Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Apr 2016

Market Update

Nifty	7806
Sensex	25437
10Y G-sec	7.43%
1Y CP	8.45%
CD	7.55%
USD	66.44
Gold	30299 (Rs/10gm)
Brent	46.92 $/bbl

Product Recommendations

DEBT

- **Tax free / Perpetual bonds**
- **HDFC Short Term**
- **IDFC - GSF IP**
- **ICICI Pru Income Opp.**
- **IDFC Corporate Bond**

EQUITY

- **ICICI Pru Banking & Financial Services Fund**
- **Franklin India Flexicap**
- **Franklin India Prima Plus Fund**
- **SBI Bluechip Fund**
- **ICICI Value Discovery**

Contact

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Strategy

Equity

Our markets have rallied and reversed the losses of January and February caused by fears of a global slowdown, Yuan devaluation and scare of a poor budget. We expect the positive momentum to remain on hopes of good monsoon and improvement in corporate earnings. Economic indicators suggest a turnaround. There is also hope that certain key economic bills - mainly the GST is passed.

FII's remain buyers and provided global conditions remain stable, India will become an attractive investment destination. We continue to remain bullish on Indian markets from the medium to long term perspective and in particular, on financial services (including banks) and rural economy related stocks.

We would expect the bankruptcy law and improvement in economic conditions to restore valuations of leveraged infrastructure businesses that will give banks an opportunity to recover, if not, reduce their NPLs.

Debt

RBI cut its key interest rate - the repo rate to a five-year low of 6.5%, a move that should eventually lead to lower borrowing cost. CPI inflation softened to a six-month low of 4.8% in March 2016 from 5.3% in February 2016, driven by lower food and fuel price inflation.

The Federal Reserve left interest rates unchanged, noting that it will continue to "closely monitor" inflation indicators and global economic and financial developments.

RBI has stated its intention to bring the liquidity deficit in the system to neutral, implying an infusion of around Rs 70,000 - 1,00,000 crores over a period of time. Liquidity infusion would push money supply in the system which may stimulate appetite for Gilt. Falling fiscal deficit and lower Government borrowing will keep gilt supply constrained. This demand-supply balance bodes positively for yields.

The expectation of a good monsoon is likely to reduce inflationary pressure on agri-supplies coupled with a Low Interest rate environment globally will reduce yields further.

We see value at the longer end of the curve, and recommend investors (who can withstand volatility) to invest in duration bond / gilt and perpetual bonds. Investors with a lower risk appetite can invest in Short term funds. For those at the higher tax bracket, tax frees remain extremely attractive.