source: Yes Bank

- The US has an <u>overall trade deficit on goods (merchandise) of $800 bln with the world, of which China accounts for $375 bln</u>, as of 2017
- India’s impact is limited, with <u>merchandise exports to US at ~15% of overall exports</u>. Also, as can be seen in the chart, India’s exposure to US is limited (compared to other countries) on the merchandise trade front

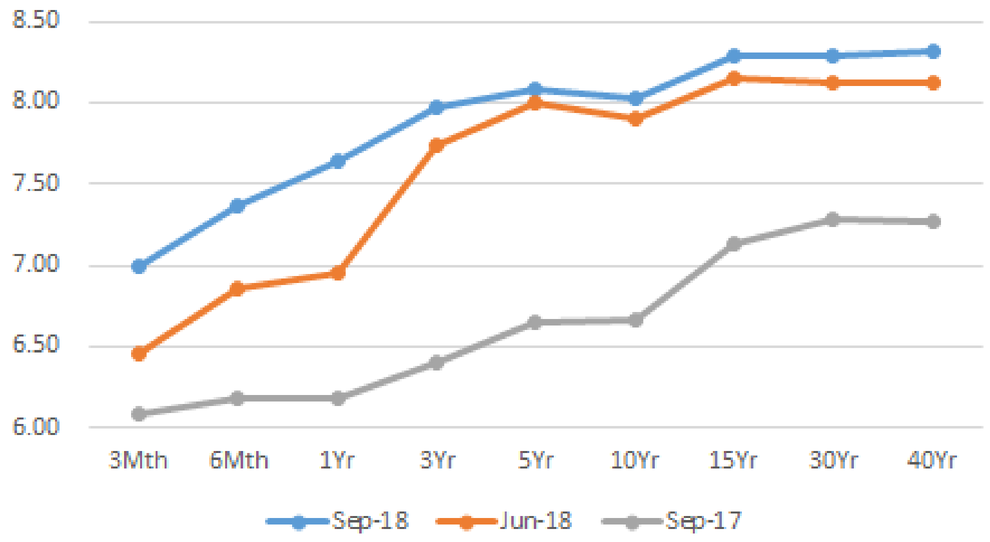
LIFE GOALS. **DONE.**

Domestic Bond yields have been volatile, and credit / liquidity squeeze hit the markets recently

Bond yields have hardened, and been volatile

India 10 Yr Bond Yield (%)

India Sovereign Yield Curve Shift



Source: Bloomberg

- Bond yields have been volatile, and hardened on the back of rising crude oil prices, depreciating rupee, recent tightening of liquidity & credit squeeze
- Towards the end of September, bond yields softened on the back various liquidity easing measures taken by the RBI
- Yields have hardened across tenors– but the shorter end of the yield curve has hardened more over the past quarter

LIFE GOALS. DONE.
BAJAJ Allianz

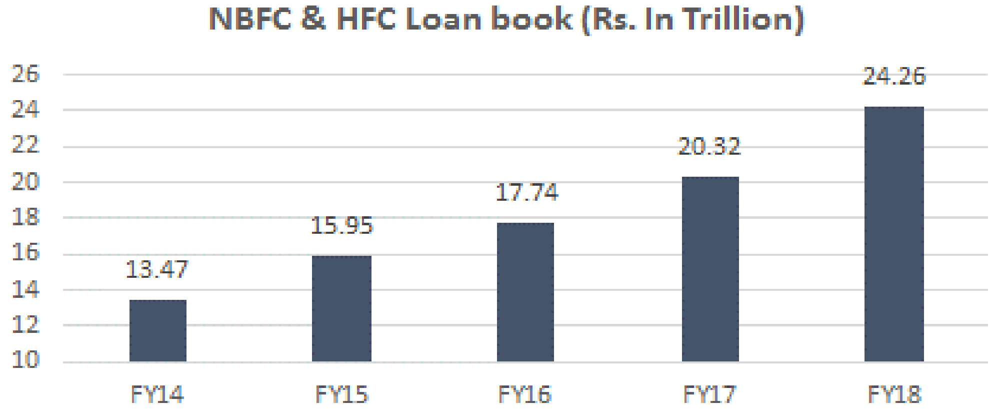
Credit squeeze led by IL&FS downgrade / default

- In Aug 2018, credit rating agencies downgraded IL&FS Ltd. to AA+ from AAA (long term debt), while retaining the short term rating at A1+ due to liquidity issues faced by the company
- Delay in rights issue subscription of Rs 4,500 crores and securing ~Rs 3,000 crores credit line from shareholders and the subsequent default by IL&FS to SIDBI, resulted in further downgrade to D on 17 September, 2018
- On 1 October, 2018, the government has been allowed by NCLT to supersede the IL&FS board, with the government appointing six new directors led by Uday Kotak as non executive chairman
- The new board is expected to submit the assessment plan soon, including plans to reduce the debt by sale of non- core assets
- IL&FS default led to tightening of yields by ~50-75 bps in AAA rated NBFCs and higher for lower rated NBFCs
- Redemption pressures further exacerbated the problem in financial markets
- RBI in its Oct policy stated they would strengthen (Asset Liability Matching) ALM guidelines for NBFCs

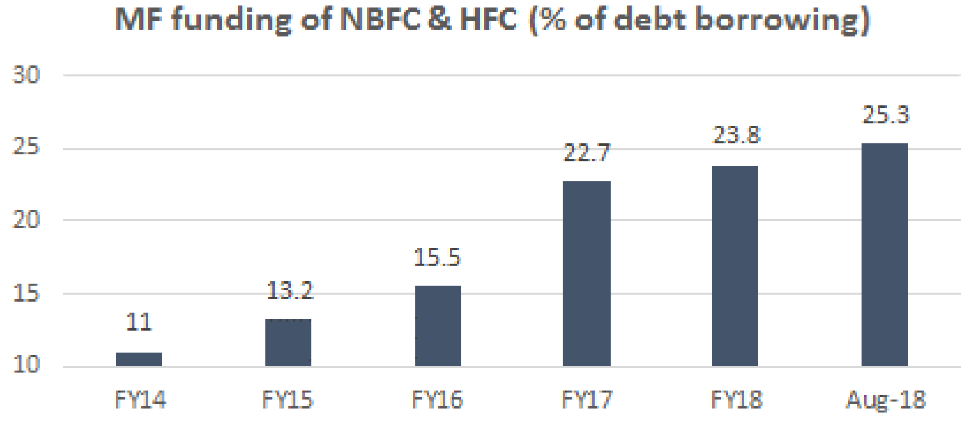
We feel that well capitalized NBFCs will survive the mayhem and grow profitably

Trends in NBFCs and HFCs – Loan book has grown at a robust pace & dependence on MF funding and exposure in MF debt funds has increased

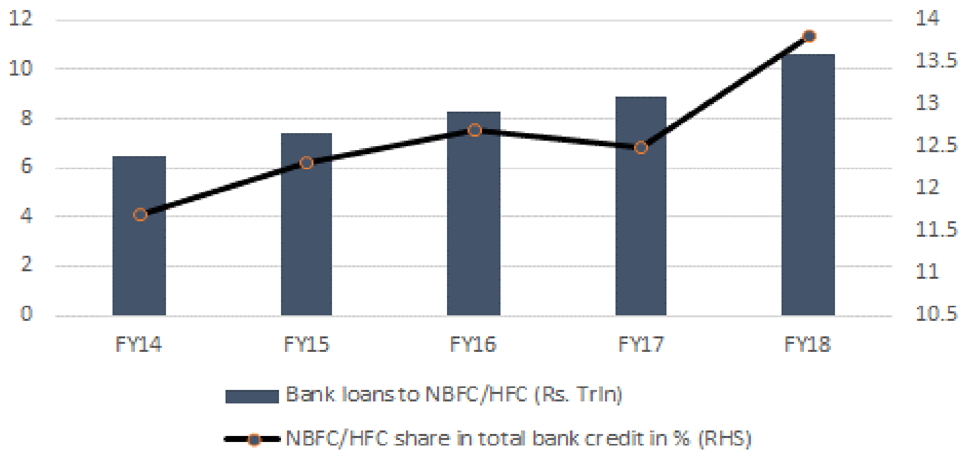
NBFC & HFC loan book has grown at CAGR of 16% since FY14



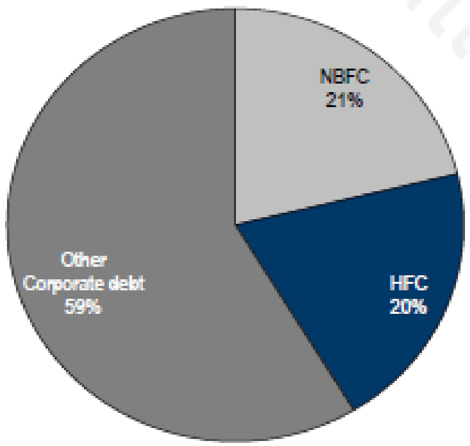
Dependency on MF for funding has increased



NBFC / HFC share in overall bank loans has grown to 14%



MF exposure to NBFC/HFC contributes to 41% of their corporate debt exposure



Source: Company data, Nomura, Credit Suisse; NBFC = Non Banking Finance Company, HFC = Housing Finance Company

RBI hiked rates in June & August, but surprised markets by keeping rates unchanged in October

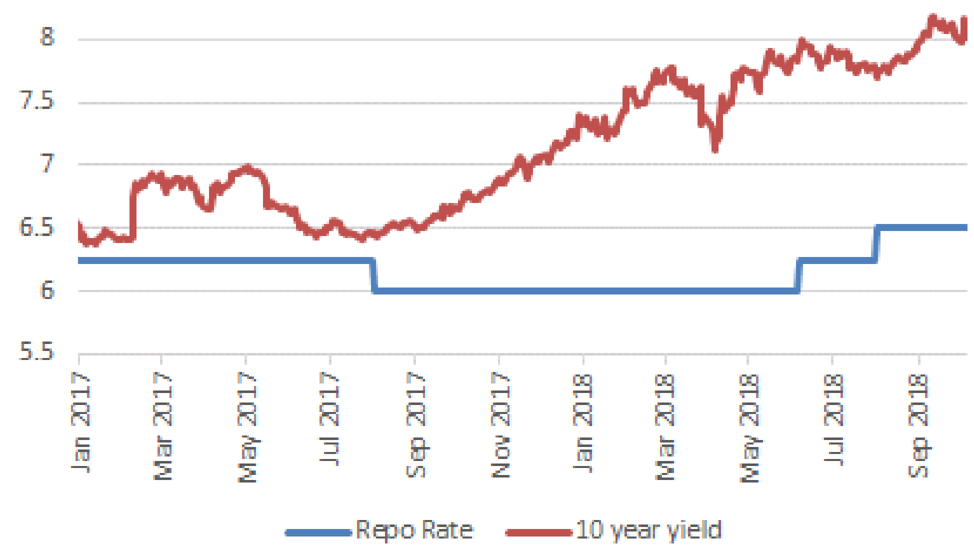
- RBI hiked policy rates in June an August, but surprised markets by keeping rates unchanged in October policy review. It also changed its policy stance to “calibrated tightening” from “neutral” earlier

- RBI revised the CPI headline inflation trajectory downwards as follows:
  - ✓ To 4% in Q2 FY19 (from 4.6% earlier)
  - ✓ To 3.9-4.5% in H2 FY19 (from 4.8% earlier)
  - ✓ To 4.8% in Q1 FY20 (from 5% earlier)
  - ✓ Risks revised to “somewhat to the upside” from “evenly balanced” earlier

- On the economic front, the RBI has retained the GDP forecast of 7.4% for FY19 (with risks evenly balanced), and projection for Q1 FY20 GDP growth is revised down marginally to 7.4% (from 7.5% earlier)

- The RBI also re-iterated that the central bank’s mandate is flexible inflation targeting and not the exchange rate, which spooked the currency markets

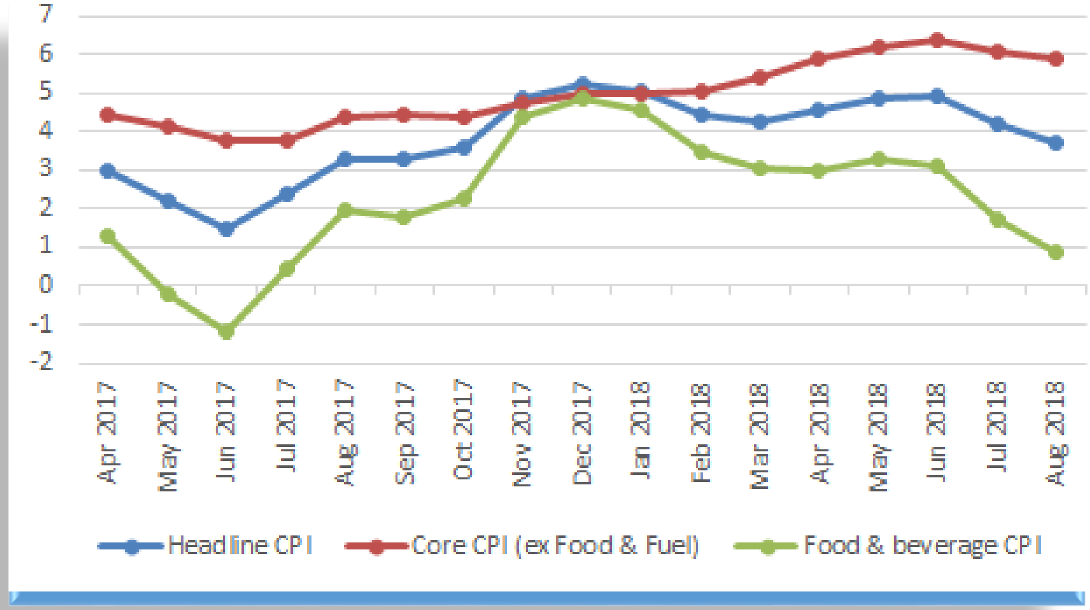
Repo Rate Vs 10 Yr Bond Yield Movement (%)



Source: Bloomberg

CPI headline inflation has moderated, primarily due to fall in food inflation

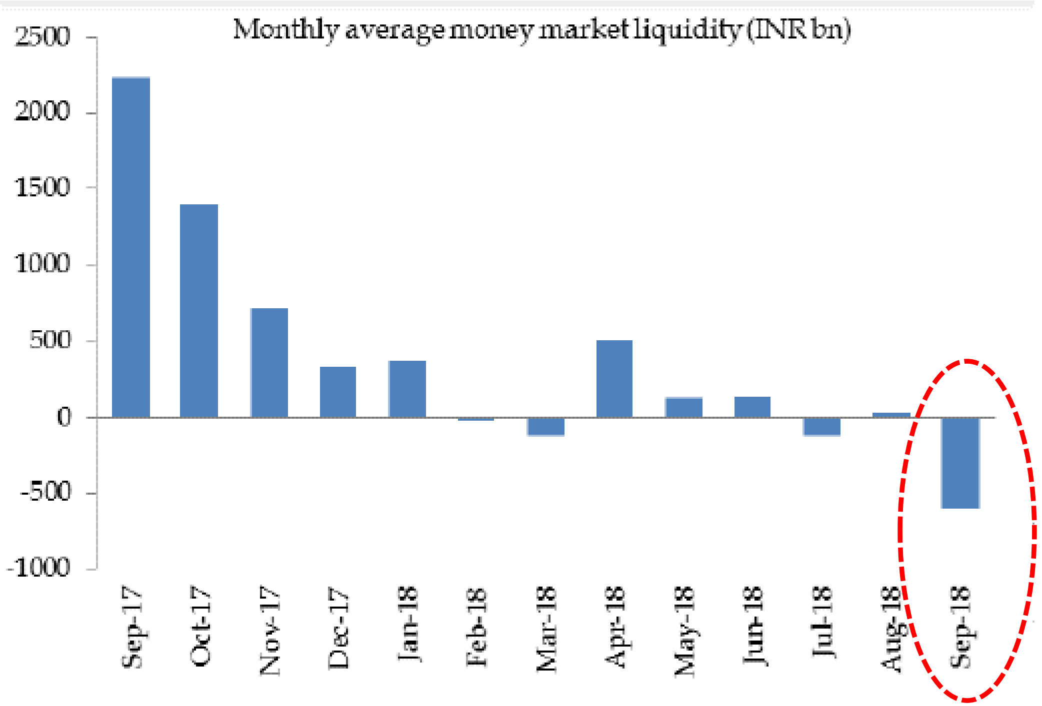
CPI Inflation & its Components



Source: Bloomberg

- CPI headline inflation continued to moderate to 3.7%YoY in Aug 2018 from 4.2%YoY in the previous month, primarily due to fall in food inflation
- Food inflation, which has the highest weight in CPI inflation fell to a benign 0.3%YoY in Aug 2018, from 1.3%YoY in the previous month
- Core inflation (ex food & fuel) also continued to fall to 5.9%YoY in Aug 2018, from 6.1% in July and 6.4% in June

Systemic liquidity tightened in September, but RBI has been pro-active on the liquidity front



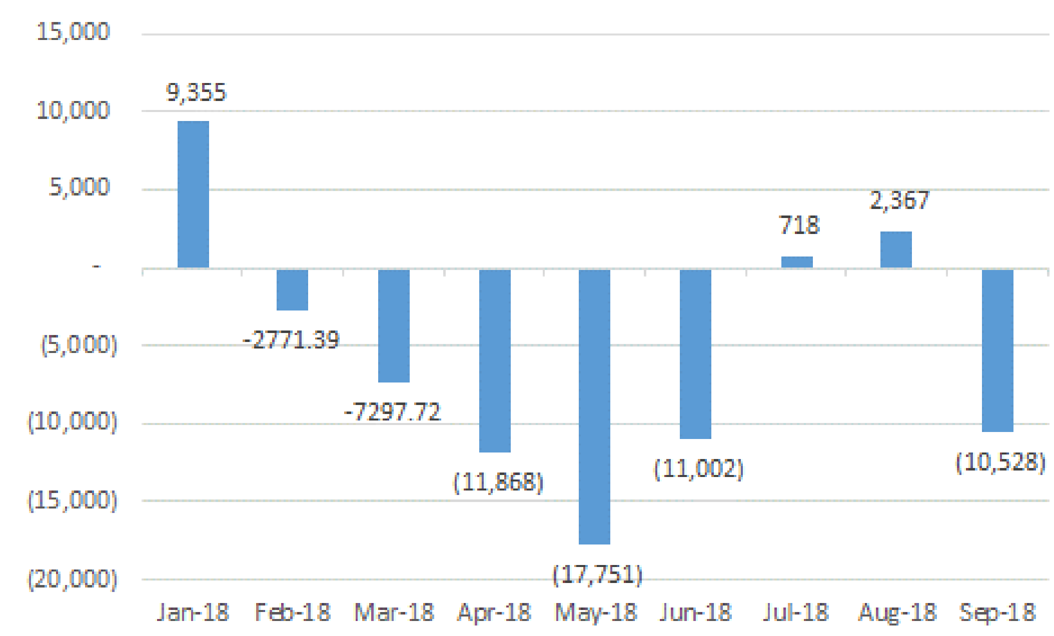
Source: Yes Bank

- With liquidity drying up within the system, the RBI announced liquidity infusion through OMO purchases to the tune of Rs. 20,000 crore in September and another Rs. 36,000 crore in the month of October. It also announced a carve out for SLR

- The government reduced the gross borrowing amount for H2 FY19, resulting in reduction of the gross borrowing amount for entire FY19 by Rs. 70,000 crore from the budgeted figure

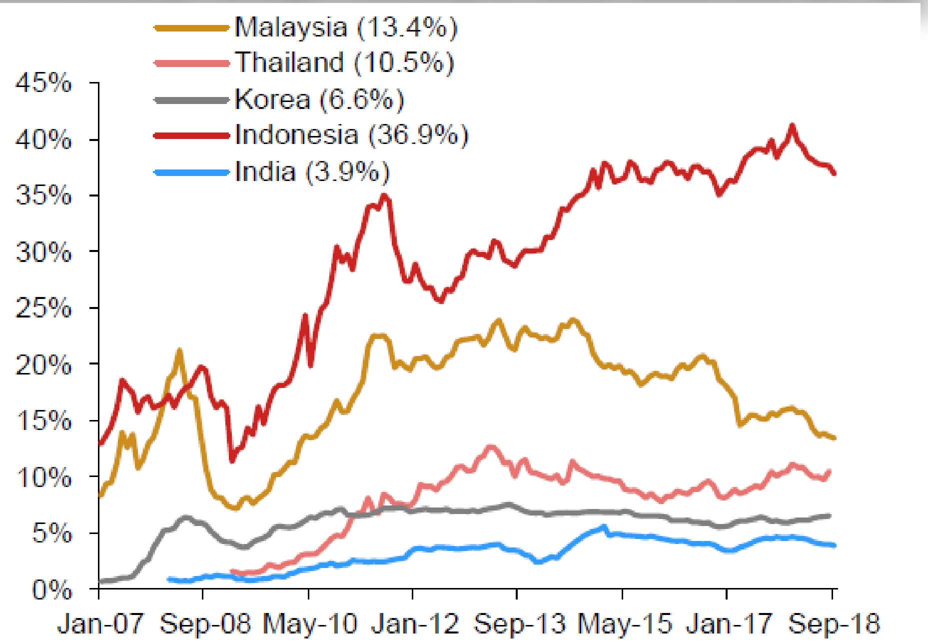
We have seen large foreign outflows in the debt markets this calendar year, but India's foreign holding in debt securities is relatively less compared to Asian peers

Monthly FII Debt Net Flows in 2018 (Rs. In Crore)



Source: Bloomberg

Outstanding Foreign Holding in Debt securities (in %)



Source: Bloomberg, Nomura

- CYTD in 2018 (upto Sep) we have large FII net outflows from the Indian debt markets to the tune of almost Rs. 49,000 crore. In CY 2017 we had seen record high FII net inflows in the Indian debt markets cumulating to Rs. 1,48,484 crore

- However, India foreign holding in debt securities is relatively much lower than other peer Asian markets like Indonesia, Malaysia and Thailand. This makes us less susceptible to any EM contagion risk, relative to peers

Outlook

Market Outlook & Strategy

- **Markets going through consolidation phase; offers buy on dips opportunity:** We are seeing a consolidation in markets, due to various macro-headwinds, and global factors. This correction, presents a buy on dips opportunity for the long term investor, as the structural growth story for India still remains intact and relatively better placed than its EM peers, and on the micro-side we are seeing a corporate earnings revival

- **Mid/small-caps have seen significant correction; valuation premium to large-caps has come down substantially:** Risk-reward still more favourable for large-caps, but we are starting to see some selective value in mid-caps as well. Some partial allocation to the mid-cap funds can also be considered for long term investors at this juncture--to take advantage of the deep correction

- **Earnings growth to accelerate to mid-teens in FY19 & FY20:** That will primarily drive the direction of markets, <u>Certain sectors we are positive on presently are Technology, Pvt. Retail Banks, Consumption, Pharma and Metals</u>

- **Some headwinds could lead to uncertainty & volatility in the short term:** These include rising crude oil prices, widening CAD, weak rupee, rise in domestic interest rates, global monetary policy tightening , foreign flows, trade wars, and upcoming state elections

- **RBI's rate action will be data-dependant:** By changing the policy stance to "calibrated tightening", the RBI has indicated that future policy tightening will continue to be data dependent—and has left the avenue open for further rate hikes, if inflation breaches its trajectory

- **On the debt side, we continue to prefer the shorter end:** With the yield curve being flat, we continue to prefer the shorter end of the yield curve, and have positioned our portfolios accordingly

THANK YOU

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