

# India update

## Monthly commentary

September 2014

### Market overview

- Indian equities gained in August on the back of positive cues from the global economy.
- India's GDP in the fiscal first quarter beat market expectations, growing by 5.7% compared to the previous year, after almost two years of sub-5% growth. The Reserve Bank of India expects the economy to grow by around 5.5% in 2015.
- The auto industry improved further in July, with most segments enjoying a pick-up in sales, raising hopes that a genuine recovery is around the corner.
- Conversely, consumer inflation was worse than expected, climbing back to 8%, compared to 7.5% in June on the back of elevated food prices.

### Model portfolio news

There were no significant portfolio moves in August.

*Note:*

*Any changes refer to those of our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the comments may not apply to all portfolios.*

### Corporate news

**ICICI Bank** was resilient, despite on-going stress in the credit system. Net profits were up, its loan book expanded by 15%, and its capital position remains healthy. On the other hand, **Jammu & Kashmir Bank's** asset quality deteriorated as some corporate loans soured. This had been well flagged and management anticipated that the loans could be upgraded to restructured assets soon.

**Hero Motocorp** reported record sales, although profits were dampened by an increase in expenses. Separately, Pawan Munjal, the founder's son, will be appointed to vice chairman.

Most of our consumer staples holdings performed well. **ITC** benefited from good growth in its cigarette and agricultural businesses. Meanwhile, it bumped up cigarette prices by 23% following the recent excise tax hike. **Hindustan Unilever** and **Godrej Consumer Products** reported a lift in domestic sales, despite inflation and soft consumer sentiment. **Nestle India's** topline growth improved thanks to higher prices, however cost pressures continued to impact earnings.

We hold the companies highlighted above.

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## Outlook

Many investors viewed July's unexpected acceleration in India's economic growth as the start of a sustainable phase of recovery. There is no denying that growth dynamics are improving. The trade balance has also been in surplus for the last three quarters. We are optimistic, but cautiously so, believing the recovery will be more gradual and uneven than recent data might suggest. A sub-par monsoon season, significant corporate debt and a central bank struggling with persistent inflation could present potential hurdles to a viable economic resurgence. Short-term growth is also likely to be dampened by the government's inability to narrow the deficit without resorting to spending cuts. That said, first-quarter earnings seemed quite positive, indicating an improvement in corporate profitability. And, even a slowly expanding domestic economy is good for companies' bottom lines.

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