SOUTH ASIA

INDIA – 3.5 STARS (ATTRACTIVE)

- India's exports grew at 4.48% in Feb 18, while imports grew at 10.41% during the same time period.
- India's CPI came lower at 4.44% during the month of Feb 18 as against 5.07% during the previous month.
- IIP stood at 7.5% y-o-y in Jan 18 compared to revised growth rate of 7.1% y-o-y in Dec 17.
- Consensus estimates for earnings growth for FY19 and FY20 are 24.99% and 19.94% respectively. (As on March 26, 2018)

MARKET OUTLOOK

Exports during February 2018 valued at USD 25.83 billion as compared to USD 24.72 Billion during February 2017, registering a growth of 4.48%. Exports have been on a positive trajectory since August 2016 to February 2018 except for a temporary setback in October 2017. On the other hand, imports grew at 10.41% year-on-year and was valued at USD 37.81 billion as against USD 34.24 billion in February 2018. Major commodity groups of import showing high growth in February 2018 over the corresponding month of last year are Petroleum, Crude & products (32.05%), Electronic goods (18.95%), Machinery, electrical & non electrical (23.04%), Pearls, precious & Semi-precious stones (15.86%) and Coal, Coke & Briquettes, etc. (17.73%). In effect, the Trade Deficit for the month stood at USD 11.97 billion vis-a-vis the deficit of USD 9.52 billion during February 2017.

India's CPI came in lower at 4.44% year-on-year during the month of February as against 5.07% during the previous month. Number is lowest in since November 2017 (a four month low). A look into the numbers revealed that food inflation falling to 3.38% as against 4.58% in the previous month. The decline was led mainly by low inflation rate of vegetables which was 17.57% vs 26.97% in the previous month. Among the others which contributed to the decline in Food inflation were Pulses & Products which fell by -17.35%.

IIP stood at 7.5% year-on-year in January 2018 compared to growth rate of 7.1% year-on-year in December 2017. The major sectors like Mining, Manufacturing and Electricity registered growth rates of 0.1%, 8.7% and 7.6% respectively. On a Use-Based classification, Primary Goods, Capital Goods, Intermediate Goods, Infrastructure/Construction Goods, Consumer Durables and Consumer non-durables grew at 5.8%, 14.6%, 4.9%, 6.8%, 8% and 10.5% respectively.

As on March 26, 2018 the benchmark index (S&P BSE Sensex) closed at 33,066.41. The earnings estimates for HDFC Bank, the highest weighted stock in the index were at 23.38% and 25.25% for FY19 and FY20. The earnings estimates for FY19 and FY20 for Housing Development Finance Corp Ltd, the second highest weighted stock in the index were at 0.14% and 12.49% respectively. Over a one month period, the top gainers in the index were NTPC Ltd (4.4%), IndusInd Bank Ltd (4.1%) and Mahindra & Mahindra Ltd (1.7%). The bottom performing stocks during the same period were Tata Steel Ltd (-14.4%), ICICI Bank Ltd (-13.9%) and Coal India Ltd (-13.1%).

According to consensus estimates, as on March 26, 2018 the estimated PE ratios for India's stock market (Sensex) are 22.3X, 17.8X and 14.8X for FY18, FY19 and FY20 respectively. Estimated earnings growth is 14.4%, 25.0% and 19.9% for FY18, FY19 and FY20 respectively. We maintain an "Attractive" rating of 3.5 stars for the Indian equity market.

RECOMMENDED FUND:
MANULIFE INDIA EQUITY FUND

India (3.5 STARS- ATTRACTIVE)

Why we like it

1. Strong Macros
   - Indian macros are positive. 1). India's exports grew at 4.48% in February 2018, while imports grew at 10.41% during the same time period. Exports have been on a positive trajectory since August 2016 to February 2018 except for a temporary setback in October 2017. 2) India's CPI came lower at 4.44% during the month of February 2018 as against 5.07% during the previous month. Number is lowest in since November 2017 (four month low). 3) IIP stood at 7.5% YoY in January'18 compared to revised growth rate of 7.1% year-on-year in December 2017. 4) GDP for 3Q 17- 18 (Oct-Dec) grew by 7.2% compared to 6.5% in 2Q 17- 18 (July-Sep).

     Further, major reforms have been implemented in last 2 years such as GST, Demonetisation, the enactment of the Insolvency and Bankruptcy Code, 2016 to clean up the mess in the banking system, and Recapitalisation of Public Sector Banks (PSBs). This will help the economy in the long run.

2. Attractive Valuations
   - According to consensus estimates, as on March 26, 2018 the estimated PE ratios for India's stock market (Sensex) are 22.3X, 17.8X and 14.8X for FY18, FY19 and FY20 respectively. Estimated earnings growth is 14.38%, 24.99% and 19.94% for FY18, FY19 and FY20 respectively. We maintain an "Attractive" rating of 3.5 stars for the Indian equity market.

What we don't like

1. Political uncertainty for 2019 general election in India.
   - There is uncertainty for 2019 general election as government (Bharatiya Janata Party) faces dissent from coalition partners and opposition parties make headway in gaining support.

2. Fed rate hike and trade tensions between US and china
   - The Federal Reserve on 21st March 2018 lifted its fed funds rate by 25 basis points to a range of 1.50% to 1.75%. It was the first rate hike under new Fed Chairman Jerome Powell. The central bank signalled two more hikes were coming this year. This could lead to FII outflows from the emerging markets including India.

     Trade conflict between China and the U.S. escalated. On 23rd March 2018, China unveiled tariffs on USD 3 billion of US imports in response to steel and aluminium duties ordered by Trump earlier this month (imposing $50 billion of tariffs). The White House then declared a temporary exemption for the European Union and other nations on those levies, making the focus on China clear.