INDUSTRY NOTE

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India

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Jefferies

EQUITY RESEARCH ASIA

India
Lowdown on Slowdown

Key Takeaway

Reforms and rate cuts, as being expected, are unlikely to cause an economic turnaround even in the best case. We argue that this is mainly because of an imperfect understanding of the causes. In the meanwhile, we believe the corporate world's slowdown kings – as christened by us – will continue to dominate the bipolar market.

"Reforms" appear real solutions because they have not come through: Investors are eagerly waiting for the government to come up with new policy measures to stimulate investments. The market din over the likely announcements reeks of desperation as the wait gets longer. The noise makes it appear, at least in the equity market, that once reforms are announced, the economy will recover to the original growth path. Our contention is that even with the best of rate cuts and policies as being conceived now, a turnaround is not likely.

Time to focus on the real causes: There are no more debates about the economic deterioration. Nor are those many arguments about the two real issues: investment slowdown and current account deficit. Yet, we feel that the time has come to move beyond the ever more detailed description of symptoms through supportive data to the discussion of the causes.

Cause "then" – India's "Arab Spring": We contentiously argue that India's investment slowdown is not primarily due to increase in interest rates or a sudden policy paralysis. Rather, we show the coincidence of plunge in project announcements with the sudden eruption in corruption exposes. We believe that this was a result of increased transparency brought about by India's data revolution.

Cause "now" – wealth destruction: Even if policies turn perfect, India's erstwhile growth champions are no longer in a position to begin investments easily. Our exhaustive analysis of the most leveraged and fastest growing companies of the 2003-07 era show that many of them are in a vicious spin.

CAD – temporary recovery does not mean the problem is over: We elaborate on the main reasons behind India's structural external deficit exponentiality. Unless policies focus on boosting exports, a return to sustainable high growth is unlikely because of the absolute level of current account deficits.

Era of the slowdown kings: In India's bipolar market, about a half of the benchmark stocks are flourishing given the way they run their businesses. Their earnings momentum is more or less intact, valuations reasonable and are recipient of most flows. Until the macro changes materially, which we do not deem likely for a few quarters, the slowdown kings define the majority of the investible universe in India. They should also help keep the market range-bound for a few more quarters.

UW banks, OW weak INR beneficiaries, OW micro-infrastructure plays, Neutral metals: Evidences of banks' asset quality deterioration are rising, particularly when one looks at the same indicators of India's foreign banks. Rate cuts could help banks every now and then, but we expect the sector to underperform more. We recommend Neutral weights on metals for investors with more positive view on the global macro.

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Sector recommendations and top picks

Exhibit 1: Not too many sector themes except strong UW on financials

Sector	Nt. Wt.	Stance	Key Stocks	Drivers
Financials	27.6	UW		Increasing NPA and restructuring of loans
Technology	13.4	OW	Infosys, HCL Tech	INR beneficiary
Energy	13.6	Neutral	Cairn, ONCG	Prefer crude beneficiaries (Cairn)
Industrials	6.2	Neutral	L&T, Cummins, Thermax	Prefer micro infrastructure plays
Materials	8.4	OW	OW cement, Neutral metals	Global commodity play; prefer cement for better earnings
Consumer Discretionary	8.1	Neutral	OW: 2-wheelers, Maruti	Slowdown impact to keep growth subdued
Consumer Staples	11.8	OW	ITC	Defensive nature and earnings visibility
Telecom	1.9	Neutral	Bharti	Bharti least impacted by spectrum fees
Healthcare	4.5	OW	Cipla, Ranbaxy, Sun Pharma	High earnings growth visibility and INR beneficiary
Utilities	4.6	UW	Tata Power	Possible power reforms to be the driver

Source: Bloomberg, Jefferies estimates

Exhibit 2: Sector valuations – the dividing line is not as sharp among sectors as on balance sheet parameters (Exhibit4)

	EPS growth (%)		3-month EPS change (%)		12-month EPS change (%)		Valuations			z-score vs 2-year average	
	2012	2013	2012	2013	2012	2013	Fwd. PE	PB	Div. yield	Trailing PB	Fwd PE
MSCI India	11.0	13.8	-1.3	-1.8	-12.2	-9.0	12.7	2.2	1.4	-1.0	-0.7
Financials	14.1	18.6	1.3	1.1	-12.2	-1.3	12.2	2.1	1.4	-0.8	-1.0
Technology	15.9	9.4	2.9	0.5	-2.1	5.6	14.9	4.3	1.4	-1.2	-1.1
Energy	2.3	6.8	1.5	0.7	-14.9	-13.5	11.2	1.5	1.5	-1.0	-0.4
Industrials*	10.3	17.1	-9.8	-7.2	-44.6	-46.6	12.0	1.9	1.4	-1.0	0.5
Materials	16.6	14.7	-4.0	-4.6	-24.7	-23.3	8.6	1.3	1.5	-0.9	0.4
Discretionary*	-2.0	13.4	-2.4	-2.7	73.5	63.3	9.3	2.9	1.7	-1.0	-1.1
Staples	22.2	18.4	0.4	0.1	2.0	1.0	28.5	11	1.4	2.2	-1.9
Telecom	17.4	43.3	-25.2	-21.7	-61.2	-66.7	15.0	1.1	0.4	0.6	2.4
Healthcare	16.7	7.7	-1.4	-1.2	-3.0	0.0	21.0	3.6	0.8	-0.3	-0.9
Utilities	14.0	8.3	0.7	-1.1	-14.8	-11.5	12.0	1.5	1.9	-0.8	-0.5

* 12M numbers for industrials and discretionary are not representative due to reclassification of Tata Motors; Source: Datastream, Bloomberg, Jefferies estimates

Exhibit 3: Top picks – merging top-down themes with analyst ratings

		Price		RoE (%)			Net D/E (x)		EPS growth (%)		P/E(x)		P/B (x)
Company Name	BB Code	(INR)	Rat.	FY12	FY13E	FY14E	FY12	FY13E	FY13E	FY14E	FY13E	FY14E	FY12
ACC	ACC IN	1,337	Buy	19.4	19.4	22.7	-0.3	-0.3	-7.4	54.2	20.5	13.3	3.5
Cairn	CAIR IN	340	Hold	15.4	18.2	15.7	-0.1	-0.2	36.8	-1.9	6.4	6.5	1.3
Cipla	CIPLA IN	387	Buy	14.0	17.1	16.7	-0.1	-0.1	31.4	12.0	21.0	18.8	4.1
Cummins	KKC IN	460	Buy	28.8	29.1	27.9	-0.4	-0.3	15.4	9.6	19.9	18.2	6.2
Hero Moto Corp	HMCL IN	1,820	Buy	55.4	44.0	39.1	-0.9	-0.7	3.5	12.7	14.8	13.1	8.5
Infosys	INFO IN	2,512	Buy	27.4	26.7	26.0	-0.6	-0.7	18.6	17.1	14.6	12.4	4.3
ITC	ITC IN	265	Buy	32.8	34.4	35.4	-0.4	-0.4	17.7	14.0	28.5	25.0	11.0
Larsen & Turbo	LT IN	1,379	Buy	18.8	17.1	17.2	0.4	0.4	2.7	14.1	18.6	16.3	3.3
Maruti Suzuki	MSIL IN	1,206	Buy	10.8	12.3	14.9	-0.5	-0.4	27.7	39.7	16.7	11.9	2.3
Ranbaxy	RBXY IN	560	Buy	21.2	35.5	24.7	0.5	0.7	26.6	37.5	29.2	21.3	8.4

Source: Company Data, Bloomberg, Jefferies estimates

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Table of Contents

SECTOR RECOMMENDATIONS AND TOP PICKS 2
KEY CHARTS 4
ISSUE ACCEPTED, WHAT ABOUT THE CAUSES? 5
Not exactly about rate cuts or policy paralysis 5
CAUSE "THEN": INDIA'S "ARAB SPRING" 10
The conglomerate model of investments 10
Corruption exposes: why all of a sudden? 11
Technologies and cultural evolution 12
Power of momentum: expect more exposes 14
Way forward: clearer regulations 15
CAUSE "NOW": WEALTH DESTRUCTION 16
D/E – about the most working investment strategy 16
Past investment decisions not paying off 18
Vicious cycle of wealth destruction 19
Macro-micro fallacy: a lesson from traffic jams 20
Way forward: a design for promoter-less world 21
THE OTHER ISSUE, CAD: MYTHS AND NOT 22
CAD –exponentially growing negative parameter 22
Perceived solution 1: FY13 cyclical correction 23
Perceived solution 2: funded by the capital account 23
Perceived solution 3: ban gold import 24
Way forward: need to refocus on exports 26
CONCLUSION: ERA OF THE SLOWDOWN KINGS 27
5.5% that's not 5.5% 27
Why are foreigners buying India? 28
Bipolar market: the strong now bigger/stronger 30
Still with slowdown kings amid volatile macro 34
Finally risks: politics both on the up- and downside 37

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Key Charts

Exhibit 4: Low leverage has outperformed the market and seen lower earnings revisions

Groups	Performance (%)		Valuations			3-month EPS change (%)		12-month EPS change (%)	
	3M	12M	PE	PB	Div. yield	2012	2013	2012	2013
G1 – Most levered	2.0	-16.1	8.3	1.9	0.4	-8.8	-10.2	-39.8	-31.7
G2	4.7	-18.4	13.1	1.8	1.1	-7.3	-2.4	-19.6	-19.9
G3	-3.9	-16.9	11.2	1.4	1.1	-13.3	-9.7	-23.4	-11.7
G4	-9.0	-15.5	7.3	1.3	1.6	-5.8	-4.1	-16.4	-8.9
G5	10.6	3.2	14.1	2.4	1.7	0.1	-0.4	-3.2	-1.3
G6	9.2	1.7	10.8	2.2	0.8	-0.7	-1.7	-6.1	-9.8
G7	4.8	-0.6	12.1	2.8	1.4	-1.4	-1.8	-5.3	-8.3
G8	7.8	22.5	14.3	2.5	1.6	0.2	-0.2	-5.5	-5.5
G9	7.9	7.4	15.6	4.8	1.2	-0.7	-1.2	-5.7	-6.6
G10 – Least levered	10.0	5.0	12.6	5.3	2.1	-0.4	-0.3	0.4	-0.9

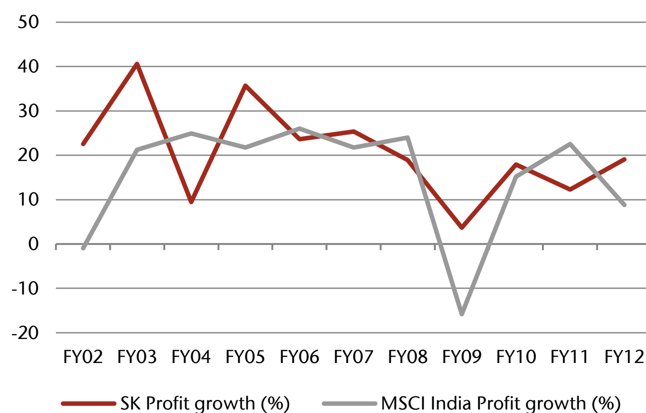
Note: 1) Groups are based on the ranking of 175 companies based on their past two years' median gearing ratios, 2) PE is 12M Fwd PE, 3) PB and Dividend yield are for FY12, 4) all are median of valuations of the group and not index based; Source: Bloomberg, CMIE, Jefferies estimates Source: Jefferies estimates

Exhibit 5: Low leverage has given better results and growth

Groups	RoE (%)		D/E(x)		EPS growth (%)	
	FY11	FY12	FY11	FY12	FY11	FY12
G1	4.6	-1.2	2.8	3.7	19.2	1.8
G2	11.4	7.6	1.4	1.7	3.5	-28.5
G3	13.7	9.0	0.9	1.1	33.9	-14.9
G4	12.1	7.4	0.8	0.7	2.1	-9.2
G5	17.1	14.0	0.6	0.5	28.6	10.6
G6	16.0	14.0	0.4	0.3	22.1	2.0
G7	23.3	17.8	0.1	0.1	20.5	8.7
G8	24.6	21.5	0.0	-0.1	20.4	1.1
G9	21.9	23.3	-0.2	-0.2	40.6	17.1
G10	31.2	29.8	-1.0	-0.9	12.8	15.1

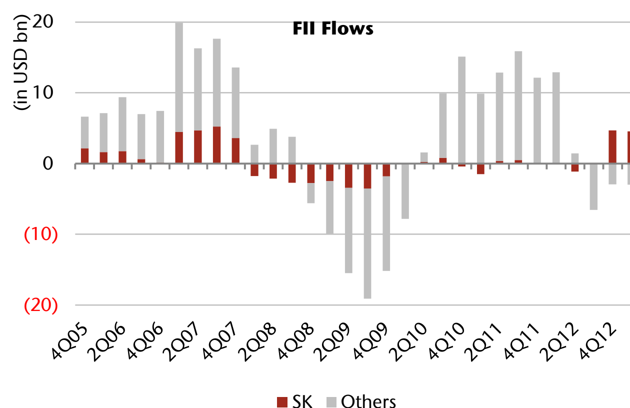
Note: 1) Groups are based on the ranking of 175 companies based on their past two years' median gearing ratios; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 6: Slowdown kings(SK) profit growth has been steady and now materially higher than the market



Note: SK is the group slowdown king defined in Exhibit 54; Source: CMIE, Bloomberg, Datastream, Jefferies

Exhibit 7: In the biopolar market, inflows are exclusively due to the slowdown kings



Note: SK is the group slowdown king defined in Exhibit 54;Source: Bloomberg, Jefferies estimates

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Issue accepted, what about the causes?

All agree that investment collapse needs to be addressed...

There is a general agreement – finally – on the two major economic afflictions that are at the root of the ongoing economic malaise: India's external deficits and investment slowdown. Eighteen months since we first raised the growing threat of capex, and hence economic growth plunge, we observe policymakers, media and other pundits all agreeing to the conclusion that:

- Economic growth has to be led by creation of capacity and not by consumption in India;
- a recovery needs investment cycle to revive;
- And the economy needs stability in balance of payment.

We will mostly keep our focus on the investment issue in this note, having discussed the balance of payment exhaustively in many of our notes before. We will only address additional views on the balance of payment, as well as the inefficacy of various currency "remedies" in popular perceptions in passing in a latter section.

...but no agreement on how and this is due to not enough discussion on the causes

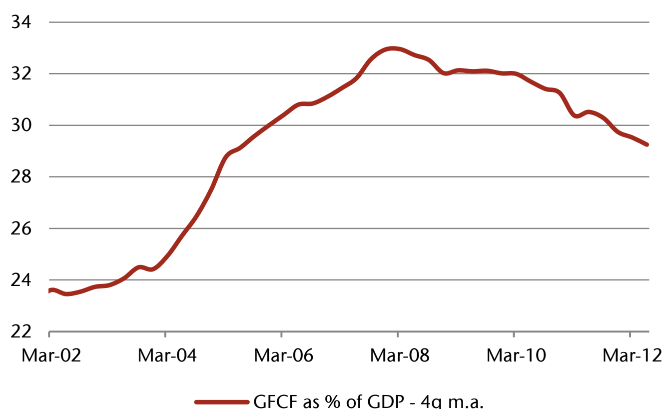
Einstein once famously mused: "Science without epistemology is—insofar as it is thinkable at all—primitive and muddled". We would stretch this thinking to the Indian economic problem at hand to argue that any solutions conceived could prove inadequate if one has not pinned the factors that led to the current impasse or, in other words, the real problems behind the visible symptom of capex collapse. While many well-meaning policymakers, investors and analysts have moved past elaborating on the datapoints that again prove the obvious slowdown, the suggestions that have emerged, so far, are completely inadequate in our eyes.

Not exactly about rate cuts or policy paralysis

India's GFCF/GDP has already fallen by over 300bps in the last few quarters

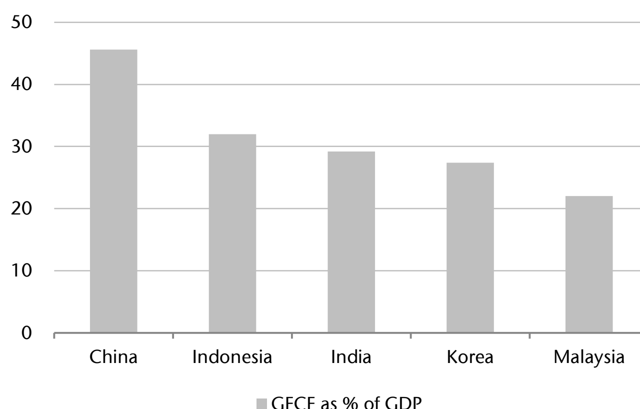
Taking a step back, the following charts clearly show how far investments have fallen in India. Gross Fixed Capital Formation (GFCF) as a percentage of GDP has fallen by at least 300bps in India's already supply-starved economy. It is worth noting that GFCF is the truer measure of investments than the more commonly used Gross Capital Formation (GCF), which includes investments in valuables like land and gold.

Exhibit 8: In a supply-starved economy, capacity creation rate or GFCF/GDP is headed towards pre-boom levels



Source: CMIE, Jefferies

Exhibit 9: GFCF/GDP is close to the levels of economies growing at far lower rates



Note: Four-quarter (Sep 11- Jun 12) average for India; Source: Asian Development Bank, Jefferies

GFCF/GDP has fallen to level of countries expected to grow less than 5%

India's GFCF/GDP has fallen to levels similar to South Korea's – a country which is expected to grow at likely below 5% in the medium term. GFCF/GDP is not only showing the momentum to fall to the levels prevalent before the great 2003-10 growth era, the forward indicators presage this deterioration sooner rather than later.

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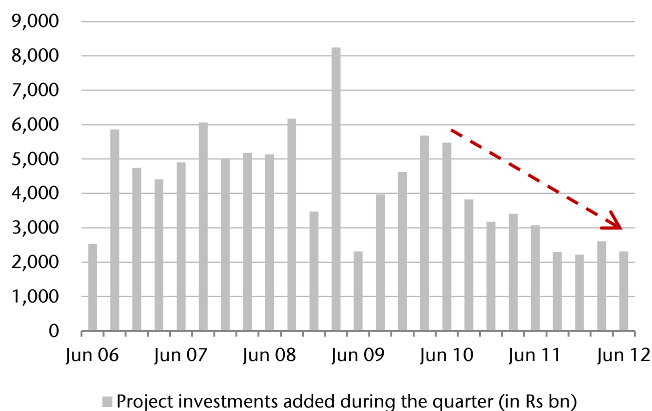
Sharp weakness in new project announcements continues portending a further fall in investment rate in the quarters ahead

More investment rate falls appear inevitable

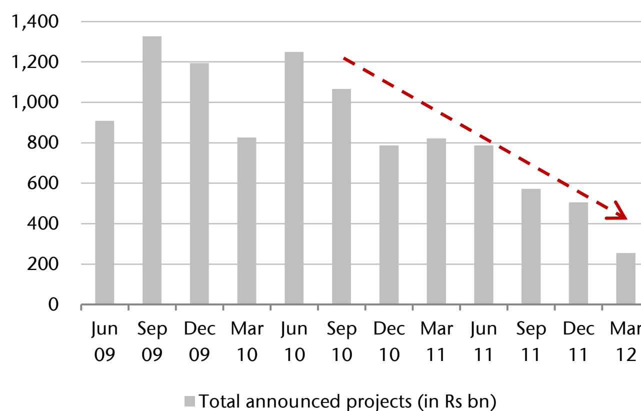
Since early 2011, we have been relying on project announcements as the main lead indicator in forecasting continuous slowdown in investments, leading to pressure on consumption and hence overall GDP as well as inflation. Independent surveys of CMIE and the RBI show that new project announcements in India have fallen by anywhere between 50% and 80% from the ranges established around early-2010.

Exhibit 10: Project announcements have seen a sharp fall



Source: CMIE, Jefferies

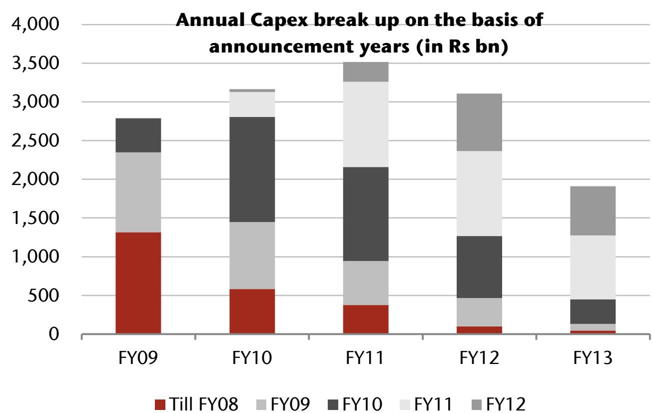
Exhibit 11: Collaborated both by RBI and CMIE data



Source: RBI, Jefferies

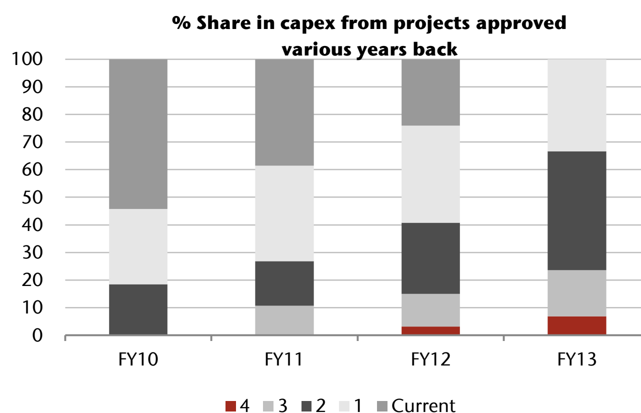
There is a clear six-eight-quarter, if not longer, lag between when new projects are announced and when they begin to filter into the actual investment data of GDP through those entities' capital expenditure. The clearest evidence of this is presented in the following charts that use the RBI survey statistics splitting actual expenditure based on when the corresponding projects were announced.

Exhibit 12: Most spend is from projects announced before FY11



Source: RBI, Jefferies

Exhibit 13: More than two thirds of the current spend from projects 2+ years old



Source: RBI, Jefferies

35% possible fall in capex on account of new projects could lead to a further 300bps decline in GFCF/GDP in the coming quarters

GDP investment series to fall far less than new project capex

The RBI survey – for instance – indicates FY13 capex on account of new projects to fall by 35% based on new projects announcement trends. This does not mean that investment series in GDP or industrial production would fall by any similar rates; a large part of the investment series in economic GDP numbers is on account of the maintenance of existing capacities and household capital expenditure, both of which are fairly steady. However, going by the past trends, it is quite likely that GFCF/GDP could fall by 300bps more unless project announcement trends are reversed soon.

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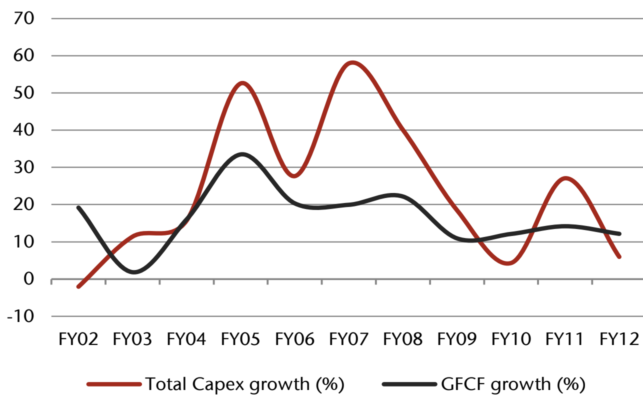
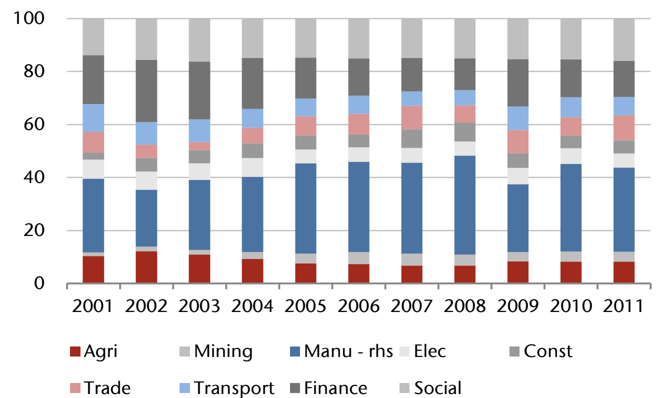
Exhibit 14: GFCF growth vs new project-based capex growth



Source: CMIE, RBI, Jefferies

Exhibit 15: Share of various sectors in GCF (%)



Source: CMIE, RBI, Jefferies

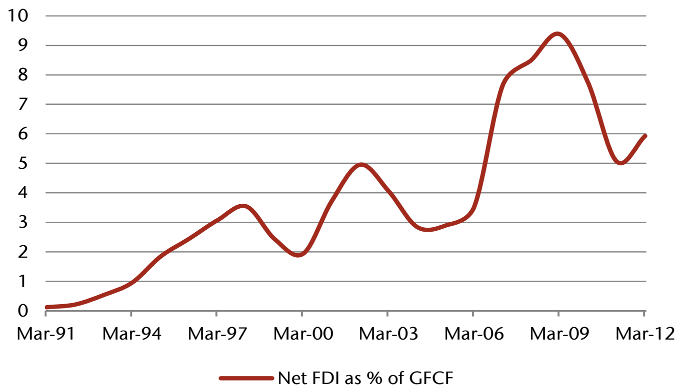
Reasons behind symptoms – not what they appear to be

"Reforms" – in whatever they mean, rate cuts and returning global risk appetite are individually or collectively seen as solutions to reverse investment trends. Such arguments implicitly assume that all these factors were present when investments were growing rapidly before and they vanished just around when investment intentions not only peaked but began to plunge.

FDI has played an extremely small role in India's investment boom, so far, with net FDI accounting for 6-10% of GFCF historically

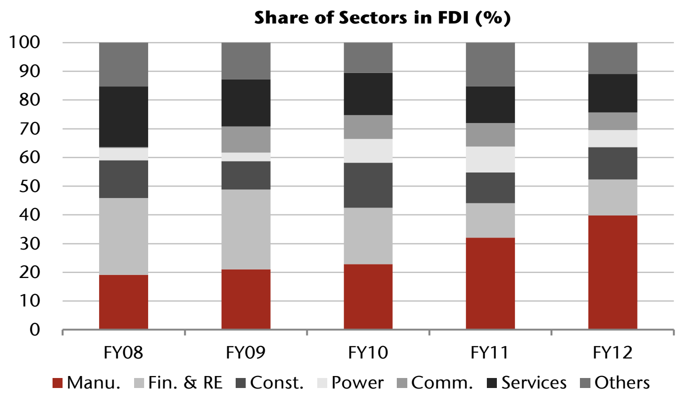
Let's start with the role played by foreign direct investment given the importance attached to FDI-liberalizing measures in sectors like retail and insurance. As the following charts show, FDI proportion – assuming all going in to real capital investments – in India's investment sector has risen since the economy opened up in 1991. However, the overall percentage has remained relatively small with a large part of investments being done by local investors.

Exhibit 16: FDI share less than 6% of total investment…



Source: RBI, CMIE, Jefferies

Exhibit 17: …with significant share in financials and real estate



Source: RBI, CMIE, Jefferies

We do not underestimate the positives of rising FDI…

We would also contest that at least a part of the FDI in India was not towards building of new capacity, as evidenced by investments by sectors in the chart above. We certainly do not want to underestimate the role played by foreign investment interest: they not only aid in capacity creation and better productivity/technology, they can act as an enabler to investment actions initiated by local agents as well.

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...but caution that without the addressing of the main domestic investment issue, any FDI reforms could prove ineffective

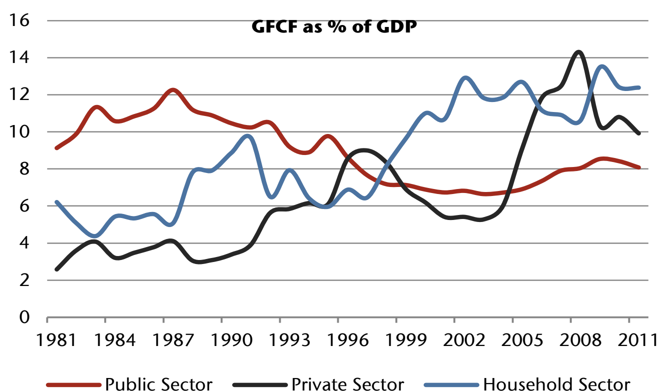
Our intention is to point to the excessive importance attached to FDI-related reforms in the current political and market milieu. Not only FDI-reform linked benefits need to be balanced again political and social costs of undertaking those actions, but also one must assess the opportunity and real costs of these reforms if they divert policymakers or government's attention away from addressing the real issues. We also believe that in an environment where domestic investor sentiments are excessively weak, foreign direct investments may not take off even with best regulation changes.

India's investment rate boom since FY03 was almost completely due to the rising investments by domestic private sector, and the decline is also because of this

Interest rates – an added but not the main factor

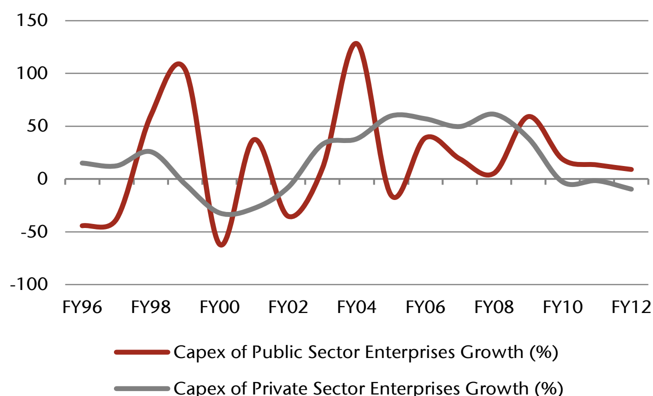
Capital expenditure boom of mid-2000s in India was due to the sudden burst in private sector activities. As the following charts show, the listed private sector's capital expenditure grew at 50% CAGR for the six-year period between 2003 and 2009. Almost the entire improvement in India's economic investment rate was due to the domestic private sector investments. This is equally true for the overall investment decline of the past few years.

Exhibit 18: Private sector investment saw a sharp jump in 2003-08 and has been leading the slump since



Source: RBI, MOSPI, CMIE, Jefferies

Exhibit 19: Private sector capex CAGR of 50% during the period

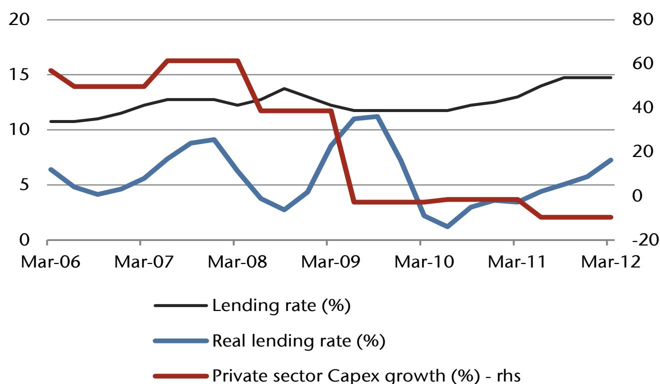


Source: Company Data, CMIE, Jefferies

Private sector capex showed deterioration far before interest rates started rising

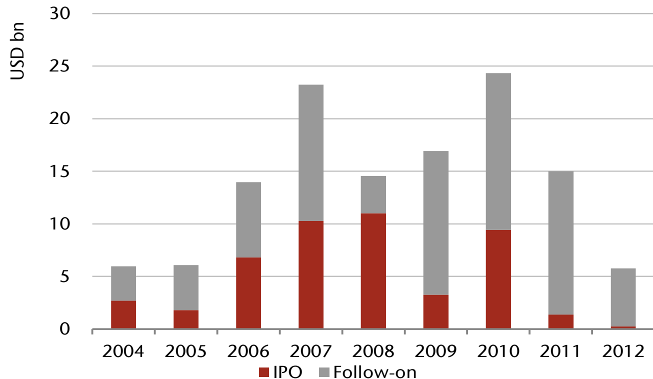
Private sector capex started exhibiting loss of momentum since FY09. Even sharply reduced nominal and real interest rates failed to revive the interest of private sector despite relatively benign market funding conditions and robust demand outlook. While higher interest rates since mid-2011 have compounded the private sector problems, one must note that new project announcements too had fallen fairly sharply before Dec-2010, ie, before the significant interest rate rises of 2011.

Exhibit 20: Capex slowdown much before interest rate hikes...



Note: Lending rates are SBI prime lending rates; real rate is derived using WPI inflation; Source: RBI, Bloomberg, CMIE, Jefferies

Exhibit 21: ... and slowdown in issuances in equity markets



Source: Bloomberg, Jefferies

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If investments dried up before any major adverse changes in rates or policies, it is not likely that a reversal in those alone will make investments revive sharply in quarters ahead

Like in the case of FDI reforms above, we do not underestimate the positives of lower interest rates on corporate investment cycle. Rather, we want to highlight that interest rates are not the real reason behind the sudden, substantial investment slowdown in India in 2010. As a result, our argument is that interest rate cuts, as can be seen in many examples globally, would not necessarily lead to the much needed sharp return of private sector investment growth even if accompanied by simultaneous changes in policy guidelines. To conclude whether "reform" policy and rates can create a turnaround, one must decide on the real causes behind the slowdown.

Abundant demand, labour and capital – and the big issue was…

To summarize, India has latent demand for products and services that is unfulfilled. India has relatively underemployed labour and savings. There are many in the world, and domestically, with spare capital and risk appetite. Still, investments have suddenly dried up. And we feel that this is because of:

- Not necessarily or primarily due to the lack of policy action;
- Not necessarily or primarily due to the higher cost of capital;
- But due to the side effects from the spread of data connectivity – at least that's how it started.

After making the counter-intuitive claim above, the Indian equivalent of what is popularly known as Arab Spring in the Middle East, we must take a few steps back to explain.

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Cause "then": India's "Arab Spring"

Not everything that counts can be counted

In the highly quantified financial world, arguments not supported by numbers and charts are often deemed less reliable. Logical constructs, without support of data, are viewed with suspicions because of the implicit collective belief in our industry that everything important must have been quantified in some sense. One of the main reasons why macro analysts shy away from discussing corruption scandals and associated political/business impact is the near impossibility to plot long history charts or perform correlation analysis of various data – at least for India – to justify their conclusions in this subject.

In other words, unquantified or unquantifiable parameters may cause arguments presented below to appear more arbitrary than they are. We cannot offer any redeeming features except the citing of a few academic papers, but this should not diminish the importance of the subject to any investors in India, irrespective of whether they agree with the main points below or not.

The conglomerate model of investments

Investments in India, as discussed previously, exploded post-2003 because of the activities of the Indian private sector. One of the distinctive feature of many large-scale investments of the era was that they were often undertaken by corporates or businessmen with little prior industry knowhow. Most large Indian business groups expanded in to multiple new industries over and above a handful of industries they were already present in.

Most Indian business groups implicitly assumed that they could easily procure industry knowledge while entering completely new fields

The conglomerate structure of Indian business groups must have been puzzling for any believers of the concept of core competency as it is taught in business schools. Implicit in Indian business groups' expansion model was the presupposition that one need not know the cheapest way to, let's say, manufacture power, build roads, run telecom companies or construct buildings. Procurement of such knowledge was apparently one of the easiest challenges for any daring industrialist.

Regardless of the disadvantages rising from the lack of textbook core competency or relevant business experience, the conglomerate models had other advantages – as also manifested in many late industrializing countries like Japan or Korea – due to:

- The ability of large business groups in attaining the appropriate scale of operations because of their size and access to capital markets;
- Their ability to reduce the cost of funding because of reputations in financial markets and relationships/reputation with domestic institutions and investors;
- Organizational and domestic knowhow in dealing with local factors and regulations, including making the best use of local labour practices;
- Most critically, their experience in obtaining more favourable terms from politicians and policymakers.

Different types of core competencies

Effectively, the two major core competencies of Indian business groups embarking on projects in unknown fields were their:

1. Ability to get the best out of local regulations and practices;
2. And ability to obtain funds at cheaper rates.

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Lack of investment related "reforms" were in a way a driver of the erstwhile domestic investment cycle

There were many different effects and offshoots of this way of doing business including:

- A general local industrialist desire to have the regulations relatively opaque and less favourable for the new entrants, including foreign direct investors. While this particular trend was well-known in the eighties, it was somewhat also present in the last few years as evidenced in many industrialists' opposition of sector-specific FDI-supporting policies.

Wealth-driven rather than income-driven investment decisions

- More reliance on wealth accumulation through stock market valuations in deriving gains from the announcement of new projects than through any conservative estimation of long-term income generation.

Wealth-accumulation driven growth led to aggressive assumptions at the bidding stage of large scale investments

- Industrialists were incentivised to make extremely aggressive assumptions at the bidding stage of projects because of the immediate wealth gains that were possible in the booming equity markets of 2006-2007 and to a lesser degree again in 2010.

- Heavy direct and indirect leverage in expansion projects – often hidden in the maze of subsidiaries and also at the promoter-level debts.

Previous investment cycle fostered many informal deals between politicians, bureaucrats and industrialists

- Large-scale informal dealings and relationships between industries on the one side and politicians/bureaucrats on the other with many gains directly flowing to all of these parties.

As is clear by now, examples of some of the above practices were present in aggressive bids that were submitted for large power projects, the types of parties that decided to enter the telecom business, the leverage undertaken in running airlines or processes followed in investing in coal blocks, for example.

It was an era, the period until about 2010, when many were singing the virtues of growth despite "reforms". In those years too, many theoreticians may have lamented the absence of land acquisition rules and the new mining bill, or lack of insurance/retail/aviation FDI, or no progress on pension or labour laws, but India's investment cycle continued its relentless progress because of a group of people who were benefiting from the same regulatory shortcomings.

Investment model was flawed but it still had some benefits for all and was the core of India's growth boom

While the going was good, there may have been disproportionate gains for a handful of private parties but there were apparent positives still left for investors in financial markets as well as the society as a whole in terms of improving infrastructure and overall economic growth.

Corruption exposes: why all of a sudden?

Corruption was not at all new by 2010, only their exposes now are

Inherent in India's conglomerate model based investment cycle were the informal dealings between those in power and those in industry. Corruption, the generic term used for such dealings that were almost always either illegal or based on liberal interpretation of vague laws, was pervasive as a result. Yet, large-scale corrupt practices involving powerful businessmen, politicians and/or bureaucrats were somehow rarely exposed with even mild punishments for the parties involved until 2010.

All this appears to have changed from early-2010. Starting from the investigations in to malpractices during the Commonwealth Games preparations to allocation of 2G licenses to some real estate deals related investigations in Mumbai to coal mine allocations most recently, there is a massive wave towards the inspection of what happened in the boom years.

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As scandals started hitting headlines with many powerful people under scanner, investment announcements peaked and plunged

Investment plunge began with removal of one of the two core competencies

There was nothing new in the spread of corruption activities in 2010. The only thing new was their investigations and exposes. As we mention above, we believe that informal dealings were one of the two main core competencies behind India's conglomerate-based investment model (with access to cheap funds and leverage being the other). Once the deals started getting scrutinized with heavy punishment/reputation damage disincentive for anyone caught, the immediate economic effects were felt in:

- Sudden drying up of new investment announcements;
- Policy paralysis in terms of the clearing of projects or policy initiatives by government officials;
- And rising demand for reforms and formal guidelines in the form of land acquisition, FDI liberalization, more open debt markets by serious investors.

We do not think corruption scandals surfaced because corruption levels reached some untenable threshold

The key question that must be asked is what led to such an impassé. A standard, off-hand answer, largely borne out of frustrations, tends to be that corrupt practices had reached a level where their public expositions were inevitable. Such arguments tend to also assume that the powerful in politics and industry will return to their past practices once again and nothing fundamental has changed.

We do not believe that corrupt practices have any threshold level beyond which they not only cannot continue but somehow become a matter of public investigations. Rather, in our eyes, the answer lies on the spread of new technologies along with the power of momentum.

Time to take a few more steps back before returning to the above assertion.

Technologies and cultural evolution

Material progress as ever more efficient movement of ideas and matter

Many believers of "arrow of history" or "cultural evolution" define material progress as ever quicker and cheaper movement of ideas and matter. Every now and then, in this view of the world, there are transformative technologies that put societies on a new turbo-charged progress path while simultaneously disrupting many existing socioeconomic balances and processes.

Four major communication breakthroughs of last two decades, the last one perhaps most significant and its impacts still least appreciated

Of course, we are not talking about changes that transpire over decades or innovations that are once-in-a-few century type revolutions in this note. Yet, we see – highly simplistically – four different communication technology related breakthroughs in India with remarkable consequences in all spheres of life in the last couple of decades:

Cable TV – behind the disappearance of persistent, single party dominance at all levels?

- **One-to-many cable-TV led media revolution of late 1980s:** Not just entertainment industry, but social and political awareness in the country metamorphosed when broadcast media changed with the arrival of dozens of new TV channels in the late 1980s. It would be perhaps a stretch to link the rising fragmentation in Indian politics to the rising pluralism brought about by the media revolution but the coincidence cannot be ignored.

Web connectivity and the outsourcing wave

- **Web connectivity and the outsourcing wave of late 1990s:** Indian economic growth started once the domestic talent could offer their services at highly competitive prices to the world thanks to the new connectivities made possible by the global computer networks and Internet. For most Indian consumers, the effects were largely indirect as computer penetration and internet connectivity remained relatively low until recent years.

Mobile-led voice connectivity: productivity boom

- **One-to-one voice connectivity made possible by handphones around early 2000s:** Fixed line telephony was never accessible to a large part of Indian population because of supply constraints. A lot has been rightly written about the productivity gains brought about once Indians at every level gained access to cheap, direct communication methods.

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Mobile-led data connectivity – behind today's events?

- **Many-to-many data connectivity from late 2000s:** Call it the effect of smartphones. Or social networks. Or "recording device in every pocket" effect. There are many other benefits of this but an unintended new evolution is taking place in the form of corruption investigations of all kind.

Computers, like fixed line, offered connectivity to few. Mobile connectivity has altered the landscape

A side point here: internet is the medium through which information transparency is enhanced. However, just as fixed line telephony did not offer voice connectivity to most people in India, computer-driven internet access was also a domain of the few privileged and educated. The connectivity dynamics have completely changed since data connectivity has been made accessible through all pervasive mobile phones.

Role played by data connectivity has been beyond doubt in recent Middle East events. What about India?

Our argument is that data connectivity has posed the biggest danger to many illegal or informal practices of yesteryears across the world. This is most evident in Middle Eastern countries, where the wave of demonstrations and protests since end-2010 has been even given a name "Arab Spring". The role played by data connectivity and social networking in these events has been beyond debate. In a way, there is something similar happening India, although distinctly different!

Of continuous connectedness, relentless recordings and innumerable backups

A Bollywood movie formula that worked for decades is now going archaic

There is a standard formula to countless good guy versus highly, highly evil guy movies in Bollywood. The bad guy – call him Ajeet Amjed Amarish in Bollywood fashion, or Pren for short – would be manifestly devilish in all his villainy but there just won't be any evidence for officials to officially put an end to his methods. Pren would blithely roam around while committing crimes but most around him would not be able to prove the veracity of seeing him commit the crime in the "he-said-I-said" types of court cases. Any physical evidences of such actions are few and perishable. Plus, they would often find their way back to the thug through the corrupt media- or political- or police-persons in between. Once identities of those collecting evidences are revealed, the brute would generally have them severely penalized. In the end, the hero, let's call him Sonny Bachcha, would find a way to overcome all the perfidy through his undaunted and extra-judicial efforts, but the whole exercise of the elimination of the criminal would appear possible only for the intrepid on the celluloid.

The villains of the yore have lost their mojo in the cell-phone world

Consider the hurdles faced by the same ruffian in the new world: the cellphone in Pren's pocket is continuously recording his movements all the time. His sufferers are anonymously spreading some accounts of his acts on social networks where no proof is needed. The villain in all his power is unable to stop the spread of these tales which might even cause some well-meaning journalists or bureaucrats to investigate without ever coming in contact with him. Separately, all the thousands who he is repressing no longer need bulky equipment or any sort of skills to record his activities stealthily. And these records can be backed-up and broadcasted without help of anyone and fairly anonymously if one is trying to avoid other dangers.

There are already technology-savvy new world film gangsters who master the new environment to exploit more than be exploited. Yet, the old world bad guys are looking more and more hapless at least in movies that are contemporary and somewhat logical.

Evidences everywhere, including in academic studies

Investigations are already aided by the availability of more data

Back to the real life in India, a politician recently could not prevent the widespread release of a sex tape that media was barred by the court from commenting. Another politician was convicted with phone call records turning up as a key evidence of her location. The amount of data that is available at the heart of 2G telephony, coal or many other investigations mean that most of them are unlikely to atrophy the way many similar investigations did in the previous decades. At micro levels, as we go to print, a lady took to the Facebook to air the supposed, heavy-handed traffic police treatment forcing authorities to investigate.

We believe that corruption, as it happened earlier through casual conversations of private arrangements and physical exchanges of goods and favours, has become less possible in more information-connected world.

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An increasing number of academic studies already support the reducing corruption claim through cross-sectional studies on large number of countries

There is increasing academic literature, even though still relatively small, claiming the beneficial impact of data connectivity on exposing corruption. Garcia-Murillo (2010)[1] discusses how equitable information access because of internet is reducing the advantages of monopolistic middlemen. Her studies of 170 countries conclude that internet is having a positive effect on corruption perception, possibly through exposing the instances of threat, arbitrary changes on rules or deadlines, and demand for bribes.

Wu (2011)[2] quantified the link between corruption perception and internet penetration in 176 countries. It defines information transparency as public access to information in timely and reliable manner and proves the claim that countries with great level of transparency tend to have lower levels of corruption.

Andersen et al (2011)[3] also found in a vastly different type of study that changes in internet penetration correlates strongly and robustly with changes in corruption, conditional on the initial level of corruption.

The role of RTI and activist institutions

The Right to Information Act has significantly strengthened regulators and independent observers

About the most far-reaching legislation of recent times is the Right to Information Act, passed in 2005. The bill itself was perhaps an inevitable outcome borne out of the desire for more information in the more connected world. Its efficacy, unarguably, is substantially enhanced because of the faster and cheaper flow of information, which despite the best efforts of some can no longer be concealed or controlled as before.

One of the most positive aspects of Indian democracy is the web of empowered, independent institutions that were created to act as checks and balances of the system. For decades, many of these institutions were unable to play their role in full due to the unavailability of right information at the right time. We would contend that the reasons behind more independent and aggressive actions from institutions like Central Vigilance Commission (CVC), the Comptroller and Auditor General (CAG), Central Bureau of Investigation (CBI), Income Tax Department, Enforcement Directorate, the Election Commission, courts and even the Reserve Bank of India, Securities and Exchange Board (SEBI) is because of the better information access.

But before less corruption, there is a long recrimination cycle

All this is extremely good for the society and the economy in the long-run if it lasts and leads the system to a cleaner growth path. Yet, the near-term political and economic disruption is the inevitable high cost. The fact of the matter is not only that businessmen cannot continue to rely on past practices of taking advantage of regulatory loopholes but also that there will most likely be more investigations and fall-outs as deals done in the last ten or so years are reviewed.

Power of momentum: expect more exposes

As such, investigations have taken a life of their own with each successful investigation emboldening other investigators or agencies in to moving forward on their cases. Unlike before, investigators seem to be facing less preventive forces from the usual power-brokers. Popular support and media attention seem to further the cause of investigators. By this logic, it is not a surprise that more and more of 2003-10 era actions appear to be inviting new scrutiny in recent months.

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[1]Garcia-Murillo M, 2010. The effect of internet access on government corruption. *Electronic Government, an International Journal*

[2] Wu W, 2011. Internet technology and its impact on corruption. *Department of Political Science, University of California, San Diego*

[3] Andersen T B, Bentzen J, Dalgaard C, Selaya P, 2011. Does the internet reduce corruption?: evidences from the US States and across countries. *The World Bank Economic Review, Vol 25, No 3, pp 387-417*

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Many analysts believe that power-brokers appear powerless because of the weakness exhibited by a handful of leaders in the central government. We believe that the causality is in reverse. The force of the events is beyond the powers of most mighty in many cases. We are not naïve utopians – certainly the power balance will change again as some of those who master the new world find their own ways of subverting the systems, the near-term investigation-linked realities are unlikely to be radically different under any set of leaders ("honeymoon periods" aside).

Investors should ascribe higher risk premia to the possibility of more investigative events

If investigations into past incidents continue as we expect them to, political events could stay unpredictable particularly in the run-up to the general elections of 2014. Empowered bureaucrats are also expected to bring up more investigations with results swifter and blame more clearly apportioned than in the past. Effectively, risk premia associated with unpredictable events could remain high for a while.

Way forward: clearer regulations

Only a comprehensive set of new guidelines for investments in core sectors would have some chances of causing the economic revival

To summarize, investment slowdown is not a result of policy paralysis in our view but policy paralysis and many other developments are a result of far larger communication revolution. Many business practices will need to adopt the formal, official course which would necessitate clear, unambiguous regulations. Better regulations are most particularly required in the fields of license allocation, acquisition of scarce resources including land and in the qualification requirements.

If our logic above is right, piecemeal clearance of some of the projects that have been pending approval for a while or opening up of foreign direct investment in select sectors will only work as a short-term equity market boost; they will not alter the course of the economy.

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Cause "now": Wealth destruction

Growth champions' second core-competency also gone, and now perhaps the bigger problem

As we wrote above, there were two major core competencies of Indian business groups following the conglomerate business model which became the main driver of India's supply creation and hence economic growth:

1. It was their ability to get the best out of local regulations and practices.
2. And also ability to obtain funds at cheaper rates.

Spiralling down leverage of the leading risk takers or growth champions

While investment slowdown problem may have started with the flurry of corruption scandals causing aspiring industrialists to postpone their plans, the ensuing economic and market slowdown have completely diminished their abilities.

Largest capex investors were excessively leveraged, often more than that visible in published balance sheets of their largest listed companies

It must be noted that India's biggest capex-doing business groups were not only continuously negative cash flow over the last decade relying heavily on funding from capital markets but also have been excessively leveraged.

The leverage positions were generally higher than what one could discern from these groups' listed companies' balance sheets. This is because of a combination of the following:

- Many promoters borrowed personally against their equity investments or holdings in group companies.
- Debt-like return guarantees were privately given to early equity investors in certain cases.
- Debt was quite often hidden in the group structures where group companies borrowed to inject equity investment in associated companies who borrowed further on such equity.
- Through off balance-sheet items;
- Through published debt numbers that may not have reflected the full depreciation of the INR;
- Most importantly, many companies' funding plans often implicitly assumed conversion of debt in to equity on FCCBs/convertibles or more issuance of new equities few years later at good valuations (including positive assumptions on the Rupee). These assumptions have mostly been proven wrong.

From intention to ability: an offshoot of a risk-averse marketplace

Even if we get ideal policies, chances are that there are not many left who can do large-scale investments

We argue that even if the authorities turn up with the best clean investment regulations, many erstwhile industry champions may not quickly abandon their deleverage mode. There are multiple reasons behind them:

- Investors are rewarding deleverage;
- Past investment decisions are yet to produce sufficient income;
- And the vicious cycle events created by the leveraged companies' low share prices.

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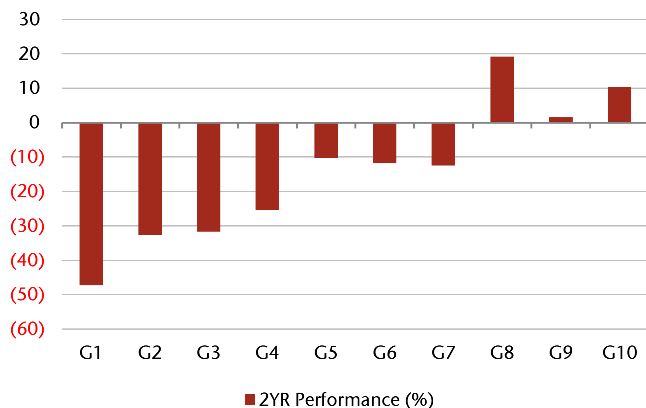
D/E – about the most working investment strategy

Average stock price performances straight divided along the leverage levels

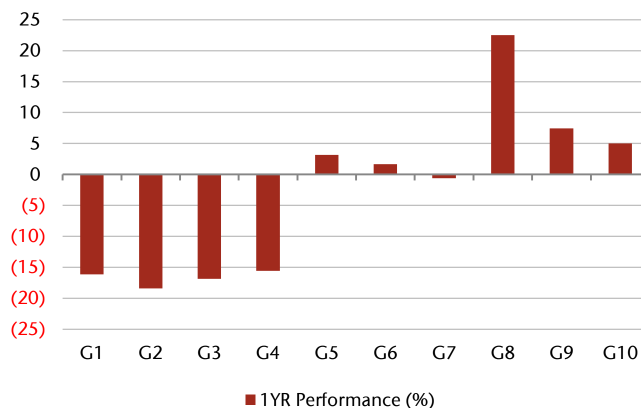
We divided 175 non-financial listed companies in ten deciles based on their most recent published gearing ratios. The stock price indices created for these groups present a fairly unambiguous picture about what investors are favouring. While groups with the highest gearing ratios have had stock price based indices contract by 16-18%, those with the lowest gearing have shown price appreciation.

Exhibit 22: Low leverage companies have outperformed high leverage



Note: Groups are based on ranking of 175 companies based on their past two years' median gearing ratios; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 23: The divergence is prominent over a two-year time-frame

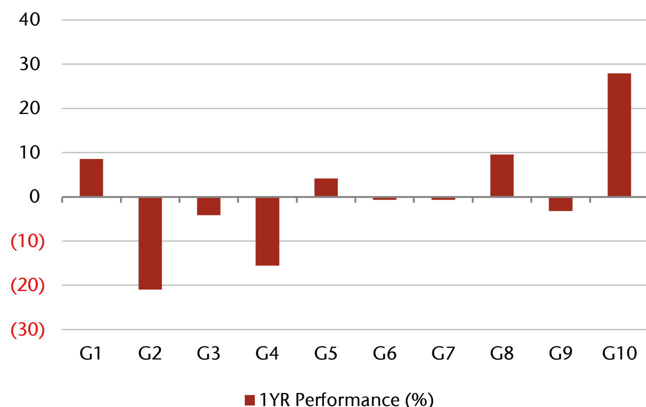


Note: Groups are based on ranking of 175 companies based on their past two years' median gearing ratios; Source: Bloomberg, CMIE, Jefferies estimates

Companies expanding balance sheets fastest during FY03-09 are generally out of favour in stock markets

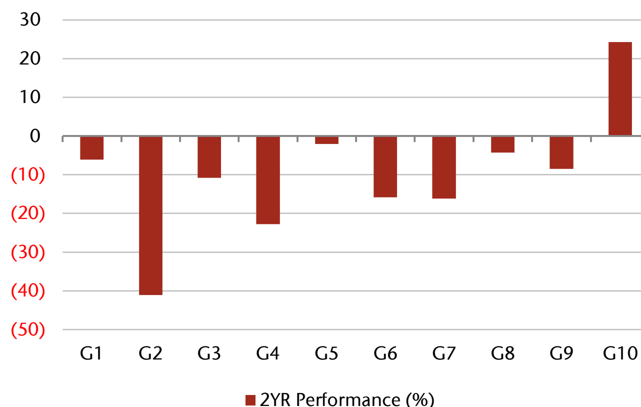
The other way to look at market performance rewards for past growth is to break the companies based on their total balance sheet expansion between FY03 and FY09. The message is similar: companies that were investing heavily in the boom period have on average fallen out of favour as can be seen clearly based on their average share price performances.

Exhibit 24: Companies which expanded heavily are underperforming



Note: Groups are based on ranking of 175 companies based on their balance sheet growth during FY03-09; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 25: While those which did not were not favoured by investors



Note: Groups are based on ranking of 175 companies based on their balance sheet growth during FY03-09; Source: Bloomberg, CMIE, Jefferies estimates

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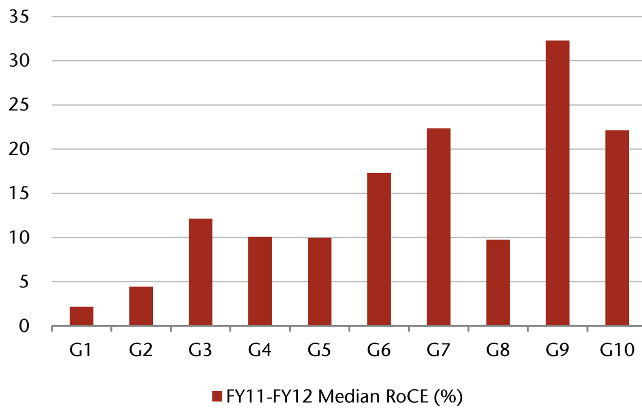
Past investment decisions not paying off

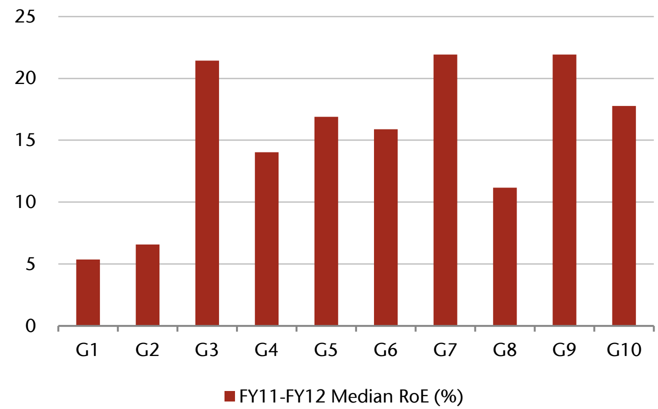
The profitability of the companies with the fastest balance sheet expansion between 2003 and 2009 is the lowest as the following charts show. Simultaneously, their gearing ratios and profit growth are relatively lower.

Exhibit 26: Companies which expanded heavily…



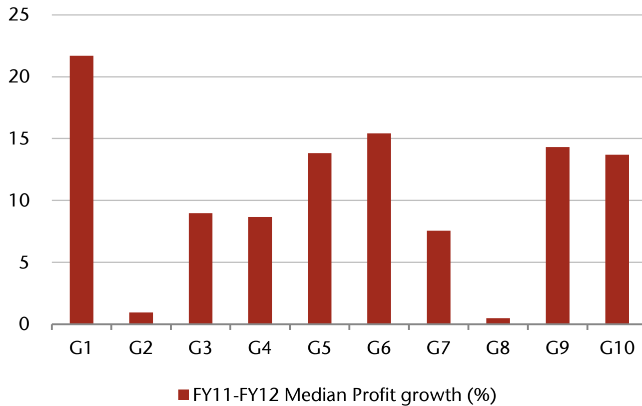
Note: 1) Groups are based on rankings of balance sheet growth of 175 companies during FY03-09;2) RoCE for each company is its two-year median RoCE; RoCE for the group is the median of these calculated RoCEs; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 27: …have relatively lower return ratios



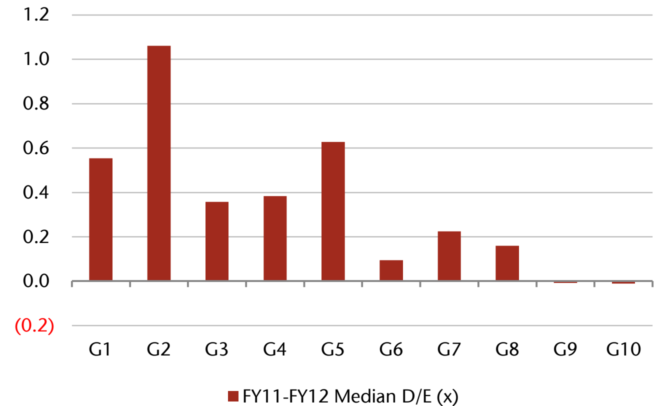
Note: 1) Groups are based on rankings of balance sheet growth of 175 companies during FY03-09;2) RoE for each company is its two-year median RoE; RoE for the group is the median of these calculated RoEs; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 28: Profit growth is relatively lower



Note: 1) Groups are based on ranking of 175 companies based on their balance sheet growth during FY03-09, 2) Profit growth for each company is its two-year median growth; growth for the group is the median of this calculated growth; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 29: …while gearing is much higher



Note: 1) Groups are based on the ranking of 175 companies based on their balance sheet growth during FY03-09, 2) D/E for each company is its two-year median D/E; D/E for the group is the median of these calculated D/Es; Source: Bloomberg, CMIE, Jefferies estimates

Similar patterns are visible when one looks at the profitability of companies divided on the basis of gearing ratios.

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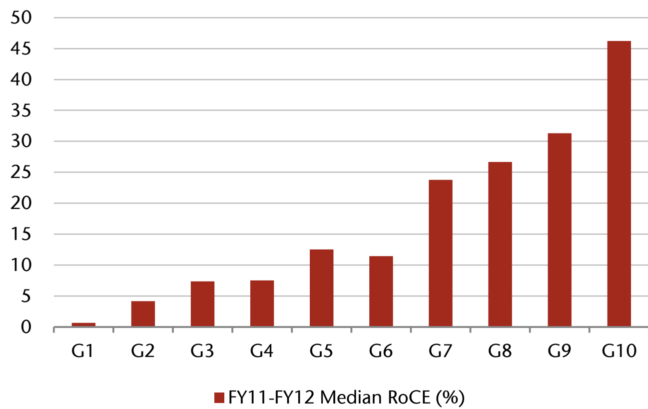
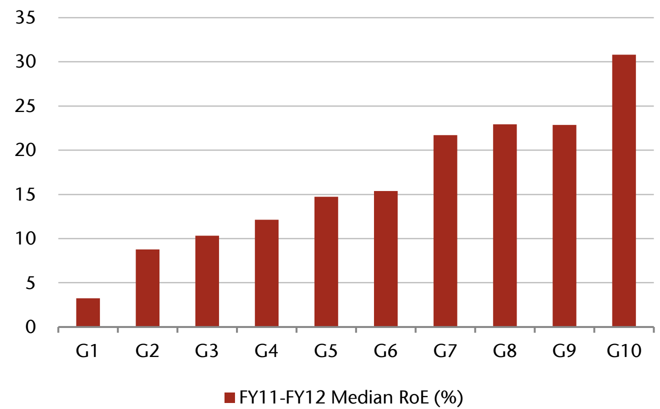
Exhibit 30: Companies with lower leverage...



Note: 1) Groups are based on ranking of 175 companies based on their past two years median gearing ratios; 2) RoCE for each company is its two-year median RoCE; RoCE for the group is the median of these calculated RoCEs; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 31: ...have better return ratios



Note: 1) Groups are based on the ranking of 175 companies based on their past two-year median gearing ratios; 2) RoE for each company is its two-year median RoE; RoE for the group is the median of these calculated RoEs; Source: Bloomberg, CMIE, Jefferies estimates

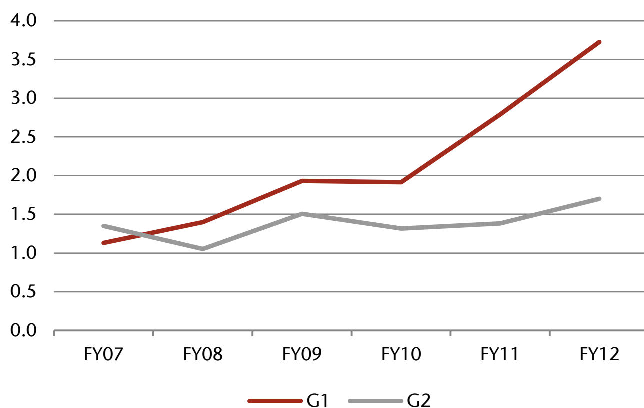
Companies that grew rapidly in 2003-09 are suffering on many different parameters

Collectively, the message from above charts is that gearing ratios of companies that were expanding at the quickest rate between FY03 and FY09 are high, their profitability ratios are low and they are generally not favoured by investors. One can argue whether this is a result of companies making wrong assumptions about costs or growth when they embarked on large-scale investments or whether this is a function of their less reliance on long-term actual earnings potential while making those decisions (as is our presupposition that decisions were more based for near-term wealth gain potential in the stock market at that time).

Vicious cycle of wealth destruction

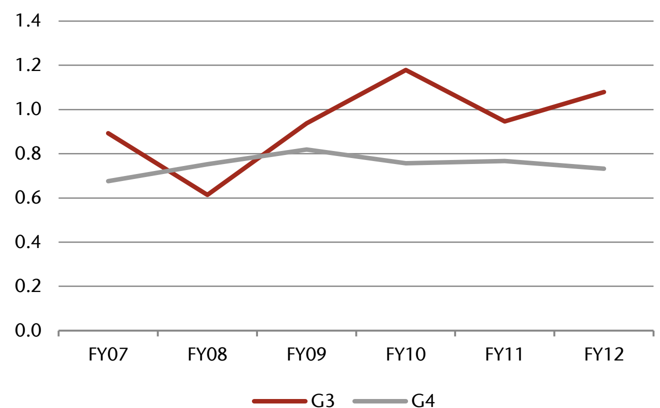
The following charts show that the leverage conditions of the most levered is only worsening in recent years.

Exhibit 32: Median D/E ratios of most levered and second most levered groups



Source: CMIE, Bloomberg, Jefferies estimates

Exhibit 33: Median D/E ratios for third and fourth most levered groups



Source: CMIE, Bloomberg, Jefferies estimates

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What is not visible in many business groups' annually published official leverage numbers is the actual distress because of their reduced market capitalization.

Lower share price = more pressure on promoter pledged shares = more share price pressure

- A few personally leveraged promoters are battling bankers with the collateral value of their pledged shares falling. The threat of forced sale by the lenders is acting as a more downward pressure on these shares.

Less liking of leverage by investors = less likely FCCB conversion = more leverage

- The leveraged companies' share prices are falling as shown, which is not helping the equity conversion of their convertible bonds. This is only going into increasing their leverage ratios and pressure on the share price.

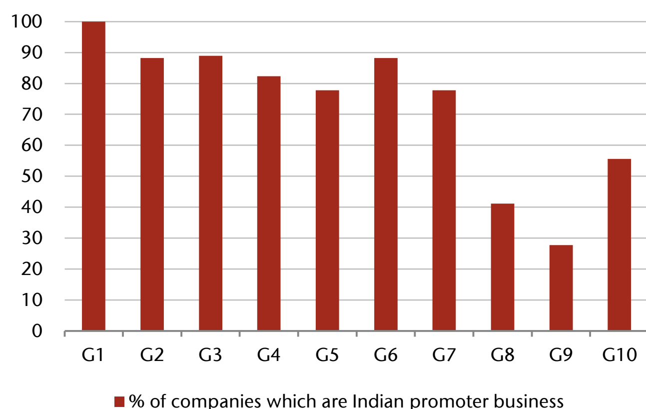
Less liking of leverage by investors = higher cost of capital = more pressure on fundamentals

- Out of favour geared companies are the most in need of funding from equity and other capital markets and their cost of funding have risen as a result of investor preferences, leading to more downward pressures on their fundamentals.

Gearing mostly with family-owned businesses who were leading the capital expenditure boom

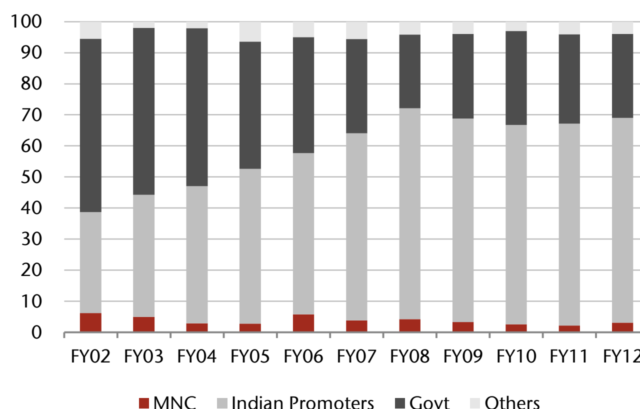
As can be seen from the chart below that most indebted companies are Indian promoter- or family-owned businesses. The government capital expenditure as a % of GDP is continuously falling while at least listed multi-national companies remain on their steady growth models.

Exhibit 34: Most fast growing companies were Indian promoter owned



Note: 1> Groups are based on ranking of 175 companies based on their balance sheet growth during FY03-09; Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 35: Indian promoters share in capex increased significantly in FY03-FY07



Note: the above chart shows % of total capex by companies based on the type of their majority shareholder; Source: CMIE, Bloomberg, Jefferies estimates

Macro-micro fallacy: a lesson from traffic jams

What is sensible for one may not be sensible for all

A two-wheeler rider in a locality where traffic laws are not being monitored has many practical incentives to break the lane disciplines as long as she can keep her own legal or moral scruples aside. At the micro level, it makes sense for her to forge as far ahead as possible in a slow traffic situation. However, at the macro level, when all two-wheelers begin to zig-zag, the entire speed of the traffic – including those of the two-wheeler riders – begins to suffer.

Promoters' need to deleverage…

At individual levels, most fast-growing Indian promoters of 2003-09 era need to deleverage. Markets are likely to reward them more if they reduce investments, focus on free cash flow and reduce their debt. This might make more sense to promoters themselves given the psychological scars left behind by the events of the current times.

…is adding to the economic and hence their own woes in another vicious circularity at present

Yet, this has become perhaps the added, if not main driver, of the completely stagnated capacity creation environment in the country. The resultant economic consequences are easy to see: inflation borne out of lack of supply, more fiscal deficit because of lack of growth, political and social tensions because of unfulfilled ambitions, investor risk aversion because of all around gloom and of course more pressure on leveraged entities – ie, the same promoters – as a result of all of these factors.

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Way forward: a design for promoter-less world

Almost all reforms that are being anticipated are likely to prove wholly inadequate

Almost all the regulatory changes that are expected or often get talked about as critical would have possibly made a substantial difference a few years back when they were first contemplated. This is true not only for FDI-related measures for sectors like insurance, retail or aviation but also for other bills like land acquisition or pension reforms. While the political muddle is such that most of these so called reforms are unlikely, even if they happen, they may not move the economic needle much.

Reforms may cheer markets in the run up to their passages, but unlikely to be sustainable

This does not mean that anticipation of the clearance of some of these bills will not be cheered in the marketplace. We do expect equity markets to respond sharply whenever there is a whiff of passage of some long-pending bills. But most reforms are deemed more important than what they really are mainly because of the general desperation to see some policy action. The long-term equity market impact of these measures might be next to nothing if our conclusions on the two main causes of the slowdown are right.

Global risk-on might be the best quick solution to all the thorny issues at least for a while

There must be many ways out of the quagmire created by corruption scandals and wealth destruction. A massive global risk-on rally, where investors unabashedly bank upon on future growth without regard to past problems or balance sheet issues would certainly remove all Indian investment problems, at least for a while, and definitely from the current incredibly low expectation base.

Needed new companies with alphabet suit names with professional management no history and aided by clean regulations

A more permanent, higher quality, domestic solution has to be different. We repeat: India has latent demand, underemployed labour, underutilized savings and a burning desire for growth. Bringing them together in a clean way not only requires comprehensive new sets of regulations that formalize various steps of investments that are currently in the realm of illegitimate dealings and approvals but also creation of new companies with professional management. Such companies could be formed by financial institutions to start with for investments in specific sectors in most need of investments. In our eyes, they should not be government-owned.

We can discuss this pipe dream of new era in longer detail. And, there must be many other positive solutions and scenarios possible. However, the point is different: until the private sector, business bodies, government bodies and politicians begin to think about what the real problems are (beyond the current environment where the only consensus seems to be that policy-making has been messed up), the economy is not even starting on any sustainable growth path, in our view. And investment strategies in the slowdown environment will necessarily have to be different.

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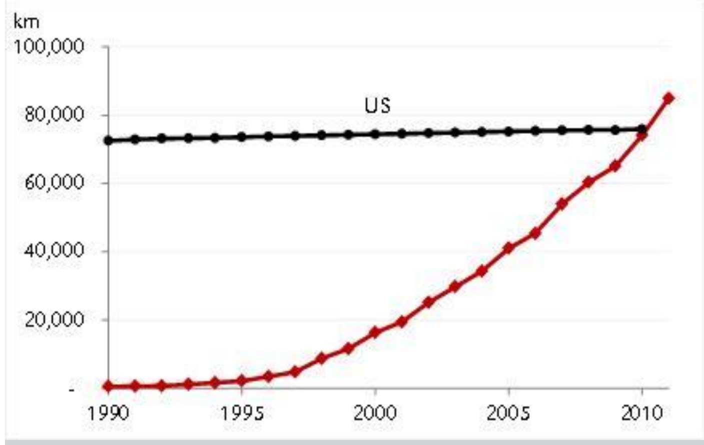
The other issue, CAD: myths and not

Exponential function is rarely understood fully by the foreseers in economic life

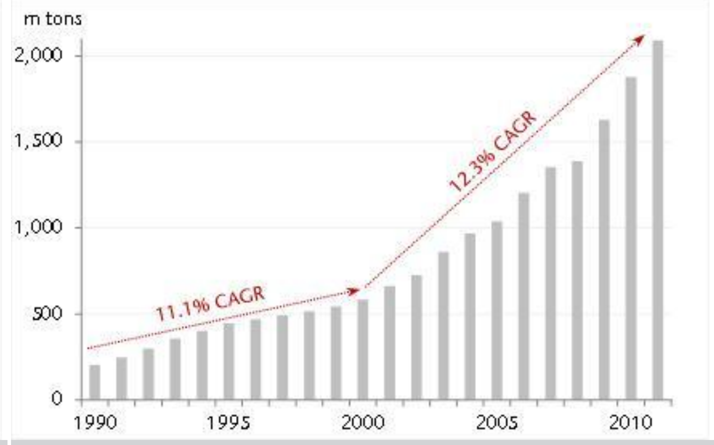
One of the least understood mathematical function in real life is the power of exponential growth. All numerates are fully aware of the way function grows and explodes theoretically, but most fail to grasp its true meaning in the economic sphere. The following two charts taken from China's growth over the last two decades could make this point on the power of the power function.

Exhibit 36: China expressway now longer than US interstate lengths



Source: CEIC, China NBS, World Bank, Jefferies

Exhibit 37: China cement production growth – another exponential series



Source: CEIC, China NBS, World Bank, Jefferies

Many positive exponential charts in Indian economy too, but most need more growth for a long period

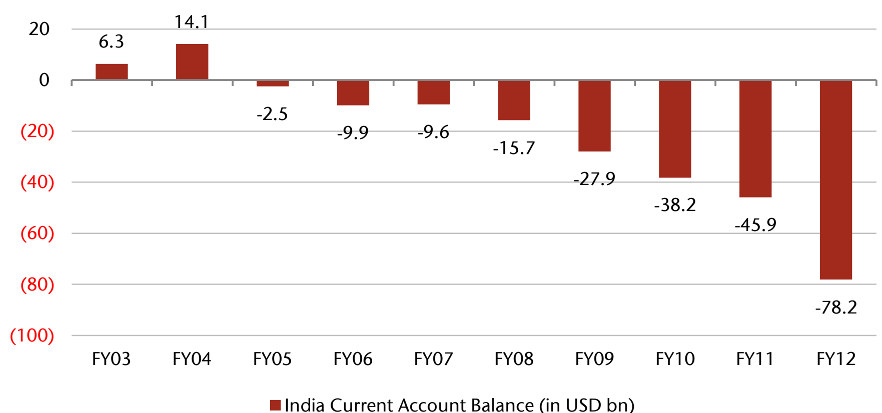
There are many positive messages here: in the best case, India too would need barely a couple of decades to build world class infrastructure if it continues on a strong growth path. There are many similar positive exponential charts in Indian economic data too, although unarguably almost all of those parameters are where China was around mid-1990s. The ambition is for India's progress-pointing economic data to continue to grow at a high rate.

CAD – exponentially growing negative parameter

Exponentiality remains the worry for India's CAD …

Explosive potential of the exponential can also be a cause of structural concern if embedded in a destabilizing economic parameter. The biggest example is India's current account deficit. For many years, these authors have repeatedly written about the potential destructive influence of India's CAD. The numbers have already become enormously large, making India one of the three highest CAD countries in the world in FY12.

Exhibit 38: India's CAD has expanded rapidly over past decade



Source: CMIE, Jefferies

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To us, the rapidly rising deficit is a logical outcome of the growth model followed – one that turned its back on supporting exports in favour of domestic demand immediately after benefiting from the global outsourcing wave around the turn of the century. Consider the following mathematical schema which is at the root of India's exponentially growing deficit:

Exports proportional to slower global growth

- In the absence of any substantial export-boosting measures or new competitive advantages, India's external income or export growth is a function of the rest of the world growth which is much lower.

Imports proportional to higher local growth

- India's external expenditure or import growth is a function of India's own growth, which is much higher. Also, India's growth at every level is import-intensive in terms of demand for basic commodities, capital goods and electronic gadgets apart from tourism and luxury goods.

QED, ceteris paribus, CAD would double every 3-4 years with 7-8% growth

- With both import growth and export growth being high nominal numbers, with the former being slightly higher structurally if India were to keep growing at 7-8%, CAD would potentially keep doubling every 3-4 years.

The challenge is to cap the absolute amount of CAD somewhere in the current region for the next 5-10 years, without impacting growth prospects

As we have discussed in detail in our earlier reports, the global current account surplus pool cannot really absorb considerably more of India's deficit from the current levels (may be another 50-100% more but unlikely anything beyond on a sustainable basis). India has more than a decade of high growth rate to go to be where it wants to be economically. The new growth model has to conceive a way of this happening without further material increases in the dollar amount of current account deficit. We must once again mention that to us the absolute level of the deficit is far more important than as a percentage of domestic GDP because of the finite current account surpluses available in the world.

Perceived solution 1: FY13 cyclical correction

All factors that have contributed to likely 20-30% decline in FY13 CAD must reverse if India were to go back to 7%+ growth path

FY13 CAD should come down from the lofty FY12 levels by 20-30%. This is primarily a result of the lower economic growth, aided by the positive impact of the weaker INR and somewhat lower global commodity prices. In the best case, none of these trends should be persistent.

- If India's CAD stabilizes because of low growth, the outcome is simply not desirable.
- If global commodity prices continue to weaken, chances are that international economic factors contributing to the ever lower commodity prices would prove far more damaging for capital flows towards India and hence overall growth in the medium-term.
- The same growth repression arguments are likely to prove right if the INR has to continue to fall by say 7-10% per annum to keep a lid on the external deficit.

What's the point if CAD stabilization is borne out of lower growth?

The main objective for the economy is to grow at a high rate. If CAD stabilization is achieved but the growth goal is defeated, such stability is futile. If not, given the past tendencies described above, CAD would rise with growth revival unless the economic model changes.

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Perceived solution 2: funded by the capital account

Measures that lead to higher external flows would work…

A large number of policymakers, investors and analysts see the balance of payment solution in measures like higher borrowing/remittances from non-resident Indian, foreign direct investment reforms or increased debt through various debt market liberalizing reforms and external bond issuances.

…but only for a while given the already lofty deficit levels

In our eyes, most proponents of such measures overlook the power of exponentiality. We must once again note that fundamentally CAD is unlikely to stabilize at current levels if growth were to return.

The following table shows all the instances of USD100bn+ investment flows (debt and equity, primary and secondary – calculated through balance of payment data) received in any year by any country ex-US historically. Only China and UK have received flows in excess of USD100bn for three or more consecutive years.

Exhibit 39: The USD100bn club – instances of over USD100bn+ flows in a year

Country	Instances	Flow Range
China	2004-2010	USD105-333bn
UK	2005-2009	USD136-237bn
France	2005; 2006; 2009	USD149bn; USD166bn; USD110bn
Russia	2007- 2008	USD184bn; USD101bn
Germany	2001; 2007	USD103bn; USD158bn
Brazil	2007; 2010	USD105bn; USD156bn
Japan	2004;2005	USD106; USD135bn
India	2007; 2010	USD103bn; USD104bn
Netherlands	2005	USD130bn

Source: IMF, Jefferies

Fundamentally flawed if the nation continues to pay expense bills through higher debt or investment

In the best case, India can get inflows over USD150-200bn annually for a few years. But, the environment domestically and globally has to be perfect. Plus, there will still be some sort of implicit time and duration limits on such flows. In other words, even if Indian economy recovers on account of large capital flows, the recovery would prove cyclical like in 2009-10 until there is a trend correction in the exponential trajectory of current account deficit. Effectively, a nation should not be paying its oil bills or citizens' travel expenses through borrowed money or investment revenues without medium-term plans for reversal in such expenses.

Perceived solution 3: ban gold import

The most popular solution, at least amongst many market mandarins, is to impose a ban on gold imports – seen as a non-productive asset.

There is a solid financial logic to Indians' demand for gold even if one were to adopt an ivory-tower approach and ignore its social and cultural role

One has to turn completely culturally blind to ignore the emotional and social factors behind Indians' gold demand. However, let's still ignore all those factors behind why an Indian whose income is rising may want to spend more on gold as he does in spending more on phones or travel or food.

There are solid, logical financial reasons too even if gold is otherwise unproductive. For Indians whose savings face capital account convertibility restrictions, gold investment has proven to be the most genuine diversification tool as its prices are generally least dependent on India's local factors. The following chart on five-year rolling annualized return on Sensex versus gold in INR terms makes the point. Despite being far more volatile, even Sensex has not materially outperformed gold.

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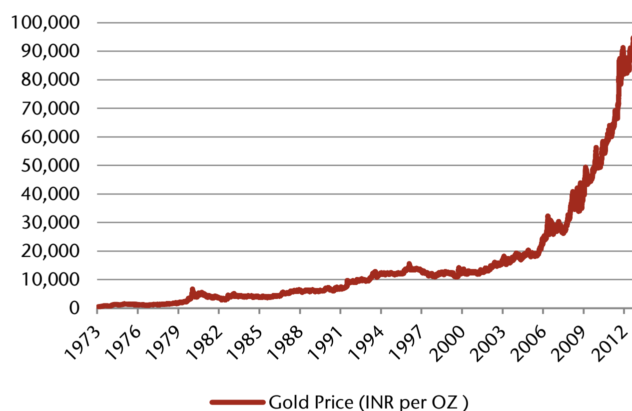
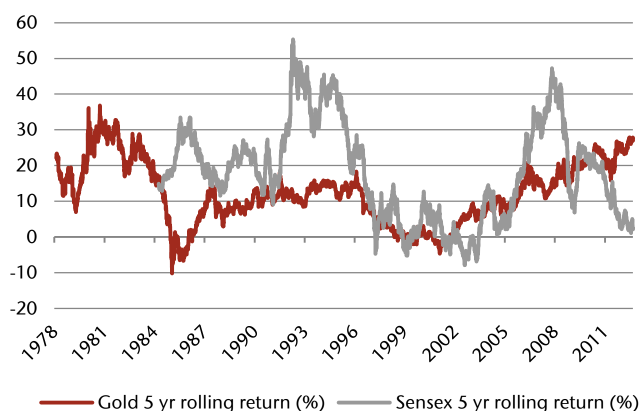
Exhibit 40: Gold price in INR terms has seen steady rise



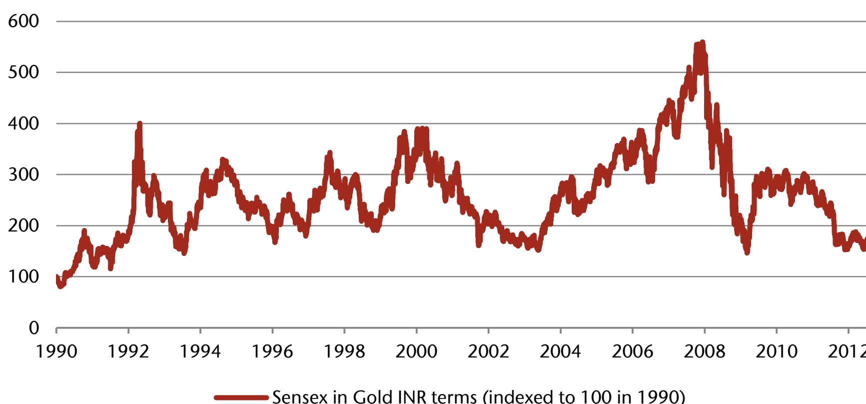
Source: Bloomberg, Jefferies

Exhibit 41: Gold returns have been steady unlike equity markets'



*Returns are annualized. Source: Bloomberg, Jefferies estimates

Exhibit 42: Sensex has underperformed gold over the past decade



Source: Bloomberg, Jefferies estimates

One man's gold is another's car!

If gold is seen needless by the elite, the other may demand ban on any luxury consumption items including leisure tourism

Gold import can certainly be banned, or the government can consider raising import duties on gold from the current 4%, to let's say, 40%. What we fail to see is how they can be introduced without the non-financial world people's demand to see other measures that could prove completely economy-sapping.

For example, beyond a point, anti-gold measures could result in a popular groundswell against spending the precious foreign exchange on anything seemed not productive. By the productivity logic, demands for ban or restrictions on holiday tourism, luxury goods/cars or even high-end electronic gadgets could be argued by the other factions of the society.

We do agree that gold import can certainly be banned or restricted, and they would certainly contain the deficit, but such measures will likely come along with many other highly growth-disruptive measures if not outright social and political tensions.

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Way forward: need to refocus on exports

Good current account solutions are not in capital account, weaker currency or import bans...

For growth to remain intact, the economy cannot afford material restrictions on imports. If CAD resumes its rise even from this year's lower level because of a returning economic growth, rising investment dependency and debt levels will add to the long-term currency pressures. Chances are that rating agencies and a vigilant RBI will not allow the capital account dependency and long-term structural imbalances to increase again. And financial markets may solve the problem through a continuously depreciating currency, which would again help balance the current account better but not without hurting growth.

...but in aggressively export-supporting policies

In the end, the solution to the current account problem has to be found in the current account. Exports need a significant policy support, away from simply a currency fall which causes many other harm on inflation as well as growth. With such policies not being contemplated, we expect the INR weakness trends to persist.

We expect INR to depreciate by 7-8% on annualized basis for the next 18 months as a result.

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Conclusion: era of the slowdown kings

Two questions that befuddle most of us in the market:

- What's wrong if the economy keeps growing at 5.5-6%?
- Why is the market not falling sharply?

5.5% that's not 5.5%

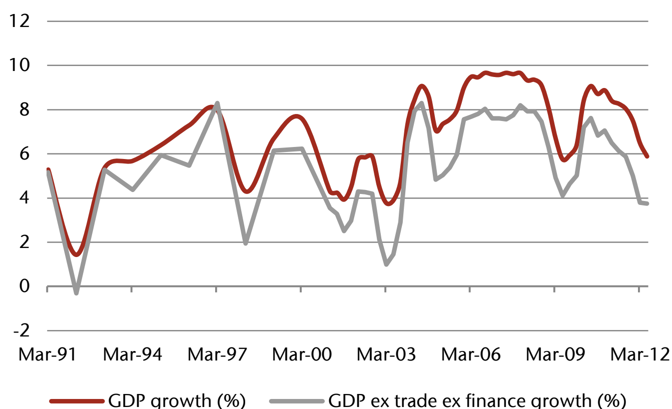
Quantity of GDP growth – at 5.5% – less of an issue but the same cannot be said about quality on a deeper dive into the numbers

At around 5.5% growth, India would still be one of the fastest growing economies of the world. Many markets have yielded spectacular results spanning years with lower growth. The right question is whether the market could rise materially from here over the next two years if growth remains at somewhere around the current level. Before we address the market call issue, let us ponder about the quality of current economic growth.

A large part of the economy, possibly comprising over 90% of the labour force, is growing at below 4% and still decelerating

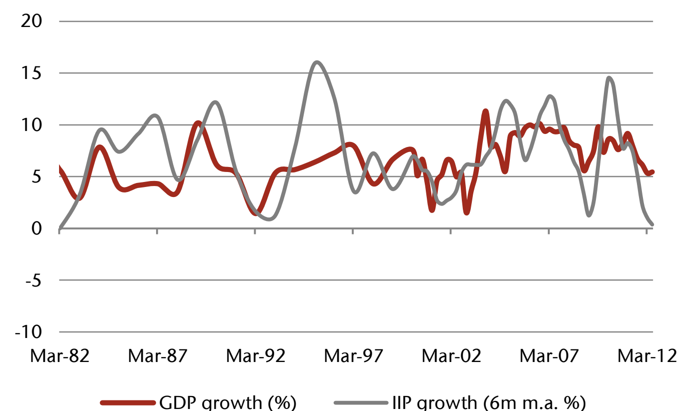
In our view India's GDP numbers have an upward calculation bias, particularly because of the methodology used for the calculation of growth in weightage heavy financial and communication sectors. Without going in to the highly debatable right and wrong of the methods, we would simply point to the chart below that shows GDP growth without these two sectors at below 4% now and still heading down. It must be remembered that possibly significantly over 90% of Indian labour force is from outside these two sectors.

Exhibit 43: GDP ex trade ex finance is below 4%



Note: Annual growth till Mar-01 then 4q m.a.; Source: CMIE, RBI, Jefferies

Exhibit 44: IIP growth points to a much sharper slowdown



Note: Annual GDP growth till Mar-01 then quarterly growth; Source: CMIE, RBI, Jefferies

Persistency of the slowdown is worrying

There have been many times when GDP statistics had lower across the board numbers in last two decades. We are not only worried about the GDP numbers to head lower further but the longevity of the current downturn, which increasingly looks similar to the 2000-03 era in terms of the persistency.

Total goods availability to Indian, as a combination of import growth and industrial production, is negative, leading to far worse growth in GDP measured by expenditure

Generalized pain is also visible when one compares the GDP data with the historic weakness in industrial production – about the weakest in a few decades. One can also ask the "happiness quotient" of 5.5% GDP growth when accompanied by contracting imports and stagnant domestic production which together would simply mean that at least in tangible goods terms, Indians are not having access to anything more now compared to a year above. This is becoming increasingly apparent in GDP growth when measured in terms of expenditure as well as consumption growth as shown below.

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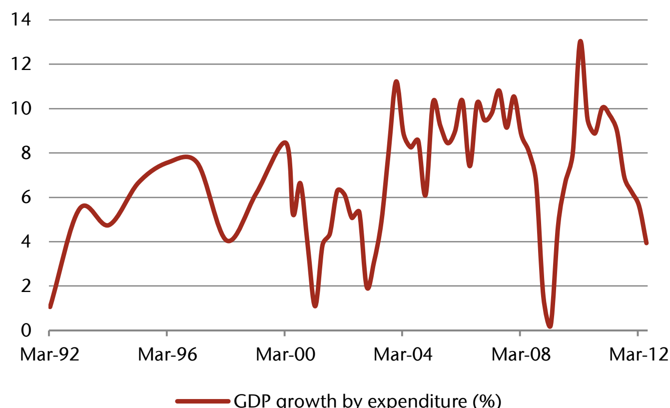
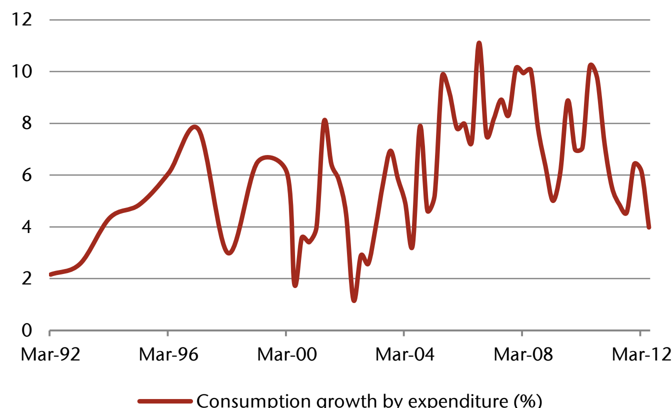
Exhibit 45: GDP growth by expenditure already below 4% in the latest release



Source: CMIE, RBI, MOSPI, Jefferies

Exhibit 46: Consumption growth is the lowest in past eight years and slipping in the range common pre-boom



Source: CMIE, RBI, MOSPI, Jefferies

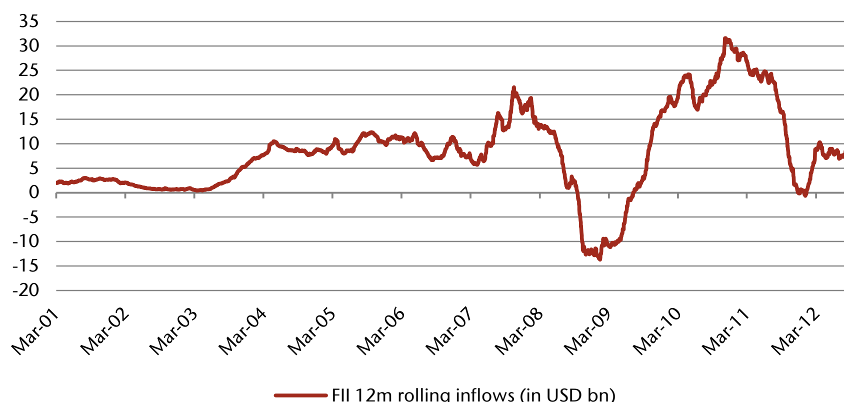
And as we explained above, the current GDP growth has significant more downside even in the headline terms.

Why are foreigners buying India?

Continuous inflows in equities

Foreign institutional investors have simply not sold India despite all the economic disappointments since early-2011. Rather, there has been mild buying even as almost entire investor community appears to have turned more and more bearish on the economy. As the following chart shows, cumulative FII inflows increased by nearly USD12bn in 2012 over and above a stagnant 2011.

Exhibit 47: FII flows of USD 12bn in 2012 itself



Source: Bloomberg, Jefferies

Market top-down is mixed in valuations amid bearish economic backdrop

No more major earnings downgrades despite economic outlook changes and significantly better valuations compared to history

The reasons are partly in market top-down but mostly in the market internals. Average Indian valuations – as shown in the charts below – appear as if a lot of bad news is in the price. All price-to-earnings, price-to-book and dividend yield are trading at levels that are significantly better than recent averages. The market average ROE is steadying as is overall earnings revision ratios.

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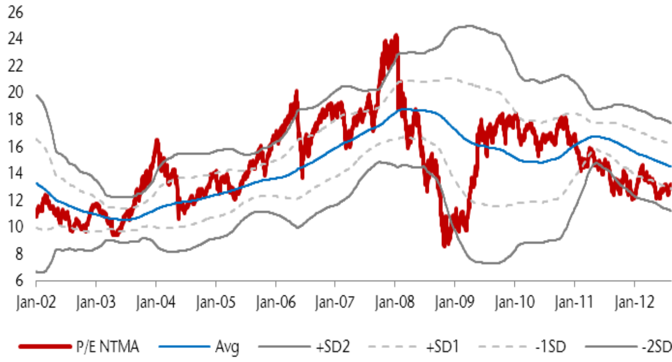
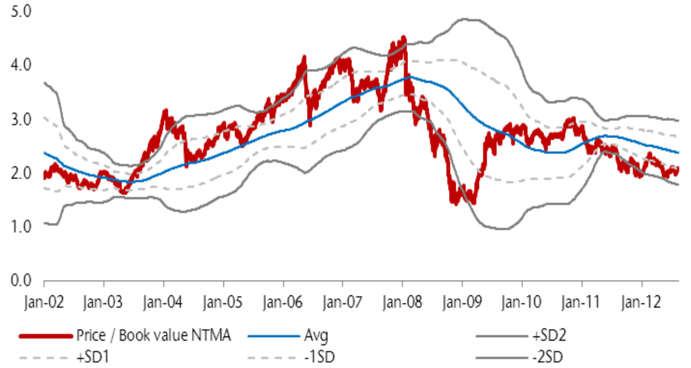
Exhibit 48: Average valuations have been lower only during the times when growth expectations were weak...



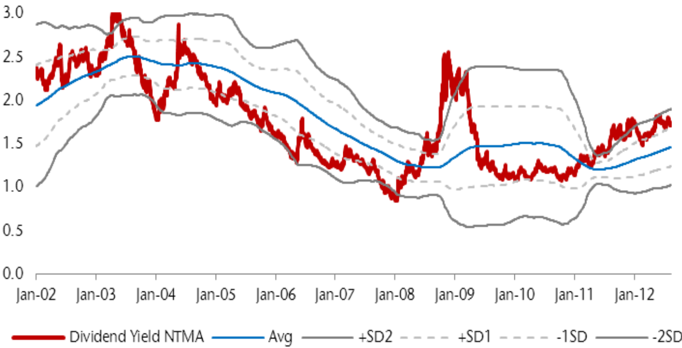
Source: Factset, Jefferies

Exhibit 49: ....which proved excessive when growth returned...



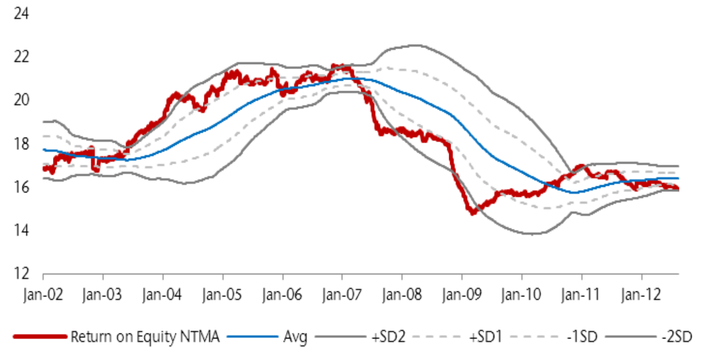
Source: Factset, Jefferies

Exhibit 50: ...implying that market has value for investors expecting cyclical or structural return of growth



Source: Factset, Jefferies

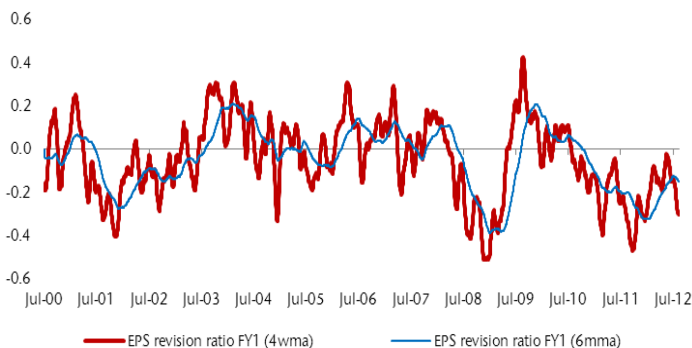
Exhibit 51: Expected ROE is persistently one of the lowest Indian corporates have ever had



Source: Factset, Jefferies

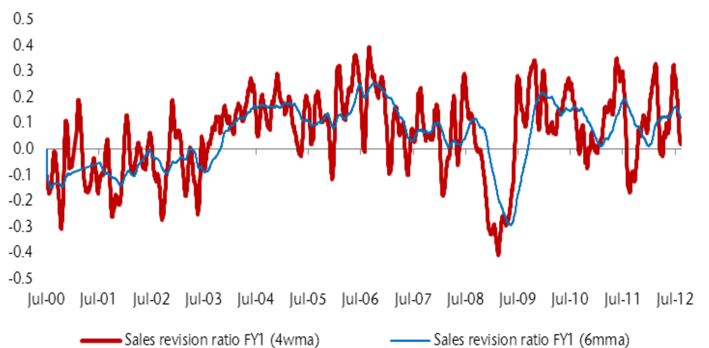
The message from the revision ratios is more heartening. Aggregate earnings numbers are being downgraded, but the reverse is true for sales – partly because of the persistency of inflation. But as we explain below, there is something more at play.

Exhibit 52: Earnings seeing gradual downgrades...



Source: Factset, Jefferies

Exhibit 53: ...but not true for sales that are seeing upward revisions



Source: Factset, Jefferies

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Bipolar market: the strong now bigger/stronger

Not about average valuations, but all about existence of many large companies blooming in the slowdown

We don't think that India's continuous attractiveness to certain types of foreign investors or our own expectations of a range-bound market has much to do with any of the above averages. In our eyes, unlike in many other markets facing top-down headwinds, say like China, India has many large companies who are absolutely flowering in the slowdowns.

A universe full of companies that never needed too much of macro growth to thrive.

One has to look into India's economic history to understand the phenomenon better. Because of the relatively cyclical, and often lukewarm growth for many decades until 2003, Indian private sector has many large companies and business groups that rarely relied on the macro growth to grow their businesses.

Introducing the "slowdown kings"

These companies – exemplified by multinational giants in consumer sectors although by no means just them – relied on their strong products, extensive distribution networks, strong operating margin/cash flow focus and consistency through brand positioning as well as size to beat down competition and raise their own profitability. Almost all these names used the decades from the sixties to the nineties to enhance their strengths and construct business models that indirectly derived benefits from the weak economic environment.

Slowdown kings' conservatism was responsible for relative lacklusterness during the boom

These were also the companies that fared relatively poorly during the 2003-10 growth boom. They came under substantial competitive pressures because of the continuous arrivals of newer players/products that were often funded by cheaper capital and had less focus on near-term profitability. Primary source of their underperformance in the period, however, stemmed from their historical success driver, stoic conservatism. It stopped most such companies from assuming debt and starting large new projects on what is now proven as aggressive long-term assumptions.

We christen these companies as "slowdown kings". We filter them in the table below as companies having market capitalization of at least USD3bn, in existence at least since 1995, median 18 year ROE of at least 18% with either net cash or 2003-07 balance sheet growth grouping in G8-G10 in the categories above on page 18. We used CAR filter instead to include banks that were excluded in our other filters above. We have excluded companies with free float of less than 10%.

The list below is quantitative and definitely not exhaustive. As a result of the strict criteria used, it misses some clear names that should be a part of the club in our eyes – say Larsen & Toubro (LT IN, Rs 1,379, Buy) or TCS (TCS IN, Rs 1,371, Hold). We will continue with our objectively defined list for further calculations so that we do not colour the conclusions with our own biases and preferences.

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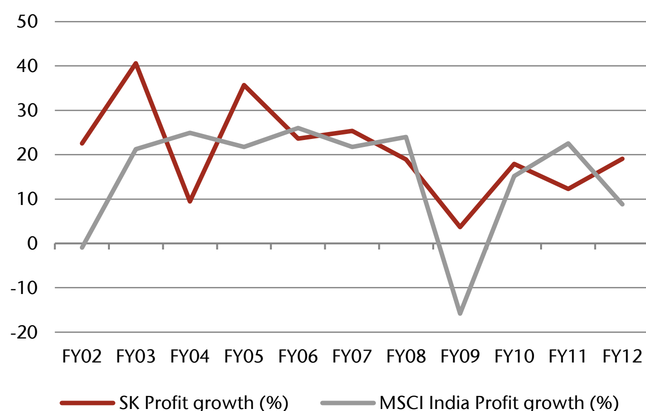
Exhibit 54: Slowdown Kings

Company Name	BB Code	Sector	Price (in Rs)	Rating	MKt Cap (in USD bn)	Float (%)
Oil & Natural Gas Corpn. Ltd.	ONGC IN	Energy	278	Buy	43.0	13
I T C Ltd.	ITC IN	Consumer Staples	265	Buy	37.5	61
Infosys Ltd.	INFO IN	Information Technology	2,512	Buy	26.0	76
H D F C Bank Ltd.	HDFCB IN	Financials	591	NC	25.2	76
Hindustan Unilever Ltd.	HUVR IN	Consumer Staples	535	Hold	20.9	43
Housing Development Finance Corpn. Ltd.	HDFC IN	Financials	741	NC	20.5	85
Wipro Ltd.	WPRO IN	Information Technology	376	Buy	16.7	20
Sun Pharmaceutical Inds. Ltd.	SUNP IN	Health Care	684	Buy	12.7	52
Bharat Heavy Electricals Ltd.	BHEL IN	Industrials	198	Hold	8.7	24
G A I L (India) Ltd.	GAIL IN	Utilities	367	NC	8.4	27
Nestle India Ltd.	NEST IN	Consumer Staples	4,590	NC	8.0	34
Kotak Mahindra Bank Ltd.	KMB IN	Financials	571	NC	7.7	46
Hero Motocorp Ltd.	HMCL IN	Consumer Discretionary	1,820	Buy	6.6	45
Asian Paints Ltd.	APNT IN	Materials	3,739	Hold	6.5	73
Maruti Suzuki India Ltd.	MSIL IN	Consumer Discretionary	1,206	Buy	6.3	31
Cipla Ltd.	CIPLA IN	Health Care	387	Buy	5.6	54
Oil India Ltd.	OINL IN	Energy	494	NC	5.4	13
Ambuja Cements Ltd.	ACEM IN	Materials	190	Hold	5.3	44
Grasim Industries Ltd.	GRASIM IN	Materials	2,977	Buy	4.9	88
Bosch Ltd.	BOS IN	Consumer Discretionary	8,404	NC	4.8	29
Oracle Financial Services Software Ltd.	OFSS IN	Information Technology	3,004	NC	4.6	19
A C C Ltd.	ACC IN	Materials	1,337	Buy	4.5	42
Siemens Ltd.	SIEM IN	Industrials	674	Buy	4.1	20
Dabur India Ltd.	DABUR IN	Consumer Staples	129	NC	4.1	47
Titan Industries Ltd.	TTAN IN	Consumer Discretionary	235	Underperform	3.8	48
Glaxosmithkline Pharmaceuticals Ltd.	GLXO IN	Health Care	2,191	NC	3.3	46

Source: Company data, Bloomberg, Jefferies estimates

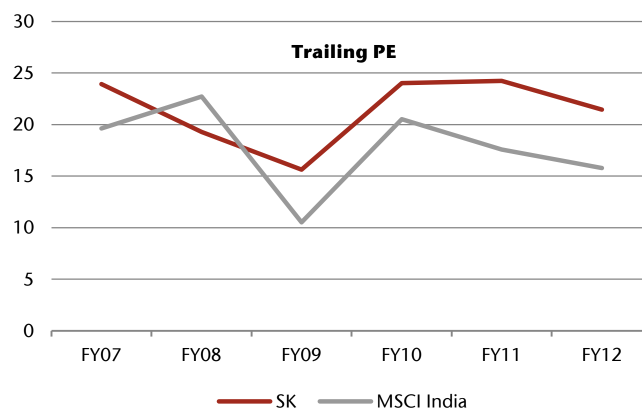
As the following charts show, the slowdown kings' earnings momentum, ROEs, price performance and neutral weights in the index are completely different compared to what is generally true for the market. Their valuations too have a different range.

Exhibit 55: Profit growth has been steady for the group and smartly outperforming in recent years



Note: SK is the group Slowdown King defined in Exhibit 54;Source: CMIE, Bloomberg, Datastream, Jefferies

Exhibit 56: Slowdown kings' valuations have not corrected as much, providing a better support to market averages



Note: SK is the group Slowdown King defined in Exhibit 54;Source: CMIE, Bloomberg, Datastream, Jefferies

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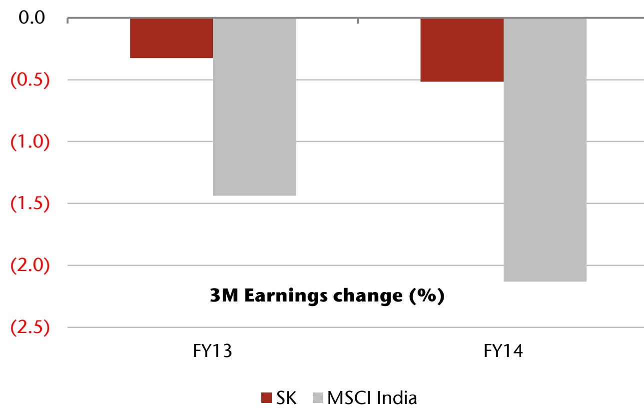
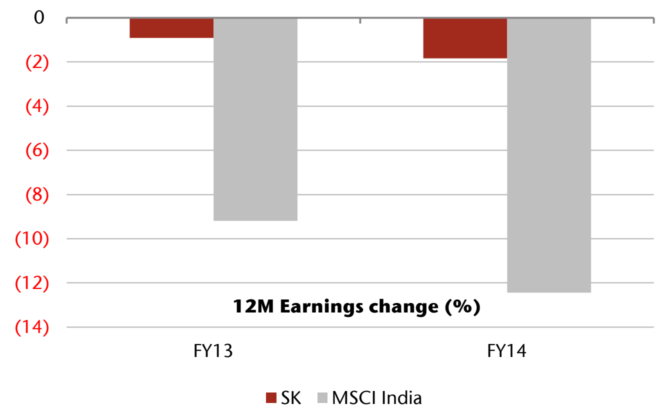
Exhibit 57: Earnings revisions for the slowdown kings are far less...



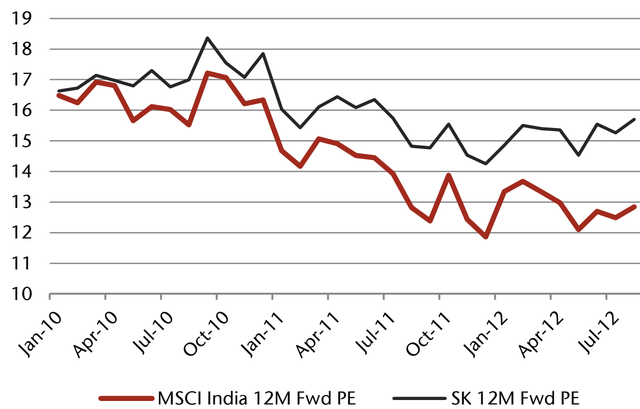
Note: SK is the group Slowdown King defined in Exhibit 54; Source: CMIE, Bloomberg, Datastream, Jefferies

Exhibit 58: ...masking far deeper downgrades for the rest



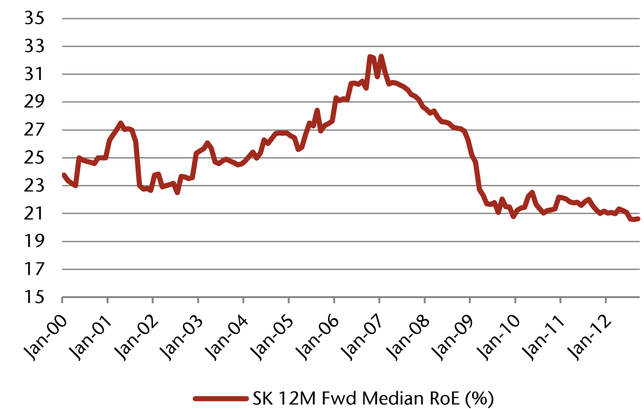
Note: SK is the group Slowdown King defined in Exhibit 54; Source: CMIE, Bloomberg, Datastream, Jefferies

Exhibit 59: Valuation premium has increased for the Slowdown kings



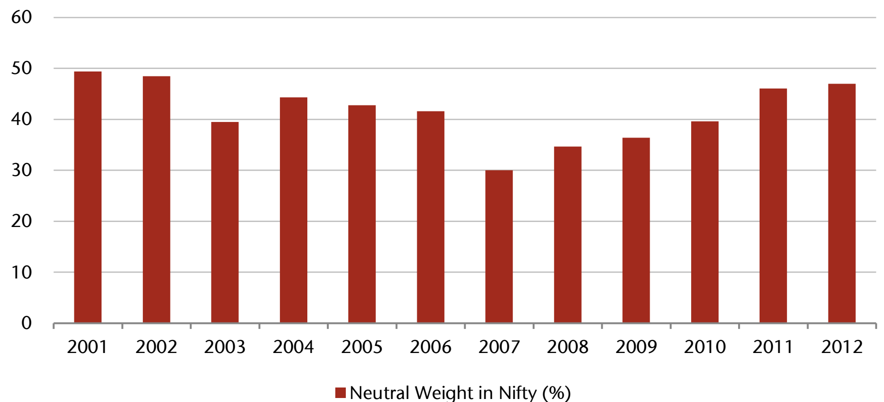
Source: Datastream, Jefferies estimates

Exhibit 60: Return on equity for the group is more or less stable at 20%



Source: Datastream, Jefferies estimates

Exhibit 61: Neutral weights of the groups is back to its peak



Source: Bloomberg, Jefferies estimates

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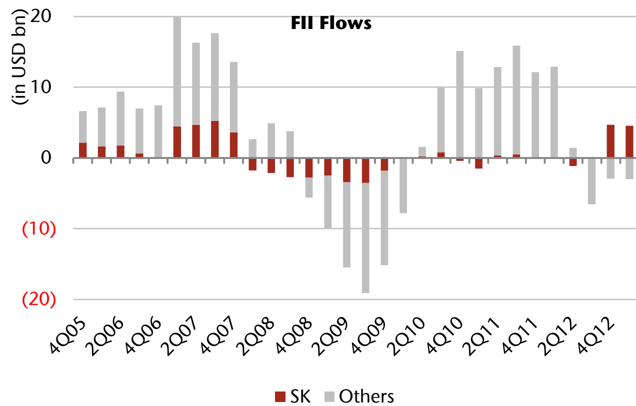
Benchmarks dominated by slowdown kings once again

We would particularly emphasise how the slowdown kings' have again begin to dominate the headline indices. From 32% weight in Sensex and 29% in Nifty in 2007, they now account for 50% and 47% respectively. The weight is not much more different from what the names from this list used to constitute – or 49% in Jan-2002 when Sensex had fallen below 3,000.

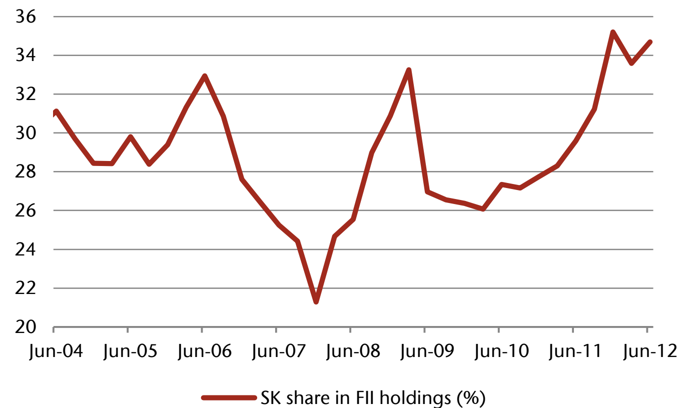
It is also interesting to note how most of the inflows in the market is in to these slowdown kings in the last six months in particular.

Exhibit 62: FII flows are mostly into the Slowdown king group



Source: Bloomberg, CMIE, Jefferies estimates

Exhibit 63: Leading to sharp rise in weight in the group



Source: Bloomberg, CMIE, Jefferies estimates

Low leverage – the only working fundamental strategy

Low debt companies at higher multiples and with better momentum

The other way to see the differing trajectory of erstwhile growth companies with leverage and those without is using the same groups we used above in the wealth destruction section. The charts on page 17 showed the difference in their share prices. The following charts show the difference in their earnings momentum and valuations.

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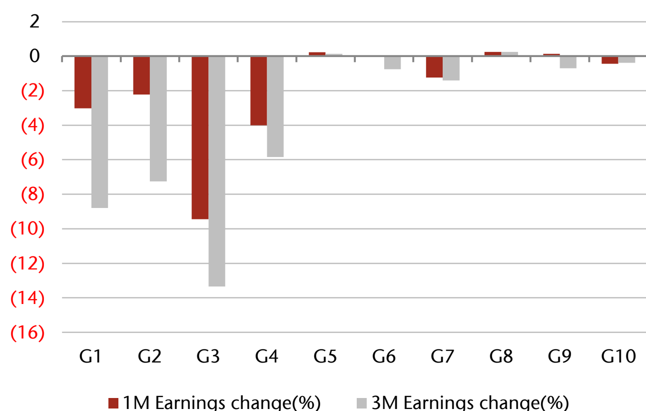
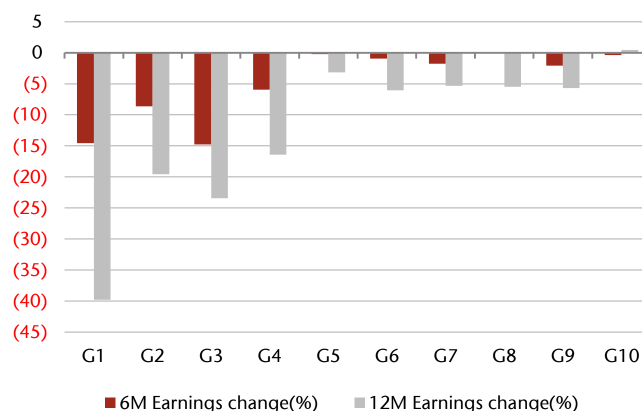
Exhibit 64: Low leverage groups have seen least revision…



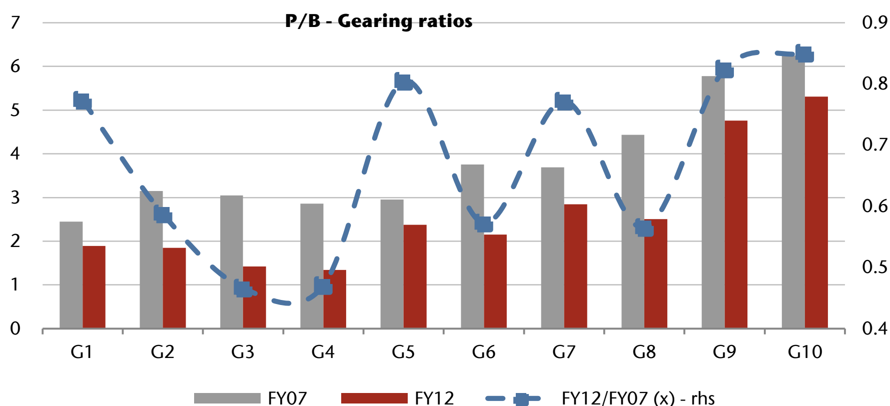
Source: Datastream, Jefferies estimates

Exhibit 65: …compared to the high leverage groups



Source: Datastream, Jefferies estimates

Exhibit 66: Valuation of high levered companies have contracted significantly



Source: CMIE, Bloomberg, Jefferies estimates

Still with slowdown kings amid volatile macro

Given our macro views, slowdown kings should be treated as the primary investible universe for the next few quarters

For contrarian investors, the big call would be to move away from the slowdown kings to erstwhile growth leaders, or so called high beta companies of the market. As the Exhibit 62 above shows, the biggest waves in the market have historically coincided with massive buying in the non-slowdown kings. However, we do not believe that such environment is likely at least until we move close to the next general elections – or at least for another year.

Slowdown kings are the growth stocks of the era

Slowdown kings' valuations will eventually turn untenable, but not without either material improvement in growth prospects or complete economic meltdown

Slowdown kings are typically seen as the defensives. Their statistical low-beta against the benchmarks have helped them carry this tag. However, every valuation, profitability and performance chart above shows that they are behaving like the growth stocks now. As much as this will not continue forever, particularly because of the valuations, we do not expect the reversal without reasons.

The valuation correction for slowdown kings would likely happen in one of the two ways in our eyes: 1) positively, it could happen with investor faith resuming in India's growth for whatever reasons whereby we see at least relative outflow from these kings into the generally considered high-beta names. 2) Alternatively, slowdown kings could come under material pressure if macro situation in India or globally deteriorates dramatically more than what we envisage leading to large scale redemptions. In such sell-offs, investors will need to sell where they have large weightings, which these days constitute the kings.

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In the lackluster macro that we foresee where expectations and realities both stay muted, slowdown kings as a group could continue to outperform

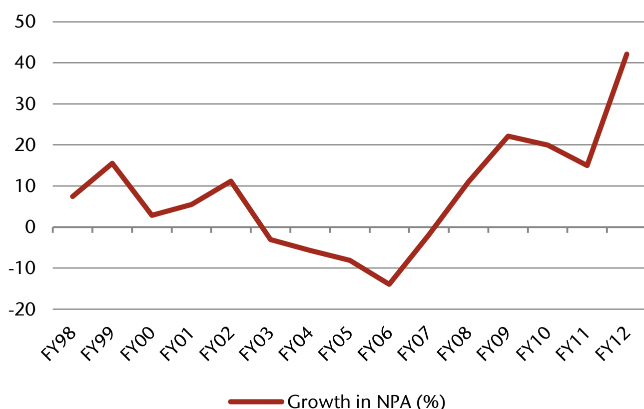
We would advise investors to continue treating slowdown kings as a large part of the investible universe given our views on the macro. The positive aspect of the current environment is that expectations reflect the reality on the ground. Even if political uncertainties rise or with some minor increases in banks' distressed assets, few are likely to be shocked. It also helps that other large emerging and developed markets too have their own large problems, relieving outflow pressure on account of relative attractiveness.

Underweight banks on the plight of the most levered

Banks' NPLs are rising but not much because of the loans being classified as restructured. The term restructured loan is not much used by foreign banks in India

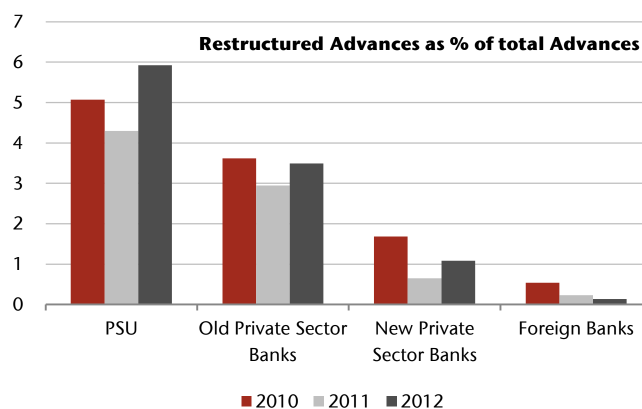
While Indian banks' non-performing loans are rising at the fastest pace since at least 1998, the overall non-performing ratio is still relatively healthy. This is partly because of the use of the term "restructured loans". Even the central bank appointed working group in August-2012 also observed that these loans "are generally treated as impaired/downgraded on restructuring" internationally[4]. Foreign banks in India, for example, make a far less use of restructured loans with their restructured loans as a % of total loans at only 0.14% versus 5.9% for public sector banks, 3.5% for old private sector banks and 1.1% for public sector banks.

Exhibit 67: Sharp growth in NPAs



Source: RBI, Jefferies estimates

Exhibit 68: PSBs have the most restructured assets



Source: RBI, Jefferies estimates

High pressure on banks' asset quality given that most levered are somewhat in a vicious spin as discussed above

For banks, the health of the most distressed borrowers – defined as G1 above – is far more important than the average borrower. If the least levered borrowers are doing better, they will not necessarily add to their banks' interest income but those at the distressed end could cause material deterioration in banks' asset quality. This is already seen in at least one large foreign bank's India portfolio.

Standard Chartered India, likely following its global practices, is seeing a far higher rise in NPLs than any in India

The example of Standard Chartered India (STAN IN, Rs 102, NC) operations' performance is illustrative. The banks' historical track record and lending behaviour are unlikely to be qualitatively different from most private sector banks. However, its NPLs are showing an abnormal rise, which could at least partly due to the result of far stricter classification norms adopted by the bank.

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[4]. Mahapatra B and team, July 2012. Report of the Working Group to review existing prudential guidelines on restructuring o advances by banks/financial institutions. *The Reserve Bank of India*

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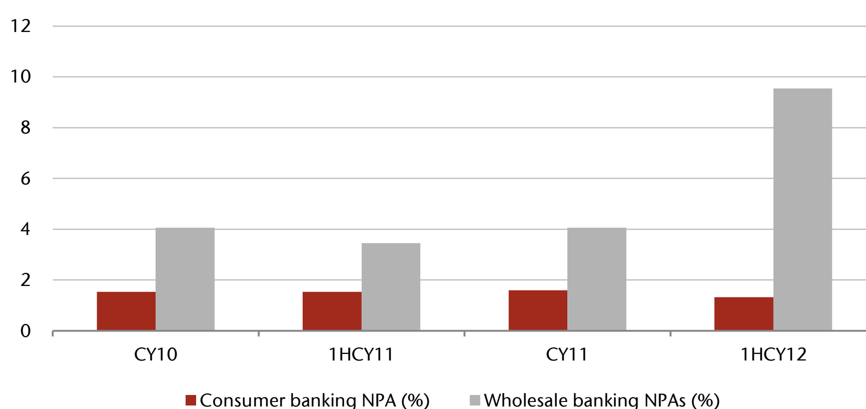
Exhibit 69: Sharp increase in NPAs at Standard Chartered India business



Source: Company data, Jefferies

Today's restructured loans could ear into future profits of banks without a sharp economic turnaround. UW banks

The liberal use of troubled loan classification and provisions by many Indian banks' could turn in to a substantial profit issue if the economy and leveraged corporate sectors do not turn around soon. We recommend investors to be cautious on even the healthiest banks given our macro view as well as in recognition of the fact that it is an environment that is weighing particularly heavily on the leveraged.

Overweight leaders in manufacturing and micro-infrastructure

Businesses increasingly focused on own infrastructure, providing new business drivers for many industrial mid-caps

We maintain that India's eventual recovery will likely be on the back of new trends and themes in India's manufacturing and industrial sectors. Until then, the existing leaders (with strong balance sheets) will benefit from competitive gains, weaker currency (due to less imported good competition) and what we call as micro-infrastructure theme. With large-scale infrastructure investments drying up, many businesses would need to make their own investments in captive power, back-up power, power stabilizers and in other similar infrastructure needs. The beneficiaries will involve companies in these businesses.

Neutral on metals on the possibility of global risk-on

On a risk-adjusted basis, investors with positive world view should prefer upstream commodities in India over levered domestic corporates and public sector banks

Most of our readers will take their own calls on the possibility of a global "risk-on" rally. Prospects and duration of such global factors driven market run will change over the next few months based on events in Europe, China and the US. For any investors with a strong positive view, any high-beta name in Indian market would become an investible candidate. On a risk-adjusted basis, given the likely events in India and other risks discussed in this note, we would recommend investing in upstream commodities. We would still recommend a cautious view on public sector banks and leveraged growth companies to anyone without the strongest positive view on global markets.

OW weak INR beneficiaries

As we detailed in the previous section, further weakness in INR remains likely for the next two years given the high level of deficits. We remain positive on our weak INR plays: exporters, import substitution beneficiaries and corporates with good capacity and strong balance sheets. This theme has been covered in more detail in our previous reports.

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Buy anticipation, sell events

Expect a busy policy calendar with many incrementally positive announcements in the next few quarters

We expect Indian policymakers to attempt many policy measures in the next one year in the face of the slowdown. While nothing except a strong, holistic policy framework change will cause the economy to respond in our view (apart from the weight of sudden, massive global flows), the following are the policy possibilities at various times in the next six-nine months:

- Occasional changes in FDI related announcements.
- Multiple interest rate cuts by the RBI – partly encouraged by the government.
- Large-scale bond issuances in global markets, particularly those targeting the non-resident Indians.
- Liberalization in investment guidelines to attract domestic investors in the stock market.
- Possible introduction of GST, at least partial, by Apr-2013.
- Petrol and diesel price hikes.
- RBI measures to support liquidity in the domestic money market.
- Import and other duty changes to reduce imports.

These events will likely be interspersed with many negative developments in economic data, politics, populist policies, India's credit rating and newsflow around various corruption scandals. We do not think the sum-total of domestic newsflow to turn materially better until the next general elections – currently scheduled for mid-2014.

Most policies would hold much more potential in anticipation. When they actually happen, investors may be disappointed with their immediate effectiveness amid other negatives

That said, policy announcements will create its own cycles in the market. We expect the indices to move strongly whenever any of the positive, regulation-related events turn likely. However, as those events actually transpire, the feeble effectiveness of the individual measures could again weigh on the market. Investors who like to benefit from short-term trends, should use the strategy of buying anticipation and selling events.

Finally risks: politics both on the up- and downside

Most of what we describe above would turn relatively useless in the face of a massive global risk-off collapse or risk-on rallies. India remains extremely vulnerable on both sides. Outside the global events, the biggest unforeseeable variable is domestic politics.

In the best case, sudden elections followed by a strong new government could breathe a lot of life into the market for at least six months regardless of the eventual policy outcome and economic response. The market could spike up under this scenario simply on anticipation.

In the worst case, political environment could significantly deteriorate too – with investigations engulfing major corporates or politicians and dissatisfaction leading to disruptions in all aspects of public life.

Interest rate cuts should counterbalance most other expected negatives in likely populist policies and rating downgrades

There are many other likely negative events as described above – populist policies in Feb-2013 budget, rating downgrades, economic datapoints, but we do not expect a new range for the market on account of any of these as they are likely to be counterbalanced by various policy responses in which the most important will be the likelihood of rate cuts.

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4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US$.
8. The conviction list is published once a month whilst global equity markets are closed.

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9. Transaction fees are not included.
10. All corporate actions are taken into account.

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- ACC Limited (ACC IN: INR1,336.60, BUY)
- Ambuja Cements Limited (ACEM IN: INR189.70, HOLD)
- Asian Paints (APNT IN: INR3,738.65, HOLD)
- Bharat Heavy Electricals Limited (BHEL IN: INR198.05, HOLD)
- Cairn India (CAIR IN: INR340.00, HOLD)
- Cipla (CIPLA IN: INR387.15, BUY)
- Cummins India Limited (KKC IN: INR459.65, BUY)
- Grasim Industries Limited (GRASIM IN: INR2,976.90, BUY)
- Hero MotoCorp (HMCL IN: INR1,820.40, BUY)
- Hindustan Unilever (HUVR IN: INR535.15, HOLD)
- Infosys Technologies Ltd. (INFO IN: INR2,512.35, BUY)
- ITC Limited (ITC IN: INR264.65, BUY)
- Larsen & Toubro (LT IN: INR1,378.70, BUY)
- Maruti Suzuki India Limited (MSIL IN: INR1,206.10, BUY)
- ONGC (ONGC IN: INR278.35, BUY)
- Ranbaxy Laboratories Ltd. (RBXY IN: INR560.00, BUY)
- Siemens Limited (SIEM IN: INR674.45, BUY)
- Sun Pharmaceutical Industries Ltd (SUNP IN: INR683.55, BUY)
- Tata Consultancy Services (TCS IN: INR1,371.45, HOLD)
- Titan Industries (TTAN IN: INR234.95, UNDERPERFORM)
- Wipro (WPRO IN: INR376.45, BUY)

Distribution of Ratings

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY	740	48.11%	112	15.14%
HOLD	688	44.73%	71	10.32%
UNDERPERFORM	110	7.15%	0	0.00%

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