Dear All,

Indian market has just passed a historic moment implementing the GST. In the times to come, Indian economy will be remembered as pre GST and post GST era. Right now most of the GST disruptions have been discounted and this may remain a non-event in short term. However, in long term it will have big impact on the economy in various sectors.
Nifty is also reaching to an inflection point of 9600 and gained most in last six months which is the longest rally in the Nifty in medium term. One side Nifty reaching high PE of 24.5x, on the other side the Price to Book ratio of Nifty shares is still at ~3.5x way below 2008 high of 6.6x.

So what is the way ahead for investors and traders...

On one side GST related, industry wise effects will be known as the time elapses. Other prominent opportunities segment wise are being discussed herein below –

Nifty Pharma:

In the last month, Indian pharmaceutical companies got its biggest relief from the US FDA. First time in the history, US FDA commissioner released the list of Off-patent pharmaceuticals. They also issued off patent pharmaceuticals with limited or no competition. Both the moves seek to increase the generic drug competition and lower the cost of pharmaceuticals in USA.

US FDA commissioner, Gottlieb, said in a statement "No patient should be priced out of the medicines they need, and as an agency dedicated to promoting public health, we must do our part to help patients get access to the treatments they require." In an update to the agency's Manual of Policies and Procedures (MAPP) on the prioritization of the review of ANDAs, FDA says: "Generic products for which there are fewer than three ANDAs approved for the reference listed drug (RLD) and for which there are no blocking patents or exclusivities on the RLD may receive expedited review."

This could be a milestone in the Indian drug and pharmaceuticals industry for the companies who are having US FDA plants and exporting to USA. For the last two years Indian pharmaceutical companies were under tremendous pressure due to increased US FDA inspection due to previous president policies like Obama Healthcare and US wish to make the drugs locally. The Nifty Pharma PE ratio fell from all time high of 77.7x in October 2015 to 32.5x in May 2017.

With the recent announcement of US FDA, Indian pharmaceutical companies are best suited to capture the opportunities and we see a 20% rise in Nifty Pharma index in next one year. Due to this, we expect Nifty Pharma P/E ratio to increase from 35x to 42x. Nifty Pharma Stocks which are having major exports to US may gain the prominence as defensive stocks and may be accumulated as when prices move down.

Nifty IT:

Again, for this segment also, the positive news came from US, where recent report by US administration showing that H1B visa is not the cause of job losses in USA at the lower level. All the jobs offered in IT sector in USA are in the high range which also helps US to retain its technological superiority. So in the last week, US once again showed this inclination to process premium H1B visas which were held up for quite some time.

The US Citizen and Immigration Services (USCIS) said, "USCIS plans to resume premium processing of other H-1B petitions as workloads permit. We will make additional announcements with specific details related to when we will begin accepting premium processing for those petitions."
So this will help Indian IT companies to once again ramp up their business without fear of US administration pulling them up in visa related cases. Besides we also expect the digital strategy of Indian IT companies will start showing some results.

As contrarians bet we feel that Nifty IT Index has chance to grow by 10% in next one year. Though getting a new business is still a challenge for Indian IT companies.

Bank Nifty:

In last two years, Indian banking segment has seen a very zigzag move due to the NPA and recovery issues. Now the banking sector has come off a full cycle with the enactment and implementation of bankruptcy code and the required ordinance empowering RBI. In the last month, two big NPA cases of JP associates and Essar Oil have been successfully resolved through M&A activities. In the future RBI pressure will put more onus on other companies with NPA cases for quick resolution.

Till now, all the risks and opportunities with banking have been fully discounted in the current Bank Nifty levels. Henceforth, only credit growth and M&A actions, either takeover of smaller banks or the sale of non- core assets will keep moving the individual banking stocks. Further, debt waiver to farmers, though fully undertaken by state government, will be interest and treasury losses for banks since generally state governments are having the habit of delaying waiver payments to banks.

This may also keep the Nifty range-bound since banks are having the biggest share (35%) in the Nifty.

BSE Oil & Gas:

Last month, a couple of major industry developments like announcement of daily revision of prices of petroleum products will give much of the opportunities to private sector players to become the price leader in petroleum products which were till date controlled by government OMCs in the form of fortnightly price revision. The other development, the recent announcement of Reliance - BP and the acquisition of stake in Essar oil by Rosneft will bring retail outlets of private companies and will spread better customer services putting pressure on government OMCs. Further proposal to merge HPCL with ONGC may also put pressure on ONGC.

The biggest opportunity in BSE oil & gas seems to be GAIL, while Government of India had big plans for clean energy through Gas availability across India. GAIL intends to increase its network of gas pipeline in central and North-East India. In the near term GAIL will not face any competition so have a good chance to encash on its network of pipelines.

Nifty FMCG:

With the implementation of GST, there will be big ups and downs in the FMCG segment and our research team will keep you updated about the hits and misses in the segment.

To sum it all up GST will be a big game changer in the Indian economy in the time to come. A large number of overseas mid size retail brands in Food and Consumer Durables are ready to enter India with the implementation of ease of doing business and a single taxation system.
This will also give impetus to commercial real estate in the form of shops and malls. Companies in the real estate segment for commercial reality will be the good one to encash these opportunities.

As mentioned earlier, Nifty has reached an inflection point and seen the historic high in the recent month. In the months to come, we expect, Nifty will again attempt to cross its new and historic levels. In June 2017 we saw the lowest level of VIX at 8.75 which may again increase to the levels of 20-25 in the next six month to one year.

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 as profit booking and should be used as a buying opportunity unless it is being generated by the geopolitical and catastrophic events.
Further, from 17th July 2017, parliamentary session will be in place till 12th August 2017. Usually 9 out of 10 times, Nifty becomes range-bound and trades with lower bias during the parliamentary session.

The pension funds with its increased allocation of 15% of their corpus to equities, their new inflows are always ready to support the market as and when needed.

Though Nifty is at inflection point, continue with your SIPs in the mutual funds since benefits of GST on Indian economy will be visibly historic in the next 3-4 years timeframe.

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

Dishant Sagwaria
President & CEO

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