



## Equity Outlook

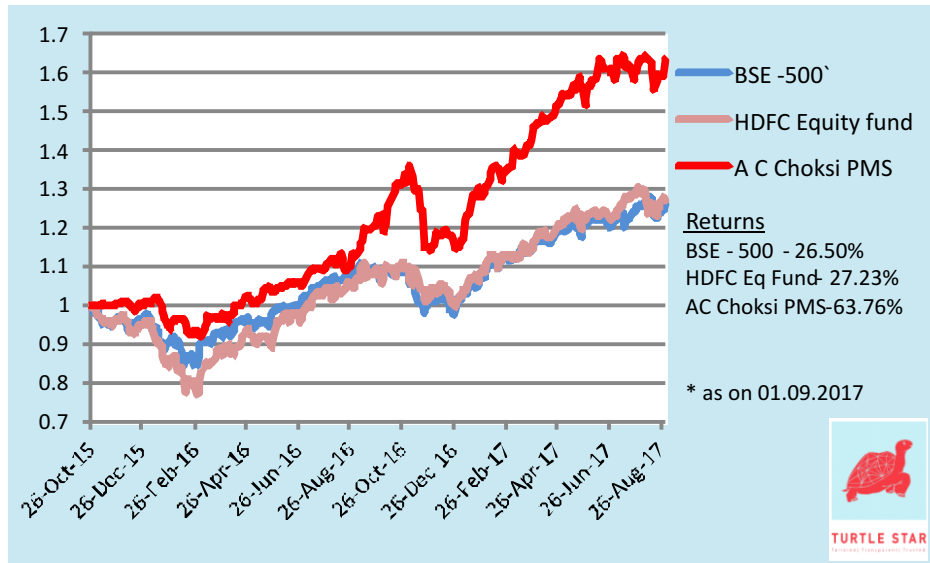
Year 2014 – Mr. Narendra Modi donned the cap of Prime Minister of India. Crude price too corrected and this was a blessing for the government, however Monsoon of 2014 and that of 2015 too was below par. Monsoon of 2016 was bountiful however the act of demonetization took the toll and kept rural India unhappy. As we enter 2018, elections of 2019 will not be far away and government will start making moves to please the masses with lot of doles and freebies.

Given that inflation is in control, there could be good hike in the Minimum Support Price provided on various crops by the government. Rural India will gain from the twin benefit of higher volume of crop production due to bountiful monsoon and also hike in MSP that will give better realization for the crop. There is also an added carrot of Direct Benefit Transfers (DBT) – the amount that got directly credited to the bank account of people was close to Rs 60000 crore in FY16, over Rs 72,000 crore in FY17 and the same is already above Rs 25,000 crore in FY18. The number of schemes that have been mapped for DBT is also up from 114 in FY16 to over 300 in FY17 and the target is to map all the schemes (over 550) in FY18. Rural India will be a happy lot. In fact, for Mutual Fund flows that are hitting all time highs, a big chunk of the flow is now coming from cities beyond the top 15 cities. This indicates not only is rural India having surplus but also indicates that the same is being channelized into profitable avenues to generate higher returns on their extra capital.

We repeat what we have been saying – seeds of bull run are sown in pessimism (period of 2013), they grow on push of liquidity (current situation) and bull run dies on euphoria (still some time away). Liquidity towards equity markets is abundant, there is a TINA affect – TINA stands for “There Is No Alternate”. Irrational exuberance will creep in markets when earnings of Corporates grow on a sustainable basis in two digits. Indian banking system is on a clean-up mission. Markets are not fearful of the NPA, the fear remains for the so-called standard assets. The current government along with RBI intends to clean the mess. The clean up still might take at least 12 to 15 months. Post the clean up, healthy borrowing from corporate sector will be ignited at lower rate of interest and animal spirits will get awakened. This will spiral corporate earnings and create irrational exuberance in the markets. Since we see the writing on the wall and believe that it is still some time away, we continue to be invested in the markets.

We continue to pick and choose businesses where we believe earnings are likely to double over next 3-4 year period and stock too could deliver the underlying returns. We continue with our principle to invest and hold what we buy. We would urge investors to top up their investments with us so that we can invest in ideas we like.

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\*NAV as on 01.09.2017.

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