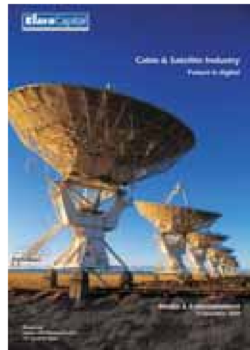
India Strategy

Beginning of the end

ElaraCapital

January 2014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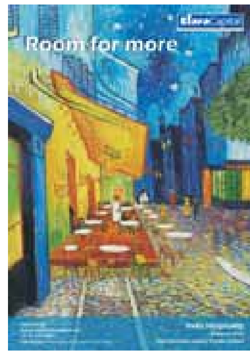

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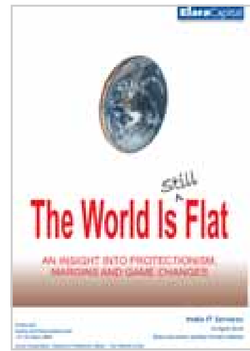

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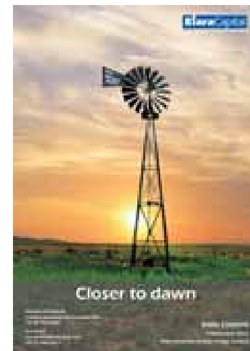

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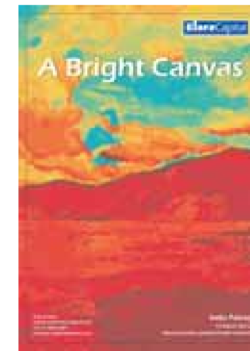

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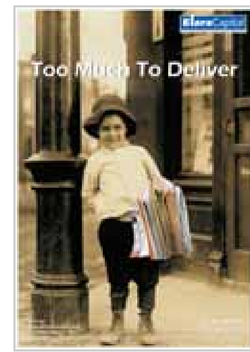

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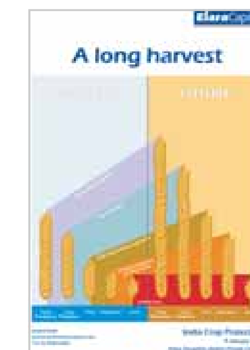

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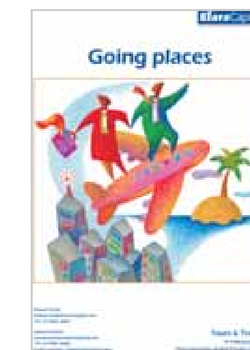

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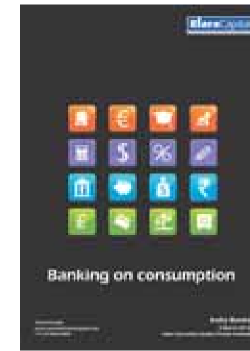

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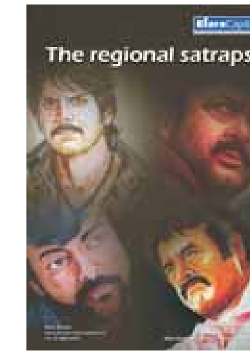

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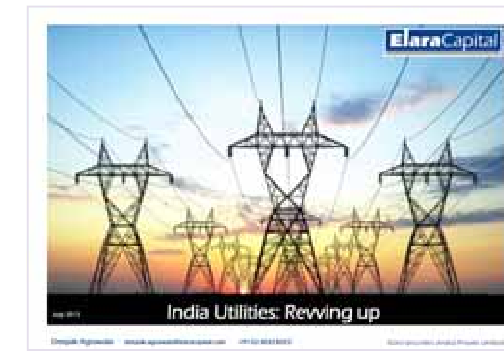

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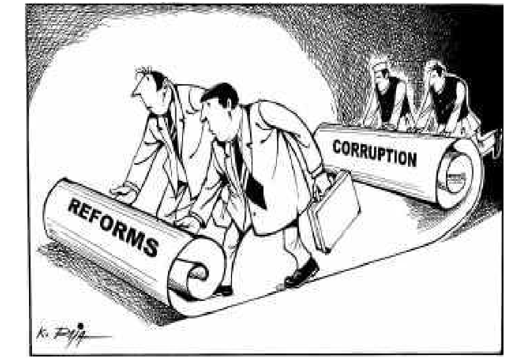


INR under renewed pressure

"The rise of the stock markets in countries with QE and elsewhere has been on unusually low volume. QE has been an expensive distraction."

Despite the deft hand of Governor Raghuram Rajan, the rupee will come under renewed pressure later this year as the international markets respond to the impending turn in the US interest rate cycle. December's announcement by the US Federal Reserve that it was to moderate its bond-buying program from USD 85bn per month to USD 75bn per month was designed to provide the least disruption to the financial markets, and it succeeded. Back in May 2013, the Fed's attempt to desensitize the market to an eventual tapering triggered a far more dramatic and negative reaction to the rupee and other emerging market currencies. Back then, RBI Governor and other central bankers requested the US to care in the way it announced and managed to change US monetary policy and those concerns appear heeded. But this soft approach cannot hide the fact the December announcement marks the next stage of the interest rate cycle, one that history suggests will be the final phase of the stock market rally, the end of the beginning of bond market weakness and will spark renewed pressure on emerging market currencies.

Since the collapse of Lehman Brothers on 15 September 2008, the Federal Reserve has been buying bonds from the public with electronically created cash in excess of USD 3tn. Its balance sheet has tripled. The balance sheets of the European Central Bank, Bank of Japan and Bank of England have increased by a similar proportion — though the expansion occurred over a longer period in Japan and the ECB has preferred to issue long-term repurchase agreements to banks.

The first round of QE was a courageous, adhoc and reactive affair, unpinned by theory and focused on unfreezing the financial markets. It was highly effective. Central banks bought a variety of unloved instruments, but with an emphasis on mortgage-backed and related paper, where the loss of confidence in their external credit ratings had created the most paralysis. Measures of market stress that had been reaching for the sky in October 2008 turned sharply lower by March 2009. Later rounds of QE were larger, better underpinned by portfolio balance theory, focused on long-dated bonds and largely impotent. It could not have been any other way. The theory said that by giving long-term government bondholders cash instead, they would use this cash to buy long-term corporate bonds, pushing down yields and encouraging corporations to finance new investment. The measure of QE, then, is not to what extent government bond yields have been lowered but how much corporate investment activity has increased. Yet the very circumstances that bred a hunger for untraditional policies are the circumstances when the portfolio balance theory breaks down, when investors and corporates want to hold more cash and when there is little private sector appetite for new investment.

Far from wanting to invest their cash, banks and corporate have been hoarding it. Banks have unprecedented amounts of excess reserves, and, according to the US Federal Reserve Flow of Funds Accounts, non-financial corporate businesses held an unprecedented USD 1.79tn of aggregate liquid assets at the end of 2012. Despite the popular image, there has been no "wall of money" gobbling up assets at home and abroad. Cash balances have been trapped in a broken system.

Many commentators erroneously think an asset's price rises when there is a gush of cash buying it up, but the reality is that in response to good news, market makers lift their prices until higher prices bring out sellers. Trading only takes place when there are disagreements over where the price should be. Asset prices have risen, but only as much as we should expect from rising future earnings being discounted to the present by a near-zero level of interest rates. Market makers have lifted their prices in response to these higher present values until they have found sellers. The rise of the stock markets in countries with QE and elsewhere has been on unusually low volume. QE has been an expensive distraction.

Near-zero interest rates in the US, Eurozone, Japan and the UK have been transmitted to strong-growing emerging markets, not through a wall of money, but through exchange rate arrangements. Where there were fixed exchange rates, policy rates were transmitted directly and where there were floating exchange rates, rates were transmitted via the struggle to keep emerging market currencies from appreciating over this period. Actual cross border flows were no greater than before, though their source, and risk, has shifted markedly from banks to asset managers.

The future direction of the global markets has little to do with the reversal of a non-existent wall of money. QE has merely played the role of interest rate signal— albeit an expensive one — and its taper will be seen as a signal that the rate cycle is turning. Looking back over the past eight interest rate cycles, this phase is strongly negative and consistently so for government and high-grade bonds. In general, where there is economic expansion and still low rates, the housing markets and high-yield paper can still outperform and stocks can enter the final phase of their rally. The dollar will enter a cyclical upturn. In India, the benefit of low interest rates elsewhere in the world was blunted by stubborn inflation and fiscal deficit, but the challenge of rising interest rates globally will not pass India by. Unless and until growth rebounds, the rupee and the stock market will come under renewed downward pressure.

"In India, the benefit of low interest rates elsewhere in the world was blunted by stubborn inflation and fiscal deficit, but the challenge of rising interest rates globally will not pass India by."

Best,

Professor Avinash Persaud

The author is Chairman of Elara Capital and Executive Fellow of London Business School. This article is based on a presentation given by the author at the Annual CFA and Indian Association of Investment Professionals in Mumbai on January 17, 2014.

Beginning of the end

Harendra Kumar

Managing Director
Institutional Equities

"With close to USD 90bn of inflows over the past six years and negative returns in dollar terms, India runs the 'risk of ownership'. Brace for high volatility and frugal returns!"

India's messed up economy is desperately seeking a political anchor. Beginning in 2014, politics is touted to redefine economics and break the renewed growth-inflation impasse that India has been struggling with for quite some time. Discussion around India's economic policy has rarely seen this kind of political interface in its history. The macro-political cycle does have its medium-to long-term impact, and it would cast a shadow on how India places itself on the path of sustainable long-term growth.

So, is it really the dawn? The answer lies in the lenses one looks at with. Back in 2013, we saw a sense of realism prevail around the potential of India's economy and the challenges it faces. In contrast, 2014 should see the beginning of a long consolidation, as there is less space to move the reforms process at the stroke of a pen.

Most of the low-hanging fruits, such as regularization of fuel prices, are already besieged, and there is an urgent need to build a framework for sustainable non-inflationary growth. This is where a new and decisive government can deliver, but there are no shortcuts here. One aspect of public policy on expenditure that might change in the coming years is the shifting focus from loose social spending to the government's efforts to revive the capex cycle. In fact, we strongly believe the next leg of capex cycle, as and when it materializes, has to be driven by the government for a significant part of its initial phase, before private corporate have a balance sheet ready to chip in.

On the inflationary menace, we once again underline that most of these concerns are of the first order. Unfortunately, policymakers and market analysts are still mistaken about its drivers even after four years of double-digit inflation and unite to blame supply shocks in perpetuity. There is a general tendency that refuses to look beyond the month-on-month movements. During most of 2014, the stickiness of inflation will be driven by the sharp rise in manufactured prices that have largely hit a bottom and should pickup in line with a generalized recovery in the economy. Exchange rate pass-through (ERPT) pressures will subside, not fully disappear, given that there is still a depreciation bias left on the INR. The evolving inflation movement will continue to keep the CB busy, even after four consecutive years of elevated price pressure.

Globally, 2014 marks the beginning of the end of unconventional Central Bank adventurism that began in response to the crisis in 2008, with the US Federal Reserve taking the lead to purge out its bond buyback program. The era of artificially low rates in the US should change course and the US dollar should gain lasting strength, the latter having significant repercussions for the INR.

In our view, the altering dynamics of global growth in favor of rising advanced economies (AEs) contribution carries certain negative risks for emerging & developed economies (EDEs). As a medium-term threat, the narrowing growth differential between AEs and EDEs amid widening inflation differential will markedly place the risk-return dynamics in favor of AEs, leaving EDEs increasingly vulnerable to risk of capital flight. India cannot remain unscathed if that happens. On the whole, we see a certain depreciation bias on the INR and we reiterate our view the INR trading range will be at 62-65, a bracket we believe defines the fundamental valuation of the INR.

Investors ask us about the downside risks. Well, there are three. One concern is how differently the new regime at the RBI takes on structural inflation. The worst fear here is a repeat of 2011 leaves a real threat of behind-the-curve monetary moves that could turn out to be more disruptive than would ideally have been warranted. Our second concern is a more-than-anticipated worsening of banks balance sheet. If the ratio of bad assets (gross NPLs plus restructured loans) of banks crosses 13% — a threshold we believe is the red line — it could threaten a systemic banking concern apart from the fact that it could seriously jeopardize the initial leg of a prospective capex cycle. The third and last major concern is that handling of external risks has essentially been short term in nature and has clearly not found solutions of the first order. A repeat of 2013 summer selloff could bring such vulnerabilities to the fore and cast a lasting shadow on the INR.

With this backdrop, we are cagey on foreign fund flows sustaining, which could materially alter the course of the market and several preset assumptions. With close to USD 90bn of inflows over the past six years and negative returns in dollar terms, India runs the 'risk of ownership'. Brace for high volatility and frugal returns!

Ashish Kumar

Economist

"Most of the low-hanging fruits, such as regularization of fuel prices, are already besieged, and there is an urgent need to build a framework for sustainable non-inflationary growth."

2014: Sit back and wait

At a time when the markets are reflecting 2014 as year of turning points, we believe that fundamentals of India have not changed materially

India escaped an external crisis last year on account of some short-term fixes, not necessarily of the highest order. The fact that they remain on all accounts — quick fixes — brings to head the rising degree of vulnerability that India has witnessed since the crisis in 2008. At a time when the markets are reflecting 2014 as year of turning points, we believe that fundamentals of India have not changed materially, and most of the forecast drive relevance essentially from the "base effect".

The country's economy is currently at the crossroads, and structural bottlenecks around primary economic agents — land, labor, and capital — alongside sharply dented business sentiments will require a strong government anchor to restore the pre-crisis trend rate of growth.

In our opinion, there is a dire need to understand the difference between cyclical and structural revival, and that a lower rate regime-led cyclical revival is passé.

Internal imbalances warn latent recovery

By the time a new government assumes office in early June, half of 2014 will be over. The new regime will inherit an economy struggling with internal imbalances, including the continued stagflation pressures, sideways capex cycle, weak corporate balance sheet, elevated policy rates, and a sharp deterioration in asset quality of banks, leading to a redefined trend growth rate. The outcome in 2014 (FY basis) on various fundamentals will be as follows:

- Real growth at 5.0%
- Growth in investment accretion at 2.2%
- Average CPI inflation at 9.2%
- Fiscal deficit at 4.9%
- Exchange rate to USD at 63.3

These numbers, per se, are not encouraging but could be a precursor for an improvement ahead. A long road that it already is, externals in the form of higher-than-expected rise in global growth and the pace & quantum of Fed taper moves could swing our calculations on exports and capital flows, and thus on the overall business cycle.

Beginning of a long consolidation

(%)	FY13	FY14E	FY15E	FY16E
Real GDP	4.5	4.5	5.0	6.3
Agriculture	1.4	4.2	3.0	3.2
Industry	1.0	1.5	2.6	3.4
Services	7.0	5.9	6.5	8.2
CPI (annual average)	10.5	9.6	9.2	8.3
USD-INR (annual average)	54.5	61.1	63.3	62.9
Repo rate (EOP)	7.50	8.25	8.00	7.00
Combined Fiscal Deficit	7.4	7.6	7.5	7.3

Source: CSO, RBI, MoF, Elara Securities Research

Inflation drags, capex needs govt anchor

Emergence of structural inflation amid renewed attempts by the Central government towards spreading social welfare programs has revived fundamental questions that India largely bypassed over the past decade. Now that there is a general consensus in political circles as to the premium society has placed on low inflation, policymaking in New Delhi as well as Mumbai will get reoriented.

The first half of 2014 should see inflation drag monetary policy, leaving little scope for easing (LAF repo to peak at 8.5%, 50bp from the current level). This together with a poor loan portfolio of banks underlines a need for government anchor on capex revival. Participation of India corporate to initiate another pvt. capex rally is 5-6 quarters away, at the very least.

Contours of discussion

Over the past two years, we discussed a series of evolving macro-policy themes emerging around the general business cycle that changed the course of domestic fund flows into India. As we stand to firm up our view on economy and markets in 2014, we find several of those themes still validly running in retrospect. The fact that out of our six themes for 2014, none has any emerging connotations nullifies all possible arguments that attempt at signifying a change in ground realities.

The broad contours of our discussion on 2014 revolve around the following six themes.

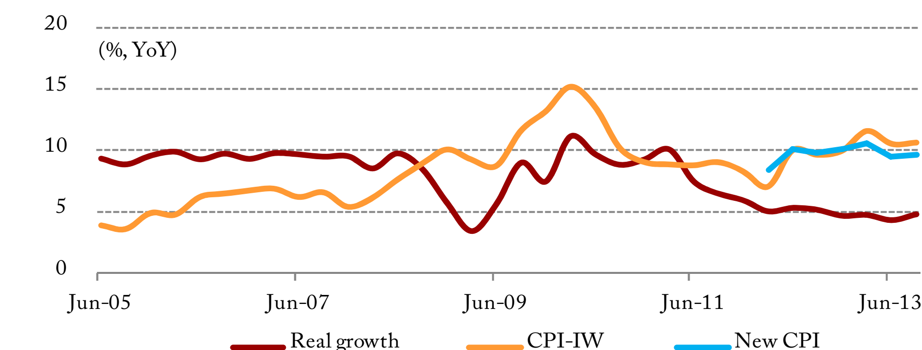
- Externals as the only swing factor for domestic economy , on either side
- Role of monetary policy in business cycle revival
- Consequences of a grossly compromised banking sector
- Threat of a renewed EME selloff on India
- Renewed similarity in script of fiscal consolidation
- Reforms agenda post elections

Business cycle readings: External swings

Our growth outlook narrates a challenging outlook towards building a sustainable framework for non-inflationary economic revival. Our analysis does not factor in a structural recovery in private capex activities, while consumption —

Growth and inflation trade-off hints at stagflation

CB observes the so-called trade-off between inflation & growth is false in the long run



Source: CSO, MoSPI, Elara Securities Research

government and private — will remain tepid over 2014.

Domestic demand is expected to remain tepid in CY14, and, from the perspective of business cycle revival, exports remain the key (and only) swing factor on account of more-than-expected turnaround in global growth. Our base case growth projections observe sub-5% growth until Q2FY15E and a gradual recovery around 5% in H2CY14E. On fundamentals, we see signs of exports pickup could materialize on the

Over the short run, however, we remain skeptical of a non-inflationary growth revival, given:

- **Capex revival remains daunting:** Our standard prognosis of the investment cycle finds different drivers behind the cyclical and structural components of the capex cycle. The cyclical impact on the back of factors, including the interest rate movements and business sentiments, could swing in H2CY14 on the back of renewed sentiments, but structural imperfections, including concerns around funding, will need more time. Banking system NPAs have left no room to lend to a fresh capex rally and overseas borrowing is not viable at the current level of the INR & threats of renewed pyrotechnics of the Indian currency.

  While we conclude investments will not fall further, a sharp rise looks daunting over the next 3-4 quarters. The Cabinet Committee on Investments (CCI) did try to revive big ticket projects, but the actual take -off hasn't materialized. **We are of the view the onus of capex revival lies with the government for the next 4-6 quarters** as not many corporate have the lean balance sheet to participate in the next leg of the capex cycle.

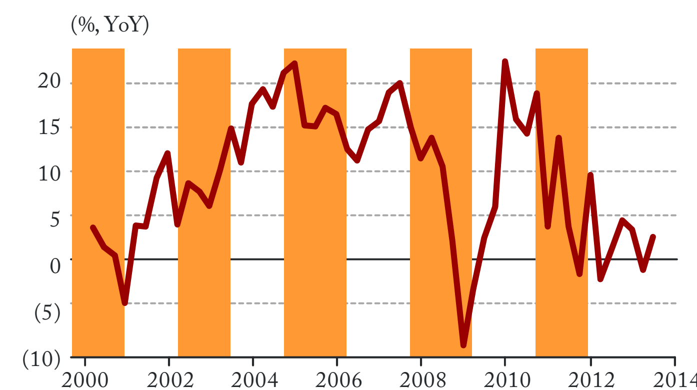
- **Tepid consumption inevitable:** Evolving complexities in the federal balance sheet means government spending will increasingly become neutral to the macro-political cycle. Our FY14E fiscal deficit sees a 40bp in slippages on account of the shortfall in tax collections & receipts from telecom auctions and divestments. Clearly, public finances are not in a position to push for more consumption-driven, populist schemes of whichever party forms the next government in May 2014.

  Noticeable expenditure curbs needs to be in place if a genuine attempt is to be made to manage CPI inflation at the acceptable levels of 7%. The decade-long UPA regime has hardly seen any urban job creation, especially post the steady decline in capacity creation, owing to mismanaged decisions resulting in sharply deteriorated corporate balance sheets.

  Urban consumption has been hit hard by eroding purchasing power due to high CPI inflation. Real rural wage growth shows early signs of a crack, and that might reflect eventually on rural consumption, a source of strength until now for many analysts on the street. In a nutshell, the consumption lever to growth would remain muted over 2014.

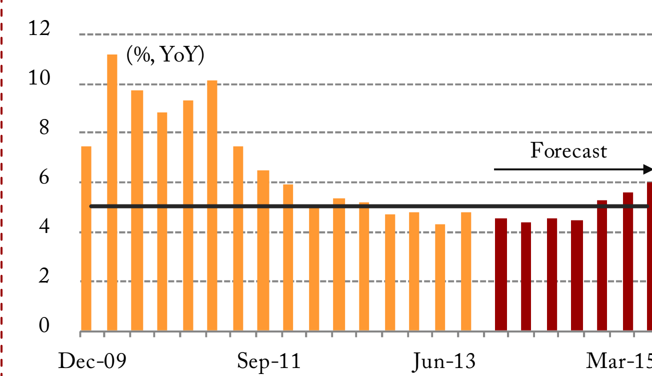
- **Exports demand the only swing:** Sustainability of exports growth may not be a blue-sky scenario, after all. Exports growth for FY14E are USD 319.3bn, which leaves ~USD 114.9bn for the last four months of FY14. This would mean USD 28.7bn per month, the same level seen over the past few months. Exports growth is likely to remain strong at 6-8% over the next two quarters. Currency depreciation on a real basis is a logical explanation of exports rebound, but momentum needs to be sustained. Nevertheless, a general business cycle turnaround depends on how exports grow in the future.

Investment cycle hints at sideways growth



Source: CSO, Elara Securities Research

Sub-5% growth to continue for four quarters



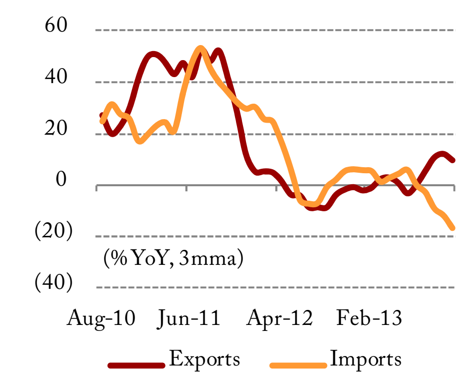
Source: CSO, MoSPI, Labor Bureau, Elara Securities Research

back of global growth led-by recovery in advanced economies. Business sentiments in India should gradually improve post elections and should aid in a capex revival over the medium term, once the structural concerns are addressed by the new government in New Delhi.

Business cycle readings: CB anchor

For the past few years, India has fervently debated merits of a monetary policy approach to inflation management, where monetary transmission is restricted, to say the least. This quintessential debate with macro-political connotations will continue to be debated around efficacy of the monetary policy, at least from some quarters in the industry. Without going into merits of these arguments, it is cardinal to conclude that India has had an inflation crisis for good part of the past three years.

Exports the swing factor, either way



Source: DGCIS, Elara Securities Research

We want to make two statements here. First, most of India's inflation concerns are of the first order. At last, this fact has finally sunk in for policymakers. Second, India has to live with persistently high food inflation for some time, and the cyclical Monsoon story cannot allay the structural aspect of this menace.

We forecast both FY14E and FY15E of headline WPI inflation at 6.3% i.e. we fail to see any moderation in the trajectory of inflation. This, in turn, means inflation will continue to keep the CB busy, even after three consecutive years of elevated price pressures. The following are the main assumptions behind our inflation assessment in 2014:

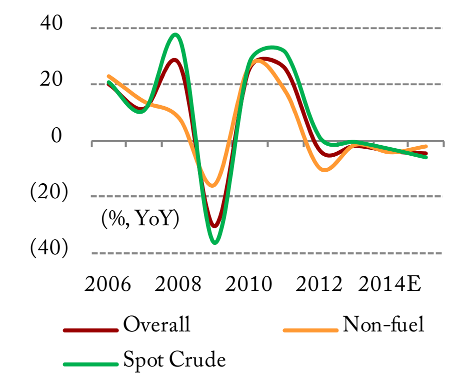
- Assuming stable global commodity prices, the depreciation bias on the INR would continue to stoke the tradables portion of the overall index. Around 75% of total imports have 49% weight in the overall WPI as on FY12. As a result, the first round impact is weaker than the second round, which works through input costs and the lagged pass-through. Our own assessment for ERPT pressures suggests that every 10% depreciation on the INR adds 92bp (RBI estimates even higher at 120bp) on headline inflation.

- Consequently, the second-round impact of a weak currency from primary to manufacturing inflation will spillover into the next year. In general, manufactured prices have bottomed out, and our view of a general pickup over 2014 also should add to the manufactured portion of the index. In fact, inflation internals will see strong drivers in manufacturing activities.

- Rationalization in administered prices of diesel, coal and electricity have been largely neutral to political calculations, and a steady correction here should continue to bring back suppressed inflationary pressures, both in primary and manufactured indices.

- We do see some correction in food prices, but that is more from a gradual lessening from the high levels and less from a normal Monsoon that was that in aggregate only. Generic assumptions of a normal Monsoon soothing food prices might turn out to be an optimistic thought after all, owing to the spatial distribution of rainfall and much discussed structural concerns on storage and distribution in India.

IMF predicts stable commodity prices

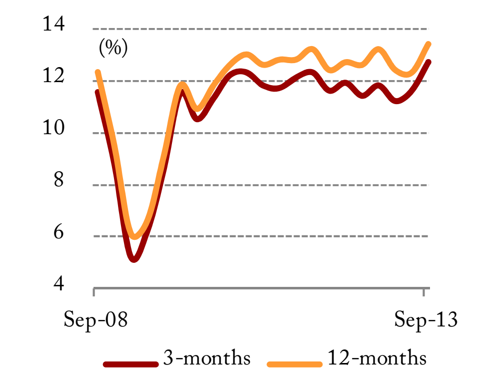


Source: DGCIS, Elara Securities Estimate

CPI inflation unlikely to dip below 8%

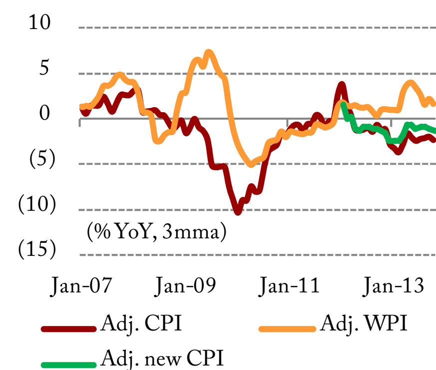
We expect CPI inflation at 9.6% and 9.2% (annual average) over FY14E and FY15E, respectively. This ~40bp marginal fall will be unlikely to mask the third consecutive year of elevated and persistent inflation. Surveys of inflation expectations — a more pertinent determinant for inflation trajectory per se — continue to rise, with one-year forward expectations of 13.5%. Growth in rural wages reflects a somewhat sustained momentum at levels closer to 16% seen in recent months. There is also a sense that inflation in services is largely

Elevated levels of inflation expectations



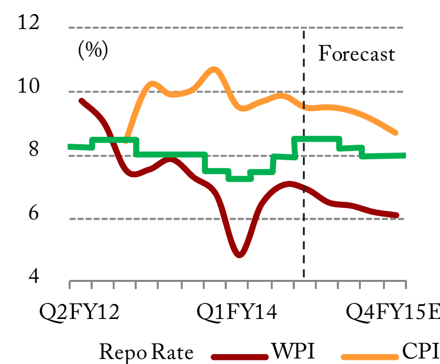
Source: RBI, Elara Securities Research

Real rates (adjusted CPI) sill negative



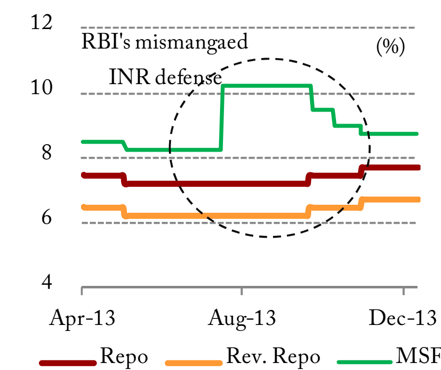
Source: CSO, MoSPI, RBI, Elara Securities Research

Inflation and rate movement in 2014



Source: CSO, OEA, RBI, Elara Securities Estimate

Corridor restored, LAF ceiling in place



Source: RBI, Elara Securities Research

getting generalized, and, in part, underlines our long-held view that significant pricing power in this sector lies with service providers. India's household inflation expectations reveal an adaptive and sticky behavior. It would, thus, take a sustained fall in CPI inflation for a key moderation in inflation expectations.

During most of 2014, the stickiness of inflation will be driven by the sharp rise in manufactured prices that have largely hit a bottom and should pickup in line with a generalized recovery in the economy.

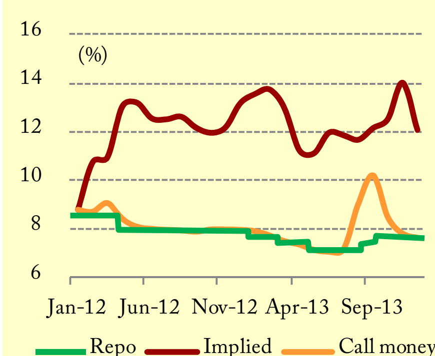
ERPT pressures will subside, not fully disappear, given that we still see 3.5-4.0% depreciation bias on the INR in FY15E. Drivers of inflation will emanate from structural concerns in the non-tradables portion of the index. Food inflation, largely originating from negative productivity shock in non-tradable foods sector is centric to our assumption and its significant pass-through to non-food prices will continue to stoke overall inflation higher. H2CY14E should see a marginal momentum correction in overall inflation trajectory to 8.9%.

Clarity on monetary policy framework

Over the course of the next year, the CB will add much needed clarity on the monetary policy framework, especially on 1) commitment to price stability as a central CB mandate, 2) articulation of medium-term inflation targets, and 3) clarity on instruments of monetary policy. In this context, we see benchmark index may move away from WPI to CPI, in line with recommendations of Urijit Patel committee report. Increasingly, CPI inflation is moving towards gaining this long-due attention in CB communications,

Dominant theme for 2014 — RBI shifting towards Inflation Targeting mode

Taylor calibration reflects gross violation



Note: Calibration includes an equilibrium rate of 1%, potential growth of 6% and a CPI target of 6%, 24 months inflation target set by the Urijit Patel committee report

Source: RBI, CSO, Elara estimates

Salient points of Urijit Patel Committee report

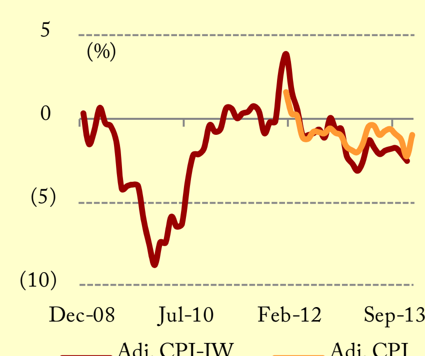
Short Term

- Nominal anchor for monetary policy prioritized around inflation
- CPI as the Benchmark Inflation Index
- Aim CPI at 8% by January 2015 and 6% by January 2016

Long Term

- Target on CPI at 4% on a ±2% band around it
- 'Failure' is inability to get inflation around this band for three straight quarters
- Monetary policy committee to vote on policy formulations
- Strive to provide real positive policy rate
- Place term repos (14-day alongside 28, 56, 84 days) as the policy rate
- Creation of a remunerated standing deposit facility

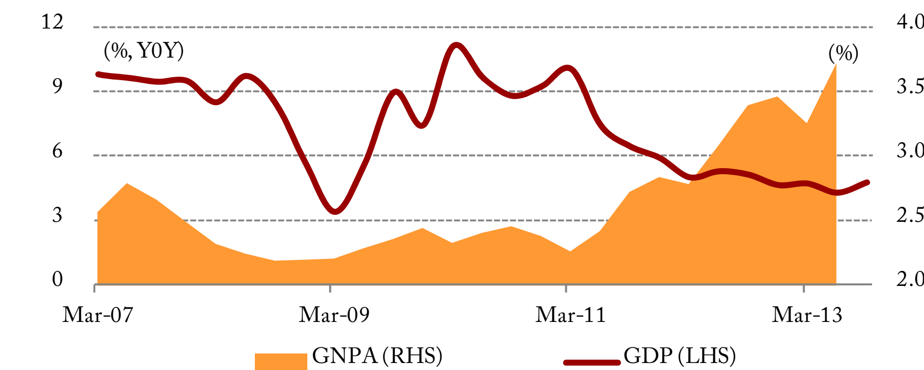
The logic of real returns



Note: Calculated as difference of CPI and the maximum of term systemic deposit rate for more than a year

Source: RBI, CSO, Elara estimates

Slowdown casts a shadow on rising NPAs



Source: CSO, MoSPI, RBI, Elara Securities Research

and, the evident stickiness in several components of CPI thus is a policy concern.

Base case for LAF repo to peak at 8.50%

A couple of factors that could lead to a mean and sustained correction in CPI inflation include slower growth in rural wages, and a substantial correction in fiscal deficit post the election cycle in H1CY14, aided by a genuine effort to improve systemic productivity. Apart from stable global prices, the ingrained inflationary expectations may act as a big dampener on inflation trajectory. In such a scenario, we see a real probability that a course correction for policymakers will include a joint effort alongside aggressive CB interventions in terms of monetary tightening. **In our base case, we expect the policy LAF repo rate to peak at 8.50%, a level that should remain in place until H1CY14E. Negative surprises could see this level persisting for most of 2014.**

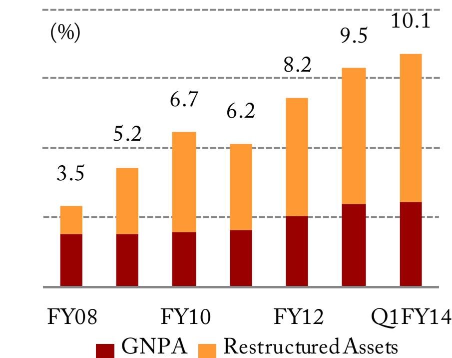
LAF normalization depends on taper

Even as some moves announced in July 2013 as a part of the liquidity route to manage FX volatility have been reversed, and the short-term rate corridor has been restored around 100bp of the LAF repo, the latter is yet to become the policy rate. The LAF repo awaits a couple of factors outside of the LAF, namely a pickup in government spending, OMOs and rising deposit growth to provide long-term liquidity addition into the banking system so as to reduce borrowings on LAF for it to become the operational short-term policy rate once again. Unless that happens, and the CB watches out for external vulnerabilities for aiding such a move, a rate hike means the MSF rate could go up too, as the corridor has to be maintained.

Grossly compromised banking sector

Ever since the banking regulator changed the restructuring norms of bad assets around mid-2008 in the fag-end of the Reddy regime, there were genuine apprehensions that asset quality of banks might be misreported. The event coincided with the biggest-ever capex cycle — largely driven by private corporate funded by the domestic banking system. At 10.1%, the ratio of bad assets (gross NPLs plus restructured loans) on the banks balance sheet has not reached its peak, a level we believe should fundamentally settle at 13-15% in Q1FY15E. In a clear indication that India has mismanaged the capex cycle, asset quality concerns in the backdrop of negative output gap amid falling trend growth rate — of around 4.5-5.5% — beginning in March 2012 is now getting reflected in rising NPAs of the banking system. The lagged nature of this data reflects the bottom has not yet been seen in the NPA cycle.

Latest trends in bad loans



Source: RBI, Elara Securities Research

As the PSBs provision for these bad assets on their books, their capacity and motivation to fund the next leg of the capex cycle India stands severely dented. It will need serious government intervention in terms of regulatory controls and recapitalization to steer the banking system out of its poor loan portfolio, but even than it would be a long-term pain, stretching into 5-6 quarters.

For the investment cycle, this is a serious concern on the funding aspect in times when attracting global liquidity may be a tough ask in itself. This entwines our in-house view that whilst investments will not fall further from the current levels, a sharp rise may look daunting in the next 3-4 quarters. Although investments do have a small election multiplier effect, the fundamentals suggest a need to address primary concerns of investment accretion in the economy. For the next 4-6 quarters, the onus of capex revival lies with the government for the very reason that not many Indian corporate have the lean balance sheet to participate in the next leg of the capex cycle. However, given the poor state of government finances and the quality of fiscal consolidation practiced over the past two years, skepticism remains on the scope for a non-inflationary growth revival.

Fed taper: Is India ready?

As India wakes up to an inevitable commencement of taper by the US Fed—largely signaling normalization in global liquidity flows alongside better risk pricing— we identify that the gradual fund flows will inevitably result in 1) repricing in some asset classes amid inescapable volatility, and 2) a preferential ranking of EMEs in terms of domestic growth and external vulnerability, and to cast a shadow on EME currencies. The chances of a capital flight to the US and a strong USD are real, and EMEs could suffer, as higher-than-expected equity and debt outflows can materialize than that which is already priced in. EMEs have to live with a strong USD, and, in that sense, a *de-jure* currency war may be far from over.

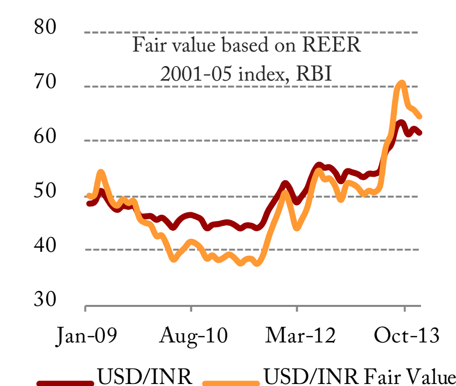
In terms of India's position among the EME pack, a revival of risk sentiments should gradually materialize post elections. On whether India has done enough to fight off increased pace of taper, which might in all likelihood resurface in 2014, there is an increased degree of comfort now than a quarter ago. Coupled with USD 50bn of swap facilities entered with Japan recently, some short-term bulletproofing seems to have been already been accomplished.

India BoP snapshot

(USD bn)	FY13	FY14E	FY15E
1.Exports	306.6	319.3	347.9
YoY (%)	(1.0)	4.1	9.0
2.Imports	502.2	491.7	530.4
YoY (%)	0.5	(2.1)	7.9
3.Trade deficit (1-2)	(195.6)	(172.4)	(182.5)
4.Invisibles	107.8	110.3	124.6
5.Current ac. bal (3+4)	(87.8)	(62.1)	(57.9)
% to GDP	(4.8)	(3.4)	(2.9)
6.Capital Account	90.2	72.8	66.1
% to GDP	4.9	4.0	3.3

Source: RBI, Elara Securities Estimate

Fair value movement of INR



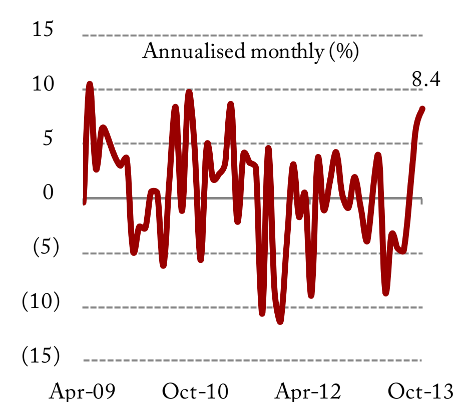
Source: RBI, Elara Securities Research

Big war chest to fight off a slow taper

Our calculations identify two game-changers: 1) curbing gold imports, and 2) the FX swap window. Policy intervention to control gold imports through quantitative controls has resulted in a sharp fall in imports since July and the current momentum suggests that on a FY15E basis, this should result in savings of USD 15-20bn.

On the capital account, the CB's move to open the FX swap window for FCNR (B) deposits and banking (tier 1) capital have significantly helped create a buffer. India has already received around USD 32bn on these FX-related swaps since the move was opened in September 2013.

Strong reserve accretion a war chest input



Source: RBI, Elara Securities Research

Rational estimation behind FY14 deficit

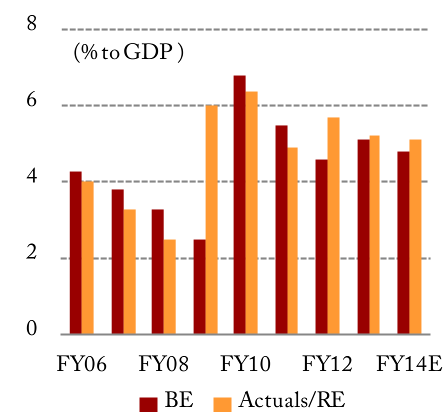
(INR bn)	FY14BE	Slippages	
		Case 1	Case 2
Expenditure	16,654	350	(310)
Fuel subsidy	660	130	130
Fertliser subsidy	650	220	220
Plan expenditure cuts	5,553		(660)
Tax collection	8,841	290	290
Non-tax receipts	1,723	50	50
Divestments	558	200	320
Total Slippages		890	350
Oil subsidy deferals		410	410
Other subsidy deferals		70	70
Maximum Offsets		480	480
Net impact on deficit		410	(130)
Fiscal Deficit	5,425	5,835	5,295
(% of GDP)	4.8	5.2	4.8

Note: Deficit calculations are based on our estimates of nominal GDP at mp at INR 11,424bn vs INR 113,719bn in budget estimates

Source: MoF, CMIE, Bloomberg, Elara Securities Estimate

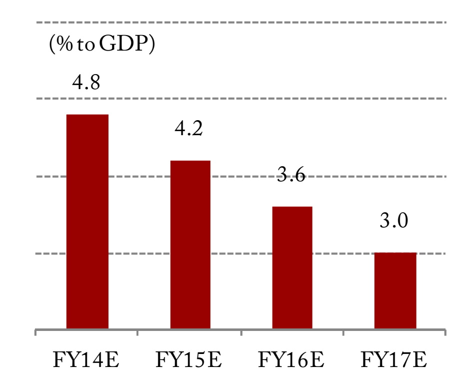
On the overall BoP front, these moves on the current and capital account have aided around USD 45-50bn. If policymakers do manage to get the Indian G-sec included in the global bond indices, the potential FII inflows will be in the range of USD 15 -20bn, but we have not included this in our baseline forecast for FY15.

Credibility of UPA on fiscal consolidation



Source: MoF, Elara Securities Research

Consolidation roadmap lacks background



Source: MoF, Elara Securities Estimate

Weak INR seen helping exports, finally

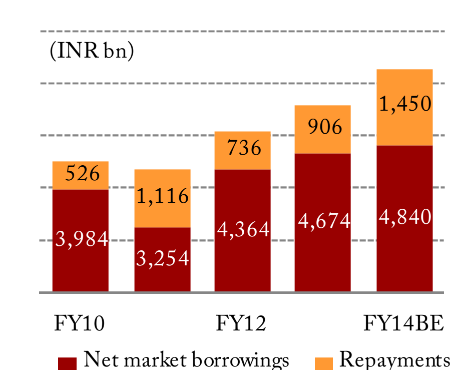
Sustainability of exports growth may not be a blue-sky scenario, after all. Fair estimates of exports growth for FY14E are at USD 319.3bn, which leaves ~USD 114.9bn for the last four months of the current fiscal. On an average basis, it would mean USD 28bn per month, roughly the same level seen over the past few months.

Currency depreciation has been cited as a logical explanation of exports rebound, but the momentum needs to be sustained. Services exports should also follow the trajectory of good exports on account of a weaker currency. Needless to say, CAD and a general business cycle turnaround largely depend on how external demand shapes up exports growth over the next 3-4 quarters.

Depreciation bias left on the INR

Even as the INR still carries a depreciation bias on a REER basis due to inflation differential, the buffer obtained on the back of the moves on gold and FX-related swaps will continue to reflect in higher FX accretion while adding some degree of stability to the currency movement, albeit in the short term. In fact, **we expect the CB to accumulate reserves on every dip (appreciation) towards the range of 60-61.**

Borrowings to bloat on high repayments



Source: MoF, Elara Securities Estimate

Early signs of this strategy have already been seen in the latest data that saw CB buying dollars in the spot market and selling it in forward markets to stabilize the INR.

We expect this strategy to remain in place in anticipation of the threat that US Fed's taper could cast a shadow on EME currencies. Danger of an EM sell-off all over again, led by a preferential ranking of these economies, would keep the CB on tenterhooks, leaving no room for complacency.

> "Inflation differential on CPI with the rest of the world is expected to widen, and this would continue to cast a depreciation bias on INR"

For now, we reiterate our view the INR trading range will be at 62-65, a bracket we believe defines the fundamental valuation of the INR.

Inflation differential on CPI with the rest of the world is expected to widen, and this would continue to cast a depreciation bias on the currency. Based on a medium-term view, we do not see the INR touching the range of 50-55, and this level is not what the policymakers want the currency to appreciate to. Of the three levers for the next leg of growth that we enumerated earlier, consumption, capex and exports, the latter strongly depends on a weak currency on a real basis to find competitiveness in a environment of resurgent albeit a gradual pickup in global demand.

Fiscal: same script again

Issues on medium-term consolidation

India's mismanagement of its policy priorities in response to the 2008 crisis is passé. The social spending, which seems to have lost its one-time political justification based on the ruling alliance's abysmal showing during the recent assembly elections and generous subsidies, are largely behind the systemic distortions.

If we assume a *ceteris paribus* political cycle to fiscal policy, which in itself might turn out to be a strong option for reasons mentioned earlier, even a well-intentioned approach to consolidation to restore fiscal discipline runs the risk of losing track in light of a weak economic environment.

Levers to limit FY14 fiscal slippages

For the current fiscal, the government has projected healthy revenue growth, aided by strong tax administration and divestments while promising to limit spending by a substantial reduction in subsidies, led by fuel price deregulation. The currency crisis in Summer 2013 and continued slowdown in the economy, however, resulted in lower tax collections, even as the subsidy bill, to no one's surprise, spilled over to a great extent, with gross fiscal deficit already touching 95.2% of total budget estimate for the first nine months (April-December) in FY14.

Our estimates show that FY14 fiscal deficit should see slippages of ~40bp at 5.2% of GDP compared to budget estimates of 4.8% of GDP. A more pragmatic attempt to limit slippages to overall fiscal deficit at the budgeted levels will involve a largely similar script as seen in FY13:

- For a start, fiscal situation warrants a significant cut in plan spending yet again, and **we expect the government to reduce plan spending by INR 660bn** in FY14E vs budgeted estimates of INR 5.55tn.
- Against the budgeted target of divestments at INR 558bn of which less than 30% has been achieved, the government needs to set a realistic target, i.e. INR 240bn. Even as the equity market rally should favour such a movement, the ensuing election cycle might turn out to be a deterrent in achieving even this number. Also, telecom auctions receipts at INR 400bn look daunting, owing to uncertainty on the possible extent of participation and also the weak balance sheet of telecom companies.
- The usual practice of delayed payment of oil subsides to OMCs (estimates: INR 410bn) remains a primary option this fiscal, which should disappear once diesel gets completely deregulated in the next 24-30 months.

Budget cycle delayed

Owing to the ensuing Union elections during April-May 2014, the government will present a vote-on-account (an interim budget) over January-February 2014 to offset the government's day-to-day spending for the first three months of FY15. **A fully fledged budget would be presented post elections around June 2014.** As we said earlier, the cardinal sins of the past would leave little space for further profligacy, irrespective of the outcome of the Union elections in India, leaving the intent to clean up to show up on pace of the exercise only. One aspect that remains true of the political cycle is that the next government will inherit an acutely weak federal balance sheet and it will take at least 2-3 years to mend it.

Borrowings elevated; 10-yr at 8.9-9.1%

The government lined up the biggest-ever market borrowing at INR 6.29tn in FY14, partly frontloaded for reducing redemption pressures from the maturity buckets over FY14-19. It is significant to note that redemptions, which until now would hover around INR 900bn, will rise to INR 1,680bn in FY15 and INR 2,000bn in successive fiscals.

> "The next government will inherit an acutely weak federal balance sheet and it will take at least two-to-three years to mend it."

As a result of this borrowing program, yields on government paper would average at 8.9-9.1%, a fair range, in our view, and the central bank will have to actively pursue OMOs to lower cost of borrowing for the government.

GST needs to wait for now

The improvement in the fiscal position needs to be achieved through taxes as well as expenditure reforms. India's low tax-GDP ratio awaits a GST rollout, pending for a long time for it being a federal law and consensus between Union and provincial states is nowhere in sight. Crude estimates reflect a well-crafted GST rollout in itself has the potential to add 150 -200bp on annual GDP and should concurrently result in higher revenue mobilization. At this point, the Union elections would mean GST rollout has to wait and await a decisive verdict & a strong government in New Delhi.

Expenditure reforms needs to be centered on subsidy control. The government aims to bring gross subsidies bill below 2% of GDP (including increased allocation on food subsidy post the Food Security Act, closer to 1% of GDP). Together, this will mean a substantial correction in fertilizer and fuel subsidy. On the fuel subsidy part, there is some success in the form of almost regular diesel price hikes. Our estimates show that if the current pace of monthly price hikes remains a priority, diesel will be completely deregulated in 24 months. However, additional room on kerosene and LPG might not be politically feasible.

Quantifying the political risk?

India has delivered a lot on the reforms process, more so because the economy witnessed a long patch of inactivity before that. However, a couple of short-term risks that seem to have abated have not found solutions of the first order. Our outlook for 2014 acknowledges this and leaves us skeptical.

As we analyze the next set of reforms, there is renewed consensus that most of the low-hanging fruits, such as regularization of fuel prices, are already besieged. The critical need therefore is to build a framework of legislative reforms to pave the way for a sustainable non-inflationary growth. This is where a new and decisive government can deliver. In that context, the macro-political cycle does have its medium- to long-term impact, and it would cast a shadow on how India places itself on a path of sustainable long-term growth.

India Macro Outlook

	Units	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Real economy										
Nominal GDP	INR bn	42,947	49,871	56,301	64,778	77,841	90,097	101,133	112,464	126,441
	YoY (%)	16.3	16.1	12.9	15.1	20.2	15.7	12.2	11.2	12.4
	USD bn	948	1,239	1,226	1,366	1,708	1,879	1,857	1,841	1,997
GDP per capita	INR	35,234	40,264	45,958	52,235	61,110	69,814	77,148	84,561	93,265
	USD	778	1,001	1,001	1,102	1,341	1,456	1,417	1,384	1,473
Real GDP	YoY (%)	9.6	9.3	6.7	8.6	8.9	6.7	4.5	4.5	5.0
Demand side										
Private consumption	YoY (%)	8.5	9.4	7.2	7.4	8.7	9.3	5.0	2.7	3.1
Public consumption	YoY (%)	3.8	9.6	10.4	13.9	5.8	6.9	6.2	4.5	5.2
Gross capital formation	YoY (%)	15.3	17.2	(1.6)	12.7	14.7	6.4	2.4	2.3	4.1
Gross fixed capital formation	YoY (%)	13.8	16.2	3.5	7.7	11.0	12.3	0.8	1.0	2.2
Supply side										
Agriculture	YoY (%)	4.2	5.8	0.1	0.8	8.6	5.0	1.4	4.2	3.0
Industry	YoY (%)	12.2	9.7	4.4	9.2	7.6	7.8	1.0	1.5	2.6
Services	YoY (%)	10.1	10.3	10.0	10.5	9.7	6.6	7.0	5.9	6.5
Demographics										
Population	million	1,122	1,138	1,154	1,170	1,186	1,202	1,217	1,233	1,248
	YoY (%)	1.4	1.4	1.4	1.3	1.4	1.3	1.2	1.3	1.2

	Units	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Prices										
WPI (annual average)	YoY (%)	6.5	4.8	8.1	3.8	9.6	8.9	7.4	6.3	6.3
CPI (annual average)	YoY (%)	6.7	6.2	9.1	12.4	10.4	8.4	10.5	9.6	9.2
USD-INR (EOP)		43.6	40.0	50.9	45.1	44.7	51.2	54.4	64.2	63.1
USD-INR (annual average)		45.3	40.2	45.9	47.4	45.6	47.9	54.5	61.1	63.3
Depreciation	(%)	2.3	(11.1)	14.1	3.3	(3.9)	5.2	13.6	12.2	3.6
Money markets										
Credit growth	YoY (%)	28.5	23.0	17.8	17.1	21.3	16.8	14.0	14.3	15.5
Deposit growth	YoY (%)	23.8	22.4	19.9	17.2	15.9	13.5	14.3	13.2	14.1
Money Supply (M3)	YoY (%)	21.3	21.4	19.3	16.9	16.1	13.2	13.8	12.5	13.2
Policy rates										
Repo rate (EOP)		7.75	7.75	5.00	5.00	6.75	8.50	7.50	8.25	8.00
Reverse repo rate (EOP)		6.00	6.00	3.50	3.50	5.75	7.50	6.50	7.25	7.00
CRR (EOP)		6.00	7.50	5.00	5.75	6.00	4.75	4.00	4.00	4.00

	Units	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
External interactions										
Exports	USD bn	129.1	166.6	190.2	182.3	256.3	309.8	306.6	319.3	347.9
	YoY (%)	22.3	29.0	14.2	(4.2)	40.6	20.9	(1.1)	4.1	9.0
Imports	USD bn	191.0	258.3	309.3	300.6	383.5	499.5	502.2	491.7	530.4
	YoY (%)	21.5	35.3	19.7	(2.8)	27.6	30.3	0.5	(2.1)	7.9
Trade deficit	USD bn	(61.8)	(91.8)	(119.0)	(118.4)	(127.2)	(189.7)	(195.7)	(172.4)	(182.5)
Invisibles	USD bn	52.0	75.8	90.9	79.9	79.3	111.5	107.8	110.3	124.6
Current account balance	USD bn	(9.8)	(16.0)	(28.1)	(38.4)	(47.9)	(78.2)	(87.8)	(62.1)	(57.9)
	% to GDP	(1.0)	(1.3)	(2.3)	(2.8)	(2.8)	(4.2)	(4.7)	(3.4)	(2.9)
Capital Account	USD bn	45.2	106.6	9.5	51.6	66.3	67.8	90.2	72.8	66.1
	% to GDP	4.8	8.6	0.8	3.8	3.9	3.6	4.9	4.0	3.3
Fiscal deficits										
Centre	% to GDP	3.3	2.5	6.0	6.5	4.8	5.7	5.2	5.0	4.8
State	% to GDP	1.7	1.7	2.5	3.0	2.1	2.4	2.2	2.5	2.6
Combined	% to GDP	5.0	4.3	8.5	9.5	6.9	8.1	7.3	7.5	7.4
Savings Investments										
Savings	% to GDP	34.6	36.8	32.0	33.7	33.7	31.3	30.1	31.0	31.1
Capital formation	% to GDP	35.9	38.0	35.5	36.3	36.5	36.4	34.7	35.7	36.1

Source: CMIE, CEIC, RBI, Ministry of Finance, Elara Securities Research

Drivers in place, need political will

There is a paradigm shift in India's electoral politics that sends a dire warning to the political class in favor of an inclusive development without compassion

"If the election outcome were to emulate the recent opinion poll projections, it would underscore the role good governance plays towards overall development and inflation control."

Most historians would center the idea of India around secular socialism, one that rests on the edifice of a vibrant democratic system, more than most nations across the globe. Although there are various schools of thought that contest this edifice, as far as economic policymaking is concerned, there is hardly any difference. It is a popular misnomer in India that if you cover the names of Finance Ministers in the union budgets, the tone would hardly mark a difference in the broad line of thinking. Noted Economist and former RBI Governor IG Patel once observed, "I was not a Marxist socialist opposed to markets and private property. But I was not a card-carrying capitalist either, and was supportive of certain values like compassion and justice in all social and economic arrangements. That was and remains the mainstream intellectual and political opinion in India."

Since independence to the present times, the narrative of India's economic policymaking revolves around paradigm of evolution and continuity of thoughts, one that strongly desists revolutionary approach. This is the reality of India. Patel goes on to add that "(India's) size, diversity and demographic aspirations and indeed compulsions, all make for compromise, eclecticism and even incompatible cohabitation." Infact, the sheer complexity associated with the Indian economy warrants a historic mismanagement for it to change course, albeit slowly amid a clamor for change.

So, is the country witnessing one of those exceptional times that will change its economic standing? One needs to look back over the past decade to answer this. Renewed attempts by the outgoing UPA government towards spreading social welfare programs amid emergence of structural inflation have revived some fundamental questions. The wage-price spiral behind this inflationary menace is actually manifestation of a social tug of war. For India, the current episode points to a deepening economic crisis related to the provisioning of goods and services to the less fortunate, and this is where the idea of politics of reforms trickles in. Ideally, the ensuing social crisis would translate into vote bank politics as politicians trade on the aspirations of the poor who chase goods & services that are rightfully theirs in a system that has failed them. In fact, this system had become so infallible that it left reforms undesirable for politicians.

The question now is whether ground realities are signaling a changing doctrine. After all, the incumbent government lost the provincial elections after rolling out what could have been India's version of "Obama Care" in its race for last-minute populism. Instead, voters chose to vote in a vision of development — not subsidies and freebies — but promise of equal opportunity for everyone on a stage of overall and complete development. This is a paradigm shift in India's electoral politics and sends a dire warning to the political class in favor of an inclusive development without compassion.

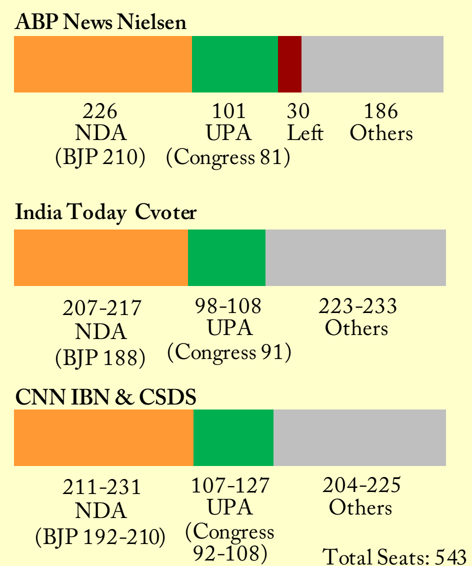
Over the past few years, our interactions with investors (domestic and overseas) and the ruling class in the context of India's inflation menace had led us to draw some startling conclusions. Many believe India now cares more about growth than inflation, accentuated further after growth spikes post 2008, and that there has been increasing evidence of a clear absence of a social consensus towards low inflation. But we had reservations and uniformly high voter turnouts effectively belied this thesis. In fact, people now associate the inflation menace as more of a Union policy issue, and that the ruling UPA is held responsible at the provincial levels too.

If the election outcome were to emulate the recent opinion poll projections, it would underscore the role good governance plays towards overall development and inflation control. Though we are no psephologists — a temptation that becomes difficult to resist during the great Indian festival of democracy — there can be no dispute about broad signals on the direction of results.

The new government's immediate order of business will be to restructure expenditure and inflation control, and hope economic growth will follow thereafter. On the expenditure control front, there is less hope in the short term. If we assume a ceteris paribus political cycle to fiscal policy, which in itself might turn out to be a strong option for obvious reasons, even a well-intentioned attempts towards consolidation to restore fiscal discipline runs the risk of losing traction in light of a weak economic environment, only to be accentuated by the little room left to maneuver, owing to large redemption pressures over the next few years. Secondly, on the inflation front, now that the political class has realized the premium society has placed on low inflation, policymaking will need to get reoriented accordingly. The Central Bank in India will be an indirect beneficiary of this, with grudging political acceptance for wider monetary tightening to control inflation. The CB will be able to vindicate its stance, and the onus will lie with Governor Raghuram Rajan to pursue price stability through a multi-pronged strategy: 1) commitment to price stability as a central CB mandate, 2) articulation of medium-term inflation targets, and 3) clarity on instruments of monetary policy, all of which find game-changer perspectives in the Urijit Patel committee report.

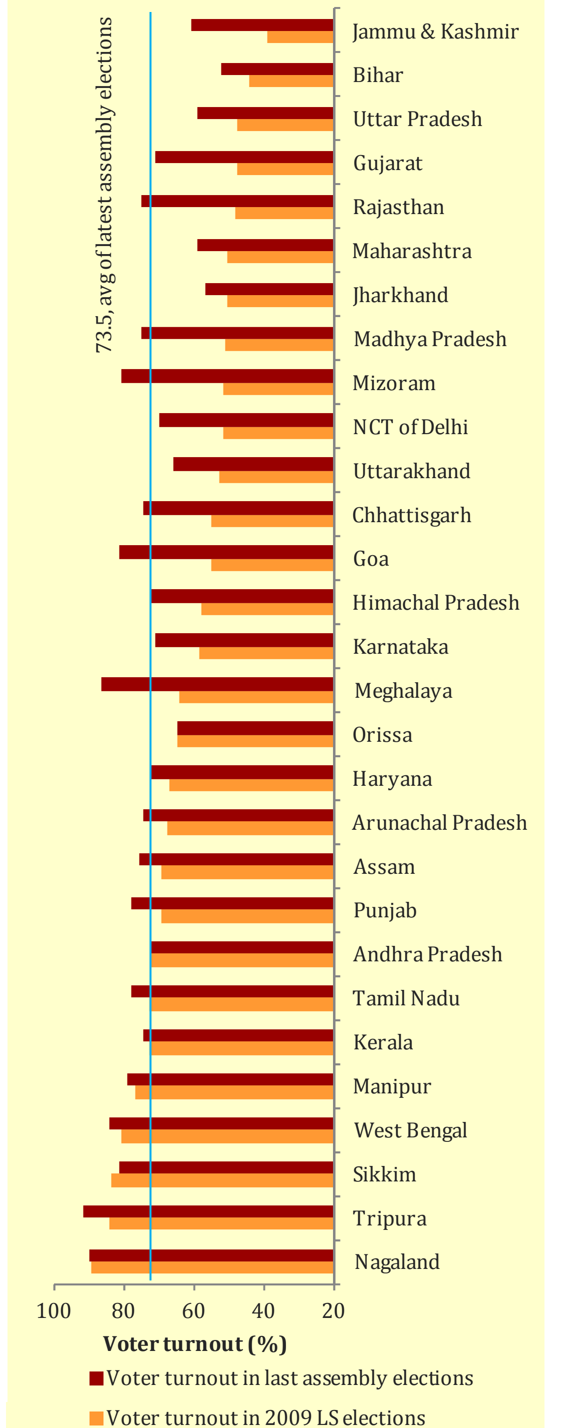
Evaluation of India's economic policymaking will be judged though the lens of job creation in the upcoming years. A whole new generation has become disillusioned over the last decade for want of employment opportunities in a country that boasts of demographic dividend but has not been able to deliver much on job creation. Reforms of labor laws are one significant aspect of this.

Opinion polls indicate a wave by May-2014



Source: Respective news agencies

Early signs of strong voting in May 2014



Source: Election Commission, Elara Securities Research

EDE selloff: risk off

Currency performance
(31 Jan 2013 - 27 Jan 2014)
(21 Jan 2014 - 27 Jan 2014)

-16% Russian Rouble -2%

-30% Turkish Lira -1%

0% S. Korean Won -2%

-10% Thailand Baht 0%

-19% Indian Rupee -2%

-13% Columbian Peso -1%

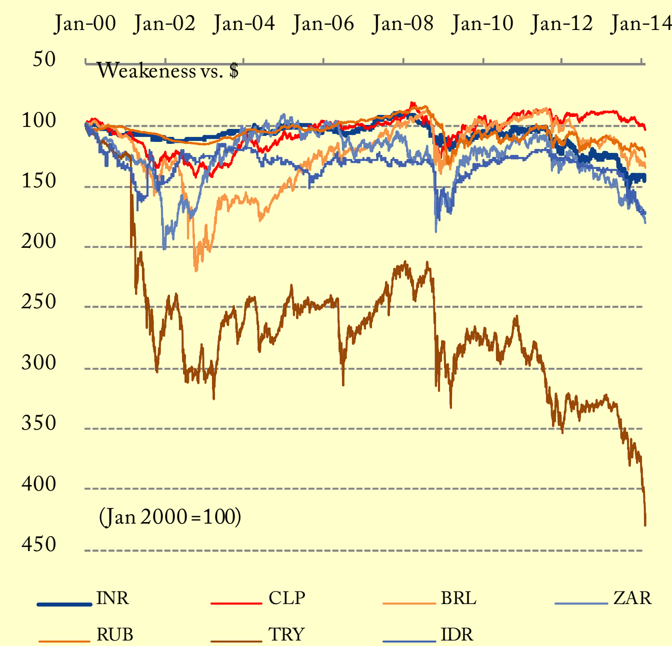
-22% Brazilian Real -3%

-26% Indonesian Rupiah -1%

-17% Chilian Peso -1%

-24% S. African Rand -2%

EM currencies versus the USD



Source: Bloomberg

Perspective

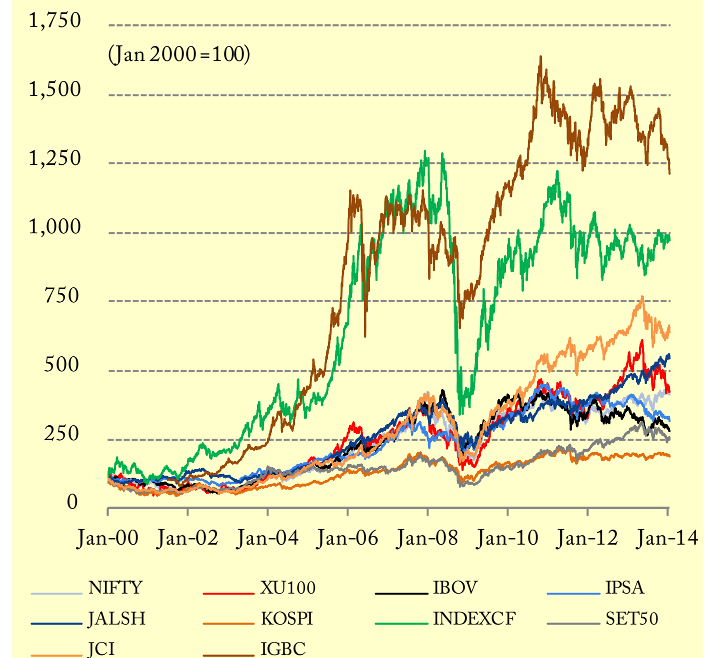
Global

- The chances of a capital flight to the US and a strong USD are real, and EMEs could suffer higher-than-expected equity and debt outflows than that which is already priced in. At this point, the key impact is being felt in increased demand for safe havens, including the usual gold and US treasuries.
- As the pace of US Fed taper multiplies through 2014, global fund flows will create a preferential ranking of EDEs in terms of domestic growth and external vulnerability, casting a shadow on EDE currencies yet again. This ranking means the vulnerability to events of a risk to capital flight in favor of the USD will undermine some but have little impact on others.
- Some previously vulnerable EDE currencies are holding up relatively well as of now in the current sell-off, including the Indian Rupee (INR), Mexican peso (MXN), Hungarian forint (HUF) and the Russian rouble (RUB).

India

- India has to live with the assumption of a strong USD, in all likelihood. The trading zone for the INR is the range of 62-65 through 2014E.
- Weak growth prospects and significant inflation differential combined with a resurgent USD will mean the INR carries a significant depreciation bias. Our estimate of the USD-INR rate is 63.3 in FY15E vs 61.1 in FY14E.
- In the ranking of EDEs for India, while the growth prospects remain clouded with a clear negative output gap in place, external vulnerability has been significantly contained.
- A rerun of the Summer 2013 sell-off could leave CB in India with little choice but to go in for an aggressive tightening mode again.

EM Benchmark Equity Index

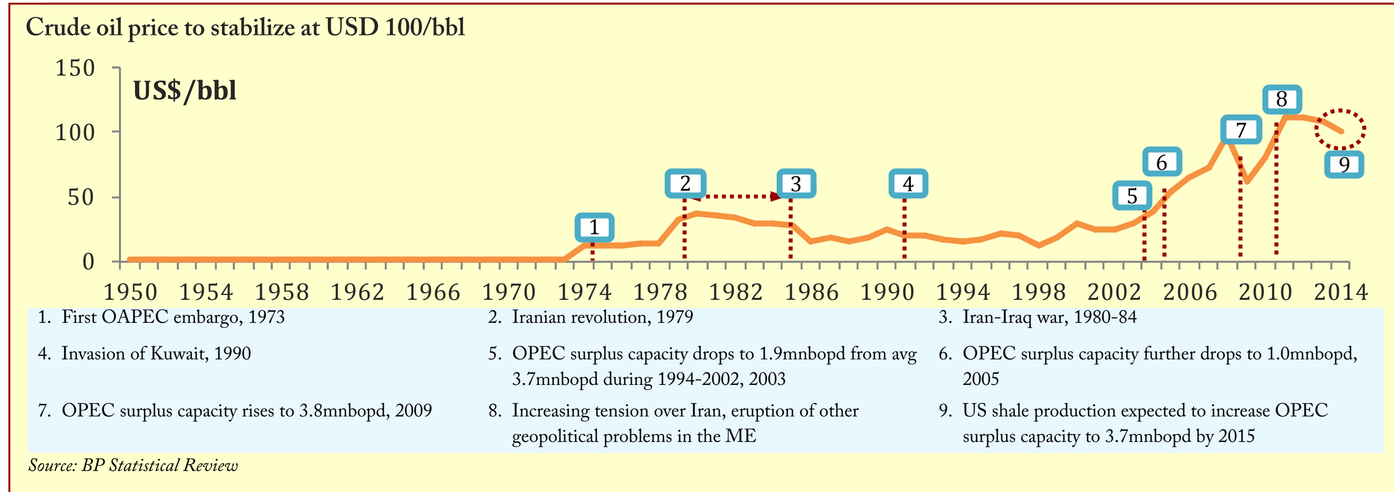


Source: Bloomberg

To South, Ahoy!

"Non-OPEC supply growth to outpace global consumption growth over 2014-15, putting pressure on demand of OPEC crude," says Analyst Swarnendu Bhushan

Crude oil price to stabilize at USD 100/bbl



Source: BP Statistical Review

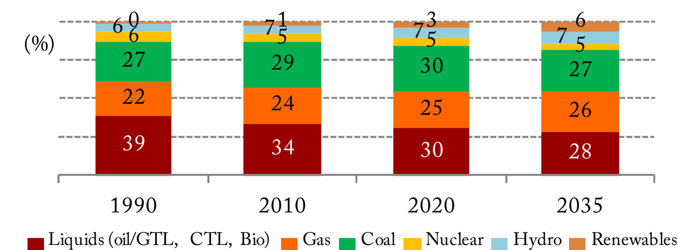
After years of geopolitical disruptions in the Middle East and North Africa, finally different (and positive) buzzwords seem to dominate the headlines – shale revolution in the US, nuclear peace deal in Iran, mega discoveries in Latin America — all pointing towards a fall in the oil prices. We examine various drivers, their impact on crude oil price and conclude where we see oil prices heading.

Natural gas gaining share from oil

Increasing demand for cleaner fuels, fuel efficiency and increased availability of natural gas are likely to result in natural gas raising its share in the global energy mix from 21.8% in 1990 to 26.4% in 2035. Hence, oil demand may slow.

Global primary energy composition

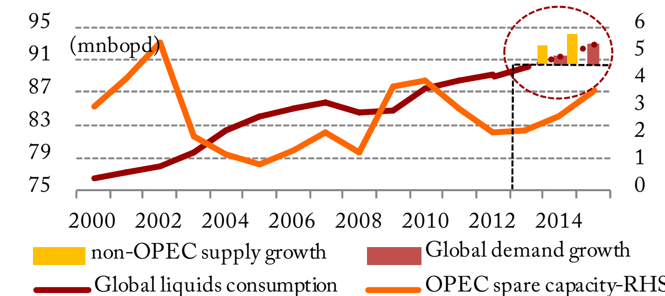
Natural gas share in total energy demand hikes cost of coal & oil



Source: BP

Non-OPEC supply to outbid global demand growth

Non-OPEC supply outstrips global demand growth => higher OPEC spare capacity



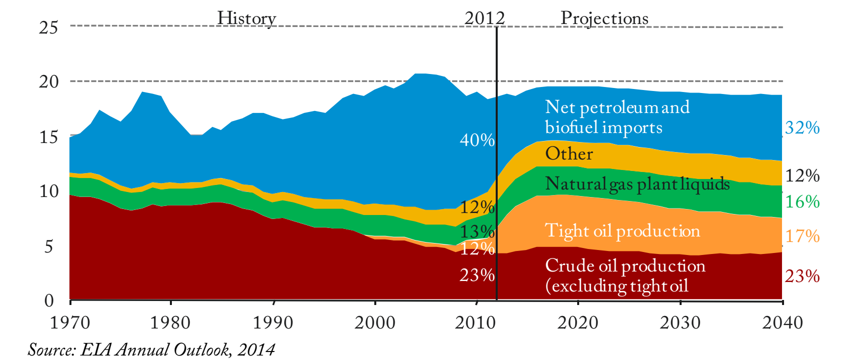
Source: EIA

After growth of 1.4 mnbopd in 2013, non-OPEC supply is likely to grow at 1.9 in 2014E and by a further 1.5 in 2015E. Global consumption, which grew at 1.2 mnbopd in 2013, is expected to grow only by 1.2 in 2014E and by a further 1.4 in 2015E. This is likely to put pressure on demand of OPEC crude. OPEC surplus capacity is likely to rise from 2.2 mnbopd in 2013 to 2.7 in 2014E and 3.7 in 2015E. The major driver of non-OPEC supply growth is the US, detailed subsequently. Notwithstanding any cut in quotas and eruption of additional geo-political risks, this is likely to have downward pressure on crude oil prices.

Digging black gold in US shale rocks

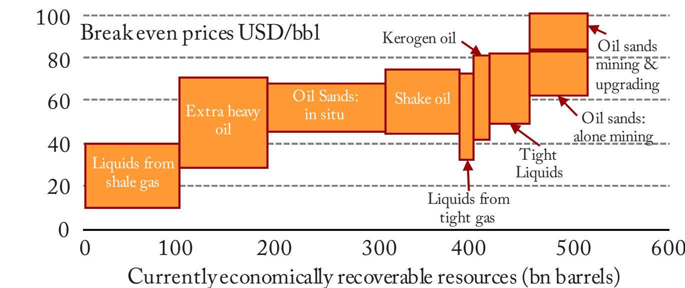
Led by revolutionary growth in exploitation of the shale sedimentary rocks, the US oil production averaged 7.5 mnbopd in 2013. This represented growth of 1 mnbopd over the previous year, the highest production since 2002. It is estimated production would rise further to 8.5 mnbopd and 9.3 mnbopd in 2014 and 2015, respectively. Production in 2015 would be the highest since 1972.

US liquid fuels supply by source



Source: EIA Annual Outlook, 2014

Breakeven cost from various sources



Source: IEA

Brent to stabilize at ~USD100/bbl

While demand of oil is declining and higher non-OPEC supply threatens a low crude oil price, it may be noted that the share of deepwater oil in total supplies is expected to increase from 6% in 2011 to 8% by 2017. Additionally, the share of North American unconventional oil in non-OPEC supply is expected to rise to 17% by 2017. Production of these deepwater and unconventional oil is not economical below ~USD 100/bbl.

Stability in the Middle East and North Africa could further boost supply

Complex equations among the various Middle East countries have always threatened a breakout of larger disruptions across the region. Problems in Syria, Sudan and Libya continue. However, Iraq is expected to increase its production. Similarly, sporadic incidents in Northern African countries like Nigeria continue. However, stabilization of problems in these countries is likely to add to the supply.

Middle East countries

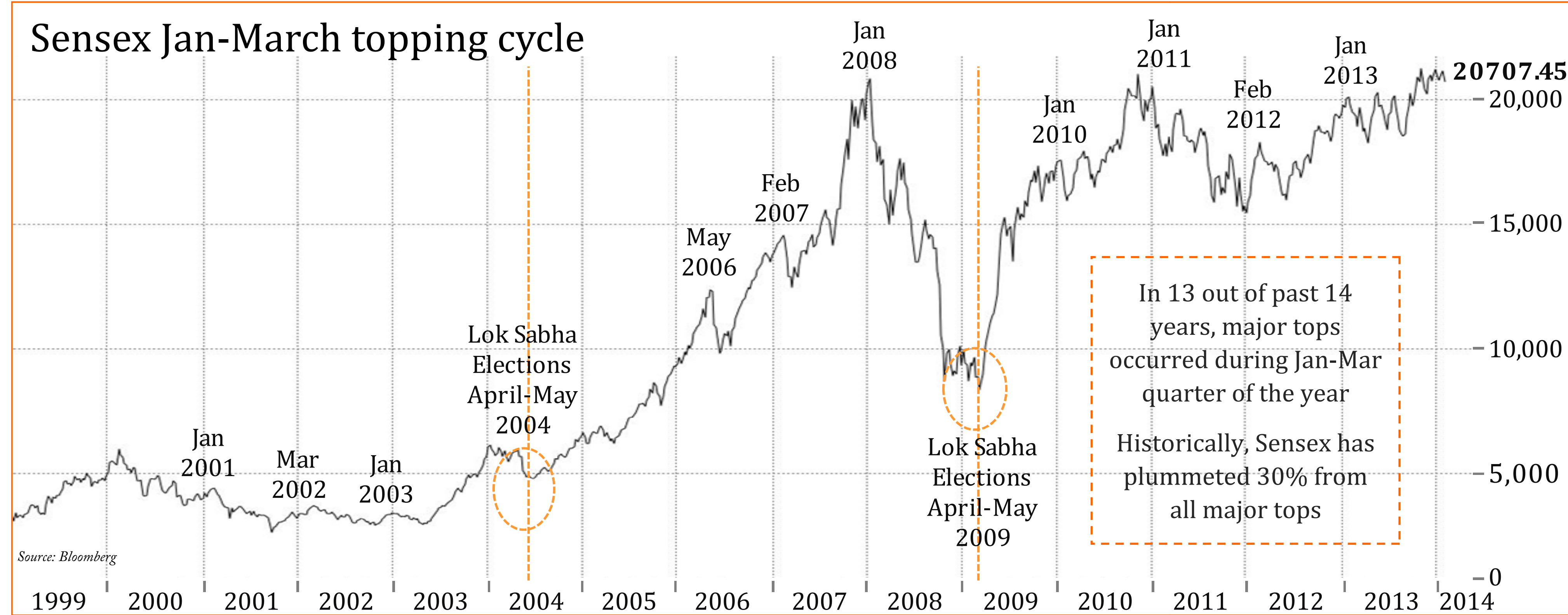
Source: Wikipedia

The Iranian nuclear angle

The nuclear ambitions of Iran started threatening the world primarily as the Strait of Hormuz controls one-third of the sea-borne global oil trade. Amid unsuccessful attempts to bring Iran to the negotiation table, efforts to bypass the Strait of Hormuz commenced through construction & revival of pipelines and construction of storage tanks. However, signing of the Geneva Interim Accord in November 2013 between P5+1 and Iran was the first crucial move towards bringing the mercury down. As a result of the interim agreement, the US eased its sanctions on exports of Iranian crude in January 2014.

World oil choke points

Source: EIA



Brace for frugal returns

The BSE Dollex-30 Index is 37% lower than the actual Rupee-Value of the Index.

At a time when the markets are reflecting 2014 as year of turning points, we believe fundamentals of India have not changed materially and most of these forecasts drive relevance essentially from "the base effect". A lot of hope is getting embedded into the forecast on the back of an impending change in the governing polity of India. While change is imminent, one should not be so sure about the outcome. Here we would sound the bugle of caution on any hype around a quick reversal of growth. By the time a new government assumes office in early June, half of 2014 will be over. The new regime in New Delhi will inherit an economy struggling with internal imbalances, including the continued stagflation pressures, sideways capex cycle, weak corporate balance sheet, elevated policy rates, and a sharp deterioration in asset quality of banks, leading to a redefined trend growth rate. Our base case growth projections observe sub-5% growth until Q2FY15E, and a gradual recovery around 5% in H2CY14E, holds little optimism for a growth-led rally.

Structural framework for growth is marred

The broader economy is yet to recover from the excesses of the capex cycle from the last bull cycle and India's banking system NPAs now have no room to lend for a fresh capex rally. Simply put, when banks are looking for recoveries, there is no scope for aggressive lending. Overseas borrowing is not viable, especially at the current level of the INR and threats of renewed pyrotechnics of the domestic currency. While we comfortably conclude that investments will not fall further, a sharp rise looks daunting over the next 3-4 quarters. The Cabinet Committee on Investments (CCI) did try to revive big ticket projects but the actual take-off on ground hasn't materialized. **We are strongly of the opinion that the onus of capex revival lies with the government for the next 4-6 quarters,** which is an onerous expectation given that India would be in the midst of a transition for the most part of the CY.

Emerging markets: Choppy days ahead

The backdrop to support fundflow to the EMs is missing. One has to keep in mind that the world is markedly different from where it was in 2008. Today, China is moving from a growth-based model on investment and exports to one led by internal demand. India is grappling with low growth and high inflation. Europe is striving to preserve the integrity of its common currency and in Abe's Japan own QE is under works to combat two decades of deflation. Amidst this fast developing geo-political landscape our view is that the wedge between developed and developing markets performance is set to widen this year after the 25% gains by the Dow Jones in the last CY. Most investors buy the emerging markets for growth. Today, it is the developed markets which contribute more to global growth than the emerging markets, which may clock in ~4% growth.

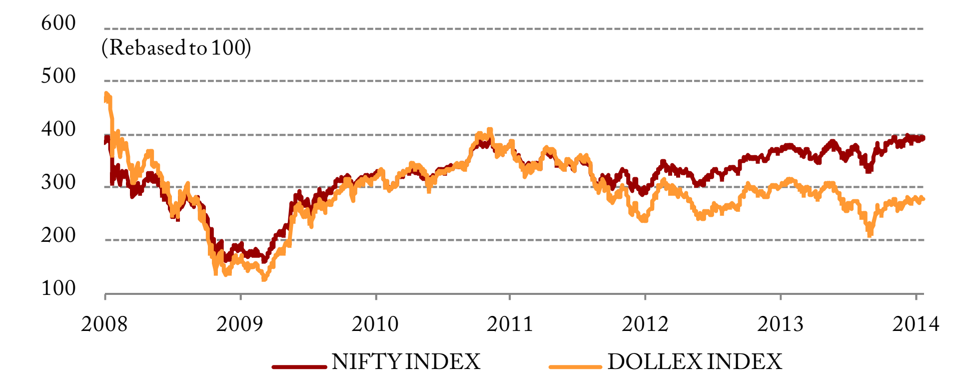
Depreciation bias left on the INR

In our view, the INR still carries a depreciation bias on a REER basis due to the inflation differential, and the impending QE could queer the pitch for incremental flows into the country. The buffer obtained on the back of the moves on gold and FX-related swaps will continue to reflect in higher FX accretion while adding some degree of stability to the currency movement, albeit in the short term. Danger of an EM sell-off all over again, led by a preferential ranking of these economies, would keep the CB on tenterhooks, leaving no room for complacency. **We are of the view that INR would trade in a range of 62-65, a bracket we believe defines the fundamental valuation of the INR.**

Crutches of FII flows key risk to markets

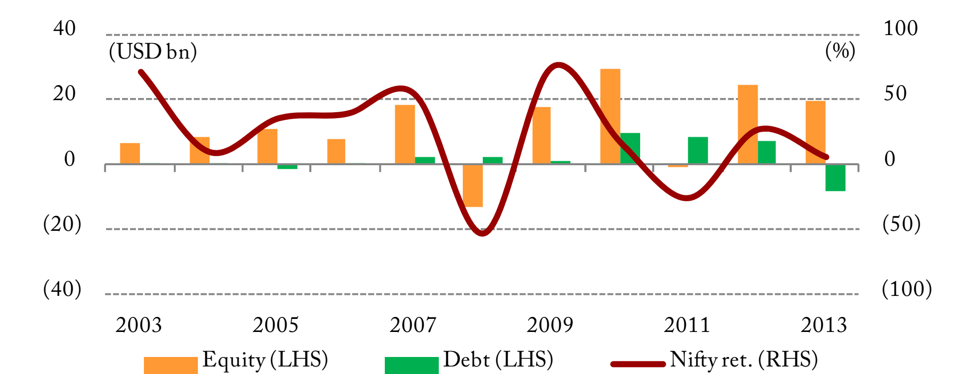
FII activity is THE only dominant factor in the Indian stock market today. Despite an unprecedented USD 90bn of inflows, the indices have failed to breach the 2008 levels. Sensex has been attempting to take out '2008 highs for the past five years, but has failed every time. In 2013, three such attempts were made but the index failed to break new highs. The BSE Dollex-30 Index, which shows the Dollar-Value of Sensex, is currently 37% lower than the actual Rupee-Value of the Index. One needs to understand the import of five years of underperformance and take the expectation of flows in continuum with a

Dollex Index



Source: Bloomberg

FII flows versus Nifty returns



Source: Bloomberg

pinch of salt. In our view, an impending rise in the pace of taper and a fractured mandate of the elections will bring about some moderation in flow data, if not outflows. The last time India saw outflows in 2011 the market corrected by 25%.

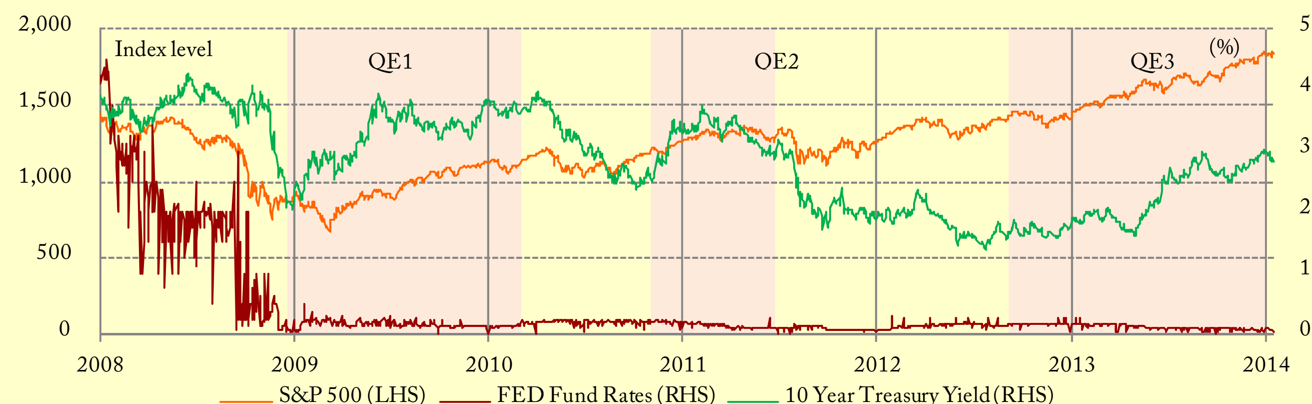
Elections, taper key events to surmount

In all probability, the market will be closer to 7K in anticipation of a recovery and stable government in May. This will be an ideal "suckers rally" or a beta as the street now likes to call it with the 'E' missing. A "suckers rally" usually involves making a New High. Again, here we would want to point out that the Indian markets have also traditionally followed a January-March topping cycle. In 12 of the past 13 years, major tops have occurred during the January-March period. Now there is enough evidence that elections or change in governments have very little to do with the trajectory of the markets. Also, years following elections have given negative returns as outcomes have belied expectations. Despite conventional wisdom of adding to India weights on a new government, we would lighten up.

Index to breach 7K in H1 but finish lower

At 15x our FY15E Nifty EPS of INR 464 suggests a target of 6960 or 7K as has been touted by many on the Street. However, we see a tepid economy with real growth of 5% over FY14-15E and a monetary policy biased towards inflation management as key headwinds to earnings growth. Secondly, an argument to suggest that 15x is a reasonable multiple to accord is untenable. With an inflation which is closer to 9% and an earnings yield of 7% are not attractive by any means. Most analysts are of the view the Mcap to GDP as closer to deep value; however, they tend to ignore that during deep slowdowns India has traded at 0.5x GDP. A weak foreign fund flow data print exposes the country to contraction in P/E and implies one more year of underperformance. In effect, the 7K summit may be breached at mid-point of the year but the print at the year-end will more likely be closer to 6600 and 6400, giving a just 5% return from the current levels.

Terror of taper a HANGOVER of 2014



Source: Bloomberg

Global financial conditions have witnessed the emergence of tight liquidity conditions post the Fed's intent to taper its bond purchases program became clear in late May 2013. EDEs that allowed sharp appreciation of their real exchange rate alongside a large rise in current account deficit in earlier periods of unconventional policies witnessed huge outflows from their debt & equity markets and sharp currency depreciation combined with reserve losses.

Post US Fed's announcement of a tapering of USD 10bn in December 2013, the initial reaction has not been that disruptive. We believe the overall commentary has a significant "dovish" bias as the Fed has attempted to play down the move, underlining that asset purchases "are not a preset course". There are various macro-fundamentals the US Fed intends to watch in the course of a further tapering, and even beyond the asset purchase program, it looks to "an accommodative monetary policy stance for a considerable time". Key question for EDEs now is if the May-July 2013 episode could recur in 2014. Fed's moves in 2014 — both in terms of timing and quantum — is expected to pave the way for an eventual rate rise in the US as early as mid-2015, on consensus basis. Post this, however, there is real possibility of Fed's benchmark rates to inch towards the normal levels more swiftly than the markets currently foresee. The median forecast of FOMC participants sees the fed funds rate rise to 0.75% 2015 and 1.75% in 2016. Our view on the US economy suggests a strong recovery that would enable the Fed to frontload rate hikes and accordingly, we see at least a 100bp upside risk to the consensus estimates for 2016. This will eventually mean sharp rise in US bond yields and the USD while making riskier assets, including EDE equities and many commodities, unfavorable in overall scheme of global fund flow.

Altering global growth dynamics

Forecasting a strong recovery in global growth might be tricky on account of fundamental concerns around advanced economies (AEs) and emerging and developing economies (EDEs) but economic scenario in 2014 does look far better than previous years. In fact, the pace of recovery in the AEs that has started since H2CY13 is positive. Apart from a greenshoots in the US, especially in labor market data, consensus seems to be fairly convinced that the EU is clearly not facing recessionary threats anymore.

In the current year, the primary differential within global growth mix would come from a noticeable increase in AEs contribution. In contrast to this, EDEs in Asia and Latin America, including China and India, will continue to struggle with a negative output gap, with some economies like India witnessing a significant fall in potential growth itself.

Economics of the Middle East, North Africa, Afghanistan and Pakistan (MENAP) region still has little reckoning in the overall picture as they continue their journey on a difficult political transitions and slower oil production in oil exporters. Developments around US shale gas would further dent them over the medium term.

In our view, this evolving dynamics of global growth carries a certain negative risks for EDEs. As a medium-term threat, the narrowing growth differential between AEs and EDEs amidst widening inflation differential would markedly place the risk-return dynamics in favour of AEs leaving EDEs increasingly vulnerable to the risk of capital flight.

IMF global forecast

(%)			Projections		Diff from July 2013 WEO projections	
	2011	2012	2013E	2014E	2013	2014
World Output	3.9	3.2	2.9	3.6	(0.3)	(0.2)
Advanced Economics	**1.7**	**1.5**	**1.2**	**2.0**	**0.0**	**0.0**
United States	1.8	2.8	1.6	2.6	(0.1)	(0.2)
Euro Area	1.5	(0.6)	(0.4)	1.0	0.1	0.0
Germany	3.4	0.9	0.5	1.4	0.2	0.1
France	2.0	0.0	0.2	1.0	0.3	0.1
Italy	0.4	(2.4)	(1.8)	0.7	0.0	0.0
Spain	0.1	(1.6)	(1.3)	2.0	0.3	0.1
Japan	(0.6)	2.0	2.0	1.2	(0.1)	0.1
United Kingdom	1.1	0.2	1.4	1.9	0.5	0.4
Canada	2.5	1.7	16.0	2.2	(0.1)	(0.1)
Other Advanced Economies	3.2	1.9	2.3	3.1	0.0	(0.2)
Emerging and Developing Economies	**6.2**	**4.9**	**4.5**	**5.1**	**(0.5)**	**(0.4)**
Central and Eastern Europe	5.4	1.4	2.3	2.7	0.2	(0.1)
Russia	4.3	3.4	1.5	3.0	(1.0)	(0.3)
Developing Asia	7.8	6.4	6.3	6.5	(0.6)	(0.5)
China	9.3	7.7	7.6	7.3	(0.2)	(0.4)
India	6.3	3.2	3.8	5.1	(1.8)	(1.1)
Latin America and the Caribbean	4.6	2.9	2.7	3.1	(0.3)	(0.3)
Brazil	2.7	0.9	2.5	2.5	0.0	(0.7)
Middle East, North Africa, Afghanistan and Pakistan	3.9	4.6	2.3	3.6	(0.7)	(0.1)
Sub-Saharan Africa	5.5	4.9	5.0	6.0	(0.2)	0.1
South Africa	3.5	2.5	2.0	2.9	0.0	0.0

Source: IMF

Elara View

BANKING

High MTM losses a matter of past. Credit cost moderation to aid profitability

Higher employee terminal benefits provisioning to drag private banks' profitability

TELECOM

Pricing rationality among peers should allow superior return ratios

Uncertainty over Reliance Jio entry could derail data pricing, spectrum auction prices

AUTOMOBILES

Petrol car sales are likely to see a revival given huge pent up demand as petrol prices would fall by INR 5 ahead of elections. Maruti plans to launch a new petrol model, helping with volume growth recovery

CV cycle recovery is likely to be a delayed affair, with fleet operators' capacity utilization at ~50-60% and muted industrial growth outlook

METALS & MINING

Metal prices to bottom out on cost push support . Volume growth for large producers to help improve margin, given low base

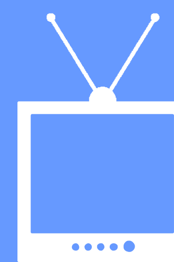
Regulatory risks, such as a further increase in royalty, delay in resumption of mining, and a sharp rupee appreciation may impact profitability

INFRA

Continued reforms coupled with meaningful reversal in the prevailing rate cycle inducing a pickup in the private sector capex

Inconsistent order flows from the public sector, persisting high inflation and further hikes in policy rates

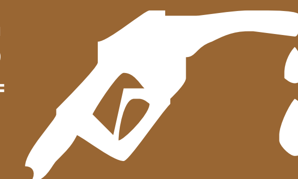
MEDIA



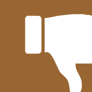
Digitization phases 3 and 4 are likely to happen in H2FY15, a positive for broadcasters, DTH and cable companies, given 80 mn subscriber base

TRAI's recent ad minute cap regulation to 12 minutes to impact broadcasters from H2FY13; pending regulatory action on content aggregator also key negative. For print, no let down on newsprint cost pressures as rupee likely to remain elevated

OIL & GAS



Lowering of the price of crude to ~USD 100/bbl and continued regulatory reforms

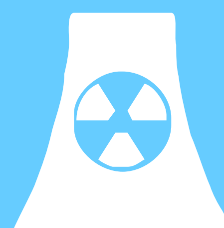


Possible rupee depreciation could be a spoilsport

POWER

Fresh UMPP bidding, resolution of bottlenecks in power plants and mining by CCI, accelerated environment clearances and compensatory tariffs could revive capex and boost fresh investments

Stricter tariff regulations (as proposed) and announcement of subsidies with reduction in tariffs prior to elections could aggravate financial health of SEBs and delay ongoing reforms



TRAVEL & HOSPITALITY

Improvement in global macroeconomic condition to enhance momentum of foreign tourist arrivals

Occupancy and ARR are likely to be under pressure

PHARMA

Healthy ANDA approvals and recovery in India to drive earnings for the sector

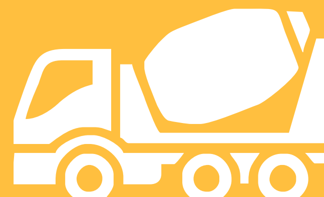
Negative: Delay or unfavorable US FDA decision poses risk to earnings

FMCG

Sector outlook better than others as volume and earnings growth continue to grow though at a slower pace

Rising raw material costs to weigh on profitability

CEMENT



Pan-India utilization levels to bottom out on the back of slowdown in capacity addition and acceleration of demand

Utilization level in South India is likely to remain sub-60% in the next two years

PAPER

Price hike, backward integration and operating leverage on healthy demand would expand margin

Higher price of wood to increase raw material cost

Start of a new dawn

FY15 will likely see slow demand recovery before picking up pace in FY16. We back firms with added growth levers and strong leadership position

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The four-wheeler industry has not seen double-digit volume growth since FY11, and dealers say sentiments at the retail level are yet to recover. While base is favorable in FY15 and rate cuts will help revive sentiments, a strong demand revival may be by H2FY15.

The likely introduction of the *New A Star*, along with *SX4* and *Swift* refresh, will support near-term volume growth for Maruti Suzuki, which will gather impetus in FY16 after the launch of UV models. The company is likely to see strong double-digit earnings CAGR over the next two years, as the yen remains friendly (yen imports plus royalty at ~25% of net sales), which along with ongoing localization efforts, will sustain and expand the recently gained double-digit margin levels. Current FY16-based valuations remain attractive and offer handsome upside on roll over. Maruti Suzuki remains our top pick.

> "Hero has gained market share in all 2W categories YTD. It is likely to see further accretion as it raises scooter capacity and launches new products"

Our analysis of potential two-wheeler demand shows sizeable unmet demand for motorized 2W ownership, which is likely to materialize as affordability improves. Further, the nature of upcoming demand too indicates dominance of 100cc bikes (high fresh demand) along with scooters (replacement demand), which implies the positioning of Hero Motocorp in the industry is the most relevant among 2W firms.

Trading at ~12x FY16E earnings, the stock has not factored in royalty expiry, volume growth revival, start of exports business, and margin savings via cost-cutting into the current valuations. The launch of new products and royalty exports are likely to drive FY15 earnings despite low volume growth. A sharp jump in FY16 earnings on exports scale-up and margin savings would create upside triggers for the stock. Hero is our top pick in the 2W space.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%)		P/E (x)		Inflexion Qtr	1-Yr Fwd Target	Upside (%)
			Sales CAGR	EPS CAGR	FY15E	FY16E			
CNX Auto		5,168	9.2	15.9	10.1	8.4			
Nifty		6,267	3.9	14.9	12.2	10.9			
Bajaj Auto	Reduce	1,932	11.8	10.4	15.1	13.6	Q1FY15	1,892	(2.1)
Hero Motocorp	Buy	2,037	12.9	29.8	13.2	11.4	Q2FY15	2,561	25.7
TVS Motors	Sell	68	9.4	23.6	14.9	11.2	Q1FY15	63	(6.2)
Maruti Suzuki	Accumulate	1,774	11.9	20.2	16.3	13.0	Q3FY15	1,947	9.8
M&M	Accumulate	885	10.7	8.2	13.3	12.1	Q3FY15	1,041	17.6
Tata Motors	Accumulate	370	13.9	16.0	8.7	7.0	Q4FY14	435	17.5

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

Low base, turn in the rate cycle and a mild recovery in the economy will likely signal a turning point for sector demand. Stable (single-digit) volume growth, favorable currency tailwinds (INR and Yen) and stagnant commodity prices will give the needed fillip to margin despite a single-digit, top-line growth. Our outlook on H2FY15 is more optimistic, given the protracted lag in recovery and the potential pent-up demand

Sector headwinds

Another fuel price shock, especially in diesel prices, will dampen diesel car and UV demand, and delay CV cycle recovery for another 6-10 months

Top Picks

- **Hero Motocorp:** Valuations do not reflect strength of the product portfolio, upcoming launches, royalty expiry and exports potential. Margin savings from project LEAP will be a bonus
- **Maruti Suzuki:** Reasonable valuations allow a good entry point to play on domestic demand recovery and cost reductions via currency gains & localization
- **Tata Motors:** JLR to drive near-term success on the strength of new launches while domestic business recovery to support re-rating in the medium term

Neutral

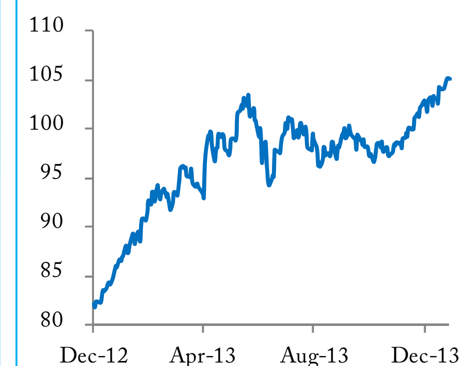
- **Bajaj Auto:** At ~14x FY15E earnings, valuations are now in our comfort zone. However, given weak domestic business performance despite new launches and volatile exports demand, surprises are limited
- **M&M:** At ~10x FY15E core business earnings, the stock has seen expected de-rating. However, given paucity of launches in the near term and demand weakness across key segments, upside seems limited

Price performance

(%)	6M	1Y	3Y
CNX Auto	10.4	6.8	32.3
Bajaj Auto	(5.9)	(8.0)	64.4
Hero Motocorp	8.1	14.3	36.1
TVS Motors	115.9	56.4	37.4
Maruti Suzuki	23.8	6.4	41.1
M&M	(3.1)	(3.8)	30.3
Tata Motors	20.1	15.7	58.3

Source: Bloomberg

USD Yen: 120?



Source: Bloomberg

> "The company has chalked out a new strategy for global leadership in the mid-size premium motorcycle space (250 cc to 750 cc)"

Siddharth Lal
Eicher Motors MD

Hero to take the battle to Honda on its turf. To raise scooter capacity to 75k.

Utilization to bottom out in FY15

Moderate volume growth of 3% in FY14 would improve to 6% in FY15E and 7% in FY16E. Demand acceleration coupled with slowing capacity addition are likely to result in bottoming out of the utilization levels

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After reporting a CAGR of 6% over FY12-13, growth in cement consumption is expected to decelerate to 3% in FY14E. However, we expect demand to accelerate to 6% in FY15E and 7% in FY16E. Recovery in demand would be aided by the rise in rural demand (~40% of total demand). Furthermore, low base and the lag impact of pre-election spending are also likely to have a favorable impact on growth.

After capacity addition of 32 mn tonnes in FY14E, capacity addition is likely to slow sharply to 19 mn tonnes in FY15E and 12 mn tonnes in FY16E, as most companies have put on hold planned capex due to the slowdown. With acceleration in demand and a slowdown in capacity addition, we expect all-India utilization levels to improve from 70% in FY15E to 72% in FY16E. And, with improvement in demand and a slowdown in supply, we believe pricing power of the industry will improve, which, in turn, will improve margin of the companies, albeit modestly. The utilization levels are likely to remain sub-60% in South India for the next two years; as a result, we expect prices to remain volatile. However, the utilizations levels in North India are likely to increase from 80% in FY14E to 84% in FY16E. Thus, North India-based companies would enjoy better pricing power.

> "Improvement in the utilization levels should improve pricing power and margin of the industry, albeit modestly"

The industry has seen a persistent increase in cost pressure, due to the rise in prices of both domestic & imported coal, freight rates and a hike in staff cost. Cost pressure is likely to subside, barring freight cost. Freight cost (~25 -30% of total cost) is expected to continue to increase.

Among large caps, we like Grasim and ACC, and among mid caps, we prefer JK Lakshmi Cement. We maintain our negative view on Ambuja Cements, due to its rich valuations.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	FY14E-16E (%) EPS CAGR	P/E (x) FY15E	P/E (x) FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
Nifty		6,267	3.9	14.9	12.2	10.9			
ACC	Buy	999	12.6	15.5	15.7	14.2	Q3CY15	1,270	27.1
Ambuja	Reduce	163	21.5	14.9	15.5	14.2	Q3CY15	163	0.0
Grasim Ind.	Buy	2,594	15.5	17.0	11.3	8.4	Q3FY14	3,165	22.0
India Cements	Accumulate	52	10.2	31.9	9.2	6.3	Q4FY16	57	9.2
JK Lakshmi	Buy	72	7.7	(10.8)	7.2	5.7	Q12Y16	112	56.0
JK Cement	Buy	179	19.6	18.5	9.8	7.7	Q12Y16	280	56.6
Orient Cement	Buy	36	24.3	(4.9)	3.8	5.1	Q12Y16	50	39.5
Shree Cement	Accumulate	4,390	13.2	28.9	12.0	9.9	Q3FY14	5,065	15.4
UltraTech	Accumulate	1,700	15.5	13.0	18.3	15.5	Q4FY15	1,980	16.5

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

Our analysis of cement demand and capacity addition suggests North India firms are likely to enjoy the strongest pricing power. While all-India utilization may improve from 70% in FY13 to72% in FY16E, North India utilization would improve from 80% in FY14E to ~84% in FY16E.The favorable demand-supply in the north is unlikely to trigger a rise in inter-regional movement as the central and western regions are likely to have healthy capacity utilization of 80%

Sector headwinds

Continued increase in diesel prices is likely to inflate freight cost of cement companies. Freight accounts for ~25% of the cost of goods sold for cement companies

Top Picks

- **Grasim:** China has imposed an anti-dumping duty on rayon grade pulp, the major raw material used to make viscose staple fiber (VSF). We believe the increase in the price of pulp will prevent a further fall in prices of VSF in the global markets as China manufacturers (~60% of global production) are operating at negligible margin. Bottoming out of VSF prices and the depreciating rupee are likely to improve pricing power for Grasim in the domestic markets.
- **ACC:** We believe ACC will be in a better position than Ambuja Cements to capitalize once demand recovers, as out of total 14.4 mn tonnes of cement expansion by the Holcim Group in India, 8.5 mn tonnes will be under ACC. Beside this, Holcim expects synergistic benefits iof INR 7.8-9.0 bn from the restructuring, of which 50% is likely to accrue to ACC. As ACC is the most inefficient company among large cap cement firms, it would be easier for Holcim to realize cost savings in ACC than in Ambuja Cements. With improvement in profitability of ACC, we believe its valuation multiple will be rerated.
- **JK Lakshmi Cement:** JK Lakshmi Cement capacity will increase from ~5.3 mn tonnes to 9.7mn tonnes by end-FY15. Aggressive expansion plan will enable it to capitalize on incremental demand due to DMIC.

Top Sell

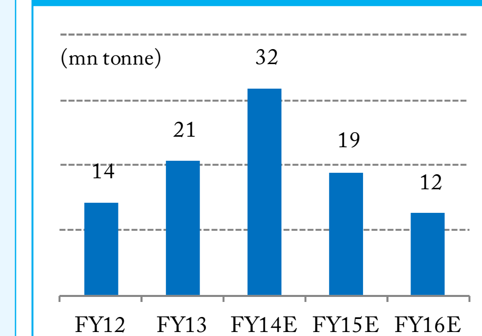
- **Ambuja Cements:** Though management says the restructuring of its India operations will result in savings of INR 9bn, we believe multiples of the consolidated entity will shrink as cement capacity under ACC is expected to attract holding company discount.

Price performance

(%)	6M	1Y	3Y
ACC	(18.8)	(25.8)	7.2
Ambuja	(11.6)	(21.0)	30.7
Grasim Industries	(3.7)	(14.1)	15.4
India Cements	(6.0)	(42.6)	(44.3)
JK Lakshmi	(5.0)	(53.8)	52.3
JK Cement	(10.3)	(45.5)	50.8
Orient Cement	(14.0)	-	-
Shree Cement	(2.0)	(3.1)	164.3
UltraTech	(8.8)	(11.3)	72.9

Source: Bloomberg

Capacity additions to slow



Source: Bloomberg

> "The synergies would result in benefits of INR 9bn"

Onne Van Der Weijde
MD, Ambuja Cements

> We expect holding company discount to nullify the benefits of synergy due to restructuring

For FMCG…a slow year

The current rich valuations of the FMCG sector are discounting FY16 earnings. 2014 will be a year of earnings catch-up and moderation in multiples

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We expect volume growth in urban India (65% of FMCG sales) to remain muted as income pressures continue to weigh. A sharp deterioration in income prospects is affecting the rate of volume growth across home & personal care and foods categories. Also, worsening consumer sentiments have brought premiumization to a halt, with down trading across most product categories. A good Monsoon is expected to boost income of rural households, thus sustaining volume growth for FMCG companies.

Most FMCG firms benefited from lower raw material prices in FY14. This helped support volume growth with price-offs & consumer offers and also sustained earnings growth momentum. However, prices of major raw materials, such as palm oil, LAB, copra and packaging materials, have increased or are expected to increase, thereby putting profitability under pressure. We believe limited pricing power will increase risk to sustain earnings growth rate.

> "All catalysts, such as volume growth, raw materials and rich valuations, are adversely placed for the FMCG sector"

Our earnings estimates for coverage companies build in growth of 15.5% for FY15 and 16.3% for FY16 vs 17.2% for FY14. However, despite increased risks to earnings growth, our coverage trades at 25.8x FY15E earnings and 22.2x FY16E earnings, discounting well into FY16. Thus, we do not expect any significant gains in FMCG stocks over the next year.

Hindustan Unilever should continue to report low volume and earnings growth. We thus continue to bank on ITC's pricing power in cigarettes to drive 15-20% earnings growth. Focus on improving profitability to attain a double-digit EBITDA margin and reasonable valuations make Britannia our preferred pick among mid caps. Tailwinds from high ad spends and a product basket aligned to rural India should enable Dabur sustain decent volume and earnings growth. Turnaround of acquired Henkel brands and the option with Henkel to buy a 26% stake in Jyothy Labs should help the stock rise to higher levels in the upcoming year.

Valuation Matrix

	Rating	CMP	FY14E-16E (%)		P/E (x)		Inflexion	1-Yr Fwd	Upside
		(INR)	Sales CAGR	EPS CAGR	FY15E	FY16E	Qtr	Target	(%)
CNX FMCG		16,886	8.2	18.2	26.1	22.3			
Nifty		6,267	3.9	14.9	12.2	10.9			
Britannia	Accumulate	865	13.9	21.0	21.8	18.0	Q1FY15	1,032	19.3
Colgate	Sell	1,320	15.0	7.3	35.7	33.4	Q1FY15	1,036	(21.5)
Dabur	Reduce	164	15.2	19.3	25.8	21.7	Q1FY15	172	4.8
Emami	Accumulate	451	14.5	17.2	22.1	18.4	Q1FY15	511	13.2
GCPL	Sell	705	19.5	19.2	24.7	20.7	Q1FY15	769	9.1
GSK Con. Health	Reduce	4,363	2.5	1.3	30.4	26.2	Q1FY15	4,159	(4.7)
Hindustan Unilever	Reduce	566	12.4	9.2	30.5	28.2	Q1FY15	556	(1.8)
ITC	Accumulate	324	13.6	18.9	24.7	20.9	Q1FY15	381	17.5
Jyothy Lab	Accumulate	195	22.0	38.1	15.2	12.0	Q1FY15	232	18.8
Marico	Accumulate	212	16.9	19.1	24.0	20.0	Q1FY15	238	12.4
Zydus Wellness	Sell	520	12.6	15.5	16.9	14.8	Q1FY15	491	(5.6)

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

1) volume growth, though trending lower, is likely to remain healthy compared to consumer durables and discretionary categories, 2) tailwinds from good crops and better realization should help sustain momentum in sales growth in rural India, 3) expected ~15% earnings growth over the upcoming years augurs well in the current economic scenario, and 4) nil leverage, strong free cash flows and high ROE testimonial of balance sheet strength.

Sector headwinds

1) slowing volume growth and down trading as a result of pressure on income, 2) uptick in raw material costs after hitting lows in FY14, and 3) high valuations that discount well into FY16 despite increasing risk to earnings performance.

Top Picks

- **ITC:** We expect excise increase to be low next year after two consecutive years of a rise. Pricing power in cigarettes should help sustain 15-20% earnings growth. Valuations are reasonable.
- **Britannia:** Targeted efficiency in manufacturing, distribution and better revenue mix on premiumization should drive EBITDA margin into the double digits, aiding strong earnings growth. The stock is trading at 22x FY15E earnings, and valuations are reasonable.
- **Dabur:** Product basket aligned to rural India and benefits of sustained high ad spends should enable drive decent volume and earnings growth.
- **Jyothy Laboratories:** Turnaround of acquired Henkel brands, strong earnings growth and the option with Henkel to buy a 26% stake should help the stock rise to higher levels in the upcoming year.

Top Sells

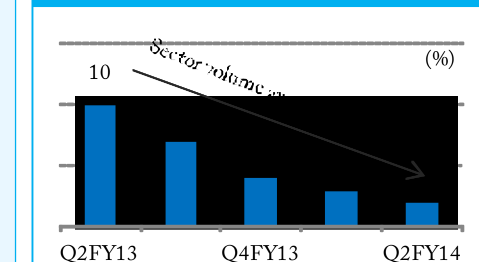
- **Colgate:** P&G's resolve to make inroads in the toothpaste category and readiness of substantial cash burn to chase market share will lead to deterioration in Colgate's profitability. It is trading at 34x FY15E earnings with a CAGR of 3% over FY13-16E. It is our top Sell.
- **GSK Consumer Healthcare:** Valuations of 32x FY15E earnings and 28x FY16E earnings with a FCF yield and dividend yield of ~3% and 1.5%, respectively, do not leave much room for appreciation.

Price performance

(%)	6M	1Y	3Y
CNX FMCG	(10.2)	11.8	91.7
Britannia	19.3	75.8	140.8
Colgate	(9.4)	(7.1)	65.5
Dabur	(5.1)	26.2	85.5
Emami	(11.1)	13.1	72.8
GCPL	(20.4)	(5.4)	83.4
GSK Con. Health	(15.1)	12.8	120.4
Hindustan Unilever	(13.3)	20.7	127.0
ITC	(11.9)	8.2	104.1
Jyothy Lab	11.9	30.7	77.7
Marico	(3.1)	(3.2)	71.7
Zydus Wellness	(20.5)	4.8	(7.3)

Source: Bloomberg

Volume growth has come off



Source: Bloomberg

> "I am a nuts and bolts guy and there is a lot to tighten from a manufacturing and distribution standpoint"
>
> - Varun Berry
> Britannia ED

No or small hike in excise after two successive years of levies to give elbow room on price increases, driving volume and earnings growth for ITC

Work in progress…

Brace for half a decade of underperformance before structural catalysts of low interest, repaired balance sheets and new funding avenues converge

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A stirred and diffident private sector with impaired balance sheet suggests the "initial push" aimed at revival of India's truncated capex cycle will need to be shouldered by the public entities. Despite a pickup in pace of reforms coupled with the CCI-led intervention to fast track clearances and expedite execution, we estimate the "on-ground" situation to materially transform only over the next 12-15 months. Hopefully, this should coincide with a peaked out rate cycle and successful emergence of a few but sizeable infrastructure debt funds offering affordable financing options.

FY14 has been another washout year for NHAI as despite projects spanning 2,800 km (worth INR 270bn) ready to be doled out on a PPP basis, a "lack of financially capable bidders" cropped up as an unforeseen concern, hampering awarding prospects. We expect 1,500 km of EPC contracts to be awarded in a best case scenario over the next couple of months before the election code of conduct kicks in. For FY15, we remain hopeful on NHAI successfully awarding jobs worth 5,000 km (80% on EPC basis).

"We see urbanization in India's cities as the next capex driver as individual states take the nascent steps towards building 'Concept Cities'"

We see urbanization in India's cities as the next capex driver as individual states take nascent steps towards building "Concept Cities" and spend judiciously in the next-in-line Tier II and Tier II cities and towns, which are growth-hungry and where urbanization can still be planned from scratch. We estimate India needs to incur INR 40tn in capex and INR 10.7tn in O&M across its cities in the years leading up to 2025.

We expect EPC companies with proven credentials working for local governments to emerge as the biggest beneficiaries. Our top picks are Sadbhav Engineering and NCC.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	FY14E-16E (%) EPS CAGR	P/E (x) FY15E	P/E (x) FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
CNXINFR		2,310	10.4	20.2	12.9	10.9			
Nifty		6,267	3.9	14.9	12.2	10.9			
Gayatri	Buy	61	16.4	21.3	2.2	1.8	Q4FY15	91	48.9
HCC	Buy	13	12.0	-	(13.4)	33.5	Q3FY15	19	41.8
IRB	Buy	83	6.7	(7.9)	7.9	7.0	Q3FY15	96	16.1
ITNL	Buy	123	6.2	19.5	3.8	3.1	Q4FY15	215	74.7
J Kumar	Buy	182	25.7	25.6	5.5	4.3	Q4FY14	250	37.2
Larsen & Toubro	Accumulate	1,006	13.5	10.5	17.8	16.2	Q2FY15	1,105	9.8
MBL Infra	Buy	119	6.6	9.6	3.1	2.7	Q3FY15	149	25.5
NCC	Buy	27	11.5	56.3	9.1	5.4	Q4FY14	40	46.5
Sadbhav	Buy	87	19.5	21.4	13.9	10.0	Q4FY14	118	36.1
Simplex Infra	Reduce	89	12.7	49.0	6.0	3.5	Q3FY15	86	(3.5)

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

Concerns over order inflows, execution, margin and working capital seem to have bottomed out over the past two quarters. We believe progress on reforms coupled with a meaningful reversal in the prevailing rate cycle over the next 12 months can turn around sentiment, inducing a pickup in the private sector capex. Meaningful FII inflows via equity (QIP, PE and FPO) and the debt route (infra funds and corporate bonds) remain crucial to ensure adequate liquidity at attractive terms.

Sector headwinds

Inconsistent order flows from the public sector, persisting high inflation and further hikes in policy rates

Top Picks

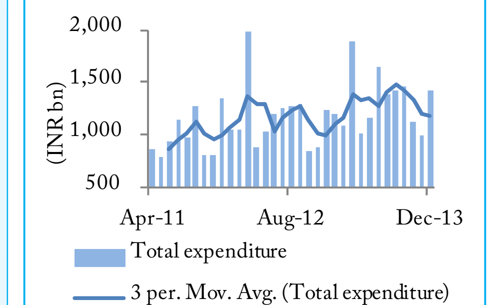
- **Sadbhav Engineering:** Despite the possibility of execution hiccups in the near term on core business coupled with a slower ramp-up in toll collection on the newly commissioned assets, long-term investment prospects remain bright. Having reached a backlog worth INR 100bn, the company now stands among few profitable Indian contractors with strong in-house execution capabilities and a proven track record of timely project completion
- **NCC:** The core construction business seems poised to chart an upward trajectory (we expect a revenue CAGR and a PAT CAGR of 12% and 56%, respectively, over FY14-16E). The group is headed towards a leaner business structure by right -sizing asset portfolio and consolidating operations in the realty division
- **IL&FS Transportation Networks:** The recent preference share issue (INR 4.0bn) and the proposed rights offering in Q4FY14 (INR 5.5bn) are expected to offset medium-term funding concerns across new assets (INR 10bn until March 2015). Potential value accretion from 14 assets getting commercialized over the ensuing 18 months and undemanding valuations (0.5x FY15E book) keep us positive
- **Hindustan Construction:** We recommend HCC as a high risk, high return proposition for investors. We expect a reincarnation of Lavasa, claims recovery and divestiture from noncore assets (247 Park and one-off land holdings) to pick up pace over the next few quarters

Price performance

(%)	6M	1Y	3Y
CNXINFR	0.3	(14.8)	(27.6)
Gayatri	(12.5)	(41.2)	(69.6)
HCC	46.6	(28.2)	(66.4)
IRB	(13.4)	(36.7)	(60.1)
ITNL	(10.5)	(41.7)	(50.0)
J Kumar	14.9	(22.1)	36.5
L&T	15.9	(8.8)	(5.2)
MBL Infra	2.7	(44.7)	(33.4)
NCC	7.2	(52.1)	(76.4)
Sadbhav	4.8	(32.1)	(12.9)
Simplex Infra	22.8	(54.7)	(73.8)

Source: Bloomberg

Total expenditure of central ministries



Source: Ministry of Finance, GoI

"In India, the most recent or what I call a 'mini-crisis' has triggered some soul searching in the government. India is trying to do the right thing and build up infrastructure"

- Jin-Yong Cai
IFC CEO & EVP

We have awarded 1,300 km of highway projects and are likely to tender 4,000 km more projects through the EPC mode by the end of this fiscal

- MoRTH

Size matters

FY15 will likely see benefits of digitization roll-out emerging. But given importance of bargaining power in the media sector, being dominant will continue to matter

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The digitization drive has rolled out reasonably well in the C&S space, and FY15 will be all about deriving benefits from higher addressability in the system. Given high room left for negotiations in deciding revenue share between broadcasters and distributors, we believe firms with the strongest presence in distribution space lend the highest conviction of benefits of digitization getting translated. While both Zee Entertainment and Sun TV command dominance in their respective markets, we continue to favor Zee among broadcasters, given that after the formation of Media Pro, Zee's bargaining power in fast-improving subscription market has risen significantly, likely to create strong double-digit earnings growth during FY13-16.

Dish TV has started flexing its "1 million subscriber base" muscles and is negotiating hard with broadcasters to lower content payments and increase payouts from carriage revenue stream. We see it achieving a fair degree of success in both fronts, allowing it to record higher gross margin via lower content cost and rising carriage fees over FY15-16. This and sustained ARPU growth & likely PAT breakeven would drive up the share price.

"Dish TV has started flexing its '1 million subscriber base' muscles and is negotiating hard with broadcasters"

Among cable firms, Den Network continues to be our top pick based on the largest footprints. The first evidence of digitization benefits (likely from Q3FY14) along with the further rise in digital subscriber base would re-rate the stock sharply.

HT Media has seen the worst of the current ad market slowdown among print firms, given high exposure to national and urban market advertisers. While ad market recovery is still uncertain, we highlight that trading at single-digit P/E, HT adequately factors in continuing slowdown until FY14, giving investors a chance to gain sharply in case the ad market revives.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	EPS CAGR	P/E (x) FY15E	FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
CNXMED		1,767	11.6	23.2	19.2	16.3			
Nifty		6,267	3.9	14.9	12.2	10.9			
Den Networks	Buy	158	8.9	1.1	154.0	78.6	Q1FY15	230	45.9
DB Corp	Reduce	319	12.9	19.0	16.1	13.6	Q2FY15	338	5.9
Dish TV	Buy	50	19.5	-	81.6	21.6	Q2FY15	84	68.6
HMVL	Buy	135	9.6	12.4	8.4	7.2	Q2FY15	168	24.6
HT Media	Buy	76	9.9	21.6	10.4	8.6	Q2FY15	125	63.9
Jagran Prakashan	Buy	90	11.5	16.8	11.7	9.8	Q2FY15	120	34.0
Sun TV Network	Buy	357	16.0	16.1	16.2	13.8	Q1FY15	460	28.8
Zee Entertainment	Accumulate	279	16.8	19.5	25.5	21.2	Q1FY15	315	13.0

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

The media sector saw a sharp re-rating in late 2013 as recovery hopes rose and DAS brought more to the table for distributors and broadcasters. While recovery in earnings is likely to start from H1FY15, we favor firms likely to benefit the most from the ad cycle reversal and DAS despite trading at premium valuations. Broadcasters are likely to benefit first, followed by distribution firms while print media firms may see better performance in H2, given high dependence on ad revenue

Sector headwinds

Improving industry structure in the distribution business is likely to allow multiple firms to expand at low cost, heralding rising competition for existing companies. Slow recovery in economic growth will dampen revival hopes for print firms. A further bout of currency depreciation can smother earnings growth of print companies despite ad revival

Top Picks

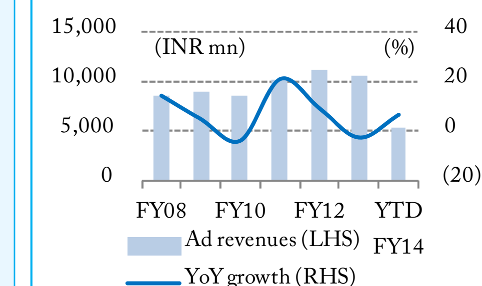
- **Zee Entertainment:** It is the strongest firm in the fast-improving Indian subscription revenue market. It is likely to corner the most benefits from DAS; the valuations are reasonable, given likely earnings growth and scope for positive surprise
- **Dish TV: The company**, with its leadership position in the DTH space, is looking to expand margin aggressively after reaching sizeable scale. Its recent initiatives to limit content cost inflation, create ancillary revenue streams and build further subscriber base in phases 3 and 4 of DAS roll out without sacrificing cash flows are bound to see results in FY15
- **Den Networks:** The leader in the fast improving cable value chain is likely to see strong financial performance, once DAS implementation starts getting reflected from Q4FY14. The start of gross billing is likely to lift top-line multiple times while its dominant presence will ensure that profitability too will keep pace; valuations are still away from FY15 earnings jump
- **HT Media:** The company was adversely affected the most, following print ad slowdown, and it is available at the cheapest valuations. With presence in only a few cities, the turnaround can be quick and sharp. We see likely sharp earnings growth as ad growth reaches into the double digits as seen in FY11; strong balance sheet provides additional comfort

Price performance

(%)	6M	1Y	3Y
CNXMED	1.3	(6.1)	14.5
Den Networks	(16.0)	(35.9)	0.1
DB Corp	20.4	31.8	37.9
Dish TV	(10.3)	(36.3)	(19.6)
HMVL	8.6	(12.1)	(10.4)
HT Media	(24.4)	(29.2)	(51.1)
Jagran Prakashan	(2.3)	(18.9)	(18.9)
Sun TV Network	(6.9)	(21.0)	(20.2)
Zee Entertainment	5.5	16.6	135.5

Source: Bloomberg

HT on course for FY11 encore?



Source: Company

"Broadcasters will either have to reduce carriage payout to the multi-system operators or bring uniformity or pay carriage fees to DTH players"

- RC Venkateish

CEO, Dish TV India

The broadcast company has unveiled its first corporate brand film based on its brand positioning, Vasudhaiva Kutumbakam - The World is My Family

METALS UNDERWEIGHT

Bottom in place

With a positive bias, we recommend investing in select metals stocks depending on valuation

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Ferrous: We expect steel demand to improve with continued signs of improvement being seen in China and other developed countries. We believe global steel prices have limited room for a downside now, as gross margin of Chinese producers is at a three-year low, and most producers are expected to be loss-making. However, we also rule out any sustainable uptick in steel prices as the issue of overcapacity remains.

On the domestic front, we favor companies with continued volume growth along with cost controls, which help improve margin in case of any uptick in steel prices. We expect a demand recovery from Q4FY15 on the back of the government implementing new projects in the infrastructure sector. Overall, we expect average domestic steel prices to be flat YoY with a positive bias in FY15. We expect domestic iron ore prices to remain firm, due to lower output from Odisha and Karnataka. Imported coking coal prices are expected to be range bound (USD 150-160/ton) in FY15E. Overall, we expect domestic steel firms to report flat to slightly higher EBITDA/tonne in FY15, due to higher steel volume.

Non ferrous: In the current downturn, LME price decline was slow while premiums were higher, delaying the supply-side discipline which markets need. Thus, we continue to observe the oversupply situation in base metals, and, hence, LME prices should remain under pressure.

> "We expect consolidation before stocks move up again while factoring in FY16 earnings in the next six months."

We recommend investing in select metals stocks on the back of strong liquidity and signs of improvement in the world economy. We expect some consolidation before stocks move up again while factoring in FY16 earnings. We have arrived at the target price by assigning 75% weightage to FY15 earnings and 25% to FY16 earnings. Our top picks in the sector are Tata Steel, Hindustan Zinc and GMDC.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	EPS CAGR	P/E (x) FY15E	FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
CNXMET		2,394	9.3	15.9	7.9	7.1			
Nifty		6,267	3.9	14.9	12.2	10.9			
Adhunik Metaliks	Buy	29	5.9	89.8	2.8	1.7	Q4FY14	56	92.2
Coal India	Buy	258	10.9	7.2	8.2	7.7	Q1FY15	332	28.7
GMDC	Buy	116	27.4	27.3	6.7	5.5	Q4FY14	149	28.8
Hindalco Ind.	Sell	114	12.5	30.2	7.3	5.9	Q4FY15	100	(12.0)
Hindustan Zinc	Buy	131	11.2	14.2	7.2	6.2	Q4FY14	163	24.1
JSW Steel	Sell	970	5.0	16.9	10.8	7.9	Q3FY15	829	(14.6)
NMDC	Sell	146	13.7	6.1	8.9	8.2	Q3FY15	134	(7.8)
SAIL	Sell	69	16.8	21.6	9.6	8.5	Q3FY15	54	(21.5)
Tata Steel	Buy	376	6.6	40.5	9.3	7.5	Q4FY14	473	25.8

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

The expectation of demand improvement along with cost support has bottomed out metals prices. However, we also rule out any major uptick in metals prices as the problem of overcapacity and oversupply remains. Hence, we prefer companies with continued volume growth and cost controls, which will improve sector margin. We are more upbeat about the later part of H2FY15, given low base and the potential pent-up demand

Sector headwinds

Regulatory risks, such as a further increase in royalty, delay in resumption of mining, and a sharp rupee appreciation may impact profitability of the sector

Top Picks

- **Hindustan Zinc:** There is a possibility of the government selling its 29% stake to Vedanta (Vedanta willing to pay upto INR 149/share). It could be a de-listing candidate after this, which should be positive for minority shareholders. It is the lowest cost zinc producer of the world and has a strong balance sheet, with net cash of INR 62/share in FY14E. It has a ROE of 20% and is available at attractive valuations.
- **Tata Steel:** Tata Steel Europe is expected to cash breakeven in FY15. In domestic operations, we expect an 11% volume CAGR during FY13-16E. Domestic steel prices may remain firm and Tata Steel will remain the lowest cost producer in India, and, hence, we expect it to record an EBITDA CAGR of 14% during FY14-16E. We expect the stock to outperform peers with an absolute return of ~40% while valuing on a FY16 basis.

Top Sell

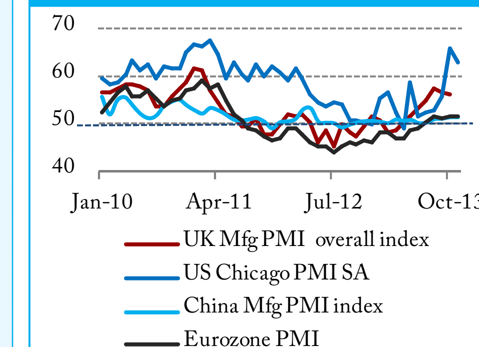
- **Hindalco:** With subdued aluminum prices and absence of captive coal, its upcoming smelters will make cash losses. Novelis' growth in earnings is more than factored in the current market price. The stock is expensive at the current valuations.

Price performance

(%)	6M	1Y	3Y
CNXMET	30.1	(16.8)	(47.4)
Adhunik Metaliks	26.9	(27.6)	(67.7)
Coal India	(11.8)	(27.0)	(1.3)
GMDC	16.9	(41.5)	1.1
Hindalco Ind.	17.6	(4.6)	(48.4)
Hindustan Zinc	24.6	(1.0)	7.7
JSW Steel	64.9	5.8	6.4
NMDC	36.3	(11.4)	(40.5)
SAIL	54.1	(24.6)	(54.8)
Tata Steel	61.5	(13.1)	(39.9)

Source: Bloomberg

Global PMI Indexes showing expansion



Source: Bloomberg

"The worst is over for the steel industry. Prices won't fall beyond this. It is the best time to buy assets"

- CS Verma
Chairman, SAIL

The government has told us to keep our funds ready as it plans to divest soon

(On stake sale of Hindustan Zinc and Balco)

- Anil Agarwal
Chairman, Vedanta

Reforms…the litmus test

Tying up loose ends would certainly result in revival of the oil & gas sector. We expect the petrochemical segment to remain a mixed bag as long as global signs of economic recovery aren't there

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Despite several policy announcements, loose ends remain to be tied up. While pessimism remains, reforms have more or less been at the top of the agenda despite general elections knocking on the door. We believe the upcoming weeks will see clarity emerging on gas pricing, the renewal of production-sharing contracts (PSCs), further reforms in the E&P sector and the launch of NELP-X, the shale gas exploration and development policy, which would bring the sector in focus.

Clarity on gas price hike would result in better realization for upstream firms and enable the development of fields that were earlier considered economically unviable. The Khuntia committee is also expected to give its recommendations on renewal of PSCs, which would remove uncertainty about the future of several fields like Cairn's Rajasthan field for which contracts are expected to lapse shortly. In light of the upcoming NELP-X, we expect developments that would expedite decision-making in the E&P sector and initiatives which could boost investments. The earlier policy of allowing exploration in already developed areas is also expected to bear fruit in the current fiscal.

"Reforms are expected to outweigh pessimism; we expect several key developments this year"

Continued hike in diesel prices combined with softening of crude oil price are expected to result in a sharp contraction in gross under-recoveries. We expect gross under-recoveries to decline by 32% in FY15E and by further 10% in FY16E. This decline is expected to sharply improve realization of upstream companies as well as decrease dependence of OMCs on subsidies.

While refining margin is likely to be subdued due to capacity surplus, we expect complex refiners, especially those with integrated downstream assets to fare better. Our top picks are BPCL, ONGC and Cairn India.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	FY14E-16E (%) EPS CAGR	P/E (x) FY15E	P/E (x) FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
BSEOIL		8,646	4.3	10.8	8.7	8.1			
Nifty		6,267	3.9	14.9	12.2	10.9			
Bharat Petroleum	Buy	343	2.7	(4.9)	15.0	10.2	Q3FY15	529	54.2
Cairn India	Buy	325	(4.7)	(18.1)	5.5	7.5	Q1FY15	420	29.3
Chennai Petroleum	Buy	69	2.6	-	5.7	2.8	Q1FY15	86	24.2
Essar Oil	Accumulate	51	(1.6)	-	10.1	3.8	Q4FY15	56	9.7
GAIL	Reduce	350	11.6	11.1	10.9	10.0	Q4FY14	359	2.5
HPCL	Buy	232	2.4	14.8	8.4	5.6	Q3FY15	310	33.5
IOCL	Sell	228	4.6	0.5	11.3	56.3	Q3FY15	182	(20.1)
MRPL	Buy	42	(0.4)	177.9	4.7	4.2	Q1FY15	65	53.3
ONGC	Buy	283	8.3	39.1	6.1	5.5	Q4FY14	359	26.8
Oil India	Buy	471	27.4	38.1	5.1	4.5	Q4FY14	684	45.2
Petronet LNG	Accumulate	111	20.0	31.4	8.3	6.4	Q3FY15	134	21.2
Reliance Industries	Reduce	868	3.6	5.6	11.3	10.7	Q4FY14	882	1.6

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

Continued increase in diesel price and softening of crude oil prices would result in a decrease in gross under-recoveries for OMCs. An increase in gas price hike would help in raising profitability of upstream companies along with increasing viability of several gas fields. Progress in Kochi gas pipelines would help in higher volume for both Petronet LNG and GAIL

Sector headwinds

Any roll back in diesel price hike, combined with continued lack of clarity on subsidy sharing mechanism or gas price hike could spell doom for the sector

Top Picks

- **BPCL:** Developments on the E&P front, particularly Mozambique and Brazil, would continue to push the stock higher. Lowering of under-recoveries would further benefit the stock
- **ONGC:** Valuations reflect low post-subsidy realization; we expect realization to improve as under-recoveries come down. Gas price hike would be an added trigger
- **Cairn India:** Continued exploration in the developed area is expected to result in further strengthening of reserves. Production ramp-up and commencement of EOR would add further fillip

Top Sell

- **Indian Oil Corporation:** Commissioning of Paradeep refinery is expected to be delayed to FY15-end. Delayed commissioning of secondary units combined with high depreciation and interest costs would result in a sharp decline in profit

Neutral

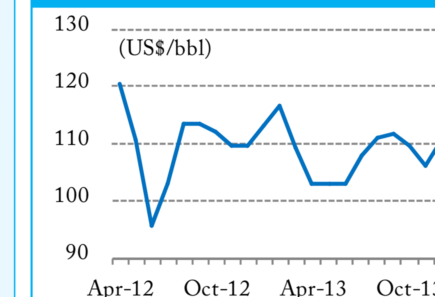
- **Reliance Industries:** Capacity surplus in refining combined with continued pressure on light-heavy differentials are expected to keep refining margin in check. A lack of clarity continues on the E&P front. A majority of core expansion is expected to be EPS-accretive in 2017.

Price performance

(%)	6M	1Y	3Y
Sector Index	(4.8)	(11.5)	(11.4)
Bharat Petroleum	(3.6)	(19.6)	14.6
Cairn India	6.1	(0.2)	4.2
Chennai Petroleum	(14.3)	(52.1)	(66.8)
Essar Oil	(23.5)	(37.0)	(59.5)
GAIL	8.1	(2.5)	(18.9)
HPCL	(2.1)	(34.9)	(30.5)
IOCL	0.1	(30.9)	(27.6)
MRPL	12.8	(35.4)	(39.0)
ONGC	(8.8)	(18.8)	7.1
Oil India	(14.4)	(14.4)	1.9
Petronet LNG	(12.7)	(32.4)	(13.3)
Reliance Industries	(5.3)	(7.6)	(4.7)

Source: Bloomberg

Brent (US$/bbl)



Source: Bloomberg

"No rethink on gas price hike"

- Shree Veerapa Moily
Minister, Petroleum & Natural Gas

Diesel price hikes amid assembly and general elections give confidence of continued reforms

Mid caps to outperform

We expect mid cap pharma companies to outperform their large cap peers on the back of favorable valuations, upside from recovery in India and new launches in the US and other emerging markets

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With one year of Generic Drug User Fee Act (GDUFA) underway, we expect a pickup in the pace of abbreviated new drug application (ANDA) approvals by the US FDA, which will benefit companies with a significant presence in the US market. This fuelled with patent expiry would drive US formulations earnings. We believe companies expanding their offerings outside the traditional oral solid drug delivery route will reap benefits, with improved margin from the niche segments.

The US market also has witnessed improved pricing recently, owing to non-availability of raw materials, increased costs associated with GDUFA implementation and higher US FDA scrutiny. We expect the situation to reverse. As we usher in 2014, we had expected pain from the implementation of DPCO 2013 and the ensuing traders' strike to be behind us, with healthy volume growth and price revisions driving performance in the domestic segment. In India, we expect companies with significantly higher contribution from the chronic segment to outpace the broader markets. In light of price reduction, we expect MNC pharma companies to realign their work force towards non-DPCO products, which could present near-term weakness.

> "The slowdown in India is temporary. Growth is expected to return into the strong double- digits shortly"

The pharma sector benefited from the favorable rupee movement in 2013. The year saw the currency depreciate by nearly 25% reaching a high of INR 69, before closing the year at INR 62. Our earnings estimate assume a rupee-dollar rate of INR 63.3. We believe mid cap stocks will outperform their large cap peers in 2014 on the back of favorable valuations, healthy balance sheet and upside from recovery in India and new launches. Among large caps, our top pick is Dr Reddy's, and among mid caps, we like Divi's & Torrent Pharma.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	FY14E-16E (%) EPS CAGR	P/E (x) FY15E	P/E (x) FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
CNXPHRM		7,812	13.3	18.9	20.4	17.1			
Nifty		6,267	3.9	14.9	12.2	10.9			
Cadilla Healthcare	Reduce	836	14.5	15.4	17.4	15.1	Q1FY15	863	3.3
Cipla	Reduce	414	14.2	16.1	19.3	16.7	Q4FY15	430	3.8
Divi's Lab	Accumulate	1,327	23.8	19.2	19.5	16.0	Q2FY15	1,362	2.6
Dr. Reddy's	Accumulate	2,661	12.0	14.9	19.3	17.6	Q1FY15	3,026	13.7
Glenmark Pharma	Buy	510	13.5	21.8	17.7	14.7	Q3FY15	626	22.6
GSK Pharma	Sell	2,983	13.9	17.9	34.9	31.4	Q3CY14	2,737	(8.2)
Lupin	Accumulate	914	14.5	14.3	20.1	18.2	Q3FY15	998	9.2
Ranbaxy	Sell	336	(0.8)	31.3	25.4	21.3	Q1FY15	285	(15.4)
Sanofi India	Accumulate	2,656	12.5	17.7	22.9	19.5	Q2CY14	2,789	5.0
Sun pharma	Accumulate	604	12.4	7.6	24.3	21.7	Q1FY15	646	7.0
Torrent Pharma	Accumulate	537	20.6	5.4	15.6	14.2	Q2FY15	568	5.7

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

As the GDUFA implementation rolls out, companies will benefit from quicker product approvals in the US market, along with a slew of patent expiries (drugs worth USD 80bn going off patent during CY12-16). We expect companies to benefit from investment into niche segments like injectables, oral contraceptives and dermatology. Companies are also likely to benefit from the recovery in domestic market, further aided by the low base effect.

Sector headwinds

In light of increased scrutiny by the US FDA and payment of fees, the US market has witnessed uncharacteristic price increases, which, we believe, is not sustainable and will correct eventually.

Top Picks

- **Dr Reddy's Labs:** We expect Dr Reddy's investments in developing a portfolio of complex generics to start paying off. Over the near term, the company's strengthening position in the US injectables space will drive earnings along with the recovery in India and Russia.
- **Divi's Labs:** The commencement of DSN SEZ will drive earnings in FY15. The company is best placed in the CRAMs space, given its relationships (large innovators), India-centric operations and leadership position in several APIs.
- **Torrent Pharma:** Torrent is expected to outperform in India, given its strong chronic portfolio. The launches in the generic-generic segment drive performance in Latin America. The company is looking at 5-6 launches annually in the US market.

Top Sell

- **Ranbaxy:** The continued lapse of cGMP plagues prospects of a recovery and timely launches in the US market.

Neutral

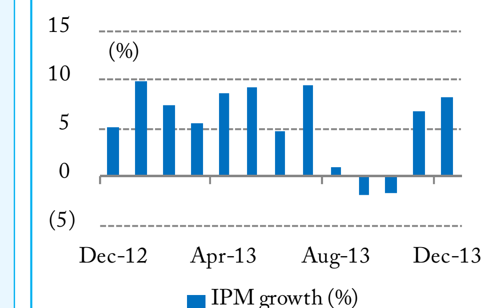
- **Sun Pharma:** While niche launches will continue to drive strong earnings, high valuations and limited long-term clarity in exclusivity will cap stock performance.

Price performance

(%)	6M	1Y	3Y
CNXPHRM	8.2	30.1	64.6
Cadilla Healthcare	11.0	(5.4)	3.2
Cipla	(0.0)	4.3	26.0
Divi's Lab	38.2	26.5	120.2
Dr. Reddy's	14.8	35.4	72.2
Glenmark Pharma	(9.7)	4.1	74.7
GSK Pharma	21.3	44.9	38.9
Lupin	4.9	49.5	117.4
Ranbaxy	1.8	(32.1)	(42.0)
Sanofi India	8.4	19.4	51.7
Sun pharma	7.0	64.1	171.2
Torrent Pharma	32.9	48.6	101.0

Source: Bloomberg

Domestic market growth



Source: AIOCD

> "I think it is wholly reasonable for a country undergoing tremendous growth with challenges to think about pricing"

Andrew Witty, CEO MD, GSK plc on DPCO 2013

We expect Sun Pharma to continue to post strong margin on the back of the extended generic Doxil exclusivity

Tariffs, Tariffs, Tariffs…

Amid demand slowdown and ongoing public IPP capex, we expect a flurry of activity on tariffs in 2014 before private capex revives

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2014 would set the pace of tariff revision (through notification of new norms by regulators – central and state), compensatory tariff (for mispriced PPAs), tariff rationalization (watch for bidding behavior whether rational or aggressive) and tariff hike by SEBs.

While the proposed tariff regulations have altered math on incentives, dragging earnings and ROE of public IPPs, there could be moderation in the final version by March 2014 (impact: NTPC, Power Grid, NHPC and SJVN). Watch if other states follow Rajasthan, which has proposed a lower ROE of 14.0% from 15.5% (impact: JSW Energy, CESC, Reliance Power, Torrent Power, Tata Power & Reliance Infra). On Case II bidding, the government is set to award two UMPPs of 4 GW each, with capex of INR 250bn in Q4FY14, after a gap of four years. Watch out for bidding behavior by NTPC, JSW, NHPC-BHEL, JSPL and L&T. This along with other bids like Jharkhand's 1.32 GW would set the stage for capex revival by the private sector in FY15 and drive order inflows for BHEL, Thermax (boiler only), LT, BGR Energy and JSW (turbine only).

> "Award of two UMPPs, coal block via auction, tariff renegotiation and CCI's efforts to remove bottlenecks would facilitate return of private capex"

Case I bidding would help JSW, CESC, GMR Infra, Adani Power, TPWR and JP Power tie-up open capacity, resulting in improved PLF. While the decision on compensatory tariff for TPWR's Mundra plant is expected soon, this has raised hopes for a favorable revision in tariffs (impact: ADANI, GMRI, L&T and LANCI.

With gas price due for revision from April 1, the wait for gas IPPs could be a longer before production ramps up. The bidding could start in coal mining to award blocks to the private sector. Our top picks are PowerGrid, SJVN, PTC India and CESC.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	FY14E-16E (%) EPS CAGR	P/E (x) FY15E	P/E (x) FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
BSEPOWR		1,569	7.6	18.0	10.4	9.1			
Nifty		6,267	3.9	14.9	12.2	10.9			
CESC	Accumulate	419	8.6	24.7	9.2	6.5	H2FY15	490	16.9
GMR Infra	Reduce	23	30.7	83.6	85.4	21.3	H1FY15	23	-
JSW Energy	Reduce	48	7.3	(4.3)	6.5	8.1	H2FY15	49	2.2
NHPC	Buy	18	13.7	14.7	9.0	8.0	Q2FY15	24	33.3
NTPC	Accumulate	132	13.9	6.8	10.1	9.0	Q1FY15	155	17.9
Power Grid	Buy	98	15.4	19.0	8.9	7.8	Q1FY15	125	27.4
PTC India	Buy	58	11.3	0.1	12.5	10.8	H2FY15	72	24.4
Reliance Power	Buy	67	37.3	57.3	16.0	8.8	H1FY15	85	27.4
SJVN	Accumulate	21	14.5	2.9	6.8	7.0	Q2FY15	25	17.9

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

Sector positives

Start of bidding in Case II (after a gap of 3-4 years) would drive fresh investments. After 2009, fresh coal block allocation to the private sector will be through auctions. There will be gradual addition of fresh capacity. Easing of receivables as FRP is implemented in seven states, improving SEB financial health. FSAs of 71 GW are already signed by Coal India. Resorting to tariff hikes by SEBs to bridge the gap between average revenue realized and average cost of supply.

Sector headwinds

Return of irrational behavior during bidding, lower demand leading to back-down by SEBs affecting PLF, stricter final tariff regulations affecting ROE and longer time for resolving tariff renegotiations issues and higher receivables

Top Picks

- **Power Grid:** As FPO overhang is over, we expect the stock to re-rate based on strong capex, growth in regulated equity by 18% over FY13-16E driving overall earnings growth of 18% and a ROE of ~15%.
- **CESC:** Sustainable ROE of 16-18% from Kolkata, no coal price risk for 76% of capacity having pass-through, gradual reduction in losses in the retail division (turnaround by FY16) and a possible stake sale gives us comfort. We expect earnings CAGR of 21% over FY13-16E.
- **SJVN:** Beneficiary of 16.5% regulated ROE, capacity scale-up by 31% by Q1FY15E, venture into coal-based IPP to augment capacity, the highest dividend yield in India utility universe and negligible net debt-equity ratio makes SJVN among the best hydro firms in India.

Neutral

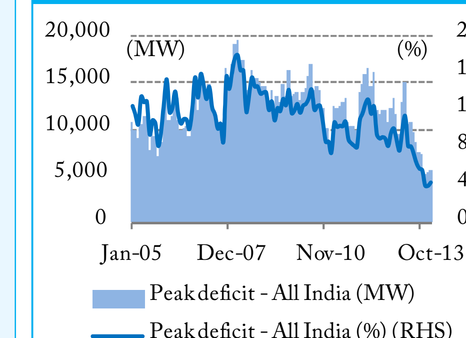
- **NTPC:** While NTPC makes the highest power ROE of more than 20% through incentives, the proposed regulations would remain an overhang on the stock until the final regulations are notified. We expect a 9% fall in FY15E earnings and a 100bp decline in ROE if draft regulations are implemented. Overall ROE is expected to be around 12% and earnings growth is among the lowest at an 8% CAGR over FY13-16E.

Price performance

(%)	6M	1Y	3Y
BSEPOWR	(4.0)	(23.1)	(45.2)
CESC	27.0	24.0	37.7
GMR Infra	32.2	9.6	(47.6)
JSW Energy	0.0	(38.9)	(43.9)
NHPC	(0.3)	(33.3)	(22.3)
NTPC	(7.3)	(18.0)	(26.6)
Power Grid	(10.9)	(13.0)	6.5
PTC India	16.2	(28.7)	(41.3)
Reliance Power	(18.2)	(32.4)	(53.3)
SJVN	9.9	(3.0)	10.0

Source: Bloomberg

With commensurate decline in Peak deficit



Source: Elara Securities Research, Ministry of Power

> "CIL is forced to take undue contractual obligations, sacrificing commercial interests. I want to know what is CIL's business model"

- Narsing Rao
Chairman, CIL

Speedy green clearances, review of PPP model needed to revive the investment cycle

TELECOM

Consensus trade with caveats

Improving operating environment and regulatory certainty over the next two quarters are harbingers of hope

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The two contrasting factors that weigh on the telecom sector's outlook are operating environment and regulatory uncertainty.

The operating environment, which has been a concern for two quarters, has abated substantially. Most telecom firms have reduced RPM-centric aggression. While the incumbents have led in the RPM increase battle, the recent Telenor results highlight even it has taken a price increase after 7-8 quarters. This indicates the change in stance across the industry.

But, recent management discussions indicate Telenor will take a cautious stance to increase RPM gradually to have some price elasticity on MOU. Subsequently, any improvement will be through reduction of discounted minutes instead of an apparent tariff hike. We expect Bharti Airtel and Idea Cellular to improve RPM by 7-8% in FY15E. With nearly two-thirds of cost being fixed, one paisa of RPM increase can add incremental EBITDA margin of 65-70bp for the incumbents.

The data growth story is still another 6-8 quarters away from hitting the J-curve. The data ecosystem lacks sufficient handset penetration, pricing environment as well as network coverage. Indian telcos capex for data network is well below Southeast Asia in terms of capex per subscriber despite the fact it has the lowest subscriber per mhz. Uncertain regulations and a lack of clarity about the upcoming spectrum band availability are holding back investments. With 3G coverage at just 15-20% of 2G coverage, we believe the 3G story will require sizeable investment even before we see penetration rates picking up.

> "The 900 Mhz auction poses the biggest event risk for telcos, beyond which fundamentals take over. We expect a slow gradual recovery"

The government's "no restrictions on the technology" stance adopted for acquired spectrum could pave the way for 3G investments. All 3G firms are spectrum-starved and operating in the 2100 Mhz band. This could create interest in firms, which have 3G and 4G ambitions. The caveat is that firms will have to liberalize existing spectrum by payment of auction-determined price prorated for the validity period.

The upcoming spectrum auction in January holds the highest uncertainty for the incumbents, which have put up their 900 Mhz spectrum for auction. An inability to retain spectrum could trigger significant capex investment and deteriorate network quality. We remain positive, given the improving operating environment and better regulatory clarity over the next six months, starting with the January auction.

Our top picks in the sector are Bharti Airtel, as it has greater potential to improve RPM and Idea Cellular as it is due for an earnings upgrade.

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	FY14E-16E (%) EPS CAGR	P/E (x) FY15E	P/E (x) FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
Nifty		6,267	3.9	14.9	12.2	10.9			
Bharti Airtel	Buy	313	10.9	49.6	19.4	16.9	Q1FY15	395	26.0
Idea Cellular	Buy	152	11.1	39.6	17.6	13.4	Q1FY15	185	21.4

Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

NEUTRAL

Sector positives

Competition from smaller firms has been restricted to a few circles and has tapered off. With reduced aggression from smaller firms, we now see consensus emerging in the industry on the necessity to improve pricing, as all the incumbents look to focus on the return ratios. With nearly two-thirds of cost being fixed, every one paise of RPM increase can add incremental EBITDA margin of 70%, implying a sizeable 102bp EBITDA margin increase and 20% PAT growth.

Sector headwinds

Regulatory headwinds persist. The upcoming auction in January for 900 Mhz and 1800 Mhz holds high relevance for the incumbents, and an inability to retain the efficient 900 Mhz spectrum raises concerns for Bharti Airtel.

Top Picks

- **Bharti Airtel:** Bharti's RPM lags Idea Cellular's by about 2%. Since mid-FY13, Bharti's aggression to win lost market share has kept its RPM below peers. This would provide the company greater potential to improve RPM.
- **Idea Cellular:** The prolonged earnings downgrade cycle has started giving way for an earnings upgrade.

Price performance

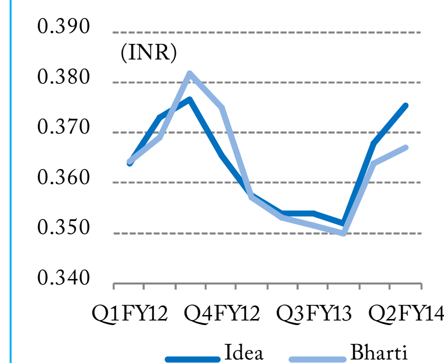
(%)	6M	1Y	3Y
Bharti Airtel	(9.0)	(14.9)	(5.3)
Idea Cellular	(12.1)	27.7	106.7

Source: Bloomberg

New kid on the block

- Reliance Jio's participation in 1800 Mhz could give the company an edge in network rollout. Presently, the lack of ecosystem developed globally in the 2300 Mhz spectrum band is the biggest hurdle in rolling out the long-term evolution (LTE) network.
- The 1800 Mhz spectrum is far more developed globally for LTE-based fourth generation (4G) services. Since India has substantial 1800 Mhz spectrum available, Reliance Jio should acquire spectrum in the band, which could enhance its competitive position in the market.
- That said, the consumer market may not be ready to make a transition to a premium data service.

Bharti RPM trails Idea



Source: Company Elara Securities Research

> "People will hedge their bets and adopt a more regional approach, looking at spectrum in high revenue generating states"
>
> - Rajan Mathews, director-general, COAI

> The firm believes the license contract between Bharti Airtel and the DoT guarantees the extension of licenses along with the allocated spectrum
>
> - Bharti Management

Recovery to ease pain

Slight recovery in economic activities versus the persistent deteriorating trend in the past would improve banks' asset quality and core margin

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In FY15, we await a positive transition in economic activities to favor banks' profitability. We expect the banking sector to show a gradual improvement in fundamentals, with a slight uptrend in macroeconomic variables in FY15. The most important determinant — domestic production pace — is likely to stabilize in the near term and improve slightly after declining for a prolonged period. The expected expansion in GDP would lead to higher credit demand, and, most importantly, a reduction in incremental slippages.

Sharp volatility and sustained high level of G-Sec yield have adversely affected banks' (particularly PSBs) profitability in the recent past. Any moderation in yields would add to banks' (mainly PSBs) profitability. The rate of change in pace would be a critical factor; our near-term view is neutral and long-term bias (in FY15) is positive on select stocks.

Broad-based credit demand could relieve pressure on banks and provide them a wider scope in forming a balance between margin and asset quality. We expect domestic banking sector loan book and deposits to expand at ~16% YoY and ~15% YoY in FY15E. Expected marginal improvement in asset quality could add to margin.

"Odds of further deterioration in macro -economic indicators is low. Stability or slight improvement in the indicators would add to banks' profitability"

Currently, a bank's focus area is limited to retail, service-sector MSME and disbursements to the power sector. Loan demand from various industrial verticals have been either non-existent or banks have been reluctant. Expectations of a gradual revival in economic activity in FY15 would provide banks an opportunity to re-balance their loan portfolios.

In the near term, upgradation of agricultural NPLs would contain the rise in the overall NPL level, especially of PSBs. For PSBs, ~20-25% of total GNPLs are from the agriculture sector. NPL recovery & upgradation from the sector due to better harvest would add fillip, although stressed assets addition from other loan segments would continue on an upward trend in the next 2-3 quarters. In FY15, we expect a slight reduction in net slippages on the back of expected revival in economic activities.

Moderation in the G-Sec yield during the next fiscal would add to banks' non-core income. Probability of MTM write-back and capital gains is higher than additional MTM provisions along with capital losses.

Our top picks for the sector are ICICI Bank, Axis Bank, Bank of India, J&K Bank and DCB Bank.

Sector positives

A marginal revival in the economic cycle in FY15 would alleviate asset quality concerns to some extent. Banks' credit cost could be on the lower side. G-sec yields across tenures could begin drifting before stabilizing at the current level for some more time. If these factors do move favorably as expected, banks' profitability will improve, necessitating higher valuation multiples.

Sector headwinds

In the upcoming 2-3 quarters, banks could continue to face higher slippages and loan restructuring, requiring higher provisions. Higher operating expenses on account of a revised mortality table and continued equity infusion to fulfill regulatory requirements would hurt the return ratios. Banks need to beef up their core capital to fulfill Basel III and CCCB requirements, raising equity capital and quasi-equity capital in the upcoming years would be an uphill task, particularly for PSBs.

Top Picks

- **ICICI Bank:** Modest business expansion added with high margin would continue to augment earnings visibility. Dividend from subsidiaries would be an additional advantage. Ability to maneuver NPLs and repatriation of capital from overseas subsidiaries would enhance the return ratio.
- **Axis Bank:** The bank would witness increments to the return ratio from expected improvement in asset quality, and traction in business expansion. Asset quality concerns would alleviate, with likely improvement in the economic environment.
- **Bank of India:** Stability in margin with selective business expansion and traction in core fee income would stabilize core income. Sharp improvement in asset quality and recovery of written-off debts may bring a jump in the return ratio.

Top Sell

- **State Bank of India:** After we strip SBI's subsidiaries' intrinsic worth, we estimate SBI standalone quotes at 1.2x FY15E P/ABV, which we consider is a rich valuation, considering high equity dilution, higher business expansion (compared to the banking industry), stable margin and asset quality in FY15. The standalone entity is expected to report RoAA and RoAE of 0.75% and 12%, respectively, in FY15; with a RoAE below cost of equity, the bank does not command valuation premium to adjusted book value.

Price performance

(%)	6M	1Y	3Y
CNXBANK	0.7	(17.0)	(1.3)
Axis Bank	4.8	(16.2)	(3.5)
Bank of India	14.9	(42.2)	(47.2)
Canara Bank	(13.3)	(52.3)	(53.7)
HDBK	0.8	(2.4)	61.7
ICBN	8.4	(13.9)	4.3
IndusInd Bank	(5.9)	(8.4)	87.0
Karur Vysya	(14.9)	(37.0)	(10.6)
OBC	14.7	(45.4)	(36.6)
PNB	(7.8)	(37.3)	(45.4)
SBI	(9.7)	(36.6)	(36.0)
Syndicate Bank	(11.8)	(38.8)	(10.1)
UBI	(17.5)	(56.3)	(60.7)
Allahabad Bank	4.7	(53.9)	(54.2)
Andhra Bank	(23.9)	(51.6)	(51.8)
City Union Bank	6.5	(18.3)	43.8
DCB Bank	10.9	9.1	8.2
Dena Bank	(7.1)	(52.0)	(38.3)
J&K bank	14.9	1.5	103.9
Indian Bank	5.1	(49.4)	(43.7)

Source: Bloomberg

Valuation Matrix

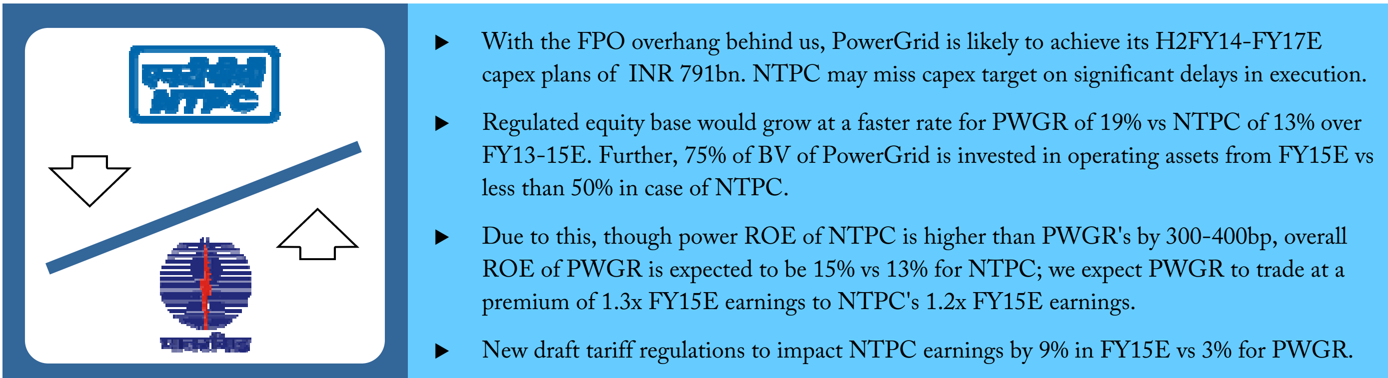
	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	EPS CAGR	P/E (x) FY15E	FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
CNXBANK		10,982	(4.0)	6.5	8.6	7.8			
Nifty		6,267	3.9	14.9	12.2	10.9			
Axis Bank	Buy	1,205	14.0	14.1	8.4	7.2	Q1FY15	1,551	28.8
Bank of India	Buy	228	18.1	19.7	4.0	3.0	Q2FY15	302	32.6
Canara Bank	Buy	248	17.1	19.6	3.7	2.9	Q2FY15	320	29.2
HDFC Bank	Reduce	673	17.6	16.3	16.1	14.1	-	676	0.4
ICICI Bank	Buy	1,058	16.7	14.5	11.0	9.4	Q2FY15	1,486	40.5
IndusInd Bank	Accumulate	415	22.1	25.5	12.6	10.2	-	477	14.9
Karur Vysya	Reduce	333	19.6	42.4	7.4	5.6	-	343	3.0
OBC	Accumulate	189	11.9	28.4	4.4	3.1	Q2FY15	206	9.1
PNB	Buy	582	13.0	32.5	4.4	3.3	Q2FY15	793	36.2

Valuation Matrix

	Rating	CMP (INR)	FY14E-16E (%) Sales CAGR	EPS CAGR	P/E (x) FY15E	FY16E	Inflexion Qtr	1-Yr Fwd Target	Upside (%)
SBI	Sell	1,621	14.2	26.3	8.2	6.8	Q1FY15	1,329	(18.0)
Syndicate Bank	Reduce	89	14.4	(8.4)	5.0	4.0	Q1FY15	87	(1.8)
UBI	Buy	116	16.4	23.3	3.4	2.6	Q1FY15	169	45.6
Allahabad Bank	Sell	87	15.9	10.6	3.5	3.0	-	75	(13.6)
Andhra Bank	Reduce	60	21.6	17.7	3.1	2.6	-	60	0.5
City Union Bank	Buy	51	22.6	20.9	5.3	4.4	-	65	28.7
DCB Bank	Buy	54	22.5	20.0	6.2	6.3	Q2FY15	70	29.9
Dena Bank	Reduce	58	16.2	17.3	5.2	4.2	-	55	(4.8)
J&K bank	Buy	1,361	18.0	19.3	4.8	4.1	Q2FY15	1,800	32.3
Indian Bank	Accumulate	107	16.3	18.4	3.2	2.6	-	125	16.6

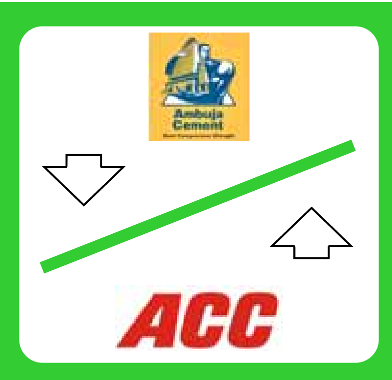
Note: Pricing as on 24 January 2014; Source: Company, Bloomberg, Elara Securities Estimate

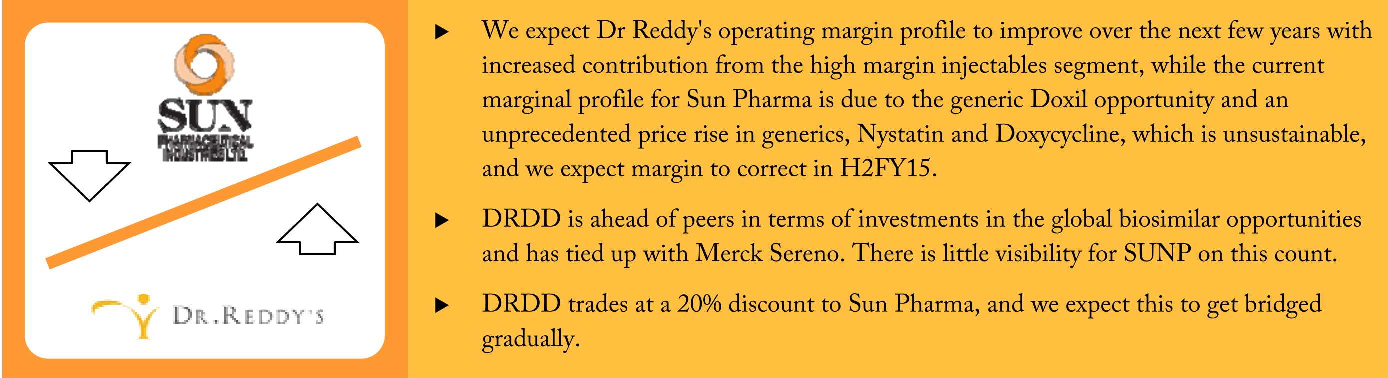
Pair trades and switch ideas



- With the FPO overhang behind us, PowerGrid is likely to achieve its H2FY14-FY17E capex plans of INR 791bn. NTPC may miss capex target on significant delays in execution.
- Regulated equity base would grow at a faster rate for PWGR of 19% vs NTPC of 13% over FY13-15E. Further, 75% of BV of PowerGrid is invested in operating assets from FY15E vs less than 50% in case of NTPC.
- Due to this, though power ROE of NTPC is higher than PWGR's by 300-400bp, overall ROE of PWGR is expected to be 15% vs 13% for NTPC; we expect PWGR to trade at a premium of 1.3x FY15E earnings to NTPC's 1.2x FY15E earnings.
- New draft tariff regulations to impact NTPC earnings by 9% in FY15E vs 3% for PWGR.

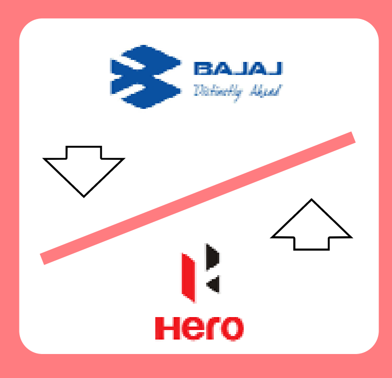
- Post Holcim's restructuring, synergy benefits are expected to accrue to ACC & Ambuja Cement. However, for ACEM the holding company discount and cash outflow to Holcim will cap a potential re-rating; the same would not apply for ACC.
- Capex and its completion is skewed towards ACC. Out of total 14.4 mn tonnes of expansion by Holcim in India, 8.5 mn tonnes will be under ACC.
- While Holcim is yet to place an order for its 5.9-mn-tonne expansion under ACEM, ACC's 4-mn-tonne expansion is underway and likely to come on line by mid-2015.
- ACC is in a better position to consolidate market share and capitalize on synergies once demand recovers.



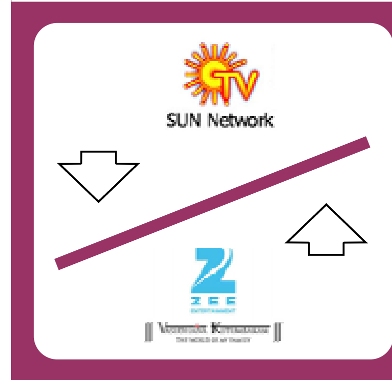


- We expect Dr Reddy's operating margin profile to improve over the next few years with increased contribution from the high margin injectables segment, while the current marginal profile for Sun Pharma is due to the generic Doxil opportunity and an unprecedented price rise in generics, Nystatin and Doxycycline, which is unsustainable, and we expect margin to correct in H2FY15.
- DRDD is ahead of peers in terms of investments in the global biosimilar opportunities and has tied up with Merck Sereno. There is little visibility for SUNP on this count.
- DRDD trades at a 20% discount to Sun Pharma, and we expect this to get bridged gradually.

- The market share sweepstakes are likely to be materially altered this year as Bajaj Auto struggles with its product portfolio while Hero Motorcorp consolidates.
- Hero is notching up big wins in the scooter segment, which has been vacated by Bajaj.
- On exports, Bajaj's performance has been volatile while the Hero story is yet to unfold.
- Hero has enunciated its roadmap to shore up margin whereas for Bajaj it has turned volatile. On valuations too, Hero trumps Bajaj.

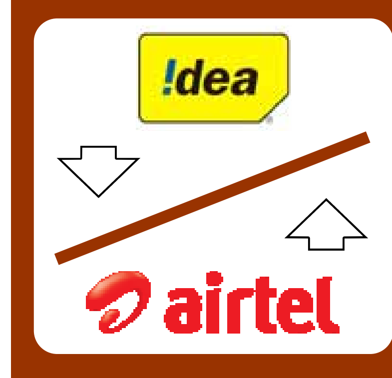


- ITC offers better visibility of sustained earnings growth of ~15-20% while for HUL, earnings expectations are just 9% over FY13-16E.
- Lower volume growth, rising raw material prices, constrained pricing power, increasing royalty payments and a higher tax rate pose big challenges for HUL. After two consecutive hikes in excise duty, there is a low probability of a similar cess in this budget. A pause in pricing will drive volume, in our view.
- At a CMP of INR 318, ITC trades at 23.9x FY15E earnings, which is lower than its large- and mid-cap FMCG peers while HUL still trades at 30x FY15E earnings.



- Overlooking Sun TV's big regional presence and monopoly, investor focus, in our view, will view Zee Entertainment's pan India and regional strategy as far superior. Zee's expanding footprints internationally and increased competition locally in South India for Sun TV will only make the preference starker.
- Zee has secured its subscription revenue pie with the Media Pro JV while Sun TV battles low potential ex-South India.
- While valuations are fair for Sun TV, it discounts for the above concerns. For Zee, most investors view it as structural and would accord it a higher value.

- Tata Steel India has the ability to sell even in a subdued demand scenario on account of its low costs while this is not the case for SAIL. SAIL would be able to monetize its expansion plans only from FY18.
- We expect Tata Steel's outperformance with respect to SAIL to continue on account of higher earnings growth (FY14-16E EPS CAGR of 41% for Tata and 22% for SAIL) and lower valuations.
- Tata Steel has the potential of re-rating if its Europe operations break-even at the cash level in FY15. In India operations, we expect demand improvement to help Tata Steel and SAIL to record higher volume CAGR of more than 10% in FY14-16E, but growth in SAIL's volume would be questionable.



- Bharti Airtel's RPM outlook looks better than Idea Cellular's, considering it trails Idea's blended voice RPM despite being the market leader.
- Since last fiscal, Bharti has turned aggressive to win back lost market share and has reduced RPM below peers. Since then, the increase in RPM has not matched with peers. Thus, it has the potential to rejig RPM to match the market rate, with a difference of more than 2%.
- Bharti and Idea are trading at 5.9x FY15E EV/EBITDA. However, a ~2.3% RPM arbitrage could drive Bharti RPM growth ahead of Idea in FY15. This could be the key factor for Bharti' stock price outperformance vs Idea.

Shun "ownership risk"; buy global cos

Emerging Markets, including India, run big risk of underperformance

Elections, Jan-March topping cycle, taper key cataclysmic events to surmount

7K summit to be breached, but expect to finish lower

Given the risks we anticipate on outflows, we see an "ownership risk" to the market and specific sectors & stocks. Indeed, quality has become pricier and run the "risk of taper". This variable, in our view, will supersede fundamentals and needs to be watched closely. While we have consensual tilt towards a weak INR bias in our portfolio, we are different to the extent that we would prefer to own a more global business portfolio, rather than merely positioning for a currency trade.

Tilt towards a "global" portfolio advisable

In our view, the weak INR and global recovery story needs to be split three-ways: 1) companies that will see tailwinds from weakening currencies a la Maruti Suzuki, 2) exporters, such as Bajaj Auto and textile companies, which make Indian products but have currency as a big variable driving business, and 3) most importantly, companies that have global businesses and have markets & manufacturing in these regions. The benefits & the impact of currency volatility and a improving global macro for the developed markets will affect these corporate up to varying degrees. We are of the view a bouquet of global companies should outperform others. While technology & pharmaceuticals are the consensus trades and give a certainty to earnings and the growth outlook, our portfolio tilts towards some Tata companies. What was foresight many years ago, the Tatas are best placed to reap their investments. You will see an accentuated tilt towards some of the them, namely Tata Motors, TCS, Tata Steel, Tata Global Beverages, Indian Hotels and Rallis India.

Banking sector grossly compromised

At 10.1%, the ratio of bad assets (gross NPLs plus restructured loans) on the banks' balance sheet has not reached its peak, a level we believe should fundamentally settle at 13-15% in Q1FY15E. In a clear indication that India has mismanaged the capex cycle, asset quality concerns in the backdrop of negative output gap amid falling trend growth rate — of around 4.5-5.5% — beginning in March 2012 is now getting reflected in rising NPAs of the banking system. The lagged nature of this data reflects the bottom has yet to be seen in the NPA cycle.

As the PSBs provision for these bad assets on their books, their capacity, and motivation to fund the next leg of the capex cycle, India stands severely dented. It will need concerted government intervention in terms of regulatory controls and recapitalization to steer the banking system out of its poor loan portfolio, but even than it would be a long-term pain, stretching into 5-6 quarters.

For the investment cycle, this is a serious concern on the funding aspect in times when attracting global liquidity may be a tough ask in itself. This entwines with our in-house view that while investment will not fall further from the current levels, a sharp rise may look daunting in the next 3-4 quarters.

Avoid beta and cyclicals

A beta trade and trying to time a cyclical recovery could be adventurous at this juncture, and we prefer to stay defensive to that extent. This trade has gone wrong multiple times for investors as their call on the rate cycle has been over optimistic. Given that we are yet to see the peak of the interest rate cycle, a beta trade or playing cyclical would be counter-productive. Also, we are of the view the slowdown is deeper than perceived and there could be earnings risk to Indian companies.

Banks (Underweight)

Bank stocks are vulnerable on multiple counts: 1) the risk of an elevated rate cycle, 2) NPAs worsening based on delinquencies from newer sectors, such as real estate, and 3) of course, the ownership risk. This sector runs the biggest "taper risk" in our view, given expensive valuations and high FII ownership. Underperformance of private banks could recur for the current calendar year based on ownership as well as a low ROE delta for banks like ICICI Bank and Axis Bank.

Automobiles (Overweight)

A muted industry recovery over FY14-15 will mean that returns would not be secular for the sector. However, specific stocks will be the beneficiary of an INR depreciation, exports and operating in global environment as discussed above. Our top picks are Tata Motors, MSIL and Hero.

Oil & Gas (Underweight)

Fresh reforms impetus in the Oil & Gas sector gets our vote and gets adequate mention in the portfolio. The gas price hike and bottoming out of GRM will support performance of the sector. Oil marketing companies (OMCs) continue with their diesel price hikes amid Assembly and the upcoming General Elections, and the expected decline in crude oil price is likely to soften the quantum of under-recoveries for FY15.

The 'Currency Trade' framework

Global Companies	Tata Steel, Hindalco, Tata Motors, Tata Global Beverages, Bharti Airtel, L&T, Voltas, Tata Chemicals, Indian Hotels, Cox & Kings
Exporters	Reliance Industries, Bajaj Auto, TCS, Infosys, Wipro, Sun Pharma, Dr Reddy's, HCL Tech
Currency Beneficiaries	Cairn India, Maruti Suzuki, JSW Energy

FII sectoral exposure in the Nifty

Sector	Corpus (INR mn)	% Holding
Banking & Financial Services	2,769,581	30
IT	1,865,615	20
Oil & Gas	895,101	10
Automobiles	837,266	9
FMCG	766,326	8
Pharmaceuticals	635,146	7
Metals	423,119	5
Power	305,662	3
Cement	286,531	3
Telecom	210,140	2
Construction & Infrastructure	206,970	2
Capital Goods	67,675	1
Realty	59,257	1

Note: FII corpus as on 31 December 2013; Source: Elara Securities Estimate

- FIIs accumulation in BFSI, IT, oil & gas and auto sectors aggregate to 70% of the total FII exposure in the Nifty.
- Rate-sensitive stocks, namely HDFC, IDFC, Axis Bank, IndusInd Bank and ICICI Bank find significant proportion of FII holdings.
- Top 10 companies receiving FII flows in the Nifty account for more than 50% of total FII flows in Nifty stocks.

Any rupee appreciation is further expected to be beneficial. We expect under-recoveries to decline by 32% in FY15E and by a further 10% in FY16E. BPCL and ONGC are our top picks.

Telecom (Neutral)

A special mention here for telecom, as we remain Neutral and not Overweight. As most of the Street, we are not convinced the headwinds are over as on yet. While optically, RPMs have bottomed in a contracting real income scenario, we do not see any hikes taking place and delta from data would be more long-drawn. The overhang of spectrum auction, Reliance Jio's entry and expensive valuations will keep the lid on any outperformance of the sector.

However, the sector is in a good trading range and should be viewed accordingly.

Technology (Overweight)

This sector is a beneficiary of the INR and a recovery in the global markets but runs the "risk of ownership" and valuations. The most vulnerable on both these counts is Infosys where the recent rally of hope would mean that even one quarter of disappointment would lead to a sharp crack. Our preferred bets are TCS and Tech Mahindra.

Cement (Neutral)

It will be the year of low utilization and valuations are likely to stay subdued. This is not a year to look for returns from this sector. However, as a switch we prefer to add ACC to our portfolio for the long term.

Pharmaceuticals (Overweight)

A defensive trade and exposure to the global markets make it a preferred investment avenue. However, valuations and re-rating for some large cap stocks could pause, given the thin pipeline of Para IV in H1.

The new pharma policy will likely dent growth in the near term; the domestic market should achieve a 14-15% CAGR. We believe mid cap stocks will outperform their large cap peers in 2014 on the back of favorable valuations, healthy balance sheet and upside from a recovery in India and new launches. Our top picks are Dr Reddy's and Torrent Pharma.

Metals & Mining (Underweight)

While the prospects of a bull market are minimal, we are selectively overweight on metals stocks and recommend investing in this space. Tailwinds of a global recovery and a weak INR should hold the fortunes of some companies. Despite the 50-110% returns in the past four months on the back of strong liquidity and signs of improvement in the world economy, we are of the view that select stocks could outperform the broader markets. We expect some consolidation to happen before the stocks move up again while factoring in FY16 earnings. Our top picks are Tata Steel and Hindustan Zinc.

Utilities (Overweight)

We see a cap on tariffs in H1 in the run-up to the elections but are quite enthused with the reform thrust of the government. We are of the view valuations are at the bottom and incremental triggers should unfold in due course. It is one of our preferred sectors in the industrial space. Our marginal overweight stance flows from cap goods and a lower weight on NTPC, which is a heavyweight. Our top picks are PowerGrid, PTC India, SJVN and CESC.

Top Buys

Tata Motors, Hero Motocorp, Zee Entertainment, HCL Technologies, Tech Mahindra, TCS, Dr. Reddy's Laboratories, Torrent Pharma, SJVN, Rallis India, ACC, Tata Steel, BPCL, ICICI Bank

Top Sells

Ranbaxy Laboratories, NTPC, NMDC, Hindalco Industries, IndusInd Bank

Elara Model Portfolio

Sector	Underweight/ Overweight	Elara Weight (%)	Nifty Weight (%)	bp
Auto	Overweight	9.5	8.9	58
FMCG	Overweight	13.0	11.6	137
Infra	Overweight	5.1	4.4	74
IT Services	Overweight	19.4	17.4	198
Pharma	Overweight	7.0	6.2	83
Power & CG	Overweight	4.0	3.7	29
Others	Overweight	1.0	0.0	100

Sector	Underweight/ Overweight	Elara Weight (%)	Nifty Weight (%)	bp
Cement	Neutral	3.0	2.8	15
Telecom	Neutral	1.8	1.9	(13)
Financials	Underweight	21.5	26.0	(449)
Metals	Underweight	4.2	5.2	(98)
Oil & Gas	Underweight	10.5	11.5	(96)
Real Estate	Underweight		0.4	(37)

Source: Elara Securities Research

FII corpus in Nifty companies

Company	Sector	FII holding (%)	Corpus (INR mn)	% of FII Nifty corpus
HDFC	Finance	74.25	919,974	9.8
Infosys	IT - Software	40.65	813,595	8.7
TCS	IT - Software	16.33	694,766	7.4
HDFC Bank	Banks	34.92	556,792	5.9
Reliance Industries	Oil & Gas	18.26	528,217	5.6
ITC	FMCG	19.26	491,785	5.3
ICICI Bank	Banks	38.39	486,945	5.2

Ownership Risk

Pvt banks, IT services, Pharmaceuticals are over owned and run the 'risk of ownership' in the event of outflows with pvt banks being most vulnerable.

Company	Sector	FII holding (%)	Corpus (INR mn)	% of FII Nifty corpus
Tata Motors	Automobile	27.58	284,149	3.0
Sun Pharma	Pharmaceuticals	22.49	264,357	2.8
Axis Bank	Banks	43.18	263,319	2.8
HCL Technologies	IT - Software	28.05	247,484	2.6
M & M	Automobile	36.68	213,299	2.3
Bharti Airtel	Telecom	15.92	210,140	2.2
HUL	FMCG	14.83	183,016	2.0
Kotak Mah. Bank	Banks	31.76	177,880	1.9
Larsen & Toubro	Infrastructure	17.85	176,933	1.9
ONGC	Oil & Gas	6.74	166,503	1.8
Dr Reddy's Labs	Pharmaceuticals	33.35	143,803	1.5
Wipro	IT - Software	10.09	139,080	1.5
Power Grid	Power	25.37	132,608	1.4
Lupin	Pharmaceuticals	31.92	129,917	1.4
Hero Motocorp	Automobile	30.63	126,934	1.4
NTPC	Power	10.32	116,628	1.2
Maruti Suzuki	Automobile	21.47	114,407	1.2
SBI	Banks	8.83	106,706	1.1
Bajaj Auto	Automobile	18.68	103,268	1.1
Sesa Sterlite	Metals & Mining	16.99	101,697	1.1
UltraTech Cement	Cement	21.01	101,661	1.1
Cairn India	Oil & Gas	16.32	100,955	1.1
Coal India	Metals & Mining	5.47	100,108	1.1
Asian Paints	Paints	19.47	91,526	1.0
IndusInd Bank	Banks	41.13	90,736	1.0

Active churn portfolio

These stocks / sectors are what we describe as the investible given a more balanced ownership structure. In our opinion one should trade these stocks for relative outperformance.

Company	Sector	FII holding (%)	Corpus (INR mn)	% of FII Nifty corpus
Ambuja Cement	Cement	30.50	86,126	0.9
IDFC	Finance	51.39	85,396	0.9
Cipla	Pharmaceuticals	23.79	76,559	0.8
GAIL (India)	Oil & Gas	17.03	73,923	0.8
Hindalco Inds.	Metals & Mining	26.88	68,045	0.7
BHEL	Capital Goods	15.63	67,675	0.7
Tata Steel	Steel	16.09	66,281	0.7
DLF	Real Estates	19.95	59,257	0.6
Grasim Inds	Textiles	22.92	57,133	0.6
Tata Power	Power	26.03	56,426	0.6
Jindal Steel	Steel	21.93	53,025	0.6
Bank of Baroda	Banks	15.54	42,253	0.5
ACC	Cement	19.99	41,611	0.4
PNB	Banks	17.51	39,716	0.4
NMDC	Metals & Mining	6.04	33,964	0.4
JP Associates	Infrastructure	27.41	33,119	0.4
BPCL	Oil & Gas	10.14	25,502	0.3
Ranbaxy	Pharmaceuticals	10.74	20,620	0.2

Oversolds

These stocks / sectors are currently the 'Oversolds'. Many would describe them as beta opportunities as well. We like Tata Steel, ACC & BPCL here. The fit our criteria of long-term opportunities and low ownership risk.

Note: Nifty corpus as on December 2013; Source: Elara Securities Estimate

Model Portfolio

Company	Underweight/ Overweight	Elara Weight (%)	Nifty Weight (%)	bp
Bajaj Auto		-	1.2	(125)
Hero Honda		2.5	1.2	128
Mahindra & Mahindra		1.0	2.0	(103)
Maruti Suzuki		2.0	1.2	82
Tata Motors		4.0	3.2	75
Automobile Total	Overweight	9.5	8.9	58
Hindustan Unilever			2.0	(196)
ITC		10.0	8.6	143
Zee		1.0		100
Asian Paints			1.1	(109)
Britannia Industries		1.0		100
Tata Global Beverages		1.0		100
FMCG Total	Overweight	13.0	11.6	137
JP Associates			0.3	(31)
L&T		4.1	4.1	5
Sadbhav Engineering		1.0		
Infrastructure Total	Overweight	5.1	4.4	74
HCL Technologies		3.0	1.6	136
Infosys		7.4	8.4	(96)
TCS		7.0	5.6	137
Tech Mahindra		2.0		200
Wipro			1.8	(179)
IT Services Total	Overweight	19.4	17.4	198
Cipla			1.0	(98)
Dr Reddys		2.0	1.5	46
Ranbaxy			0.4	(37)
Sun Pharma		3.0	2.2	82
Divis Lab		1.0		100
Lupin		1.0	1.1	(10)
Pharma Total	Overweight	7.0	6.2	83
BHEL			0.6	(64)
NTPC		1.0	1.3	(34)
Power Grid		1.5	1.1	42
Reliance Infra		0.5		50
SJVN		0.5		50
Tata Power			0.6	(65)
CESC		0.5		50
Power & CG Total	Overweight	4.0	3.7	29
Rallis India		1.0	0.0	100
Others Total	Overweight	1.0	0.0	100

Company	Underweight/ Overweight	Elara Weight (%)	Nifty Weight (%)	bp
ACC		1.0	0.5	50
Ambuja			0.7	(66)
Grasim			0.8	(82)
Ultratech Cement		1.0	0.9	14
Shree Cement		1.0		
Cement Total	Neutral	3.0	2.8	15
Bharti Airtel		1.8	1.9	(13)
Telecom Total	Neutral	1.8	1.9	(13)
Bank of Baroda			0.6	(59)
Axis Bank		1.5	1.9	(42)
HDFC		4.5	6.1	(161)
HDFC Bank		5.0	6.0	(103)
ICICI Bank		5.5	5.9	(42)
IDFC			0.6	(64)
Kotak Mahindra Bank		2.0	1.3	66
PNB			0.4	(45)
State Bank of India		1.0	2.1	(114)
J&K Bank		1.0	0.0	100
IndusInd Bank			0.9	(87)
Bank of India		1.0	0.0	100
Banking Total	Underweight	21.5	26.0	(449)
Hindalco			0.7	(75)
Jindal Steel & Power			0.5	(49)
Sesa Sterlite Ltd		1.2	1.2	(1)
Tata Steel		2.0	1.3	66
Coal India		1.0	0.9	
NMDC			0.5	(53)
Metals Total	Underweight	4.2	5.2	(98)
BPCL		1.0	0.4	58
Cairn		1.0	0.9	7
GAIL			0.7	(74)
ONGC		3.0	2.4	55
Reliance Industries		5.5	6.9	(142)
Oil & Gas Total	Underweight	10.5	11.5	(96)
DLF			0.4	(37)
Real Estate Total	Underweight		0.4	(37)
Total		100.0	100.0	

Note: Nifty weight as on January 2014; Source: Bloomberg, Elara Securities Research

Elara universe sees 13% revenue growth each in FY15E and FY16E

	Net Sales (INR mn)				Growth (%)	
Sector	FY13	FY14E	FY15E	FY16E	FY 14/15E	FY14/16E
Automobiles	3,215,925	3,786,470	4,239,966	4,841,010	11.98	13.07
Banking	1,552,825	1,755,614	2,035,171	2,349,488	15.92	15.68
Cement	864,273	1,004,281	1,166,674	1,351,851	16.17	16.02
Chemicals & Fertilizers	173,071	191,863	213,877	240,043	11.47	11.85
FMCG	896,769	1,014,886	1,148,376	1,312,436	13.15	13.72
Hospitality	52,365	57,537	65,045	72,728	13.05	12.43
Infrastructure	927,650	1,043,460	1,181,519	1,320,665	13.23	12.50
Media	86,881	100,991	114,986	136,955	13.86	16.45
Metals	3,939,382	4,326,526	4,753,355	5,241,365	9.87	10.07
Midcap	26,020	27,399	31,876	37,250	16.34	16.60
Oil & Gas	17,217,555	18,325,539	19,111,153	19,966,900	4.29	4.38
Paper	81,120	94,090	107,263	117,770	14.00	11.88
Pharmaceuticals	729,005	845,150	950,889	1,057,025	12.51	11.83
Power & Utilities	1,258,669	1,405,007	1,656,106	1,864,150	17.87	15.19
Print Media	49,804	55,508	61,565	68,792	10.91	11.32
Telecom	1,027,668	1,125,474	1,258,026	1,385,192	11.78	10.94
Tours & Travels	25,032	30,933	35,805	40,023	15.75	13.75
Grand Total	32,124,033	35,190,728	38,131,653	41,403,643	8.36	8.47
Grand Total(ex-Bank,O&G)	13,353,653	15,109,575	16,985,329	19,087,255	12.41	12.39

EBITDA growth is higher on account of lower expenses

	EBITDA (INR mn)				Growth (%)	
Sector	FY13	FY14E	FY15E	FY16E	FY 14/15E	FY14/16E
Automobiles	414,346	519,645	571,329	668,152	9.95	13.39
Banking	-	-	-	-	NA	NA
Cement	184,394	177,069	213,011	247,551	20.30	18.24
Chemicals & Fertilizers	23,924	24,188	29,483	33,694	21.89	18.03
FMCG	196,816	230,495	268,916	313,503	16.67	16.62
Hospitality	8,397	9,215	10,667	12,151	15.76	14.83
Infrastructure	119,066	135,112	159,851	166,601	18.31	11.04
Media	31,335	35,690	41,301	49,669	15.72	17.97
Metals	664,982	737,776	850,178	969,463	15.24	14.63
Midcap	5,592	5,929	7,223	8,584	21.84	20.33
Oil & Gas	1,447,917	1,524,753	1,885,289	1,964,822	23.65	13.52
Paper	12,776	15,080	19,180	21,591	27.19	19.65
Pharmaceuticals	179,597	204,615	228,429	254,407	11.64	11.51
Power & Utilities	405,213	482,666	572,095	653,361	18.53	16.35
Print Media	9,661	12,288	14,082	16,493	14.60	15.85
Telecom	308,271	361,079	416,543	471,134	15.36	14.23
Tours & Travels	8,453	11,178	13,074	14,796	16.96	15.05
Grand Total	4,020,742	4,486,776	5,300,651	5,865,971	18.14	14.34
Grand Total (ex-Bank,O&G)	2,572,825	2,962,024	3,415,362	3,901,149	15.31	14.76

Source: Company, Elara Securities Estimate

PAT growth beats Sensex and Nifty growth

	PAT (INR mn)				Growth (%)	
Sector	FY13	FY14E	FY15E	FY16E	FY 14/15E	FY14/16E
Automobiles	217,693	250,770	281,758	336,186	12.36	15.78
Banking	581,593	562,107	670,956	817,803	19.36	20.62
Cement	97,522	89,407	104,130	124,494	16.47	18.00
Chemicals & Fertilizers	10,817	9,452	13,136	15,522	38.97	28.15
FMCG	142,902	167,827	194,852	226,255	16.10	16.11
Hospitality	(831)	669	1,875	2,721	180.41	101.70
Infrastructure	59,923	59,441	68,788	77,536	15.72	14.21
Media	13,647	15,861	19,443	25,180	22.58	26.00
Metals	405,033	411,113	472,239	530,108	14.87	13.55
Midcap	3,414	3,584	4,538	5,526	26.61	24.17
Oil & Gas	708,010	675,695	940,254	965,386	39.15	19.53
Paper	1,924	1,724	5,027	6,399	191.60	92.66
Pharmaceuticals	114,840	109,111	159,966	181,449	46.61	28.96
Power & Utilities	188,969	212,379	233,957	271,547	10.16	13.07
Print Media	5,533	7,734	9,033	10,755	16.80	17.92
Telecom	32,940	55,347	97,916	115,749	76.91	44.61
Tours & Travels	3,805	4,908	5,578	6,492	13.64	15.01
Grand Total	2,587,733	2,637,131	3,283,446	3,719,107	24.51	18.76
Grand Total(ex-Bank,O&G)	1,298,130	1,399,329	1,672,236	1,935,918	19.50	17.62

Margin expansion across sectors

	EBITDA Margin (%)				Growth (bp)	
Sector	FY13	FY14E	FY15E	FY16E	FY 14/15E	FY14/16E
Automobiles	12.88	13.72	13.47	13.80	(25)	8
Banking	-	-	-	-	NA	NA
Cement	21.34	17.63	18.26	18.31	63	68
Chemicals & Fertilizers	13.82	12.61	13.78	14.04	118	143
FMCG	21.95	22.71	23.42	23.89	71	118
Hospitality	16.04	16.02	16.40	16.71	38	69
Infrastructure	12.84	12.95	13.53	12.61	58	(33)
Media	36.07	35.34	35.92	36.27	58	93
Metals	16.88	17.05	17.89	18.50	83	144
Midcap	21.49	21.64	22.66	23.04	102	141
Oil & Gas	8.41	8.32	9.86	9.84	154	152
Paper	15.75	16.03	17.88	18.33	185	231
Pharmaceuticals	24.64	24.21	24.02	24.07	(19)	(14)
Power & Utilities	32.19	34.35	34.54	35.05	19	70
Print Media	19.40	22.14	22.87	23.98	74	184
Telecom	30.00	32.08	33.11	34.01	103	193
Tours & Travels	33.77	36.14	36.51	36.97	38	83

Source: Company, Elara Securities Estimate

Elara Val Snapshot

EPS CAGR of more than 20% over FY14-16E

- More than 40% of companies are set to clock in 20%+ EPS growth, implying a strong base effect at work
- While telecom is likely to see sharp EPS growth, it should be in tandem with the return ratios, which continue to languish
- Several infra companies have come into the green, be it through the sale of non-core assets, deleveraging and paring off of debt
- Mid cap banks show more resilience
- Media companies see continuing momentum in earnings

Company	Abs growth (%)	EPS CAGR (%)	Company	Abs growth (%)	EPS CAGR (%)	Company	Abs growth (%)	EPS CAGR (%)
MRPL	672.5	177.93	Oil India	90.7	38.10	Tata Chemicals	63.3	27.78
Adhunik Metaliks	260.4	89.84	EIH	82.7	35.16	GMDC	62.2	27.34
GMR Infra	237.2	83.64	Tamil Nadu Paper	80.6	34.39	SBI	59.4	26.26
Ballarpur Industries	230.2	81.71	Punjab National	75.6	32.50	Rallis India	58.6	25.92
Reliance Power	147.3	57.26	Tree House	74.9	32.25	J Kumar	57.8	25.61
NCC	144.3	56.29	India Cements	74.0	31.91	IndusInd Bank	57.6	25.54
Bharti Airtel	123.9	49.63	Petronet LNG	72.7	31.40	CESC	55.4	24.65
Simplex Infra	121.9	48.97	Ranbaxy	72.5	31.35	Navneet Education	54.6	24.34
Karur Vysya Bank	102.7	42.38	PI Industries	71.8	31.07	TVS Motors	52.7	23.56
Tata Steel	97.3	40.47	Hindalco Industries	69.6	30.24	Union Bank	52.0	23.29
ONGC	93.4	39.06	Hero Motocorp	68.5	29.80	TTK Prestige	50.9	22.83
Idea Cellular	92.6	38.80	Shree Cement	66.2	28.92	Glenmark Pharma	48.4	21.84
Jyothy Lab	90.8	38.11	Oriental Bank	64.9	28.42	HT Media	47.9	21.63

Source: Elara Securities Estimate

Revenue CAGR of more than 20% over FY14-16E

- The list inspires little confidence
- A reflection of the slow GDP profile of the country
- Incumbents feature on capacity expansion or inorganic growth

Company	Abs growth (%)	Revenue CAGR (%)	Company	Abs growth (%)	Revenue CAGR (%)	Company	Abs growth (%)	Revenue CAGR (%)
Reliance Power	88.5	37.3	PI Industries	59.1	26.1	DCB Bank	50.1	22.5
GMR Infra	70.9	30.7	J Kumar	58.1	25.7	IndusInd Bank	49.0	22.1
Tree House	64.3	28.2	Orient Cement	54.5	24.3	Jyothy Lab	48.8	22.0
Oil India	62.4	27.4	Divi's Lab	53.3	23.8	Andhra Bank	47.8	21.6
GMDC	62.3	27.4	City Union Bank	50.2	22.6	Ambuja Cement	47.6	21.5

Source: Elara Securities Estimate

Improving ROCE over FY14-16E (%)

Company	FY14E	FY15E	FY16E
TVS Motors	17.3	17.5	18.9
Maruti Suzuki	15.3	16.1	17.7
ACC	17.3	19.6	20.5
Ambuja Cement	25.2	29.8	29.9
India Cements	6.9	7.5	9.8
JK Cement	9.1	9.8	11.3
Orient Cement	31.8	33.8	34.8
PI Industries	31.3	34.5	35.5
Rallis India	25.4	29.2	30.0
Tata Chemicals	11.4	13.3	14.3
GCPL	16.8	18.1	19.0
ITC	34.3	35.1	35.2
Jyothy Lab	14.5	16.5	18.9
EIH	6.3	7.7	9.2
IHCL	4.9	6.3	7.7
Gayatri	10.9	11.1	11.9
HCC	7.7	8.3	9.6
NCC	10.6	11.1	11.3

Company	FY14E	FY15E	FY16E
Sadbhav	11.0	12.0	13.9
Simplex Infra	10.0	10.6	11.4
Dish TV	(0.7)	4.6	10.9
Sun TV Network	38.9	40.2	42.2
Zee Entertainment	21.1	21.9	22.7
Adhunik Metaliks	5.2	5.9	6.8
GMDC	15.3	18.0	18.7
Hindalco Ind.	4.6	5.8	7.1
Tata Steel	3.9	5.6	7.0
Navneet Education	27.8	31.8	33.9
Tree House	16.3	18.7	22.0
TTK Prestige	31.6	34.2	34.8
Chennai Petroleum	3.1	5.9	7.6
Essar Oil	8.2	13.3	16.6
GAIL	10.0	10.3	10.8
ONGC	11.6	19.2	19.3
Petronet LNG	10.7	12.9	16.2
Ballarpur Ind.	4.5	5.9	7.4

Company	FY14E	FY15E	FY16E
JK Paper	1.2	7.5	9.3
TNPL	11.4	14.3	17.0
Cadilla Healthcare	17.9	18.8	19.2
Glenmark Pharma	17.3	17.6	18.3
Ranbaxy	9.9	12.2	13.2
Sanofi India	25.6	27.3	28.2
CESC	7.6	9.5	11.1
GMR Infra	6.5	7.2	8.1
NHPC	6.4	7.1	7.4
Reliance Power	4.7	7.0	8.3
SJVN	13.9	14.4	15.1
HT Media	8.5	9.7	10.9
Jagran Prakashan	18.1	20.3	22.3
Bharti Airtel	8.9	10.4	11.7
Idea Cellular	12.8	15.7	17.4
Cox & Kings	12.5	13.7	15.3
Mahindra Holidays	22.3	22.4	23.2

Improving ROE over FY14-16E (%)

Company	FY14E	FY15E	FY16E
Maruti Suzuki	14.7	15.2	16.5
Canara Bank	11.3	11.6	13.6
ICICI Bank	14.2	14.4	15.1
IndusInd Bank	17.0	18.6	19.5
Karur Vysya	9.8	13.9	16.6
OBC	8.7	9.4	12.4
PNB	10.8	13.1	15.6
SBI	9.9	12.0	13.2
UBI	9.9	10.9	13.1
Andhra Bank	6.9	12.7	13.0
City Union Bank	20.6	21.1	21.3
Dena Bank	7.2	9.3	11.5
Indian Bank	11.9	12.4	13.7
ACC	13.0	14.8	15.3
Ambuja	17.7	19.8	19.8
India Cements	4.1	4.7	6.9
JK Cement	7.7	8.1	9.6
Tata Chemicals	9.4	12.5	13.3
GCPL	22.5	22.6	22.8

Company	FY14E	FY15E	FY16E
Jyothy Lab	19.0	22.7	26.2
EIH	3.1	4.4	5.7
IHCL	(0.3)	3.1	5.2
Gayatri	11.1	13.4	15.7
HCC	(14.4)	(6.8)	2.2
ITNL	14.1	14.5	15.7
J Kumar	13.8	15.2	16.7
NCC	2.2	3.0	4.9
Simplex Infra	4.3	5.4	8.6
Dish TV	(10.2)	42.8	106.0
Sun TV Network	27.7	28.5	29.7
Zee Ent.	24.0	25.0	26.4
Adhunik Metaliks	5.0	10.1	15.2
GMDC	15.3	18.0	18.7
Hindalco Industries	6.4	8.1	9.4
SAIL	5.4	6.9	7.4
Tata Steel	7.0	10.6	11.9
ENIL	14.8	15.7	15.8
Navneet Education	23.9	26.7	27.7

Company	FY14E	FY15E	FY16E
Tree House	12.1	13.9	16.2
Chennai Petroleum	(14.0)	9.9	18.2
Essar Oil	(59.7)	37.1	58.4
Petronet LNG	14.4	16.6	20.3
Ballarpur Ind.	3.2	8.1	9.7
JK Paper	(7.3)	9.2	11.5
TNPL	13.9	17.4	19.2
Cipla	15.3	15.5	15.6
Ranbaxy	9.7	13.5	14.2
Sanofi India	18.0	19.1	19.7
CESC	9.7	9.9	12.7
NHPC	6.8	7.6	8.1
Power Grid	15.1	15.2	15.6
Reliance Power	4.5	5.8	9.9
HT Media	10.2	11.3	12.3
Jagran Prakashan	22.7	22.9	24.1
Bharti Airtel	7.0	12.4	12.6
Idea Cellular	12.5	16.1	17.8
Mahindra Holidays	15.9	16.0	16.6

Emerging market index performance

Country	1m	6m	1y	3y	5y
India	(3.7)	5.2	0.0	10.0	103.3
Turkey	(8.7)	(16.6)	(21.4)	(1.9)	135.1
Brazil	(7.7)	(2.1)	(19.9)	(28.6)	26.6
Chile	(8.3)	(9.5)	(25.3)	(27.4)	42.8
South Africa	(1.2)	11.2	12.6	45.1	113.4
South Korea	(3.5)	1.3	(1.2)	(6.2)	72.6
Russia	(2.7)	5.5	(5.2)	(15.1)	136.8
Thailand	(3.2)	(12.0)	(14.5)	27.9	170.3
Indonesia	2.6	(4.8)	(1.5)	28.7	223.6
Colombia	(8.6)	(11.1)	(20.3)	(20.7)	58.0

Source: Bloomberg

Coverage Universe

No.	Company	CMP 24 Jan 2014	Mkt Cap (INR mn)	TP	Net Sales FY13	Net Sales FY14E	Net Sales FY15E	Net Sales FY16E	EBIDTA FY13	EBIDTA FY14E	EBIDTA FY15E	EBIDTA FY16E	PAT FY13	PAT FY14E	PAT FY15E	PAT FY16E	BVPS FY13	BVPS FY14E	BVPS FY15E	BVPS FY16E	ROE (%) FY13	ROE (%) FY14E	ROE (%) FY15E	ROE (%) FY16E
Automobiles																								
1	Bajaj Auto	1,932	558,970	1,892	199,973	203,867	226,136	254,625	36,353	41,744	46,193	51,608	30,436	33,729	37,106	41,099	273.1	330.5	394.2	472.1	43.7	38.4	35.3	32.8
2	Hero Motocorp	2,037	406,694	2,561	237,681	246,114	277,950	313,488	32,845	36,023	43,190	48,662	21,182	21,126	30,759	35,591	250.7	307.0	388.9	483.7	45.6	37.9	44.3	40.8
3	TVS Motors	68	32,068	63	70,650	76,872	83,616	92,063	4,090	4,754	5,156	5,696	2,069	2,440	2,703	3,156	25.8	29.5	33.8	39.1	17.3	18.6	18.0	18.2
4	Maruti Suzuki	1,774	535,966	1,947	435,879	443,420	480,850	554,940	42,296	51,844	57,955	68,405	23,921	28,606	32,927	41,318	615.0	673.9	775.0	893.6	14.2	14.7	15.2	16.5
5	M&M	885	544,942	1,041	383,566	393,177	430,942	482,122	53,290	56,836	61,669	68,240	35,435	38,465	40,973	45,046	255.0	299.7	350.7	406.7	26.0	23.5	21.3	20.2
6	Tata Motors	370	1,087,940	435	1,888,176	2,423,019	2,740,471	3,143,772	245,473	328,443	357,166	425,539	104,652	126,403	137,291	170,097	118.0	155.6	195.7	245.7	29.8	28.8	24.3	23.9
Banking																								
7	Axis Bank	1,205	565,299	1,551	96,663	118,541	133,941	154,068					51,794	60,253	67,146	78,377	697.2	792.6	902.3	1,046.2	18.5	16.9	16.5	16.7
8	Bank of India	228	146,179	302	90,240	104,191	124,386	145,365					27,538	31,977	36,875	49,274	271.2	317.7	365.3	433.9	13.6	13.3	13.2	15.7
9	Canara Bank	248	114,254	320	78,790	88,155	104,264	120,843					28,721	27,187	30,924	40,022	422.5	425.7	466.8	543.6	13.2	11.3	11.6	13.6
10	HDFC Bank	673	1,612,519	676	158,111	184,106	218,428	254,830					67,264	84,658	100,135	114,414	150.6	176.2	207.5	243.8	20.3	21.4	21.5	20.8
11	ICICI Bank	1,058	1,221,904	1,486	138,664	164,405	191,026	223,915					83,255	99,281	111,299	130,141	527.2	558.5	608.2	691.2	13.1	14.2	14.4	15.1
12	IndusInd Bank	415	217,723	477	22,329	28,856	34,978	43,004					10,612	13,529	17,278	21,320	139.9	160.7	188.7	224.0	17.8	17.0	18.6	19.5
13	Karur Vysya	333	35,664	343	11,585	12,632	15,106	18,069					5,503	3,133	4,809	6,353	280.2	293.0	325.0	364.7	19.0	9.8	13.9	16.6
14	OBC	189	56,761	206	47,012	52,835	58,615	66,149					13,280	10,998	12,867	18,510	328.7	334.0	372.3	429.3	11.5	8.7	9.4	12.4
15	PNB	582	210,652	793	148,565	160,047	179,762	204,362					47,477	35,520	47,631	63,430	735.0	807.5	879.5	1,022.3	16.5	10.8	13.1	15.6
16	SBI	1,621	1,127,144	1,329	443,313	499,972	574,759	651,816					141,050	104,136	141,644	172,018	1,218.7	1,225.4	1,281.0	1,462.5	15.4	9.9	12.0	13.2
17	Syndicate Bank	89	55,526	87	54,541	57,048	64,547	74,689					20,048	16,018	11,085	13,817	135.0	138.9	163.0	188.8	22.8	15.5	9.7	11.1
18	UBI	116	73,116	169	75,428	80,199	93,044	108,587					21,579	18,010	21,622	28,436	223.3	208.8	230.8	268.0	13.6	9.9	10.9	13.1
19	Allahabad Bank	87	47,299	75	48,664	56,614	65,502	75,983					11,852	12,442	13,138	15,801	127.2	105.6	154.4	194.6	10.8	10.5	9.9	10.6
20	Andhra Bank	60	35,200	60	37,570	39,692	49,555	58,663					12,892	10,145	12,898	15,428	107.8	89.8	122.4	149.7	16.2	6.9	12.7	13.0
21	City Union Bank	51	27,184	65	6,241	7,430	9,010	11,162					3,221	3,697	4,545	5,754	32.6	38.6	49.5	60.5	22.3	20.6	21.1	21.3
22	DCB Bank	54	13,491	70	2,844	3,646	4,552	5,473					1,021	1,480	2,162	2,133	38.8	44.1	52.2	60.6	10.9	13.8	17.2	14.5
23	Dena Bank	58	27,088	55	23,863	25,261	29,421	34,084					8,136	4,720	5,589	7,405	112.6	91.4	94.1	96.3	17.8	7.2	9.3	11.5
24	J&K bank	1,361	65,961	1,800	23,160	26,724	31,454	37,211					10,551	11,391	13,798	16,205	992.1	1,211.3	1,436.1	1,707.3	23.6	21.5	22.1	21.9
25	Indian Bank	107	46,093	125	45,242	45,263	52,822	61,214					15,800	13,531	15,510	18,965	142.2	146.6	171.2	197.8	15.5	11.9	12.4	13.7
Cement																								
26	ACC^	999	187,642	1,270	111,305	112,501	126,316	142,533	19,681	15,319	18,796	20,549	12,876	9,925	11,968	13,242	387.7	404.8	430.0	459.6	17.7	13.0	14.8	15.3
27	Ambuja^	163	251,898	163	96,749	189,534	247,272	279,722	24,675	32,455	45,935	49,963	15,255	19,742	26,758	29,337	57.1	90.3	93.6	97.3	18.1	17.7	19.8	19.8
28	Grasim Ind.	2,594	238,187	3,165	276,397	294,703	335,248	393,152	56,590	49,706	57,700	68,775	25,000	20,784	21,079	28,452	2,126.8	2,319.0	2,514.2	2,789.5	14.8	10.1	9.5	11.6
29	India Cements	52	16,035	57	51,595	53,107	58,046	64,479	9,563	8,275	8,715	9,783	2,013	1,468	1,743	3,384	115.9	118.8	120.5	122.1	5.7	4.1	4.7	6.9
30	JK Lakshmi	72	8,449	112	17,111	20,527	20,055	23,789	3,209	4,265	3,380	4,310	1,518	1,869	1,174	1,486	90.9	101.7	109.7	119.8	14.2	16.2	9.4	11.0
31	JK Cement	179	12,496	280	29,040	27,869	33,390	39,839	5,521	3,799	4,594	5,894	2,325	1,149	1,277	1,614	210.2	219.1	231.5	248.7	16.9	7.7	8.1	9.6
32	Orient Cement	36	7,345	50	14,844	15,479	17,719	23,920	3,015	2,845	3,526	4,798	1,617	1,593	1,936	1,440	36.9	42.2	49.2	53.7	17.3	20.2	21.1	13.9
33	Shree Cement$	4,390	152,932	5,065	55,671	62,326	69,692	79,845	15,376	16,158	20,199	24,096	10,038	9,300	12,758	15,456	784.7	1,103.2	1,348.3	1,688.8	30.5	21.8	24.1	23.4
34	UltraTech	1,700	466,130	1,980	211,561	228,234	258,937	304,572	46,764	44,248	50,166	59,384	26,881	23,577	25,436	30,083	555.5	628.6	706.1	800.7	19.2	14.5	13.9	14.6

No.	Company	CMP 24 Jan 2014	Mkt Cap (INR mn)	TP	Net Sales FY13	Net Sales FY14E	Net Sales FY15E	Net Sales FY16E	EBIDTA FY13	EBIDTA FY14E	EBIDTA FY15E	EBIDTA FY16E	PAT FY13	PAT FY14E	PAT FY15E	PAT FY16E	BVPS FY13	BVPS FY14E	BVPS FY15E	BVPS FY16E	ROE (%) FY13	ROE (%) FY14E	ROE (%) FY15E	ROE (%) FY16E
Chemicals & Fertilizers																								
35	PI Industries	222	30,203	311	11,476	16,141	20,476	25,682	1,764	2,947	3,855	4,849	934	1,696	2,282	2,932	38.7	50.6	66.5	87.1	22.8	28.7	29.3	28.6
36	Rallis India	162	31,562	205	14,409	17,296	20,364	23,319	1,933	2,397	3,065	3,597	1,190	1,553	2,096	2,463	31.9	37.1	44.4	52.9	20.2	23.3	26.6	26.2
37	Tata Chemicals	262	66,835	358	147,186	158,427	173,037	191,042	20,227	18,843	22,562	25,248	8,693	6,203	8,758	10,128	251.8	264.0	286.1	313.5	13.6	9.4	12.5	13.3
FMCG																								
38	Britannia	865	103,760	1,032	61,854	70,461	80,205	91,392	4,206	6,395	7,526	8,851	2,595	3,919	4,745	5,737	46.1	67.1	92.8	124.4	54.1	57.9	49.6	44.2
39	Colgate	1,320	179,545	1,036	31,638	35,987	41,385	47,593	6,568	6,205	6,832	7,552	4,968	4,671	5,033	5,374	36.0	42.0	48.2	54.5	107.4	88.1	82.1	76.9
40	Dabur#	164	285,898	172	61,464	70,868	81,144	94,127	10,001	11,691	13,997	16,339	7,634	9,239	11,087	13,185	12.2	15.4	19.7	27.3	40.1	38.5	36.2	32.2
41	Emami#	451	102,419	511	16,991	18,738	21,386	24,575	3,415	4,476	5,158	6,090	3,134	4,047	4,636	5,559	34.3	43.9	56.1	71.3	42.4	46.1	40.8	38.5
42	GCPL#	705	239,984	769	64,074	78,415	95,244	112,006	10,152	11,919	14,191	16,689	6,934	8,149	9,695	11,586	97.4	115.5	136.9	162.2	22.6	22.5	22.6	22.8
43	GSK Con. Healtcare^	4,363	183,503	4,159	30,794	46,591	42,581	48,968	5,625	8,759	7,700	9,010	4,368	6,833	6,032	7,006	323.6	433.4	511.5	605.9	34.9	34.3	30.4	29.8
44	HUL	566	1,223,616	556	270,040	293,646	327,397	371,183	42,053	46,930	52,904	59,917	33,626	36,437	40,079	43,476	13.2	16.6	20.5	24.8	117.0	112.8	99.7	88.6
45	ITC	324	2,574,608	381	299,013	334,724	381,655	431,930	106,275	123,766	148,249	174,610	74,184	87,120	104,305	123,154	28.2	33.0	39.0	46.1	36.1	36.0	36.5	36.5
46	Jyothy Lab#	195	35,345	232	11,060	13,603	16,596	20,247	1,297	2,001	2,424	2,944	626	1,542	2,333	2,942	18.1	25.8	28.0	31.0	9.6	19.0	22.7	26.2
47	Marico#	212	136,520	238	45,962	47,650	56,084	65,086	6,258	7,325	8,766	10,179	3,841	4,819	5,685	6,834	30.7	25.2	32.9	42.1	24.6	26.7	30.3	28.3
48	Zydus Wellness#	520	20,321	491	3,880	4,203	4,700	5,330	966	1,029	1,170	1,324	992	1,051	1,223	1,402	65.7	83.8	105.2	129.8	43.8	35.3	32.5	30.0
Hospitality																								
49	EIH	57	32,351	65	14,931	15,770	17,432	19,636	3,021	3,235	3,612	4,150	587	764	1,087	1,397	66.0	62.9	62.2	62.2	2.3	3.1	4.4	5.7
50	IHCL	60	48,287	69	37,434	41,767	47,613	53,093	5,376	5,979	7,054	8,001	(1,419)	(96)	788	1,324	36.9	31.4	31.3	31.8	(4.8)	(0.3)	3.1	5.2
Infrastructure																								
51	Gayatri	61	1,847	91	20,222	23,107	26,690	31,310	2,661	3,119	3,470	4,070	631	697	843	1,026	206.9	206.6	211.1	222.0	11.1	11.1	13.4	15.7
52	HCC	13	8,129	19	38,371	38,371	42,208	48,117	3,688	5,525	5,445	5,678	(1,485)	(1,199)	(633)	249	19.2	19.0	18.0	18.0	(12.1)	(10.4)	(5.7)	2.3
53	IRB	83	27,487	96	36,872	38,941	43,504	44,362	16,333	17,841	18,668	20,331	5,567	4,604	3,497	3,916	98.0	107.0	113.0	120.0	18.2	13.5	9.6	10.1
54	ITNL	123	23,914	215	66,448	71,398	80,475	80,459	18,379	21,509	27,250	29,184	5,202	5,466	6,317	7,813	187.4	210.8	238.7	274.0	16.2	14.1	14.5	15.7
55	J Kumar	182	5,065	250	10,007	11,386	14,342	18,005	1,674	1,879	2,280	2,791	757	741	920	1,168	181.1	203.6	232.6	270.6	16.1	13.8	15.2	16.7
56	L&T	1,006	931,950	1,105	608,733	694,630	787,355	894,267	64,071	72,936	85,034	85,220	47,159	47,217	52,494	57,713	473.6	351.0	393.0	431.0	17.3	15.3	15.2	15.5
57	MBL Infra	119	2,079	149	13,429	16,894	18,072	19,206	1,314	1,858	2,060	2,266	553	653	675	784	223.5	257.3	292.3	333.6	15.1	15.5	14.0	14.3
58	NCC	27	7,005	40	57,249	59,201	65,605	73,647	4,709	4,795	5,445	6,260	627	536	770	1,302	96.2	97.9	100.6	105.0	2.6	2.2	3.0	4.9
59	Sadbhav	87	13,140	118	18,110	25,517	30,187	36,419	1,557	2,501	3,109	3,897	314	941	992	1,387	55.2	62.0	68.7	76.7	3.9	10.6	9.7	12.0
60	Simplex Infra	89	4,410	86	58,208	59,284	68,546	75,283	4,681	5,217	6,238	7,077	598	565	742	1,254	258.6	268.8	282.6	306.7	4.8	4.3	5.4	8.6
Media																								
61	Den Networks	158	28,111	230	8,965	10,787	10,814	12,796	1,974	2,841	2,828	3,333	623	346	181	354	66.0	106.2	107.6	110.3	7.4	2.5	1.0	1.8
62	Dish TV	50	52,979	84	21,668	24,320	27,765	34,743	5,794	5,963	7,012	9,218	(1,255)	(829)	204	2,095	(1.5)	(2.2)	(2.0)	(0.1)	(7.7)	(10.2)	42.8	106.0
63	Sun TV Network	357	140,570	460	19,252	22,748	26,555	30,590	14,024	15,422	18,079	20,992	7,096	7,574	8,667	10,201	65.7	73.2	81.2	93.0	28.9	27.7	28.5	29.7
64	Zee Ent.	279	267,772	315	36,996	43,135	49,851	58,826	9,543	11,464	13,383	16,126	7,182	8,770	10,391	12,529	40.9	46.3	53.3	62.6	22.0	24.0	25.0	26.4

No. Company	CMP 24 Jan 2014	Mkt Cap (INR mn)	TP	Net Sales FY13	Net Sales FY14E	Net Sales FY15E	Net Sales FY16E	EBIDTA FY13	EBIDTA FY14E	EBIDTA FY15E	EBIDTA FY16E	PAT FY13	PAT FY14E	PAT FY15E	PAT FY16E	BVPS FY13	BVPS FY14E	BVPS FY15E	BVPS FY16E	ROE (%) FY13	ROE (%) FY14E	ROE (%) FY15E	ROE (%) FY16E
Metals																							
65 Adhunik	29	3,619	56	29,501	22,644	24,148	25,385	6,210	5,526	6,085	6,737	872	598	1,296	2,155	93.7	99.4	107.5	122.5	7.8	5.0	10.1	15.2
66 Coal India	258	1,628,990	332	683,027	700,965	761,914	862,333	212,854	197,720	219,174	236,312	195,015	183,415	199,778	210,780	76.7	76.5	88.3	98.5	39.0	37.9	38.4	35.7
67 GMDC	116	36,840	149	16,747	13,475	18,403	21,876	8,906	6,018	8,227	9,822	5,870	4,098	5,499	6,646	79.7	89.1	102.9	120.3	25.6	15.3	18.0	18.7
68 Hindalco Ind.	114	235,362	100	801,928	919,735	1,051,202	1,163,673	78,368	89,344	115,558	134,117	30,584	23,438	32,056	39,755	184.5	184.0	199.3	211.6	9.1	6.4	8.1	9.4
69 Hindustan Zinc	131	553,728	163	126,918	132,684	145,942	164,130	64,641	70,140	77,628	90,540	68,995	68,272	77,021	89,061	76.4	89.0	103.2	119.6	23.3	19.5	19.0	18.9
70 JSW Steel	970	234,482	829	381,120	497,679	520,507	548,423	64,063	91,573	93,401	105,609	13,933	21,800	21,687	29,789	891	956	1,023	1,131	7.3	9.8	9.1	11.4
71 NMDC	146	577,263	134	107,043	113,633	130,424	146,803	73,752	73,701	78,379	89,489	63,424	62,625	65,213	70,463	69.4	77.0	85.3	94.9	24.4	21.6	20.3	19.7
72 SAIL	69	285,594	54	445,983	466,991	551,314	637,239	46,146	49,999	74,028	99,483	23,018	22,621	29,640	33,428	99.3	101.7	106.5	111.7	5.7	5.4	6.9	7.4
73 Tata Steel	376	365,177	473	1,347,115	1,471,699	1,555,497	1,672,026	110,042	154,616	177,419	198,379	3,323	24,523	39,474	48,385	351.8	366.7	397.1	436.6	0.9	7.0	10.6	11.9
Midcap																							
74 ENIL	339	16,170	352	3,384	3,815	4,276	4,729	1,042	1,271	1,455	1,623	639	864	1,076	1,271	105.4	106.1	126.0	150.3	12.7	14.8	15.7	15.8
75 Navneet Edu.	55	13,054	80	7,908	8,734	10,270	12,079	1,906	2,000	2,501	2,962	1,111	1,131	1,454	1,749	18.6	21.2	24.5	28.6	27.0	23.9	26.7	27.7
76 Tree House	235	8,637	370	1,143	1,666	2,170	2,737	618	908	1,190	1,505	333	455	601	795	99.8	114.0	127.4	145.1	11.1	12.1	13.9	16.2
77 TTK Prestige	3,398	39,554	2,900	13,585	13,184	15,161	17,705	2,026	1,750	2,076	2,493	1,331	1,134	1,407	1,711	349.4	432.0	534.5	659.1	39.1	25.6	25.7	25.3
Oil & Gas																							
78 BPCL	343	248,126	529	2,415,875	2,343,896	2,331,127	2,473,880	68,759	71,889	51,370	62,674	26,429	26,857	16,510	24,304	230.0	252.8	266.9	287.5	16.8	15.4	8.8	12.1
79 Cairn India	325	620,756	420	175,242	185,531	202,583	168,627	134,880	137,581	141,875	104,695	119,197	122,435	112,158	82,195	249.8	298.9	343.9	376.8	24.8	23.4	18.3	11.9
80 Chennai Petro	69	10,312	86	428,833	553,660	579,972	582,779	(5,371)	14,431	12,318	15,125	(17,668)	(2,643)	1,803	3,635	136.1	118.3	126.2	142.0	(60.7)	(14.0)	9.9	18.2
81 Essar Oil	51	73,998	56	885,780	985,191	949,361	954,001	36,930	49,220	47,631	52,271	(10,690)	(8,097)	7,307	19,267	7.6	11.1	16.1	29.4	(65.0)	(59.7)	37.1	58.4
82 GAIL	350	444,094	359	475,227	562,818	645,035	701,241	64,692	64,386	72,644	79,919	44,989	35,863	40,898	44,252	191.0	209.3	230.3	252.9	19.6	14.1	14.7	14.4
83 HPCL	232	78,646	310	2,067,313	2,022,227	2,001,781	2,121,559	43,259	39,338	45,170	54,786	9,047	10,213	9,048	13,468	419.8	439.5	456.9	482.9	6.7	7.3	6.2	8.8
84 IOCL	228	553,209	182	4,470,964	4,529,543	4,704,836	4,960,017	152,521	179,090	178,400	154,954	45,551	9,725	49,043	9,823	251.8	254.4	267.5	270.1	7.5	2.9	7.6	1.5
85 MRPL	42	74,310	65	657,170	722,609	716,177	716,177	8,571	18,889	40,916	40,419	(8,458)	1,159	15,869	17,588	36.9	37.9	44.8	52.5	(12.4)	3.5	21.9	20.6
86 ONGC	283	2,422,915	359	1,624,032	1,836,591	2,113,777	2,153,043	571,001	586,697	873,822	937,203	242,196	225,997	397,776	437,005	178.3	194.3	222.6	253.6	16.8	14.2	22.3	21.5
87 Oil India	471	283,225	684	99,476	106,057	156,467	172,225	46,147	50,972	87,733	98,051	35,893	32,646	54,997	62,261	319.6	352.7	408.6	471.8	19.4	16.2	24.0	23.5
88 Petronet LNG	111	82,950	134	314,674	428,613	451,419	616,846	19,388	17,160	21,450	26,203	11,493	7,566	10,013	13,062	59.3	65.9	74.5	85.8	24.5	14.4	16.6	20.3
89 Reliance Ind.	868	2,803,817	882	3,602,970	4,048,803	4,258,618	4,346,505	307,140	295,099	311,960	338,524	210,030	213,971	224,832	238,526	613.1	675.4	740.9	810.4	12.1	11.3	10.8	10.5
Paper																							
90 Ballarpur Ind.	13	8,292	22	48,548	53,863	58,608	63,103	8,106	8,868	10,609	11,879	787	817	2,179	2,697	37.9	40.8	41.6	43.3	3.0	3.2	8.1	9.7
91 JK Paper	30	4,146	30	14,532	18,092	23,224	26,513	1,222	1,515	3,175	3,638	223	(596)	734	988	63.0	56.9	60.2	65.1	3.9	(7.3)	9.2	11.5
92 TNPL	130	8,997	171	18,040	22,135	25,430	28,154	3,448	4,697	5,396	6,074	915	1,503	2,115	2,715	149.6	163.9	188.0	220.2	9.1	13.9	17.4	19.2

No. Company	CMP 24 Jan 2014	Mkt Cap (INR mn)	TP	Net Sales FY13	Net Sales FY14E	Net Sales FY15E	Net Sales FY16E	EBIDTA FY13	EBIDTA FY14E	EBIDTA FY15E	EBIDTA FY16E	PAT FY13	PAT FY14E	PAT FY15E	PAT FY16E	BVPS FY13	BVPS FY14E	BVPS FY15E	BVPS FY16E	ROE (%) FY13	ROE (%) FY14E	ROE (%) FY15E	ROE (%) FY16E
Pharmaceuticals																							
93 Cadilla Health	836	171,129	863	61,552	68,060	78,123	89,187	9,226	10,300	11,929	13,435	6,535	8,501	9,822	11,312	149.8	179.6	215.9	259.4	22.8	25.2	24.3	23.2
94 Cipla	414	332,731	430	80,868	93,410	106,652	121,787	21,979	23,079	26,161	29,860	15,449	15,213	17,259	19,966	112.3	128.9	148.1	170.6	17.4	15.3	15.5	15.6
95 Divi's Lab	1,327	176,125	1,362	21,399	24,597	30,543	37,701	8,102	9,566	12,178	14,907	6,020	7,748	9,037	11,001	188.4	229.2	279.7	345.1	26.0	28.0	26.8	26.5
96 Dr. Reddy's	2,661	452,435	3,026	116,266	134,316	154,588	168,386	22,958	27,020	32,145	34,835	16,776	19,490	23,357	25,744	430.5	527.8	647.8	781.8	25.0	24.0	23.4	21.2
97 Glenmark Pharm	510	138,401	626	49,612	58,701	67,047	75,583	9,588	11,912	13,926	16,145	6,147	6,345	7,801	9,420	102.9	126.6	155.6	190.4	21.7	20.4	20.4	20.1
98 GSK Pharma^	2,983	252,673	2,737	26,214	26,321	29,981	34,151	8,072	6,546	8,601	9,619	5,619	5,982	7,245	8,035	236.9	249.5	276.9	313.7	36.2	28.1	32.5	32.1
99 Lupin	914	409,567	998	93,694	108,934	128,234	142,698	22,272	26,904	32,864	36,405	13,142	16,929	20,076	22,225	117.6	150.7	190.8	235.8	28.7	28.7	26.6	23.6
100 Ranbaxy^	336	142,538	285	121,537	136,446	129,292	134,382	19,379	14,458	13,765	14,775	9,228	(3,098)	5,411	6,508	98.6	91.2	104.0	119.4	36.5	9.7	13.5	14.2
101 Sanofi India^	2,656	61,175	2,789	14,939	16,772	18,888	21,238	2,326	2,699	3,188	3,609	1,767	2,269	2,676	3,141	522.8	572.1	646.0	740.0	15.2	18.0	19.1	19.7
102 Sun pharma	604	1,250,117	646	112,389	138,773	158,156	175,478	49,139	63,818	62,862	68,382	29,831	24,662	51,469	57,694	80.3	89.8	111.7	136.6	24.3	28.3	24.7	22.4
103 Torrent Pharma	537	90,894	568	30,535	38,820	49,385	56,435	6,556	8,313	10,811	12,434	4,328	5,071	5,812	6,404	84.0	93.2	109.9	130.2	33.1	38.4	33.8	31.5
Power & Utilities																							
104 CESC	419	52,373	490	74,968	105,342	118,890	124,164	12,169	18,635	25,299	30,401	3,735	5,207	5,711	8,091	468.6	508.4	553.6	612.6	7.5	9.7	9.9	12.7
105 GMR Infra	23	89,526	23	83,054	96,659	139,530	165,145	24,772	48,804	64,988	74,560	(2,828)	1,249	1,049	4,212	28.2	29.6	30.1	31.1	(3.0)	1.3	1.1	4.5
106 JSW Energy	48	78,641	49	89,343	97,324	110,279	112,110	27,932	30,310	30,526	26,011	10,145	10,550	12,161	9,655	38.1	41.4	45.6	49.5	17.0	16.3	17.2	12.4
107 NHPC	18	221,413	24	64,021	62,809	73,819	81,133	42,770	37,958	46,124	50,967	19,784	20,991	24,689	27,596	26.6	27.8	29.1	30.6	6.7	6.8	7.6	8.1
108 NTPC	132	1,084,278	155	665,050	721,270	825,926	935,201	154,860	178,215	194,162	218,105	96,381	105,665	106,971	120,451	99.3	107.5	115.8	125.1	12.4	12.5	11.7	12.2
109 Power Grid	98	513,219	125	127,579	148,319	171,927	197,434	109,364	126,898	148,210	171,137	40,606	46,581	57,352	65,963	50.2	67.9	76.1	85.6	16.3	15.1	15.2	15.6
110 PTC India	58	17,139	72	88,569	102,611	117,195	127,056	1,700	1,791	1,644	1,912	1,257	1,583	1,373	1,588	78.8	82.4	85.3	89.0	5.6	6.7	5.5	6.2
111 Reliance Power	67	187,102	85	49,266	50,945	74,990	96,049	17,129	22,801	40,311	57,404	8,615	8,645	11,686	21,379	66.2	69.3	73.5	81.1	4.8	4.5	5.8	9.9
112 SJVN	21	87,696	25	16,821	19,728	23,551	25,858	14,517	17,253	20,830	22,864	11,273	11,908	12,965	12,612	20.3	22.1	24.0	25.9	13.9	13.6	13.6	12.2
Print Media																							
113 DB Corp	319	58,549	338	15,923	18,496	20,883	23,582	3,821	5,095	5,834	6,825	2,242	3,011	3,600	4,260	56.7	66.7	78.9	93.7	22.3	26.8	27.0	26.8
114 HMVL	135	9,912	168	6,363	7,135	7,675	8,578	1,125	1,491	1,635	1,910	845	1,092	1,186	1,379	69.3	89.7	105.8	124.6	17.9	18.7	16.5	16.3
115 HT Media	76	17,850	125	13,400	14,292	15,698	17,250	1,820	1,810	2,165	2,593	241	1,405	1,711	2,079	55.7	61.3	68.0	76.3	14.0	10.2	11.3	12.3
116 Jagran Prakashan	90	29,772	120	14,118	15,585	17,309	19,382	2,895	3,892	4,447	5,164	2,205	2,227	2,535	3,036	27.7	31.4	35.3	40.7	26.4	22.7	22.9	24.1
Telecom																							
117 Bharti Airtel	313	1,251,786	395	803,112	861,861	965,345	1,059,753	248,226	278,366	322,018	362,289	22,830	36,050	69,209	78,117	143.4	150.9	166.5	184.6	4.5	7.0	12.4	12.6
118 Idea Cellular	152	505,854	185	224,577	263,613	292,681	325,439	60,045	82,713	94,525	108,845	10,109	19,298	28,707	37,632	43.5	49.3	58.0	69.3	7.4	12.5	16.1	17.8
Tours & Travels																							
119 Cox & Kings	136	18,616	205	18,087	23,243	27,044	30,047	7,225	9,763	11,413	12,867	2,896	3,796	4,247	4,946	80.9	111.4	140.8	174.7	25.2	28.9	24.7	23.0
120 Mahindra Holid	246	21,796	252	6,944	7,690	8,761	9,976	1,228	1,415	1,661	1,930	909	1,113	1,331	1,547	72.4	92.9	98.6	110.8	15.5	15.9	16.0	16.6

Note: # Consolidated financials; ^ Y/E Dec; $ Y/E June

Source: Company, Elara Securities Estimate

Notes

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