Destimoney
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From CEO Desk - Market at a Glance
December 2017

Dear All,

Indian markets achieved historic highs of Nifty at 10,490 in early Nov of 2017. This was one of the best returns from Nifty in the market despite so many geopolitical and economic distortions.

Nifty proved us right when during the month of December 2016 Nifty was at about 7800 level and we advised our investors to stay invested & that Nifty was most likely to touch 10,000 level in 2017. Our investors made handsome money while staying invested in the market.

The upside momentum in the market was possible due to growth momentum initiated by the government, GST implementation and continuous inflow of money in domestic Mutual Funds.

Way Ahead:

The year 2018 looks to be more exciting than year 2017. All the good work done by the government in the field of infrastructure and GST implementation is likely to give more robust tax revenue collection for government and higher GDP growth. The continuous growth will put the country in the next growth trajectory where we can expect 8-10% growth in GDP in the coming years.

Currently, Nifty is trading in the range of 17.4x FY19 forward P/E. Going forward, we expect 20% growth in corporate profitability which will put the Nifty at 21x P/E premium in FY19. The Nifty Companies profitability achieved its high of 11% in FY07 and currently at ~9%. This we expect to grow at the earlier high level of 11%. This gives Nifty the range of 12,500 which looks very much achievable in the year 2018.

What to Buy at Current Juncture?

Cement and Steel:

The sector is currently running at 70-80% capacity utilization and if demand comes in infrastructure and housing sector, this sector may achieve 85-90 % utilization. Any further demand may boost the prices in the segment since the new capacity addition will be time consuming. Till then companies will be enjoying market monopoly and greater profitability. So Cement and Steel segment to be the new defensive segment for the investors. Buy on dip any time during the year.

Infrastructure:

Infrastructure is the foundation to the success of the government's economic policies and has been in the focus. The sector appears to have entered a new growth trajectory stimulated by the government policies. Ambitious plans of Bharatmala Project, Railway Electrification and infrastructure status to logistics segment would generate latent growth prospects and would see revival of the stalled investment. Support to the low cost housing would open up opportunities across the allied segments as well. The mid size infra companies expected to reward investors in big way in the year 2018.

Oil & Gas:

With the thrust of government on cleaner fuel, India will become more gas based economy which will be advantageous for the companies in this sector. Government is also planning to implement national gas grid and expansion of pipelines to eastern and central India. GAIL and Petronet LNG would be the key beneficiaries of the policy move by the government.

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Automobile:

With the robust demand in automobile segment and the increase in infrastructure towards roads and highways, this sector will continuously attract higher investments from the companies and slowly the segment is getting the status and rating as FMCG Sector. However, the government's wish to have cleaner environment and implementation of BS-VI from April 2020 and electric vehicles may push the input costs on higher side for these companies. Mid size auto parts companies will get attention of major global Auto players as they plan to increase local manufacturing in India.

Real Estate:

The government's wish to have housing for all by 2022 and the infrastructure status to low cost housing will bring more investment into the segment. The real estate industry as a whole has seen structural changes in last one year from demonetization to RERA implementation. The premium housing sector may still see challenges in year 2018. However, companies associated in commercial real estate may see good demand in terms of increase in economy.

Power:

Government's plan to implement power for all by March 2019 will give boost to power generation and distribution companies. Successful implementation of UDAAN scheme will see increase in profitability of these companies. The generation companies, Tata Power, Adani Power and companies in distribution segment could perform well in 2017 may see their profit rising in 2018.

FMCG:

The FMCG has digested the bitter pill of demonetization well and has seen recovery in sales volume and channel stocking going up in the last few months. Implementation of GST has brought multifold benefits to the business – distribution simplification, lowered taxes on most of the items and market uniformity. The sector would performance well in terms of profitability led by pickup in sales volume and product differentiation.

Retail:

Currently the retail sector is getting one of the highest historic P/E valuations where industry P/E is reaching ~100x. Such a high P/E valuation may not be sustainable in the future so investors to switch from the companies having more than 100x P/E to the companies having reasonable P/E compared to Nifty and companies implementing some innovative strategies for expansion.

Bank Nifty:

The recent announcement of Rs. 2.1 lakh crore recapitalization plan have brought a respite to the industry, also, the recent amendment to IBC has simplified and expedited the account resolution process for the banks. However, RBI's revised inflation target could restrict the ability to lower interest rates further. With the implementation of Basel III in focus from FY19, the pace of growth could be slowed but the sector would replicate the market performance.

IT and Pharma:

Both the major and key segments of Indian Equities have been experiencing the heat from the structural changes in the overseas operating markets and would continue to remain underperformer relative to benchmarks with lower growth expectations.

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NASSCOM has held the growth target at 7-8%, however, the shift to the new verticals of digital and cloud business would take time to implement and the growth would remain muted in the near future.

In Pharmaceuticals industry, as the norms in US are tightened, the actual impact of that and the strategic initiative of discovering new untapped African and Latin American markets would remain in focus.

Commodity and Currency:

Strengthening global major economies would maintain the robust demand for and pull up the prices of base metals in the near future. Resilience of the Chinese economy, multiyear high level of US economic growth and Japanese economy would spur the industrial demand of base metals in the global markets. OBOR initiative by China would further create the demand for base metals from other developing Asian countries.

On currency front, we are still confident of INR. Foreign investors have been returning to India hunting for lucrative opportunities. The recent sovereign rating upgrade of India by Moody's and stimulus to exports under the new tax regime would support to the Indian currency over the next couple of years till 2019. Rupee could be seen appreciating to 62 level against the USD by December 2018 and would further strengthen to 60 by March 2019.

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 used to be a buying opportunity unless it is being generated by the geopolitical and catastrophic events.

Nothing to mention again continue to invest in mutual fund SIPs as the benefits of increase in GDP would start reflecting in corporate earnings in the coming year.

Happy Investing and Trading to All of You...

Dishant Sagwaria
President & CEO

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