19th February 2018

TRUSTPLUTUS

Presentation to the Investment Advisory Board: House View Primer

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RE-CAP ON HOUSE VIEWS

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RE-CAP – Oct, 2017 – Feb, 2018

Asset Class	Sub-Class	Stance for Oct-Feb	Benchmark	Performance (16th Oct, 2017 to 15th Feb, 2018)
EQUITY	LARGE CAPS	Neutral	S&P CNX NIFTY	3.08%
	MID & SMALL CAPS	UW	S&P CNX 500	3.77%
	INTERNATIONAL	UW	MSCI (World)	3.74%
FIXED INCOME	1 Year CD	OW	1 Year CD	1.61%*
	10 Year G-Sec	Neutral	10 Year Gsec	(2.62)%*
COMMODITIES	PRECIOUS METALS	Neutral	90%Gold + 10% Silver	1.69%
	BASE METALS	Neutral	MCX Metal	3.34%
	ENERGY BASKET	Neutral	MCX Energy	9.73%
	AGRI GOODS		MCX Agri	8.86%
CURRENCIES	INDIAN RUPEE v USD	UW		1.27% ⬇

*•Performance period - 16th Oct, 2017 -15th Feb, 2018 *price + accrued interest*

Source : NSE / MSCI / IDFC / Kitco / MCX / TrustGroup / Bloomberg

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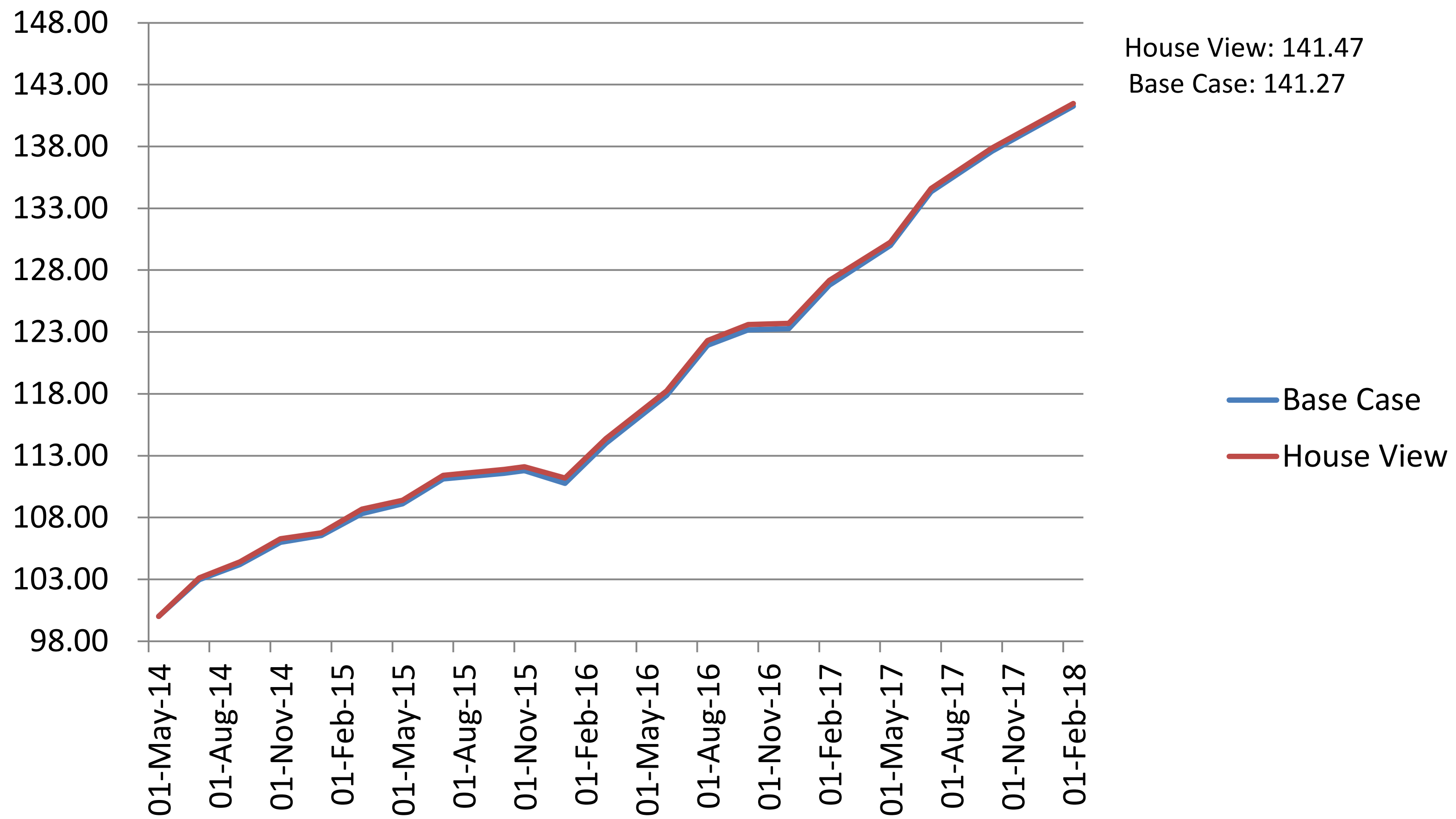
RE-CAP – May 2014- Feb 2018: Short Term House Views



•*Performance period -21st May, 2014 to 15th Feb, 2018.*

Source : FE, MCX / TrustGroup / Bloomberg

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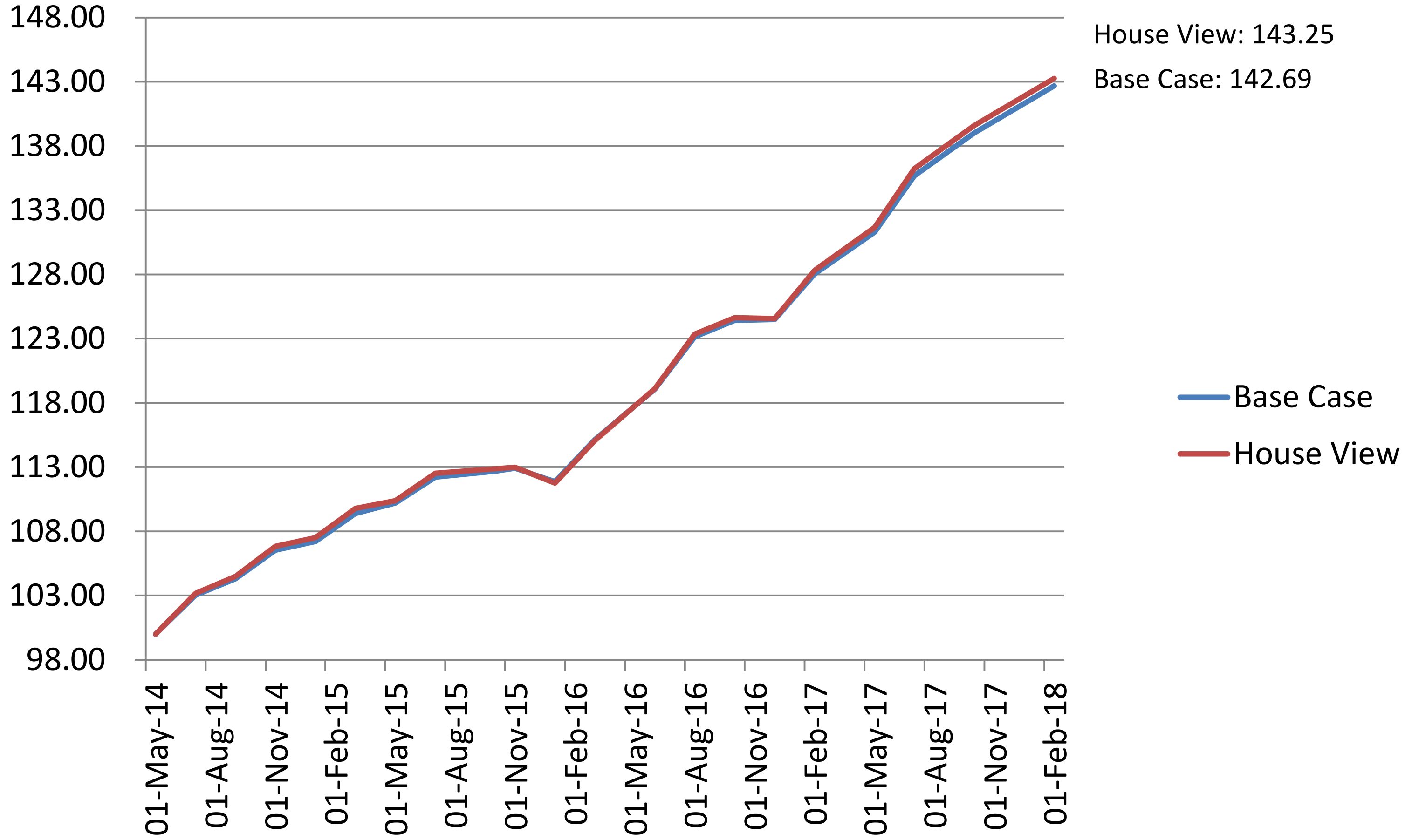
RE-CAP – May 2014- Feb 2018: Long Term House Views



•*Performance period -21st May, 2014 to 15th Feb, 2018.*

Source : FE, MCX / TrustGroup / Bloomberg

SNAPSHOTS OF GLOBAL INDICATORS

SNAPSHOT

Indicators		U S	Europe	China
Activity	PMI GDP	↑	↑	↔
Consumer	Retail Sales Cons.Confidence	↑	↑	↔
Business	IP PMI	↑	↑	↔
External	Trade Data	↓	↑	↓
Labor Market	Employment Data	↑	↑	↑
Inflation	CPI/ WPI	↑	↑	↓
Monetary	M1, M3 Bank Lending	↔	↑	↔
Financial	Equity Mkts Debt Mkts	↔	↓	↔
FCI		↓	↓	↓

SNAPSHOTS OF INDIAN INDICATORS

SNAPSHOT

	India	Equity	Debt	Currency	Comments
Activity	↔	↔	↔	↔	Q2 FY18 GDP growth was at 6.3% and GDP growth for FY17 was 7.1%. Mfg PMI was at 52.4 in Jan from 54.7 in Dec.
Consumer	↑	↑	↓	↑	PV sales increased by 8.3% YoY in period Apr-Dec 2017. Two wheelers sales increased by 11.8%. M&H CV sales was up at 15.7% for the same period. Jan 2018 - PV sales ^ ~7.6%, 2 Wheelers sales ^ 33.4% & CV Sales ^ ~40%, .
Business	↑	↑	↓	↑	India's industrial production rose 7.1% in Dec 2017. Core Industries Index up by 4.0% YoY in Dec 2017.
External	↓	↓	↓	↓	Trade deficit at $ 16.3 bn in Jan 2018 from ~$ 9.9 bn a year earlier. Net FII outflow ~$ 0.3 bn in Feb 18. Cumulative FDI in Apr-Oct at $24.2 bn.
Labor Market	↑	↑	↑	↑	India's Unemployment rate is 5.4%. In Feb 17. As per BSE index. Hiring activity sees 10% yoy growth in Dec: Naukri Job Speak.

SNAPSHOT

	India	Equity	Debt	Currency	Comments
Inflation	↓	↓	↓	↓	YoY CPI inflation eased marginally to 5.1% in Jan from the 17-month high 5.2% in Dec. WPI inflation eases to 6-month low of 2.84% in Jan. Core inflation remained steady at 3.1% in December.
Monetary	↓	↓	↑	↓	M3 growth was at 4.6% YoY in Jan. Deposit growth at 3,5% and Non Food Credit Growth at 10.6% in Jan 2018 .
Fiscal	↓	↓	↓	↓	India's fiscal deficit in Dec reached 113 % of the government's target for the financial year 2017-18. For FY 18 targeted fiscal deficit increased to 3.5% from 3.2%. FY 2019 3.3%
Financial	↔	↔	↔	↔	Equity Mkts: TTM Nifty P/B 3.35 and P/E 25.5; Nifty FY18/19e P/E : 21.4 / 17.1 (BB). Yields : Short end: Hardened; Long end: Hardened

SUMMARY OF TRUST GROUP RESEARCH REPORTS

Summary of Trust Group Research Reports

Report Name	Date	Inference
IIP Watch	14-Feb-2018	▪ IIP grew by 7.1% on a y-o-y basis in December compared to a growth of 8.8% recorded in November. The growth in the IIP for December was higher than expected.The median estimate of the Reuters survey was for a growth of 6.2% . ▪ In December all sectors have shown positive growth. Key contributors to the pickup in growth both in November and December has been the manufacturing sector which has the biggest weight in the IIP index. ▪ This improvement in IIP is also reinforced by other indicators of the economy.The latest readings of both the manufacturing and services PMI have remained in the expansion zone.Other leading indicators such as auto sales have picked up in recent periods while credit growth is finally gaining momentum and moving into double digit territory after a prolonged period muted of growth. ▪ The strong IIP growth is consistent with forecasts of economic growth.In its February policy meeting, the RBI has projected GVA growth for 2017-18 at 6.6%. Beyond the current year, the growth outlook will be influenced by several factors, including GST implementation, revival in investment activity and the process of bank recapitalisation . Taking into account these factors, GVA growth for 2018-19 is projected at 7.2% overall – in the range of 7.3-7.4%in H1 and 7.1-7.2%in H2 – with risks evenly balanced.

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Summary of Trust Group Research Reports

Report Name	Date	Inference
Inflation Watch January 2018	**14-Feb-2018**	• January headline CPI inflation rose 5.07% compared to a year earlier. The core inflation excluding food and fuel rose toaround 5.1%. The January CPI inflation was lower than the median estimate of 5.14 % in the Reuters survey. • While the CPI has remained elevated over the last few months, it still remains significantly below its historical average but now has moved above the RBI's medium term target. • The inflation trajectory is expected to be impacted by rising oil prices as well as non-oil industrial raw material prices. In addition the inflation outlook will depend on the monsoon, which is assumed to be normal. Taking into account these factors, the RBI expects inflation in Q4 FY18 to be 5.1%. For FY19 CPI inflation is estimated in the range of 5.1-5.6% in H1, including diminishing statistical HRA impact of central government employees, and 4.5-4.6% in H2, with risks tilted to the upside. • Given this trends we expect the inflation to remain elevated over the next few months.We expect the CPI reading to be around 5.2% in the February reading and we expect CPI to peak out by April 2018 and start to move down toward 4.5% thereafter. • Even with the expected pickup in inflation over the next few months we note that average inflation over the fiscal year would still be around 4% and therefore the RBI's reaction may not be as aggressive as the acceleration in CPI would suggest.TheRBI in the past had indicated that it may look through some of the impacts of the HRA increases.The RBI has maintained its neutral stance in its February policy meeting indicating a prolonged hold on policy rates.

Summary of Trust Group Research Reports

Report Name	Date	Inference
February Monetary Policy Preview	**6-Feb--2017**	• However ,while keeping the policy rate unchanged, the RBI has highlighted several upside risks to inflation including: • The staggered impact of HRA increases by state governments may push up headline inflation • A pick-up in global growth may exert further pressure on crude oil and commodity prices with implications for domestic inflation • Higher MSP prices proposed in budget could push inflation higher • Proposed increase in customs duty on a number of items could push inflation higher. • Fiscal slippage as indicated in the Union Budget could impinge on the inflation outlook. • The confluence of domestic fiscal developments and normalisation of monetary policy by major advanced economies could further adversely impact financing conditions and undermine the confidence of external investors. • Even with this litany of upside risks the RBI has projected that inflation for H1 FY19 to be 5.1-5.6% while for H2 it is expected to be 4.5-4.6%. The projected moderation in inflation in the second half is on account of strong favourable base effects, including unwinding of the 7th CPC's HRA impact, and a softer food inflation forecast, given the assumption of normal monsoon and effective supply management by the Government. • From our perspective this forecasted trajectory of inflation would imply that the RBI is not signaling any rate hikes in the next fiscal year.If inflation proceeds in this expected trajectorywe would expect the RBI to be on hold for an extended period. • The RBI also announced several other developmental and regulatory measures consistent with its five-pillar organising framework.A key measure announced includes providing relief for MSME borrowers registered under GST by allowing banks and NBFCs to defer NPA recognition to 180 days, provided the exposure is less than Rs 250m.

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Summary of Trust Group Research Reports

Report Name	Date	Inference
Budget FY19- Geared to drive growth in rough terrain	**2-Feb-2018**	Capital market takeaways **Equity Markets** • Budget is full of good intentions and step in the right direction. • Extra budgetary spends will kick start capex cycle • PE multiple expansion phase of bull market to be followed by earning expansion • Net flow to equity markets tapering as IPO's are gaining momentum and equity mutual fund flows are slowing • Even after LTCG equity is still a better asset class in terms of providing returns **Debt** • Credit growth to taper in tighter monetary environment with banks becoming more competitive than NBFC's • Inflation trough is behind us, rates moving higher. • SBI raising bulk deposit rates by 200bps in the last few months • NBFC's to witness pressure on NIM's • Flattening yield curve

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Summary of Trust Group Research Reports

Report Name	Date	Inference
Budget Preview FY2019	**29-Jan-2018**	Context:This will be the first budget after the implementation the GST and the last full year budget before general elections in 2019. The market will be asking whether the Budget will be an economic budget or a political budget designed to shore up support in rural areas going into the 2019 elections. • India's macroeconomic stability which has allowed the economy to be resilient to both external and internal shocks has been hard earned and we do not expect the government to squander that by dramatically increasing the fiscal deficit. The government will not want to risk the ramifications a of political budget which could include; decline in Rupee, rate hikes, deferred capex cycle and loss of credibility. • We therefore expect it will be an economic budget where the government will try to balance the need for continued fiscal consolidation and expectations of increased spending especially in rural areas. • We expect the fiscal deficit for FY2018 to come in at 3.4% of GDP, 0.2% higher than projected by last year budget.For FY2019 we expect the Budget to target a 3.2% implying a pushback of the timeline to reach 3.0% fiscal deficit. It is clear from both a political and economic perspective that additional focus needs to be placed on the rural economy.While we expect additional rural spending there is no fiscal space for a large increase.Furthermore any increase in rural spending should be targeted and productive and should not lead to higher inflation. • The key uncertainties impacting the fiscal consolidation path will be how collections under GST proceed and efforts to widen the tax base progress. A further turn up of oil prices could also impact both tax revenue and the subsidy bill.

Summary of Trust Group Research Reports

Report Name	Date	Inference
Inflation Watch	17-Jan-2018	• December headline CPI inflation rose 5.21% compared to a year earlier. The core inflation excluding food and fuel rose toaround 5.0%. The December CPI inflation was higher than the median estimate of 5.1 % in the Reuters survey. • While the CPI has rebounded from its record low level seen in June, it still remains significantly below its historical average but now has moved above the RBI's medium term target. • In addition to food inflation which contributed the higher inflation in December there have been several other drivers that have moved inflation higher.First the inflation data is impacted by an adverse base effect which will remain prevalent over the next few months.Related to this is the factthat the inflation data is not impacted by the demonetisation related slowdown that was observed this time last year.Second some of the risks identified by the RBI such as the increase in housing allowances have materialized and have moved up significantly.Similarly there has been a pickup in energy prices which has flowed through to CPI inflation. • Given this trends we expect the inflation reading to move up for the next few months.As we indicated in our Monetary Policy Preview we expect the CPI reading continue to be above 5% by the January reading and we expect CPI to peak out by April 2018 and start to move down toward 4% thereafter.

Summary of Trust Group Research Reports

Report Name	Date	Inference
Credit Watch	10-Jan-2018	• After a prolonged period of muted growth, credit growth is finally showing signs of recovery. Credit growth rose to 8.8% y-o-y in November up from 6.6% the previous month.The rise in credit growth was broad based with all sectors showing improvement with credit to services showing double digit growth.More high frequency data suggest the improvement has continued to December with non-food credit growth reaching 10.7% in December. • Going forward the trajectory of lending rates and thereby credit growth will be determined by the proposed rules for the base rate setting mechanism (MCLR) system. A review of the system released with the October monetary policy has noted that hat banks deviated in an ad hoc manner from the specified methodologies for calculating the base rate and the MCLR to either inflate the base rate or prevent the base rate from falling in line with the cost of funds.As such the review has recommended limiting the flexibility that banks have enjoyed by removing arbitrary and discretionary components added to the formula. The panel has suggested a risk-free curve involving rates on tbills, or certificate of deposits rates or the policy repo rate and that lending rates should be reset once every quarter. • If these recommendations of the review panel are accepted it could certainly lead to better policy rate transmission and therefore lower lending rates. • Furthermore we expect that recent regulatory developments including allowing foreign ownership of asset reconstruction companies and the bankruptcy code will start to bring down NPLs sitting on bank books. After prolonged period of deterioration, asset quality trends for public sector banks are starting to stabilize. • We believe a combination of these factors will lead t to a sustained period of credit growth.

Summary of Trust Group Research Reports

Report Name	Date	Inference
Z-Score Watch 2017	**29-Dec-2017**	In FY17, we noted the following: • The average Z-Score for BSE-500 companies remained constant at 5.0 • The % of Distressed companies decreased to 17.9% • Sector differentiation reduced – cyclicals saw increase in Z-Score and defensives decline • Telecom, Basic Materials andReal Estate saw the largest increase in average Z-Score • Tails of the Z-Score distribution remained stable in FY17. The % of companies with Z-Score<2 and Z-Scores > 20 was little changed. • Credit quality of India Inc. had bottomed out in the second half of FY15 and has been improving since then. In March 15 end, the % of distressed companies was 22.4% which has now improved to 17.9% as of Mar-17.The debt held by distressed companies has fallen in line with the reduction in the % of distressed companies. • Mirroring the improvements in Z-score, Crisil's ratings portfolio saw 1,335 upgrades and 1,092 downgrades.That is, the credit ratio has remained above one coming in at 1.22 in line with 1.29 observed in FY16. Given changes in Z-scores precede improvement in Credit ratios by around 2 quarters we expect the credit ratio to be stable at these levels. • In FY17, the average Z-Score remained at 5.0 and there was no deterioration in the distribution. Tails of Z-Score distribution remained stable, though increase in companies with Z-Score >20 was more pronounced. • Certain investment linked sectors such as iron and steel saw significant improvement as companies continued to move from the distress/ grey zone to the safe zone in FY17.For example the % of distressed companies in iron and steel decreased from 57% to 50% while the percentage of safe increased from 14% to 25% from Sept 16 to March 17.

Summary of Trust Group Research Reports

Report Name	Date	Inference
India Financial Conditions Watch	**26-Dec-2017**	• Our Trust India Financial Conditions index (FCIINR) has remained consistently positive since the May 2014 BJP win in the general election due toexpectations of a more business friendly government. • The FCIINR briefly declined and hit the Zero level in Feb-2016 as all three index components declined due to increased volatility in the global markets as risk assets sold off. This was consistent with our report at the time where we had predicted greater global volatility.Some global concerns have abated while others remain. • Domestically, since May 2016 the FCIINR has improved significantly as the RBI's started providing sufficient liquidity to the market through its liquidity operations lifting all financial markets.This trend accelerated after the UP assembly election where the markets expectation of the government's ability to carry out reforms grew. Expectations of good monsoon and moderating inflation also contributed to the bond market rally in 2016 and 2017.Currently the FCIINR is at historical highs primarily driven by the significant rise in equity markets. • Going into 2018, we expect the FCIINR to remain positive given the relatively strong macro fundamentals. However, both domestic and global concerns still remain.Globally geopolitical risks remain high and domestically bank NPAs, rising inflation and potential fiscal slippages continue to pose significant challenges for the Indian economy.The FCIINR will be impacted by such events but we expect it to remain positive in calendar year 2018.

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Summary of Trust Group Research Reports

Report Name	Date	Inference
Credit Spreads Watch	**21-Dec-2107**	• The premium required by corporate bonds over Gsecs which represents both credit and non-credit risk has been volatile over the last few years • Typically tightening of credit spreads indicate a pickup in economic activity.The idea is that companies are less likely default in a growing economy and therefore the credit risk on their bonds will fall. Changes in credit spreads are affected by changes in expected recovery rates, which affect payoffs to bondholders. Because the expected recovery rate is a function of the overall business climate a rising economy should drive credit spreads down. • In fact the latest period of widening spreads has coincided with the post demonetisation period where market participants expected a slowdown due to the adverse effects of the resulting cash crunch. Thereafter the tightening credit spreads have partly reflected the recovery in growth post the transient demonetisation slump.It has also been driven by the recent rapid pick up in Gsec yields as inflation has accelerated quickly over the last few months. • With liquidity conditions still relatively benign, and macroeconomic fundamentals strong, conditions are right for spreads to remain at current historically tight levels. Hence, we expect the 10 Year credit spreads will remain 70- 100 bps over the short to medium term.

Summary of Trust Group Research Reports

Report Name	Date	Inference
External Watch	**19-Dec-2017**	• The trade deficit for November 2017 was estimated at US $ 13.8B higher than the deficit of $13.4B during November 2016. • India's trade deficit moved down slightly from the previous month on the back of higher export growth performance. India'soverall external position has improved significantly over the last two years which has reduced its vulnerability to external shocks.Reflecting this improvement the current account deficit for Q2FY18 came in at 1.2% of GDP. • India continuesto benefit from a number of developments which has put it in a better position to deal with a rise in global risk aversionand other geopolitical developments.India has steadily built its foreign exchange reserves to comfortable levels while at the same time reducing the share of short term debt as a share of total external debt. Howeverwe still believe the level of foreign exchange hedging by Indian companies needs improvement to limit forex risks. • This improvement has now been supplemented with sustained improvement in export growth. India has shown ten consecutive months of positive export growth until September after a prolonged period of declines.Export growth should remain robust as external demand has improved and the government continues to encourage exports through various export promotion measures.In additionIndian's services exports remain resilient despite various challenges. • Although the trade deficit is higher than its recent lows we believe external risks remain balanced and we expect the CAD to continue to remain manageable. Export growth has remained robust despite a strong Rupee. As the domestic liquidity situation is stabilizes the RBI will have moreflexibility in managing Rupee volatility in the medium term.Meanwhile the stable currency continues to attract FII inflows into Indian debt as it presents an attractive carry opportunity.

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HOUSE VIEWS FOR FEB 2018

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Near Term Views: EQUITIES

STANCE : Change to Underweight

Maintain Underweight for Mid & Small Cap

Why

Increased pressure points in domestic equities

NPA issues in banking system can create growth issues in real economy

Trade deficit points to pressure on currency.

Due to recent rise in yields yield curve is flat.

International

Very positive growth in US, Europe and Japan

What Can Change our View

Early resolution of banking sector NPA issue

Revival in earnings growth.

Lower commodity price which can help in improving CAD situation

International Equities : STANCE : Change to Neutral - US/ Overweight Europe

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Near Term Views: Fixed Income

STANCE (Short Term):Maintain Overweight
STANCE (Long Term): Change to Underweight

Why

- Fiscal stance of Centre / State government and additional capital requirement for PSU Banks
- Widening Trade and current account deficit putting pressure on INR
- High global yield
- Better opportunity for shorter duration accruals

What Can Change our View

- Better inflation numbers in second half as projected by RBI
- Narrowing down of CAD
- Positive surprise on fiscal deficit

Near Term Views: Indian Rupee

STANCE (Short Term): Maintain Underweight

Why

Negative

Increase in imports and deteriorating trade saturation.

High commodity price, Oil in particular

Negative impact in exports due to issues related to GST and refunds

What Can Change our View

Positive

Correction in crude prices

Continued improvement in world trade

Continued softness in dollar index

Near Term Views: COMMODITIES

Precious Metals

- **Maintain Neutral**
- Protection over tail risk in financial markets
- Increase in global yield has negative impact on gold

Energy

- **Maintain Neutral**
- Better global demand for CY 2018
- No aggressive supply from non-OPEC players

Base Metals

- **Maintain Neutral**
- Production cuts in key metals in china
- Recovery in global manufacturing

House View for February 2018

		SHORT TERM*	MEDIUM TERM	LONG TERM
EQUITIES				
	LARGE CAPS	UW	UW	OW
	MID & SMALL CAPS	UW	UW	UW
	INTERNATIONAL	OW / Neutral*	OW / Neutral	UW
FIXED INCOME				
	SHORT DURATION	OW	OW	OW
	LONG DURATION	UW	UW	OW
CASH		Tactical	Tactical	Contingencies
COMMODITIES				
	PRECIOUS METALS	Neutral	Neutral	Neutral
	BASE METALS	Neutral	Neutral	Neutral
	ENERGY BASKET	Neutral	Neutral	UW
CURRENCY (INR v USD)		UW	Neutral	Neutral
REAL ESTATE				
	RESIDENTIAL	UW	UW	UW
	COMMERCIAL	OW	OW	Neutral**
PRIVATE EQUITY		Neutral	Neutral	Neutral

Short Term :upto 3 months / Medium Term : 3 – 6 months / Long Term : above 6 months

**Neutral stance on Europe*

*** Commercial Real Estate – Value in Certain Pockets / Lease rental deals*

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