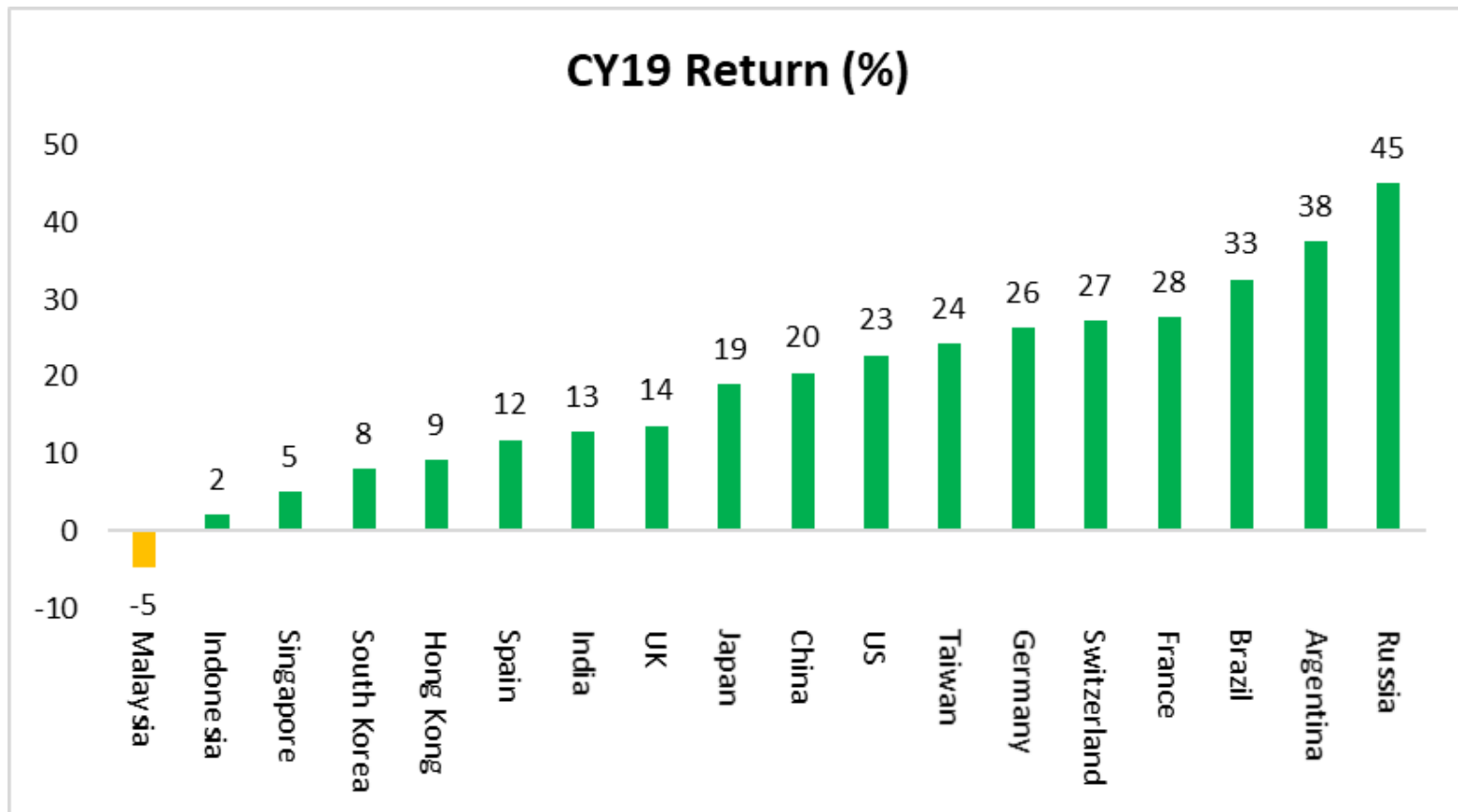


TOP 10 ISSUES FOR 2020



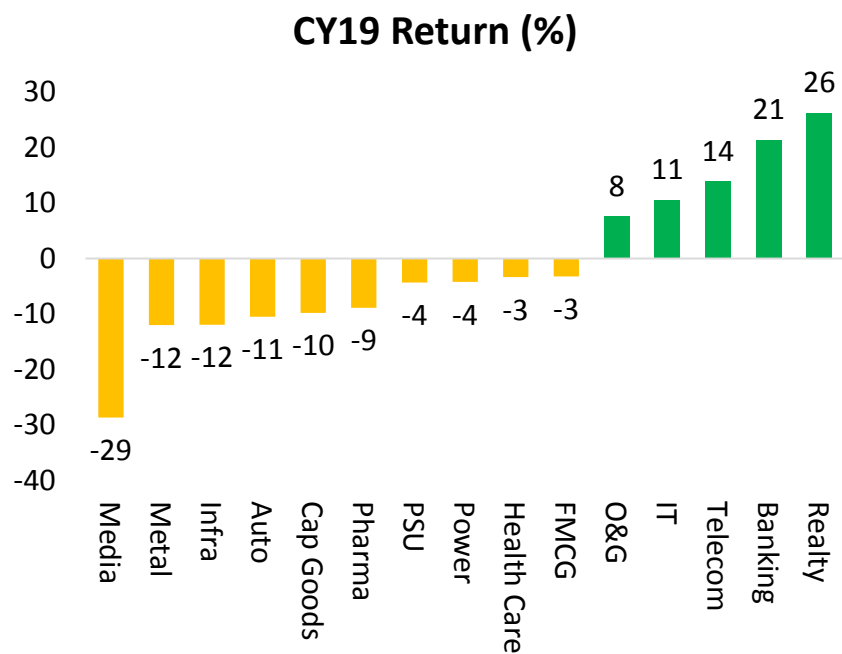
GLOBAL EQUITY MARKETS IN 2019



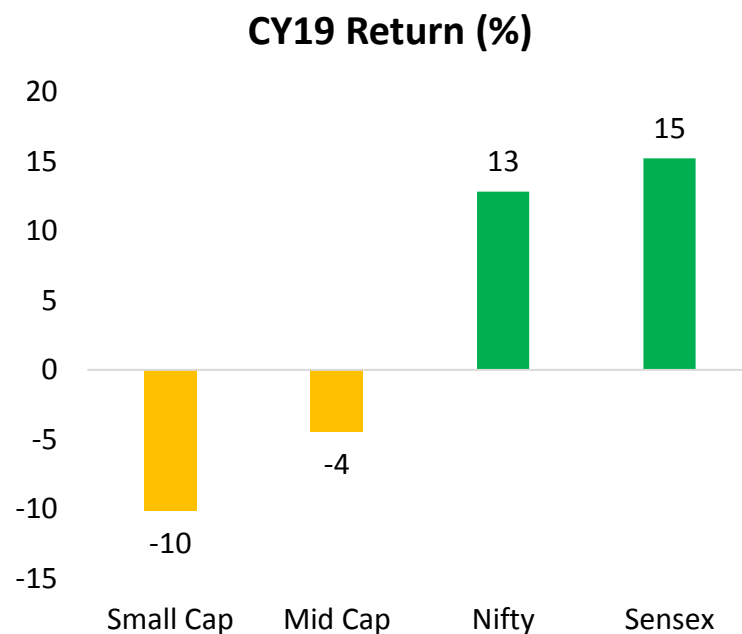
Source: Ace MF

INDIAN MARKETS IN 2019

Sector Performance in CY19



Performance by market cap (CY19)



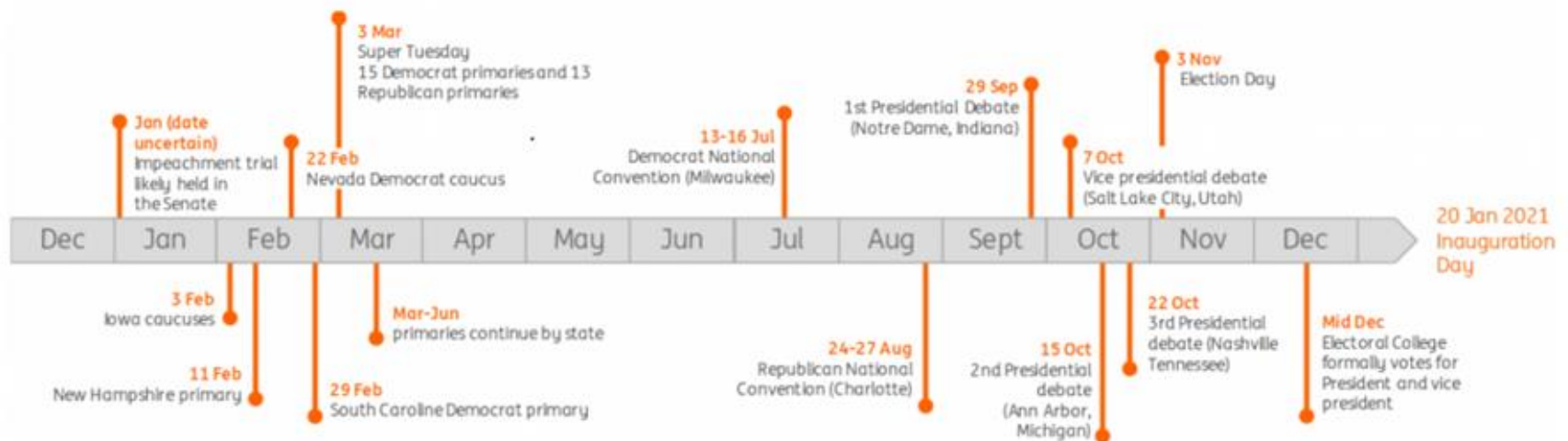
Source: Ace MF

1. WORLD ECONOMY & POLITICS

- USA Elections
- Impact of Brexit
- Unrest in Hong Kong
- Monetary Policy Action by Central Bankers

1.A. ELECTIONS IN USA

US Election Timeline



Source: ING

- US General election this year as well as recent moves from House of Representatives to impeach Trump (3rd Impeachment in America's history, in case it happens) will keep US market volatile in short term
- Democrats were able to pass impeachment motion in House of Representatives as they enjoy majority there but likelihood of Trump being removed from White House is low as Republicans enjoy majority in Senate.

ELECTIONS IN USA

Candidate	Impact
Donald Trump (Republican)	Re-election will lead to looser fiscal policy, reduced regulations and thrust on protectionism. Despite consistent pressure on the Fed to cut, this policy mix is USD bullish.
Joe Biden (Central Democrats)	Biden would pursue looser fiscal policy through infrastructure, rather than tax cuts. Stricter regulatory oversight on big tech, support for green energy and less protectionism.
Bernie Sanders & Elizabeth Warren (Populist Democrats)	Both support Modern Monetary Theory (MMT) where FED prints trillions to support 'Green New Deal' aiming to make US carbon neutral. Also they support big re-distributive tax hikes, greater regulations & formally targeting weaker USD

1.B. LIFE AFTER BREXIT

What's the day and what has changed?

- Boris Johnson's thumping victory during recent elections gives its party political muscle to implement Brexit on 31st January 2020
- On 31st January 2020, there would be a ratification paving the way for Britain's exit from EU

Impact

- Post this will be the 'transition period' which will last till the end of next year during which the rules and regulations in exchange for maintaining the economic status quo until a new trade deal is agreed upon.
- **Trade**- Elimination of tariff free trade status of the Britain with other EU members.
- **Employment** - Germany is projected to have a labour shortage of 3mn by 2030 which will not be as readily available to the UK workers post Brexit.
- **Ireland**- Northern Ireland to remain in the UK and the Republic of Ireland to remain a part of EU (this helps avoid custom borders between the two Irish countries)
- **India**- a) Companies that have major businesses in the EU and office in UK could shift to EU to avoid double expense of setting up different entities if free trade is restricted.
b) Decision making by clients would be swift with overhang of Brexit out of the way

1.C. UNREST IN HONG KONG

- Ongoing unrests in the Hong Kong region triggered by introduction of a bill that led to concerns that HK residents would be subject to jurisdiction of Mainland China
- Bill was withdrawn in September but demonstrations still continue and now full democracy is being demanded along with inquiry into the actions of the police

Impact

- Drop in Consumer Spending
- Aviation Industry suffered \$76 mn hit due to shut down of airports for two days
- Tourism has taken a hit
- Risks of long term outflow of Capital could emanate

1.D. CENTRAL BANKS MONETARY POLICY ACTIONS

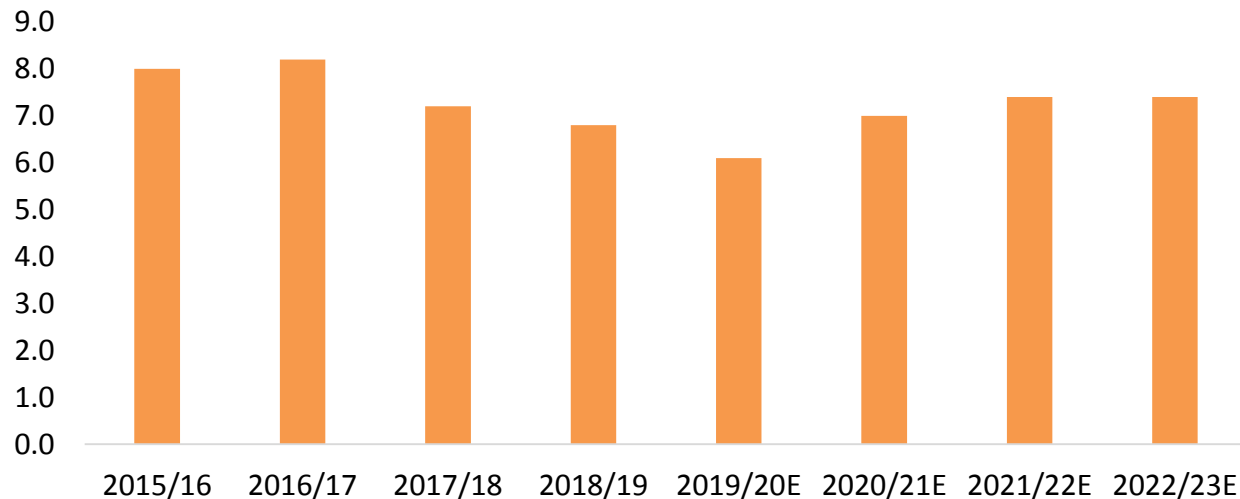
Country	Policy Rate (%)	Change in Policy Rate (bps) last 12 months	
Brazil (BR)	4.5	-200	
China (CN)	2.25	unchanged	Central Bank cuts reserve ratio for Small and Big Banks by 50bps to spur growth. This releases \$115bn of liquidity
India (IN)	5.15	-135	RBI continues to maintain accommodative stance
Indonesia (ID)	5	-100	
Korea (KR)	1.25	-50	
Malaysia (MY)	3	-25	
Russia (RU)	6.25	-150	
South Africa (SA)	6.5	-25	
Taiwan (TW)	1.38	unchanged	
Thailand (TH)	1.25	-50	
US	1.5-1.75%	-75	US Fed indicated that it would assess incoming data before lowering borrowing costs again
UK	0.75	unchanged	
Germany	0	unchanged	

2. INDIAN ECONOMY

- GDP Growth
- Fiscal Deficit
- Monetary Policy and Inflation

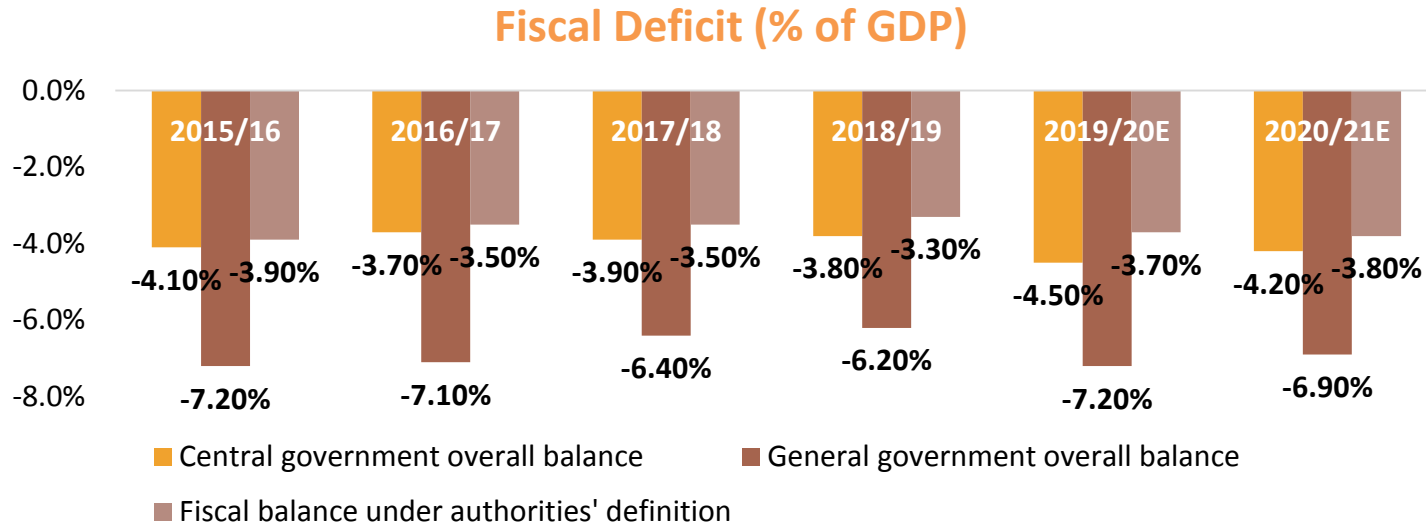
2.A. INDIA'S GROWTH TO ACCELERATE FROM FY21

Real GDP Growth %



- Investment and Private consumption expected to firm up in the H2 of FY20
- IMF expects GDP growth to gradually rise to 7.3% in medium term led by reforms initiated in the past (GST, IBC), RBI's commitment to inflation targeting and steps to improve Ease of Doing Business

2.B. INDIA'S FISCAL DEFICIT



- Central Government's Fiscal Deficit target of 3.3% might not be achievable due to a) subdued tax collection b) miss on disinvestment target for 2020
- State aggregate deficit has a scope to improve due to power reforms as well as direct benefit transfers, however farm loan waivers may play spoilsport

2.C. MONETARY POLICY ACTIONS BY RBI

Monetary policy decisions by the RBI over the last 6 meetings:

Date	Policy Rate	Stance
Oct. 5, 2018	Repo rate maintained at 6.50%	Changed policy stance to calibrated tightening.
Feb. 7, 2019	Repo rate cut by 25 bps to 6.25%	Changed Policy Stance to neutral.
Apr. 4, 2019	Repo rate cut by 25 bps to 6.0%	Maintained neutral policy stance
Jun. 6, 2019	Cut Repo rate by 25 bps to 5.75%	Changed policy stance to accommodative
Aug. 7, 2019	Cut Repo rate by 35 bps to 5.40%	Maintained Accommodative policy stance
Oct. 4, 2019	Cut Repo rate by 25bps to 5.10%	Maintained Accommodative policy stance
Dec 5 , 2019	Repo Rate unchanged at 5.10%	Maintained Accommodative policy stance

MONETARY POLICY ACTIONS BY RBI (CNTD)

Rate cut Transition measures

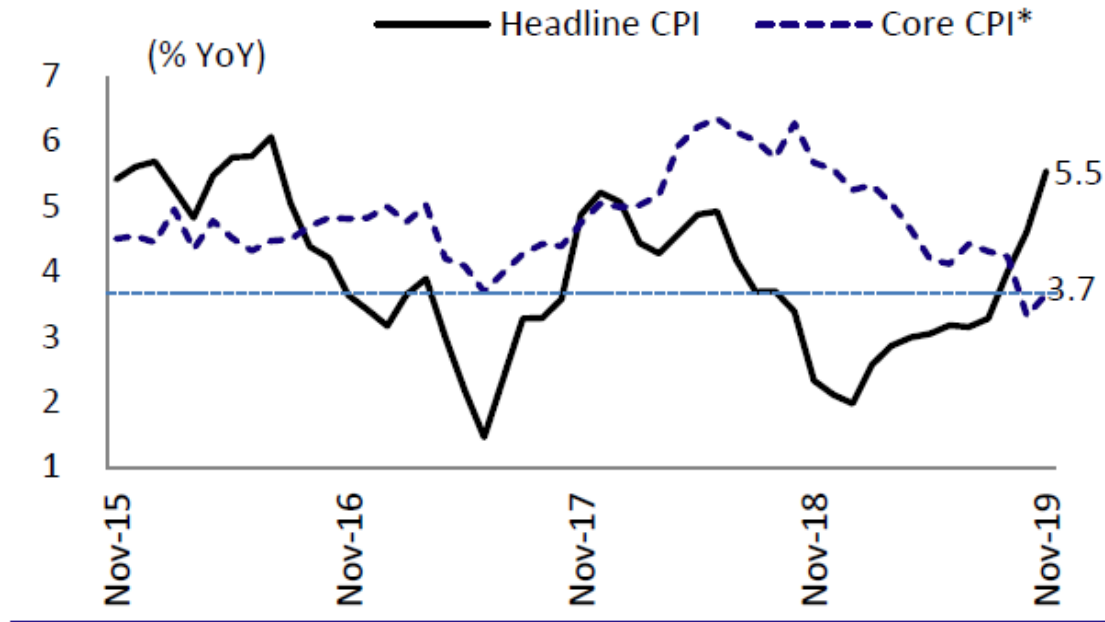
To ensure faster monetary policy transmission the RBI directed banks to link all new floating rate personal and retail loans (housing, auto, etc.) and loans to micro and small enterprises to one of the four external benchmarks, effective October 1, 2019

Central Banks's measure to placate steepening of yield curve

Under its OMO operations, RBI sold only about INR 6,825 crore worth of short-term securities maturing next year, whereas it purchased INR 10,000 crore worth of long-term securities maturing in 2029.

Impact: Long term yield fell leading to offsetting of steepening of yield curve. In effect this leads to effective pass-through of rate cut benefit and improvement in credit offtake

INFLATION TREND IN FY20



*Core CPI excludes Food & Beverages, Fuel & Light

- CPI Inflation for the month of November increased to 5.5% vs. 4.6% a month ago led by Food Inflation that accelerated to 10%
- Core CPI (ex Food & Beverages, Fuel & Light) increased to 3.7% vs. 3.3% in October

3. POLITICS AND POLICY

- State Elections Calendar
- Labor Reforms
- Major Reforms lined up

3. A. STATE ELECTIONS CALENDAR

Exhibit 3: List of states' government tenure and tentative date of next elections in India 2020-2021

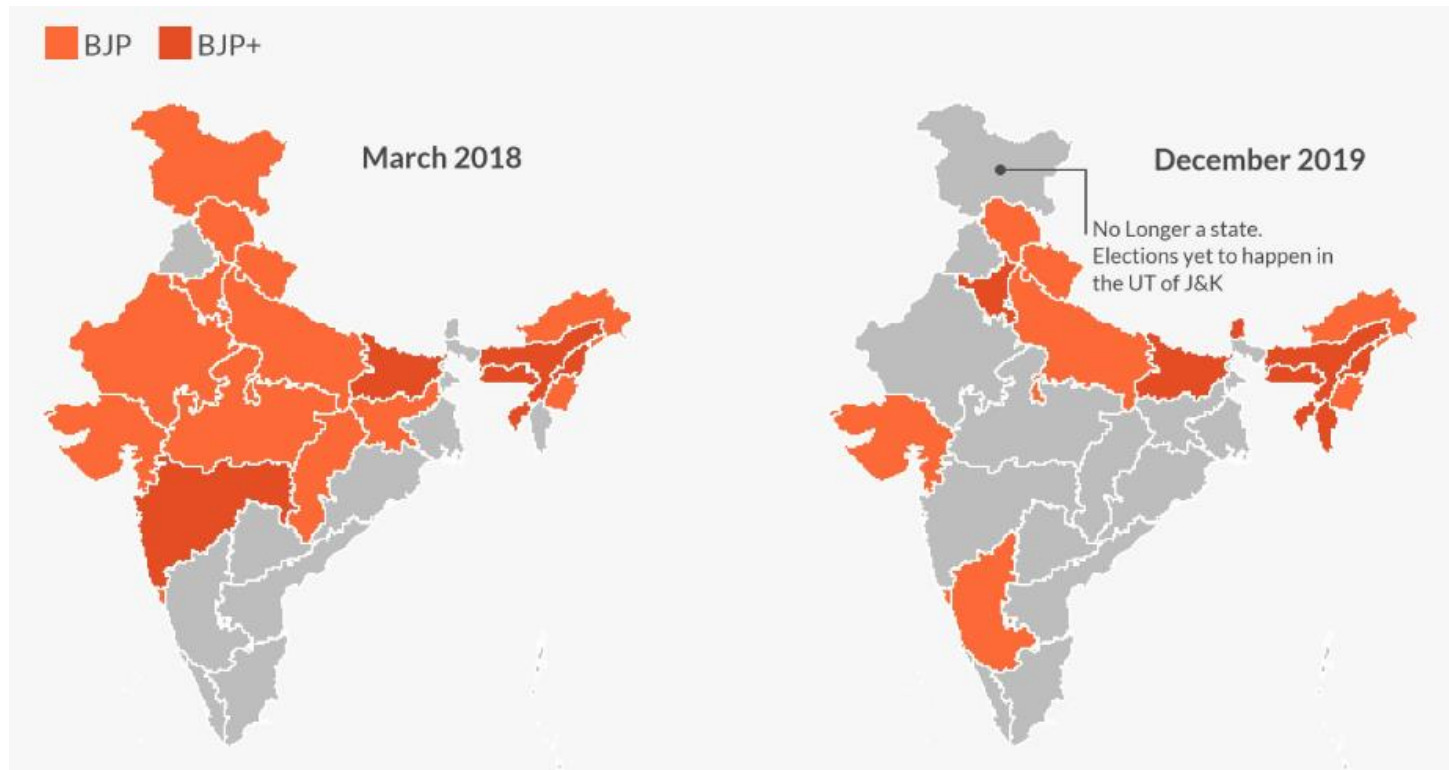
House/State	Tenure	Elections Due in	Assembly		
			Seats	Lok Sabha Seats	Rajya Sabha Seats
Delhi	14 Feb, 2015 - 22 Feb, 2020	Jan-Feb 2020	70	7	3
Pondicherry	3 Jun, 2016 - 4 Jun, 2020	2020	30	1	1
Bihar	20 Nov, 2015 - 19 Nov, 2020	2020	243	40	16
Jammu and Kashmir	17 Mar, 2015 - 16 Mar, 2021	Jan-Feb 2021	87	6	4
Tamil Nadu	23 May, 2016 - 22 May, 2021	2021	234	39	18
Assam	24 May, 2016 - 23 May, 2021	2021	126	14	7
Kerala	25 May, 2016 - 24 May, 2021	2021	140	20	9
West Bengal	27 May, 2016 - 26 May, 2021	2021	294	42	16

Source: Election Commission

- State Elections can be an overhang on:
 - Infrastructure development and
 - State's fiscal positions

as seen during recent election outcomes in Maharashtra and Andhra Pradesh

STATE ELECTIONS CALENDAR



- Elections in Delhi and Bihar would be litmus test for the BJP government which is facing backlash from recent steps on policy front (CAA, CAB, NRC) and friction with allies (as seen in Maharashtra)

3. B. REFORMS TO PICK UP PACE IN CY20

We expect some of the reforms during CY20 post Corporate tax cut announcements:

- Land Reforms
- Labor Reforms
- Tax Rationalization
- Privatization
- Scrappage policy

LAND REFORMS A PRECURSOR TO INFRASTRUCTURE DEVELOPMENT

Steps to be taken:

- Simplification of land acquisition process
- Faster environment & forest clearances
- Agricultural reforms
- Digital land registry
- Last mile funding for stalled projects & rapid resolution of NPAs
- Institutionalization of Infrastructure development
- Enforcement of female's land inheritance right

Impact:

- Increase in competitiveness & transparency
- Improvement in agriculture productivity
- Faster Infrastructure development

LABOR REFORMS

Steps to be taken:

- Increasing labour market flexibility for both employees & employer
- Reducing duality between formal and informal sectors
- Improving employment opportunities
- Enhancing competition and reducing the scope for corruption.
- Encouraging female employment
- Promoting skill development & improving workforce quality
- Minimum wages & social security
- Improving Health & safety

Impact:

- Increase in productivity
- Boost wages & lifting income
- Formalisation of workforce

OTHER MAJOR REFORMS

- **Tax rationalization:**

- Post corporate tax cut announcement, reduction in personal income tax is also expected.
- Some rejig in DDT or LTCG tax cannot be ruled out.

- **Privatization:**

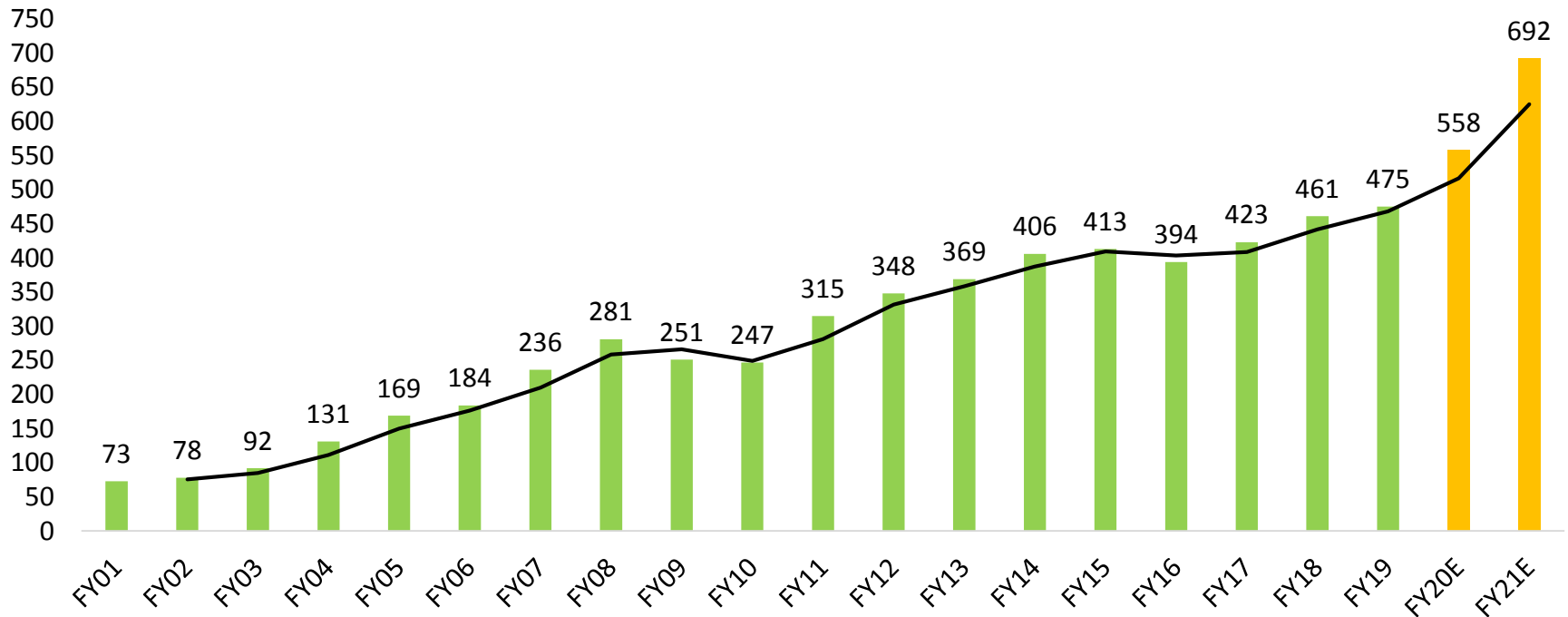
- Due to government's ambitious spending target & slowing tax collections, disinvestment is expected to continue. Government has realized that they can realize better value by doing outright sale of whole business instead of selling via ETFs. Thus privatization drive is expected to continue in CY20.

- **Scrappage policy:**

- Attractive incentive policy for implementation of scrappage of old trucks. The policy needs to be mandatory and not voluntary with low scrapping age of 12-15 years while it has to offer high level of incentives.

4.A. CORPORATE LANDSCAPE - SEE ACCELERATION IN GROWTH IN FY21

Nifty EPS estimates –

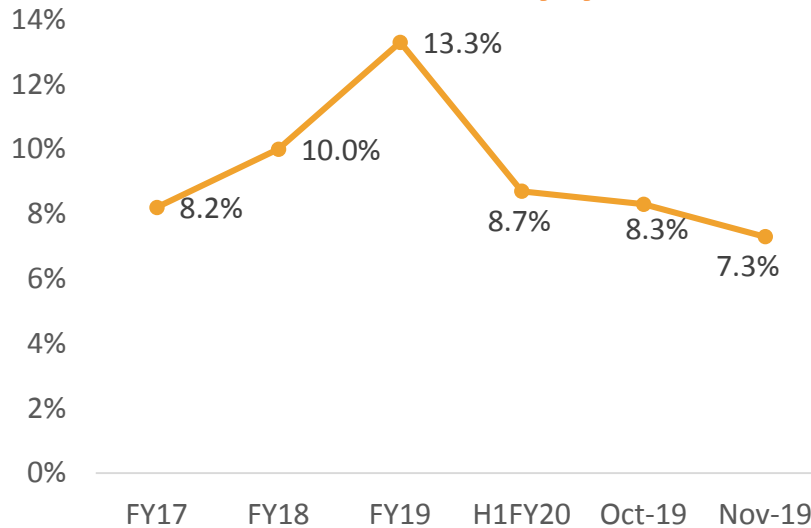


4.B. NIFTY CONSTITUENTS EARNINGS BY SECTOR – BANKING TO DRIVE GROWTH

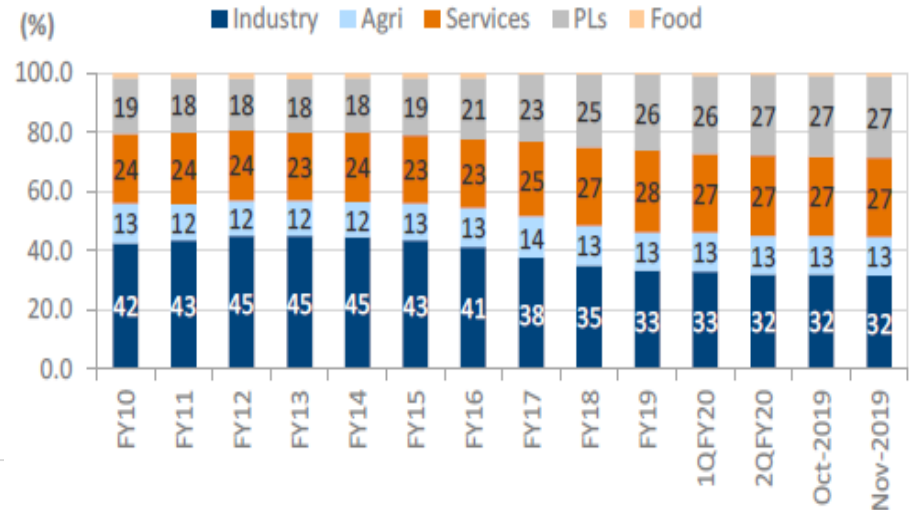
	PAT (Rs. bn)				Growth YoY		
	FY19	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Autos	65	105	143	194	62%	36%	36%
Banks	310	518	754	964	67%	46%	28%
Energy	377	421	517	558	12%	23%	8%
IT	312	324	353	382	4%	9%	8%
Financials	125	174	177	188	39%	2%	6%
Consumer Goods	113	140	154	174	24%	10%	13%
Industrials	73	89	105	123	22%	18%	17%
Telecom	-4	6	20	34	NA	233%	70%
Utility	159	160	180	185	1%	13%	3%
Consumer Disc	33	40	47	57	21%	18%	21%
Pharma	35	48	50	58	37%	4%	16%
Materials	13	18	25	29	38%	39%	16%
Cement	8	14	17	21	75%	21%	24%
Metals & Mining	155	125	153	151	-19%	22%	-1%

4.C. CREDIT GROWTH SLOWS DOWN IN FY20

Bank Credit Growth y/y %



Bank's Credit Mix over the years



- Credit growth during FY20 has decelerated through FY20 from 13.3% in FY19 to 7.3% – impacted by slowdown in economy and risk aversion by lenders
- Credit growth during FY20 decelerated for Industry and Services while Retail credit continued to remain strong (+16.4% for personal loans in Nov 2019 vs. overall credit growth of 7.3%)
- Recent steps by Government and RBI to infuse liquidity and recapitalise PSU Banks could result in growth H2FY20, further aided by recent recovery from large NCLT accounts

4.D. FOCUS ON CORPORATE GOVERNANCE AND SUCCESSION PLANNING

- SEBI had laid down new guidelines in May 2018 to enhance Corporate Governance measures and increase effectiveness of the board as per recommendations on the Kotak committee
- SEBI mandated a Clear separation in the roles of Chairperson of the Board and Managing director/CEO
- Additional provisions to ensure that the chairperson should be a non-executive director and not related to the managing director or the CEO
- New Provisions to come into effect on April 1 2020 and applicable on top 500 NSE listed companies by market capitalization.
- India Inc and the regulatory seem to be divided on the guidelines. The CII has written to the Centre highlighting the fact that the Companies Act 2013 had left it to the shareholders to decide on this issue and it shouldn't be in the form of a diktat

5.A. SECTOR OUTLOOK FOR CY2020

Sectors	Outlook
Autos	<p>Passenger Vehicles: Expect PV industry to grow to mid-single digit in 2020 and the growth will be led by new model launches.</p> <p>2W: See recovery in CY20 with inventory at dealers normalising and rural demand picking up during the 2H</p> <p>CVs: Overcapacity to exert some pressure in near term. Scrappage policy in CY20 expected to revive demand</p>
Private Banks	Large Private Banks with strong capital position to continue to gain market share, improve asset quality and see strong earnings growth
PSU Banks	See NCLT resolutions and recent infusion of capital to strengthen banks' capital position; Integration of PSU Banks that would be merged to materialise during the course of the year
Cement & Building Materials	Slowdown in government spending as well as muted retail demand can hamper volume growth in near term

SECTOR OUTLOOK FOR CY2020 (CNTD)

Sectors	Outlook
FMCG	Demand to improve in CY20 on back of favorable monsoon and good Rabi season. Expect Ready-to-eat segment to see enormous growth given the new FSSAI guidelines
IT Services	Expect Client specific issues to be behind in CY20 and growth to pick up. See pressure from Europe in BFS vertical while spending from US expected to be stable
Infrastructure	While challenges remain order tendering as well as execution to pick up in second half of CY20 as the government spending recovers.
Industrials	Big bang private tendering may be still some time away but still short term ordering for digitalization, process automation, environmental control, etc. to drive growth.
NBFCs	Seeing improvement in asset quality issues; Measures announced by the Government and improvement in liquidity profile to result in pick up in credit growth during the later half of CY20

5.B. FLOWS: FOREIGN FUNDS WERE NET BUYERS

International Flows for CY2019: Foreign Institutional Investors (FIIs) were net buyers

Month	Equity			Debt			Total
	Gross Purchase(Cr.)	Gross Sale(Cr.)	Net(Cr.)	Gross Purchase(Cr.)	Gross Sale(Cr.)	Net(Cr.)	
Jan-2019	93,108	97,370	-4,262	28,947	30,247	-1,301	-5,563
Feb-2019	1,17,900	1,00,680	17,220	20,896	26,934	-6,037	11,182
Mar-2019	1,50,058	1,16,077	33,981	47,349	35,348	12,002	45,982
Apr-2019	1,10,741	89,547	21,193	24,268	29,367	-5,099	16,094
May-2019	1,41,247	1,33,328	7,920	28,622	27,510	1,111	9,031
Jun-2019	1,04,877	1,02,282	2,596	44,313	35,994	8,319	10,915
Jul-2019	99,776	1,12,195	-12,419	44,218	34,785	9,433	-2,986
Aug-2019	1,10,425	1,28,017	-17,592	41,849	30,177	11,672	-5,920
Sep-2019	1,17,342	1,09,794	7,548	27,661	28,651	-990	6,558
Oct-2019	1,18,335	1,05,967	12,368	28,329	24,660	3,670	16,038
Nov-2019	1,62,790	1,37,559	25,231	22,465	24,823	-2,358	22,872
Dec-2019	1,07,112	1,00,052	7,060	30,858	34,355	-3,497	3,563
CY2019			1,00,842			26,924	1,27,766

FLOWS: DOMESTIC FUNDS CONTINUED TO BE NET BUYERS

Domestic Institutional Buyers continued to be Net Buyers in CY2019 on back of strong Buying in CY2018

Date	Buy Value (Cr.)	Sale Value (Cr.)	Net Value (Cr.)
Jan-2019	9,12,615	8,71,025	41,589
Feb-2019	8,35,998	7,96,556	39,442
Mar-2019	7,68,806	7,28,798	40,008
Apr-2019	6,94,168	6,40,229	53,938
May-2019	6,27,873	5,69,715	58,158
Jun-2019	5,42,588	4,89,746	52,841
Jul-2019	4,83,950	4,34,752	49,198
Aug-2019	3,91,300	3,62,496	28,804
Sep-2019	3,04,094	2,96,224	7,870
Oct-2019	2,19,221	2,23,841	-4,621
Nov-2019	1,38,274	1,47,570	-9,296
Dec-2019	62,046	63,372	-1,326
Total	59,80,932	56,24,325	3,56,606

Source: SEBI

MUTUAL FUND FLOWS

Month	Equity			Debt			Total
	Gross Purchase(Cr.)	Gross Sale(Cr.)	Net(Cr.)	Gross Purchase(Cr.)	Gross Sale(Cr.)	Net(Cr.)	Total(Cr.)
Jan-2019	57,997	51,398	6,599	2,21,626	1,70,846	50,780	57,379
Feb-2019	49,384	42,364	7,020	1,55,801	1,30,136	25,664	32,684
Mar-2019	55,687	62,125	-6,438	3,10,891	2,33,696	77,195	70,756
Apr-2019	46,209	51,128	-4,920	2,23,392	1,72,939	50,453	45,534
May-2019	61,422	56,259	5,164	2,42,203	2,10,863	31,340	36,504
Jun-2019	47,005	40,773	6,232	1,92,460	1,49,176	43,279	49,511
Jul-2019	69,200	54,116	15,084	2,05,007	1,52,209	52,799	67,883
Aug-2019	71,507	54,100	17,407	1,72,054	1,21,738	50,316	67,723
Sep-2019	61,430	50,469	10,961	1,76,126	1,44,464	31,662	42,623
Oct-2019	62,838	59,401	3,437	1,26,886	84,838	42,048	45,485
Nov-2019	62,409	66,455	-4,046	1,87,083	1,41,693	45,391	41,344
Dec-2019	38,797	36,701	2,095	1,14,531	84,341	30,191	32,286
CY2019	6,83,884	6,25,290	58,594	23,28,062	17,96,940	5,31,116	5,89,711

- Mutual Fund AUM up 16% yoy to 26.54 lakh crs as of Dec'2019
- SIP flow as of December was at an all-time high at ~Rs. 8,500crs
- SIP Flows expected to be drive flows in 2020 vis-à-vis lumpsum flows

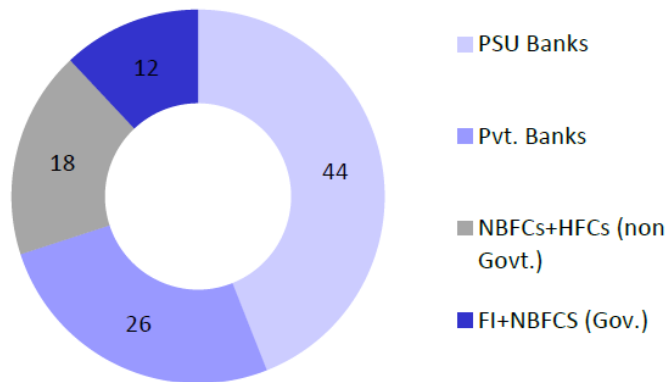
6. GROWTH REVIVAL

- Bank Merger
- Disinvestment
- Insolvency and Bankruptcy Process
- Capex Revival
- Real Estate Revival

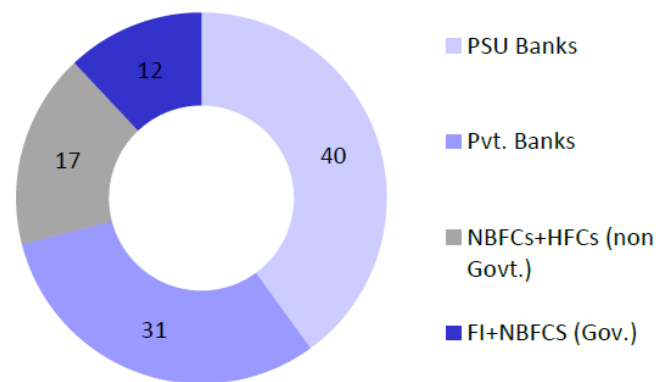
6.A. CONSOLIDATION TAKING PLACE IN BANKING AND FINANCIALS

- The Finance Minister announced merger of Public Sector Banks to enhance their competitiveness, improve efficiency and curb market share loss
- Merger of Vijaya Bank, Dena Bank and Bank of Baroda announced earlier took affect on April 1st 2019 – learnings from this merger were incorporated
- Private Banks seeing increase in market share – See a trend where the market leaders continue to gain share

Expect Private Banks to continue to gain share From FY19 to FY22E (Crisil ests)



Source: MOFSL, CRISIL



Source: MOFSL, CRISIL

6.B.DISINVESTMENT SHORTFALL IN FY20 COULD ROLLOVER TO FY21

- Government is unlikely to complete the privatization of Air India Ltd, Bharat Petroleum Corp. Ltd (BPCL) and Container Corp. of India Ltd (Concor) by end of this Fiscal Year

Impact: a) To leave a 40,000-50,000crs hole in the budget
b) GOI's ability to meet fiscal deficit target of 3.3% of GDP could be affected

Road Ahead

- Expression of Interest (EOI) for the 3 companies to be released in January-February
- Part of the proceeds might be shown in FY20 to limit breach of deficit target - however, we believe this is nominal in nature
- Any potential trigger of open offer for minority shareholders could further delay the process by 5-6 weeks

Proposed Strategic Stake Sale	Proposed Strategic Sale	Expected Realisation
Air India	100%	18,000*
BPCL	53.3%	56,800
Concor	30.8%	10,734
Shipping Corp of India	64%	1,772

* Air India Equity Value - Credit Suisse ests

6.C. IBC UPDATE – PLAYS PIVOTAL ROLE IN RESOLUTION OF STRESSED ASSETS

Quarter	No. of corporates undergoing resolution at the beginning of the quarter	Closure by					No. of corporates undergoing resolution at the end of the quarter
		Admitted	Appeal/ review	Withdrawl under section 12A	Approval of Resolution Plan	Commencement of Liquidation	
4QFY17	0	37	1	0	0	0	36
1QFY18	36	129	8	0	0	0	157
2QFY18	157	233	18	0	2	8	362
3QFY18	362	147	38	0	7	24	440
4QFY18	440	195	20	0	11	59	545
1QFY19	545	246	20	1	14	52	704
2QFY19	704	243	30	27	29	87	774
3QFY19	774	275	8	36	17	82	906
4QFY19	906	374	20	19	22	86	1133
1QFY20	1133	294	14	19	27	93	1274
2QFY20	1274	369	9	14	27	96	1497
Total	NA	2542	186	116	156	587	1497

- Out of the total admitted cases (2,542) till 2QFY20, >60% (1,555) were admitted after 1Q19 – of the admitted cases, 48% initiated by Financial creditors (FC) and 43% by operational creditors
- Average duration for resolution is >350 days; >35% of ongoing cases have crossed 270 days
- Liquidation remains the most common way of closure (~57%). Out of 1,497 ongoing processes, 535 cases have passed 270 days since admission while another 324 cases have crossed 180 days since admission

6.D. CAPEX REVIVAL?

Government with intent of reviving growth, reduced corporate tax rate on 20th Sept'19.

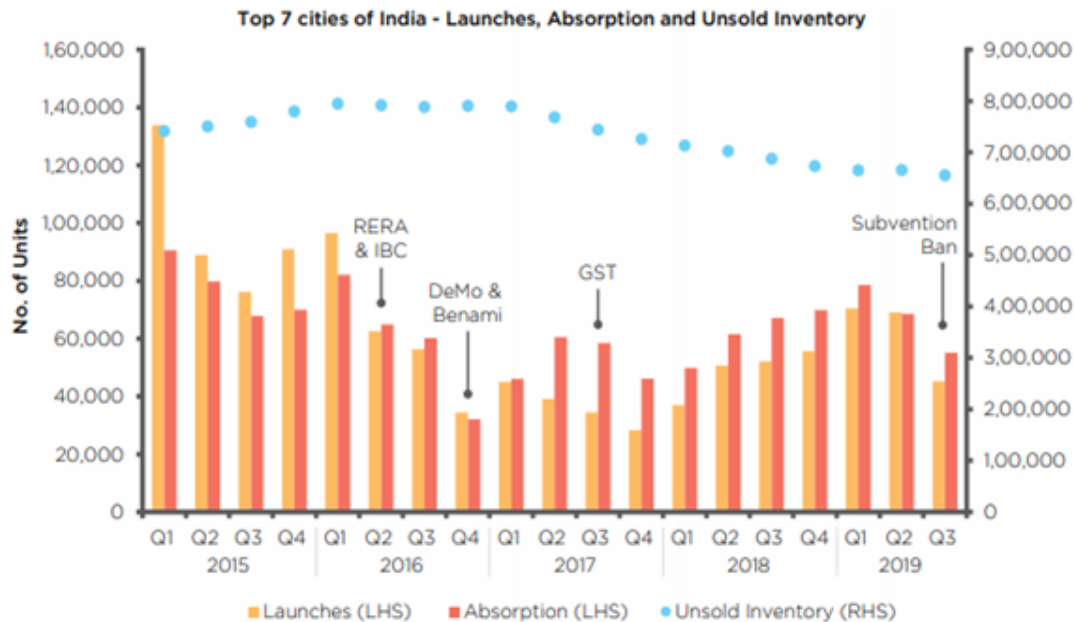
Key announcements:

- a. Tax rate for domestic companies have been reduced to 22% provided that they will not be allowed to avail any additional incentives. Effective tax rate then comes to 25.17%, compared to 30%+ previously.
- b. MAT rate has been slashes from 18.5% to 15%
- c. Any Manufacturing company set up after 1st October '19 shall get an option to pay tax at 15% without any additional incentives or exemptions. Effective tax rate to be 17.01%

Impact

- These measures should incentivise private sector to invest more in building their capacities.
- Also this incentives will reduce cost of production & increase competitiveness of Indian product globally.
- Due to recent trade tensions between US & China, many global companies are looking to diversify its supply source away from China- India best placed to be beneficiary.

6.E. REAL ESTATE REVIVAL ON THE CARDS

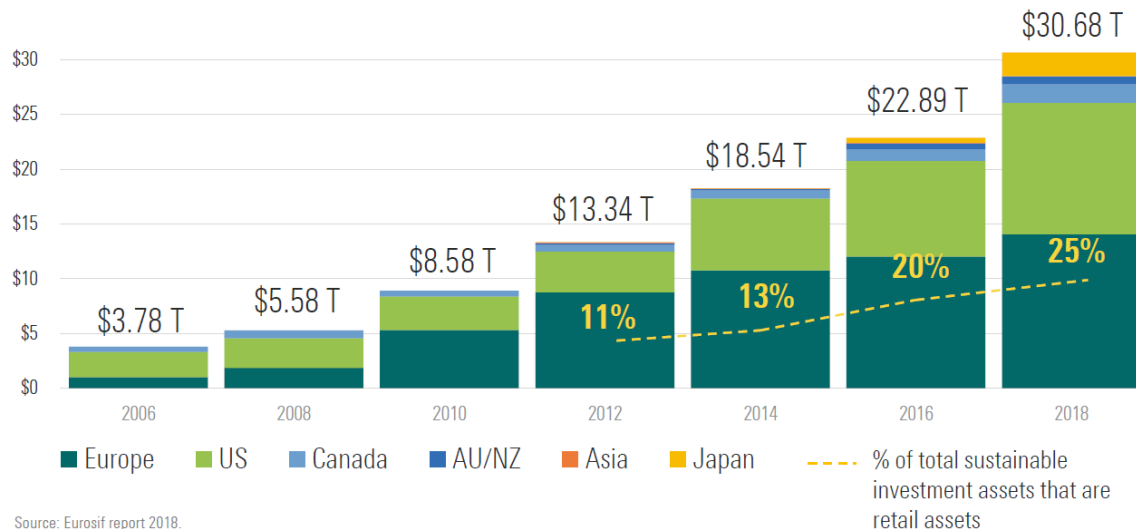


- Real estate slump which started in 2012 may be nearing an end - Recovery of residential real estate market after hiccups like DeMo, GST, RERA & liquidity tightening after IL&FS crisis can have significant bearing to the economy as a whole.

- Commercial & retail real estate market expected to continue to do well.
- Resolution of stressed developers and NBFCs, easing liquidity conditions, industry consolidation and institutionalization of the real estate industry will revive end consumer sentiment and bring back pent up demand.
- Beneficiaries of Real Estate Revival -> Cement, Steel, Ceramics, Pipes & Fittings, Consumer Durables, Wires & Cables, HFCs & NBFCs, Plywood & Laminates, etc.

7. INVESTING TRENDS IN THE ESG FRAMEWORK

- ESG based Investing is a step towards integrated investing using a risk management tool that seeks to integrate regular financial aspects with E (environmental), S(Social) and G(Corporate Governance) criteria
- Not a very popular trend in India as of now but is slowly gaining tractions as investors are shifting focus towards this due to sustainability reports being submitted by corporates
- In the US and Europe, Investors Seek Socially Conscious Investments
- Globally, SRI (Socially Responsible Investing) Assets have gone at >13% CAGR over the last 4 years



INVESTING TRENDS IN THE ESG FRAMEWORK (CNTD)

Challenges on integrating ESG measures:

- Awareness of ESG investing and its integration
- Lack of standardization of data across companies in a sector, therefore, comparability is a challenge
- Availability and consistency of data
- Quantification difficulty
- Lack of globally accepted framework for reporting
- Valuations may not reflect ESG risks until the event has actually occurred
- Lack of existing benchmarks to establish an adverse or better performance on ESG principles. Therefore, performance is measured in comparison with peers and its own past performance

8. CONSOLIDATION

- Banking
- Telecom
- NBFC

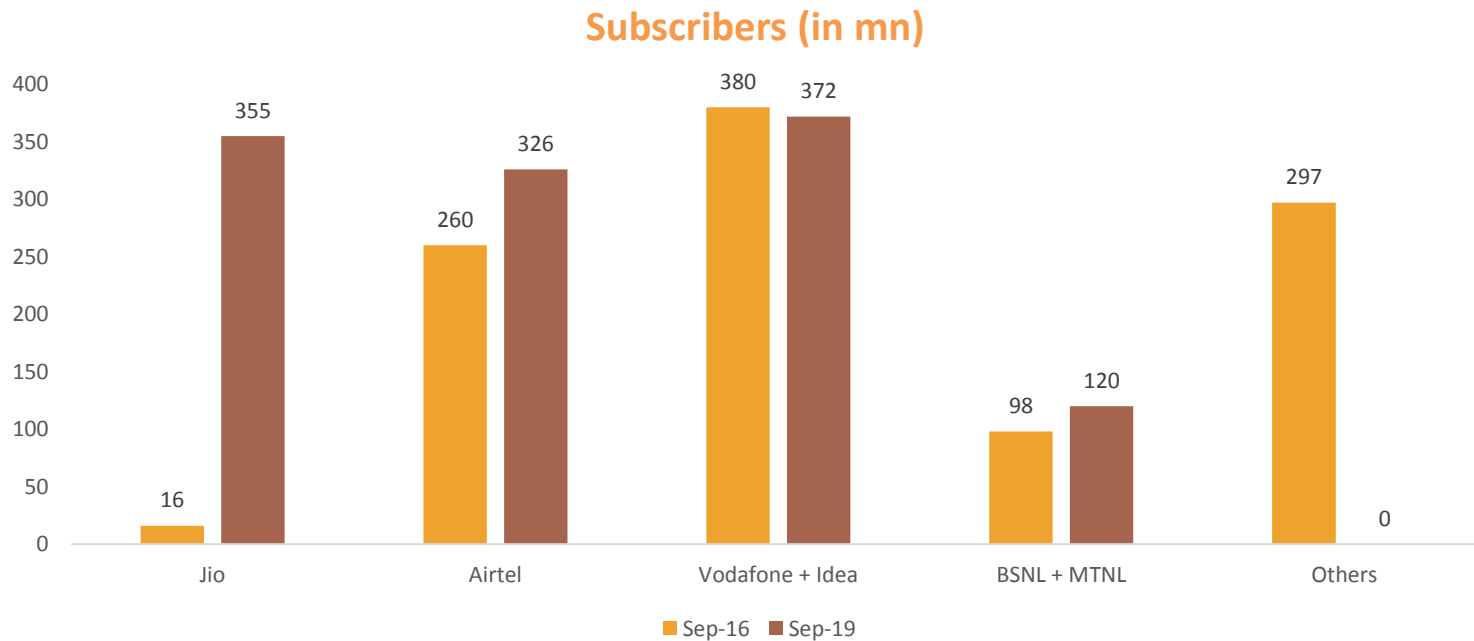
8.A. PSB CONSOLIDATION OF PUBLIC SECTOR BANKS CATCHES PACE

- The Finance Minister announced merger of 10 Public Sector Banks resulting in 4 large banks (Anchor Banks) with an intent to enhance their competitiveness and improve efficiency
- Weaker banks with asset quality issues would be integrated with banks with stronger balance sheet or technological capabilities
- All amalgamated banks were on the Common Banking Platform for seamless transition
- Integration and Management transition needs to be closely watched

Anchor bank	Banks being merged	Business Size in lakh crs (Deposits + Advances)	Comments
PNB	PNB + Oriental Bank of Commerce + United Bank of India	17.9	2 nd largest PSB
Canara Bank	Canara Bank + Syndicate Bank	15.2	4 th largest PSB
Union Bank of India	Union Bank of India + Andhra Bank + Corporation Bank	14.6	5 th largest PSB
Indian Bank	Indian Bank + Allahabad Bank	8.1	7 th largest PSB

8.B. TELECOM TRENDS

- Consolidation has taken place in the Telecom sector over the last 3 years
- Reliance Jio expected to further increase their share in CY20 with other incumbents reeling under financial stress



8.C. NBFCs – “BIG GETTING BIGGER”

Market Cap of NBFCs (Rs. Crs)	01 January 2018	10 January 2020	Change %
Housing Development Finance Corporation Ltd.	2,69,571	4,25,021	58%
Bajaj Finance Ltd.	99,518	2,49,349	151%
Muthoot Finance Ltd.	18,796	29,994	60%
Shriram Transport Finance Company Ltd.	33,471	25,659	-23%
Aditya Birla Capital Ltd.	41,025	25,214	-39%
Cholamandalam Investment & Finance Company Ltd.	20,595	24,547	19%
L&T Finance Holdings Ltd.	31,530	24,376	-23%
LIC Housing Finance Ltd.	28,546	22,210	-22%
Mahindra & Mahindra Financial Services Ltd.	29,078	20,535	-29%
Manappuram Finance Ltd.	10,230	14,500	42%
Indiabulls Housing Finance Ltd.	51,896	13,432	-74%
Edelweiss Financial Services Ltd.	26,744	9,907	-63%
Shriram City Union Finance Ltd.	13,862	9,372	-32%
PNB Housing Finance Ltd.	22,173	8,160	-63%
Housing & Urban Development Corporation Ltd.	16,556	7,968	-52%
Can Fin Homes Ltd.	6,360	5,138	-19%
RepcO Home Finance Ltd.	4,340	2,026	-53%
Magma Fincorp Ltd.	3,803	1,525	-60%
GIC Housing Finance Ltd.	2,491	849	-66%
Dewan Housing Finance Corporation Ltd.	18,526	535	-97%
SREI Infrastructure Finance Ltd.	5,021	484	-90%
Reliance Capital Ltd.	15,133	303	-98%
TOTAL	7,69,265	9,21,106	20%

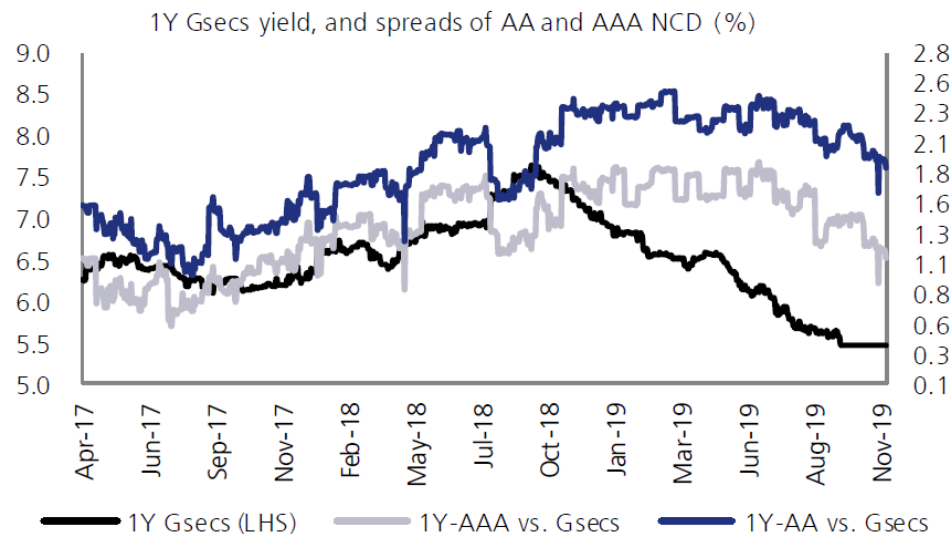
While the cumulative market cap of the NBFC players increased by 20% over the last 2 years, the gain was captured by a few NBFCs, who gained share, maintained asset quality and further strengthened their market position

MEASURES BY GOVERNMENT TO LIFT THE NBFC SECTOR

Timeline	Measures
July 2019	Government announces partial credit guarantee to banks and approves a one-time 6 months partial credit guarantee to Public Sector Banks for the first loss of up to 10% to enable them to purchase pooled assets of financially-sound NBFCs amounting to Rs.1 lakh crores to ease the liquidity stress in the NBFC sector
July 2019	Minimum holding period requirement for originating NBFCs was relaxed till Dec'19
Aug 2019	Priority Sector Lending: the RBI permitted bank credit to NBFCs (other than MFIs) for on-lending to be classified as priority sector lending
Sep 2019	Banks' exposure to NBFC: the RBI raised banks' exposure limit to a single NBFC to 20% of Tier-I capital from 15 percent earlier.
Dec 2019	INR 250bn Realty AIF launched by GOI for stalled residential housing projects; significant positive for real estate NBFCs

NBFC OUTLOOK FOR CY20

- Large Retail NBFCs with strong parentage, adequate capital position and ALM to do well in CY20
- Big ticket resolutions such as Essar Steel and the admission of DHFL into NCLT under the amended IBC rules for Financial Service Providers (FSPs) could further improve fund flow to the sector as banks get access to blocked capital
- Liquidity conditions and funding costs to improve in FY21 - Spreads across 1 Year and 3 Year AAA rated NCDs have declined between 50-70bps over the last 6 months



Source: Bloomberg, JM Financial Research

9. BUDGET 2020 EXPECTATIONS

Expectations:

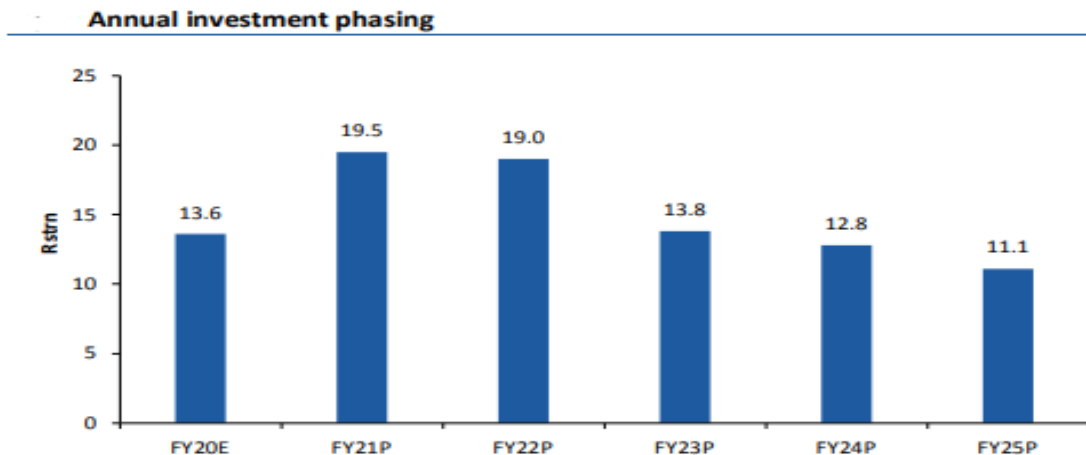
- Expectation of a personal income tax reduction that would lead to improved consumer sentiment and higher disposable income
- Government's roadmap on revenue collection given higher spending and probably miss on fiscal deficit target
- Removal of LTCG on Equity Investments and relaxation on Dividend Distribution Tax
- Additional benefits to those who are looking to avail housing loan, would help the Centre achieve its ambitious target of housing for all by 2022.
- Tax Holidays to Real Estate developers on profits earned from Rental Housing
- FICCI has suggested that the stamp duty value of the house property for the additional deduction should be enhanced from Rs 45 lakh to at least Rs 65 lakh for metro and Tier 1 cities such as Bengaluru, Hyderabad, Pune, etc. in Union Budget 2020.
- Present a Roadmap on Spending for building a strong infrastructure backbone

10. DARK HORSES FOR CY20

- Infrastructure
- Commodity
- Real Estate

10.A. INFRASTRUCTURE DEVELOPMENT

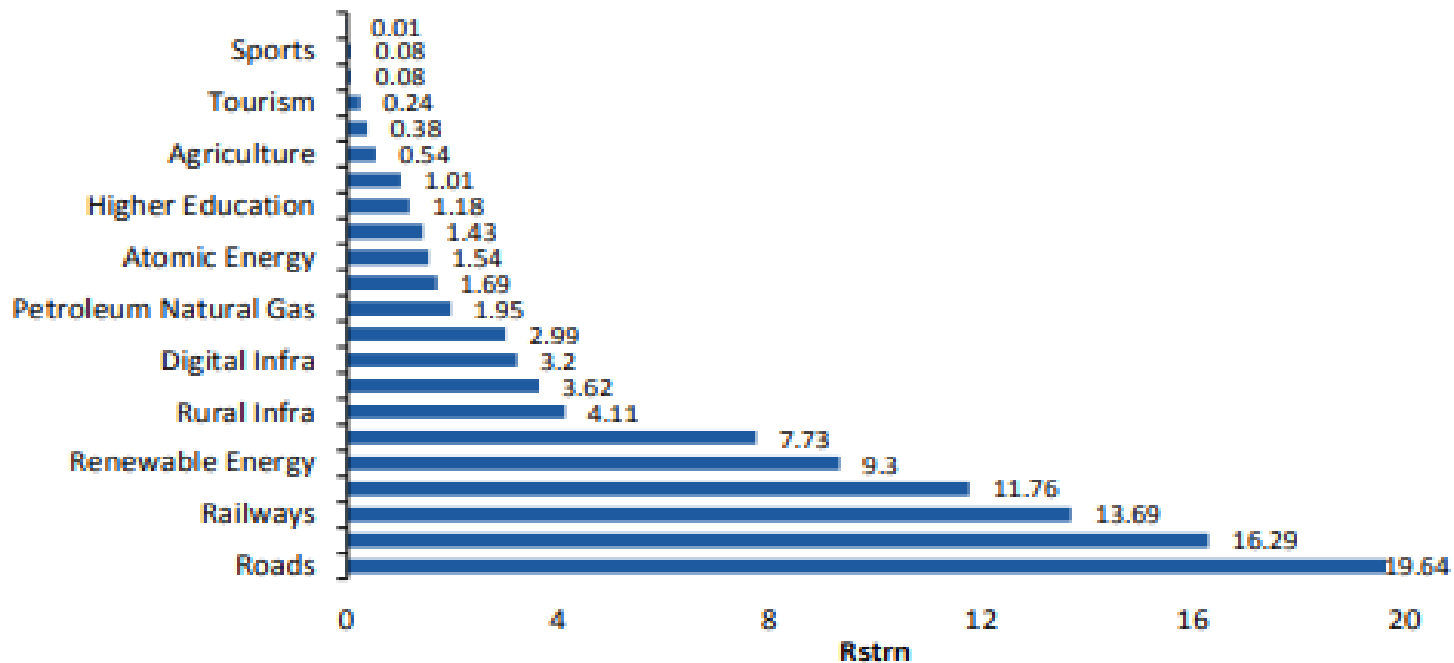
- Heavy Investment into Infrastructure development is required to achieve USD5tn target
- Government ended CY19 by announcing big bang National Infrastructure Pipeline (NIP), with a vision to spend more than Rs.100tn on infrastructure over next 5 year (2x FY14-19 investment)
- Of this project pipeline, 42% is under implementation, 20% under development while 31% is at a conceptual stage and 8% is unclassified.
- Share of Centre and States is at 39% each and private sector is at 22%.
- While the target seems ambitious, the ability of government to raise funds is to be watched.



Source: Department of economic affairs

NATIONAL INFRASTRUCTURE PIPELINE (NIP) ALLOCATION

Sector-wise break-up of the National Infrastructure Pipeline



Source: Department of economic affairs

NATIONAL INFRASTRUCTURE PIPELINE (NIP)

Key goals for NIP are:

- Affordable and clean energy
- Digital services access for all
- Convenient and efficient transport and logistics
- Housing and water supply
- Doubling farmer income
- Quality education
- Healthcare
- Sustainable and smart cities

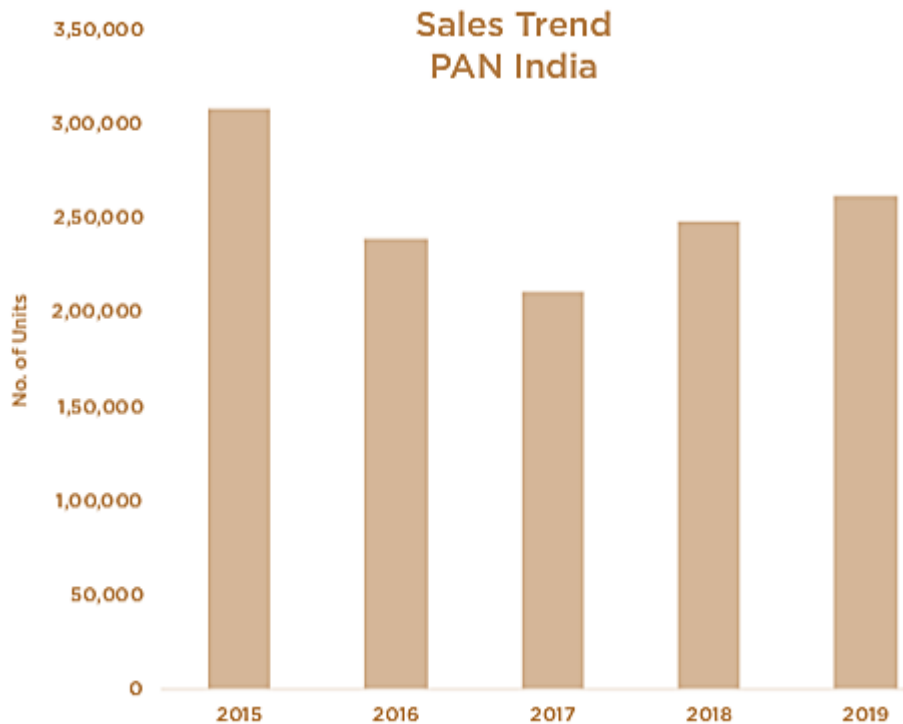
Following are the major reforms recommended:

- Creating an overarching & empowered public institution for infrastructure planning
- Better risk sharing between the public and the private sector entities
- Key clearances and approvals to be in place upfront before awarding projects. 90% contiguous land to be in place prior to project award
- Adoption of international standards in framing contracts rather than burdening contractors with onerous conditions

10.B. COMMODITY

- **Base metals** may trade with a sideways bias. A softening of the US-China trade war could fuel a rally in base metals in 2020 after this conflict had for long kept a lid on the prices in 2019.
- **Steel:** After a tough CY19, we perceive initial signs of recovery in the global steel industry.. The World Steel Association estimates global steel demand to grow at 1.7% in CY20E with higher contribution of emerging and developing economies, excluding China.
- **Precious Metals:** Overall the performance has been quite good and the metals will be entering the New Year with some impressive upside momentum mainly driven by Gold and Silver. Platinum has finally emerged from its most depressed values since 2004 and on the other hand palladium has been posting record high after high
- **Energy:** Crude price is expected to remain volatile next year due to rising tensions in Middle East and US-China trade war.
- **Cement:** Due to current slowdown in Indian economy, heavy monsoon, stuck infra projects (due to elections), cement demand is expected to remain benign in short-term but as economy revives resulting in demand from infra as well as housing will in turn bring back the cement demand

10.C. REAL ESTATE – SALES IMPROVING

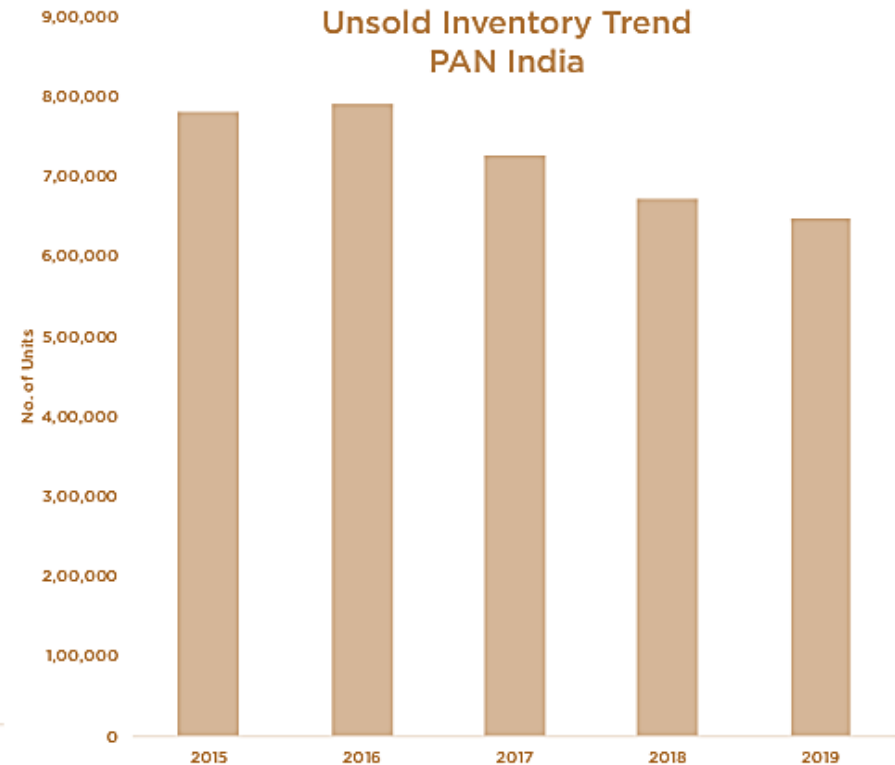
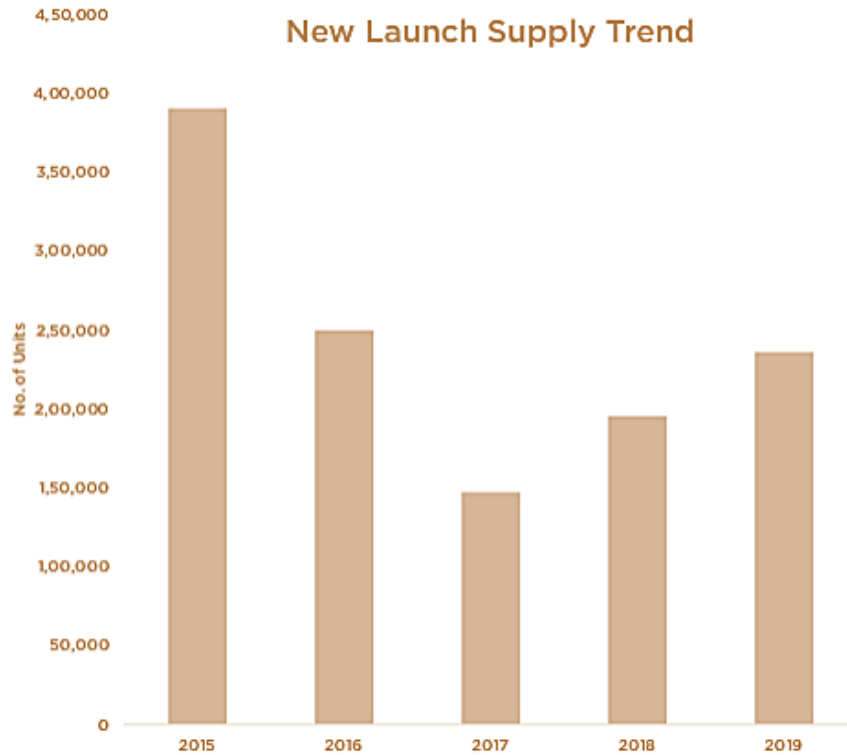


- Supply Demand dynamics to play out gradually in the Real Estate market with 21% increase in supply as per Anarock.
- However, total sales increased by 5% in CY19, highest in 4 years as per Anarock.
- Saw inventory reduce by nearly 4% in 2019

Impact:

- With sales improving & inventory reducing real sector is all set to revive.
- Industry consolidation, ease of liquidity & resolution of stressed asset will benefit listed players.

REAL ESTATE – SUPPLY DEMAND BALANCE NORMALISING



THANK YOU

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