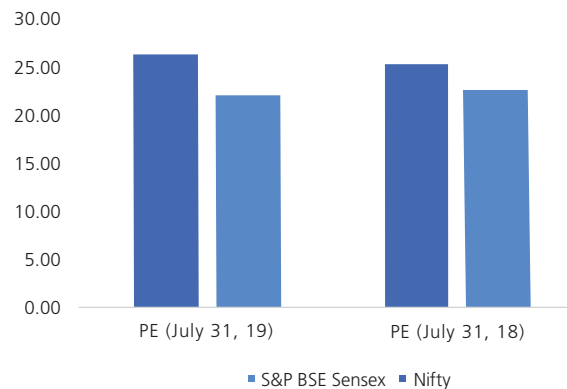
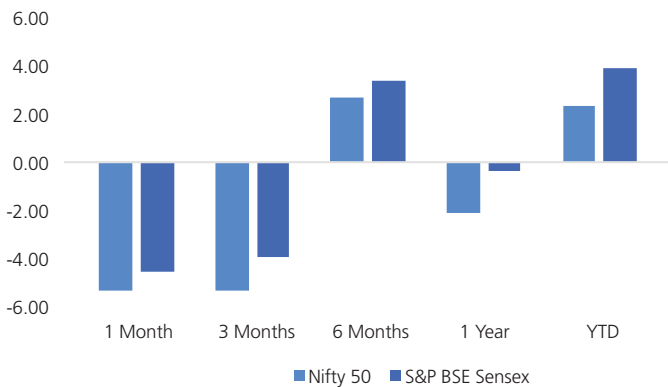


July, 2019

Tax on FPI proposed in the Union Budget, IMF lowering India’s growth outlook and weak corporate earnings amid a slowing economy dampened sentiment in July with the frontline benchmarks – the S&P BSE Sensex and the Nifty 50 slumping between 5-6%. BSE Midcap and Smallcap indices underperformed the benchmark indices – both falling between 8-11%.

Global markets witnessed volatility as US-China trade talks did not fructify and slowing global growth weighed on markets. FTSEE100 was the best top performer, gaining over 2%. Hang Seng was the worst performer, down almost 3%.

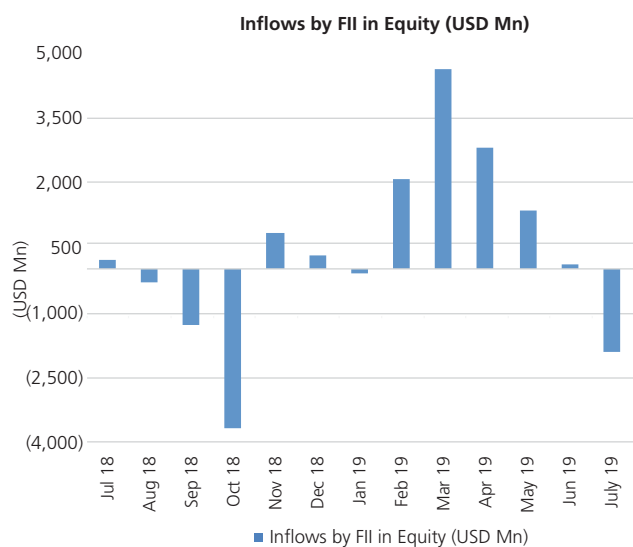
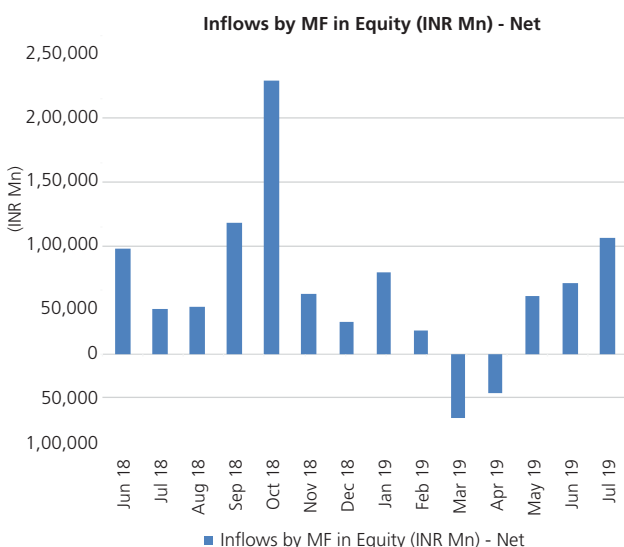


Sector Performance

Information Technology was best performing sector, gaining 0.5%. Automobile was the worst performing sector, down nearly 14% followed by Power, Capital Goods, Oil & Gas, Banking and Realty, all dipping between 6-13%.

Institutional Activity

FII turned sellers after remaining buyers for five months to the tune of \$1.9Bn reducing the YTD inflows to \$9.4 bn. Meanwhile, domestic investors increased their buying momentum with inflows of \$2.9 bn taking DII YTD tally to inflow of \$1.8 bn. Mutual Funds were buyers to the tune of \$2.7 bn. Insurance companies continued to be sellers with outflow of \$0.9 bn.





Macro Economic Developments

IIP growth for the month of May moderated to 3.1% YoY from 3.4% in April. Industrial activity saw a decline of 1.2% on sequential basis after a surge of 2.9% in previous month. All sector reported lower growth in May as primary goods grew by 2.5%, intermediate goods grew by 0.6%, infrastructure grew by 5.5% and capital goods by 0.8%. CPI for month of June inched up marginally to 3.2% however was below RBI's 4% target.

Food inflation at 2.4% continued to inch up for seventh consecutive month. Core inflation at 4.55% picked up in June. WPI at 2% was lower than estimates and was lowest in last 2 years. Trade deficit for the month of June came at \$15.3 bn after widening to 6 month high in previous month as lower imports balanced for softer exports. Exports were down 9.7% while imports were down 9.1%. Gold imports for June rose to 13%.

Earlier in the month, IMD came out with a forecast of below average monsoon with large deficits in central and western regions. However, towards the end southwest monsoon delivered above average rainfall and reduced the shortfall to 11%. As on July end, 2/3rd of country had received normal or excess rainfall.

Outlook

Nifty and the broader markets have corrected substantially from the recent highs, led by certain policy decisions in the budget on taxation, lack of fiscal support and weak earnings growth. Weak earnings growth and tepid management commentary in Q1FY20 earnings season raises the risk of earnings downgrades. Fortunes of Indian economy are closely linked to crude prices and soft crude prices due to global growth concerns and geopolitical tensions could provide some cushion to India. As the visibility of normal rainfall has increased we can expect economic recovery on back of MSP hikes, rural wage growth and resolution of GST issues. Normal monsoon will support rural recovery.

The key factor to watch out for will be low inflation as it will enable more policy rate cuts and easier liquidity condition drives rate transmission. Mid and small caps are now trading at a discount to its five year average. Escalating trade war tensions is a risk to India. Recent correction provides an attractive entry point as we continue to believe in India's long term story which we will play through strong and able managements with earnings visibility.

Source: BSE, Bloomberg, Internal

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