

Dear All,

Last month Indian market achieved a historic figure of Nifty 10,000. This landmark was achieved due to the successful rollout of GST, lower consumer inflation and the support of global indicators. Nifty seems to reach inflection with every 500 points it adds and then looks for direction before making move. On one hand, Nifty PE has reached its high of 25.69 on 31st of July - another relevant indication that shows that market is still not in the mood to go down. On the other hand, Market capitalization to GDP ratio is still around 0.8x which peaked to around 1.30x in 2007-08. Price to book value still remains at 3.51x compared to a high of 6.55x in 2007 -08.



Traders and investors should continue to enjoy high volatility of Nifty for trading and for profit booking.

The Great Indian Rupee Saga:

In the last 4-5 years, the Indian rupee has seen much higher volatility vis-a-vis other major currencies. Rupee went to a low of 68.62 in September 2013 and then to a high of 58.25 in May 2014 when Modi government took over. Since then, Rupee has again started to slide lower and reached 68.60 by December 2016, although it is showing uptrend now. It is becoming very difficult even for economists and research analysts to find out the true levels of Rupee.

The Indian rupee, not being fully convertible, follows the path and directions of Indian and global economic conditions regardless of the domestic political wish of ruling government. Post new government taking over in May 2014, the rupee drifted from 58.25 to 68.50 due to the government's desire of 'Make in India' to make Indian exports competitive and to accumulate more dollars to the Foreign Exchange Reserves.

In the last 2 years, the government tried very hard for up-grade in the currency rating, but for rating agencies, 'a depreciating currency being upgraded for investment purpose' is a bit difficult to digest. The dilemma still goes on. Post demonetization lower inflation level, GST rollout, controlled fiscal deficit and RBI's neutral stand also helped rupee to appreciate. Overseas investors invested around \$18.7 Bn in rupee bonds along with equity investments. Also, Forex reserves increased \$32.5 billion in 2017. Last week's rate cut (25 bps) by RBI surprised many traders with currency movement which appreciated 0.80% in a single day - touching a high of 63.70.

What is the way ahead for Currency traders and Hedgers?

The current government, in its desire to have at least one rating upgrade during its tenure from the rating agencies, would continue to push for appreciating rupee. Besides, a certain section of the economic community feels that foreign reserve at USD 392 Bn seems to be comfortable for the requirement of India and if this finds favors with RBI, rupee may further appreciate.

The strong overseas inflow in government debt securities, commercial real estate segment and FDI may take the rupee to the level of 58.50 by March 2019 - when the current government will be preparing itself for the polls.

Nifty Pharma:

In the last month, Pharmaceutical majors have posted muted earnings for Q1FY18 impacted by the pressure from US market and currency fluctuations. With the further correction in stock prices recently, we extend our bullishness for the more lucrative long term bet. However; after the US FDA relief on patents, the awaited pharmaceuticals pricing policy in the US makes us defensive in the near term.

Nifty IT:

Upholding our earlier expectations, IT stocks performed well (Nifty-It gained 2%) during the month. Mixed quarterly results by the IT majors are indicative of the diverse and de-risked industry fundamentals. Except for the temporary impact on profitability, the US visa regime would put a limited impact on the Indian IT industry. While the original nature of the business remains intact, the timeline over the emerging business vertical and the rationalizing industry structure would compel to count the IT sector as another defensive bet after Pharma.

Bank Nifty:

Many of the PSU banks have yet to come out with Q1FY18 data. So, only time will tell whether they are able to recover NPAs or there are further slippages in the NPA. The new IBC code, the efforts of the government and RBI will certainly play a role. This may also keep the Nifty volatile since banks are having the biggest share (36%) in the Nifty.

Real Estate Segment:

Recently, Blackstone India Real Estate Fund became the single largest real estate fund anywhere in the world for the office and retail space, with the investment close to 30 million sq. ft. This is a proud moment for India to host a single largest fund for real estate segment while competing with its Chinese and US peers. The bullishness investors see in commercial real estate will be reflected in the prices of Realty companies as well.

Meanwhile, the housing segment is still lacking demand growth and the absence of new projects shows the poor state of demand at the upper end, while affordable housing projects announcements are increasing at a reasonable pace. Demand for housing loans in the affordable segment is high, due to government subsidy keeps the books of housing finance companies rising at the lower segment of the economy.

Sugar Industry:

Last month, in what may become a game changing move, Singapore based Wilmar holding decided to increase its stake in India's biggest sugar making company - Shree Renuka Sugars. Wilmar will try to repeat the same story as they did for edible oil segment under the brand of 'Fortune' along with Domestic giant Adani Group. Over a period of time, Fortune brand has become #1 brand in edible oil segment. The same story may be repeated in sugar segment where there is no current national level brand.

The domestic sugar segment companies are hoping to get more attention from other overseas brands and investors in near future and that may be reflected in the prices of these companies.

To sum up as mentioned earlier, at every 500 points rise, Nifty reaches to its new inflection point. So at 10,000 Nifty again looks for direction.

Investors and traders should use the 'buy on dips and sell on rally' strategies to make money. A correction in the market is to be assumed for profit booking and can be used as buying opportunity unless it is being generated by the geopolitical and catastrophic events.

The above strategy also looks good in terms of domestic equity mutual funds holding up to 10% of cash, which is twice their usual cash holding level. Pension funds also with their bigger corpus, seem good enough to invest in. This will act as a support to the market and at times will act as a counter balance in case of any large profit booking or selling by FII's.

Again, continue to invest in mutual funds through SIP as the benefits of GST rollout would start reflecting in the economy very soon.

Happy Investing and Trading to All of You....

Dishant Sagwaria
President & CEO

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