INSIGHT

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July, 2014

INDIA'S BALANCING ACT

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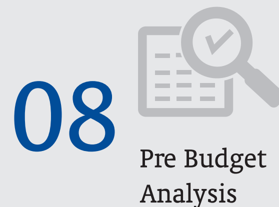
08  Pre Budget Analysis

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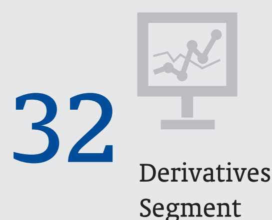
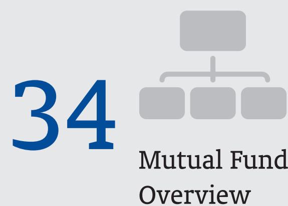
32  Derivatives Segment

34  Mutual Fund Overview

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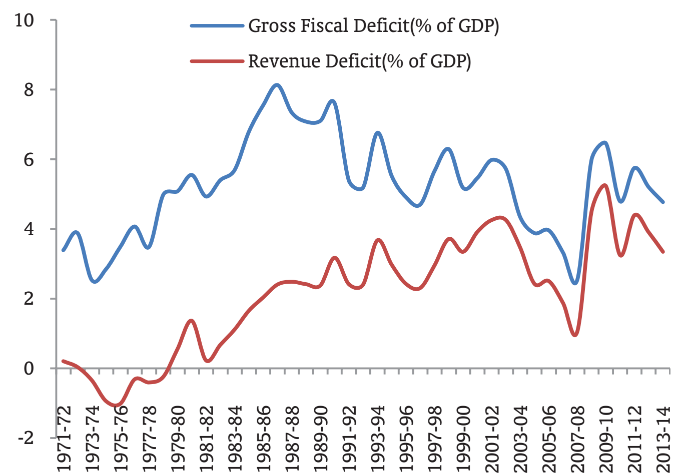
Market Overview

It's been a month since the new government has taken over the reins. However, till date there is no dearth of enthusiasm in the economic sentiments. Mr. Modi and his team have kept the whole market and investors on toes on what the future has in the offing in the new budget. Only one thing's pretty sure of that the budget will presumably be a balanced one and there will be no free passes as India tries to put a balancing act in pushing the income higher while keeping a tab on expenditure. The much awaited budget session is scheduled to commence from July 7 and conclude on August 14 with the Rail Budget to be presented on July 8, the Economic Survey to be tabled on July 9 and Mr. Modi's maiden general budget will be tabled on July 10. Mr. Modi has gained enormous recognition even among the esteemed class of foreign investors who have taken bet on the presumption and there's enormous optimism that he will turn things around single handedly and have turned a blind eye at the hurdles that pave the way. So far, the expectations are alive and more so with the hike of rail fares (which incidentally is one of the most politically motivated issue), he has made his intentions clear that he is indeed going for "bitter medicine" to put the economy back on track even if it comes at the cost of his popularity and hurt BJP in the short run. Thus, the intent is right and the moves are with the right intent but the colossal expectations also need to be spot on with an immaculate budget.

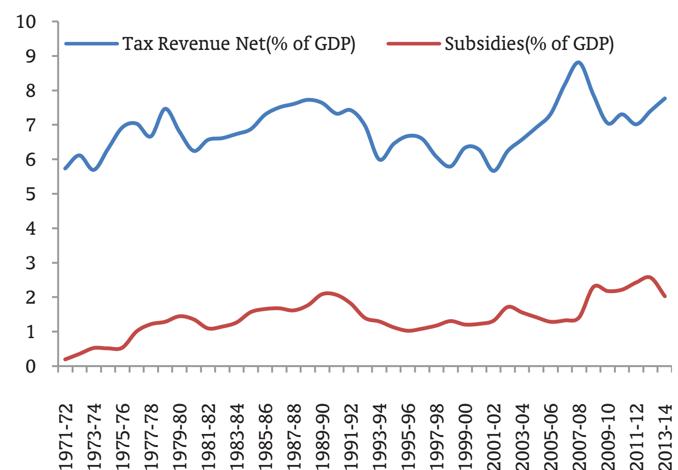
Coming to the budget, there are expectations from every sphere of people and sector with all rounds of suggestions, some practical while others are awe inspiring. If we keep aside the expectations and talk about the reality, history suggests that the budget presented by the new government has a vast divergence from the interim one presented by the predecessor government. However, one cannot disapprove of the fact that comparison will be drawn with the budget to be presented by Mr. Jaitley and the previous one presented by his predecessor, Mr. Chidambaram. For instance, the projection of fiscal deficit of 4.1% was assumed based on robust revenue growth, led by 19% growth in gross tax revenues. For an economy expected to clock a nominal growth of 13%, the revenue projections seems to a tall task. Tax collection under various heads (corporation tax, income tax, customs duties, excise duties) primarily account for 2/3 of the government's total revenues. The election manifesto by BJP highlighted the so called "tax terrorism" unleashed by the previous regime. Thus, it needs to be an equally balanced playing on the economics of components of economic growth and not to set targets for tax collection team.

On the expectations front, there are indeed a lot and the reform process is believed to continue as there was policy paralysis for the major part of UPA regime. On an average, there are big bang expectations of India being turned into a manufacturing hub and thus serving both purposes of aiding the economic growth as well as creating jobs. It is believed that there will be reforms and sops for manufacturing sector to provide the much needed fillip. In fact, the manufacturing sector contributes near 15% of GDP in comparison to 32% of China. Thus, there's no way out for India to clock double digit economic growth or create jobs for 12 million people entering the job market every year with such a narrow manufacturing base. So, somewhere one needs to draw a line and we believe in order to balance the budget, it will be prudent to cut on the biggest guzzler of non-planned expenditure-subsidies. Hikes in rail fares by 14.2% & freight by 6%, gradual hike in LPG prices and limiting the no. of cylinders, de-regulation of the petrol prices are some of the ones to lower subsidies. Probably, corruption has persisted owing to misdirected subsidies. Thus, if there is a gradual decline in subsidies, corruption is also expected to decline gradually.

On a general perception, given the expectation of muted tax growth, it will be against BJP's own agenda to go in for aggressive tax collection rather there will be higher reliance on divestment proceeds and non-tax revenue to fund the deficit between revenue & expenditure. Even Mr. Parthasarathi Shome, previous FM's Tax Administrative Reforms Commission (TARC) advisor also suggested to move away from setting fixed tax-collection targets and linking these with the changing economic scenario during the year. Besides, TARC also submitted a report in May 2014 about an approach towards preventing tax disputes and reducing risks for taxpayers by improving the administration. It is believed that the recommendations will form the part of the forthcoming Budget announcements.



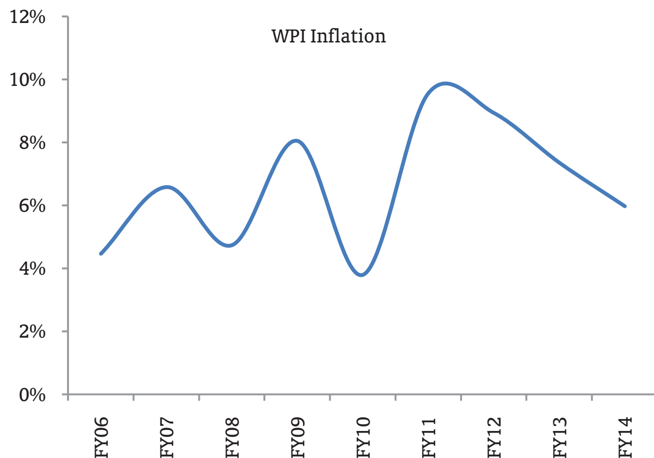
Source: RBI

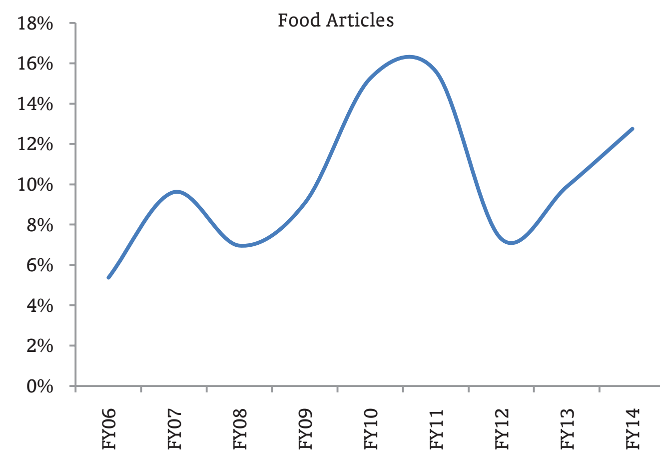


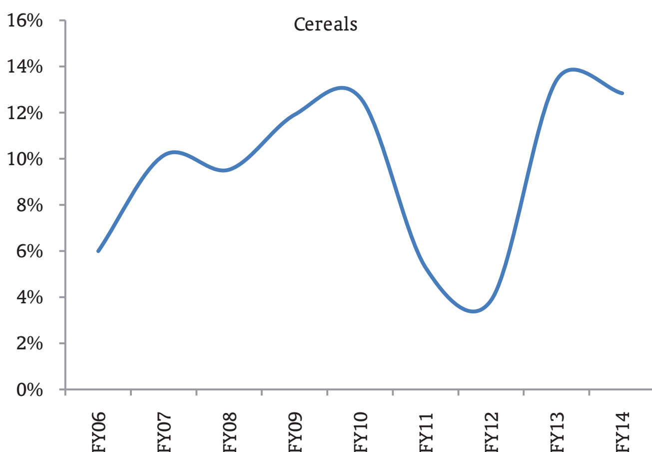
Source: RBI

The focus of BJP in reviving the economic sentiment has been spot on and to support the sugar industry with the export incentives apart from increasing the ethanol content to 10% from 5%. Besides, that sops to revive auto industry and housing industry will bring about demand in allied sectors. The government is also focused to take measures in combating the food inflation which still languishes near double digits and is the main cause of higher inflation levels in the country. Food

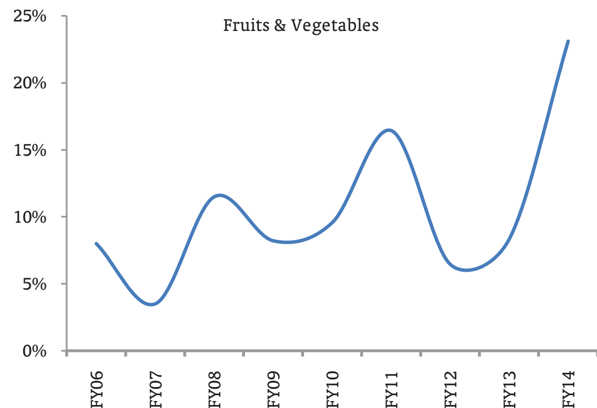
inflation on the other hand has been fueled by high cereal prices which averaged 13% over the last two years despite buffer stocks hoarded by government. It seems that the higher cereal inflation was created by the previous government itself by increasing MSPs by ~10% during the last 6 years and procuring from the open market thus creating pressure on prices. Thus, stocks need to be procured and released effectively in a way to ease cereal inflation and not to create it. Further, non-cereals inflation may be considered as a product of Agricultural Produce and Marketing Committee (APMC) Act, which has acted as a monophony at the farm gate, severely restricting agriculture trade, and thereby creating opportunities for hoarding and price manipulation. Removing fruits, vegetable from the ambit of APMC Act will go a long way in containing inflation.







Source: RBI



Source: RBI

The equity markets have been range bound, which is usually the case before the budget is tabled. Besides, the stock market has added Rs 3.2 lakh crore to investor wealth in the 30-odd days since Narendra Modi took over as Prime Minister, on hope of the new government initiating reforms to help the economy. There are expectations of hike in foreign direct investment (FDI) including defence, railways & e-commerce in the upcoming Union Budget, though it is unlikely to go ahead with insurance sector. According to officials, sectoral FDI caps may be hiked for railways and e-commerce to 100%. For defence too, the FDI limit is expected to be increased but it will not be under the automatic route. The government is however unlikely to fiddle with the FDI limit for insurance sector, leaving it unchanged at 26%. The government is also expected to amend the labour laws and introduces the crucial tax reforms and implementation of GST.

The first real risk for the new government is however of a deficient monsoon. In the face of higher food inflation, the MET indicated there is a 71% chance of a sub-normal or deficient monsoon. Simultaneously the likelihood of an El Niño, though a mild for now, is pegged at 70%. India had already suffered from an El Niño driven scanty rainfall during 2009. Agricultural production would suffer and drag down rural incomes and consumption. Simultaneously, food prices would be pressured – depending on the severity of the shock and the agility of the policy response. The government is believed to be on the toes and keeping a strict eye on the developments. Besides, the states have been advised to prepare for adequate contingency plans while the food corporation of India has adequate buffer stocks. Although, as always, implementation remains the key factor.

The recent geopolitical tension in Iraq also comes at an inopportune tune. The recent civil war in Iraq puts India in a fix and threatens to put brakes on the post-election rally in India. Iraq is incidentally the second largest OPEC member and produces 3.3-3.5 million barrels of oil per day (mbpd) and a disruption of even the smallest sort has the potential to spook the World crude prices. Crude oil prices rose to a nine-month high during the month after Jihadi militants seized the city of Mosul in northern Iraq, raising concern of a disruption in supply from the world's sixth-biggest oil exporter. However, fortunately, the oil export base is in the Southern parts of the country which continues to be under the control of Iraqi government. The situation can be compared to the situation in last year when fears of US intervention in Syria spooked the crude prices. However, Iraq was the second largest supplier for India in FY14. India have had her share of oil shocks in the past and have come out strongly. It has been estimated in the worst case scenario of crude touching $120 per barrel, India still have the current account deficit under check. However, with the US getting involved, a resolution is in the foresight and the recent turmoil is not expected to spoil the party for a rally led by plethora of reforms in the offing.

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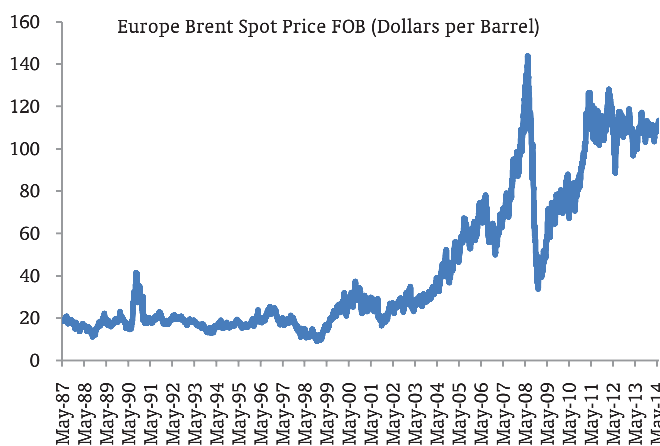
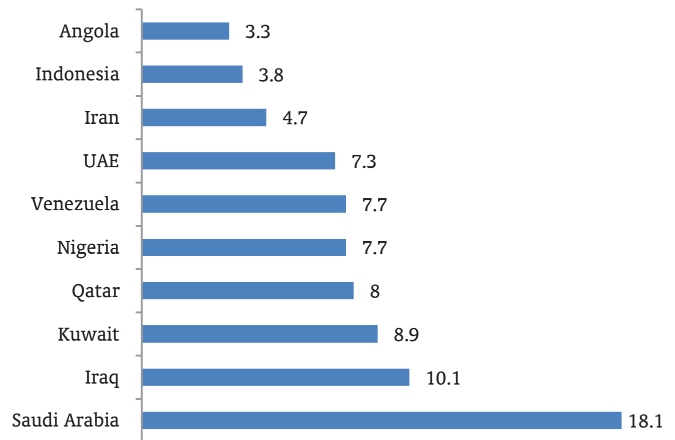
Economy Review

The conundrum of higher crude oil prices

India have had experiences of economic shocks in past, some positive (for e.g. technological breakthroughs) while others have had adverse impact on the economic growth (like oil shocks in 1970's, Asian crisis etc.). The Indian economic growth has been traditionally vulnerable to the monsoon blues & fiscal profligacy of the government but external shocks also contributed to the dismal economic growth in the past. The recent civil war in Iraq puts India in a fix and threatens to put brakes on the post-election rally in India. Iraq is incidentally the second largest OPEC member and produces 3.3-3.5 million barrels of oil per day (mbpd) and a disruption of even the smallest sort has the potential to spook the World crude prices. Crude oil prices rose to a nine-month high during the month after Jihadi militants seized the city of Mosul in northern Iraq, raising the prospect of a disruption in supply from the world's sixth-biggest oil exporter. The crude prices shot up from the level of $109. However, till date no real concerns have been alarmed on the oil exports from Iraq and are believed to be running on a normal course. Thankfully, major oil production base as well as export facilities for Iraq are situated in South, which continues to remain under control of Iraq Government. The situation can be compared to the situation last year when fears of US intervention in Syria spooked the crude prices. However, this time around the situation is grave considering Iraq is far more significant in the global oil supply scene as the production in Iraq contributes to ~4% of global consumption. The only saving grace will be the excess capacity with other major gulf producers as it is imperative that other OPEC members (UAE, Saudi Arabia and Qatar) will need to pump more oil to meet demand. As per IHS Energy, OPEC spare capacity is estimated at ~3 mbpd, incidentally at the lower end of the market's comfort zone of 2.5 to 4.5 mbpd. However, Saudi Arabia, Kuwait and the United Arab Emirates continues to produce at high levels in part to offset ~3.5 mbpd of supply offline globally and is believed to hold the key to the future spate of crude price movement. Historically, works done by economists show that oil price hikes typically generate cost-push inflation that leads to fall in output and shifts in the terms of trade. From the below charts, it is visible that Iraq plays a crucial role in the world oil market and India is dependent on the country as it is a net importer of crude. Besides, the reserves for India haven't gone anywhere while the consumption has jumped by multifold.

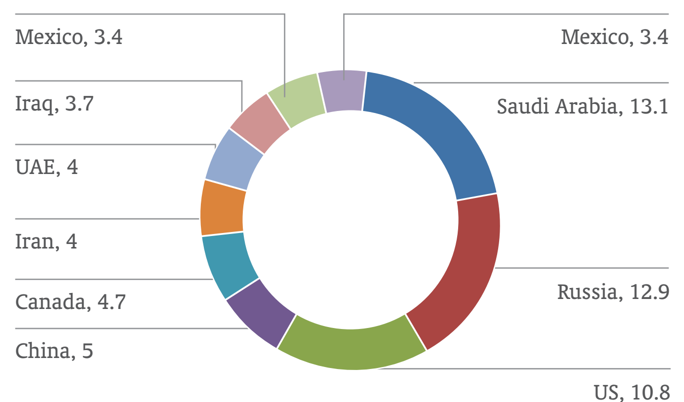


Source: EIA

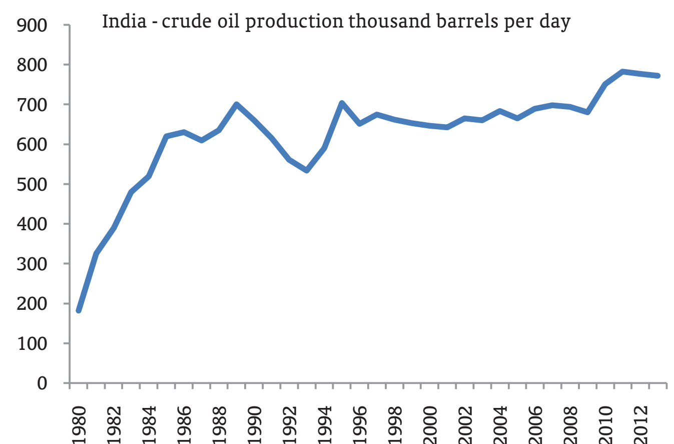


Source: Department of Commerce

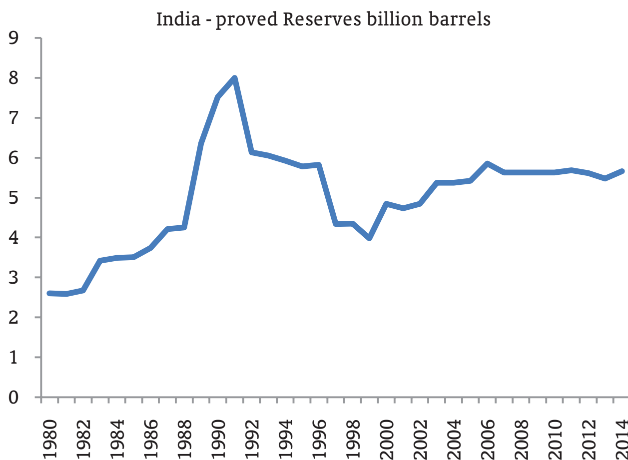
Top 10 Global Crude Oil Producers (%)

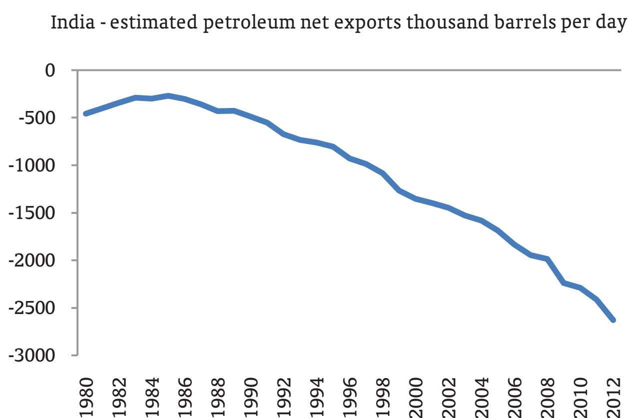


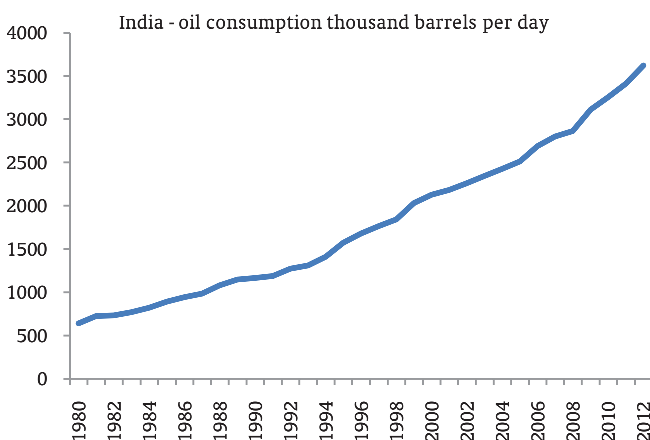
Source: BP Statistical Review Jun'14



Source: EIA



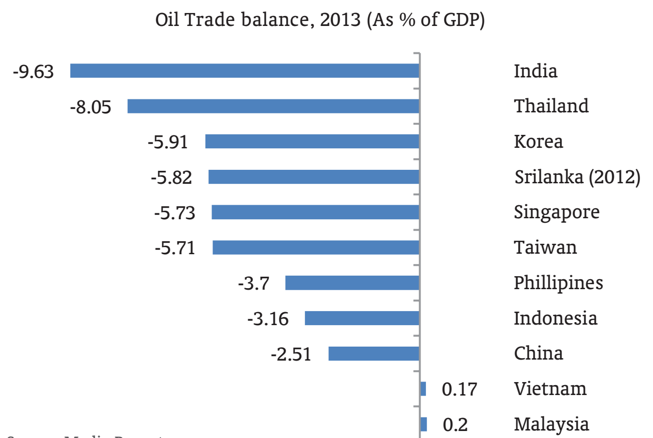




Source: EIA

Higher crude oil prices & Indian Economy-research perspective

India is one of the most vulnerable country in the face of oil price shock. The reason being apparent, the country has the worst net oil imports balance as a percentage of economic output among Asian nations. India's oil intensity or consumption in tonnes per gross domestic product (GDP) is also on the higher side compared with its Asian peers. The increase of crude oil prices has inflationary as well as fiscal effects (on account of higher under-recoveries). According to media reports, losses on account of under-recoveries are estimated to rise by Rs.4,000 crore (0.04% of GDP) for every $1 per barrel increase in crude oil price and will climb up even more if the rupee weakens against the dollar. The rupee not to forget has appreciated from October 2013 onwards led by improvement in trade balance (on keeping tab on gold imports) and thereby substantial improvement in current account deficit. However, we could again test the levels of August 2013 if the concerns on current account deficit get amplified. In a research work by A. Aparna titled "Impact of Oil Prices on the Indian Economy", the effect of oil prices over key economic data has been analyzed based on Vector Auto Regression (VAR) methodology. The study analyzed the direct impact of oil prices on the WPI and IIP, and thereby on the GDP of the country. For the purpose of the study, quarterly data from 1995 till 2008 has been considered from CMIE database. The findings based on VAR method implied that any positive change in the crude oil price has an immediate negative impact on the increment in the GDP and IIP whereas it affects the WPI positively.



Source: Media Reports

India had her share of oil shocks in the past

Almost all developing countries witnessed massive external shock in 1973 when the oil prices quadrupled and again after 1979, when oil prices more than doubled followed by sharp increase at the beginning of 1990s. However, none of the shocks can be really attributed to the shifts in supply & demand. For instance the first oil crisis in 1973 was triggered by the Yom-Kippur War, the second by the revolution in Iran and the war with neighboring Iraq, and the third oil price peak examined was triggered by the annexation of Kuwait and the Gulf War. India was no different and was exposed to balance of payments shocks like many developing nations. According to a prominent work by Mr. Montek Singh Ahluwalia, the balance of payments & current account deficit situation had been analyzed during the first & second oil shocks. The second oil shock probably hit the economy hardest as the timing was wrong. India had a weak GDP growth due to indifferent monsoon and the WPI inflation rates were already skyrocketing and the economy was reviving having already hit by the first oil crisis. On the backdrop of first Oil shock, the international crude oil prices increased fourfold between September 1973 and April 1974 thus raising the petroleum import bill (crude and products) from Rs.203 crores in 1972-73 to Rs. 1,157 crores in 1974-75, an increase of Rs. 954 crores in two years. The ramification was immediate deterioration of the current account balance from a surplus of Rs 28 crores in 1972-73 to Rs (479) crore in the immediate year. The economy was however quick to recover and turned the deficit around to surplus (1.3% of GDP) in 1976-77 and remained in the positive territory (though declining as % of GDP)

until 1979-80, when the economy experienced the second oil shock. Oil prices doubled thus raising the import bill from Rs.1,678 crores in 1978-79 to Rs.5,264 crores in 1980-81. The current account position in this period moved from a surplus of Rs.575 crores (0.59% of GDP) to a deficit of Rs.2,020 crores (1.58% of GDP) respectively. India had to borrow heavily from the IMF as well as other external agencies in order to finance the burgeoning current account deficit and eventually leading to acute balance of payments crisis and subsequently opening of the economy in 1991.

Balance of payments (Rs. crores)

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Current Account														
Exports of goods and n.f.s	1771	1838	2225	2829	3834	4813	6140	6635	7118	8381	9029	10003	10450	11200
Imports of goods and n.f.s	1816	2006	2049	3175	4778	5665	5615	6521	7429	10094	13604	14566	14817	15900
Resource Balance	-45	-168	176	-346	-944	-852	525	114	-311	-1713	-4575	-4563	-4367	-4700
Factor income (net)	-284	-291	-302	-325	-291	-255	-233	-233	-156	153	298	-7	-140	-300
Private transfer (net)	123	163	154	192	274	528	739	1022	1042	1624	2257	2221	2375	3000
Current balance	-206	-296	28	-479	-961	-579	1031	903	575	64	-2020	-2349	-2132	-2000

Source: Montek Singh Ahluwalia, Balance-of-Payments Adjustment in India, 1970-71 to 1983-84

Subsidy & Under-recoveries: the key to fiscal prudence

In India, subsidy has been traditionally a very powerful tool for economic policy making and has been at the centre of political interest since it affects the life of the common people. However, it is apparent unless subsidies are removed, India can never achieve the fiscal freedom to deploy funds to sectors to boost economic growth. However, the timing to fully abolish or withdraw subsidies needs to be implemented at an opportune time. The reason being, oil prices in India have its spillover effects considering the market prices of essential commodities include the transportation of "fright" charges. Thus with the increase in freight charges (due to abolition of subsidies), there will be a subsequent increase in commodity prices, thus raising the inflation levels in the country. Oil subsidies generally take various forms like Direct Financial Transfers, Preferential tax treatment, Trade restrictions etc. In India, LPG, PDS kerosene and diesel are sold to the retailers at less than international market price, leading to under-recoveries for the downstream oil marketing companies (OMCs). A large part of the under-recovery is compensated by the Govt. by cash assistance (in addition to fiscal subsidy) and another big chunk is taken care of by financial assistance from upstream National Oil Companies (NOCs).The rest of it is borne by the Oil Marketing Companies (OMCs). Over the years, a faulty fuel pricing mechanism in India has resulted in huge pile up of fuel subsidies, thus straining the fiscal balance. Moreover, the upstream companies are particularly cash strapped and which not only stretches their balance sheet but also dries up the funds necessary for investing in improving and expanding their exploration and production operations. Further, the subsidies are misdirected & not addressed to the poor & weaker sections of the society. With regards to Government data and various research works by private agencies, it has been estimated that ~75% of the LPG subsidy is enjoyed by the urban people & nearly 40% of that is misdirected to the wealthy section of the society. As % of gross fiscal deficit, the petroleum subsidy has shown a constant rise from figures of 2% in 2007-08 to 16% in 2013-14 after recording highest figures of 20% in 2012-13.

(in Rs Crores)	Actual 2007-08	Actual 2008-09	Actual 2009-10	Actual 2010-11	Actual 2011-12	Actual 2012-13	Revised 2013-14
Petroleum Subsidy	2,641	2,852	14,951	38,371	68,484	96,880	85,480
Under-recoveries	77,123	103,292	46,051	78,190	138,541	161,029	139,869
Fiscal Deficit	126,912	336,992	336,992	373,591	515,990	490,597	524,539
Petroleum Subsidy (% of Fiscal Deficit)	2%	1%	4%	10%	13%	20%	16%

Source: Union Budget Documents, PPAC

The trend needs to be reversed in order to invest Government's resources to productive sectors. The removal of diesel price subsidy and capping of the subsidized cylinders will be right steps in maintaining fiscal balance for the country and will help in addressing the obstinate inflation. The below table exhibits the under recovery per day (Diesel+ PDS kerosene+ Domestic LPG) as on 24th June 24, 2014.

Product	Unit	Under-recovery(eff. 16th June 14)
Diesel	(Rs /Litre)	1.62
PDS Kerosene*	(Rs /Litre)	32.87
Domestic LPG*	(Rs /Cylinder)	432.71

*Additionally, a subsidy of Re 0.82/Litre on PDS Kerosene & Rs 22.58/Cylinder on Domestic LPG is provided by the Government.

Source: PPAC

Impact of higher crude prices & diesel de-regulation on WPI inflation

In India, fuel prices, particularly diesel has a huge influence on the key sectors as 60% of the total freight movement in the country is by roads and thus any increase in the diesel prices naturally also adds up to the cost of final products. Fuel & Power has a combined weight of ~15% in WPI based inflation. Thus, roughly a 5% change in fuel & power basket can impact the WPI inflation by 0.75%. Historically, on the basis of a RBI report (2005), it was calculated that for every unit dollar increase in crude oil price, WPI inflation rises by 30 bps (basis points). There have been research works by economists to determine the impact of the increase of crude prices on economy. According to Bruno (1982), oil price shocks lead to an increase in wages and prices, and decrease in real output. The same conclusion was substantiated by Hamilton (1983) using the Vector Auto regression (VAR) technique. Burbidge and Harrison (1984) found that the impact was different across different countries in spite of the fact that all were developed countries. Hooker (1996) on the other hand, found that the causal relationship between oil prices and macro-economic variables weakened post 1973 and were not able to capture the dynamics of business. With regards the diesel price de-regulation which have been in the sensitive zone for quite a while was also described by previous Prime minister, Mr. Manmohan Singh as "a very delicate issue" and stated back in July 2012 that, "if you try to raise the prices of diesel, it has a cascading effect on the economy. We are trying to work out a solution where it impacts the economy in the least manner but also brings down the fiscal deficit.... It's extremely difficult for us to absolutely decontrol diesel at the moment because it would impact the economy in a very, very serious manner." With Mr. Modi at the helm, there are indeed expectations that there will be all possible measures considered to improve India's balance sheet and the foremost thing will be to cut down on all possible subsidies. Estimates/works to analyze the deregulatory impact of diesel on WPI inflation were attempted by few and the results are summarized below: (Source: India's Fuel Subsidies: Policy recommendations for reform, IISD, 2012)

(i) The Reserve Bank of India report in 2011 on crude oil: "Empirical estimates show that every 10 per cent increase in global crude prices, if fully passed-through to domestic prices, could have a direct impact of 1 percentage point increase in overall wholesale price index (WPI) inflation and the total impact could be about 2 percentage points over time as input cost increases translate to higher output prices across sectors"

(ii) Anand (2012, Diesel Pricing in India: Entangled in a Policy Maze) applies the weight of diesel in the WPI and finds that a 10 per cent increase in diesel price would lead to a 0.47 per cent increase in the general price level.

(iii) Cambridge Econometrics, using its E3MG model,11 estimates that the removal of diesel subsidies to vehicles using diesel, would increase consumer prices in India by 0.7 per cent as a result of the additional freight costs and the direct cost of higher personal transport costs.

The below table also draws up a gist of the key impact (based on 1st order estimates) on the sectors which are large users of diesel and considered to be key sectors subject to potentially large inflationary impacts (Anand, 2012). However, the numerical estimates are first order and do not assess how much of the cost increases could be passed onto end consumers of their goods and services (when applicable), nor the second-order inflationary impacts from price increases in other parts of the economy.

Impact Of 25 Per Cent Diesel Price Increase On Costs To Affected Groups

AFFECTED GROUP	IMPACT OF DIESEL PRICE RISE OF 25% ON COSTS (ELIMINATES OMC UNDER-RECOVERY)
Large public transport operators – road	+8% [State Road Transport Corporations (SRTCs)]
Goods/Freight transporters – road	+10%
Rail transport (freight and passenger)	+2.5 to +3.5%
Industry (fuel consumers)	+0.25% (median diesel input across industry)
Agriculture	Costs of cultivation: Wheat +2.75%, Sugar cane +0.75%

Source: India's Fuel Subsidies: Policy recommendations for reform, IISD, 2012

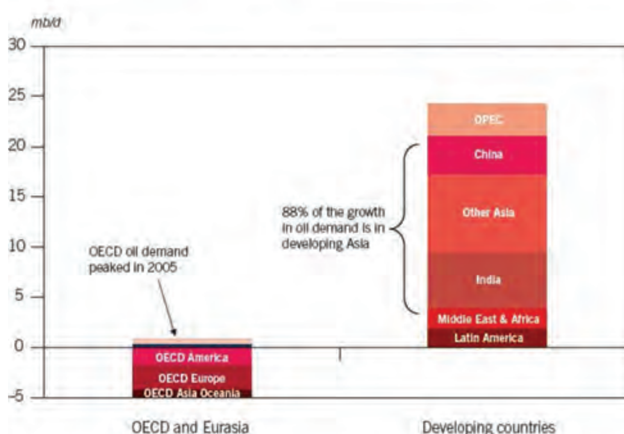
From the above table, it is clearly evident that public transport and Goods/freight transporters are the sectors which will have to bear the maximum brunt getting directly affected because of diesel price de-regulation while sectors like industry & agriculture will have an indirect effect and thus will be impacted to a lower extent.

Trouble in Iraq-How big can be the impact on India?

Globally, crude prices play a very important role as being one of the most necessitated commodities in the world. For India, which imports nearly 70-75% of its oil requirements, any change in crude prices would be amplified. Iraq was India's second largest supplier of crude oil in FY14 (accounting for ~10.1% of total oil imports or ~25 million tonnes). Thus, in the event of disruption of oil supply from Iraq, India has to look elsewhere which might result in higher procurement costs. The change in commodity price has severe impact on the current account balance & balance of payments of our country. Oil price shocks gives tremors to India considering that the country has witnessed balance of payments crunch owing to oil price shock back in 1970s, which is considered the severest in the history. However, things have changed a lot since then and there have been deregulation of petrol prices and the government has cut down on the subsidies on the diesel prices. Besides, the complete deregulation of the diesel prices has been in the offing for quite some time now and is believed to be implemented by Modi government. However, one needs to implement the same at an opportune time. On the other hand, inability of the government to pass on the hike in the crude oil prices can push up the subsidy bill and disrupt its dream of fiscal consolidation which in turn can accelerate the depreciation of rupee, eventually pushing up the import bill and the vicious cycle continues on and on.

Thus, the ongoing crisis in Iraq together with any adverse movement in the exchange rates (against USD) can hamper India's external account and is a potential risk to the slowdown in foreign equity inflows. However, the positive fact being that the war is going on in the northern part of the country while the oil fields are in the south, which continues to remain under the control of Iraqi Government. Paris based International Energy Agency pointed out that Iraq's relatively small output from the north of the country has been off the market since March due to violence while output from the south has been on the rise and production has hit a 30-year high. Thus, the concerns regarding current account deficit (CAD) remains subdued as of now. Moreover, the market expectations are that with Brent crude price is maintained at \$110 and exchange rate at ~ Rs 60 per USD, CAD is expected to be ~ 2% of GDP in FY15. Further, if the crude price level is at ~\$110 and rupee depreciates to levels of Rs 62 per USD, CAD may reach ~2.5% of GDP. Even if the levels touch \$115, CAD is still expected to be below the level of 3.5% of GDP. However, the restrictions imposed on the gold imports cannot be relaxed. Unless, there is a severe panic and crude prices reach abnormal levels of more than \$120, the situation is under control.

Growth in oil demand, 2012-2035



Source: World Economic Outlook, 2013

Pre Budget Analysis

The Budget Session of Parliament will be convened on July 7, with the Union Rail Budget to be tabled on July 8 and the Finance Budget on July 10. The Budget is eagerly awaited as it would further outline a detailed economic vision of the stable and reform oriented Government formed at the Centre. With Narendra Modi voted to form Government with a massive mandate backed by his promise of 'Achchhe din aane wale hain' the government is likely to bite the bullet to bring the economy back on track. Measures like sharp increase in rail fares (14.2% passengers, 6.5 Freight) is the first step that could presage a budget that will eschew populism in favour of fiscal consolidation. Few major steps the government is likely to take to bring the economy of track are:

Increase in FDI Cap

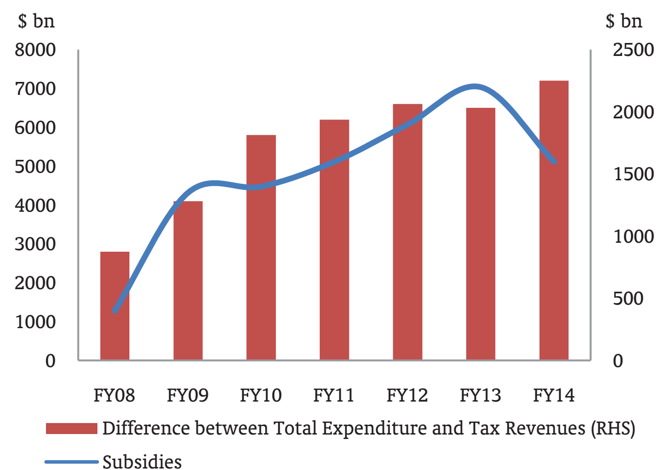
The government could announce plans to hike foreign direct investment in sectors including defence, railways and e-commerce in the Union Budget 2014-15 though it is unlikely to move ahead with liberalization of the insurance sector.

Sectoral FDI caps may be hiked for railways and e-commerce to 100 per cent. For defence too, the FDI limit will be increased but it will not be under the automatic route. While plans to liberalise foreign investment in these sectors have been pending for long, the NDA government has also stressed its intent to encourage capital inflows. However, the government is unlikely to tinker with the FDI limit for insurance sector, leaving it unchanged at 26 per cent. But to help insurance companies to raise capital, the government could introduce a cap of 23 per cent for foreign institutional investors, in addition to the FDI cap of 26 per cent. A wishlist submitted by the insurance sector to the minister has also soft paddled towards hiking the cap.

Earlier, a committee led by finance secretary Arvind Mayaram too had pitched for an overhaul of FDI caps across all sectors. At present, FDI up to 26 per cent is permitted in the defence sector while investments beyond that have to be routed through the Foreign Investment Promotion Board. Meanwhile, global online retailers are not permitted to sell directly to consumers in the country although 100 per cent FDI is allowed in business-to-business (B2B) e-commerce. Similarly, FDI in railways construction is not allowed although it is permitted in the manufacture of components by private companies that supply to the network.

Government will increase efforts to correct fiscal situation

The last Finance Minister was known for his fiscal marksmanship, with the deficit cut down to 4.5% of GDP in FY2014 versus 5.7% in FY2012. However, the quality of consolidation has been a cause for concern. Given the weak growth scenario, the wedge between total expenditure and tax receipts has been rising, thereby increasing reliance on disinvestment receipts and non-tax revenue to fund deficit. Further, subsidies and interest payments form structural expenditure components that make fiscal consolidation goals difficult. In fact, primary deficit (fiscal deficit excluding interest payments) is only at 2% of GDP.



Hence, plan expenditure cuts (amounting more than INR 1 tn last fiscal) compared to the budgeted levels were implemented in order to achieve the deficit targets.

We believe that the focus should be on reducing revenue expenditure and increasing revenue receipts (stable revenue sources) in order to achieve a healthy fiscal consolidation. Meanwhile, increase in public investment or capital expenditure has short-term consequences for deficit but over the long term it helps to stabilise the system, as these measures are essentially pro-growth.

- **Subsidies bill needs to be revisited:** The subsidies bill has been budgeted at ~2% of GDP in the Vote on Account. The allocation under this component has been increased consistently in the recent years from ~1.3% of GDP in FY1999. Hence, a closer look towards rationalization of subsidies is required.

Focus will be on long-term fiscal reforms

The right policy mix for fiscal consolidation involves increased reliance on stable tax revenues apart from reducing structural expenditure items like subsidies. In this regard, the BJP-led Government has proposed various reforms in its manifesto and recent commentary, which are in the right direction.

Various recommendations in this regard are listed below:

- **Guidelines for introduction of GST and DTC:** It is a long pending reform to increase tax base and improve efficiency of tax administration. Discussion with state Finance Ministers is in process to arrive at a consensus regarding the design and compensation regarding the revenue losses to state Governments on implementation. A guideline for implementation of GST and DTC is expected to be part of finance ministers budget day speech.
- **Rationalise food subsidies:**
    - o **Implement MSPs as income support to farmers:** If a farmer sells food grains at a market price lower than MSP, government

should make up the difference. This income support scheme would limit government's cash outgo on procurement, limit wastage in food stocks and also allow market forces to play a role in influencing cereal and other food prices. Along with this, ensure that the procurement of food grains is limited to the buffer norms for rice and wheat.

- o **Reform Food Corporation of India:** Unbundling of FCI has been propagated by the new Government in order to increase efficiencies.

- **Costlier diesel, gas:** The Petroleum Ministry has discussed the possibility of deregulating diesel prices. The ministry's aim is to be in line with the changing crude oil prices. The ministry has also proposed a raise in the cost of subsidized cooking gas. The budget could bring about monthly hikes of Rs10 per cylinder of cooking gas (LPG).
- **Roadmap for reduction in fertilizer subsidies required:** Government still subsidises almost 80% of urea, whereas the prices of the other fertilizers are decontrolled. There is a need to systematically increase urea prices in phases to reduce fiscal burden and given its implication for soil fertility.

Changes in Tax Policy

- **Income tax exemption limit:** The tax free income slab is expected to increase from the current limit of 2 lac to 3 lac , and for women it is expected to go up till 3.5 from current limit of 2 lac.
- **Increase in limits for deduction under Section 80C:** To encourage savings for the growth of economy, the present limit for deduction under section 80C of the Income Tax Act (the Act) of Rs 1,00,000 in respect of certain investments such as Provident fund, ELSS, life insurance premium, housing loan repayment and 5 year bank deposits needs to be increased to Rs.2,00,000.
- **Reducing Legislative uncertainty caused by retrospective amendments:** The retrospective clarificatory amendments introduced under section 9(1)(i), section 2(14) and section 2(47) to tax capital gain on direct / indirect transfer of capital asset w.e.f. 1.4.1962 is regressive. It has eroded the confidence of the international investor community such retrospective amendments need to be repealed to restore India's image as an investor friendly investment destination with a stable tax regime.
- **Restoration of tax incentive for promoting exports earlier available under section 10A /10B:** Section 10A of the Income Tax Act provided 100 percent tax deduction of profits and gains derived by an undertaking established in free trade zone (FTZ), export processing zone (EPZ) etc. from the export of articles or things for a period of 10 years. Further, section 10B of the Income Tax Act provided a 100 percent tax deduction of profits and gains derived by an export-oriented unit ('EOU') and Software Technology Park of India (STPI) units from the export of articles or things or computer software for a period of 10 years. The tax benefits under section 10A/10B are not available from financial year 2011-12 and onwards. In order to re-vitalize and provide impetus to the export sector, it is recommended that these benefits should be restored to promote exports by EOU/FTZ/EHTP/EPZ as well as STPI Units.

Roadmap on Disinvestment

The finance ministry is expected to spell out a road map to divest stake in seven big state-run companies, which include Coal India, Sail, MMTC, NMDC, NHPC and Nalco. The government holds 80% or more stakes in these companies. The Securities & Exchange Board of India (Sebi) has proposed to bring public float in state-run firms at 75%, equal to that of private companies. The finance ministry is of the view that Sebi will give at least two to three years to meet the norms and it can accordingly work out a road map so that there is no glut of PSU stocks in the market.

The government is expected to retain the disinvestment target through stake sale in PSUs at Rs 36,000 crore, will kickstart with bigger issues such as Coal India and Sail. A 10% stake sale in Coal India alone will fetch the government around Rs 22,000 crore at current market prices. The government will also proceed with its residual stake sale in companies such as Hindustan Zinc and Balco. It has already decided to appoint valuers for its 29.54% stake in Hindustan Zinc, signalling that it is not averse to exiting assets. In the case of sick PSU firms, the government will offload the additional stake to the special investment fund that was created for meeting the minimum public shareholding of 10% in six sick central public sector enterprises.

Power Sector Reforms

The Finance minister is likely to spell out a plan to supply electricity through separate feeders for agricultural and rural household consumption in the Union budget, aimed at eventually providing round-the-clock power. The plan, based on the Jyotigram Yojana in Modi's home state of Gujarat, may be made applicable across states to ensure around eight hours of quality power to agricultural consumers and 24-hour electricity to households. In addition, the initiative, billed as "Power to all 24x7", also envisages complete metering and strengthening of the electricity distribution system.

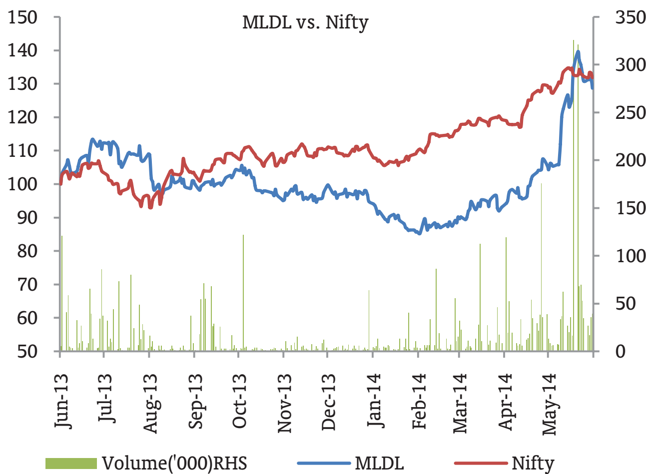
The scheme modelled on the lines of one in Gujarat could be announced in the Union budget. It will reduce redundancies in the system. The scheme works like this: a separation of feeders ensures that while the agriculture sector gets the desired amount of electricity; the quality of power and its availability for households improves. Also, availability of electricity ensures billing and reduction of technical and commercial losses due to theft and transmission. Billing losses are estimated at around 27% of the electricity generated in the country. A note is being prepared for the ambitious feeder segregation plan relating to the investment required and the expected increase in the electricity demand in the country, given the fact that it will lead to round-the-clock electricity in the rural households. Around 8-10 hours of quality electricity supply is enough for the agricultural sector as anything more than that will deplete the groundwater tables. The Gujarat government's scheme has enabled the state to provide 24-hour power supply to rural areas. According to the Gujarat government, the scheme has led to a reduction in distribution losses, increases in local employment generation, and improved standards of living in rural areas, including better quality of education and improved health and sanitation facilities. According to the Gujarat government's energy and petrochemicals department, the scheme has the "potential for replication in other states", and has reduced migration from rural to urban areas.

Stock Picks

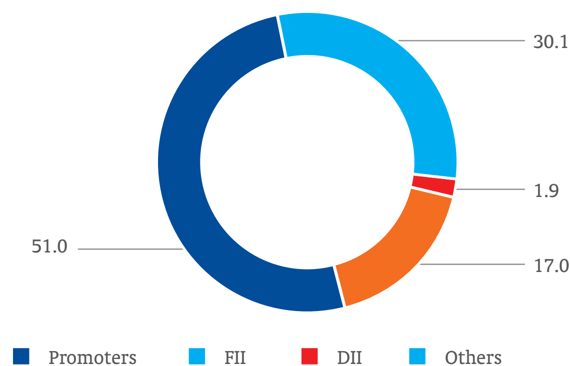
Mahindra Lifespace Developers Ltd. CMP: 560/- Rating: Buy TGT: 710/-

Company Information

BSE Code	532313
NSE Code	MAHLIFE
Bloomberg Code	MLIFE IN
ISIN	INE813A01018
Market Cap (Rs. Cr)	2295
Outstanding shares(Cr)	4.1
52-wk Hi/Lo (Rs.)	604 / 321.5
Avg. daily volume (1yr. on NSE)	19,150
Face Value(Rs.)	10
Book Value	307.9



Share holding pattern as on Mar 14 (%)



Particulars (in Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	738	705	816	1083
Growth (%)	5.3	-4.5	15.7	32.7
EBITDA	242	170	229	308
EBITDA Margin (%)	32.8	24.1	28.1	28.4
Net profit	141	101	113	156
Net Profit Margin (%)	19.1	14.3	13.8	14.4
EPS (Rs)	34.6	24.6	27.6	38.2

Consensus Estimate: Bloomberg

Company Description

Mahindra Lifespace Developers Ltd. (MLDL), a wholly owned subsidiary of the Mahindra group, is engaged in the business of development of real estate, residential facilities, commercial complexes and through its subsidiary companies is involved in various infrastructure projects including development of Special Economic Zones and integrated business cities. MLDL has developed residential & commercial projects consisting of ~8.3 mn. sq. ft. of completed projects and ~11.3 mn sq. ft. of ongoing and forthcoming projects in cities like Mumbai, Pune, NCR, Gurgaon, Jaipur, Chennai, Hyderabad, Nagpur and Nasik. The company has recently announced its entry into affordable housing segment in tier-2 cities.

Investment Rationale

Government initiative in affordable housing

As highlighted in the election manifesto of BJP and also in the Presidential speech to attain affordable housing for all within 75 years of India's independence has been one of the top agendas. Accordingly the idea to build 100 cities has been proposed. In order to ensure this the new Government may look at smoothening the process on quicker land acquisition, faster approvals, easy and low-cost funding availability and better infrastructure to make it a more interesting proposition for developers and investors, and also provide them with incentives to build cheaper homes. To make this dream come true India needs about 19 million low-cost homes which make low cost housing segment a lucrative $150 billion business opportunity.

Foray into affordable housing

MLDL launched its new business vertical 'Happinest' that will focus on developing affordable housing projects. Affordable housing represents a $150 billion opportunity for private companies. The first two projects under the new vertical will be developed at Avadi in Chennai and Boisar in Mumbai and would be priced between Rs 10-20 lakh, aimed at families with a current combined monthly income of Rs 20,000 to Rs 40,000 per month. The first phase of total 2500 homes with sized between 420 to 600 sq ft is expected to be completed within two years. However to ensure speedy execution and lower costs, the company has tied up with credit scoring agencies and micro home finance companies to reach out to customers and meet their home finance requirements. In order to encourage affordable housing projects the government needs to create an environment to facilitate such projects by having the right policy framework. Going ahead a huge opportunity is seen in the low-cost home segment.

Creating land bank and forge a JV

Anticipating a revival in demand for real estate, MLDL is looking to replenish its land bank as a precursor to launching new projects. The company is actively looking to pick up land parcels in Mumbai, Bangalore and Pune as the company intends to maintain land inventory equivalent to three years of targeted sales. Until recently, the company did not maintain a large land bank because of the uncertainty in demand for residential real estate over the past few years. During

FY14, MLDL formed a joint venture with SCM Real Estate (Singapore), the investment arm of Standard Chartered Bank, for development of residential projects in India. Both companies plan to develop projects in which Mahindra Lifespace and SCM hold equal stakes with combined investment of Rs. 1000 cr. The company had recognized four projects for the JV of which two were completed in Bengaluru (0.67 mn sq ft saleable area) and Gurgaon (0.92 mn sq ft saleable area). Out of the remaining two, one potential project has been dropped due to title-related matters and one is yet to be completed. Currently the company has bought a 12-acre land parcel in Gurgaon from private equity fund Ireo for Rs. 472 Cr and it will be developed by the joint venture.

Recent land acquisitions and new launches to compel growth

Currently MLDL has a project pipeline of 6.6 mn sq ft, which will be launched over the next 12-18 months providing strong visibility over sales volumes and the management indicated launch of 6 new projects in FY15 itself, subject to obtaining various clearances. In the last 2 years, MLDL has added land inventory of ~4 mn sq ft across various cities like Hyderabad, Pune, Bengaluru, Chennai and NCR. Even if there is a delay in couple of projects, the company stands tall with robust project pipeline which provides strong revenue visibility over FY15 and FY16 along with better sales and realization from MWC Chennai and Jaipur. Going forward, it is expected that the sales numbers will improve along with improved realizations on the back of new launches anticipated in the current financial year.

Strong Parentage

MLDL is backed by its strong parentage with $16.7 billion Mahindra Group, which is one of the largest group in India. The group has diversified business with being top player in different business verticals. In order to capitalize on the domestic real estate space the group has created a separate entity. The strong group and its strong management ease the plan for MLDL to stabilize in this competitive business vertical.

Probable rollback of MAT from SEZ

According to media articles, India Inc has urged the Finance Minister to exempt special economic zones (SEZ) developers and units from the levy of minimum alternate tax (MAT). If this materialized then it would be encouraging for SEZ units like MLDL. In addition to this MLDL will also be benefited from the recently passed Land Acquisition, Rehabilitation and Resettlement Bill (LARR Bill) as the company has created SEZ land bank in Jaipur and Chennai. Going ahead, roll back of MAT from SEZs and LARR Bill will be advantageous for the company.

Q4FY14 Result Analysis

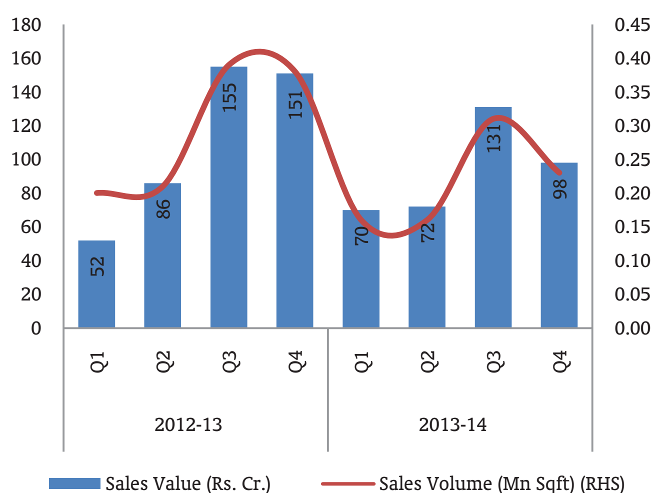
MLDL has reported a mixed set of number in FY14 amid volatile economic environment on account of election overhang, poor investor confidence and investment decision postponed by both household and corporate. On consolidated basis the company has reported revenue of Rs. 705 cr, a decline of 4.5% YoY in FY14 with Operating Profit Margin of 24.2% due to lower SEZ land sales, adverse product mix and higher employee cost. Net profit of the company declined by 28.8% to Rs. 101 cr. due to higher financial charges however some relief is seen on account of higher other income and lower tax expenses.

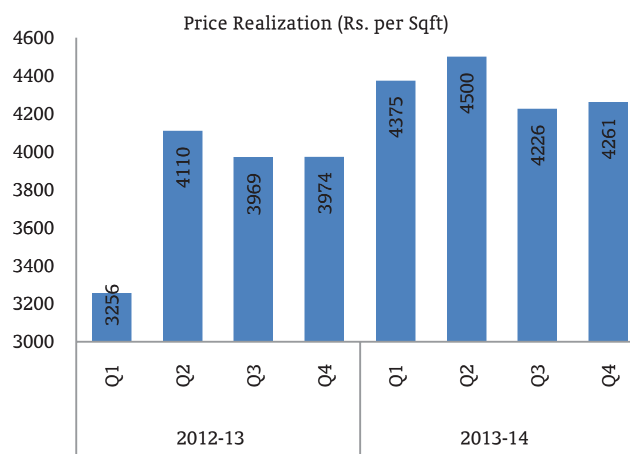
Key Risks

- Value creation from SEZs back-ended in nature
- SEZ tax laws
- Land acquisition a risk
- Inability to sustainably replenish land bank can negatively impact

Outlook & Valuation

MLDL has recently entered into affordable housing segment which is also the key focus area of the new government as the government is ensuring homes to all by 2022. Backed by its strong parentage, the company is well placed to grab this opportunity. Recent land acquisition to develop land bank and project pipeline of 6.6 mn sq ft provides strong visibility over sales volumes. Given its diversified geographic exposure in terms of ongoing and forthcoming real estate projects strong sales numbers is expected in coming quarters with 6 more new projects expected to be launched in FY15 as well as improvement in demand. Going forward, a significant increase in average realization per square feet based on product and city mix will be seen and that will also contribute to revenues growth from the residential business. At CMP the stock is trading at 20.3x its FY15E EPS of Rs. 27.6 and 14.7x its FY16E EPS of Rs. 38.2. We recommend 'BUY' on the stock with a target price of Rs. 710, arrived at 18.6x FY16E EPS which implies potential upside of ~27% for long term (1 year) perspective.

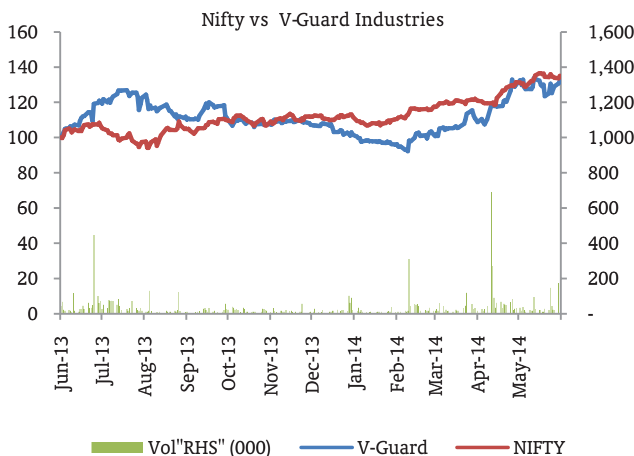




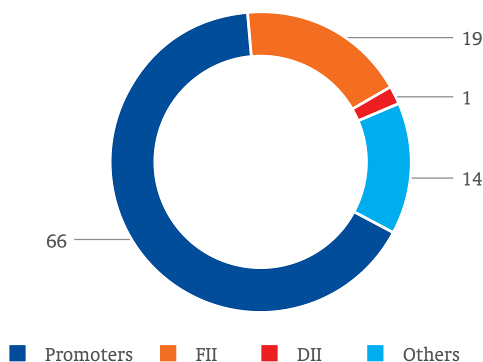
V-Guard Industries CMP: 593 /- Rating: Buy TGT: 746/-

Company Information

BSE Code	532953
NSE Code	VGUARD
Bloomberg Code	VGRD IN
ISIN	INE951I01019
Market Cap (Rs. Cr)	1,770
Outstanding shares(Cr)	2.98
52-wk Hi/Lo (Rs.)	603/403
Avg. daily volume (1yr. on NSE)	32,163
Face Value(Rs.)	10.0
Book Value (Rs)	106.68



Shareholding pattern as of March 2014 (%)



Particulars (in Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	1,360	1,506	1,759	2,050
Growth (%)	41%	11%	17%	17%
EBITDA	111	123	150	176
EBITDA Margin (%)	8.1%	8.1%	8.5%	8.6%
Net profit	63	70	86	105
Net Profit Margin (%)	4.6%	4.7%	4.9%	5.1%
EPS (Rs)	21.08	23.5	29.47	35.53

Consensus Estimate: Bloomberg

Company Description

V-Guard is the leading company in manufacturing and selling electronics and electrical equipments in South India. The company has started its business in 1977 by supplying voltage stabilizers. Since then, it has diversified into other electrical and electronic products such as cables and wires, pumps, digital UPS (inverter) and electric water heaters. Five years back, the company had his presence only in South Indian market and since then it has been expanding its business in non south markets and currently it contributes about 25% of total sales. At present the company has 230 distributors and service centers and more than 15,000 retailers servicing the needs of 50 million customers.

Investment Rationale

Offers wide array of products

The company offers wide range of electrical and electronic products with cables and wires, stabilizers, pumps, inverters and electric water heaters contributing more than 85% of total revenue. V-Guard has strong business presence in South India led by robust brand franchisee and an established distribution network. Having a diversified product basket, every product contributes equally towards the growth for the company. Stabilizer demand is linked to the sale of white goods, housing wires business is related to construction sector, inverter depends on seasonal business and pumps require during summer seasons and weaker monsoons. The demand for V-Guard's products (inverter & pumps) surged during sticky summer season with frequent power cuts and delayed monsoon. However, gradually the power deficit in most parts of country has been narrowing on the back of higher electricity supply and sluggish demand, thus being a drag on digital UPS business, while high probability of below normal monsoon during CY2014 could be the game changer as its pump segment would get a demand boost from such scenario.

Expanding geographical reach

V-guard has strengthened its presence in South India with Kerala, Karnataka, Tamil Nadu, Orissa and Andhra Pradesh as its largest market. The strong presence in these markets is achieved by reputed brand franchisee and well established distribution network. The well reached network is comprised of ~230 distributors, 3000 direct dealers and 15,000 retailers. Previously, the company's presence was concentrated particularly on one region, however in the last few years the management has been exploring to penetrate in other non south regions in intention to expand its geographical reach. V-guard has realized the advantages of geographical diversification and thus aggressively spent on advertisement and sales promotion. However, in near term such high spending could impact earnings growth, though the long term benefit would be boundless. The company is opening up branches in non south India states and tied up with several dealers and distributors which results in equal number of exclusive dealers in these markets as it has in the South Indian market. To capture the other markets, company has been selling the products at lower prices compared to the products sold in southern market. Such efforts from management bore fruits for the company as the revenue contribution from these markets has increased from 5% in FY08 to 25% in FY13.

Going ahead, it is expected that revenue contribution from non south market would further increase on account of higher focus of the management in these regions.

Asset light model

The company follows asset light model and outsource 60% of its manufacturing products mainly stabilizers, pumps, fans and water heaters. A large portion of outsourcing is done through small scale industries. To ensure good quality, V-Guard supplies only key raw materials to small scale industries whereas other materials are purchased by the manufacturers. During volatile economic scenario, the companies usually follow asset light model to de-leverage its balance sheet as the leverage balance sheet pose higher risk for the companies to weather the economic vulnerabilities. Asset light model helps the company to generate impressive returns on capital employed and also there is a requirement of lower capex. However, on the flip side the margins are lower for the outsourced products as the company is unable to get the benefit of economics of scale. The model allows V-Guard to experiment new product launches as capital requirement is low thereby not leveraging the balance sheet and improving overall return ratios.

El-Nino during CY14 could be the game changer

The demand for company's inverter and pump remained sluggish during FY13 due to good monsoon in last year. Early arrival of monsoon in 2013 and higher than usual rainfall adversely impacted the sales of pumps (due to better availability of water) and digital UPS (respite from monsoon). Both these products witnessed a sharp revenue decline during Q2FY14 by -48% and -22% YoY respectively. However, during CY14, the forecasts of IMD of occurring El Nino could be the game changer for V-Guard as late arrival of monsoon would boost the demand for inverter and weak monsoon would contribute greater sales of water pumps. As it is known that about 55% of India's arable land is non irrigated, hence the requirement of pump to store the water would surge. IMD forecasts below normal monsoon in northwest, central and southern India and normal or excess rainfall in north east and eastern region. With strong presence in southern region, company would be benefited from poor monsoon during CY14, resulting in higher sales of water pumps for household and agrarian applications.

Posted strong financial growth in last five years

V-Guard has posted robust financial growth in last five years on the back of strong presence in southern market, reputed brand name and established distributor network. During FY10-FY14, net sales has grown at a CAGR of 35%, while EBITDA has increased by 25% CAGR. Net profitability during the period also grew at a CAGR of 29% largely due to strong operating profit growth. However, higher net working capital has been hurting the company's operating cash flows. Company is looking forward to bring down its working capital by introducing channel financing schemes for dealers. Under this scheme, vendors will get credit amount after 30 days from banks (on the guarantee given by V-Guard) and V-Guard will pay the bank by taking additional 90 days credit period. Hence, this will smooth the operations of vendor and V-Guard will get additional 90 days to repay the working capital loan. Management expects that more sales will come from channel partners therefore helping in reducing the overall working capital days. Asset light model helps the company to maintain strong balance sheet and healthy return ratios. Going forward, it is expected that improvement in net working capital and buoyant demand for its products would drive the earnings growth.

Registered stunning Q4FY14 result

Company has registered stunning Q4FY14 results surpassing market expectation with net sales up by 13% YoY. This outperformance was attributed to strong sales of stabilizers, pumps and cables outside south India. Better working capital management and lower advertising costs led EBITDA growth of 78% YoY and at the same time EBITDA margin expanded by 312 bps to 8.4%. Interest cost during the quarter has declined substantially by 14.9% YoY. On the back of robust EBITDA growth along with lower interest cost boosted net profitability growth which grew by 2.30 times at Rs 20.48 crore. Poor monsoon during CY14 would generate greater demand for frontline products such as stabilizers, fans and pumps, which would result in better quarters going ahead.

Key risks

- The company operates in highly competitive industry i.e. capital goods, hence, to increase the market share there is always concern of price war which could impact the margins of the company.
- The volatility in metal prices like copper could put further pressure on the earnings growth though in last few months copper prices remained subdued.
- The company operates in Capital goods sector which is aligned with the economic growth of the country, hence, any adverse economic conditions could deteriorate company's long term outlook.

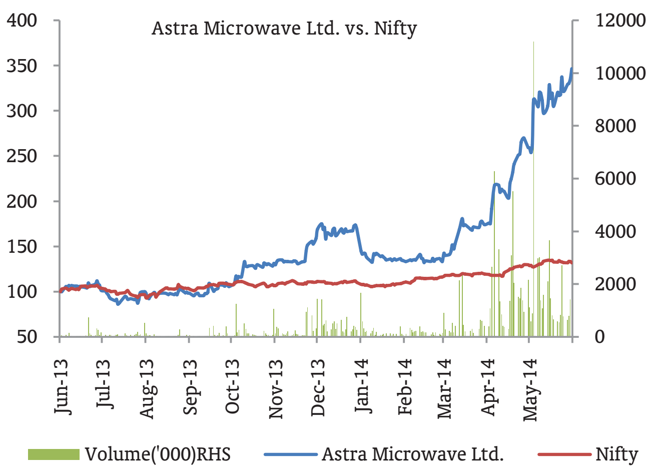
Outlook & Valuation

In past couple of years, company has taken some bold steps in improving its long term outlook. Previously its presence was concentrated only in southern market, however over the years company has been expanding its geographical presence in other regions by promoting its brands and such efforts has started to give positive results. Besides, strong presence in southern market, established distribution networks, asset light model and improving working capital cycle are the key catalysts for the stock going ahead. Moreover, the higher probability of occurrence of El Nino during CY14 could be the key trigger for the stock as it would result in poor monsoon, thus generate greater demand for its products such as stabilizers, fans and pumps. There are expectations that to boost the manufacturing sector, government would unleash spate of reforms in upcoming budget, thus incentivizing the manufacturing companies. In a recent move, government has extended previous government's excise sops for next six months (till 31st December 2014) in intention to give a fillip to manufacturing sectors. Given its strong business model and expectation of economic recovery in coming years, we are bullish on the stock and hence, recommend BUY with target price of Rs 746 (assign P/E multiple of 21x on FY16E EPS of Rs 35.53) from long term investment perspective. At current market price the stock is trading at P/E multiple of 16.7x of FY16E EPS of Rs 35.53.

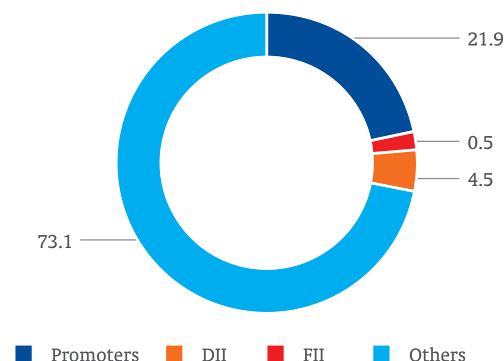
Astra Microwave Products Ltd. CMP: 142/- Rating: Buy TGT: 186/-

Company Information

BSE Code	532493
NSE Code	ASTRAMICRO
Bloomberg Code	ASTM IN
ISIN	INE386C01029
Market Cap (Rs. Cr)	1,190
Outstanding shares(Cr)	8.2
52-wk Hi/Lo (Rs.)	149.7 / 30.2
Avg. daily volume (1yr. on NSE)	502,527
Face Value(Rs.)	2
Book Value	29.5



Shareholding pattern as of March 2014 (%)



Particulars (in Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	227	531	635	653
Growth (%)	11.6	133.5	19.5	2.8
EBITDA	61	83	105	119
EBITDA Margin (%)	26.8	15.7	16.6	18.2
Net profit	37	51	60	69
Net Profit Margin (%)	16.4	9.6	9.4	10.6
EPS (Rs)	4.5	6.2	7.3	8.5

Consensus Estimate: Bloomberg

Company Description

Astra Microwave Products Ltd. (AMPL) is engaged in designing and manufacturing of high value added Radio Frequency (RF) and microwave super components and sub-systems finding applications in Defence, Space and Civil communication systems. The company has been able to carve a niche area for themselves and build strong relationship with their customers by getting associated with them right at the conception stage of new product development. The company products are widely used in VSAT operations, radars, navigational equipment, public mobile trunk radio (PMTR), WLL, Cellular GSM/DCS or PCS networks. The company has four manufacturing units, all located in Andhra Pradesh. AMPL's customers include Defence Research and Development Organisation (DRDO), Electronics and Radar Development Establishment (ERDE), Indian Space Research Organisation (ISRO), Indian Meteorological Department (IMD), Bharat Dynamics, Bharti Airtel, Hutchison Essar, Bharat Electronics (BEL), Centre for Airborne Systems amongst others.

Investment Rationale

Increasing FDI in defence and higher capex

According to media reports, the department of industrial policy & promotion (DIPP) has prepared a draft Cabinet note that proposes to allow up to 100% foreign direct investment (FDI) in defence as part of its plan to boost domestic manufacturing activities, markets are hopeful of better days for defence equipment makers. By permitting FDI in the sector it will help in reducing import bill for defence equipment, which in turn will boost manufacturing activities and create jobs. India's spending on defence equipment has improved at a CAGR of 13% over the past 5 years. In the Union Budget for FY13, the defence spending has been increased by 5.3% to Rs. 203,672 cr. whereas in Interim budget of 2014 defence spending is hiked by 10% to Rs. 224,000 cr. Further, in order to improve self-dependency, the government has introduced an offset clause, which has created another opening for Indian players. AMPL has already started benefitting from this. Due to unmatched nature of work AMPL is expected to be highly benefited from increased thrust on defence spending by the new government and also any change in FDI policy could be a strong positive for defence companies like AMPL with significant increase in order book in defence division thereby improving the visibility of revenue.

Order book provides strong revenue visibility

The company has a strong unexecuted order book of Rs. 975 cr. to be executed in the next 15-20 months. The defence segment dominated the order book, whereas exports accounted for Rs. 480 cr. worth of orders with 95% of the export order being from an Israel Defence Company. Still, the order book at 1.8x FY14 revenues provides good revenue and growth visibility for FY15. Order inflow during the year stands at Rs. 640 cr, while management expected low export order inflow in FY15. One order of $90mn from Israel Defence Company is still under discussion. According to the management Rs. 650 cr. of order is expected to be executed in FY15. However with the government key focus in defence, strong order inflow is expected from defence sector with some thrust from the Akash missile program and ELTA orders.

Strong R&D team and proven track record

AMPL has an edge over its competitors (which is negligible) with it strong R&D team of highly qualified and experienced personnel with the experience of more than two decades in defence and space sector. As in this sector, it is critical for the company to work closely with their customers for designing and developing to understand their requirements. So the company has a strong relationship with its key clients like DRDO, ERDE, ISRO and BEL. The collaboration with government agencies in development of various new products proves the technical capabilities of the company. The company has also proven track record of designing/development of sub-systems for key defence/space related programs of India such as Akash Missile, Brahmos, BFSR, RISAT and AWS. However in order bidding process, technological capabilities is more important than cost composition, which helps the company to secure orders.

High entry barriers

In defence, at present there is no major company who can compete with AMPL as it is not possible for a new player to enter into the business. As per the Defence norms, it calls for partnering at the initial stage of any project or product development and to reach commercial level of production, which take the entire process anywhere between 5 years to 8 years time. Thus this make the segment almost like monopoly with very high entry barriers. The business is characterized by large opportunities and high margins but uneven order inflow and large working capital requirement makes it less attractive. Technical capabilities, long development cycles and high working capital requirement are key entry barriers in this business.

L&T's as board member

L&T has made an investment in AMPL around five years ago; having a stake of ~10% in the company and has finally come on the board of directors. Now with L&T as board member means L&T is seriously trying to enter in to radar business and moreover this will give AMPL a backend support by providing long-term direction and strategic support. AMPL is also likely to take advantage of L&T's execution ability and technological.

Q4FY14 Result Analysis

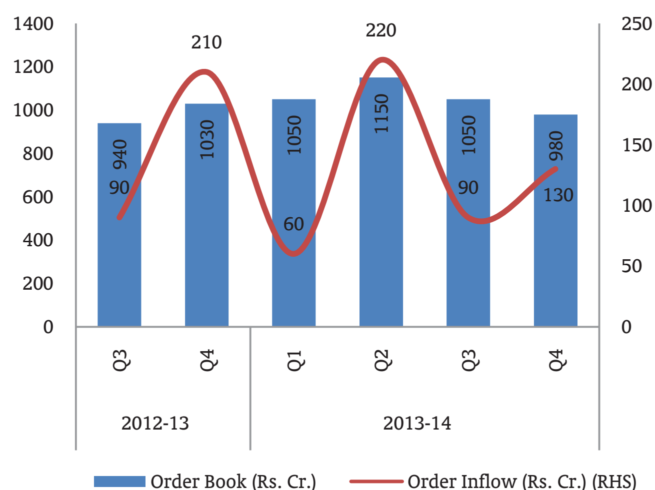
AMPL has reported a good set of numbers in Q4FY14 where revenues increased by 61% YoY to Rs. 195 cr. due to strong foothold in both export and domestic orders. However, due to high forex adjustments of Rs. 12.3 cr. and high percentage of low margin orders during the quarter, operating profit margin declined by 9.5% YoY to 24%. Moreover higher financial charges and tax rate has dragged net profit down by 2.8% to Rs. 26 cr. For the full year ended FY14 revenues increased by 134% to Rs. 531 cr. due to strong order execution whereas net profit expanded by 37% YoY to Rs. 51 cr.

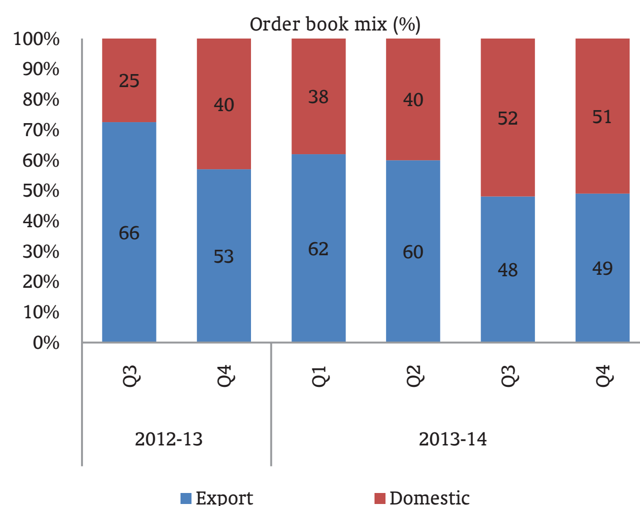
Key Risks

- Revenue concentration risk
- Volatile business and uneven order inflow
- Employees Retention tough

Outlook & Valuation

AMPL is well placed to benefit from 100% FDI in defence, enhanced defence spending with renewed focus of the new government in the sector and high entry barriers in the operating segments thus depicting a healthy future outlook for the company with significant increase in order book thereby improving the visibility of revenue. However, on account of its past proven track record and highly experienced R&D team makes the company stand apart from its competitors. Based on strong order book of Rs 975 cr. to be executed in the next two years, the company looks convincing to achieve next year topline target of more than Rs. 650 cr. and bottomline target of more than Rs. 70cr as expected by the management. At CMP the stock is trading at 19.5x its FY15E EPS of Rs. 7.3 and 16.8x its FY16E EPS of Rs. 8.5. We recommend 'BUY' on the stock with a target price of Rs. 186, arrived at 21.9x FY15E EPS which implies potential upside of ~31% for long term (1 year) perspective.

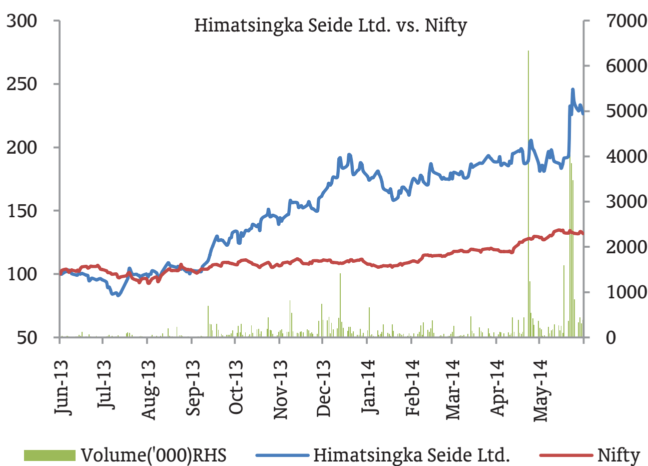




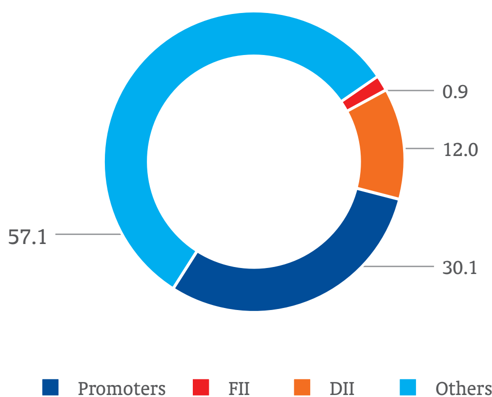
Himatsingka Seide Ltd. CMP: 74/- Rating: Buy TGT: 95/-

Company Information

BSE Code	514043
NSE Code	HIMATSEIDE
Bloomberg Code	HSS IN
ISIN	INE049A01027
Market Cap (Rs. Cr)	727
Outstanding shares(Cr)	9.8
52-wk Hi/Lo (Rs.)	80 / 25.55
Avg. daily volume (1yr. on NSE)	223,150
Face Value(Rs.)	5
Book Value	75.7



Share holding pattern as on Mar 14 (%)



Particulars (in Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	1689	2028	2343	2624
Growth (%)	18.3	20.1	15.5	12.0
EBITDA	158	196	241	278
EBITDA Margin (%)	9.3	9.7	10.3	10.6
Net profit	55	67	91	115
Net Profit Margin (%)	3.3	3.3	3.9	4.4
EPS (Rs)	5.8	6.4	9.3	11.7

Consensus Estimate: Bloomberg

Company Description

Himatsingka Seide Ltd. (HSL) is a vertically integrated Home Textile major with focus on the manufacturing, retailing and distribution of Home Textile products. On the manufacturing front, the Group operates amongst the largest capacities in the world for producing upholstery fabrics, drapery fabrics (2.2 mn meters per annum) and bed linen products (23 mn meters per annum). Spread across Asia, Europe and North America, its retail and wholesale distribution divisions carry some of the most prestigious brands (Calvin Klein Home, Barbara Berry, Peacock Alley, Bellora etc) in the Home Textile space and cater to Private Label programs (Esprit and Waverly) of major retailers across these geographies. The Group's manufacturing operations epitomize cutting edge technology, best-in-class manufacturing processes and embrace the highest standards of quality control.

Investment Rationale

Expected increase in export incentives

The government is expected to increase incentives for the textiles industry in the forthcoming Budget to boost sector's exports and manufacturing. As a part of support to the textiles sector, the government may enhance allocation for the Technology Upgradation Fund Scheme (TUFS) in the Budget. The government had approved the continuation of TUFS for the 12th Plan period (2012-17) with a budgetary allocation of Rs 11,900 crore. However, Confederation of Indian Textile Industry (CITI) has asked FM for increasing the fund allocation under the scheme to ensure that it operates without any problems during the entire 12th Five Year Plan period and also to reduce excise duty from 12% to 8%. The government is expected to introduce Goods and Services Tax (GST) to rationalize taxation in the textile sector. Rising interest rate is another issue during pre- and post-shipment of export that the government will look into for sector growth. Other areas where government should look to derive maximum benefits are need for technology upgradation, better infrastructure and appropriate skill development for boosting textile exports.

Government to boost textile export

The Centre has set a target of $50 billion for textile exports this year as compared to $40 billion in the previous year. India has now become the second largest textile exporter after China and now constitutes 5.2% of the share with total exports at $772 billion. The rise in textiles exports from India is largely attributed to the growth in the apparel and clothing sector as this account for almost 43% of the share. The Textiles Minister said the textiles sector has tremendous potential to grow and the government would do everything for improvement in exports. Further the textile ministry would help in the establishment of 25-30 textile parks and several mega clusters for the development of the industry. Moreover efforts are to be made to connect with neighboring countries like Pakistan, Bangladesh, Sri Lanka, Thailand and Cambodia for overall improvement of business in this sector.

Expanding global reach to enhance growth

HSL's major portion of revenue comes from North American market from where the company brought in 83% to its revenue in FY14 through subsidiaries DWI Holdings and Divatex Home Fashion, driven by a portfolio of its own (Bellora) and licensed brands (Calvin Klein Home, Barbara Barry, Peacock Alley, Esprit and Waverly) and the distribution of private labels. While in Europe HSL marketed its own brand Bellora through its Italian subsidiary Guiseppe Bellora and in India & Asia the

company operates through 14 stores of the Atmosphere brand. Now the company is focusing more on enhancing its share in global space by implementing series of strategies such as the company expanded its reach to North America, China, GCC (Gulf Cooperation Council) region and also to Russia and Brazil by appointing new distributors, the company kept its costs under control, Bellora will be used as a sourcing hub for 'Made in Italy' products for the US markets, entering e-commerce platform through AtmosphereDirect.com. Revival of growth in the US and European economies will further boost the performance of HSL going ahead.

Robust manufacturing ability

HSL have two global scales manufacturing plants in Karnataka which are prepared to stir up more than 2,000 products annually. The manufacturing facility of 200mtpa specializes in manufacturing spun silk and silk-blended yarn; the bed-linen manufacturing plant has 23 mn metres per annum processing capacity and Drapery and upholstery manufacturing plant has 2.2 mn metres per annum processing capacity. In FY14 capacity utilization for the Bed Linen and Drapery and Upholstery stood at 88.8% and 53.6%. In FY14 HSL has made a capex of Rs. 43 cr. but as per management, the company is not looking to do any capex as of now. Thus, management currently focuses on defining its utilization capacity to its optimum level and on asset light distribution model across various geographies with improved product mix. Management has said that if demand rises capacity can easily be doubled by capex of just Rs. 70-90 cr.

Incremental cash flow to reduce debt and improve ROE

In FY14 HSL has gross debt of Rs. 814 cr. of which Rs. 333 cr. is working capital loan and remaining Rs. 481 is term loans. HSL generates a free cash flow of ~ Rs. 200 cr. ever year. HSL has scheduled repayment of Rs. 121 cr in FY15 which the company plans to meet through operating cash flows thereby reducing debt and interest burden leading to boosting the RoE. Management is expecting debt to be in the range of Rs. 650-700 cr. in FY15. With this HSL is expected to enter the period of high growth together with enhancement in its profitability along with higher capacity utilization and improved product-mix. Management has given guidance of 12-15% revenue growth in FY15 with similar capital employed. Further, management expects that there will be no major capex and focus will be on debt repayment, thereby the company is expected to witness improvement in RoE.

Q4FY14 Result Analysis

HSL has reported stronger result in Q4FY14 where revenue grew by 26.3% YoY to Rs. 498 cr. led by volume growth of ~20% and price realization growth of ~5%. EBITDA grew by 7.4% YoY to Rs. 41 cr. whereas EBITDA margins has remain stable at 8.3% due to higher raw material cost but some relief comes from lower employee cost and reduced other expenses as a percentage of sales. Reported PAT declined by 48.6% YoY to Rs. 11.5 cr. However, Adj PAT grew by 31% to Rs. 11.5 cr. in Q4FY14 against Rs. 8.8 cr. in Q4FY13 (Reported PAT of Rs. 22.4 cr. in Q4FY13 normalized for deferred tax liability of Rs. 13.6 cr. pertaining to earlier year, reversed in the previous year).

Segmental Result

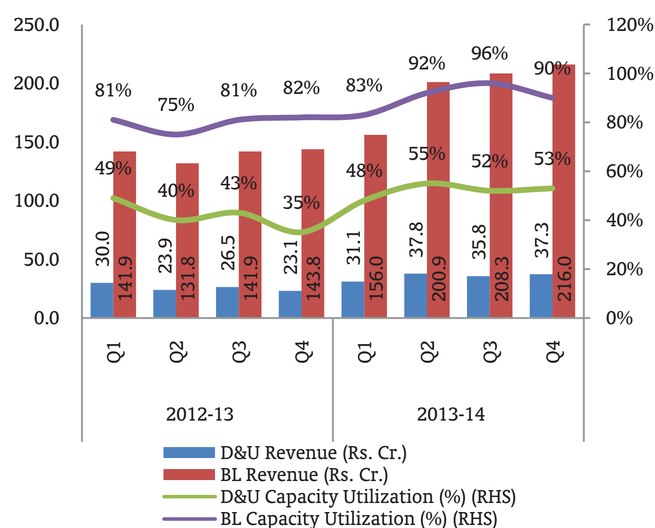
In Q4FY14 manufacturing revenue of the company represented by Drapery/ Upholstery and Bedding Divisions grew by 38.2% to Rs. 253 cr. Drapery segment recorded sales of Rs. 37 cr. up 14% YoY with capacity utilization at 53% and Bed Lenin segment recorded sales of Rs. 216 cr. up 50% YoY with capacity utilization at 90%. Whereas in retail & distribution business revenue from North America distribution business in private label lines and 6 brands including "Calvin Klein Home" and "Barbara Barry" grew by 28.7% to Rs.425 cr., Europe revenue represented by "Bellora" brand showed a reduction of 13.1% to Rs. 20 cr. while retail revenue of India/Middle East/ South East Asia represented by "Atmosphere" brand shows a growth of 0.9% to Rs. 11 cr.

Key Risks

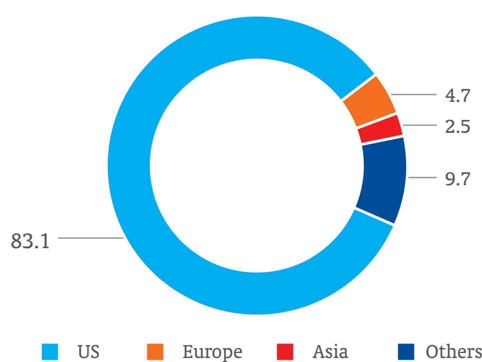
- Foreign exchange volatility may adversely effect the financial position as majority of the revenue comes from exports.
- Business concentration pose significant risk as major part of the revenue comes from North America.
- Any unfavorable adverse norms for textile exports industry.

Outlook & Valuation

HSL is well placed to take advantage of increased government focus in textile sector export and will also benefit from expected increase of export incentive. HSL is poised to benefit from the higher capacity utilization and product-mix improvement with steady increase in demand. Moreover global economic recovery with increasing global presence, improved realizations, strong brands, highly focused management and efficient cost optimization measure has given clear visibility of improved profitability. Further, strong free cash flow generation, lower capex and reducing debt level would keep interest costs and depreciation charges under check, thereby leading to a rise in profitability and strengthening balance sheet and in turn RoE will expand. Strong fundamentals and improved growth outlook provides HSL a strong edge and best investment case to take ride in Textile industry space. At CMP the stock is trading at 8.0x its FY15E EPS of Rs. 9.3 and 6.3x its FY16E EPS of Rs. 11.7. We recommend 'BUY' on the stock with a target price of Rs. 95, arrived at 8.1x FY16E EPS which implies potential upside of ~28% for long term (1 year) perspective.



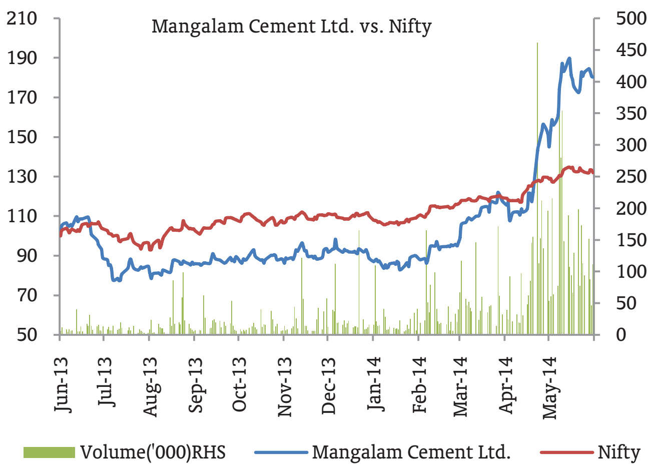
Geography wise - Revenue Breakup (%)



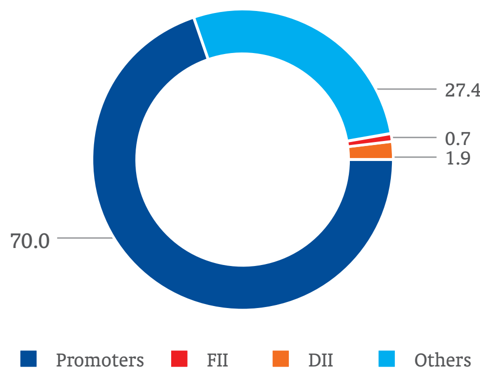
Mangalam Cement Ltd. CMP: 221/- Rating: Buy TGT: 285/-

Company Information

BSE Code	502157
NSE Code	MANGLMCEM
Bloomberg Code	MGC IN
ISIN	INE347A01017
Market Cap (Rs. Cr)	590
Outstanding shares(Cr)	2.7
52-wk Hi/Lo (Rs.)	228 / 87.6
Avg. daily volume (1yr. on NSE)	41,409
Face Value(Rs.)	10
Book Value (Rs)	188.2



Share holding pattern as on Mar 14 (%)



Particulars (in Rs Cr)	FY12	FY13	FY14E	FY15E
Net Sales	706	697	1049	1188
Growth (%)	11.9	-1.2	50.4	13.3
EBITDA	131	56	137	194
EBITDA Margin (%)	18.5	8.0	13.1	16.3
Net profit	77	30	55	103
Net Profit Margin (%)	11.0	4.2	5.2	8.7
EPS (Rs)	29.0	11.1	20.4	38.7

Consensus Estimate: Bloomberg

Company Description

Mangalam Cement Ltd. (MCL) incorporated in 1978, is part of BK Birla Group. The company is engaged in the manufacturing of cement and has a capacity of 3.25MTPA along with 48.65 MW of captive power plant. Its cement and power plants are located at Rajasthan and it produces three products in cement, OPC grade 43, OPC grade 53 and PPC under the brand name Birla Uttam Cement. Currently MCL sells 60% PPC and 40% OPC. Geographically it sells 51% of the total output in the northern region and 49% in the central region. The major selling markets in both regions are Rajasthan, Delhi, Haryana, UP and MP.

Investment Rationale

New capacity to drive volume growth

MCL's additional clinker capacity of 0.5MTPA and cement capacity of 1.25MTPA in Morak (Rajasthan) were put under trial run in Q4FY14 and has already started commercial production from June 2014. Post these expansions, MCL's clinker and cement capacity stands at 2.3MTPA and 3.25MTPA respectively. Increased capacity would enable MCL to maintain its market share in Northern region and will drive growth for the company in coming years.

Presence in strong demand regions

Currently, Rajasthan constitutes 31% of company's cement volumes. It will increase to 50% on account of sales tax benefit scheme announced by state Government on new capacity of 1.25 MTPA. The company will receive sales tax subsidy for 7 years starting from FY15 to the tune of around Rs 20 cr in FY15 (assuming the new capacity will operate for nine months). Thereafter, from FY16-21 it will be around Rs 27cr/yearly. Presence in favorable demand-supply scenario regions has helped the company maintain higher utilization levels.

Realization to improve with revival in demand

Average pan-India cement prices reported moderate growth of 1.8% yoy in 2013-14, owing to a slowdown in demand. The convergence

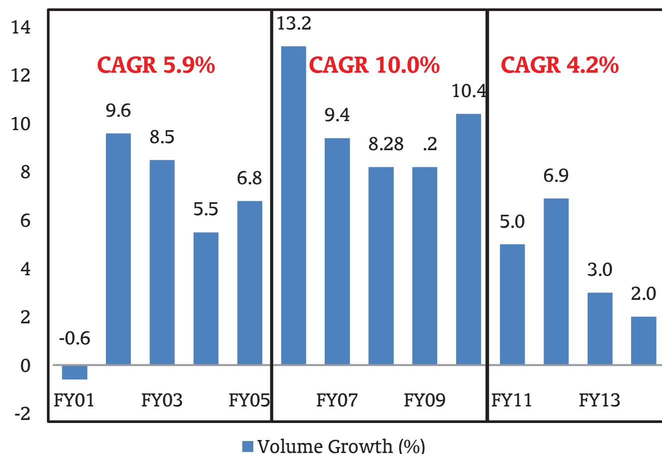
of high cost/leveraged capacity additions and subdued realizations/ demand has resulted in unfavorable operational economics. However, we expect realizations to improve from here on owing to demand recovery under the new Government thrust for higher infrastructural activities. The current prices have already seen a hike of Rs 30-40 per bag which constitutes ~10% increase in realization.

Improved efficiency and lower cost will boost margins

Usage of pet coke in kiln operations has significantly reduced the consumption of high grade limestone from 16% to 8-9% thereby resulting in significant cost savings. Raw material cost/tonne has seen a reduction of 18% YoY in FY12. With reforms in the coal sector in forefront and part of agenda for the new government, the coal prices is expected to ease along with rupee appreciation which will further ease cost pressure for the company.

Lag in recovery to be shorter, given pent-up demand and enabling governance

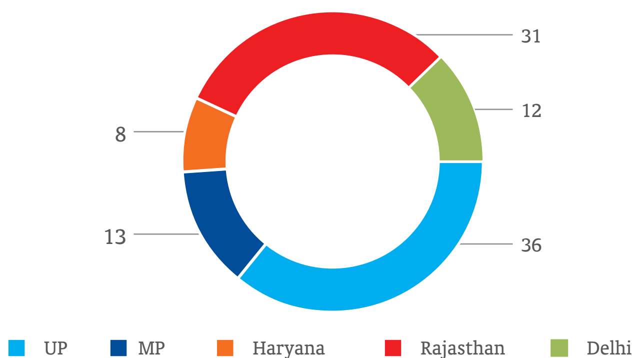
Cement demand recorded worst run in the last two decades, with 4.2% CAGR over FY10-14 against ~10% over FY06-10. The current period of weak demand is also the longest compared to earlier down-cycles of FY93, FY01, or FY04-05. Cement demand typically lags GDP growth by 1.5-2 years. Yet, recovery could be faster this time due to high pent-up demand in the system. If stable governance and improving fundamental factors start acting in congruence, normalized cement demand growth of 1.25x GDP could be achieved over FY14-16.



Key Risks

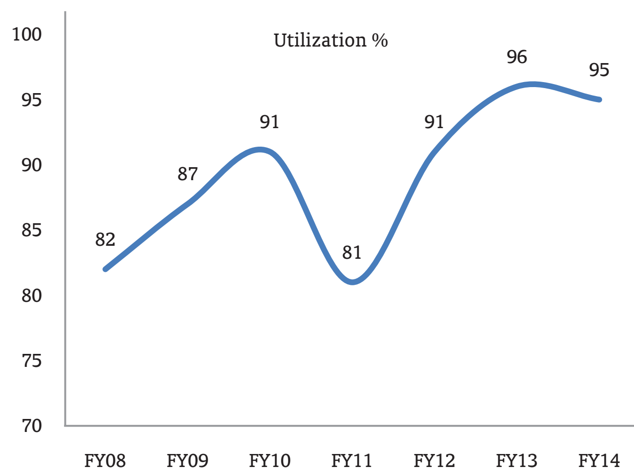
- **Input cost pressure:** Historically, cement companies have been able to pass on the rise in input costs to end consumers. However, in a scenario of oversupply, the companies may not be in the position to pass on the increase in input costs. Hence, substantial increase in pet coke prices, domestic coal prices, crude oil and further increase in freight charges can pose downside risk to the earnings growth.
- **Sharp drop in demand:** Continuing weak demand into next year could adversely impact volumes of the company.
- **Increasing pricing pressure:** With no clear-signs of pick-up in infra projects pricing will be under pressure.

Cement volume break-up (%)



Outlook & Valuation

With strong government at the center, the cement sector will benefit from a potentially faster recovery in the investment cycle, especially in infrastructure. While sector profitability could remain under pressure over the next 1-2 quarters, the long-pending infrastructure projects could be fast tracked by the new government, resulting in a demand recovery and higher profitability in the next two years. On the back of 1.25 MT grinding expansion at Rajasthan, market expects cement volumes of MCL to grow at a faster rate as compared to industry peers. With increase realization due to improve in demand and better operating leverage would help margins to improve going forward. At the CMP of Rs 221, the stock is trading at 5.9x and 4.2x of its FY15E and FY16E EV/EBITDA respectively. We value MCL's business at 5x FY16E EV/EBITDA (15-20% discount to mid-cap companies) and arrived at a price target of Rs 285, implying an upside potential of ~30% in 18 months.



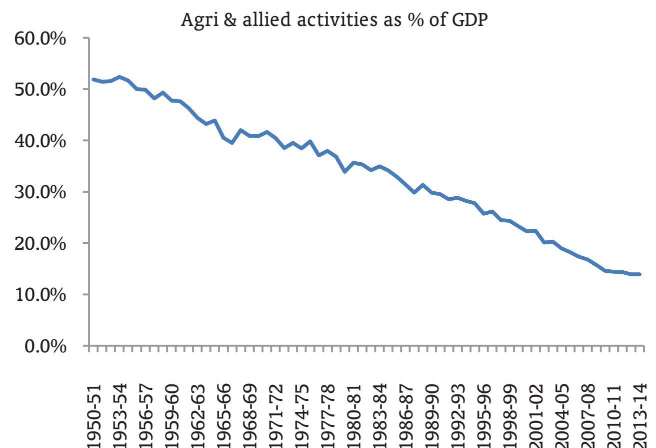
Sector Outlook: Agriculture Sector

A new dawn set to begin

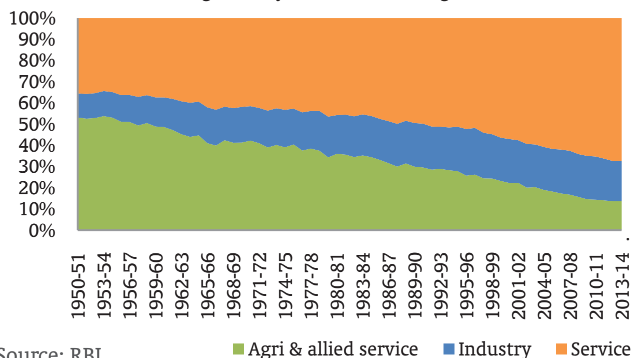
Despite being transformed into an industrially developed country, India is known for its agrarian economy. The agriculture sector which employs almost half of the nation's workforce has been slacking it's predominate position in contributing country's GDP growth over the past two decades. The contribution of agriculture output to nation's GDP has declined to less than half of the 30% it had in the period between 1990-1991. However, the importance of the agriculture sector is felt when analysis shows that almost half of the average Indian household's expenditure constitute foods, which is a key factor of inflation and thus nation's chronic poverty level. Estimated by the Planning Commission, the number of people living below poverty line is healthy at 269 million. The poverty line has been set at Rs 816 per capita income per month for rural areas and Rs 1000 for urban areas. Hence, any rise in food prices would severely impact anyone earning around this low level of income, which is estimated to be about half of India's 1.3 billion population. Agriculture sector for the last two decades has been reeling under pressure owing to land constraint, revolution of industrial development, adverse weather condition like El Nino causing drought, lack of irrigated land, mostly dependent on rain fed waters, decreasing yield per hectare of farm land and inefficiencies from the previous governments to bring reform in the sector. Though the sector has been in the top priority list of any government's reform agenda, but not much development have happened in last decade. The new government in power though has intensified the optimism towards development of the agriculture sector. The expectation is high from Prime Minister Narendra Modi, who is known for reviving the macro economic growth in the state of Gujarat. After his swearing in ceremony as Prime Minister, Narendra Modi concluded that it is imperative to develop agriculture sector and there are needs to promote agro based industries and to in sync IT to improvise the sector. Working on his lab-to-land approach, Modi has met several ministers and officials to review the agriculture situation in India. As per CSO (Central Statistical Office) the overall performance of the agricultural sector has improved marginally from 2.9% per annum growth in 1990s to 3.3% in 2000s, where certain states have shown strong turnaround with Gujarat topping the list with 9.8% per annum growth, registering an upward trend from 2% in 1990s. The growth rate is almost three times the growth rate registered at all India level. After registering such phenomenal growth over a decade, it is expected to learn some lessons from Gujarat's success story and also to analyze whether the model can be implemented on a national scale. The possibility of El-Nino occurring in 2014 is looming over domestic economy which has registered sub 5% growth in last two consecutive years. According to IMD (Indian Meteorological Department), there is 71% probability for the rainfall to be below normal to deficient during monsoon season (June-September). Even, there is a possibility of having drought this year due to El-Nino, witnessed previously in the years 2004 and 2009. As most of the cultivable land in India is not irrigated, poor monsoon could fuel the inflation thus pushing the economic growth in back seat. It is expected that the new government is set to announce spate of reforms in agricultural sector in the forthcoming budget due on 10th July 2014. Moreover, it is expected that Indian foodgrains consumption to grow to 293 million tonne (mt) by 2022 from 236 mt in 2014, growing at a CAGR of 2.2% on the back of growing population, demographic shift and government initiatives.

Contribution of agricultural output in GDP has been declining

The Indian agricultural sector has undergone a significant structural change in the form of decreasing share in GDP contribution from 30% in 1990-91 to 14% in 2013-14, indicating a gradual shift from the traditional agrarian economy towards a service dominated one. The decreasing agriculture's contribution to GDP has not resulted in reduction in the share of agriculture employment and still it employs half of India's workforce. It is estimated that about 52% of the total workforce is still employed by the farm sector which in turn makes more than half of the Indian population dependant on agriculture sector for sustenance. The below graph exhibits that agriculture and allied activities which contributed about 53% of GDP during 1950-51, now came down to 14% in 2013-14. Other graph shows that there was a structural change in GDP contribution and the share of agricultural sector has gradually transformed to Service sector which now contributes about 67% of the total GDP. Declining share of agriculture to GDP, the continuing high pressure of population on agriculture and increasing fragmentation of land holdings led to decline in availability of cultivated land area per household and thus makes harder for agriculture sector to create additional employment opportunities to sustain the livelihood of the rural households. The decrease in availability of cultivable land along with increasing population can be considered as the root cause of India's stubborn inflation. Poor logistic infrastructure and lack of cold storages are also reasons for high inflation, which really hurt the people with lower income level. Decrease in availability of cultivable land is due to urge for industrialization across the country which somewhat is important for achieving growth rate of 8-9%, however, during the same time emphasis should be given in improving the productivity yield of the land to mitigate the impact. It is seen that India has significantly lower yields compared to global averages for most of the corps. Hence, India has huge potential to improve its productivity yield of the land to revive the agricultural growth going ahead.



Source: RBI



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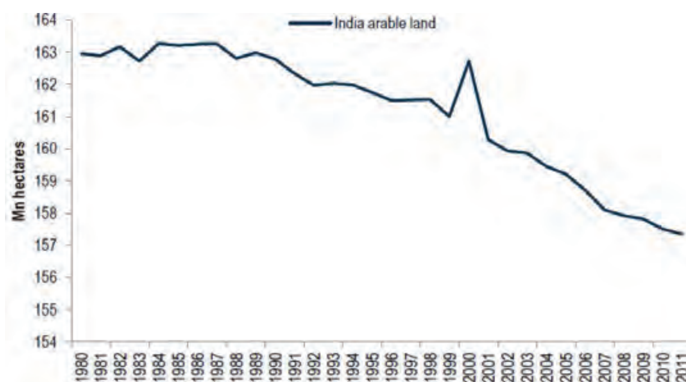
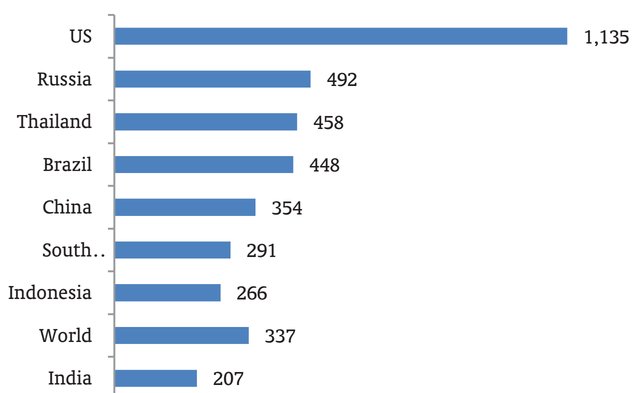


Source: trading economics

Food grain production per capita is lowest in the world

India's foodgrains demand grew at a CAGR of 1.8% over the past decade (2002-2012). It is estimated that foodgrain demand to grow at a CAGR of 2.2% by 2022 on the back of rising population, demographic shift and government initiatives. India's population grew at a CAGR of 1.5% over the past decade and it is expected to grow at a CAGR of 1.1% in coming decade, resulting in higher demand for foodgrains. Moreover, the population of age between 15-59 years in total population is increasing, thereby increasing the demand for higher foodgrain consumption per capita over the period. Government initiatives such as the availability of cheaper foodgrains through national food security programs would augment the demand for food grains. However, concerns such as land constraints and lower productivity yield would be an uphill task to meet the incremental food demand. As per the estimates there would be an incremental demand of 57 mtpa food grains over next decade and at current yields the incremental production will be at meagre 8 mpta. At current yields the annual food production/capita is estimated to contract to 188 kg by 2022 from 270 kg currently, whereas globally the average production/capita is 337 kg. Hence to meet the incremental demand, India needs to increase its yield productivity per capita. The arable land availability in India has been in downtrend in last two decades mainly driven by issues such as land being rendered barren owing to nutrient depletion and shift to industrial or urban usage. To revive the agriculture sector it is imperative to increase focus on developing the sector by migrating the land away from industrial and urban usage back to agriculture, aggressively rehabilitate the nutrient depleted land, try to bring more arable lands under irrigation system and lower the dependency on monsoon for crop productions. Newly elected Prime Minister Narendra Modi is keen to focus on improving the agriculture sector and there are high expectations of reforms and incentives announcement in the forthcoming general budget.



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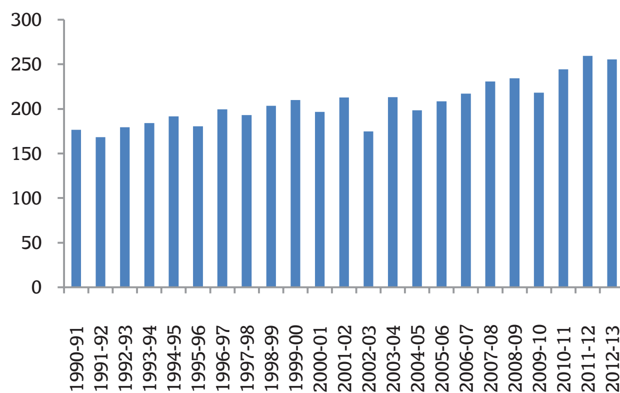

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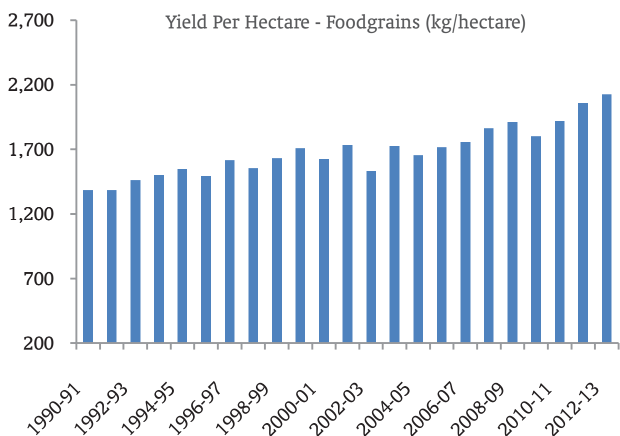
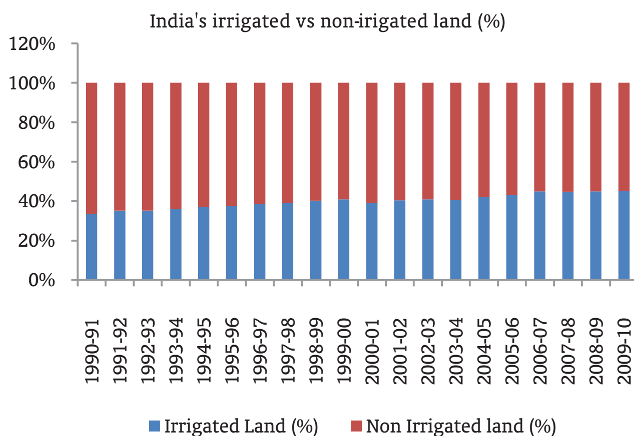


Source: RBI

Key reasons for Gujarat agri growth

The revival story of Gujarat's agriculture sector during the regime of Narendra Modi as Chief Minister is often cited to substantiate the so called Gujarat model growth. It is believed that Gujarat's agri growth was mainly led by creating new sources of water to farmland and providing upgraded technology services to farmers. Some of the notable technological development which supported the state to achieve the agri growth such as technological success of BT Cotton and government's initiatives on building check dams aid the growth. The initiatives taken by Narendra Modi in 2005 had changed the agricultural landscape of the state. The strong turnaround in Gujarat power sector also revitalized the agri sector by providing uninterrupted

power supply of 8 hours to farmers at subsidized rate from different phases. The scheme is called Jyoti Gram which was set in intention to provide regular and reliable power supply to rural areas. Besides, Gujarat villages got three phases electricity for 24 hours, however the electricity rate is costlier than farmers' rate. Over a decade the seed production has zoomed to 3.3 lakh quintals from 1.16 lakh quintals reported in 2001. The state has also witnessed a phenomenal growth in yielding productivity in many crops such as in wheat the yield was up by 30% followed by cotton and fruits the yields of which have increased by 300% and 250% respectively. The most important aspect for the growth in Gujarat's agriculture sector being most of the arable land in the state is irrigated and hence the dependency on monsoon is less compared to other states which are fully dependent on monsoon for sowing. It is estimated that about 55% of India's arable land is not irrigated thus exposed to the vulnerability of monsoon. Over the period, the state has invested heavily in irrigation system which according to industry experts is the key factor to success of Gujarat agri model. The state has seen 57% increase in gross irrigated area and at the same time many new areas have also contributed to Gujarat agricultural growth in the past few years with production improving in non productive areas like Saurashtra and Kutch. The development in agri sector is also due to well developed connectivity and road infrastructure in the state which enabled the farmers to deliver their products in right place in right time and at right price. The growth in agri sector came at the backdrop of state government's reform policies towards the development of the sector. The implementation of the Gujarat model across the country might not be an easy task, there is a expectation that the new government should work on educating the farmers across the country in order to develop the sector.



Source: RBI

Possibility of El Nino can hinder Kharif sowing

Agricultural sector's dependency on monsoon in India is high and hence, there is a strong correlation between monsoons and food grain production in India. India is lacking in agricultural infrastructure development and so after 66 years of independence, Indians still expect the skies to provide succor for dry throats, farmlands and annual incomes. About 65% of total arable land in India is not irrigated and thus monsoon plays an important role towards GDP growth. During 2014, Indian metallurgical department forecasts that monsoon will be 93% of LPA (long period average) from an already below normal 95% projected earlier. The non-governmental Skymet Weather services opined that there are two third chances of rains to be below normal to drought like conditions. Every year, winds from close to the equator move from the south west direction pushing rain bearing clouds across the Indian subcontinent from Kerala to the Himalayas and this year this pattern could change due to the impact of El-Nino, which generates warm air from the sea surface and prevents rain bearing clouds from reaching the land for south and south east Asian countries. It is observed that El Nino leads to abnormal weather conditions across the world and has been responsible for drought like conditions in India in the past. According to satellite pictures, it is observed that El Nino of 2014 is similar to that of 1997, when India witnessed drought on that year. The adverse impact of sub normal monsoon could affect sowing and harvesting of crops from paddy to cotton. The monsoon crops which are as Kharif crops in India are sown mainly at the beginning of May for autumn harvesting. The crops include paddy, cotton, jowar, bajra, soybean, maize and ground nut. As per the agriculture ministry report, the sowing of kharif crops has commenced in most parts and farmers have sown rice in 0.2 million hectares, pulses in 0.2 million hectares and oilseeds in 0.08 million hectares so far. Besides, planting of commercial crops such as sugarcane and cotton is in progress and as per report sugarcane has been planted in 4.4 million hectares, while cotton in 1.7 million hectares. To minimize the impact of possible El Nino, the agriculture minister has advised state governments to prepare their contingency plans. Moreover, the ministry is also working on certain relief measures such as providing subsidy to buy seeds for re sowing and diesel for irrigation to protect the standing crops. The ministries under the leadership of Mr. Modi also highlighted the issues pertaining to agriculture, rural development, water resources, organic farming, fertilizers and chemicals and animal husbandry. The new government led by Mr. Narendra Modi is eager on reducing farmers' distress and to boost the rural economy. In the sharp contrast of El Nino's impact on agriculture, a report by Morgan Stanley states that below normal monsoon will have relatively moderate impact on agricultural output for kharif crops and also for rabi crops. A seven percent deficiency is the country's average with spatial distribution forecast shows northwest India would receive 8% below normal monsoon rain, with a 71% probability, central and southern India has an even change of normal monsoon and the eastern and northeastern regions are expected to receive normal or excess rainfall. If this forecasts assumed to be correct then the impact on kharif crop output will be minimal as the forecast states that north western India is likely to face the largest shortfall however at the same it is also the most irrigated region in India and has full water reservoir level. Even in 2009, the impact on the region's food production was minimal and hence the northwest states such as Punjab, Haryana and western Uttar Pradesh, which produces most of the kharif crops, should witness near normal crops. However, central and southern part of India could be influenced by sub normal monsoon which produce pulses and oilseeds and hence, the price pressure of these items could be built. However, to assess the impact of sub normal monsoon on the crops, it is to track the actual rainfall data as monsoon proceeds.

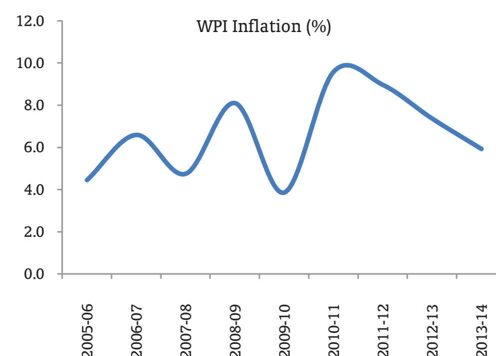
El Nino's probability of occurrence (%)

Period	Neutral	El Nino
May '14 - Jul '14	39	61
Jun '14 - Aug '14	30	69
Jul '14 - Sep '14	26	73
Aug '14 - Oct '14	22	77
Sep '14 - Nov '14	19	80
Oct '14 - Dec '14	17	82
Nov '14 - Jan '15	17	82
Dec '14 - Feb '15	18	80
Jan '15 - Mar '15	22	76

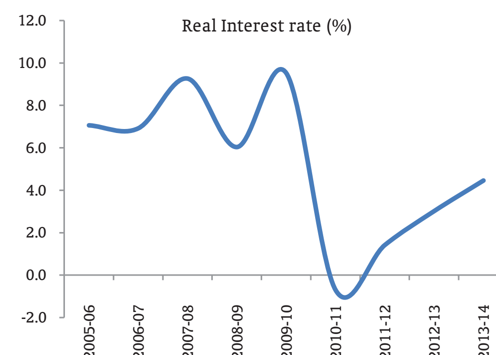
Source: business standard article

Inflation can stoke up from the occurrence of El Nino

Inflation always has been a key macro indicator to gauge the strength of the economy. Deflation which is not good for the economy and at the same time sustained inflation at higher level also hurt the economy. Hence, to tame the inflation in order to fuel the economic growth is the key agenda of every government whoever came in power. The expectation of the people from new government is to curb the inflation which has been eroding common man's household savings in past five years. Below chart exhibits that over the years the real interest rates has reduced and even in 2010-11 the real interest rate has gone to negative territory. However, since then it has recovered but still considerably low from 2005-06 level when the economic growth was robust. Agricultural products known as primary article contributes around 20% in WPI inflation and hence, any deviation in primary articles would surge the overall WPI inflation. It has been seen that in our country inflation was driven by higher food articles prices and reasons are obvious due to decreasing arable land, lower yield productivity, adverse weather conditions and most importantly lack of infrastructure development in transportation and storage. Fruits and vegetables account for the largest portion of wastage in India due to lack of storage facilities. According to Central Institute of Post-Harvest Engineering and Technology (CIPHET) ~18% of India's fruit and vegetable production, valued at Rs 133 billion is wasted annually. While Emerson food wastage and cold storage report cites studies that have pegged the value of fruits, vegetables and grains wastage in India at Rs 440 billion annually The WPI inflation which shot up during FY11 and FY12 at around 9% eased down quite significantly at 5.9% in FY14 largely on account of well distributed monsoon during the last fiscal which boosted kharif and rabi crops production. However, sub-normal monsoon during the current fiscal and possibility of El Nino could pose risk of high inflation and could also spoil the objective set by RBI of bringing down CPI inflation to 8% by January 2015. Deficient monsoon would also impact the performance of agriculture GDP which in turns affect the overall GDP growth. As per IMDs forecast, the monsoon will be weak in north western region, central and southern regions, however, north eastern regions would get normal or excess rainfall. Nevertheless, the north west, central and south peninsular zones together contribute ~81% to agriculture GDP of India and the remaining 19% is contributed by north eastern and eastern regions. Besides, nearly 64% of foodgrains are produced by north western, central and southern states which are more exposed to the El Nino risk and if it intensify, then the production of food grains like coarse cereals, pulses and wheat will be severely affected, as nearly 88% of coarse cereals, 72% of pulses and 62% of wheat production is undertaken by these regions. Hence, the deficiency or failure of monsoon could result in lower agriculture production and thus increases the chances of fueling inflation. There is empirical evidence that drought in the past had adversely affected agriculture output and pushed up the prices of food articles. For instance, during 2009-10 though agriculture production was up by mere 0.8% YoY on an average it soared food prices to higher level of 15.2% YoY. So it is inevitable that the poor agriculture GDP growth could act as a dampener for country's economic growth though the contribution of the agriculture sector is not so significant in overall growth. Higher inflation could also tend RBI to halt its decision to decrease interest rates, the key trigger to boost up investment cycle. Recently announced inflation data showed that inflation is back to haunt the common man and without much delay the newly formed government has got into a firefighting mode by announcing slew of measures to tame food inflation. The measures include imposing a minimum export price of USD 300 per tonne on onions to curb their export and also asked the states to delist fruits and vegetables from APMC act (Agricultural Produce and Marketing Committee). Delisting fruits and vegetables from the APMC act will allow farmers to sell products directly in the open market against going through Mandis thus bypassing the wholesalers which will perhaps cool down the soaring inflation. Besides, new government's bid to tame food prices could lie in focusing on four staples such as wheat, rice, onions and potatoes and eight states prone to high inflation as this could slash overall inflation by 3.2%. A report suggests that a decline of 5% inflation in a basket of commodities accounting for 20.5% of an average household's expenses could be vital to the new government's strategy. The report also shows that eight states such as UP, Maharashtra, West Bengal, Andhra Pradesh, Tamil Nadu, Gujarat, Rajasthan and Karnataka account for a 64% share in India's total consumer expenditure. Hence a decline of 5% inflation based on CPI of these states may result in a fall of overall inflation by 3.2%. It is expected that new government would seek all the possible actions to address the inflation issue which remained a key concern for every government.



Source: RBI



Source: RBI

Reforms on Cards

In the past, India has been known to be an agriculture economy with ranking second worldwide in terms of farm output. However, over the last decade the sector has lost its glory as its contribution to overall GDP has declined from 25% in 1998 to 14% in 2014, with an average growth of a meagre 3% in last ten years. With the new government in the center, the expectation builds up that the sector could recoup its lost glory. Incidentally, the new government led by Narendra Modi has acknowledged the issues pertaining to the sector and strongly emphasized the need to unleash a second Green Revolution with agriculture sector as one of the top most priorities for the new government. Mr. Modi has already raised a green revolution in Gujarat when he was the Chief Minister of that state and under his leadership the state has achieved a much higher growth in agriculture sector compared with the national average. The key initiatives and reforms that government should consider to revive the growth of the sector are as follows:

1. Improve the land productivity using high yield seeds
2. To achieve a sustainable increase in productivity with better soil conservation
3. To increase focus on irrigation projects and conservation of water resources
4. Offer higher value addition to agriculture produce and exports
5. To fix higher support prices in order to create greater wealth for farmers and farm laborers.

A recent pre budget meeting held by Finance Minister with agriculture experts highlighted some key points such as that government should boost investment in the sector, upgrade farm technologies and issue bonds to fund incomplete irrigation. The agriculture experts also suggested to promote Kissan TV channel, introduce an efficient procurement policy, prioritize farm mechanization and linking of rivers to assure the availability of water resources. They also highlighted that there is need to conserve soil, water and biodiversity in the backdrop of climate change and recommended the mandatory harvesting of rainwater with the support of the Mahatma Gandhi National Rural Employment Guarantee Act. There is also need to set up soil monitoring centers with modern equipments in every block and conserve indigenous animal breeds like cattle and buffalo. Consortium of Indian Farmers Association (CIFA) urged to issue bonds to fund about 300 incomplete irrigation projects and setting up of a National Water Authority and River Valley Authorities. Moreover, CIFA also suggests to prepare a long term agri trade policy, an efficient and hassle free procurement policy and most important to boost farm income by fixing higher support prices so as to encourage the farming community to continue in this profession. Apart from that the Indian Agricultural Research Institute suggested that the government should increase the allocation to farm research to Rs 8,500 crore from Rs 5,700 crore currently in order to underpin the agriculture infrastructure. Though the above said points are expected from the new government to implement at the earliest or at least to consider in the forthcoming budget, the government has already done with the tasks to tame inflation and revive the ailing sector.

APMC Act: To contain the soaring inflation, government has decided to delist the fruits and vegetables from APMC Act. Sale, storage and marketing of agricultural products in each state is regulated and governed by the Agricultural Produce Marketing Act, which established the Agricultural Produce Marketing Committee for each state. Under APMC act, except Food Corporation of India, only licensed members of APMC are allowed direct marketing and buying of fruit and vegetable from farmers and consumers and retailers are not allowed to buy directly from farmers. APMC allowed traders and middleman to inflate prices irrespective of demand-supply dynamics. Moreover, there were wastages of these perishable items owing to lack of adequate and proper storage and taking advantage of these, a clutch of middleman initiated black marketing which led to exorbitant prices when it reached the end consumers. This indicates that lack of storage is playing into the hands of these middlemen to inflate the prices of essential food articles. This step from government is highly appreciated as the RBI report suggests that both fruits and vegetables have contributed significantly to the high inflation over the last 12-18 months.

MSP (minimum support price): The new government has started to deliver its commitment as it was outlined in its election manifesto. The newly formed government has increased the MSP of kharif crops (paddy, coarse cereals and cotton) for FY15, amid forecasts of sub-normal monsoon. Previously, government has planned to rework the formula to fix the minimum support price for crops like rice and wheat, with mark up for profit besides protection for input costs. The new formula is based on the entire cost of production and 50% profit, which will help the farmers to boost its income and encourage them to continue with this profession. The Food Corporation of India (FCI) is the nodal agency to buy farm products at the MSP fixed by the government. The MSP for wheat and rice have more than doubled in the past 10 years, which can be considered as root cause to fuel the food inflation. The UPA government had increased MSP for wheat by 120% from Rs.640 per quintal in 2004-05 to Rs.1400 for 2014-15, while the MSP for rice has been increased by 130% from Rs.560 per quintal in 2004-05 to Rs.1310 in 2013-14 according to the Agriculture Minister. The new government replicates UPA government's policy and raised the MSP of all kharif crops such as the MSP of rice the important staple food was increased by 3.8% to Rs 1,360 per quintal and superior quality rice by 4.1% at Rs 1,400 per quintal to protect rice growers from any distress sale and also to build stocks for new government's welfare programmes. Other crops also witnessed increase in their MSPs which will be effective from 1ST October 2014. Besides wheat and rice, there are altogether 25 crops (most important bajra, sugarcane and cotton) for which government announces MSP. MSP reflects the cost of production plus a reasonable return to farmers. The intention to increase MSP is to subsidies the farmers' increased cost of production with decent return on investment and also to raise food production through green revolution. An essential component of the Green Revolution strategy was the decision to incentivize production by setting a remunerative cost-plus floor to certain agricultural prices. The government guarantees purchases of crops at these prices during the procurement season. The farmers, on the other hand, can either sell their products to government agencies at the MSP, or in the open market, depending on which being more advantageous to them. Hence MSP is an important factor in determining the agriculture sector reforms and new government has already shown its strong effort on reviving the sector by increasing the MSP of kharif crops.

MSP for below crops has increased

(Rs/quintal)	2013-14	2014-15	YoY
Paddy (Common)	1,310	1,360	3.8%
Paddy (grade A)	1,345	1,400	4.1%
Moong	4,500	4,600	2.2%
Urad	4,300	4,350	1.2%
Tur	4,300	4,350	1.2%
Cotton (medium staple)	3,700	3,750	1.4%
Cotton (long staple)	4,000	4,050	1.3%
Sunflower seed	3,700	3,750	1.4%
Seasamum seed	4,500	4,600	2.2%
Jowar (hybrid)	1,500	1,530	2.0%
Jowar (maldandi)	1,520	1,550	2.0%

Source: media article

Other recent developments in agri sector: In a recent move, to bail out ailing sugar industry, new government has announced a spate of reforms. It allowed an import duty hike on sugar from 15% to 40%, extended sugar export incentives till September 2014 and also increased ethanol blending with petrol from current 5% to 10%. Moreover, food ministry announced that sugar mill will receive an additional interest free loan of Rs 4400 crore on the condition that mill owners must repay farmer dues worth Rs 11,000 crore. According to sugar industry, these three moves are big positive for the sector as it will help the sugar companies to pay arrears to sugar cane farmers which stand at Rs 11,000 crore. However, it is expected that hike in import duty would surge wholesale price of raw sugar which in turn can increase retail price. The increase of ethanol blending in petrol would considerably lower India's Oil import bill and an estimated forex savings of USD 1.6 to 1.7 billion. These recent reforms announced by new government towards the development of the agri sector clearly indicate government's strong commitment of reviving the sector.

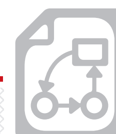
To curtail the mounting subsidy burden, new government has planned to raise urea prices (the fertilizer most by used by farmers) by at least 10% (estimates to save government subsidy by around Rs 16 billion annually). These would be one of the most important steps taken by new government in last four years to curb wasteful use of urea and ease fiscal pressure resulting from a weaker economy. The urea price in India for farmers is about USD 90/tonne and it is considered to be lowest in the world and even in Pakistan and China the price is around USD 300-400 per tonne and hence, it is inevitable to increase the price. However, to negate the impact of higher urea price it is expected that new government might increase the MSP of certain crops.

If India has to achieve economic growth of 8-9% in next five years, agriculture sector should contribute substantially to overall GDP. The expectation is lot from new government to revive the sector and help to regain its lost glory when agriculture sector contributed about 25% to country's GDP during 1995-96. The initiatives and reforms like improving land productivity using high yield seeds, achieving sustainable increase in productivity with better soil conservation, increasing focus on irrigation projects, minimize the dependency on monsoon for sowing and offering higher incentives to farmers to encourage them to continue in this profession would be the key growth drivers for agri sector going ahead. Hence, there is huge potential for agri sector companies engaged in seed business, pesticides, urea and micro irrigation to augment their revenue in coming years.

Valuation Matrix

Company	CMP (Rs)	MKT CAP (Rs cr)	PE_RATIO	PE Ratio FY15E	P/BVPS	ROE (%)	EBITDA Margin (%)	PAT Margin (%)
Kaveri Seed	729.0	4960.5	23.9x	14.7x	9.5x	48.4	21.9	20.7
Jain Irrigation	115.5	5280.5	NA	14.1x	2.5x	-1.8	13.1	-0.7
Advanta limited	280.0	2361.9	53.0x	NA	3.8x	7.5	16.0	3.5
Rallis India	220.6	4278.3	28.3x	18.7x	6.0x	22.7	15.6	8.7
RCF	67.5	3723.9	15.4x	NA	1.5x	10.0	8.6	3.7
EID Parry	210.3	3688.9	47.3x	NA	1.5x	3.2	7.5	0.6
GSFC	80.5	3187.8	10.1x	NA	2.1x	22.3	15.7	9.5
Coromandel International	261.0	7426.4	20.8x	10.9x	3.3x	15.9	8.1	3.6
Chambal Fertilisers	57.7	2413.8	9.8x	7.8x	1.2x	12.5	7.6	2.7
National Fertiliser ltd	44.7	2183.1	NA	NA	1.5x	-5.8	1.7	-1.1
Dhanuka Agritech	395.0	1945.8	20.9x	NA	5.9x	31.3	16.5	12.6
UPL LTD	327.0	14051.8	15.1x	10.4x	2.7x	19.2	19.1	9.0
GNFC	104.0	1606.3	4.3x	NA	1.2x	31.9	24.1	14.3
P I industries	327.0	4450.1	23.6x	15.0x	6.4x	30.7	18.2	11.8
Monsanto ltd	2342.0	4022.2	33.0x	NA	11.7x	32.7	25.2	21.4
Bayer CropScience	1872.5	6778.5	132.0x	NA	21.9x	17.8	15.1	7.5

Source: Bloomberg



Market Diary

BEST PERFORMERS FOR THE MONTH (CNX 100)

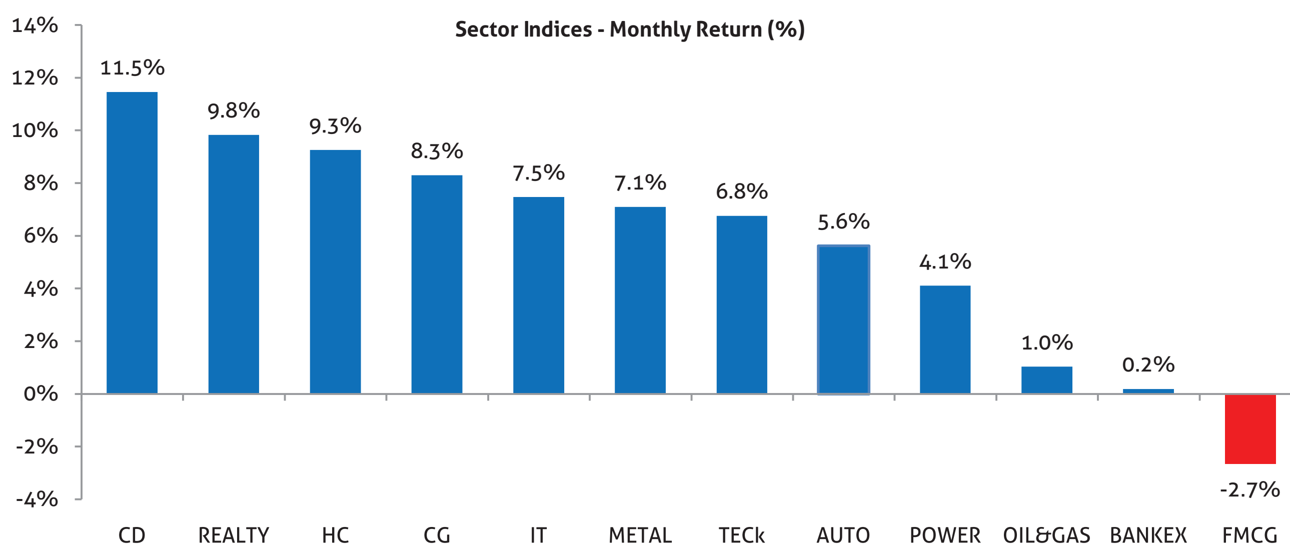
Sl No.	Co. Name	Cl. Price 29.05.2014	Cl. Price 26.06.2014	Var (%)
1	GAIL	371.55	460.00	23.8%
2	RELCAPITAL	524.25	623.55	18.9%
3	BAJAJ-AUTO	1941.20	2289.00	17.9%
4	PETRONET	147.60	172.75	17.0%
5	BHARATFORG	510.15	589.45	15.5%
6	ASIANPAINT	506.35	584.80	15.5%
7	CIPLA	372.45	425.55	14.3%
8	HEROMOTOCO	2344.60	2646.90	12.9%
9	TATASTEEL	465.95	525.80	12.8%
10	TATAGLOBAL	148.90	167.80	12.7%
11	COLPAL	1364.35	1534.25	12.5%
12	ULTRACEMCO	2392.10	2685.05	12.2%
13	LUPIN	920.90	1028.60	11.7%
14	FEDERALBNK	115.90	129.35	11.6%
15	HINDUNILVR	556.45	618.65	11.2%
16	ADANIPORTS	211.90	234.55	10.7%
17	HINDALCO	149.30	165.25	10.7%
18	TITAN	313.85	346.80	10.5%
19	RPOWER	94.50	104.00	10.1%
20	ONGC	374.15	411.35	9.9%

(Source: BSE)

WORST PERFORMERS FOR THE MONTH (CNX 100)

Sl No.	Co. Name	Cl. Price 29.05.2014	Cl. Price 26.06.2014	Var (%)
1	BANKINDIA	325.65	290.50	-10.8%
2	UBL	763.60	695.00	-9.0%
3	MCDOWELL-N	2826.70	2576.25	-8.9%
4	ITC	342.50	316.25	-7.7%
5	RELIANCE	1073.55	1011.90	-5.7%
6	M&MFIN	290.85	276.65	-4.9%
7	BANKBARODA	876.80	847.80	-3.3%
8	HINDPETRO	411.10	398.35	-3.1%
9	SRTRANSFIN	913.10	885.30	-3.0%
10	ICICIBANK	1436.95	1402.65	-2.4%
11	YESBANK	548.15	535.30	-2.3%
12	CUMMINSIND	650.55	636.75	-2.1%
13	IDFC	127.50	126.30	-0.9%
14	PNB	960.35	956.15	-0.4%
15	INGVYSYABK	643.15	640.35	-0.4%
16	ADANIENT	451.80	450.25	-0.3%
17	CANBK	432.75	432.15	-0.1%
18	M&M	1176.95	1175.90	-0.1%

Indices Performance 29.05.2014 –26.06.2014



Source: BSE

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	1364.9	17611.8	12.2	10.1	1.6	11.1	12.6	6.5	7.4	0.5
2	ACC	1453.1	27224.0	24.7	19.5	3.5	14.4	16.2	30.0	51.5	2.1
3	Ambuja Cements	219.3	33783.8	22.8	19.7	N/A	N/A	13.3	3.6	43.5	N/A
4	Adani Enterprises	448.3	49518.9	17.2	12.5	2.1	9.8	14.2	1.4	9.5	0.3
5	Adani Ports	235.0	48553.1	22.0	17.3	5.5	22.9	23.0	1.0	13.0	0.4
6	Apollo Hospitals	982.4	13523.0	34.3	28.1	4.5	11.1	13.9	5.5	25.1	0.6
7	Asian Paints	586.2	56093.9	38.0	31.7	13.9	32.8	33.7	5.3	41.7	0.9
8	Axis Bank	1928.5	90848.4	N/A	N/A	2.4	17.6	N/A	20.0	17.5	1.0
9	Bharti Airtel	339.9	135292.0	25.5	20.1	2.3	5.0	9.5	1.0	16.7	N/A
10	BHEL	251.4	61483.7	20.5	21.0	1.9	11.0	8.0	5.4	19.8	2.2
11	Bharat Forge	589.9	13722.1	25.0	19.2	5.1	20.2	20.7	3.4	29.9	0.6
12	Bajaj Auto	2295.0	66236.1	17.5	15.1	6.5	37.1	33.3	50.0	50.1	2.2
13	Bajaj Finserv	905.0	14391.8	9.0	8.1	1.5	18.0	18.0	1.5	1.5	0.2
14	Bajaj Holidings	1240.4	13804.8	N/A	N/A	1.2	17.8	N/A	25.0	15.0	2.0
15	Bank of Baroda	852.9	36405.8	N/A	N/A	1.0	14.1	N/A	21.5	21.7	2.5
16	Bank of India	288.5	18657.7	N/A	N/A	0.6	10.8	N/A	5.0	12.6	1.7
17	Bosch Ltd	12970.0	40274.6	N/A	N/A	6.4	14.9	N/A	55.0	19.5	0.4
18	BPCL	572.0	41060.7	14.4	12.7	2.1	21.6	15.0	11.0	42.3	1.9
19	Cairn India	365.5	69504.5	6.5	6.9	1.2	23.6	14.4	12.5	19.2	3.4
20	Canara Bank	434.0	19933.3	N/A	N/A	0.7	9.5	N/A	11.0	19.3	2.5
21	Container Corp	1165.7	22687.2	21.0	18.4	3.3	14.5	15.1	12.5	25.2	1.1
22	Cipla Ltd	423.0	34168.3	22.0	18.4	3.4	14.6	15.2	0.0	0.0	0.0
23	Colgate-Palmolive	1535.2	20864.7	N/A	N/A	63.2	159.2	N/A	20.0	62.7	1.3
24	Coal India Ltd	390.4	245264.4	14.4	12.9	5.8	33.3	37.0	14.0	50.9	3.6
25	Crompton Greaves	196.0	12278.0	25.0	17.9	3.4	6.8	15.9	1.2	N/A	0.6
26	Dabur India Ltd	185.0	32446.7	29.8	25.3	12.1	38.2	34.3	1.5	34.2	0.8
27	Divi's Lab	1377.0	18018.0	19.8	16.5	6.1	28.3	27.4	0.0	0.0	0.0
28	DLF Ltd	211.4	37476.4	40.8	27.2	1.3	2.4	4.7	2.0	50.0	1.0
29	Dr Reddy's Lab	2510.0	42681.1	18.5	16.1	4.7	26.3	21.7	15.0	15.2	0.6
30	Exide Industries	144.5	12218.8	21.3	17.4	3.5	16.7	17.2	1.8	28.1	1.3
31	Federal Bank	130.6	11058.4	N/A	N/A	1.6	12.9	N/A	2.0	20.1	1.5
32	GAIL	456.1	58350.0	12.4	11.5	1.8	15.6	13.1	9.6	27.8	2.1
33	Godrej Consumer	796.5	27228.6	29.3	24.1	7.2	21.4	23.2	5.3	23.5	0.7
34	GlaxoSmith Pharma	2463.9	20870.0	41.2	33.6	10.5	24.1	29.5	50.0	87.9	2.0
35	Glenmark Pharma	577.0	15597.1	18.3	14.9	5.2	18.9	23.4	2.0	8.8	0.3
36	Grasim Inds	3400.0	31141.5	13.6	10.9	1.4	10.0	11.2	22.5	7.6	0.7
37	HCL Tech	1433.0	100383.6	16.3	14.4	5.5	36.5	31.8	12.0	20.7	N/A
38	HDFC	980.0	153066.4	N/A	19.3	4.1	22.9	20.8	14.0	27.5	1.4
39	HDFC Bank	817.9	195601.2	19.1	15.5	4.4	21.6	22.4	6.9	18.8	0.8
40	Hero Motocorp	2645.0	52855.3	19.4	16.7	9.4	N/A	41.6	N/A	N/A	N/A
41	Hindalco	165.1	34118.2	12.2	10.2	0.8	5.7	7.6	1.4	8.9	0.8
42	HPCL	400.9	13489.2	9.9	7.8	1.0	7.8	11.2	8.5	57.4	2.1
43	Hindustan Unilever	617.1	133820.7	33.7	30.4	37.8	123.3	104.2	13.0	71.3	2.1
44	ICICI Bank	1405.0	162148.0	N/A	N/A	2.1	15.2	N/A	23.0	24.1	1.6
45	IDBI Bank	107.8	17250.4	N/A	N/A	0.7	5.1	N/A	1.0	13.9	0.9
46	Idea Cellular	135.3	48039.7	18.9	16.3	2.7	12.8	13.3	0.4	6.8	0.3
47	IDFC	127.0	19157.6	9.8	8.9	1.3	12.6	12.4	2.6	21.9	2.1
48	IndusInd Bank	566.5	29756.6	N/A	N/A	3.3	16.9	N/A	3.5	13.1	N/A
49	Infosys	3200.0	182750.7	15.4	13.6	3.8	24.4	22.8	63.0	39.9	N/A
50	ITC	317.0	251519.4	24.5	20.9	9.2	35.3	36.6	6.0	53.7	1.9

N/A: Not Available

Source: Bloomberg Consensus as on June 26, 2014

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
51	Jaiprakash Associates	73.1	16166.0	66.3	15.3	1.6	-7.2	7.6	0.5	24.0	0.7
52	Jindal Steel & Power	323.1	29541.7	11.9	9.2	1.3	8.7	11.9	1.6	5.1	0.5
53	JSW Steel	1216.0	29536.0	12.0	10.4	1.3	2.3	11.6	10.0	23.9	0.8
54	Cummins India	636.8	17650.7	24.5	19.6	11.9	34.0	21.9	4.7	38.5	0.7
55	Kotak Mahindra Bank	870.0	66699.3	22.1	18.0	3.5	14.4	15.7	0.8	2.6	0.1
56	LIC Housing Finance	320.0	16101.3	10.5	8.9	2.1	18.7	18.6	4.0	17.2	1.3
57	Lupin	1029.0	46129.7	21.5	18.5	6.7	30.3	25.7	4.0	13.6	0.4
58	Larsen & Tourbo	1676.2	155257.0	28.6	22.9	4.1	13.7	15.2	12.3	21.9	0.7
59	Mahindra & Mahindra	1176.0	72422.8	14.8	11.1	3.0	21.6	19.9	12.5	19.5	1.1
60	M & M Financial	277.4	15734.9	14.1	11.5	2.9	19.3	19.4	3.8	26.4	1.4
61	Mphasis	416.0	8704.8	10.8	10.0	1.7	15.9	15.3	17.0	48.0	4.1
62	Maruti Suzuki	2480.1	75124.3	22.5	17.4	3.5	14.1	16.7	8.0	9.8	0.3
63	NMDC	181.7	71721.7	9.8	9.2	2.4	43.6	22.0	8.5	52.9	4.7
64	NTPC	152.9	125578.4	12.6	11.6	1.4	13.6	11.4	4.5	37.7	3.0
65	Oracle Financial Servc	2975.0	25002.5	17.9	16.1	2.8	16.8	14.1	0.0	0.0	0.0
66	Oil India	570.1	34345.9	8.6	7.8	1.7	14.8	18.4	30.0	50.2	5.3
67	ONGC	416.5	351930.1	10.9	9.7	2.0	16.3	17.9	9.5	30.7	2.3
68	Petronet LNG	174.0	12956.3	N/A	N/A	2.6	15.1	N/A	2.0	21.1	1.2
69	PNB	956.0	34619.3	N/A	N/A	0.9	9.9	N/A	10.0	12.8	1.0
70	Power Finance	310.3	40776.1	6.5	6.2	1.5	21.1	19.7	7.0	20.8	2.3
71	Power Grid Corp	133.0	69344.7	13.0	10.8	2.0	14.9	15.6	2.8	30.6	2.1
72	Ranbaxy Lab	494.9	20050.3	N/A	17.9	6.1	26.5	29.6	0.0	0.0	0.0
73	Reliance Capital	637.0	15316.4	18.8	16.8	1.2	6.1	6.4	8.0	39.3	1.3
74	RCOM	147.2	30124.5	29.7	20.9	0.9	3.2	4.2	0.3	7.7	N/A
75	Rural Electrification	357.9	35247.3	N/A	N/A	1.7	24.7	N/A	8.3	21.3	2.3
76	Reliance Industries	1010.0	327118.4	12.4	11.1	1.5	11.8	12.2	9.5	12.4	0.9
77	Reliance Power	104.8	29173.3	26.6	20.9	1.5	5.4	6.7	0.0	0.0	0.0
78	Steel Authority of India	93.0	38389.0	14.7	12.5	0.9	5.7	6.8	2.0	31.7	2.2
79	State Bank of India	2655.5	198032.2	11.1	8.7	1.3	10.4	13.0	30.0	15.8	1.1
80	Shriram Transport Fin	898.9	20085.9	13.1	10.8	2.4	17.1	17.5	7.0	11.7	0.8
81	Siemens	908.8	32234.2	N/A	N/A	8.1	24.5	N/A	6.0	23.5	0.7
82	GlaxoSmithKline Cons	4555.0	19181.3	N/A	N/A	10.6	N/A	N/A	45.0	43.3	N/A
83	Sesa Sterlite	294.0	87220.7	11.8	10.4	1.2	13.9	10.6	3.3	15.3	1.1
84	Sun Pharma	651.0	131546.2	22.6	19.6	7.0	19.0	25.3	2.5	17.3	0.4
85	Tata Steel	528.7	51066.5	11.6	10.1	1.3	9.6	11.8	8.0	N/A	1.5
86	TCS	2317.0	452005.9	20.8	18.2	8.2	40.7	32.6	32.0	32.8	N/A
87	Tech Mahindra	2050.0	47977.8	14.8	12.9	4.6	38.2	26.2	5.0	5.0	0.2
88	Tata Global	168.0	10376.7	22.7	19.6	1.8	9.0	8.9	2.2	35.7	1.3
89	Tata Power	104.9	27992.9	16.4	14.4	2.2	-2.3	12.3	1.1	N/A	1.1
90	Titan Industries	347.3	30788.4	34.8	28.6	12.2	32.7	30.8	2.1	25.7	0.6
91	Tata Chemicals	330.1	8380.2	11.7	9.5	1.5	-17.2	13.7	10.0	63.6	3.0
92	Tata Motors	437.1	131613.5	8.2	7.1	2.1	27.1	23.2	2.0	6.4	0.5
93	United Breweries	697.6	18376.2	60.7	45.9	12.8	12.4	19.8	0.7	10.9	0.1
94	Union Bank of India	229.0	14333.2	N/A	N/A	0.8	9.3	N/A	4.0	15.0	1.8
95	United Spirits	2547.0	37440.1	121.1	60.1	7.0	-2.1	7.5	2.5	N/A	0.1
96	United Phosphorus	327.0	13944.6	12.0	10.4	2.7	19.2	19.5	2.5	0.0	0.8
97	Ultratech Cement	2691.8	73666.4	28.1	21.5	4.3	13.6	16.8	9.0	11.2	0.3
98	Wipro	540.0	132108.1	14.9	13.3	3.8	24.9	22.3	8.0	25.2	N/A
99	Yes Bank	531.0	22183.2	N/A	N/A	2.7	24.9	N/A	8.0	17.9	1.5
100	Zee Enternainment	290.4	27838.6	28.3	23.2	10.2	26.6	23.8	2.0	21.8	0.7

N/A: Not Available

Source: Bloomberg Consensus as on June 26, 2014

Technical view

Key takeaways from June 2014:

- GDP witnessed sub 5% growth for the second successive year at 4.7%
- Fiscal deficit narrowed down to 4.5% of GDP v/s 4.9% a year earlier.
- RBI decreased SLR rate by 50bps to 22.5% of NDTL
- IIP grew at 3.4% in April v/s earlier contraction of -1.76% in March.
- Wholesale Price Index rose to 6.01% in April v/s 5.2% in the earlier month.
- Indian trade deficit jumped to $11.23bn in May from $ 10.09bn in the previous month.
- Brent crude nears its 9-month high of $115 on potential supply disruption from Iraq.
- IMD predicts of a below normal rainfall in India.

Classical theory of Technical Analysis

Indian equity market took a breather and consolidated within a tight range to end the previous month with a gain of 3.56%. Volume in the market too decreased as investors decided to follow a wait and watch policy before the Union budget. Further with the escalating geopolitical tension in Iraq led investors to remain in the sideline. Advance decline ratio remained mildly in favor of the bears however stock specific action was evident. Though, Nifty registered an all time high, the rally in the market had been fading with each successive day and profit booking activity cropped at higher levels.

Since May 2014 onwards Nifty witnessed an euphoric rally and had been advancing taking support from the rising trendline. Presently prices are flirting around the support zone waiting for fresh cues to initiate a breakdown or a pullback in prices. Decisive close below the support level of 7440 might intensify the profit booking activity in the market or rather fresh short position can be seen in near term dragging the Index further lower till the previous swing low of 7200.

On the longer term perspective Nifty since past seven years had been in the formation stage of a bullish Symmetrical Triangle. The minimum price target of the bullish 5-legged pattern stands around 8100 considering the breakout initiated previously on the month of February at 6450.

Nifty since December 2011 onwards had been trading amidst the rising channel formation and with each successive month, Index had been forming a new channel of inclination. Presently the elevated channel has raised from 61.8 degree towards 38.2 degree indicating the intensity of the price elevation within a span of 1.5 years. The elevated trendline presently projects further upside till 7900-8000 level and from there onwards the vertigo effect from the theory of price inclination might prop in.

Overall present price structure still remains firm and further price appreciation can be seen however since the intensity of the rise was sharp an exhaustion effect has propped in and gradual and steady uprise can be seen from here onward.

Modern approach in Technical Analysis

On the oscillator front the election led euphoria in the market has resulted Nifty to trade in overbought price condition in both daily and weekly chart. Further though prices registered new high oscillator was unable to do so and hence negative divergence in the market emerged which calls for a cautious approach in the market as such price pattern historically has led to price correction. However on the weekly chart oscillator continues to remain positive against which it can be concluded that due to divergence in both the time frame the Index is likely to remain choppy with negative bias.

Nifty during the month faced resistance from the upper band of the Bollinger band in weekly chart and curbed the upside potential. On the daily chart too upside got held and resulted in correction towards the mid-band of the Bollinger at 7440. Now from here onward if Nifty provides a decisive close below the said support level would change the short term outlook from positive to negative.

Moving average defines the broader trend in the market and presently with prices trading decisively above the crucial 200dma implies that the broader term trend in the market continues to remain positive. However since the exuberance of rally was to such an extent that Nifty has distant away from the said average by an exceptional amount. According to the rule of average, it has been noticed that the crucial 200dma in bull market remains within a gap of 10-12% range. Presently the gap has widened by 17-20% hence it can be concluded that market might witness correction to an extent of 5%. In the best case scenario it might so happen that Nifty remains static and pulls the average nearer.

Indian VIX

Previous month Indian VIX almost remained static and consolidated at lower levels of 15-18 range. On technical parlance the historical low level of 14 acted as crucial support level for the Index and limited the downside with the gradual disappearance of event risk from the market. However with the emergence of geo political tension from the global front and high expectation from the upcoming union budget reassures that volatility in the market is likely to resurface again. The resultant effect is Nifty on the route to a correction.

Gann Theory of Time cycle

Nifty during the month of June had been consolidating within a narrow range which has resulted in forming bullish Flag formation in daily chart. Hence successive close above the resistance level of 7650 would validate the bullish structure and higher target of 7950 can be seen in short term. Presently Nifty has been moving within the 23.6% angle of inclination. Hence according to W.D. Gann the said angle signifies 1 unit of price & ¼ unit of time. So the said target of 7900 might be achieved within 2.5 months

Calculation:

Current Market price- Projected price= 7950-7600= 350

Now, Time required to complete the target = 350/4=88=2.5 months.

Retracement principle:

Since 2008 onwards Nifty had witnessed two major correction in the market which are identified as under

1. January 2008-March 2009
2. November 2010-December 2011

The projected retracement of the two major corrective phases past 6 years indicates that Nifty was unable to breach past the resistance level of 7830 which might led the Index to consolidate at current level. However breach of the crucial support level at 7400-7440 might intensify the selling pressure in the market and lower levels of 7200-7240 can be seen.

Future Projection – July 2014

Since October 2013 onwards Nifty had been unfolding into an extracting triangle. Presently the Index is trading at its elongated f-leg. According to time and price study the maximum upside was limited till 7500-7600 which presently is achieved and now the Index might consolidate within the narrow trading range of 7100-7600 till the next wave pattern develops. However elongated zig-zag of f-leg might be the next possible outcome however condition being Nifty need to stay above 7600 consistently to reach higher target of 8300 and then further upward towards the final target of 8900 in medium term. Another set of assumption which can be identified in the short term is the newer impulse wave since August 2013 onward. According to the said 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. The rally from 5933 to 6870 here has been identified as wave(i) of wave 3 while the correction from 6870-6638 has been marked as corrective wave(ii) of wave 3. Hence now Nifty is in the progress of the broader wave (iii) and according to the retracement principle the minimum projected price target of 161.8% retracement stands around 8175. Hence the longer term trend in the Index would continue to remain positive with a much higher upside potential.

Inter-market analysis

U.S Market: Higher high formation in the US market remains uninterrupted and registered record high of 16978. On technical front the Index has been in the formation stage of rising wedge formation. Presently, it seems the Index is trading at its 4th leg and might head further northward till the level of 17200. On the oscillator front though prices had registered new high but RSI was unable to do so hence due to emergence of negative divergence some amount of cautious approach needs to be maintained at such higher level. Indian equity market in the past has remained vulnerable to global turmoil and it seems the upcoming month would also be of no exception considering the present geopolitical tension in Iraq.

Dollar Index: The currency continues to remain rangebound although witnessed a minor pullback in the previous month. Dollar Index on the longer time frame had been maintaining lower low formation in both daily and weekly chart hence indicating that the longer term trend in Dollar Index would continue to remain weak. The broader range for the currency is seen contained within 79-81 range, breach on either side would dictate the next directional movement. On Elliot wave theory present structural formation exhibits that Dollar Index might be in the corrective decline of the larger impulse wave and it is expected that the downward Zig-Zag formation would drag the currency further lower till the level of 77.60 coinciding with the 61.8% retracement level. An inverse correlation exist between Dollar Index with that of the Indian market and might witness further fund inflow in Indian equity market if dollar Index further depreciated from present levels.

Nymex Crude: Since March 2014 onward Crude Oil had been witnessing a rangebound trading action which has led the commodity to form a bullish Symmetrical triangle formation in daily chart. Previous month crude oil provided the necessary breakout and hence it can be concluded that bias to remain positive in the commodity. The said bullish pattern projects further upside potential and higher targets of 120-125 can be seen. An inverse correlation exists between the Indian equity market with that of the black gold. Hence crude oil further appreciating from present level would be negative for Indian equity market.

India 10 Year Bond Yield: Unlike the previous month 10 year bond yield almost remained static and is near the comfort level of most investors as further decline would dampen the investors sentiment and might lead to currency depreciation and the resultant effect would be fund outflow from domestic market. FII though has remained net buyers during the month indicating that other correlated market are

at a comfort level to maintain a positive outlook in the Indian equity market.

Indian Rupee: Indian Rupee continued to depreciate in the month of July and provided the much awaited breakdown of the 3-year old trend line. On the technical parlance a breach of the crucial support level of 59 has changed the outlook of the domestic currency from positive to negative and hence it can be expected that the currency is likely to depreciate further from current level. The currency might head further lower till the 50% retracement level (considering the entire rise since June 2011 onward) at 56.50-57. However, escalating tension in Iraq has again raised concern on India's twin deficit and settled the month with a pullback towards the psychological level of 60. Technically such price action further reinstates that broader trend would continue to remain negative and the recent pullback might be temporary in nature. Rupee if appreciates from present level would have a positive implication and might lead to maintain a positive outlook in Indian equity market.

Summing it up

Positives:

1. Bullish Symmetrical triangle projects upside potential till 8100 in medium term.
2. New elevated channel of inclination projects upside potential till 8000
3. Mid-Band of the Bollinger Band providing support around 7440-7480 zone.
4. According to Elliot wave theory decisive close above 7600 would maintain the positive biasness in the market.
5. Higher high formation in US market ensures that uptrend in the market to remain unabated.
6. Broader trend in Dollar Index continues to remain weak which might result in fund inflow in Indian equity market.
7. 10 year bond yield almost remained static.
8. Indian Rupee might depreciate and the recent pullback might be temporary in nature.

Negatives:

1. Nifty closed below the 3-month old upward rising trendline.
2. Presence of negative divergence in oscillator in daily chart calls for a cautious approach in the market.
3. Moving averages is distance away from its average and in extreme situation 5% correction can be noticed.
4. Indian VIX has taken support from its historical low level which has an inverse relation with that of Nifty.
5. Projected retracement level indicates presence of strong support zone around 7400-7440, breach of which might be extremely negative for the market.
6. A positive correlation exist between Nifty with that of Crude oil, present price structure indicates that Crude oil is poised for an upside potential.

To sum up Nifty during the month scaled record high but turned volatile at the latter half to end the month with a gain of 3.56%. Since Narendra Modi took over the Prime Minister's office, investors succumbed to profit booking activity after the huge gains in the previous month. While weakness on the economic data front further added logic for investors to book profit and wait for fresh trigger from the Union Budget. WPI inflation for the month of May came in at a 5-month high of 6.01% which leaves lesser room for RBI to loosen its monetary policy. Probability of low rainfall owing to EL-Nino remains in the hindsight of RBI before taking any pro-growth decision in its next policy review. On the global front, escalating tension in Iraq led crude oil prices to register 9-month high again adding to the concern on Fiscal and Current account deficit. Widening trade gap to $ 11.93 billion from $ 10.1 billion in April also acted as a hindrance for the Index to head higher. This time though NDA government has absolute majority in the Lok Sabha and bitter pills to revive the economy could have been easily undertaken but the situation is not so conducive enough to take such gallant steps considering the present geopolitical tension coupled with deficit rainfall. However positive vibes with the reign of measures taken by the present government to revive the ailing economy continues to defend the faith of investors. The bitter pill of Railway fair hike was a praiseworthy move followed by a hike of 100% FDI in defence, in the upcoming budget government is expected to provide incentive to the textile sector to increase export and encourage manufacturing, surge in import duty and probable increase of ethanol blending with petrol was another master stroke to revive the ill health of the sugar industry while low cost housing for every Indian and decontrol of diesel prices followed by increase in Urea prices were the other important focus area which are supposed to revive the subsequent sectors. Hence, during the previous month despite global woes and metrological departments' expectation of below normal rainfall, optimism prevailed before the newly formed government presents its first Union budget with its encouraging investment ideas and reigniting the investment cycle. Going ahead in the forthcoming month all eyes would be on the Union Budget for the requisite boost and the development in the global front.

On the technical front Nifty ended the month on a positive note with occasional hiccups, volume remained on the higher end though but have subsided compared to that of the previous month. Encouraging advance decline ratio further reinstates that though profit booking activity was witnessed at higher level but stock specific movement remained with the revival of the capex cycle and conducive investment environment. On the technical front Nifty since the euphoria of the election result entered into overbought price condition and was bound for a corrective decline which did materialize in the previous month. Nifty during the month provided the break down from the rising trendline & raised concern if Nifty would be in a position to maintain its existing uptrend. Further, Nifty also distanced away from its crucial moving averages hence indicating that tentatively 5% correction might be due but on the best case scenario, Nifty is likely to remain rangebound and pull the averages nearer before heading upward. Market is now trapped in the zone of 7400-7700 and a breakout of this zone will give a direction ahead. Near term support in the market is seen around 7400-7440 zone and till it holds Nifty is heading towards the 7900 and higher. Immediate resistance lies around 7650, consistent close above the said level would help to reach higher target of 8300 and then towards its final destination of 9000 in medium term.

Derivatives Segment

Market has started the July 2014 series with a market open interest (OI) position of Rs. 1,26,036 Cr, an increase of 0.03% compared to previous month. July month expiry started with a decrease in Index Future by 9% and an increase in Stock Future Open Interest by 6%. Index Option OI decreased by 4% and Stock Option OI increased by 18%. Nifty had witnessed a gain of 3.56% last month following a positive return of 5.77% in the previous month i.e. May2014 (expiry to expiry basis).

The table below showing the open interest positions on the first day of the new series:

Market OI	26/06/2014	29/05/2014	23/04/2014	27/03/2014	26/02/2014	30/01/2014
Index Future	14391	15821	12205	13618	10940	12445
Stock Future	55187	52270	39022	34759	31663	31863
Index option	51735	53902	41616	49987	44766	43907
Stock option	4723	4001	3555	3771	3439	4047
Total OI	**126036**	**125994**	**96398**	**102135**	**90808**	**92262**

Nifty Rollover Statistics

	JUNE, 14	MAY, 14	APRIL, 14	MARCH, 14	FEBRUARY, 14	JANUARY, 14
Nifty R/O*	71.39%	59.70%	58.81%	56.89%	64.94%	72.06%
Nifty CoR**	0.50%	0.49%	0.31%	0.50%	0.58%	0.59%
Nifty Closing	7493.2	7235.65	6840.8	6641.75	6238.8	6073.7
Monthly Return	3.56%	5.77%	3.00%	6.46%	2.72%	-3.27%

*R/O: ROLLOVER **CoR: COST OF ROLLOVER

From the current CALL/ PUT data we anticipate Nifty to trade in the range of 7300-7900. Nifty 7000 put witnessed highest open interest and Nifty 8000 call witnessed highest open interest at the beginning of the series.

Stock Futures Highest Rollover

Instruments	Rollover On 26/06/2014	3 Months Average Rollover	*CoR on 26/06/2014 (Expiry Day)
JSWSTEEL	93%	92%	-0.30%
UNIONBANK	93%	86%	1.01%
MCDOWELL-N	92%	78%	-7.26%
KTKBANK	92%	83%	-1.85%
ALBK	91%	80%	1.11%

Stock Futures Lowest Rollover

Instruments	Rollover On 26/06/2014	3 Months Average Rollover	*CoR on 26/06/2014 (Expiry Day)
IGL	52%	88%	0.65%
ARVIND	57%	78%	0.41%
HDFC	61%	66%	-0.55%
M&M	61%	66%	-0.36%
SUNTV	61%	71%	0.84%

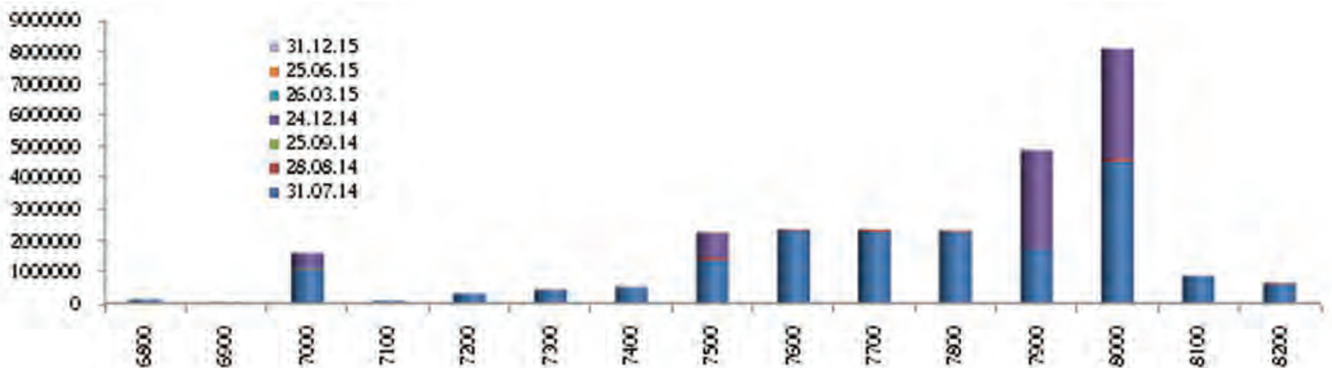
Stock Futures With Positive Cost Of Rollover (CoR)

Instruments	Rollover On 26/06/2014	3 Months Average Rollover	*CoR on 26/06/2014 (Expiry Day)
HDFCBANK	77%	80%	1.54%
DISHTV	89%	81%	1.30%
LUPIN	90%	86%	1.26%
AUROPHARMA	86%	90%	1.19%
JPPOWER	88%	83%	1.17%
IDBI	89%	86%	1.16%
TATACHEM	75%	81%	1.16%
INDUSINDBK	76%	75%	1.14%
VOLTAS	72%	79%	1.14%
GRASIM	89%	80%	1.13%

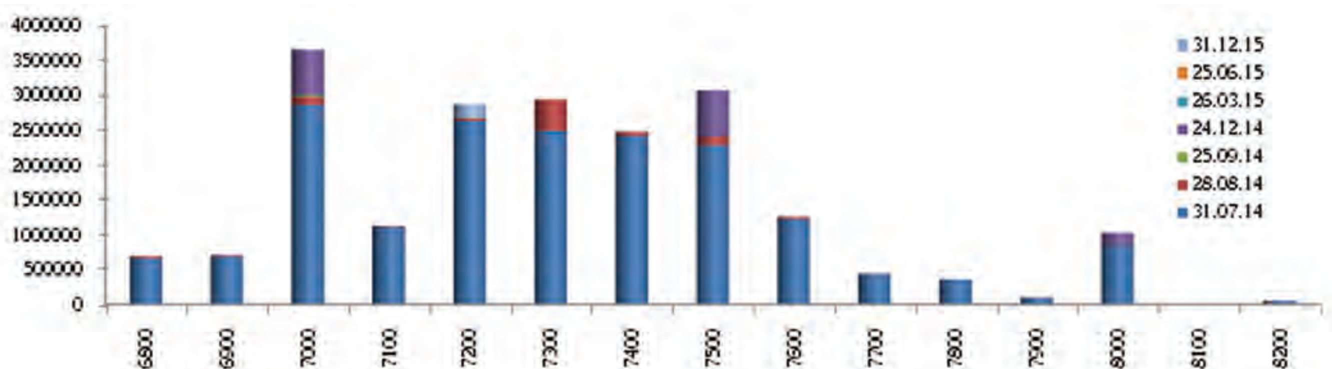
Stock Futures With Negative Cost Of Rollover (CoR)

Instruments	Rollove r On 26/06/2014	3 Months Average Rollover	*CoR on 26/06/2014 (Expiry Day)
MCDOWELL-N	92%	78%	-7.26%
KTKBANK	92%	83%	-1.85%
JSWENERGY	88%	74%	-1.53%
BAJAJ-AUTO	76%	76%	-1.47%
HEROMOTOCO	70%	75%	-1.36%
MCLEODRUSS	91%	89%	-1.13%
IDFC	87%	86%	-0.87%
TATASTEEL	85%	78%	-0.78%
CAIRN	88%	79%	-0.67%
HDFC	61%	66%	-0.55%

Call Options Open Interests Distributions (July'14, Aug'14, Sep'14, Dec'14, Mar'15, June'15, Dec'15)



PUT Options Open Interests Distributions (July'14, Aug'14, Sep'14, Dec'14, Mar'15, June'15, Dec'15)



Mutual Fund Overview

HDFC Index Fund - Nifty Plan (G)
Equity: Large Cap.

Fund Objective: To generate returns that are commensurate with the performance of the Nifty, subject to tracking errors.

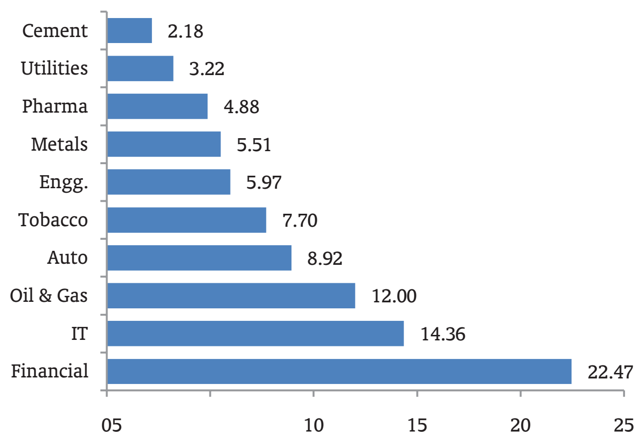
Fund Commentary: The fund has generated a return of 16% since inception and has consistently outperformed the benchmark since inception. As the fund also invest in nifty 50 companies with almost same ratio so beat and R-Square of the fund is almost one. The fund manager of the fund has adequately manages the fund with positive alpha. The portfolio is skewed towards financial space, followed by Information Technologies and Energy. The fund can be seen as a replica to the nifty index. The fund can be considered keeping a long term investment horizon.

Top Ten Holdings

Stocks	% of Net assets
ITC	7.70
Reliance	7.16
ICICI Bank	6.75
HDFC Bank	6.00
Infosys	5.83
Larsen	5.17
TCS	4.51
SBI	3.19
Tata Motors	3.05
ONGC	2.73

Asset Allocation

Equity	Debt	Cash & Equiv.
99.26	0.00	0.74



Important Information

NAV	65.69
Inception Date	July 10, 2002
Fund size(in Rs cr)#	77.83
Fund Manager	Vinay Kulkarni
Entry load	N.A.
Exit Load	1%, if redeem within 3 months
Benchmark	CNX Nifty
Min Investment	Rs. 5000
Min Sip Investment	Rs. 500

as on May 31, 2014

Month of Recom.	Recommended in the Past	Returns till date (%)
Jul-13	SBI Magnum Bluechip Fund (G)	40%
Aug-13	HDFC Balanced Fund (G)	44%
Sep-13	HDFC Top 200 Fund (G)	65%
Oct-13	BNP Paribas Equity Fund (G)	32%
Nov-13	Birla Sun Life Frontline Equity Fund (G)	29%
Dec-13	ICICI Prudential Focused Bluechip Equity (G)	27%
Jan-14	Axis Equity Fund (G)	23%
Feb-14	Franklin India Smaller Companies Fund (G)	42%
Mar-14	HDFC Mid-Cap Opportunities Fund (G)	34%
Apr-14	Mirae Asset Emerging Bluechip Fund (G)	23%
May-14	Birla Sun Life Long Term Advantage Fund (G)	15%
Jun-14	Birla Sun Life Infrastructure Fund (G)	2%

Key Ratios

Beta	1.00
Standard deviation (%)	17.82
Sharpe Ratio	0.21
Alpha	0.14
R Squared	1.00
Expense ratio (%)	1.00
Portfolio Turnover ratio (%)	19.00
Avg Market cap (Rs in cr)	125,098

as on May 31, 2014

Performance Of The Fund

	1 month	3 months	6 months	1 year	3 Years	5 Years	Since Inception
Fund (%)	5.1	16.2	22.8	30.7	11.9	10.4	16.0
S&P CNX Nifty (%)	4.6	15.8	22.4	29.7	11.8	10.8	--

Commodities - Monthly Round up

"Bad decisions made with good intentions, are still bad decisions."
Jim Collins

Euro/US Dollar

When On 5th June ECB announced a range of measures aimed at tackling the deflation threat. For quite a few months Eurozone inflation was much lower than the ECB's target rate of 2 percent. And that's reminds investor the case of a lost decade in Japan. The most important decision from the ECB was to lower the target rate from 0.25% to 0.15%. Though the move seems to be insufficient for the time being but at first it lowers the yield and makes it near the short term rate of US. As well as the lending rate, the ECB also announced a cut in the rate of interest it pays for deposits, to minus 0.1. Because of this negative interest rate banks will be reluctant to park money with ECB which in turns may push the money supply in the market with an aim to increase the rate of inflation. ECB will stop the 'sterilisation' of assets purchased under the Securities Markets Programme (SMP). This is a bit harder to understand, but what the ECB has been doing is buying government bonds from investors to stabilise the bond market. Sterilisation means that whenever the ECB buys bonds in this way, it withdraws the same amount of cash from the economy. As a result, unlike with quantitative easing (QE), no 'new money' is created, so SMP doesn't function in the same way as QE. But by stopping sterilisation, the ECB will be creating new money when it buys bonds – in other words, doing a small amount of QE. This may be a precursor to a larger-scale QE programme.

So far, ECB policymakers have placed a low risk of the Euro zone entering deflation, a vicious cycle of falling prices which pushes consumers to postpone spending, which in turn sends prices lower. Greece and Portugal are already deflating. In Spain, the Euro zone's fourth-largest economy, prices have stopped rising. The strong euro, which is partly a result of foreign purchases of Euro zone assets despite a lacklustre economy, is preventing inflation from rising. That leaves the ECB in a very difficult spot.

Technical Analysis

In the weekly chart of the pair, it's evident that the market is building a nice base near 1.3500 which was the low made on 5th June when ECB announced those measures. So that reactionary low can be taken as strong support if at all market is looking for an upward move. A tough challenge for the pair to trade above 1.3680 levels which is the high of that volatile week. A close below that resistance level will attract fresh buyers and momentum players may take this as an opportunity to go long for a level of 1.3770 levels as a target. Traders should put a stop at 1.3630. Long term Stochastic Oscillator is still in bullish horizon which gives confidence that the market should go higher in short runs at least. Keltner Channel is also showing a resistance near 1.3780 level which is close to our target of 1.3770.

In daily chart of the pair, 200 days simple moving average is guarding the door at 1.3695, so the market will surely give some sideways move at that side but if in a single move market cleared that level then bullishness of pair will be well proved. On May'2014 market made one double bottom with double top and breakdown from that formation and the neckline was at 1.3695, so from daily chart point of view 1.3695 is decent resistance level. No negative sign still exit in daily chart too which at par with the weekly alignment.

Bearishness can only be established if the pair closes below 1.3500. In that scenario market may make a target near 1.3300 levels which is closer to its previous swing low and more over the long term bullishness of the pair will be jeopardized totally. But as we mentioned earlier, the weakness is still not there in the chart.

Weekly Chart: Euro/USD

US Dollar/ INR

The Rupee is giving a run to the investors by its unpredictable movements; the currency which slumped to near the 69 level on August'2013 has strengthened nearly 13% till 2014. On the back of the steps taken by RBI and also by strong share market Rupee touched 58.30. Foreign funds have bought shares worth $2.3 billion and debt worth $2.98 billion so far in June, taking total inflows in the year to $9.9 billion and $10.6 billion in each of the two segments.

But from the mid of last month, the pair is started weakening against the Dollar but mostly because of Iraq's tension which already erodes the value of its peers in Asian region. The spike in crude price already is creating demand for the Dollar. Even a risk of repatriation by FIIs is always there in Indian market. The budget of the new Government is around the corner, so any reversal of hope may create a sudden or impulsive reaction on the Rupee.

Technical Analysis

Weekly chart is indeed bearish for the pair. But there is a bounce coming in after hitting the low near 58.50. Though that's really not a trend reversal but the bulls will be in control if the pair can survive above 60.70 level. In that case, it will be not surprising to see the pair again at 63.40 levels in the very short run. Strong support is at 59.50 levels which is the half of last bullish Morubazu candle on the weekly chart. Long term Stochastic Oscillator is also indicating some upward move in the pair which is again supported by short term Oscillator. 20 weeks Simple Moving Average is at 60.30 levels which is acting as resistance and a close above that level will reinforce the bullish view on the Rupee. This scenario may change if we can make a low below 58.20, then our recommendation will be to go short heavily on the pair with the objective of 55 in long run. The stop will be above 60.

Daily chart showing some sideways action in the last week of June'2014. The support at this zone is at 59.70 level. 200 days SMA support is at 58.70 levels, so a sustainable close below this level can reignite selling pressure. Above 60.70 levels market will regain more power for an upward thrust. If there is a daily close above 61.20 then our recommendation will be to go long for a target of 63.10 and the stop will be at 60.20.

Weekly Chart: USD/INR

Jeera NCDEX

IF we look at the weekly chart of this commodity, there is two Trend Reversal candle stick pattern after a fall from mid of May'2014. The last week of June was a reconfirmation of the trend reversal after it covers the entire loss it suffers from May. The momentum is now building up for a target of 12500 if at all our assumption goes right. Long term weekly moving average (200SMA) is at 12700 levels and there itself we have one congestion zone made on December 2013. Weekly RSI is above 50 which is confirming the bullish bias of the market. Short term moving average (10EMA) is supporting this up trend and is at 11000 levels. IF there is any correction that's going to be a buying opportunity for the traders. Our recommendation is to go long in the commodity within 11200 levels and put a stop at 10800 and the aim will be at 12500.

Weekly Chart: Jeera

World Economic Event Calender – July 2014

Monday	Tuesday	Wednesday	Thursday	Friday
	1	2	3	4
	US: ISM Manufacturing JN: Markit/JMMA Japan Manufacturing PMI CH: HSBC China Manufacturing PMI IN: HSBC India Manufacturing PMI EC: Markit Eurozone Manufacturing PMI	US: MBA Mortgage Applications UK: Nationwide House PX MoM US: Factory Orders US: ADP Employment Change EC: PPI MoM	US: Change in Nonfarm Payrolls US: Initial Jobless Claims EC: ECB Main Refinancing Rate US: Unemployment Rate US: Trade Balance	EC: Markit Eurozone Retail PMI
7	8	9	10	11
JN: Leading Index CI	JN: BoP Current Account Balance UK: Industrial Production MoM UK: Manufacturing Production MoM US: NFIB Small Business Optimism UK: NIESR GDP Estimate	CH: CPI YoY US: MBA Mortgage Applications CH: PPI YoY JN: Machine Tool Orders YoY US: Consumer Credit	UK: Bank of England Bank Rate US: Initial Jobless Claims JN: Machine Orders MoM JN: Domestic CGPI YoY US: Wholesale Inventories MoM	IN: Industrial Production YoY US: Monthly Budget Statement UK: Construction Output SA MoM
14	15	16	17	18
	UK: CPI YoY US: Retail Sales Advance MoM UK: PPI Output NSA MoM US: Empire Manufacturing US: Import Price Index MoM	UK: Jobless Claims Change CH: GDP YoY US: MBA Mortgage Applications UK: ILO Unemployment Rate 3Mths US: Industrial Production MoM	US: Initial Jobless Claims EC: CPI YoY US: Housing Starts US: Philadelphia Fed Business Outlook US: Building Permits	US: Univ. of Michigan Confidence US: Leading Index EC: ECB Current Account SA
21	22	23	24	25
UK: Rightmove House Prices YoY US: Chicago Fed Nat Activity Index	US: CPI MoM US: Existing Home Sales JN: All Industry Activity Index MoM US: Richmond Fed Manufact. Index UK: PSNB ex Interventions	US: MBA Mortgage Applications EC: Consumer Confidence UK: BBA Loans for House Purchase	US: Initial Jobless Claims US: New Home Sales JN: Markit/JMMA Japan Manufacturing PMI CH: HSBC China Manufacturing PMI EC: Markit Eurozone Manufacturing PMI	UK: GDP YoY JN: Tokyo CPI Ex-Fresh Food YoY US: Durable Goods Orders JN: Natl CPI YoY
28	29	30	31	
UK: Nationwide House Px NSA YoY US: Pending Home Sales MoM US: Markit US Composite PMI US: Dallas Fed Manf. Activity	JN: Jobless Rate US: Consumer Confidence Index UK: Mortgage Approvals JN: Retail Trade YoY	JN: Industrial Production MoM US: FOMC Rate Decision US: GDP Annualized QoQ US: MBA Mortgage Applications EC: Consumer Confidence	US: Initial Jobless Claims EC: CPI Estimate YoY US: Chicago Purchasing Manager EC: Unemployment Rate US: Employment Cost Index	

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

Group Companies

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CIN No. L67120WB1994PLC062159

Ashika Global Securities Ltd.
(Formerly Known As Ashika Global Securities Ltd.)
(RBI Registered NBFC)
CIN No. U65929WB1995PLC069046

Ashika Capital Ltd.
(SEBI Authorised Merchant Banker)
CIN No. U30009WB2000PLC091674

Ashika Stock Broking Ltd.
(Member : NSE, BSE, MCX-SX, Depository participant of CDSL / NDSL)
CIN No. U65921MH1994PLC171897

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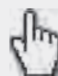

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