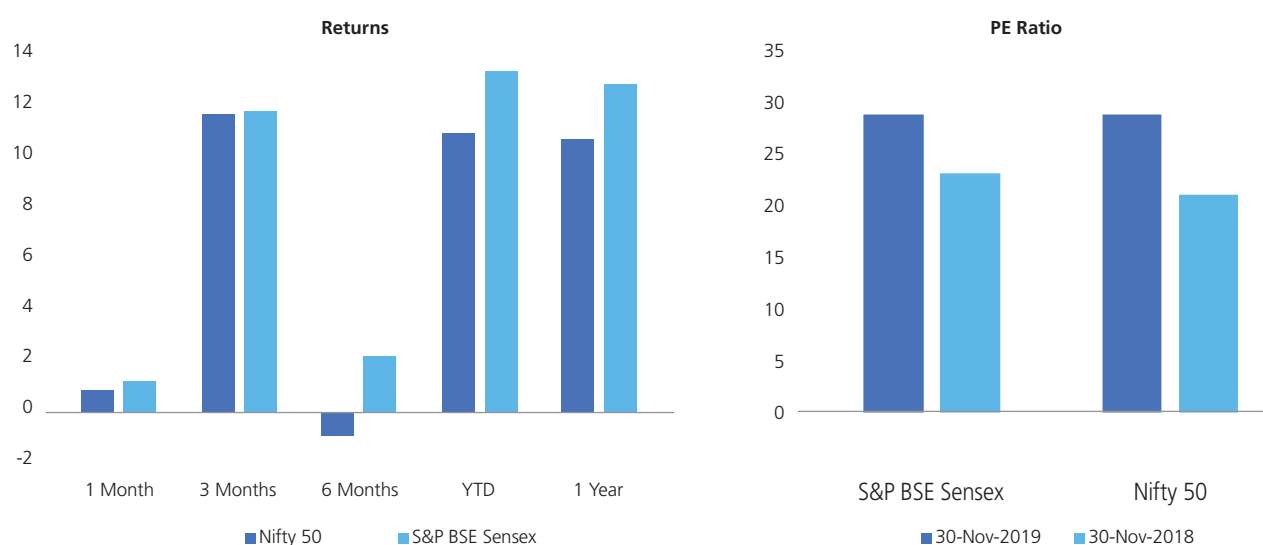


November, 2019

Indian equity markets saw broader index declining in the first half of November on concerns around continued weak macroeconomic data coupled with Moody's downgrade of India's outlook from stable to negative. Sentiment improved in the second half of the month driven by both global risk-on and positive reforms locally. Market sentiment was buoyed meaningfully following the Supreme Court's positive verdict on Essar Steel and the Government announcement of a framework for the resolution of systemically important NBFCs under the IBC process. Nifty and Sensex ended with 1.5% and 1.7% returns, respectively.

Global equity markets continued to perform well led by the US and China. Global equity markets rallied as US and China were on track to have a deal signed in Nov. Worldwide, Dow Jones was the top performer with 3.7% returns, followed by Euro Stoxx, Nikkei and FTSE, all gaining between 1-2%. Hang Seng was worst performer, down by over 2%.

MSCI Emerging market underperformed the Indian domestic market, falling marginally by 0.2%. MSCI AWI Index ended with 2.7% returns. BSE Midcap and BSE Smallcap indices underperformed its larger peers. BSE Midcap and BSE Small cap indices ended with 1.5% and 0.02% returns, respectively.



Sector Performance

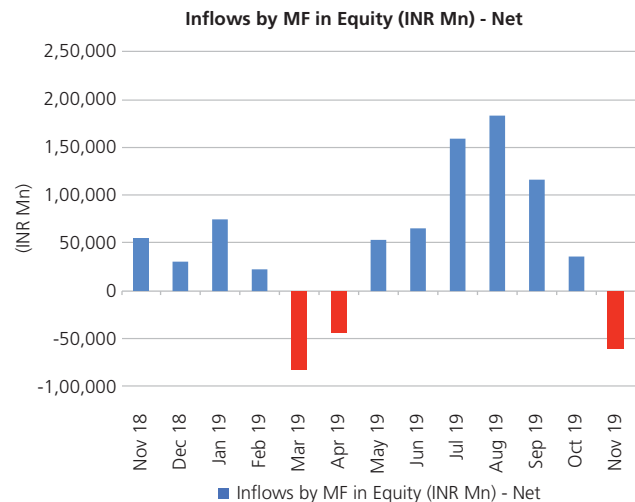
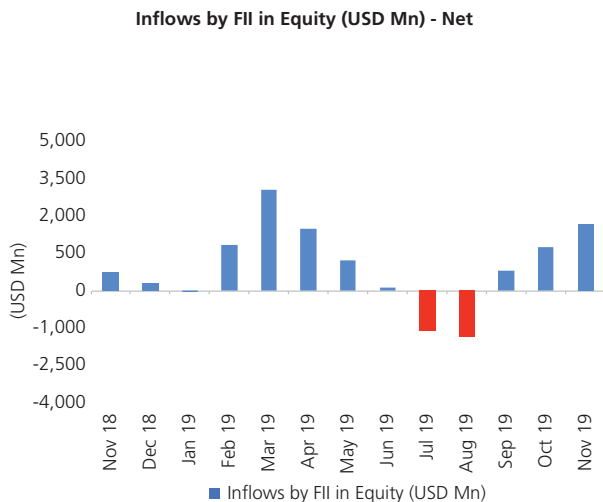
Indian market sentiment was buoyed meaningfully following the Essar Steel verdict and framework for resolution of systemically important NBFCs under the IBC process and strategic divestment push. Banks was the best performing sector with 6.7% returns outperforming Sensex by 5%.

Metal, Realty and Healthcare outperformed the Sensex, all rising between 3-5%. Auto, FMCG, Oil & Gas, IT and Power underperformed the Sensex, all dipping between 3-4.5%. Capital Goods was the worst performing sector, down by 7.6%.



Institutional Activity

FII remained net buyers of \$3.0 bn in Indian equities vs \$2.1 bn last month taking YTD inflows to \$13.2 bn. DII were net equity sellers at \$1.2 bn in Nov taking YTD tally to inflows of \$6.0 bn. Mutual funds and insurance funds sold \$288 mn and \$943 mn in Nov respectively. YTD, mutual funds were net equity buyers at \$7.6 bn while insurance funds remain net equity sellers at \$1.6 bn.



Macro-economic Developments

Real GDP growth touched another low at 4.5 % YoY in Q2FY20 after 5% YoY in previous quarter. Core GVA (GVA ex Agri and govt. spending), an indicator of private sector business cycle slowed to 3.4% YoY. Impact of slowdown in real GDP growth and subdued inflation will lead to nominal growth falling short of budgeted estimates by 490 bps, leading to higher risk of fiscal slippage and lower government spending in remaining quarters.

Headline CPI rose to 4.6% YoY in Oct vs. 4% last month. Increase was primarily led by spike in vegetable prices, 8.5 % MoM, on account of strong unseasonal rains causing supply disruptions. Core inflation continued to soften (3.7% YoY in Oct) with core prices contracting -0.1% YoY in Oct, first sequential contraction in new CPI series. Weakness in core inflation confirms the slowdown in activity and growing slack in economy.

Composite PMI for Oct shrunk further to 49.6 vs 49.8 last month. Decline in PMI was led by manufacturing which declined -0.8 pts to 50.6 while services PMI rebounded 0.5 pts to 49.2. WPI inflation for Oct at 0.16% was the lowest print in the last 40 months. Sep IIP declined -4.3% YoY, 8 year low. Intermediate goods (7% YoY) were up while primary goods (-5.1% YoY), Infra goods (-6.4% YoY) and Capital goods (-20.7% YoY) recorded meaningful decline in Sep.

India's monthly trade deficit at \$11.0 bn increased marginally in Oct vs last month (\$10.9 bn). Merchandise exports were down -1.1% YoY while Imports were down -16.3% YoY in Oct. After three consecutive month of declines, Gold imports rose 4.7% YoY. Imports ex Oil and Gold declined -10.0% YoY (vs -8.9% decline last month), the 12th consecutive month of YoY decline.

Weakness in core inflation, lower GDP growth will likely prompt RBI to maintain accommodative stance and another rate cut in the Dec policy review.



Market Outlook

Indian markets remained upbeat on Essar Steel verdict and government move to bring NBFC's under IBC process. However, there is a growing divergence between market returns and economic data as local macro indicators remained sedate over the last month. Continued economic slowdown as manifested in the recent GDP print and output of eight core industries points toward a challenging grind ahead for the long-awaited recovery in earnings.

Q2FY20 earnings were supported by tax cuts as management commentary in Q2FY20 has remained cautiously optimistic. Multiple structural reforms including the recent cut in corporate taxes and continued government push for strategic divestment of PSU's has helped investors to keep faith on reformist agenda of the current govt. Rural income is expected to witness recovery led by expectation of better Rabi season (improved reservoir levels) and increase in MSP prices for Rabi crops.

After sharp underperformance of mid and small caps over the last one year, we have seen improvement in mid-caps companies since Sept'19. We continue to maintain our high conviction on high quality companies producing sustainable and predictable cash flows.

Source: BSE, NSE, MFIE CRA

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