

# BUILDING A BASE FOR INDIA'S ROARING 20s.



THE ANNUAL OUTLOOK 2020



**BNP PARIBAS**  
MUTUAL FUND

The asset manager  
for a changing  
world



# CEO SPEAK

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**Sharad Sharma**

MD and CEO,  
BNP Paribas Asset Management  
India Pvt. Ltd.

It is time for us to bid adieu to the uncertainty of the teens (2010s) and gear up to welcome the promise of the Roaring Twenties (2020s).

A century ago, 'Roaring Twenties' was a term given to the 1920s - a decade of economic growth and widespread prosperity in developed countries like North America, Europe and Australia, among others. The period was characterised by recovery from wartime devastation and deferred spending, a boom in construction and rapid growth of consumer goods like automobiles and electricity, signalling a large, positive change in the economies.

We expect the next decade to be a time of similar positive change for India. An opportunity to learn from its teens and set into motion its journey towards becoming a USD 5 trillion economy. In the teens, we saw the government implement a host of policy initiatives like the Goods & Services Tax (GST) and the Bankruptcy Bill that were focused on streamlining business activity in the economy. However, even as we began to reap the benefits of these initiatives, a conflation of global and domestic events affected the consumption cycle and growth in the country.

The recently announced government measures like the cutting of corporate tax rates, labour reforms and de-criminalising of aspects of the Companies Act, coupled with conducive global liquidity factors could act as building blocks for the economic recovery in the upcoming decade. This growth is incumbent upon the successful implementation of these measures and other such initiatives that can provide a fillip to manufacturing and drive consumption.

In this year's Annual Outlook, we take a closer look at the themes that could play out in the year ahead and help build the base for India's Roaring Twenties.

We expect to see further **formalisation of the economy** and a more rapid migration towards the **financialisation of savings**. Moreover, a focused approach by the government to invest in human resources and **import substitution** could add muscle to the economic recovery and ensure that growth in the upcoming decade is built on a strong and enduring foundation. Most importantly, ESG is not just a buzzword anymore. Investors, policy makers and corporates are warming up to the idea of sustainable and responsible investing. Organisations and stakeholders will be required to adapt to the new norms of providing smarter, cleaner and healthier products and services.

While we expect India to witness a gradual, but firm recovery, we will continue to keenly observe global developments that could have a local impact.

At BNP Paribas Asset Management India, we strive to keep an eye on the changing landscape. Changes, that create opportunities for delivering long term, sustainable growth for our investors and partners.

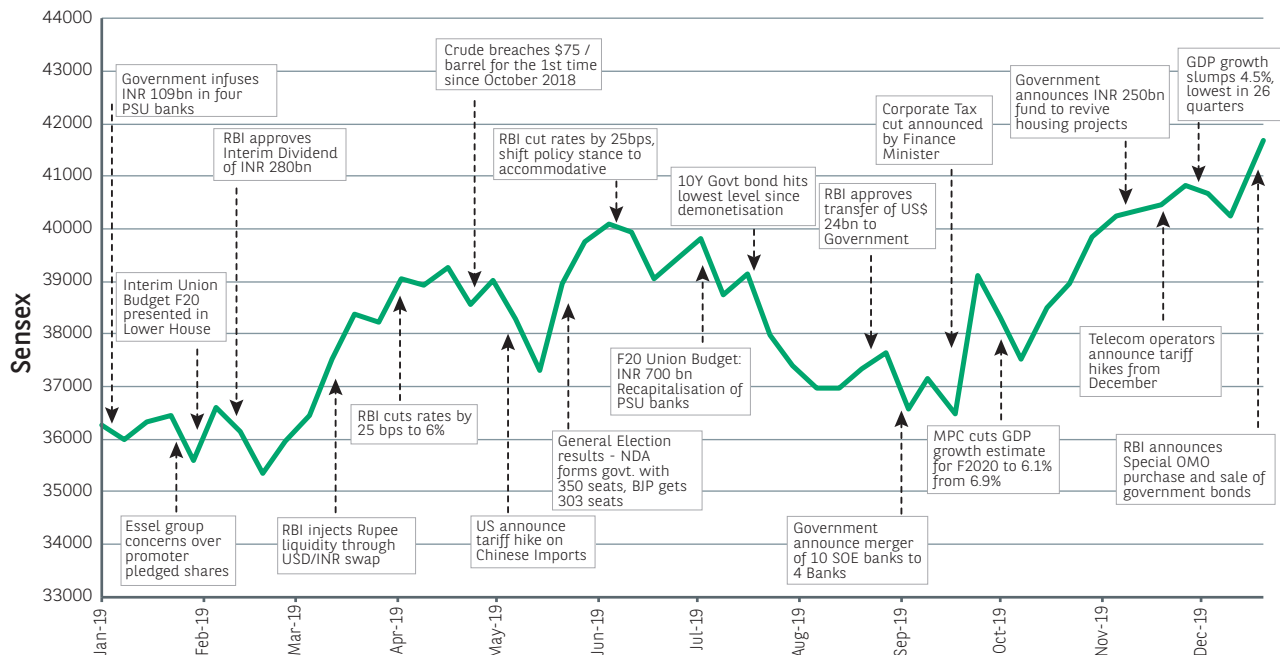
We hope that this Annual Outlook is a testament to that commitment and makes for an enriching read.

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# THE YEAR GONE BY



Source: Bloomberg, Morgan Stanley Research

# WHAT WE SAID IN 2019

**Meet the Manager**

**‘We look for firms that have a sustainable moat’**

BNP Paribas MF looks for growth at a reasonable price; research head Chockalingam Narayanan

**March 2019**

**‘Wealth-creating opportunities are likely to arise from consumption theme’**

Value-for-money business models are doing well across sectors like consumer durables, paints, apparel retailers, grocery retailers, etc, says Chockalingam Narayanan

Consumption accounts for a significant portion of India's GDP. With the favourable demographic of a young population and rising per capita income, we believe the broader consumption theme is likely to deliver growth from a longer-term perspective and is the structural story of India, Chockalingam Narayanan, Head, Research, BNP Paribas Mutual Fund, said in an interview to Moneycontrol's Kshitij Anand.

**August 2019**

**‘Don't expect big fall in equities; RBI to hold rates in H1CY19: BNP Paribas’**

Abhijeet Dey, Senior Fund Manager, BNP Paribas Mutual Fund, says that the Indian market is in a long-term uptrend. He expects the RBI to hold rates in H1CY19. He also expects the Indian market to continue its upward trend.

**January 2019**

**‘We like consumer companies for their potential for superior growth, return ratios’**

In an interview, Karthikraj Lakshmanan, Senior Fund Manager – Equities at BNP Paribas Asset Management, talks about consumption stocks and what lies ahead

The much awaited general elections is round the corner. Markets are already excited, and are in uncharted territories. As markets dance to the tunes of flows, and valuations become stretched, there is a fear that consumption stocks — that are driving growth — may be getting out of hand. RupeeQ's Kumar Shankar Roy caught up with Karthikraj Lakshmanan, Senior Fund Manager – Equities at BNP Paribas Asset Management (BNPP AM), to discuss consumption stocks and what the future holds for the sector.

**April 2019**

**Positive on private banks, insurance and consumption: BNP Paribas MF**

The mid and smallcap category comes with a higher risk and potential for higher returns in the longer term. Investors with higher risk appetite and a longer time horizon can consider staying invested

Private banks' valuations might have moved up, but they are not too expensive from the past average basis considering the strong growth potential in next few years, Karthikraj Lakshmanan, Senior Fund Manager-Equities at BNP Paribas Asset Management India, said

**May 2019**

Note: Above articles represent some of the market views put forth by the investment team at BNP Paribas Asset Management India Pvt. Ltd., over the course of CY 2019.

# 2020 – BUILDING A BASE FOR INDIA'S ROARING 20s



As one crystal gazes into 2020, the good thing is that the negative feedback loop seems to have been arrested.

Looking at the high frequency macro-indicators, midway through 2019, the government swung into action with a slew of measures to offset the impending slowdown. This included cutting corporate tax rates, labour reforms and de-criminalising aspects of the Companies Act. As one crystal gazes into 2020, the good thing is that the negative feedback loop seems to have been arrested with these timely government interventions coupled with a seasonal pickup in festive activities. We expect some more actions to follow from decisions taken at GST council meetings and the annual budgets of Union and State Governments. If the measures already taken and those that follow can address the deficit, it can provide the much needed confidence booster for the domestic economy by –

- Encouraging higher consumption;
- Improving capacity utilization and driving investment in new capacities;
- Encouraging trade to re-stock their value chain from abysmally low levels;
- A likely thaw in global trade tensions can also provide a reasonable tailwind for global economic activity and thereby, India's export engine;
- As a result of all these, the government can then look forward to improved tax collections.

Further on the positive side, the initiatives to address our traditional dependence on imported crude oil, gold and consumer electronics seems to be paying off with the country now potentially looking at the current account being more balanced (and occasionally even a surplus!!!). In that sense, the country now has to work at improving its fiscal situation (and not tackle a twin deficit – fiscal and current account, like it did during the 2013 taper tantrum period). The recent initiatives to strategically divest PSU's is one possible way to reduce the fiscal deficit. These efforts, in addition to the rising foreign exchange reserves and the global easy liquidity scenario are potentially working as better building blocks for the economic recovery.

Meanwhile a focused approach by the government to invest in human resources can add muscle to the economic recovery and ensure that the upcoming decade is indeed one of "Roaring Twenties" for India. These require capability building programmes to ensure execution on the ground and particularly in the middle layers via training more teachers, judiciary and legal professionals, medical practitioners, skilled labour across industries related to real estate (engineers, plumbers, electricians, carpenters), government services (utilities like sewerage, water, road, electricity), and tourism (hospitality, guides, airline/railway/roadways professionals).

Underlying the above issues, we see the following themes

1. Formalization of the economy;
2. Strategic divestments by the government;
3. Import substitution;
4. Gradual revival of viable real estate projects;
5. Financialisation of savings; and
6. ESG – No more a choice, but the way forward.

From an equity market perspective, this is likely to mean that earnings recovery will be gradual and back ended. At a micro level, the companies with stronger balance sheets, offering products/services that can create customer delight and better market access,

can continue to gain market share until the recovery becomes more broad-based. In this context, from a sector perspective, we are positive on banks with strong liability franchises, insurance companies, select consumer staples and discretionary names, value for money retail, multiplex, gas utilities and cement names. We are neutral on healthcare. We stay underweight on energy, metals, public sector banks and autos.

With cycles becoming unpredictable, and global inflation continuing to be low, we believe it is better to avoid companies with high leverage and focus on structural growth companies with healthy balance sheets and cashflow generation capabilities.

With incremental efforts by the government also focused towards bringing in more FDI in the country, we also need a way to incentivize foreign companies to get listed (akin to another emerging market peer Indonesia's recent attempt) so that even domestic investors can participate in some of these opportunities and the listed space is a better representation of the country's economic activity. As there is increasingly a larger profit pool sitting outside the listed space – growing profits at a rate better than the listed space which is one of the reasons why listed companies' profit to GDP ratio has been on the decline for the last decade. In recent years, the investors have played it via proxies which has possibly led to elevated multiples for select names that are performing well. This dichotomy of high growth and quality names trading at significant premiums compared to cyclicals and value segment could prevail until the broader economic activity picks up or till we find a way for these large unlisted names with good profit pools to list their India operations here.

The fixed income markets revolved around uncertainty throughout 2019. Globally the major reason was the US-China trade war which hugely impacted the US Treasury yields, crude oil prices etc. causing volatility across global sovereign bonds yields and GDP numbers. This resulted in majority of the central bankers turning accommodative from either hawkish or neutral. The Reserve Bank of India was no exception, from being hawkish in the second half of CY2018 to being aggressively accommodative since then and throughout CY2019. However, there were domestic challenges in the election year 2019. Concerns regarding meeting the fiscal deficit target kept growing as the year progressed. Also, with decelerating GDP data, the weak GST numbers only added to this concern as the year progressed. News of issuance of sovereign bonds outside India and the idea subsequently taking a back seat added to volatility. Credit crisis due to liquidity issues in major shadow banks fueled uncertainty in the corporate bond markets. All these factors lead to a multi-year high on the spread between benchmark repo rates to 10 year GOI bonds factoring the negatives/risks.

From a fixed income perspective, we expect the government to provide sops for various sectors through investment stimulus and provide targeted relief and incentives to improve the business sentiment. In addition to this, we expect the policymakers to announce an asset quality review of NBFCs to identify the stress in assets and make it easier for better credit flow through the sector.

RBI would be eyeing the budget regarding any possible counter cyclical fiscal measures before cutting policy rates further.

We expect the government to remain fiscally responsible and a small deviation from the FRBM targets is expected. We do not expect the government to open the purses towards large consumption driven measure like universal basic income as we believe that the government is looking towards structural reforms which are taking time at this juncture but would have large benefits over time leading to increased economic activity together with improved compliance.

The RBI is expected to cut rates by another 40 bps in CY2020 with terminal rate being 4.75%. The banking system liquidity remains flushed and thus ensuring a reduction in term premium due to lower cost of funds. Thus the shorter end of the curve remains a comfortable place to be invested in.

The duration yield curve is elevated and is expected to react depending on the budget outcomes together with continuity of RBI in buying bonds via OMO as well as roadmap towards India's inclusion in the global bond index.

The 10 year G-Sec is expected to trade in the range of 6.25 to 6.75 for most part of CY2020.



We believe it is better to avoid companies with high leverage and focus on structural growth companies with healthy balance sheet and cashflow generation capabilities.

# KEY THEMES FOR 2020

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## THEME 1 : FORMALISATION OF THE ECONOMY



Smaller entities suffered from lack of capital availability at competitive rates and a lot of the value creation has remained outside the formal system.

Historically, a larger section of the Small and Medium Enterprises (SMEs) in the Indian industry remained largely unorganized to take advantage of regulatory arbitrages that existed at the level of land, labour as well as policies. This, however, also meant that most of these businesses remained sub-scale, did not create as many jobs and as a result had to depend a lot more on the government to create common infrastructure (lack of critical scale) or create clusters. Consequently, these smaller entities suffered from lack of capital availability at competitive rates and a lot of the value creation has remained outside the formal system – with only the indirect benefit of this value creation being visible in the form of higher consumption activity. Hence, the country also had to contend with a limited tax base to fund social spends. To correct this anomaly, and for businesses that could re-invest in their growth and as a result broad base the revenue creation for the economy, the government initiated a series of structural reforms over the last few decades to formalize the economy.

Most notable among these in the last few years have been de-monetisation followed by GST (Goods and Services Tax). While the first reform followed a shock approach to bring all the cash into the formal fold, the second one followed a carrot and stick approach in the form of providing an input tax credit and brought the entire value chain under the ambit of the formal system.

In addition to these, the government has introduced initiatives such as shorter timeframes to clear Micro, Small & Medium Enterprises (MSME) dues (from government agencies and large enterprises), provided access to capital at competitive rates through MUDRA scheme etc. While these initiatives are welcome, there are still some teething issues in terms of increased compliance for these smaller firms. On the labour policy front too, the country is simplifying the myriad labour regulations into four standardized labour codes.

The increased incentives for start-ups, the simplification of compliance norms, and the decriminalization of aspects of the Companies Act is likely to help narrow the gap between organized and unorganized players and hence provide the right impetus to formalize the economy. To this, the invoice matching module of the GST will reduce scope for evasion and broad base the tax collection; and this in turn can help invest towards building more infrastructure as well as social spends to uplift large sections of the economy from poverty.



**Exhibit 1: Reforms/Measures Announced by the Government**

Date	Announcement	Details
23-Aug	FPI surcharge	Removal of enhanced surcharge levied on FPI under budget announcements
	SCE Recapitalisation	Upfront immediate release of pre-announced INR 700bn for SOE Banks recapitalisation
	Banks loan products	Banks to launch repo rate/external benchmark linked loan products
	Liquidity to Housing Finance Companies	Additional liquidity support to Housing Finance Companies INR 200bn by National Housing Board thereby increasing it to INR 300bn
	MSME GST refund	All pending GST refund due to MSMEs shall be paid within 30 days. In future all GST refunds to be processed in 60 days of application. Delayed payment from government VCPSEs to be reviewed by Cabinet Secretariat
	'Ease of Doing Business'	Continued focus towards 'ease of Doing Business'. Violations under CSR to be treated as civil liability and not a criminal offence
	Additional Depreciation for Autos	15% additional depreciation benefit during FY20 on purchase of automobiles
	Autos Scrappage Policy	Government will consider scrappage policy for autos
	Removal of New Vehicle purchase	Ban on purchase of new vehicles on government departments removed
26-Aug	RBI dividend	RBI announced an annual dividend of Rs1,760bn, including a special dividend of Rs526bn
28-Aug	Policy boost to manufacturing	Liberalisation of FDI regulations in contract manufacturing, relaxed sourcing norms for single brand retail and relaxation of FDI rules in coal mining and media
30-Aug		Third wave of SOE bank mergers announced including recapitalization plans
14-Sep	Policy boost to exports and housing	MEIS scheme in exports replaced by new scheme while a stressed fund was announced for the real estate sector
20-Sep	Cut in corporate tax rates	Corporate tax rates cut to 25% from 34% earlier, for new manufacturing companies tax rates cut to 17% from 27% earlier
23-Oct		Government approves in-principle merger for BSNL and MTNL
		Revisions to national fuel retail policy, easing entry barriers for new players including non-oil companies
6-Nov	Stressed asset fund for real estate	The Govt materially enhanced the scope of its recently announced stalled projects fund that would cover NPA, non-liquidation cases and has increased allocation (Rs250bn size vs Rs200bn earlier)
20-Nov	Strategic disinvestment	Strategic disinvestment in five SCEs, including sale of stake in BPCL along with transfer of management control. It also approved the sale of its entire stake in THDC India and NEEPCO to NTPC.
	Relief for telecom companies	Moratorium on deferred spectrum payment due in FY21 and FY22
	Labour Codes	Code on Industrial Relations gets Cabinet approval. Also the Fixed Term Employment (FTE) are being made a part of Labour Codes

Source: PIB, RBI, UBS, CY2019

## THEME 2 : STRATEGIC DIVESTMENTS BY THE GOVERNMENT

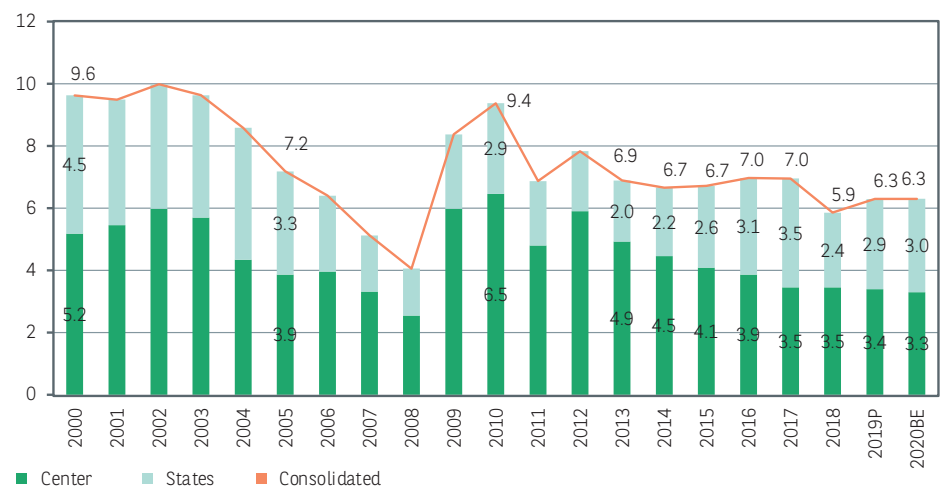
India's total expenditure has grown at 11%<sup>1</sup> over the last 5 years while receipts barely kept pace during this phase. With inflation being under control, the government's commitment on state tax increases at a 14% CAGR<sup>2</sup> on nominal basis during the GST transition period of first five years is already getting tested due to the ongoing economic slowdown. As a result, we have seen that the government's fiscal deficit has hovered around the 3.4% to 4% of GDP range, with FY20E likely to settle slightly higher than their target.

In this context and in light of the government taking a non-negotiable stance towards implementing its social development plans, the one large revenue piece that can give the Government a large kitty to fallback upon is divestments. However, piecemeal divestments over the last few years has already resulted in the government having only room to raise Rs. 1.4 trillion<sup>3</sup> – if it were to keep its stake at 51% in all the listed entities.



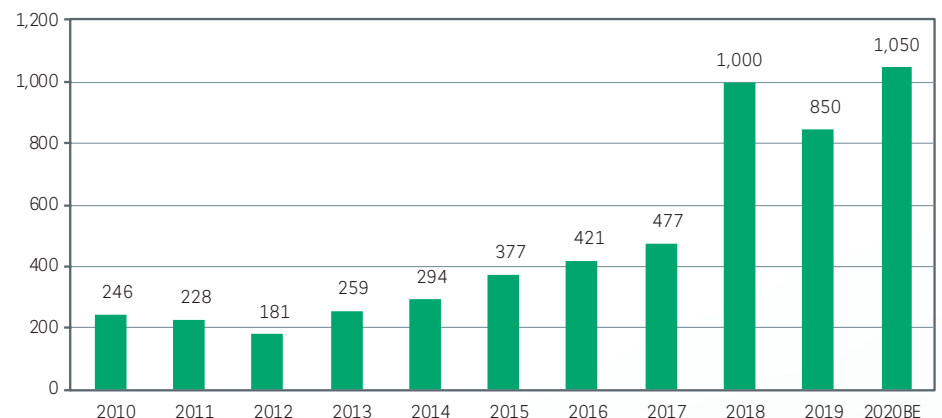
We have seen that the Government's fiscal deficit has hovered around the 3.4% to 4% of GDP range, with FY20E likely to settle slightly higher than their target.

**Exhibit 2: India's Combined Fiscal Deficit (% of GDP)**



Source: Ministry of Finance, Kotak Institutional Equities, Budget Estimates (BE)

**Exhibit 3: Divestment Revenue of Central Government (Rs.bn)**



Source: Union Budget, Kotak Institutional Equities, Budget Estimates (BE), March fiscal year-ends, 2010-20BE

<sup>1</sup> Source: Bloomberg

<sup>2</sup> Source: Ministry of Finance

<sup>3</sup> Source: Bloomberg, Companies, Kotak Institutional Equities

Under these circumstances and considering the approach to social development that the government has chosen, if it has to raise such large amounts for a period of at least a decade or so – until the larger sections of the population moves out of poverty, the government is effectively left with very limited options, other than:

- Sell stakes and make unlisted companies like Life Insurance Corporation, three unlisted General Insurance companies, Dedicated Freight Corridor Corporation, parts of Indian Railways, India Post, etc; public, and/or
- Sell stakes in companies to strategic players in a way that the government goes below the crucial 51% stake that it has held on to in most of these companies; and/or
- Sell critical land parcels that are owned by government or its agencies for commercial development.

In that regard, it has already started identifying certain companies where it has kick started the process to sell stakes. Key ones identified for divestments for this year with due diligence process started are Bharat Petroleum Corporation Limited (BPCL), Container Corporation of India Limited, THDC India Limited, North Eastern Electric Power Corporation Limited (NEEPCO), Air India. There is a long list of companies that the government had evaluated in the last few years and these could be back on the table.



## THEME 3 : IMPORT SUBSTITUTION

India historically has faced adverse Balance of Payments position given persistent current account deficit from:

- Limited domestic energy resource base particularly of Oil & Gas,
- Continued import of capital goods equipment (given not many technologies were indigenously developed by Indian companies/agencies – Government and private),
- Country's large section of population saved in gold to protect their hard earned money against elevated inflation levels and the lack of advanced social security, which had impacted India's balance of payments, and
- Large consumer durable imports driven by the rising disposable incomes and increased aspirations from cheap data and media proliferation.

Over the last decade or so, India, as a country, has indeed come of age on many of these issues and is now moving forward from a position of strength. For instance, India on each of the above dependencies, has changed the narrative to its advantage.

- In case of energy,
  - The incremental energy mix is shifting towards renewable energy and cleaner fuels such as gas. Additionally, India is also incentivizing the use of bio fuels to be mixed with existing fossil fuels. These have also meant that the country has been one of the biggest change agents on climate issues – one of the handful of countries to adhere to the targets signed at the COP 15 summit.
  - On the aspect of fossil fuel as well, India has used its position as the country with the largest incremental global demand to its advantage by getting into large quantity based deals which have led to the spot prices being at more palatable levels.

The journey on building more nuclear power plants, though, has been pushed forward given the uncertainties following the Fukushima nuclear incident in Japan.

### Exhibit 4: India's Primary Energy Consumption

	2008 (Mtoe)	2018 (Mtoe)	2008-2018 Growth Rate (%)
<b>Fossil Fuel</b>	<b>408</b>	<b>691</b>	<b>69%</b>
Oil	149	239	60%
Coal	259	452	75%
<b>Non Fossil Fuel</b>	<b>68</b>	<b>118</b>	<b>74%</b>
Nuclear	3	9	200%
Hydro	26	32	23%
Renewables ((Wind, Solar, Biomass)	5	27	440%
Natural	34	50	47%

Source: British Petroleum Statistical Review – 2019

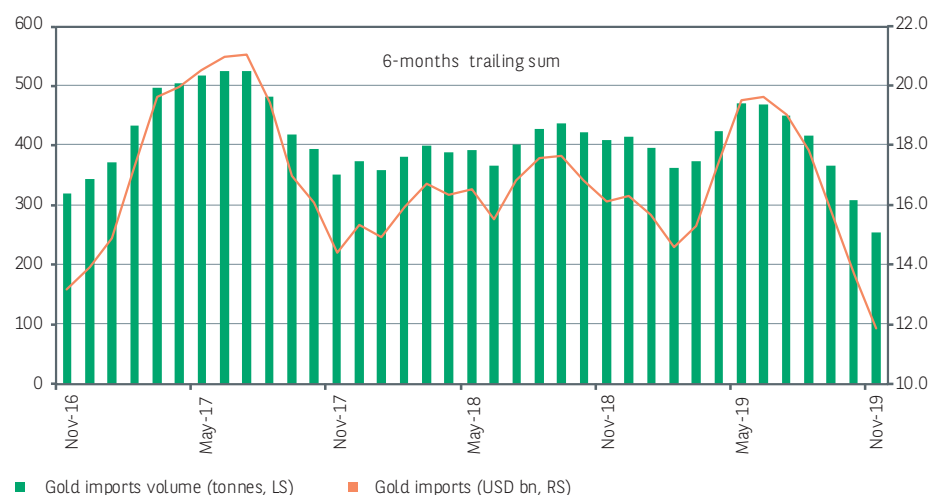
Over the last decade, India, has indeed come of age and has moved the narrative to its advantage.

The incremental energy mix is shifting a lot more towards renewable energy and cleaner fuels such as gas.

- Inflation levels coming down on a sustained basis over the last few years as well as some strong measures to disincentivise savings in the form of gold has also been rather successful
- However, what has been more successful is the journey as well as the distance covered on capital goods and consumer goods imports. India today has emerged as the largest R&D hub globally for a wide range of companies. In addition to this, what India offers to a range of corporates is the prospect of a large domestic market that is growing – just the sheer size of USD 300 bn<sup>4</sup> is bigger than the GDP of a lot of the countries that are currently taking away share from India.

With the recent corporate tax changes, upcoming large infrastructure creation in Dedicated Freight Corridor (DFC) and the policy changes, we see these trends gathering steam.

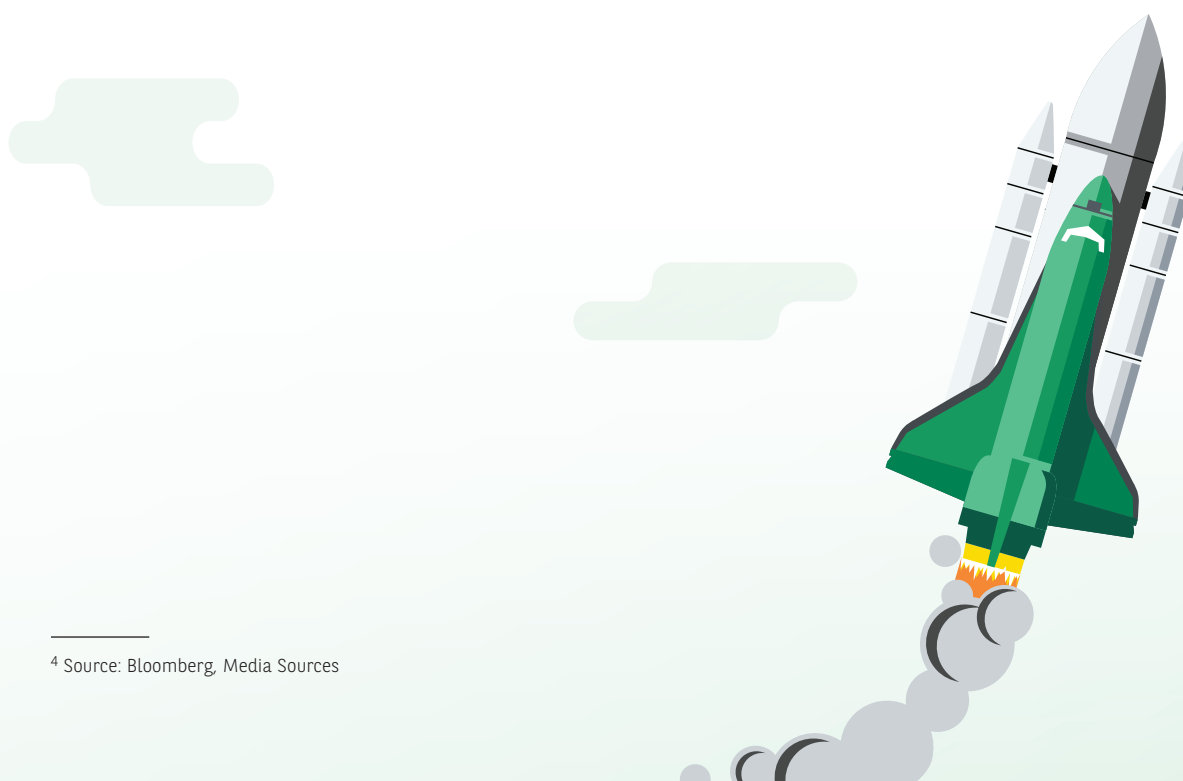
**Exhibit 5: Declining Gold Imports**



Source: Bloomberg, UBS. Data as of Nov 2019



Inflation levels coming down over the last few years and strong measures taken to disincentivise savings in the form of gold has been successful.



<sup>4</sup> Source: Bloomberg, Media Sources

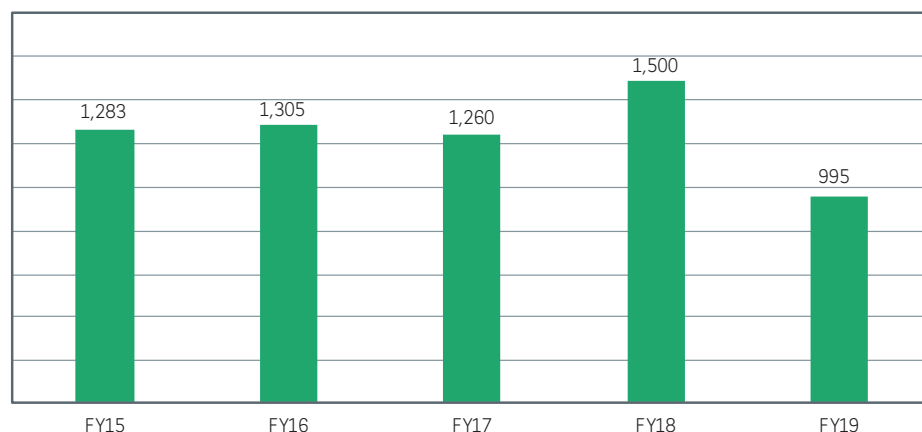


India now boasts of 268 mobile handset and accessories manufacturing units and is the second largest mobile phone manufacturer in the world after China.

#### CASE IN POINT:

Quietly over the last year or two, the Indian electrical communication industry has announced its arrival on the world stage. It was not long ago that the Indian government was fretting about the rising trade deficit with China as imports of communication equipment (mainly mobile telephones and parts) were going through the roof. Refer Exhibit below.

**Exhibit 6: Indian Electrical Communication Industry Imports (in Rs. bn)**



Source: Ministry of Commerce and Industry. Data as of March 2019

As one can see, net imports of all kinds of electrical communication equipment is down 23% YoY to Rs. 996 billion in FY19 after rising 58% between FY15 and FY18. The decline has been driven by a fall in imports of components of cellular phones which had seen a sharp jump between FY15 and FY18. In fact, imports of fully built cellular phones have been declining for some time but it was more than offset by the sharp increase in parts and components.

So what has changed? In 2016, the government chose to adopt a Phased Manufacturing Program (PMP) under its 'Make in India' scheme. This entailed levying duties on component imports hoping to stem related merchandise inflows. However, just an increase in import duties does not encourage a shift in production to in-house.

From just two mobile phone manufacturing units in 2014 India now boasts of 268 mobile handset and accessories manufacturing units in 2019. In fact, India is today the second-largest mobile phone manufacturer in the world after China.

In July 2018, Samsung launched the world's largest mobile factory in Noida. The new facility was set up with the aim of doubling its capacity from 68 million units a year to 120 million units a year, in a phase-wise expansion to be completed by 2020.

Besides Samsung, most Chinese smartphone makers which now dominate the Indian market - Xiaomi, Oppo and Vivo also produce their phones in the country. Apple has already started the assembling of iPhone 7 at its supplier Wistron's facility in Bengaluru.

The new manufacturing capacities have also addressed a key concern for the domestic economy - job creation. According to a survey conducted by mobile industry body ICEA, the 268 mobile handset and accessories manufacturing units employ about 6.7 lakh people (as on June 2018).

We believe the story is not over yet. The ongoing trade spat between the US and China has forced global companies to diversify their sourcing base away from China. With a vast reservoir of inexpensive talent in the engineering sector, it is India that stands to benefit. Further down, as the working age population in China stops growing and the social costs rise, Chinese manufacturing may become less and less competitive.

Source: Media Sources, Company Data

## THEME 4 : GRADUAL REVIVAL OF VIABLE REAL ESTATE PROJECTS

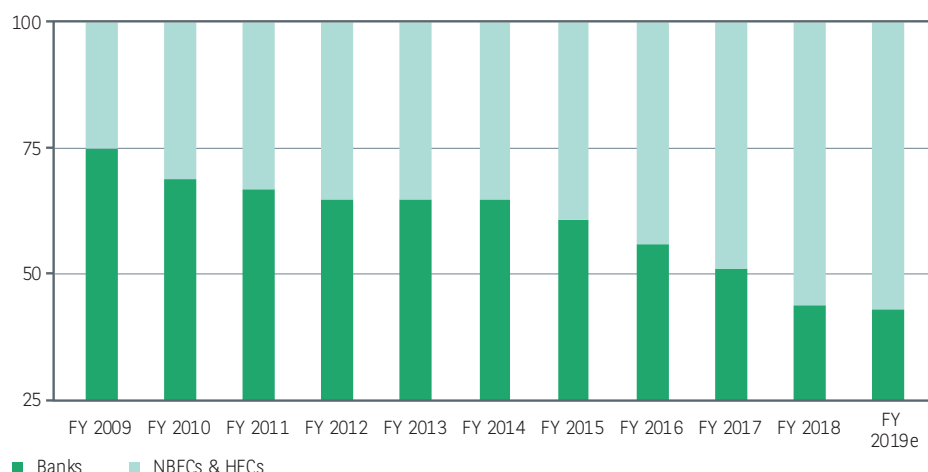
The real estate sector has by far had one of the largest multiplier impacts on the economy and residential real estate, per se is the biggest contributor to the GFCF (Gross Fixed Capital Formation). On those lines, it is no surprise that construction as an activity is one of the biggest employment generator. From this perspective, the health and activity levels of this sector, is an important one and has the potential to kickstart the economic recovery.

The sector over the last few years has had mixed fortunes with commercial property and affordable housing segments being in a boom for a while. On the other hand, the offerings above the affordable segment in residential real estate have been under pressure. This prolonged slump in the larger residential segment is being driven by sluggish demand, higher inventory levels, stalled construction activity and consequently stagnant prices. The latter aspect alongside tax changes has made real estate a less attractive investment option as well. This slowness has been further exacerbated by the developers having to contend with the implementation of the RERA (Real Estate Regulation Act – which delayed the cash flow timing to protect consumers), as well as the higher cost of funding – which over the last five years has come to the sector mainly from the NBFCs with wholesale funding franchises. A culmination of all this has meant that activity levels in the sector have been largely restricted to the large organized builders and an unintended fallout into a large sector consolidation.

Real estate sector has by far been one of the largest multiplier impacts on the economy and is the biggest contributor to the GFCF.

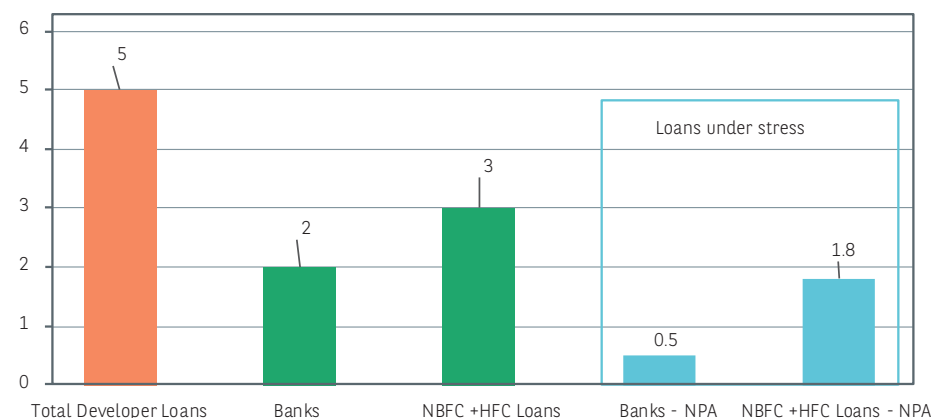
Demand slowdown, stress in wholesale NBFCs, implementation of RERA and higher cost of funds impacted sector.

**Exhibit 7: Market Share of Banks and NBFCs/HFCs in Developer Loans**



Source: Company Data. SbiCap Securities estimates. Data as of March 2019.

**Exhibit 8: Developer Loan Funding Mix (Rs trillion)**



Source: Company Data. SbiCap Securities estimates. Data as of March 2019.



The commercial real estate demand, meanwhile, has remained resilient with most of the tier 1 markets witnessing stable or increasing absorption of office space.

The stalled projects in the broader market are at the same time estimated at around 458,000 housing units spread across 1509 projects<sup>5</sup>. The total developer loans (including the interest component during moratorium period) under stress, are estimated to be around INR 2.3 trillion. The resolutions for these have faced a new wall of uncertainty that arose from the delays under the newly passed IBC (Insolvency and Bankruptcy Code) legislation. The recent movement under IBC process though in case of some large scale projects being executed by players in the northern part of the country does raise hope and provides a direction for making these projects viable.

To further this resolution process, we see the government floating the idea of a stressed real estate fund under the AIF platform as a good attempt. The INR 250 billion<sup>6</sup> alternative investment fund floated by government along with State Bank of India and Life Insurance Corporation is likely to focus towards providing last-mile funding for stalled housing projects in the affordable and middle-income housing segments. Refinancing risk to that extent can slowly start to ease and may initially stem mainly from these alternative sources alongside private equity, REITs and alternative investment funds etc. that have higher hurdle rates.

In the meantime, new launches could remain muted and completed properties would continue to gain preference over under construction properties. The benefit of low interest rates and various incentives offered by the government could support demand in the affordable housing segment. The commercial real estate demand, meanwhile, has remained resilient with most of the tier 1 markets witnessing stable or increasing absorption of office space during 2019. The liquidity issues have relatively less affected the commercial real estate segment as it offers better yields and hence improved opportunity to recycle capital through exits to investments from private equity players, financial institutions and foreign investment funds.

<sup>5</sup> Source: Ministry of Finance, PIB, <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1590799>

<sup>6</sup> Government of India, Media. Data as of Nov 2019



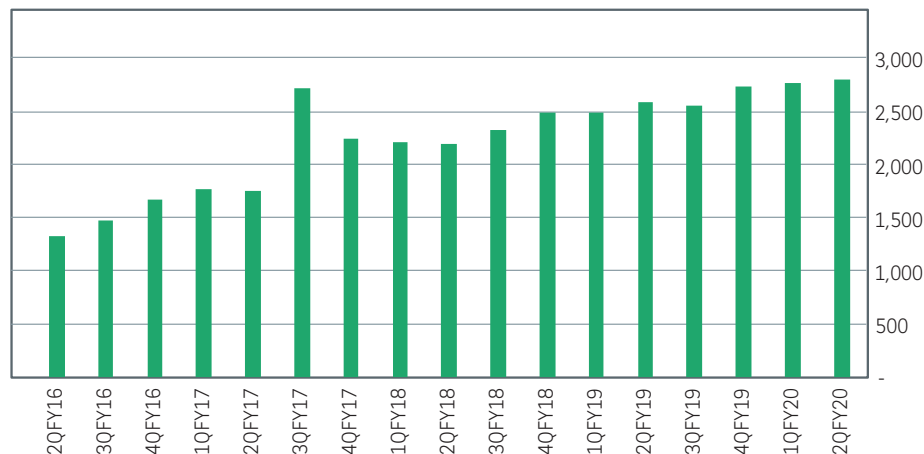
## THEME 5 : FINANCIALISATION OF SAVINGS

Given the absence of a strong social security programme and the hitherto higher inflation levels historically, physical assets i.e. gold and real estate had provided a reasonable hedge to protect the value of savings by the Indian households. This, however, started changing over the last decade as inflation levels in the economy came down, there was a structural move towards formalization coupled with other efforts such as financial inclusion (initiated through the Government's landmark Jan Dhan Yojana), de-monetisation, direct benefit transfers and digitization of transactions. These changes along with the increase in per capita income, better financial literacy, awareness created by the companies in the financial sector, the demographics of a young population and increasing dual income, created the ideal tailwinds for increase in financial savings by the average household.

We see this trend continuing in the longer term given that demographics are in favour, we have positive real rates and penetration is still low in many of the financial savings categories like insurance, mutual fund and pension planning. The chances of financial savings continuing to structurally increase as a pie of share of household's savings is likely; though it could be intermittently impacted by higher flows into physical assets like gold and silver in a period when they tend to do well.

**Financial Inclusion – the backbone of this change:** Jan Dhan accounts have brought in the culture of financial savings. In the unbanked population of the country, one can see an increase in the average balances in these Jan Dhan accounts over the years – though on overall quantum basis, it is still insignificant.

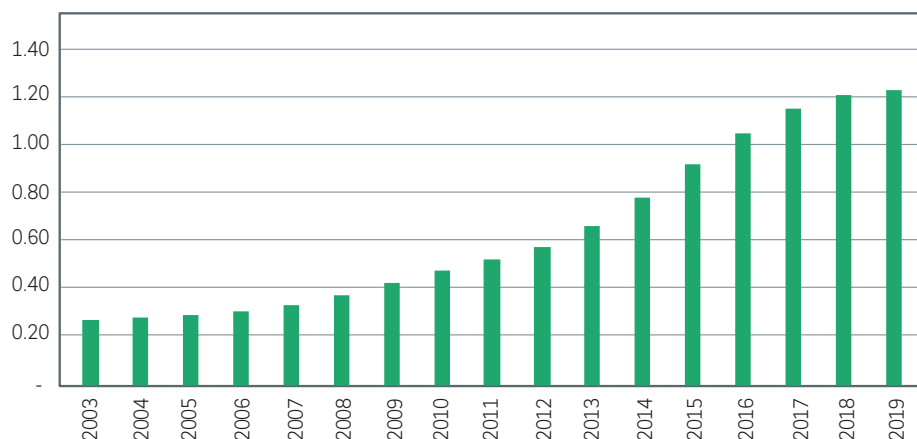
**Exhibit 9: Deposits per account under Pradhan Mantri Jan Dhan Yojna (PMJDY)**



Source: PMJDY Website



In the unbanked population of the country, Jan Dhan accounts have brought in the culture of financial savings.

**Exhibit 10: Number of Savings Account Per Person**

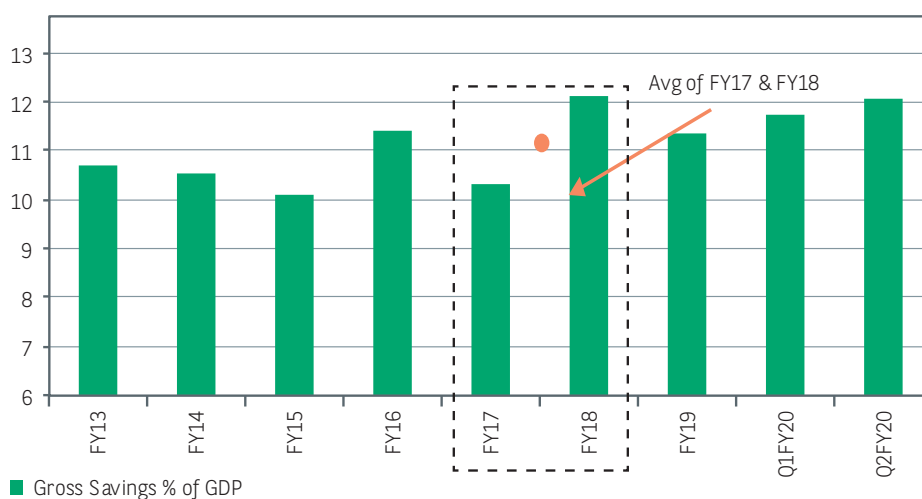
Source: CIC, RBI, Kotak Institutional Equities

In the last decade  
physical assets have not  
yielded superior returns.

This has incentivised  
households to shift their  
savings from physical to  
financial savings.

**Return of physical savings?** What has also helped in the last decade is that physical assets have not yielded superior returns. This has incentivised households to shift their savings from physical to financial savings. While gold has started to perform well, after a few years in 2019, real estate could take another year or so to settle developer liquidity issues. Within financials, bank deposits continue to be the most favoured followed by insurance while equity exposure has improved significantly over the years to the SIP in mutual fund industry. Still, on a stock basis, average household's savings in financial assets is very low which provides room for growth going ahead.

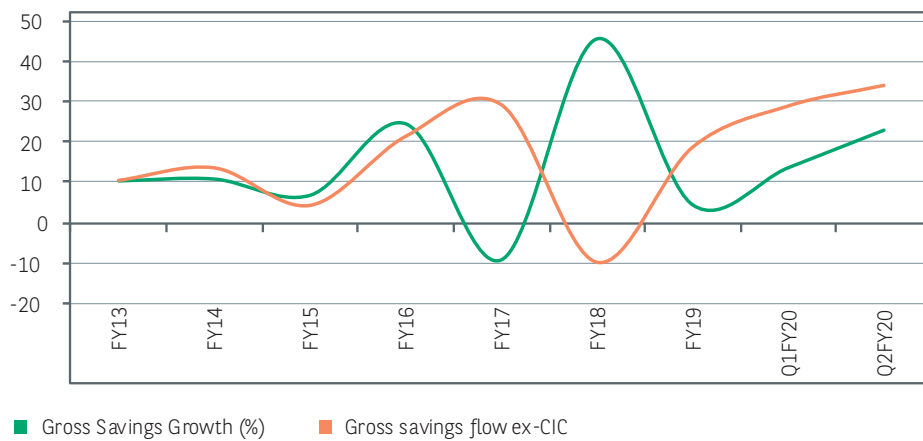
Financialisation of savings got an impetus around demonetization and has grown since then to reach almost the highest number in the last many years as of 1HFY20 (see chart below) if we consider the average of FY17 and FY18 numbers (which was distorted due to demonetization happening in Nov 16 and having an impact in both FY17 and FY18). Excluding the currency in circulation which went down during demonetization and came back to normal levels in over a year, the financial savings growth pick up has been even faster.

**Exhibit 11: Gross Financial Savings Higher than Pre-demonetization Levels at 12.1% of GDP in Q2FY20**

■ Gross Savings % of GDP

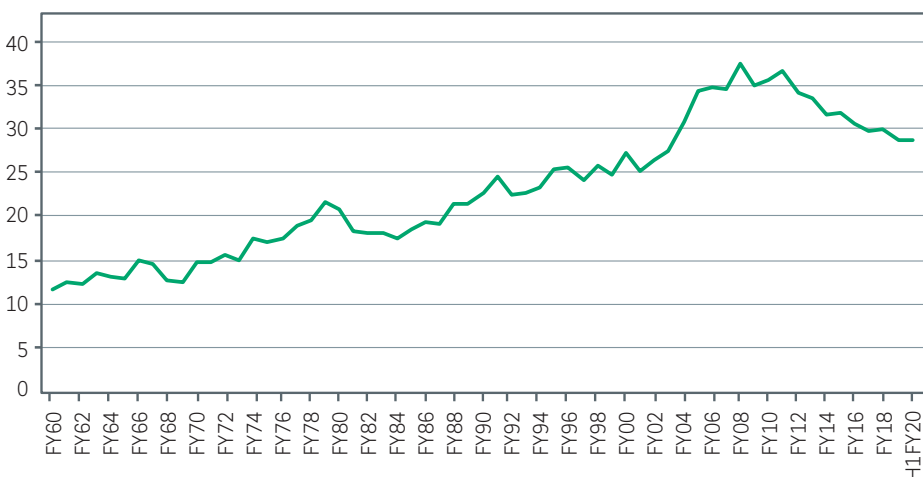
Source: RBI, CGA, CSO, IRDA, AMFI, Ministry of Labour, Emkay Research

Financialisation of  
savings got an impetus  
around demonetization  
and has grown  
since then.

**Exhibit 12: Savings Excluding CIC have Grown Sharply in FY19 and Q2FY20**

Source: RBI, CGA, CSO, IRDA, AMFI, Ministry of Labour, Emkay Research

The net savings may come down as the household leverage starts to increase. At the country level, while household financial savings have been encouraging, the public sector dissaving has led to the combined proportion of financial savings looking moderate.

**Exhibit 13: Net Savings as % of GDP**

Source: CMIE, Emkay Research

The financialisation of savings provides good investment opportunities as more and more companies in the non-banking side, especially insurance, asset management and broking & distribution space get listed. The penetration story coupled with healthy cash flows and return ratios make this a long term attractive space within the financial sector.



At the country level, while household financial savings have been encouraging, the public sector dissaving has led to the combined proportion of savings looking moderate.

## THEME 6 : ESG NO MORE A CHOICE, BUT THE WAY FORWARD



The big challenge for most stakeholders will be to adapt to a new regime that favors smarter, cleaner and healthier products and services.



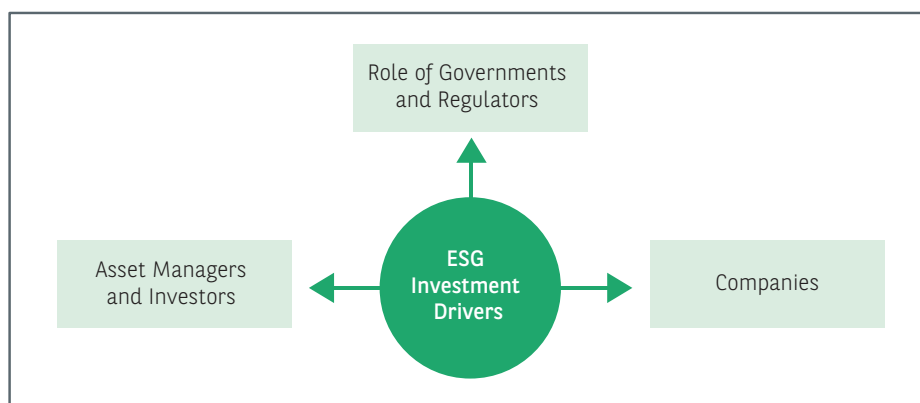
Investors, policy makers and corporates are warming up to an idea of sustainable and responsible investing.

ESG (Environmental, Social and Governance) principles and sustainability is no more a buzz word at the fringes of the investing profession and/or it is just meant more for the developed markets and not as much for the emerging markets. Our reading of the market returns across sectors and stocks in fact suggests that at a broader level the market has already started identifying businesses for capital allocation basis ESG considerations. In this context, the big challenge for most stakeholders will be to adapt to a new regime that favours smarter, cleaner and healthier products and services, and to leave behind the views when pollution was unaccounted for, labour was just a cost and economies of scale and scope was the strategy.

Even at the World Economic Forum, the 'Global Risks Report 2019' which presents the results of the latest Global Risks Perception Survey, environmental risks continue to dominate the results – with three of the top five risks by likelihood and four by impact (climate change mitigation and adaptation failure, extreme weather, natural catastrophes, water crises). Corporate governance and societal issues have been given enough importance and have been the other pillars of sustainable investing.

ESG based investing has been catching up and has become one of the important pillars of investing. In our view investors, policy makers, and corporates are warming up to idea of sustainable and responsible investing, and will be the drivers of ESG based investing.

### Exhibit 14: Drivers of ESG Investment



Source: BNP Paribas Asset Management India

**Role of Governments and Regulators** – India as a country has been at the forefront of the adoption of ESG practices and in some sense is the leading example to other countries as well as their regulators on how it is shaping this directive. The Indian government has been part of various global alliances to fight against pollution and save environment. In the Paris Agreement (COP 21) India made a commitment to reduce greenhouse gas emission intensity of its GDP by 33-35 per cent below 2005 levels by 2030<sup>7</sup>. In that journey, we note that as of 2019, India is one of the handful of countries (and the only top 10 economy) that is on track to achieving these targets through various efforts like Swachh Bharat Mission, adoption of renewable power, promoting cleaner fuel by subsidising electric vehicles, focus on cleaner energy mix and adoption of technology to reduce pollution like transition to BS VI from BS IV<sup>8</sup> norms from 2QCY20.

<sup>7</sup> COP21 stands for 21st Conference of the Parties, referring to the countries that have signed up to the 1992 United Nations Framework Convention on Climate Change.

<sup>8</sup> BS denotes Bharat Stage Emission Standards on the lines of Euro emissions standards

Similarly, the capital markets regulator, Securities and Exchange Board of India (SEBI), has now made it mandatory for the top 1000 listed companies to put forth the Business Responsibility Report (BRR) which mainly covers disclosure of adoption of responsible business practices by a listed company to all its stakeholders. This landmark effort started with top 100 listed companies in year 2012 and has gradually been extended to top 500 listed companies and now 1000.

**Companies** – The CFA institute<sup>9</sup> along with the Bloomberg did a study with Indian companies who report on ESG and a breakdown of environmental, social, and governance factors with market cap greater than USD 1billion at the end of 2016. Out of 205 listed companies that formed a part of the study, 181, i.e., 88.3%, reported on ESG factors. While ESG reporting is in nascent stage in India, we think the growing importance of the subject will push companies to improve their disclosures and engagement, which in turn could help them to build a sustainable business.

**Asset Managers and Investors** – Asia had the world's fastest growth rate for signatories to the Principles for Responsible Investment<sup>10</sup> in 2018 but not many players from India made it to the list. Looking at the global trend, we see the scenario changing in India too. To note, globally assets managed under sustainable and responsible investment (SRI) theme have seen an upward trajectory, recording USD 30.6 trillion in AUM by 2018, a CAGR growth of 15.85% since 2016<sup>11</sup>. The traction in India is slowly building up with the help of global asset and pension managers who are increasingly demanding companies to come out with more disclosure on their ESG policies and increase their level of engagement with other stakeholders.

### Our ESG Investment Approach

Our investment belief is “companies create wealth and not markets”. In this quest to identify the right stocks for our portfolios, we use our in-house BMV (Business – Management – Valuation) framework to identify companies that grow faster than the economy and the industry growth rates. While undertaking this process, we have historically also observed that, for long term value creation, sustainability practices are a crucial aspect. This needs to be seen in a more holistic context of (a) Governance practices – sustainability and strengthening of corporate governance practices, (b) Environmental and Social practices – taking leadership in improving the lives of the various stakeholders in a holistic manner through their daily operations as well as business practices. Doing these very basic but important things is integral to the way businesses are evolving globally and capital is also getting incrementally allocated.

Taking cognizance of these developments, and in our ongoing evolution and refinement of our investment process as well as ground work, we are consciously engaging with our portfolio companies and exchanging global best practices for the collective benefit of society, country, corporate, as well as our investors.



While ESG reporting is in nascent stage in India, we think the growing importance of the subject will push companies to improve their disclosures and engagement.

<sup>9</sup> CFA Institute, ESG Integration in Asia Pacific, 2019

<sup>10</sup> United Nations' Principles for Responsible Investment (UNPRI)

<sup>11</sup> 2018 Global Sustainable Investment Review

# KEY RISKS

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## Crude Oil Price

With crude oil currently making up the largest proportion of the country's energy demand and being the largest item of import, any significant rise in oil prices results in the trade deficit widening and puts pressure on the government's fiscal balance, inflation levels, interest rates and the currency.

## Low Growth, High Inflation and Fiscal Uncertainty

The current low growth and concern over widening fiscal deficit could pose risk to market recovery. The weak gross tax revenues and supply side led inflation shocks could reduce space to accommodate pro growth fiscal and monetary measures.

## Liquidity Issues for Weaker NBFCs

If the weaker set of Non Banking Financial Companies, do not de-lever, de-risk, and re-model well it could impact investor confidence. A comforting factor is that the exposure of the financial system to NBFCs that have been seeing funding constraints is down by ~20% since September 2018.

## Geopolitics and Global Macros

Any meaningful slowdown in global demand can adversely impact export demand. Rising geopolitical tension and no conclusive trade deal between US and China could impact markets.

# EQUITY MARKET OUTLOOK

At the outset, we have observed that the Indian equity market is not a true representative of the economic activity in the country. This is reflected in the way and direction the profits of the listed companies have moved (FY18 level at 2.1% of GDP) over the last few years vis-à-vis the overall profits as per National Accounts Statistics (NAS) (around 9.1% of GDP for FY18). At the same time, large companies with significant mindshare and market share that are also reflective of the economic activity are not listed.



**Exhibit 15: Corporate Profit to GDP**



Source: MOSPI, Capitaline, I-Sec Research      NAS : National Accounts Statistics

Increasingly a larger profit pool is sitting outside the listed space – growing profits at a rate better than the listed space.

This, coupled with data from the common man's daily lives, also underscores the fact that over the last few years the segments of the market or companies that have captured the market are more from the unlisted space. For instance,

- Social media behemoths like Google, Facebook, Whatsapp (who all have their largest user pool from India but are listed as companies overseas); or
- Mobile phone manufacturers like Xiaomi, Samsung, Vivo, Oppo, Huawei, etc. who have now at least started manufacturing in the country but are listed outside; or
- Consumer durable manufacturers like LG, Daikin, Sony, Samsung, etc. who have also started manufacturing from the country but are not listed; or
- Large offshoring arms of global tech majors – IBM, Lenovo, Cisco, Accenture, Cognizant, Capgemini, etc. that have created jobs and offshoring offices in the country but are not listed here; or
- Auto majors like Hyundai, Honda, Volkswagen group, etc.; or
- Retail giants like Landmark Group, Uniqlo, H&M, Decathlon, Walmart cash & carry, Metro Cash & Carry, etc.; or
- Large commercial office space owners – who are on the verge of listing their assets in the country; or
- E-commerce giants like Flipkart, Amazon, Oyo, Ola, Uber, Swiggy, Paytm – even though some of these are not profit making, they account for decent market value in the listed space overseas.

The above data also probably is one of the reasons why the equity markets have moved the way they have in 2019 vs the on-ground movement in terms of slower economic activity. Probably what explains this dichotomy is the fact that the smaller and medium size entities have had a tougher time facing this period of transition while the larger companies have been on better footing. With this background, looking into 2020 for the Indian equity markets, we see that earnings recovery will be gradual and back ended. At a micro level, the companies with stronger balance sheets, offering products/services that can create customer delight and better market access, can continue to gain market share until the recovery becomes more broad-based.

#### Exhibit 16: Sector-wise Earnings for Nifty 50 companies

Sectors	FY20	FY21	FY22	2 Years CAGR (FY20-22)
Automobiles & Components	-15%	37%	36%	37%
Banks	90%	55%	23%	38%
Capital Goods	15%	7%	25%	16%
Commodity Chemicals	32%	19%	19%	19%
Construction Materials	44%	10%	15%	13%
Consumer Staples	21%	15%	13%	14%
Diversified Financials	38%	15%	18%	16%
Electric Utilities	12%	8%	13%	11%
Fertilizers & Agricultural Chemicals	19%	35%	13%	24%
Gas Utilities	-3%	10%	7%	9%
IT Services	4%	9%	10%	10%
Media	12%	9%	14%	12%
Metals & Mining	-48%	77%	20%	46%
Oil, Gas & Consumable Fuels	-3%	12%	8%	10%
Pharmaceuticals	14%	29%	17%	23%
Retailing	13%	32%	27%	29%
Telecommunication Services	1254%	-178%	313%	-
Transportation	17%	2%	19%	10%
<b>NIFTY 50 Index</b>	<b>11%</b>	<b>24%</b>	<b>17%</b>	<b>20%</b>

Source: Companies, Bloomberg, Kotak Institutional Equities Estimates. The above data on earnings are estimates based on YoY profit after taxes for companies in Nifty 50 index as on Dec 29, 2019. The same shall not be deemed to indicate any assurance or promise of future prospects of the sector or Nifty 50 index performance. These sector(s) mentioned do not constitute any recommendation of the same. Please refer complete disclaimer on last page.

#### Sector Positioning

Looking at the sector wise earnings, we are positive on private sector banks with strong liability franchises, insurance companies, select consumer staples and discretionary names, value for money retail, multiplex, gas utilities and cement names. We are neutral on healthcare. We stay underweight on energy, metals, public sector banks and autos.

Overweight	Neutral	Underweight
<ul style="list-style-type: none"> <li>Private sector banks</li> <li>Diversified Financials - Insurance, HFC, AMC</li> <li>Industrials</li> <li>Media, Retail</li> <li>Cement</li> <li>Chemicals</li> <li>Gas Utilities</li> <li>Paints</li> <li>Consumer Staples</li> <li>Telecom</li> </ul>	<ul style="list-style-type: none"> <li>Technology</li> <li>Healthcare</li> </ul>	<ul style="list-style-type: none"> <li>Auto</li> <li>Public Sector banks</li> <li>Metals</li> <li>Energy</li> <li>Real estate</li> </ul>

The sector(s) mentioned in this document do not constitute any recommendation of the same and BNP Paribas Mutual Fund may or may not have any future position in these sector(s).

HFC : Housing Finance Company, AMC : Asset Management Company

We expect earnings growth recovery will be gradual and back ended.



# DEBT MARKET OUTLOOK

India will step into 2020 with below potential growth, increased uncertainty on the fiscal front and credit markets looking for some support from a policy perspective.

The slowdown we witnessed last year was led by industry de-stocking, weak consumer confidence leading to holding back or delayed purchases (weaker consumption), NBFCs in de-leveraging mode impacting credit flow and an overall uncertain economic outlook.

The market would be looking forward to the government's response to the current state of economic affairs. Till now, we have seen the government announce a cut in corporate tax rates and measures to improve the ease of doing business together with their commitment to shoulder the burden of private sector in critical sectors like real estate and construction.

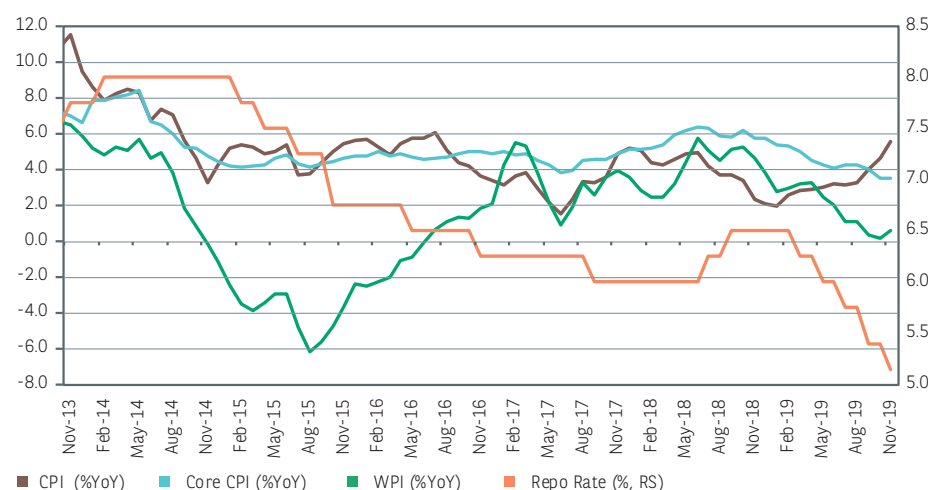
Going forward, in the upcoming Union Budget, the market is hoping for:

1. Personal income tax rate cut: We, however, do not expect the government to announce this due to lack of fiscal space. Further, there is a small section of the population that pays income tax and thus, it may not lead to a broad based demand push.
2. Sops for various sectors: Carrying on with the corporate tax cut, the government could continue with the investment stimulus and provide targeted relief and incentives to improve the business sentiment.

## Inflation

The headline CPI inflation is expected to average around 4.10% for CY2020, this assumes normal monsoon and no negative supply shocks from food and fuel. The core inflation is expected to inch up higher from 3.2% to 3.5% owing to higher telecom and household inflation expectation from tariff increase and education expenses, respectively.

**Exhibit 17: Inflation vs Repo Rate**



Source: Bloomberg



The market would be looking forward to the government's response to the current state of economic affairs.

## Monetary Policy Outlook

The Monetary Policy Committee (MPC) recognises that the slowdown in the domestic demand is intertwined to a large extent with the higher cost of funds which has been accentuated by problems in credit markets and the NBFC sector in general. The PSU banks shying away from participating in the gap created by slowdown in the NBFC led credit due to fear of authorities / judicial enquiries and in general bulk of PSU banks busy with merger process did not help the cause.

RBI reacted by reducing rates - since Dec 2018, the central bank has reduced repo rates by cumulative 135 bps. The focus of the RBI seems to be on transmission of rate cuts to every sections of the economy.

1. Rates will be lower for longer: RBI has cut rates and to improve the transmission of the rate cuts, it has flushed the banking system liquidity with close to an average Rs. 2.5 lakh crores.
2. Nudge banks to lend: The Finmin has made an effort to abate the fear in the minds of bankers from any enquiry resulting out of their normal banking activities. Further, the government has acted to participate with bankers to reduce the lack of trust in the credibility of the underlying assets to lend. The real estate fund is the first of its move.

RBI is expected to cut rates by another 40 bps in CY2020 with terminal rate being 4.75%.

**Exhibit 18: India 10 Year G-Sec (%)**



Source: Bloomberg

## Fiscal Outlook

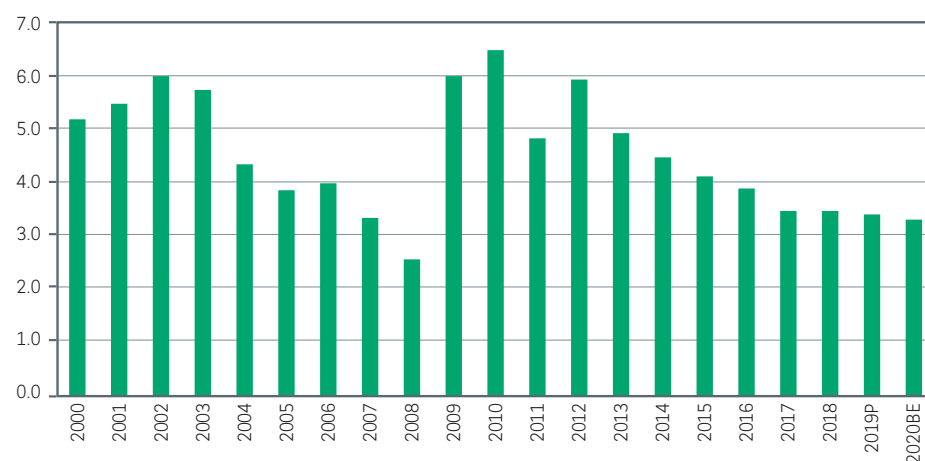
Fiscal risks have risen due to:

1. Growth in revenue due to slowdown in economic growth momentum, and
2. Uncertainty regarding disinvestment targets

We expect the government to print a fiscal deficit target at 3.5% for FY20 and maintain the same for FY21. Thus this would deviate from the FRBM (Fiscal Responsibility and Budget Management Act) target of 3% of next year. Keeping this in mind and the much needed salves provided, we believe the government would realign itself to the 3.0% FRBM target by FY2024.

The market expects the government to announce a roadmap for inclusion in the global bond index in the budget. The FPI limit is also expected to increase from 6% to 9% of outstanding debt.

### Exhibit 19: Central Government's Fiscal Deficit (%of GDP)



Source: Ministry of Finance, Kotak Institutional Equities, Budget Estimates (BE). March fiscal year-ends, 2000-20BE

## Going Forward

In tandem with providing sops for various sectors, we expect the policymakers to announce an asset quality review of NBFCs to identify the stress in assets and make it easier for the better flow of credit through the system.

The RBI would be eyeing the budget regarding any possible counter cyclical fiscal measures before cutting policy rates further.

We expect the government to remain fiscally responsible and a small deviation from the FRBM target is not unlikely. We do not expect the government to open the purses towards large consumption driven measure like universal basic income as we believe that the government is looking towards structural reforms which are taking time at this juncture but would have large benefits over time with increased economic activity, together with improved compliance.

The RBI is expected to cut rates by another 40 bps in CY2020 with terminal rate being 4.75%. The banking system remains flushed with liquidity and thus ensures a reduction in the term premium, which translates into lower cost of funds. Thus the shorter end of the curve remains a comfortable place to be invested in.

The duration yield curve is elevated and is expected to react depending on the budget outcomes together with continuity of RBI in buying bonds via OMO as well as roadmap towards India's inclusion in the global bond index.

The 10 year G-Sec is expected to trade in the range of 6.25 to 6.75 for most part of CY2020.



We expect the government to remain fiscally responsible and a small deviation from the FRBM target is expected.

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**Amol Jadhav**  
Product & Investment  
Specialist

# FUND POSITIONING

## Equity Funds

### BNP Paribas Large Cap Fund

(An Open-Ended Equity Scheme predominantly investing in large cap stocks)

### BNP Paribas Multi Cap Fund

(An Open-Ended Equity Scheme investing across large, mid cap and small cap stocks)

### BNP Paribas Midcap Fund

(An Open-ended Equity Scheme predominantly investing in mid cap stocks)

### BNP Paribas Focused 25 Equity Fund

(An Open-Ended Equity Scheme investing in maximum 25 stocks across market capitalization i.e. multi cap)

## Scheme Positioning

The fund aims to invest predominantly in the large cap space with focus on quality companies exhibiting sound management and fundamentals across sectors with sustainable earnings growth.

The fund follows a multi-cap approach, with a blend of growth and value stocks. For value, the fund scouts for opportunity among high operating cash flow companies and for growth it looks for companies with sustainable and superior earnings growth.

The fund intends to invest primarily in the midcap space with focus on high growth companies with superior earnings potential across all sectors.

The fund follows a concentrated strategy of high conviction companies having superior and sustainable earnings growth. The fund intends to invest across capitalization with a blend of value and growth stocks.

\*Brijesh Ved's contribution is limited to authoring of research articles in this publication.

Kindly refer page no. 25 for fund positioning disclaimer.

Equity Funds	Scheme Positioning
<b>BNP Paribas India Consumption Fund</b> (An Open-Ended Equity following consumption theme)	The fund follows a multi cap approach with consumption as a core theme. These are businesses which interact directly with their consumers, i.e., following primarily a B2C (business-to-consumer) model. The fund intends to focus on companies having strong competitive advantage, with high earnings visibility over the long run.
<b>BNP Paribas Long Term Equity Fund</b> (An Open-Ended Equity Linked savings scheme with a statutory lock in of 3 years and tax benefit)	The fund is a diversified equity scheme with flexibility to own companies across market capitalizations. Three year lock-in makes the fund less vulnerable to volatility in cash flows and increases the fund manager's ability to capture suitable long term investment opportunities.
Hybrid Funds	Scheme Positioning
<b>BNP Paribas Arbitrage Fund</b> (An Open-Ended Equity Scheme investing in arbitrage opportunities)	The fund follows an arbitrage strategy with an aim to take advantage of mispricing opportunities arising from cash and futures along with a tactical "market neutral strategy" on a small portion of the portfolio. This enhancement is with an aim to aid the fund in alpha generation i.e. the ability of our actively managed long portfolio to outperform Nifty (which we sell for hedging the long portfolio). While there is an imperfect hedge (but values are matched) at play, there is no directional view taken on markets. The fund also invests in short-term fixed income instruments.
<b>BNP Paribas Substantial Equity Hybrid Fund</b> (An Open-Ended Hybrid Scheme investing predominantly in equity and equity related instruments)	The fund aims to focus on long term wealth creation through a combination of Equity and Debt. The equity portion of the portfolio intends to be well diversified with fundamentally strong companies across market cap and sectors. The debt portion is actively managed to help generate stable income reducing the overall volatility of the fund.
<b>BNP Paribas Dynamic Equity Fund</b> (An Open ended Dynamic Asset Allocation Fund)	The Fund intends to dynamically allocate assets between equity, cash future arbitrage / equity derivatives, and debt and/or money market instruments through a Price-to-earnings (PE) ratio approach*. It aims to manage volatility in response to changing market conditions basis. The endeavor is to increase exposure to equities when the market appears cheaper (lower PE). Conversely, when the market becomes expensive (higher PE) reduce its equity exposure and allocate it to equity arbitrage and fixed income instruments.
Debt Funds	Scheme Positioning
<b>BNP Paribas Liquid Fund</b> (An Open ended Liquid Scheme)	The Fund invests in debt and money market instruments with maturity of up to 91 days. We believe the banking system liquidity is likely to remain at comfortable levels and thus is expected to keep the short term rates soft. The Fund is suitable for investors looking to park their idle or surplus money for a short term investment horizon.
<b>BNP Paribas Low Duration Fund</b> (An Open ended Low Duration Debt Scheme investing in instruments such that Macaulay duration^ of portfolio is between 6 months and 12 months)	The Fund invests in fixed income instruments such that Macaulay duration of scheme is between 6 - 12 months. We believe the banking system liquidity is likely to remain at comfortable levels and thus is expected to keep the short term rates soft. The investment focus continues to remain on highly liquid assets. The scheme is suitable for investors with investment horizon of 30 days or more to park their idle or surplus money.
<b>BNP Paribas Short Term Fund</b> (An Open ended Short Term Debt Scheme investing in instruments such that Macaulay duration^ of portfolio is between 1 year and 3 years)	The Fund intends to maintain the low average maturity since the yield curve is expected to steepen. We would like to maintain lower duration and remain in liquid AAA and equivalent papers. The Fund also remains open to taking tactical duration calls.
<b>BNP Paribas Flexi Debt Fund</b> (An Open ended Dynamic Debt Scheme investing across duration)	The Fund invests across durations in debt and money market instruments. We intend to maintain the duration of the portfolio at around 4-7 years with increased exposure to G-secs and corporate bonds.

^Refer page no. 27 for concept of Macaulay Duration. \* Portfolio may be rebalanced monthly depending upon the trailing PE levels of Nifty Index. Investors should note that the above allocations are indicative only and not binding on the Fund Manager and retains the right to deviate from the allocation levels where it believes this is in the best interests of investors in the Fund, taking into account the market conditions and opportunities, applicable regulations and politico economic factors.

Fund positioning contained herein is for general information purposes only and does not indicate assurance of future scheme performance. Further, the portfolio of the scheme(s) is subject to changes within the provisions and limitations of Scheme Information Document. For further details on asset allocation, investment strategy and risk factors of the scheme(s), please refer to SID available on our website ([www.bnpparibasmf.in](http://www.bnpparibasmf.in)). The market outlook provided herein should not form basis for any investment decision in the scheme(s) of BNP Paribas Mutual Fund and Fund positioning and market outlook should be considered and read as independent of each other.

# PRODUCT LABELING

## Equity Funds

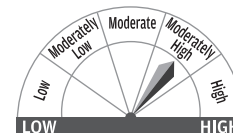
### BNP Paribas Large Cap Fund

(An Open ended Equity Scheme predominantly investing in large cap stocks)

**This product is suitable for investors who are seeking\*:**

- Wealth Creation in long term.
- Investments in diversified and actively managed portfolio of equity and equity related securities with bias to large cap companies.

## Riskometer



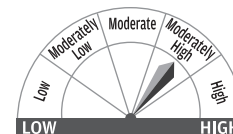
Investors understand that their principal will be at Moderately High risk.

### BNP Paribas Multi Cap Fund

(An Open ended Equity Scheme investing across large cap, mid cap, small cap stocks)

**This product is suitable for investors who are seeking\*:**

- Wealth Creation in long term.
- Investments in actively managed portfolio of equity and equity related securities across market capitalization.



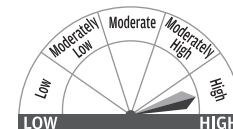
Investors understand that their principal will be at Moderately High risk.

### BNP Paribas Mid Cap Fund

(An Open ended Equity Scheme predominantly investing in mid cap stocks)

**This product is suitable for investors who are seeking\*:**

- Wealth Creation in long term.
- Investments in companies in mid capitalization segment.



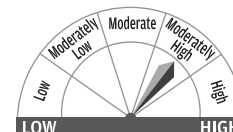
Investors understand that their principal will be at High risk.

### BNP Paribas Focused 25 Equity Fund

(An Open ended Equity Scheme investing in maximum 25 stocks across market capitalization (i.e. multi cap stocks))

**This product is suitable for investors who are seeking\*:**

- Wealth Creation in long term.
- Investment primarily in equity and equity-related securities of upto 25 companies and the rest in debt securities & money market instruments.



Investors understand that their principal will be at Moderately High risk.

### BNP Paribas India Consumption Fund

(An open ended equity scheme following consumption theme)

**This product is suitable for investors who are seeking\*:**

- Wealth creation in long term.
- Investment primarily in equity and equity-related securities and the rest in debt securities & money market instruments to generate capital appreciation and provide long-term growth opportunities by investing in companies expected to benefit by providing products and services to the growing consumption needs of Indian consumers.



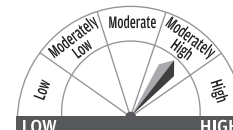
Investors understand that their principal will be at High risk.

### BNP Paribas Long Term Equity Fund

(An open ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit)

**This product is suitable for investors who are seeking\*:**

- Wealth Creation in long term.
- Investments in diversified and actively managed portfolio of equity and equity related securities across market capitalisation along with income tax rebate.



Investors understand that their principal will be at Moderately High risk.

## Hybrid Funds

### BNP Paribas Arbitrage Fund

(An Open ended Scheme investing in arbitrage opportunities)

**This product is suitable for investors who are seeking\*:**

- Wealth creation in long term.
- Investment in a diversified portfolio of equity and equity related instruments, including use of equity derivatives strategies and arbitrage opportunities with exposure in debt & money market instruments.

## Riskometer



Investors understand that their principal will be at Moderately High risk.

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

## Hybrid Funds

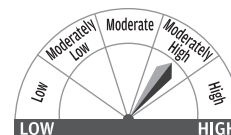
### BNP Paribas Substantial Equity Hybrid Fund

(An Open ended Hybrid Scheme investing predominantly in equity and equity related instruments)

**This product is suitable for investors who are seeking\*:**

- Wealth creation in long term.
- Investment primarily in equity & equity-related securities and the rest in debt securities & money market instruments to generate income and capital appreciation.

## Riskometer



Investors understand that their principal will be at Moderately High risk.

### BNP Paribas Dynamic Equity Fund

(An Open ended Dynamic Asset Allocation Fund)

**This product is suitable for investors who are seeking\*:**

- Wealth creation in long term.
- Investments in a dynamically managed portfolio of equity and equity related instruments (including arbitrage exposure), and fixed income instruments.



Investors understand that their principal will be at High risk.

## Debt Funds

### BNP Paribas Liquid Fund

(An Open ended Liquid Scheme)

**This product is suitable for investors who are seeking\*:**

- Regular income in short term.
- Investments in debt & money market instruments with maturity upto 91 days.



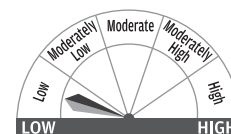
Investors understand that their principal will be at Low risk.

### BNP Paribas Low Duration Fund

(An Open ended Low Duration Debt Scheme investing in instruments such that Macaulay duration^ of portfolio is between 6 months and 12 months)

**This product is suitable for investors who are seeking\*:**

- Regular income in short term
- Investments in portfolio comprising of debt & money market instruments and derivatives.



Investors understand that their principal will be at Low risk.

### BNP Paribas Short Term Fund

(An Open ended Short Term Debt Scheme investing in instruments such that Macaulay duration^ of portfolio between 1 year and 3 years)

**This product is suitable for investors who are seeking\*:**

- Regular income in short term.
- Investments in debt & money market instruments.



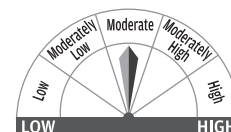
Investors understand that their principal will be at Moderately Low risk.

### BNP Paribas Flexi Debt Fund

(An Open ended Dynamic Debt Scheme investing across duration)

**This product is suitable for investors who are seeking\*:**

- Regular income in long term.
- Investments in debt & money market instruments.



Investors understand that their principal will be at Moderate risk.

**\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

**^Concept of Macaulay duration:** The Macaulay Duration is a measure of a bond's sensitivity to interest rate changes. It is expressed in annual terms. It is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Factors like a bond's price, maturity, coupon, yield to maturity among others impact the calculation of Macaulay duration.

**Risk Factors for BNP Paribas Dynamic Equity Fund:** The scheme aims to actively manage equity and debt exposure in the portfolio based on the detailed historical analysis done by the fund manager. We are of the belief that such strategy will minimize the risk and optimize the risk return proposition for a long term investor. However there is no certainty that this active asset allocation approach will be able to deliver the results as tested. The underlying assumptions of the model on the correlation between the three asset classes (i.e. equity, debt and arbitrage) might not hold true at all points in time which might impact the returns. Further, the scheme shall be subject to risks associated with investments in equities and fixed income securities. The Scheme may use various permitted derivative instruments and its techniques (including arbitrage strategy) which may increase the volatility of scheme's performance.

Please refer to Scheme Information Document available on our website ([www.bnpparibasmf.in](http://www.bnpparibasmf.in)) for detailed Risk Factors, assets allocation, investment strategy etc.



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**Mutual Fund investments are subject to market risks,  
read all scheme related documents carefully.**