



Market Trends and Outlook 2016

Author: iFAST Research Team



As we enter 2016 with a lot of hope, China decides to sneeze and the global markets, with India being no exception, catches the flu. If this was not enough, even the crash in oil prices contributed to our investors losing sleep over their investments. The benchmark Index, S&P BSE Sensex has gone back to the level reached in May 2014, when the Modi wave hit Dalal Street. In this scenario, the question that continues to bother our investors is “Is India still attractive and should our equity investments continue or is the age old advise of staying in fixed deposits a better proposition even today?”

At iFAST, we have been neutral on India and we believe that despite all the short term volatilities, India is still an attractive proposition from a long term perspective. So the next question from our investors to the iFAST Research desk would be “Define long term in the above context”. After all, this is a term which we have been using in our notes since the last 5 years. We became neutral on India in November 2010 and it is only after 4 years that our macro fundamentals started showing improvement. On the other hand, the earnings of corporate India is yet to recover and our major sectors like banking and infrastructure need to fire before the economy is able to sustain the growth momentum. This is a clear indication that a time period of more than 5 years should be considered as an ideal definition for long term.

Why are we positive about India?

Improvement in the Macro-Economic Indicators

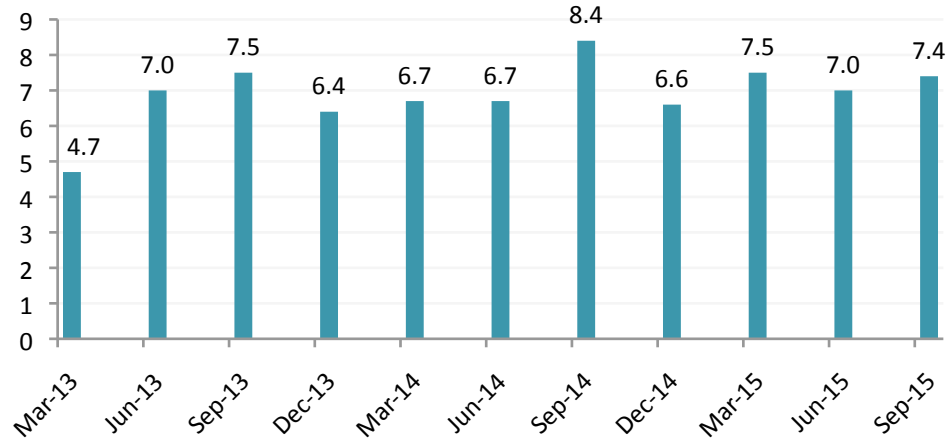
As per the World Economic Outlook Update released by IMF in January 2016, “Growth in China is expected to slow to 6.3 percent in 2016 and 6.0 percent in 2017, primarily reflecting weaker investment growth as the economy continues to rebalance. **India and the rest of emerging Asia are generally projected to continue growing at a robust pace**, although with some countries facing strong headwinds from China’s economic rebalancing and global manufacturing weakness”.

A glance through the data points in the reports clearly indicates that India is poised to be the fastest growing economy in the world in 2016.

Macro - Economic Indicators

Qtr Real GDP YoY

The economy is on a growth path.

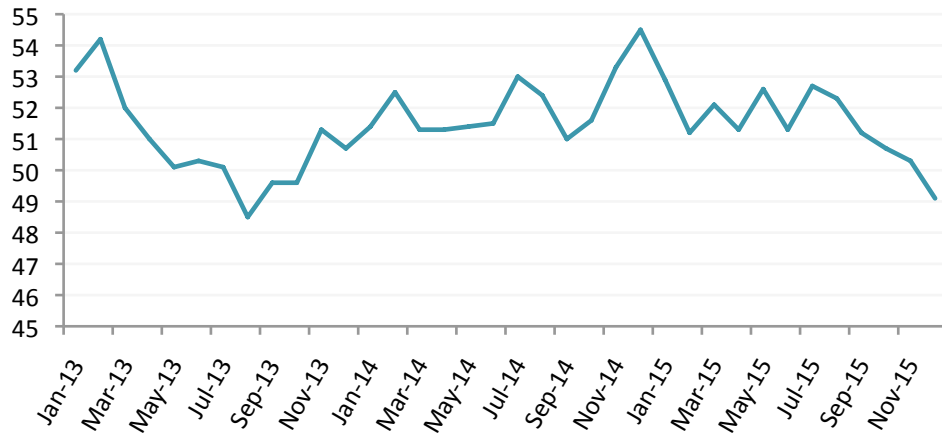


Industrial Output

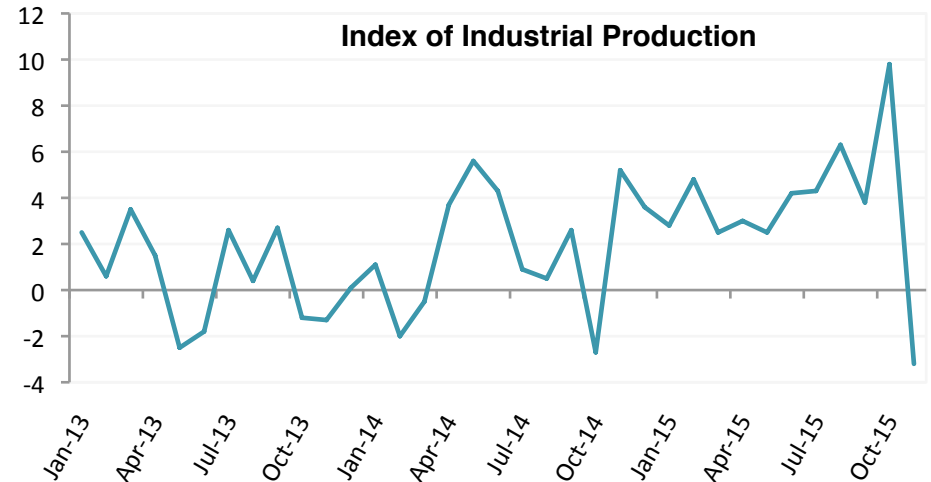
For the first time since October 2013, Nikkei India Manufacturing PMI has gone down below 50 in December 2015.

This is the most volatile macro-economic indicator. The Base Year (2004-05) needs to be changed to make it in sync with reality.

Nikkei India Manufacturing PMI

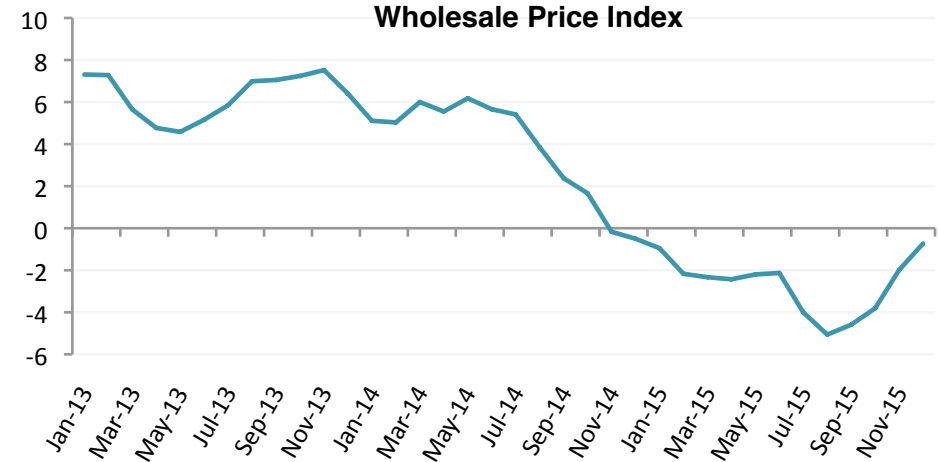
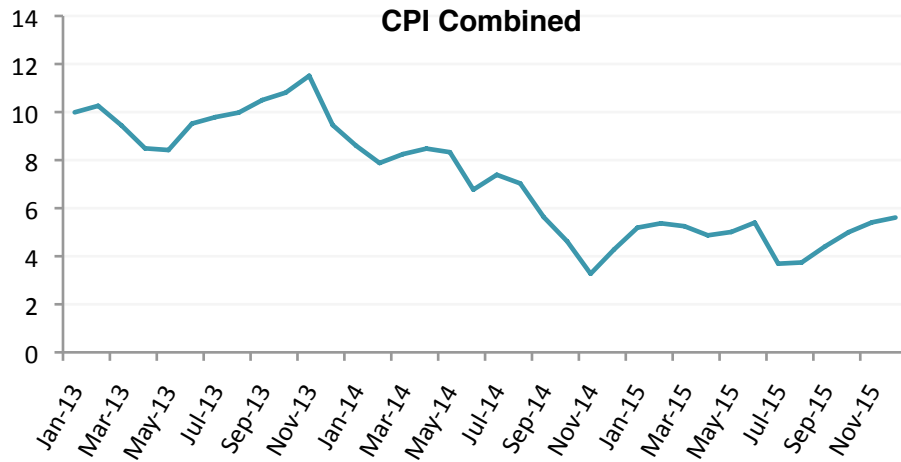


Index of Industrial Production



Inflation

The inflation is already within the comfort zone of the RBI (6% by 2016).



USDINR Trends & Forecast



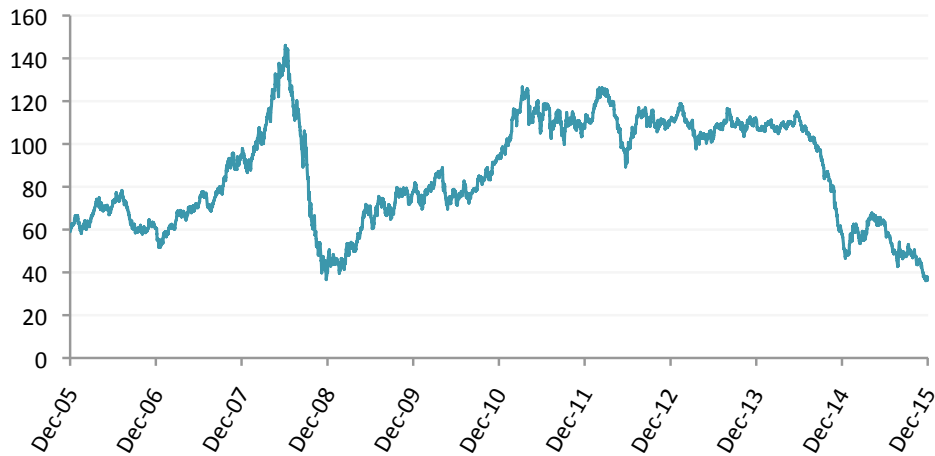
INRUSD Forecast from Bloomberg as on January 19, 2016

USDINR	Forecast
Q1 16	67.00
Q2 16	67.50
Q3 16	68.00
Q4 16	68.00
2017	66.50
2018	67.00
2019	68.00
2020	69.00

Trends in Oil Prices

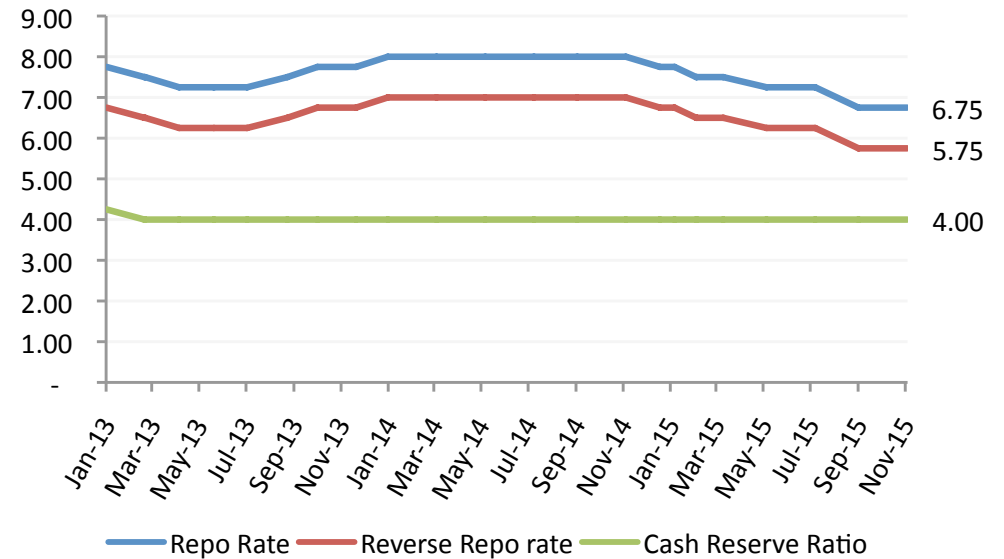
A fall in oil prices is a big positive for a country like India, where in 2014-15, 78.6% of the total domestic oil consumption in India came from imports. India is also the 4th largest consumer of Crude Oil & Petroleum Products in the year 2014.

Crude Oil - Brent



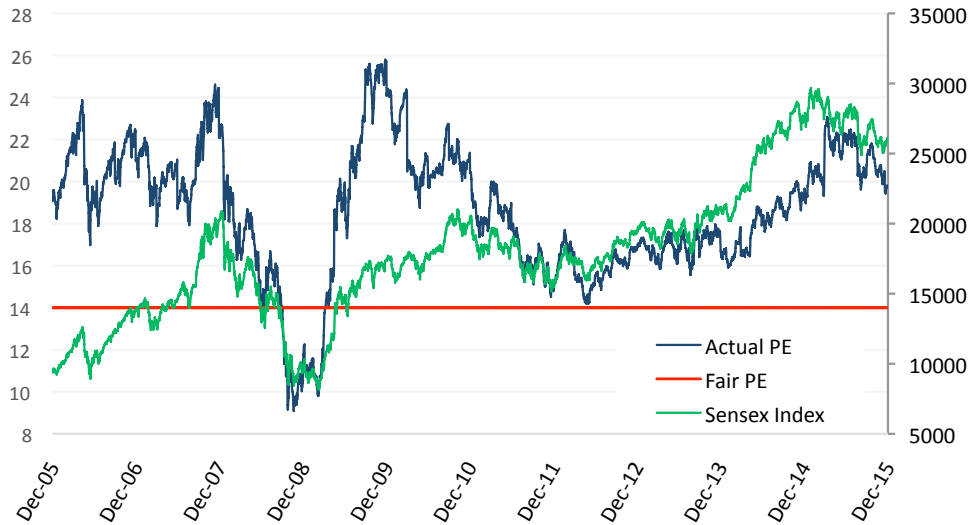
Monetary Policy Rates

During 2015, RBI has cut the main policy rate by 125 bps, while the Governor has made it clear that only less than half of the cumulative repo rate reduction has been transmitted by banks.

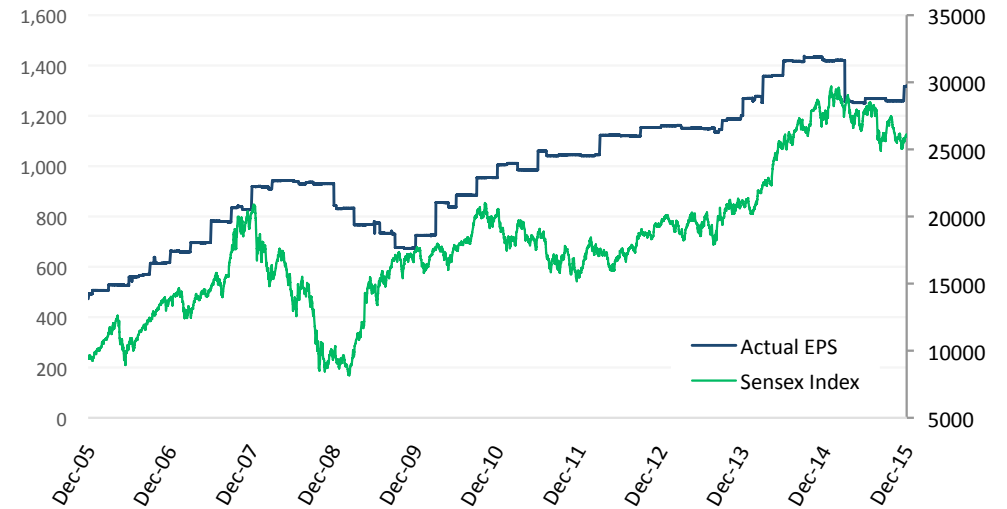


Attractive Valuations

Actual PE vis-à-vis Fair PE



Actual EPS of Sensex



Estimates of Sensex

Sensex Index	Estimated Earnings	EPS Growth	Estimated PE
Mar-16	1380.48	9.19%	17.73
Mar-17	1651.41	19.63%	14.82
Mar-18	1954.56	18.36%	12.52
<i>Source: Bloomberg Estimates, iFAST Compilations</i>			
<i>As on January 19, 2016</i>			

We have taken the Fair PE as 14X. In this scenario, our FY18 PE is lesser than the Fair PE which indicates that our valuations are attractive from a 2 year perspective.

A pro-reform Government which believes in the saying, “Little drops of water make a mighty ocean”

There is a hue and cry in the street that the performance of the Modi Government after 1.5 years is not impressive enough to write on. However, we continue to reiterate our view that the Prime Minister does not have a magic wand to reform India in a year and we need to give him some more time to transform the country into “**Vibrant India**”. Now the question is “Has the Government started its work to reform India or is it just plain talk that is happening to impress the global investors?” To our pleasant surprise, we found that a technocrat Prime Minister and his team is working like an India Inc. and has already put up the report card of the various initiatives undertaken in the last one year. We have gone through a good number of these reports, however to mention all the initiatives and their progress in a single note will be too cumbersome. Hence we are specifying a few initiatives that we believe, should reinstate the fact that India should continue to be a part of the domestic and global investor’s profile. It is after all only a matter of time that the Government’s initiatives translate into positive results.

No big bang reforms, but the first emphasis of team NAMO has been to improve the ease of conducting business in India. As per the World Bank’s Doing Business 2016 Report, India was ranked at 130 among the 189 countries that were studied. The study was based on different

aspects of the regulation affecting 11 areas of the life of a business of which 10 areas were covered in this year’s report (the period of analysis was June 2014 to June 2015). The main areas of improvement for India were:

- (1) **Starting a Business:** The government has done away with the requirement that Indian entrepreneurs had to bring in INR 1,00,000 to start a local limited liability company. In addition to this, there is no need to obtain a certificate to start business operations. If in 2004, it took 127 days to start a business, in 2015, the number of days has reduced to 29 days.
- (2) **Getting Electricity:** The process of getting an electricity connection in Delhi just got faster! This has been possible owing to the removal of the Electrical Inspectorate’s internal wiring inspection. As far as Mumbai is concerned, the procedures and the time required for an electricity connection has been reduced by improving the internal work processes and coordination.
- (3) **Dealing with Construction Permits:** In Mumbai, the starting of a single window system for processing building permit applications with the promise of reducing the associated bureaucratic burden once implemented.

Major Initiatives of GOI & their Progress Card

Initiatives	Review
Infrastructure Development	<p>Creation of National Investment and Infrastructure Fund (NIIF): This has been formed to help in the infrastructure development in commercially viable projects. The first meeting of NIIF had taken place in January 2016.</p> <p>Public Private Partnership in infrastructure projects is a big focus of the Government. A viability Gap Funding Scheme has been created for PPP projects. The aim of this scheme is to make the infrastructure projects having a PPP model commercially viable by providing financial support to them. During 2015, the Empowered Institution has given in-principle approval for 5 projects with a total project cost of INR 901.00 crore. In the same way, a final approval has been granted by EI to 9 projects of INR 1119.66 crore in various sectors with VGF component of INR 166.7 crore.</p> <p>Another initiative was to launch Municipal Bonds to help Urban Local Bodies to raise finance for their infrastructure projects with a PPP model.</p>
Subsidy	<p>Pratyaksh Hanstantrit Labh (PAHAL)-Direct Benefit Transfer for LPG (DBTL): This scheme aims at making LPG cylinders available at market prices, while the subsidy will be transferred directly into the bank account. This has been hailed as the largest cash transfer program (Households) by Guinness Book of World Records.</p> <p>As per the press release of Dec 28, 2015, 14.78 crore consumers use this scheme. Government's call to the well-to-do sections to give up the LPG subsidy so that BPL families can use the same rather than kerosene, coal, fuel wood, cow dung, etc. has seen 57.50 lakh consumers opting out of LPG subsidy.</p>
Make in India	<p>An initiative to facilitate investment, foster innovation, protects intellectual property and build best-in-class infrastructure.</p> <p>Few initiatives under the Make in India program include:</p> <ul style="list-style-type: none"> • Emphasis on developing Industrial Corridors and Smart Cities. • Approval for 17 National Investment and Manufacturing Zones. • Support to Skill Development to Indian Leather Development Programme. • FDI Cap in Defence raised from 26% to 49%.

Initiatives	Review
Make in India	<ul style="list-style-type: none"> 100% FDI in Railway Infrastructure and Railways are planning to award projects to the tune of USD 1,000 Billion via the PPP route. As for National Highways, investments via the Public Private Partnerships are expected to reach USD 31 Billion during the next 5 years. Government had kept a target of highway construction of 30 kms per day in the next 2 years. As per the First Year Progress Report-2015 of Ministry of Road Transport & Highways, during the last leg of UPA regime, the highway construction was 3 km per day, which has improved to 13 km per day.
Financial Inclusion	<p>Pradhan Mantri Jan Dhan Yojana (PMJDY), the biggest financial inclusion initiative in the world has also found a place in the Guinness Book of Records. As on Dec 31, 2015, 19.84 crore accounts have been opened and the deposits totaled to INR 29,225.56 crore.</p>
Banking	<p>Public Sector Banks (PSBs), the main financiers of infrastructure projects in India have been in a mess. The major problem haunting them is the growing NPAs which the Government is trying to resolve through Indradhanush. This is a comprehensive program which covers aspects such as appointment, Bank Board Bureau, Capitalization, De-Stressing PSBs and empowering them. The Government of India has estimated that PSBs will require extra capital of INR 1,80,000 crore over the next 4 years. For this, the government will be providing INR 70,000 crore over the next 4 years, while the remaining INR 1,10,000 crore will have to be raised from the market.</p> <p>As per this plan, in FY16, the Government is expected to provide for INR 25,000 crore out of which INR 19,940 crore has already been given to the PSBs. The remaining INR 5000 crore will be provided in the Second Supplementary during the later part of the year.</p>
Power	<p>Ujwal Discom Assurance Yojana or UDAY: This scheme was launched to reduce the financial crunch being faced by power distribution companies (DISCOMs). In this scheme, 75% of the debt of DISCOMS would be taken over by States in 2 years.</p> <p>As per the latest update available in January 2016, 15 states have decided to join this scheme, which in turn actually contributes to 90% of the total debt of DISCOMS.</p>

Outlook and Takeaways

What is the way forward for investors in the coming years with the market being subject to volatility on account of global headwinds?

We believe that the biggest USP for the Indian markets is the combination of a government that is taking incremental steps which will lead to a complete overhaul of the economy in the coming years and a pro-active Central Bank whose priority is to reduce inflation without compromising on growth. The Government and the Reserve Bank of India (RBI) are taking measures to clean up the mess in PSU banks, which is one of the major issues that India is facing today. This along with the improving macro-economic fundamentals and the attractive valuations should give the confidence to our investors in taking exposure into the markets. This is a better alternative than waiting on the sidelines for an appropriate opportunity to enter the markets.

As for the mutual fund space, currently **large caps are trading at discount to mid caps**, we believe that investors need not exit these funds nor should they cut down their holdings in mid and small cap space and enter this space. As per our asset allocation, **our conservative investors should continue to have their equity allocation in large cap funds, while our aggressive investors can continue to keep their allocation into large caps and mid caps in the same proportion as it was before large caps became cheap.**

Although the mid cap indices have become over-valued, **we continue to maintain an aggressive stance on mid cap and small cap funds in our moderately aggressive and aggressive portfolios.** This is because we believe that the stretched valuations are not reflecting the fundamentals as earnings have still not shown an improvement. In addition to this, whenever the economy is on a growth path, the biggest

beneficiaries are the stocks from the mid and small cap segment.

We continue to maintain a **positive stance on banking and infrastructure funds**, a view that we have held since 2011, despite the problems in these two sectors. Investors will be wary of hearing our advice on the sectoral bets for the last few years as both the sectors have not performed at all. However, we continue to believe that these 2 sectors will have to start performing, if the economy has to achieve a growth rate of more than 9%. The focus of the Government and RBI towards taking measures to improve these sectors is a clear indication of the importance of these sectors to the overall economic development. Hence, we would advise only our moderately aggressive and aggressive investors who have the appetite to face the volatility and are patient enough to take an exposure into these sectors.

Our advice to our fixed investors is that, although we are of the view that Dr. Rajan will loosen the monetary policy stance in 2016 as inflation is on a downward trajectory, investors should be ready to face any uncertain events from the global and domestic side which can reverse this stance. In this scenario, it is advisable for our **moderately aggressive and aggressive investors to consider dynamic bond funds if they wish to bet on the movement in the interest rates. On the other hand, our conservative investors can continue with their investments into short term funds.**

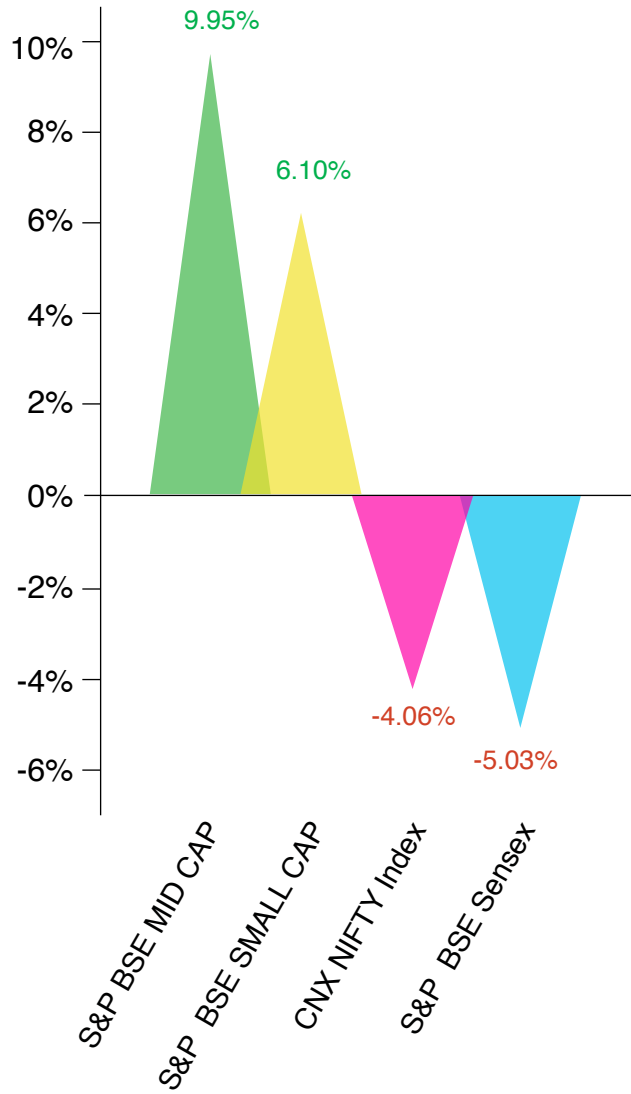
Our advice to investors in all market cycles remains the same: “Stay calm while the markets go aslant and the very same market will reward you for your patience”.

Happy Investing!

Research Team, iFAST Financial

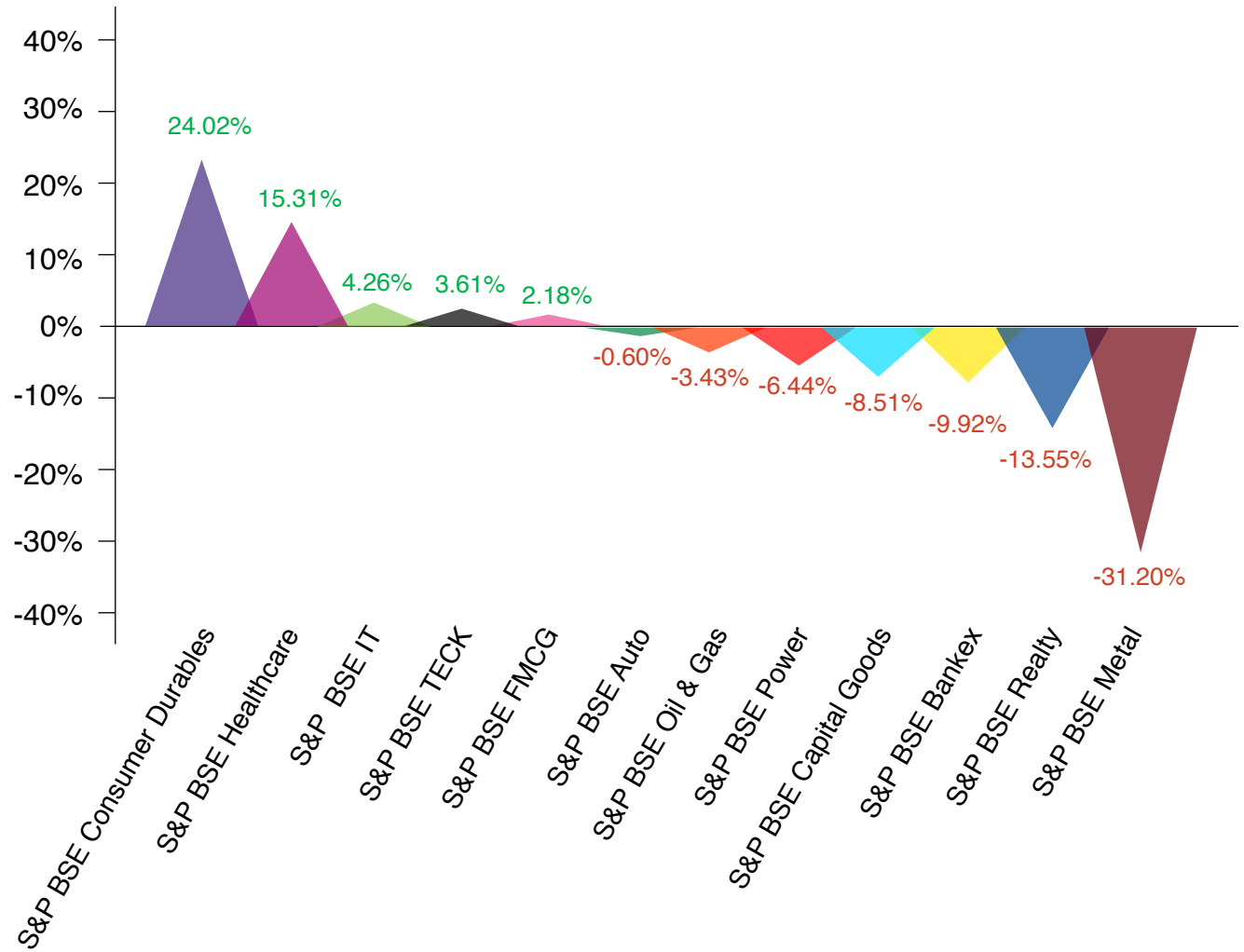
Market Trends 2015

Domestic Indices for 2015



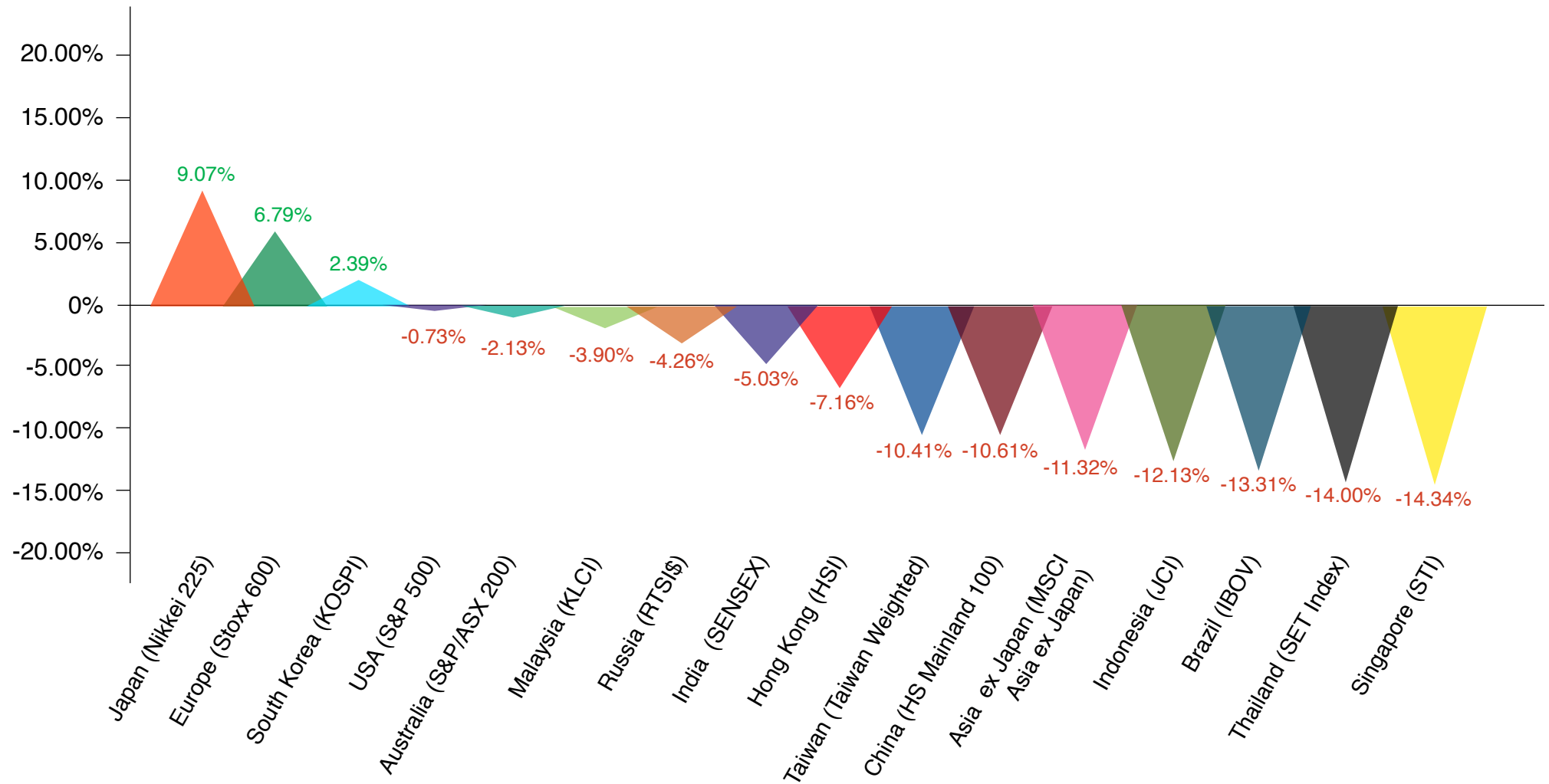
Source : Bloomberg, iFAST Compilations

Sectoral Indices for 2015



Market Trends and Outlook 2016 - iFAST Financial India Private Limited

Global Indices for 2015



10 Year G-Sec Yield for 2015



Performance of our Recommended Funds in 2015

70 percent (32 out of 46 funds) outperformed their respective benchmarks during the year.

Category	Recommended Funds for 2015	Benchmark	Fund Performance	Benchmark Performance
Equity - Large cap	ICICI Prudential Focused Bluechip Equity Fund (G)	Nifty 50	-0.21	-4.06
	Reliance Top 200 Fund (G)	S&P BSE 200	1.11	-1.48
	Canara Robeco Equity Diversified (G)	S&P BSE 200	0.08	-1.48
	Birla Sun Life Frontline Equity Fund (G)	S&P BSE 200	1.64	-1.48
	AXIS Equity Fund (G)	Nifty 50	-1.24	-4.06
Equity - Midcap & Small cap	HDFC Mid-Cap Opportunities Fund (G)	Nifty Midcap 100	5.81	6.46
	Mirae Asset Emerging Bluechip Fund (G)	Nifty Midcap 100	14.08	6.46
	Canara Robeco Emerging Equities (G)	Nifty Midcap 100	13.06	6.46
	Reliance Small Cap Fund (G)	S&P BSE Small-Cap	15.11	6.76
	DSP BR Micro-Cap Fund (G)	S&P BSE Small-Cap	20.37	6.76
Equity - Multi cap	Franklin India Prima Plus - (G)	Nifty 500	4.38	-0.72
	Mirae Asset India Opportunities Fund (G)	S&P BSE 200	4.25	-1.48
	Reliance Equity Opportunities Fund (G)	S&P BSE 100	0.51	-3.25
	Kotak Select Focus Fund (G)	Nifty 200 Index	2.96	-1.90
	IDFC Premier Equity Fund (G)	S&P BSE 500	8.29	-0.82
Equity - Contra & Value	ICICI Prudential Value Discovery Fund (G)	S&P BSE 500	5.44	-0.82
Equity - Dividend Yield	Tata Dividend Yield Fund (G)	Nifty 500	4.60	-0.72

Category	Recommended Funds for 2015	Benchmark	Fund Performance	Benchmark Performance
Equity - ELSS	Franklin India Taxshield - (G)	Nifty 500	4.05	-0.72
	Canara Robeco Equity - Tax Saver (G)	S&P BSE 100	0.60	-3.25
	AXIS Long Term Equity Fund (G)	S&P BSE 200	6.70	-1.48
	ICICI Prudential Long Term Equity Fund - (G)	Nifty 500	4.33	-0.72
	Reliance Tax Saver (ELSS) Fund - (G)	S&P BSE 100	-2.92	-3.25
Equity - Global	L&T Global Real Assets Fund (G)	MSCI Custom Benchmark	-6.75	N/A
	JPMorgan JF Greater China Equity Off-Shore Fund (G)	MSCI Golden Dragon Index	-1.50	-9.26
Equity - Banking	ICICI Prudential Banking & Financial Services (G)	S&P BSE BANKEX	-7.22	-9.92
Equity - Pharmaceuticals	SBI Pharma Fund (G)	S&P BSE Healthcare	27.06	15.06
Equity - Infrastructure	Canara Robeco Infrastructure (G)	S&P BSE 100	6.74	-3.25
Equity - FMCG	SBI FMCG Fund (G)	S&P BSE Fast Moving Consumer Goods	5.32	1.36
Equity - Technology	ICICI Prudential Technology Fund (G)	S&P BSE Information Technology	3.95	4.51

N/A - Data Not Available.

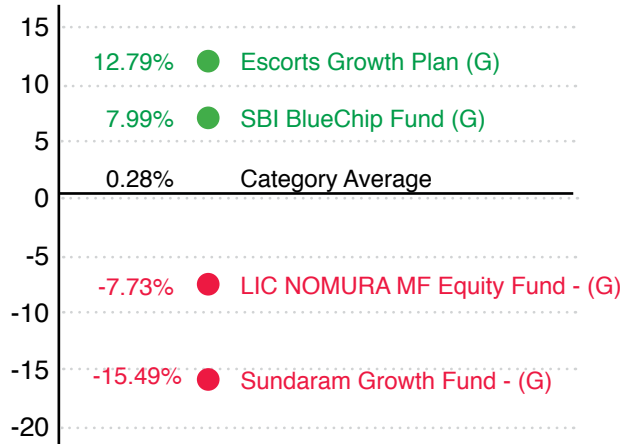
Category	Recommended Funds for 2015	Benchmark	Fund Performance	Benchmark Performance
Debt - Short Term	Franklin India Short Term Income (G)	Crisil Short-Term Bond Fund Index	9.06	8.66
	Birla Sun Life Short Term Opportunities (G)	Crisil AA Short Term Bond Fund Index	8.42	9.49
	UTI-Short Term Income Fund - Inst (G)	Crisil Short-Term Bond Fund Index	8.29	8.66
	Sundaram Select Debt - STAP (G)	Crisil Liquid Fund Index	7.34	8.23
	Reliance Regular Savings Fund - Debt (G)	Crisil Composite Bond Fund Index	8.78	8.63
Debt - Dynamic Bond Fund	Birla Sun Life Dynamic Bond Fund - Reg (G)	Crisil Short-Term Bond Fund Index	7.44	8.66
	UTI-Dynamic Bond Fund (G)	Crisil Composite Bond Fund Index	6.91	8.63
	Tata Dynamic Bond Fund - Regular (G)	I-Sec Composite Index	7.10	N/A
	Reliance Dynamic Bond Fund (G)	Crisil Composite Bond Fund Index	5.73	8.63
Debt - Income	ICICI Prudential Long Term Plan - Regular (G)	Crisil Composite Bond Fund Index	5.74	8.63
	Franklin India IBA - (G)	Crisil Composite Bond Fund Index	8.43	8.63
	Canara Robeco Income (Growth)	Crisil Composite Bond Fund Index	5.63	8.63
	UTI-Bond Fund (G)	Crisil Composite Bond Fund Index	6.31	8.63
Debt - Gilt (Lontg Term)	SBI Magnum Gilt Fund - Long term (G)	I-Sec Li-BEX	7.35	N/A
	IDFC G Sec Fund - Invst Plan - Regular (G)	I-Sec Composite Index	5.99	N/A
Debt - Corporate Bond Fund	SBI Corporate Bond Fund (G)	Crisil Composite Bond Fund Index	9.71	8.63

N/A - Data Not Available.

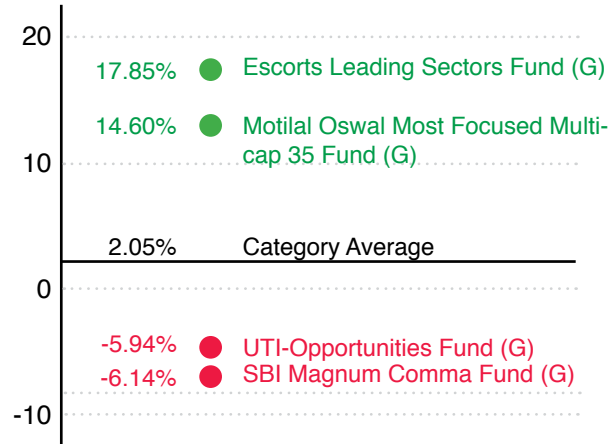
Category	Recommended Funds for 2015	Benchmark	Fund Performance	Benchmark Performance
Hybrid - Balanced	ICICI Prudential Balanced Fund - (G)	Crisil Balanced Fund Index	2.10	0.48
	HDFC Balanced Fund (G)	Crisil Balanced Fund Index	3.01	0.48
	Tata Balanced Fund - Regular (G)	Crisil Balanced Fund Index	6.97	0.48
Hybrid - MIP	Canara Robeco Monthly Income Plan (Growth)	Crisil MIP Blended Index	5.90	6.79
	ICICI Prudential MIP 25 (G)	Crisil MIP Blended Index	6.42	6.79

Top & Bottom Performing Equity Funds in 2015

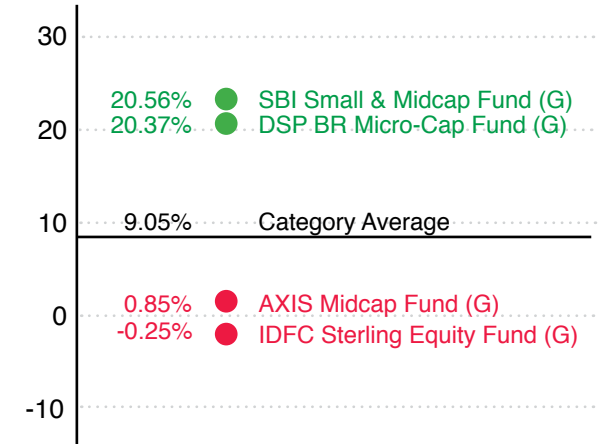
Large Cap



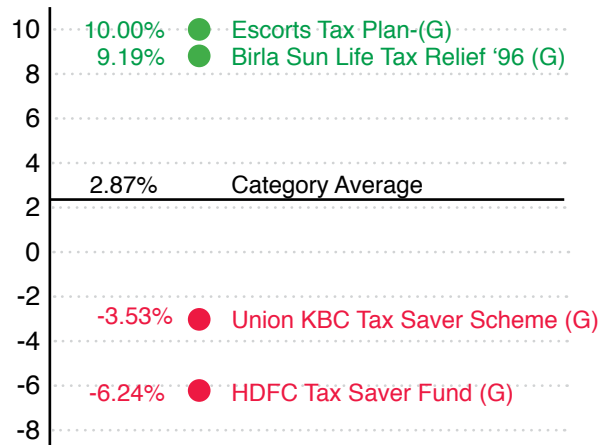
Multi Cap



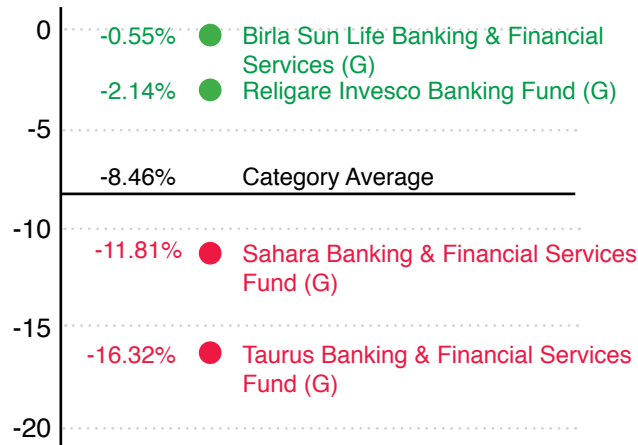
Midcap & Small Cap



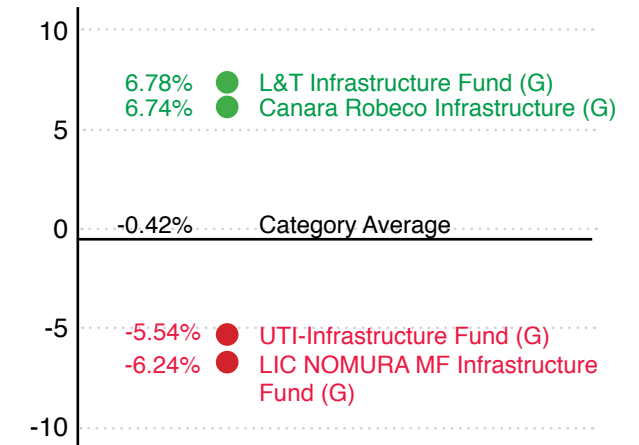
ELSS



Banking

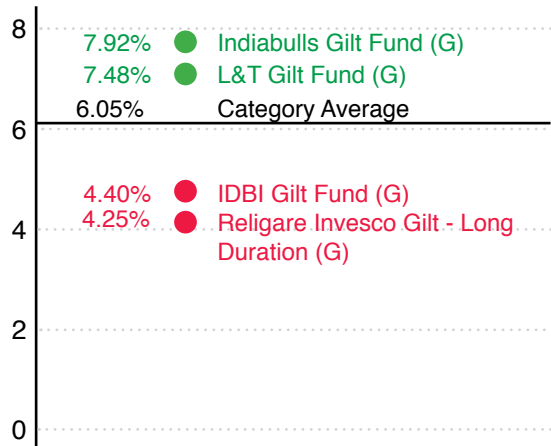


Infrastructure

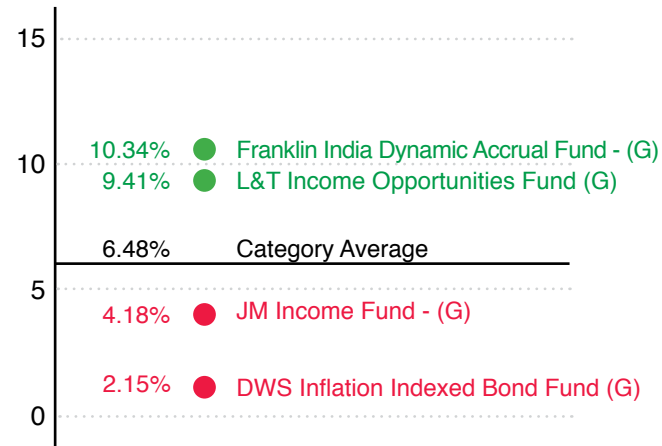


Top & Bottom Performing Debt & Hybrid Funds in 2015

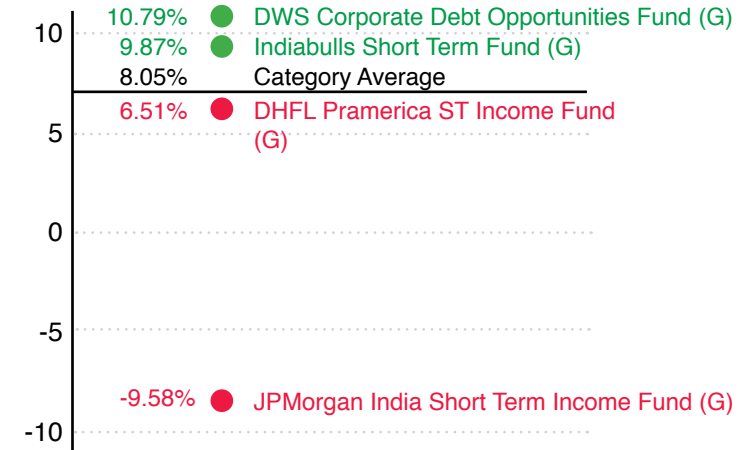
Debt: Gilt - Long Term



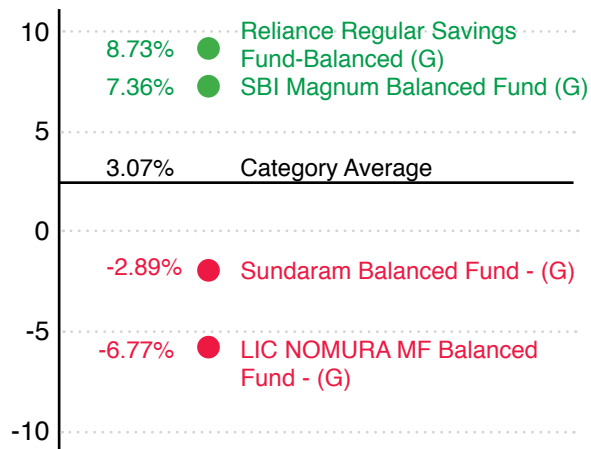
Debt: Income



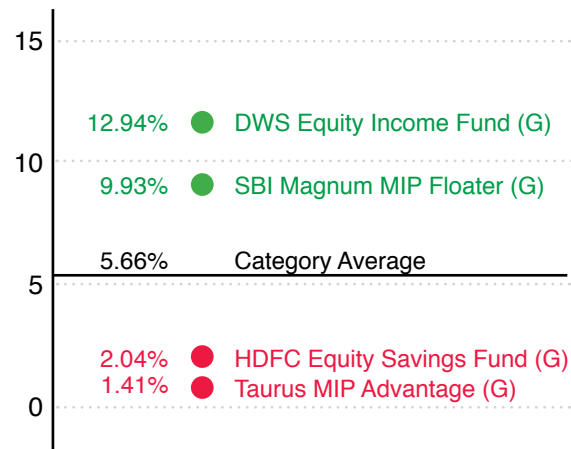
Debt: Short Term



Hybrid: Balanced



Hybrid: MIP



Most popular stocks held in Large, Multi, Mid & Small Cap Funds across 12 months

(December 2014 - November 2015)

Large Cap Schemes	Total : 71
Company	No. Of Schemes holding for 12 Months
HDFC Bank Ltd	60
Larsen & Toubro Ltd	56
Infosys Ltd	52
ICICI Bank Ltd	50
Maruti Suzuki India Ltd	49
Axis Bank Ltd	47
State Bank of India	41
Reliance Industries Ltd	36
Tata Consultancy Services Ltd	36
HCL Technologies Ltd	33

Multi Cap Schemes	Total : 52
Company	No. Of Schemes holding for 12 Months
HDFC Bank Ltd	43
ICICI Bank Ltd	43
Infosys Ltd	38
Maruti Suzuki India Ltd	35
Larsen & Toubro Ltd	33
Axis Bank Ltd	32
State Bank of India	30
HCL Technologies Ltd	24
Tata Consultancy Services Ltd	22
IndusInd Bank Ltd	21

Mid & Small Cap Schemes	Total : 46
Company	No. Of Schemes holding for 12 Months
Federal Bank Ltd	22
Fag Bearings India Ltd	17
Divis Laboratories Ltd	15
The Ramco Cements Ltd	14
Torrent Pharmaceuticals Ltd	14
Yes Bank Ltd	14
Britannia Industries Ltd	13
Voltas Ltd	13
WABCO India Ltd	13
Amara Raja Batteries Ltd	12

Mutual Funds Assets Under Management - Category Wise (Rs. in Crore)

Category	Dec 2015	Dec 2014	Change	Change %
EQUITY	364562	283221	81341	28.71
ELSS	41100	36257	4843	13.35
LIQUID	232970	178491	54479	30.52
INCOME	555364	502154	53210	10.59
GILT	17463	9025	8438	93.49
INFRASTRUCTURE DEBT	1500	1147	353	30.77
BALANCED	42193	24490	17703	72.28
GOLD ETF	5773	7188	-1415	-19.68
OTHER ETFs	11887	6702	5185	77.36
FOF OVERSEAS	2023	2668	-645	-24.17
Total	1274835	1051343	223492	21.26

DISCLAIMER: THIS REPORT IS NOT TO BE CONSTRUED AS AN OFFER OR SOLICITATION FOR THE SUBSCRIPTION, PURCHASE OR SALE OF ANY MUTUAL FUND. ANY ADVICE HEREIN IS MADE ON A GENERAL BASIS AND DOES NOT TAKE INTO ACCOUNT THE SPECIFIC INVESTMENT OBJECTIVE OF THE SPECIFIC PERSON OR GROUP OF PERSONS. PAST PERFORMANCE AND ANY FORECAST IS NOT NECESSARILY INDICATIVE OF THE FUTURE OR LIKE PERFORMANCE OF THE MUTUAL FUND. THE VALUE OF UNITS AND THE INCOME FROM THEM MAY FALL AS WELL AS RISE. OPINION EXPRESSED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE. MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

