

Moody's Thumb's Up to Modi's India

Moody's, today, upgraded India's sovereign bond rating from Baa3 (equivalent of BBB-, the lowest investment grade rating) to Baa2, a first in 14 years. The rating action is based on expectation that continued reforms will enhance the country's growth potential and strengthen the base for government debt in the medium term, while cautioning that current high debt burden continued to remain a concern in the near term.

Moody's based its decision basis 3 key moves by the Government:

- ✓ **Promised reforms:**
While a number of important reforms remain at the design phase, those implemented reflect the Government's resolve to improve business climate, attract investment, improve economic formalisation & productivity and foster strong and sustainable growth. The rating release cited introduction of Goods & Services Tax, Aadhaar, Direct Benefit Transfer, Monetary Policy Framework and measures to address Bank NPAs as most desirable reforms, while enlisting land and labour market reforms as yet to reach fruition. Thereby hinting, in more than one ways, to the rating upgrade being based on expectation of Government continuing to implement key reforms going forward. It expects the debt-to-GDP ratio to stabilise in the next few years before falling gradually due to increase in nominal GDP and improvement in Government finances.
- ✓ **Government's resolve for fiscal discipline:**
While citing high public debt as India's principal credit weakness, the rating agency took comfort from the fact that a large part of this is domestically funded through large pools of private savings. On the fiscal front adoption of FRBM and inflation targeting framework through a formalised Monetary Policy Committee enhanced the transparency and efficiency of monetary policy in India, which was a positive for the rating decision.
- ✓ **Government's support to Public Sector Banks (PSB):**
Citing banking sector risks as a key risk in India's sovereign credit profile, the recent announcement of PSB recap and introduction of Bankruptcy and Insolvency Act 2016 were steps which were rating accretive. If these steps help in fostering robust growth going forward, the additional debt burden (estimated at 0.80% of GDP over two years) could be absorbed by the economy.

What does Moody's expect?

Moody's expects GDP growth to moderate to 6.7% for FY18, as some measures like the GST and demonetisation are likely to have undermined growth in the near term. However, they expect a rebound to 7.5% in FY19 with fading drag from the recent disruptions and with improving support from the government towards the SME sector and exporters.

What could move the rating up?

Improvement in fiscal metrics, recovery in investment cycle, sizeable and sustainable reduction in government debt and most importantly implementation of pending land and labour reforms.

What could move the rating down?

Deterioration in fiscal metrics, significant deterioration in health of the banking system or sharp increase in external vulnerability.

Other Emerging Market Ratings by Moody's:

Country	Rating
Thailand	Baa1
India	Baa2
Phillipines	Baa2
Indonesia	Baa3
South Africa	Baa3
Turkey	Ba1
Brazil	Ba2

Spain/Italy are also rated Baa2

Outlook:

- ✓ We see this news as a significant positive from the Indian markets perspective. We saw a knee jerk reaction where the 10-year G-sec yields touched 6.93% and equity markets rejoiced adding more than 400 points to the Sensex. However, both markets gave up some gains to close lower.
- ✓ But, this rating upgrade is more than just a one-day event, according to us. Amongst other positives it does have implications for increased global allocations to Indian equities and fixed income and consequently for the currency markets.
- ✓ There is a lot of positive news and health build-up of sentiment for India in the international markets. The government's efforts to keep pushing for reforms along with the recent 30 ranks improvement in the ease of doing business ranking and now the rating upgrade will help India get the necessary global capital flow it needs for its growth.
- ✓ Despite this upgrade we think that the RBI will continue to remain focused on the immediate near term dynamics of global oil prices and its implications on India's current account deficit, the fiscal and inflation. Government's clarification on fiscal is likely to go a long way in soothing frayed bond market sentiments.
- ✓ We continue to believe that a strategy which focuses on current accruals and active duration management could offer better risk-adjusted returns as compared to a pure low-credit, passive fund relying on alpha, contingent upon a credit event not happening.

Products suitable to current market environment:

Debt Funds:

Fund	Description	Risk Category	Investment Horizon
Canara Robeco Savings Plus Fund	<ul style="list-style-type: none"> Invests in the high credit quality papers and focuses on accrual income 	Moderately Low	Less than 1 year
Canara Robeco Dynamic Bond Fund	<ul style="list-style-type: none"> Fund which dynamically manages duration risk 	Moderate	1 – 3 Years
Canara Robeco Yield Advantage Fund	<ul style="list-style-type: none"> A actively managed short term fund with an intention to provide a spur to the portfolio yields 		
Canara Robeco Medium Term Opportunities Fund	<ul style="list-style-type: none"> An ideal investment avenue from a Medium Term perspective 		3 – 5 Years
Canara Robeco Monthly Income Plan	<ul style="list-style-type: none"> Offers Regular Income with exposure to equities 	Moderately High	3 – 5 Years

Equity Funds:

Fund	Description	Risk Category	Investment Horizon
Canara Robeco Balance	<ul style="list-style-type: none"> Judicious mix of equity and debt along with an opportunity to generate regular income 	Moderately High	More than 3 years
Canara Robeco Emerging Equities	<ul style="list-style-type: none"> Fund follows a bottom-up approach and invests in companies which have tremendous growth potential 	Moderately High	More than 3 years
Canara Robeco Equity Diversified	<ul style="list-style-type: none"> A well-diversified portfolio investing across market segments and in a wide range of companies 	Moderately High	More than 3 years
Canara Robeco Equity Tax Saver	<ul style="list-style-type: none"> Dual benefit of investing in equity along with Tax saving 	Moderately High	More than 3 years

Product Labelling:

Name of the Scheme	This product is suitable for Investors who are seeking*	Riskmeters
Canara Robeco Dynamic Bond Fund (An Open Ended Debt Scheme)	<ul style="list-style-type: none"> Income/ Capital appreciation over short to medium term Investment in Debt and Money Market securities 	
Canara Robeco Monthly Income Plan (An Open Ended Debt Scheme)	<ul style="list-style-type: none"> Income / Capital appreciation over medium term to long term. Investment in Debt instruments, MMI and small portion in equity 	
Canara Robeco Savings Plus Fund (An Open Ended Debt Scheme)	<ul style="list-style-type: none"> Income / Capital appreciation over short term Investing in Short Term Debt Instruments and Money Market Instruments with Weighted Average Portfolio Duration between 3 months to Less Than 1 Year 	
Canara Robeco Yield Advanatage Fund (An Open Ended Debt Scheme)	<ul style="list-style-type: none"> Income / capital appreciation over medium to long term Investment in a wide range of debt securities and Money Market Instruments of various maturities and risk profile and a small portion of investment in Equity and Equity Related Instruments 	
Canara Robeco Medium Term Opportunities Fund (An Open Ended Debt Scheme)	<ul style="list-style-type: none"> Income / capital appreciation over medium to long term Investment in Debt and Money Market securities with a portfolio weighted average maturity between 3-7 years. 	
Canara Robeco Equity Tax Saver (Open-ended Equity Linked Savings with lock in period of 3 years)	<ul style="list-style-type: none"> Capital appreciation over long term Investment in equity and equity related securities 	
Canara Robeco Emerging Equities (An Open Ended Equity Scheme)	<ul style="list-style-type: none"> Capital appreciation over long term Investing in diversified mid-cap stocks 	
Canara Robeco Balance (An Open Ended Balance Scheme)	<ul style="list-style-type: none"> Income/capital appreciation over long term Investing in equity and equity related securities as well as fixed income securities (debt and money market securities) 	
Canara Robeco Equity Diversified (An Open Ended Equity Scheme)	<ul style="list-style-type: none"> Capital appreciation over long term Investment predominantly in equity and equity related securities 	

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

Disclaimer:

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