

We smelled reforms, now time to see them

Last couple of weeks were full of action starting from Diesel deregulation then Election results in Haryana & Maharashtra and finally ending with brouhaha of Black money. **FinSage** will evaluate each event separately and see what impact it has on Indian economy

- 1. DIESEL Deregulation** is a “Credit Positive” reform which BJP led government has done with ease only because of globally low crude oil prices. Government will reduce subsidy burden, although fiscal savings are likely to be limited. Decontrolling of Diesel pushed market prices of diesel came downwards by INR 3.5 but just to caution you the same can go the other way if Crude oil prices move up globally which is not likely to happen for atleast a year. **FinSage** believes that deregulation of Diesel signals Fiscal discipline on the part of nation and the same will be rated positively by international economists. The immediate beneficiaries of the reforms are PSU oil marketing companies like IOCL, HPCL, BPCL etc. Reliance & Essar will also gain from this because a lot of old pumps will come back to action. The government’s beginning to move. Coal blocks will be auctioned in the next three months, which should provide some sanity to the mess that the industry is in right now. Even banks will be happy, as they can finally figure out what the hit to their loan book is and beg the RBI for appropriate mercy. In the immediate short term, **FinSage** see a potential problem as the unwinding hits corporate balance sheets and banks, but this is great for the longer term (that is, for more than a year later).
- 2. Haryana and Maharashtra Election results** have bolster the ability of BJP to push economic reforms. Bringing reforms can always be difficult for the new government if state verdict goes against them. One big thing which no fund manager is talking about is majority in Rajyasabha (Upper house of Parliament). **FinSage** believes that these

victories for BJP have strengthened the party in Rajya Sabha which will help in passing major bills like GST, Labour reforms, etc. Important reforms like GST where manufacturing states like Maharashtra fears revenue losses may get boost as market participants expect big bang reforms from BJP. Maharashtra with Mumbai as its capital is the largest state in terms of share in national GDP (Approx. 15% of total). Hence economic performance will have a national impact and BJP will expect consensus in policy formation & implementation at state level too.

3. **Black Money** and its trail have led all economists & market analysts puzzled. As per the rough estimates of Swiss Banking Association (SBA) India has more than 1.4 Trillion USD parked in Swiss banks. Indian markets are very much worried about the immediate impact if the names which may include names of directors in listed entities like Mr. Pradip Burman of Dabur. Government is well aware of the risk but Supreme court is making things tougher for Central Government. Also if all the black money flows back to nation then imagine the state of Indian currency, the smallest denomination will be INR 1000. The point **FinSage** wants to make is the black money is an evil but should be handled with care.

Now let **FinSage** give you our market outlook on the basis of data available from various sources including Morning Star and NSE/BSE databanks.

Indian equity markets celebrated Diwali in style, with the Nifty regaining the 8,000 mark and the Sensex moving above 27,000. The global markets are also upbeat as US and European markets reversing smartly however **FinSage** believes reason for reversal are not too convincing. Hence caution should be exercised before investing at one go. Foreign portfolio investors reversed their negative stance towards Indian equities last week. After being net sellers since the beginning of the month, these investors turned net buyers.

Just for your information Indian Markets have delivered best YTD performance in the world till October, 2014 hence if your dead stocks or Mutual Fund schemes have come alive then no

reason to rejoice because they are just following the trend. But yes this current upmove once again proves that Equity market always compensates waiting period and put investors back on 15%-18% annualized returns. Our suggestion is that all the investors should use this as an opportunity to rebalance the portfolio and exit out of undesirable junk schemes. One can start a complete rejig in Asset allocation basis the risk appetite.

We are firm believer that India is in a long term bull rally hence come what may Equity will be the best asset class till 2040. Currently with a stable and strong government at center the speed of reforms will fuel the indices. However negative news flow in coming six months will make market volatile and staggered investment should find space in our action plan. Reaffirming the same what we have advised earlier as well that FinSage advises clients not to allocate large sum at this level but can continue to invest through SIPs with horizon of 5 years in diversified equity funds in order to average out the medium term corrections.