

Time to raise some cash?

The recent weakness in the broader market refuses to die down, indicating possibility of a sharp volatility in the frontline indices i.e. Nifty/Sensex going forward.

The period before the General Elections could be messy from the point of view of capital markets. Political parties could take to competitive populism while the general public (and more specifically taxpayers) will wonder as to who will foot the bill. Economists and credit rating agencies are watching and may sound a note of caution, which may go unheard till the election results are out. India's macros are anyway not doing too well. Pressure of fiscal shortfall could ultimately impact inflation and currency with a lag. Off balance sheet financing of Government spend (through FCI, NSSF, NHAI etc) will keep growing; burdening our future generations.

While interim Budget should ideally be a non-event, media and some politicians have raised hopes of major changes in the Budget. We think unnecessary hype has been created! Apart from some minor tax reliefs for the middle class, a vision statement addressing issues faced by agriculture and employment generation, not much may come out of the Budget. This may disappoint investors who have begun to build hopes. Rural/Agri related measures require involvement of State Governments. Even if large announcements are made, their implementation will depend on how far and soon the States come on board.

Tackling rural pain through UBI (Universal basic Income) or DBT (Direct Benefit Transfer) or any other method requires two things. Firstly, whether the current available subsidies/transfers/social programs will be replaced or included in the new measure and if yes whether States will agree to this and to what extent. Secondly, if it is widespread how this will be funded in the second year onward (assuming that RBI transfer by way of dividend or capital will fund the first year's requirements).

Fiscal deficit for FY19 may exceed from the budgeted levels by 20-30 bps even as the shortfall in revenues (through GST, telecom etc) could be offset by postponing expenditure including fertiliser, oil and food subsidies (or transferring it to off balance sheet like FCI) to the next fiscal. Given the current macroeconomic conditions of slowing global demand, low inflation and weak business cycle, not many would object to this relaxation of fiscal targets. Fiscal deficit target for FY20 could be estimated at 3.3% vs 3.1% mandated by the Medium term policy framework.

At the micro level, quite a few companies continue to be in a sweet spot, delivering good numbers quarter after quarter. But a majority of companies are feeling the pressure of disruption (accelerated by demonetisation, RERA and GST) due to change in regulations, technology or access to liquidity. Furthermore, most promoters are unwilling to accept or come clean about this situation and how they plan to deal with this. Over regulation, policy uncertainty, absence of entry barriers (resulting in unhealthy competition and under-utilised capacity) and populism could impact more businesses, going forward. This, apart from hurting their marketcap, could also result in a fresh wave of NPA creation across sectors.

Among global issues, we have trade wars and China slowdown that could harm India indirectly and in a material manner. Risk appetite of investors could shrink and currency turmoil could create fresh round of asset sales globally (especially in emerging markets).

What we need is a responsible political class which acts more prudently from a medium term perspective for the benefit of the nation rather than short term measures to influence a segment of population. Rather than push hard decisions for the future, they need to think of the coming generation so that the public kitty or wealth is not shrunk. This will avoid burdening them with hyper-inflation and/or devalued currency. We Indians go for major reforms towards prudent behavior only under extreme pressure of currency turmoil. Let's hope our leaders and voters realise this and act before it's too late.

In the meanwhile, we have to work towards reducing regulation, avoiding policy flipflops, ensuring compliance, improving legal delivery, monitoring capacity creation by lenders and assuring entrepreneurs with certainty of policies for a reasonable period of time.

Equity markets could see valuations going from one extreme to another. Nifty earnings could again disappoint over the next 1-2 quarters and refuse to grow beyond low double digits. Fatigue by domestic investors could get reflected in redemption pressure and/or fall in monthly SIP numbers. FPIs are a wild card and their disappointment could bring in a fresh round of volatility, though the trigger and its time is uncertain.

In such a situation raising some cash out of equity holdings may be a good idea, although eternally hopeful investors will still look forward to equities to create wealth for them over the medium term. While most stocks have fallen from their recent highs, there is no good time than today to do portfolio clean-up and restructuring. This cash may be deployed when the clouds on the horizon are getting dispersed and valuations become even more attractive.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 3075 3450 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) | NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | AMFI Reg No. ARN - 13549, PFRDA Reg. No - POP 04102015, IRDA Corporate Agent Licence No.-HDF2806925/HDF C000222657 HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

Disclaimer : HDFC securities Ltd is a financial services intermediary and is engaged as a distributor of financial products & services like Corporate FDs & Bonds, Insurance, MF, NPS, Real Estate services, Loans, NCDs & IPOs in strategic distribution partnerships. Investment in securities market are subject to market risks, read all the related documents carefully before investing. Customers need to check products & features before investing since the contours of the product rates may change from time to time. HDFC securities Ltd is not liable for any loss or damage of any kind arising out of investments in these products. Investments in Equity, Currency, Futures & Options are subject to market risk. Clients should read the Risk Disclosure Document issued by SEBI & relevant exchanges & the T&C on www.hdfcsec.com before investing. Equity SIP is not an approved product of Exchange and any dispute related to this will not be dealt at Exchange platform.

This report is intended for non-Institutional Clients only. The views and opinions expressed in this report may at times be contrary to or not in consonance with those of Institutional Research or PCG Research teams of HDFC Securities Ltd. and/or may have different time horizons. Mutual Fund Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.