Dear All,

Please find below some of the recent informative research reports / articles on the market / economy as on 12th April 2018. Hope you find the same useful

1. PSU Banks : Picking Those With The Least Holes - Outlook Business

2. Five Warren Buffett quotes that can give you direction in confused D-Street – ETMARKETS.COM

3. U.S. Needs China More Than China Needs the U.S. – Bloomberg Article by Stephen Roach - an American economist and serves as a senior lecturer at Yale School of Management. He was formerly chairman of Morgan Stanley Asia and also served as chief economist there.

4. India Strategy - Capex—don't bemoan the present, beware the future - Kotak Institutional Equities

5. Market way better than that in 2007, 2013, but 'sweet spot' behind us

PSU Banks : Picking Those With The Least Holes - Outlook Business

The PNB-fraud has dimmed investor perception about PSU banks, but selective bottom-fishing continues in SBI and Bank of Baroda. The ₹12,968-crore-fraud at PNB has once again highlighted the frailty of PSU banks' risk-management systems. The banking system is already creaking under the weight of NPAs of ₹730,000 crore and panicked investors lost no time in pronouncing their verdict. The stock price of PNB has corrected 33% and the Nifty PSU Bank Index has also fallen 11% in wake of the scam. Among large PSU banks, SBI has corrected 12.6%, while Bank of Baroda is down 14.7%. After the pounding, most PSU banks now trade at 10-30% discount to their book value (see: *Ragtag bunch*). However, Abhimanyu Sofat, VP – research, IIFL, says that the current beaten valuations are not what one should be looking at as the quality of the book itself remains uncertain. "RBI, through its new norms, is pushing banks to quickly recognise stress in their books, via a resolution plan or by referring the stressed no-resolution accounts for bankruptcy proceedings. Even though some PSU banks are trading at half their book value, it is difficult to guess how the books will look in light of the new NPA norms," he adds.

Please click here to access the detailed report
https://www.outlookbusiness.com/markets/feature/picking-those-with-the-least-holes-4272

Five Warren Buffett quotes that can give you direction in confused D-Street – ETMARKETS.COM

Equity investors are jittery the world over the US-China trade war, through there seems to be a certain thaw in the war of words. In India, the jury is still out on whether a global trade war can spell opportunity or stall its growing economy. Equity investors are unsure whether the recent slide in stocks has taken away the froth and cleared the deck for fresh buying.
Newcomers on Dalal Street keep wondering whether they have joined the party too late. They all can get their answers from legendary investor. Buffett, interestingly, has a quote to address every dilemma in financial markets. And his followers swear by them.

Please click on the below link to read some of Warren Buffets Investment Quotes and their relevance in the current market scenario

https://economictimes.indiatimes.com/markets/stocks/news/5-warren-buffett-quotes-that-can-give-you-direction-in-confused-d-street/articleshow/63709483.cms?utm_source=newsletter&utm_medium=email&utm_campaign=Marketnewsletter&type=market&ncode=25e08854b7eb2032d39846a24d5de202

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U.S. Needs China More Than China Needs the U.S. – Bloomberg Article by Stephen Roach

Not one to be outdone by any adversary, Donald Trump has upped the ante in a rapidly escalating trade war with China, threatening an additional $100 billion of tariffs on top of the initial round of $50 billion. In doing so, the Trump administration is failing to appreciate a crucial reality: The United States needs China more than China needs the U.S.Yes, China is still an export-led economy, and the American consumer is its largest customer. But China's export share of its gross domestic product has fallen from 37 percent in 2007 to slightly less than 20 percent today, an important outgrowth of a decade-long rebalancing. By drawing increased support from domestic demand, China is better able to withstand the pressure of tariffs and other actions that are aimed at its exporters.

Not so with the United States. The U.S. depends heavily on China for providing the low-cost goods that enable income-constrained American consumers to make ends meet. The U.S. also depends on China to support its own exports; next to Mexico and Canada, China is America's third largest and by far its most rapidly growing major export market. And, of course, the U.S. depends on China to provide funding for its budget deficits. It is the largest foreign holder of U.S. Treasury securities — some $1.3 trillion in direct ownership and at least another $250 billion of quasi-government paper. A lack of Chinese buying could turn the next Treasury auction into a rout.

America depends on China because of a fundamental weakness in the structure of the U.S. economy — a profound and worrisome lack of domestic saving. In the fourth quarter of 2017, the net domestic saving rate (depreciation-adjusted saving of households, businesses and the government sector, combined) was just 1.3 percent of national income. Lacking in savings at home, and wanting to consume and grow, the U.S. must import surplus foreign saving from abroad – and run massive balance-of-payments and trade deficits to import this capital. In 2017, the United States had merchandise trade deficits with 102 nations!

President Donald Trump continues to single out China as the villain in the great American tragedy, when in fact he should take a careful look in the mirror.

Please click here to access the detailed report

https://www.bloomberg.com/view/articles/2018-04-06/trump-s-tariffs-overlook-how-much-u-s-needs-china

India Strategy - Capex—don't bemoan the present, beware the future - Kotak Institutional Equities

The recent travails of Indianbanks have raised concerns about their ability to fund India's capex. Our view is quite different in that it is hard for India's private sector to invest in basic infrastructure areas without a radical overhaul of (1) policy of ownership and operatorship of infrastructure assets and (2) pricing of infrastructure-related services (utilities). Government capex faces severe challenges, constrained by high consolidated fiscal deficit and public debt.

Capex can be broken down into industrial and infrastructure capex……

Capex can be broken down into industrial capex and infrastructure capex. Industrial capex broadly comprises investment in industrial plants (cement, metals & mining, power generation, refining) by private and public entities and it has a somewhat B2B characteristic with low role of the government in pricing. Infrastructure capex broadly comprises investment in basic infrastructure (gas and power distribution and transmission, railways, roadways, urban infrastructure, waterways) and has a B2C (read G2C) characteristic with large role of central, state and local governments in ownership, operatorship and pricing of services.

Private capex may remain confined to industrial capex and parts of infrastructure capex……
In our view, private capex may remain confined to industrial capex and parts of infrastructure capex (roadways) without review of government policy of ownership and operatorship in sectors such as (1) railways (central government), (2) irrigation and power distribution (state governments) and (3) sanitation, sewage and water and urban transportation (local and state governments). We do not see investment in industrial assets as an issue as these can be funded by (1) internal cash flows of companies (automobiles, cement, refining, steel; companies have generally decent/strong balance sheets), (2) banks (private) and (3) bond markets even if public banks were to struggle to fund new projects given their current challenges.

Government capex in infrastructure is a far bigger challenge, in our view……
As discussed in detail in our July 8, 2016 report (A bridge too far), (1) India's high consolidated fiscal deficit (see Exhibit 1) and public debt (see Exhibit 2) will likely constrain its ability to fund infrastructure capex and (2) government-owned utilities' weak financial position (due to uneconomic pricing of services) will limit their ability to invest in new assets. It is imperative that governments review the two fundamental issues of (1) policy of ownership and operatorship of assets and (2) pricing of services to accelerate infrastructure development. We had discussed various funding options and ways of involving the private companies in the same report.

Better fiscal position and/or right pricing models critical for future infrastructure development…..
Higher-tax-to-GDP ratio due to GST implementation will help improve India's fiscal position but may not result in higher government capex given focus on fiscal consolidation. The pricing of services will be important for debt-funded public transportation projects (high-speed rail, metros) as metro projects lose money currently (see Exhibit 3). The strong pickup in road construction (see Exhibits 4-5) reflects the 'ability' of NHAI to fund EPC/HAM road projects from cess on automobile fuels although NHAI's balance sheet (see Exhibit 6) could be stretched unless the government was to allocate more funds from cess on fuels to it.

Market way better than that in 2007, 2013, but 'sweet spot' behind us

The market correction since January has given stock investors much pain. Equity-linked mutual fund flows too have fallen, a clear sign retail participants are worried about future returns. But if we go by analysts' readings, the domestic market looks better-off in comparison to 2013 when the bull run set in, a year before the general elections in 2014. The worry is recent developments have revived those unpleasant memories of 2013 when US Fed's taper tantrum and weakness in macro data kept stocks on the edge. This looks like a redux of 2008 when the market crashed following the collapse of Lehman Brothers and hyper valuations, Centrum Broking said in its report.

But one should not lose heart. Current macroeconomic parameters suggest so, as it's not all that gloomy. India has reasonably healthy balance of payments dynamics -- nearly 11 months of foreign exchange reserve cover as against just nearly 6 months in 2013. The forex kitty has swelled to a record record $424.36 billion. Current account deficit (CAD) looks comfortable, a far cry from 2013. Inflation is well under control even after factoring in the possibility of an uptick in FY19 -- maybe, nearly 5%. In 2013, it had stood close to a scary 10 per cent. India has positive real rates, that is Indian 10-year bond yield at nearly 7.5 per cent and inflation flirting with 5 per cent, unlike 2013 when India had negative real rates with inflation surpassing bond yields.

On top of it, even valuations now are better than in 2007.

Multiples of Sensex	2018*	2007
P/E (x)	17.62	22.07
P/B (x)	2.57	6.10
EV/EBITDA (x)	10.14	16.56

*Source: Bloomberg, *1 year forward estimates, As of 28 Mar'18.*

Please click on the below link for the full article

https://economictimes.indiatimes.com/markets/stocks/news/market-way-better-than-2007-2013-but-sweet-spot-behind-us/articleshow/63695840.cms?utm_source=newsletter&utm_medium=email&utm_campaign=Marketnewsletter&type=market&ncode=25e08854b7eb2032d39846a24d5de202