Capital League outlook

August 2016

Indian Economy

- The Parliament has passed the Goods & Services Tax (GST) bill for implementation of the GST, which essentially is a value-added tax system. It will benefit Indian economy by combining numerous indirect taxes into a single tax, boosting our GDP by 150-200 bps, increasing productivity and efficiency of corporates, improving overall tax collection by simplifying tax administration and making tax avoidance difficult especially by unorganized sector.
- Corporate earnings improved slightly during Q1 FY2016-17, due to higher volumes in manufacturing sector and gain from lower input costs. The aggregate results for quarter ending 30 June, 2016 for 1600 companies (excluding Banks, finance companies and oil and gas companies) are as given in the table:

	% YoY Change in Q1
Sales Growth (INR Cr)	6.4%
Net Profit (INR Cr)	11.7%

- The government's direct tax collections grew 24% and indirect tax collections grew 30% in April-July 2016. However due to pay commission awards this year, the fiscal deficit may miss the target of 3.5% of GDP.
- Monsoon rains in India have been in normal range so far. As a result, area sown for this year's Kharif crop has increased by 6% over last year and the all India reservoir levels have revived to 61%, the second highest since 2007. This, together with better ground water levels and soil moisture will also boost chances of a good winter (Rabi) crop.
- Industrial output growth measured by IIP rose to 2.1% in June'16 as compared to 1.2% in May'16 due to expansion in electricity and mining production.
- Retail inflation (CPI) came to 6.07% in July'16 up from 5.77% in June'16, mainly due to rise in food prices. This is expected to moderate in the next 1 – 2 months with the arrival of new crop.
- The Reserve Bank of India left policy rates unchanged in latest monetary policy review. The focus of the central bank since the April policy has been on improving liquidity and ensuring transmission of previous rate cuts into bank lending rates. The 10 year G-sec yield has dropped to 7.1% from 7.5% in last 60 days.
- Mr Urijit Patel, the Deputy Governor of RBI has been appointed as new Governor of RBI. The government has sent a signal for continuity in monetary policy which will be seen positively by the FIIs and markets.

- A record low level of bond yields in developed markets and high global liquidity has fuelled a rally in emerging markets, and India has been a beneficiary of the inflows as well.
- Indian markets are receiving above average FII inflows since Feb'16 with nearly USD 1.9 Bn in July'16 and cumulative USD 4.8 Bn YTD (CY16).

Global Economy

- Japan has announced USD 265 Bn fiscal stimulus while maintaining the monetary stimulus (QE) to help boost economic recovery. Higher spending by governments is being seen as another experiment to re-ignite global growth.
- Bank of England has cut rates by 25 bps this month and has announced additional quantitative easing which is higher than market expectations. Australia cut its policy rate by 25bps, taking it to a record low at 1.5%. Expectations of economic weakening are also pushing monetary flows from Europe/developed market into Emerging markets and more specifically Asia.
- US Federal Reserve maintained status quo on rates in Jul'16 meeting amid concerns over the fallout of the Brexit vote while fluctuations in labour market data clouded economic outlook.
- Global growth outlook has been revised downward by International Monetary Fund (IMF) to 3.1% for 2016. For 2017 also, the IMF has reduced its previous forecast to 3.4% from 3.5% in April.

Outlook

- GST implementation will be a big structural positive for the Indian economy and especially the organized sector. The impact on individual stocks and sectors will be assessed post announcement of GST rate and tax structure which may bring some volatility in the markets.
- Consumer demand from good monsoon, pay commission hike and government spending will revive the corporate growth over the next few quarters. We continue to remain positive on our equity markets with a medium to long term outlook.
- We recommend investment in diversified equity funds in a staggered manner taking advantage of intermittent dips.