Capital League outlook

February 2017

Indian Economy

- **Budget 17-18:** The Government stayed on the path of fiscal consolidation by keeping the targeted deficit at 3.2%. The main focus areas are spending on rural sector, consumption to drive demand, long term infrastructure and systemic reforms.
- No major changes in indirect taxes announced due to expected rollout of GST in the next fiscal year. Tax rate lowered from 30% to 25% for Micro, Small & Medium Enterprises.
- **Monetary Policy:** RBI kept all the rates unchanged and have changed the monetary policy stance from accommodative to neutral.
- As a result, yields of the benchmark 10 Year government bond have hardened to around 6.85% from its pre-policy level of around 6.44%.
- Retail inflation (CPI) eased to 3.17% in Jan'17 as compared to 3.41% in Dec'16 due to decline in prices of food items. However, maintenance of CPI sustainably below 4% is going to be challenging amidst rising commodity prices, uncertainty associated with impact of GST and expected fallout of uncertain global policy environment.
- GST rollout date has been set as 1st July 2017. The GST council has made notable concessions to get the states on board by allowing them to administer taxes on 90% of taxpayers with annual turnover upto INR 1.5 Cr and the centre to control remaining 10%. On income above threshold, both states & centre will have equal power.
- The corporate earnings for Q3 announced so far have been a mixed bag. Amongst the results declared, FMCG and IT earnings have been below expectations, whereas companies in banking related sectors generally delivered results upto or better than expectations. The aggregate results declared so far for Q3 are as below:

% Change for Q3 FY17 on y-o-y basis (excluding financial & energy companies)	
Sales Growth	**7%**
Net Profit	**26.5%**

- IIP contracted by 0.4% in Dec'16 as compared to 5.7% rise in Nov'16 highlighting the adverse impact of demonetization.
- Foreign direct investment (FDI) inflows into India in CY 2016 jumped 18% to a record USD 46.4 bn, at a time when global FDI inflows fell by 13%.

- The government has set stiff time-bound targets for PSUs divestment in FY18 for an amount of INR 72,500 Cr which is 60% higher than divestment estimate of INR 45,500 Cr in FY17.

Global Economy

- US is undergoing a series of policy interventions ushering in a new period of American protectionism. Tighter trade and immigration policies are set to dampen global economic growth.
- Expectations of ramped up government spending, higher growth, expected tax reforms and a tighter pace of Federal Reserve rate hikes have led the US dollar and treasury yields to soar higher.
- China's trade surplus has jumped by 25% in Jan'17 with increase in its exports by 7.9% as compared to -6% in Dec'16 in USD terms.
- The Brent crude oil price remains in the range of USD 54-57 a barrel as the actual compliance to the deal made by Opec & non-Opec countries for cut in production is still below the agreed quantity.

Outlook

- The Government has maintained its credibility by sticking to its Fiscal Responsibility and Budget Management (FRBM) target, setting medium term target of debt reduction and improving debt to GDP ratio which will be seen as a big positive by the global rating agencies.
- Taking into account the neutral stance by RBI, rate cuts are on pause as of now. Hence it is recommended to invest in shorter duration and accrual oriented debt funds.
- Fear of protectionist policies by US and retaliatory measures by other countries will give rise to uncertainty and volatility in global equity markets.
- Corporate earnings are expected to revive with impact of demonetization waning off, improving operating leverage and higher commodity prices. GST implementation is expected to lead to a major shift from unorganized sector to organized sector. All these factors along with the sustained domestic flows can provide a strong support and attract FII investors to Indian equity markets.
- Investors are recommended to invest in equities in staggered manner.