Equity MF Strategy & Recommended Asset Allocation

- The Indian equity markets have seen strong up move in the last few months on the back of strong liquidity flows and positive election outcome and strong FPI buying. The largecap indices have moved to their all time highs in the process, while the midcap and small cap indices have seen some correction after a smart runup from lows.

- In India, focus on infra spending by the government, improved urban consumption, rebounding exports, urbanisation and better farm income has the potential to shore up the economy in the medium term.

- Macro indicators continued with mixed signals in near term as lower inflation, improved domestic liquidity conditions, indications of steady volume growth continuing in many sectors seem to be offset by weak IIP and GDP on the other. The earnings growth expectations in FY20 is quite strong led by the banking sector, which could sustain the market multiples.

- In a bid to bring down the interest rates structurally, the Government cut its fiscal deficit estimates for FY20. With adequate spending and steady resource mobilization H2CY19 could be marked by improving investment demand by corporates. Impactful government spending holds the key.

- The focus of the markets would now shift to the global trade related issues and corporate earnings for Q1FY20.

- Post the NDA winning a larger mandate, the S&P BSE Sensex has crossed the level of 40,000, in anticipation of acceleration in policy reforms and faster decision making. We believe that in the next five years the government would accelerate the process of reforms and decision making to take advantage of the solid base that has been built over the past five years.

- From an Equity Mutual Fund perspective, investors should look at Large Cap and Multicap Funds for fresh investments and SIP into Midcap and Small caps funds can begin with a longer horizon. We continue with investment strategy of 60% Lumpsum and rest 40% staggered over the next 3-4 months.

<table>
<thead>
<tr>
<th></th>
<th>Aggressive</th>
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<tbody>
<tr>
<td>Equity Funds</td>
<td>75%</td>
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<tr>
<td>Debt Funds</td>
<td>20%</td>
<td>40%</td>
<td>70%</td>
</tr>
<tr>
<td>Gold</td>
<td>5%</td>
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</table>
Debt Mutual Fund Strategy

- Investments in Medium Duration Funds can be considered with a horizon of 15 months and above.

- Investors who are comfortable with intermittent volatility, can also look at strategies that focus at the longer end of the yield curve. i.e. Long duration funds, with a horizon of 24 months and above.

- Investments into Short Duration Funds can be considered with an investment horizon of 12 months and above.

- Investors looking to invest with a horizon of up to 3 months can consider Liquid Funds, while Ultra Short Duration Funds and Arbitrage can be considered for a horizon of 3 months and above.
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- Union Budget 2019-20 – Reflecting government’s commitment to substantially boost Rural/Agri sector, Infrastructure, Ease of living and Employment generation
- Union Budget 2019-20 – also addressed Financial sector stress
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- Short term rates consolidate in June 2019…
- Bond Spreads widened marginally MoM in June 2019
- Yields decline across the G-sec yield curve… Yield curve steepened MoM
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- Equity Mutual Funds
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Economic Survey 2018-19: annual 8% sustainable growth needed to become USD 5 trillion economy by FY25… Private Investment would be the key driver

- As per the economic survey 2018-19, GDP growth has moderated to 6.8% YoY in FY19 from 7.2% YoY in FY18. However, India was still the fastest growing major economy. As per the survey, GDP is expected to grow at 7.0% YoY for FY20.
- The survey highlighted that growth in investment, which had slowed down for many years, has bottomed out and has started to recover since FY18. Growth in fixed investment picked up from 8.3% YoY in FY17 to 9.3% YoY in FY18 and further to 10.0% YoY in FY19.
- As per the Survey, investment rate should pick up in FY20 on higher credit growth and improved demand. The political stability in the country, higher capacity utilization and uptick in business expectations should increase investment activity in FY20.
- India maintained its macroeconomic stability by containing inflation within 4% and by maintaining a manageable current account deficit to GDP ratio.
- The survey stated that the general fiscal deficit in FY19 was expected to be 5.8% of GDP, compared with 6.4% the previous year. As per the survey, the revised fiscal glide path envisages achieving fiscal deficit of 3% of GDP (at central level) by FY21 and Central Government debt to 40% of GDP by FY25. The FY19 has ended with fiscal deficit at 3.4% of GDP and debt to GDP ratio of 44.5% (Provisional).
- The survey also highlighted several challenges on the fiscal front like slowing growth which may impact revenue collection, shortfall in GST collections, allocation to new schemes like PM-KISAN and Ayushman Bharat, likely impact of US sanctions on oil import from Iran on petroleum subsidy etc.
- The survey highlighted that in order to achieve the objective of becoming a USD 5 trillion economy by FY25, India needs to grow at a sustainable real GDP growth rate of 8% YoY.
- As per the survey, such growth can only be sustained by a “virtuous cycle” of savings, investment and exports catalyzed and supported by a favourable demographic phase.
- The survey added that Investment, especially private investment, is the key driver that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction, and generates jobs.
- Further the survey stated that Exports must form an integral part of the growth model because higher savings preclude domestic consumption as the driver of final demand. Similarly, job creation is driven by this virtuous cycle.
Union Budget 2019-20 – Reflecting government’s commitment to substantially boost Rural/Agri sector, Infrastructure, Ease of living and Employment generation

- The budget for FY20 reflected government’s commitment to substantially boost Rural/Agri sector, Infrastructure, Ease of living and Employment generation. The key element of the budget was the government’s focus on maintaining continuity in infrastructure spending and giving rural India a much needed fillip.
  - The gross fiscal deficit was pegged at Rs.7.03 trillion or 3.3% of the GDP in FY20 as against 3.4% in FY19
  - The government has laid down plans to bring down the fiscal deficit to 3.0% of GDP for each of the years FY21 and FY22.
- There were three major focus areas of the budget- Rural, Social and Infrastructure. Strong emphasis was given to Job creation, Financial sector reforms and Agriculture, along with pushing ahead with infrastructure thrust through increased investment on roads, railways and airports.
- The budget proposed strong vision to transform rural India. With below mentioned proposals, the focus of the government would be on providing maximum livelihood opportunities in the rural areas by spending more on livelihood, agriculture and allied activities and construction of rural infrastructure.
  - The vision included for every rural family to have cooking gas connection by 2022
  - All rural families to have electricity connection by 2022
  - Strong investment into in agriculture infrastructure, supporting private companies to add value for farm producers
  - Creation of infrastructure for cattle feed manufacturing
  - Investment of Rs.802.5 bn to upgrade 125,000 km of rural roads in 5 years
  - Providing all-weather roads to 97% of habitation
  - Giving 19.5 mn homes till 2022 in PM Awas Yojna- Rural and exporting of food grains
  - Total budget allocation to be spent to Agriculture and Allied Activities rose by 73.1% YoY to ~Rs.1.5 trillion for FY20BE
- Another big focus area of the government was on Infrastructure and Job creation
  - Focus in the infrastructure sector was on Roads, Urban development, Shipping, Aviation and Railways
    - Total investment in the Road sector is projected at Rs.830 bn reflecting a growth of 6% over FY19RE
    - For FY20, the total government support to Railways has been pegged at Rs.681 bn, a jump of 24% over FY19RE
    - Envisaging to allow private players into the railways sector though the PPP route to improve funding and efficiency
    - Urban development allocation saw 13% increase to Rs.411.8 bn
  - To help job creation and help the struggling MSME sector, the budget has
    - Proposed to give interest subvention to the MSME sector
    - Build a payment platform for bill filing for MSMEs to address delay of payment on account of government contracts
    - The MGNREGA outlay for FY20BE has been increased by 9% YoY to Rs.600 bn
- Continued focus on infrastructure creation by the government is likely to have two benefits, firstly it would lead to increased job creation in the economy and secondly it would also lead to pickup in the allied sectors like steel, metals, cement etc which can drive capex in these sectors and drive further economic growth.
Union Budget 2019-20 – also addressed Financial sector stress

- **Financial sector issues also seem to be on top of the Government agenda.**
  - Proposed bank recapitalization of Rs.700 bn to ease credit availability and drive economic growth
  - Proposed One time six months' partial credit guarantee to PSBs (on first loss of up to 10%) for purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rs.1 trillion during FY20 to support NBFCs
  - Proposed to allow all NBFCs to directly participate on the TReDS platform.
  - With the recent weakness seen in the housing finance space, proposed to return the regulation authority over the housing finance sector from the National Housing Bank (NHB) to the RBI

- **For Capital market the government proposed**
  - To raise a part of the government debt in the external markets though foreign exchange borrowings, as it would lead to lower demand pressure in the domestic markets and help crowd-in private sector borrowings
  - To rationalize existing KYC norms for FPIs and merge NRI, FPI investment scheme routes
  - Asked the SEBI to mull hiking minimum public shareholding to 35% in listed companies
  - To increase FDI limits in sectors like media, insurance and animation and proposed 100% FDI in insurance intermediaries
  - Look to bring its shareholding below 51% into PSU companies – opens the door for strategic disinvestment

- Slew of measures for improving ease of doing business especially for the startups and talked about addressing the “angel tax” issue.

- On taxation corporates got some relief while super rich to shell out more
  - Extended the lower corporate tax rate of 25% + surcharge and cess, to companies with turnover of upto Rs.4 bn
  - Proposed increased tax for the super-rich - The surcharge on tax for assessee earnings between Rs.20 mn - Rs.50 mn and Rs.50 mn and above was raised to 25% and 37%, respectively
  - Also talked about launching automated, faceless assessment of tax and to make Aadhaar, PAN interchangeable to file tax returns

- **Clearly, the focus of the budget was to give a strong fillip to the rural economy and create more jobs through infrastructure creation apart from making attempts to improve the conditions of the financial sector of the country.**

- The strong infrastructure and rural income generation push in the budget is likely to drive the growth in the capital formation and improve demand conditions in the economy. In a world where growth is weakening, it is very important for India to be able to create robust domestic market which would allow it to leverage its demographic dividend and bring in more global capital.

- We believe that with the current budget the government wants to show that it is looking forward to minimum government and maximum governance. By keeping the fiscal deficit low, the gates have opened for lower interest rates and easy liquidity regime which would help the corporate sector.

- From here on the Indian equity markets are likely to move on the back of improved corporate earnings and upcoming macroeconomic data points. Given the strong DII flows and the improving FPI flows, we remain positive on the Indian equity markets over the medium term.
Positive for Infrastructure, PSU Banks, Cement and Capital goods, Mixed for IT and Oil & Gas

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<tr>
<th>Sector</th>
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<tr>
<td>Auto and Auto Ancl</td>
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<tr>
<td>Banking/Financials</td>
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<tr>
<td>Capital Goods</td>
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<tr>
<td>Cement</td>
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<tr>
<td>Consumer Goods, Retail and Discretionary</td>
<td>Mixed</td>
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<tr>
<td>Agriculture and Allied Activities</td>
<td>Positive</td>
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<tr>
<td>Infrastructure</td>
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<tr>
<td>IT/E-commerce/Start-ups</td>
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<tr>
<td>Oil &amp; Gas</td>
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<tr>
<td>Power</td>
<td>Muted</td>
</tr>
<tr>
<td>Real Estate</td>
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</table>
Consistent inflow from FPIs and DIIs and expectation of policy consistency by the govt led market to all time high levels... however, only a handful of companies have contributed to this rally.

Sensex reached at all time high levels to ~40,000 before consolidating... mainly due to positive FPI inflow for five consecutive months.

... supported by positive DII flows in two consecutive months.
NDA’s key reforms and deliveries over the last 5 years...

The government of India has been consistently working on inclusive development with the help of various reform announcements targeting to improve both social and physical infrastructure in order to set structural drivers for long term sustainable economic growth. Among all, following were the key reforms and announcements and their progress during the year:

- **Goods and Service Tax (GST):** Govt. of India implemented one of the biggest tax reforms of the country, Goods and Services Tax (GST) on 1 July, 2017. The collection under GST in June 2019 stood at Rs.999.39 bn, up by 4.5% YoY. The GST is likely to boost GDP growth in the long term as it is expected to drive the volume growth for Organized players. **Positive for Retail, Consumer Durables, Auto ancillary, home improvement and building material items like ceramics, tiles, plywood and other sectors with large unorganized share.**

- **Demonetization:** On 8 November 2016, the Government of India announced the demonetization of all Rs.500 and Rs.1,000 banknotes from 9 November 2016. The government claimed that the action would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism. As a result this, digital transactions through UPI, Online transfer and tractions via plastic cards grew sharply in India. **Positive for large organized players in retail sectors and banking sector.**

- **IBC:** To avoid recurrence and for stringent recovery, the Insolvency and Bankruptcy Code, 2016 (IBC) was enacted to create a Unified Framework for resolving insolvency and bankruptcy matters. As per data from Insolvency and Bankruptcy Board of India (IBBI), 378 companies with total creditor claims of Rs.2.58 trillion have so far been sent into liquidation under the Insolvency and Bankruptcy Code till March 31, 2019. IBBI data also showed that in the 88 cases of successful resolutions under the bankruptcy law since it came to effect in December 2016, operational creditors and financial creditors recovered about 48% of their claims. **Positive for Banking sector and Investment led demand.**

- **Pradhan Mantri Awaas Yojana (PMAY) – Gramin** is rural housing programme designed to provide affordable household to rural population. A total of 4.45 mn houses have been completed in FY19. Department of Rural Development plans to complete 10 mn houses by FY19 (achieved 8.88 mn) and proposes to complete 29.5 mn by FY22. **Pradhan Mantri Awaas Yojana – Urban:** The government plans to construct as many as 11.2 mn houses by FY22 under the scheme. Upto 27 May 2019, ~8.1 mn houses have been sanctioned under PMAY Urban while ~2.57 mn houses have been constructed. **Positive for cement, steel and Housing Finance sectors**

- **Bharatmala and rural roads:** Government has approved the Bharatmala project, to accelerate road development with Bharatmala being an umbrella programme for development of highways. Under the project Bharatmala, government aims to add ~35000 kms of new highways, 9000 kms of economic corridor, 6000 kms of inter-corridor roads, ~2000 kms of border roads and ~10000 km of the national highway totaling to ~66,100 kms with an total outlay of Rs.6.92 trillion over the next five years. **Positive for cement, steel and road infra sectors.**

- **Direct Benefit Transfer (DBT) Scheme:** As per Finance Secretary, the direct benefit transfer in various social sector schemes resulted in savings to the tune of Rs.1,416.77 bn. Currently 439 schemes under 55 Ministries are covered under DBT as against 34 schemes in March 2015. The government plans to bring a total of 533 central pay-out schemes in 64 ministries under the DBT mechanism. **Positive for oil and gas, fertilizer and health care.**

- **National Health Protection Scheme:** Government has announced the National Health Protection Scheme (NHPS) in the Union Budget 2018-19 where the scheme aims to offer health insurance up to Rs.0.5 mn per family per year, covering over 100 mn vulnerable families, benefitting about 500 mn people. Both secondary and tertiary care hospitalization will be covered. Recently, Prime Minister launched the scheme across the country from 23 September 2018 and has catered to more than 2 mn patients up to April 2019. **Positive for Insurance sector and Healthcare.**

- **Pradhan Mantri Kisan Samman Nidhi (PM-KISAN):** Under PM-KISAN, vulnerable landholding farmer families, having cultivable land upto 2 hectares, will be provided direct income support at the rate of Rs.6000 per year. Income support will be transferred directly into the bank accounts of beneficiary farmers, in three equal installments of Rs.2000 each. Around 120 mn small and marginal farmer families are expected to benefit from the scheme. **Positive for Agri, FMCG and other consumption related sectors**

Apart from these, other schemes like 24*7Power for All under Saubhagya Yojana, LPG connections under Ujjwala Yojana, Micro loans under Mudra Yojana, Fasal Bima Yojana, Swachh Bharat Yojana among many others have also helped in improving the social as well as economical well being of the citizens of India.
Macro indicators are showing a weakening bias…

Key economic data like declining GDP growth and Current Account Deficit are showing weakness

India’s GDP growth slips to five year low of 5.8% YoY in Q4FY19

Current Account Deficit widen to 6 year high in FY19 (% of GDP)

Certain high frequency data like muted IIP growth on YoY basis and widening trade deficit and lower Manufacturing PMI readings are also concerning

However, certain macro data continue to remain steady—stable rupee, rising forex reserves, continued double digit credit growth and lower fiscal deficit target for FY20BE

Rupee has stabilized at ~Rs70/USD levels in last few months

Forex Reserves reaches all time high at USD 426 bn in June 2019

Credit growth continue to see double digit growth in last few months (YoY %)

Fiscal Deficit for FY20BE at 3.3% of GDP vs 3.39% in FY19

Source: Ministry of Finance, B. Budget Estimates.
Brent crude oil prices continues to remain in a range…

- Brent crude oil prices had declined sharply in the month of May 2019 (down 12.4% MoM) and since then it is moving in a range at ~USD 60-65/bbl levels mainly on the fears of global growth slow down.

- While Brent crude oil prices had inched up sharply in the start of CY19 and had breached USD75/bbl level on intra-day basis in April 2019 mainly due to supply cuts by OPEC and concerns on oil supply post US sanctions on Venezuela and Iran Energy sector.

- Recently, OPEC and other producers such as Russia, in its July meeting has agreed to extend oil supply cuts until March 2020.

- However, on a positive side, US crude oil export data for the near past shows that US exports of crude oil has increased sharply in the last few years which has been able to offset the supply cuts announced by OPEC.

- US crude oil exports have increased from ~1.87 mbpd in May 2018 to ~3.77 mbpd in June 2019.

- Crude prices were also capped by signs of a recovery in oil exports from Venezuela in June and growth in oil production in Argentina in the recent months.

Going ahead, oil supply by OPEC and Non OPEC member nations and political conditions in Middle East on one hand and global growth trajectory and U.S. Shale gas production and export on the other are likely to direct the crude oil prices in the near to medium term.
Downgrade of NBFCs led to near term liquidity constraint, which could be leading to weakness in consumption demand…Govt. spending and Monsoon remains key upside levers…

- Many NBFC downgrade in recent times have led to liquidity constraint, which has impacted the Consumption demand. This can be visible in fall in domestic airline traffic, declining growth rate in personal loan and subdued growth in QSR’s SSG.
- The weakness in overall demand could be a temporary phenomenon and may start to improve once again as liquidity scenario improves significantly. The interest rate cuts announced by RBI along with regular infusion of liquidity in the system would be beneficial for consumption demand. The monsoon rainfall and its spatial distribution remains the key for faster revival in consumption

- Indian economy has seen steady growth in investment demand. A lot of lead indicators like capacity utilization (at 11 quarters high), improvement in credit growth (for 27 consecutive months), cement demand (expected to grow at 8% in FY20) and improvement in order book for capital goods companies are indicating that capex cycle is reviving. However weak performance of GFCF in Q4FY19 GDP data needs further monitoring.
- While the central government had kick started the capex cycle which was later on joined by companies in smaller sectors, the spending from the government have slowed down a bit in last few months ahead of general election. The recent election agenda of incumbent government indicating a capital investment of Rs.100 trillion over the next five years which would boost the investment demand further going ahead.
Weak start of monsoon led to 9.5% YoY decline in Kharif Sowing… a normal and well distributed rainfall would be key to bring cheer to consumption demand

![Map of India showing southwest monsoon](image)

<table>
<thead>
<tr>
<th>Crop (Lakh hectar)</th>
<th>Area sown in FY20</th>
<th>Area sown in FY19</th>
<th>Growth (%)</th>
</tr>
</thead>
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<tr>
<td>Rice</td>
<td>27.1</td>
<td>27.1</td>
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<tr>
<td>Pulses</td>
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<td>Coarse Cereals</td>
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<td>Oilseeds</td>
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<td>Sugarcane</td>
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<td>Jute &amp; Mesta</td>
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<td>-6.6</td>
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<tr>
<td>Cotton</td>
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<td><strong>Total</strong></td>
<td><strong>146.6</strong></td>
<td><strong>162.1</strong></td>
<td><strong>-9.5</strong></td>
</tr>
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Source: agricoop.nic.in, data as on 28 June 2019

- The southwest monsoon was 33% lower than normal till 30 June, which is among the worst in the last five years, with 28 of the 36 meteorological divisions recording deficient rain.
- As a result, the sowing of kharif crops till June 28, according to the government data, took place in around 14.66 mn hectares, which was 9.5% less than in the same period last year and 25.5% less than the average of the corresponding period in the last five years.
- The water levels in the 91 major reservoirs of the country continued to fall in June. During the week ended June 27, the content was 26.3 bn cubic metres (BCM), which was 11.7% lower than in the same period last year.
- Overall rainfall and spatial distribution of rain coupled with the progress of kharif sowing would be the key determinants of crop production, which in turn to determine the rural wages and thereby rural demand going ahead.

Source: Media Reports, IMD
The Q4FY19 aggregate corporate earnings announced were in line with market expectation, with marked improvement seen in EBITDA and PAT.

The net sales of companies in CNX 200 index grew by ~11% YoY. The EBITDA of these companies grew at ~31% YoY, at a faster pace as compared to Q3FY19 and Q4FY18. This was mainly due to recent correction seen in commodity prices driving the margin improvement. Reported PAT also witness improvement with the growth of ~13% YoY in Q4FY19, mainly driven by lower provisioning in Banking sector and improvement in profitability of Oil & Gas Sector.

However, Q1FY20 is likely to be a mixed bag. Some of the macro data like weakness in Automobile sales, muted FMCG volume growth and concern on liquidity due to NBFC downgrade issues is likely to impact the performance of Automobiles, FMCG and NBFC’s in Q1FY20.

Banking Sector had seen a significant improvement in earnings in Q4FY19 due to lower provisioning requirement, which is likely to continue in Q1FY20 as well and expected to post positive results.

Industrials sector is also expected to report positive result owing to lower base, while construction and utilities sector is expected to post better results owing to better execution and commissioning of the projects. Cement is expected report reasonable numbers with margin expected to improve.

However, IT sector is expected to post muted result and Pharmaceutical sector is likely to report muted to weak set of results.

Majority of the corporates in Consumption related sectors expect gradual recovery in H2FY20, while a sustainable improvement in consumption growth rate hinges upon transmission of existing rate cuts announced by the RBI to the end consumers and monsoon rainfall.
Markets expects sharp improvement in earnings… may lead to sustenance of higher valuation in near term

- Positive inflow from both FPI and DIIs coupled with expectation of policy consistency going ahead led S&P BSE Sensex to breach 40000 levels for the first time and sustain closer to those levels.

- Currently, the S&P BSE Sensex is trading at 19.2x FY20E Bloomberg consensus EPS of Rs.2050 and 16.4x FY21E Bloomberg consensus EPS of Rs.2400. (S&P BSE Sensex price as on 28.6.2019). The Valuations of the Midcap indices have also corrected substantially and are now more or less in line with the large cap indices.

- Though the market is currently trading at higher valuation, but it is likely to sustain if the sharp growth in earnings, as expected by the market fructifies.

- The Market is expecting a sharp recovery in earnings in both FY20 and FY21 on the back of policy continuity, accelerating decision making and reforms by the government, rising capacity utilization and ease of doing business.

- On the consumption demand, interest rate cuts and steady efforts to improve liquidity scenario by the RBI may give some impetus to consumption demand and if corporates are able to manage the cost then revenue and earnings growth should improve over the time.

- With improvement in earnings growth owing to the expected acceleration in growth in investment demand (especially after the budget impetus) and gradual recovery in consumption demand, market valuation should improve over the near to medium term.

- In addition, the trend of financialization of saving especially money channelized into mutual fund investment, as seen post the NDA government came into power for the first time, is expected to continue in future as well, which would augur well equity markets.
Globally, the US Fed and ECB continue to remain dovish…
…weak data leads to an expectation of rate cut by major central banks

- The global GDP growth, after seeing a sharp upswing in CY17, had seen some weakness in CY18 and the growth is further expected to slow down in CY19.

- Apart from slower growth, the spread between the 3-month US Treasury bill and the 10-year US note went into negative territory in March 2019, first time since 2007, which is considered to be a key indicator of an economic recession.

- Further, the ongoing trade war between the US and China is also expected to reduce the global growth. As per a recent report by Fitch, global growth is expected to decline by 40 bps in CY20 to 2.4% YoY given the ongoing trade tensions.

- Given the weaker global economic and financial developments and muted inflation pressures, the US Fed in its June monetary policy meeting kept the interest rates unchanged and also hinted of possible rate cuts later this year for the first time in more than a decade if the economic outlook weakens.

- The Fed also dropped its "patient" stance citing risks to economic growth and guided that it would take appropriate steps to boost the economic growth. Markets now expect further rate cuts from US Fed.

- European Central Bank (ECB) Chairman Mario Draghi also recently announced that if economic condition of the Eurozone deteriorates, the ECB will inject more stimulus either in the form of interest rate cut or further asset purchase.

- These announcements had allayed concerns of liquidity tightening witnessed towards the end of CY18 by Emerging Markets (EMs) and pushed Risk On scenario in EMs assets.

- Thus, the signal for a possible rate cut by major central banks has boosted the confidence of market participants on risky assets like equities.

- We believe, a cut in benchmark lending rate will lower borrowing costs and this low cost of capital is likely to inject more investment in the economy and this is expected to result in strong flows into stock market world wide, especially equity markets of high growing Emerging economies.
Dollar also remains a key…

... as weak dollar may result in higher FPI inflows into Emerging Markets

- President Trump has long called for a weaker US Dollar to help boost exports, and he has been asking the Federal Reserve to help make this happen.

- Also lower interest rates expectation from a dovish Fed stance takes support away from the dollar because it makes it a less attractive investment.

- Historically, a weaker dollar index has resulted in strong FPI flows into Indian equity markets (as part of Emerging Markets allocation).

- In CY13 and CY14, a decline of 0.3% YoY and 12.8% YoY in dollar index was associated with strong FPI inflows of Rs.1131 bn and Rs.971 bn respectively into Indian equity markets. Similarly, a moderate uptick of 0.5% YoY in CY12 was also associated with strong FPI inflows of Rs.1284 bn into Indian equity markets.

- Similarly, a weak dollar has also historically been associated with strong returns for EMs, as seen for MSCI EM Index in the last few years.

- We believe, weaker dollar is generally favorable for EM assets because it makes it easier to service dollar-denominated debt and thereby being positive for EMs economies. However, weakened global economy due to increased trade tensions may result in strengthening of US Dollar on the back of increasing investments towards safer assets like US dollar.
Meanwhile most of the EMs see positive FPI inflows during YTD June CY19 as global central banks turn dovish…

- With the US Fed and other major central banks globally turning dovish in the last few months, it has led to improved liquidity conditions.
- This has resulted in Emerging Markets (EMs) witnessing positive FPI inflows since the start of the year 2019.
- Thus, most of the EMs equity indices have gained on CYTD basis mainly driven by strong liquidity inflows. Amongst the EMs, Chinese Shanghai Composite Index gained 19.4% during Jan – June 2019 period and followed by Brazil, Thailand, Taiwan and Indian (Sensex) indices gaining by 14.9%, 10.6%, 10.3% and 9.2% respectively.
- Similarly currencies of Thailand, Indonesia, Philippines and India have appreciated against USD during the same period.
- Amongst the EMs, Indian Rupee has appreciated against USD by 1.1% in since the start of year and other EMs like Thailand Bhat, Philippines Peso and Indonesia Rupiah have appreciated by 5.1%, 2.4% and 1.8% respectively against USD.

Going ahead, easy liquidity scenario globally, may result in money continuing to flow into EMs. However, any negative announcement by the US on its trade policies may affect the sentiments for global equity indices adversely.
US-China trade war takes a breather…
…as US and China agrees to hold off on new tariffs

- The ongoing tariff war between US and China has resulted in series of tariff hikes by both the economies and has impacted the pace of global growth recently.

- On 10 May 2019, US raised tariffs on USD 200 bn worth of Chinese imports from 10% to 25%. China retaliated by announcing imposition of higher tariffs on most US imports on a revised USD 60 bn target list.

- In the last 10-months of trade war, US has imposed tariffs on USD 250 bn worth of Chinese goods, and in retaliation China has imposed tariffs on USD 110 bn worth of American products.

- As per World Trade Organization (WTO), global trade will continue to face strong headwinds in CY19 and CY20 due to rising trade tensions and thereby expects merchandise trade volume growth to fall to 2.6% YoY in CY19 — down from 3.0% YoY in 2018.

- The OECD has also recently cut its forecast for the world economy growth to 3.2% YoY for CY19, urging governments to resolve their trade disputes as the latest flare-up in the China-US trade war threatens to crimp global growth.

- On a positive side, recently, U.S. President Donald Trump and Chinese President Xi Jinping agreed to hold off on new tariffs and to proceed with trade negotiations after a series of tariff escalations.

- Trump also suggested that he will be reversing his government’s decision to ban American companies from selling products to Chinese tech giant Huawei.

- While the US and China have recently agreed to hold off any new tariffs on each other, further negotiations between these two nations remains a key as US government is trying to get favourable deal with China. Going ahead, news flows on the trade deals between the US and China is likely to impact the market sentiments globally.
Key concerns to watch out ....

- **Domestic factors**
  - Escalation in geo political tension between India and its neighbours may lead to sharp volatility
  - If Rupee starts to depreciates, then it may impact the country’s twin deficit.
  - Tightening of corporate credit cycle may lead to delay in capex cycle due to funding requirement
  - Weakening of discretionary consumption demand

- **Global factors**
  - US Fed starts to hike interest rate, leading to rise in bond yield thereby resulting in shift of capital from Emerging markets to Developed markets.
  - Rising trend of protectionism across economies leading to trade war situation could pose a risk to overall global growth.
  - Slowdown in growth in key developed (Europe) and developing (China) economies
  - Worsening in geo-political situations (Brexit, trade wars, etc) across globe.
  - Rise in volatility in commodity prices could put pressure on the global financial markets.
  - Rising global food prices may lead to rise in food inflation.

![Global Food Price Index](source: Bloomberg)
Large Cap and Midcap valuations have converged

Valuation differential between Large Cap and Midcap Indices corrected

Valuation Premium of Midcap over Sensex

Source: Capitaline
Nifty 50 rolling returns for last 15 years …

Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)
# S&P BSE Sectoral Indices monthly performance for June 2019

<table>
<thead>
<tr>
<th>Sector</th>
<th>Month on Month change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cons Durable</td>
<td>5.8%</td>
</tr>
<tr>
<td>Power</td>
<td>4.2%</td>
</tr>
<tr>
<td>Metal</td>
<td>3.3%</td>
</tr>
<tr>
<td>Realty</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cap Goods</td>
<td>-0.4%</td>
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<tr>
<td>IT</td>
<td>-0.8%</td>
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<tr>
<td>Bankex</td>
<td>-0.8%</td>
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<tr>
<td>Infra.</td>
<td>-1.2%</td>
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<tr>
<td>FMCG Sector</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Auto</td>
<td>-2.9%</td>
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<tr>
<td>Healthcare</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Oil&amp;Gas</td>
<td>-5.9%</td>
</tr>
</tbody>
</table>

Source: Bloomberg
Market Round Up – June 2019…

- Indian equity markets ended on a negative note after hitting an all-time new level as S&P BSE Sensex and Nifty 50 ended with the loss of 0.8% MoM and 1.1% MoM, respectively, during the month of June 2019.

- The S&P BSE Midcap index and the S&P BSE Smallcap index also ended on a negative note with a loss of 1.9% MoM and 4.2% MoM, respectively.

- On the sectoral indices front, the S&P BSE Consumer Durable index and S&P BSE Power index were the top two outperformers, as they rose by 5.8% MoM and 4.2% MoM, respectively. The S&P BSE Oil & Gas Index and S&P BSE Healthcare index were top two underperformers as they declined by 5.9% MoM and 3.1% MoM, respectively.

- During the month of June’19, Foreign Portfolio Investors (FPIs) were net buyers to the tune of ~Rs.26 bn and Domestic Institutional Investors (DIIs) were net buyers to the tune of ~Rs.62 bn.

<table>
<thead>
<tr>
<th>Indices</th>
<th>28 June 2019</th>
<th>31 May 2019</th>
<th>Chg %</th>
</tr>
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<tbody>
<tr>
<td>S&amp;P BSE Sensex</td>
<td>39,395</td>
<td>39,714</td>
<td>(0.8)</td>
</tr>
<tr>
<td>S&amp;P BSE Mid Cap</td>
<td>14,808</td>
<td>15,096</td>
<td>(1.9)</td>
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<tr>
<td>S&amp;P BSE Small Cap</td>
<td>14,239</td>
<td>14,867</td>
<td>(4.2)</td>
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<tr>
<td>S&amp;P BSE 100</td>
<td>11,910</td>
<td>12,044</td>
<td>(1.1)</td>
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<tr>
<td>S&amp;P BSE 500</td>
<td>15,292</td>
<td>15,518</td>
<td>(1.5)</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Net Flow (Rs. Bn)</th>
<th>FPI</th>
<th>DII</th>
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<tr>
<td>CY19*</td>
<td>786</td>
<td>90</td>
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<tr>
<td>CY18</td>
<td>(340)</td>
<td>1204</td>
</tr>
<tr>
<td>CY17</td>
<td>513</td>
<td>1188</td>
</tr>
<tr>
<td>CY16</td>
<td>151</td>
<td>475</td>
</tr>
</tbody>
</table>

Source: BSE, NSDL (CY19 FPI data and DII data as on 28 June 2019)
Market Outlook

As per the economic survey 2018-19, in order to achieve the objective of becoming a USD 5 trillion economy by FY25, India needs to grow at a sustainable real GDP growth rate of 8% YoY, which can only be sustained by a “virtuous cycle” of savings, investment and exports catalyzed and supported by a favourable demographic phase.

The budget for FY20 reflected government’s commitment to substantially boost Rural/Agri sector, Infrastructure, Ease of living and Employment generation. The key element of the budget was the government’s focus on maintaining continuity in infrastructure spending and giving rural India a much needed fillip. There were three major focus areas of the budget - Rural, Social and Infrastructure. Strong emphasis was given to Job creation, Financial sector reforms and Agriculture.

The strong infrastructure and rural income generation push in the budget is likely to drive the growth in the capital formation and improve demand conditions in the economy. In a world where growth is weakening, it is very important for India to be able to create robust domestic market which would allow it to leverage its demographic dividend and bring in more global capital. On the sectoral front, increased focus on rural and infrastructure was positive for sectors like Agriculture and Allied Activities, Automobiles, FMCG & Retail and Infrastructure. It was a mixed bag to Oil and Gas sector and IT.

Consistent inflow from FPIs and DIIs and expectation of policy consistency by the govt led market to all time high levels. However, only a handful of companies have led this rally.

While macro indicators are showing a weakening bias, liquidity constraint owing to NBFC downgrade also leading to weakness in consumption demand.

On the commodity front, Brent crude oil prices remain in a range bound and unlikely to have any impact in near term. However, US sanction on Iran, Output cut by OPEC and fresh export crude oil by the US is likely to keep crude oil prices volatile.

A weak start of monsoon led to lower kharif sowing so far. A normal and well distributed rainfall would be key to bring cheer to consumption demand and thereby to GDP growth.

While the Q4FY19 aggregate corporate earnings announced were in line with market expectation, Q1FY20 may see mixed results with Auto and FMCG likely to see weakness, and Banking, Industrials and Cement likely to drive the overall earnings growth.

Currently, the S&P BSE Sensex is trading at 19.2x FY20E Bloomberg consensus EPS of Rs.2050 and 16.4x FY21E Bloomberg consensus EPS of Rs.2400. (S&P BSE Sensex price as on 28.6.2019). Though the market is currently trading at higher valuation, it but is likely to sustain if the sharp growth in earnings, as expected by the market fructifies. The Market is expecting a sharp recovery in earnings in both FY20 and FY21 on the back of policy continuity, accelerating decision making and reforms by the government, rising capacity utilization and ease of doing business.

Globally, central banks of major economies are turning dovish and with fresh economic data showing weakness, these banks are expected to take further rate cuts.

Movement in dollar index remains a key indicator going ahead for FPI inflow in EMs as weak dollar may result in higher FPI inflows into Emerging Markets. A range bound movement in dollar index and dovish stance of major central banks globally have led to positive FPI inflow in EM in CYTD19.

The US-China trade war takes a breather during the month of June as US and China agrees to hold off on imposing any new tariffs.

In long term, India is likely to see a steady growth on the back of improvement in Rural economy, higher urbanization, rising government expenditure, revival of private capex and higher disposable income in the hands of consumers. With strong demographic dividend that India is seeing, we expect the economic growth and demand conditions in the country to remain strong for a long period. This is likely to augur well for investment in equities. Hence, investors should use any major volatility in the equity markets as an opportunity to adding into their exposure in line with their risk profile with a 2-3 years investment horizon.

Some of the key global events like any interest rate hike by US Fed, Rising trend of protectionism across economies, Slowdown in global growth, rising food prices and rise in volatility in commodity prices amongst few other reason would be key events to watch out for in CY19. Certain domestic events like escalation in geo political tension between India and its neighbours, rupee movement, corporate credit cycle tightening and weakening of discretionary consumption demand are key events to watch out for in near term.

In the budget, the govt. focused on giving a strong fillip to the rural economy and create more jobs through infrastructure creation apart from making attempts to improve the conditions of the financial sector of the country. This is likely to drive the growth in the capital formation and improve demand conditions in the economy. By keeping the fiscal deficit low, the gates have opened for lower interest rates and easy liquidity regime which would help the corporate sector. From here on the Indian equity markets are likely to move on the back of improved corporate earnings and upcoming macro-economic data points. Given the strong DII flows and the improving FPI flows, we remain positive on the Indian equity markets over the medium term. We continue to recommend that the investment strategy should be 60% lumpsum and rest 40% staggered over the next 3-4 months. From investment perspective, focus should be on Large cap Funds and Multicap funds for Lumpsum investments, while SIP could be considered for Midcap and Smallcap funds with investment horizon for 2-3 years.
Fixed Income
Yield on the 10 year bond 7.26% G-sec 2029 closed at 6.88% on 28 June 2019 compared to 7.03% on 31 May 2019 after declining to 6.79% during the month.

The decline in bond yields was largely on account of the positive outcome of the RBI's Second Bi-monthly Monetary Policy for FY20.

Not only did the RBI reduce the repo rate by 25 bps, but also changed the policy stance to ‘Accommodative’ in the monetary policy.

The monetary policy outcome was dovish and also indicated that doors for further rate cuts may remain open going forward.

Dovish monetary policies of both the European Central Bank (ECB) as well as the US Federal Reserve, also aided the rally in domestic G-secs.

Supportive macro economic variables like muted CPI inflation, declining core inflation and lower IIP growth strengthened the expectations of further monetary easing by the RBI; further adding fuel to the G-sec rally.

RBI’s liquidity support measures in the form of Open Market Operations (OMO) purchases during the month also helped the decline in domestic G-sec yields.

Towards the end of the month however, rise in crude oil prices tracking geo-political tensions between the US and Iran; as well caution ahead of the Union Budget announcement for FY20, led to rise in the G-sec yields.
RBI cuts policy rates for the third time in a row…
…opens up room for further easing

- In the Second Bi-monthly Monetary Policy 2019-20, the RBI,
  - Reduced the policy Repo Rate 25 bps to 5.75% from 6%
  - Changed the stance of monetary policy from ‘neutral’ to ‘accommodative’.

- The MPC members voted unanimously to cut the repo rate by 25 bps.

- The minutes of the monetary policy meeting showed that all the members were of the view that the need of the hour is to support growth, when inflation has remained within the comfort zone.

- RBI governor Mr. Shaktikanta Das stated “...In sum, growth impulses have clearly weakened, while the headline inflation trajectory is projected to remain below 4.0 per cent throughout 2019-20 even after considering the expected transmission of the past two policy rate cuts. Keeping in view the evolving growth-inflation dynamics, there is a need for decisive monetary policy action. Hence, my vote is to reduce the policy repo rate by 25 basis points. My vote is also to shift the stance of monetary policy from neutral to accommodative to send a clear signal.”

Source: RBI
Globally, two major central banks also on easing path…

**The United States of America**

- The US Federal Reserve kept the policy rate unchanged in its monetary policy meeting in June 2019.
- In the economic projections the Fed left the growth estimates unchanged; whereas, the inflation (PCE) estimates for 2019 were revised down from 1.8% in March to 1.5% now.
- The Fed also did away from the word “patient” from its policy statement.
- **The FOMC statement highlighted that** “will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion”

**Eurozone**

- In its latest monetary policy in June 2019, the European Central Bank (ECB) while keeping the key rates at 0%, pushed the possibility of raising interest rates to the mid of 2020.
- The ECB also indicated that it could buy more bonds to stimulate the dwindling economic growth.
- ECB had ended its bond purchase program had in December 2018.
- Eurozone GDP data shows that the GDP growth continues to remain muted.
CPI inflation remains muted despite some uptick...  
...Core inflation inching towards the 4% mark

- CPI inflation, for May 2019, stood at 3.05% YoY compared to 2.99% (revised) YoY for April 2019.
- The pickup in inflation in the food segment, continued to impart an upward trajectory to the headline CPI inflation numbers.
- Also core inflation (inflation ex food and fuel) continued to decline and came in at 4.24% YoY for May 2019, compared to 4.56% YoY in April 2019.
- Annual inflation in food prices continued to inch up in May 2019 and came in at 1.83% YoY compared to 1.10% YoY in April 2019.
- Prices of vegetables rose sharply in May 2019 at 5.46% YoY compared to 2.87% YoY in April 2019.
- More notably, the prices of ‘Pulses and products’ which deflated on year on year (YoY) basis for over two years, witnessed an increase in May 2019; the inflation in this segment stood at 2.13% YoY in May 2019 compared to deflation of 0.81% YoY in April 2019.
- Within core CPI, baring segments like ‘Housing’ and ‘Recreation and amusement’ which witnessed a rise in inflation, all the other items in the Core inflation basket saw a decline in prices year on year.
- Inflation in ‘Fuel and light’ segment continued to remain muted and even declined in May 2019, coming in at 2.48% YoY as against 2.56% YoY in April 2019, reflecting the decline in international crude oil prices.

*Trajectory of Food Prices as well as crude oil prices would be important variables to track given the current state of monsoon progress as well as geopolitical tensions leading to rise in crude oil prices.*
Crude oil prices rise on escalating geo-political tensions…
…uncertainty on crude oil prices rise

- After declining by a staggering ~12.41% MoM in May 2019, Brent crude oil prices rose by ~2.38% MoM in June 2019.
- Crude oil prices turned range bound in June 2019; wherein the range traded in a range in June 2019; wherein the price if Brent crude oil traded in the range of USD 60.66 – 69.44/ Barrel.
- While worries on global growth slowdown kept the crude oil prices under check for most part of the month; towards the later part of the month escalating tensions between the US and Iran led to rise in prices.
- Citing the escalation of tensions, the US threatened to impose more sanctions on Iran, which has pushed the crude oil prices higher, Iran being one of the major oil producers in the OPEC.
- While global growth slowdown could keep the crude oil prices muted, that said the recent heating up of relations between the US and Iran seems like a risk to the crude oil prices.
- Higher crude oil prices could mean impact on Indian macro-economic variables, which can have an impact on the rate setting decision of the RBI.
Monsoon progress has been week so far…
…can have implications on crop production

- So far the progress of monsoon has been mixed. Several states continued to receive deficient rains as per the latest data on rainfall status in India.
- As on 3 July 2019 the total rainfall was at 28% below average.
- Delayed arrival and below normal progress of the monsoon has affected the sowing of Kharif crops.
- As per reports in the current kharif season, the area sown remains over 8% lower than in the previous year as on 28 June 2019.
- According to the kharif sowing data released by the agriculture ministry, the area sown as on 28 June 2019 was at 146.61 lakh hectare as compared 162.07 lakh hectare during the corresponding period in 2018.
- **While, there is ample buffer stock of food grains with the government, it will be important to track to the progress of monsoon and that of sowing of Kharif crops.**
- **RBI has been watchful of the food prices. Any substantial increase in the food prices can be negative for the CPI inflation and thus RBI’s monetary policy.**
A fiscally prudent Budget for FY20...

The Union Budget FY20 is fairly positive from the perspective of Indian bond markets, as the budget seemed to be prudent.

Yield on the 10 year benchmark G-sec 7.26% 2019 closed at 6.69% on the budget day as compared to its previous close of 6.75%; after declining to a level of 6.56% intermittently during the trading session today.

As hoped by markets and also as per the expectations that had built up after the release of the Economic Survey 2019-20, the fiscal deficit has not been revised upwards; rather it has been revised down marginally.

The Fiscal Deficit Target for FY20 has been estimated at 3.3% of GDP as against 3.4% budgeted in the interim budget.

Also the government has stuck to the fiscal consolidation, by outlining the glide path. The Government has projected the fiscal deficit to come down to 3% in both 2020-21 and 2021-22 financial years.

The government has also retained borrowing numbers at similar levels as that in interim budget. The Gross borrowing numbers for FY20 are estimated at Rs.7.10 trillion and the net market borrowing at Rs. 4.73 trillion.

The revised estimates on the gross market borrowing for FY19 were at Rs.5.71 trillion; and that for net market borrowings at Rs.4.23 trillion.

Another important announcement in regards to government borrowing was that the Government would start raising a part of its gross borrowing programme in external markets in external currencies.

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<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Revenue Receipts</td>
<td>14352.33</td>
<td>17257.38</td>
<td>17296.82</td>
<td>19627.61</td>
<td>13.48%</td>
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<tr>
<td>Tax Revenue (net to centre)</td>
<td>12424.88</td>
<td>14806.49</td>
<td>14844.06</td>
<td>16495.82</td>
<td>11.13%</td>
</tr>
<tr>
<td>Non-tax Revenue</td>
<td>1927.45</td>
<td>2450.89</td>
<td>2452.76</td>
<td>3131.79</td>
<td>27.68%</td>
</tr>
<tr>
<td>B. Capital Receipts</td>
<td>7067.42</td>
<td>7164.75</td>
<td>7275.53</td>
<td>8235.88</td>
<td>13.20%</td>
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<tr>
<td>Total Receipts (A+B)</td>
<td>21419.75</td>
<td>24422.13</td>
<td>24572.35</td>
<td>27863.49</td>
<td>13.39%</td>
</tr>
<tr>
<td>Total Expenditure (C+D)</td>
<td>21419.75</td>
<td>24422.13</td>
<td>24572.35</td>
<td>27863.49</td>
<td>13.39%</td>
</tr>
<tr>
<td>Revenue Expenditure</td>
<td>18788.35</td>
<td>21417.72</td>
<td>21406.12</td>
<td>24477.80</td>
<td>14.35%</td>
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<tr>
<td>Capital Expenditure</td>
<td>2631.40</td>
<td>3004.41</td>
<td>3166.23</td>
<td>3385.69</td>
<td>6.93%</td>
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<tr>
<td>Revenue Deficit</td>
<td>4436.02</td>
<td>4160.34</td>
<td>4109.30</td>
<td>4850.19</td>
<td>18.03%</td>
</tr>
<tr>
<td>as a % of GDP</td>
<td>-2.60</td>
<td>-2.20</td>
<td>-2.20</td>
<td>-2.30</td>
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<tr>
<td>Fiscal Deficit</td>
<td>5910.64</td>
<td>6242.76</td>
<td>6343.98</td>
<td>7037.60</td>
<td>7.03%</td>
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<tr>
<td>as a % of GDP</td>
<td>-3.50</td>
<td>-3.30</td>
<td>-3.40</td>
<td>-3.30</td>
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<tr>
<td>GDP</td>
<td>167731.45</td>
<td>187223.02</td>
<td>188407.31</td>
<td>211006.07</td>
<td>13.48%</td>
</tr>
</tbody>
</table>

*All figures in Rs. Bn, except the YoY % figures. % Change is FY20BE over FY19RE.
Liquidity conditions improved further in June 2019…
…RBI remained supportive

- With a delayed seasonal improvement in liquidity, the banking system liquidity entered the surplus zone in June 2019.
- Liquidity as measured by the RBI’s Liquidity Adjustment Facility (LAF) stood at a daily average surplus of ~Rs. 419 bn compared to deficit of ~Rs. 387 bn during May 2019.
- General elections led to the delay in seasonal improvement in liquidity to kick in.
- RBI also continued to pump the system with liquidity through Open Market Operation (OMO) purchases of G-secs in June 2019 to the tune of Rs. 275 bn.
- Additionally, growth in commercial credit also seemed to lose steam in the recent months which was more pronounced in June 2019.
- Commercial Credit growth as on 7 June 2019 stood at 12.31% compared, whereas growth in total deposits in Banks stood at 9.92%.
Short term rates consolidate in June 2019…

- Yields at the shorter end of the yield curve consolidated June 2019 after declining towards mid month.
- Improved liquidity conditions in June 2019 ensured that the short term rates remained anchored.
- The 1 year CD rate closed the month at ~7.20% as against 7.15% at the end of May 2019, after declining to a level of ~7%.
- Short Term Corporate Bond yields also declined during the month; however towards the end of the month some inch up was seen in the yields.
Bond Spreads widened marginally MoM in June 2019

- Bond Spreads continued to remain elevated and even inched up slightly in June 2019.
- The very short end spreads however declined, possibly due to the improvement in the liquidity conditions.
- The elevated spreads continue to reflect caution in the bond markets, given the fact that the bond market are still grappling with issue of high leverage in the some segments of the corporate bond markets.

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Jun-18</th>
<th>May-19</th>
<th>Apr-19</th>
</tr>
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<tbody>
<tr>
<td>3M</td>
<td>42</td>
<td>66</td>
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<tr>
<td>6M</td>
<td>72</td>
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<td>1Y</td>
<td>133.17</td>
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<td>131.74</td>
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<td>86.07</td>
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<td>3Y</td>
<td>94.49</td>
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<td>4Y</td>
<td>111.02</td>
<td>102.56</td>
<td>76.99</td>
</tr>
<tr>
<td>5Y</td>
<td>96.69</td>
<td>85.74</td>
<td>74.3</td>
</tr>
<tr>
<td>6Y</td>
<td>89.39</td>
<td>88.73</td>
<td>74.29</td>
</tr>
<tr>
<td>7Y</td>
<td>97.23</td>
<td>96.97</td>
<td>87.25</td>
</tr>
<tr>
<td>8Y</td>
<td>81.63</td>
<td>80.13</td>
<td>71.72</td>
</tr>
<tr>
<td>9Y</td>
<td>86.27</td>
<td>87.14</td>
<td>84.21</td>
</tr>
<tr>
<td>10Y</td>
<td>96.35</td>
<td>100.56</td>
<td>100.56</td>
</tr>
</tbody>
</table>
G-sec yields declined across the yield curve during June 2019. However towards the end of the month the yields inched up.

Spreads between the short and the long end increased; whereas those between medium to long declined.

Yield curve steepened compared to the previous month.

Yields declined the most at the longer end of the yield curve in June 2019.

*The steepness in the yield curve between the short and the medium term segments; and the flatness between the medium to long end of the yield curve, continues to keep the medium terms segment attractive from risk reward perspective.*
Fixed Income Outlook

- Systemic liquidity conditions have now turned surplus. Going forward as indicated by the RBI in the June 2019 monetary policy, it is likely to continue with its liquidity infusion. This was also demonstrated with the OMO purchases that the RBI has continued to do.
- The volatility in crude oil prices needs to be tracked very closely. This is in light of the renewed escalation of geo-political tension between the US and Iran. Any uptick in crude oil prices on a sustained basis is likely to be negative for India. However expectations of slower global economic growth the crude oil prices could remain in a lower range.
- Monsoon has arrived delayed this year, at the same time so far it has remained deficient in most parts of the country which has also affected the sowing progress and the pattern. While the food buffer stocks with the government is on the higher side, food prices need to be tracked very closely and will be very important from overall inflation perspective. If the rainfall deficit continues, it can lead to an impact on food prices and thus on the CPI inflation.
- While on one hand lower Core CPI is imparting downward momentum to headline CPI, rise in food inflation is pulling it higher. In this ‘tug of war’, which variable wins and by what margin will be a key going forward. Considering the RBI’s focus on economic growth and possible impact of deficient rains on food prices, inflation expectations could see changes in the medium term.
- The reduction in the fiscal deficit target by the government is a big positive as far as the bond markets are concerned as the market participants had been worried about the upward revision in fiscal deficit in the wake of economic growth slowdown. Also the market borrowings being maintained at earlier estimates, along with plans to borrow part of its gross borrowing programme in external markets in external currencies, is another big positive from the Union Budget, as it is likely to prevent the impact of additional borrowings on bond yields domestically and also not lead to crowding out of capital markets for the private sector.
- With the recent OMO purchases by the RBI, hopes of continuation of further OMO purchases have rekindled. Thus, with contained supply of bonds, OMOs may help in balancing the bonds’ demand and supply dynamics. Additionally, if the buying interest by the FPIs continues to remain strong then that could also lead better demand for bonds.
- The measures proposed in the Union Budget for the corporate bonds including those for NBFCs may lead to some decline in the corporate bond spreads, as these measures have shown the government’s intention to ensure financial stability amidst stress in the financial markets.
- Global as well as domestic economic growth forecasts have been revised downwards. This could pave way for either loose monetary policies or retraction from tightening. Domestically, RBI’s MPC members (majority of them) have shown concerns over economic growth and are of the view that in muted inflation scenario, economic growth should be given and impetus. Thus, the case for further rates could still stay strong preventing the bond yields from rising. Also the RBI governor stated that guidelines could be released to ensure effective transmission of interest rate cuts; which could also lead the yields to decline.
- Global central banks are again moving towards being accommodative and are also looking to infuse liquidity in their respective economies. Thus in a scenario wherein the growth is slowing down and there is liquidity infusion, the global bond yields may decline further.
- With a seemingly prudent budget, muted inflation and weak global growth scenario, the markets are likely to start building in deeper interest rate cuts going forward.
- In terms of the yield curve, the shorter end of the yield curve has witnessed a sharp decline over the past few months tracking the rate cuts by the RBI as well as RBI’s liquidity support measures. The short term rates may consolidate in the near term as the bond issuances both by the government as well the corporates are likely to prevent the yields from declining further; whereas RBI’s focus on transmission of rate cuts is likely to keep the short term rates rates anchored. The medium and the longer end of the yield curve may decline further in the near term as the expectations of further interest rate cuts by the RBI stay alive and also as the demand and supply dynamics for bonds remain balanced and thus this part of the yield curve continues to remain attractive from a risk reward perspective.
- Investors who do not wish to see volatility in returns should continue to look at debt funds that invest at the short end of the yield curve. Investors want to benefit from the decline in the longer end of the yield curve could look at the strategies that run at the longer of the yield curve.
- Thus, investments in Medium Duration Funds can be considered investors with a horizon of 15 months and above.
- Investors who are comfortable with intermittent volatility, can also look at strategies that focus at the longer end of the yield curve. i.e. Long duration funds, with a horizon of 24 months and above.
- Investments into Short Duration Funds can be considered with an investment horizon of 12 months and above.
- Investors looking to invest with a horizon of up to 3 months can consider Liquid Funds, while Ultra Short Duration Funds and Arbitrage can be considered for a horizon of 3 months and above.
Investment Strategy

- We recommend investors to rebalance/realign the portfolios according to the recommended asset allocation

- On Equity Funds:
  - The Indian equity markets have seen strong up move in the last few months on the back of strong liquidity flows and positive election outcome and strong FPI buying. The largecap indices have moved to their all time highs in the process, while the midcap and small cap indices have seen some correction after a smart runup from lows.
  - In India, focus on infra spending by the government, improved urban consumption, rebounding exports, urbanisation and better farm income has the potential to shore up the economy in the medium term.
  - Macro indicators continued with mixed signals in near term as lower inflation, improved domestic liquidity conditions, indications of steady volume growth continuing in many sectors seem to be offset by weak IIP and GDP on the other. The earnings growth expectations in FY20 is quite strong led by the banking sector, which could sustain the market multiples.
  - In a bid to bring down the interest rates structurally, the Government cut its fiscal deficit estimates for FY20. With adequate spending and steady resource mobilization H2CY19 could be marked by improving investment demand by corporates. Impactful government spending holds the key.
  - The focus of the markets would now shift to the global trade related issues and corporate earnings for Q1FY20.
  - Post the NDA winning a larger mandate, the S&P BSE Sensex has crossed the level of 40,000, in anticipation of acceleration in policy reforms and faster decision making. We believe that in the next five years the government would accelerate the process of reforms and decision making to take advantage of the solid base that has been built over the past five years.
  - From an Equity Mutual Fund perspective, investors should look at Large Cap and Multicap Funds for fresh investments and SIP into Midcap and Small caps funds can begin with a longer horizon. We continue with investment strategy of 60% Lumpsum and rest 40% staggered over the next 3-4 months.

- On Fixed Income Funds:
  - Investments in Medium Duration Funds can be considered by investors with a horizon of 15 months and above.
  - Investors who are comfortable with intermittent volatility, can also look at strategies that focus at the longer end of the yield curve. i.e. Long duration funds, with a horizon of 24 months and above.
  - Investments into Short Duration Funds can be considered with an investment horizon of 12 months and above.
  - Investors looking to invest with a horizon of up to 3 months can consider Liquid Funds, while Ultra Short Duration Funds and Arbitrage can be considered for a horizon of 3 months and above.
Equity Mutual Funds – Based on SEBI Categorisation

Large Cap Fund
1. HDFC Top 100 Fund – An actively managed large cap equity fund
2. ICICI Prudential Bluechip Fund - An actively managed large cap equity fund
3. Reliance Large Cap Fund – An actively managed large cap equity fund

Multi Cap Funds
1. Kotak Standard Multicap Fund - An actively managed multi cap fund investing across select sectors with large cap bias
2. HDFC Equity Fund - The fund is a multi cap equity fund that invests across market capitalisation with large cap bias

Focused Funds
1. Axis Focused 25 Fund – An actively managed large cap biased focused equity fund

Dynamic Asset Allocation/Balanced Advantage Fund
1. HDFC Balanced Advantage Fund - A hybrid fund that dynamically manages exposure to equity and debt within a certain range
2. ICICI Prudential Balanced Advantage Fund – A hybrid fund that dynamically manages exposure to equity and debt depending upon market valuations

Equity Savings Funds
1. HDFC Equity Savings Fund – The un-hedged equity exposure of the fund is maintained upto 40% of the portfolio with flexibility to invest across market capitalisation

Equity Savings Funds
1. IDFC Arbitrage Fund – The fund buys securities in spot market while selling the same in derivate market simultaneously to take the advantage of a temporary price differential.
Top Sectoral Allocation of Large / Multi Cap / Focused Funds Compared to Nifty 50 Index Sectoral Benchmark Indices Performance

<table>
<thead>
<tr>
<th>Indices</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P BSE IT</td>
<td>2.81%</td>
</tr>
<tr>
<td>S&amp;P BSE HC</td>
<td>-9.31%</td>
</tr>
<tr>
<td>S&amp;P BSE FMCG</td>
<td>-3.37%</td>
</tr>
<tr>
<td>S&amp;P BSE Bankex</td>
<td>2.39%</td>
</tr>
<tr>
<td>S&amp;P BSE CG</td>
<td>7.98%</td>
</tr>
<tr>
<td>S&amp;P BSE AUTO</td>
<td>-3.73%</td>
</tr>
<tr>
<td>S&amp;P BSE METAL</td>
<td>0.10%</td>
</tr>
<tr>
<td>S&amp;P BSE Oil &amp; Gas</td>
<td>-2.22%</td>
</tr>
<tr>
<td>S&amp;P BSE Realty</td>
<td>6.64%</td>
</tr>
<tr>
<td>S&amp;P BSE Sensex</td>
<td>2.20%</td>
</tr>
<tr>
<td>S&amp;P BSE Sensex</td>
<td>2.20%</td>
</tr>
</tbody>
</table>

Portfolio as of 31 May 2019. Returns (%) as on 28 June 2019. Returns are Absolute for <= 1 year and Compounded Annualized for > 1 year.

Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)

- Over the last 3 months, the Indian equity markets were volatile and closed on a positive note. The benchmark index - S&P BSE Sensex closed up by 2.20%. The S&P BSE Capital Goods, S&P BSE Realty, S&P BSE IT and S&P BSE Bankex indices have delivered returns of 7.98%, 6.64%, 2.81% and 2.39%, respectively during the same period, outperforming the benchmark index. S&P BSE Health Care, S&P BSE Auto and S&P BSE FMCG indices amongst other underperformed the benchmark index, down by 9.31%, 3.73% and 3.37%, respectively during the period.

- Equity Benchmark – Over the last 1 year, Indian equity markets closed on a positive note with S&P BSE Sensex index rising by 12.44%.

- Over the last 1 year, Banking, Capital Goods and IT sectors’ indices amongst other have outperformed the S&P BSE Sensex index, whereas, Auto, Metals, Health Care and FMCG sectors’ indices amongst other have underperformed the S&P BSE Sensex index. Amongst the sectoral indices (mentioned in above table), S&P BSE Bankex index was major gainer, up by 20.07% during the period.

- Most of the large cap oriented equity funds continue to have exposure in Banking & Finance, IT, FMCG and Oil & Gas.

- Funds like HDFC Top 100, ICICI Prudential Bluechip Fund, Kotak Standard Multicap Fund and HDFC Equity Fund are overweight on Oil & Gas and Energy sector as compared to Nifty 50 index. Funds like Axis Focused 25 Fund and ICICI Prudential Bluechip Fund are overweight on Auto and Auto Ancillaries as compared to Nifty 50 index.

- Except Axis Focused 25 Fund and HDFC Equity Fund, all the other funds (mentioned above) are underweight on Banking & Finance sector as compared to Nifty 50 index.
## Top 10 Stocks Allocation (%) of Large / Multi Cap / Focused Funds Compared to Nifty 50 Index

<table>
<thead>
<tr>
<th>Stocks</th>
<th>HDFC Top 100 Fund</th>
<th>ICICI Prudential Bluechip Fund</th>
<th>Reliance Large Cap Fund</th>
<th>Kotak Standard Multicap Fund</th>
<th>HDFC Equity Fund</th>
<th>Axis Focused 25 Fund</th>
<th>Nifty 50 Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Bank Ltd.</td>
<td>6.74</td>
<td>9.18</td>
<td>2.95</td>
<td>6.95</td>
<td>4.38</td>
<td>8.82</td>
<td>10.86</td>
</tr>
<tr>
<td>Reliance Industries Ltd.</td>
<td>7.78</td>
<td>2.34</td>
<td>0.00</td>
<td>6.77</td>
<td>5.27</td>
<td>4.31</td>
<td>9.47</td>
</tr>
<tr>
<td>Housing Development Finance Corporation Ltd.</td>
<td>2.56</td>
<td>3.77</td>
<td>0.00</td>
<td>1.19</td>
<td>1.53</td>
<td>6.36</td>
<td>7.49</td>
</tr>
<tr>
<td>Infosys Ltd.</td>
<td>6.86</td>
<td>5.58</td>
<td>3.36</td>
<td>3.97</td>
<td>8.47</td>
<td>0.00</td>
<td>5.83</td>
</tr>
<tr>
<td>ICICI Bank Ltd.</td>
<td>8.04</td>
<td>6.49</td>
<td>7.72</td>
<td>6.40</td>
<td>9.71</td>
<td>4.17</td>
<td>5.68</td>
</tr>
<tr>
<td>ITC Ltd.</td>
<td>4.27</td>
<td>3.65</td>
<td>4.75</td>
<td>2.13</td>
<td>3.38</td>
<td>0.00</td>
<td>4.97</td>
</tr>
<tr>
<td>Tata Consultancy Services Ltd.</td>
<td>4.07</td>
<td>0.29</td>
<td>0.83</td>
<td>3.53</td>
<td>3.14</td>
<td>7.07</td>
<td>4.80</td>
</tr>
<tr>
<td>Kotak Mahindra Bank Ltd.</td>
<td>0.00</td>
<td>1.40</td>
<td>0.00</td>
<td>2.47</td>
<td>0.00</td>
<td>8.79</td>
<td>4.23</td>
</tr>
<tr>
<td>Larsen &amp; Toubro Ltd.</td>
<td>6.47</td>
<td>3.65</td>
<td>7.10</td>
<td>5.19</td>
<td>8.65</td>
<td>0.98</td>
<td>4.00</td>
</tr>
<tr>
<td>Axis Bank Ltd.</td>
<td>3.86</td>
<td>3.78</td>
<td>4.91</td>
<td>5.65</td>
<td>2.88</td>
<td>0.00</td>
<td>3.29</td>
</tr>
</tbody>
</table>

Portfolio as of 31 May 2019. Source: Nifty 50 Index - www.nseindia.com
Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)

- Amongst the above funds, Axis Focused 25 Fund, Kotak Standard Multicap Fund and ICICI Prudential Bluechip Fund have higher allocation to top Banking stocks. It can be seen that amongst the top stock allocation, other funds are also holding higher allocation to Banking sector stocks.
- Kotak Standard Multicap Fund, Reliance Large Cap Fund, HDFC Equity Fund and HDFC Top 100 Fund are overweight on Larsen & Toubro Ltd whereas, ICICI Prudential Bluechip Fund and Axis Focused 25 Fund are underweight on it as compared to Nifty 50 index.
- ICICI Prudential Bluechip Fund and Kotak Standard Multicap Fund are underweight on Kotak Mahindra Bank Ltd whereas, HDFC Top 100 Fund, Reliance Large Cap Fund and HDFC Equity Fund has no exposure in it. Axis Focused 25 Fund is overweight on Kotak Mahindra Bank Ltd.
- All the above funds are underweight or having no exposure in stocks like HDFC Banks Ltd, Reliance Industries Ltd, HDFC Ltd and ITC Ltd as compared to Nifty 50 index.
Most of the equity mutual funds (mentioned above) continue to remain fully invested into equities except fund like SBI Focused Equity Fund which has relatively higher exposure of around 7% in Debt & Cash in the portfolio, as of May 2019.

Most of the equity funds (mentioned above) have witnessed marginal increase in exposure to equities during the month of May 2019.

Kotak Equity Opportunities Fund and DSP Equity Opportunities Fund have exposure of around 49% and 43% respectively to mid & small cap stocks, whereas, HDFC Equity Fund has relatively lower exposure of around 18% to mid & small cap stocks.
Risk - Return Matrix of Large Cap / Multi Cap / Large & Mid Cap Oriented Equity Funds

- HDFC Top 100 Fund is the best funds in terms of risk to return matrix in the Large Cap category.

- Kotak Standard Multicap Fund from Multi Cap category has been able to balance the risk to reward over the last 3 years period.

- Kotak Equity Opportunities Fund from Large & Mid Cap category has been able to balance the risk to reward over the last 3 years period.

- In terms of corpus size, Kotak Standard Multicap Fund is the largest recommended fund (amongst the funds mentioned in the graph) with the corpus size of around Rs.25,531 Crs. (as on May 2019).

- Bubble chart displays the positioning of the schemes’ on risk (standard deviation) and return parameters. The size of the bubble indicates the corpus of the schemes. Funds closer to X-Axis and away from Y-axis have better risk adjusted returns.

- Data – Rolling Returns.(3 Years, 3 Months) as on 28 June 2019.

Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)
Tax Planning - ELSS Funds

<table>
<thead>
<tr>
<th>Objective</th>
<th>Long-term Capital Appreciation &amp; Tax Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>Medium to High</td>
</tr>
<tr>
<td>Investment Portfolio</td>
<td>Equity &amp; Equity Related instruments – Generally Large &amp; Midcap stocks</td>
</tr>
<tr>
<td>Investment horizon</td>
<td>Long Term (Lock in period of 3 years)</td>
</tr>
<tr>
<td>Tax Deduction- Sec 80 C *</td>
<td>Investment up to Rs.1.50 Lakh Exempt from Tax</td>
</tr>
<tr>
<td>Tax Implications</td>
<td>Long Term Capital Gains Tax</td>
</tr>
</tbody>
</table>

Comparison of ELSS V/S other tax savings instrument

<table>
<thead>
<tr>
<th>Particulars</th>
<th>PPF**</th>
<th>NSC**</th>
<th>ELSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lock-in period - Years</td>
<td>15</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Minimum Investment (Rs)</td>
<td>500</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>Max Investment for Tax Benefit (Rs)</td>
<td>1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk</td>
<td>Low Risk</td>
<td>Low Risk</td>
<td>Medium to High</td>
</tr>
<tr>
<td>Returns</td>
<td>7.90% ^</td>
<td>7.60% ^</td>
<td>14% #</td>
</tr>
<tr>
<td>Interest Income / Dividend</td>
<td>Tax Free</td>
<td>Taxable</td>
<td>Taxable</td>
</tr>
</tbody>
</table>

#Returns (%) are historical for last 5 years (CAGR) as on 28 June 2019. Moreover, past returns cannot be taken as an indicator of future performance. ^Source: http://indiapost.gov.in. Rates incorporates compounding wherever applicable. *As per current income tax rates individual falling in highest tax bracket. Note:** Rates for PPF and NSC are applicable from 1st July 2019.

- As per Sec 80C of the Income Tax Act, qualifying investments up to a maximum of Rs 1.50 Lakh are deductible from total income of the individual.
- There are fixed income options also available under section 80C.
- ELSS helps in tax planning as well as provides scope to benefit from the long term growth potential of equities.

Returns (%) as on 28 June 2019. Returns are Absolute for <= 1yr and CAGR for > 1 Yr. Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)
Performance of Mid/Small Cap Oriented Funds

The Mid Cap and Small Cap oriented recommended funds have outperformed respective benchmark indices from 1 year to 5 years period.

Over the last 3 years, the recommended mid cap oriented funds have outperformed the Nifty Midcap 100 index. The recommended funds delivered an average returns of around 12% (CAGR) against the Nifty Midcap 100 index which delivered close to 9% (CAGR) returns.

Over the last 3 years, the recommended small cap oriented funds have outperformed the S&P BSE Small Cap index. The recommended funds delivered an average returns of around 15% (CAGR) against the S&P BSE Small Cap index which delivered close to 7% (CAGR) returns.

Currently, the mid/small cap indices are trading at similar valuations to large cap indices and are expected to remain volatile over the near term, however, the mid/small cap indices are expected to perform better over longer period.

Returns (%) as on 28 June 2019. Returns are absolute for <= 1 year and CAGR for > 1 year. Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)
Performance of Infrastructure Oriented Funds

- In the Union Budget FY20, the government has proposed to invest ~Rs.100 trillion into infrastructure over next 5 years. This is likely to give a huge impetus to infra and related sectors.
- The budget Allocated Rs.480.32 bn for Ministry of Housing and Urban Development against Rs.429.65 bn in FY19RE. Allocation to Pradhan Mantri Awas Yojana kept at Rs.258.53 bn for FY20BE vs Rs.264.05 bn in FY19RE. Allocation to PMAY-G at Rs.190 bn and PMAY-U at Rs.68.5 bn in FY20BE.
- The government has increased allocation to Pradhan Mantri Gram Sadak Yojana to Rs.190 bn for FY20BE vs Rs.155 bn in FY19RE, up by 22.6%YoY. Further, proposed construction of 125000 km of roads under Pradhan Mantri Gram Sadak Yojana in FY19-24 period.
- The government has proposed allocation of Rs.658.37 bn (FY20BE) for Railway capex via budgetary support vs FY19RE allocation of Rs.530.6 bn, up by 24.1% YoY and total capital and development expenditure for Railways has been pegged at Rs.1.60 trillion vs Rs.1.39 trillion for FY19RE.
- “Order book-to-Sales ratio” which provides multi-year revenue visibility is in the range of 3-4 times for most EPC companies. (Source: IDFC MF).
- Average returns of the recommended Infrastructure funds have outperformed Nifty Infrastructure index over the last 3 to 5 years period and expected to perform better over the long term investment horizon.
**Invest in Aggressive Hybrid / Balanced Advantage Funds for Diversification**

<table>
<thead>
<tr>
<th>Scheme Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI Prudential Equity &amp; Debt Fund - Growth</td>
</tr>
<tr>
<td>Sundaram Equity Hybrid Fund - Reg - Growth</td>
</tr>
<tr>
<td>HDFC Balanced Advantage Fund - Growth</td>
</tr>
<tr>
<td>ICICI Prudential Balanced Advantage Fund - Reg - Growth</td>
</tr>
<tr>
<td>NIFTY 50 Hybrid Composite Debt 65:35 Index</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scheme Name</th>
<th>YTM (%)</th>
<th>Average Maturity (years)</th>
<th>Modified Duration (years)</th>
<th>1 Y %</th>
<th>3 Y %</th>
<th>5 Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI Prudential Equity &amp; Debt Fund - Growth</td>
<td>Aggressive Hybrid Fund</td>
<td>8.41</td>
<td>2.69</td>
<td>2.01</td>
<td>11.57</td>
<td>12.86</td>
</tr>
<tr>
<td>Sundaram Equity Hybrid Fund - Reg - Growth</td>
<td>Aggressive Hybrid Fund</td>
<td>8.33</td>
<td>2.15</td>
<td>1.68</td>
<td>8.22</td>
<td>11.56</td>
</tr>
<tr>
<td>ICICI Prudential Balanced Advantage Fund - Reg - Growth</td>
<td>Dynamic Asset Allocation or Balanced Advantage</td>
<td>8.03</td>
<td>2.53</td>
<td>1.89</td>
<td>8.80</td>
<td>10.12</td>
</tr>
<tr>
<td>NIFTY 50 Hybrid Composite Debt 65:35 Index</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>12.49</td>
<td>12.40</td>
<td>10.28</td>
</tr>
</tbody>
</table>

*Portfolio data as on 31 May 2019. Returns (%) as on 28 June 2019. Returns are absolute for <= 1 year and CAGR for > 1 year.
Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)

The investment objective of Aggressive Hybrid fund is to invest in equities which broadly remains in the range of 65% to 80%, while the balance is invested in debt securities.

The Dynamic Asset Allocation or Balanced Advantage fund endeavours to provide capital appreciation and income distribution to the investors by using equity, derivatives/arbitrage opportunities and fixed income investments.

During the bull run, the funds might underperform the pure equity diversified funds as these funds tend to have some exposure into debt instruments. The funds maintain a balance between equity and debt investment and thereby help in reducing the overall risk of the portfolio as compared to equity funds.

In general, the equity investment strategy can be an active management strategy across market capitalization. The debt investment strategy can be across fixed income securities including G-secs. Certain funds dynamically manages the equity and debt exposure. The debt portfolio helps the funds during the fall in equity market and reduces the overall beta of the portfolio. Also, the bond portfolio is expected to generate capital gains in a falling interest rate scenario.

The recommended Aggressive Hybrid / Balanced Advantage funds have outperformed Nifty 50 index and NIFTY 50 Hybrid Composite Debt 65:35 index over the last 5 years period. The recommended funds on an average have delivered around 11% returns over the past 5 years, whereas both Nifty 50 and NIFTY 50 Hybrid Composite Debt 65:35 indices have delivered average returns of around 9% and 10%, respectively during the same period.

Aggressive Hybrid / Balanced Advantage Funds (mentioned above) are subject to equity taxation.
Arbitrage Funds: *Introduction and Advantages*

Buying the securities in one market and selling the same in another market simultaneously to take advantage of a temporary price differential is called arbitrage.

- E.g. Assume stock price of ABC Ltd is at Rs.190/- in the cash market. This stock is also traded in the derivatives segment, where its future price is Rs.197/- In such a case, one can make a risk-free profit by selling a futures contract of ABC Ltd at Rs.197/- and simultaneously buy an equivalent number of shares in the equity market at Rs190/-.

- On settlement day, it wouldn’t matter which direction the stock price has taken in the interim. Because on the expiry day (settlement date) the price of equity shares and their futures tend to converge.

**Advantages:**

- Generate income through arbitrage opportunities arising out of pricing mismatch in a security between different markets or as a result of special situations.

- Completely hedged positions, neutralizes market risk (volatility) and targets absolute returns irrespective of market conditions.

- Enhance portfolio returns using different trading strategies within derivatives segment.

- Balance of safety, returns and liquidity

The cash market price converges with the futures price at the end of the month.

**Note:** The above simulation is for illustration purposes only and should not be constructed as a promise or minimum returns or safeguard of capital.

**Source:** HDFC Mutual Fund
Introduction:

The Equity Savings funds endeavors to provide moderate volatility and regular income through investment into arbitrage opportunities and fixed income securities. At the same time, to provide a higher growth potential as compared to an arbitrage fund or a debt fund, the fund also invests some exposure into equity stocks. Thus, the equity exposure including equity arbitrage allocation would be more than 65%, hence equity taxation would be applicable.

However, with higher equity allocation, the volatility of these funds are higher as compared to MIP or pure debt funds.

Key Advantages of Equity Savings Fund:

- **Tactical Equity Allocation**: Potential capital appreciation through tactical allocation in Equity Market
- **Aims at Regular Income**: Regular income through investments in Fixed Income and Arbitrage Opportunities
- **Tax Advantage**: The Equity Savings fund are applicable for equity taxation even with moderate participation in pure equity.
- **Diversification**: The Equity Savings fund have well diversified portfolio by investing in different asset classes like Equities, Equity Arbitrage Opportunities, and Fixed income.
### Recommended Equity Mutual Funds – Performance

<table>
<thead>
<tr>
<th>Scheme Name</th>
<th>SEBI Categorisation</th>
<th>1M</th>
<th>3M</th>
<th>6M</th>
<th>1Y</th>
<th>2Y</th>
<th>3Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Top 100 Fund - Growth</td>
<td>Large Cap Fund</td>
<td>-0.26</td>
<td>3.28</td>
<td>11.22</td>
<td>20.24</td>
<td>11.66</td>
<td>15.90</td>
</tr>
<tr>
<td>Reliance Large Cap Fund - Growth</td>
<td>Large Cap Fund</td>
<td>-2.45</td>
<td>1.99</td>
<td>8.12</td>
<td>15.73</td>
<td>11.14</td>
<td>15.85</td>
</tr>
<tr>
<td>Kotak Standard Multicap Fund - Reg - Growth</td>
<td>Multi Cap Fund</td>
<td>-1.49</td>
<td>2.86</td>
<td>9.21</td>
<td>12.26</td>
<td>9.92</td>
<td>14.79</td>
</tr>
<tr>
<td>HDFC Equity Fund - Growth</td>
<td>Multi Cap Fund</td>
<td>-0.21</td>
<td>3.26</td>
<td>11.41</td>
<td>20.60</td>
<td>11.06</td>
<td>15.89</td>
</tr>
<tr>
<td>Kotak Equity Opportunities Fund - Reg - Growth</td>
<td>Large &amp; Mid Cap Fund</td>
<td>-1.78</td>
<td>0.83</td>
<td>7.33</td>
<td>9.77</td>
<td>6.85</td>
<td>13.06</td>
</tr>
<tr>
<td>Kotak Emerging Equity Scheme - Reg - Growth</td>
<td>Mid Cap Fund</td>
<td>0.07</td>
<td>1.43</td>
<td>5.87</td>
<td>4.73</td>
<td>4.44</td>
<td>11.44</td>
</tr>
<tr>
<td>HDFC Small Cap Fund - Growth</td>
<td>Small cap Fund</td>
<td>-4.49</td>
<td>-4.53</td>
<td>0.21</td>
<td>-0.82</td>
<td>8.26</td>
<td>15.74</td>
</tr>
<tr>
<td>Invesco India Contra Fund - Growth</td>
<td>Contra Fund</td>
<td>-1.51</td>
<td>-0.31</td>
<td>4.39</td>
<td>6.56</td>
<td>11.33</td>
<td>15.41</td>
</tr>
<tr>
<td>Tata Equity P/E Fund - Reg - Growth</td>
<td>Value Fund</td>
<td>-1.53</td>
<td>-0.09</td>
<td>2.88</td>
<td>1.26</td>
<td>5.20</td>
<td>14.10</td>
</tr>
<tr>
<td>Axis Focused 25 Fund - Growth</td>
<td>Focused Fund</td>
<td>0.99</td>
<td>6.12</td>
<td>6.56</td>
<td>4.99</td>
<td>12.00</td>
<td>16.81</td>
</tr>
<tr>
<td>SBI Focused Equity Fund - Growth</td>
<td>Focused Fund</td>
<td>-0.92</td>
<td>4.35</td>
<td>10.21</td>
<td>12.01</td>
<td>13.62</td>
<td>15.01</td>
</tr>
<tr>
<td>ICICI Prudential Equity &amp; Debt Fund - Growth</td>
<td>Aggressive Hybrid Fund</td>
<td>-0.42</td>
<td>2.56</td>
<td>7.10</td>
<td>11.57</td>
<td>8.13</td>
<td>12.86</td>
</tr>
<tr>
<td>HDFC Balanced Advantage Fund - Growth</td>
<td>Dynamic Asset Allocation or Balanced Advantage</td>
<td>0.22</td>
<td>3.44</td>
<td>9.89</td>
<td>17.39</td>
<td>8.71</td>
<td>13.73</td>
</tr>
<tr>
<td>ICICI Prudential Balanced Advantage Fund - Reg - Growth</td>
<td>Dynamic Asset Allocation or Balanced Advantage</td>
<td>0.08</td>
<td>2.56</td>
<td>5.12</td>
<td>8.80</td>
<td>8.05</td>
<td>10.12</td>
</tr>
<tr>
<td>IDFC Arbitrage Fund - Reg - Growth</td>
<td>Arbitrage Fund</td>
<td>0.55</td>
<td>1.95</td>
<td>3.33</td>
<td>6.57</td>
<td>6.23</td>
<td>6.19</td>
</tr>
<tr>
<td>HDFC Equity Savings Fund - Growth</td>
<td>Equity Savings</td>
<td>-0.01</td>
<td>1.92</td>
<td>5.42</td>
<td>8.41</td>
<td>6.21</td>
<td>10.56</td>
</tr>
<tr>
<td>Kotak Taxsaver - Reg - Growth</td>
<td>ELSS</td>
<td>-0.50</td>
<td>4.67</td>
<td>10.65</td>
<td>14.95</td>
<td>9.17</td>
<td>14.16</td>
</tr>
<tr>
<td>L&amp;T Infrastructure Fund - Reg - Growth</td>
<td>Sectoral</td>
<td>-4.09</td>
<td>0.44</td>
<td>1.21</td>
<td>0.89</td>
<td>3.02</td>
<td>14.08</td>
</tr>
<tr>
<td>Nifty 50</td>
<td></td>
<td>-1.17</td>
<td>1.89</td>
<td>8.55</td>
<td>11.33</td>
<td>11.45</td>
<td>13.20</td>
</tr>
<tr>
<td>Nifty Midcap 100</td>
<td></td>
<td>-1.89</td>
<td>-2.37</td>
<td>-0.78</td>
<td>-1.07</td>
<td>0.37</td>
<td>9.37</td>
</tr>
<tr>
<td>S&amp;P BSE 200</td>
<td></td>
<td>-1.34</td>
<td>0.96</td>
<td>5.98</td>
<td>8.27</td>
<td>9.28</td>
<td>12.65</td>
</tr>
<tr>
<td>Nifty Infrastructure</td>
<td></td>
<td>0.37</td>
<td>5.37</td>
<td>6.04</td>
<td>10.40</td>
<td>2.60</td>
<td>6.79</td>
</tr>
<tr>
<td>NIFTY 50 Hybrid Composite Debt 65:35 Index</td>
<td></td>
<td>-0.08</td>
<td>2.71</td>
<td>7.99</td>
<td>12.49</td>
<td>10.78</td>
<td>12.40</td>
</tr>
</tbody>
</table>

Returns (%) as on 28 June 2019. Returns are absolute for <= 1 year and CAGR for > 1 year.

Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)
Fixed Income Mutual Fund Options
### Performance of recommended Debt Funds

<table>
<thead>
<tr>
<th>Scheme Name</th>
<th>SEBI Categorisation</th>
<th>AAA or Equivalent</th>
<th>Avg. Maturity (Yrs)</th>
<th>Portfolio Yield (%)</th>
<th>Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI Prudential Long Term Bond Fund - Growth</td>
<td>Long Duration Fund</td>
<td>92.23%</td>
<td>12.10</td>
<td>7.87</td>
<td>5.10</td>
</tr>
<tr>
<td>IDFC Bond Fund - Income Plan - Reg - Growth</td>
<td>Medium to Long Duration Fund</td>
<td>100.00%</td>
<td>7.88</td>
<td>7.76</td>
<td>3.68</td>
</tr>
<tr>
<td>IDFC D B F - Reg - Growth (Re-Launched)</td>
<td>Dynamic Bond</td>
<td>100.00%</td>
<td>7.43</td>
<td>7.72</td>
<td>3.60</td>
</tr>
<tr>
<td>Kotak Dynamic Bond Fund - Reg - Growth</td>
<td>Dynamic Bond</td>
<td>81.91%</td>
<td>6.02</td>
<td>8.26</td>
<td>3.25</td>
</tr>
<tr>
<td>IDFC Bond Fund - Medium Term Plan - Reg - Growth</td>
<td>Medium Duration Fund</td>
<td>100.00%</td>
<td>3.93</td>
<td>7.63</td>
<td>2.51</td>
</tr>
<tr>
<td>IDFC Bond Fund - Short Term Plan - Reg - Growth</td>
<td>Short Duration Fund</td>
<td>100.00%</td>
<td>1.99</td>
<td>7.57</td>
<td>1.89</td>
</tr>
<tr>
<td>DSP Banking &amp; PSU Debt Fund - Reg - Growth</td>
<td>Banking and PSU Fund</td>
<td>100.00%</td>
<td>3.34</td>
<td>7.46</td>
<td>1.89</td>
</tr>
<tr>
<td>Aditya Birla Sun Life Banking &amp; PSU Debt Fund - Reg - Growth</td>
<td>Banking and PSU Fund</td>
<td>88.84%</td>
<td>4.23</td>
<td>7.86</td>
<td>2.69</td>
</tr>
<tr>
<td>HDFC Corporate Bond Fund - Growth</td>
<td>Corporate Bond Fund</td>
<td>100.00%</td>
<td>3.89</td>
<td>7.86</td>
<td>2.45</td>
</tr>
<tr>
<td>Aditya Birla Sun Life Corporate Bond Fund - Reg - Growth</td>
<td>Corporate Bond Fund</td>
<td>92.56%</td>
<td>2.69</td>
<td>8.07</td>
<td>2.52</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scheme Name</th>
<th>SEBI Categorisation</th>
<th>AAA or Equivalent</th>
<th>Avg. Maturity (Days)</th>
<th>Portfolio Yield (%)</th>
<th>Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDFC Low Duration Fund - Reg - Growth</td>
<td>Low Duration Fund</td>
<td>98.19%</td>
<td>293</td>
<td>7.31</td>
<td>1.98</td>
</tr>
<tr>
<td>ICICI Prudential Savings Fund - Reg - Growth</td>
<td>Low Duration Fund</td>
<td>86.78%</td>
<td>387</td>
<td>7.74</td>
<td>2.08</td>
</tr>
<tr>
<td>Aditya Birla Sun Life Money Manager Fund - Reg - Growth</td>
<td>Money Market Fund</td>
<td>100.00%</td>
<td>215</td>
<td>7.18</td>
<td>2.07</td>
</tr>
<tr>
<td>UTI Money Market Fund - Reg - Growth</td>
<td>Money Market Fund</td>
<td>100.00%</td>
<td>172</td>
<td>7.23</td>
<td>2.06</td>
</tr>
<tr>
<td>Kotak Liquid Scheme - Reg - Growth</td>
<td>Liquid Fund</td>
<td>100.00%</td>
<td>37</td>
<td>6.84</td>
<td>1.77</td>
</tr>
<tr>
<td>Franklin India Liquid Fund - Super IP - Growth</td>
<td>Liquid Fund</td>
<td>96.68%</td>
<td>22</td>
<td>7.11</td>
<td>1.86</td>
</tr>
</tbody>
</table>

Please note that returns data for Crisil indices is not available.

Returns (%) as on 28 June 2019. Returns are absolute for <= 1 year and CAGR for > 1 year. Portfolio as of 31 May 2019.

Source for entire data stated above is ICRA Online Ltd. (For Disclaimer of ICRA Online Ltd, refer http://www.icraonline.com/legal/standard-disclaimer.html)
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