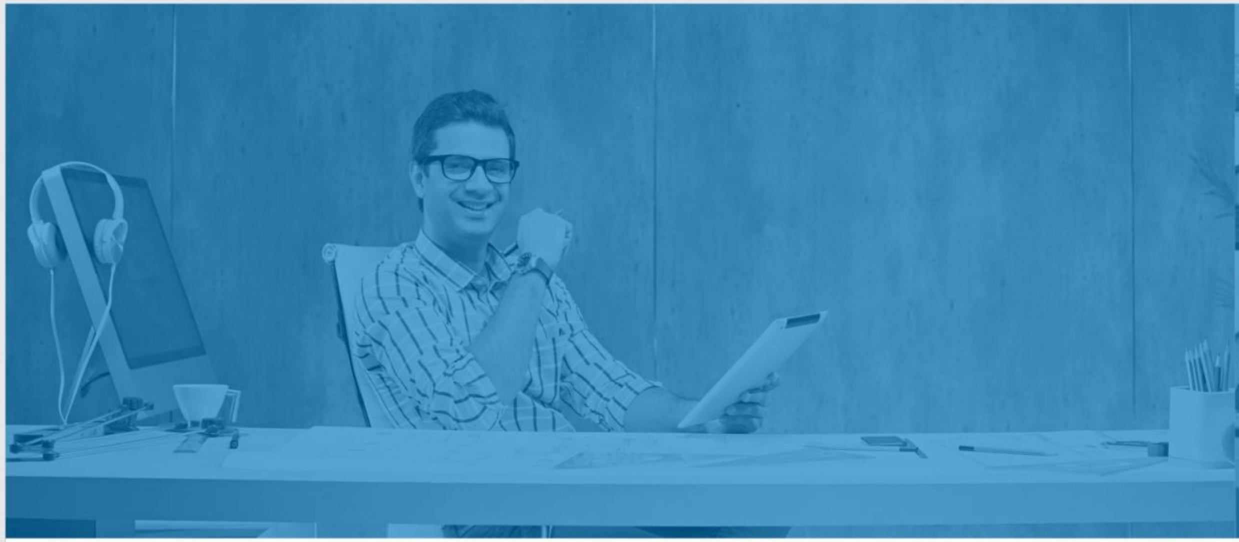
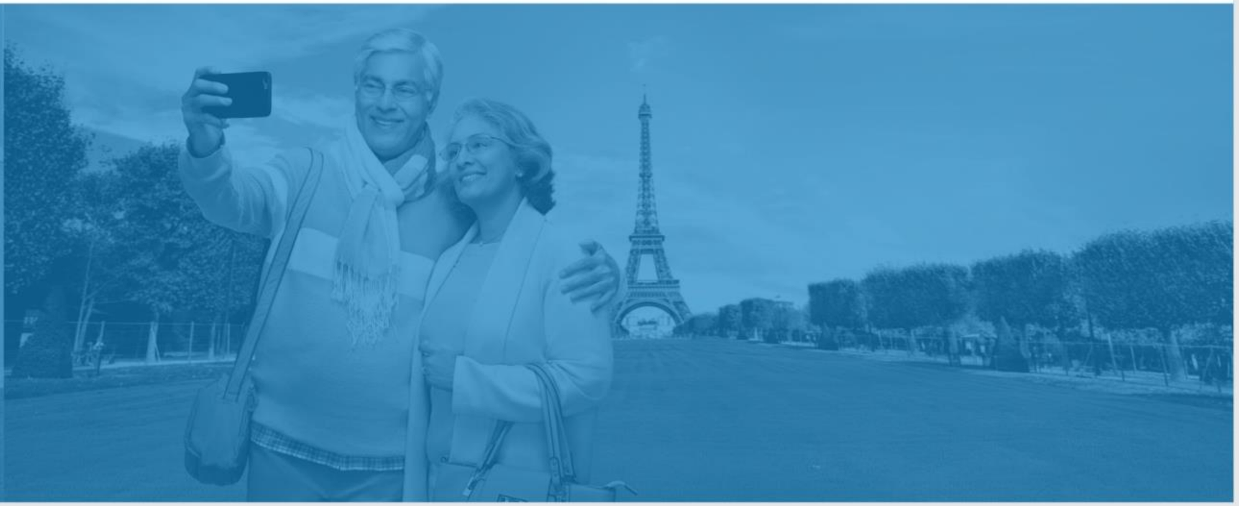



Quarterly Market & Macro Review & Outlook
April 2018

LIFE GOALS. **DONE.**

BAJAJ | Allianz

Macro-economic Data is Mixed

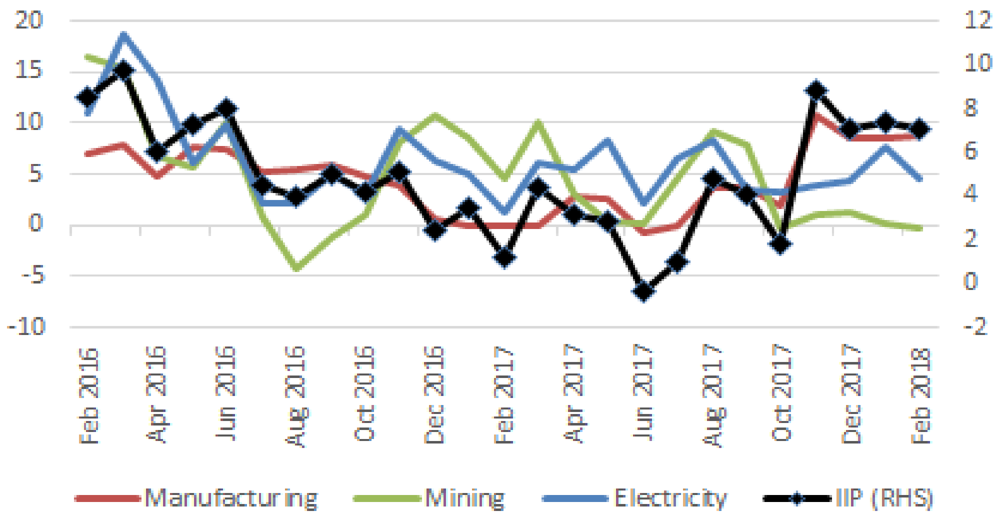
GDP came in above estimates in Q3 FY18 & IIP stable

GDP Quarterly Growth Trend (%YoY)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Real GDP	8.1	7.6	6.8	6.1	5.7	6.5	7.2
Private consumption	8.3	7.5	9.3	7.3	6.6	6.6	5.6
Government consumption	8.3	8.2	12.3	31.9	17.1	2.9	6.1
Gross fixed capital formation	15.9	10.5	8.7	(2.1)	1.6	6.9	12.0
Inventory	(60.5)	(61.2)	(61.1)	3.5	(2.8)	5.8	7.0
Valuables	(10.5)	(18.8)	(17.0)	(14.3)	125.5	56.5	40.8
Exports	3.6	2.4	6.7	10.3	5.9	6.5	2.5
Imports	0.1	(0.4)	10.1	11.9	16.0	5.4	8.7

Source: Kotak Securities

IIP & Industry Components Growth (%YoY)

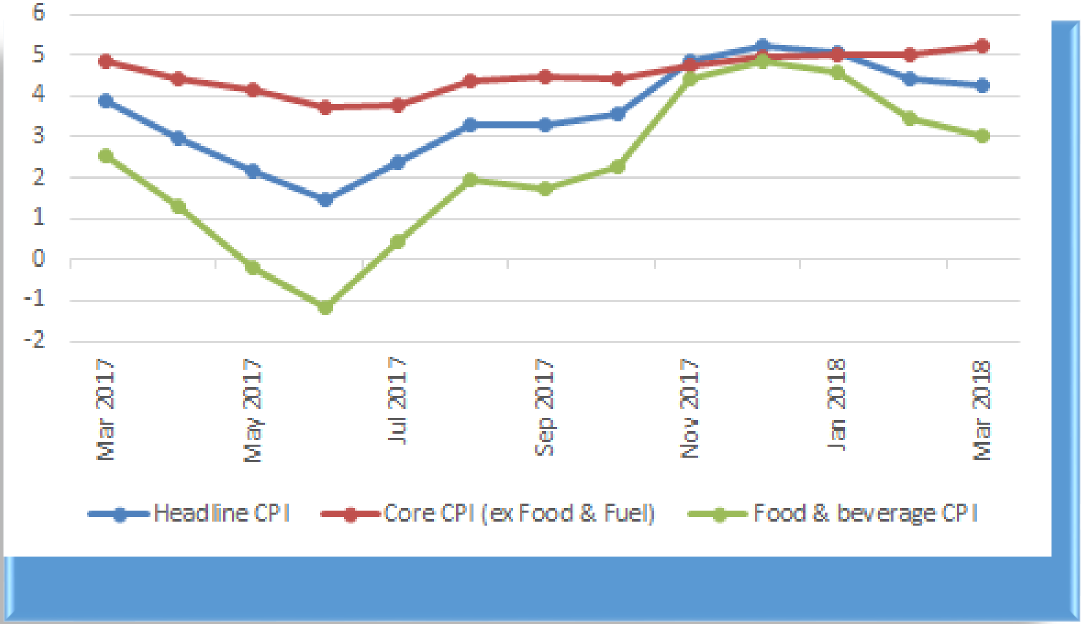


Source: Bloomberg

- GDP growth for Q3 FY18 came in above expectations at 7.2%YoY versus 6.5%YoY growth registered in the previous quarter. The pick-up in GDP growth (highest in five quarters), was supported by investment spending, with gross fixed capital formation (GFCF) growing by 12.0%YoY in Q3 FY18.
- IIP for FYTD 18 (April – Feb 2018) improved to 4.3%YoY, compared to 4.7% in the year ago period.
- CSO revised the GDP forecast for FY18 to 6.4% compared to 6.1% earlier. With this, India remains on track to grow at above 7% in FY19, and emerge as the fastest growing major economy in the world.

India CPI Inflation Trend & its Components (% YoY)

CPI Inflation was benign till June 2017, but picked up post that

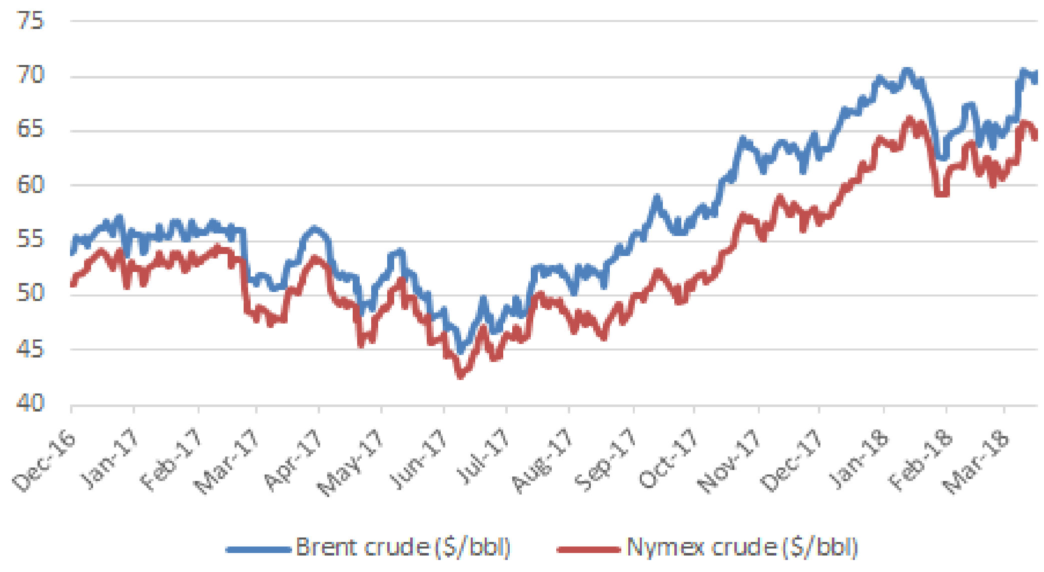


Source: Bloomberg

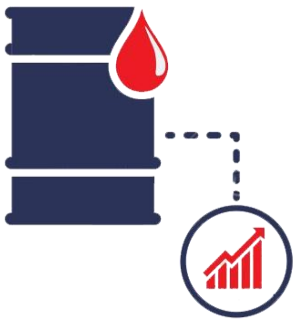
- ✓ CPI headline inflation fell to 4.3%YoY in Mar 2018 from 4.4% in Jan 2018. It hit a record low of 1.5%YoY in Jun 2017.
- ✓ Core inflation (ex food & fuel) rose to ~5.2%YoY in Mar 2018 from 5%YoY in Feb 2018. It hit a low of 3.8%YoY in Jun 2017.
- ✓ Inflation is expected to be in the range of about 4-6%, hence we expect RBI to remain on prolonged pause. Any further rise in crude prices could put upward pressure on inflation.

Crude on the boil, since mid-2017

Brent & Nymex Crude Price ($/bbl.)



Source: Bloomberg



Impact of $10 / bbl. increase in Brent Crude on various macro-economic indicators

Macro-economic Indicator	Impact
Consumer Price Index (CPI) Inflation	+0.6 – 0.7%YoY
Wholesale Price Index (WPI) Inflation	+1.3 – 1.4%YoY
Current Account Balance	-0.4% of GDP

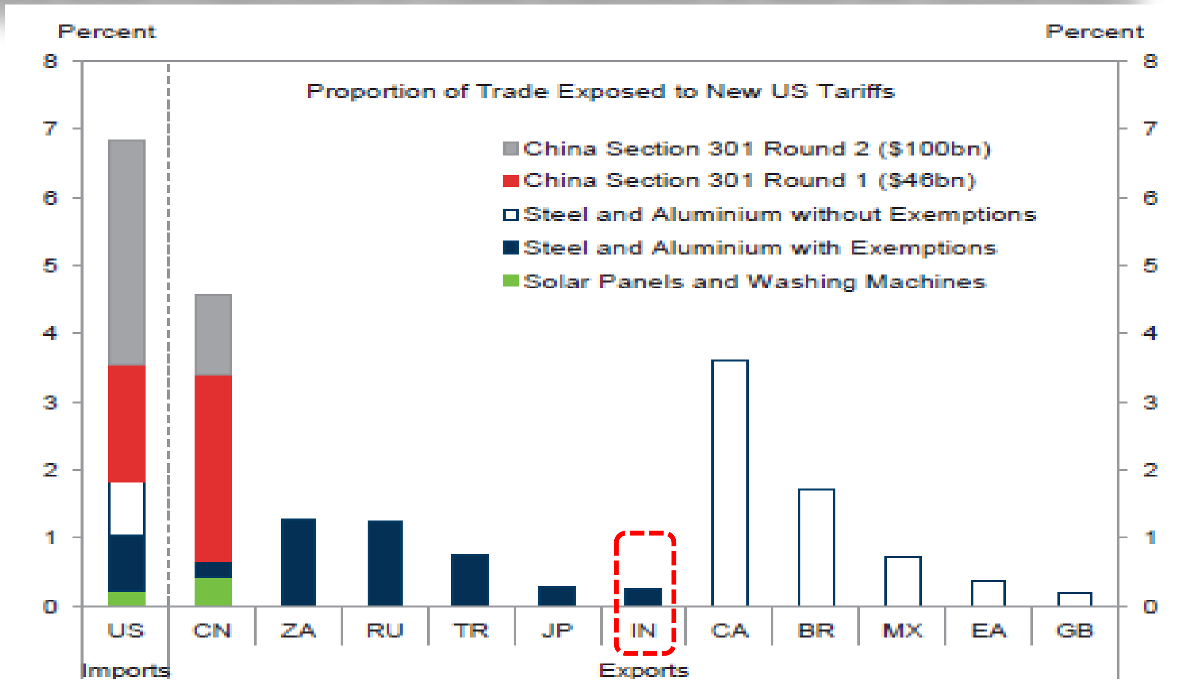
Source: Nomura

- Geo political issues, pick up in global economic growth and OPEC production cuts lead to crude price touching near a 3 year high, and Brent crude breaching the USD70 / bbl mark
- Pose inflation and current account deficit challenges, if it doesn't stabilize

Global Events, Equity Markets & Earnings

Trade Tariff Wars: Could lead to disruption in world trade, but impact on India is limited

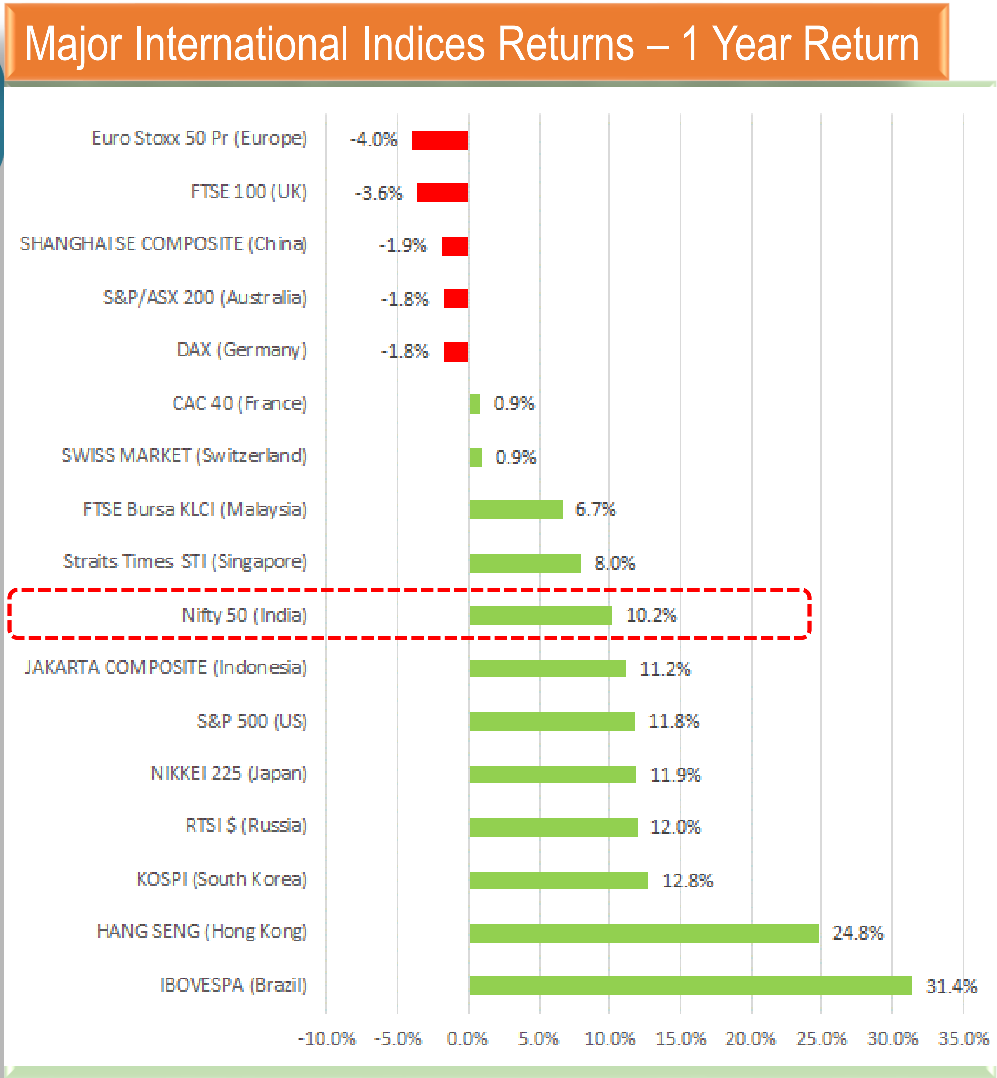
Country-wise Proportion of Trade Exposed to New US Tariffs (%)



Source: Goldman Sachs. CN = China, ZA = South Africa, RU = Russia, TR = Turkey, JP – Japan, IN = India, CA = Canada, BR = Brazil, MX = Mexico, EA = Euro Area, GB = Great Britain

- ✓ The on-going trade-tariff war can cause disruption to world trade and impact global growth to some extent, if it spirals out of control. This could also have a negative sentiment on global markets and cause market volatility in the interim. Some respite has come recently, with China announcing that it will reduce tariffs on imported cars.
- ✓ However, the trade impact on India seems to be limited. The US tariffs announced so far are largely focused on China and could have regional spill-overs. However, India's exposure to new US tariffs (as % of overall exports) is relatively quite low.

Global Index Returns



India's performance ranking has slipped, but it has still delivered decent returns over the past year

Source: Bloomberg. Returns in base currency of index, as of March 29, 2018.

Domestic Index Returns

Consumer Durables, Realty, & IT were the Winners & Pharma, Power were the Losers over the past year

- ➢ Nifty returns stood at 10.2% over the past year
- ➢ Small & Mid-cap indices outperformed, although the margin of outperformance has gone down.
- ➢ All sectors except Pharma & Power have given positive returns over past year

Out-Performing Sectors

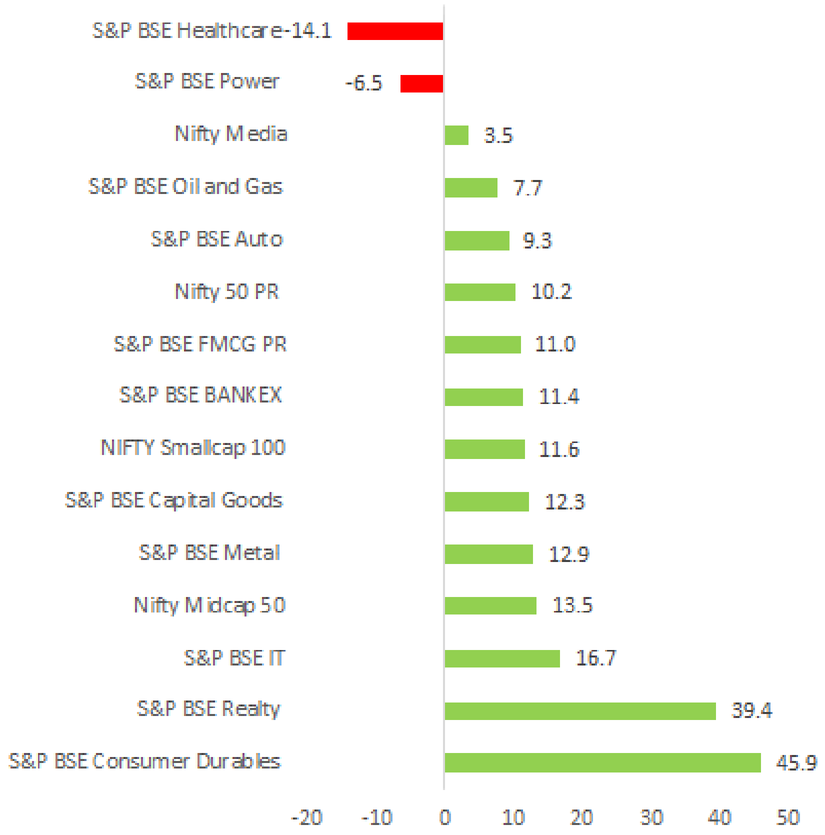
- ➢ Consumer Durables, Realty, IT, and Metals were the outperformers.

Under-Performing Sectors

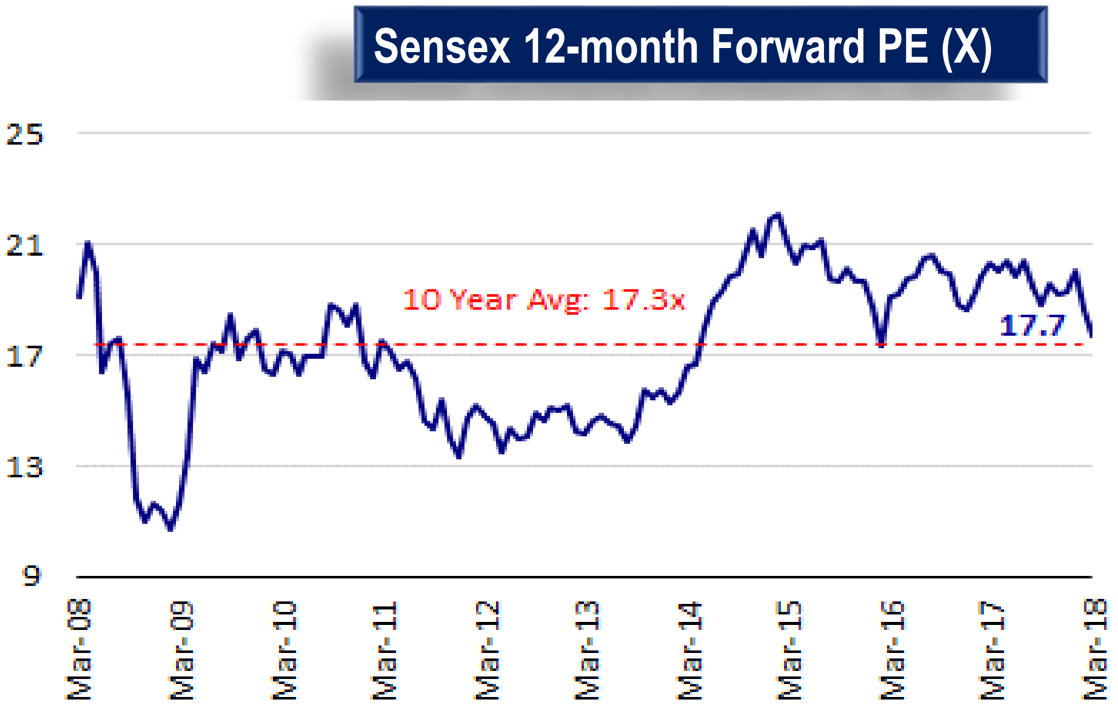
- ➢ Sectors like Pharma and Power, were underperformers

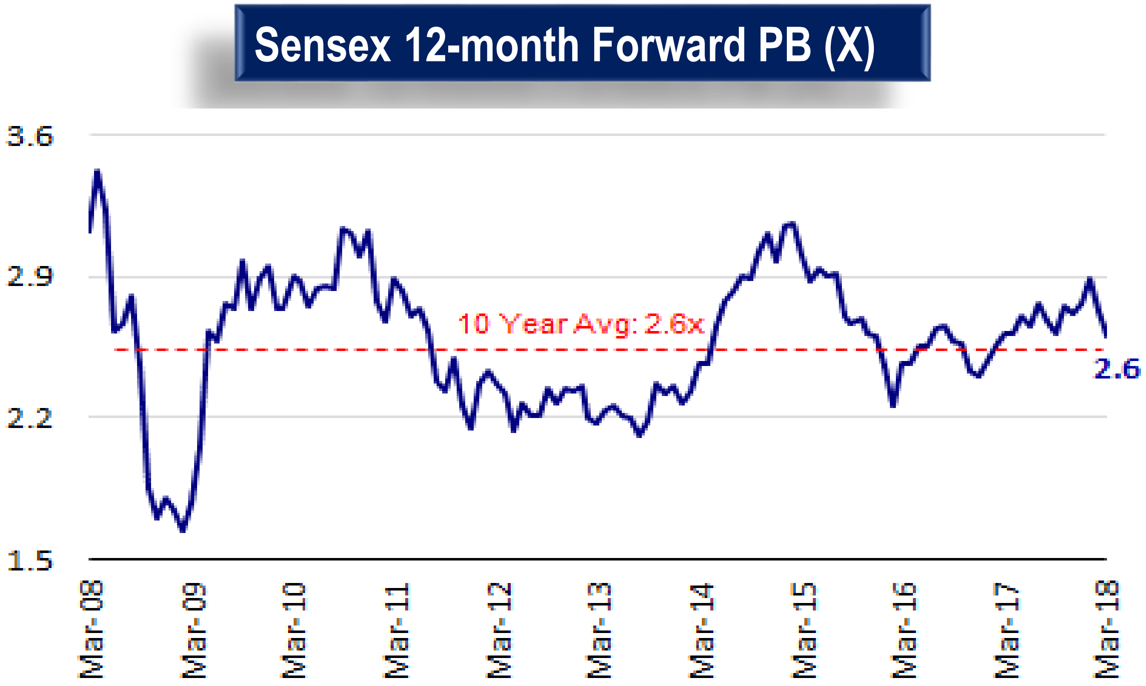
Source: Morningstar Direct Return as of March 28, 2018

Domestic Indices Returns – 1 Year Return



Market P/E is now close to the long term average

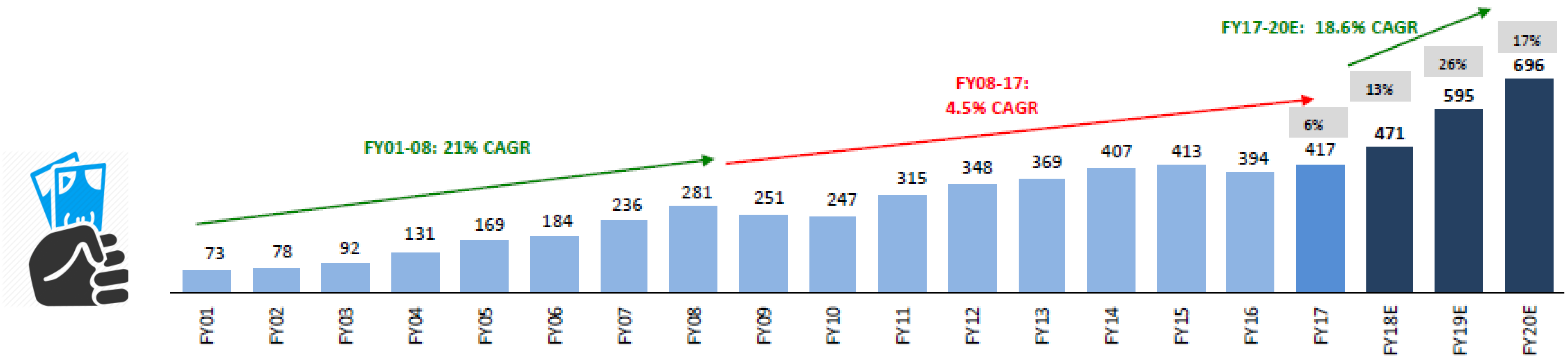




Source: CSO Motilal Oswal & Bloomberg

Signs of revival in Corporate Earnings Growth

Nifty Earnings Growth Trend

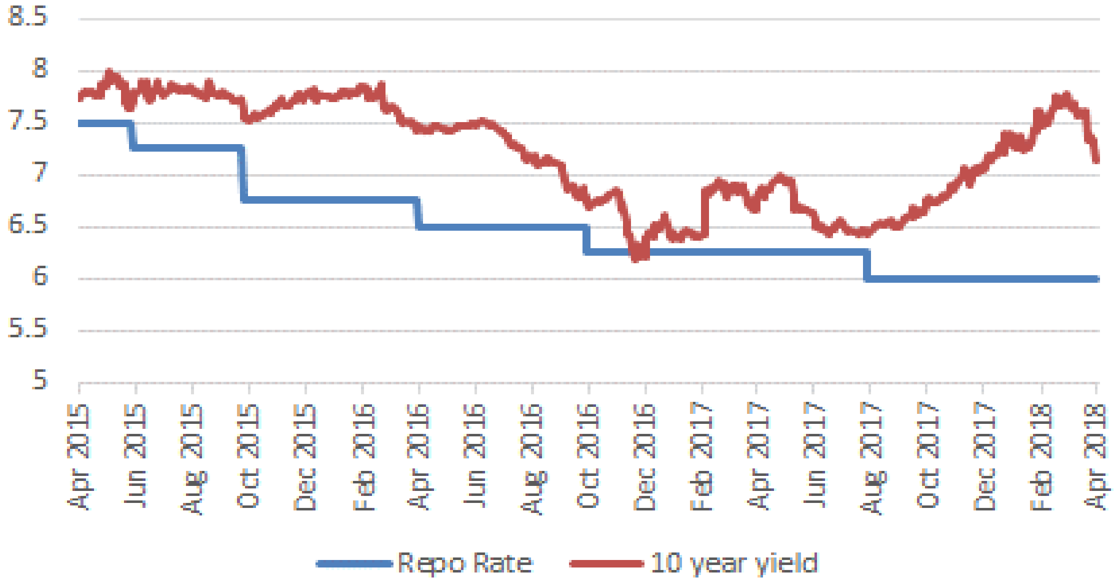


Source: Motilal Oswal Research

- ✓ Last 4 years earnings growth was dismal, but expected to recover meaningfully going forward.
- ✓ The sectors which would drive earnings growth, would be:
  - ✓ Metals
  - ✓ Consumption Stocks

Fixed Income Markets

Repo Rate Vs 10 Yr Bond Yield Movement (%)



Source: Bloomberg

BOND YIELDS HARDEN IN THE QUARTER, BUT EASED IN MARCH

- Yields have risen in the quarter due to rising inflation, elevated crude prices, fiscal slippage and tightening liquidity
- But in March, bond yields softened considerably with the government borrowing calendar for H1 FY19 being revised downwards along with a favorable composition of issuance.
- The 10 year G-Sec benchmark yield closed the month of March at 7.40%.

MONETARY POLICY UPDATE

- As expected, RBI kept policy rates unchanged.

OUTLOOK:

We expect the RBI to maintain a pause on policy rates in the coming quarter.

A key risk to this assumption would be commodity price movement, strong domestic and global liquidity, geo-political stability supportive of the global economy etc.

Market Outlook

Corporate earnings to drive markets

- Earnings growth in 3QFY18, were in-line with expectations
- Expect earnings growth to pick up from FY19, and that will drive markets, rather than PE expansion
- Positive on consumption-related Sectors

Economic growth is on recovery path

- Expect growth to recover; led by continued momentum in consumption and followed by gradual recovery in investment
- Expect credit growth to pick up gradually, although private capex recovery is still sometime away

Bond yields are expected to remain range-bound

- Expect yields to remain range-bound with an upward bias, and prefer the short to medium term end of the yield curve.
- Fixed income investors to get steady returns going forward

THANK YOU