



IDFC MUTUAL FUND

MARKET OUTLOOK



CY 17 Outlook

- 4 Key themes – Global

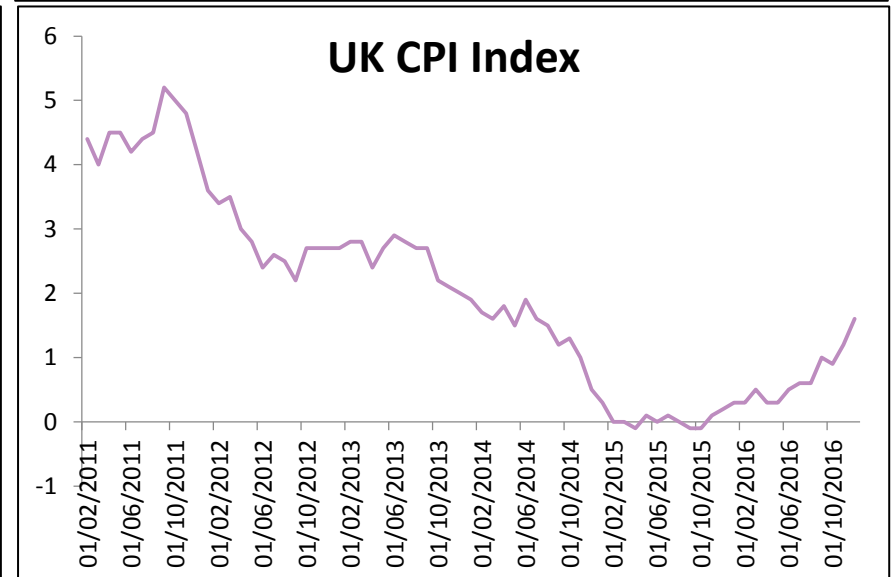
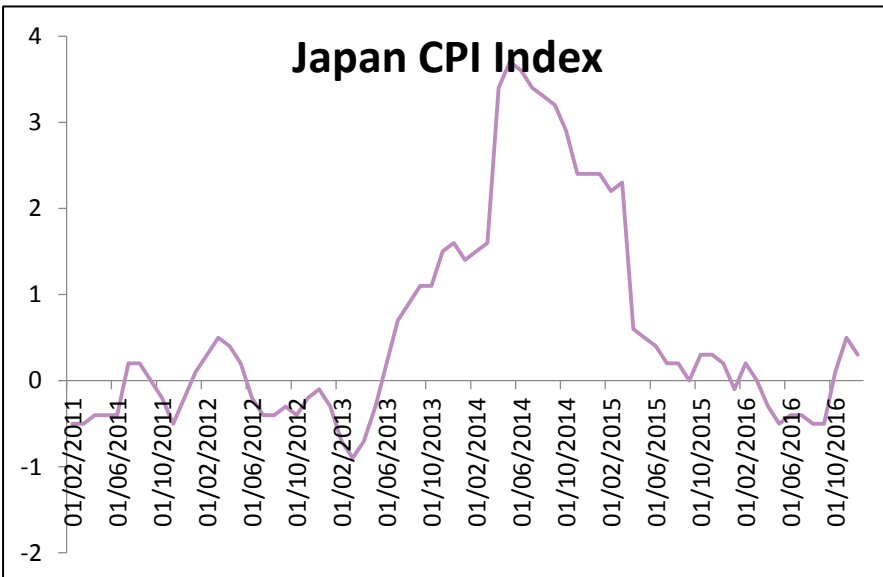
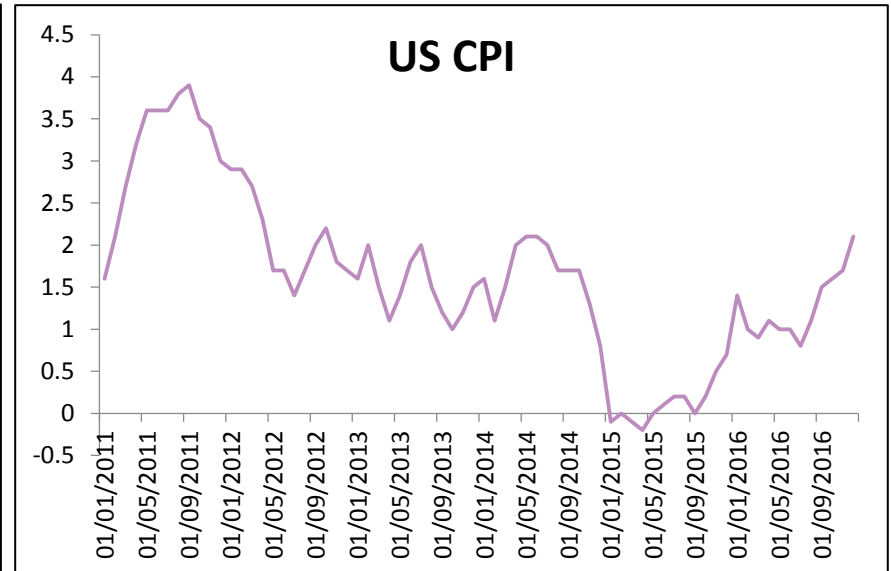
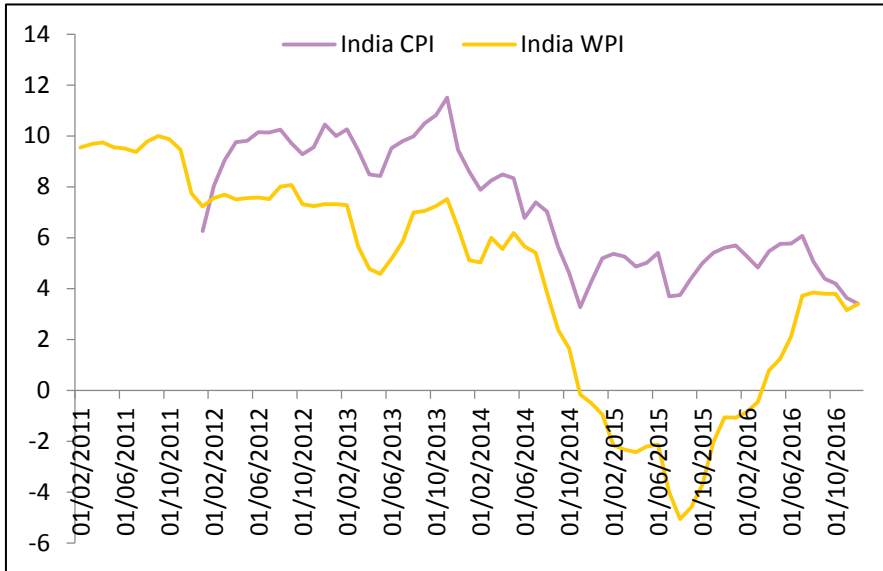
- Return of Inflation
- Bottoming out of Interest Rates
- Direction of Dollar
- Increasing Global GDP Growth Rate

- 4 Key themes – Domestic

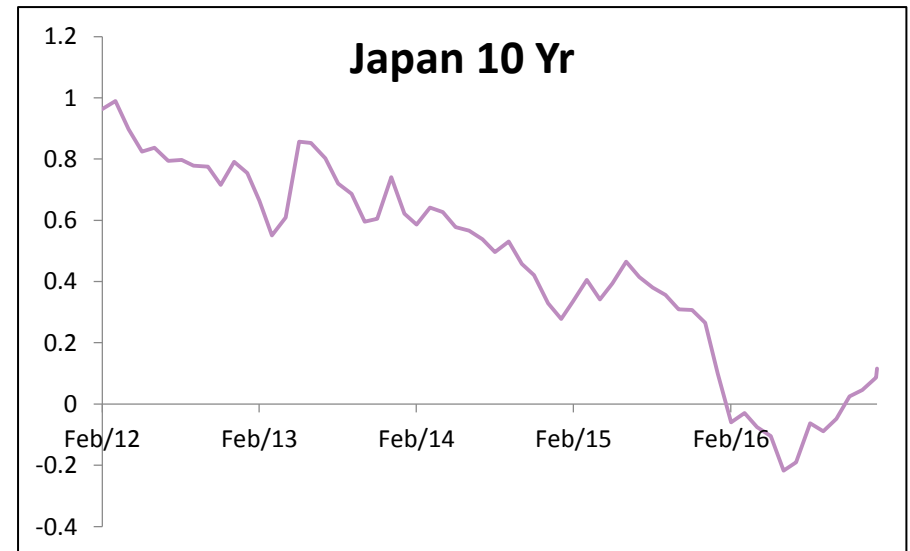
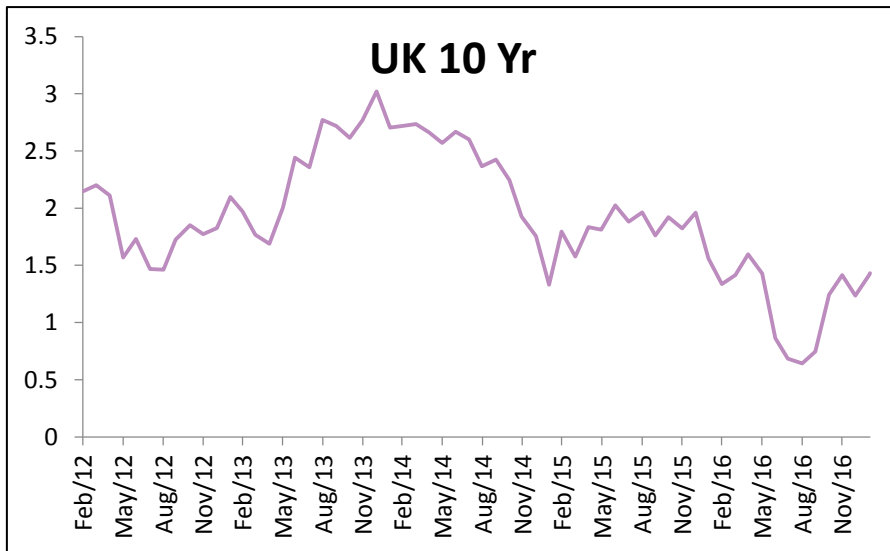
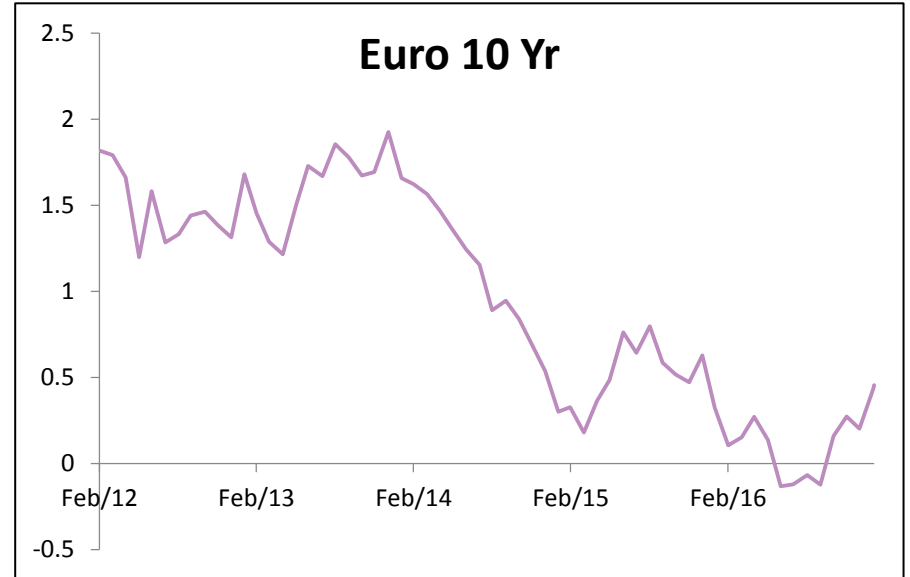
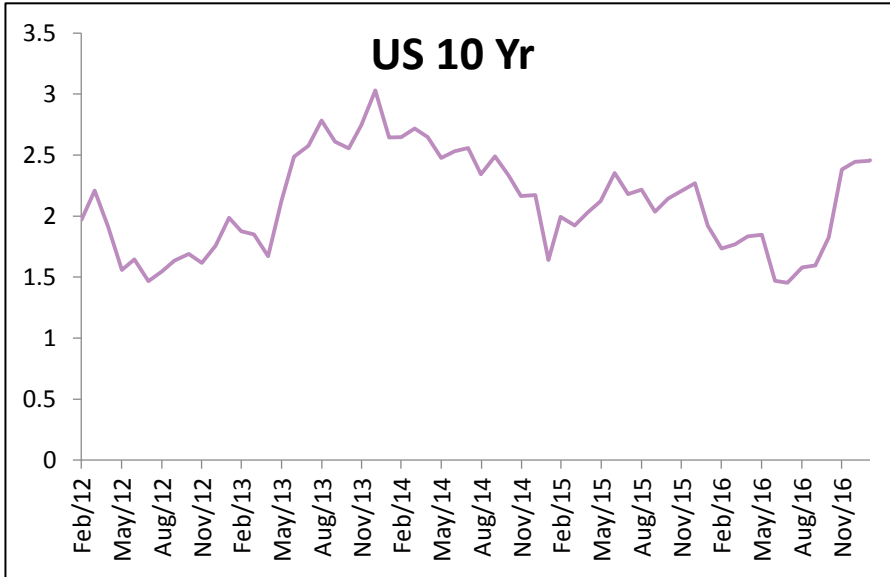
- Implementation of GST
- Earnings Growth – Glass Half-full / Glass Half-empty
- Impact of Nominal GDP on earnings Growth
- Valuation

Return of Inflation

Return on inflation (finally!) led by increasing commodity prices

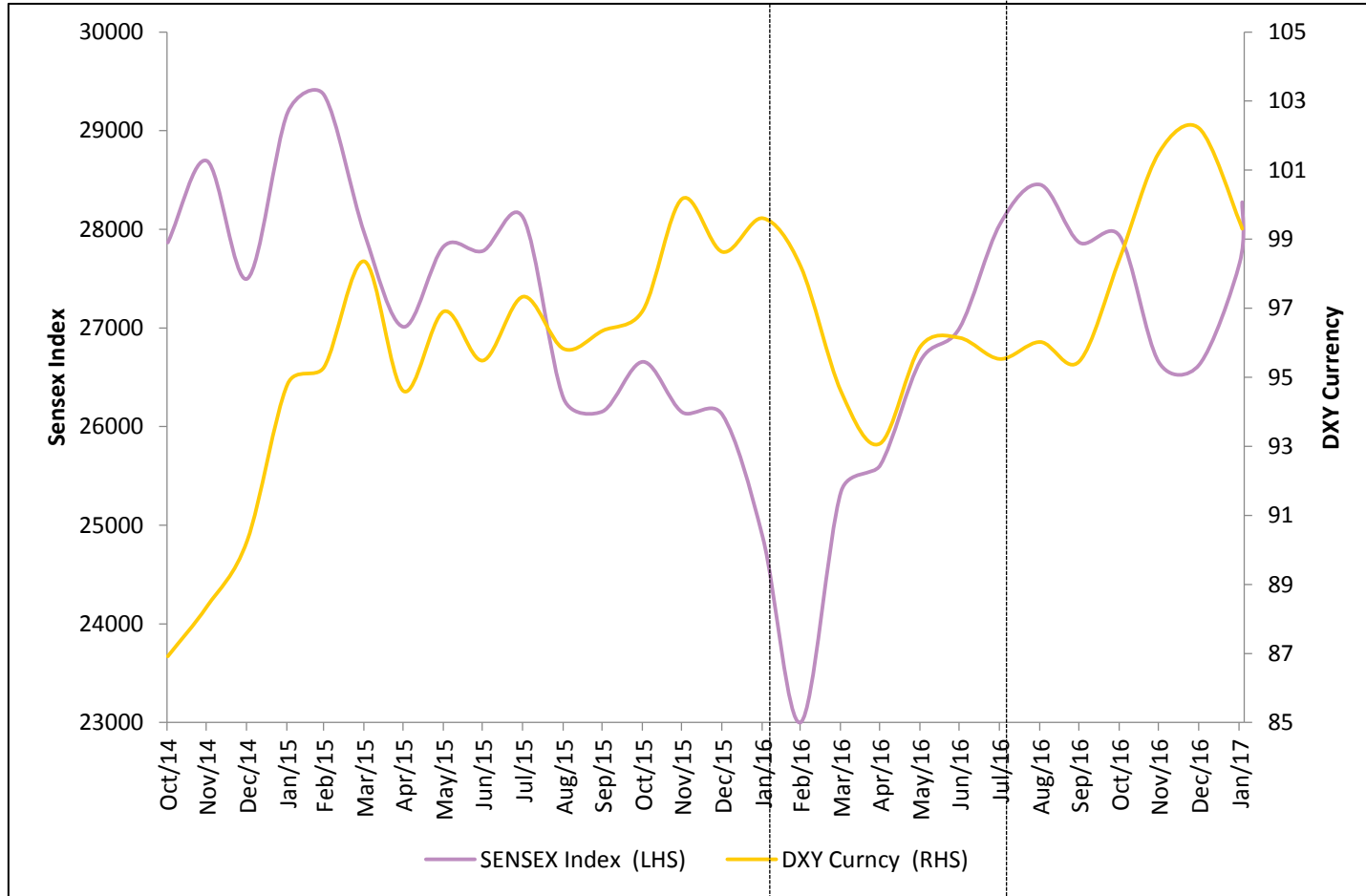


Globally, Interest Rates are bottoming out



Direction of Dollar influences global markets

Recent weakness in the dollar positive for Emerging Markets



Increasing Global GDP Growth Rate

Early signs of pickup in GDP growth visible across key developed markets



Source: *The Economist*



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- It looks likely that this year, for the first time since 2010, rich-world and developing economies will put on synchronised growth spurts.
- Surveys of purchasing managers in America, the euro zone and Asia show factories getting a lot busier

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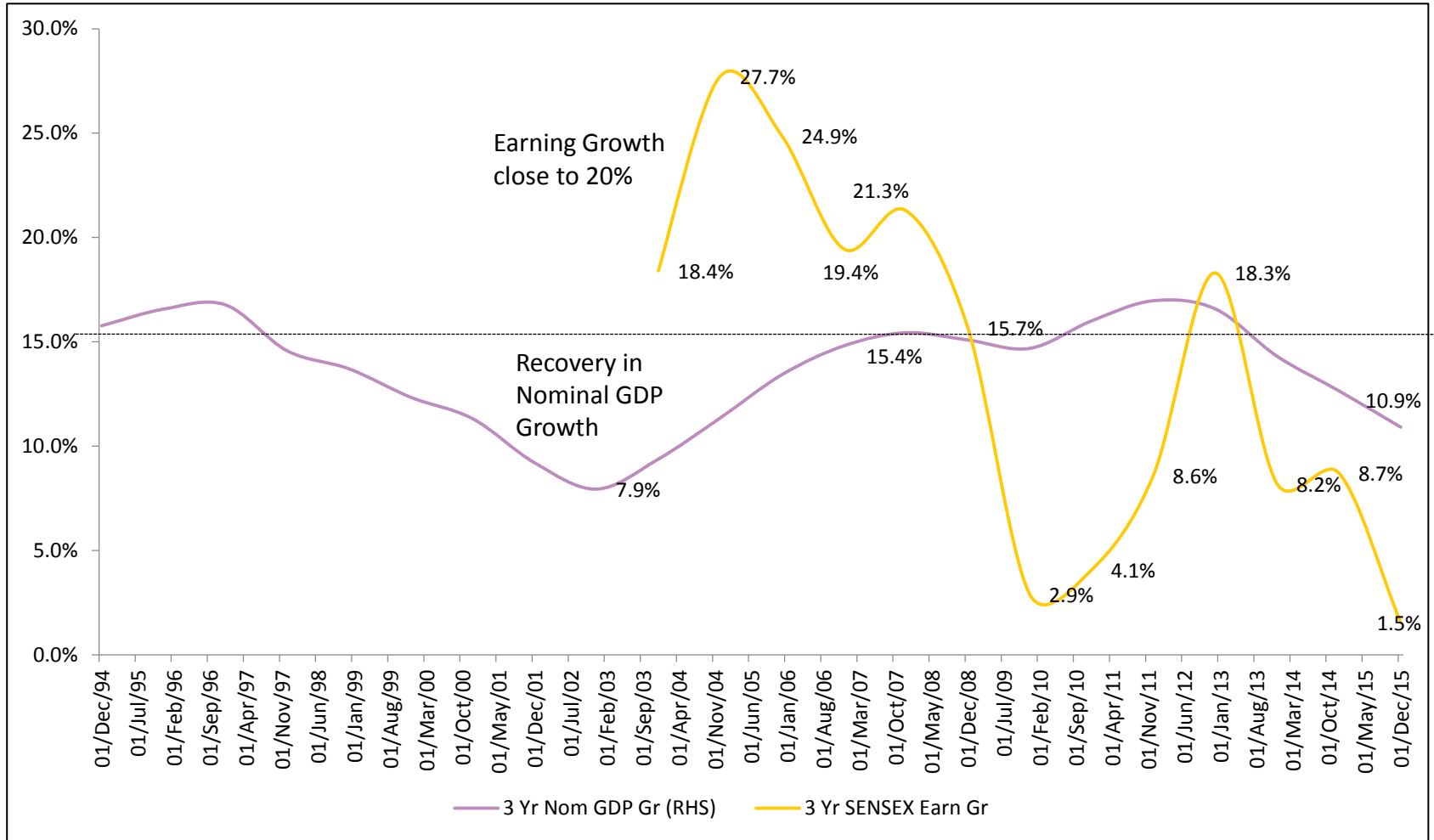
Implementation of GST

GST expected to be implemented from 1st July 2017

- A key structural reform that has a transformational potential
- Near term disruption possible as businesses grapple with implementation
- Expected to be positive over the medium term as business gets formalized
- Multiple levels of impact
 - Possible shift from unorganized to organized as price differential narrows
 - Higher Tax Compliance boosting tax collections
 - Higher potential of marketing spends from unbranded businesses trying to stay relevant

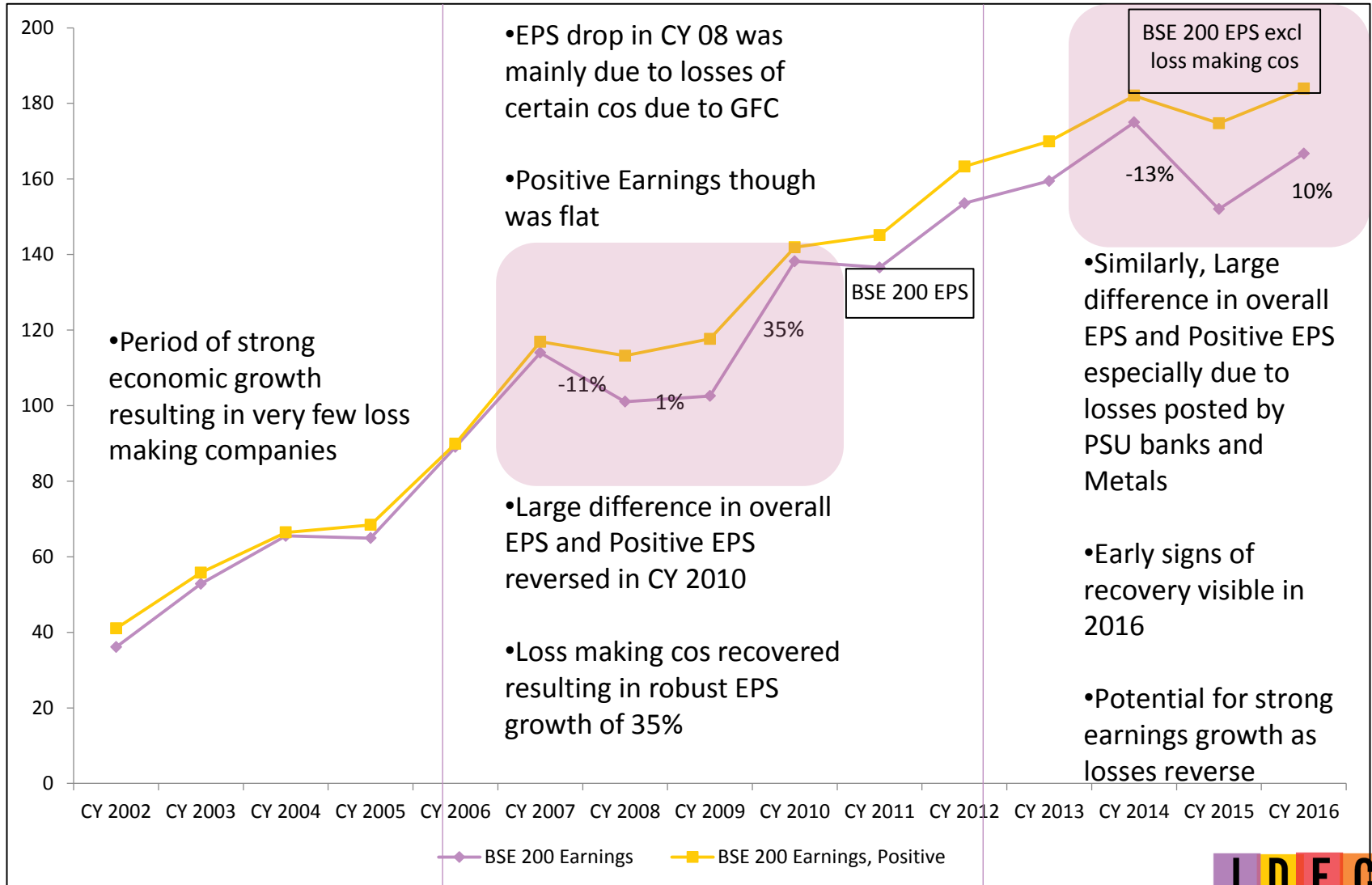
Domestic Nominal GDP Growth

2003-2008 saw increasing nominal GDP Growth resulting in Earnings growth consistently close to 20%



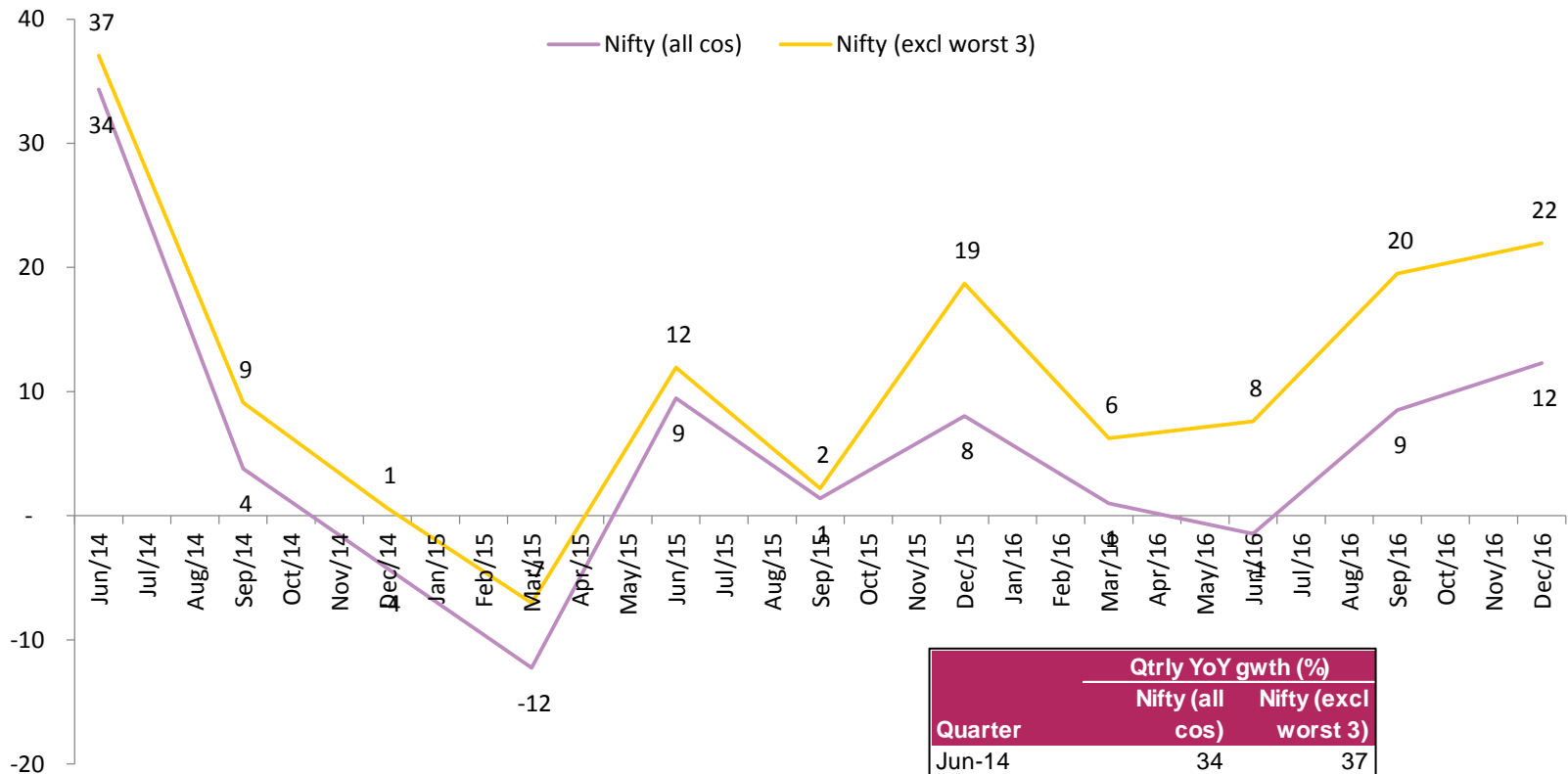
Earnings Growth – Glass Half Full / Glass Half Empty

Uptrend in Nominal GDP Growth will help boost Earnings Growth as Domestic sectors recover



Early signs of Earnings Growth Visible

Last few quarters, Earnings growth dragged by 2-3 companies. Ex bottom 3 stocks, growth robust



Quarter	Qtrly YoY gwth (%)	
	Nifty (all cos)	Nifty (excl worst 3)
Jun-14	34	37
Sep-14	4	9
Dec-14	-4	1
Mar-15	-12	-7
Jun-15	9	12
Sep-15	1	2
Dec-15	8	19
Mar-16	1	6
Jun-16	-1	8
Sep-16	9	20
Dec-16	12	22

FY 18 and FY 19 Earnings Growth drivers

SectorWise	2 Year Forward						
	FY 2017 E	FY 2018 E	2017-18 Growth	Contri to NIFTY	FY 2019 E	2017-19 Growth	Contri to NIFTY
Banks - Ret	2,08,241	2,52,094	21.1%	8%	3,08,572	21.7%	8.4%
Banks - Corp	2,93,034	4,09,092	39.6%	21%	5,45,895	36.5%	21.2%
NBFC	1,11,564	1,23,483	10.7%	2%	1,42,183	12.9%	2.6%
Auto	2,90,423	3,94,190	35.7%	19%	4,81,041	28.7%	15.9%
Consumer Discretionary	11,712	15,527	32.6%	1%	18,329	25.1%	0.6%
Consumer Staples	1,48,093	1,70,618	15.2%	4%	1,92,316	14.0%	3.7%
Information Technology	6,03,089	6,48,924	7.6%	8%	7,09,259	8.4%	8.9%
Health Care	1,52,587	1,78,717	17.1%	5%	2,08,637	16.9%	4.7%
Cement / Building Mat	1,00,466	1,21,364	20.8%	4%	1,51,687	22.9%	4.3%
Industrials	97,374	1,14,658	17.7%	3%	1,35,442	17.9%	3.2%
Materials	1,58,091	2,20,033	39.2%	11%	2,52,176	26.3%	7.9%
Energy	6,16,749	6,67,821	8.3%	9%	7,45,442	9.9%	10.8%
Utilities	1,87,378	2,17,949	16.3%	6%	2,71,374	20.3%	7.0%
Telecommunication Services	62,016	46,344	-25.3%	-3%	73,603	8.9%	1.0%
NIFTY	30,40,815	35,80,811	17.8%		42,35,954	18.0%	
NIFTY ex Corp Banks	24,27,976	27,96,143	15.2%		32,39,305	15.5%	
NIFTY ex Corp Banks & Comm	16,53,136	19,08,289	15.4%		22,41,687	16.4%	

- NIFTY PAT Expected to grow 17.8% in FY 18 and 18% in FY 19.
- NIFTY Earnings growth primarily to be driven by PSU Banks, Metals and Auto

Market Segment Valuation Snapshot

PE levels on the higher side especially in Mid & Small Cap Stocks

	Dec-07	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16	Sep-16	Dec-16	Apr-17
PE Ratio									
NIFTY INDEX	22.9	15.5	16.4	22.0	20.1	20.4	21.7	20.6	22.1
NSEMCAP INDEX	21.0	14.3	15.3	20.8	24.3	32.7	32.5	25.2	29.1
<i>Difference with NIFTY</i>	<i>-1.9</i>	<i>-1.1</i>	<i>-1.2</i>	<i>-1.1</i>	<i>4.1</i>	<i>12.3</i>	<i>10.8</i>	<i>4.6</i>	<i>7.0</i>
NSESMCP Index		20.2	15.1						
<i>Difference with NIFTY</i>		<i>4.7</i>	<i>-1.4</i>						
Positive PE Ratio									
NIFTY INDEX	22.9	15.1	15.8	20.3	18.4	19.9	20.5	19.4	21.4
NSEMCAP INDEX	19.7	11.0	14.0	18.5	17.1	18.7	17.7	16.5	19.7
<i>Difference with NIFTY</i>	<i>-3.2</i>	<i>-4.1</i>	<i>-1.9</i>	<i>-1.8</i>	<i>-1.3</i>	<i>-1.2</i>	<i>-2.8</i>	<i>-2.9</i>	<i>-1.7</i>
NSESMCP Index		7.8	7.0	15.3	13.2	15.4	15.7	15.3	19.2
<i>Difference with NIFTY</i>		<i>-7.3</i>	<i>-8.9</i>	<i>-5.1</i>	<i>-5.2</i>	<i>-4.5</i>	<i>-4.8</i>	<i>-4.1</i>	<i>-2.2</i>
1 Yr Fwd PE Ratio									
NIFTY INDEX	21.9	14.5	16.2	18.6	18.3	17.7	18.5	18.1	17.2
NSEMCAP INDEX	19.6	15.6	14.8	20.7	20.3	19.0	18.9	17.0	18.2
<i>Difference with NIFTY</i>	<i>-2.3</i>	<i>1.1</i>	<i>-1.4</i>	<i>2.1</i>	<i>1.9</i>	<i>1.4</i>	<i>0.3</i>	<i>-1.1</i>	<i>1.0</i>
NSESMCP Index		12.9	24.3	29.0	12.6	11.8	13.6	13.3	17.3
<i>Difference with NIFTY</i>		<i>-1.6</i>	<i>8.1</i>	<i>10.5</i>	<i>-5.7</i>	<i>-5.9</i>	<i>-4.9</i>	<i>-4.8</i>	<i>0.1</i>
PB Ratio									
NIFTY INDEX	6.0	2.6	2.5	3.0	2.5	2.7	2.8	2.6	3.0
NSEMCAP INDEX	4.0	1.4	1.6	2.0	1.9	2.0	1.6	1.7	2.2
<i>Difference with NIFTY</i>	<i>-2.0</i>	<i>-1.1</i>	<i>-0.9</i>	<i>-1.0</i>	<i>-0.6</i>	<i>-0.7</i>	<i>-1.1</i>	<i>-0.9</i>	<i>-0.8</i>
NSESMCP INDEX		1.0	0.9	1.2	0.9	0.9	1.1	1.0	1.3
<i>Difference with NIFTY</i>		<i>-1.6</i>	<i>-1.7</i>	<i>-1.8</i>	<i>-1.7</i>	<i>-1.7</i>	<i>-1.7</i>	<i>-1.6</i>	<i>-1.7</i>

Outlook: 5 Year Forecast

NIFTY	9,198	PE Ratio	22.1	EPS	415.7
5 Yr Earnings Growth					
PE Ratio	22.1	12%	14%	16%	18%
Range	19.5	9.2%	11.2%	13.1%	15.1%
	18.5	8.1%	10.0%	11.9%	13.8%
	17.5	6.9%	8.8%	10.7%	12.6%

- Rising Global GSEC yields may push up cost of capital which could result in compression of PE Ratios
- Historically, the rolling 5 Year Earnings Growth for NIFTY averages between 12-14%
- Last 5 years earnings growth has been in low single digits similar to the level achieved for the 5 years ending 2002-03. As Nominal GDP rebounded, growth picked up for the 5 year period 2003-08.

With Nominal GDP picking up, is the stage set for an earnings rebound?

Disclaimer:

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