INSIGHT

ASHIKA
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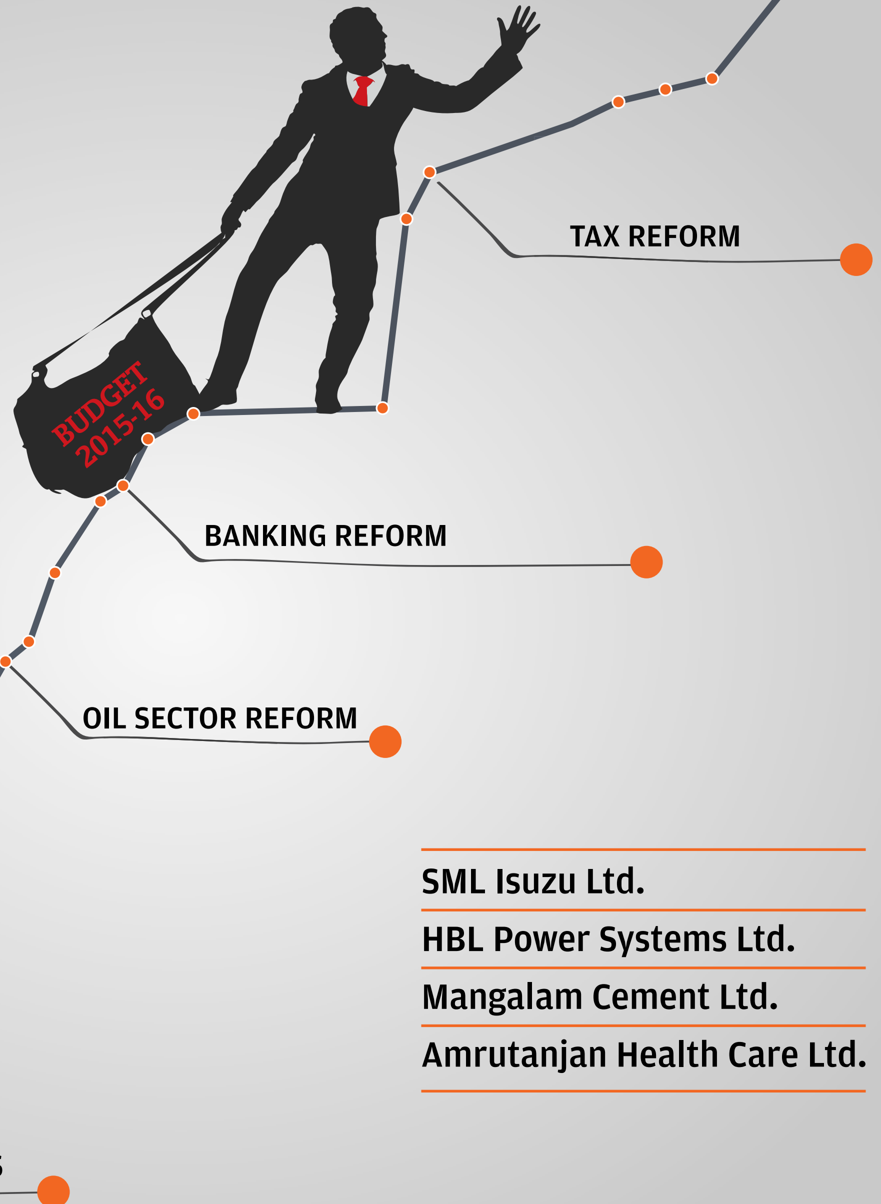
February, 2015

BUDGET 2015-16 HIGH ON EXPECTATION



SML Isuzu Ltd.

HBL Power Systems Ltd.

Mangalam Cement Ltd.

Amrutanjan Health Care Ltd.

Market Overview

Monthly Insight Performance

Stock Picks

Valuation at a Glance

Goods and Services Tax

Sector Outlook: Cement

Economy Review

Mutual Fund Overview

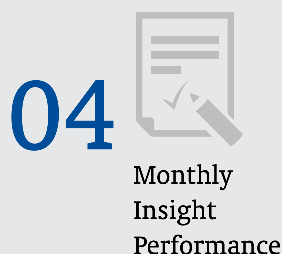
Technical View

Market Diary

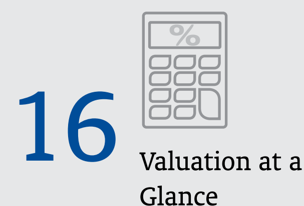
Commodity Monthly Round-up

Inside this issue

01 Market Overview


04 Monthly Insight Performance

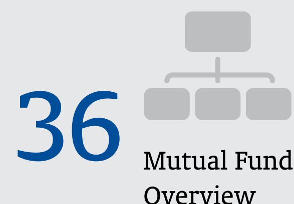
08 Stock Picks
- SML Isuzu Ltd.
- HBL Power Systems Ltd.
- Mangalam Cement Ltd.
- Amrutanjan Health Care Ltd.


16 Valuation at a Glance

18 Goods and Services Tax

24 Sector Outlook

29 Economy Review


36 Mutual Fund Overview

37 Technical View

41 Market Diary

42 Commodity Monthly Round up

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Market Overview

It is expected that calendar year 2015 will be a notable one for the Indian economy as a lot of negative factors plaguing the Indian economy since the global financial crisis, have abated; the high import bill (on rising crude and commodity prices) or the sustained levels of high inflation. Economists are of the view that the optimism will finally get some affirmation when the economic data is released for June 2015 quarter. The RBI has done its part by surprisingly lowering the repo -rates (by 25 bps) before its monetary policy meet scheduled in February 2015 and thus defusing the speculation with the rate cut. Although, all the rate sensitive sectors are still struggling and it will be sometime before the benefits percolate down to the end users. What the rate cut does is it opens up a window of opportunity for India and of course there are more to come. Ideally, lower interest rates should shift future consumption to the present (thus benefiting corporate) and simultaneously moves savings from bank deposits to equity markets (which once again benefits corporate) apart from the fact that a benign interest rate regime favours governmental borrowing (as a source of low cost funds from households). That explains the clamour for a lower interest rate regime. The World Bank has recently opined that there are still concerns with global growth. Lower global growth and demand translates into lower fuel and commodity costs and lower inflation. It is arguable that this could lead to the postponement of the much-feared rate hike in the US, a boon for emerging economies like India. For India, World Bank has forecasted a 6.4% growth in 2015 and 7% for 2016. The bank has also stressed on the ongoing reforms front by the new government at the centre. Indeed, the major focus right now is the Union Budget 2015-16 to be delivered by Finance Minister in February. As usual with any year, there have been expectations from industry fraternity and learned people on the behalf of common people. The expectations are riding sky high and it will be difficult for the government to meet up with those. However, the broad based problem with the Union Budget for last few years have been lower allocation of funds for the key areas - whether it is education, health, food security or basic infrastructure. The government spends a major chunk of budgeted funds on interest payments and it is a hard fact that cannot be changed probably in a time frame of 3-4 years. The government roughly borrows ~ Rs.1,600 crore a day and delivers way below the target that is promised and the money spent. It probably needs a deeper long-term debt market to even out costs and volatility in liquidity conditions. It currently is over-dependent on bank deposits. This typically means banks borrow for the short term and lend long term to the government. This leads to liquidity hiccups, influences inflation and raises the cost of borrowings. To put in other words, there is a need for expansion and competition in the financial system to deliver reach and efficiency.

At the recently concluded World Economic Forum (WEF), our finance minister showcased India as an investment destination by promising that the nation has a "lot in the pipeline" for global investors – probably a bid to draw higher FDI (essential for plugging the savings-investment gap or current account deficit). However, our domestic savings (as % of GDP), although has came off from the historical highs but is still one of the strongest in the World and almost 98% of the domestic investments is funded by domestic savings. That in turn implies Indian economy is not dependent on FDI, certainly not as of now when the current account deficit is under control. However, the decline in the interest rates although is hailed by the corporate, the reality might be a lot different. The decline in the interest rates might induce the smart Indian saver to lean towards physical savings, including gold. Savings in gold has two major implications: One, it is a no-confidence in Indian economy (as it distorts the balance of household savings) and two, it adds to current account deficit. The wooing of FDI can be justified in that context just to provide that extra cushion. Credit Suisse estimates that India will save ~US$45 bn/year (at US$65/bbl) due to the fall in oil prices but can only stimulate growth if savings are reinvested in productive activities. The government has swiftly raised excise duty on fuel and the government now gets to keep more than half of the gains: US$24 bn (1.2% of GDP). However, on the fiscal deficit, the government needs to pull it best act together since the FY15 target of 4.1% of GDP has nearly been hit in the first eight months. The surge in the fiscal deficit numbers is largely driven by pathetic tax collection numbers. The government is targeting to raise Rs 58,425 crore of which Rs 43,000 crore is expected to come through stake sale in public sector undertakings in FY15. It has so far managed to raise Rs 24,100 crore from divesting its 5% stake in SAIL and 10% in Coal India. The disinvestment of ONGC, PFC, REC, MOIL and other PSUs are soon to follow. Moreover, the government also has the benefit of selling the Telecom spectrum to the operators and is likely to commence soon. According to the Department of Telecommunication (DoT), 29 licenses in the 900 MHz band and 15 licences in 1800 MHz band across the country will be due for renewal in 2015 and 2016. The government will sell 380.75 megahertz of second generation (2G) spectrum in three bands - the premium 900 MHz, 1800 MHz and 800 MHz. Spectrum in 2100 MHz may also be put on auction simultaneously after Defence Ministry vacates it. All in all, spectrum auction is likely to fetch at least Rs 64,840 crore and will help the government to meet up with the fiscal deficit target, something both Finance as well as Prime Minister is confident of meeting the target of 4.1%.

The high expectations on Union Budget 2015-16 from all sects of people are the prime challenge for the government. The usual expectations are the reduction in corporate tax rate, aggressive disinvestment of government stake in public sector units, higher personal income tax exemption limits and a massive increase in public expenditure to boost growth. Confederation of Indian Industry (CII) president Ajay S Shriram is of the view that there are enough indicators that the economy is on the cusp of recovery and is confident that a progressive and balanced budget would take the economy to the 7-8% growth trajectory in the near future. CII has pitched in for rate of minimum alternate tax (MAT) be restricted to 10% to provide a fillip to manufacturing. CII has also suggested steps for boosting agriculture growth, creation of jobs and improving ease of doing business and rationalising subsidies by limiting to only the below poverty households. Ficci president Jyotsna Suri requested for rationalisation of tax regime and also called for efforts to move away from the aggressive revenues approach and instead provide “a genuine non-adversarial and conducive tax environment”. Industry representatives also sought deferral of the General Anti-Avoidance Rule (GAAR) by two years to improve the business climate. Assocham pressed for channelizing the huge cash surplus of Rs 2 lakh crore-plus with mahanavratnas/ navratnas into core sectors to spur the investment cycle. On the personal income tax front, the government is likely to maintain status quo as hinted by the finance minister at WEF. Addressing to the global investors, he promised a stable tax regime that will not come up with unreasonable demands and change taxes retrospectively. However, he is also against raising the tax rates as that could become counter-productive. Rather, he relied on the economic strength to pick up momentum. Jaitley expressed confidence that India was close to the point when investment would pick up as there are a large number of investors waiting to come in. On the sidelines of big bang reforms, he said that the sum total of the all the key policies undertaken such as opening of Railways, Defence and the proposed introduction of GST, allocation of natural resources are indeed more than big bang. He acknowledged that the Budget will be a very important occasion for this government, but then the next 364 days are equally important.

WHAT INDIA INC WANTS FROM THE BUDGET

To Spur growth

- Lower interest rates to boost consumer, housing demand
- Continue fiscal prudence, remove surcharge to spur spending
- Link income tax exemption limit to inflation
- Higher section 80c incentives to increase financial savings

Greater public investment in infra

- Bigger divestment effort, Rs 60000 crore CII suggested
- Sell loss making PSUs and lower stakes in PSBs to 51%
- Subsidy rationalization to allow for higher capital spending
- Implement direct benefit transfer through Aadhar
- More investments from PSUs sitting on over Rs 2 lakh crore
- Once executed by public sector, projects can be sold to private sector to generate cash

To improve business environment

- End to aggressive taxation
- Realistic revenue targets
- GAAR deffered for another two years
- Faster resolution of tax disputes

Tax suggestions

- Extend dividend distribution tax exemption to REITs, InviTs
- Extending investment allowance to infra sector
- Exempting infrastructure projects from MAT
- MAT should be lowered to 10% and SEZs kept exempt from it
- Excise duty exemption on capital goods bought indigenously
- Safe harbour rules for contract manufacturing

(Source: Economic Times)

Obama’s visit to India had been interpreted by people in its own ways. According to Modi however, Obama’s visit to India has taken the bilateral relations to a new level and opened a new chapter. Mr Modi and Mr Obama declared a “global partnership” - indicating that the US was not a mere strategic partner but India’s principal strategic partner in the world. There are a lot to see from the Obama- Modi meet like operationalising the nuclear deal, an offer to invest $4 billion, including $2 billion in clean energy. However, the most important takeaway from the Modi-Obama summit is the coming together of India and the US on “grand strategy” in Asia. The signing of the “Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region” may sound mild but it is packed with signals - to China. Probably, USA is looking at developing India into a net security provider and Mr Modi also realizes that if India doesn’t step up to that role, China will fill the vacuum. They will work together to keep freedom of navigation, maritime security and air space safe, especially in the South China Sea after disputed behavior of China as reported by Philippines, Vietnam, Japan and even Indonesia. Some of the other important policies announced are:

1. Nuclear logjam broken: The significance of the completion of the India-US nuclear deal cannot be overstated. Signed in 2005, with an NSG waiver in 2008, the deal was in limbo for a few years.
2. India crosses nuclear liability hurdle: Easier for companies to invest in India's nuclear power sector.
3. Funds flow of $4 billion: Obama announced $4 billion of new initiatives to boost trade/ investment ties, jobs in India via Exim Bank and OPIC. Opened new source of financing for social development ventures with an Indian Diaspora Investment Initiative.
4. Clean energy boost: The $4 billion deals include $2 billion of leveraged financing for renewable energy investment and $1 billion in loans for small medium businesses.
5. Made in the USA: US Exim Bank will finance a billion dollars to support 'Made in America' exports to India over two years.
6. Defence framework agreement: Renewed for 10 years and Defense Technology and Trade Initiative operationalized with focus on co-development and coproduction in India for India and global market, should boost 'Make in India'.
7. Defence equipment co-developed in India: The first four Raven mini UAVs, mobile hybrid power source, chemical/ bio protection gear, roll on-roll off intelligence, surveillance modules for C-130J aircraft.
8. More on climate change: Personal priority for both leaders. Indian industry working towards clean energy, US extends support in this mission, and agreement reached on climate change issues.

(Source: Times of India)

While India is in one of the brightest spots, the prospects for the global economy are not so optimistic. No wonder, India is getting such gargantuan interest among global investors. The recent election of the Syriza-led government in Greece haven't gone done well as the global investors are in a fix following increasing chances of default. The repercussion may echo more than just the Eurozone. The obvious reason being that the Syriza party has promised to ditch austerity and renegotiate the country's Euro 240bn (£180bn; $270bn) bailout with the European Union and International Monetary Fund. Things that the newly elected party aims are: (a) promise of 300,000 new jobs in the private, public and social sectors, and a hefty increase in the minimum monthly wage – from Euro 580 ($658; £433) to Euro 751 ($853; £562). (b) Promise to write off most of Greece's Euro 319bn ($363bn; £239bn) debt, which is a colossal 175% of its gross domestic product (GDP). (c) Scrapping of property tax (d) to build closer relations with Russia. New leaders are believed to slowly reverse the reform course imposed on the country by its creditors, dashing hopes in Europe that the leftist government would soften its approach and triggering a steep selloff in Greek stock and debt markets. Measures have been taken to halt privatizations and rehire public workers. The possibility of Greek default is looming large and in the scenario of exit from the Eurozone, there will be nasty outcomes. Living standards in Greece could fall, banks will face the prospect of collapse, savings may be frozen, businesses could go bankrupt and the cost of imports could multiple. Eventually Greece will run out of euros as it will not be able to borrow and all repayments of debts will stop and Greek banks will go bust, since they won't be able to lend to the government. India has no direct implication; however how much of it will affect (following the happening of the event) will only depend on the immediate impact on Eurozone. The predictions are not optimistic to say the least.

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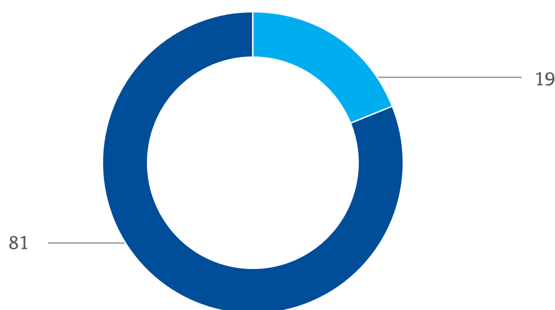
Monthly Insight Performance

Over the years, Ashika Research based on its rigorous and continuous analysis on fundamental basis, has recommended stocks and consistently achieved the target price recommended. Since January 2012 we have recommended 144 stocks out of which 116 has achieved target. Hit Ratio stands at 81%. Out of these 61 stocks have given a return of more than 100%. During this period the Nifty has given a return of 72% and a return of 73% from its peak.

The stocks recommended by us such as Cera Sanitaryware, Symphony, Aurobindo Pharma, Shree cement, MRF, Pidilite Ind, Kaveri Seeds, Havels India, Gujarat Gas, Sharda Motor , Torrent Pharma, Maruti Suzuki, Wim Plast, VA Tech Wabag, Lupin, Berger Paints, Britannia, Adani Ports, Dabur, Indusind Bank, Relaxo Footwears, L&T, Zydus Wellness, Tatamotor - DVR, Glenmark Pharma, MRF Ltd., Castrol India, Pidilite, Pidilite Ind., Info Edge (India), Maruti Suzuki, Finolex Ind., Dr Reddy, Bharti InfraTel, Prism Cement, PI Industries, Indian Bank, Berger Paints India, Cummins India, Can Fin Homes, LIC Housing Fin, Hexaware Ltd., Zydus Wellness Ltd , Escorts, Indusind Bank Ltd, Emami Ltd, Motherson Sumi, Tech M, HPCL, UPL, Bajaj Finserv, Bajaj Finserv , Godrej Consumer, AIA Engineering, Tata Motors Ltd. , Zee Entertainment, V-Guard Ind., Axiscades Engg, IPCA Lab, Magma Fincorp and Multibase India have generated exceptional returns (more than 100% returns) for our investors. A few of them have generated returns in excess 200% for our investors.

We have selected stocks across large cap and mid cap companies and across variety of sectors. For the period analyzed, the stocks recommended by us have outperformed their respective sectoral indices.

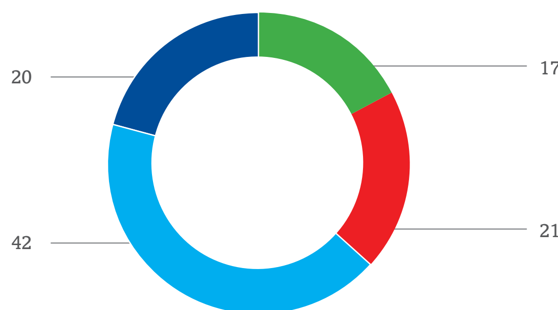
Success Rate (%)



Target Achieved
Calls Open

Total Call: 144

Return Classification (%)



Less Than 25% Return (25 Stocks)
40-20% Return (28 Stocks)
40-80% Return (30 Stocks)
More than 100% Return (61 Stocks)

Recommended Stocks

Time Period	Script	Sector	Reco. Price	Target Price	Target Return	High after Reco.	Return from High	CMP (as on 28/01/2015)	Status
Jan-15	Torrent Pharm	Pharma	1096	1338	22.1%	1223.0	11.6%	1212.0	
	Emami	FMCG	783	924	18.0%	966.0	23.4%	929.2	Target Achieved
	Dewan Housing	Finance	397	480	20.9%	502.0	26.4%	472.8	Target Achieved
	KPIT Tech	IT	200	263	31.5%	232.4	16.2%	214.9	
Dec-14	Bajaj Corp	Personal Products	327	385	17.7%	438.5	34.1%	417.4	Target Achieved
	Alstom India	Electrical Equipment	586	725	23.7%	749.9	28.0%	724.5	Target Achieved
	Transport Corp	Transportation	284	354	24.6%	290.5	2.3%	264.8	
	Multibase India	Rubber Products	164	300	82.9%	327.9	99.9%	289.4	Target Achieved
	Albert David	Pharma	256	363	41.8%	328.8	28.4%	267.8	
Nov-14	ONGC	Oil & Gas	395	516	30.6%	412.5	4.4%	353.9	
	Cadila Helthcare	Pharma	1384	1600	15.6%	1760.2	27.2%	1660.0	Target Achieved
	Karur Vysys	Banks	541	700	29.4%	617.0	14.0%	606.3	
	JK Lakshmi Cement	Cement	348	396	13.8%	429.9	23.5%	392.8	Target Achieved

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Time Period	Script	Sector	Reco. Price	Target Price	Target Return	High after Reco.	Return from High	CMP (as on 28/01/2015)	Status
Diwali Pick	Ashok Leyland	Auto	44	65	46.2%	68.4	53.9%	68.2	Target Achieved
	Karur Vysys	Banks	540	700	29.6%	617.0	14.3%	606.3	
	SKS Microfinance	Finance	317	412	30.0%	475.8	50.1%	437.1	Target Achieved
	NOCIL	Chemical	43	60	38.4%	49.4	14.0%	41.0	
Oct-14	Kesoram Industries	Diversified	117	176	50.4%	142.6	21.9%	123.9	
	Akzo Nobel	Paints & Chemical	1240	1460	17.7%	1499.0	20.9%	1471.0	Target Achieved
	IFB Industries	Household Appl.	295	380	28.8%	534.0	81.0%	502.0	Target Achieved
	Munjal Auto	Auto Parts	102	155	52.0%	134.0	31.4%	110.3	
Sep-14	Tata Motors	Auto	527	598	13.5%	607.7	15.3%	589.2	Target Achieved
	Timken India	Industrial Products	447	545	21.9%	543.7	21.6%	532.4	
	KEC International	Electrical Equip	102	130	27.5%	120.7	18.3%	89.6	
	Indoco Remedies	Pharma	256	327	27.7%	344.8	34.7%	319.1	Target Achieved
	Ingersoll-Rand	Industrial Products	649	785	21.0%	954.9	47.1%	866.4	Target Achieved
Aug-14	Bodal Chemicals	Chemical	60	94	56.7%	76.3	27.2%	41.9	
	Som Distilleries	Breweries & Dist.	211	269	27.5%	246.0	16.6%	202.9	
	Sharda Motor	Auto Parts	391	536	37.1%	1140.0	191.6%	1033.5	Target Achieved
	Axiscades Engg	IT	106	138	30.2%	214.0	101.9%	185.6	Target Achieved
	Visaka Industries	Cement Products	119	173	45.4%	144.0	21.0%	120.4	
	Deccan Cements	Cement	270	408	51.1%	491.0	81.9%	388.1	Target Achieved
	Gulshan Polyols	Chemical	177	274	54.8%	252.5	42.7%	224.6	
Jul-14	Mahindra Lifespace	Real Estate	560	710	26.8%	664.4	18.6%	491.8	
	V-Guard Ind.	Industrial Products	593	746	25.8%	1198.0	102.0%	992.0	Target Achieved
	Astra Microwaves	Defence	142	186	31.0%	156.8	10.4%	134.7	
	Himatsingka Seide	Textile	74	95	28.4%	106.0	43.2%	87.4	Target Achieved
	Mangalam Cement	Cement	221	285	29.0%	351.0	58.8%	322.9	Target Achieved
Jun-14	Coal India	Coal	392	500	27.6%	423.7	8.1%	383.8	
	Container Corp.	Logistics	1180	1500	27.1%	1504.7	27.5%	1430.5	Target Achieved
	Balmer Lawrie	Logistics	473	700	48.0%	681.4	44.1%	592.2	
	Can Fin Homes	Housing Finance	305	450	47.5%	664.2	117.8%	628.4	Target Achieved
	Srikalahasti Pipes (Lanco Ind.)	Iron & Steel Products	46	70	52.2%	91.5	98.9%	86.7	Target Achieved
May-14	Bank of Baroda	Banking	164.4	201.6	22.6%	228.4	38.9%	223.6	Target Achieved
	AIA Engineering	Industrial Products	606	726	19.8%	1238.0	104.3%	1159.8	Target Achieved
	MOIL Ltd.	Metals & Mining	255	341	33.7%	341.7	34.0%	295.2	Target Achieved
	Wim Plast	Plastic Products	620	800	29.0%	1720.0	177.4%	1368.8	Target Achieved
Apr-14	Engineers India	Engg. & Const.	224	270	20.5%	331.7	48.1%	222.8	Target Achieved
	Gujarat Gas	Gas	263	305	16.0%	812.0	208.7%	690.4	Target Achieved
	City Union Bank	Banking	52.8	69	30.7%	100.3	89.9%	95.4	Target Achieved
	Relaxo Footwears	Footwear	297	390	31.3%	749.8	152.5%	684.3	Target Achieved
Mar-14	Motherson Sumi	Auto Ancillary	232	285	22.8%	487.8	110.3%	466.0	Target Achieved
	PI Industries	Agrichem	252	315	25.0%	561.8	122.9%	507.3	Target Achieved
	VA Tech Wabag	Water Treatment	645	765	18.6%	1748.0	171.0%	1601.3	Target Achieved
Feb-14	Bharti InfraTel	Telecom - Infra	171	213	24.6%	381.8	123.3%	379.9	Target Achieved
	UPL	Fertilizer	187	251	34.2%	388.7	107.9%	354.3	Target Achieved
	Finolex Ind.	Pipes	155	185	19.4%	347.7	124.3%	293.5	Target Achieved
Jan-14	NIIT Tech	IT	355	500	40.8%	487.0	37.2%	346.7	
	Zensar Tech	IT	349	500	43.3%	687.0	96.8%	660.4	Target Achieved
	Bajaj Finserv	Banking	726	850	17.1%	1499.0	106.5%	1450.4	Target Achieved
	FDC Ltd.	Pharma	130	170	30.8%	170.7	31.3%	159.8	Target Achieved
Dec-13	MRF Ltd.	Tyre	17350	19430	12.0%	40307.0	132.3%	39729.6	Target Achieved
	Info Edge (India)	Web Services	446	550	23.3%	1015.0	127.6%	812.0	Target Achieved
	Indian Bank	Banking	101	120	18.8%	224.3	122.0%	209.9	Target Achieved
	Symphony	Consumer Durable	405	500	23.5%	2280.0	463.0%	2207.6	Target Achieved

Time Period	Script	Sector	Reco. Price	Target Price	Target Return	High after Reco.	Return from High	CMP (as on 28/01/2015)	Status
Nov-13	Pidilite Ind.	Paints & Chemical	266	350	31.6%	607.0	128.2%	575.1	Target Achieved
	Aurobindo Pharma	Pharma	216	297	37.5%	1192.0	451.9%	1178.2	Target Achieved
	Kaveri Seeds	Agri Products	305	580	90.4%	1025.0	236.5%	736.0	Target Achieved
	Speciality Rest.	Restaurants	124	198	59.7%	213.5	72.2%	186.5	Target Achieved
Oct-13	Britannia	FMCG	759	845	11.3%	2017.0	165.7%	1913.8	Target Achieved
	Glenmark Pharma	Pharma	520	610	17.3%	841.0	61.7%	728.3	Target Achieved
	Ultratech Cement	Cement	1808	2045	13.1%	3199.9	77.0%	3139.8	Target Achieved
Sep-13	L&T	Engg. & Const.	705	810	14.9%	1776.6	152.0%	1698.4	Target Achieved
	Tech M	IT	1375	1495	8.7%	2885.0	109.8%	2873.4	Target Achieved
	Indusind Bank	Banking & Finance	344	470	36.6%	880.0	155.8%	868.8	Target Achieved
	Escorts	Auto	82	108	32.5%	174.3	113.8%	134.1	Target Achieved
Aug-13	Hexaware Ltd.	IT	107	130	21.5%	230.5	115.4%	222.3	Target Achieved
	Godrej Consumer	FMCG	815	950	16.6%	1141.2	40.0%	1113.0	Target Achieved
	Torrent Pharma	Pharma	421	475	12.8%	1223.0	190.5%	1212.0	Target Achieved
Jul-13	TCS Ltd	IT	1460	1640	12.3%	2839.7	94.5%	2539.6	Target Achieved
	Dabur India	FMCG	150	170	13.3%	262.3	74.9%	251.8	Target Achieved
	Rallis India	Chemical	130	148	13.8%	254.8	96.0%	227.2	Target Achieved
Jun-13	Hero MotoCorp	Auto	1736	2020	16.4%	3270.0	88.4%	2865.1	Target Achieved
	Divis Lab	Pharma	977	1120	14.6%	1888.1	93.2%	1739.2	Target Achieved
	Corporation Bank	Banking & Finance	77	92	19.8%	86.0	12.0%	69.4	
May-13	Maruti Suzuki	Auto	1673	1920	14.8%	3758.5	124.7%	3725.8	Target Achieved
	Dr. Reddy Lab	Pharma	1991	2280	14.5%	3666.3	84.1%	3239.1	Target Achieved
	BPCL	Oil & Gas	405	460	13.6%	785.0	93.8%	706.3	Target Achieved
	ING Vysya Bank	Banking & Finance	602	740	22.9%	1008.7	67.6%	944.1	Target Achieved
Apr-13	L&T	Engg. & Const.	1366	1830	34.0%	1776.6	30.1%	1698.4	
	Pidilite	Chemical	264	300	13.6%	607.0	129.9%	575.1	Target Achieved
	Godrej Consumer	FMCG	778	910	17.0%	1141.2	46.7%	1113.0	Target Achieved
Mar-13	ITC	FMCG	291	352	21.0%	400.3	37.6%	362.3	Target Achieved
	Berger Paints	Chemical	95	116	21.6%	252.7	166.0%	233.1	Target Achieved
	LIC Housing Fin	Banking & Finance	232	284	22.4%	504.9	117.6%	494.4	Target Achieved
	Zee Entertainment	Media & Ent.	215	265	23.3%	402.4	87.2%	387.3	Target Achieved
Feb-13	Axis Bank Ltd.	Banking & Finance	301	397.8	32.2%	599.8	99.3%	590.6	Target Achieved
	Tata Motors Ltd.	Auto	298	379	27.2%	607.7	103.9%	589.2	Target Achieved
	Cairn India Ltd.	Oil & Gas	324	410	26.5%	386.0	19.1%	235.7	
	Petronet LNG Ltd.	Oil & Gas	152	200	31.6%	221.9	46.0%	189.8	Target Achieved
Jan-13	Adani Ports	Others	135	180	33.3%	352.8	161.3%	339.3	Target Achieved
	J & K Bank	Banking & Finance	130.3	167	28.2%	195.5	50.0%	159.1	Target Achieved
Dec-12	Zee Entertainment	Media & Ent	198	235	18.7%	402.4	103.2%	387.3	Target Achieved
	Indusind Bank Ltd	Banking & Finance	416	500	20.2%	880.0	111.5%	868.8	Target Achieved
Nov-12	IPCA Lab	Pharma	450	545	21.1%	906.9	101.5%	644.0	Target Achieved
	L&T Finance	Banking & Finance	55	85	54.5%	97.1	76.5%	69.1	Target Achieved
	Zydus Wellness Ltd	FMCG	445	560	25.8%	952.0	113.9%	802.5	Target Achieved
Oct-12	Sun TV	Media & Ent.	357	446	24.9%	494.9	38.6%	404.5	Target Achieved
	Allahabad Bank	Banking & Finance	147	180	22.4%	191.1	30.0%	127.3	Target Achieved
	Shoppers stop	Others	393	465	18.3%	624.4	58.9%	479.5	Target Achieved
Sep-12	Dish TV	Media & Ent.	68	92	35.3%	84.9	24.8%	79.8	
	Havels India	Consumer Durables	111	127.6	15.0%	346.9	212.5%	268.5	Target Achieved
Aug-12	Lupin	Pharma	570	672	17.9%	1533.5	169.0%	1515.5	Target Achieved
	Bajaj Finserv	Banking & Finance	730	877	20.1%	1499.0	105.3%	1450.4	Target Achieved
Jul-12	Uflex	Others	112	145	29.5%	180.9	61.5%	153.4	Target Achieved
	Cummins India	Engg. & Const.	438	513	17.1%	960.7	119.3%	907.5	Target Achieved
	Exide Inds	Others	135	165	22.2%	205.2	52.0%	198.1	Target Achieved
	Engineers India	Engg. & Const.	200	280	40.0%	331.7	65.9%	222.8	Target Achieved
Jun-12	Glenmark Pharma	Pharma	350	410	17.1%	841.0	140.3%	728.3	Target Achieved
	Godrej Consumer	FMCG	558	675	21.0%	1141.2	104.5%	1113.0	Target Achieved
	Cera Sanitaryware	Consumer Durables	248	340	37.1%	2155.0	769.0%	2139.1	Target Achieved
	HPCL	Oil & Gas	300	365	21.7%	627.8	109.3%	597.2	Target Achieved

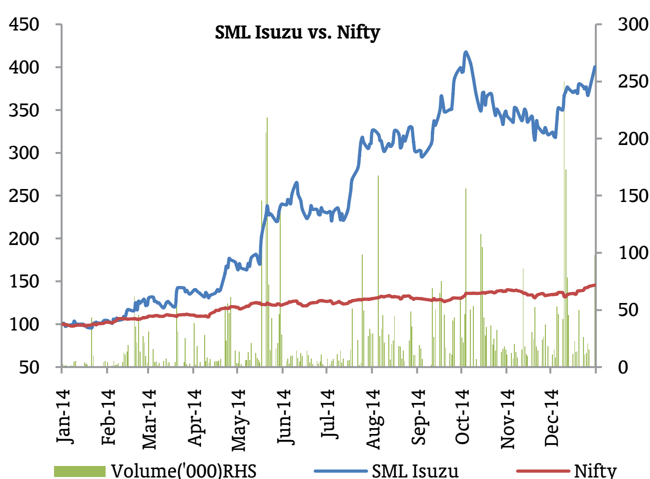
Time Period	Script	Sector	Reco. Price	Target Price	Target Return	High after Reco.	Return from High	CMP (as on 28/01/2015)	Status
May-12	Emami Ltd	FMCG	457	535	17.1%	966.0	111.4%	929.2	Target Achieved
	Berger Paints India	Chemical	114	141	23.7%	252.7	121.7%	233.1	Target Achieved
	Graphite India	Others	92	110	19.6%	126.4	37.4%	81.7	Target Achieved
	Rainbow papers	Others	66	85	28.8%	94.4	43.0%	72.5	Target Achieved
Apr-12	Tatamotor - DVR	Auto	158	200	26.6%	391.4	147.7%	366.0	Target Achieved
	Pidilite Ind	Chemical	172	210	22.1%	607.0	252.9%	575.1	Target Achieved
Mar-12	Magma Fincorp	Banking & Finance	70	ACCu		141.0	101.4%	107.9	Target Achieved
	Torrent Power	Power	222	290	30.6%	252.9	13.9%	173.5	
Feb-12	Castrol India	Oil & Gas	236	ACCU		544.0	130.5%	482.1	Target Achieved
	Prism Cement	Cement	48.75	ACCU		108.7	123.0%	103.8	Target Achieved
	MRF	Auto	9767	ACCU		40307.0	312.7%	39729.6	Target Achieved
	Shoppers Stop	Others	340	ACCU		624.4	83.6%	479.5	Target Achieved
	Allahabad Bank	Banking & Finance	200	ACCU		211.3	5.7%	127.3	
	Zydus Wellness	FMCG	382	ACCU		952.0	149.2%	802.5	Target Achieved
	MRPL	Oil & Gas	71	ACCU		80.8	13.8%	52.9	
	Akzo Nobal	Consumer Durables	857	ACCU		1499.0	74.9%	1471.0	Target Achieved
	Maruti Suzuki	Auto	1320	ACCU		3758.5	184.7%	3725.8	Target Achieved
	M & M	Auto	749	ACCU		1433.7	91.4%	1316.3	Target Achieved
Feb-12	Tata Power	Power	115	120	4.3%	117.6	2.2%	88.0	Target Achieved
	Dr Reddy	Pharma	1642	1795	9.3%	3666.3	123.3%	3239.1	Target Achieved
Jan-12	Shree cement	Cement	2100	ACCU		11243.0	435.4%	11057.7	Target Achieved
	Dabur	FMCG	102	125	22.5%	262.3	157.2%	251.8	Target Achieved

Stock Picks

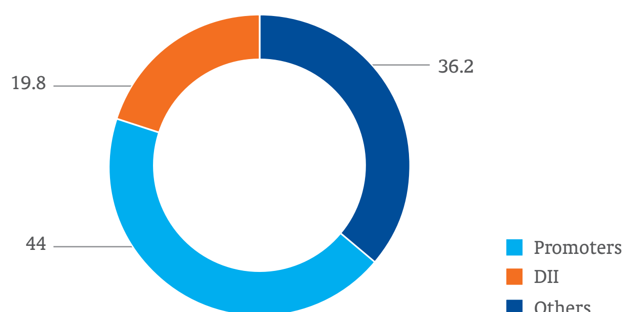
SML Isuzu Ltd. CMP: 979/- Rating: Buy TGT: 1222/-

Company Information

BSE Code	505192
NSE Code	SMLISUZU
Bloomberg Code	SM IN
ISIN	INE294B01019
Market Cap (Rs. Cr)	1486
Outstanding shares(Cr)	1.4
52-wk Hi/Lo (Rs.)	1117.45 / 243
Avg. daily volume (1yr. on NSE)	25,406
Face Value(Rs.)	10
Book Value	191.0



Share holding pattern as on Dec 2014 (%)



Particulars (In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	1002	881	1022	1196
Growth (%)	-3.3%	-12.1%	16.0%	17.0%
EBITDA	70	32	81	107
EBITDA Margin (%)	7.0%	3.6%	7.9%	8.9%
Net profit	36	17	41	50
Net Profit Margin (%)	3.6%	2.0%	4.0%	4.2%
EPS (Rs)	25.2	12.0	28.3	34.7

Estimate: Ashika Research

Company Description

SML Isuzu Ltd. is a concentrate CV- passenger carrier manufacturer with passenger carrier (including LCV) segment contributing 64% of its total volumes. In the passenger carrier segment SML Isuzu is focused on the niche segments like – school buses, college bus, city bus, buses for BPOs/ IT employees etc. In addition to the domestic market, the company is also expanding in the export markets like Sri Lanka, Nepal, Bangladesh, Ghana etc. The company is keen to increase its export revenue and exploring new markets in Africa and other potential overseas market. SML Isuzu Ltd had been established as JV between Sumitomo Corp, PTL and Mazda in 1983-85 and over the period the ownership of the company had been shifted from one player to another and now Sumitomo Corp holds 43.96% stake in the company and Isuzu Motors holds 15% stake in the company.

Investment Rationale

High Focus on Expanding Market Share

SML Isuzu Ltd is continuously focusing to increase its market share both in domestic and international market (like Sri Lanka, Nepal, Bangladesh, Ghana etc). SML Isuzu Limited is eyeing a 15% market share in the commercial vehicles segment over the next four years from present market share of 7.5%. SML Isuzu is aiming to increase its market share in the Light Commercial Vehicle (LCV) segment in the country on the back of new product launches. Currently the company's market share is ~8% in LCV which is expected to increase to 10% in the current financial year with the introduction of new models in current fiscal year. The company plans to launch at least 3-4 new products every year. Additionally, the company is also eyeing new export markets to boost sales. With a production capacity of 20,000 units per annum at its Punjab plant, the company is planning to ramp it up and currently the company is producing 12,000 units in one-shift operation and as and when demand improves the company will introduce a second shift. We expect that the efforts to increase market share will impact positively to its revenue and will also help to boost its return ratios.

Wide Distribution Network

The company has a strong and expanding distribution network of more than 120 dealers (& 130 service networks) evenly spread across the country. The company has a strong presence in the northern and southern regions with Kerala, Delhi NCR and HP being the key markets. It is planning to increase its dealership network in order to strengthen its distribution reach and gain market share. It is targeting to further improve its dealer network and service networks in the other parts of the country. With this high distribution base the company can even focus

more in its vision of expanding market share. The company can also leverage its existing distribution base to launch new products.

Strong Financials

In FY14, SML Isuzu turned as a debt free company and emerges as the only debt free CV manufacturing company in the domestic CV domain. Further the company has scheduled a capex of Rs 2.2bn over next 3 years for product improvement and up-gradation of technology and plant infrastructure and this new capex may lead to a substantial improvement in its revenues in future years. SML Isuzu plans to fund capex through mix of internal accrual and debt. The company generated Rs. 161.94 crore cashflow from its operation as at 31st March, 2014. The company also had a cash balance of Rs. 70.72 crore as at 30th September, 2014. Considering its near debt free status, focus on niche segment, expectation of EBIDTA margin expansion, it is expected that SML Isuzu is well positioned in the domestic OEM space to capitalize the expected upturn in the CV cycle.

Robust Half Yearly Result

SML Isuzu Ltd posted a robust result for the first half of the FY15 driving investors confidence in the company. The company posted its net sales for the first half of FY15 at Rs. 568.17 crore (up 17%) compared to Rs 484.17 crore for the same period last year on the back of volume growth. Healthy order flow from JNNURM, improvement in business sentiments and expectations of new order from private segments are the key drivers for volume growth. The company also showed a remarkable growth of 74% YoY in its EBITDA which went up from Rs. 24.7crore to Rs. 43.01 crore. The PAT of the company went up from Rs. 14.08 crore to Rs. 26.93 crore up 91% YoY. The company showed an increase of 245bps in its EBITDA Margin at 7.52% compared to 5.07% for the same period last year. The company also showed a growth of 182bps in its PAT Margin at 4.71% to 2.89% for the same period last year. The company delivered a volume growth of 13% YoY from 5430 units a year ago to 6137 units.

Interest Rate Cut a Boon for the Company

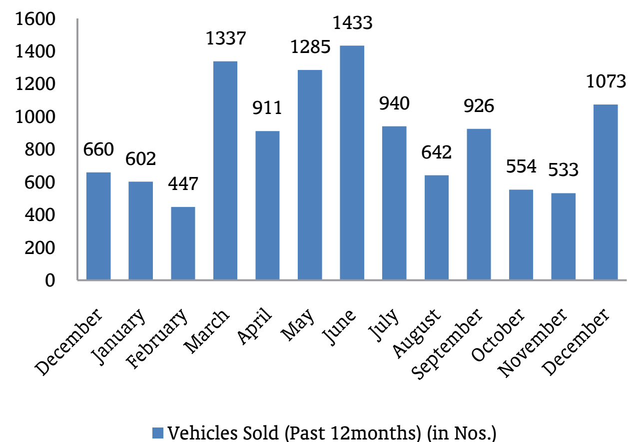
The recent interest rate cut of 25bps and a further hope of interest rate cuts in FY15 may help the company to increase its revenue as the consumers will be able to finance the loan at a lower rate. Due to interest rate cut, the company will also be benefitted from the lower cost of borrowing (the company has scheduled a capex of Rs. 2.2bn over net three years).

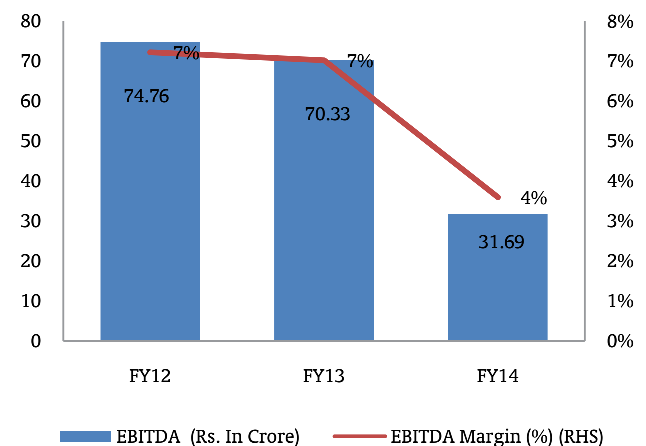
Key Risk

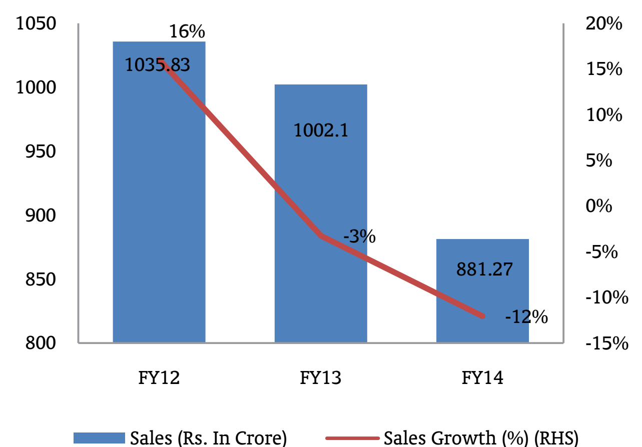
- Volatility in raw material prices could significantly impact the margins as raw material cost accounts for ~83% of the total costs.
- More than expected slowdown in CV industry.
- Entry of new players to impact the market share of the company.

Outlook & Valuation

In the current uncertain economic conditions, SML is the best bet in the CV industry given its low base, underutilization of capacity (56% in FY14), favorable product mix and low gearing. We believe the company is well placed to reap the benefits of economic revival and its margins are only set to improve from current levels due to favorable product mix and potential benefit of huge operating leverage. On financial front, the company is almost debt free and the company maintains a healthy cash balance with optimum amount of cash flow from operation. On Valuation front the company is trading at a EV/EBITDA multiple of 12.5x of FY16 EBITDA of Rs 108.82 crore. We recommend our investors to buy the stock with a target price of Rs. 1222 from 12 months investment perspective.



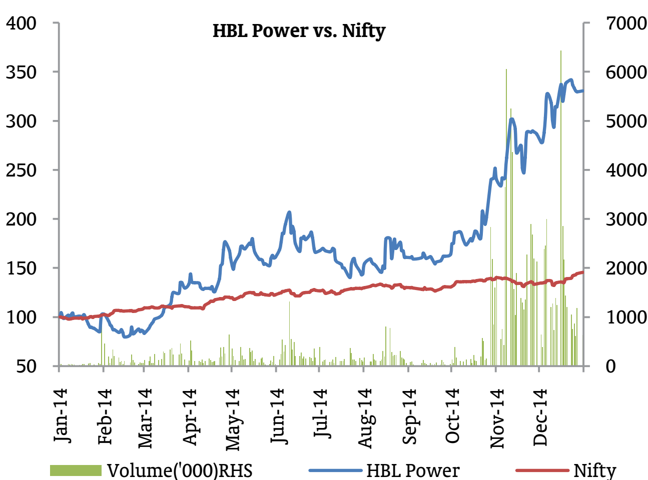




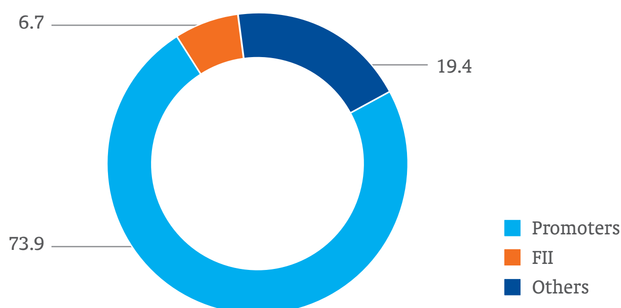
HBL Power Systems Ltd. CMP: 34.9/- Rating: Buy TGT: 55/-

Company Information

BSE Code	517271
NSE Code	HBLPOWER
Bloomberg Code	HBPS IN
ISIN	INE292B01021
Market Cap (Rs. Cr)	932
Outstanding shares(Cr)	25.3
52-wk Hi/Lo (Rs.)	40.85 / 8.85
Avg. daily volume (1yr. on NSE)	495,476
Face Value(Rs.)	1
Book Value	22.2



Share holding pattern as on Dec 2014 (%)



Particulars (In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	1197	1281	1500	1700
Growth (%)	9.9%	7.0%	17.1%	13.3%
EBITDA	150	156	213	258
EBITDA Margin (%)	12.5%	12.2%	14.2%	15.2%
Net profit	20	45	45	136
Net Profit Margin (%)	1.7%	3.5%	3.0%	8.0%
EPS (Rs)	0.8	1.8	1.8	5.4

Estimate: Ashika Research

Company Description

HBL is a research oriented company and the promoter is a Technocrat. The company started its business by successfully developing Aircraft batteries and eventually offering the world's widest range of specialized batteries, with larger pie from lead acid batteries for telecom towers. The company mainly manufactures specialized batteries and operates in niche segments like telecom, defence, railways, aviation and other industrial batteries. These segments are highly concentrated by organized players owing to high entry barriers in the form of rigorous & lengthy approval processes and high engineering and technical complexity. HBL markets its batteries, such as industrial electronics, defence electronics, and railway electronic signaling.

Investment Rationale

Diversified Product Base

HBL Power System Ltd offers a wide range of products. The broad head of its products includes batteries, power electronics, engineering solutions and green products. Batteries segment consists of various types of batteries for telecom, defence, aviation and industrial application. Its products include lead acid batteries, NiCad battery cells, silver zinc battery cells, lithium battery cells, nickel cadmium pocket plate batteries, electronic chargers/rectifiers, battery operated vehicles, solar photovoltaic module, defense electronics, manufacturing of PSB, genset pumps, diesel battery, silicon gel, railway battery, power electronics, project for technology development, anti collision device for railways and others products. HBL also has presence in Solar panels and it manufactures Pumpsets and converters. Company convert solar energy into electrical energy and store it in battery and for that company has in house research facilities. Company is engaged in R&D of anti collision device for Indian Railways since 2005. It is developing this product in its own manufacturing facilities and expecting the revenue to come from FY16 onwards. It is a niche segment and there are only 3 players including HBL. With this well diversified product base we believe that the company has poised itself well and the company can manage to positioned itself to face turbulent situations.

Revenue Driver and Market Share

HBL Power System mainly derives its revenue from Lead Acid battery which is the main contributor to the revenue and accounts around 62-65% of total turnover. Lead acid battery is widely used in Industrial purpose, railway and retail. Industrial use segment contributes about 80% of turnover with telecom battery contributing maximum at 80% followed by Power batteries 7-10% and UPS 10%. Railway and Retail battery contribute 10% each to the lead acid segment. Telecom batteries contributes maximum revenue in lead acid battery segment as HBL is the market leader in telecom batteries with

market share of 50-55%, followed by Amaraja having a market share of 25%. Nickel Cadmium is the second biggest revenue contributor with 20-25% contribution towards turnover which is widely used in Power, aviation and defence sector. Defence battery contributes about 5% of total turnover. Lithium thermal battery use in autopilot ejection and defence, contributes about 5% to revenue. In some segments like batteries for aircrafts, there are only 2-3 players globally including HBL.

The Macroeconomic Effect

The lower per capita use of battery in India is a huge opportunity for battery manufacturers to witness unprecedented growth in long run. Currently it is estimated that the battery use per capita in India is around USD 1.6/ per annum as against a world average of USD 10.1/ per annum and US consumption of USD 48.7/ per annum. In raw materials, lead account about 60% of total manufacturing costs, thus decline in lead prices amid slowdown in global commodity prices would be margin accretive for HBL. Going ahead, it is expected that the revival in domestic economic growth would drive the demand for battery primarily due to higher power and technology intensive development and increase in renewable energy requiring storage of power. Further, rebound in telecom sector could be the key revenue driver for HBL, as telecom batteries accounts major part of the revenue. Defense battery contributes about 5% of total turnover, however management is very upbeat on the prospect of the sector post NDA government increased FDI ceiling in defense from 26% to 49%. Indian defense sector usually import batteries from overseas markets but now it can be expected that new reforms implemented in the sector would lead Indian defense industry to rely on domestic battery suppliers. Moreover, the margin is high in the segment with 30-35%.

Order Book and Margin Expansion

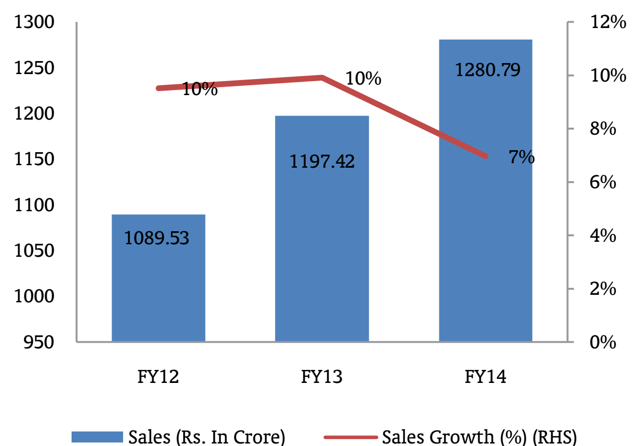
Company receives order from telecom sector through bidding and negotiations. Recently, it has received order from Reliance Jio and the management is expecting revenue of Rs 150-180 crore in current fiscal year (FY15) and Rs 400 crore in FY16, from Reliance Jio itself. Further the company believes that pricing power is coming back in lead acid batteries and telecom sector improving will aid growth in future and they are seeing traction in orders. HBL generally receives order in the segment (Solar panel) through bidding or from government agencies. Currently company caters to Rajasthan, Andhra Pradesh and Telengana states and it is registered with MNRE (Ministry of New and Renewable Energy). The company caters to esteem clients including US airforce, Israel Aircraft Industries, Ministry of Defence India, Montreal Railways , Canada, Ametek, USA and Etisalat, Dubai. In September 2014, company has revised its lead acid battery price by 10%, which would reflect in 3rd and 4th quarter of FY15 earnings. Company expects 2nd half in lead acid battery segment to be much better. Going ahead, company is expecting better pricing in per ampere hour thus improving the margins of the company. Currently the company has to incur average cost of Rs 10-15 per ampere hour. In raw materials, lead account about 60% of total manufacturing costs, thus decline in lead prices amid slowdown in global commodity prices would be margin accretive for HBL.

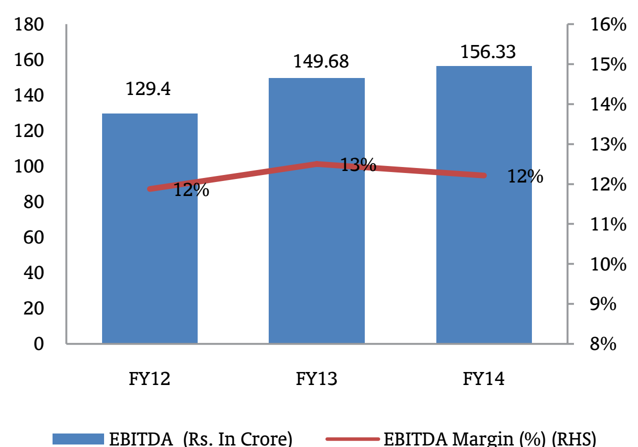
Key Risk

- As lead accounts for about 60% of total manufacturing cost, increase in lead prices may adversely affect the margins of the company.
- High working capital requirement.

Outlook & Valuation

With ample diversification of its product base to positive macroeconomic factors we believe that HBL Power System is a favorable bet. The company has a high focus on increasing market share and in increasing its margins. The expanding order book and high barrier to entry are also few more catalyst for the company. The business is turning around, pricing power is coming and raw material prices falling are the key catalyst for the stock to outperform going ahead. On valuation front, the stock is trading at a P/E of 6.7x of FY16 EPS of Rs. 5.4. So we recommend our investors to buy the stock with a target price of Rs. 55 from 12 months investment perspective.

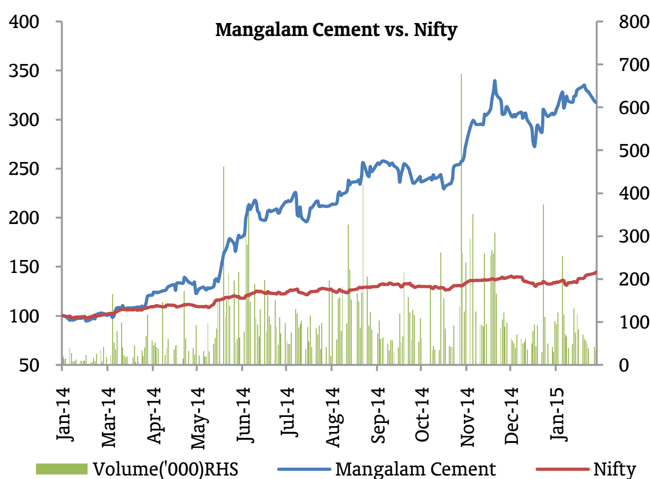




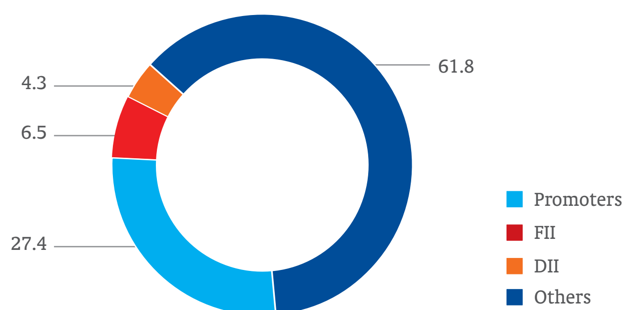
Mangalam Cement Ltd CMP: 321/- Rating: Buy TGT: 432/-

Company Information

BSE Code	502157
NSE Code	MANGLMCEM
Bloomberg Code	MGC IN
ISIN	INE347A01017
Market Cap (Rs. Cr)	865
Outstanding shares(Cr)	2.7
52-wk Hi/Lo (Rs.)	351 / 95.55
Avg. daily volume (1yr. on NSE)	96,088
Face Value(Rs.)	10
Book Value (Rs)	188.2



Share holding pattern as on Dec 2014 (%)



Particulars (In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	706	697	992	1,188
Growth (%)	12%	-1%	42%	20%
EBITDA	131	56	131	190
EBITDA Margin (%)	18.5%	8.0%	13.2%	16.0%
Net profit	77.4	29.6	51	93
Net Profit Margin (%)	11.0%	4.2%	5.1%	7.8%
EPS (Rs)	29.0	11.1	18.4	33.7

Source: Bloomberg

Company Description

Mangalam Cement ltd (MCL) is a small sized cement manufacturer having efficiency on operational front. The company is based in Rajasthan and mainly caters to northern and central regions. With the expansion of grinding unit by 1.25 MTPA, MCL's total installed capacity reached to 3.25 MTPA. It is a part of BK Birla group, incorporated in 1978. Given, presence in favourable demand-supply region, better operating efficiencies and strong Q2 results, we have re-rated the stock and revised our target price. Despite, of steep rally from our recommended price (Rs 221), we still believe the valuation at EV/tonne of USD 59 is attractive.

Investment Rationale

Capacity expansion & backward integration to drive growth

To capitalize on the rising cement demand in India, MCL expanded its existing facilities by 1.25 MTPA, thus taking the total capacity to 3.25 MTPA. The company solely focuses on Northern market and it accounts almost 90% of total sales volume. Post expansion, its clinker facility is also expected to increase to 2.21 MTPA from the current 1.71 MTPA. The company expects to utilize its capacity of newly commissioned plant (by more than 80-85%) within six months of commissioning which will be the key driver for the volume growth in the next couple of years. Moreover, MCL has also started to get sales tax incentive after the commissioning of Aditya Nagar (Morak) cement plant.

Backward integration

Cement industry is fragmented in India as compared with other countries. Hence, to sustain profitable margins, the manufacturer should optimize its operating cost structure by integrating its manufacturing process. As cement is a raw material intensive industry, it is important to have captive resources and power plant. MCL has captive power plant of 35MW and windmill with power generation of 13.7MW. With the capacity of 3.25 MTPA, MCL would be able to utilize around 90% of total installed power capacity and simultaneously curbing power and fuel costs. Further, lower coal prices could also reduce fuel cost for MCL. To ensure uninterrupted supply of pet coke, MCL has entered into long term supply contract with the exporter to reap the benefits of cheaper imported pet coke prices. The company also has a limestone mine (with an available deposit of 50 years) near its manufacturing location to fulfill its limestone requirement for clinker. Over the years, MCL has increased its focus in cost efficiencies by upgrading its production facilities. It has upgraded its plant in order to reduce the consumption of limestone and power. Further, MCL has lowered its consumption of high grade limestone and coal by replacing it with pet coke. Thus, it can be expected that the well integrated facilities would aid the company to report better profitability growth going ahead.

Presence in favourable demand-supply region

Located in Rajasthan, company mainly caters to northern and central India like Rajasthan, Delhi, Haryana, UP and MP. In the total sales volume, northern region accounts 90% of total volume, while central region accounts for the rest 10%. In the past few years, cement sector had witnessed a sluggish growth on the back of muted demand and excess capacity. The overcapacity issue mainly persists on southern and eastern region and thus the cement companies in northern region are little bit insulate from lower price risk. Lower capacity additions and better demand in northern, central and western region led higher utilization rate. Thus, the favourable Demand-Supply scenario in Northern and Central India would aid the company to sustain the utilization rate of 90%. Going forward, it is expected that MCL could witness higher earnings growth as the massive infrastructure creation is going to happen in northern region like Delhi-Mumbai freight corridor, creation of 100 smart cities, metro rail and roads. Further, on the pricing front too this region will remain the least affected area as the capacity utilization of the overall industry is nearly 80-85%.

Posted Robust Q2FY15

MCL has posted strong Q2FY15 on the back of higher revenue growth and better operating efficiencies. During the quarter, net revenue grew robustly by 64% YoY to Rs 239 crore led by commissioning of new capacity, strong volume growth and stable realizations. Cement volume grew by 44% YoY to 0.59mn tonne, while realization was higher by 14% yoy to Rs 4,011 per tonne. EBITDA grew by more than 2 times at Rs 23 crore and EBITDA margin has expanded by 480 bps, primarily driven by strong realization growth. PAT increased by 80% YoY at Rs 4.65 crore while margin improved by 180 bps. Rising demand and lower fuel and power costs would aid the company to sustain such growth in coming quarters also. Expansion in past 2 years has moderately increased balance sheet leverage. However, post expansion its debt/equity ratio is at 0.66x, well below 1x, which provided comfort for further expansion without overleveraging its balance sheet. Hence strong balance sheet would enable MCL to generate decent cash flow and also give good rewards to the shareholders.

Industry is banking on rising demand & moderating cost

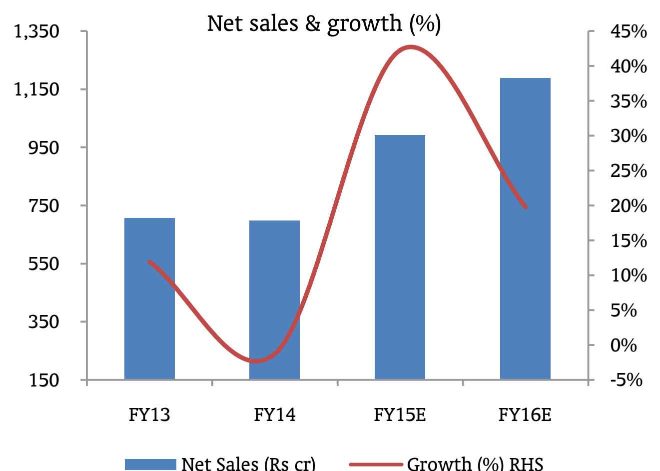
Stable & pro business government at center would increase the potential capital expenditure and would aid the economy to rebound. It is expected that the project execution to accelerate during FY15-17 led by politically stable and reform focused government at center. Government's push to kick start the infrastructure activities such as building of Delhi Mumbai corridor, providing impetus to low affordable housing projects, awarding more road and highway projects through EPC route would spurt cement demand, as it is a key construction ingredient. Consolidation in Indian cement space by M&A would also cut supply glut and would improve pricing. As per the Government data, cement demand got traction during 1HFY15 and rose 10% YoY after bottoming out at 3% growth in FY14, thus it is signaling a strong rebound. Steep correction in global commodity prices like coal and crude oil would act as a blessing for cement players as raw material, power and transportation cost account 55-60% of total operating costs of cement industry. Thus the easing of these costs could improve profitability of cement players going ahead.

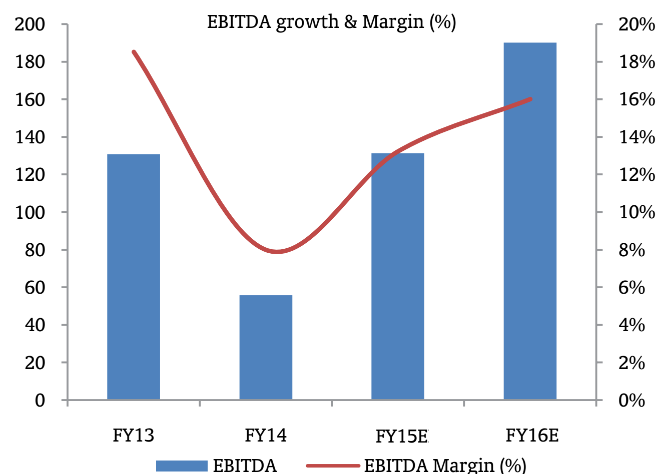
Key Risk

- Cement demand is directly dependent on the development of the overall economy and hence lack of improvement in domestic economy could hurt revenue growth for MCL.
- Recovery in coal and crude oil prices could put pressure on the margins of MCL.
- MCL is a small integrated cement player, thus the competition from other large scale cement players in northern region would persist and can adversely impact on its realization.

Valuation

MCL is a small sized integrated cement company located at Rajasthan. In our view, capacity expansion, backward integration, upgrading of manufacturing facilities, presence in favourable demand-supply region and lower fuel & transportation costs are medium to long term triggers for the company. Further, its balance sheet is not stressed and thus having enough room to raise fund for capex. Most impressive for the company is its valuation and at current level it is valued at EV/tonne of USD 59, which is much lower than other north based cement players. Despite, of steep rally from our recommended price (Rs 221), we still believe the valuation at EV/tonne of USD 59 is attractive and thus we re-rated the scrip and revised our target price to Rs 432. At CMP, the stock is valued at EV/EBITDA multiple of 6.2x of FY16E EBITDA (Bloomberg estimates).

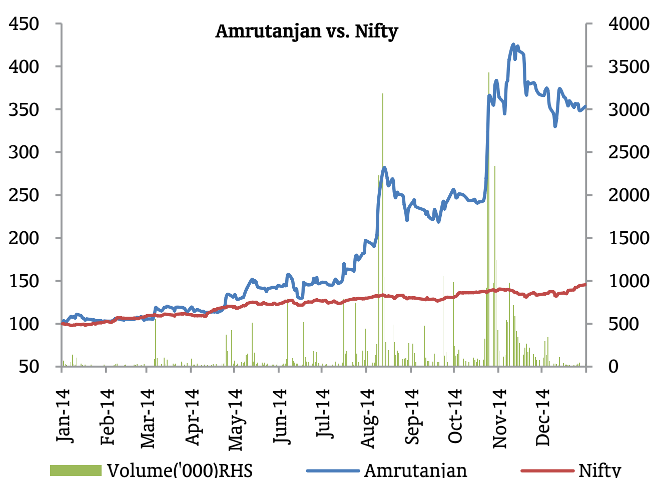




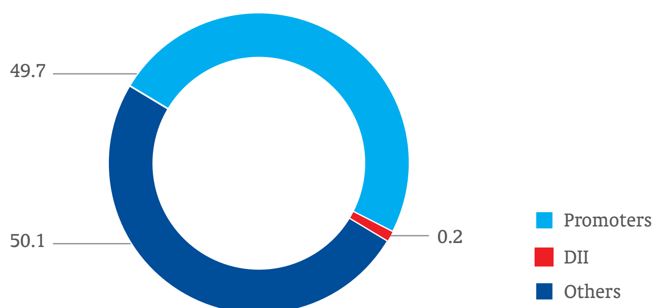
Amrutanjan Health Care Ltd. CMP: 449/- Rating: Buy TGT: 650/-

Company Information

BSE Code	590006
NSE Code	AMRUTANJAN
Bloomberg Code	ARJN IN
ISIN	INE098F01023
Market Cap (Rs. Cr)	681
Outstanding shares(Cr)	1.5
52-wk Hi/Lo (Rs.)	530.95 / 118
Avg. daily volume (1yr. on NSE)	185,731
Face Value(Rs.)	2
Book Value	61.1



Share holding pattern as on Dec 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	137.7	141.7	165.7	196.0
Growth (%)	(3.6)	3.0	16.9	18.3
EBITDA	17.4	21.7	32.3	37.8
EBITDA Margin (%)	12.7	15.3	19.5	19.3
Net profit	10.1	12.4	18.7	23.1
Net Profit Margin (%)	7.4	8.8	11.3	11.8
EPS (Rs)	6.9	8.5	12.8	15.8

Estimate: Ashika Research

Company Description

Amrutanjan Health Care Ltd is engaged in the manufacture and sale of OTC (over-the-counter) healthcare products and non-carbonated beverages, incorporated in the year 1893. Amrutanjan brand is now in existence for more than 120 years and manufactures pain balm, Anoleum, Gripe Water, Inhaler, Dermal Ointment, Cetomix cough mixture. Amrutanjan Pain balm (yellow balm) is the flagship brand of the company with a rich heritage of over 100 years, besides company is also planning to introduce a series of next generation products in healthcare. Amrutanjan is a leading brand in Tamil Nadu with a 35% market share and now it has started expanding its business in other parts of the country. Over the years company has diversified its business to fruit juice, sanitary napkin, hand sanitizer etc., given the future potential of these products. Company's products are also available in Gulf, African, South East and Asian countries and plans are ready to enter the US and European markets in a big way.

Investment Rationale

Diversified Product Basket

Amrutanjan Health Care Ltd has been able to successfully diversify its product basket. The company's product basket has been divided into four broad categories pain management, congestion management; heal care management and food and beverages. Over the years company has diversified its business to fruit juice, sanitary napkin, hand sanitizer etc., given the future potential of these products. The company's majority of the revenue is driven by headache segment which is growing at a run rate of 4-5% p.a., hence to boost the earnings growth, the company is now capturing body ache market which is growing at the rate of 30% per annum. It has introduced several new products in the categories of 'Body Pain', 'Congestion management' and 'Healthcare Management'. Further, the company is also offering diagnosis centers & offers pain services in its 2 centers in Chennai. The company also plans to launch some new health and wellness drink in metros and tier 2 town in Q1FY16. According to the management, the addressable market size for such products runs into thousands of crore across in India and the rest of the World and thus have immense potential to grow, going ahead. There is a huge untapped market for these kinds of ayurvedic products and increasing urbanization & stressful lifestyles leads to higher probability of pain related issues, thus creating a good market opportunity for over the counter products of Amrutanjan.

High Focus on Branding

The management has been showing strong commitment of scaling up its operations and brand image by increasing the Advertisement & Selling expenses. In FY14 the company spent Rs. 16.50 crores (11.6% of sales) in advertisement and selling expenditure. The management expects advertisement and selling expenditure to increase to around Rs. 25 crores in FY15.. The company's product portfolio comprises brands like

Under pain management the key products of the company are Amrutanjan Balm (White & Yellow), Roll on for quick relief from headache, body pain cream for general body pain, Amrutanjan joint muscle spray, Roll on for instant relief from back pain, Re-usable gel pad for muscle pain. In the congestion management segment the key products of the company are sold under the brand name "Relief" and are basically targeted to serve relief from cough and cold and is available in different forms like cold rub, syrup, nasal inhaler, mint. Under healthcare and hygiene segment the company's product portfolio includes "Diakur" for controlling blood sugar level, "Decorn" -corn caps, "Comfy"-sanitary napkins, Amrutanjan "Expert" dermal ointment for relief from rashes itches & cracked heels etc. Under Food and Beverages the company product portfolio sells under the brand name "Fruitnik". The company already enjoys rich heritage as its brands are in existence for more than 120 years. We expect that increase in advertising and promotion expense will create more brand awareness and thereby should contribute to company's growth in coming future.

Huge Distribution Network & Wide and Expanding Geographical Coverage

Amrutanjan Health Care Ltd has a sizeable distribution chain of 1,800 Distributors and 3,50,000 Retail Outlets. The company has a strong presence in Tamil Nadu with a considerable market share of 35%. The company has also started to expand its operations in other parts of the country. Company's products are also available in Gulf, African, South East and Asian countries and distribution agreement has been signed with distributors at UAE, Qatar, Saudi Arabia and Kenya to export the products to these countries. The management has been successful in expanding the other business verticals in almost all southern states and also plans to enter West Bengal, UP and Maharashtra by the end of FY15. With this huge distribution network and wide and expanding geographical coverage the company is well positioned to tap the increase in demand for OTC product and leveraging the existing distribution network through new product launches. So we expect that this can be a key trigger for Amrutanjan in its coming years.

Strong Financials

The company has also delivered strong financials over the years. The company is almost debt free company and holds Rs 33 crore as cash and cash equivalent as at 30th September, 2015. Cash flow from operation stands at Rs. 17.60crore at the end of FY14. The reported RoE as of FY14 is at 14% and if one adjusts for low-yielding cash and equivalents, the RoE is an impressive ~22%. Further, it has strong track record of rewarding the shareholders by paying hefty dividend and over the years (5 yrs) it has maintained average dividend payout ratio of ~42%.

Robust Half Yearly Result

In H1FY15, company reported a growth of 24% at Rs. 6.42 crore compared to Rs. 5.19 crore in the same period last year in its EBITDA. The company also reported a revenue growth of 21% YoY at Rs. 66.38 crore compared to Rs. 54.71 crore. The company's PAT grew by 54% YoY to Rs. 4.84 crore vs Rs. 3.1crore. EPS for H1FY15 stood at Rs. 3.31 per share compared to Rs. 2.15 per share last year. We expect that this trend will continue to persist in the coming future.

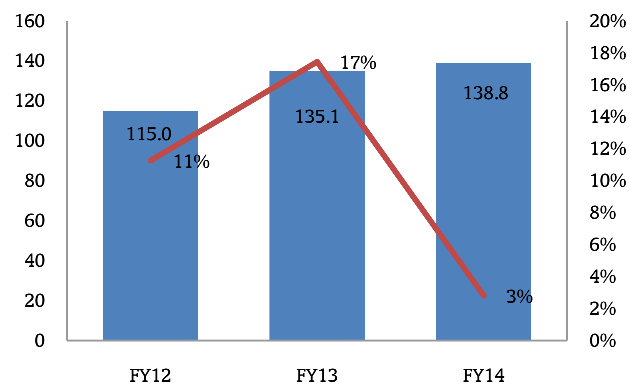
Key Risk

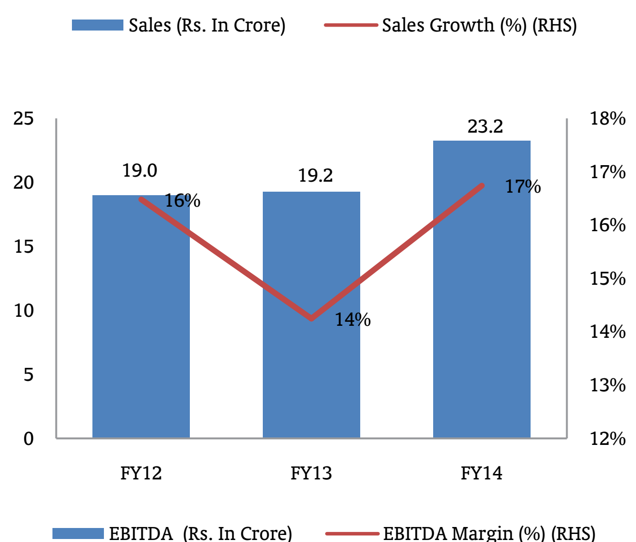
- The company deals in an industry with immense competition. Failure to create its space in the market may harm company's margins.

- Company's revenues is highly dependent on Balm sales which account for nearly 89% of company's revenue, such higher concentration may affect company's future.

Outlook & Valuation

Strong financial position, healthy market share in Southern India, strong distribution network, launching of new products in pain segment and aggressive advertisement & promotional expenses are the key catalysts for the company which will help the scrip to showcase itself as a good investment idea. Due to its strong brand recall and significant market share in southern market, its valuation is a bit on the higher side. However, management's aggressive promotional activities to expand its business reach would provide traction to its earnings and hence the earnings growth would catch the valuation. The company is consistent in paying dividend and has maintained an average dividend payout ratio of ~42%. On Valuation front the stock is trading at a P/E multiple of 28x of FY16 EPS of Rs. 15.8. So we recommend our investors to buy the stock with a target price of Rs. 750 from 12 months investment perspective.





Valuation at a Glance

Sl	CNX100 Company	CMP (Rs.)	Mkt Cap (Rs. Cr.)	Est. P/E FY15	Est. P/E FY16	Est. P/B FY15	Est. ROE FY15	Est. ROE FY16	DPS FY14	Dividend P/O FY14	Dvd Yield FY14
1	Aditya Birla Nuvo	1828.4	23792.5	16.8	13.6	2.1	11.1	12.3	7.0	8.0	0.4
2	ACC	1543.8	28984.1	27.8	22.0	3.7	14.4	15.2	30.0	51.5	1.9
3	Ambuja Cements	249.1	38596.4	26.3	21.5	N/A	N/A	14.7	3.6	43.5	N/A
4	Adani Enterprises	557.2	61281.4	29.6	16.5	2.6	9.8	14.2	1.4	6.9	0.3
5	Adani Ports	339.3	70226.5	31.4	24.4	8.0	23.0	24.2	1.0	12.3	0.3
6	Apollo Hospitals	1421.5	19776.6	53.2	42.7	6.6	11.1	13.4	5.8	25.3	0.4
7	Asian Paints	910.3	87311.0	56.7	43.1	21.6	32.8	37.0	5.3	41.7	0.6
8	Axis Bank	590.6	139612.3	18.8	15.2	3.6	17.6	19.8	4.0	17.5	0.7
9	Bharti Airtel	373.6	149342.9	27.0	21.2	2.4	6.8	9.8	1.8	25.9	N/A
10	BHEL	279.3	68349.2	29.3	23.8	2.1	11.0	7.9	2.7	19.8	0.9
11	Bharat Forge	1015.0	23627.5	34.8	26.1	8.8	20.2	25.2	4.5	19.7	0.4
12	Bajaj Auto	2398.0	69390.2	20.1	17.1	6.8	37.1	32.0	50.0	50.1	2.1
13	Bajaj Finserv	1450.4	23079.5	13.3	12.3	2.5	18.0	17.4	1.8	1.8	0.1
14	Bajaj Holidings	1426.7	15877.7	N/A	N/A	1.3	17.8	N/A	30.0	16.8	2.1
15	Bank of Baroda	223.6	47997.9	N/A	N/A	1.3	14.1	N/A	4.3	21.7	1.9
16	Bank of India	291.4	18712.3	6.2	4.9	0.6	10.8	11.2	5.0	12.6	1.7
17	Bosch Ltd	23292.8	73136.8	N/A	N/A	11.6	14.9	N/A	55.0	19.5	0.2
18	BPCL	706.3	51067.8	15.5	12.7	2.6	21.6	16.9	17.0	31.4	2.4
19	Cairn India	235.7	44189.8	6.0	7.8	0.8	23.6	8.7	12.5	19.2	5.3
20	Canara Bank	476.1	21960.5	8.1	6.5	0.7	9.5	N/A	11.0	19.3	2.3
21	Container Corp	1430.5	27891.1	28.7	23.7	4.0	14.5	14.0	12.3	25.2	0.9
22	Cipla Ltd	703.6	56489.5	40.3	29.7	5.6	14.6	15.9	2.0	11.6	0.3
23	Colgate-Palmolive	1922.4	26143.3	N/A	N/A	79.2	159.2	N/A	20.0	62.7	1.0
24	Coal India Ltd	383.8	242422.1	15.7	13.6	5.7	33.3	35.0	29.0	121.2	7.6
25	Crompton Greaves	189.8	11895.6	29.9	19.0	3.3	6.8	15.0	1.2	30.8	0.6
26	Dabur India Ltd	251.8	44220.2	41.3	34.2	16.5	38.5	34.6	1.8	33.4	0.7
27	Divi's Lab	1739.2	23084.5	26.2	21.2	7.8	28.3	27.9	20.0	34.3	1.1
28	DLF Ltd	163.1	29054.3	45.6	31.3	1.1	2.4	3.2	2.0	55.1	1.2
29	Dr Reddy's Lab	3239.1	55163.5	24.3	20.7	6.1	26.3	22.0	18.0	14.2	0.6
30	Exide Industries	198.1	16834.3	24.7	20.8	4.9	16.7	19.7	1.8	28.1	0.9
31	Federal Bank	145.1	12416.0	N/A	N/A	1.8	12.9	N/A	2.0	20.1	1.4
32	GAIL	418.8	53123.8	12.5	12.0	1.6	15.6	12.0	10.4	27.6	2.5
33	Godrej Consumer	1113.0	37891.4	41.9	34.2	10.0	21.4	22.8	5.3	23.5	0.5
34	GlaxoSmith Pharma	3389.7	28711.8	60.7	50.5	14.4	24.1	27.4	50.0	87.9	1.5
35	Glenmark Pharma	728.3	19757.6	24.5	19.1	6.6	18.9	23.9	2.0	10.0	0.3
36	Grasim Inds	3894.7	35772.4	16.8	13.0	1.7	10.0	10.6	21.0	9.3	0.5
37	HCL Tech	1659.4	116559.5	16.0	14.4	5.5	37.0	28.4	10.0	10.7	N/A
38	HDFC	1344.6	211378.4	22.0	18.4	5.6	22.9	23.0	14.0	27.5	1.0
39	HDFC Bank	1058.4	255991.7	23.3	19.7	5.7	21.6	20.7	6.9	18.8	0.6
40	Hero Motocorp	2865.1	57212.5	21.5	17.5	10.2	N/A	43.1	65.0	61.7	2.3
41	Hindalco	140.2	28940.7	10.1	8.3	0.7	5.7	8.1	1.0	9.5	0.7
42	HPCL	597.2	20222.8	13.0	9.9	1.4	7.8	12.8	15.5	48.6	2.6
43	Hindustan Unilever	933.9	202013.4	49.9	42.7	57.1	123.3	106.1	13.0	71.3	1.4
44	ICICI Bank	384.1	222460.2	16.3	14.7	2.9	15.2	16.3	4.6	24.1	1.2
45	IDBI Bank	74.8	11989.6	N/A	N/A	0.5	5.1	N/A	1.0	13.9	1.3
46	Idea Cellular	166.1	59736.2	19.9	17.7	3.3	12.8	13.6	0.4	6.8	0.2
47	IDFC	172.9	27508.5	15.0	13.9	1.7	12.6	11.2	2.6	21.9	1.5
48	IndusInd Bank	868.8	45964.9	N/A	N/A	4.4	17.8	N/A	3.5	13.1	N/A
49	Infosys	2144.6	246295.6	19.7	17.6	4.7	25.3	24.3	31.5	34.0	N/A
50	ITC	362.3	289674.6	28.7	24.9	10.6	35.3	35.2	6.0	53.7	1.7

N/A: Not Available

Source: Bloomberg Consensus as on January 28, 2015

Valuation at a Glance Cont...

Sl	CNX100 Company	CMP (Rs.)	Mkt Cap (Rs. Cr.)	Est. P/E FY15	Est. P/E FY16	Est. P/B FY15	Est. ROE FY15	Est. ROE FY16	DPS FY14	Dividend P/O FY14	Dvd Yield FY14
51	Jaiprakash Associates	26.3	6385.2	N/A	12.2	0.6	-7.2	2.3	0.0	N/A	0.0
52	Jindal Steel & Power	155.1	14190.2	8.5	7.5	0.6	8.7	8.6	1.5	7.2	1.0
53	JSW Steel	995.1	24052.6	9.1	7.9	1.1	2.2	12.1	11.0	62.7	1.1
54	Cummins India	907.5	25154.5	32.9	26.9	16.9	34.0	N/A	4.7	38.5	0.5
55	Kotak Mahindra Bank	1351.2	104272.3	34.3	27.6	5.5	14.4	15.5	0.8	2.6	0.1
56	LIC Housing Finance	494.4	24948.0	18.0	13.6	3.3	18.7	N/A	4.0	17.2	0.8
57	Lupin	1515.5	68096.2	28.7	24.2	9.8	30.3	27.6	6.0	14.6	0.4
58	Larsen & Tourbo	1698.4	157751.1	34.9	26.4	4.2	13.7	13.8	14.3	26.9	0.8
59	Mahindra & Mahindra	1316.3	81754.4	18.2	14.4	3.3	21.6	20.3	13.5	18.5	1.0
60	M & M Financial	249.3	14179.3	15.8	12.5	2.7	19.3	17.1	3.8	22.6	1.5
61	Mphasis	362.0	7606.0	11.2	10.1	1.4	N/A	13.6	N/A	N/A	N/A
62	Maruti Suzuki	3725.8	112549.0	31.8	23.6	5.2	14.1	18.4	12.0	12.7	0.3
63	NMDC	141.0	55882.7	N/A	N/A	1.9	N/A	N/A	8.5	52.9	6.0
64	NTPC	142.9	117786.5	12.5	11.5	1.4	13.6	11.1	5.8	41.6	4.0
65	Oracle Financial Servc	3256.5	27551.6	20.1	18.4	3.1	16.8	22.0	0.0	0.0	0.0
66	Oil India	562.1	33789.9	9.6	8.0	1.6	14.8	17.9	21.5	43.9	3.8
67	ONGC	353.9	302778.8	10.5	9.3	1.8	16.3	16.2	9.5	30.7	2.7
68	Petronet LNG	189.8	14231.3	N/A	N/A	2.9	15.1	N/A	2.0	21.1	1.1
69	PNB	206.7	37419.9	N/A	N/A	1.0	10.0	N/A	2.0	12.8	1.0
70	Power Finance	292.7	38631.0	6.2	5.9	1.4	21.3	20.4	9.0	21.8	3.1
71	Power Grid Corp	149.5	78186.1	14.7	12.3	2.3	14.9	15.7	2.6	30.9	1.7
72	Ranbaxy Lab	699.7	29738.9	28.7	30.2	9.0	N/A	18.4	N/A	N/A	N/A
73	Reliance Capital	471.0	11568.1	13.9	12.2	0.9	6.1	7.0	8.0	28.0	1.7
74	RCOM	79.7	19824.7	20.1	15.1	0.5	1.5	3.4	0.0	0.0	N/A
75	Rural Electrification	340.7	33642.7	N/A	N/A	1.6	24.7	N/A	9.5	19.8	2.8
76	Reliance Industries	906.9	293398.6	12.1	11.2	1.3	11.8	11.2	9.5	12.4	1.0
77	Reliance Power	63.0	17672.3	17.5	13.4	0.9	5.4	5.9	0.0	0.0	0.0
78	Steel Authority of India	78.3	32317.8	12.1	9.9	0.7	6.2	7.2	2.0	31.5	2.6
79	State Bank of India	334.6	249803.4	13.8	11.2	1.7	10.4	13.0	3.0	15.8	0.9
80	Shriram Transport Fin	1158.9	26292.3	19.0	14.8	3.1	17.1	16.4	7.0	11.7	0.6
81	Siemens	1056.3	37616.9	N/A	N/A	9.4	24.5	N/A	6.0	23.5	0.6
82	GlaxoSmithKline Cons	3389.7	23572.1	N/A	N/A	11.2	N/A	N/A	N/A	N/A	N/A
83	Sesa Sterlite	201.2	59634.7	9.3	7.9	0.8	13.9	9.5	3.3	15.3	1.6
84	Sun Pharma	909.8	188418.7	29.9	25.3	10.2	18.7	26.6	1.5	9.9	0.2
85	Tata Steel	391.2	37989.1	10.4	8.1	0.9	7.4	10.6	10.0	28.4	N/A
86	TCS	2539.6	497438.5	23.2	20.2	9.0	39.8	36.2	32.0	32.8	1.5
87	Tech Mahindra	2873.4	68958.9	21.9	17.7	5.6	30.4	27.4	20.0	15.4	N/A
88	Tata Global	158.8	9817.1	22.7	19.2	1.7	9.0	8.3	2.3	29.0	1.4
89	Tata Power	88.0	23800.7	22.5	14.8	1.8	-3.2	10.7	1.3	N/A	1.4
90	Titan Industries	433.3	38463.3	44.9	36.0	15.2	32.7	30.4	2.1	25.4	0.5
91	Tata Chemicals	440.9	11230.9	14.2	11.5	2.0	-17.2	15.1	10.0	N/A	2.3
92	Tata Motors	589.2	176372.3	10.1	8.5	2.9	27.1	23.1	2.0	4.6	0.3
93	United Breweries	999.5	26427.3	88.3	68.0	16.2	14.6	18.7	0.9	10.7	0.1
94	Union Bank of India	226.6	14403.6	N/A	N/A	0.8	9.3	N/A	4.0	15.0	1.8
95	United Spirits	3464.1	50342.3	207.6	83.1	16.6	-114.8	16.2	0.0	N/A	0.0
96	United Phosphorus	354.3	15183.3	12.9	11.0	2.9	19.2	19.9	4.0	18.1	1.1
97	Ultratech Cement	3139.8	86155.9	34.2	24.2	5.0	13.6	16.4	9.0	11.2	0.3
98	Wipro	607.3	149917.4	17.3	15.6	3.8	23.6	21.9	8.0	25.1	N/A
99	Yes Bank	883.8	36902.7	18.2	15.1	4.5	24.9	N/A	8.0	17.9	0.9
100	Zee Enternainment	387.3	37198.2	41.1	34.9	13.7	26.6	21.9	2.0	21.8	0.5

N/A: Not Available

Source: Bloomberg Consensus as on January 28, 2015

Goods and Services Tax

Aimed at creating a single tax for goods and services across the country, government has introduced the long-pending Goods and Services Tax (GST) Bill in the Lok Sabha for roll-out of the new regime from April 2016 subsuming various levies like entry tax and octroi. Touted as the single biggest indirect taxation reforms since independence and will provide numerous benefits to both the firm / consumer level and economy level (Centre and states), the 122nd Constitution Amendment Bill for Goods and Services Tax (GST) was tabled by Finance Minister Arun Jaitley after extensive discussions to get states on board by addressing their concerns.

What is GST?

Goods and services tax (GST) is a value-added tax (VAT) on goods and services. The tax is levied at each stage of the production-distribution process and allows producers/distributors to claim credit on tax already paid on inputs. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. Thus, only the "value-added" component is taxed at each stage. The end consumer, in turn, effectively pays tax on the total value-added through the production-distribution process.

The current indirect tax framework in India

Currently, India has a complex indirect tax system, characterized by multiple taxes levied by different levels of administration- the Centre, states and local bodies. Also, goods and services are taxed separately. The problems with the current system are manifold.

- No uniform tax base: Under the current system, taxes are not levied on a uniform base for goods and services. Instead, taxable items are classified according to three lists: taxes that the Centre can levy, that States can levy and those that both can levy. Tax on services can currently be levied only by the Centre.
- Cascading of taxes: The existing taxes are not eligible to offset each other (i.e., input tax credit cannot be claimed across these taxes). Therefore, a good/service gets taxed more than once in the production-distribution process, leading to higher input prices for producers and higher prices for consumers.
  - For example, a producer is unable to claim input credit on say, service tax paid on his inputs to offset his state VAT liability. Similarly, neither is there any credit available on Central Sales Tax (CST) paid on inputs.
- Large scope for leakages: Owing to the numerous taxes levied, the scope for leakages is large and tax collection is inefficient.

Need for GST

Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for input taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

Justification of GST

Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the Centre and at the State level.

Justification at the Central Level

i. At present excise duty paid on the raw material consumed is being allowed as input credit only. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act.

ii. Credit for service tax paid is being allowed to manufacturer/ service provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods and services are covered.

iii. At present, the service tax is levied on restricted items only. Many other large numbers of services could not be taxed. It is to reduce the effect of cascading of taxes, which means levying tax on taxes.

Justification at the State Level

i. A major defect under the State VAT is that the State is charging VAT on the excise duty paid to the Central Government, which goes against the principle of not levying tax on taxes.

ii. In the present State level VAT scheme, Cenvat allowed on the goods remains included in the value of goods to be taxed which is a cascading effect on account of Cenvat element.

iii. Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.

iv. As tax is being levied on inter-state transfer of goods, there is no provision for taking input credit on CST leading to additional burden on the dealers.

GST - Salient Features

- GST would be a destination based tax as against the present concept of origin based tax.
- Apply to all stages of the value chain
- GST would be applicable on supply of goods or services as against the present concept of tax on the manufacture or on sale of goods or on provision of services.
- GST would apply to all goods and services barring a few to be specified.
- Dual GST model: The central government will levy central GST (CGST) and state governments will levy state GST (SGST). Hence, there will be one CGST statute and one SGST statute for each state.
- CGST and SGST would be levied at rates to be mutually agreed upon by the Centre and the States.
- CGST and SGST on intra-State supplies of goods or services in India.
- IGST (Integrated GST) on inter-State supplies of goods or services in India – levied and collected by the Centre.
- IGST applicable to
  - Import of goods and services
  - Inter-state stock transfers of goods and services
  - Export of goods and services – Zero rated.
- Tobacco and tobacco products would be subject to GST. In addition, the Centre could continue to levy Central Excise duty and the States to levy sales tax / VAT.
- GST Rates – to be based on RNR (Revenue Neutral Rate)– Four rates
  - Merit rate for essential goods and services
  - Standard rate for goods and services in general
  - Special rate for precious metals
  - NIL rate
- Floor rate with a small band of rates for standard rated goods or services for SGST
  - This is similar to mandatory guidelines which will be issued by GST Council in line with European Directive 12/ 2006
- **Input credit under GST:** The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST paid on inputs may be used only for paying SGST. In other words, the two streams of input tax credit cannot be mixed except in specified circumstances of inter-State sales.
- Optional Threshold exemption in both components of GST.
- Optional Compounding scheme for taxpayers having taxable turnover threshold above the exemption.
- HSN Code likely to be used for classification of goods.
- Present Accounting codes likely to be used for Services.

Subsuming of Existing Taxes

Sl. No.	Subsumed under CGST	Subsumed under SGST
1	Central Excise Duty (CENVAT)	VAT / Sales tax
2	Additional Excise Duties	Central Sales Tax
3	Excise Duty-Medicinal and Toiletries Preparation Act	Purchase Tax
4	Service Tax	Entertainment tax (unless it is levied by the local bodies).
5	Additional CVD	Luxury tax
6	Special Additional Duty of Customs - 4% (SAD)	Taxes on lottery, betting and gambling.
7	Surcharges	State Cesses and Surcharges (supply of goods and services)
8	Ceses	Entry tax (All forms)

Taxes that may or may not be subsumed

There are few other indirect taxes that may or may not be subsumed under the GST regime as there is no consensus among Centre & States –

- Stamp Duty
- Vehicle Tax
- Electricity Duty
- Toll Tax
- Anti-dumping duty

Goods or services likely not to be covered under GST

- Petroleum products
- Alcoholic products for human consumption
- Electricity duties/ taxes
- Stamp duties on immovable properties

Inter-State Transactions of Goods & Services

- The existing CST will be discontinued. Instead, a new statute known as Integrated Goods And Service Tax (IGST) will come into place. It will empower the GC to levy and collect the tax on the inter-state transfer of the GS.
- The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.
- The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds.

Advantages of IGST Mode

a) Maintenance of uninterrupted ITC (Input Tax Credit) chain on inter-State transactions.

b) No upfront payment of tax or substantial blockage of funds for the inter-State seller or buyer.

c) No refund claim in exporting State, as ITC is used up while paying the tax.

d) Self monitoring mode

e) Level of computerization is limited to inter-State dealers and Central and State Governments should be able to computerize their processes expeditiously.

f) As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.

g) Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

GST on Export & Import

- GST on export would be zero rated
- Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

Rate of Tax

- There with be a two-rate structure –a lower rate for necessary items and items of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
- For CGST relating to goods, the States considered that the Government of India might also have a two-rate structure, with conformity in the levels of rate with the SGST. For taxation of services, there may be a single rate for both CGST and SGST.
- It will be total of the rate as applicable under CGST & SGST.
- It is understood that the Government is considering pegging the revenue neutral rate of GST at a rate between 18% to 24%. This represents the aggregate of CGST and SGST payable on the transaction. However, it may be noted that at this stage, the Government is yet to indicate whether the Revenue Neutral Rate (RNR) of tax on goods and services would be the same.
- The RNR could go down substantially in subsequent years in India if on the ground implementation of the GST results in increased compliance in the following years.

Key announcements on introduction of Constitutional Amendment Bill

- **GST Council:** A GST Council will be formed, which will be a joint forum of the Centre and the States. This Council would function under the Chairmanship of the Union Finance Minister and will have Ministers in charge of Finance/ Taxation or Minister nominated by each of the States & UTs with Legislatures, as members. The Council will make recommendations to the Union and the States on important issues like tax rates, exemptions, threshold limits, dispute resolution modalities etc.
- **State compensation by Centre:** Centre will compensate States for loss of revenue arising on account of implementation of the GST for a period up to five years. The compensation will be on a tapering basis, i.e., 100% for first three years, 75% in the fourth year and 50% in the fifth year.
- **Inter-state sale of goods and services:** The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. There will be seamless flow of input tax credit from one State to another. Proceeds of IGST will be apportioned among the States.
- 1% tax (no credit) on inter-state sales for limited period: It is proposed to levy a non-VATable additional tax of not more than 1% on supply of goods in the course of inter-State trade or commerce. This tax will be for a period not exceeding 2

years, or further such period as recommended by the GST Council. This additional tax on supply of goods shall be assigned to the States from where such supplies originate.

- Narrow tax band for GST rates: GST rates will be uniform across the country. However, to give some fiscal autonomy to the States and Centre, there will a provision of a narrow tax band over and above the floor rates of CGST and SGST.
- GST is a destination-based tax: All SGST on the final product will ordinarily accrue to the consuming State.

GST Sectoral in Implications

Automobiles

The effective tax rate applicable on small cars (engine capacity of less than or equal to 1999 cc) is ~24%, while for luxury cars (engine capacity of more than 1999 cc) it is ~38%. Post GST implementation, the sector may have lower effective taxes, which may help reduce cost for consumers and boost demand. However market expects that the government will impose an additional non rebatable GST over and above the normal GST on the luxury car segment. The current draft does not empower the government to levy additional GST on luxury items and hence is a big positive for the industry.

Banking, financial services and insurance

- Cost of banking and insurance will increase with rise in tax rate from 12.36% to more than 20%
- Better credits across goods and services
- Increase in credit pool due to availability of GST credits on purchase of goods
- Interest on loans expected to be taxed under GST

Cement

The aggregate effective indirect tax on the industry is ~24%. With GST in place, the effective rate will be lowered; hence, the sector will benefit. The industry will also benefit in terms of savings on account of supply chain management, as the incremental cost on management of C&F and depots will reduce by ~1-2% of revenues, which were earlier planned for avoiding the levy of CST.

Entertainment and hospitality

- Eliminates multiplicity of taxes - Entertainment tax. Luxury Tax, VAT, service Tax
- By allowing credit between goods and services. GST will prevent cascading of taxes, resulting in increased profits for companies in this sector
- Simplifies levy and valuation on composite transactions. Thus, will reduce litigation challenges and related costs faced by companies in this sector

FMCG

On an aggregate, effective tax rate on these products comes to ~24%. With low-rate GST, the sector will benefit from reduced cost of products. FMCG companies generally plan their supply chain to avoid the CST levy by adopting the C&F/depot mechanism in most states. Post GST, the sector will make savings by way of consolidation of the supply chain.

Cigarettes

Currently, excise duty levied on cigarettes is based on the length and varies between Rs 819 and Rs 1,759 per 1,000 sticks, forming ~50% of the cigarette price. Generally, VAT is charged at 12.5%; however, certain states like Rajasthan, Maharashtra, and Delhi levy 20% VAT on sale of cigarettes.

The discussion paper proposes standard GST rate with ITC (Input Tax Credit) and allows the central government to levy excise duty on tobacco products over and above GST without ITC. While standard GST rate is positive as differential higher rates charged by few states will go away, non availability of ITC on special excise duty may be negative. Moreover, if specific excise duty is replaced by ad valorem duty, it may have a negative impact on the sector.

Infrastructure

- Simplifies levy and valuation on composite transactions by eliminating multiplicity of taxes- VAT, service tax, Entry Tax
- Increase in total tax incidence on certain products under the GST regime such as cement and steel
- Composite contracts likely to be treated as 'services' under the GST regime
- SEZ benefits to continue - supplies to SEZ to be zero rated
- Real estate development transactions - no way forward provided yet
- Stamp duty may continue to apply

Manufacturing and retail sector

Positive impact

- Increased fungibility of credit on goods and services
- Full credit of tax on interstate sale will reduce cost of procurement / production
- No retention / disallowance on stock transfer of goods will also reduce cost procurement
- Credit of import duties will make imports cheaper for retailers. Thus, all imported consumer goods will benefit
- Presently entry tax is a cost in most cases, along with additional compliance burden. With GST, entry tax and its ills will be eliminated

Negative impact

- Negative working capital impact
- Increase in initial cost of purchases including Imports due to increase in tax rate
- Job work transactions and stock transfers, currently not taxed, are likely to be taxed and will effect production outlay
- Increase in cost of procurement of services from 12% to more than 20%
- Fate of area-based exemptions unknown

Pharmaceuticals

Most pharmaceutical companies establish their facilities in tax-free zones to enjoy tax SOPs. Post implementation of GST, benefits to existing facilities are likely to continue by means

of refund mechanism. Pharmaceutical companies also plan their supply chain to avoid CST by adopting the C&F/depot mechanism in most states. Post GST, the sector will make savings by way of consolidation of the supply chain.

Real Estate

The real estate sector is likely to be negatively impacted as the discussion paper reemphasis the levy of duty on all goods and services except for a few exemptions. The first sale made by the builder is likely to be liable for levy of GST, though the impact will be partly subdued by availability of ITC on various inputs.

IT/ITes

Substantial sales in the sector are made either through exports or to corporate. The export sales will be zero rated and corporate will be able to claim the credit of GST paid and hence increase in effective tax rate will not have any significant impact.

Oil & gas

Basket of petroleum products i.e., crude, motor spirit (including ATF) and HSD will be kept outside GST. GST applicability on natural gas is yet to be decided.

Services

The current effective tax rate on services is of 10%. The services sector will be negatively impacted as the effective tax rate post implementation of GST is likely to increase. However, with the set off of entire taxes on inputs, the impact of higher effective rate will be subdued. On procurement of infrastructure facilities and other goods, service providers are levied excise duty, service tax, VAT, etc. Set off in respect of excise duty and service tax paid is available against service tax liability; however, set off in respect of VAT paid on inputs is not available. With GST coming into the picture, VAT will be subsumed and the entire tax paid on procurement of infrastructure can be set off against GST liability, which will reduce the cost of services.

Telecommunications

The industry incurs significant cost in acquiring infrastructure facilities like towers and telecommunication equipment. VAT is levied on procurement of various equipments and the same cannot be set off against the service tax liability of the company, thus leading to a cascading impact of taxation. With the GST model in place and VAT being subsumed, the entire GST paid on equipment will be available for set off, leading to reduced cost for the sector. Also, ~30% of the revenue is derived from corporate who will be able to claim a set off against the GST paid; hence, the impact of increased effective tax rate will be subdued to that extent.

Road to GST- Milestones

Date	Event
2000	**Empowered Committee on GST**
	The Atal Bihari Vajpayee Government at the Centre started a discussion on GST by setting up an empowered committee, headed by the then West Bengal Finance Minister Asim Dasgupta. The empowered committee was entrusted with the task of designing the GST model and also overseeing the IT back-end preparedness for the rollout of the new regime.
Feb-07	**GST Deadline – 1st April 2010**
	After the success of VAT at the state level, the Finance Minister, P. Chidambaram, in the union budget FY08, mulled the implementation of a national Goods and Services Tax. As a step towards GST implementation, the FM also reduced Central Sales tax from 4% to 3%. The deadline was set to 1-Apr-2010
Sep-07	**Formation of Joint Working Group**
	Joint Working Group of officials having representation of the States as well as the Centre was set up to examine various aspects of the GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies.
Nov-09	**Discussion Paper**
	First Discussion Paper released by the Empowered Committee on GST. The paper did not provide any specific Revenue Neutral Rate
Dec-09	**13th Finance Commission Report**
	13th Finance Commission Report that spelt out a possible Pure GST framework and a CGST+SGST RNR of 12% assuming subsuming of Stamp duty as well as electricity duty
Jun-10	**Three sub-working Groups constituted by Government of India on**
	Business Process related issues.
	Drafting of Centre al GST and model State GST legislations.
	Basic design of IT systems required for GST in general and IGST in particular.
Mar-11	**GST Constitutional 115th Amendment Bill tabled in Lok Sabha**
	GST Constitutional Amendment Bill Introduced in LS amid opposition from BJP. The Bill provided for setting up of a GST Council and a Dispute Settlement Council. Petroleum production and Alcohol were kept out of the GST purview. Entry tax was not subsumed under GST.
Mar-11	**GST Bill Referred to the Standing Committee**
Nov-12	**Committee on GST Design constituted by EC**
Jun-13	**Committee constituted by EC to draft model GST Law**
Aug-13	**Comments of the Standing Committee**
	Standing Committee submits its report on GST. The States of Gujarat and Madhya Pradesh oppose several provisions on account of a possible loss in revenue and loss of autonomy in levying taxes. The committee suggested floor rates with narrow bands for SGST providing states some fiscal autonomy. The committee also suggested that joining GST may be made optional for states with incentives for them to join.
Apr-14	**Committee constituted by EC to examine business processes under GST**
Dec-14	**122nd Constitutional Amendment bill introduced in Parliament**

States are likely to lose out on some revenues under GST

	Present tax system	Goods and services tax
Tax rates and profit margins		
Central Excise Duty	12.4	
VAT	12.5	
CGST+SGST (goods)		20
CGST+SGST (services)		—
Profit margin	10	10
Producer		
Cost of production	10,000	10,000
Producer's price (incl. profit margin)	11,000	11,000
Central Excise Duty	1,360	—
VAT	1,545	—
CGST+SGST	—	2,200
Total price	13,905	13,200
Wholesaler		
Cost of goods to wholesaler	13,905	13,200
Wholesaler's price (incl. profit margin)	15,295	14,520
VAT	1,912	—
Less: Input VAT	1,545	
CGST+SGST	—	2,904
Less: Input CGST+SGST	—	2,200
Total price	15,662	15,224
Retailer		
Cost of goods to retailer	15,662	15,224
Retailer's price (incl. profit margin)	17,228	16,746
VAT	2,154	—
Less: Input VAT	1,912	
CGST+SGST (goods and services)	—	3,349
Less: Input CGST+SGST	—	2,904
Total price to consumer	17,470	17,192
Total tax component	3,513	3,349
Centre-State		
Central taxes	1,360	1,675
State taxes	2,154	1,675
Effective tax rate	**20.4**	**20**

Manufacturing' states will likely lose out on tax revenues to 'consumption' states

	Present tax system	Goods and services tax
Tax rates and profit margins		
Central Excise Duty	12.4	
VAT	12.5	
CST rate	2	
CGST+SGST (goods)		20
CGST+SGST (services)		—
Profit margin	10	10
Producer (State A)		
Cost of production	10,000	10,000
Producer's price (incl. profit margin)	11,000	11,000
Central Excise Duty	1,360	—
CST	247	—
CGST+SGST	—	2,200
Total price	12,607	13,200
Wholesaler (State B)		
Cost of goods to wholesaler	12,607	13,200
Wholesaler's price (incl. profit margin)	13,867	14,520
VAT	1,733	—
CGST+SGST	—	2,904
Less: Input CGST+SGST	—	2,200
Total price	15,601	15,224
Retailer		
Cost of goods to retailer	15,601	15,224
Retailer's price (incl. profit margin)	17,161	16,746
VAT	2,145	—
Less: Input VAT	1,733	
CGST+SGST (goods and services)	—	3,349
Less: Input CGST+SGST	—	2,904
Total price to consumer	17,573	17,192
Total tax component	3,752	3,349
Centre-State		
Central taxes	1,360	1,675
State taxes	2,392	1,675
State-State		
State A	247	—
State B	2,145	1,675
Effective tax rate	**21.9**	**20**

Note: Technicalities of this article has been sourced from various advises, views from different media houses and various reports on GST from ICAI, FICCI, CII, Ministry and Research firms

Sector Outlook: Cement

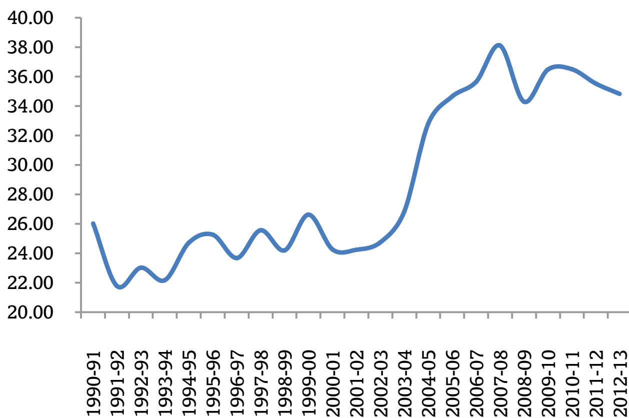
Banking on rising demand & cost moderation

After sluggish performance in the past 3-4 years on the backdrop of lower volume growth, excess capacity addition and high cost inflation, it seems that green shoots are appearing for the cement industry. The demand for cement is directly correlated with the infrastructure creation, which was muted in the past few years amid slow economic growth coupled with lack of structural reforms from previous government's end. In other words, the Indian economy has witnessed slump phase during UPA II regime with GDP growth slowing down to below 5% in past two financial years after posting 8-9% growth in FY07-08. Thus the election in 2014, played a vital role in steering the ailing economy and huge expectation has been build up on new government's credibility. May 16, 2014 is a historical event in Indian political history, when NDA government won the 16th loksabha election with massive mandate, which clearly signifies the urgency of stable government with conducive investment environment across the country. The corporate and the stock market cheered the thumping victory of NDA government and the benchmark stock market (Nifty) zoomed 6% during result day. Narendra Modi, the prime minister of India was always in limelight in the past because of his pro business initiatives and turning around Gujarat as a global manufacturing hub. Thus the corporate are pinning hopes on Modi that India could again test 9% growth, achieved during economic boom. After getting the access over Prime ministerial house, Modi has pressed hard to kick start the reform oriented policies. The notable reforms that NDA government has unleashed in past few months includes, increasing FDI in key sectors like aviation, railway, defense, construction & development and Insurance, planning to launch 100 smart cities, scrapping diesel subsidies, curtailed bureaucracy in different departments, planning to construct 15,000 km of highways and also addressing the key structural issues which have impeded the country's investment growth. So, it can be expected that the new government is going in line with the expectation, though its inefficiencies in passing key bills in Rajya Sabha has slightly derailed its plan. However, government has confidence that they can easily pass the key bills by initiating Joint session in both houses. Slump in global crude oil prices along with lower inflation acted as a blessing for the new government and simultaneously provided room for RBI to put an end to the prolonged high interest regime. Lower inflation and interest rate cut are all signaling of economic revival and expectation is of rising demand and lower cost. Interest rate sensitive sectors such as financial institutions and manufacturing could be benefited mostly from interest rate cut by RBI as it would spur demand and reduce expenses. Softening of global commodity prices would also have an additional advantage to India as India is a net importer of commodity. Cement is such a sector which would be benefited by both lower commodity prices and easing interest rates. Falling crude and coal prices will benefit the sector's profitability and margins. Further, revival of economic cycle would spur infrastructure activities which in turn boost cement demand and cement manufacturers could witness volume led growth.

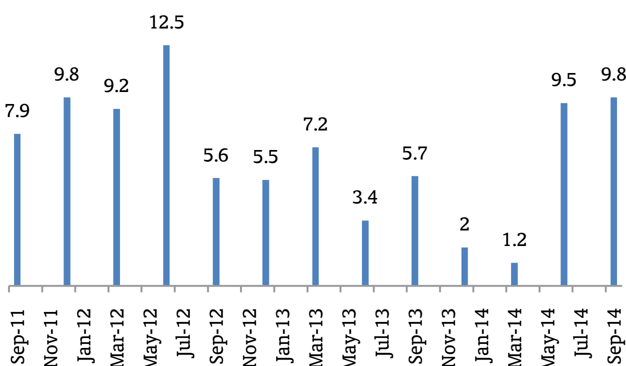
Demand rising on capex cycle revival

Stable & pro business government at center would increase the potential capital expenditure and would aid the economy to rebound. It is expected that the project execution will accelerate during FY15-17 led by politically stable and reform focused government at center. After thumping victory in the election, NDA government has unleashed reforms to kick start the investment growth. To fast track the investment projects worth of ~USD 300 billion, the Prime Minister's Office (PMO) has taken the direct control of the Plan Monitoring Group (PMG), which was formed in 2013 by the former Prime minister in an intention to end the policy paralysis witnessed during the second term of UPA government. Since its inception, the body has facilitated about 200 projects worth of USD 110 billion. The direct purview of Prime Minister has sped up the project clearances and the number of clearances required will significantly reduce from 180 odd clearances required currently. Thus, facilitating timely project clearances would boost infrastructure activities, resulting in higher cement demand going ahead. Further, government's push to improve country's logistic infrastructure by creating Delhi Mumbai Industrial Corridor by 2018 would create the demand for cement as it is the key building ingredient. Previous NDA government was known for building massive infrastructure by creating roads and highways. The similar roadmap is followed by the current NDA government and earmarked a plan to construct over 15,000 km of highways and roads. NHAI achieved the highest road award rate of about 5500 kms in FY11 and 6400 kms in FY12. Thereafter, policy paralysis, rising inflation has been hurting the road projects awards and project executions and annually the road project awards were 1100 & 1500 kms during FY13 and FY14 respectively. After the new government took charge at the center in May 2014, NHAI's project clearance speed has gained momentum. To fast track the road projects, the government has increased the power of road ministry and environmental ministry decentralized the power to grant forest clearances to regional officers. Further, the railway ministry has also streamlined and simplified the various clearance processes for road projects. These steps have been yielding results and NHAI has already awarded 1500 kms in FY15 and expected to award another 4000 kms by the end of FY15. Further, NHAI is expected to award 9000 kms by FY16. The road ministry is targeting of awarding 75% of projects through EPC mode and rest through BOT mode which would lead to faster project execution. Given, fund constraint of private road players, government has planned to execute the road projects through EPC mode in which private constructers would get payment on completion of the projects in phase wise manner and thus not required to block the entire fund. The pick-up in the road construction will increase the road

connectivity and provide a major thrust towards urbanization which in turn will increase cement demand. Falling crude oil prices will act as a blessing for the country like India which imports more than 70% of its crude demand. The global crude prices has corrected from USD 115/barrel in June 2014 to USD 45/barrel, thus substantially reducing country's import bill and strengthening country's current account deficit. Lower CAD and diminishing fuel subsidies bill would improve fiscal balances for the government, which would provide room for the government to boost its expenditure towards infrastructure creation and social development. Other macro data are also indicating revival in economy with eight core sector growth for November 2014 at 6.7%, higher than last year. The growth was driven by electricity, coal, cement, refinery products and steel. The cement production has increased by 11.3% as compared with 2.41% growth clocked in previous year. As per commerce ministry's provisional data, the cumulative growth of the eight core industries during April to November this fiscal stood at 4.6%, thus indicating that domestic economic growth revival is on track and capex cycle recovery is in offing. As per the Government data, cement demand got traction during 1HFY15 and rose 10% YoY after bottoming out at 3% growth in FY14.



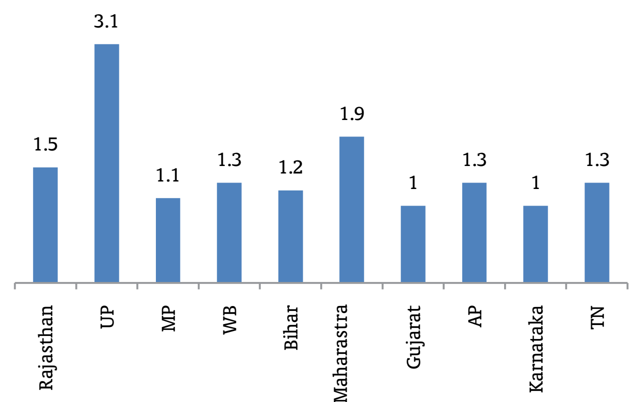
Source: RBI



Source: Industry report

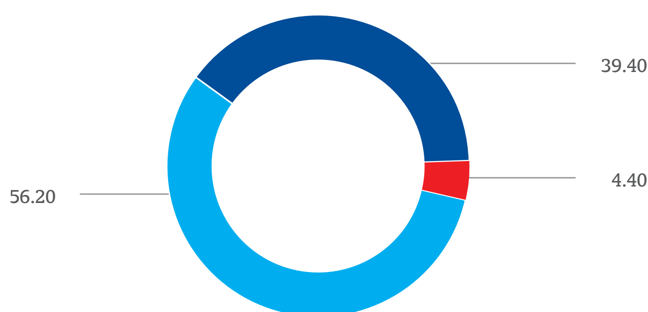
Government's mission of "housing for all by 2022" would drive demand

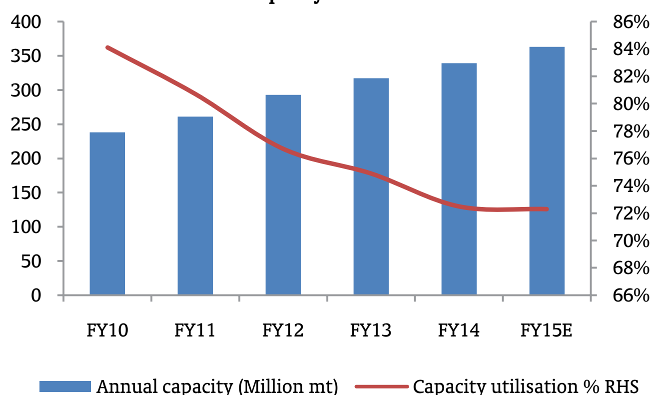
Government fiscal stimulus always boost up economic activity and the new government has been following the same path. At the start of 12th Five year plan, the urban and rural housing shortfall stood at 18.8 million and 43.7 million units respectively, of which low income group/ economically weaker sections and below weaker sections account for 90% of this shortfall and require high government stimulus support. Thus the new government has set an ambitious target of providing housing for all citizens by 2022 and hence extended JNNURM's tenure to March 2015 to expedite the completion of projects sanctioned until March 2012. Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched in December 2005 for supporting state governments in providing housing and basic civic services like water, sanitation to urban poor under the integrated housing and slum development programs. To boost the affordable housing, the government has allocated Rs 40 billion through the National Housing Board (NHB) for providing low cost loans for lower/middle cost housing. Additionally, Rs 80 billion was allocated for the rural housing scheme under the NHB. Further to support the country's construction sector, the new government has eased FDI norms to facilitate higher foreign investment in the sector. All these should facilitate higher project execution and drive cement demand from affordable housing sector. Further, global commodity slump has brought down the inflation at comfort zone and thereby the Central Bank has just began the rate cut to revive the growth and it is expected more rate cuts are in offing. Thus the lower interest rate regime would bode well for real estate sector as it would help in reviving the demand for new housing.



Source: Industry report

Break up of housing shortfall across different income group (%)



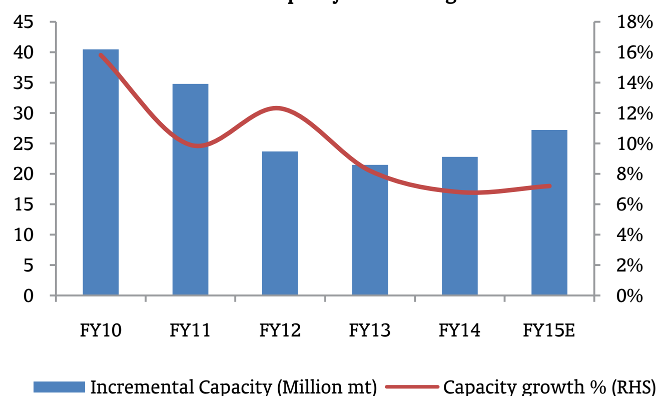


Source: Industry report

Slowdown in capacity addition to improve utilization

Domestic cement sector witnessed massive capacity expansion during FY08-FY11 amid sluggish demand and economic slowdown. It is estimated that about 37 million tonne capacity was added during FY10-11, after that it slowed down to 24 million tonne during FY12-15 and further it is expected to come down to ~12 million tonne during FY16E-FY17E period. Idle capacity adversely impacted cement sector's utilization rate and the cement players are not been able to recover the fixed cost thus putting pressure on profitability. Capacity additions during FY15-17 are expected to slow down in all regions except eastern region where capacity expansion is higher than that during FY12-14 period. Regionally, higher capacity utilization witnessed in the northern, central and western regions on the back of fewer capacity additions as well as higher demand growth in these regions. Southern region is little bit fragmented as compared with other regions, hence the oversupply scenario amid weak demand affected the cement manufacturers' utilization. However, the utilization is expected to improve over the next three years led by lower capacity additions and demand uptick due to formation of new states Telangana and Seemandhra which would create demand for new infrastructure. Lower capex by cement companies also provide room to the manufacturers to reduce its balance sheet leverage and improve its cash flows.

Incremental capacity addition & growth



Source: Industry report

Industry consolidating thus M&A gaining space

During FY05-FY10, many regional players were attracted by strong return ratios from Cement business and set up their plants. However, with the start of FY11, slowdown in overall economy hurt the demand and supply influx put pressure on realization. Thus shrinking profitability amid rising capital costs made new projects unviable and simultaneously putting stress on balance sheet. Many large cement manufacturers witnessed the most aggressive additions to their capacities thus leveraging the balance sheet by raising debt. Such distressed scenario forced many new companies to shelve their expansion plans and even incumbent players have slowed down their expansion spree. This has increased consolidation activities in India and thus the Merger and acquisitions have gained space. Most large cement players are active on consolidation front by acquiring or selling the assets to other cement companies. Holcim group first re-structured its Indian subsidiaries and later the parent company (Holcim) merged with Lafarge to form the World's largest cement company, LafargeHolcim. Debt ridden JP Associates has been selling off its cement plants across India to de leverage its stressed balance sheet. On other hand, Ultratech cement is acquiring JP's asset and emerges as India's largest cement maker. Ultratech, acquired JP's plants in Gujarat and Madhya Pradesh and became the largest cement producer in western and central region. JP in 2014, also sold its two grinding units to Dalmia Cement and Shree Cement. Since, 2012 Dalmia cement has been steadily expanding its capacity through inorganic route. The recent mergers and acquisitions have off-set the fragmentation in Indian cement industry as smaller cement players had been acquired by large and mid sized companies, thus strengthening the realization per tonne for cement companies.

The major M&A in Indian cement sector

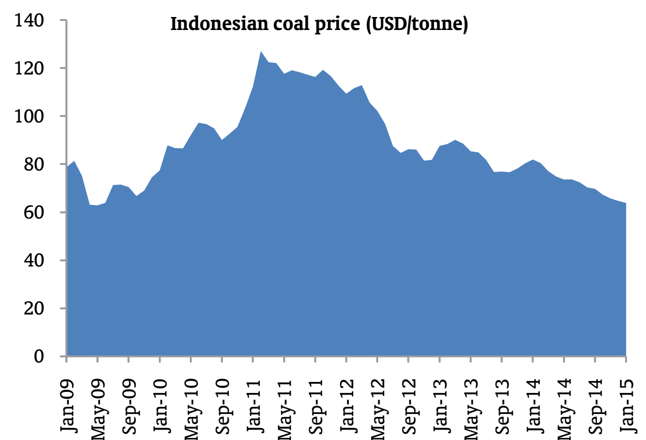
Acquirer	Target company	Stake sold (%)	Announced
Dalmia Cement	Calcom (Assam)	50	Jan-12
Dalmia Cement	Adhunik Cement (Meghalaya)	100	Sep-12
My Home Industries (CRH)	Sree Jayajyothi (AP)	100	Aug-13
Ultra Tech	JP associate Gujarat unit	100	Sep-13
Dalmia Cement	JP associate Bokaro Grinding unit	70	Mar-14
Lafarge Holcim	Global merger of equals	1:1 share swap	Feb-14
Shree Cement	JP associate Panipat (UP) grinding unit	100	Aug-14
Ultra Tech	JP associate MP unit	100	Dec-14

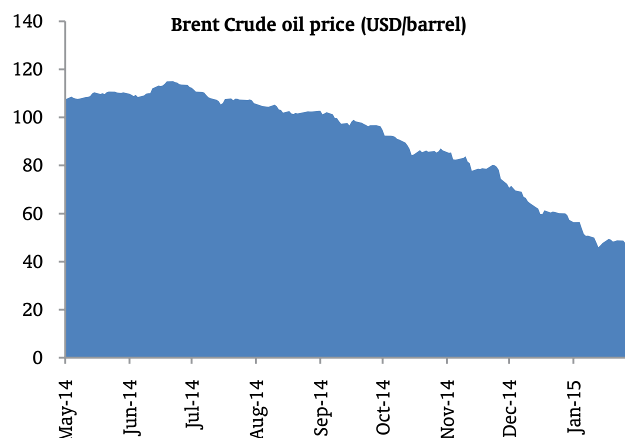
Source: Industry report

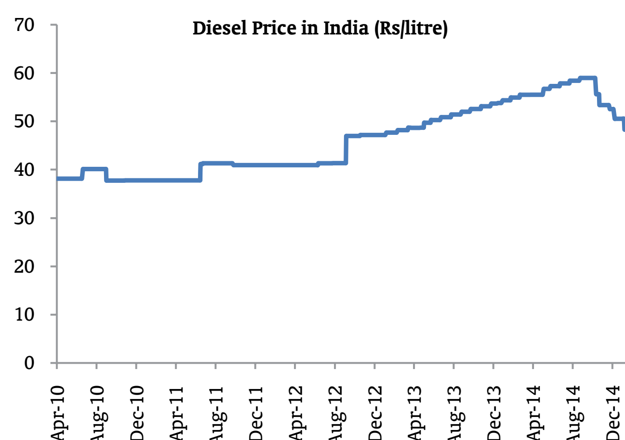
Moderating cost to improve profitability

Cement sector is a raw material intensive sector where raw material accounts almost 47-55% of total operating costs, though depending upon the captive coal blocks, limestone and power plant. For non integrated cement makers the cost is relatively high. In past one year, the global commodity prices have been declining on the backdrop of growth concern in China, the world's largest consumer of commodity and deflationary pressure in Europe and Japan. The prices of Coal the most important ingredient in cement, have steadily declined over the past one year and are at multi year low levels owing to weak demand from developed markets and China. Lower coal prices could ease operating cost pressure for cement companies as these companies mostly use thermal coal imported from Indonesia, South Africa and pet coke from the US gulf region. Global coal prices have corrected more than 25% in past six months and hovering around USD 46 per tonne, just inching closer to the price in which Coal India sold. The global coal price in 2008 touched USD 130 a tonne. Since then, it has been sliding, from USD 80 a tonne in December 2013 to USD 50 in December 2014. At a foreign exchange rate of Rs 62 for a dollar, the landed price is Rs 2,700 to Rs 3,000 a tonne. After adding transport cost, it is Rs 3,700-5,000 a tonne. Most companies use the blended coal to save the cost and currently the ratio is 50%. Thus it is likely that the imported coal would replace domestic coal on the back of reducing price disparity and better calorific value. Persisting slowdown in China, deflationary trend in Europe and Japan could adversely impact coal prices in near to medium term thus Indian cement companies could see margin expansion in next 3-4 quarters.

Transportation cost is also high in cement manufacturing business and hence declining crude oil prices would substantially ease operating cost pressure for cement companies. Global crude prices have declined from USD 115 per barrel in June 2014 to USD 45 per barrel in January 2015, correcting by more than 60%. Increased shale oil production in US, slowdown in China and increasing oil supply from OPEC countries are the major reasons for crude price slump. The lowering crude oil prices led government to cut diesel prices in the last two months in order to pass on the benefit to the consumers. The benefits of this price decline should be visible largely from Q4FY15 onwards, when transporters would start to pass on this price decline to cement companies. Those cement companies whose captive power plant are located far from port and mines, would be mostly benefited from lower freight cost and it would be margin accretive. It is expected that the global crude oil prices is very unlikely to touch the previous trend and hence the all crude oil consumption sectors would be benefited from long term perspective. However, in medium term the crude price could recover some of its losses and thus could feel some volatility in operating margin front. As both coal and crude prices are expected to remain subdued in near to medium, input and freight cost inflation should moderate for cement companies during FY15-FY17 period. Raw material and transportation cost accounts 55-60% of total operating costs of the cement industry and thus easing of these costs could improve profitability of cement players going ahead.







Price hike to impel realization growth

Rising demand led the cement players to increase the price in past two months. The cement price has increased by around Rs 20 to Rs 40 per bag in the past few months. Currently the price of a 50 kg bag is ranging from Rs 300 to Rs 370. Three months ago the price per bag was hovering between Rs. 260 and Rs. 290. Maximum price increase has taken place in south and western region and northern India witnessed moderate price increase, thus providing impetus to realization growth for cement players. As the cement is cyclical business, its consumption firms up during November to June every year and hence the cement prices are firming up. Generally, cement prices softens during lean season of July to October and now the prices have been recovering from the fall. Further, the long term trigger such as NDA government's push for infrastructure development would firm up cement demand. Cement makers are also pining hopes that the upcoming Union Budget could provide a special thrust on low-cost housing, which again could push up demand. Additionally, plans to lay concrete four-lane roads are also expected to shore up cement demand as 1 km of cement road requires 2,000 tonnes of the building material. Slowdown in capacity addition would again provide impetus to cement players in terms of realization growth.

New government at the center has outlined an ambitious plan to develop the country's infrastructure and bring it at par with other developed and emerging nations. Construction of Delhi Mumbai Industrial corridor, four lanes high way, 100 smart cities, construction of new railway lines, introducing bullet trains and housing for all by 2022 are the new government's plan to boost the infrastructure activities. All these would amplify cement consumption in India as cement is key ingredient in construction industry. Further, the cement players are going slowly in their capacity additions in order to improve the utilization rate and also to reduce supply influx. The key trigger for the cement companies in near to medium term is moderation of their operating costs. Falling crude oil and coal prices could ease operating costs pressure for cement players and thus have a positive bearing on operating margins. Seasonality effect would also drive cement price thus strengthening cement companies realization growth.

Valuation Matrix

Company	Mkt Cap (Rs cr)	FV (Rs)	P/E FY15	P/E FY16E	EV/EBITDA T12M	EV/EBITDA FY16E	ROE%
ULTRATECH CEMENT	85,654	10	33.0x	24.3x	19.6x	14.7x	13.6
AMBUJA CEMENTS	38,775	2	26.4x	21.6x	17.8x	11.0x	13.9
SHREE CEMENT	37,794	10	35.5x	23.7x	27.9x	16.5x	18.4
GRASIM INDS LTD	35,362	10	16.5x	12.8x	9.3x	6.7x	10.0
ACC LTD	28,701	10	27.5x	21.8x	16.2x	12.8x	14.4
RAMCO CEMENT/THE	8,196	1	30.8x	19.9x	18.5x	11.6x	5.7
PRISM CEMENT	5,096	10	90.4x	25.7x	34.9x	12.3x	(7.8)
JK CEMENTS LTD	4,851	10	34.2x	17.3x	20.7x	9.6x	4.5
JK LAKSHMI CEMEN	4,770	5	26.5x	19.2x	20.1x	10.3x	7.3
DALMIA BHARAT LT	3,849	2	N/A	25.0x	18.5x	9.6x	(0.3)
ORIENT CEMENT LT	3,805	1	N/A	N/A	18.7x	8.7x	12.7
INDIA CEMENTS	3,374	10	37.0x	14.0x	10.8x	7.0x	(6.4)
OCL INDIA LTD	3,095	2	21.8x	13.6x	9.8x	7.5x	9.7

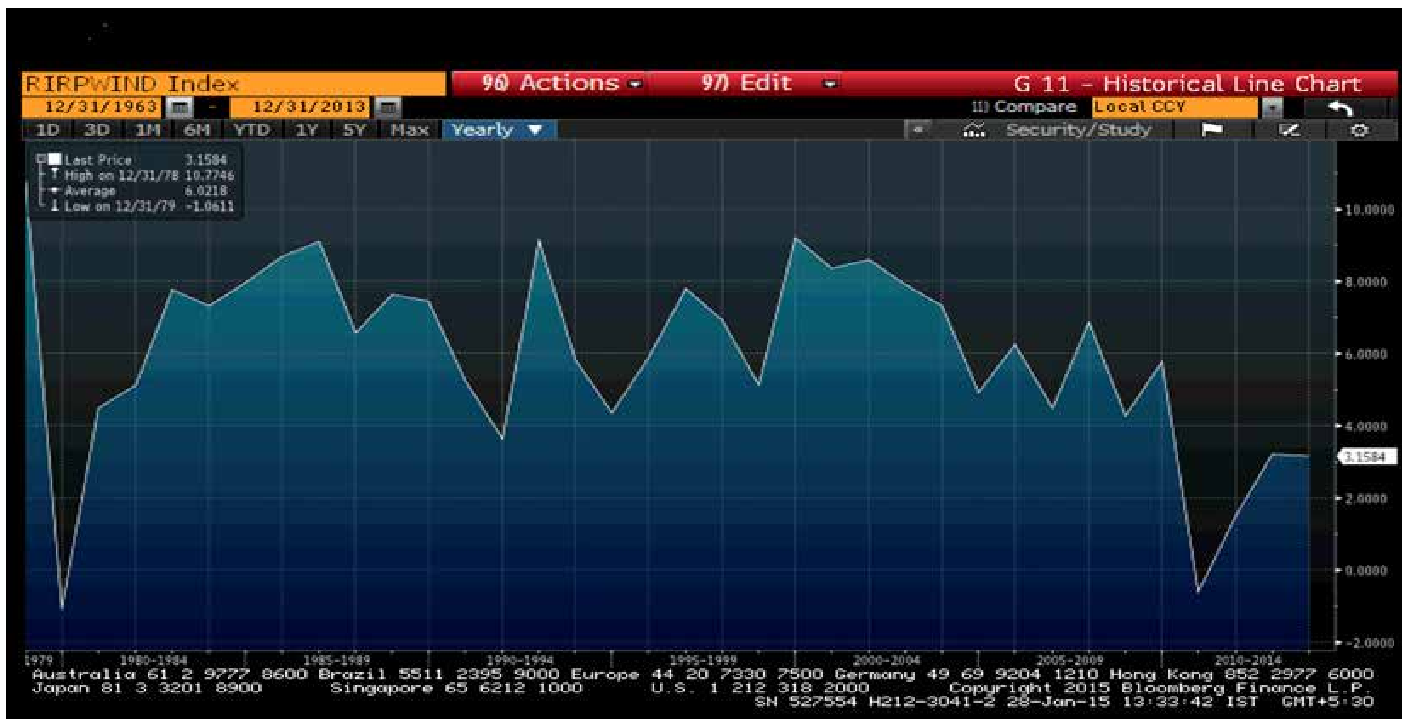
Source: Bloomberg

ASHIKA

Economy Review

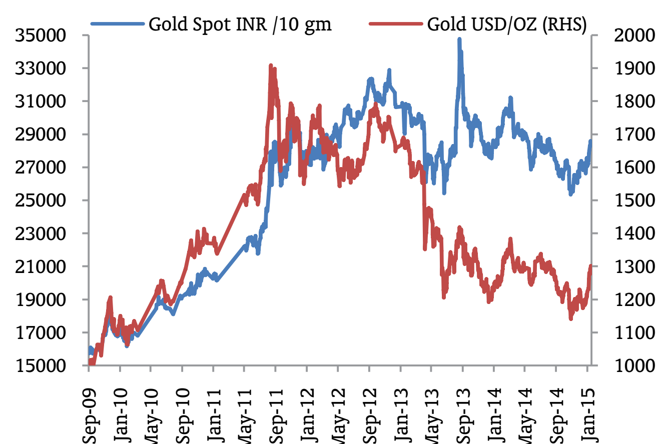
Union Budget 2014-15, the first by the Modi government highlighted the concerns with low financial savings in the economy. In a bid to boost household savings, income tax exemption limit has been raised by Rs 50,000 to Rs 2.5 lakh while the tax exemption limit for investment in financial instruments u/s 80C has been raised to Rs 1.5 lakh from Rs 1 lakh. Moreover, investment limit in PPF has been raised to Rs 1.5 lakh from Rs 1 lakh. Kisan Vikas Patra, a popular investment tool has also been reintroduced; National Savings Certificate with insurance cover is also to be launched. Ever since the global financial crisis in 2008, the distribution of the household savings has been tilted towards physical savings (real estate and gold) as against equal distribution before between physical assets and financial assets (bank deposits, insurance, mutual funds, bonds and stocks). Such a distortion is largely associated to the negative real interest rates in the economy for a considerable amount of time. For FY13 also, the gross domestic savings (as % of GDP) declined further to 30.1% from 31.3% in FY12 and 33.7% in FY11. The trend is however believed to be reversing now on the back of cooling inflation rates wherein the real interest rate has turned positive in the economy. After having lost savings to real estate and gold in the past five years, recent trends indicate that financial instruments now look to provide a safer avenue to channelise household savings. For the last twelve months, the real interest rate in the economy has been positive, a critical criteria to divert savings to financial assets than physical assets. In fact, the latest set of figures suggests that the financial savings (as % of GDP) has improved for the third year on a trot (although marginal) to 7.2% in FY14 from 7.1% in FY13 and 7% in FY12. However, still considerably lower than the mark of 12% achieved in FY10. The government expects that the budgetary incentives for household savings could help ensure that the country's investment is largely financed from domestic savings. Thus, raising household savings and at the same time re-directing savings from physical to financial assets has emerged as a integral strategy to the government's economic revival plans. The time also seems to be ripe when the other asset classes have remained muted during the past one year. A significant decline in both domestic as well global gold prices and a slump in the real estate market could have also been a trigger for the switch to financial instruments. To add to that government's commitment to inflation control measures and surge in the equity markets would aid the transformation from physical to financial assets

Real interest rate chart



In India, domestic savings comprises of savings from household, private corporate and public sector. Household sector occupies the lion's share (~70%) of the gross domestic savings. The primary constituents of Household savings are physical and financial savings. Private corporate sector contributes ~20% together with public sector contribution of ~4% to the gross domestic savings. Although, the household sector is the torchbearer for savings in an economy, the contribution of private corporate sector has also increased from 11% in 1990 to 23% in 2013. Thus, with the inflation concerns now out of the picture, the corporate will breathe easy and probably contribute to higher investment growth in the economy financed by their own savings. As highlighted before, the major reason for a dip in savings in the economy had been the stubborn inflation resulting in negative or low real returns. It also resulted in inflation led higher consumption, thus eating into the savings. In inflationary circumstances, consumption goes up in terms of current prices; however, adjusted for the inflation, citizens are actually worse off as real consumption is lower. A particularly worrying feature is that household savings (as % of GDP) which comprises ~70% of total savings, has been on a decline for the last three years mainly led by financial savings, while physical savings have remained more or less constant. Within household savings, the share of financial savings has also declined from 52% in 2007-08 to 32% in 2012-13 while physical savings has increased from 48% to 68% during the same period. However, the trend is expected to turn soon following the attractiveness of financial instruments such as equity markets and mutual funds as against gold and real estate. The gold prices in India have declined by ~15% from peak levels in late August 2013, while globally gold prices have declined by ~31% since August 2011 peak, implying there could be further downside to domestic prices as restrictions on gold imports are normalized. In 2013, the government in response to arrest the current account deficit and choke off demand for gold raised import duties on precious metals. The government also introduced inflation indexed bonds in 2013 in a bid to attract higher amount to the financial assets

Trend in Gold Prices



Source: Bloomberg, Investing.com

Sector-Wise Gross Domestic Savings As Share Of GDP (Current Market Price, %)

Year	Household Sector: Financial Savings	Household Sector: Physical Savings	Household Sector: Total	Private Corporate Sector	Public Sector	Gross Domestic Savings	Net Domestic Savings
1990-91	8.5%	10.1%	18.5%	2.6%	1.8%	22.9%	13.9%
1991-92	9.2%	6.5%	15.7%	3.0%	2.6%	21.3%	11.7%
1992-93	8.4%	8.1%	16.5%	2.6%	2.2%	21.3%	11.7%
1993-94	10.6%	6.4%	17.0%	3.4%	1.3%	21.7%	12.4%
1994-95	11.5%	6.4%	17.9%	3.4%	2.3%	23.6%	14.3%
1995-96	8.6%	7.6%	16.2%	4.8%	2.6%	23.6%	14.4%
1996-97	10.0%	5.8%	15.8%	4.4%	2.2%	22.4%	13.3%
1997-98	9.3%	8.7%	18.1%	4.2%	1.9%	24.2%	14.8%
1998-99	10.0%	9.5%	19.5%	3.8%	-0.2%	23.2%	14.1%
1999-00	10.3%	11.5%	21.8%	4.3%	-0.5%	25.7%	16.4%
2000-01	9.9%	11.5%	21.4%	3.7%	-1.3%	23.8%	14.2%
2001-02	10.5%	12.7%	23.2%	3.3%	-1.6%	24.9%	15.2%
2002-03	10.0%	12.3%	22.3%	3.9%	-0.3%	25.9%	16.2%
2003-04	11.0%	12.1%	23.2%	4.6%	1.3%	29.0%	19.4%
2004-05	10.1%	13.4%	23.6%	6.6%	2.3%	32.4%	22.5%
2005-06	11.9%	11.7%	23.5%	7.5%	2.4%	33.4%	23.6%
2006-07	11.3%	11.9%	23.2%	7.9%	3.6%	34.6%	24.8%
2007-08	11.6%	10.8%	22.4%	9.4%	5.0%	36.8%	27.1%
2008-09	10.1%	13.5%	23.6%	7.4%	1.0%	32.0%	22.0%
2009-10	12.0%	13.2%	25.2%	8.4%	0.2%	33.7%	23.5%
2010-11	9.9%	13.2%	23.1%	8.0%	2.6%	33.7%	23.9%
2011-12	7.0%	15.8%	22.8%	7.3%	1.2%	31.3%	21.6%
2012-13	7.1%	14.8%	21.9%	7.1%	1.2%	30.1%	20.0%

Source: CSO & RBI

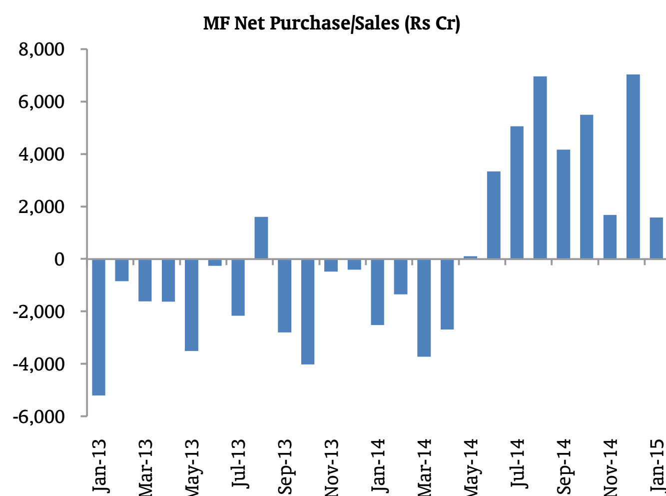
	As % of Household Savings		As % of Gross Domestic Savings		
Year	Financial Savings	Physical Savings	Household Savings	Private Corporate Sector	Public Sector
1990-91	45.7%	54.3%	80.8%	11.3%	7.9%
1991-92	58.8%	41.2%	73.6%	14.1%	12.3%
1992-93	51.1%	48.9%	77.7%	12.1%	10.1%
1993-94	62.6%	37.4%	78.5%	15.5%	6.0%
1994-95	64.5%	35.5%	75.9%	14.3%	9.8%
1995-96	53.2%	46.8%	68.7%	20.4%	10.9%
1996-97	63.1%	36.9%	70.6%	19.6%	9.8%
1997-98	51.7%	48.3%	74.8%	17.4%	7.8%
1998-99	51.2%	48.8%	84.2%	16.5%	-0.8%
1999-00	47.1%	52.9%	84.9%	16.9%	-1.8%
2000-01	46.4%	53.6%	90.0%	15.7%	-5.7%
2001-02	45.4%	54.6%	93.2%	13.1%	-6.3%
2002-03	44.9%	55.1%	86.0%	15.1%	-1.1%
2003-04	47.6%	52.4%	79.8%	15.8%	4.4%
2004-05	42.9%	57.1%	72.7%	20.2%	7.1%
2005-06	50.4%	49.6%	70.4%	22.4%	7.2%
2006-07	48.7%	51.3%	66.9%	22.8%	10.3%
2007-08	51.9%	48.1%	60.9%	25.5%	13.6%
2008-09	42.9%	57.1%	73.8%	23.2%	3.0%
2009-10	47.5%	52.5%	74.7%	24.8%	0.5%
2010-11	43.0%	57.0%	68.7%	23.7%	7.7%
2011-12	30.8%	69.2%	72.7%	23.3%	3.9%
2012-13	32.4%	67.6%	72.7%	23.4%	3.9%

Source: RBI

The breakup of the household savings between financial and physical assets is not available for FY14. However, the expectations are optimistic for FY14. In fact, if one looks at the allocation of the gross financial savings (change in financial assets) for FY14, deposits, which account for 59% of the gross financial savings, rose by 17% to Rs 6.91 trillion from Rs 5.91 trillion in FY13. Out of the total deposits, 53% was constituted by bank deposits. Thus, the sincere efforts by the government to step on financial inclusion plans seems to be working. However, what's surprising is the fact that despite such a strong rally in the equity markets, savings in shares and debentures dropped 22% to Rs 33,700 crore in FY14, from Rs 43,000 crore in the previous fiscal. Savings by individuals in mutual funds (MFs) (through shares and debentures) saw a 40% drop to Rs 21,000 crore in the reporting year from Rs 35,000 crore in FY13. One of the reasons being that the MFs have been net sellers for FY14 and have only being net buyers since May 2014. MFs which reflects the sentiment of retail investors who have only jumped onto the equity markets after Mr. Modi got elected as the Prime minster of India and have been net buyers for every month as of now. Thus, it can be widely expected that although the present investor sentiments might not be reflected with higher proportion of financial savings in FY14, it is sure to reflect in FY15.

Year	Break-up of Gross Financial Savings (Changes in financial assets, %)								
	Currency	Bank deposits	Non-banking deposits	Life insurance fund	Provident and pension fund	Claims on Government	Shares & debentures	Units of UTI	Trade Debt(Net)
1990-91	10.6%	31.9%	2.2%	9.5%	18.9%	13.4%	8.4%	5.8%	-0.8%
1991-92	12.0%	26.2%	3.3%	10.3%	18.4%	7.1%	10.0%	13.4%	-0.6%
1992-93	8.2%	36.7%	7.5%	8.9%	18.4%	4.8%	10.2%	7.0%	-1.7%
1993-94	12.2%	33.1%	10.6%	8.7%	16.7%	6.3%	9.2%	4.3%	-1.1%
1994-95	10.9%	38.4%	7.9%	7.8%	14.7%	9.1%	9.3%	2.7%	-0.8%
1995-96	13.3%	32.1%	10.6%	11.2%	18.0%	7.7%	7.1%	0.2%	-0.2%
1996-97	8.6%	32.1%	16.4%	10.2%	19.2%	7.4%	4.2%	2.4%	-0.4%
1997-98	7.4%	43.1%	3.9%	11.3%	18.8%	12.9%	2.6%	0.3%	-0.4%
1998-99	10.5%	38.4%	3.7%	11.3%	22.4%	13.6%	2.5%	0.9%	-3.3%
1999-00	8.8%	35.1%	1.6%	12.1%	22.8%	12.3%	6.9%	0.8%	-0.4%
2000-01	6.3%	38.3%	1.2%	13.7%	20.6%	15.8%	4.5%	-0.4%	0.1%
2001-02	9.8%	39.5%	-0.1%	14.4%	15.5%	18.2%	3.4%	-0.6%	-0.1%
2002-03	8.9%	37.9%	3.9%	16.1%	14.2%	17.3%	2.2%	-0.5%	0.0%
2003-04	11.0%	40.0%	0.5%	13.4%	12.6%	22.4%	2.3%	-2.2%	0.0%
2004-05	8.3%	39.1%	0.0%	15.2%	12.5%	23.8%	1.8%	-0.7%	0.0%
2005-06	8.9%	45.5%	0.1%	14.3%	10.6%	14.9%	5.8%	-0.1%	0.0%
2006-07	8.8%	56.1%	0.6%	15.0%	9.5%	2.5%	6.6%	0.0%	0.9%
2007-08	10.5%	50.4%	0.2%	22.0%	9.3%	-3.7%	9.6%	0.0%	1.8%
2008-09	12.7%	57.5%	2.0%	21.0%	10.1%	-3.8%	-0.3%	-0.4%	1.2%
2009-10	9.8%	40.2%	1.9%	26.2%	13.1%	4.4%	4.5%	0.0%	-0.2%
2010-11	12.7%	50.8%	0.5%	19.5%	13.1%	2.7%	0.2%	0.0%	0.6%
2011-12	11.5%	57.1%	2.0%	21.3%	8.3%	0.0%	-0.3%	0.0%	0.5%
2012-13	10.7%	55.1%	1.5%	17.3%	9.2%	-0.1%	4.2%	0.0%	0.3%
2013-14	8.7%	57.3%	1.6%	17.0%	8.7%	0.5%	2.3%	0.0%	0.4%

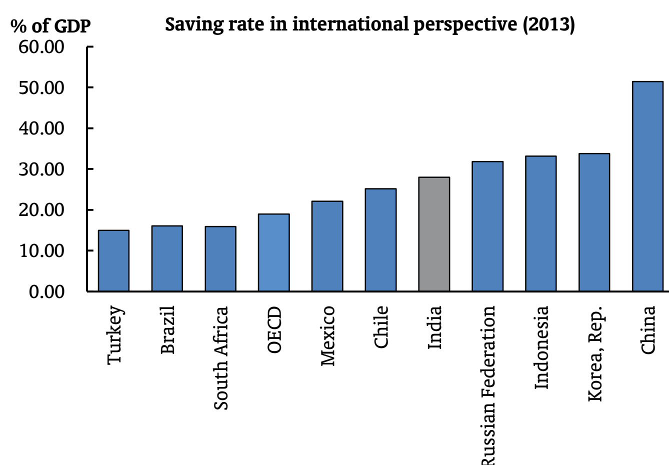
Source: RBI



Source: Moneycontrol

Albeit gross domestic savings rate in India for FY13 hovers at significantly lower levels of ~30%, it is certainly not the lowest in the world. The figures as per OECD reflects, that India is ahead of OECD economies as well as Brazil & South Africa among BRIC nations. However, it lags behind its closest competitor country, Indonesia and way below China. The latest attempt of RBI to set inflation targets (based on CPI) has been hailed by economists worldwide. According to them, moving to an inflation targeting regime would focus the RBI on curbing inflation and steadying inflation expectations, which are key to promoting savings and investment and thus growth. Inflation above 4 to 5.5% reduces GDP growth (Mohanty et al., 2011). Inflation targeting has been successfully implemented in a number of emerging market economies, including Brazil, Chile, Colombia, Indonesia Mexico and South Africa. It has brought greater economic stability without compromising growth or other economic and social goals (Jahan, 2012). Probably, one of the reasons behind falling savings rate can be attributed

to growing informal financial sector. As per PWC, only 35% of adults in India had access to a formal bank account as of 2011-2012. Thus, a significant percentage of the country's population is vulnerable to exploitation from people involved in informal channels that fall outside regulatory control, such as money lenders or operators of fraudulent savings schemes. As of 2013, the share of informal rural credit ranged from 77% (to near-landless farmers) to 32% (to farmers with landholdings of 10 hectares and more). Also, 57% of families surveyed across major migrant corridors crossing states within India claimed to prefer informal channels for managing remittances, whereby workers send portions of their wages to family members living in other states or regions of India. This is where financial inclusion drive by the government becomes a crucial instrument in tapping this investment.



Source: OECD

Until recently, before Mr. Raghuram Rajan took over as the RBI governor, there was hue and cry after the current account deficit hit 4.7% of GDP for FY13. There were concerns both on the account of higher gold imports as well as the increasing gap between domestic savings and investment. Current account deficit can be interpreted as (i) trade deficit + net income from abroad or (ii) savings – investment. The role of savings and investment in achieving and maintaining high economic growth is extensively laid out in the theories of economic growth. Harrod-Domar growth theory highlighted how economic growth depends on the rate of saving or investment and the incremental capital-output ratio in the economy. Various research works have been carried out to understand the relation between saving & investment and their impact on economic growth in Indian context. In a RBI research paper titled "Causal Relationship between Saving, Investment and Economic Growth for India – What does the Relation Imply? by Mr. Ramesh Jangili examined the direction of the relationship between saving, investment and economic growth in India at both aggregate level and sectoral level for the period 1950-51 to 2007-08 by using Granger causality test. According to him, there exists reciprocal causality from saving and investment of the private sector to economic growth. This reciprocal causality emanates from the household sector, where saving and investment led growth and growth driven by saving and investment was observed. It is empirically evident that private corporate sector saving does not lead to economic growth, however, saving and investment of the sector collectively lead to economic growth and vice-versa. In a more recent work by Amaresh Samantaraya and Suresh Kumar Patra of Pondicherry University, they analyzed the determinants of household saving in India from the period 1971-72 to the period 2011-12 using ARDL framework. The estimated results of the ARDL model established the long run stability in the association between the variables used in the model using bound tests, and various diagnostic tests supported robustness of estimated results. As regards the determinants of household savings, the variables like GDP, age dependency, interest rate, and inflation were found to be statistically significant to influence household savings, both in the long run and short run. The empirical results revealed that GDP and age dependency have favorable effect on household saving, while high inflation and real interest rates exert negative impact. The negative effects of real interest rate on household savings reveal stronger income effect over the substitution effect.

	Rate of GDS (%)	Rate of GDCF (%)	Savings-Investment Gap or CAD (%)
1990-91	22.9	26.0	3.1
1991-92	21.3	21.8	0.5
1992-93	21.3	23.0	1.8
1993-94	21.7	22.2	0.5
1994-95	23.6	24.7	1.1
1995-96	23.6	25.3	1.7
1996-97	22.4	23.7	1.2
1997-98	24.2	25.6	1.4
1998-99	23.2	24.2	1.0
1999-00	25.5	26.6	1.1
2000-01	23.7	24.3	0.6
2001-02	24.8	24.2	-0.6
2002-03	25.9	24.8	-1.1
2003-04	29.0	26.8	-2.2
2004-05	32.4	32.8	0.4
2005-06	33.4	34.7	1.2
2006-07	34.6	35.7	1.1
2007-08	36.8	38.1	1.3
2008-09	32.0	34.3	2.3
2009-10	33.7	36.5	2.8
2010-11	33.7	36.5	2.8
2011-12	31.3	35.5	4.2
2012-13	30.1	34.8	4.7

Source: RBI

The rate of gross capital formation which indicates investment rate, declined for the second consecutive year to 34.8% in FY13 from to 35.5% in FY12 and 36.5% in FY11. Thus, the savings-investment gap or the current account deficit rose to 4.7% (30.1% - 34.8%) in FY13, the gap is filled up by foreign direct investment or capital flows from abroad. Thus it is apparent that in developing and underdeveloped countries Foreign Direct Investment plays a vital role. The need of Foreign Direct Investment in these nations arises due to low level of savings and income in order to meet the needed level of investment required to sustain the growth of the economy. The government has also highlighted this issue and opened up sectors for higher FDI. The recent policy measures by Modi government also surrounds around the bills to be introduced in various sectors in a bid to draw foreign capital. Thus, for the economic growth in india, FDI is needed in industries like insurance, real estate and business services, because these are the profit making industries. As mentioned by Chowdhury and Mavrotas (2005), a large number of empirical studies on the role of FDI in host countries suggest that FDI is an important source of capital, complements domestic private investment, is usually associated with new job opportunities and enhancement of technology transfer and spillover, human capital (knowledge and skill) enhancement, and boosts overall economic growth in host countries. The reintegration process of developing. De Mello (1997) found that the impact of FDI on economic growth of the host country depends on the degree of efficiency of domestic firms. The long-term growth rate depends on, the rate of time preference, and productivity of domestic capital and the degree of complementarily between domestic and foreign technologies.

After the global financial crisis in 2008, the household sector has emerged as the major contributor to the gross capital formation (GCF) or investments. The share of the private corporate sector has steadily declined from the highs of 46% in 2007-08 while the public sector contribution has been lying around 21-23% mark (on account of cutting down planned expenditure), thus resulting in declining investment rate for the economy. In such a state, the investments were financed by household savings which on the other hand is largely dependent on the economic growth and also inflation levels. While the higher interest scenario and more the decadal low business confidence led to the decline in the private sector participation in investment growth. In a 2014 IMF paper titled “Disentangling India’s Investment Slowdown” by Rahul Anand and Volodymyr Tulin, they have identified the importance of economic policy uncertainity and deteriorating business confidence in the recent investment slowdown. According to them, some widening of interest rates has accompanied these developments; however, only a portion of the investment slowdown can be attributed to the increase in financing costs. Furthermore, a simple regression analysis that builds on the conventional macroeconomic variables over-predicts investments in the past two years, suggesting that other factors, such as supply bottlenecks have been at play. Thus, it is imperative for the government to first and foremost provide a friendly policy oriented environment to the corporate in a bid to revive the investment rate in the economy.

	as % of GCF		
	Household sector	Private Corporate Sector	Public sector
1990-91	40%	17%	42%
1991-92	29%	26%	45%
1992-93	33%	27%	39%
1993-94	30%	27%	43%
1994-95	27%	31%	42%
1995-96	29%	38%	33%
1996-97	27%	38%	35%
1997-98	36%	34%	30%
1998-99	41%	29%	31%
1999-00	43%	26%	28%
2000-01	47%	20%	30%
2001-02	49%	20%	28%
2002-03	49%	23%	26%
2003-04	46%	25%	25%
2004-05	41%	32%	23%
2005-06	34%	40%	23%
2006-07	33%	41%	23%
2007-08	28%	46%	23%
2008-09	38%	32%	27%
2009-10	36%	33%	25%
2010-11	36%	35%	23%
2011-12	43%	28%	21%
2012-13	43%	26%	23%

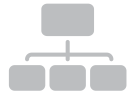
Source: RBI

Moreover, it also not always holds true that high investments can result in long-term high economic growth. A report by Dhanlaxmi bank titled "Capital Formation Trends in India" highlights that there are many economies that initially showed a rapid rise in economic growth through improvement in capital formation, but ultimately slowed down. Examples of Soviet Union in the 1960s and the East Asian experience in the 1980s and 1990s provide evidence that high rates of investments aren't the only way forward. Investments have to be followed with improvement in productivity. Excess of capital without productivity results in slower growth and also lower returns on investments. Simply put, mobilisation of labour and capital are not sufficient for sustainable high long-term growth. Incremental capital output ratio (ICOR), a critical ratio that measures the amount of incremental capital needed to produce one incremental level of output, is a key measure of capital productivity. ICOR levels in India have remained unchanged at 4.5 in recent years. A lower ICOR is critical to achieve a high rate of growth with a given level of capital formation.

Five-Year Plans	Investment Rate	Growth rate	ICOR
IX	24.6	5.5	4.5
X	31.8	7.8	4.1
XI	36.4	8.2	4.5
XII Required	40.5	9.0	4.5

Source: "Capital Formation Trends in India" Dhanlaxmi Bank

All in all, the conditions seem to be right for a change in the recent mediocre trends. It seems like the present government is ticking all the right boxes with sticking to the financial inclusion plan, to curb gold imports, introduction of the popular investment products like KVP etc. While wooing foreign capital will also help in plugging the current account deficit. However, the present savings and investment tread is all set to reverse and private sector contribution is likely to be witnessed. To top it up, the present respite with lower inflation is the major savior. Moreover, the household inflation expectation which was stubborn off late has eased as revealed by the recent RBI survey. The Household inflation expectations are most affected by food inflation. That should come down because internationally also food prices are softening. The survey showed households expected consumer inflation of 8.9% in the October-December quarter in the year ahead period, down sharply from 16% in the previous quarter. Meanwhile, for the three-month period, the median showed households expecting inflation at 8.3%, down from 14.6% in the previous quarter. It is a well known fact that shift from physical assets to financial savings is possible if inflation comes down and sustains at low base. The present optimism and the performance of the equity markets will also help the cause. Although, despite the long-term wealth creation possibility when invest in equities; investments in equities accounted for only 2.87% of the financial savings of households in FY14, which was a decline from 4.18% in FY13, when significant portion of money found its way into equities. However, the sustenance of stable equity markets will provide confidence among retail investors whose direct equity participation have been lying at the grounds, although all set to revive in the time to come.



Mutual Fund Overview

RELIANCE TAX SAVER (ELSS) FUND (G)

Fund Objective: The scheme aims to generate long-term capital appreciation from a portfolio that is invested predominantly in equity and equity related instruments.

Fund Commentary: One of the oldest as well as largest funds in the ELSS category, Reliance Tax Saver has sharply improved its performance in the last five years. Overall, despite these ups and downs the fund has amassed an impressive five-year return of 21.8 per cent, best in the tax saving category for this period. The fund has also stayed at the top for 1- and 3-year periods. The fund's choppy performance can be attributed mainly to its conscious mid and small-cap bias in a category where many other funds are large-cap oriented. The aggression in market cap selection is clearly responsible for the fund's blockbuster returns in some years (like 2010 and 2012) and its tendency to lag in others (2009 and 2013). All said though, the fund's record is impressive in light of its market-cap mix. One factor which has contributed to a stable strategy and a good five year record is a stable fund management team, for the past nine years since inception. Returns however tend to be quite volatile and hinged on the ups and downs of the mid and small-cap universe. Reliance Tax Saver is the fund for aggressive investors in the ELSS category.

Important Information

NAV (Rs.)	49.53
Inception Date	August 23, 2005
Fund size(in Rs cr)#	3,796.00
Fund Manager	Ashwani Kumar
Entry load	N.A.
Exit Load	0
Benchmark	S&P BSE 100
Min Investment	Rs. 500
Min Sip Investment	Rs. 1000

as on Dec 2014

Key Ratios

Beta	1.25
Standard deviation (%)	22.75
Sharpe Ratio	1.32
Alpha	12.66
R Squared	0.78
Expense ratio (%)	2.33
Portfolio Turnover ratio (%)	105.00
Avg Market cap (Rs in cr)	13,097

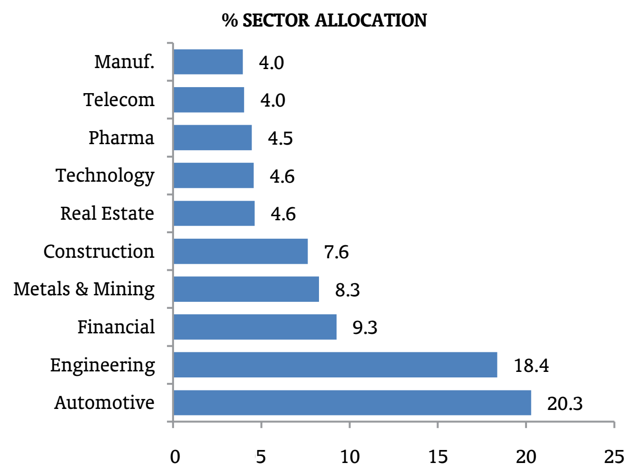
as on Dec 2014

Top Ten Holdings

Stocks	% of Net assets
TVS Motor	10.82
SBI	5.91
Tata Steel	4.73
Wipro	4.08
BHEL	3.95
Honeywell Autom	3.61
ACC	3.32
Federal-Mogul	3.17
Siemens	3.12
Alstom T&D	3.01

Asset Allocation

Equity	Debt	Cash & Equiv.
98.7	0.00	1.3



Month of Recom.	Recommended in the Past	Returns till date (%)
Feb-14	Franklin India Smaller Companies Fund (G)	103%
Mar-14	HDFC Mid-Cap Opportunities Fund (G)	79%
Apr-14	Mirae Asset Emerging Bluechip Fund (G)	72%
May-14	Birla Sun Life Long Term Advantage Fund (G)	50%
Jun-14	Birla Sun Life Infrastructure Fund (G)	27%
Jul-14	HDFC Index Fund - Nifty Plan (G)	19%
Aug-14	SBI Magnum Midcap Fund (G)	29%
Sep-14	ICICI Prudential Value Discovery Fund (G)	19%
Oct-14	Franklin India Prima Plus Fund (G)	22%
Nov-14	DSP BlackRock Opportunities Fund - Regular Plan (G)	14%
Dec-14	Franklin India Opportunities Fund (G)	9%
Jan-15	Canara Robeco Emerging Equities Fund (G)	8%

Performance Of The Fund

	1 month	3 months	6 months	1 year	3 Years	5 Years	Since Inception
Fund (%)	8.0	14.6	31.6	109.9	36.5	23.1	18.7
S&P BSE 100 (%)	8.7	11.5	14.5	47.2	19.9	12.4	-

Technical view

Key takeaways from January 2014:

- CPI inflation eased to 5.2% in December 2014 from 5.5% in November 2014.
- WPI inflation for the month of December increased slightly to 0.11% compared to 0% in the previous month.
- IIP for the month of November increased to 5-month high of 3.8%, recovering from -4.25% recorded in October 2014.
- India's trade deficit for the month of December at 10-months low of USD 9 billion from USD 16.8 billion in November 2014 due to lower crude oil prices and slowdown in gold imports.
- RBI cuts its repo rate by 25 basis points to 7.75% in a surprise note making it the first reduction since May 2013.
- Greece's left wing party won the parliamentary election who had vowed to end the austerity program
- HSBC India Purchasing Managers' Index (PMI) climbed to a two-year high of 54.5 in December, up from 53.3 in the prior month.
- IMF projected India to be the world's fastest growing economy by 2016-17 with a growth rate of 6.5%, topping China's 6.3%
- ECB planned to buy Euro 50billion of government bonds a month for between one and two years to counter deflation in the eurozone.

Classical theory of Technical Analysis

Indian equity market witnessed another exceptional rally to toast another record high for the market. Nifty ended the previous month with a gain of 9.52%. The previous swing high of 8626 was breached and recorded fresh high of 8997. Hence, Nifty added gains for 12 consecutive months in a row excluding the previous month. Higher high remains unabated in both weekly and daily time frame, volume in the market too increased as both retail and institution investors snapped from the holiday mood and came with increasing fervor in the market. Advance decline ratio in the market remained evenly skewed during the initial part of the month however the bulls latter changed stance and took the upperhand. The index however might witness a volatile price action or might consolidate at higher level with the advent of the budgetary session in the forthcoming month.

The month started on a pessimistic note following previous months decline but the recovery in the adjacent month lead the Index to form bullish 'Piercing Line' candle formation in monthly chart. Similar price action was noticed twice since 2009 and on both the occasion Nifty witnessed a rally of 18% and 37%. Hence it can be concluded that the long term picture seems unaltered and history might be in the making for Indian equity market.

Since September 2013 onward Nifty had been advancing amidst the rising channel formation and till date 4th leg of the pattern is under completion. The present thrust in the market is likely to haul the Index higher and aiming to end the fifth and final leg around 9100. Amidst global fragility and domestic event risk in the form of budget Nifty seems likely to remain positive and head higher on technical parlance.

Longer term picture continues to remain positive as the breakout from bullish symmetrical triangle formation for the past six year indicates upside to the extent of 9100 by mid 2015 (according to Gann theory). Hence prices though seems stretched but existing position need to be kept on hold as domestic Indices are in a major bull run and overbought nature happens to be the inherent characteristics.

Hence to sum up a secular bull market is in place for Nifty and present price structure denotes the same. Immediate target in Nifty is seen around 8960, breach of which would aim higher towards the channel target of 9100 in medium to long term perspective. Forthcoming month is likely to remain vulnerable to global cues and domestic event risk of Fiscal budget is likely to put an upside cap for the Index.

Modern approach in Technical Analysis

On the oscillator front Nifty in daily time frame is presently trading at overbought region due to the spike rally noticed the previous month while in weekly time frame the Index is still trading in neutral price region indicating room for further upside. Hence divergent view point in both the time frame is likely to keep Indian equity market choppy and rangebound. However some amount of cautious approach needs to be maintained at such high level due to the presence of negative divergence in weekly time frame. ADX in daily time frame is fast approaching from its oversold region towards strong trend deciding level of 25 while in weekly time frame (+DM) has crossed the ADX indicating that positive bias is likely to remain in long term perspective.

According to Bollinger band study the rally in the market was too such an extent that Nifty breached and traded outside the Bollinger band on daily chart, such has been the characteristics of the study which portrays that an abrupt spurt in prices can be seen once the upper band is breached. Following the said principle Nifty faced resistance from the upper band around 8450 but decisively breached past and changed the momentum in the market from sideways to positive. In the weekly time frame, the upper band is seen around 9050.

A bullish 'Crocodile formation' was noticed the previous month and the said formation as stated earlier has a bullish implication where all the short to long term moving averages synchronizes together. Historically such pattern build up leads to spurt in price action which did materialized in the month of December as RBI came with its surprise rate cut. Long term moving average of 200dma historically maintains a distance of 5-7% (considering 5 year time frame), presently it seems Nifty might have stretched from its normal with a distance of 12%. Hence it can be concluded that a cautious approach need to be maintained at such high level as a potential 5% correction might be on cards i.e. maximum downside risk till 8350.

Indian VIX

Volatility Index is used to measure the market risk or rather used to gauge investor's sentiment or fear in the market. An inverse relation exist between the Index with that of the VIX i.e. when prices fall VIX index rise and in contrast when prices rises VIX fall. Indian VIX had been trading at its historical low level of 14-15 since September onward; with gradual rise in the benchmark Index the Volatility Index or VIX remained subdued. The month started on a passive note with declining oil prices which had an adverse effect on the world economy also Greece came into limelight with its renewed debt crisis. Hence the VIX Index witnessed a sudden spark in action at the initial start of the month and remained high till the end of the month. On technical parlance Indian VIX might be bottoming out and is expected to rise henceforth due to the presence of positive divergence in weekly chart. The following month is likely to remain volatile with the dawn of event risk in the form of Fiscal Budget.

Gann Theory of Time cycle- Jan Top Cycle

Since 2000 onward Nifty witnessed a major top in the first quarter of every month. Out of the total 15 observation Nifty formed a top during January is 7 occasion while in 5 instances the top was seen in February while in only 1 occasion the top was seen during March. The said study sufficed for 13 years excepting the year 2006 and 2014. Based on the above said observation it can be judged that fresh long position needs to be avoided until and unless the January top is breached.

Retracement principle:

A clear directional trend was noticed in the month of January however at the initial part of it a bout of volatility was noticed due to resurface of Greece debt crisis. Hence two different trading cycles being identified one being short term and another being long term to identify the future ceiling in the market which is as follows:

1. Intermediate correction of December 2014.
2. The historical correction from January 2008 till October 2008

Projected retracement of 150% is seen around 8960 of the intermediate term correction of December. While the historical correction of 2008 projects crucial resistance at 8895 from 161.8% retracement. Hence Nifty presently is near resistance zone 8900-8960 and it seems market might remain truncated in the forthcoming month and fresh trigger in the form of reformist budget is likely to lay the thrust for Nifty to head higher. Till then a rangebound trading action is most likely with downside however being limited.

Future Projection – February 2015

Nifty since February 2014 onward had been unfolding into 7-legged diametric formation. Since December 2014 onward it seems a Extracting triangle might be in the making with sub wave developing into truncated ZigZag and hence if the December low of 7961 if considered as the 'x' of the double zigzag formation then the recent rally in index might be termed as the beginning of the larger motive wave 'a' with a minimum price target of 150% of the previous leg i.e. around 8960. Inability to breach past the said resistance level might result into form a corrective wave structure 'b' till 8440 (50% retracement). An alternative set of assumption which can be identified in the short term is the newer impulse wave since August 2013 onward. According to the assumption the rally from 5118 till 6343 can be earmarked as wave 1 followed by a correction till the level of 5933 which has been assumed as corrective wave 2 formation. From there onward Nifty had been unfolding into wave 3 with 261.8% retracement level of wave 1 at 8977. Hence in both the instance it seems Nifty is near a very crucial resistance zone of 8960-8980. Hence buying on strength should be the ideal approach in the forthcoming month.

Inter-market analysis

U.S Market: After a sharp recovery in the previous month US market witnessed a rangebound action and resulted in to form 'Symmetrical Triangle' formation in daily chart as ECB unveils to launch a full-scale bond-buying program. The said pattern

has a bullish implication for the market and projects an upside potential for the US market. Immediate resistance for the DJIA is seen from downward sloping trendline around 17900, decisive close above it would build further momentum in the market to reach higher targets of 18500 in near term. US economic growth is accelerating while the global economy going the other way. A slowing world economy has the potential to drag the US economic hence the shrill surrounding Fed Policy reversal remains louder even though as ECB unveils an expanded stimulus plan.

Dollar Index: US Dollar index has been chugging higher for 7 straight month and every time it seems set for a correction it recharges with added zeal and heads higher. However such was not the case a few years back as on technical parlance the currency was in a severe downtrend 1985 onward and presently prices are at a striking distance from its downward sloping trendline (i.e. long term trendline since 1985). A breakout level is seen around 96 which would rattle the bears and change the complexion of several asset classes. Thus ECB came into limelight with its highly anticipated bond buying program and expanded its stimulus plan of buying 60 billion Euros a month which would start in March and are intended to run through to September 2016. The Dollar Index is likely to maintain its upward trajectory in the following month as well however with the anticipated bond buying by ECB out of the way, the aspect of profit booking in the market cannot be ignored. On technical parlance presently the currency is trading in overbought price region and consolidation in price action can be seen before resuming it uptrend. Rising dollar Index has a negative repercussion for the Indian equity market as foreign fund inflow might dry down since cheap money is likely to chase in the world's largest economy as well as its currency, the high yielding asset classes.

Nymex Crude: Oil price continued to trade lower and fact remaining the same that oversupply persist with a big jump in US inventories and disappointment from China's GDP figure struck at 7.4% in 2014, the slowest pace in 24 years. Further Saudi Arabia does not want to give up its market share and refused to cut production so oil continued to maintain its free fall. On the technical front some are of the opinion that the recent price fall is somewhat comparable to that of the historical fall of 2008. On the oscillator front though Crude oil might have entered into oversold price region but the longer term trend seems down and further downside to the level of 42 seems unavoidable. India being one of the biggest importers of crude oil in the world is hugely benefitted from the fall in crude oil prices and emerges from its economic slowdown, heavy government subsidy and large import bill means that the decline in oil prices reduces both trade and fiscal deficits for the country. Hence further decline in oil prices or prices sustaining at such low level would prove beneficial for the Indian Equity market.

10 Year Bond Yield India: India's 10-year bond prices rose, pushing the yield towards the 18-month low on optimism that the recent ECB's stimulus will boost demand for the emerging asset classes. Further RBI cut interest rate by 25 basis points on a surprise note boosted the bond yield to slide further. As per NSDL FII's has exhausted their investment limit of $25 billion in debt and there are no further scope to buy government bond and hence FII's purchase have been mostly in the corporate bond sector. FII's had been aggressive towards debt market on easing inflation and expectation of more rate cuts by the RBI. On the technical front 10 year bond yield continues to remain in larger downtrend with its lower low formation and bearish downward sloping channel line. A further decline in bond yield might lead to fund outflow by foreign investors from domestic market and seek superior return from other emerging countries hence a negative recursion lies towards the Indian equity market.

10 Year Bond Yield US: Massive stimulus program by the European Central Bank to support the economic growth had a rippling effect on the global government bond yields. ECB's plan to buy Euro60 billion in assets including government bonds and debt securities lead to tumbling of the US 10 year bond yield. The yield on the 10-year US Treasury note fall to as low as 1.71% as an uncertain global growth outlook and deflation risk in Europe had boosted demand for safe haven assets. On the technical front the yield is in a severe downtrend and immediate resistance is place at 2.41%, only close above it would negate the near term weakness in the yield. However on the oscillator front though yield has registered new low but RSI has not indicating presence of negative divergence hence it seems that the yield might hold the present downtrend. Consequently declining US bond yield has a positive implication for the Indian equity market as foreign funds tends to chase high yield assets of emerging countries like India which in turn would strengthen the domestic currency and further narrow down the trade deficit.

Indian Rupee: Indian rupee has been maintaining its longest winning streak since May 2014 and remained insulated from the global dollar strengthening even after Quantitative Easing from European Central Bank. Indian rupee is mainly driven by foreign inflows into both debt and equity markets. On the technical front the crucial 100dma lies around 62 and as long as prices trades below it the currency is likely to remain strong and lower level of 61 can be seen which further coincides with the 50% retracement of the entire rise since May 2014 onward. A reversal is only feasible once the currency trades above 62. However uncertainty over Greece election and outcome from Fed Meeting is likely to dictate the trend in the market. Presence of negative correlation in Indian rupee with that of equity market is likely to help the Index to reach newer heights.

Summing it up

Positives:

1. Bullish Piercing Line candle in monthly chart.
2. Upwards rising channel line seems to be in existence
3. Bullish Symmetrical triangle formation indicates upside target of 9000-9050
4. Bullish Symmetrical triangle seen in DJIA.
5. Broader trend in Crude oil continues to remain negative and further downside might be seen.

6. Lower US bond yield has a positive implication for the Indian equity market
7. Indian rupee is likely to remain strong with strong foreign inflows.

Negatives:

1. Oscillator trading in overbought region with negative divergence.
2. The index seems stretched as Nifty has been clinging near the upper band of the Bollinger in both daily and weekly chart.
3. Nifty has distance away from it crucial average of 200 dma and seems a bit stretched.
4. Indian VIX has been inching upward for the past two consecutive months.
5. Out of the last 15 observations Nifty had formed a top in the month of January
6. According to retracement principle crucial resistance zone exist around 8900-8960
7. According to Elliot wave theory Nifty if unable to breach the resistance level of 8960 would tempt correction till 8440.
8. Rising Dollar Index has a negative repercussion towards Indian equity market
9. Lower yield in Indian bond might result in fund outflow.

To sum up Indian equity market remained lackluster at the initial start of the month with lack of any major event both from the global and domestic front due to the holiday season. However the situation remaining the same that the declining oil prices have a repercussion effect on the global economy, further added to the woes with Greece coming up was its renewed debt crisis. Oil prices remained under pressure led mainly by higher supply and no price measures from OPEC, hence a domino effect of the falling crude oil prices is seen across the globe leading to some sort of currency crisis especially Russia where the economy is dependent majorly on crude oil prices as now these economies are struggling to pay off foreign debts and fund their public budgets. Euro tumbling to 9-year low and worries over Greece might exit the euro zone were the major reason for the world index witnessing substantial correction. However speculation were high on Fed might delay the rate hike till middle of the year as low inflation seems to indicate so and low consumer prices in the euro zone restore expectation that ECB might launch its quantitative easing helped the World Index to limit downside. At the latter half global market cheered as ECB meet the streets expectation and unleashed its debt buying program by Euro 50 billion a month for over a year and a half to counter deflation in the euro zone. The scale of QE program was much higher than expected which led to euphoria in the market and hence the overall sentiment in the global market has changed to positive on the back of fresh liquidity to be injected by ECB which in turn would support our domestic markets as well. Back home being an oil importing country fall in crude oil prices acted as a boon for Indian economy as it drastically reduces its Import bill and helps to contain the fiscal deficit on one hand while on the other it helps to bring down the inflation. The month was full of surprises leading the Indian equity market with healthy gains, IIP for the month of November increased to 5-month high of 3.8%, WPI increased slightly to 0.11% while CPI eased to 5.2% and thus the bigger surprise came from the RBI with a cut in repo rate by 25 bps. The street had been expecting the move to come through in February policy meeting at the earliest hence the market cheered and Indices set to race towards new high every day. It seems that rate cut cycle has begun and it seems that another rate cut is most likely after the government unveils its budget by the end of February. Result season had been in full swing and stock specific action was evident as Q3 FY15 came with mixed set of surprises. The month witnessed the landmark visit by US President Barak Obama agreeing on many important deals and committed that the two nations to be partners in the economic progress. The major take away being the Indo Nuclear deal logjam being broken further US President announced $4billion of new initiatives aimed at boosting trade and investment ties. The Union budget is round the corner and hopes of reform in the upcoming budget will keep the spirits high however India's budget deficit has reached 99% of the full year target in just eight months, raising doubts about failure to meet the goal for a shortfall of 4.1% of GDP which in turn might disappoint the global investors. Hence the government might try hard towards the disinvestment of public sector companies to bridge the gap. Going ahead in the forthcoming month much of the trend in the market would be dictated by the fund inflow from foreign players, rupee movement and crude oil prices. On the technical front Nifty negated the bearish engulfing candle the previous month and started the month of January with a strong Bullish Piercing line candle. Nifty had been maintaining its upward trajectory with its consequently higher high formation in weekly chart and ended the month with a gain of 9.52%. According to Classical theory Nifty had been rising along the rising channel formation since September 2013 onward, the said pattern indicates that further upside in the Index still remains and might head higher towards the psychological 9000 level mark. However some amount of cautious approach need to be maintained as the Index presently is in overbought price region on the oscillator front with presence of negative divergence in weekly chart. Moving averages too has distance away from its prices and seems a bit stretched indicating a potential 5% correction might be on cards. On the retracement principle too crucial resistance zone is seen around 8900-8960 hence it seems that in the forthcoming month Nifty is likely to remain truncated and fresh trigger in the form of reformist budget might be the only trigger for the Index to maintain its existing uptrend. Historically too Nifty has a tendency to top out during the first quarter since 2000 onward. However other correlated markets like the global indices, Indian Rupee and Crude oil prices seems to be supportive towards the existing uptrend. According to Elliot wave theory the larger impulse wave seems to be still in existence and any correction might be short-lived unless the wave count changes at the breach of previous swing low of 8000. Going ahead in the forthcoming month with the advent of event risk in the form of Union budget at the far end of the month markets are likely to remain volatile and might remain truncated however downside might be limited and correction in the market need to be utilized to enter long.

Market Diary

BEST PERFORMERS FOR THE MONTH (CNX 100)

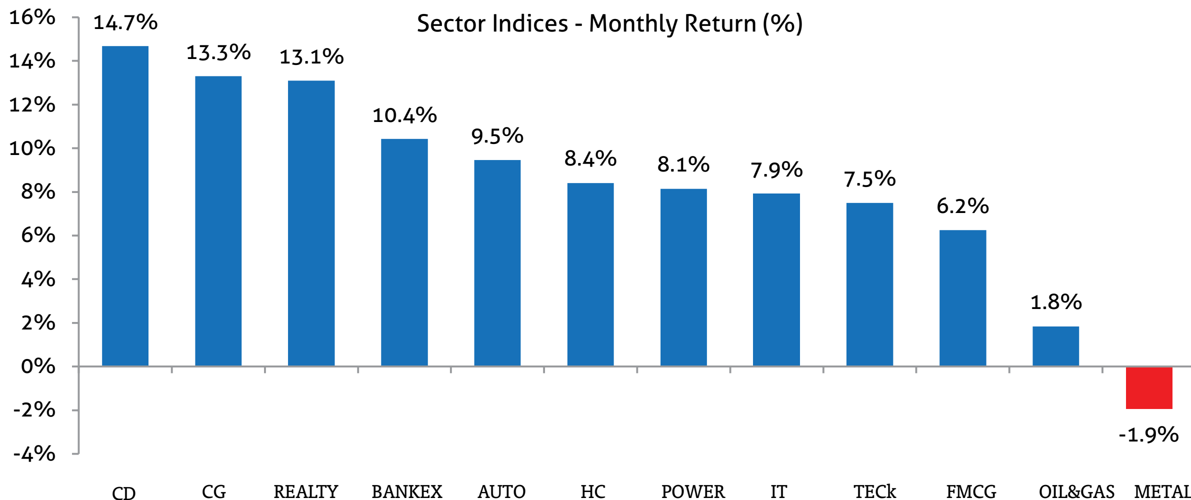
Sl No.	Co. Name	Cl. Price 24.12.2014	Cl. Price 27.01.2015	Cl. Price Var (%)
1	UBL	808.15	1038.3	28.5%
2	MCDOWELL-N	2722.15	3494.25	28.4%
3	ADANIENT	441.6	561.3	27.1%
4	BOSCHLTD	18421.75	23054.95	25.2%
5	TATAMOTORS	483.95	604.55	24.9%
6	HINDUNILVR	757	941.95	24.4%
7	SIEMENS	862.9	1064.25	23.3%
8	ASIANPAINT	728.45	890.5	22.2%
9	ADANIPORTS	283.05	345.15	21.9%
10	DLF	131.65	157.9	19.9%
11	AXISBANK	494.3	592.1	19.8%
12	HDFC	1099.85	1315.85	19.6%
13	LICHSGFIN	417	497	19.2%
14	ULTRACEMCO	2620.55	3121.45	19.1%
15	APOLLOHOSP	1138.4	1349.15	18.5%
16	YESBANK	745.05	882.85	18.5%
17	LT	1477.85	1742	17.9%
18	RANBAXY	606	707.95	16.8%
19	EXIDEIND	170.25	198.75	16.7%
20	INGVYSYABK	849.05	974.2	14.7%

WORST PERFORMERS FOR THE MONTH (CNX 100)

Sl No.	Co. Name	Cl. Price 24.12.2014	Cl. Price 27.01.2015	Cl. Price Var (%)
1	M&MFIN	307	250.4	-18.4%
2	PETRONET	207.05	190.4	-8.0%
3	HEROMOTOCO	3100.5	2857.75	-7.8%
4	PNB	220	204.65	-7.0%
5	GLENMARK	777.15	734.9	-5.4%
6	HINDALCO	150.6	142.5	-5.4%
7	OIL	570.65	543.65	-4.7%
8	RELCAPITAL	497.5	475.45	-4.4%
9	SAIL	82	78.75	-4.0%
10	GAIL	434.5	419.15	-3.5%
11	PFC	291.9	282.75	-3.1%
12	ITC	371.4	360.15	-3.0%
13	NMDC	144.9	141.15	-2.6%
14	BAJAJ-AUTO	2477.7	2419.85	-2.3%
15	GSKCONS	5818.7	5701.4	-2.0%
16	MPHASIS	366.75	359.7	-1.9%
17	JSWSTEEL	1035.85	1016.5	-1.9%
18	FEDERALBNK	147.7	145.2	-1.7%
19	OFSS	3334.4	3291.95	-1.3%
20	CAIRN	241.1	239.1	-0.8%

(Source: BSE)

Indices Performance 24.12.2014 – 27.01.2015



Source: BSE

Commodities - Monthly Round up

"Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time"

Thomas A Edison

SOYBEAN

Internationally this market is already in depressed condition and in a strong downtrend since June 2014. Last October only it hit $9 per bushel, which was one of its lowest score in the CBOT. The Last USDA report cited that China cancelled total export order of 120000 metric tonnes. This big cancellation will work as resistance if there is any short term price rally. Holding all else constant, a lower rate of corn and soybean exports relative to projections would increase carryover stocks and could provide downward pressure on prices until information from the USDA Prospective Plantings report is released on March 31. The January 12 USDA's World Agricultural Supply and Demand Estimates (WASDE) forecasted 2014-15 soybean exports at 1,770 million bushels, up 10 million bushels from the December WASDE projection and 7.5 percent above the 2013-14 total. From the South American side the bean market is still in robust shape and there is no weather related threat. So, good production with record carryover stocks will make the bean market depressed at least next WASDE report which is going to release on 31st March 2015.

Technical Analysis:

In NCDEX soybean is largely in sideways condition from November 2014 onwards where high of the congestion area is at 3476 and now the high is acting a strong resistance for the market. Key support for the market is at 3238 which is lies upon 200 Days Simple Moving Average. The weekly trend is largely bearish and there is high statistical probability that market may come down after this sideways phase over. For aggressive traders our recommendation is to go short in the market and put stop just above the recent high as mentioned at 3478. The position will have more statistical significance if we can have one or two daily closing below 3238. Our first target for the short position is at 3040 and finally towards 2700. Considering the risk/return ratio, it's bearing 1:2 if we consider our first target as profit booking area. Weekly Stochastic now got a bearish crossover above 80 areas which is also indicating that bearishness will emerge soon after this sideways move. No long positions in this commodity should be entertained at this particular juncture.

CBOT chart of soybean contract is also depicting similar bearish picture, for last two weeks market was giving daily close below the range area. So rapid decline is just round the corner and hence our negative outlook on soybean NCDEX got its support from its CBOT counterpart also.

Daily Chart: Soybean NCDEX Continuous

NICKEL

At the last day of trading month US GDP really disappoint the equity market bulls and as a result on that day DOW slipped more than 200 points but apart from this day to day volatility weaker GDP from US at least provide some respite to the rumour that FED is going to hike the rate within mid of 2015. And we all know that a dash on that rate hike expectation will always have some positive effect on metal markets as lower rate fuels bet in risky asset classes. So we are not at least disappointed by the lower than forecasted GDP number. At the time of this report writing, Chinese Manufacturing data yet to come and if that comes a tad higher than expectation then we are going to see rally in base metal sector sooner rather than later.

The monthly closing coupled with daily closing above last few days ranging area at LME now making us more optimistic on nickel. If we take some negative consideration like, Chinese manufacturing data will be a nightmare then invariably February month opening will be negative but a hope will emerge (which we all witnessed in the past) that China central bank may give little extra push to economy by easing method and that's again a positive factor for the market. Another factor that will keep supporting nickel specially is trouble in Russia where problem with Ukraine and Europe is going on. If that intensifies then nickel bulls can have some good boost.

Technical Analysis:

LME weekly chart is showing Bullish Engulfing candle pattern and when it forms in the bottom area of the chart, it signifies some trend reversal in that market. Any correction from the current place should stall around 50% level of the last big bullish candle which is at 14700. We are advising long in nickel for the objective of 15950 in LME. On that particular 15950 area we have 20 Weekly SMA which has reputation to work as reliable resistance/support area in Nickel weekly time frame. If in weekly basis we can have one close above that 20 weekly SMA then in near term we may witness a target of 17900 in nickel LME. Now again 17900 is quite significant area as it is guarded by 200 weekly SMA and we all know that universally 200 Weekly SMA numbers got special respect from chartist fraternity.

In MCX, the story is same as we are ardent follower of LME nickel. For the change of contract the February month will start from 940 which is 20 rupees above against the January quote. Here our advice to high risk takers to go long at open and there is plenty of chances that some through back is possible in price so try to place the stop around 890 in MCX. The objective should be around 987 at first and if we get a daily close above 987 then again go for long at 990 and trail the stop towards 960 and that time the target should be around 1060. And for traders with lower risk attachment, may choose to wait for a probable retracement towards 925 where they can go along with same stop around 890 and all other targets will be same as mentioned above.

Weekly Chart: Nickel LME

USD/ JPY

Shinzo Abe is now famous for initiating currency war in the present world where the fundamental growth story is just fading away because of threat of deflation. And his effort to weaken YEN is now yielding results for the Jap's economy.

Exports grew 13% in December from a year earlier in yen terms, while imports rose only 1.9%, a result of lower global-oil costs and weak domestic demand. The trade deficit fell to ¥660.7 billion ($5.6 billion), the 30th straight month of shortfalls, but half the figure from the previous year and better than a deficit of ¥735.1 billion forecast by The Wall Street Journal and the Nikkei. Stronger exports also mean the economy is likely to return to growth in the final three months of 2014, after two quarters of contraction following the decision to raise the nation's sales tax on April 1, which has crimped local spending.

Technical Analysis:

For last couple of weeks market is just pack away within a range which indicates market needs more information before a breakaway move from the current area. Daily MACD is now under zero mark which indicates some bearishness in the market. Daily chart is also showing Triangle like formation which can be seen in the charts before any break away move. So patiently we should wait for the moment to hit. The base of that triangle is at 115.60 and if it breaks then a large move towards 112 can be seen. And for upside if we can close above 119.60 then off course a significant high towards 123 can be seen. So it's better to wait for the either opportunity to knock and as per our anticipation the US January Non Farm Employment data can be that catalyst.

Daily Chart: US $/Yen

World Economic Event Calender – February 2015

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
US: ISM Manufacturing JN: Markit/JMMA Japan Manufacturing PMI CH: HSBC China Manufacturing PMI IN: HSBC India Manufacturing PMI EC: Markit Eurozone Manufacturing PMI	IN: RBI Repurchase Rate US: Factory Orders JN: Monetary Base YoY UK: Markit/CIPS UK Construction PMI EC: PPI MoM	US: MBA Mortgage Applications US: ADP Employment Change EC: Markit Eurozone Composite PMI US: ISM Non-Manf. Composite JN: Markit/JMMA Japan Composite PMI	UK: Bank of England Bank Rate US: Initial Jobless Claims US: Trade Balance UK: Halifax House Prices MoM US: Continuing Claims	US: Change in Nonfarm Payrolls US: Unemployment Rate US: Change in Manufact. Payrolls JN: Leading Index CI UK: Trade Balance
9	10	11	12	13
CH: Trade Balance JN: BoP Current Account Balance IN: GDP YoY JN: Eco Watchers Survey Current	CH: CPI YoY UK: Industrial Production MoM JN: Tertiary Industry Index MoM UK: Manufacturing Production MoM US: Wholesale Inventories MoM	US: MBA Mortgage Applications	US: Initial Jobless Claims JN: Machine Orders MoM IN: Industrial Production YoY US: Retail Sales Advance MoM US: Monthly Budget Statement	US: U. of Mich. Sentiment EC: GDP SA QoQ US: Import Price Index MoM JN: Foreign Buying Japan Stocks EC: Trade Balance NSA
16	17	18	19	20
JN: Industrial Production MoM JN: GDP SA QoQ IN: Wholesale Prices YoY UK: Rightmove House Prices MoM	UK: CPI YoY UK: PPI Output NSA MoM US: Empire Manufacturing UK: RPI MoM	UK: Jobless Claims Change US: MBA Mortgage Applications UK: ILO Unemployment Rate 3Mths US: Housing Starts US: Industrial Production MoM	US: Initial Jobless Claims JN: All Industry Activity Index MoM EC: Consumer Confidence US: Leading Index US: Philadelphia Fed Business Outlook	JN: Markit/JMMA Japan Manufacturing PMI EC: Markit Eurozone Manufacturing PMI US: Markit US Manufacturing PMI UK: Retail Sales Ex Auto MoM
23	24	25	26	27
US: Existing Home Sales US: Dallas Fed Manf. Activity US: Chicago Fed Nat Activity Index JN: Small Business Confidence	EC: CPI YoY US: Consumer Confidence Index US: Richmond Fed Manufact. Index US: Markit US Composite PMI	US: MBA Mortgage Applications US: New Home Sales CH: HSBC China Manufacturing PMI UK: BBA Loans for House Purchase	US: Initial Jobless Claims US: CPI MoM US: Durable Goods Orders EC: Consumer Confidence US: FHFA House Price Index MoM	JN: Industrial Production MoM JN: Jobless Rate UK: GDP QoQ US: GDP Annualized QoQ US: U. of Mich. Sentiment

IN: India, US: United States, EC: European Union, UK: United Kingdom, CH: China, JN: Japan

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