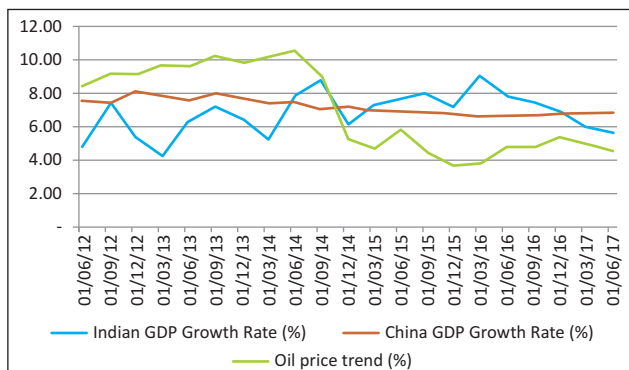


Market Update: The Future of the Indian Economy

Markets seldom trade in perfection. Most of the times, they are either ahead or behind current market scenarios. At this juncture, the market is facing a few unanswered questions.

- Is the Indian economy slowing down?
- Will earnings growth soon catch up with valuations?
- How might geopolitical situations transform the global market?
- How will the government procure resources to continue expenditure as private CapEx is yet to start?

While these questions may not be answered quickly, nor may markets be able to predict their outcome, the fact remains that even at a current rate of 5.7%, the Indian GDP is still growing faster than most other nations. Inflation may have moved up in the past few months, but it still remains within the RBI's comfort zone. Corporate earnings on average may not look good, but there are some sector/companies which are doing well. This divergence in earnings coupled with huge liquidity overhang (funds not in use) has misplaced valuations in some places.



The Indian economy is not the only economy that has witnessed a slow down. Other emerging market economies have been witnessing this slowdown for some time now as well.

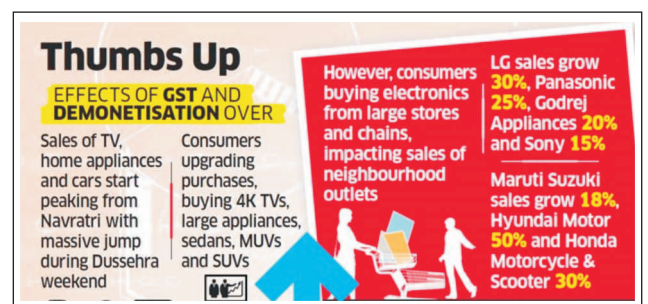
The BOI AXA Perspective

The financial deleveraging (reduction in debt) which started along with a fall in oil prices impacted global demand, and all export-oriented economies have started to see a moderation in growth. Indian exports, though not the main contributor to GDP, has also contracted. However, the Indian economy has been showing resilience thanks to strong

domestic consumption; and so has become the fastest growing economy in the world, because of faster correction in economies like China.

The successive events of demonetization and GST implementation disturbed the Indian consumption rate and the economy began to slow down. Now, with these events behind us, Indian consumption has started to pick up again.

The festive sales so far have been encouraging and companies expect the trend to continue. Now, India is not only consuming again but also consuming premium/higher value items. This should not be attributed as a big city phenomenon as most of the consumption is happening across small towns. With an average monsoon this year, the rural consumption should also not waver greatly. If all this continues to hold, the consumer durable and retail-focused NBFCs (Non Banking Financial Company) will continue to show good results and will continue to justify their valuations to some extent.



We think that the government should continue on its path of fiscal consolidation, and keep pushing capital expenditure in infrastructure, even if the economy takes little longer to turn the corner. This should help in containing inflation and attracting some much needed foreign capital to India.

Source: Bloomberg, ET (Unless indicated otherwise); Dated: October 1, 2017