FROM THE
FUND MANAGERS DESK

INDIABULLS ASSET MANAGEMENT COMPANY LTD. April, 2016

Indiabulls
MUTUAL FUND

Sumit Bhatnagar - Fund Manager, Equity

Mr. Sumit Bhatnagar has over 14 years of experience in Banking & Capital Markets. He has been associated with Indiabulls AMC since inception. He played a pivotal role in setting up the AMC systems & processes and in framing business strategy, designing business plan and products for the AMC.

Mr. Bhatnagar started his career in Banking, having worked in IDBI Bank & Cosmos Bank, handling retail & corporate lending. He holds an MBA (Investment Management) from the University of Toronto, Canada and is also a CFA (USA).

EQUITY MARKET COMMENTARY

Key Domestic News

- IMD has forecasted an above normal monsoon at 106% +/- 5% for 2016. Higher probability (94%) is assigned to normal-excess rainfall). It has assigned only a 6% probability to below-normal or deficient rains in 2016. As per the IMD, El Niño (associated with below-normal rains) conditions peaked in December 2015 and are likely to weaken to moderate-to-weak levels during June-July and become neutral thereafter.
- Corporate earnings season till now has been better than expected with positive surprises beating negative by 2:1. We believe earnings downgrade cycle has bottomed out; more positive earnings surprises expected going ahead in FY17.
- Transport Minister Mr. Nitin Gadkari has set ambitious targets for FY17 of awarding 25,000km stretch of road projects as against 10,000km in FY16.
- Stepping up its energy ties with Iran, India has lined up $20 billion as investment in oil and gas as well as petrochemical and fertiliser projects in the Persian Gulf country.

Key Domestic Economic Data

- India's manufacturing PMI fell to a four-month low of 50.5 in April from 52.4 in March. It is the lowest reading in last four months as output grew at a slower pace and new business index was broadly unchanged.
- CPI inflation moderated to 4.8% in March from 5.3% in February, below expectations, driven by lower food and fuel price inflation.
- February IIP came in at 2% against consensus expectations of 0.8% growth and -1.5% last month and +4.8% a year ago. Consumer durables continued to show strength with 9.7% growth, basic and intermediate goods showed improvement; capital goods continued to contract (-10% yoy), indicating that recovery is still uneven.
- India's core sector index expanded 6.4% a 16-month high in March, vs 5.7% growth in February. This point to a possible industrial recovery gaining strength towards the end of the financial year.

Key Global Events

- US Federal Reserve kept its key interest rates unchanged, as expected. The FOMC delivered a very dovish statement, sighting a moderation in household spending and inflation continuing to run below target. According to Fed watchers, this virtually rules out a rate hike in June meeting.
- The Bank of Japan surprisingly held off from increasing its monetary stimulus as it needed more time to understand the effect of its negative interest rates.
- Chinese economy grew 6.7% in Q1, the slowest pace of expansion since the financial crisis. However, other high frequency data suggest that the country may be stabilizing with better-than-expected growth across sectors.

Outlook

- Early signs of earning recovery, green shoots in broader economy, improving macros, inflation under control, huge long term opportunity and benign global liquidity environment augur well for Indian equities.
- India continues to remain the best Investment destination for foreign investors for both FDI & FII investments. Any short term volatility around global factors should be utilized by investors to build high quality portfolio in Indian equities.
- Hard landing in China, BREXIT, IMF stance on Greece bailout, central government's failure to push through big ticket reforms and a reversal in commodity prices continue to be key risk to our outlook.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.
Call: 1800-2666-002

Malay Shah - Head, Fixed Income

Mr. Malay Shah has around 14 years of experience in the field of finance. He has exposure to Debt Dealing and Fund Management. Prior to joining Indiabulls Asset Management Company Limited, he was working in the capacity of Head - Fixed Income with Peerless Funds Management Co. Ltd.

He is a Commerce graduate and has done his MMS in Finance from NMIMS.

DEBT MARKET COMMENTARY

April	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.82	6.82	6.50	6.57
10 year Gsec	7.41	7.47	7.41	7.44
3 month CDs	7.30	7.38	7.30	7.38
6M CDs	7.30	7.38	7.30	7.38
12 month CDs	7.40	7.45	7.40	7.45
Currency	66.20	66.66	66.20	66.33
10 Year US Treasury	1.79	1.94	1.70	1.83

Inflation

Consumer Price Index (CPI) eased to a six-month low of 4.83 % in March from 5.26 % in February according to data released by the Central Statistics Office (CSO). Retail inflation is now trending below the RBI's CPI target of 5 % by the end of the current financial year. Food inflation, the biggest component of CPI, also eased to 5.21 % in March, down from 5.3 % in February. WPI continued to be in the negative zone for the seventeenth straight month. The Wholesale Price Index (WPI)-based inflation was flat at (-) 0.85 % in March 2016 as compared to (-) 0.91 % February 2016. Inflation of food items (food articles and food products) rose to 4 % in March 2016 from 3.7 % in February 2016. Meanwhile, inflation of non-food items (all commodities excluding food items) was flat at (-) 2.9 % in March 2016 from in February 2016. Currently inflation seems to be pretty much stable, however going ahead commodities rebound could be a risk, but with the forecast of normal monsoon, inflation worries are expected to be contained.

Macros

Industrial output in the country rose by 2 per cent in February after falling continuously for three consecutive months. (IIP) was boosted mainly by a 9.6 per cent rise in electricity generation and a 5 per cent rise in mining output. Manufacturing which constitutes roughly three-fourths of the index showed marginal growth of 0.7 per cent in February. India's trade deficit narrowed to $5.07 billion in March 2016 from $11.39 billion in March 2015. Exports fell at their slowest pace (5.5% on year) in 15 months to $22.71 billion. Imports declined a massive 21.6% on year to $27.78 billion in March 2016.

Policy Action

On April 5, 2016, the RBI reduced the policy repo rate by 25 bps to 6.50%. RBI also narrowed the policy rate corridor to +/-50 bps to align market-driven rates closer to the repo rate. Additionally, to manage liquidity conditions, the central bank reduced the minimum daily requirement of the cash reserve ratio (CRR) from 95% to 90%. It lowered the average ex-ante liquidity deficit in the system from 1% of NDTL to neutrality, implying greater injection of liquidity.

Liquidity & Rate Movement

Liquidity was largely stable with a positive bias, as evident from the movement of call/cblo rates in a narrow band. Inter-bank call money rates remained near the repo rate of 6.50 % for most parts of the month. Call rates were on the lower side, mainly because of regular fund infusion by the RBI via repo auctions and open market operations, and inflows from the government's month-end spending. Total borrowing from the RBI's liquidity window was nearly Rs 1,10,000 cores, a fall from march borrowing of more than Rs 190,000 crore. Post the initial rally , post consolidating for a while-markets witnessed a bit of profit booking across the curve. However the rally in long papers was limited due to weekly supply of gsecs and sporadic increase in crude oil prices. The 10-year benchmark G-sec yield closed at 7.44%. Within the short term segment, the yield on 3-month certificate of deposit (CD) closed at 7.35%, while that on the 1-year CD closed at 7.45%.

Outlook

Expectation of normal to more than normal monsoon, accommodative stance of RBI, and continued interest of overseas participants-all these abode well for the bond yields. So even though we will not see a sharp and rapid fall in yields, in a gradual and consistent manner, rates will trend downwards. Basis that, continuing exposure to medium and long duration funds is advisable. The sweet spot on the curve is the short to medium term-the 2-5 year segment of the curve. This is where the relatively better risk adjusted returns are available. For risk averse investors, income fund, with its AAA assets only focus will be ideal fund to allocate funds. For investors with smaller investment horizon, short term fund will be good vehicle to enjoy capital appreciation generated by sharp run down in yields especially at the short end of the date curve. With a portion of assets in accrual mode, investors in this fund will also be well protected against re-investment risks. As always, liquid and ultra short term funds will be better alternative to savings and current bank account and will help generate smart returns for any temporary surpluses.

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