## EQUITY REVIEW

### Commentary on Equity Markets

The MSCI India Index started the month at 16.41 and closed at 18.11, increasing by 10.30% over the month. As per latest data, FIIs were net buyers in Equity with inflow of USD 0.89 Bn and in Fixed Income with inflow of USD 0.87 Bn. Domestic Institutions were net buyers in equities with net buying of USD 0.51 Bn in the month

### Commodities and Inflation

NYMEX Crude Oil prices fell by ~22.02% from the previous month levels, ending at 50.93 per barrel; the prices were lower by ~11.3% yoy. LMEX closed at 2909.8 higher by 1.9% over the month (lower by ~8.39% yoy). Gold prices closed at USD 1222.13/oz higher by ~0.36% over the previous month (lower by ~4.63% yoy). The USD Index rose by ~0.15% vs. other currencies over the month; over the year the USD Index was higher by ~4.54%.

October CPI at 3.31% (compared to the lower revised 3.7% for September) came in lower than expectations tracking a sharp fall in food prices. Core pressures remained despite cut in the excise duties on retail fuel prices (which should have implied lower petrol & diesel prices). The elevated global commodity prices and weak INR get reflected in the core prices (higher gold, fuel, etc). Inflation details indicate sharp fall in most food items (perishables as well as non perishables). Core inflation stood at 6.2% vs 5.8% in September. Core inflation ex-Transport & Communication stood at 6.4%. Apr-Oct FY19 core inflation and headline CPI have averaged 6.1% and 4.2% respectively. Headline rates are likely to moderate going into calendar year end and inch up going into Q4FY19. Core inflation is likely to remain above 5%

### Markets & Real Economy

September IIP at 4.5% remained largely steady v/s 4.7% in August factoring in a marginal uptick in seasonally adjusted activity and a marginally adverse base effect. YTD FY19 production stands higher at 5.1% vis-à-vis 2.6% seen in H1FY18. Mining, Manufacturing and Electricity grew 0.2%, 4.6% and 8.2% respectively. Primary goods (+2.6% YoY) gained from heavyweight Electricity (+8.2%) however lost out from Mining (+0.2%). Items such as Commercial Vehicles pushed up Capital goods (+5.8%). Intermediate goods (+1.4%) slowed down while Infrastructure goods (+9.5%) remained consistently healthy. Growth in Consumer durables stood at +5.2% while Non-durables stood at +6.1%.As per the latest RBI data, Forex reserves position declined to USD 392.78 Bn over the month. The Rupee appreciated over the month closing at 69.675 Rs/USD vs. 73.9513 Rs/USD last month.

### Sector-wise Performance

Key outperforming sector during the month was Consumer Goods. The sector saw a sharp reversal from trends seen over the previous couple of months where stocks within the sector came under pressure driven by sharp rise in crude oil prices which impact the raw material costs for some consumer companies as well as concerns about a liquidity freeze in the financial system which would impact availability of finance for the consumer discretionary space. Over the month of November, both the concerns faded as crude oil price saw a sharp decline and the liquidity situation seemed to be getting back on track following efforts by the Government and RBI. Given that the consumer sector has extremely strong long term growth potential and correction in valuations over the last couple of months, stocks within the sector performed strongly during the month. We continue to remain positive on the sector.

Key underperforming sector during the month was Healthcare. Stocks within the sector remained weak during the month as the Q2 results declared by most companies were below expectations driven by muted growth in both domestic as well as US markets. However, the reasons for the muted performance are largely transient in nature and unlikely to impact the long term growth potential. Price stability seems to be returning back to the US generics market which is positive for Indian companies as well. In any case companies like Sun Pharma, Cadila, etc have been investing heavily into R&D to move to the next level of opportunities in complex generics as well as speciality pharma where competition is limited. We remain positive on the sector's long term growth potential in both domestic as well as international markets.

### Key Stock Movements

**IPCA Laboratories Ltd** – IPCA Laboratories has been under pressure for the past few quarters as the growth and profitability have suffered following import alert issued by the US FDA on facilities supplying to the US market and subsequent impact on the Africa institutional business as well. While the issues have still not been resolved, the company has changed its business profile significantly over the past couple of years into being a more domestic oriented company with focus shifting from acute therapies to chronic ones like Pain management and Cardiovascular. This has resulted in the company improving its growth and profitability sequentially and that has reflected in the recent stock performance. Resolution of the US FDA issues and resumption of supplies to the US market can act as additional triggers for the stock as and when the events materialize. We remain confident on the long term growth prospects of the company.

**Sun Pharmaceuticals Ltd** – The stock has corrected significantly over the month post declaration of Q2 results as the impact of developing a specialty product pipeline and the marketing efforts to launch and establish these products became evident on the company's margins. The management has also guided that the costs related to R&D and marketing efforts are likely to remain elevated in the coming quarters. While the above factors will lead to profit growth lagging the topline growth in the short to medium term, we consider these as investments necessary to build a long term sustainable business model for the US markets. Sun Pharmaceuticals remains one of the frontline companies with a product pipeline in specialty therapies and we remain positive on the stock

**Market Outlook**

Post the sharp fall seen over September and October, markets showed some revival over November driven by a significant reversal in crude oil prices and consequent strengthening of the Rupee. With crude oil prices receding and the currency stabilizing, the pressure on the macro variables should reduce. Post the correction, the over-valuation in the equity market has been corrected to a large extent and valuations are now close to the long term average levels. Corporate results for the July-September quarter indicate that growth momentum is picking up. A faster pace of earnings growth compared to previous couple of years is expected to be the key driver for the market going forward. We remain positive on India's growth potential and see this correction as an opportunity to increase exposure in select high quality sectors and companies.

**FIXED INCOME REVIEW**

India's consumer prices (CPI Inflation) surprised on the downside, declining to a 13-month low of 3.3% in October 2018 from 3.7% in September 2018 primarily on account of sharp deceleration in food prices. Food inflation declined by 0.9% in October 2018, on account of softening food prices due to bumper harvest following normal monsoon. However, the core-CPI inflation hardened to 6.1% in October 2018 from 5.7% in September 2018 driven by acceleration in housing, services and transport inflation. The inflation related to fuel and light remained high at level of 8.5% in October 2018 as compared to 8.6% in September 2018. The Wholesale Price Index (WPI) hardened to 5.3% in October 2018 from 5.1% in September 2018 led by rise in fuel, power and core inflation.

The Indian economy grew by 7.1% during Q2FY19 as compared to 8.1% in Q1FY19 and 6.3% during Q2FY18. The decline in GDP growth in second quarter relative to the first quarter was driven by a moderation in private final consumption expenditure. In terms of GVA the economy grew by 6.9% during Q2FY19 as against 8.0% last quarter and 6.1% same period last year. The sequential dip in growth in Q2FY219 relative to Q1FY219 was led by slowdown in industrial and agriculture sector, where as there was a mild pickup in services sector given robust Government spending in second quarter.

The central bank conducted Open Market Operations (OMO) worth INR 400 billion during November. Further, the RBI also announced to conduct OMO worth INR 400 billion in December as well based on an assessment of the durable liquidity needs going forward.

RBI relaxed guidelines on securitization of the loan books for non-banking financial sector to ease the liquidity stress in the sector. The liquidity crunch faced by the sector has also improved over last one month.

**Outlook**

Last month witnessed a significant improvement in macro environment on account of a sharp fall in crude prices which led to around 6% appreciation in the local INR currency against USD. This in addition to lower inflationary expectations on account of continued fall in food inflation, risks through increase in MSP not playing out so far, impending decline in fuel prices due to lower crude as well as recent US Fed's observation of policy rates nearing neutral rates indicating a lesser aggressive monetary tightening path going ahead has led to rally in local bonds. In our view, these shift in key variables might lead to a pause in the policy rate for rest of this fiscal year. Therefore, we anticipate RBI monetary policy committee to keep repo rate and the stance unchanged in upcoming December policy. Going ahead, we expect central bank will watch for evolving situation on inflation front, the domestic economic trajectory and global monetary policy stance before they decide to make any decisive changes in the rates and their stance.

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