

TAKE STOCK PLUS

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Editorial

Markets continued with volatility for the month of February, following geo-political tensions with neighbouring country and the threat of war kept the market participants under watch. December corporate earnings for both Nifty and Sensex were in line with expectations. Corporate Banks, IT and Consumer delivered a strong performance, while Cement and Auto were laggards. Consumer price inflation eased to 2.05% in January Vs. 2.2% in December. Again food inflation was key factor for low inflation. INR stayed stable for the month at Rs.70.85/\$.

On the global front, EM markets have entered a new phase, as US rate cycle looks to have peaked, so incremental exposure to EMs may raise equity markets. The true test for any portfolio is during market uncertainty; while the market has remained volatile, the focus should be on the fundamentals of investing company and how effectively is the portfolio managed.

In this issue under 'Learn a Term' section we have discussed about Married Women Property Act (MWP Act).

We have also added a new section from this edition on equity sector update. Under this section we will be covering on a particular sector every month and its prospects. We have covered on IT sector for this month.

Hope the new updates will help you in making sound and great investment decisions.

Happy Investing!!!

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DEBT MARKET UPDATE

The 10 year G-sec yield ended at 7.41% for the month ended February-19, up by 13 bps over the previous month despite 25 bps rate cut in the last Feb monetary policy. The spike in yields was on account of the tensions on the border and other macroeconomic conditions. Market was driven by liquidity and demand supply is considered as the key risk to the bond market outlook. RBI has been conducting OMOs of INR 250 bn in first half of Mar 2019. RBI has also announced an interim dividend INR 280 bn to Government of India. RBI has also announced plan to do longer term repos of INR 1000 bn in four Tranches in Mar-2019 to support seasonal liquidity deficit.



	Jan-19	Feb-19	Change(%)
10 yr Gsec Yield(7.26 GOI 2029)	7.28	7.41	0.13
AAA 10 year Corporate Bond Yields	8.4	8.6	0.2
MIBOR Overnight Rate(%)	6.5	6.35	-15

The annual rate of inflation, CPI declined marginally to 2.05%, down 6 bps MoM led by fall in food prices, primarily pulses, vegetables, fruits and confectionary. However core CPI (excluding food, fuel, transportation and housing) remained elevated at 5.9% from 6% a month ago, due to account of high inflation in services, health and education.

Month(%)	Dec-18	Jan-19	Change(%)
CPI	2.1	2	-0.1
Food & Beverages	-1.6	-1.3	0.3
Fuel & Light	4.5	2.2	-2.3
Housing	5.3	5.2	-0.1
Core CPI	6	5.9	-0.1

Minutes of the MPC meeting that concluded last February, decided to reduce the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 bps and changed its stance from 'Calibrated tightening' to 'neutral stance'. RBI is of the view that inflation is manageable and hence changed its stance citing need to spur growth and consumption. The minutes of the meeting further stated the dovish stance of the MPC and discussed measures on easing strains on the corporate bond market as a confidence building measure for market participants.

The benign global outlook and neutral RBI stance is a bullish receipt for bonds. The AAA corporate bonds between 2-5 years are best placed in terms of risk versus reward ratio. The duration part the curve has frustrated lately as the yield curve has incessantly steepened with market fearing supply absorption ahead. There is still a liquidity issue in the lower rated paper and this is constraining true price discovery.

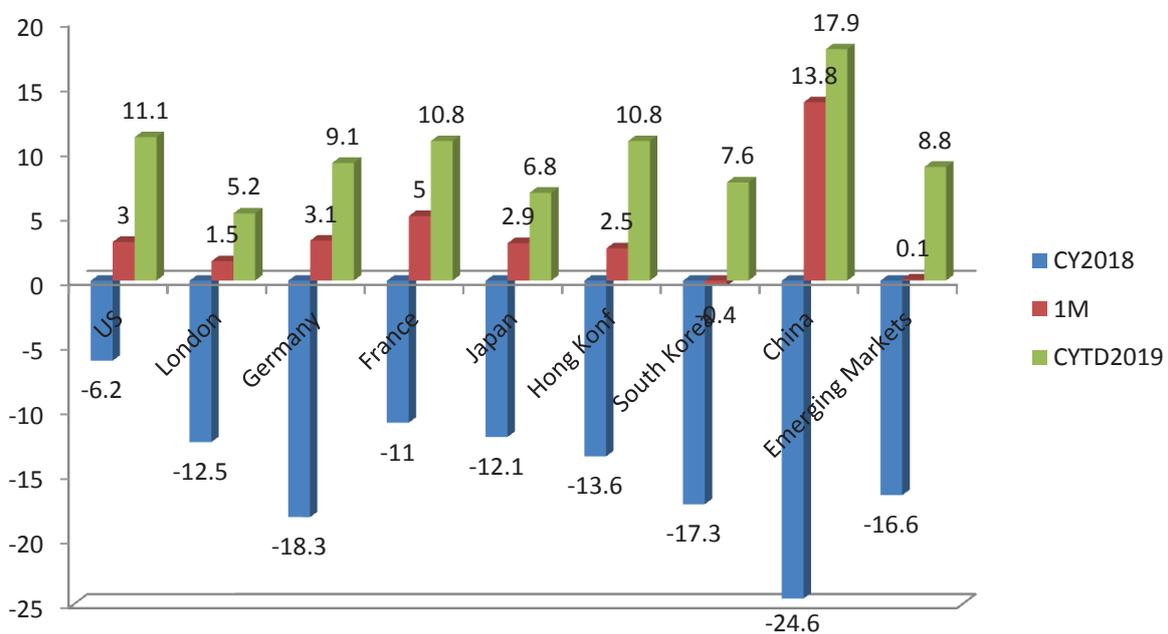
We suggest to stay invested in short to medium term duration strategies and look at accrual style funds with medium term roll down strategies to lock in at attractive rates at current levels.

EQUITY MARKET OUTLOOK:

Equity markets ended in negative, reflecting investors' sentiments with upcoming elections, border tensions and conservative outlook on markets. On the performance side, small cap and mid cap indices continued to underperform, while major indices Nifty and Sensex ended marginally negative. Among the indices Auto and Oil & Gas ended positive, while all other sectors ended negative.

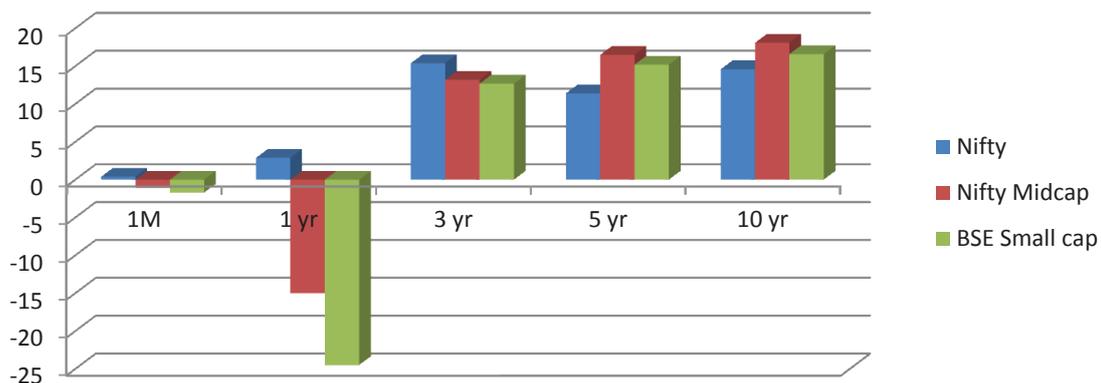
The performance of global equity markets was good for two consecutive months with major indices in US, Europe and major Asian Markets delivering positive returns on MoM basis. MSCI emerging markets was mostly unchanged from previous month.

Please find below the performance chart of global markets and emerging markets.



Index Performance:

Index	1M	1 yr	3 yr	5 yr	10 yr
Nifty	0.4	2.9	15.4	11.4	14.6
Nifty Midcap	-1.1	-15	13.2	16.5	18.1
BSE Small cap	-1.7	-24.5	12.7	15.2	16.6



Fed continued with its dovish stance, underlining that Fed is unlikely to raise rates any time soon. The Fed chair Jerome Powell reiterated caution as a response to recent financial market volatility, weaker growth overseas and the recent softening in domestic inflation and any future action will be data dependent. The slowdowns in euro zone and China continue to weigh on the markets and fears of a surge in inflationary pressure have now been put to rest and looks like policy loosening may come back soon.

The recent positive development is the US/China negotiations on trade deal, has improved market confidence and expect a deal to happen by 2Q with assurances from China on trade deals and free market mechanisms. We need to wait and watch as how the deal goes through in the coming months.

Crude, after a sharp sell-off in Nov and Dec, 2018, it saw a rebound to 6% MoM and closed at \$66 per barrel. Though with such a sharp price rise, our country will be still comfortable with the current rates.

Q3 marked a third consecutive quarter of sales growth around the 20% mark. The performance was dragged down mainly by PSU oil marketing companies on account of inventory losses. Corporate banks finally saw a quarter of robust earnings growth, PAT including financials grew 4% YoY. BSE 200, excluding OMCs and Financials, sales, EBITDA and PAT grew 20%, 13% and 10% respectively. While the earnings is improving new risks are also emerging in Auto and NBFC sectors. But broad based revenue growth indicates robust demand environment, which should help companies in future. Also corporate banks provision on stressed loans has bottomed out and should boost profitability in the coming quarters.

The equity market valuations are broadly reasonable and have the potential for revival in future. One should look to invest in equities from a medium to long term perspective and should have the asset allocation plan based on individuals risk appetite and future requirements.

Nifty - Daily Chart



Outlook

In short term Nifty was consolidated in the range of 10600 – 11,000 levels and breached the resistance at 11,000 levels and began a short term uptrend. We expect, in coming month Nifty will be in uptrend moving towards 11,500 levels.

Trading range for the month: 10800 - 11500

Short term Support: 10600 and 10400

Short term Resistance: 11500 and 11800

SECTOR OUTLOOK - INFORMATION TECHNOLOGY

In the year 2018, Information Technology stocks were among the best performers with the BSE IT index giving a return of 25% (SENSEX return being 7%). Some of the large cap IT stocks like TCS, Tech Mahindra gave a yearly return of 40.24%/ 43.12% respectively in 2018 while mid caps such as NIIT Tech and Mindtree gave returns of 77.85%/41.51% respectively. In 3QFY19, despite being a seasonally weak quarter due to furloughs and lower billing on account of holidays, most IT companies reported good set of numbers due to favorable demand scenario and ramp-up in deals won aided by rupee depreciation tailwinds.

Company	Return (CY2018)	Revenue growth (INR terms)
NIIT Tech*	77.85%	28.50%
Tech Mahindra	43.12%	15.00%
Mindtree*	41.51%	29.70%
TCS	40.24%	20.80%
Zensar Technologies*	31.31%	30.50%
Infosys	26.98%	20.30%
KPIT Tech*(Birlasoft)	20.79%	10.00%

Source: Ace Equity

*Stocks under CSEC coverage

Digital revenues to drive growth going ahead

We expect strong growth in IT companies in CY2019 on account of the strong deal book, robust demand scenario and increasing focus on digital transformation across client verticals. According to the NASSCOM CEO survey, 47% of the CEOs expect IT industry to perform better in 2019 than last year with digitization in core sectors and customer experience driving growth. ICRA expects Indian IT services to grow by 9-12% CAGR over FY18-21E. The pace of technology disruption had surged significantly in 2018 with Industries (such as Banking, Financial Services, Insurance, Auto and Retail) and government embracing digital transformation. The increased spending on digital technologies such as machine learning, artificial intelligence, internet of things, big data analytics etc has led to windfall opportunities for IT companies. Currently, digital revenues account for 30%/32%/33% of revenues of TCS, Infosys, Wipro amongst the large caps and 50%/44.9% of revenues for Mindtree/Zensar Technologies amongst mid caps respectively.

Supply side constraints to pressurize margins

The UK and the US which are the largest markets for Indian IT companies remain a cause of concern. Protectionism in the US is forcing the IT companies to hire locally and resort to subcontracting to meet the supply gap putting pressure on the margins. In the UK, uncertainty around BREXIT is leading to cautious spending by clients. However, IT companies have invested heavily in up-skilling and re-skilling their workforce to meet the digital transformation needs of their clients, and are looking at alternatives to curb the supply gap by increased hiring from countries like Mexico to meet onsite supply requirements.

Our Picks

Amongst the mid cap IT stocks under our coverage, we are positive on NIIT Tech, Zensar Technologies, Mindtree and Hexaware Technologies on account of their strong deal wins and robust growth in digital revenues despite near term margin pressures. NIIT Tech has been witnessing strong deal wins over the past seven quarters with increasing deal size (currently USD165mn in 3QFY19). The company has an order book worth USD 375mn executable over the next 12 months providing revenue growth visibility. Hexaware recently won its first USD 100mn+ client in 4QCY18 and is expected to grow at 12%-14% (USD terms) in CY 2019 with most of the growth coming in the later part of 2019 on account of ramp-up of deals won in 4QCY18. Zensar Tech's deal pipeline crossed the mark of USD 1bn for the first time in 3QFY19 with digital revenues growing at 35.9% for the company. Risks: Macro uncertainties in key geographical markets being US and UK, continuing supply side constraint and increasing subcontracting costs, slower than expected growth in digital revenues.

LEARN A TERM

Married Women Property Act:

With the recent trend of increasing awareness in taking life cover plans to protect our loved ones and family, but there is also something which needs to be noted is the nomination part. This also means nominees right to claim the insurance proceeds also need to be protected. Merely nominating wife or kid as beneficial nominee may not serve the purpose, since the proceeds can be claimed by people whom you owe money or by creditors from whom you have taken any loan or borrowings or even by legal heirs of the deceased. Their rights supersede that of beneficial nominees. In such a situation, the primary objective of the policy to protect our loved ones does not stand to benefit them.

To avoid such a situation, for a married male policy holder, availing an insurance plan under the Married Women's Property Act 1874 (MWP Act) helps in protecting the family in his absence.

What does the Act say:

The section 6 of the Married Women Property Act (MWP), 1874, provides that a policy of insurance effected by any married man on his own life and expressed on the face of it to be for the benefit of his wife, or his wife and children, or any of them according to the interests so expressed, and shall not, so long as any object of the trust remain, be subject to the control of the husband, or to his creditors, or form part of his estate.

This MWP act can be availed by simply signing a MWP addendum form along with the insurance proposal documents at the time of taking the policy. The policy under the purview of MWP act will be considered as a trust and only trustees will have control on the policy. In case of a death claim, the insurance proceeds can only be claimed by trustees for the benefit of wife or children as mentioned in the act. The creditors or other lenders cannot have any claim on this proceeds.

This facility will be more useful for Businessmen and salaried individuals with loans and liabilities. Also for individuals who would like to protect their family from creditors or relatives who might have wrong intentions.

Also please note, once you activate MWP act in your policy, then you will not be able to revoke or make any changes to it. Also it can be availed only at the time of taking the policy and cannot be availed once the policy is issued.



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