INSIGHT

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October, 2014

Kesoram Industries Ltd. | Akzo Nobel Ltd.
IFB Industries Ltd. | Munjal Auto Industries Ltd.

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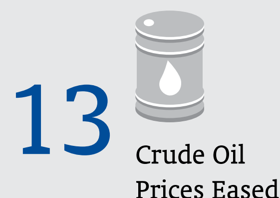
13  Crude Oil Prices Eased

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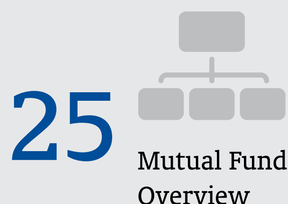
25  Mutual Fund Overview

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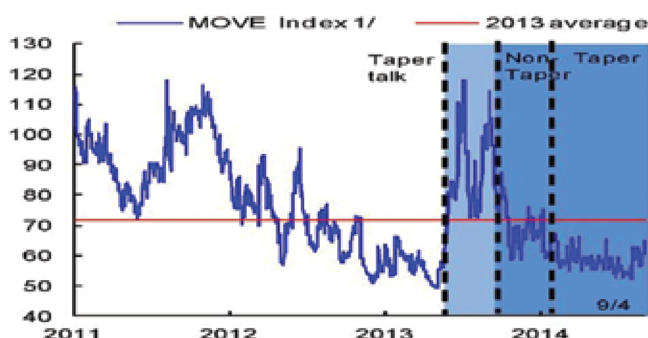
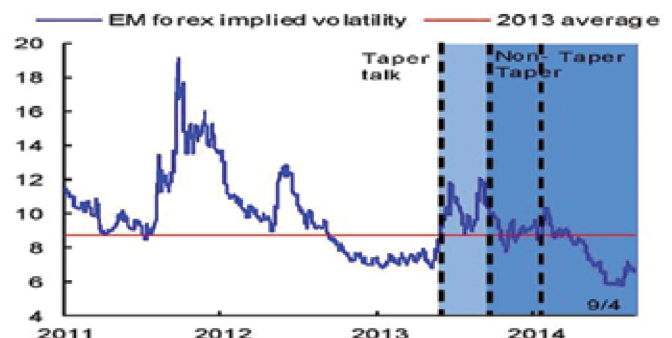
Market Overview

The US QE program is finally coming to an end and albeit it was not unanticipated, the impact is likely to be felt in the short term particularly for emerging nations like India. The withdrawal of the stimulus means cut-off of the ~$10 billion funds which was flowing to the global economy and to emerging nations. Besides, there is anticipation of an earlier than expected hike in the US interest rates, which poses risks of capital flight from India. Nevertheless, it can turn out to be boon for the Indian economy in the long run. India is certainly not in the vulnerable state as it was a year back. There has been considerable improvement on the external front (in terms of current account deficit, lower trade deficit, rupee stability & improvement in forex reserves) and there are indeed signs for green shoot in the Indian economy if the latest GDP, IIP & inflation rates are considered. Besides, US still being the largest exporter, higher economic activity will result in increased trade balance for India and a further improvement in the current account balance. The biggest benefit as well as advantage for India will be in terms of lower global commodity prices. The lower crude prices from $118/bbl a year before to sub $100/bbl really provides a plethora of direct as well as indirect benefits as India is a net importer of crude & crude derivatives and the food inflation has a strong correlation with the diesel prices. Thus, lower crude oil prices will help in improving inflation as well as twin deficits and vice versa.

Globally, there is ample liquidity available, however how much of that will flow into India is a billion dollar question? The divergent monetary policies between the ECB & US FED actually bode well for India. While US is ready to tighten rates, the European Central Bank last week announced a further cut in rates and a stimulus programme. According to economists, a stronger dollar, driven by expectations of divergent monetary policies of the Fed and other major developed world central banks, is positive for Indian equities. Although, a stronger dollar may pose risks for Indian rupee, however, RBI has vowed to curb rupee volatility and to maintain interest rates steady while maintain exchange rates within Rs 58-62 per dollar. There are even speculations for an expansion in the stimulus programme by Japan as even after 3% sales tax hikes; the inflation (adjusted for tax hikes) remains steady while the GDP contracted by 1.7% during the second quarter (April- June). However, in order to lure higher funds inflow, India needs to remain attractive among the EM countries both on the basis of economic metrics as well as the valuation of the stock markets.

Theoretically, India is still in a sweet spot compared to other BRICS nations, particularly in the context of the recent global events. While Brazil is commodity driven and is struggling for revival, China is facing problems on the growth revival front. The latest manufacturing numbers for China has immensely disappointed the global markets. Russia is probably the worst hit which has geo-political worries at the Ukraine border. However, historically, we have observed time and again the geo-political risks are only for a short term and thus viewed as buying opportunities. Due to these ongoing issues, the Indian markets have witnessed some selling during the past week. Even the IMF in a recent note raised concerns over perceived stretchy stock valuations. The premier institution also warned against downside risks for the global economy emanating from geo-political tensions mostly of the Russian and Middle Eastern varieties, a sharp reversal of recent risk spread and declining volatility. Similar concerns are also raised by prominent market strategists in the world who are of the opinion that valuations across major asset classes are stretched globally and there is a bubble led by the loose monetary policy in the developed nations. IMF highlighted that the valuations have gone up while long-term bond yields have declined just about everywhere — Europe, the U.S. and most emerging economies. IMF said it's concerned about a buildup of excessive leverage and under pricing of credit risk, which could be "abruptly corrected in the run-up to U.S. rate hikes or because of higher global risk aversion." The concerns over low volatility were also raised by Bank for International Settlements. IMF also warned against the dollar appreciation against Yen & Euro which could have significant implications for multinationals in terms of lower earnings growth unless properly hedged.





Sources: Bloomberg, L.P.; and IMF staff calculations.
1/ A weighted average index of the normalized implied volatility on 1-month Treasury options (weights on 1-month options for 2y, 5y, 10y and 30y instruments are 0.2, 0.2, 0.4, and 0.2, respectively).

Indian stock markets have also witnessed significant rally and is not immune from the global risks and concerns which have been raised. There have been quite a number of articles highlighting the valuations for the Indian stock markets. Indeed the rally in the markets in the last one year has led to re-rating of the individual stock prices particularly in the midcap & small cap space. The trailing P/E multiple for the S&P BSE Midcap Index presently trades at a premium of 5 against the benchmark S&P BSE Sensex while the same was at a discount in the month of February. The mid-cap measure has climbed 39% since the start of the year, versus a 25% gain in the Sensex. The last time valuation for the midcap stocks reached to such levels was back in January 2008. Companies in BSE Midcap index now account for 16.5% of the combined market cap of all BSE-listed companies, up from 13% a year ago. Historically, a rise in the mid and small-cap's share in total market capitalisaton has preceded a market correction. Thus, even if one leaves the global concerns aside as of now, there are concerns with the valuations for the select midcap & small cap stocks. The valuations based on trailing P/E for BSE Midcap & Small-cap has zoomed to 23.62x and 27.6x respectively compared to Sensex's trailing P/E of 18.67x. However, if one considers P/E for one year forward, valuations are comfortable for mid & small caps at 13.17x & 10.77x compared to 14.19x for Sensex. Thus, the only saving grace is growth in earnings.

The latest update on the coal block allocations might be a major dampener for the stock markets and puts the issue of crony capitalism in the limelight. The country's apex court on its final verdict on illegal coal block allocation, scrapped 214 coal blocks license allocated since 1993, causing serious supply disruption and would intensify power crisis, and is likely to impact the overall economy by jeopardizing investments already committed in the sector. This judgment would have serious implication on mining sector as it will lead to supply disruptions of coal, thus exacerbating the coal shortages in the country. Any disruption in the coal supplies will accentuate power crisis and force higher imports impacting the current account deficit, which as of now is under safe zone. The final judgment is likely to impede the economic growth which has just been showing signs of recovery after two years of slowdown. The Supreme Court ruling could have serious ramifications on India's financial sector as the exposure of public sector banks to the power and steel sectors is considerable and it is estimated that banks account for over 60% of overall investments in these cancelled blocks. The record reveals that banks have extended over Rs 1 lakh crore loans to power plants that were fed by these blocks. Almost all banks including State Bank of India and private sector ICICI Bank have lent to power plants that were put up based on coal from 214 coal blocks allotted since 1993. State Bank of India has exposure of around Rs 4,000 crore followed by IDBI bank with Rs 2,000 crore exposure, though the banks have not commented on their exposure to power companies. The de-allocation decision would put further stress on PSU banks balance sheet which have been grappling with NPA problem and bureaucratic corruption issue. However, on positive side, Supreme Court has allowed coal supply to Ultra Mega Power projects thus trying to mitigate the impact to some extent. The four coal blocks exempted from cancellations are one each to NTPC and SAIL and two mines allocated to Ultra Mega Power Projects. The apex court has granted six months breathing time to mining companies to wind up their operations in the coal block.

The only thing that can save India's grace and sustain higher capital flows will be the structural reforms and economic growth. Mr. Modi is doing his part in leading from the front and inviting foreign funds in India. His visit to Japan & subsequently the visit of Chinese president in India ensured foreign direct Investment (FDI) to the tune of $55 billion over a period of five years. Individually, Japan committed $35 billion FDI over the next five years in infrastructure and smart cities in India and has also promised to double its Foreign Direct Investment in the next five years. Chinese President Xi came prepared to sign a number of agreements. Among them was the setting up of two industrial parks—one each in the states of Maharashtra and Gujarat—which would add up to close to $7 billion. The other major investment by China agreed upon was enhancing the speed of India's railroad in the Mysore City-Chennai via Bengaluru sector. The total amount of the investments agreed upon was about $20 billion over five years. In addition, to reduce the trade deficit between them, Xi promised to open up China's market for India's pharmaceutical and information technology-related products. The expectations are riding high for Mr. Modi to bring home an even larger haul from the U.S., the world's largest economy, after his visit with President Barack Obama next week. With the GDP growth back on track for world's largest economy, prospects galore for India. However, since 2000, cumulative foreign direct investment from the U.S. into India has added up to a mere $12.7 billion- less than that from Singapore, the U.K., the Netherlands and even the United Arab Emirates. The most significant deal between India and the U.S. in the past two decades was the civil nuclear agreement signed in 2008 by President George W. Bush and then-Prime Minister Manmohan Singh. It should have spurred investment from U.S. suppliers of nuclear power to energy-starved India. But just two years later, Singh's government passed a liability law so stringent that no U.S. companies have yet committed any money. Besides, the recent objection of India in signing WTO trade facilitation agreement will also be in the hindsight.

The launch of Mr. Modi's high powered project to "Make in India" is perhaps at an opportune time, when the whole world is taking cognizance of India. The project to turn India into a manufacturing hub was officially launched with a logo, a portal and brochures on 25 identified growth sectors in front of the corporate world of India. He changed the definition of FDI to "first develop India" from "foreign direct investment". History exhibits that the countries which took the path of export led manufacturing growth have been exceptional in building up large economies. If one considers what US did in 1890 or Japan in 1960s or China in 1978, they never looked back and in the process built multinationals which have multiplied investments to 2000 times. Our economy opened in 1991; however, the policies were not investor friendly to attract big bang multinationals to set up manufacturing base in India. With a reformist leader at the helm, this is probably the best case scenario for India.

Paras Bothra

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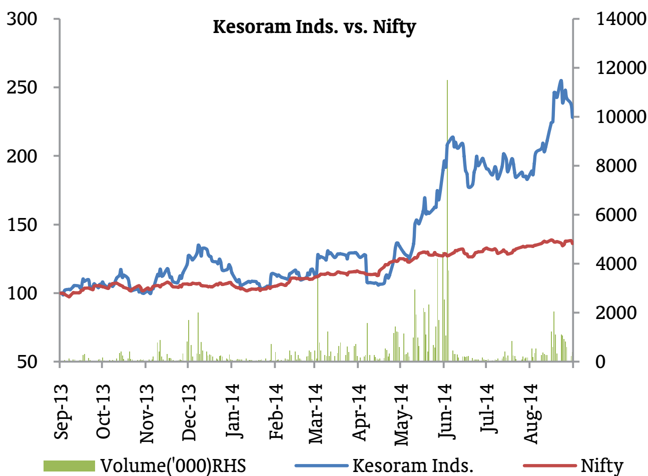
Phone: 022 66111704

Stock Picks

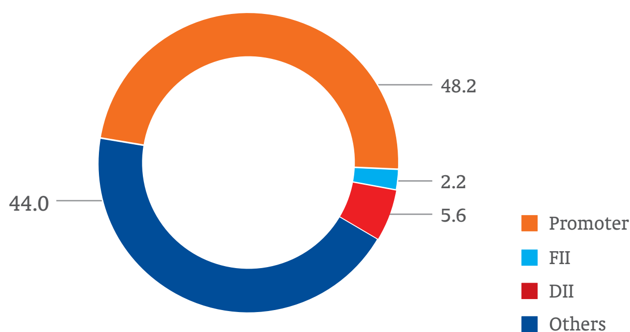
Kesoram Industries Ltd. CMP: 117/- Rating: Buy TGT: 176/-

Company Information

BSE Code	502937
NSE Code	KESORAMIND
Bloomberg Code	KSI IN
ISIN	INE087A01019
Market Cap (Rs. Cr)	1284
Outstanding shares(Cr)	11.0
52-wk Hi/Lo (Rs.)	154.95 / 55.05
Avg. daily volume (1yr. on NSE)	476,949
Face Value(Rs.)	10
Book Value	42.7



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY11	FY12	FY13	FY14
Net Sales	5397.9	5903.4	5687.8	5063.0
Growth (%)	14.4	9.4	-3.7	-11.0
EBITDA	262.7	-97.9	312.1	286.1
EBITDA Margin (%)	4.8	-1.7	5.5	5.6
Net profit	-210.2	-391.0	-329.2	-515.6
Net Profit Margin (%)	-1.9	-3.3	-2.9	-5.0
EPS (Rs)	-46.0	-83.0	-72.0	-47.0

Source: Capitaline

Company Description

Incorporated in 1919, the company has been under the leadership of late G.D. Birla, late B.M. Birla, and its current Promoter, Mr. B.K. Birla. It has diversified business interests in Tyres, Cement and Rayon. Their manufacturing facilities for Tyre segment are at Haridwar and at Balasore, Orissa; while Kesoram Industries Ltd (KIL's) cement manufacturing facilities are based in Southern India, four units are based at Sedam in Karnataka & one at Basantnagar, Andhra Pradesh. The products of KIL are marketed under the brand name 'Birla Tyre', 'Birla Shakti Cement' and 'Kesophane' for its three segments. The company has a combined total installed cement capacity of 7.25 million MT as of 31 March 2014. The Tyres, Cement and Rayon & Chemicals segments contributes 61%, 34% & 5% of the total revenues for the company as of FY14.

Investment Rationale

Falling rubber prices to provide support to Tyre Business

EBITDA for the tyre business has seen a constant improvement for the last two years from a loss of Rs 428 crore in FY12 to profit of Rs 73 crore in FY13 and subsequently following up with a profit of Rs 212 crore in FY14. Natural rubber prices have eased by ~30% during the last one year and have been the major reason for the improving financials in the segment. Besides initiatives taken by the company relating to both on the revenue front (in terms of higher sale realisations per tonne of material sold) as well as initiatives relating to the cost front (in terms of wastage removal and productivity increases) have resulted in higher EBITDA for Tyre segment. Going ahead, it is estimated (by the global market experts) that the global rubber market will remain in surplus for another three years causing gluts of roughly 652,000 tones, 483,000 tones and 316,000 tones in 2014, 2015 and 2016, respectively. Besides, with the economy turning its head, auto industry will be one of the major leading indicator and thus the tyre industry to be benefited by the pent up demand.

Higher infrastructural activities & demand from new state to boost up cement demand

The cement industry as a whole is expected to continue the growth trajectory as underlying trends remains positive led by the government's thrust on infrastructure development. 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. The recent government announcements for building 100 new cities and 'housing for all' by 2022 will provide major boost to the cement demand. EBITDA for the segment has declined from Rs 543 crore in FY12 to Rs 434 crore in FY13 and Rs 277 crore in FY14. The major reasons for decline in EBITDA have been the depressed market conditions and weak cement prices in South and West India. KIL has strong market presence in Andhra Pradesh where infrastructural activities were virtually standstill since 2009 due to agitation over the creation of Telangana. Hence, with the

problem getting sorted and creation of new state Telengana would provide a fillip to infrastructure and real estate development in Andhra Pradesh state, resulting in buoyant cement demand. Creation of new states historically has led to pick up in construction activities in both for the parent and the new states.

Clients spread across India and abroad

The company sells tyres to some of the leading truck and bus and two and three wheeler manufacturers in India, including Tata Motors, Ashok Leyland and Bajaj Auto. The company's tyres are currently sold to end users in approximately 30 countries including Afghanistan, Bangladesh, Philippines, Thailand and Vietnam.

De-leveraging balance sheet to reduce interest costs

At the end of FY14, the company has total loan book of ~Rs.4,900 crore. The total debt of the company has declined from ~Rs 5,100 crore as the company retired debt from funds raised to the tune of Rs 405 crore raised through rights issue in May 2013. Further, the company is also implementing measures to reduce its working capital requirement going ahead. These initiatives for the company are expected to lower the interest burden for the company, the factor which has been driving the bottom-line lower.

Key Risks

- Increase in price of key raw material "Rubber"
- Cement over supply in southern market leading to lower cement prices
- Overleveraged balance sheet

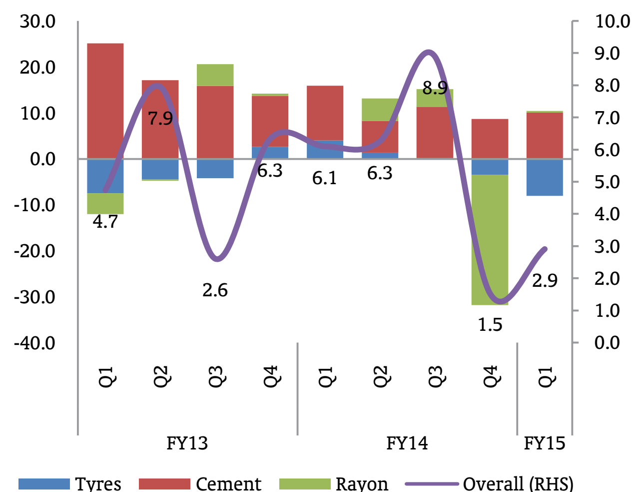
Outlook & Valuation

KIL is a diversified company with business interests in Tyres, Cement and Rayon. Lower rubber prices & pick up in auto sector are the major triggers for the tyre business of the company wherein the company supplies to major auto OEMs in India as well as abroad. However, the bulk of revenue is driven by replacement market (~70%) which will see a strong rebound as the economy turns and demand revives. In cement business, the company sources limestone from its two leasehold mines (one each at both the locations) against royalty payment. The limestone reserves at both the mines extend beyond economic life of the respective plants. The said mines are located in proximity of the clinker plants, thereby enabling the company to optimise cost pertaining to its mining activities. Besides, the company meets the entire power requirement for cement manufacturing from its captive coal based power plants (installed capacity of 92.5 MW), while it sells the surplus power generated (if any) from the plant in the open market, thus can potentially operate at one of lowest cost in the industry. However, the cement segment had to cope with the overcapacity in Southern markets which has reduced realizations, besides the agitation over the Telangana state also choked the cement demand. But with the creation of new state, we believe there will be strong pent up demand as witnessed historically coupled with the government's impetus to higher infrastructural activities. At the CMP of Rs 117, the cement business trades at an enterprise value of ~$46/Tonne, a steep discount to its potential. The management is considering demerging the existing business into one or more of its divisions like cement and tyre. If the demerger materializes, then the cement business will fetch higher valuation, thus providing a re-rating to the firm value and the replacement cost of scrip stands at Rs 176.

SOTP Valuation

in Rs Cr.	Capacity/Sales	Parameter	Value (in Rs. Cr)
Cement	7.25 MT	$100/ton	4350
Tyre	830 MT/TPD	Rs 2.5 cr/TPD	2158
Rayon & Others	Rs. 269 cr	0.9 x FY14 Sales	250
EV			6758
Net Debt			4831
Fair Value			1927
No of Shares			10.98
Value per Share (Rs.)			176
CMP (Rs.)			117
Upside Potential			50%

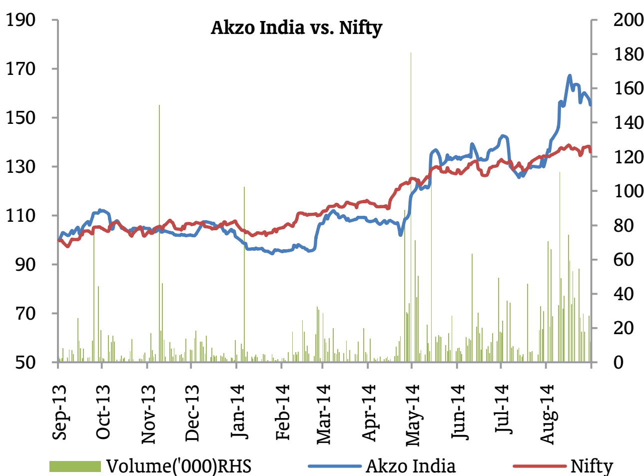
Segment-wise EBITDA margin trend (%)



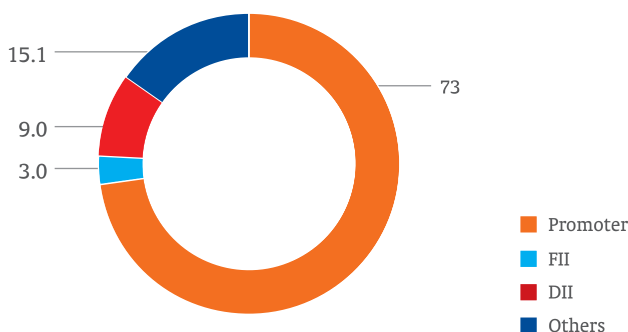
Akzo Nobel Ltd. CMP: 1240/- Rating: Buy TGT: 1460/-

Company Information

BSE Code	500710
NSE Code	AKZOINDIA
Bloomberg Code	AKZO IN
ISIN	INE133A01011
Market Cap (Rs. Cr)	5946.8
Outstanding shares(Cr)	4.7
52-wk Hi/Lo (Rs.)	1399 / 756.05
Avg. daily volume (1yr. on NSE)	15,852
Face Value(Rs.)	10
Book Value	181.4



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	2232.0	2417.9	2775.8	3217.1
Growth (%)	12.3	8.3	14.8	15.9
EBITDA	188.6	191.8	252.6	296.0
EBITDA Margin (%)	8.4	7.9	9.1	9.2
Net profit	218.8	150.2	183.2	212.3
Net Profit Margin (%)	9.8	6.2	6.6	6.6
EPS (Rs)	46.5	32.2	39.3	45.5

Consensus Estimate: Bloomberg

Company Description

Akzo Nobel India is present in India for over 100 years and is a significant player in the paints industry. Over the years, the company witnessed sustained expansion, growth and transformation. In the year 2008, Akzo N. V. became owner of the entire equity share capital of Imperial Chemical Industries, against which the company became a member of the Akzo Nobel Group. Akzo Nobel India manufactures and markets paints, coatings and specialty chemicals. In 2012, three AkzoNobel Group companies in India, namely, Akzo Nobel Car Refinishes India Private Limited, Akzo Nobel Chemicals (India) Limited, Akzo Nobel Coatings India Private Limited got merged with Akzo Nobel India Limited, thereby expanding the Company's presence in a wide array of coatings covering decorative, powder, marine & protective, automotive & aerospace, among others.

Dulux is its most popular brand of its decorative coatings business while the performance coatings business provides solutions to many industries and sectors including automotive, consumer electronics, power, aviation, shipping & leisure craft, construction, oil & gas, water & waste water, food & beverages, etc. Its chemicals business in India sells more than 30 products grouped under organic peroxides, metal alkyls and Polymer additives to pharmaceutical companies, polymer producers, composite & rubber industry.

Investment Rationale

Beneficiary of increase in discretionary spend going forward

AKZO has seen a pick-up in urban demand over the last six months. This is largely driven by improved consumer sentiment in urban markets. While revival in urban demand applies to the entire Paints industry, AKZO is benefiting more due to higher salience of urban markets in its revenues. Though consumer inflation has been sticky, we believe paints demand cannot be postponed indefinitely. Hence, Decorative Paints volumes have not seen much weathering which is in contrasts with the recitation by Staple companies where consumer demand is yet to see meaningful recovery.

India paint industry is pegged at ~Rs 250 bn and has grown at a CAGR of ~14.5% in the last 3 years and is expected to grow at a CAGR of ~14% to reach Rs 360 bn by FY20E. Decorative paints (~72% of overall market) has grown at a CAGR of ~16% during last 3 years and is expected to grow at a CAGR of ~14.3% to reach Rs 460 bn by FY20E. Despite the near term concern on demand scenario, shift consumer preference from unbranded to branded products will aid volume growth at ~25-30%.

Increased Utilization will lead to improved margins

The company has been witnessing a decent improvement in EBITDA margins (100 bps in Q4 and 190 bps in Q1). With the recently commissioned Gwalior plant operating at around one-third of the installed capacity, we expect the improvement to continue going forward on the back of better asset-utilization ratios backed by expected surge in demand.

Healthy Balance Sheet and Return Ratios

Akzo Nobel has one of the best balance sheets in the sector. The cash and cash equivalent is ~Rs.700 crore, equal to 12 per cent of the present market-cap of the company. This figure is after incurring capex for a new facility in Gwalior. With hardly any new capex in the near future and strong operating cashflows, we expect the Balance Sheet to remain strong in future as well. Its return ratio is also decent as RoCE & RoE are at 23% and 17% respectively.

New Greenfield Plant to help increase its pan India Presence

In FY14 Akzo Nobel expanded its annual capacity through green field expansion of Decorative paint plant in Gwalior with installed capacity of 55 million liters per annum. The company spent ~ Rs.1400 mn on its Gwalior plant which has been built on an area of 9000 square meters. With this expansion its total installed capacity has increased to ~186 million liters per annum. With Gwalior Green field expansion, Akzo Nobel has doubled its capacity in last three years from 93 million (FY11) to 186 million liters per annum currently. Gwalior plant alone has added 42% to its capacity during FY14. The company is contemplating to invest around Rs 2500 mn to increase its capacity by another 100 million liters per annum by FY 15 which will take Akzo Nobel at par with Kansai Nerolac in terms of installed capacity.

Compelling Valuation compared to its peers and a liberal dividend payout ratio augurs well for investors

Akzo Nobel has been paying liberal dividends over the past two years. The same has been tabulated below

Financial Year	Amount per share distributed as dividend
FY13	Rs. 20 final dividend + Rs. 60 special dividend
FY14	Rs. 15 final dividend + Rs. 60 special dividend
Total dividend over the last 2 years	Rs. 155

Key Risks

Increase in raw material prices

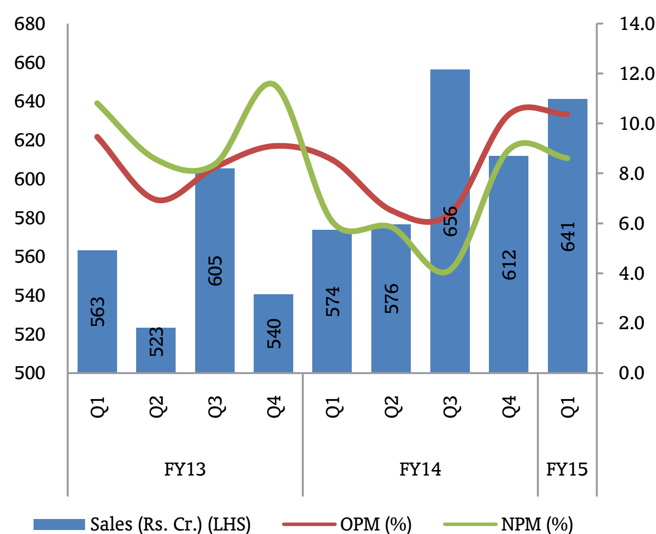
Any significant increase in raw material prices, if not passed on to the customers can negatively impact the margins. However recent correction in crude oil prices augurs well for the company

Overall weakness in the economy

We assume an overall pick up in the economy backed by an increase in discretionary spend. Any brunt on the same will have a negative impact on the company.

Outlook & Valuation

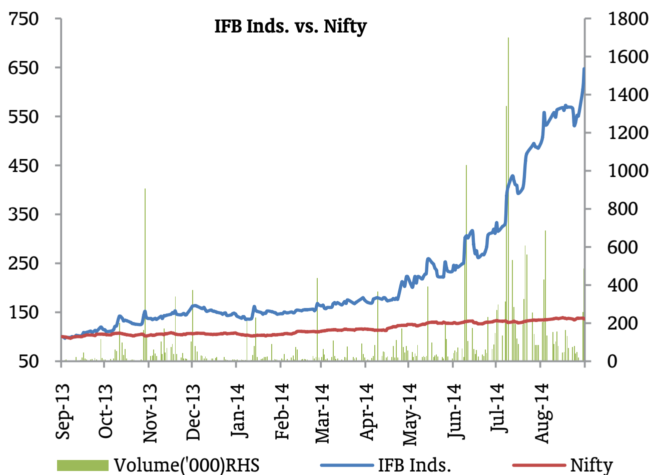
We believe that India's low per capita consumption of paints (2.6 kg/annum Vs global average of 15 kg/annum), likely revival in economic growth, increase in discretionary spend, increase in capex cycle of the corporate, increase in urbanization & changing lifestyles will continue to act as a driving force behind the rise in consumption of paints. At CMP of Rs 1240 the stock is trading at 27.2x its FY16E EPS of Rs. 45.5. We recommend 'BUY' on the stock with a target price of Rs. 1460, arrived at 32.0x FY16E EPS which implies potential upside of ~18% for long term (1 year) perspective.



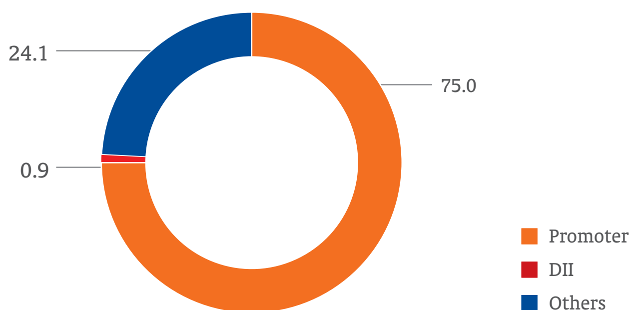
IFB Industries Ltd. CMP: 295/- Rating: Buy TGT: 380/-

Company Information

BSE Code	505726
NSE Code	IFBIND
Bloomberg Code	IFBI IN
ISIN	INE559A01017
Market Cap (Rs. Cr)	1200
Outstanding shares(Cr)	4.1
52-wk Hi/Lo (Rs.)	324.85 / 47.55
Avg. daily volume (1yr. on NSE)	94,815
Face Value(Rs.)	10
Book Value	82.6



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	915.9	1021.5	1246.2	1545.3
Growth (%)	14.1	11.5	22.0	24.0
EBITDA	50.2	45.2	93.5	117.4
EBITDA Margin (%)	5.5	4.4	7.5	7.6
Net profit	31.5	21.6	74.8	95.8
Net Profit Margin (%)	3.4	2.1	6.0	6.2
EPS (Rs)	8.0	5.3	18.5	23.6

Source: Ashika Research

Company Description

IFB Industries Ltd. (IFB) earlier known as Indian Fine Blanks, started operations in India in 1974 in collaboration with Hienrich Schmid AG of Switzerland. The company was established to manufacture fine blanked components, tools used in a wide range of precision engineering industries. Its engineering divisions are located in Kolkata and Bangalore. The home appliances division was started in 1991 with production of fully automatic washing machines and state-of-the-art domestic appliances in collaboration with Bosch-Siemens Hausgerate GmbH, Germany. The company's name changed to IFB Industries Ltd. effective July 1989 and it was listed in March 1995. IFB has two divisions - fine blanking and home appliances. The company is part of the IFB Group, which includes IFB Agro Industries and IFB Automotive. The company has a service network comprising 250 franchisees and 2,200 service engineers.

Investment Rationale

Market leader in front-loading washing machines

IFB is the leader in front-loading washing machines that constitute ~50% of its revenue. The company has a sustained market share of 50-60% for the past five years. IFB sells ~300,000 washing machines in a year with an average price realization of Rs16,000-Rs18,000, registering revenue of Rs. 506 cr. - the top contributor in the home appliances segment. Currently, front-loading washing machines have a market size of ~700,000-750,000 units, while top-loading washing machines have a market size of nearly 3x that of front-loading washing machines. While IFB enjoys a market share of ~50%, LG and Samsung are at second and third slots in front-load washing machines. After washing machines, microwave ovens (Rs. 122 cr.) is the second biggest contributor to revenue of the home appliances segment, while the balance is accounted for by ACs, kitchen appliances, dish-washers (domestic and industrial), etc. As per the management, the contribution from the washing machines segment will increase as new products are introduced in the market.

Expanding product portfolio

To order to diversify its business model, IFB has entered into new categories of commercial appliances. IFB introduced air-conditioners (ACs) in 3QFY14 and further improved ACs in 1QFY15 to meet all quality specifications and consumer expectations. AC sales stood at Rs. 50 cr. in 1QFY15. Further front-load washing machine manufacturing facility currently runs at ~35% of its capacity and IFB is in negotiations (at an advanced stage) with leading Japanese conglomerates for contract manufacturing which will increase capacity utilization to 50% in FY15E and to ~70% in FY16E. As of now, ACs and refrigerators will be main focus segments for IFB. As per the management, ACs will deliver a good sales performance in FY15, but satisfactory in terms of pricing and quality. Refrigerators will also be in focus as they will be introduced by the end of 3QFY15, or at the beginning of 4QFY15. Revenue growth in 1QFY16 is likely to be driven by refrigerators.

Expanding geographical reach

IFB has already established a strong presence in metros and is now focused on expanding distribution to tier-2 and tier-3 cities. It expects higher marketing activities in semi-urban regions to help boost overall sales growth. The geographical revenue break-up is 50% in southern region, ~25% in northern region and rest in western and eastern regions, of which the eastern region is the lowest contributor. So IFB is increasing its focus in eastern and western regions along with northern region by introducing new dealers and IFB points. IFB has ~7,000 dealers and is planning to add 150-175 dealers every quarter, on its terms. Dealers are more enthusiastic currently because of the launch of new products. In 1QFY15, IFB added 183 dealers who

generated sales amounting to Rs165mn. As of 30 June 2014, IFB had 550 service franchisees across India, which will be increased to 575 by 30 September 2014. Total sales contribution from IFB points has increased from 5% 20 months ago to 16% in FY14.

Strong balance sheet

The company has maintained strong balance sheet over the years with zero debt until FY12 and only Rs. 48 cr. debt in FY14 due to higher capex. Further the company has large cash (more than Rs. 100 cr.) in its books and strong operating cash flow over the years. Further IFB is not present in modern trade as it does not offer credit facility as a result of which debtor days are at 13, including for transit from Goa to other parts of India with this the company is keeping a tight check on its working capital cycle. Such strong balance sheet would enable the company to expand without having any adverse impact on its financial performance. Going ahead, it is expected that the company can further improve its balance sheet and maintain positive cash flow.

Improving fine blanking unit ensnare growth of the auto industry

Fine blanking is a niche segment - manufacturing engine parts for two-wheelers and four-wheelers. As regards the fine blanking segment, IFB reported revenue of Rs. 177.5 cr in FY14. Two-wheelers account for ~53% of total revenue of the fine blanking segment and the balance is contributed by four-wheelers. With increased focus on two-wheelers and improvement in four-wheeler sales, the fine blanking segment expects to post a 25% - 30% revenue growth in FY15E and continue the momentum in FY16 as well. Constant capital infusion is required in the fine blanking segment. At any given point, capex is not likely to exceed the free cash flow generation of the segment.

ConCall key takeaways

- The management has given guidance of revenue growth run-rate (26%) and operating margin (7.8%) - which was registered in Q1FY15 - for the next two-three years, despite the performance in Q1FY15 being mainly driven by the AC segment.
- IFB intends to hike product prices from October 2014 onwards.
- To increase its market share in top-loading washing machines, the company is planning to start manufacturing activity from Q4FY15 (capacity ~1mn units at a cost of Rs. 50 cr.).
- IFB is planning to roll out small-capacity refrigerator by the end of Q3FY15, or at the start of Q4FY15.
- FY15 capex of Rs. 50 cr. – Rs. 55 cr. will be mainly for manufacturing top-loading washing machines and meeting the requirements of fine blanking segment. For FY16, the capex is expected to be lower compared to FY15. However, the capex may inch up, depending on the performance of ACs and refrigerators, as IFB plans to set up a manufacturing facility in India. Healthy cash generation is expected to take care of IFB's capex for the next three-five years.
- Effective from FY14, IFB has adopted a 100% hedging policy against currency fluctuation.

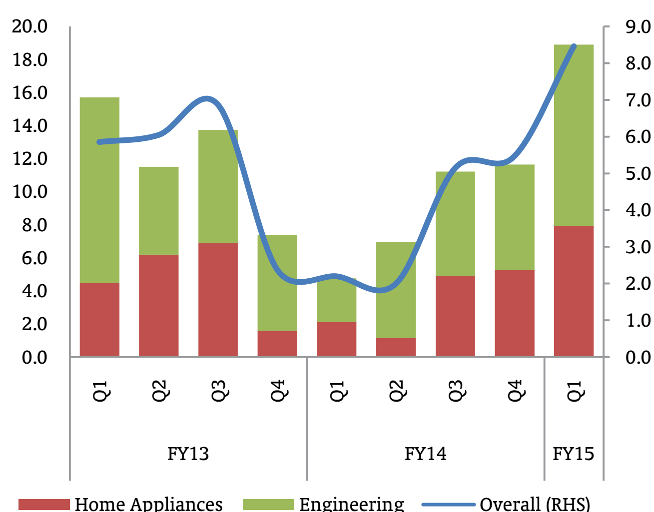
Key Risks

- Increase in raw material prices and fluctuations in forex rates
- Intense competition from established players such as Samsung, LG, Videocon, Whirlpool, etc in the consumer durables market
- Decrease in discretionary spending

Outlook & Valuation

With the onset of Festive season, all the consumer durables manufacturing companies would be in limelight as the demand picks up during Festival season. We believe in consumer durables sector, IFB industries would be a good investment idea considering its product quality and higher customer satisfaction from its products. Company is a market leader in front loading washing machine and micro oven and now IFB industry is going to enter in refrigerator market by rolling out small capacity refrigerator by the end of FY15. Company has already entered into Air conditioning market and we expect that these two new products would drive earnings for IFB as in a emerging country like India the demand for consumer durables goods are on an up-trend due to increasing urbanization and improving quality of life. Moreover, IFB enjoys the benefit of having 3 million customers and due to company's high priority on customer satisfaction, there are 80%-90% of probability that existing customers of IFB would end up buying another product from the same company. On financial front, company has healthy balance sheet with positive cash flow which is adequate to fund its capex. Hence, we are positive on the scrip and recommend to BUY the scrip with target price of Rs 380, with investment horizon of 12 months. At the current market price, the scrip is valued at P/E multiple of 12.5x on its FY16E EPS Rs 23.6. Our target price is based on P/E multiple of 16.0x on FY16E earnings.

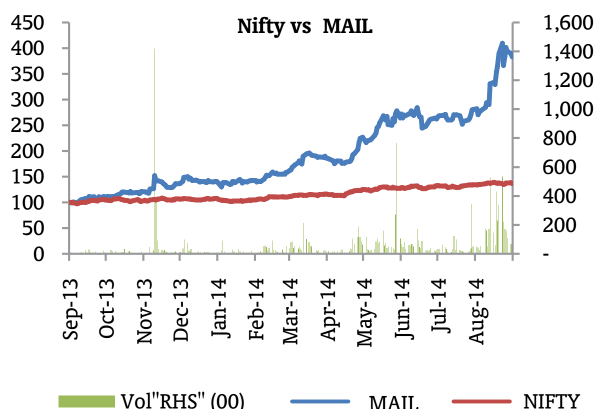
Segment-wise EBITDA margin trend (%)



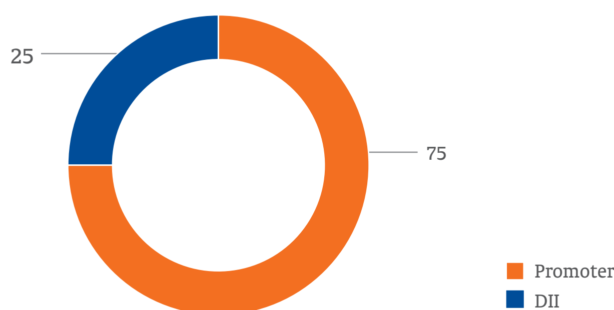
Munjal Auto Industries Ltd. CMP: 102/- Rating: Buy TGT: 155/-

Company Information

BSE Code	520059
NSE Code	MUNJALAU
Bloomberg Code	GCY IN
ISIN	INE672B01032
Market Cap (Rs. Cr)	507.50
Outstanding shares(Cr)	5
52-wk Hi/Lo (Rs.)	126/29
Avg. daily volume (1yr. on NSE)	57,740
Face Value(Rs.)	2.0
Book Value (Rs)	37.27



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	717.3	816.5	947.1	1,060.8
Growth (%)	6%	14%	16%	12%
EBITDA	54.0	63.8	109.0	120.1
EBITDA Margin (%)	7.5%	7.8%	11.5%	11.3%
Net profit	39.5	47.7	82.2	91.0
Net Profit Margin (%)	5.5%	5.8%	8.7%	8.6%
EPS (Rs)	7.90	9.53	16.45	18.21

Source: Bloomberg

Company Description

Munjal Auto Industries ltd. (MAIL) is a leading auto component manufacturing company in India and is a part of the famous Hero Group of companies. The company primarily manufactures complete Exhaust system for two wheelers and four wheelers, spoke rims for two wheelers, steel wheel rims for two wheelers & four wheelers, fuel Tanks for Four wheelers, Seat Frames for four wheelers and other automotive assemblies. MAIL has a technical collaboration with Samsung Industries ltd of Korea for manufacturing of Fuel tanks for four wheelers. It has three manufacturing facilities situated at Waghodia in Gujarat, Bawal in Haryana and Haridwar in Uttarakhand and is the largest manufacturer of the exhaust system in the World.

Investment Rationale

Offers wide range of products

In the global auto ancillary market, MAIL is the largest producer of the exhaust system with manufacturing capacity of 22,000 systems per day. Company manufactures over 20 different models of complete exhaust system for motorcycles and scooters. Apart from two wheelers, it has the capability to manufacture exhaust system for four wheelers also. It offers products such as electro plated and painted exhaust mufflers for motorcycles and scooters, electro plated rims for motorcycles, steel wheel rims for scooters and passenger cars, precision sheet metal parts / modules and side step assembly complete for MUVs and SUVs. It also manufactures precision sheet metal parts/components as per client specification and this is the core strength area of MAIL. It has the capacity to manufacture more than 10,000 spoke rims for motorcycles and steel wheel rims every day. The company is still in the process of expanding its product portfolio in an intention to increase its market share and currently studying and pursuing opportunities of higher capacity motorcycles for export markets.

Dealing with marquee clients

Heromoto corp is the main customer of MAIL contributing ~85-90% of its sales. Heromoto corp is the market leader in two wheeler segment in India with a market share of ~46% and MAIL supplies about 75-80% of its requirements to all high end motorcycles and 100% for scooters (except below 100 cc bikes). The leadership position of Heromoto corp has enabled MAIL to sustain its growth momentum over the years. However, the market share of Heromoto corp has been under pressure due to increase competition from other two wheeler manufacturers. Apart from Heromoto corp, MAIL supplies its products to Tata Motors ltd, Tata Johnson Controls Automotive ltd, General Motors India, Piaggio Vehicles Pvt. Ltd. and Suzlon. Hence, the dealing with esteemed clients would enhance the revenue visibility for the company.

Increasing competitiveness

To sustain and grow in this technology competitive environment, it is imperative for the companies to be technologically updated. Hence, MAIL has undertaken various automations such as robotic welding, spray phosphating, tool manufacturing, etc to increase its operating competitiveness. MAIL has also undergone through technical partnerships with certain expert organizations to enhance

its competitiveness and to lower operating costs. Going ahead, such initiatives would aid MAIL to strengthen its margins.

Two wheelers dominate Indian roads

Higher affordability, better fuel services and convenient way of public transportation make two wheelers the preferred vehicle for public transportation. Healthy demand results in higher sales volume for two wheeler manufacturers and MAIL being the main supplier to Heromoto corp is the optimal beneficiary. Due to higher population in rural areas and low penetration, rural areas offer maximum growth for two wheeler companies. Heromoto Corp has strong market in rural areas and improving rural economy on the back of substantial improvement of monsoon and new government's focus on the development of 100 smart cities would be the possible long term triggers for the company. Hence, MAIL has strong growth potential given that ~85-90% of its sales is contributed by Heromoto corp.

Strong financials & healthy return ratios

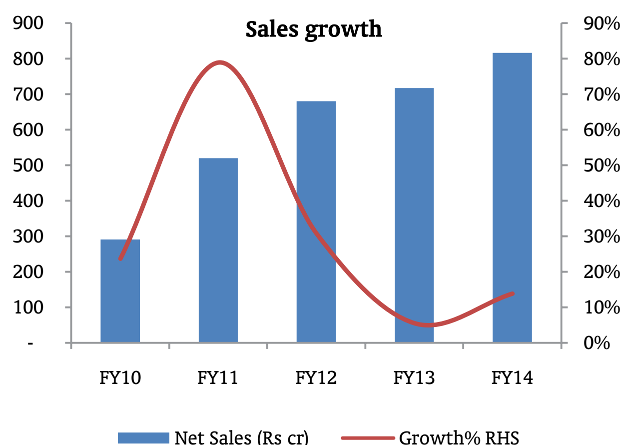
Over the years MAIL has posted strong financials growth on account of good business model. Sales has grown at a CAGR of 29% during FY10-FY14, while PAT has grown at a CAGR of 32% during same period. Strong cash flow has enabled the company to maintain gearing ratio at 0.33x. MAIL has also delivered strong return ratios to its shareholders with RoNW of 26% as of FY14. Besides, company has good track record of rewarding its shareholders with dividend payout out ratio at 26%. Given, the strong growth momentum in auto ancillary sector, it is expected that MAIL would be able to sustain such growth momentum.

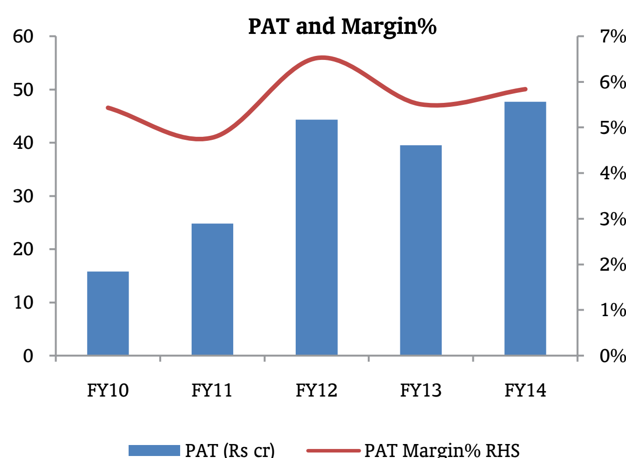
Key risks

- MAIL derives majority of its sales from Heromotcorp hence if the two wheeler manufacturer widens its vendor base it could affect MAIL's future profitability.
- The performances of auto ancillary companies are depended on the growth of auto manufacturers and hence any slowdown in economy could have adverse impact on auto sales which in turn impact earnings of ancillary companies.
- MAIL is engaged in the manufacturing of exhaust system, spoke and steel rims, which require steel as raw materials. Hence rising commodity prices could put pressure on the margins.

Outlook & Valuation

MAIL is a part of Hero group companies thus backed by strong parentage. The company supplies about 75-80% of products to Heromoto corp, the market leader in two wheeler industry in India. Thus the growth of MAIL is aligned with the performance of Heromoto corp. In the past couple of years, two wheelers sales remained insulated from slowdown in domestic auto sector due to its higher affordability, cost effectiveness and easy convenience of public transport. Wide product portfolio, increasing cost competitiveness and sustain demand for two wheelers are the key catalysts for the scrip going ahead. Moreover, the company has delivered healthy returns to its shareholders over the period with consistent track record of paying dividend. On valuation front, the scrip is attractively valued at 5.6x of its FY16E earnings and hence we believe there is immense upside potential for the scrip. We recommend to BUY the stock with target price of Rs 155 (assign P/E multiple 8.5x on FY16E EPS of Rs 18.21), from 12 months investment perspective.





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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	1678.3	21837.4	15.5	12.3	2.0	11.1	13.1	7.0	8.0	0.4
2	ACC	1464.1	27487.8	25.0	19.0	3.5	14.4	16.5	30.0	51.5	2.0
3	Ambuja Cements	213.8	33107.6	22.5	19.0	N/A	N/A	14.4	3.6	43.5	N/A
4	Adani Enterprises	485.2	53362.8	20.2	14.6	2.2	9.8	13.3	1.4	6.9	0.3
5	Adani Ports	273.1	56533.1	24.9	19.1	6.4	23.0	24.5	1.0	12.3	0.4
6	Apollo Hospitals	1110.3	15446.4	40.5	32.7	5.2	11.1	13.7	5.8	25.3	0.5
7	Asian Paints	634.8	60889.9	40.5	33.4	15.1	32.8	34.3	5.3	41.7	0.8
8	Axis Bank	399.1	94136.9	13.0	10.8	2.4	17.6	19.6	4.0	17.5	1.0
9	Bharti Airtel	406.5	162494.3	30.7	24.3	2.7	5.4	9.6	1.8	25.9	N/A
10	BHEL	216.5	52978.3	19.1	17.5	1.6	11.0	8.0	2.7	19.8	1.2
11	Bharat Forge	834.6	19427.8	30.8	23.2	7.2	20.2	23.4	4.5	19.7	0.5
12	Bajaj Auto	2393.6	69262.9	18.8	16.3	6.8	37.1	32.8	50.0	50.1	2.1
13	Bajaj Finserv	1062.2	16901.2	9.9	9.2	1.8	18.0	17.4	1.8	1.8	0.2
14	Bajaj Holidings	1374.1	15292.3	N/A	N/A	1.3	17.8	N/A	30.0	16.8	2.2
15	Bank of Baroda	929.3	39903.4	N/A	N/A	1.1	14.1	N/A	21.5	21.7	2.3
16	Bank of India	278.1	17858.1	N/A	N/A	0.6	10.8	N/A	5.0	12.6	1.8
17	Bosch Ltd	14962.1	46979.3	N/A	N/A	7.5	14.9	N/A	55.0	19.5	0.4
18	BPCL	651.0	47069.2	15.6	13.8	2.4	21.6	15.5	17.0	31.4	2.6
19	Cairn India	315.3	59101.6	5.8	5.8	1.0	23.6	14.5	12.5	19.2	4.0
20	Canara Bank	376.9	17384.8	N/A	N/A	0.6	9.5	N/A	11.0	19.3	2.9
21	Container Corp	1319.5	25725.9	23.9	20.5	3.7	14.5	15.6	12.3	25.2	0.9
22	Cipla Ltd	584.3	46914.7	31.4	24.0	4.7	14.6	16.2	2.0	11.6	0.3
23	Colgate-Palmolive	1622.0	22058.0	N/A	N/A	66.8	159.2	N/A	20.0	62.7	1.2
24	Coal India Ltd	335.2	211693.0	12.6	11.1	5.0	33.3	36.6	29.0	121.2	8.7
25	Crompton Greaves	207.3	12992.4	28.4	19.0	3.6	6.8	16.1	1.2	30.8	0.6
26	Dabur India Ltd	220.5	38727.8	36.1	30.4	14.5	38.5	34.1	1.8	33.4	0.8
27	Divi's Lab	1710.9	22708.8	25.0	20.8	7.7	28.3	27.8	20.0	34.3	1.2
28	DLF Ltd	155.5	27709.0	31.1	21.3	1.0	2.4	4.2	2.0	55.1	1.3
29	Dr Reddy's Lab	3199.1	54478.7	23.5	20.3	6.0	26.3	21.8	18.0	14.2	0.6
30	Exide Industries	169.8	14433.0	24.0	20.5	4.2	16.7	19.7	1.8	28.1	1.1
31	Federal Bank	126.1	10778.7	N/A	N/A	1.6	12.9	14.1	2.0	20.1	1.6
32	GAIL	443.4	56237.9	12.2	11.4	1.7	15.6	13.1	10.4	27.6	2.3
33	Godrej Consumer	1001.2	34085.2	37.7	30.8	9.0	21.4	22.9	5.3	23.5	0.5
34	GlaxoSmith Pharma	2539.9	21513.7	42.4	35.7	10.8	24.1	29.4	50.0	87.9	2.0
35	Glenmark Pharma	707.7	19197.7	22.2	18.0	6.4	18.9	24.3	2.0	10.0	0.3
36	Grasim Inds	3659.5	33610.3	15.5	12.0	1.6	10.0	11.4	21.0	9.3	0.6
37	HCL Tech	1724.5	120907.3	16.9	15.0	6.6	36.5	28.5	12.0	20.7	N/A
38	HDFC	1066.2	167211.9	N/A	N/A	4.4	22.9	21.3	14.0	27.5	1.3
39	HDFC Bank	848.9	204889.5	19.8	17.4	4.6	21.6	17.4	6.9	18.8	0.8
40	Hero Motocorp	2978.2	59470.9	22.5	18.6	10.6	N/A	44.6	65.0	61.7	2.2
41	Hindalco	157.2	32449.9	10.9	8.9	0.8	5.7	8.2	1.0	9.5	0.6
42	HPCL	474.9	16079.7	11.3	8.9	1.1	7.8	11.3	15.5	48.6	3.3
43	Hindustan Unilever	742.1	160516.5	39.7	35.5	45.4	123.3	102.0	13.0	71.3	1.8
44	ICICI Bank	1538.5	178017.9	N/A	N/A	2.3	15.2	15.9	23.0	24.1	1.5
45	IDBI Bank	71.4	11452.2	N/A	N/A	0.5	5.1	N/A	1.0	13.9	1.4
46	Idea Cellular	173.3	62308.2	22.7	19.7	3.5	12.8	13.2	0.4	6.8	0.2
47	IDFC	142.5	22659.5	11.4	10.6	1.4	12.6	11.8	2.6	21.9	1.8
48	IndusInd Bank	630.9	33313.8	N/A	N/A	3.5	17.1	N/A	3.5	13.1	N/A
49	Infosys	3607.1	207132.7	17.2	15.4	4.3	25.3	23.0	63.0	39.9	N/A
50	ITC	370.8	295685.4	28.8	24.6	10.8	35.3	35.8	6.0	53.7	1.6

N/A: Not Available

Source: Bloomberg Consensus as on September 23, 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	34.6	8416.3	N/A	11.9	0.7	-7.2	4.9	0.0	N/A	0.0
52	Jindal Steel & Power	210.9	19295.3	7.7	6.0	0.9	8.7	12.2	1.5	7.2	0.7
53	JSW Steel	1205.9	29148.1	11.0	9.4	1.4	2.2	12.2	11.0	62.7	0.9
54	Cummins India	668.5	18529.4	25.7	20.6	12.5	34.0	N/A	4.7	38.5	0.7
55	Kotak Mahindra Bank	1041.2	80262.3	26.5	21.6	4.2	14.4	15.8	0.8	2.6	0.1
56	LIC Housing Finance	312.6	15773.2	11.4	9.4	2.1	18.7	N/A	4.0	17.2	1.3
57	Lupin	1357.2	60909.7	26.2	22.2	8.8	30.3	27.0	6.0	14.6	0.4
58	Larsen & Tourbo	1495.8	138840.4	27.8	21.8	3.7	13.7	14.6	14.3	26.9	1.0
59	Mahindra & Mahindra	1347.6	83698.4	16.6	13.4	3.4	21.6	18.1	13.5	18.5	1.0
60	M & M Financial	277.9	15806.0	15.5	12.3	3.0	19.3	18.5	3.8	22.6	1.4
61	Mphasis	444.3	9336.5	12.3	11.2	1.8	N/A	14.9	N/A	N/A	N/A
62	Maruti Suzuki	3061.8	92490.9	25.6	19.4	4.3	14.1	17.3	12.0	12.7	0.4
63	NMDC	169.4	67142.5	N/A	N/A	2.2	N/A	N/A	8.5	52.9	5.0
64	NTPC	136.9	112880.4	11.7	10.7	1.3	13.6	11.1	5.8	41.6	4.2
65	Oracle Financial Servc	3961.7	33426.8	23.1	20.8	3.8	16.8	15.7	0.0	0.0	0.0
66	Oil India	604.2	36317.6	9.4	8.1	1.8	14.8	18.7	21.5	43.9	3.6
67	ONGC	407.3	348465.1	10.9	9.4	2.0	16.3	18.0	9.5	30.7	2.3
68	Petronet LNG	196.4	14730.0	N/A	N/A	3.0	15.1	N/A	2.0	21.1	1.0
69	PNB	966.2	34981.4	N/A	N/A	0.9	10.0	N/A	10.0	12.8	1.0
70	Power Finance	236.3	31192.6	4.6	4.7	1.1	21.3	19.7	9.0	21.8	3.8
71	Power Grid Corp	136.5	71411.2	13.5	11.3	2.1	14.9	15.8	2.6	30.9	1.9
72	Ranbaxy Lab	573.8	24329.9	21.8	27.6	7.4	N/A	16.8	N/A	N/A	N/A
73	Reliance Capital	495.9	12179.7	15.4	12.9	1.0	6.1	6.6	8.0	28.0	1.6
74	RCOM	101.6	24407.5	21.7	15.9	0.8	N/A	4.2	0.0	0.0	N/A
75	Rural Electrification	248.5	24533.4	N/A	N/A	1.2	24.7	N/A	9.5	19.8	3.8
76	Reliance Industries	965.9	312379.2	11.9	10.6	1.4	11.8	12.2	9.5	12.4	1.0
77	Reliance Power	72.0	20196.9	19.4	14.8	1.0	5.4	6.5	0.0	0.0	0.0
78	Steel Authority of India	71.0	29323.5	10.8	8.9	0.7	6.2	7.0	2.0	31.5	2.8
79	State Bank of India	2556.2	190839.0	10.7	8.8	1.3	10.4	12.6	30.0	15.8	1.2
80	Shriram Transport Fin	977.2	22169.8	14.4	11.6	2.6	17.1	17.8	7.0	11.7	0.7
81	Siemens	882.2	31415.1	N/A	N/A	7.9	24.5	N/A	6.0	23.5	0.7
82	GlaxoSmithKline Cons	5095.5	21429.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
83	Sesa Sterlite	280.4	83114.6	11.9	9.6	1.1	13.9	10.9	3.3	15.3	1.2
84	Sun Pharma	780.6	161670.4	26.1	22.3	8.7	18.7	26.5	1.5	9.9	0.2
85	Tata Steel	485.6	47162.2	10.6	8.8	1.2	9.2	11.8	10.0	28.4	2.1
86	TCS	2688.2	526545.2	24.1	20.9	9.4	41.7	35.0	32.0	32.8	N/A
87	Tech Mahindra	2473.8	58231.4	18.5	15.6	6.3	41.5	26.9	20.0	15.4	0.8
88	Tata Global	164.5	10169.6	23.0	19.8	1.7	9.0	8.4	2.3	29.0	1.4
89	Tata Power	84.9	22948.7	14.3	12.0	1.8	-3.2	11.9	1.3	N/A	1.5
90	Titan Industries	390.9	34699.1	39.6	32.6	N/A	32.7	30.5	2.1	25.4	0.5
91	Tata Chemicals	387.3	9866.7	13.2	10.8	1.8	-17.2	14.7	10.0	N/A	2.6
92	Tata Motors	517.8	156934.1	8.8	7.6	2.5	23.2	22.5	2.0	5.4	0.4
93	United Breweries	702.7	18578.4	66.1	49.3	11.4	14.6	18.7	0.9	10.7	0.1
94	Union Bank of India	209.2	13186.0	N/A	N/A	0.7	9.3	N/A	4.0	15.0	1.9
95	United Spirits	2357.6	34261.7	82.1	47.3	11.3	-114.8	15.1	0.0	N/A	0.0
96	United Phosphorus	348.5	14934.7	12.4	10.7	2.8	19.2	20.1	4.0	18.1	1.1
97	Ultratech Cement	2601.3	71378.2	26.3	19.2	4.2	13.6	17.4	9.0	11.2	0.3
98	Wipro	582.7	143792.8	16.4	14.6	3.9	24.8	22.1	8.0	25.1	N/A
99	Yes Bank	583.1	24235.0	N/A	N/A	3.0	24.9	N/A	8.0	17.9	1.4
100	Zee Enternainment	299.6	28770.2	30.8	24.8	10.6	26.6	23.1	2.0	21.8	0.7

N/A: Not Available

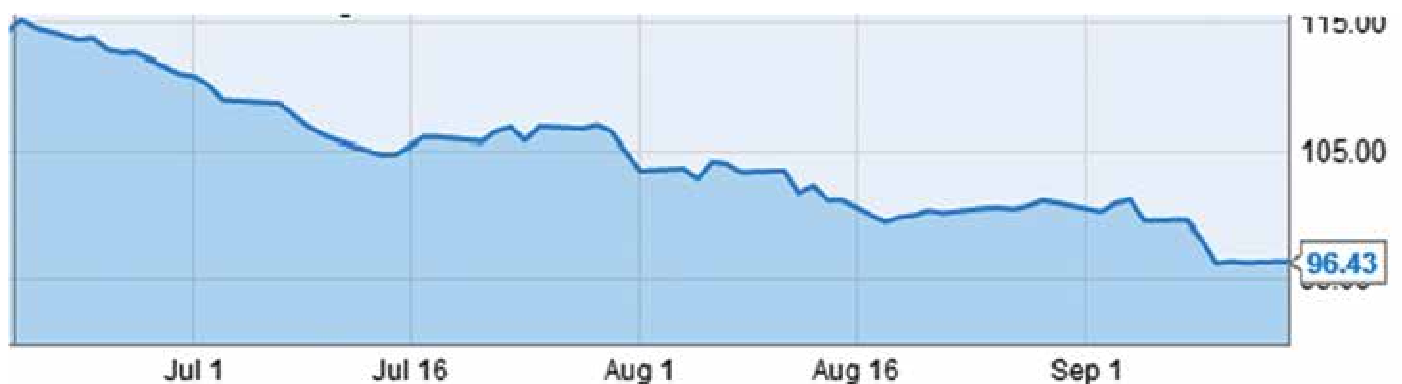
Source: Bloomberg Consensus as on September 23, 2014

Crude Oil Prices Eased

Crude oil prices have declined sharply over the last two months

Brent crude oil price has dropped sharply over the last few weeks, as supply concerns remain assuaged and demand tepid. At ~US$98.9/bbl, current Crude oil prices have declined ~11% yoy. However, we believe the debate on supply has not been settled permanently, as the conflict in Iraq is in a stalemate and far from over and Libyan port resumption looks temporary as of now. We note that the strength in demand going into CY15E remains uncertain, with global energy tracking agencies reducing their demand forecasts. Having said that, a gradual resumption in emerging economies, specifically India and China, with continued recovery in US demand could see the demand-supply balance tightening over the next six months, which could boost prices.

Brent Crude Oil Prices



WPI Crude Oil Prices

Material impact on subsidy for Indian OMCs

Diesel under-recoveries falling to Rs. (0.35)/lit during the fortnight ended 15 September 2014 have rejuvenated positive sentiment for the oil & gas sector. Diesel, now being deemed to be deregulated leaves under-recoveries only on PDS kerosene and domestic LPG for FY16E. There have been heightened noises on faster rollout of the direct benefit transfer scheme for PDS kerosene which would substantially curb PDS kerosene consumption. Intermittent price hike similar to diesel for domestic LPG cannot be ruled out. We believe these measures if implemented successfully would further support under-recoveries reduction. Any reduction in under-recoveries is beneficial for the downstream companies, more than the upstream companies.

Subsidy levels at different levels of INR/ Brent (Rs bn)

Brent (US $/bbl)					
INR/USD	**100**	**105**	**107**	**110**	**115**
58	430	644	730	860	1,074
59	526	744	831	962	1,181
60	755	844	932	1,065	1,287
61	853	943	1,033	1,168	1,393
62	951	1,043	1,134	1,271	1,500

Recent media noise suggests that the oil ministry has put forward a proposal to keep the upstream sharing at 50% henceforth. If implemented, this would change the fortunes of the upstream companies (ONGC, OIL and GAIL) as the benefit of lower subsidies would directly accrue to PBT of these companies (keeping all other variables constant).

Will the near-term weakness in Crude oil prices sustain?

Crude oil prices have declined ~7% over the last one month, as economic and geo-political reasons combine to create bearish conditions. Meanwhile, a weaker Chinese economy and subdued reports out of USA have raised apprehensions around demand for Crude with latest estimates also turning bearish for CY14 demand. IEA, in its latest report, has reduced its estimates for demand growth in CY14 by ~0.18 mb/d and for CY15 by 0.09 mb/d. The agency now expects demand to grow only 1 mb/d in CY14 and 1.3 mb/d in CY15, highlighting the lower-than-expected economic growth as the major concern for oil demand. In addition, reports of unaffected production from Iraq despite the raging civil war and forward movement in reopening of Libyan oil export capacity have increased optimism on supply. Reports indicate that two ports which accounted for ~1mb/d of exports from Libya, are slowly restarting operations and would add to global supply.

In addition, output from USA continues to surge with total liquids production of ~11 mb/d – last seen in the 1980s. Going by forecasts for 2014, OPEC remains the biggest supplier to global markets, but rising production from North America (USA+ Canada+ Mexico) is a key change seen in global supply trends in the last two decades.

However, concerns remain

Despite all the good news on supply and relatively weaker demand trends, we see Crude prices broadly trading in the US$105 range due to the following reasons:

- Global GDP growth forecasts remain broadly unchanged in recent reports; world GDP growth of ~3.5% is ~20% higher than ~2.9% in CY13.
- Seasonal maintenance of most refineries in Asia and Europe will be completed by April, supporting the case for resurgence of Crude demand from refineries in Q3CY14.
- Geopolitical scenario in Libya/ Iraq remains fluid with the conflict between Libyan government and the rebels far from resolving. Iraq conflict appears far from being resolved, with the current stalemate unlikely to last indefinitely.
- Russia-Ukraine dispute remains a worry, and any escalation of this conflict can have major consequences on the state of the energy market in Europe and elsewhere.
- The status of Iran nuclear negotiations are also far from certain; any backtracking or reversal of progress seen in recent months could affect the ~2 mb/d of exports that are still coming through from Iran.
- OPEC countries' economic fortunes are closely tied to Crude oil exports, with most budgets in these countries building in a price level of ~US$100/bbl. A drop from these levels affects their economics adversely and always prompts a strong supply reaction from the organization members.

The Road Ahead

- **Supply:** Non-OPEC production growth continues to outpace OPEC supply growth largely driven by surge in U.S. domestic production. OPEC supply flat lined at 30 mbpd in Q2 and is likely to stay around these levels in Q3 given that production targets were kept unchanged in June OPEC meeting.
- **Demand:** Third quarter is a seasonally strong period for crude oil demand, and recovery in U.S. and Chinese GDP growth will further aid demand. Global demand has grown at an average of 1.6% in Q3 compared to Q2 in the past five years.
- **Inventories:** Overall, despite the considerable decline in Cushing inventories, crude oil stocks at the end of Q2 were 391.6 million barrels, 5% higher than the five year average of 372.2 million barrels. Surge in U.S. production is definitely helping the buildup in total U.S. stocks.
- **Economy:** Manufacturing PMI's from U.S. and China continues to point towards expansion, with Chinese PMI jumping back into expansion in July.
- **Outlook:** We believe supply side factors will continue to underpin prices, but a slightly better demand outlook may help prices to stabilize and recover from current levels. However, geopolitical issues, more specifically Iraq and Russia will remain a key upside risk.

Sector Outlook: Paints

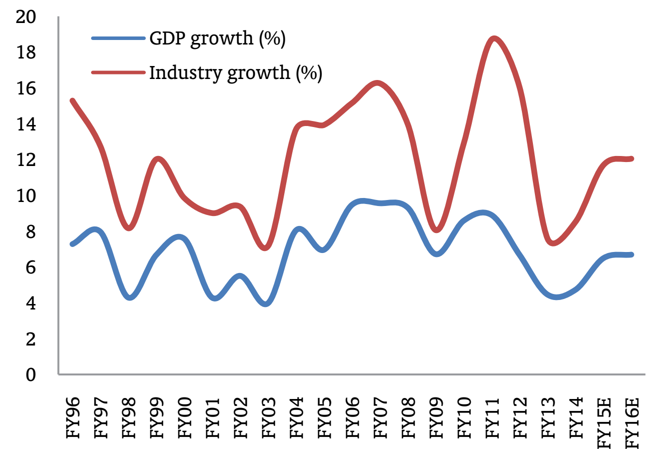
The fiscal year ended 31st March 2014 proved to be a challenging year with the Indian economy witnessing sustained slowdown across sectors. While the economic growth for the year have marginally improved to 4.7% from the lows of 4.5% witnessed in 2012-13, and further improved to 5.7% in the first quarter of 2014-15, it is still far below the 8% growths witnessed during most part of 2004 to 2011. The recovery in April-June quarter, was boosted by manufacturing and services sectors, triggered hopes of sustained expansion on the back of the government's efforts to steer the economy out of the deep slowdown. Investment activity has gathered pace and reassured that consumers have begun to spend again, indicating the worst slowdown in the last decade may finally be over. The sharp rebound in growth is expected to add to optimism and help the government rebut murmurs that it has been overcautious and postponed big bang reforms in the first three months of its term.

Considering the overall sluggish environment, the Indian Paints industry has been growing over the past several years at a rate well ahead of the country's GDP growth. The industry has shown remarkable resilience despite macro headwinds and has seen a growth of 15% over the past eight years, much above the GDP growth rate. There is a high correlation between the paint industry's growth and GDP growth rate (as per our calculations, the correlation is strong at 0.8x) and is typically estimated to have a volume growth multiplier of 1.5-2.0x India's GDP growth.

Positive correlation between paint industry and GDP

Income Level	Increase in GDP will increase standard of living. With rise in income level, consumers will increase consumption which in turn will help the decorative segment.
Housing Sector	Growth in housing sector will increase urbanization, provide cheaper loans and shift from semi permanent to permanent housing structures will increase spending in the decorative segment.
Industrial Segment	The industrial segment can be further broken down into protective, general industrial, automotive powder and marine coatings. This segment accounts for 25% of the paint industry's revenue.
Infrastructure Investment	New projects in roads and ports will increase revenues of paint industry and drive the industrial segment.

Growth momentum is expected to continue for the industry

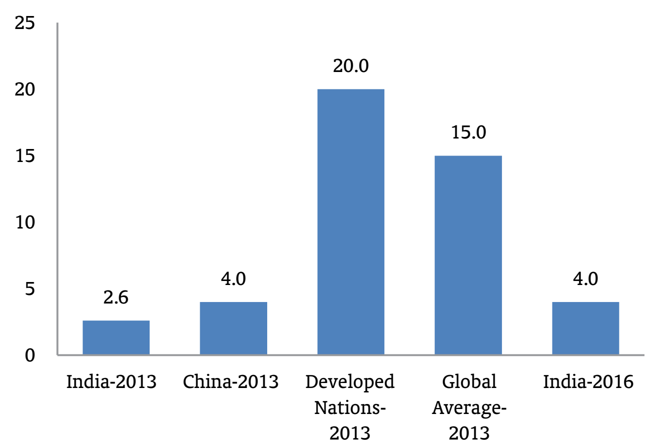


Source: RBI, Industry

Per Capita Paint Consumption in India

The per capita paint consumption in India is expected to increase from current 2.57 kg level and touch 4 kg in 2016, which is still low as compared to the developed western nations. As our nation develops and modernizes, the per capita paint consumption is bound to increase. Due to the current low per capita consumption of paints in India, there is room for multi-fold growth.

Per Capita Paint Consumption (Kg.)

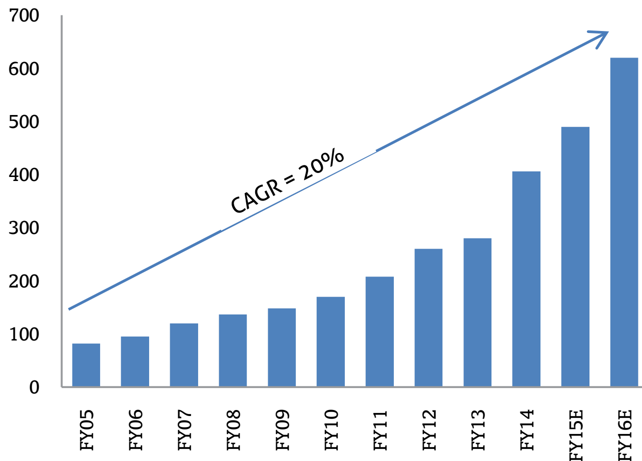


Source: Industry

Indian paint industry is likely to grow at about 20% CAGR

Indian paint industry is likely to surge from the current level of about Rs. 40,600 crore to about Rs. 62,000 crore by 2016 witnessing a breathtaking double-digit compounded annual growth rate (CAGR) of about 20%, apex industry body ASSOCHAM said. The factors that have fuelled the paint industry's growth are the rise in disposable income and education, increasing urbanization, development of the rural market and various launches of many innovative products. As per ASSOCHAM's recent report on "Indian paint Industry: 2014" reveals that India is the second-largest consumer of paint in Asia. Top players include Asian Paints, Kansai Nerolac Paints, Berger Paints, AkzoNobel, Nippon Paints and Shalimar Paints, according to the report. "The Indian paint industry has seen a gradual shift in the preferences of people from the traditional white wash to higher quality paints like emulsions and enamel paints", said Mr. D S Rawat, Secretary General ASSOCHAM.

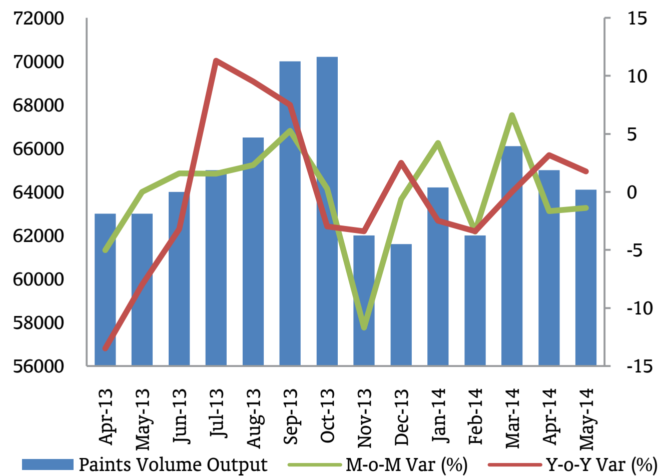
Indian paint industry market size (Rs. Bn.)



Source: IPA, ASSOCHAM

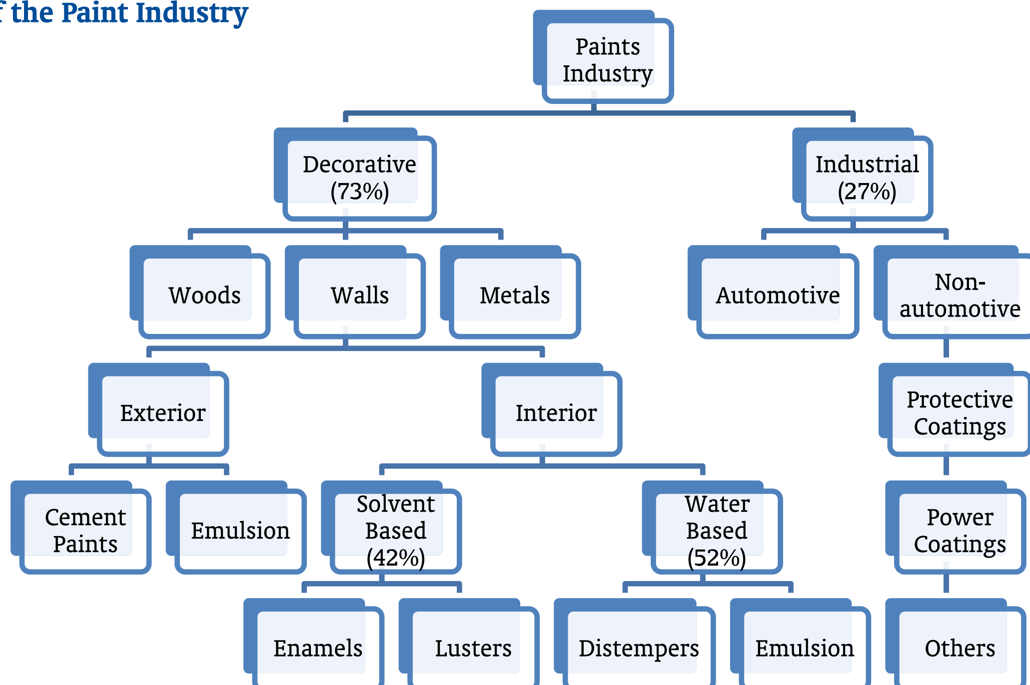
Paints output up 2.4% yoy in May 2014

Paint production for the month of May 2014 grew by 2.4% yoy to 64528 tonnes carrying on the growth momentum of April 2014, which witnessed growth in output of 2.93% yoy. The output of paints (of all kind) stood lower by 0.55% (to 779405 tonnes) for 2013-14 carrying on the declining trend of 2012-13, where the output fell by 0.95% (to 783704 tonnes).



Source: CSO

Fragmentation of the Paint Industry

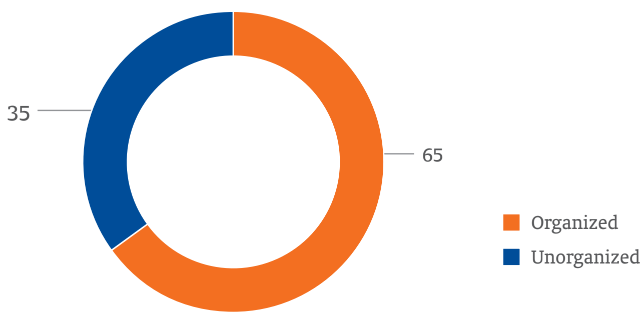


Market Structure

Organized vs Unorganized

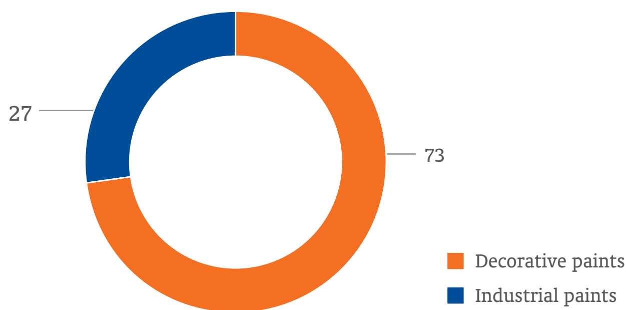
Indian paint industry is dominated by organized sector which currently captures ~65% market share with the unorganized sector accounting for the balance. Organized sector has grown at a higher rate vis-à-vis unorganized sector in last few years. In the unorganized segment, there are about 2,500 units having small and medium sized paint manufacturing plants. Unorganized sector mostly offers lower end products like low end enamels, distempers, lime wash, cement paint etc. Rising disposable income and marketing efforts by organized players resulted in creating consumers preferring for better quality and higher end products like emulsions.

Organized vs Unorganized (%)



Source: IPA, ASSOCHAM

Decorative paints Vs Industrial paints (%)



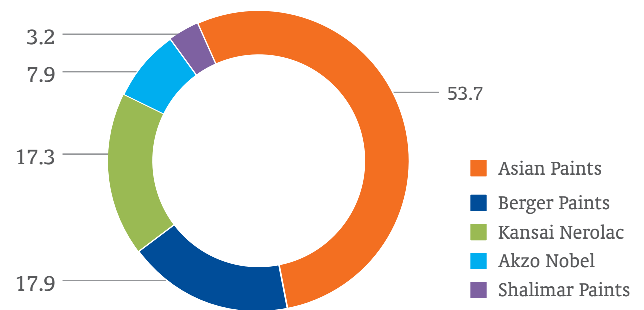
Source: IPA, ASSOCHAM

Decorative paints to remain mainstay

Decorative paints accounts for over 73% of the overall paint market in India and include wall finishes for interior and exterior use, enamels, wood finishes and ancillary products such as primers, putties, etc. Over the past five years, the share of decorative paints has risen from 67% to over 73% now. Organized players dominate with ~75% of the decorative market, while the 25% share is accounted for by unorganized/local manufacturers. The lower-end distemper segment is fairly fragmented, with many unorganized players operating in this segment. In FY14, the decorative segment stood at Rs 29,638 crore which is 73% paint industry.

Demands for decorative paints arise from household paintings, architectural and other display products. The demand for paint increases during festive season like Dusherra, Diwali, Onam, Christmas /New Year, as compared to other periods. The major boost to the growth in Indian paint market has been provided by the decorative paint segment, which is anticipated to grow at a CAGR of more than 18% during the period 2014-15. The decorative paint market has been further segmented into emulsions, enamel, distemper and cement paints. Similarly, the industrial paint market is also segmented into automotive coating, high performance coating, powder coating and coil coating.

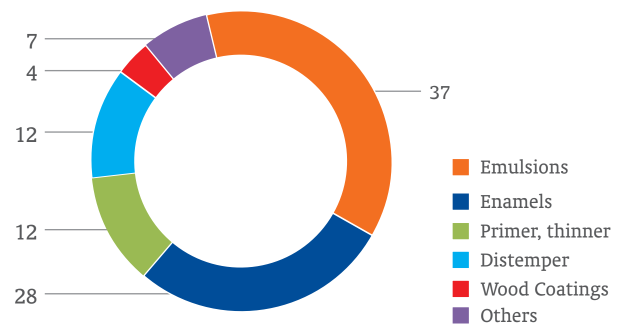
Decorative paints to remain mainstay (%)



Source: IPA, Company

Decorative paints have witnessed a shift away from solvent-based products, in favor of water-based products over time. The share of water-based products has risen over the years and these now account for ~52% share vs the solvent-based share at 48%. In water-based solvents, water is used as a medium for dilution – these are more durable, offer better finish and are higher margin products. Key sub-segments under decorative include Enamels, Exterior emulsions, Interior emulsions, Primer, distemper, wood coatings, putty, etc. From FY09-13, the value share of emulsions (within decorative paints) rose from 28% to 40%, while for enamels it moderated from 34% to 30%. The share of distempers has marginally declined.

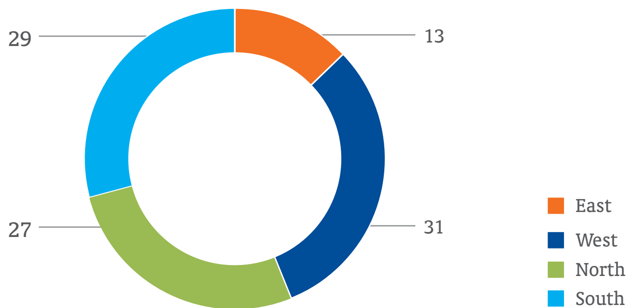
Share of key sub-segments for decorative paints (%)



Source: IPA

In terms of geographic use, the West, South and North regions account for over 85% of the market, with the East having the lowest share. The Eastern region, however, is the fastest growing and Berger (with a significant presence there) is benefiting from this trend.

Geographic split for decorative paints (%)

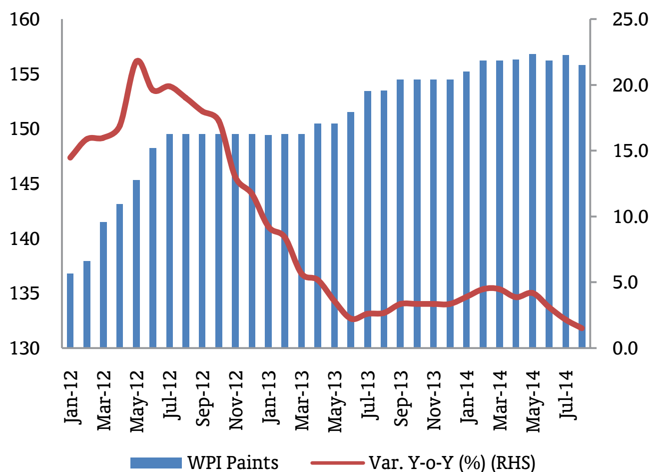


Source: IPA

Industry majors increase prices of decorative paints

All paint companies in India led by the market leader Asian Paints have taken a 1.9% increase in the solvent based decorative paints from May 2014. The industry is about to take 2.5% increase in the water based emulsion paints in June 2014. Thus the blended price hike so far in FY15 stood at 2.2%. The company has implemented 6.25% price hike in FY2013-14. As per the expert, raw material cost pressure has eased over the last 3-4 months on account of strong INR and hence, the recent price hikes should lead to margin expansions for the paint companies.

With major players increased prices, which was aptly captured by WPI of decorative paints (including Varnishes & Lacquers), was higher by 1.3% YoY to 149.2 in Aug 2014. Similarly the WPI of paints was up by 1.5% YoY to 155.8 in Aug 2014.



Source: MOSPI

Growth drivers for the decorative paints industry

Festivals season in second half of the year

The retail demand for paints will be higher during the months/period preceding major festivals such as deepavali, pongal/magarsankranti, Onam and Christmas as most of the repainting will be done during the festivals season. Moreover the industrial demand too gains with festival demand push for automobiles, houses and white goods. Given this fact that most of major festivals of the country fall in second half of a fiscal, the major demand period for decorative paints and to some extent industrial paints is between the months of Sep to March. Moreover the second half also sees strong construction activity with first half being season of south west monsoon also leads to brisk demand in second half.

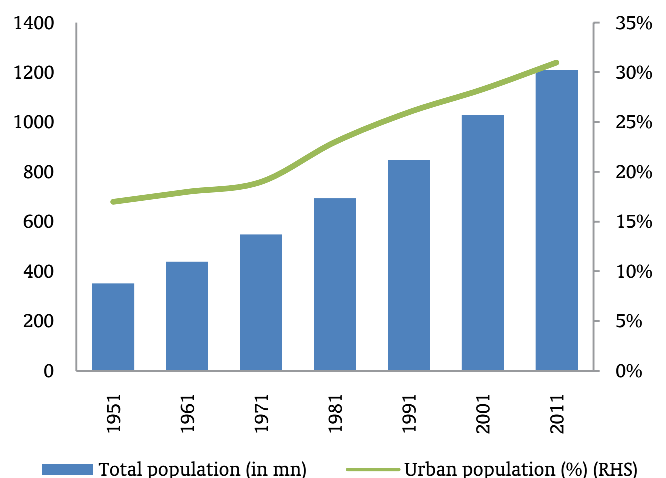
Government Incentive

The Centre has allocated Rs 7,060 crore this fiscal to develop 100 smart cities. This could generate a demand of 5 million new homes. A fast expanding middle class population with increasing disposable income along with the government's mission to provide home to all within 2022 is expected to drive demand for decorative paints

Increasing migration to propel urban growth

Urbanization has been growing at a fast pace as: (i) the aspirational value is increasing; and (ii) urban areas provide lucrative opportunities leading to increased migration. As per 2011 census, urban population share to total residents has increased to 31.16% from 28.53% in 2001 and as per UN State of the World Population report, 40.76% of India's population is expected to reside in urban areas by 2030. This increasing trend of urbanization coupled with revival in urban demand bodes well for the companies that have higher urban salience. Real estate demand will grow proportionately, thus boosting paint demand. Also, the repainting cycle is shorter in urban areas (a factor of higher per capita income) compared to rural areas.

As per McKinsey India's urbanization report, based on 7.4% long-term GDP by 2030 in India – 590 mn people will stay in cities, ~2x the current population of the USA, with a 270mn net increase in working population. Some 70% of new employment will be generated in cities, with 91mn urban households, up from 22mn today, 68 cities will have a population >1mn and 700-900mn sq meters of space will be required in cities. All these trends imply the need for additional housing demand, which bodes well for the paints industry.



Source: Census of India, 2011

Increase in paintable area

According to Census 2011, the total number of census houses in India has increased at 2.9% CAGR from 249mn in 2001 to 331mn in 2011. However, the proportion of burnt bricks (or 'pucca houses') has increased from 44% in 2001 to 48% in 2011. Thereby, paintable houses have grown at 3.7% CAGR between 2001 and 2011. Going ahead, while opportunity for housing type to shift from mud/unburnt brick/grass etc. (kutcha) to the burnt brick and concrete, will remain a growth driver for the paint industry, pacing up growth in this area is of course dependent on government actions and urban housing demand. Annual variation is therefore certain.

Burnt bricks houses as a percentage of census houses

Particulars	2001	2011
Total census houses (mn)	249	331
Rural	178	221
Urban	72	110
Burnt brick as a % of census houses	44%	48%
Burnt brick houses (in mn)	108.8	157.2
Rural	61	88
Urban	49	70

Source: Census of India, 2011

Growing income levels

With rising income levels, complemented by increasing consumer awareness levels, the propensity to spend on home decor is increasing and that is fuelling more frequent demand for decorative paints. Consumers are also willing to try out better quality premium products and hence the shift towards branded products. Rising rural income levels in particular over past 5-6 years have led to faster growth for decorative products in these areas.

Shorter Repainting Cycle

Apart from the increase in the urbanization and the paintable area, the shorter repainting cycle due to improved standard of living and increased awareness has contributed to 3.6% volume CAGR for the Indian decorative. Based on industry experts, the repainting cycle in urban areas has improved from six years to four years and that in rural areas from eight years to six years over the past decade. However, there have been some stances of repainting frequency of even 18-24 months, but they emphasized that such a quick duration cannot be assumed as potential future urban average. This shift has been led by rising disposable income levels, higher aspiration levels and consumer shift towards higher end emulsions, textured coatings, etc. Repainting is estimated to be ~70% of total demand, while fresh painting accounts for the rest, as per industry sources.

Repainting cycle (years)

	2001	2011
Rural	8	6
Urban	6	4

Source: Census of India, 2011

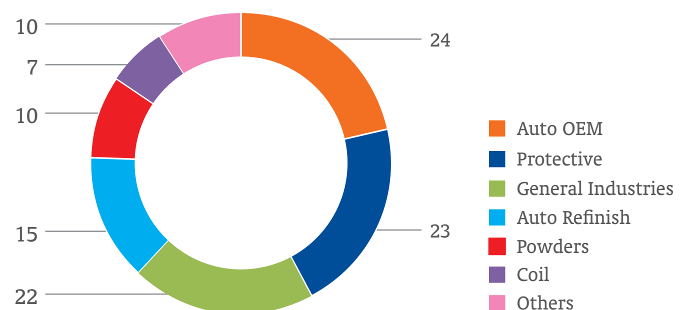
Enhanced distribution network and product offerings by organized players.

While there are various demand-side factors which are helping growth for the decorative paints segment, manufacturers too have played a key role in ensuring the reach of branded products and a wide portfolio of products to customers and investing in creating more awareness about the importance of home décor and the need for premium paints. Manufacturers keep launching new shades of colors and finishes to attract more frequent purchases. There have been significant investments being made to enhance the distribution network by manufacturers. The top four branded players – Asian Paints, Berger, Kansai Nerolac and Akzo Nobel – are all increasing their distribution reach by constantly adding new dealers and tinting machines.

Industrial Paints on steady footing - high technology oriented

The industrial paint segment accounts for ~30% of the Indian paint industry in value terms and has grown at a CAGR of 10% over FY09-13 and is primarily solvent based with few water applications. The segment can be further sub-divided into key sub-categories of automotive paints, protective coatings, GI paints (general industrial), powder coating, coil coating and others. Industrial paints are mainly a B2B market, with competitive bidding through tenders; in many cases, paint manufacturers work with their customers to develop formulations to match their requirements. Industrial paints are highly technology intensive – strong internal R&D and/or technical collaborations with foreign majors is required to be successful in this segment. The business needs continuous R&D, both in products and raw materials, to develop products that meet the stringent quality standards of the clients at competitive costs. Customer loyalty and relationships developed through joint development of new paint applications between industrial paints suppliers and OEMs becomes key to success in this business.

Share of key sub-segments for industrial paints (%)



Source: IPA

The industrial paints segment is dominated by organized players, as it demands specialized technology, higher capital investments and good relationships with institutional/industrial buyers. Kansai Nerolac dominates the industrial paints category in India with an estimated ~42% share. Most domestic companies have tie-ups with international paints majors to leverage their technology assets. Asian Paints has two JVs with PPG Industries – one for the automotive segment and another for the non-automotive industrial segment. Kansai Nerolac benefits from its parent Kansai's relationship with global auto OEMs.

Industrial paint industry in India- key players and usage

Particulars	% share of industrial paints markets	Key Players
Performance Coatings & General Industrial	33.9	Berger, Akzo Nobel, Kansai Nerolac, Asian Paints, Shalimar
Auto OEM	24.2	Kansai Nerolac, BASF, Asian PPG, Nippon, Berger, Maharani Paints, Ranjit Paints
Auto refinish	14.6	Akzo Nobel, Esdee Paints, Asian Paints, BASF
Powder coating	10.4	Kansai Nerolac, Marpol, Asian Paints, Jotun
Others (marine, coil, road marking, floor marking, plastic paint, fire retardant paint)	16.9	Berger-Becker, Nippon, Akzo Nobel, BASF, PPG, KCC

Source: Industry

Technology collaboration with foreign partners

Company	Foreign company collaboration
Kansai Nerolac	Kansai Paint Co. Ltd., Japan, Oshima Kogyo Co. Ltd., Japan, Cashew Co. Ltd, Japan
Asian Paints`	PPG Industries, Nippon Paint Co, Japan
Akzo Nobel India	ICI Plc
Berger Paints India	Dupont USA for CED Coatings,Nippon Bee Chemicals, Japan, Teodur NV Holland, Tigerwerk Austria

Source: Company

Recovery in automobile industry boosted volume growth- further recovery likely going forward

The automobile industry has bottom out and has come out from the rough phase with growth for passenger vehicles. Nearly 45 per cent of industrial paints produced in the country today are used in the automobile sector. With the greenshoots of recovery in the sector, it will boost demand for industrial paints. The sentiment in the automobile segment has changed after the economy recovery, new government in power and lower crude prices. Passenger car sales have increased in last few months in a row, with most OEMs announcing increase in plant capacity utilization and better production with the incremental demand environment. Given the above factors, the outlook of the automotive segment remains bright, further, the upcoming festive season and an average monsoon should further boost the automobile demand.

Raw material outlook

The cost of raw material for the paints industry accounts for about 50-60% of the total cost of production and thus the profit of the industry players swings with the material cost. In manufacture of paint there are more than 275 raw materials both crude based and non crude based are consumed. Out of the total 275 raw materials required, the major ones are phthalic anhydride (PAN), a petroleum-based material and titanium dioxide (TiO_2), which accounts for 30% of total raw material requirement. Titanium Dioxide, a mineral-based material, is classified under two varieties, such as rutile grade and anatase grade. The paint companies have been opting for importing the anatase grade because of its better quality than those available from domestic sources. The other raw materials for the industry, such as organic pigments and penta, are available domestically.

Crude oil price trend (USD/barrel)

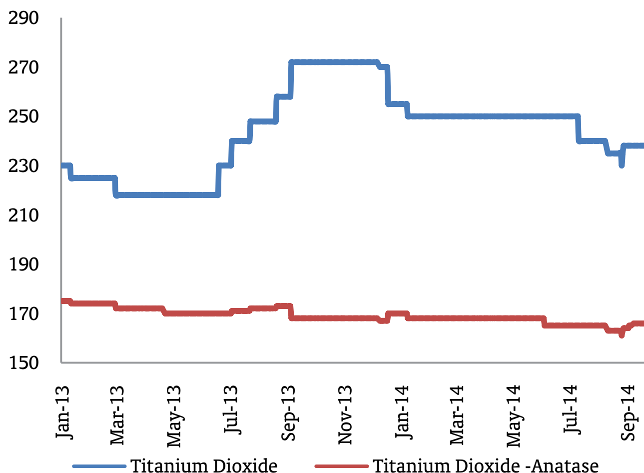
Source: Bloomberg

Stable exchange rate will have a favorable impact (USD/INR)

Source: Bloomberg

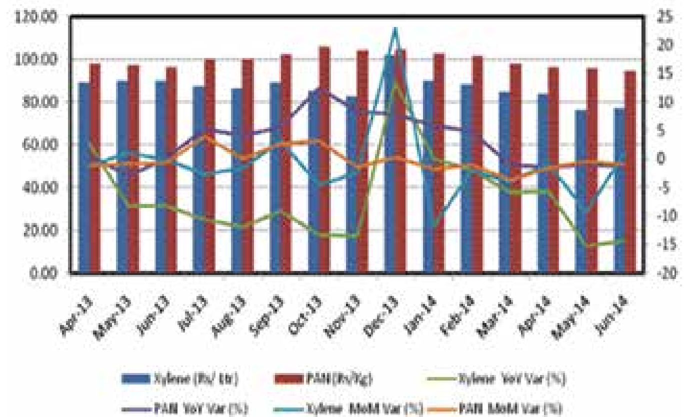
TiO2 is a white pigment that imparts colour, opacity and durability to paints. It is available in two grades - rutile and anatase. Rutile grade is largely preferred for exterior paints as it offers more durability. Price of rutile is ~40-50% higher compared to the price of anatase, which is used mostly for interior paints. The paint industry is the main end user of TiO2 accounting for 56% of its demand.

Price trend of Titanium Dioxide (Rs./Kg.)



Source: Bloomberg

Price trend of Xylene and Phthalic Anhydride (PAN) (Rs./Kg.)



Source: Industry

Outlook

Indian paints majors are expected to see sustained growth in decorative volumes with gradual revival in demand from tier I cities as well as higher volumes from tier 2/3 cities on the back of increased penetration/market-presence. South West monsoon that was normal and was more active in most part of the country bringing down the deficit to about 25%, gives a relief for the paint industry as rural demand largely depends on the rural income. With improvement in rains, the rural income will not be impacted much auguring well for the industry. Moreover the recent boost to housing and infrastructure in the Union Budget 2014-15 is to augur well for the paints sector as it pushes up the demand for both decorative as well as protective coating. Moreover increased volume along with better product mix (increase in share of premium products) and recent price increase are all expected to facilitated revenue growth in value terms in FY15.

Asian Paints was confident of delivering a sales growth of 15% YoY for FY15. Similarly Berger Paints has guided that the decorative volume will see a steady growth lead by tier 2/3 cities. The company expects the auto and powder coating business will also see volume growth in FY15 but that of project based protective coating business is expected to remain subdued. Better realization due to passing of escalation in cost to customers with sustained price hike and better product mix as well as cost efficiency are expected to facilitate better margin even though under recovery of newly commissioned plants or industrial coatings plants continue to put pressure.

Valuation Matrix

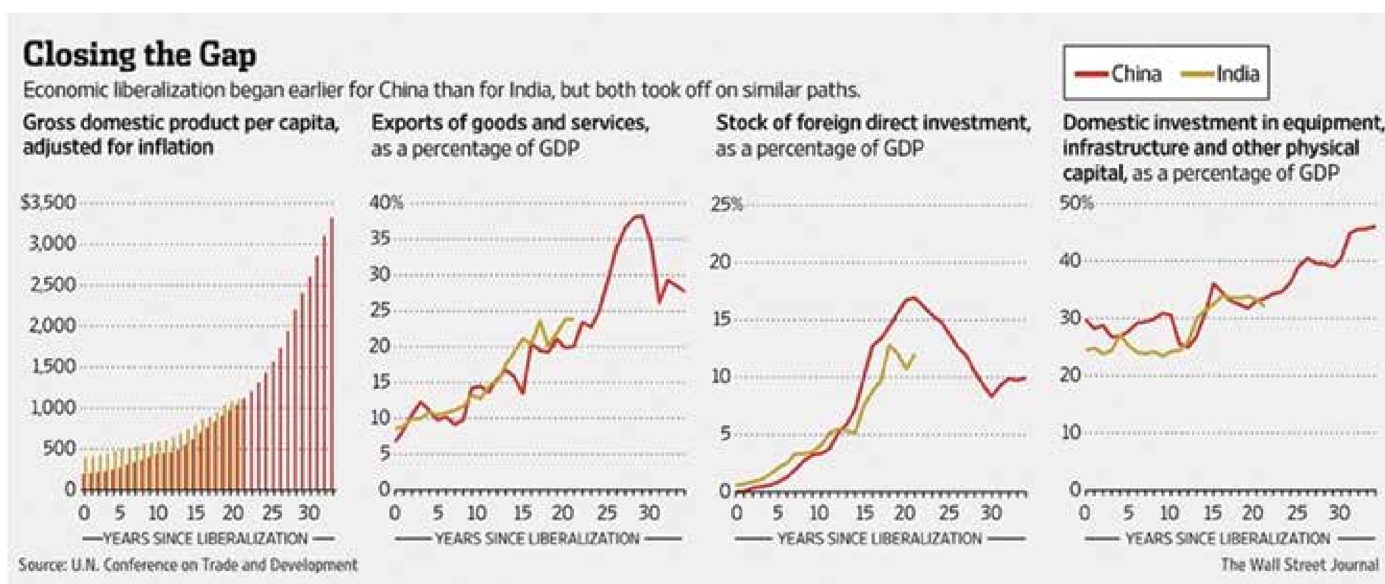
	CMP (Rs)	Market Cap (Rs cr)	Sales (Rs cr)	EBITDA Margin (%)	PAT Margin (%)	P/E Ratio (x)	P/E FY15E (x)	P/Bv ratio (x)	ROE (%)	ROE FY15E (%)
Asian Paints	631.7	60626	125816	16.1	9.7	9.7	6.3	1.2	7.0	15.2
Berger Paints	345.6	11971	38697	27.5	14.9	20.6	15.5	2.5	9.9	13.4
Kansai Nerolac	1840.0	9916	31651	74.6	68.8	11.3	9.9	0.4	1.7	4.2
Akzo Nobel	1238.0	5928	9001	3.5	1.0	15.4	31.0	0.8	4.9	5.1
Shalimar Paints	166.8	316	4790	14.8	8.6	15.6	14.9	1.8	7.9	9.8

Source: Bloomberg, Ashika Research

Economy Review

There is hullabaloo in the markets with the green shoots in the economy particularly when we speak of economic growth, declining inflation levels & lowering of trade deficit. Besides, a clear export focused manufacturing model is emerging from Prime minister's speeches. Mr. Modi clearly wants to market "Make in India" brand and he urges to manufacture anything and to "Sell anywhere", an economic model to boost the export growth. It is believed that Delhi is aiming to boost exports and raise India's share in world trade by 50% over the next five years. However, despite the rupee depreciating 31% (against the dollar) from Rs 46.10 in August 2011 to Rs 60.51 in August 2014, the exports in the month were up by merely 8.9% from the 3 year ago levels. In fact, the absolute numbers have failed to take off. The recent improvement in the trade deficit figures are largely driven by declining imports (particularly gold) and now that the oil imports have also contributed to the cause. For August 2014, the oil imports declined by 15% YoY while the non-oil imports registered a growth of 13.8% partly driven by rising gold imports (after the restrictions on gold import were diluted). Overall, the export growth was at 2.4% against 2.1% import growth, thus improving the trade deficit at US$10.8 billion, incidentally at the lowest mark in FY15. One thing is apparent, if India tries to step in the shoes of China's export led growth, there is a long way ahead to make exports competitive.

There have been long drawn comparisons between India & China and the probable time when India can possibly overtake China. However, with sub 5% growth in FY13 & FY14, the Indian economy seems to fall off from the earlier estimated higher growth trajectory. The race between India & China looks much similar after overlapping the growth for both the economies albeit with a gap of 13 years apart. China got a 13 year head start on India in opening its economy and giving companies greater freedom to invest and produce. In exports, capital spending and foreign investment, India today is remarkably similar to China round about 2001. This implies both cheer as well as concern for India as the country tries to recover from the sub 5% economic growth. Cheers since India's economy with China like growth radar for the future years while concern since its delay (in opening up the economy) could mean that the country has missed out on some big advantages that catalyzed China's boom.



Source: Wall Street Journal

However, whether India can achieve the same feast on the similar levels is vague. This is indeed where the matter of early starts & late arrivals sets in. The seeds of China's growth spurt were planted in 1978, when Deng Xiaoping de-collectivized agriculture and started welcoming foreign investment while India took its decision to open the economy in 1991 faced with severe balance of payment crisis. Although, if the key economic data are plotted overlapping on each other taking the year of liberalization as the starting point, then in the years after liberalization, exports, foreign investment and spending on equipment, infrastructure and other ingredients for future growth, all grew at similar rates in the two nations. However, to establish India as an export brand, it has to fight hard in a very crowded space and India has to identify in what products it has expertise. For instance, Bangladesh has made a mark making garments while Philippines have an expertise in electronics; Thailand and Vietnam, machines and computer parts.

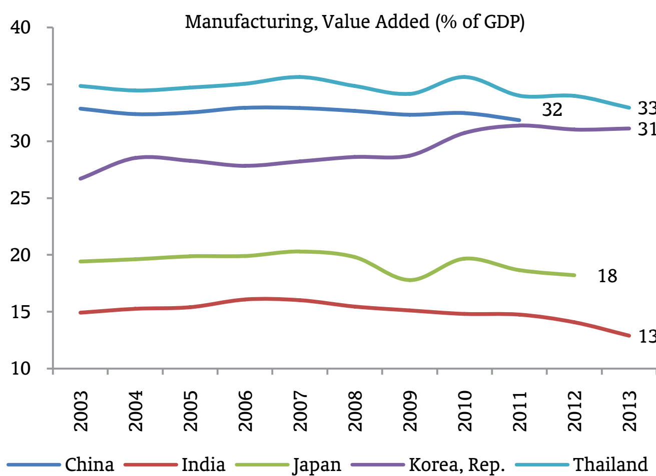
Manufacturing exports- mass deployment of labour & capital

According to an article by Mr. Sanjeev Sanyal, Deutsche Bank's Global Strategist, Modi's export led manufacturing growth if viewed in the context of his government's focus on heavy infrastructure projects, becomes clear that his growth model, with its mass deployment of labour and capital in industry, looks similar to East Asian countries' strategy. Besides it is also in sync with the big bang announcements

of building new smart cities as urbanization & industrialization goes hand in hand.

According to Mr. Sanyal, the "East Asian" growth model can be justified on the ground that India needs to create jobs for the ten million people per year who join the working-age population. It also needs to accommodate the millions who wish to shift away from agriculture, which still employs half of the workforce. Although, the service sector was able to generate growth in the past, it has proved to be a poor job creator and only employs 27% of workers, far lower than its share of the economy. By contrast, construction and manufacturing are rightly seen to be more promising outlets for the mass deployment of semi-skilled workers.

The contribution of the manufacturing sector in India (as % of GDP) however is incidentally the lowest and rather declined in 2013. When compared to other East Asian countries, the contribution of the manufacturing sector is at 13% way below than 33%, 32% & 31% by Thailand, China and South Korea respectively. Even if we look at the key figure of manufactured exports (as % of merchandise exports), India lags behind all its East Asian peers. While China consistently maintains a ratio above 90%, India lags far behind at 65%, a gap of nearly 25%. The ratio improved in 2002-2003 nearing 80%, however, post then it has been on a decline. As summed by Kumar & Gupta (2008), lack of focused approach in identifying, sustaining & building the country's competitive advantage; concentration of exports in low value categories and relatively poor inflow of foreign direct investment (FDI) especially in export oriented industries are responsible for relatively weak performance of India's manufacturing exports. Thus, clearly unless the key factors kick off, it is extremely difficult to implement and the dream will always remain as a dream. It's not that the previous government has not understood the importance of the same issue. A Working Group on 'Boosting India's Manufacturing Exports' was constituted on 9th May, 2011. It highlighted the issues and the sectors to boost manufactured exports.



Source: World Bank

Source: World Bank

The major hurdle for the government will be to finance such a model. Historically, success of the East Asian model was predicated on a sharp increase in the investment rate. For instance, Japan & other East Asian countries sustained investment rates in the range of 38-40% of GDP over its rapid-growth phase. China in a bid to increase the growth tempo is currently investing almost half of its GDP. In contrast, India's investment as % of GDP has declined in recent years to ~30%.

Foreign capital can play a major role in supporting rapid growth, but domestic savings is believed to be the key to sustaining high investment rates. Growth based on foreign capital might be uneven & will be susceptible to shocks in the face of capital flight. Thus, in a way it bids for higher financial savings and mobilising these savings will require careful thinking about how the domestic financial system can be expanded in a calculated way without taking chances for future financial crisis.

Another major problem will be the migration of tens of millions of people as they are sucked into the expanding industrial economy. India have always suffered from low labour productivity & low participation of working age people in the labour force, partly because of problems associated with migration of labour. India does not have China's sociopolitical controls, such as the hukou residential-permit system, to manage such a large-scale movement of people. Japan and South Korea are perhaps too small to serve as useful precedents. Although, Mr. Modi is hopeful of this metamorphic transformation for India through his project to create 100 "smart cities," though how the program will be implemented remains largely unknown.

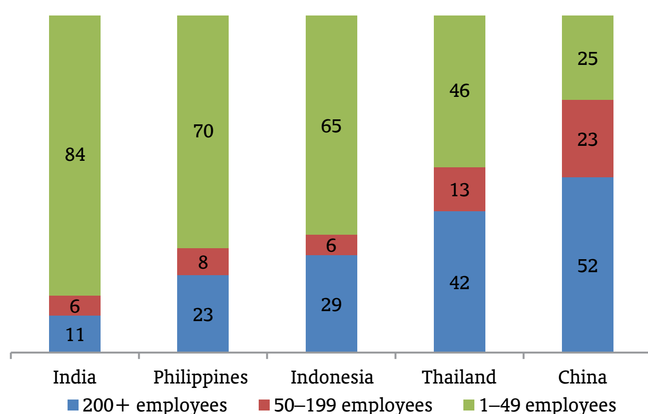
Labour conditions & productivity needs to improve

Despite India's rapid GDP growth averaging 8.3% per year between 2005 & 2012, the majority of India's labour force remains engaged in low-productivity activities. According to Mckinsey, almost 60% of those who live below the Empowerment Line (a measure of income deprivation, by 2022 if it implements inclusive reforms) derive most of their livelihood from agriculture, but India's land productivity is just half that of other emerging Asian countries. A faster shift of labour from farm to non-farm jobs (matching China's pace) could have lifted 100 million more people above the Empowerment Line from 2005 to 2012. Besides, just 57% of India's working-age population participates in the labour force —well below the norm of 65% to 70% in other developing countries.

India's labour productivity also lags due to the high prevalence of unorganized and sub-scale businesses. Enterprises with fewer than 49 workers accounted for 84 percent of India's manufacturing employment in 2009, compared with 70 percent in the Philippines, 46 percent in Thailand, and a mere 25 percent in China. Tiny enterprises in India, across both manufacturing and services, typically have just one-eighth the productivity of larger enterprises with more than 200 workers.

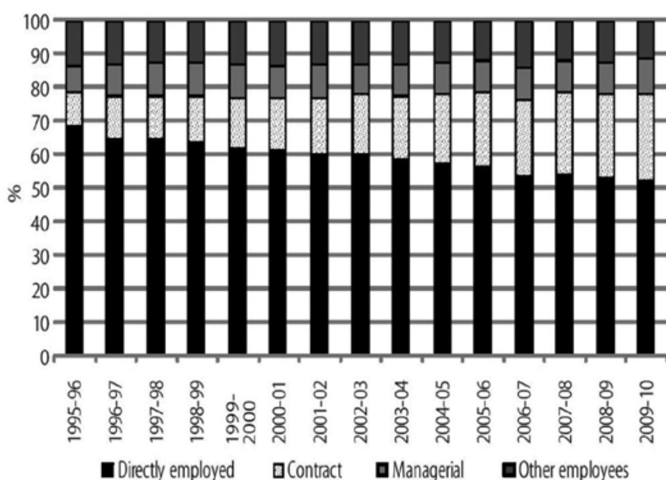
Atul Sood, Paaritosh Nath, Sangeeta Ghosh (2014), research students at JNU, New Delhi studied the labour conditions for the manufacturing sector in India in both organized & unorganized sector. According to the findings, the condition of the labour has weakened over time and more rapidly since the adoption of neo-liberal policies in the last two decades. The mechanism of hire & fire is rampact in the organized as well as the unorganized sector. As can be seen from the graph, the proportion of direct employment is on a constant decline while on the other hand there is a stable increase in contract workers in the organized manufacturing sector. Workers even in the "protected" organized sector face increased vulnerability with much lower levels of job security, reduced coverage of social security, reduced wage shares in output as well as stagnant real wage growth while greater use of contract labour and "fixed-term" workers make it more and more difficult for workers to unionize. This calls for new labour reforms to protect the interest of the labour to promote healthy manufacturing growth.

Share of manufacturing employment by firm size, 2009(%)



Source: McKinsey Global Institute

Composition of Employment in Organized Manufacturing Sector



Source: Economic & Political Weekly, vol XLIX nos 26 & 27

WTO TFA could be a game changer

India has been strongly criticized for being the only hindrance to what could be a historic deal on "trade-facilitation agreement (TFA)" among 160 members of the World Trade Organisation (WTO). In December last year, members of the WTO rose to applaud the successful conclusion of the first multilateral trade agreement negotiated at the WTO. The deal, reached at a ministerial conference on the island of Bali, in Indonesia, is the first fruit to be borne of the long-barren Doha round of international trade talks. But the agreement leaves the future of global talks cloudier than might have been hoped. The deal was reached after much negotiations & delay. Doha, which began in 2001, suffered near-fatal breakdowns in 2003 and 2008. When trade officials worked to revive discussions in 2012 they opted to keep the agenda as simple and attractive as possible. Even so, talks almost collapsed on multiple occasions.

It has to be noted here that barring India, all the countries present there and the Asean grouping had agreed to sign the TFA Protocol into a legal agreement under WTO in July 2014. India is stubborn about its food subsidy measures, which are illegal under the agreement on agriculture. India stands isolated and has been criticized in the global community, particularly after its new drawn optimism with the pro-business friendly government at centre. However, if one looks at the agreement reached in Bali, the issue was not really solved, particularly for many developing countries. According to economist Jayati Ghosh, the issue was of uneven and unfair implementation of the agreement on agriculture. The G33 group of developing countries (which actually includes 46 countries) had been arguing that the way agreement is formulated does not allow for the livelihood and food security concerns of developing countries to be addressed. They demanded the right to protect their small-scale and resource-poor farmers. They also wanted concessions similar to those that developed countries already had, in terms of mechanisms to ward off sudden import surges in sensitive products. The US has accused India of exceeding its allowed level of support but its own food stamp programme amounts to several times the value of India's total food subsidy.

Thus, it is apparent unless a deal is reached on food security & stockpiling, it is difficult for the TFA to go through. There are also proposals from some other nations, including the United States, the European Union, Australia, Japan and Norway to exclude India from the facilitation agreement and push ahead regardless. Although, excluding India which holds the second highest population in the World, the proposition might not be all praiseworthy. However, the agreement reached in Bali over "trade facilitation" speaks volumes. The measures are expected to reduce trade costs by cutting red tape in customs procedures. According to estimates, trade facilitation could cut global trade costs by more than 10%, raising annual global output by over $400 billion, with benefits flowing disproportionately to developing economies. Although, economists from developing world have also frowned on the same, citing the TFA will benefit developed nations rather than developing ones. Nevertheless, it will provide wings to the newly led proposition for India in a bid to boost its manufactured exports.

Mutual Fund Overview

Franklin India Prima Plus Fund (G)

Equity: Large Cap

Fund Objective: The scheme aims to provide growth of capital and regular dividend from a portfolio of equity, debt and money market instruments and focussing on wealth creating companies across all sectors and market cap ranges.

Fund Commentary: There are many factors that give Franklin India Prima Plus an edge over its competition. The foremost is manager Anand Radhakrishnan and his investment team, which is among the best in the industry. Over the last five years, it has been beaten by its benchmark twice but both times in years when it had substantial absolute gains. Currently, its five year returns are 21 per cent, which aggregate to total returns of 167 per cent over the period. The sectoral profile of the portfolio does not show much of a deviation from that of the benchmark. Prima Plus tends to focus more on growth companies with blend of growth and value. Prima Plus hasn't been an absolute top notch fund but it has never disappointed either.

Top Ten Holdings

Stocks	% of Net assets
Bharti Airtel	5.83
ICICI Bank	5.77
Infosys	5.12
HDFC Bank	4.35
Indusind Bank	3.41
Yes Bank	3.38
Torrent Pharmaceuticals	2.96
Eicher Motors	2.95
Dr. Reddy's Lab	2.84
Grasim Industries	2.72

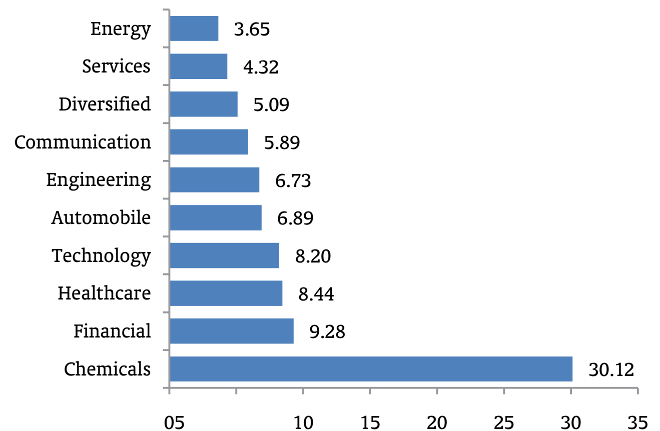
Asset Allocation

Equity	Debt	Cash & Equiv.
94.0	0.00	5.10

Important Information

NAV (Rs.)	367.02
Inception Date	September 28, 1994
Fund size(in Rs cr)#	2,807.76
Fund Manager	R.Janakiraman / Anand Radhakrishnan
Entry load	N.A.
Exit Load	1%, if redeem within 1 yr
Benchmark	CNX 500
Min Investment	Rs. 5000
Min Sip Investment	Rs. 500

as on Aug 31, 2014



Key Ratios

Beta	0.89
Standard deviation (%)	15.66
Sharpe Ratio	0.84
Alpha	4.10
R Squared	92.00
Expense ratio (%)	2.31
Portfolio Turnover ratio (%)	33.00
Avg Market cap (Rs in cr)	36,934

as on Aug 31, 2014

Month of Recom.	Recommended in the Past	Returns till date (%)
Oct-13	BNP Paribas Equity Fund (G)	47%
Nov-13	Birla Sun Life Frontline Equity Fund (G)	40%
Dec-13	ICICI Prudential Focused Bluechip Equity (G)	38%
Jan-14	Axis Equity Fund (G)	32%
Feb-14	Franklin India Smaller Companies Fund (G)	73%
Mar-14	HDFC Mid-Cap Opportunities Fund (G)	52%
Apr-14	Mirae Asset Emerging Bluechip Fund (G)	46%
May-14	Birla Sun Life Long Term Advantage Fund (G)	28%
Jun-14	Birla Sun Life Infrastructure Fund (G)	7%
Jul-14	HDFC Index Fund - Nifty Plan (G)	7%
Aug-14	SBI Magnum Midcap Fund (G)	10%
Sep-14	ICICI Prudential Value Discovery Fund (G)	4%

Performance Of The Fund

	1 month	3 months	6 months	1 year	3 Years	5 Years	Since Inception
Fund (%)	4.9	11.9	33.8	55.6	22.6	16.2	21.5
CNX 500 (%)	2.1	7.1	27	44.2	17.8	9.9	--

Technical view

Key takeaways from September 2014

- CPI for August came in at 7.8% against 7.96% in the previous month.
- August WPI inflation eases to 5-year low of 3.74% against 5.19% in July.
- IIP contracted to 0.5% in July versus 3.4% in June.
- Trade deficit for the month of August dipped to $10.84 billion versus $12.2 billion in July.
- India's export grew at a modest 2.35% in August against 7.33% in July.
- BJP fared poorly in the by-election.
- US Fed maintained zero interest rates stance

Classical theory of Technical Analysis

Indian equity market halted for the first time since the last four month of consecutive gain and ended the month with a decline of 0.53%. Nifty though registered record high but was unable to sustain such high levels and bears had an upper hand. Though benchmark Index got capped but mid cap index continued to remain buoyant and show resilient to price correction unlike the broader Index. Outperformance of the broader market had been highlighting the prevailing buoyancy in the market and augurs well for the sustainability of the uptrend. Volume in the market increased compared to the previous month as investors assorted to profit booking ahead of the crucial FOMC meet. Advance decline ratio during the month remained marginally in favor of the bears. At the latter half of the month Foreign Institutional investors too remained skeptical and resorted to reducing their existing long position in the market. Primary market took the center stage with its slew of IPO offering.

Consecutive higher high formation in monthly chart depicts a bullish atmosphere in the market and the longer term outlook continues to remain positive. However in the daily time frame the near term chart structure might have weakened and it seems that the Index might be in the corrective phase of the major Bull Run hence Nifty might find strong buying interest on every meaningful dip and base of the market to shift higher towards 7700 levels. According to classical theory of technical analysis the recent high breached past the higher end of 'upward sloping wedge' seen on the daily as well as the weekly chart. This is a positive development indicating strength and upside move to continue.

Since August 2013 onward Nifty had been trading amidst the rising channel formation and presently 3rd leg of the pattern is under formation and further upside remains till 8350 while lower panel of the pattern is likely to limit downside as fresh buying interest might be seen near the elevated support level of 7700.

Hence to sum up broader trend in the market continues to remain positive and the recent price correction might be temporary in nature and primary uptrend is likely to resume.

Modern approach in Technical Analysis

On the oscillator front Nifty had been trading in overbought price condition in daily time frame which propelled Nifty to witness correction along with negative divergence in RSI. Currently Nifty is firmly placed in bullish territory suggesting that the bulls are in total control in terms of both price and momentum. However a different connotation can be drawn in weekly chart as presence of negative divergence in oscillator might limit the upside. Hence divergent viewpoint in different time frame is likely to maintain a rangebound outlook in the Index with negative bias.

The Index continued to cling along the upper band of the Bollinger band for the sixth consecutive month apparently it was trading strongly outside the band suggesting that the Index is in a strong bull market along with it possibility of a strong reversal remains strong as Nifty seems stretched from the said tool. The cool off in prices during the month was too miniscule but bounced from the mid band of the study in daily chart and reverted back to its mean. Hence according to the said study it can be concluded that apt trend reversal signal need to be accurately judged before shorting the market.

Since the start of the calendar year Nifty witnessed an exceptional rally which resulted in Nifty to distant away from its crucial averages. On a historical basis the long term moving average of 200dma stays within a distance of 5-7% (considering 5 year time frame), presently it seems Nifty is a bit stretched even considering the recent price correction. Hence considering the present scenario, downside potential still remains and correction to an extent of 2-3% can be seen i.e. maximum downside potential of 7700-7800.

Indian VIX

Indian VIX continued to remain at its historical low level of 11-12 as market awaited the crucial outcome from the Fed about interest rate decision but somehow Indian market continues to remain immune to global factors and continued to surge with Indian VIX drifting lower with each passing days. An inverse relation seems to have existed between Indian VIX with that of the benchmark Index and hence Indian VIX remaining at lower level might augur well for the market. On the technical front further downside seems unlikely as the Index is trading near its oversold price condition and hence minor pullback can be a possibility. Hence cautious approach need to be maintained at such extended high level and correction need to be utilized to enter long.

Gann Theory of Time cycle

According to classical theory of technical analysis a twin fold bullish structural formation might be in the making first being the breach of rising wedge formation and secondly being the rising channel formation. Both the said formation projects an upside potential in the near term with minimum price target of 8350-8400. Further Nifty presently is rising at an inclination of 23.6 degree. Hence according to W.D Gann the said angel signifies 1 unit of price and ¼ unit of time. So the minimum price target of 8400 might be achieved within 4-5 months

Calculation

Current Market price- Projected price= 8400-7900= 500

Now, Time required to complete the target = 500/4=137~4-5 months.

Retracement principle

Fibonacci Projection drawn from Aug'13 low of 5118 to Dec'13 and projected from Feb'14 low of 5933 at 150% retracement level of 8190 acted as the immediate cap for the Index during the month of September. Hence going forward, Nifty need to provide a decisive close above the said resistance level to maintain its existing uptrend. On the flipside the rally since the month of August'14 onward helps to identify crucial trend deciding level to commensurate for a buy on dip strategy. 38.2% Retracement of the entire rise since Aug'14 coincides at 7930 which provided the necessary pullback in the month of Sept'14. Hence through the said study it can be assumed that Index is in the vicinity of a base building mode at 7750-7800 and the newer trading range in the forthcoming month might lay around 7750-8250.

Future Projection – October 2014

5-legged extracting triangle has been structurally developing since October 2013 onward. Presently price structure reveals that Nifty might be unfolding into an elongated zigzag f-leg of the larger diametric pattern and now Nifty need to stay above the trend deciding level of 7600 to reach its higher target of 8300 and then towards its final destination of 9000 in medium term. Failure to do so would induce short term correction towards 7300. Another set of assumption which can be identified in the short term is the newer impulse wave since August 2013 onward. According to the assumption the rally from 5118 till 6343 can be earmarked as wave 1 followed by a correction till the level of 5933 which has been assumed as corrective wave 2 formation. 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 150% retracement stands around 8190, successive breach of which would target higher till 161.8% retracement at 8385. However since the start of the month Flat correction might be unfolding and presently Nifty is in wave c. Since Nifty has retraced close to previous swing high and going by the theory of alteration it can be inferred that the present Flat correction is unlikely to cross the previous swing low of 7925-7880.

Inter-market analysis

U.S Market: US market continues to surge with its consecutive higher high formation in both daily and weekly time frame. Presently the stiffness of the rise might have cooled to some extent indicating the sustainability of elevation. However if retracement principle applied for the entire correction since 2008 then the projected 138.2% retracement stands around 17150. It seems DJIA might have been honoring the said resistance point and a decisive close above it would seek higher target of 161.8% retracement level at 18975. Further according to classical theory of technical analysis, DJIA had been trading within the rising channel formation since August 2011, the upper panel of the channel projects upside potential till 17900. Hence it can be inferred that the on-going up move is likely to remain intact. Positive correlation of Nifty with that US Index is likely to keep the buoyancy in the Indian market as well.

Dollar Index: An outstanding rally yet again from dollar Index as Federal Reserve signaled that interest rate will rise next year. On technical front Dollar index surged to end the month with a handsome gain of 3.28%. The downward sloping trendline since 2010 is breached at 83 and hence changing the medium term outlook to positive. Further since 2008 the currency had been in a consolidation mode which lead to form symmetrical triangle and presently it seems only 3rd leg of the pattern has completed. If the said pattern materializes then higher target of 88 can be seen. Overbought reading in oscillator might be a cause of concern however that's seems to be the characteristic of every bull market. Elliot wave theory too predicts the same. Dollar Index further appreciating from present level might have a negative repercussion in the Indian equity market as an inverse relation seems to co-exist between each other.

Nymex Crude: Crude oil price settled lower as oversupply and low demand outweighed worries over political tension in the Middle East, North Africa and Ukraine. On technical front the commodity seems to be in an extension of a pretty significant bear market. Continuous lower low formation in both daily and weekly chart continues to maintain negative outlook in the commodity. The rising trendline from May 2010 onward presently initiates support around 90-90.50, decisive close below which would further drag price lower till the 38.2% retracement level of the entire rise since January 2009 at 83. However positive divergence in oscillator in daily chart might withstand the

recent fall and lead prices to consolidate at present level. Presently Crude Oil is near the trend deciding level of 89 successive close above or below which would dictate the direction of the trend. It seems that a minor pullback in prices is most likely considering the present setup. Crude oil prices appreciating from present level might act negatively for Indian equity market as crude oil constitute a major portion of India's import bill which in turn will pump up the age old twin deficit of the Indian economy.

10 Year Bond Yield India: India's 10-year government bond yield came to its lowest level on speculation of improving economic data will attract more global funds. Further RBI Governor, Raghuram Rajan's commitment to lower inflation which in turn underpinned interest in India's sovereign bonds. Historically an inverse relation seems to co-exist between the bond yields with that of the equity market. Falling yields indicate corporate borrowing costs might come down and are more likely to invest more in future projects leading to better earning in the coming quarters. However a flip-side to the issue also exist as further depreciation in bond yield might lead to fund outflow by foreign investors from domestic market and seek superior return from other emerging countries. On technical front bond yield has been trading within the downward sloping channel line hence outlook in yield continue to remain negative

10 Year Bond Yield US: US Bond yield climbed without the buying and as they move closure to raising interest rate. Considering the improving Economic data Fed seems courageous to sacrifice growth at the cost of inflation. On technical front US bond seems to have provided the necessary breakout from the downward sloping channel line and changes the short term outlook to positive. Rising bond yield has an inverse relation with that of the Indian equity market as rising US bond yield might lead fund outflow from Indian market and seek other higher yield assets.

Indian Rupee: Since the start of the calendar year Indian Rupee had been appreciating led by heavy buying by overseas investors, a turnaround in macroeconomic fundamentals also helped to gain in rupee. However past month Rupee depreciated or rather traded within a narrow range as foreign investors reduced the buying activity followed by the uncertainty over raising US interest rate. On technical front the upward sloping trendline since February 2012 onward curbed the downside. The elevated support from the rising trendline was honored for the third time and considering the time frame of 4 long years in the making validates of a strong base being build up. Currently the elevated support stands around 59.60. Considering the present setup it can be inferred that Indian Rupee might depreciate from current level which might act negatively towards Indian equity market.

Summing it up

Positives:

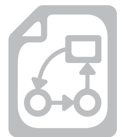
1. Breach of upward sloping wedge formation.
2. Bullish channel formation in the making and projects upside potential till 8350-8400.
3. Bollinger band study depicts of a strong bull market as Nifty bounced from its mid band.
4. According to Gann theory upside in Index still remain till November condition being Nifty stays above 8000.
5. Through retracement level Nifty is in a base building mode at 7750-7800.
6. Further upside till 17900 in DJIA is at the vicinity at the successful breach of remains
7. According to Gann Theory positive momentum in the market would remain.

Negatives:

1. Presence of negative divergent in oscillator in weekly chart.
2. Nifty still remains stretched against moving average and potential correction of 2-3% remains.
3. Indian VIX trading at historical low level and any pullback might act negatively for Indian equity market.
4. Projected retracement level of 150% at 8190 act as the immediate cap for the Index.
5. 10 year bond yield has been on a declining trend which might result in fund outflow from Indian equity market.
6. An inverse relation of 10 year US bond yield with Indian equity market indicates that the Index might head lows.
7. After taking support from its rising trendline Indian rupee is likely to depreciate from present level.
8. Crude oil prices took support from its 4-year old trendline, indicating possible reversal of trend.
9. Dollar Index breached past the 6-year old downward sloping trendline which might act negatively for Indian equity market.

To sum up Indian equity market after witnessing a knee-jerk reaction at the initial start of the week was on its way to its winning streak as bulls took control and settled comfortably above the crucial 8100 level mark. At the initial start of the month Indian market remained truncated and profit booking at higher level was witnessed after RBI's release of its Annual report FY14 stating that persistent high inflation would continue to remain the key risk towards growth hence the market interpreted of a lesser possibility of an interest rate cut. However sentiment turned sour following the Supreme Court's judgment of all coal blocks allotted via screening panel since 1993 as illegal. Further dismal performance of BJP in the assembly by-election was negatively taken by investors and speculation of under recovery in diesel prices came to an end as politics gained foreground with govt. deciding to deregulate diesel prices after state polls next month. Meanwhile on the global front investors seems to have been overcoming fears over political tension in the Middle East, North Africa and Ukraine and awaiting FOMC decision on interest rate. Market was nervous of the issue an rate hike by US Fed however they in turn decided to keep its interest rate to near zero level for a considerable time after its bond purchases ends in October provided job market shows improvement as significant amount of slack still remains. Global equity market reacted positively to the decision and Indian equity market was no different and provided the necessary pullback. Even though market languished within the trading range, a bundle of stocks hit new high with midcap and small caps outperformed the broader market which happens to be the characteristic of every bull market. Present rally has witnessed a shift in the nature of investors as retail investors

seems to have been pouring in money through mutual fund route while Foreign Institutional investors seems to have reduced their activity on the overhang of the FOMC decision. The previous euphoria or hope rally of a better govt. has faded and currency and commodity swings seem to have been driving the rally. Brent Crude Oil edged lower on sluggish demand and abundant supplies, outweighed of a possible cut in oil output from OPEC. Weakening crude oil prices eases pressure on twin deficit and hence will lead to channelizing of resources towards productive assets in medium to long term. Further Industrial metal prices dropped to its lowest level in three months as the world's biggest user of Industrial metal China showed Industrial production decelerating markedly in August. Recent bilateral talks with Mr. Modi proved successful and Japanese Prime Minister Shinzo Abe gave indication of investment to an extent of $35bn for various infrastructure projects followed by opening of credit line by China to the tune of $20bn across various sector raises optimism of revival of investment cycle. Prime Minister Narender Modi's initiative to consort with the bigger economy of the world now draws attention towards the ensuing India-US economic engagement which is likely to scale higher by a sizable amount. However on the macroeconomic front the IIP and CPI data released points to the fact that recovery is still some time away. WPI for August hit a five year low of 3.74% and weaker than expected IIP numbers at 0.5% in July would shift investors focus towards the upcoming RBI policy. On the technical front Nifty continues to grind amidst the trading range and awaiting fresh cues from the market to provide a breakout or a breakdown to dictate the next directional movement. Foreign Institutional investors seem to have reduced their position while retail investors have taken the center stage as evident from rise in volume. Though broader market was unable to breach past the previous high, midcap and small cap continued to surge. Candle stick pattern suggest indecisiveness in the market with formation of hairline formation in both weekly and monthly chart which is further validated on oscillator front as divergent view point exist from daily and weekly chart. Nifty failed to cross the 8190 which happens to be the 150% retracement since August 2013. Nifty failed to breach the crucial resistance for the second time in the month indicating the strength of the bears at such high level. Inability to breach the said resistance level for the second consecutive time has lead to form bearish double top formation in daily chart which has a negative implication in the market and successive breach of the previous swing low of 7925-7930 would validate the said pattern and lower levels of 7600 can be seen. However longer term picture continues to remain positive with its successive higher high formation in weekly and monthly chart, further Index had been trading amidst the rising channel formation and higher target of 8350-8400 can be seen in near term and 7700 might be the immediate demand zone for Nifty. Going ahead in the forthcoming month Nifty is likely to remain confined within a trading range with positive bias and awaiting higher target of 8300 and then towards the final target of 9000 in medium term. However change in investment trend of FII investors with development in the global market and increase in bi-lateral trade between India and US will determine the near term trend in the domestic bourses.



Market Diary

BEST PERFORMERS FOR THE MONTH (CNX 100)

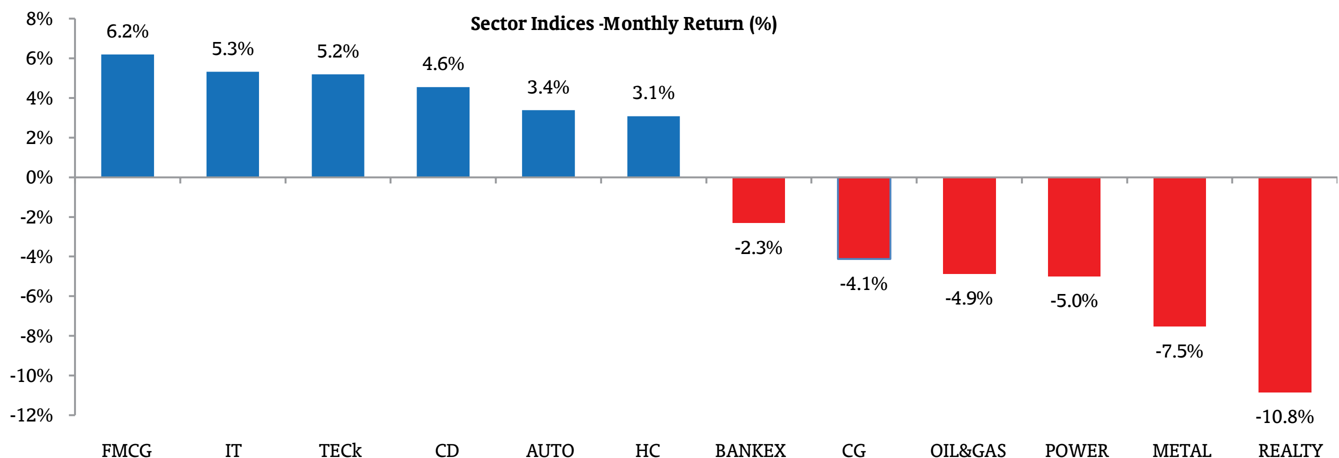
Sl No.	Co. Name	Cl. Price 25.08.2014	Cl. Price 25.09.2014	Cl. Price Var (%)
1	CIPLA	507.4	609.9	20.2%
2	INFRATEL	260.7	300.0	15.1%
3	DRREDDY	2880.0	3305.8	14.8%
4	HEROMOTOCO	2569.5	2932.0	14.1%
5	ABIRLANUVO	1493.9	1677.4	12.3%
6	IDEA	154.7	170.1	9.9%
7	BHARTIARTL	369.1	405.6	9.9%
8	GODREJCP	903.5	991.0	9.7%
9	COLPAL	1502.3	1643.0	9.4%
10	DIVISLAB	1577.9	1723.2	9.2%
11	BAJAJFINSV	972.8	1060.0	9.0%
12	MARUTI	2805.9	3057.0	9.0%
13	PETRONET	177.2	192.8	8.8%
14	INDUSINDBK	567.3	615.7	8.5%
15	TECHM	2313.7	2509.8	8.5%
16	LUPIN	1263.4	1369.9	8.4%
17	GLAXO	2480.0	2681.0	8.1%
18	TITAN	361.7	391.0	8.1%
19	TCS	2522.1	2715.0	7.7%
20	HCLTECH	1597.7	1719.5	7.6%

WORST PERFORMERS FOR THE MONTH (CNX 100)

Sl No.	Co. Name	Cl. Price 25.08.2014	Cl. Price 25.09.2014	Cl. Price Var (%)
1	JINDALSTEL	253.5	175.2	-30.9%
2	RCOM	119.9	96.2	-19.8%
3	DLF	190.9	156.8	-17.8%
4	RELCAPITAL	556.1	464.0	-16.6%
5	SAIL	81.3	68.1	-16.2%
6	RPOWER	82.5	70.5	-14.5%
7	BANKINDIA	284.7	244.5	-14.1%
8	BHEL	232.3	204.3	-12.0%
9	CANBK	389.0	344.2	-11.5%
10	RANBAXY	641.0	575.0	-10.3%
11	RECLTD	268.6	242.6	-9.7%
12	TATASTEEL	512.0	463.0	-9.6%
13	UNIONBANK	211.0	191.0	-9.5%
14	PNB	963.7	872.5	-9.5%
15	HINDALCO	164.9	149.6	-9.3%
16	SUNPHARMA	853.6	776.0	-9.1%
17	INGVYSYABK	642.8	586.0	-8.8%
18	APOLLOHOSP	1159.0	1057.8	-8.7%
19	ACC	1531.7	1403.0	-8.4%
20	PFC	257.2	236.0	-8.2%

(Source: BSE)

Indices Performance 25.08.2014 –25.09.2014



Source: BSE

Commodities - Monthly Round up

"No matter what people tell you, words and ideas can change the world"
Robin Williams

YEN

The dollar soared to a new six-year high against the yen after the Federal Reserve gave more guidance on its plans to raise interest rates amid an economic recovery in the U.S. The greenback rose 1.1% against the yen to a high of ¥108.80, its strongest level since September 2008. Investors have piled into the dollar in recent weeks, betting that a strong U.S. recovery would prompt the Fed to send a firmer signal on when it would raise interest rates from near zero. The greenback has logged its longest winning streak in more than 17 years, rising against a broad basket of currencies for nine straight weeks, according to the ICE U.S. Dollar Index. Higher interest rates would make the dollar more attractive to yield-seeking investors. While the Fed reiterated in its statement that it would be a "considerable time" before it raises rates, it also gave a more detailed description of how it would manage an increase when the time arrives. Investors saw the comments as another step toward lifting rates, which have been at current historic lows since 2008. The Fed's increasingly hawkish tilt comes as European and Japanese central banks are still trying to kick-start their economies and relying on policies such as bond buying that tend to drive down interest rates and reduce the value of a currency. Earlier in September, the European Central Bank surprised investors with a rate cut, bringing down the euro.

Technical Analysis

Recently Yen is trading at 108.90 against the US Dollar and as far as technical resistance is concerned we have just one important one near 110.60 which was scored on August 2008. Though the weekly chart of the pair is not giving any sign of weakness, all the oscillators and indicators are in overbought pattern which is not a trend reversal signal but can be treated as a caution for the traders. Only a break below 106.70 is going to disturb the bulls. Any correction if comes up then it should stall near 104.20. At 104.20 we got some swing peaks and it's also falls near 20 weeks Exponential Moving Average. There is some Negative Divergence in weekly chart with MACD but those are not yet confirmed by the market action. If the Bull Run is going to be the strongest one then our resistance of 110.60 will not be able to hold the bulls and then 113.-114 area will be crucial for the market.

In the daily chart we have some consolidation after making high near 109.50. As per weekly chart our recommendation is to buy within 107.80-107.40 in any probable correction with stop loss at 106.60 which is again the last swing low. Momentum traders can initiate position is the high of 109.50 taken out by the market and place the stop at 109.20 with a target objective of 110.40 and finally at 112. At every step it's better to trail the stop after certain price run to arrest any unwanted volatility in the market.

Weekly Chart: USD/YEN

SILVER

Silver hit 4 year low at COMEX which is the weakest value since August 2010. The metal sector is really bruised badly after FED comes out with some rate hike probabilities from their latest round of FOMC meeting. Data from the CFTC showed that net silver shorts totalled 4,557 contracts as of last week, compared to net longs of 2,237 contracts in the preceding week. This data is a bit tricky in the sense that when the market is now hugely short then a small bounce in the metal may prove to be fatal because of short covering rally. So traders always adopt some extra promptness. In dollar terms, the price has fallen about 30 per cent since November 17, 2010. However, in rupee terms, the fall was capped due to depreciation in the Indian currency. On Friday, the rupee closed at 60.83 against the dollar,

compared with 45.31 four years ago. Since 2010, demand of silver for industrial fabrication has fallen consistently, from 643.2 million oz to 586.6 million oz. Fabrication accounts for about 55 per cent of global demand for silver. Investor appetite has shifted towards riskier assets, including equities. Consequently, investments in ETF have seen huge sell-offs, which weighed on prices. Fears of the Chinese economy cooling have also hit prices.

Technical Analysis

In the weekly chart of silver COMEX, the RSI oscillator is oversold from August 2014 onwards which pointed out the problem of using oscillator in any trending market. Apart from the fairly trending market we now got another bearish confirmation on mid week of September after it gave a weekly close below the previous low of $1814 and also the closing value falls below a prominent Right Angle Triangle. A close below the base of the Right Angel Triangle or a breakdown always signifies the bearishness of the market. So by this definition we can say that in coming days we may witness more fall in silver price which coincides with precious metal's strong seasonal months. Our advice is to sell the metal below $1770 with a first price target of $1580 and if the falls extend then $1000 mark will be under the sight. The stop loss must be at $1895.

Weekly Chart: Silver in US $

In MCX the market is now trading at 39600 levels. MCX support is near 38500 levels which was the low of June 2013. Weekly RSI is just entering into the bearish zone and if we can take out the low of 38500 then a fall towards 31000 can be seen in the market. So our advice is to short the market below 38400 with stop of 41900 and target should be around 31500.

Weekly Chart: Silver MCX Continuous

World Economic Event Calender – October 2014

Monday	Tuesday	Wednesday	Thursday	Friday
		1	2	3
		US: ISM Manufacturing US: MBA Mortgage Applications JN: Markit/JMMA Japan Manufacturing PMI IN: HSBC India Manufacturing PMI EC: Markit Eurozone Manufacturing PMI	US: Initial Jobless Claims EC: ECB Main Refinancing Rate US: Factory Orders JN: Monetary Base YoY EC: ECB Deposit Facility Rate	US: Change in Nonfarm Payrolls US: Unemployment Rate US: Trade Balance EC: Markit Eurozone Composite PMI US: ISM Non-Manf. Composite
6	7	8	9	10
UK: Halifax House Prices MoM EC: Markit Eurozone Retail PMI	UK: Industrial Production MoM UK: Manufacturing Production MoM IN: HSBC India Services PMI JN: Leading Index CI	JN: BoP Current Account Balance US: MBA Mortgage Applications CH: HSBC China Services PMI JN: Trade Balance BoP Basis JN: Eco Watchers Survey Current	UK: Bank of England Bank Rate US: Initial Jobless Claims JN: Machine Orders MoM US: Wholesale Inventories MoM US: Continuing Claims	IN: Industrial Production YoY JN: Tertiary Industry Index MoM IN: Exports YoY US: Import Price Index MoM UK: Trade Balance
13	14	15	16	17
CH: Trade Balance	UK: CPI YoY JN: PPI YoY UK: PPI Output NSA MoM UK: RPI MoM IN: Wholesale Prices YoY	JN: Industrial Production MoM CH: CPI YoY UK: Jobless Claims Change US: MBA Mortgage Applications CH: PPI YoY	US: Initial Jobless Claims EC: CPI YoY US: Industrial Production MoM US: Philadelphia Fed Business Outlook US: Continuing Claims	US: Univ. of Michigan Confidence US: Housing Starts US: Net Long-term TIC Flows US: Building Permits
20	21	22	23	24
UK: Rightmove House Prices YoY JN: Leading Index CI EC: ECB Current Account SA	CH: GDP YoY US: Existing Home Sales JN: All Industry Activity Index MoM CH: Industrial Production YoY UK: PSNB ex Banking Groups	US: CPI MoM US: MBA Mortgage Applications JN: Trade Balance	US: Initial Jobless Claims JN: Markit/JMMA Japan Manufacturing PMI CH: HSBC China Manufacturing PMI EC: Markit Eurozone Manufacturing PMI US: Markit US Manufacturing PMI	UK: GDP YoY US: New Home Sales
27	28	29	30	31
UK: Nationwide House PX MoM US: Pending Home Sales MoM US: Markit US Services PMI US: Dallas Fed Manf. Activity	US: Consumer Confidence Index US: Durable Goods Orders US: Richmond Fed Manufact. Index JN: Retail Trade YoY US: Cap Goods Orders Nondef Ex Air	JN: Industrial Production MoM US: FOMC Rate Decision US: Fed QE3 Pace US: MBA Mortgage Applications UK: Mortgage Approvals	US: Initial Jobless Claims US: GDP Annualized QoQ EC: Consumer Confidence US: Continuing Claims US: Personal Consumption	JN: Jobless Rate US: Univ. of Michigan Confidence JN: Tokyo CPI Ex-Fresh Food YoY US: Personal Income EC: CPI Estimate YoY

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

Group Companies

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(RBI Registered NBFC)
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 / NSDL)
CIN No. U65921MH1994PLC171897

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