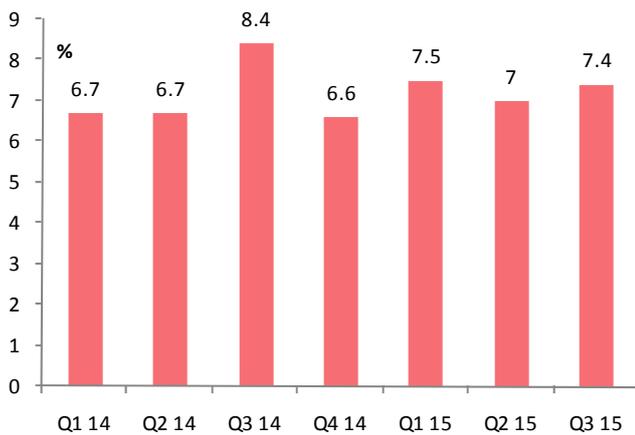
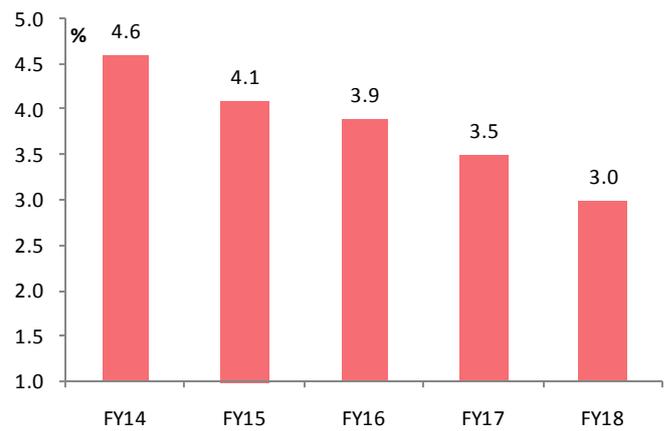


After a cumulative 125 basis points cut in the repo rate by RBI during past 12 months, market participants are now bracing for a pause. Slowing economic conditions definitely demands further fall in the interest rates but growing concerns over fiscal prudence and rise in food inflation is pouring water on such possibility. On growth front, Indian government downwardly revised GDP estimates for the current fiscal year. GDP projection for FY2015-16 is lowered to 7.2% from 7.3% reported earlier. Few quarters back, the Finance ministry expected the economy to grow around 8%. Growth numbers for the previous fiscal year (FY2014-15) has also been lowered to 6.6% from the earlier estimate of 6.9%.

India GDP growth



India Fiscal Deficit projections (% of GDP)



Source: Bloomberg, India Infoline Research

On inflation side, retail inflation during December has moved higher towards 5.61%, when compared with the reading of 5.41% and 5% during November and October respectively. Erratic monsoon has adversely impacted the output of grains, pulses and other crops and in the process led to higher food prices. RBI's focus is accentuated on maintaining retail inflation around 5% by the end of March 2017. Further spike in consumer inflation can dampen the prospects of another cut in the interest rates. There are also concerns over the progress of fiscal consolidation. There is skepticism on whether the incumbent regime will be able to meet the fiscal deficit of 3.9% by the end of this fiscal year. Fiscal deficit for the April-December 2015 period stands at 87.9% of FY2015-16 target. Recent hike in salaries and pensions of Central government employees can impair the plans of attaining budgetary targets.

India CPI



India CPI - Food



Source: Bloomberg, India Infoline Research. Note: CPI numbers are from the new data series, beginning from 2014

Meanwhile, trajectory in oil prices has worked in the favor of Indian economy. Considering India's dependence on oil imports, falling energy prices has proved as a boon for the nation's current account balance. In the latest, India's current account deficit narrowed to 1.6% of GDP during the second quarter of the FY2015-16, when compared with the reading of 2.2% the same quarter last year. Nevertheless, India's trade deficit rose to US\$11.7bn in December 2015, compared to US\$9.1bn a year ago, as merchandise exports during December fell for the 13th successive month on account of weak global demand and competition from depreciating emerging market currencies. Exports fell 14.75% on yoy basis to US\$22.3bn, while imports were reported at US\$33.96bn.

RBI will also review the developments in the global economy before taking a call on the interest rate trajectory. The prevalent environment remains challenging, given the transition in Chinese economy and its repercussions on the financial markets. Markets are also concerned about the possibility of a further hike in US interest rates. Fed's recent policy statement was not as dovish as market participants were expecting, considering the fragile global economic landscape and tumbling equities. Fed stated that it is closely monitoring global economic developments but it reiterated moderately optimistic outlook on US economy, elaborating that rate hike will be gradual and data-driven. This implies that the central bank will persist with the process of policy normalization. Several economists expect Fed to hike rates twice this year, well below the four rate hikes projected during December policy meeting.

India 10 year sovereign yields



Indian Rupee



Source: Bloomberg, India Infoline Research

In the credit markets, Indian sovereign bonds have scaled higher after RBI's last monetary policy review, with yields on 10-year benchmark (G-Sec 7.72% 2025) moving above 7.8% levels, when compared with the levels of 7.72% on December 1st 2015. There are concerns over persistent foreign capital outflows, as risk aversion prevails given the weakness in world financial markets and bleak economic backdrop. The repercussions are palpable in the Indian capital markets, with foreign capital outflows in equities during January this year amounting to US\$1.65bn. To counter this, Government of India conducted auction of unutilized limits of Rs7,500 crores in debt markets for long-term foreign investors.

It seems likely that India's central bank will opt to maintain status quo on the interest rates, restricted by threat of further rise in food prices, concerns over the progress of fiscal consolidation and challenging global economic backdrop. However, RBI will continue to maintain liquidity in the monetary system through open market operations.

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

India Infoline Group (hereinafter referred as IIFL) is engaged in diversified financial services business including equity broking, DP services, merchant banking, portfolio management services, distribution of Mutual Fund, insurance products and other investment products and also loans and finance business. India Infoline Ltd ("hereinafter referred as IIL") is a part of the IIFL and is a member of the National Stock Exchange of India Limited ("NSE") and the BSE Limited ("BSE"). IIL is also a Depository Participant registered with NSDL & CDSL, a SEBI registered merchant banker and a SEBI registered portfolio manager. IIL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorised persons and sub-brokers spread across the country and the clients are provided online trading through internet and offline trading through branches and Customer Care.

Terms & Conditions and Other Disclosures:-

- a) This research report ("Report") is for the personal information of the authorised recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without IIL's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but IIL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, IIL or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.
- b) Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by IIFL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.
- c) The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. IIL or any persons connected with it do not accept any liability arising from the use of this document.
- d) Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.
- e) IIL has other business segments / divisions with independent research teams separated by 'chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.
- f) This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIL and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report may come are required to inform themselves of and to observe such restrictions.
- g) As IIL along with its associates, are engaged in various financial services business and so might have financial, business or other interests in other entities including the subject company/ies mentioned in this Report. However, IIL encourages independence in preparation of research report and strives to minimize conflict in preparation of research report. IIL and its associates did not receive any compensation or other benefits from the subject company/ies mentioned in the Report or from a third party in connection with preparation of the Report. Accordingly, IIL and its associates do not have any material conflict of interest at the time of publication of this Report.

- h) As IIL and its associates are engaged in various financial services business, it might have:-
- (a) received any compensation (except in connection with the preparation of this Report) from the subject company in the past twelve months;
 - (b) managed or co-managed public offering of securities for the subject company in the past twelve months;
 - (c) received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;
 - (d) received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months;
 - (e) engaged in market making activity for the subject company.
- i) IIL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company/ies mentioned in the report as of the last day of the month preceding the publication of the research report.
- j) The Research Analyst/s engaged in preparation of this Report or his/her relative
- (a) does not have any financial interests in the subject company/ies mentioned in this report;
 - (b) does not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report;
 - (c) does not have any other material conflict of interest at the time of publication of the research report.
- k) The Research Analyst/s engaged in preparation of this Report:-
- (a) has not received any compensation from the subject company in the past twelve months;
 - (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months;
 - (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;
 - (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months;
 - (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report;
 - (f) has not served as an officer, director or employee of the subject company;
 - (g) is not engaged in market making activity for the subject company.

We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, www.bseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the “three years” period in the price chart).

Published in 2016. © India Infoline Ltd 2016

India Infoline Limited (Formerly “India Infoline Distribution Company Limited”), CIN No.: U99999MH1996PLC132983, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

National Stock Exchange of India Ltd. SEBI Regn. No. : INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.:INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA000000623, SEBI RA Regn.:- INH000000248.

For Research related queries, write to: Amar Ambani, Head of Research at research@indiainfoline.com
For Sales and Account related information, write to customer care: cs@indiainfoline.com or call on 91-22 4007 1000