INSIGHT

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September, 2014

AUTO SALES: LEAD INDICATOR

Tata Motors Ltd. | Timken India Ltd.
KEC International Ltd. | Indoco Remedies Ltd.
Ingersoll-Rand (India) Ltd.

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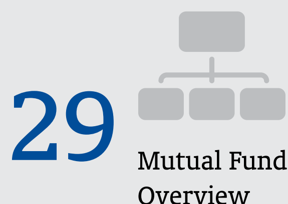
29  Mutual Fund Overview

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Market Overview

Mr. Narendra Modi continues to keep the markets under his charm and makes all the right noises as he addressed the nation in his first Independence Day speech. He spoke strongly about the hot-boiling issues relating to job creation, manufacturing and skill development. He addressed to the multinational companies & urged them to "Come, make in India be it plastics or cars or satellites or agricultural products, come make in India." while asking the SME sector to produce high quality environment-friendly products in a bid to turn India into a manufacturing hub and may be a stretch further to an export hub. He also launched the 'Pradhan Mantri Jan Dhan Yojana' to help poor to open bank accounts which will come with the facility of a debit card and an insurance cover of Rs 1 lakh. Besides, he stressed on digital media, a plan not for the benefit of the rich, but rather the poor, highlighting that "e-governance is easy governance, efficient governance, and that is important,". In his landmark approach in rebuilding India, he is believed to start from villages as ~60% of the population dwells in rural India. Mr. Modi asked all MPs to develop a model village in their constituencies by 2016. According to him, "One village for a constituency should be developed on the model grounds. Two more can be developed by 2019." "If we have to build the nation we have to start from the villages". Thus, if each MP develops three villages over five years, many villages will witness the progress. He urged the youth of India who have taken to terrorism and naxalism to shed their guns and adopt the path of peace and development. He also said the Planning Commission would soon be wound up, condemning to extinction of one of the last relics of the Socialist-style economy India pursued in the past and would be replaced with a more modern institution, National Development Reforms Commission. He stressed on creative thinking on the part of the Planning Commission and blamed the old organization for being backdated. In a step towards clean India, government plans to launch the Swacch Bharat plan in October. Mr. Modi emphasized on the dignity of women and the need to build sanitation facilities for the whole of India by 2019. That was not all; there was an appeal to the corporate sector to put forward their lending hand in building a clean India. As part of CSR, higher importance should be given to build toilets in every school. He even set himself a goal to build toilets in every school as India marks her 65th independence day next year.

The markets continue to make one high after another, although if one looks at the broader picture, it will be sometime before the inflation cooling & the earnings up-gradation takes place thick & fast. The measures taken to bring down the inflation (which incidentally is the major headache for the policymakers) will need some time to take effect while no clear guidance on the pending issues such as GST & DTC, are few dampeners among FIIs. Moreover, the recent announcement of the Supreme Court to declare government allocations of coal blocks since 1993 & 2010 as illegal is a major blow to India and at a time when the new government is trying to implement business friendly policies. This is certainly bad news and more importantly, the timing is all wrong. The ramification being apparent that it will further aggravate the already ailing mining, metal, banking & power sectors. The markets were jittery considering that in 1993 NDA was in power at the centre when the scam took place. If the issue lingers on, it will have negative effect to the core sectoral growth in the economy & detrimental to the revival plans. BJP government is however unperturbed and has on the contrary welcomed the decision to end the uncertainty over the sector. The final decision on the matter is however awaited. Despite all this, there are anticipation & hope and forecasts from the economists that the economy may be turning the corner. In fact, some have forecasted that the economic growth to have hit two year high for the first quarter for the fiscal year with more green shoots on the horizon. In fact, in the annual report released by RBI, the apex bank has forecasted India's GDP growth to touch 5.5% in FY15. There is comfort on the external front as the government needs to shell out less on oil under recoveries as crude oil prices are under pressure. Thus, there is expected to be less volatility on the foreign exchange market. Moreover, there are expectations that the corporate sector is slowly regaining. The RBI in its annual report said that forward looking surveys and economic indicators along with rising business confidence provided hope that the decline in private corporate investment "could be arrested" in 2014-15 and fresh investments of over Rs 1.2 lakh crore "could be realized".

As the 100th day of the Modi government is nearing an end, it will be a good time to look back at the key achievements during this small period. Mr. Modi started with some unpopular decisions such as approving diesel price hikes and hiking the cost of railway tickets. However, there has not been any dip in the popularity of the supremo. In fact, the first parliamentary session addressed by Mr. Modi, is by any means a success as data suggests. Unlike other budget sessions, it has been a session that saw a lot of debate and little disruptions. According to media articles, about 167 hours worth of business were conducted in the Lok Sabha & 142 hours in Rajya Sabha. It is not that there were no disruptions as the Lok Sabha saw 14 hours of disruptions and 34 hours of disruption in Rajya Sabha but all the

political parties, all the MPs put in that extra hour and that extra effort to bridge this deficit. The result was a success with the 2014-15 budget session being one of the most productive one with achievements of 13 bills being passed, the general Budget being passed, the Rail Budget being passed and not only that even the Delhi Budget was passed. The notable changes made by the government during this brief stint can be broadly outlined as:

1) The % of foreign direct investment allowed in insurance firms was raised from 26 % to 49 %, subject to parliamentary approval
2) Passenger fare and rail freight rate hikes
3) The formalization of rules for long-term infrastructure bonds
4) Hiking foreign direct investment limits in defense firms (from 26 % to 49 %) and railways (up to 100 %)
5) Simplifying environmental and forest clearance rules
6) Controlling inflation by releasing food and grain stocks
7) Labor law reforms, mainly relating to procedural changes to statutory filings and labor inspections
8) Gradual deregulation of diesel prices, assuming the exchanges rates and crude oil prices remains stable.

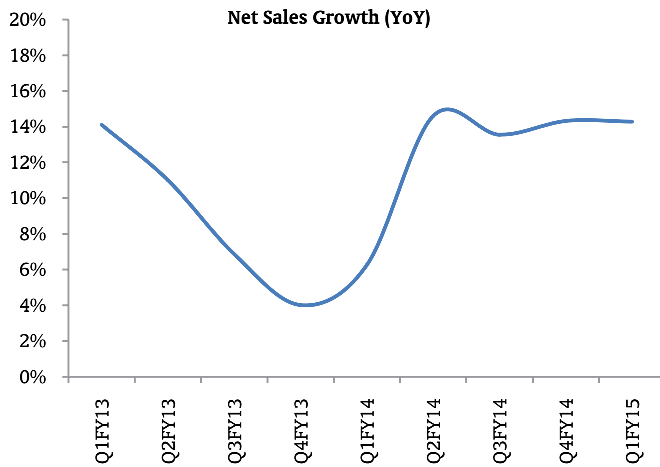
The only grey area being the deferment of the Insurance bill (which seeks to up the foreign investment limit in the sector from 26 % to 49 %) and which has been referred to a select committee that will submit a report in the next session. Overall it was a successful budget session and it promises for more in the next parliamentary session. Historically, it has been witnessed that the second budget session is more productive than the first one. The capex cycle is still to turn in the capital goods space as far as the Q1FY15 order inflows suggests. However, with the economic growth picking up and ample liquidity to the corporate, they will be comfortable to take that extra risk but probably when they earn sufficient cashflows from the existing projects to finance the debt.

Talking of earnings, the first quarter for India Inc. ended on a on a good note. In keeping with the positive trend seen in 4QFY14, India Inc saw earnings acceleration in 1QFY15 also. Aggregate Sensex (ex-banks & oil) revenue growth in Q1FY15 was at 14.5% YoY against 12.7% in Q4FY14 and 0.3% in Q1FY14. In addition, aggregate PAT growth for Sensex (ex-banks & oil) was significantly stronger at 16.7% against 8.9% in Q4FY14 and 2.3% in Q1FY14, largely driven by strong results of Tata Motors, Sesa Sterlite and ONGC, excluding which PAT growth falls to 9.5% as many companies has given significantly disappointed results. EBITDA margins, however, fell slightly by 23bps YoY at 20.5% on higher input costs. Excluding Capital Goods and Retail, all sectors posted positive revenue growth, with Auto, IT, Pharma, FMCG, Metals, and Energy leading the pack. Sectors and companies with overseas revenue or the revenue linked to global price or margin of underlying commodity has given a strong result. On a bigger scale, aggregate revenue growth of CNX 500 companies (excluding Banks, NBFC & Oil companies) stood at 14% on YoY basis. Although, sequentially there is de-growth of 7%. Constant operating expenses led to a stable operating margin which stood at 18% in Q1FY15. This led EBITDA in Q1FY15 to grow by 24% YoY, while QoQ it registered de-growth of 4%. The depreciation cost of these companies registered a growth of 19% YoY. However sequentially, it is flat. Interest cost has shown some relief in the quarter by growing 13% YoY against 27% in Q4FY14. However, QoQ the interest cost decreased by 1%. Earnings of CNX 500 companies (excluding Banks, NBFC & Oil companies) has given a growth of 39% YoY during the quarter as compared to 25% YoY growth in Q4FY14. Sequentially the profit decreased by 11%. While profit margin decreased by 40 bps at 8.1% against 8.5% in Q4FY14.

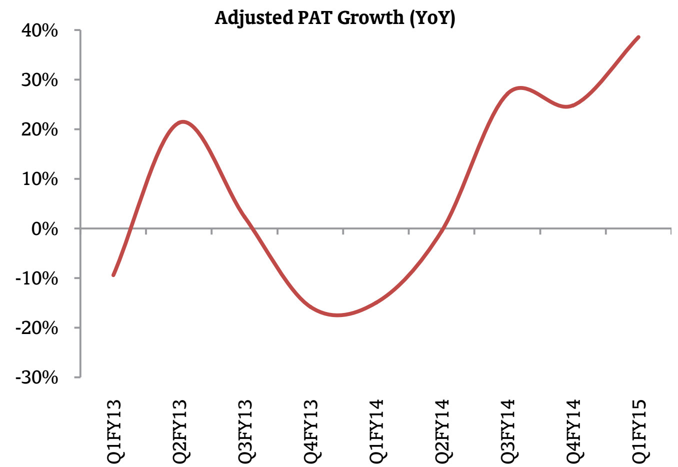
The markets seem to have priced in all the economic benefits for the current year as Nifty trades tantalizingly close to 8K mark, a target supposedly to be reached by the end of the year. Market valuation has thus expanded & one has to agree that the valuation gap which existed in April have narrowed, however, the growth potential of some of the midcaps can be fathomed accurately and many will provide with positive surprises and generating strong alpha. The market is trying to gauge & build expectations based on the lead indicators, which suggest that the worst could be over and the key indicators are turning positive for the first time since April 2012. IIP, loan growth, cash demand, corporate earnings, construction activity are some of the indicators which have bottomed out and a recovery is in the offing. Besides, post elections, there have been a major consumer sentiment boost which have been reflected in improving sales figures for auto & cement companies. The signs of volume recovery in Auto industry have underpinned in July 2014 in two wheelers and cars on the back of healthy May-June 2014 sales volume growth, while the pace of decline has moderated in CV segment. Moreover, the impact of pre buying happened in June-14 due to the anticipation of excise cut rollback was further witnessed in July-14 also and these made MoM sales growth flat at 2%. Total auto sales volume during July-14 rose healthily by 16% at 1,763,710 units and in previous month the growth was also in double digit, implying the sector's growth revival is on track. There is a direct co-relation between investment projects announcement and CV (commercial vehicle) segment volume growth mainly in medium and heavy commercial vehicle. It has been noticed that investment projects act as a lead indicator for CVs. During FY09, there was a jump of 34% in investment projects announced, which resulted in a sharper turnaround in positive sentiments, leading to an average CAGR of 25% in CV volumes over FY10-FY12. Generally, the CV segment reports a growth for 3-4 years and records a decline for the next 2-3 years owing to its cyclical nature. During the past five cycles, the similar trend was noticed and the expectation is that the stable government in the center would kick start the investment cycle at the earliest and it is a beginning of new cycle. On the flipside, household savings and per capita disposable income are the two key drivers for passenger vehicles (PV) sales. Historically it is noticed that any spurt in PV sales was backed by higher household savings and growth in disposable income. The trend had been observed during FY2000, when a surge in household saving resulted in a growth of 49% YoY in PV volumes in the same year, while weaker household savings led to a drop in PV volumes over the next two years. Such trend was replicated during FY04-FY05 and FY06-FY07 as well. Thus it implies that gradual demand recovery in auto sector is an early indication of economic revival and it further depends on the government to implement pro-business reforms. The Sensex trades at 14.2x FY16E EPS while the BSE Mid Cap & Small Cap trades at 13.1 and 10.9 of their FY16 expected earnings. A significant part of the earnings growth will be driven by domestic cyclical sectors which are still trading at significant discounts to historical average price-to-book value. The next phase of earnings growth hinges upon the economic policies framed by the government and the subsequent upturn in the capex cycle. Although, food inflation continues to plague the economy but uptick in the markets will be provided from revision in the next leg of earning cycle.

Nifty P/E since year 2000

Source: NSE India



Source: Capitaline



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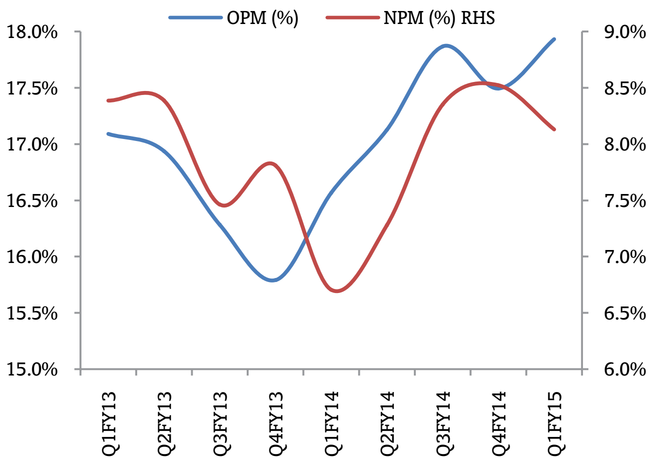


Source: Capitaline

Paras Bothra

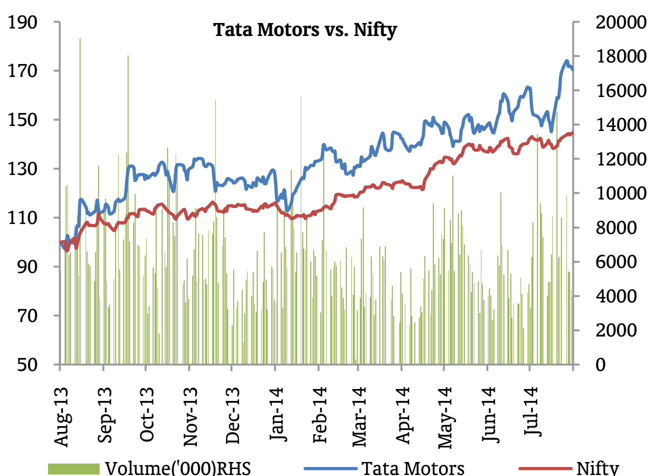
Vice President - Equity Research
Email- paras@ashikagroup.com
Phone: 022 66111704

Stock Picks

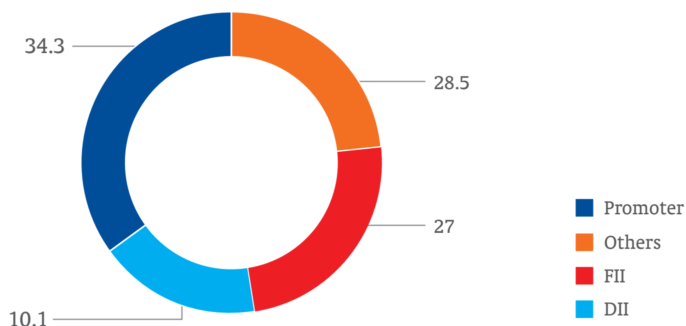
Tata Motors Ltd. CMP: 527/- Rating: Buy TGT: 598/-

Company Information

BSE Code	500570
NSE Code	TATAMOTORS
Bloomberg Code	TTMT
ISIN	INE155A01022
Market Cap (Rs. Cr)	142060
Outstanding shares(Cr)	273.7
52-wk Hi/Lo (Rs.)	522 / 284
Avg. daily volume (1yr. on BSE)	6,223,329
Face Value(Rs.)	2
Book Value (Rs)	239.3



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	188,793	232,834	269,834	313,327
Growth (%)	14.0	23.3	15.9	16.1
EBITDA	24596	34838	42853	49209
EBITDA Margin (%)	13.0	15.0	15.9	15.7
Net profit	10495	14976	18483	21210
Net Profit Margin (%)	5.5	6.4	6.8	6.8
EPS (Rs)	32.9	46.5	57.9	66.5

Source: Ashika Research & consolidated numbers

Investment Rationale

Zest along with a series of other launches: A huge leap forward

TTMT passenger vehicles business unit has been facing product fatigue issues and has adopted Horizonext strategy, which is aimed at completely revamping the passenger vehicle weak brand image, product, sales and service issues. It has been focusing on the following pillars over the past 20 months: (i) Intense product focus; (ii) World class manufacturing; (iii) Best in class customer experience and (iv) Consistent and outstanding service. Efforts have started yielding results with JD Power Sales rating for TTMT going up to 7 of 12 from 12 of 12 and Service rating going up to 6 of 12 from 7 of 12. The company targets to be among top 3 over time. It plans to launch 2 new PVs every year for the next few years, starting with Zest and Bolt this year.

Likely recovery in standalone CV segment in H2FY15

Reduction in working capital and financial support from the subsidiary companies (JLR's dividend of INR 15.7bn and INR 39.7bn realized from sale of investments to subsidiaries) helped offset negative FCF. Domestic CVs would witness a demand rebound in H2FY15, which should improve the financial performance in FY15. However, market share recovery in the PV business rests significantly on the response to its newly launched entry level sedan 'Zest'.

JLR strong product pipeline gives visibility to revenues and margins

After the successful launch of RR, RR Sport and F-Type, JLR will reveal Discovery Sport (Discovery Sport is the first member of the new Land Rover Discovery family) globally on 3rd Sept'14 and Jaguar XE will premiere on 8th of Sept'14. Both Discovery Sport and Jaguar XE will go on sale in 2015. The line-up will be expanded to include a Jaguar crossover (2016) and other models under Jaguar or LR brands. Strong product pipeline over the next 3-4 years should lead to better volumes, lower incentives and richer product mix, lending visibility to overall revenues and margins.

JLR capacity expansi on plan on schedule to reach 750,000 units by the end of FY16

JLR's capacity on a two-shift basis is 450,000 units, which will increase to 750,000 units in two years' time. The UK capacity will increase to 600,000 units by the end of FY16E, the China capacity will increase to 130,000 units and the company will install capacity of 24,000 units in Brazil by the end of FY16. The company plans to set up an assembly facility in Saudi Arabia, which may use an aluminum foundry, and is doing the feasibility analysis.

Balance sheet remains strong

Helped by strong operating performance at JLR, TTMT consol net debt to equity stood at 0.09x at the end of Q1FY15, down from 0.31x at the end of Q1FY14. JLR cash and financial deposits at the end of quarter stood at £3.3bn. Given the healthy performance at JLR and strong balance sheet, we believe TTMT remains well placed to fund its capex program and invest for growth in medium-long term.

Key Risks

- Margins Pressure in JLR
- Sharp drop in demand

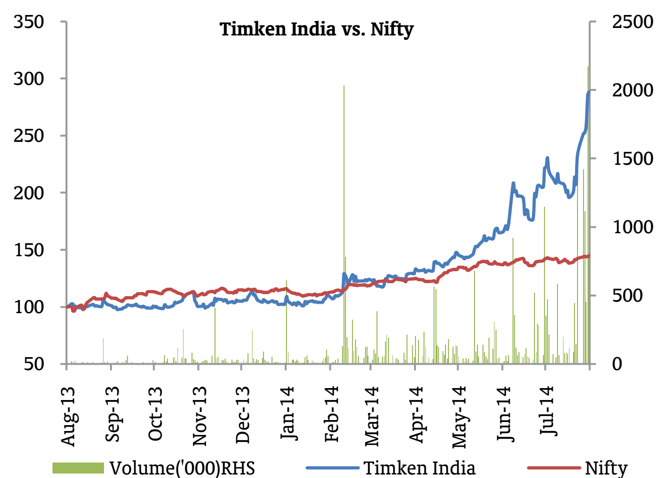
Outlook & Valuation

Given the opportunity at JLR and improving visibility in standalone operations, we reiterate our BUY rating on TTMT. While standalone performance will benefit from aggressive PV launch pipeline and recovery in domestic CV demand, we believe JLR performance will also remain healthy in near-medium term on the back of a) new launches, b) network expansion, especially in markets like China and start of production at China JV plant. The stock is trading at P/E multiple of 7.9x for FY16E EPS of Rs 66.5, hence we recommend to buy the stock with a target price of Rs 598 (assign P/E multiple of 9.0x on FY16E EPS) from investment perspective of 18 months.

Timken India Ltd. CMP: 447/- Rating: Buy TGT: 545/-

Company Information

BSE Code	522113
NSE Code	TIMKEN
Bloomberg Code	TMKN IN
ISIN	INE325A01013
Market Cap (Rs. Cr)	3040
Outstanding shares(Cr)	6.8
52-wk Hi/Lo (Rs.)	483.1 / 151.1
Avg. daily volume (1yr. on NSE)	128,239
Face Value(Rs.)	10
Book Value	56.2



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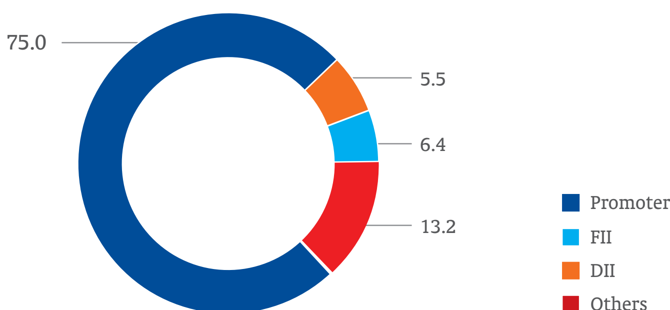


(In Rs. Cr.)	FY14	FY15E	FY16E	FY17E
Net Sales	720	875	1102	1400
Growth (%)	4.6	21.5	26.0	27.0
EBITDA	72	121	160	217
EBITDA Margin (%)	9.9	13.8	14.5	15.5
Net profit	45	88	119	161
Net Profit Margin (%)	6.2	10.1	10.8	11.5
EPS (Rs)	6.6	13.0	17.5	23.7

Consensus Estimate: Ashika Research

Company Description

Timken India Ltd (TIL), a subsidiary of Timken Singapore PTE Ltd, is the fourth largest organized bearings player in India with overall revenue market share of ~8%. The company is a leading manufacturer of tapered roller bearings with ~45% market share. It also manufactures and distributes bearings components and accessories for automotive and railway industries in India and internationally. It also provides maintenance contract services. Its products include ball, cylindrical, needle, tapered, thrust, and spherical bearings. The company also offers power transmission components and systems for automotive, aerospace, and general industrial applications. The company was formerly known as Tata Timken Ltd and changed its name to Timken India Ltd in 1999. The Company manufactures tapered roller bearings in its Jamshedpur plant.

Investment Rationale

Demand revival in industrial and automobiles will boost growth

The major factor that infuses growth in the bearing market is the revival of industrial, automobiles and auto components industry. Currently the government has announced the expansion in the railway sector and railways require lots of high-end bearings which TIL caters to. Further in the Budget, the government had announced various reforms for industrial and manufacturing segment which are likely to fuel growth. So for bearing market, demand revival in industrial and automobiles together means favourable working environment for the company.

Strong Parentage

TIL is backed by strong parentage of Timken Co of the USA, which is a global leader in the bearing industry. The parent company has its presence in all the continents having operations in 30 countries around the world. The parent company's technological expertise is shared with TIL, which helps the Indian unit in developing newer products. The parent company gives professional management and power transmission solutions for different business verticals around the world.

Exports to drive growth

Timken's revenue has grown over the past couple of years in spite of a decline in investment activity, driven by exports and traded goods. TIL export to global OEM companies, constituting 25% of the company's FY14 revenues which has facilitate the company to survive the slowdown in the domestic automobile industry. During FY10-14 the company's export revenue posted a CAGR of ~30%. According to the management, the company has setup a platform to increase export and it is expected to gather momentum from the next quarter. Now with the global economy reviving and together with support from its strong parent company, TIL is expected to post strong growth in its export revenue.

Asset light model

The company follows asset light model as the key raw materials for the company are semi-finished components which the company outsources and the company does the finishing process at its facility. A large portion of outsourcing is done by the company from recognized players in the industries and also in order to ensure good quality TIL has started supplying only key raw materials to its supplier.

Company's traded revenues (~25% of total revenue), are majorly imported from the parent company. As a result, the business model is asset light and cost structure is variable which helps the company to generate impressive returns on the capital employed and also there is a requirement of lower capex. Fixed asset turnover ratio stood at 2.85x in FY14, which justifies the fact.

Strong balance sheet

The company has maintained strong balance sheet over the years with almost zero debt with large cash in its books and strong operating cash flow. 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.

Q1FY15 Result Analysis

TIL reported a good set of numbers in Q1FY15 where revenues increased by 34% YoY and 17% QoQ to Rs. 228 cr. The growth comes from the combination of economic and industrial activities in the Indian market. However due to better raw material mix and lower other expenses during the quarter, operating profit margin climbed to 18.4%, an improvement of 770bps. Moreover higher operating income coupled with lower financial charges have improved net profit more than 2x to Rs. 26 cr. which helped NPM to climb by 425 bps to 11.4%.

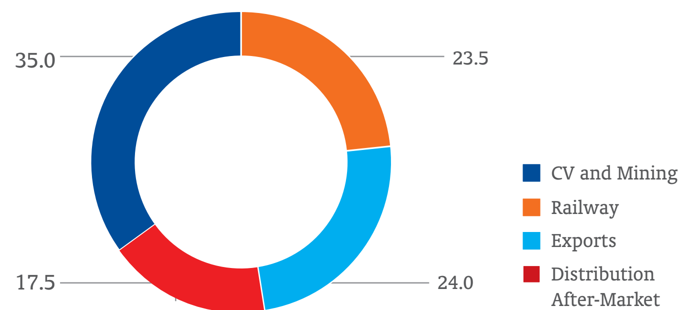
Key Risks

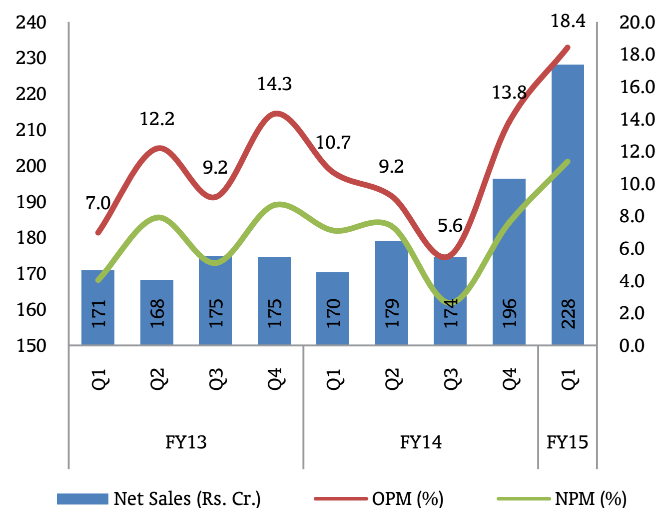
- Rising competition from global bearing majors
- Delay in recovery in key segments
- Rise in raw material costs could adversely affect margins

Outlook & Valuation

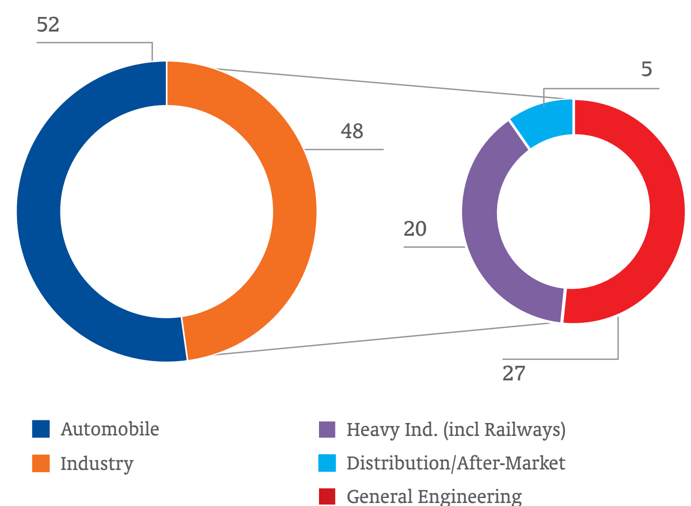
TIL had been riding high on robust automobile and industrial bearing demand. TIL has an edge over its competitor in tapered roller bearings where the company is a market leader. With improving demand outlook in automobile and industrial activities the performance of the company will improve significantly in coming quarters. Further with support from its strong parent company, TIL has built in new strategies to boost export revenue. The company follows asset light model with strong balance sheet which is almost debt free and robust cash flows with healthy return ratio, which will boost the financial performance of the company. With robust revenue growth visibility already in place, we believe that TIL is looking good for a long term investment. At CMP the stock is trading at 25.5x its FY16E EPS of Rs. 17.5 and 19.0x its FY17E EPS of Rs. 23.7. We recommend 'BUY' on the stock with a target price of Rs. 545, arrived at 23x FY17E EPS which implies potential upside of ~22% for long term investment perspective.

Revenue Break-up (%)





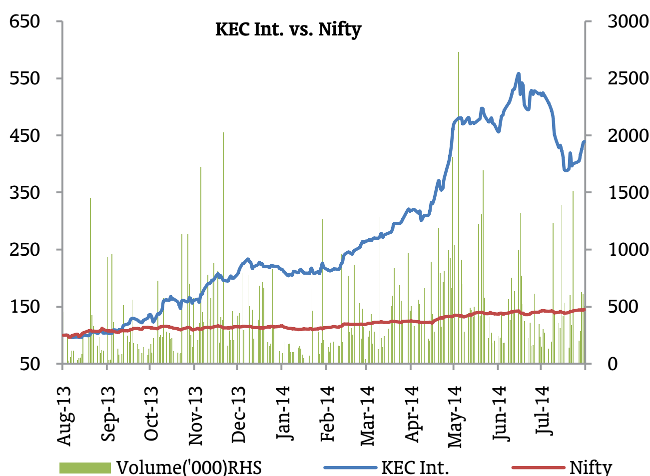
Sector User Segments (%)



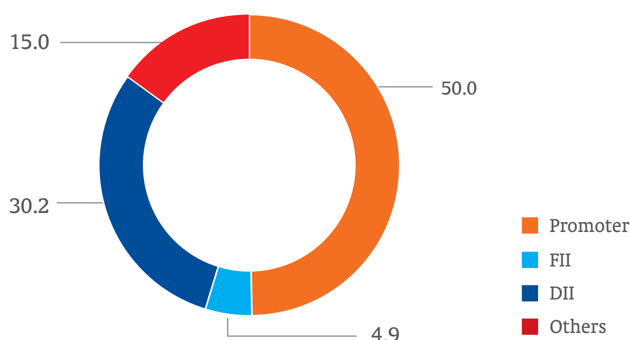
KEC International Ltd. CMP: 102/- Rating: Buy TGT: 130/-

Company Information

BSE Code	532714
NSE Code	KEC
Bloomberg Code	KECI IN
ISIN	INE389H01022
Market Cap (Rs. Cr)	2610
Outstanding shares(Cr)	25.7
52-wk Hi/Lo (Rs.)	154.7 / 23.1
Avg. daily volume (1yr. on NSE)	433,050
Face Value(Rs.)	2
Book Value	46.4



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	6979	7902	8803	9771
Growth (%)	20.0	13.2	11.4	11.0
EBITDA	381	475	625	762
EBITDA Margin (%)	5.5	6.0	7.1	7.8
Net profit	65	67	176	264
Net Profit Margin (%)	0.9	0.8	2.0	2.7
EPS (Rs)	2.5	2.6	6.8	10.3

Consensus Estimate: Bloomberg

Company Description

KEC International Ltd. (KEC), flagship company of RPG Group, is one of the leading Power Transmission Engineering-Procurement-Construction (EPC) companies in the world, KEC strengths its presence in the areas of Design, Manufacture, Supply and Construction of Turnkey Projects of Power Transmission lines of voltages upto 800 KV and in the execution of Railway Electrification projects, setting up Sub-stations and Power Distribution Networks, Optical Fibre Cable (OPGW) installations, Turnkey Telecom Infrastructure Services and maintenance of Power Transmission Lines. KEC has three manufacturing plants at Jaipur, Nagpur and Jabalpur in India. Also KEC has two of Asia's most sophisticated Tower Testing stations, capable of testing towers of upto 1000 KV Transmission Line.

Investment Rationale

Diversified business model to boost growth going forward

In order to diversify business risks, KEC started focusing on scaling up other non T&D business segments like Railways, telecom, cables and water. Also in order to diversify geographical risk, KEC has gradually ventured into different international market and also to combat weak domestic ordering environment. In domestic front, Power Grid Corporation of India Ltd. (PGCIL) is one of the key source of orders for KEC as PGCIL's capex forms 50% of the transmission capex planned in the 12th and 13th plan. So there is huge competition in PGCIL orders and in order to avoid depending on PGCIL order, geographical diversification will help the company. The sales contribution from new business verticals has been growing consistently, increasing from 7% in FY07 to 12% in FY14 and 11% in Q1FY15 and the current backlog from these segments stood at Rs. 1106 crore (as on Q1FY15). While on geographical front revenue contribution from international operation clocked a CAGR of 20% over FY10-FY14 and as of Q1FY15, the current international order backlog stood at 59% of the order book. The diversification in both the verticals will help KEC to boost growth going forward.

Margins to witness steady improvement ahead

The management believes that KEC's margin profile is likely to see steady improvement over the next few years. They expect margins to improve by 100bps in FY15 and by 80-100bps per annum over the next three years. Entry level pricing strategy in new business segments (Railways and Water) coupled with cost over runs in some projects has resulted in fall in margins. Now with the entry in new business segments, KEC is taking fresh orders at much higher margin and also reducing backlog of low margin legacy orders. With stable margins from transmission tower business coupled with improving margins from new businesses will lead to growth in overall margins of the company in coming years.

Robust order book provides decent medium-term revenue visibility

KECI's order book at the end of June 2014 is Rs 10325 crore, up 2.7% YoY, providing healthy visibility at 1.3x FY14 revenue. Order intake in Q1FY15 was Rs 1892 crore, down 13.4% YoY and of which 77% is overseas and 23% from India, as ordering activity in India was impacted by delayed decision making during elections. For FY15, KECI expects order intake to improve 8-10% YoY. In the international market, improved ordering is expected from MENA region, South East Asia, and African countries like Tanzania, Uganda, Kenya, etc. KEC expects PGCIL ordering activity to gather pace only from Q4FY15.

Balance sheet to improve going ahead

KEC's gross debt has increased from Rs. 2127 cr. in Q4FY14 to Rs. 2300 cr. as of Q1FY15, owing to increase in sales and increase in working capital cycle from 80 days in FY13 to 92 days in FY14 and over 100 days in Q1FY15. The recent proceeds from sale of land in Thane for Rs. 200 cr. plus, which is likely to be received in 2QFY15, would be used completely for debt repayment, thereby bringing down the debt-equity ratio from 1.8x in FY14 to around 1.4x in FY16E. Further with release of delayed payments by Powergrid will provide relief to balance sheet and lower interest costs for KEC along with a healthy rise in return ratios.

New business verticals could account for 40% of revenue

KEC has been showing a steady growth in core transmission businesses, both in domestic and international markets. KEC expects Railways and Water to be the key growth drivers over the next few years. The company believes the non T&D business to contribute about 40% of sales (against ~15 - 20% currently) over the next 4 - 5 years. KEC is ready to benefit from opportunities arising from expected uptick in capex in Railways and Water sector.

Q1FY15 Result Analysis

KEC reported sales at Rs. 1721 cr. down 1.5% YoY in Q1FY15 on the back of slow execution in international T&D and delay in dispatch of Rs. 100 cr. in SAE tower and cable segment. However, improvement has been seen in domestic T&D sales during the quarter. EBITDA grew by 45.5% YoY at Rs. 102 cr., translating into operating profit margin of 5.9%, up 190bps YoY, but down 110bps QoQ. However, the management maintained its guidance of a 100bps YoY improvement in operating margin in FY15. Interest cost was up 12% YoY and depreciation increased by 26% YoY because of a change in the useful life of fixed assets under the new Companies Act 2013. Net profit turned positive and was at Rs. 11.4 cr. compared to a loss of Rs 9 cr. last year same quarter.

Conference call key takeaways

(i) Expect 8-10% growth in consolidated order intake and at least 8% revenue growth in FY15.

(ii) All new segments achieved break-even at the operating level and are getting new orders at 7%-8% margin.

(iii) Strong performance will lead Cable business to report cash profit in FY15.

(iv) Expect Net Working Capital to moderate to 90 days (104 days in 1QFY15 v/s 80 days in 1QFY14), as deliveries pick up in the Products business.

(v) The management is optimistic about new business opportunities in water treatment, sewage treatment, river linking and railway segments.

(vi) Expect closure of the Thane land sale by August 2014 (cash flows of Rs. 200 cr. plus).

(vii) Expect tax rate at 35-36%.

(viii) No execution challenges anticipated in MEENA region. It does not have any exposure in Iraq, Israel, Libiya, Jordan etc.

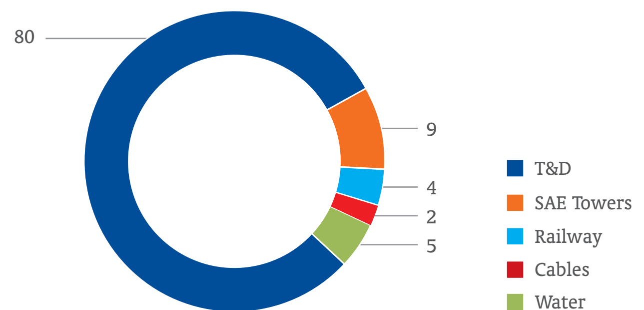
Key Risks

- Sharp uptick in key raw material prices
- Delay in execution of current order book
- Political unrests in foreign markets
- Slow down in infrastructure spending by the Government

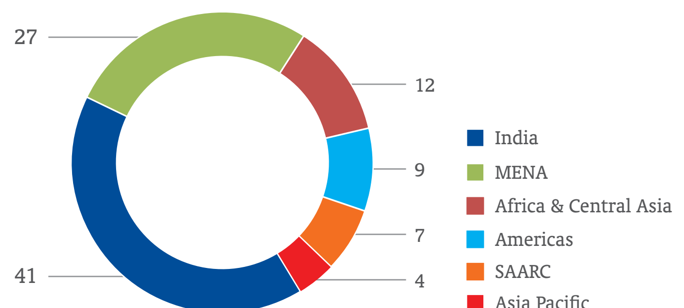
Outlook & Valuation

KEC's selective business approach coupled with diversified geographical reach equips it to optimize on business margins and cash flows which in turn helps the company's margin to be robust primarily lead by rising margins in new businesses as it bags better margin projects in railways and water. Moreover a robust order backlog mix between international and domestic orders and expected higher order flows from PGCIL towards the end of the year will sustain earnings momentum. Further, balance sheet of the company is expected to improve with debt repayment from Thane land deal of Rs. 200 cr. which will reduce financial charges and improve return ratio. Currently, margins are under pressure due to increase in competitive intensity and entry into new business vertical. With robust revenue growth visibility already in place, we believe that KEC is looking good for investment. At CMP the stock is trading at 14.9x its FY15E EPS of Rs. 6.8 and 9.9x its FY16E EPS of Rs. 10.3. We recommend 'BUY' on the stock with a target price of Rs. 130, arrived at 12.7x FY16E EPS which implies potential upside of ~28% for long term (1 year) perspective.

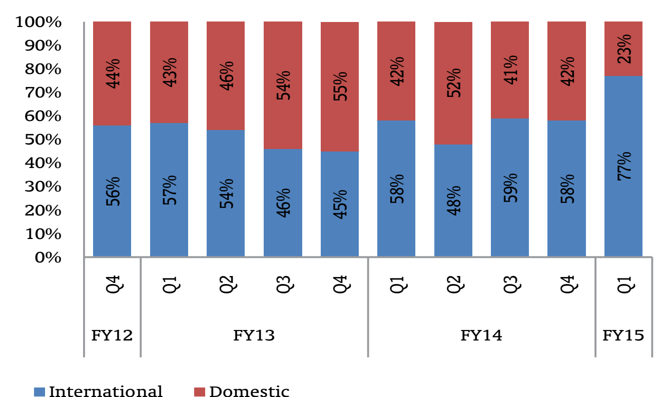
Segment wise Order Break up (%)



Geography-wise Order Book (%)



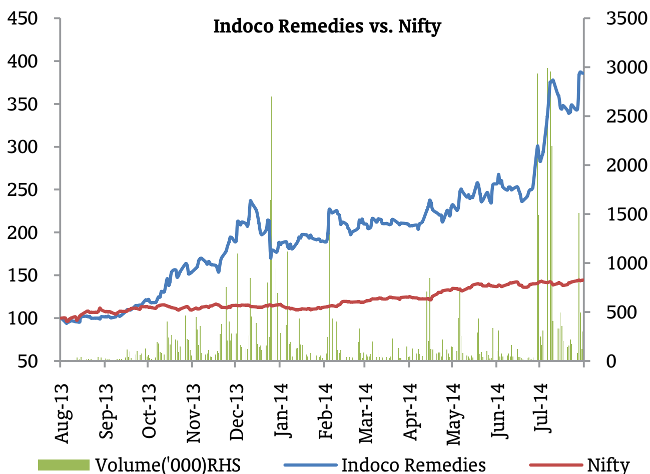
Geography-wise order intake (%)



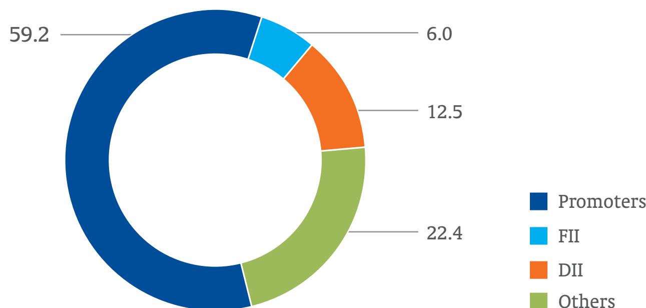
Indoco Remedies Ltd. CMP: 256/- Rating: Buy TGT: 327/-

Company Information

BSE Code	532612
NSE Code	INDOCO
Bloomberg Code	INDR IN
ISIN	INE873D01024
Market Cap (Rs. Cr)	2360
Outstanding shares(Cr)	9.2
52-wk Hi/Lo (Rs.)	264.2 / 57.35
Avg. daily volume (1yr. on BSE)	229,069
Face Value(Rs.)	2
Book Value (Rs)	49.6



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	626.8	722.3	952.7	1197.4
Growth (%)	11.9	15.2	31.9	25.7
EBITDA	92.4	113.6	160.5	217.0
EBITDA Margin (%)	14.7	15.7	16.8	18.1
Net profit	52.2	59.4	89.7	120.9
Net Profit Margin (%)	8.3	8.2	9.4	10.1
EPS (Rs)	5.7	6.4	9.7	13.1

Source: Ashika Research & consolidated numbers

Company Description

Indoco Remedies Ltd., headquartered in Mumbai, is a fully integrated, research-oriented pharma Company with a global presence in 80 countries including USA and UK. Indoco, a USD 120 million Company, employs over 4400 people including 200 skilled scientists. The Company has 8 manufacturing facilities, 5 of which are for FDFs (Finished Drag Formulations) and 3 for APIs, supported by a state of-the art R&D Centre. The facilities have been approved by UK-MHRA, USFDA, TGA-Australia, JAZMP-Slovenia, MCC South Africa, Darmstadt – Germany, NDA-Uganda, TFDA-Tanzania, SBD-Yemen, MOH Ukraine, PPB-Kenya, FDB Ghana, etc. Indoco manufactures a wide range of pharmaceutical products for the Indian and international markets. It generates more than 70 million prescriptions annually from over 2,00,000 doctors in India. Indoco's 8 domestic marketing divisions, viz., Indoco, Spade, Warren, Spera, Excel, Eterna, Indoco CND and Institution cater to both acute and chronic therapies. Indoco has a strong brand portfolio in various therapeutic segments. On the international front, Indoco has tie-ups with large generic companies like Watson (Actavis) - USA, ASPEN-South Africa and DSM Austria.

Investment Rationale

Focus on domestic formulations- Aiming for a higher-than-industry growth

Indoco has a strong brand portfolio of 135 products and a base of ~2,300 MRs. It operates in various therapeutic segments, including anti-infective, anti-diabetic, CVS, ophthalmic, dental care, pain management and respiratory. Prominent Indoco brands include Cyclopam, Vepan, Febrex Plus, ATM, Sensodent- K and Sensoform. The company has seen strong growth across the respiratory, anti-infective, ophthalmic and alimentary therapeutic segments. Further, the company is investing to enhance the share of the chronic segment, which constitutes 10% of overall sales. Post the restructuring of the domestic business in FY09, which has resulted in an improvement in the working capital cycle, Indoco is back on the growth trajectory with its domestic formulation business growing at 12.3%.

Partnering with pharmaceutical majors

The company has a large customer base of small and medium sized generic companies across the globe and has major tie-ups with generic companies for certain territories and products. The company has a deal with Watson Pharmaceuticals to develop and manufacture a number of sterile (ophthalmic) products for marketing in the USA. The agreement with South Africa's largest pharmaceutical company, Aspen Pharmacare, encompasses a number of solid dosages and ophthalmic products, extending to 30 emerging market countries, while the contract signed with DSM, Austria, is for marketing eight of Indoco's APIs in various geographies. These deals have further strengthened Indoco's image in the international arena.

Scaling-up on the exports front

Indoco has also started focusing on regulated markets by entering into long-term supply contracts. The company is currently executing several contract-manufacturing projects, and covering a number of products for its clients in the UK, Germany and Slovenia. The company has indicated at a capex of Rs 55cr for the construction of an API facility in Patalganga, which has got approval from the USFDA and the same is expected to enhance exports growth.

Key Risks

- Currency fluctuations and regulatory hurdles.
- Delay in supplies to Watson for the US market.

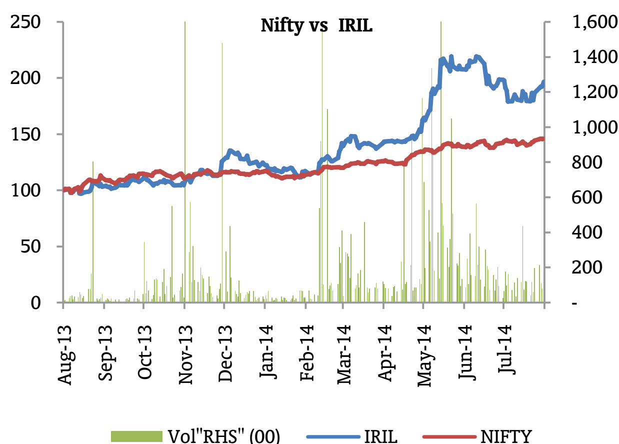
Outlook & Valuation

We have a positive outlook on the stock, considering the robust revenue growth and improving margin. We believe that, going ahead, the great performance in the domestic formulations business and the commencement of supplies of ophthalmic products to Watson for the US market would help maintain the good growth momentum. We expect revenue from the US market from the Watson deal to start soon as the US FDA has already approved the plant. The stock is trading at P/E multiple of 19.5x for FY16E having an EPS of Rs 13.1 We recommend to buy the stock with a target price of Rs 327 (assign P/E multiple of 25.0x on FY16E EPS) from investment perspective of 18 months.

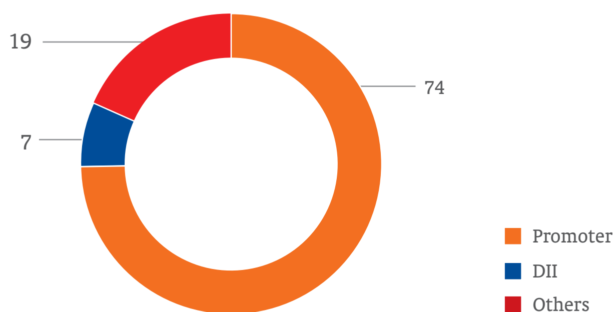
Ingersoll-Rand (India) Ltd. CMP: 649/- Rating: Buy TGT: 785/-

Company Information

BSE Code	500210
NSE Code	INGERRAND
Bloomberg Code	INGR IN
ISIN	INE177A01018
Market Cap (Rs. Cr)	2,049.24
Outstanding shares(Cr)	3.15
52-wk Hi/Lo (Rs.)	710.3/301.0
Avg. daily volume (1yr. on NSE)	18900
Face Value(Rs.)	10.0
Book Value (Rs)	289.71



Share holding pattern as on June 2014 (%)



(In Rs. Cr.)	FY13	FY14	FY15E	FY16E
Net Sales	586	579	637	726
Growth (%)	-1%	-1%	10%	14%
EBITDA	56	46	64	81
EBITDA Margin (%)	9.60%	7.90%	10.00%	11.20%
Net profit	78	67	76	89
Net Profit Margin (%)	13.30%	11.60%	12.00%	12.20%
EPS (Rs)	24.7	21.2	24.2	28.1

Source: Bloomberg & Ashika

Company Description

Ingersoll Rand India limited (IRIL) is a multinational company, engaged in the business of providing solutions for infrastructure development, industrial solutions, residential solutions and security technologies. It manufactures a wide range of air compressors of various capacities with complete air solutions that span the entire compressed air system. It is one of the largest exporters of engineering goods from India and located at Industrially favorable region of Gujarat, NCR and Chennai. It primarily offers its products to automotive, metal, pharmaceutical and textile sectors.

Investment Rationale

Expansion to support growth

IRIL business activity is solely based on manufacturing sector which has been passing through tough times in past two years amidst sluggish economic growth. However, the expectation has built up for the revival of manufacturing activities on the backdrop of stable and strong government at the center. To capitalize entirely on spurring industrial activities in the country, IRIL has rolled out an aggressive plan for growth in India. As per the company, the foundation of this growth will be customer driven innovation, a robust infrastructure to support after sales services, a significant investment in the facilities to transform them into world class manufacturing operations and a 'Customer First' and 'Solutionizing' approach.

New Chennai plant to facilitate revenue growth

The new Chennai plant is a multi product factory and manufactures products for the climate solution business. This has been a major landmark for IRIL which has now expanded its manufacturing footprint in the southern region of India. It is also in a process to strengthen its supplier base to scale its operation of quality vendors and to work towards enhancing productivity in all operational segments. The new manufacturing facility is responsible to manufacture a wide range of equipment including Bus and Truck air conditioners and Commercial Heating, Ventilation and Air conditioning products. The plant has commercialized its production from Q1FY14 and has scaled up the production since then. The new plant is a part of company's strategy to drive technology innovation and product development, thus catering to markets such as industrial efficiency, transportation, food security, environmental control in buildings and energy management. Besides Chennai plant, IRIL has added two manufacturing facilities at Ahmedabad and NCR with two Engineering and Technology Centers at Bangalore and Chennai. It can be expected that new Chennai facility would provide a fillip to company's revenue growth going ahead.

Planning to gain market share in premium air conditioning market through Trane brand

During the year 2007, Ingersoll Rand US ltd, the parent company of IRIL has acquired Trane which is a global leader in heating, ventilation and air conditioning systems and subsequently in 2012, the Indian subsidiary has rolled out its unique interactive residential solutions in the Indian market. Further, after entry of Trane brand into the residential solutions market in India, the company has unveiled its products for Indian consumers desiring new levels of security & comfort and also embarked an ambitious plan to spread across 30 key

cities covering 9 states and set a target to be one of the most preferred brands in air conditioned premium market. To accomplish the goal, the company will start manufacturing the products from Chennai plant, once volume picks up. IRIL would market its air conditioners through dedicated Trane and multi brand retail outlets. In addition, IRIL would sell the air conditioners through lifestyle stores like those vending modular kitchens and others. The competitive advantage of IRIL's air conditioner is that one can operate multiple air conditioners in a residence without moving. Besides, IRIL is also launching an interactive electronic door lock which could be operated with the air conditioners remote, thus providing support to gain market share in premium air conditioning market.

Healthy balance sheet backed by strong parentage

IRIL is a subsidiary of global company Ingersoll-Rand Inc, an Irish global diversified industrial company founded in 1871 with total global business of USD 123 billion, constituting of nearly 32 companies spread across the globe. The foreign parent company holds 74% in the Indian subsidiary, thus backing the company strongly. Strong parentage aid the company to maintain healthy balance sheet over the years, having presence in capital intensive sector, manufacturing. IRIL is a zero debt company with track record of paying consistent dividend. In the past five years, IRIL has maintained an average dividend payout of 47%. Positive operating cash flow, zero debt led the company to maintain healthy cash in the balance sheet which represents about 45% of total balance sheet size. The company's cash per share stood at Rs 132 as of FY14 and that implies that IRIL has strong balance sheet to back capex plans without raising any additional capital.

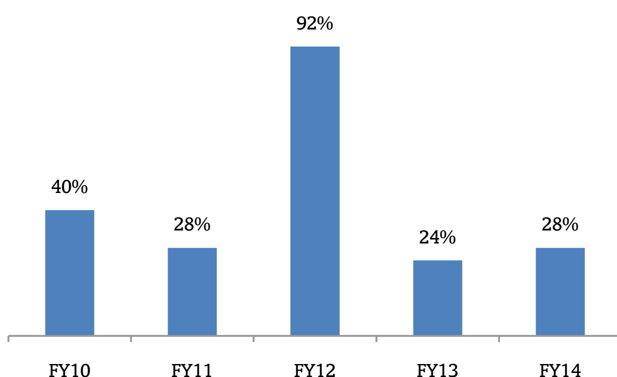
Key risks

- The volatility in raw material price especially steel and aluminum could have a negative bearing on company's earnings.
- Depreciation in India rupee would increase the import cost, thus adversely affecting the margins of the company.
- Compressor segment growth is highly correlated with the overall economic activity mainly mining, hydrocarbon, transport, power, oil, railways etc. hence the inability of the economy to revive could negatively impact company's business growth.

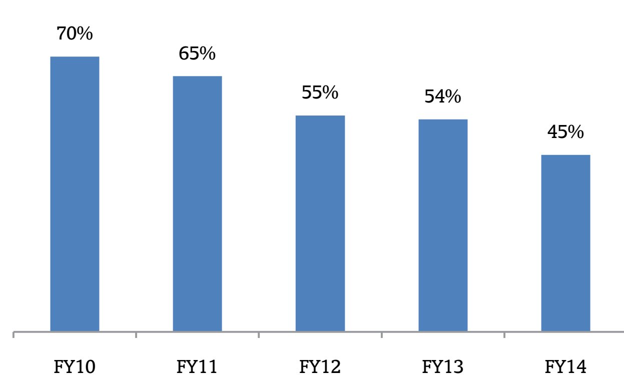
Outlook & Valuation

IRIL is a diversified industrial company and is a strong play in infrastructure space. The company has emerged as one of the largest exporters of engineered goods from India with manufacturing facilities located at industrial development regions at Gujarat, NCR and new facility at Chennai. IRIL has rolled out an aggressive expansion plan in India to exploit the immense opportunities lying in India's manufacturing sector. Though, its domestic operation has been hit due to economic slowdown, its export market showed resilience during that period. IRIL's new plant at Chennai is a potential revenue driver albeit its performance is getting delayed owing to economic slump. Further, IRIL has planned to gain market share in premium air conditioning market, to increase exports to parent entity in USA, roll out of new products in FY15 and also to enhance its Chennai plants' utilization rate to boost revenue growth. Moreover, IRIL has healthy balance sheet to fund its capex, even after distributing hefty dividends to its shareholders. Being a MNC company with track record of paying consistent dividend, the valuation of the stock seems to be at higher side. However, considering its growth potential and strong presence in manufacturing sector, at the time when domestic economy is on the cusp of turnaround, we believe that enough potential is left for the stock to scale higher. Hence, we recommend to BUY the scrip with target price of Rs 785 (assign P/E multiple of 28x on FY16 estimated EPS of Rs 28.05) from 12 months perspective. At current market price, the stock is valued at P/E multiple of 23x of FY16 estimated earnings.

Dividend Payout (%)



Cash balance as % of balance sheet (%)



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	1493.9	19432.9	13.4	11.0	1.7	11.1	12.6	7.0	8.0	0.5
2	ACC	1531.7	28757.0	26.5	20.2	3.7	14.4	16.2	30.0	51.5	2.0
3	Ambuja Cements	212.5	32893.4	22.4	19.1	N/A	N/A	13.9	3.6	43.5	N/A
4	Adani Enterprises	497.7	54732.0	20.7	14.9	2.3	9.8	12.9	1.4	6.9	0.3
5	Adani Ports	293.4	60725.0	26.6	20.8	6.9	23.0	24.0	1.0	12.3	0.3
6	Apollo Hospitals	1159.0	16124.6	41.7	34.0	5.4	11.1	13.8	5.8	25.3	0.5
7	Asian Paints	604.6	57993.1	38.6	32.0	14.4	32.8	34.2	5.3	41.7	0.9
8	Axis Bank	398.8	94015.8	13.0	10.8	2.4	17.6	19.6	4.0	17.5	1.0
9	Bharti Airtel	369.1	147544.0	27.6	21.4	2.4	5.4	9.7	1.8	25.9	N/A
10	BHEL	232.3	56845.5	20.2	18.7	1.7	11.0	8.4	2.7	19.8	1.1
11	Bharat Forge	792.1	18439.6	29.2	22.0	6.9	20.2	23.2	4.5	19.7	0.6
12	Bajaj Auto	2251.6	65153.9	17.7	15.3	6.4	37.1	33.0	50.0	50.1	2.2
13	Bajaj Finserv	972.8	15478.6	9.1	8.4	1.7	18.0	17.4	1.8	1.8	0.2
14	Bajaj Holidings	1375.1	15304.0	N/A	N/A	1.3	17.8	N/A	30.0	16.8	2.2
15	Bank of Baroda	895.7	38460.6	N/A	N/A	1.0	14.1	N/A	21.5	21.7	2.4
16	Bank of India	284.7	18285.2	N/A	N/A	0.6	10.8	N/A	5.0	12.6	1.8
17	Bosch Ltd	14730.0	46250.6	N/A	N/A	7.3	14.9	N/A	55.0	19.5	0.4
18	BPCL	664.7	48063.4	15.9	14.3	2.5	21.6	15.3	17.0	31.4	2.6
19	Cairn India	321.5	60256.6	5.8	5.9	1.1	23.6	14.5	12.5	19.2	3.9
20	Canara Bank	389.0	17943.0	N/A	N/A	0.6	9.5	N/A	11.0	19.3	2.8
21	Container Corp	1332.6	25981.3	24.1	20.7	3.8	14.5	15.6	12.3	25.2	0.9
22	Cipla Ltd	507.4	40740.2	27.1	21.4	4.1	14.6	15.7	2.0	11.6	0.4
23	Colgate-Palmolive	1502.3	20429.5	N/A	N/A	61.9	159.2	N/A	20.0	62.7	1.3
24	Coal India Ltd	358.7	226536.4	13.3	11.8	5.3	33.3	36.9	29.0	121.2	8.1
25	Crompton Greaves	197.6	12384.5	26.5	18.0	3.4	6.8	16.1	1.2	30.8	0.6
26	Dabur India Ltd	223.2	39190.7	36.6	30.8	14.7	38.5	34.1	1.8	33.4	0.8
27	Divi's Lab	1577.9	20944.1	23.1	19.2	7.1	28.3	27.8	20.0	34.3	1.3
28	DLF Ltd	190.9	34005.1	37.3	25.3	1.2	2.4	4.3	2.0	55.1	1.0
29	Dr Reddy's Lab	2880.0	49034.9	21.1	18.3	5.4	26.3	21.7	18.0	14.2	0.6
30	Exide Industries	160.2	13612.8	21.2	17.9	3.9	16.7	19.7	1.8	28.1	1.1
31	Federal Bank	118.6	10136.7	N/A	N/A	1.5	12.9	14.1	2.0	20.1	1.7
32	GAIL	427.4	54214.7	11.9	11.0	1.7	15.6	13.1	10.4	27.6	2.4
33	Godrej Consumer	903.5	30759.0	34.1	27.9	8.1	21.4	22.7	5.3	23.5	0.6
34	GlaxoSmith Pharma	2480.0	21005.9	41.4	34.9	10.6	24.1	29.4	50.0	87.9	2.0
35	Glenmark Pharma	709.0	19231.9	22.3	18.1	6.4	18.9	24.2	2.0	10.0	0.3
36	Grasim Inds	3445.3	31642.5	14.5	11.3	1.5	10.0	11.4	21.0	9.3	0.6
37	HCL Tech	1597.7	111915.2	15.7	13.9	6.1	36.5	28.4	12.0	20.7	N/A
38	HDFC	1056.3	165561.8	N/A	N/A	4.4	22.9	21.3	14.0	27.5	1.3
39	HDFC Bank	843.5	203352.0	20.2	17.2	4.6	21.6	19.9	6.9	18.8	0.8
40	Hero Motocorp	2569.5	51309.7	18.9	15.7	9.1	N/A	43.4	65.0	61.7	2.5
41	Hindalco	164.9	34038.3	11.5	9.3	0.8	5.7	8.2	1.4	8.9	0.8
42	HPCL	454.8	15399.1	10.6	8.7	1.1	7.8	11.2	15.5	48.6	3.4
43	Hindustan Unilever	716.7	155031.9	38.3	34.3	43.8	123.3	102.0	13.0	71.3	1.8
44	ICICI Bank	1514.3	175155.7	N/A	N/A	2.3	15.2	15.9	23.0	24.1	1.5
45	IDBI Bank	79.0	12663.2	N/A	N/A	0.5	5.1	N/A	1.0	13.9	1.3
46	Idea Cellular	154.7	55632.5	20.0	17.6	3.1	12.8	13.3	0.4	6.8	0.3
47	IDFC	147.0	22297.5	11.6	10.8	1.5	12.6	12.2	2.6	21.9	1.8
48	IndusInd Bank	567.3	29943.6	N/A	N/A	3.2	17.1	N/A	3.5	13.1	N/A
49	Infosys	3627.8	208321.4	17.3	15.6	4.4	25.3	22.9	63.0	39.9	N/A
50	ITC	349.3	278201.1	27.1	23.2	10.2	35.3	35.8	6.0	53.7	1.7

N/A: Not Available

Source: Bloomberg Consensus as on August 25, 2014

ASHIKA

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	51.8	12600.1	N/A	14.4	1.1	-7.2	5.7	0.5	24.0	1.0
52	Jindal Steel & Power	253.5	23188.2	8.5	6.7	1.0	8.7	11.9	1.5	7.2	0.6
53	JSW Steel	1242.0	30020.7	11.5	10.0	1.4	2.2	11.9	11.0	62.7	0.9
54	Cummins India	690.1	19129.6	26.5	21.2	12.9	34.0	21.9	4.7	38.5	0.7
55	Kotak Mahindra Bank	1044.7	80522.2	26.7	21.9	4.2	14.4	15.6	0.8	2.6	0.1
56	LIC Housing Finance	301.5	15215.6	10.2	8.6	2.0	18.7	18.6	4.0	17.2	1.3
57	Lupin	1263.4	56667.9	24.5	20.8	8.2	30.3	27.1	6.0	14.6	0.5
58	Larsen & Tourbo	1527.5	141782.9	27.8	21.9	3.8	13.7	14.5	14.3	26.9	0.9
59	Mahindra & Mahindra	1410.7	86883.9	17.3	13.5	3.6	21.6	20.5	13.5	18.5	1.0
60	M & M Financial	272.4	15493.2	15.3	12.1	2.9	19.3	18.6	3.8	22.6	1.4
61	Mphasis	439.2	9228.1	12.1	11.1	1.8	N/A	14.8	N/A	N/A	N/A
62	Maruti Suzuki	2805.9	84759.1	23.7	18.2	3.9	14.1	17.2	12.0	12.7	0.4
63	NMDC	171.5	67994.9	N/A	N/A	2.3	43.6	N/A	8.5	52.9	5.0
64	NTPC	141.8	116920.7	12.1	11.1	1.3	13.6	11.2	5.8	41.6	4.1
65	Oracle Financial Servc	3533.5	29736.3	20.6	18.6	3.4	16.8	14.2	0.0	0.0	0.0
66	Oil India	594.9	35758.6	9.4	8.1	1.7	14.8	18.3	30.0	50.2	5.0
67	ONGC	428.8	366816.6	11.6	10.0	2.1	16.3	18.1	9.5	30.7	2.2
68	Petronet LNG	177.2	13286.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
69	PNB	963.7	34890.9	N/A	N/A	0.9	10.0	N/A	10.0	12.8	1.0
70	Power Finance	257.2	33944.8	5.0	5.1	1.2	21.1	19.7	7.0	20.8	2.7
71	Power Grid Corp	132.5	69292.4	13.1	11.0	2.0	14.9	15.8	2.8	30.6	2.1
72	Ranbaxy Lab	641.0	27179.3	21.8	35.0	8.2	N/A	14.4	N/A	N/A	N/A
73	Reliance Capital	556.1	13658.4	16.9	14.9	1.1	6.1	6.3	8.0	39.3	1.4
74	RCOM	119.9	28803.7	25.7	18.2	0.9	N/A	4.2	0.3	7.7	N/A
75	Rural Electrification	268.6	26523.1	N/A	N/A	1.3	24.7	N/A	9.5	19.8	3.5
76	Reliance Industries	995.8	322032.8	12.3	11.0	1.5	11.8	12.2	9.5	12.4	1.0
77	Reliance Power	82.5	23142.3	21.8	17.0	1.2	5.4	6.4	0.0	0.0	0.0
78	Steel Authority of India	81.3	33556.8	12.6	10.5	0.8	5.7	7.1	2.0	31.7	2.5
79	State Bank of India	2506.2	187102.4	10.3	8.5	1.3	10.4	12.6	30.0	15.8	1.2
80	Shriram Transport Fin	928.2	21058.1	13.8	11.1	2.5	17.1	17.6	7.0	11.7	0.8
81	Siemens	839.4	29892.7	96.5	42.2	7.5	24.5	14.9	6.0	23.5	0.7
82	GlaxoSmithKline Cons	5000.1	21028.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
83	Sesa Sterlite	280.1	83025.7	12.0	9.8	1.1	13.9	10.9	3.3	15.3	1.2
84	Sun Pharma	853.6	176779.1	28.9	24.7	9.4	19.0	26.1	2.5	17.3	0.3
85	Tata Steel	512.0	49726.2	11.3	9.4	1.2	9.2	11.7	10.0	28.4	2.0
86	TCS	2522.1	494001.0	22.6	19.7	8.9	41.7	34.5	32.0	32.8	N/A
87	Tech Mahindra	2313.7	54350.5	17.4	14.7	5.9	41.5	26.7	20.0	15.4	0.9
88	Tata Global	155.5	9613.0	21.9	18.8	1.6	9.0	8.4	2.3	29.0	1.4
89	Tata Power	90.4	24449.8	15.1	12.7	1.9	-3.2	12.1	1.3	N/A	1.4
90	Titan Industries	361.7	32111.2	36.7	30.2	N/A	32.7	30.5	2.1	25.4	0.6
91	Tata Chemicals	372.8	9497.3	12.7	10.6	1.7	-17.2	15.1	10.0	N/A	2.7
92	Tata Motors	508.4	154457.1	8.8	7.6	2.5	23.2	22.9	2.0	5.4	0.4
93	United Breweries	726.2	19201.1	68.3	51.2	11.8	14.6	18.7	0.9	10.7	0.1
94	Union Bank of India	211.0	13299.5	N/A	N/A	0.7	9.3	N/A	4.0	15.0	1.9
95	United Spirits	2380.3	34592.4	140.6	56.0	6.5	-2.1	7.6	2.5	N/A	0.1
96	United Phosphorus	324.6	13910.4	11.6	10.0	2.7	19.2	19.9	4.0	18.1	1.2
97	Ultratech Cement	2629.3	72136.7	26.7	19.5	4.2	13.6	17.3	9.0	11.2	0.3
98	Wipro	555.4	137033.8	15.6	13.9	3.7	24.8	22.0	8.0	25.1	N/A
99	Yes Bank	576.4	23930.0	N/A	N/A	2.9	24.9	N/A	8.0	17.9	1.4
100	Zee Enternainment	284.3	27300.8	29.1	23.3	10.0	26.6	23.6	2.0	21.8	0.7

N/A: Not Available

Source: Bloomberg Consensus as on August 25, 2014

Q1FY15 Report Card

The Indian economy has ended the first quarter on a good note and entered the second quarter of Fiscal 2015. The performance of the economy has been mixed so far in FY15 with stable rupee, strong stock market performance, rising inflation, stagnant industrial production and narrowing trade deficit. Further, there have been developments across the globe with signs of recovery in the US, continued stimulus by the ECB to foster growth in the Euro region and most recent Iraq crisis which triggered off a spike in oil prices which eventually cooled off. Now with the formation of BJP led government at the centre, it is expected that it will meaningfully improve 'business confidence' and boost investment cycle, leading to higher GDP growth in FY16 onwards. With the recently conducted first budget of BJP led government which had some reforms and incentives for all the sectors has boosted the sentiments of people in all the division which in turn will boost the Indian economy and increases the investment cycle. Sharp jump in government expenditure, improved domestic liquidity and soft commodity prices have aided common people and corporate in Q1FY15. "Early signs of a rebound in the economy are "surely visible" and growth may touch 5.8 per cent in the current financial year, lifted by strong economy boosters in the last month's Budget and a further softening in inflation", said finance secretary.

In keeping with the positive trend seen in 4QFY14, India Inc saw earnings acceleration in 1QFY15 also. However, there are many sectors that are facing the brunt of slowdown. Aggregate Sensex ex-oil revenue growth in Q1FY15 was at 14.5%YoY against 12.7% in Q4FY14 and 0.3% in Q1FY14. In addition, aggregate PAT growth for Sensex ex-oil was marginally stronger at 16.7% against 8.9% in Q4FY14 and 2.3% in Q1FY14, largely driven by strong results of Tata Motors, Sesa Sterlite and ONGC, excluding which PAT growth falls to 9.5% as many companies has given significantly disappointing results. EBITDA margins, however, fell slightly by 23bps YoY at 20.5% on higher input costs. Excluding Capital Goods and Retail, all sectors posted positive revenue growth, with Auto, IT, Pharma, FMCG, Metals, and Energy leading the pack. Sectors and companies with overseas revenue or the revenue linked to global price or margin of underlying commodity has given a strong result.

In CY2014 FIIs were the net buyers of Rs. 72,904 cr in the equity segment. For the month of July 14, FIIs were net buyers of Rs. 13,110 cr and during Q1FY15 they were net buyers of Rs. 41,107 cr while DIIs were net sellers of Rs. 29,326 cr in CY2014. For the month of July 14, DIIs were net sellers of Rs. 4,413 cr and during Q1FY15 they were the net sellers of Rs. 15,408 cr. India also remained a favoured destination for investment, FDI inflow is US$ 15.0 billion against US$ 10.9 billion in 2014 seen a growth of 38% whereas in Q1FY15 FDI inflow is US$ 7.2 billion up 34% from US$ 5.4 billion last year.

Quarterly Performance Analysis

The aggregate revenue of CNX 500 companies (excluding Banks, NBFC & Oil companies) stood at Rs 772,247 crore, a growth of 14% on YoY basis. Sequentially there is a de-growth of 7%. Constant operating expenses led to stable operating margins which stood at 18% in Q1FY15. This led EBITDA in Q1FY15 to grow by 24% YoY, while QoQ it registered degrowth of 4% at Rs 138,485 crore. The depreciation cost of these companies registered a growth of 19% YoY at Rs 38,274 crore. However sequentially, it is flat. Interest cost has shown some relief in the quarter by growing 13% YoY against 27% in Q4FY14 at Rs 33,718 crore. However QoQ the interest cost decreases by 1%. Earnings of CNX 500 companies (excluding Banks, NBFC & Oil companies) has given a growth of 39% YoY during the quarter as compared to 25% YoY growth in Q4FY14. Sequentially the profit decrease by 11% at Rs 62,787 crore. While profit margin decreased by 40 bps at 8.1% against 8.5% in Q4FY14.

CNX 500 (Excluding Banks, NBFC & Oil Companies)

(In Rs. Cr.)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Net Sales	635919	645363	668935	723811	675771	739623	759587	827451	772247
Growth (YoY)	14%	11%	7%	4%	6%	15%	14%	14%	14%
Growth (QoQ)	-9%	1%	4%	8%	-7%	9%	3%	9%	-7%
Operating Exp.	527240	536046	560000	609506	563814	612939	623860	682696	633763
Growth (YoY)	16%	10%	7%	5%	7%	14%	11%	12%	12%
Growth (QoQ)	-9%	2%	4%	9%	-7%	9%	2%	9%	-7%
% of Sales	83%	83%	84%	84%	83%	83%	82%	83%	82%
Operating Profit	108679	109316	108934	114306	111956	126684	135727	144755	138485
Growth (YoY)	6%	16%	8%	-3%	3%	16%	25%	27%	24%
Growth (QoQ)	-8%	1%	0%	5%	-2%	13%	7%	7%	-4%
OPM	17%	17%	16%	16%	17%	17%	18%	17%	18%
Depreciation	27809	28262	30233	31592	32143	36839	36260	38171	38274
Growth (YoY)	20%	16%	15%	19%	16%	30%	20%	21%	19%
Growth (QoQ)	5%	2%	7%	4%	2%	15%	-2%	5%	0%
Interest	24199	21884	26217	26741	29948	32203	31085	33933	33718
Growth (YoY)	42%	8%	23%	17%	24%	47%	19%	27%	13%
Growth (QoQ)	6%	-10%	20%	2%	12%	8%	-3%	9%	-1%
Other Income	17589	17426	18180	24898	17498	19040	22836	22359	24187
Growth (YoY)	-1%	14%	13%	24%	-1%	9%	26%	-10%	38%
Growth (QoQ)	-13%	-1%	4%	37%	-30%	9%	20%	-2%	8%
Adj Profit	53328	54129	49930	56533	45324	53854	63453	70535	62787
Growth (YoY)	-9%	21%	2%	-16%	-15%	-1%	27%	25%	39%
Growth (QoQ)	-21%	2%	-8%	13%	-20%	19%	18%	11%	-11%
NPM	8%	8%	7%	8%	7%	7%	8%	9%	8%

Source: Capitaline

Sectoral performance review

Banking Sector

The Q1FY15 results suggest some stabilization in the operating performance of banks (especially PSBs), though a slower credit growth and asset quality remains a cause for concern. Earnings season continue to reflect some tough operating environment faced by the banks albeit with a different degree of impact on private banks and PSBs. Core business performance growing faster, at 17% YoY with public sector banks grew slightly faster up 20% YoY while private banks up 13%. The key positive surprise was tighter cost control, especially by PSU banks – costs increased by 7% YoY, vs. 17% for private banks.

In Q1FY15, SCBs' volume expansion remained tepid with deposit & credit growth at 13.7% & 14% YoY respectively as compared to 13.7% & 13.8% in corresponding period. C-D & incremental C-D ratios remained stable at 77%. In industrial loan segment, Infra and gem & Jewellery witnessed decline in credit growth. Lesser credit offtake in riskier segments indicates slight tapering in incremental credit yield. On liability front, SCBs' demand deposit expansion was weak at 1.4% as compared to 2.2% growth in time deposits. In Q4 quarters, banks improve their low-cost deposits share, which dissipates gradually in first quarters.

Given that the government actions are yet to yield results on investment cycle and business sentiments, asset quality issues are expected to persist. This implies restructured loans and fresh slippages sustaining at high levels which in turn will keep provisioning costs stiff QoQ. Fresh impairments (slippages and restructuring) declined by 100 bps QoQ to 4.3% of loans and overall impaired assets (gross NPLs and restructured loans) were flat QoQ at 8.6% of loans as recovery/ upgradation slowed. Fresh restructuring declined to 1.4% of loans against 2.6% of loans in 4QFY14 as there was a sharp slowdown in overall references

BSE Bankex & Bank Nifty

Company (Rs Cr)	NII	YoY	QoQ	Net Profit	YoY	QoQ	NIM (%)	GNPA (%)	CAR (%)	RoA (A) (%)
St Bk of India	18022	13%	2%	4588	4%	14%	3.5	12.3	4.9	0.7
HDFC Bank	5172	17%	4%	2233	21%	-4%	4.4	15.1	1.1	2.0
ICICI Bank	4492	18%	-14%	2655	17%	-8%	3.4	17.0	3.1	1.8
Punjab Natl. Bank	4380	12%	9%	1405	10%	74%	3.4	11.5	5.5	1.0
Bank of Baroda	3328	15%	7%	1362	17%	18%	2.4	11.9	3.1	0.8
Axis Bank	3310	16%	5%	1667	18%	-10%	3.9	15.5	1.3	1.8
Bank of India	2686	6%	-12%	806	-16%	45%	2.2	10.0	3.3	0.5
Canara Bank	2429	22%	-4%	807	2%	32%	2.4	10.2	2.7	0.7
Union Bank (I)	2117	11%	3%	664	19%	15%	2.7	10.4	4.3	0.8
Kotak Mah. Bank	1510	10%	2%	697	9%	3%	5.1	18.1	1.6	2.2
IndusInd Bank	801	18%	2%	421	26%	6%	3.7	13.1	1.1	1.9
Yes Bank	745	13%	4%	439	10%	2%	3.0	17.6	0.3	1.6
Federal Bank	564	11%	-10%	220	108%	-21%	3.3	15.2	2.2	1.2
Total	**49557**	**14%**	**0%**	**17964**	**11%**	**9%**				

Source: Capitaline

Auto & Auto ancillary

Q1FY15 can be seen as a turnaround quarter for the automobile sector, both in terms of domestic demand as well as exports in almost all the automobile segments except CVs due to favourable outcome of the general election which had a positive impact on consumer sentiment. In the CV segment too, the rate of decline reduced and a drop in the discount levels enabled the OEMs to report an improved performance. Higher INR realization was led by better mix, price increases, and favourable currency, which in turn drove revenue growth. Volume growth remained muted at single-digit levels for most companies due to rising fuel prices and high inflation. The stand-out performances for the quarter were led by robust growth from nondomestic business segments of Tata Motors, Bharat Forge, and Balkrishna Industries, and aided by strong domestic growth by Eicher Motors, Exide Industries, and Hero MotoCorp.

The aggregate revenue of auto & auto ancillary companies (including BSE Auto & CNX Auto) registered a growth of 23% YoY, while sequentially it remain almost flat with a decline of just 1% at Rs 126,736 crore. EBITDA margin expanded by 241bps to 15.3%, which was driven by an improved product mix, currency benefits, and cost control measures, which though had increased the operating profit by 46% YoY while sequentially it grew by 12% QoQ at Rs 19,308 crore. Lower finance costs and lower taxation improve the earnings of the auto manufacturers. During Q1FY15, Net Profit of auto & auto ancillary companies increased by 75% YoY, while QoQ it substantially increased by 11%.

Companies like Tata Motors, Motherson Sumi, Eicher Motors, Bharat Forge and Amtek Auto posted strong sales growth on YoY basis. Tata Motors net profit more than tripled on the back of an impressive performance by the Jaguar Land Rover business by 213% YoY to Rs. 5,398 cr. and net sales increased by 38% YoY to Rs. 64,683 cr. Four wheeler major Maruti Suzuki has posted 11% YoY growth in its top-line and net profit of the company had increased by 21% on YoY basis. Two-wheeler major Hero MotoCorp posted 14% YoY, on account of high volume and strong rural demand. Net profit of the company also increases by 3% on YoY. Eicher Motor reported a 70% increase in the PAT on the back of a strong volume growth and profitability of the motorcycle division.

BSE Auto & CNX Auto

Company (Rs Cr)	Net Sales	YoY	QoQ	Operating Profit	YoY	QoQ	Net Profit	YoY	QoQ
Tata Motors	64683	38%	-1%	11142	84%	16%	5398	213%	38%
Maruti Suzuki	11370	11%	-6%	1328	14%	6%	762	21%	-5%
M & M	10262	2%	-7%	1269	-1%	40%	882	-6%	-2%
Motherson Sumi	8392	18%	0%	681	51%	-21%	252	157%	-45%
Hero Motocorp	7037	14%	8%	947	3%	6%	563	3%	2%
Bajaj Auto	5252	7%	6%	925	2%	-1%	740	0%	-3%
MRF	3337	9%	1%	489	1%	19%	230	1%	35%
Apollo Tyres	3248	2%	1%	429	9%	-7%	228	37%	-19%
Ashok Leyland	2478	5%	-19%	116	593%	-37%	-48	66%	-113%
Bosch	2394	4%	-2%	432	19%	8%	307	22%	-6%
Eicher Motors	2245	34%	17%	285	71%	28%	157	71%	13%
Exide Inds.	1912	18%	19%	291	11%	33%	185	17%	40%
Amtek Auto	1064	71%	7%	334	70%	7%	86	61%	1%
Cummins India	1045	0%	8%	180	2%	5%	212	28%	50%
Amara Raja Batt.	1029	15%	16%	176	21%	31%	106	8%	32%
Bharat Forge	988	25%	6%	283	44%	23%	145	60%	22%
Total	**126736**	**23%**	**-1%**	**19308**	**46%**	**12%**	**10206**	**75%**	**11%**

Source: Capitaline

Metal & Mining

Steel prices have increased during the quarter on account of improvement in global and domestic demand. Iron ore markets showed some uptrend due to improvement in global supply-demand scenario while long term outlook is also becoming positive. Both iron ore and coking coal prices have again started to correct, globally, iron ore and coking coal prices have also declined by 15% and 20% QoQ, which would result in margin expansion for steel players and is having a positive impact on steel prices. Joint Plant Committee (JPC) data for April-June 2014 indicates Indian steel demand and production were flat YoY. Though exports jumped ~24% YoY, the same was negated by the sharp ~20% increase in imports. On domestic front, 7% YoY Indian rupee depreciation led to a 20% improvement in zinc prices in the domestic market. Aluminium and zinc prices, improved 5% and 3%, respectively, YoY, driven by currency depreciation benefit.

The aggregate revenue of Metal and Mining companies (Both BSE & CNX Metal) increased by 32% in YoY at Rs 122,019 crore, whereas on QoQ it declined by 12%. Higher Volume and better realization in commodity across the world helps the sector to improve. Aggregate operating profit during Q1FY15 had increased by 41% YoY and declined by 20% on QoQ basis. Net Profit witnessed a marginal increase of 6% YoY, whereas sequentially it dipped by 19% at Rs 10,647 crore.

Looking at the sales growth YoY, during Q1FY15, Coal India posted a growth of 8% YoY and 11% QoQ decline in its top-line. Jindal Steel & Power registered 10% YoY decline in revenues. Tata Steel's revenue increases by 11% YoY to Rs 36,427 crore, driven by better realizations and higher volumes at European operations. JSW Steel net revenue increased significantly by 29% YoY. Hindalco net sales increase by 37% YoY on the back of better realization growth and higher commodity prices.

BSE Metal & CNX Metal

Company (Rs Cr)	Net Sales	YoY	QoQ	Operating Profit	YoY	QoQ	Net Profit	YoY	QoQ
Tata Steel	36427	11%	-14%	2696	-27%	-46%	337	-70%	-67%
Coal India	17800	8%	-11%	4281	8%	-16%	4033	8%	-9%
Sesa Sterlite	17187	NM	-18%	4046	NM	-38%	376	-9%	-77%
JSW Steel	13254	29%	-8%	2612	157%	3%	656	272%	36%
S A I L	11341	11%	-16%	1130	34%	-10%	530	18%	17%
Hindalco Inds.	7996	37%	-5%	748	56%	67%	328	-31%	32%
Jindal Steel	4978	10%	-5%	1629	25%	24%	418	-15%	4%
NMDC	3477	21%	-10%	2402	26%	-3%	1915	22%	-2%
Hind.Zinc	3007	1%	-17%	1352	-10%	-23%	1618	-3%	-14%
Bhushan Steel	2802	12%	12%	715	-3%	9%	-142	-286%	-624%
Natl. Aluminium	1680	8%	-9%	276	81%	6%	271	70%	57%
Jindal Saw	1149	-5%	-16%	162	79%	-1%	55	261%	-4%
G M D C	424	15%	-6%	196	13%	-21%	131	10%	-32%
Hind.Copper	297	32%	-41%	25	-41%	-90%	13	-29%	-90%
MOIL	201	-16%	-31%	98	-16%	-40%	106	-5%	-29%
Orissa Minerals	0	NM	NM	-9	13%	51%	3	896%	391%
Total	**122019**	**32%**	**-12%**	**22360**	**41%**	**-20%**	**10647**	**6%**	**-19%**

Source: Capitaline

Information Technology

Q1FY15 shows some improvement for Indian IT sector with increase in order inflow from all verticals. Q1FY15 has seen some improvement in spending environment in the developed markets. The key drivers for Q1FY15 are North America among the geographies and BFSI, Manufacturing among the verticals. Tier-I IT services companies reported a USD revenue growth of 3.5% QoQ, the highest in the past six quarters. Of the companies, TCS lead the pack with a 5.5% QoQ growth while HCL Tech and Tech Mahindra delivered a QoQ growth of 3.4% and 3.7% respectively. Wipro grew at the lower end with a 1.2% QoQ growth. Growth of most of the companies is likely to be volume driven. However margins remain weak during the quarter largely led by the impact of wage hikes, visa cost and the rupee's appreciation against the dollar. In 1Q, companies saw healthy deal flow and order pipeline. The management has been optimistic on the demand environment, and is of the view that FY15 would be a better year than FY14. Revenue growth is likely to accelerate going forward, owing to strong demand from key geographies and verticals.

The aggregate revenue of BSE IT and CNX IT companies posted a growth of 19% YoY but witnessed a flat growth on QoQ basis at Rs 67,528 crore. Lower operating expenses led growth in EBITDA of these IT companies. EBITDA grew 35% YoY at Rs 17,107 crore. Net Profit growth was almost flat on QoQ basis, up by 1% to Rs 14,708 crore, while on YoY basis it grew by 46%.

In rupee terms, major IT companies has reported almost flat QoQ revenue growth while on YoY basis they has shown a decent increase in revenue growth with companies like TCS, HCL Tech, Infosys and Tech Mahindra reported 23%, 21%, 13% and 25% YoY revenue growth respectively. Wipro had posted a revenue growth of 16% YoY. Midsized IT companies like MindTree, KPIT Tech, Vakrangee, Cyient and Hexaware Technologies reported decent growth in its top-line. Profit growth remained flat for major IT companies, except TCS, HCL Tech and Tech Mahindra which witnessed a profit growth of 4%, 13% and 3% respectively on QoQ.

BSE IT & CNX IT

Company (Rs Cr)	Net Sales	YoY	QoQ	Operating Profit	YoY	QoQ	Net Profit	YoY	QoQ
TCS	22111	23%	3%	6353	23%	-5%	5568	45%	4%
Infosys	12770	13%	-1%	3211	21%	-2%	2886	22%	-4%
Wipro	11246	16%	-4%	2661	32%	-7%	2103	30%	-6%
HCL Technologies	8424	21%	1%	2150	34%	4%	1834	54%	13%
Tech Mahindra	5122	25%	1%	928	7%	-13%	631	-8%	3%
Oracle Fin.Serv.	1073	19%	20%	486	44%	45%	394	8%	27%
Rolta India	881	44%	-21%	296	-132%	5%	62	106%	-55%
Mindtree	840	30%	2%	165	38%	-7%	127	-6%	29%
KPIT Tech.	690	12%	-1%	83	-14%	-25%	51	-16%	-17%
Vakrangee	681	69%	5%	155	42%	-17%	76	131%	7%
Cyient	622	28%	5%	87	9%	-19%	69	26%	-2%
Hexaware Tech.	610	14%	4%	102	-18%	2%	77	-22%	9%
Polaris Finan.	602	6%	-3%	49	-13%	8%	38	-11%	-16%
CMC	593	22%	-5%	72	-6%	-46%	58	10%	-35%
Persistent Sys	435	22%	-3%	91	19%	-18%	69	20%	2%
NIIT Tech.	332	-39%	-44%	58	-26%	-35%	45	-16%	-28%
eClerx Services	217	14%	0%	80	1%	-14%	53	-13%	-17%
Info Edg.(India)	145	20%	5%	49	44%	13%	40	35%	18%
Just Dial	135	29%	9%	34	-6%	-9%	28	0%	-18%
Total	**67528**	**19%**	**0%**	**17109**	**35%**	**-4%**	**14208**	**46%**	**1%**

Source: Capitaline

FMCG Sector

With the revival in the macro-economic environment, sales volume growth in most of the fast moving consumer goods (FMCG) categories (including the discretionary and highly penetrated segments) is showing some improvement in Q1FY15 with signs of easing out of pressure on the sales volume. On the other hand, FMCG companies with a strong product portfolio and extensive reach, like HUL, Marico and Britannia Industries, reported higher than expected growth in sales volume during the quarter. Most of the FMCG companies have taken adequate steps such as promotional add-ons/discounts on the key stock keeping units to improve the sales volume with the arrival of festival season in next quarter. Moreover, as food inflation is expected to ease out significantly in coming month, an improvement in consumer sentiment can be seen with significant increase in the demand environment.

The aggregate revenue of FMCG companies (both BSE and CNX FMCG index) increased by 15% YoY and surged by 4% on QoQ basis at Rs 33,765 crore. Softening of Commodity prices aided the FMCG companies to post strong operating profit. EBITDA during the quarter has shown a growth of 14% as compared to previous year (Q1FY14). Sequentially it has grown by 8%. Net profit surged 8% YoY due to higher tax outgo during Q1FY15 while on QoQ basis profit grown by 6%.

ITC posted 25% YoY growth in net sales primarily driven by cigarettes, FMCG and Agri business. However EBITDA growth was surged by 17% YoY due to lower raw material cost and advertisement expenditure. Higher interest cost coupled with moderately muted depreciation cost and higher effective tax rate led the company to post 16% YoY growth in net profit at Rs 2,186 cr. Hindustan Unilever's net sales grew by 13% YoY while Net profit grew just 4% YoY due to lower other income and higher tax rate. Britannia's net sales grew 15% YoY, however net profit witnessed a growth of 27% YoY on the back of lower financial expense and higher other income.

BSE FMCG & CNX FMCG

Company (Rs Cr)	Net Sales	YoY	QoQ	Operating Profit	YoY	QoQ	Net Profit	YoY	QoQ
ITC	9248	25%	0%	3278	17%	2%	2186	16%	-4%
Hind. Unilever	7716	13%	9%	1317	21%	22%	1057	4%	21%
Nestle India	2432	9%	5%	491	1%	7%	288	6%	11%
Tata Global	1913	5%	0%	199	-4%	11%	97	-13%	40%
Godrej Consumer	1889	9%	-2%	222	5%	-35%	143	8%	-39%
Dabur India	1869	13%	6%	268	13%	-9%	211	13%	-10%
Britannia Inds.	1787	15%	-1%	170	23%	1%	114	27%	6%
Marico	1623	17%	51%	267	16%	73%	185	17%	109%
United Breweries	1445	6%	34%	253	0%	62%	129	7%	90%
GlaxoSmith C H L	966	8%	-14%	165	6%	-28%	130	8%	-24%
Colgate-Palm.	957	11%	3%	194	17%	-1%	135	-27%	2%
P & G Hygiene	486	15%	-3%	142	95%	30%	90	73%	11%
Emami	482	26%	8%	77	-12%	-29%	71	17%	-36%
Jubilant Food.	477	20%	10%	59	-12%	6%	28	-18%	11%
Rasoya Proteins	375	26%	-11%	35	24%	72%	20	44%	13%
Mcleod Russel	101	-43%	-69%	-30	-205%	-82%	-32	-222%	83%
Total	**33765**	**15%**	**4%**	**7103**	**14%**	**8%**	**4852**	**8%**	**6%**

Source: Capitaline

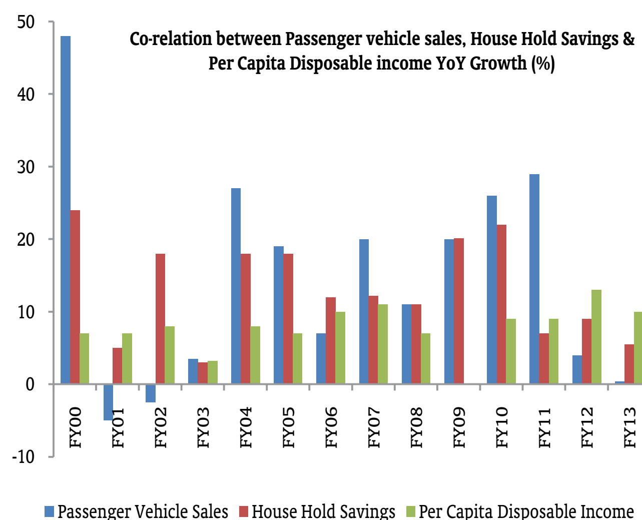
Sector Outlook: Auto

All Geared Up

Auto sector which gauge the state of an economy has resumed its performance by reliving its glorious days after witnessing 3 years of prolonged weakness. The growth of the sector is directly correlated with country's GDP growth and hence the impact of sluggish economic sentiment has had an effect on auto sales growth. However, it seems the worst is over for the sector with initial signs of revival in passenger vehicles demand, post the positive outcome in general election. The year 2014, was believed to be a turnaround year for domestic auto industry which had been reeling under pressure amid slowdown in economy, spiking inflation and higher interest rate. NDA government winning the election with massive mandate, perhaps proved to be the game changer for the auto sector as the new government has shown strong commitment of reviving the sector's growth. Additionally, extension of excise duty cut till December 2014; gave a fillip to the demand starved industry. The month of June has witnessed strong volume growth led by fears of excise duty hike in budget 2014-15. Nonetheless, the trend has sustained for another month (July), close to double digit growth which underpinned the fact that the consumer confidence has bottomed out in FY14 and is in a consolidation phase, leading to modest growth. At the same time, the dealers have witnessed improved footfalls and higher conversion thus setting the pace of demand revival in the upcoming festival season. Other macro development such as peaking out of fuel prices and financing rates, improvement at job market, persistently high discounts offered to customers and modest growth in disposable income would support the revival of auto sector growth, which is now the sixth largest motor vehicle producer globally and third largest market in Asia.

Expectation of upliftment in Household savings & disposable income

Household savings and per capita disposable income are the two key drivers for passenger vehicles (PV) sales. Historically, it has been noticed that any spurt in PV sales was backed by higher household savings and growth in disposable income. The trend had been observed during FY2000, when a surge in household saving resulted in a growth of 49% YoY in PV volumes in the same year, while weaker household savings led to a drop in PV volumes over the next two years. Such trend was replicated during FY04-FY05 and FY06-FY07 as well. The fiscal year 2010, witnessed a massive 23% growth in household savings, resulting in a growth of 26% and 28% in PV sales for FY10 and FY11, respectively. However, during FY11, despite of moderation of household savings growth and lower disposable income, PV sales reported a stellar growth owing to the government's soft monetary stance, hikes in MNREGA outlay, government employee pay hike, sharp hike in MSPs, low interest rates and impact of the Sixth Pay Commission. In the past three years, the major demand has been coming from rural market due to rising rural wages and these proved as a savior for the auto industry to survive the volatile economic environment. Though higher probability of sub normal monsoon during FY15 could pose higher risk for domestic OEMs (Original Equipment Manufacturers) as poor monsoon could dampen rural demand. Thumping triumph of NDA government in the general election fueled the expectation of strong revival in ailing economic growth, which going ahead would spur household savings and disposable income, thus improving the overall demand scenario.

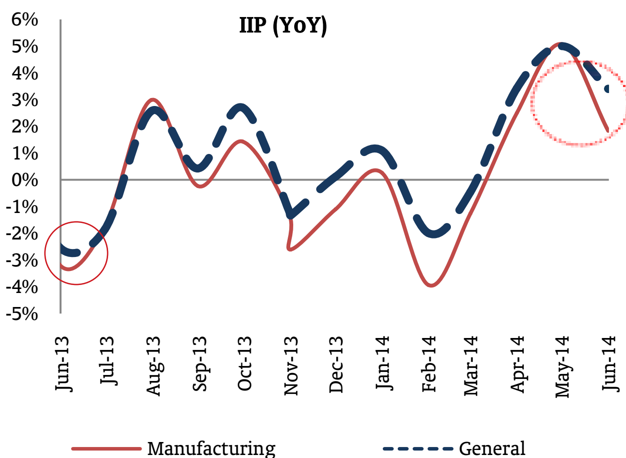


Source: RBI & Media articles

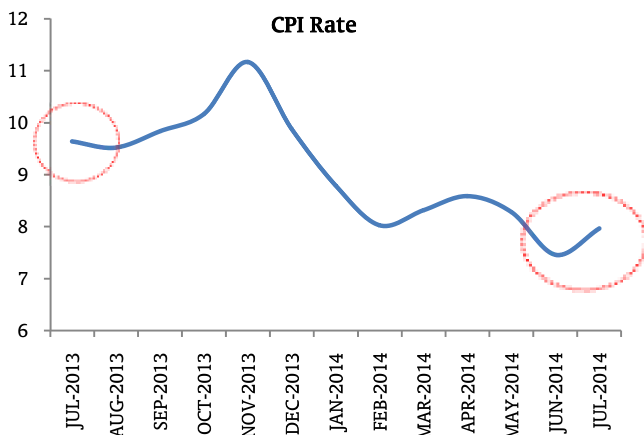
Stable government could be a game changer for the sector

Auto sales growth is one of the leading indicators of early economic revival which is likely to happen in next two years. In past few years the country's economic growth has jeopardized, imitating India's inability to combat with weak bureaucracy, political instability and most importantly lack of a capable leader. Besides these structural issues, persistent inflation, higher interest rate and low capex growth weigh on country's GDP growth. Lack of demand led employers to hire less thus resulting in weak employment growth and in some cases forced employer to shut down the plant creating huge lay off, which has impacted the overall GDP growth by decreasing household savings and disposable income. Lower disposable income played as a spoiler for auto industry which witnessed sluggish volume growth in past three years. The need of the hour was a stable and strong government which can turnaround the economy and put emphasis on reform oriented growth. After long time, India has got stable government with strong leader on whom, the Indian business community pinning hope that finally the time has arrived when the investment cycle will kick start. The beleaguered Indian automobile industry expects that new government led by Narendra Modi, to push reforms such as GST and other policies that will likely boost infrastructure development. In election agenda, Narendra Modi has put emphasis on making India as a manufacturing hub for which he has to deliver and implement various reform oriented policies. The previous UPA government in interim budget had cut excise duty (8% from 12% for small cars, scooters, motorcycles and commercial vehicles; 24% from 30% for SUVs; 20% for mid-sized cars from 24% and 24% for large cars from 27%.) to boost the auto sales and the new government has partially fulfilled its commitment by extending the excise duty sops till December 2014. This move is broadly welcomed by the industry which expects demand to accelerate in coming festival season on the back of lower vehicle

price. Excise duty cut acted as a savior for the Indian auto industry which has been on a prolonged slump where annual car sales in India declined for the first time in 11 years in 2013, posting a 9.59% YoY dip. The industry expects, the new stable government should implement second generation economic reforms such GST and direct taxes code (DTC) and speeding up of stalled infrastructural projects to revive the economy. Besides, as per Automotive Component Manufacturers Association (ACMA), the apex body for the Indian auto component industry, the new government should work to bring back footfalls to the auto dealers. The new government has drawn an ambitious plan of clocking 5.8% GDP growth in FY15 and later to 6% in FY16. Even, the central bank has also admitted that the economy is emerging from a rocky stretch with a reversal in the corporate investment cycle, along with improvement in macroeconomic indicators such as fiscal deficit and inflation. As per RBI's annual report, the economic indicators along with rising business confidence provided hope that the decline in private corporate investment could be arrested in FY15 and fresh investment of over Rs 1.2 lakh crore could be realized which could result in GDP growth of 5.5% during the current fiscal year as compared with sub-five percent rates in past two years. The current fiscal year has started with promising note with industrial production beginning to look up and the inflation is moderating and would be under RBI's target of 8% in FY15, thus increasing the chance of lower interest rate regime. Softening interest rate and easy credit availability would encourage buyers to purchase cars which would further lead in reviving economic growth.



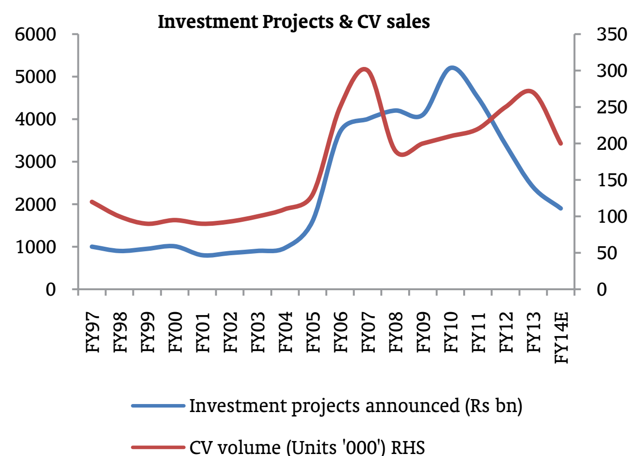
Source: MOSPI



Source: RBI

Uptick in investment cycle would drive CV segment growth

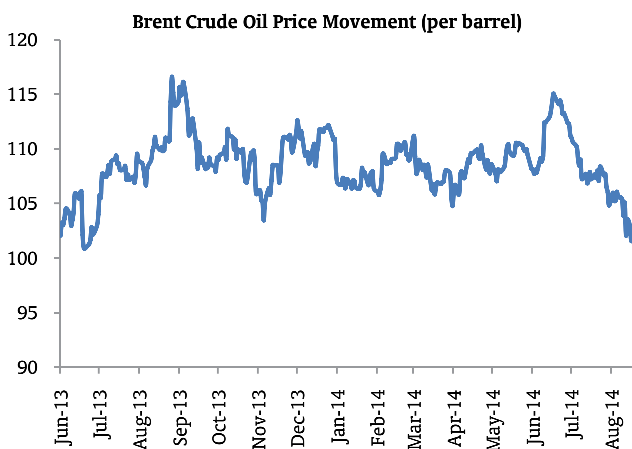
There is a direct co-relation between investment projects announcement and CV (commercial vehicle) segment volume growth mainly in medium and heavy commercial vehicle. It has been noticed that investment projects act as a lead indicator for CVs. During FY09, there was a jump of 34% in investment projects announcement, which resulted in a sharper turnaround in positive sentiments, leading to an average CAGR of 25% in CV volumes over FY10-FY12. Generally, the CV segment reports a growth for 3-4 years and records a decline for the next 2-3 years owing to its cyclical nature. During the past five cycles, the similar trend was noticed and the expectation is that the stable government in the center would kick start the investment cycle sooner than thought of. The past two years had been sluggish for CV sales as the projects under implementation are at four year low, which is expected to increase with the allocation of new projects as the economic sentiment has been improving post general election, thus kicking the growth in CV volumes. The current level of fleet utilisation stands at ~60-65% and it will take at least one year for any economic activity to absorb the existing spare capacity, hence it is expected that the improvement in the CV industry to begin from FY15 end, while a healthy recovery would pick the space from FY16 onwards. The growth in capital formation of selected industries such as Manufacturing, Construction and Transport is also has strong co-relation with CV sales. Historically, it is seen that the growth in CV sales has moved in line with the capital formation during those periods. During FY08, the time when economic growth touched high at 8%, capital formation has also increased, however CV volumes were low due to the global meltdown, while the post stimulus phase during FY10-12 led to sharp rise in CV volumes. Post stimulus phase, the economy did not witness any significant improvement in investment activity, thus resulting in a sharper decline in CV volumes in past two years. The CV segment is likely to decline in H1FY15, due to ongoing slowdown, though a recovery is expected in 2nd half of FY15, owing to pent-up demand and expected improvement in the economy. Higher allocation in defense sector during FY15 budget and hiking FDI cap to 49% from 26% would also increase CV demand.



Source: Media article

Despite of geopolitical issues, Crude prices eased off

Geopolitical issues in crude producing countries like Ukraine and Iraq pushed crude oil prices to high of USD 115 per barrel amid concern over disruption in crude oil supply from these regions. However, the crude price has eased off subsequently from its high and now trading at USD 102 per barrel, providing relief to government to put a lid on its subsidy bill. The crude price movement is an important factor for auto industry as rising fuel prices could dampen customers' sentiment and would abstain them from purchasing vehicles. After decontrol of petrol prices during June 2010, customers shifted their preferences from petrol cars to diesel cars due to huge price differences. However, the scenario is likely to be changed as the government has initiated the phase-wise decontrol of diesel prices since January 2013 and it is expected that by the end of FY15 government would completely decontrol diesel price and would bring the price at par with market rate. Diesel is nearly 14% costlier now than a year earlier, while petrol has become a bit cheaper year-over-year, shifting Indian consumers back to petrol run passenger vehicles that are set to start outselling diesel variants again after four years. Diesel cars have enjoyed a smooth run for more than two years as the diesel costs less than petrol and offers better mileage, making such vehicles a preferred choice for India's cost-conscious buyers. The changing demand trend amid a turnaround in the auto market is driving manufacturers to rework their production schedule in the run-up to the festival season when sales spikes up. The festival season that is going to kick start in next month looks perfect for petrol cars to capture lost ground as the overall market is also on a recovery path with domestic sales recording three straight months of growth. Moreover, petrol cars offers low maintenance cost and its fuel is more environment friendly compared to diesel variants, making petrol vehicles more attractive. Hence, it is believed that auto OEM players with strong portfolio of petrol cars would outpace those auto players having more diesel vehicles in their bouquet in coming festive seasons.



Source: investing.com

Dream to make India an export hub of auto OEMs

In the last few years, Indian auto industry has been going through a rough phase, however, it hasn't dampened the confidence of the industry. Sluggish domestic demand tends domestic players to tap export market and also to expand their geographical reach. Low capacity utilization for domestic sales amid weak demand has forced MNCs and local players to actively leverage India as a vehicle export hub. Besides better fixed cost benefit, exports provide higher margins and therefore support domestic business of OEMs as well as the balance of payment of the country. Export market insulates Indian auto players from domestic slowdown and facilitates them in increasing global recognisation. The availability of low-cost skilled labour is also encouraging global OEMs and their suppliers to consider India as an export hub for their products. These factors will further strengthen auto exports from India, which already exports to over 100 countries across the world. During FY14, global OEMs on average exported 32.5% of their total sales out of India, while for the domestic OEMs the export contribution is about 25% owing to the increased export focus by domestic auto players. In addition, increased competition in India and the need to export have resulted in a much stronger focus on Research & Development amongst domestic manufacturers. R&D investments, as a percentage of revenue, have risen dramatically for domestic auto OEMs such as Ashok Leyland, Maruti Suzuki, Mahindra & Mahindra and Tata Motors. Hence, going ahead Indian auto sector could be a potential export hub for global and domestic auto OEMs.

Improving late monsoon during August-September could insulate rural demand

Nowadays, rural market plays an important role in auto sector's growth. The companies would appear to be benefitting from the effort to reach out to rural customers, a process that had started in 2008-09 with the setback of global economic crisis which affected Indian economy and at more micro level, domestic car market. The efforts that started in 2008-09 have nowadays intensified and becoming more widespread. Maruti Suzuki, country's largest passenger vehicle manufacture has planned to sell at least one car in 100,000 villages to bolster its sales volumes and also to tap the rural market. India has 600,000 villages, 650 districts and 3,500 tehsils (taluka), implying huge scope for domestic auto players to boost up their sales and to insulate them from urban demand slowdown. India still relies on monsoon rains to irrigate more than half of its farmland and if rainfall is below normal average which is now 18% below normal as forecasted by country's weather official would result in lower income for rural households. Lower rural household income would impede auto sector growth as nowadays domestic OEMs are trying to concentrate on rural market, which is one of a silver lining for auto companies. However, deficiency in the monsoon is improving and as per IMD's (Indian Meteorological Department) forecast August rainfall over the country as a whole is likely to be 96% of LPA, starting from 22% deficient during June 1 to July 31. Further, late good monsoon in the month of September would fulfill the deficiency occurred in the initial months. Hence, late monsoon could be a blessing for auto manufacturers from demand perspective.

Monsoon deficit (% drop in rainfall from LPA until August 21)

Region	Deficit %
East/Northeast	15
Northwest	30
Central India	16
South Peninsula	16
All India	18

Source: IMD

OEMs reported double digit volume growth for second consecutive month

The signs of volume recovery have underpinned in July 2014 in two wheelers and cars on the back of healthy May-June 2014 sales volume growth, while the pace of decline has moderated in CV segment. However, LCV (light commercial vehicle) segment remained under pressure led by stringent financing and high base and it is expected that it will gradually pick up once MHCVs (medium & heavy commercial vehicle) demand improvement sustains and consumption demand revives. Moreover, in July-14 the impact of pre buying happened in June-14 in anticipation of excise cut rollback was witnessed and these made MoM sales growth flat at 2%. Total auto sales volume during July-14 rose healthily by 16% at 1,763,710 units and in previous month the growth was also in double digit, implying the sector's growth revival is on track. As per auto dealers, consumer sentiment post election is improving and the footfalls in the showroom are increasing its pace with solid conversion rate. The expectation is that the upcoming festive season to set the pace of demand recovery especially in passenger cars and two wheelers, aided by pent up demand and macro recovery. The passenger car volumes would increase on the back of new launches by different auto OEMs to tap the domestic market on the onset of festive season. For two consecutive months, Indian auto industry witnessed double digit growth, which seems recovery on track and the sector would achieve its glorious days back and lead overall economic growth.

Company sales volume (in units)	Jul-14	Jul-13	YoY	Jun-14	MoM
Hero Honda	529,862	487,545	9%	541,594	-2%
Bajaj Auto	319,292	281,327	13%	305,465	5%
TVS Motor	203,092	153,676	32%	203,629	0%
Maruti	101,380	83,299	22%	112,773	-10%
M&M	52,974	55,565	-5%	68,355	-23%
Tata Motors	39,623	51,468	-23%	38,557	3%
Ashok Leyland	7,847	8,746	-10%	7,452	5%
VECV	3,341	3,150	6%	4,187	-20%
Royal Enfield	27,314	15,175	80%	25,303	8%
Hyundai	48,010	48,704	-1%	50,518	-5%
Ford	15,282	12,338	24%	11,935	28%
General Motors	4,726	6,503	-27%	5,172	-9%
Honda	15,709	11,223	40%	16,316	-4%
HMSI	381,411	287,073	33%	323,152	18%
Toyota	13,847	14,470	-4%	13,394	3%
Total	**1,763,710**	**1,520,262**	**16%**	**1,727,802**	**2%**

Source: Media articles & company

Auto sector substantially contributes towards economic development by providing employment, increasing industrialization and enhancing forex reserves by concentrating on exports. Hence the auto sector's growth is directly co-related with country GDP growth which reported sub 5% growth in last two consecutive years. Post general election with stable government at the center has improved economic sentiment on the expectation of revival in manufacturing activities, higher disposable income, relief from stubborn inflation and lower interest cycle. However, since then economic data has shown some resilience by reporting higher IIP growth and moderating inflation. With the kick start of investment cycle, the CV segment sales would get a fillip, which has been witnessing a prolonged slump in last five years post 2008 global economic crisis. Gradual decrease in price differential between diesel and petrol would definitely bore well for auto companies having strong portfolio of petrol cars as the maintenance cost is low and more environmental friendly compared with diesel vehicles. Moreover, easing of crude prices would also improve consumer sentiment and drive sales growth for auto OEMs. Besides, recovery in monsoon during August-September would result in higher demand growth from rural market which nowadays being considered as a potential growth driver for auto sector. Hence stable government, improving disposable income, easing fuel prices and strong monthly sales volume growth are indicating glorious days are coming back for Indian auto industry.

Valuation Matrix

Company	Price (Rs)	Market Cap (Rs cr)	EBITDA Margin %	PAT Margin %	ROE (%)	EV/EBITDA FY15E	EV/EBITDA FY16E	P/E FY16E
TATA MOTORS LTD	514	155,267	9.4	5.2	23.2	4.2x	3.6x	7.7x
MAHINDRA & MAHIN	1,403	85,723	11.9	7.0	21.6	10.6x	8.7x	13.4x
MARUTI SUZUKI IN	2,793	83,219	7.5	6.4	14.1	12.8x	10.1x	18.1x
BAJAJ AUTO LTD	2,256	65,581	20.2	17.1	37.1	13.9x	12.0x	15.3x
HERO MOTOCORP LT	2,537	50,650	9.8	8.4	NA	11.7x	10.0x	15.5x
BOSCH LTD	14,988	46,321	9.7	10.2	14.9	N/A	N/A	N/A
EICHER MOTORS	10,000	27,141	8.6	5.8	20.7	23.4x	15.2x	25.8x
CASTROL INDIA	355	17,710	19.7	13.3	NA	N/A	N/A	N/A
EXIDE INDUS LTD	162	13,821	12.1	6.6	16.7	12.6x	10.8x	18.1x
AMARA RAJA BATT	560	9,561	15.0	10.7	30.3	N/A	N/A	N/A
APOLLO TYRES LTD	168	8,480	11.1	7.6	25.2	4.6x	4.2x	7.4x
TVS MOTOR CO LTD	173	8,407	4.1	2.2	18.1	13.6x	10.3x	19.7x
BALKRISHNA INDS	732	7,044	21.5	12.6	28.4	8.8x	7.4x	10.7x
AMTEK AUTO LTD	241	5,177	18.0	7.8	9.7	4.7x	4.0x	5.5x
CEAT LTD	587	2,119	10.4	4.9	29.9	4.2x	3.8x	6.1x
JK TYRE & IND LT	288	1,177	9.1	3.5	26.3	3.7x	3.3x	3.2x

Source: Bloomberg

ASHIKA

Economy Review

There is optimism in the air and probably a good time to look at the recent happenings in the economy. The Indian government can take a sigh of relief now that the crude prices are on a decline (mostly because of excess supply globally). However, tensions in Ukraine, the Gaza Strip or Iraq are believed to have eased and thus there is a retreat in gold & crude oil prices. Our Prime minister announced of Swacch Bharat and the plans to implement them in his maiden speech at the Independence Day. He urged MNCs to set up manufacturing base in India in a bid to turn India into a manufacturing hub. Indeed, one cannot deny the positive aspects of pushing the IIP growth as well as creating employment. It is believed that Mr. Modi is determined to change India and how the government works and wants to do it fast. He ran Gujarat for 13 years following a centralized approach within the group of ministers wherein group of ministers loyal to him reported directly to him. Even before taking oath, he called upon senior bureaucrats to prepare presentation and one of his first actions was to meet all 77 secretaries of the central government and urged them to think out-of-box. It's been more than two months since he took office and observers report that there is palpable sense of urgency in government corridors. In fact, there are reports that all senior civil servants are in office by 9am, and many are seen working for 12 hours a day. He obviously raises the bar by setting examples on his own by working close to 20 hours a day. Together with RBI governor, Mr. Raghuram Rajan, some strong steps are being taken to bring the economy back on track. However, the loosening of the interest rates is still some time away. .

RBI in its annual report focused on medium-term challenges that need to be tackled to ensure macroeconomic stability. RBI primarily talked of inflation targeting and is also confident of achieving its near-term inflation target of 8% by January 2015, but risk to the next inflation target of 6% by January 2016 is still on the upside. The apex bank expects the economy to grow in the range of 5-6%, with risks “broadly in balance around the central estimate of 5.5%”, which is a moderate recovery from sub-5% growth in the past two years. He also highlighted issues on revenue-led fiscal adjustment, removing obstacles and improving access to finance and managing the NPA cycle of the banks. Earlier, he reminded strongly of the risks associated with the US QE tapering and its effects on emerging market fund flows. He tried to remind of the sorry state the emerging markets were in May 2013 after Fed signaled early tapering. The condition was aggravated for those emerging nations with weak basic balances such as budget shortfalls and/or current account deficits. Unfortunately India had both. The Indian rupee depreciated 17% vs USD in June-August 2013 when foreign institutional investors (FIIs) scaled back their holdings. However, he has been successful in improving the external balance for the nation. India's current account deficit (CAD) has narrowed sharply to 1.7% of GDP in FY14 from 4.8% in the previous fiscal year while the fiscal deficit declined to 4.5% of GDP in FY14 from 4.8% in the previous FY. In doing so, India averted a down grade in investment-grade long-term foreign currency debt rating. While the economy continues to pose risks on the external front and is not immune, it has its challenges ahead.

External Sector Vulnerability Indicators (%)

Sl. No.	Indicator	End-Mar 2011	End-Mar 2012	End-Mar 2013	End-Mar 2014
1	External Debt to GDP	18.2	20.5	22	23.3
2	Ratio of Short-term to Total Debt (Original Maturity)	20.4	21.7	23.6	20.3
3	Ratio of Short-term to Total Debt (Residual maturity)#	40.6	40.9	42.1	39.6
4	Ratio of Concessional Debt to Total Debt	14.9	13.3	11.1	10.5
5	Ratio of Reserves to Total Debt	95.9	81.6	71.3	69
6	Ratio of Short-term Debt to Reserves	21.3	26.6	33.1	29.3
7	Ratio of Short-term Debt (Residual maturity) to Reserves#	42.3	50.1	59	57.4
8	Reserves Cover of Imports (in months)	9.5	7.1	7	7.8
9	Debt Service Ratio (Debt Service Payments to Current Receipts)	4.4	6	5.9	5.9
10	External Debt (US$ billion)	317.9	360.8	409.4	440.6
11	International Investment Position (IIP) (US$ billion)	207	264.7	326.7	331.6
12	IIP/GDP ratio	11.9	-14.8	-17.6	-17.6
13	CAD/GDP ratio	2.8	4.2	4.7	1.7

#: RBI estimate.

Lower Crude, Stable Exchange rate to help contain fiscal deficit

The government has targeted a fiscal deficit of 4.1% for 2014-15 and it seems that they will be able to contain the deficit to a figure close to 4.1%, thanks to fall in crude oil prices. Despite the recent geopolitical turmoil in Iraq & Ukraine, the crude prices are hovering around a 14-month low of $102 a barrel. Certainly this is good news for the newly elected Indian government as a fall in crude oil prices will lead to lowering of the government's subsidy bill for this fiscal, thus lowering the fiscal deficit and in a way takes pressure off the domestic currency. While some are of the opinion that the fall in global prices is mainly owing to surplus oil in the global market, mostly due to weak demand from refineries in Europe and Asia, International Energy Agency (IEA) believes that supply glut is shielding the market from price disruptions. The agency has lowered its estimate for oil demand growth for 2014 and 2015 after an annual expansion in fuel consumption during the quarter to June slowed to 7,00,000 barrels per day.

This is a boon for the oil marketing companies (OMC) as well as for the government as calculations suggest that the OMCs would be able to lower their borrowings by Rs 10,000-15,000 crore this financial year, and the government's subsidy burden would come down by ~11-12%. If the Brent crude oil ends FY15 at ~$100/barrel, there could be a reduction of ~Rs 11,000-12,000 crore in the government's budgetary allocation for oil subsidy and the fiscal deficit, considering that the government funds ~35% of the under-recoveries. The under-recoveries for OMCs for selling diesel currently stands at Rs 1.78/litre for the week ended August 16th. However, taking into account the recent correction in the Brent crude, oil analysts are of the view that the present under-recoveries stand at under Rs 1 for a litre of subsidized diesel. This is probably the best case scenario for the government to go ahead with diesel price de-regulation. Besides it will be encouraging for private fuel retailers like Reliance Industries Ltd and Essar to consider reopening their outlets, as diesel was their mainstay. India has been effecting a monthly increase in the diesel price since January last year. Since then, the rates have been raised cumulatively Rs 11.24 a litre in 18 installments. It is believed that the government will carry on with the hike of 50paise/litre and end the diesel subsidy regime in a matter of few months.

The exchange rate is expected to remain stable around a level of Rs 60 per dollar after appreciating to levels of 58.28 in May 2014 on account of formation of a stable government. This appreciation was led by capital inflows from Foreign Institutional Investors (FIIs), who have invested over $25 billion in India (in both equity & debt) since the beginning of the year. However, the spate of the future movement in the exchange rate hinges upon the ability of the government & RBI in tackling the economy particularly on the external front. There are indeed a couple of factors which may have a negative bearing on the currency. The external debt for India increased 7.8% to $440.6 billion in FY14 compared to FY13. The major components of the external debt include external commercial borrowings (33.3%), Non-Resident Indian (or NRI) deposits (23.6%), and short-term debt (20.3%). The rise in NRI deposits was due to the swap scheme introduced by RBI last year. In 2014, Indian companies have raised $10 billion from overseas bonds. The foreign currency debt of many Indian companies (or India Inc) is un-hedged, which is a matter of concern. In 2013, India Inc had exposure to $100 billion un-hedged foreign loans. Next, the import cover for the economy for FY14 stands at 7.8 months, higher than 7 months in FY13 but lower than the highs of 15 months cover witnessed in February 2008, at the time the global recession took place. The foreign exchange reserves as a % of the external debt is about 72%, while it was 140% in May 2008. However, the biggest beneficiary of the improving fiscal position will be the currency.

Indirect Tax Collection Target - a challenge

The Union budget 2014-15 has envisaged higher non-debt receipts-GDP ratio which would more than offset a marginal increase in total expenditure-GDP ratio. With the expected growth of 19.8% in overall tax revenues, the gross tax revenue-GDP ratio is budgeted to improve by 0.6% points to 10.6 % during 2014-15. Non-debt capital receipts are budgeted to increase by 84.6 % in 2014-15 mainly due to a sharp growth in disinvestment proceeds. However, the finance ministry is now accepting the challenge to achieve 6.24 lakh crore indirect tax collection target as the tax buoyancy would depend upon revival of the economy and the manufacturing sector. The government has budgeted to collect over Rs. 6.24 lakh crore from indirect taxes in the current fiscal year, up 20.28 % over the collection in 2012-13. The bulk of the indirect tax collection of Rs 7,525 crore is expected to be achieved from excise duty hike in cigarettes and pan masala. On the direct taxes front, authorities are confident of achieving a growth of 15% in FY15. The government has targeted to raise Rs. 7.36 lakh crore from direct taxes in 2014-15, up from over Rs. 6.36 lakh crore collected last year.

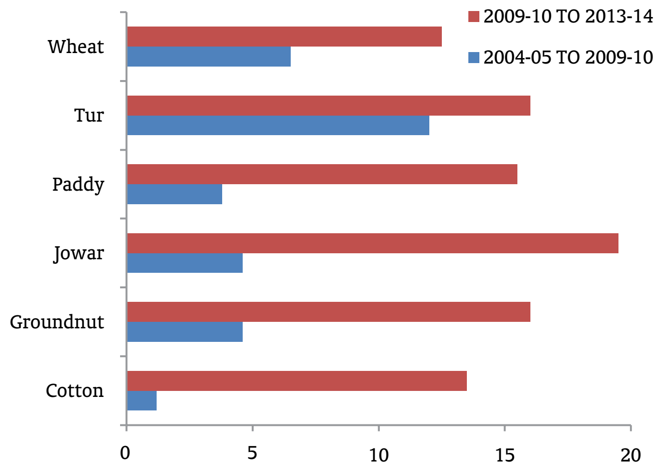
The recent data released shows that the indirect taxes mopped up in the first four months touched nearly 25% of the annual budgeted target despite a drop in customs and excise collections. This was achieved on the back of 16.5 % jump in service tax collections over the corresponding period of the previous year, even as excise and customs revenues fell 0.4 % and 2.2 % respectively. In actual numbers, indirect tax revenues increased to Rs.154,350 crore during April-July this fiscal from Rs.148,588 crore in the like period of last fiscal -- a growth of 3.9 %. The figures state that unless there is a pick up in the economic growth in the latter half of the year, it will be difficult to achieve the indirect tax revenue target.

India's Persistently High Food Inflation

Although inflation as measured by CPI (consumer price index) as well as WPI (wholesale price index) has shown some declining trend off late, there has been no reversal in the trend for food inflation. Food inflation averaged 3.8 % year on year in the eight-year period from 2000 to 2008. However, in the five years following the financial crisis it rose substantially, averaging 10.3 % year on year and has remained at these levels despite slow GDP growth. For an average Indian household, food still accounts for almost 50 % of total expenditure and can be considered a crucial factor politically which could push the Narendra Modi-led NDA government into a tight spot. Even the government is aware of the facts and in the last two months, it asked state governments to allow farmers to bypass mandis and sell fruits and vegetables in the open market. It has added onions and potatoes to the Essential Commodities Act to check hoarding as well as black marketing. It wants to cap the bonus states can add to the MSP. And it is now planning to break up the Food Corporation of India (FCI) to pave the way for the private sector to enter the foodgrain business. The effect is expected to be felt in the coming months and years to follow.

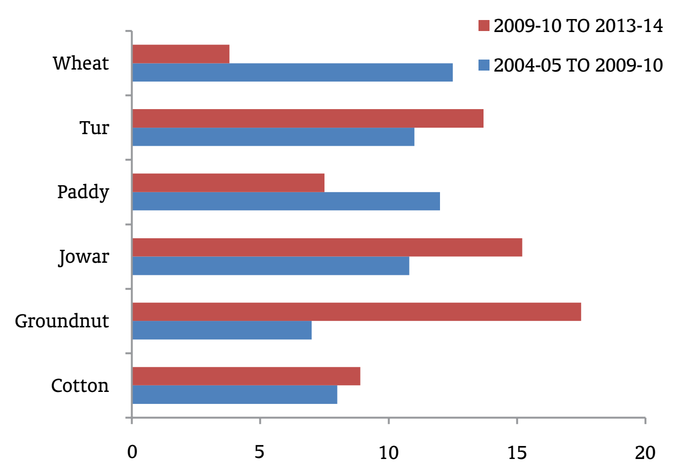
The new government together with RBI has sought for growth through public spending in infrastructure while at the same time allowing easy credit to the industries. This is against the UPA Government's policy, which had encouraged growth through social spending but had been slow in fostering the growth of business enterprises. This led to high interest rates during the second half of the UPA's tenure. Besides, the government is also expected to cut down on the government expenses through the implementation of expenditure reforms commission, cutting down on oil subsidies etc. This will release money into the economy and can be lend to industries to borrow from the banks and other sources. This again is a departure from the previous regime's cutting of fiscal spending which was more cosmetic and the Government-led programmes took a chunk of money from the economy, thereby leaving very little for the private enterprises to borrow. Thus, presently, much of the inflationary pressure in the economy is the supply side inflation with constraints on production of agriculture commodities.

CHANGE IN COST OF PRODUCTION (%)



Source: Commission of Agricultural Costs and Prices (CACP)

CHANGE IN MINIMUM SUPPORT PRICE (%)



Source: Commission of Agricultural Costs and Prices (CACP)

While these measures will bring some short term relief, it will not tame inflation over the medium or long terms. During the last ten years or so, the food economy of India has undergone structural changes, some of which are practically irreversible. The primary factors which contributed to the food inflation over the years can be summarized as:

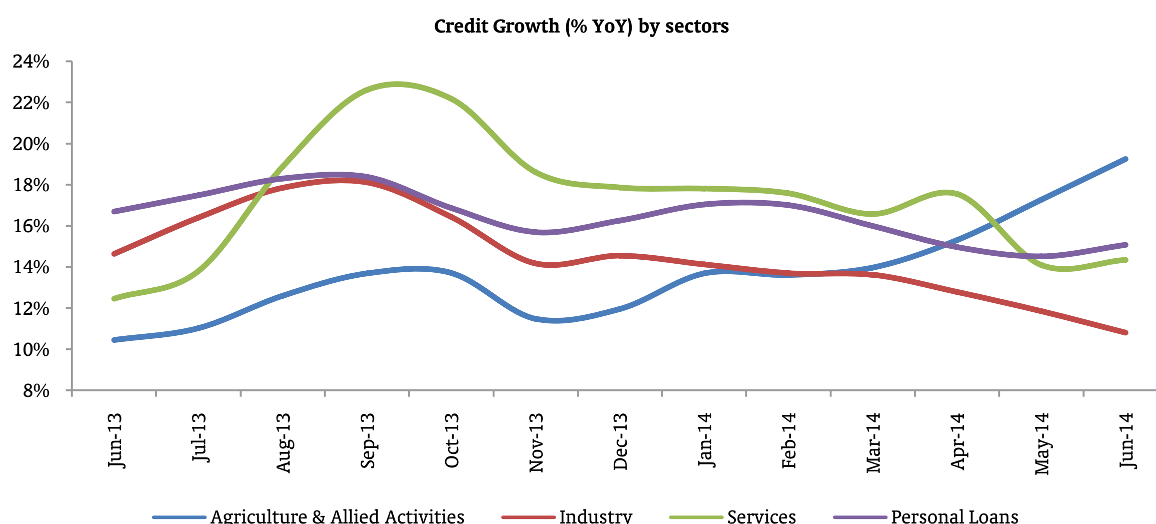
	Issue	Reforms	Challenges
Rising Cost of Cultivation	Spike in price of virtually every component of cost: labour, inputs and capital	To restrict land from leaving farm use, and check prices of agri inputs like fertilisers, diesel and power	Farmers will sell land if they find farming unattractive. While controlling input prices means greater subsidy
Price Manipulation in Mandis	Growing concentration of agri trade in primary mandis & at a pan-India level	To break cartels and broadbase trade	Most cartels are politically well-connected
Demand-side changes	Unpredictable rains, fluctuations in rupee, etc, will always result in supply shocks	To ensure steady supply by judicious use of global trade or buffer stocks	Export-import decisions out of sync with domestic production numbers

Capex cycle far from turning

Factory output once again reported sluggish growth of 3.4% in June after clocking 19-month high of 5% in May, on account of a sharp deceleration in manufacturing activity. Growth in the manufacturing sector slowed to 1.8% in June from 5.1% in May while the mining and electricity sectors grew at a robust pace of 4.3% and 15.7%, respectively. What's surprising is the fact that the lower than expected industrial production numbers are on the back of lower base (YoY) when the index had contracted 1.8% during last year. The advantage of low base effect however will not be available from July as factory output posted growth from July until September 2013. For the quarter ended June as a whole, the numbers are worth mentioning as IIP grew 3.9% compared with a contraction of 0.5% in the year-ago period. This will provide the much needed fillip to the GDP figures for Q1FY15. However, the latest indicators show that a recovery in economic growth, which slumped to less than 5% in each of the previous two years, is still to strike strong roots. In fact, the recent capex order inflows in the capital goods space further corroborates the muted outlook. Indeed, capacity utilisation in the economy is estimated at just around 70%, which implies there's room for more production before new capacities are needed. The same views are also expressed by the management of top banks in India. According to them, the pickup in credit growth in the economy is still few quarters away. Probably, players in capital goods space are deliberately delaying the execution of projects, since underlying cash flows of those projects may not be sufficient to support such loan repayments.

Companies	Order inflows Q1FY15 (Rs Cr)	YoY Change (%)	Order inflows Q4FY14 (Rs Cr)	YoY Change (%)
ABB	2,000	16	2,000	30
BHEL	1,100	-25	16,300	-22
Crompton (Domestic Orders)	700	-22	600	61
L&T (Domestic Orders)	18,600	-14	15,900	-29
Siemens	2,700	5	2,600	-7
Thermax	700	-69	1,100	-1
Voltas	800	-1	300	-14
Total	**26,600**	**-15**	**38,900**	**-21**

Source: Media Articles



Besides, the corporate are also probably waiting for a comfortable position when the interest rate cycle turns. However, the RBI is also in a wait & watch mode, and probably when it gets a clear signal that the cycle has turned, the apex bank will start cutting down on the interest rates. However, as the economic growth & capex cycle picks up and the interest cycle turns somewhere around in FY16-17, RBI & the government will probably be up to a different set of challenges. Industries will be encouraged to borrow more and the cycle of higher production and high consumption of industrial goods will set in. This will be accompanied by investment in infrastructure that will also create a cycle for higher credit demand. This will naturally translate into high employment, and wages adding to the growth of the consumption cycle for both rural as well as urban consumers. This cycle of high consumption for industrial goods, investment products, services will set off the demand side inflation wherein there will be demand for more and better quality goods fuelling a demand led inflation. Inflation is a challenge but growth is a bigger challenge and associated with growth are all macroeconomic trends — employment, saving and investment, trade, capital inflows and the overall balance of payment scenario.

Mutual Fund Overview

ICICI Prudential Value Discovery Fund (G)

Equity: Small & Mid Cap

Fund Objective: Pru ICICI Discovery Fund is an open-ended diversified equity scheme. The objective of the scheme aims to provide long term capital growth by investing primarily in a well-diversified portfolio of companies accumulated at a discount to its fair value.

Fund Commentary: The fund has been able to beat the benchmark successfully across all investment horizon. The fund has generated strong returns as suggested by alpha as well as the sharpe ratio. The risk of the fund is not on the higher side, while the portfolio turnover ratio is also on a lower side, thus resulting in reasonable expense ratio. The fund follows the principles of value investing to buy stocks at discount to their intrinsic value. The fund manager looks for differentiating factors (technological prowess, cost advantage) that can give the company a sustainable edge over peers. Simply put, he seeks a combination of attractive valuations and robust fundamentals. Investors can consider the fund as a long term bet.

Top Ten Holdings

Stocks	% of Net assets
ICICI Bank	7.97
Reliance Industries	3.52
Sadbhav Engineering	3.04
PI Industries	2.85
Exide Inds.	2.58
MindTree	2.57
Amara Raja Batteries	2.56
Gujarat Pipavav Port	2.54
Balkrishna Inds.	2.48
Max India	2.42

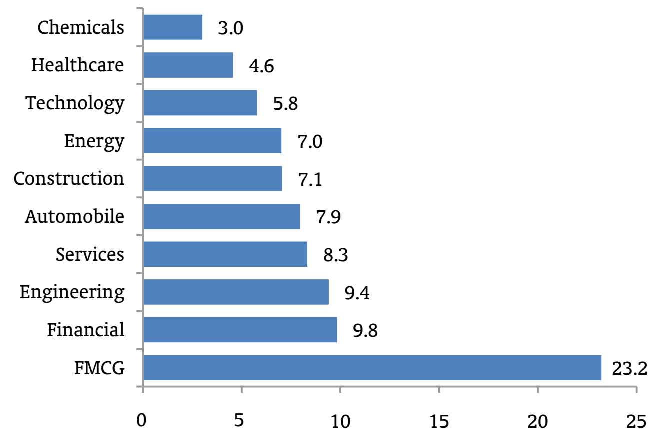
Asset Allocation

Equity	Debt	Cash & Equiv.
90.75	0.03	9.21

Important Information

NAV (Rs.)	96.65
Inception Date	16-Jul-04
Fund size(in Rs cr)#	4,105.36
Fund Manager	Mrinal Singh
Entry load	N.A.
Exit Load	1%, if redeem within 1 yr
Benchmark	CNX Midcap
Min Investment	Rs. 5000
Min Sip Investment	Rs. 1000

as on July 31, 2014



Key Ratios

Beta	0.82
Standard deviation (%)	20.57
Sharpe Ratio	0.71
Alpha	10.24
R Squared	90.00
Expense ratio (%)	2.34
Portfolio Turnover ratio (%)	34.00
Avg Market cap (Rs in cr)	15,508

as on July 31, 2014

Month of Recom.	Recommended in the Past	Returns till date (%)
Sep-13	HDFC Top 200 Fund (G)	72%
Oct-13	BNP Paribas Equity Fund (G)	43%
Nov-13	Birla Sun Life Frontline Equity Fund (G)	36%
Dec-13	ICICI Prudential Focused Bluechip Equity (G)	34%
Jan-14	Axis Equity Fund (G)	28%
Feb-14	Franklin India Smaller Companies Fund (G)	64%
Mar-14	HDFC Mid-Cap Opportunities Fund (G)	45%
Apr-14	Mirae Asset Emerging Bluechip Fund (G)	36%
May-14	Birla Sun Life Long Term Advantage Fund (G)	23%
Jun-14	Birla Sun Life Infrastructure Fund (G)	5%
Jul-14	HDFC Index Fund - Nifty Plan (G)	5%
Aug-14	SBI Magnum Midcap Fund (G)	4%

Performance Of The Fund

	1 month	3 months	6 months	1 year	3 Years	5 Years	Since Inception
Fund (%)	5.5	16.3	56.0	95.4	31.9	23.5	25.4
CNX MIDCAP (%)	2.9	8.3	44.2	66.0	15.6	13.1	--

Technical view

Key takeaways from August 2014:

- July CPI inflation inched up to 7.96% against the revised June CPI number of 7.46%.
- WPI inflation came down to 5.19% in July from 5.43% in June.
- IIP contracted to 3.4% in June as against revised May figure of 5%.
- Export growth dipped to 7.33% in July after recording double digit growth in the last two months.
- Trade deficit reached 1 year high at $12.2 billion, higher than $11.76 billion in June
- RBI kept Repo rate and CRR unchanged at 8% and 4% respectively.
- RBI in its annual report stated that economy could grow in the range of 5-6%.
- Federal Bank and European central bank remained contrary in Jackson Hole meet over raising interest rate.

Classical theory of Technical Analysis

Another month of uncertainty lead index to form newer trading range at every decline though correction in the market was short lived and paired the losses, altering the negative global sentiment resulting in to register fresh all time high in the market. Unlike the previous month, Mid-cap and Small-Cap index remained concealed while the advance decline ratio remained evenly skewed both in favor of the bulls and the bears. However volume in the market remained subdued as retail investors remained skeptic at such high levels while Foreign Institutional investors remained undecided over the improving US macro economic variables.

Since June 2014 onward Nifty had been gradually inching upward forming newer trading range. Such consolidation in price action has lead Nifty to form broadening pattern in daily chart. Such price pattern has a bullish implication and presently it seems Nifty has completed its 5th and final leg of the pattern however decisive close above the immediate resistance level of 7950 would be considered as a valid breakout else than that selling pressure might again prop in and lower level of 7500 can be seen.

Further on the longer time frame Nifty too had trading within the rising channel line formation, presently facing resistance from the upward panel of the channel line around 7950. Inability to breach past the resistance zone would result in bears taking control and might drag the Index lower. Lower panel of the said pattern would however limit the downside potential and fresh buying interest is likely to be seen near the elevated support level of 7600.

Though Nifty was able to register fresh all time the broader market was unable to do so and remained subdued during the month and remained confined within the narrow trading range. CNX MidCap and CNX SmallCap witnessing divergence in outlook in comparison to the Key Benchmark Index which calls for a cautious approach in the market. Nifty during the month witnessed decrease in volume further reinstating the bearish structural formation.

Hence according to classical theory of technical analysis higher high formation in both daily and weekly charts remains unabated against which it can be inferred that broader trend in the market continues to remain positive however present structural formation signifies that market is near a crucial trend deciding level of 7900-7950 sustaining above or below which would dictate the next directional movement. Inability to breach past the resistance of 7950 might result in rangebound trading action in the forthcoming month amidst the broader range of 7950-7600.

Modern approach in Technical Analysis

On the oscillator front too a clear directional movement was lacking as frequent buy and sell signal at every interval in both daily and weekly chart kept traders on the edge and waited for opportune time to enter the market. Correction at the initial start of the month led to form positive Class B divergence in daily chart which propelled the Index to head higher and registered fresh all time high. However a different viewpoint can be inferred due to presence of negative divergence in weekly chart. Hence due to divergent situation in both the time frame it can be concluded that the Index is likely to remain choppy with negative bias.

Though Nifty has distance away from its crucial moving average, the short term average of 50dma has been acting havoc as Nifty rebounded from the said average for quite a few occasions since June 2014. The elevated average now stands around 7650 and Nifty in order to maintain its existing uptrend need to sustain above it. However the longer term average of 200dma is distance from its prices and still remains 1-2% away from it normal. Hence indicating that downside potential in the Index remains i.e. till 7700-7750.

Indian VIX

In absence of fresh trigger in the market Indian VIX too had been trading comfortably at its historical low level of 12-13. Such low reading in the Index would result in slow and steady movement in the Index however investors are normally of the notion that an inverse correlation exist between Nifty with that of the Volatility Index. On technical ground since the Index is trading near its historical low level and further downside seems unlikely and a minor pullback might be the only possibility. Hence consequentially Nifty might witness minor correction.

Gann Theory of Time cycle

According to classical theory of technical analysis Nifty had been trading amidst the rising channel line with resistance presently placed at 7950, successive close above which projects higher target of 8400 with minimum price target of 8100. Presently Nifty is rising at 23.6% angle of inclination. 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 8100 might be achieved within 1.5 months

Calculation:

Current Market price- Projected price= 8100-7920= 180

Now, Time required to complete the target = 180/4=45=1.5 months.

Retracement principle

A longer term perspective has been taken into consideration while determining the immediate trend deciding level for the Index and hence two major corrective phase since 2008 onward were as under.

1. Correction from January 2008 till October 2008

2. Correction from November 2010 till December 2011

Projected 138.2% retracement of the entire fall of 2008 initiates resistance around 7925-7950 and crossing above this zone will lead higher target of 8400-8500. Till then broader range for Nifty would lie around 7650-7950.

Future Projection – September 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 161.8% retracement stands around 8175. However since the start of the month elongated Zigzag correction might be unfolding and presently Nifty is in wave b. Since Nifty has retraced more than 76.4% of wave a. it seems that the elongated wave b might extend towards the minimum target of 7950 before witnessing another round of correction and unfolds into wave c.

Inter-market analysis

U.S Market: Since 2009 onward Dow Jones Industrial Average has been gradually heading upward with consecutive higher high formation in weekly chart. The elevation or steepness of rise also had been gradually rising and presently the Index has been trading within the 25% inclination. In recent period the Index too support from the rising trendline around 16450 at the start of the month and continued to surge for three consecutive week in a row hence concluding that the broader trend in the Index would continue to remain positive. However emergence of negative divergence and projected 138.2% retracement resistance around 17150 might cap the upside potential in the Index. A positive correlation exists in Nifty with that of the U.S. Market and considering the present setup the Index might head higher.

Dollar Index: A stellar pullback from the depressed currency was seen in the month of August and ended with a gain of 1.47% on improving U.S macroeconomic variables. On technical front since 2008 onward the currency seems to have been witnessing rangebound trading action which eventually led to form bullish Symmetrical triangle formation in weekly chart. Further double bottom formation in weekly chart led the currency to test recent high of 82.42. Presently prices might be in 3rd leg of the pattern adjacent to which it seems that upside might be limited till the crucial resistance of 83. Elliot wave theory too predicts the same. An inverse correlation is seen in Indian equity market with the of the Dollar Index and hence further appreciation in dollar Index might result in fund outflow from Indian equity market which in turn might drag our domestic index lower.

Nymex Crude: Optimism was high of further rise in crude oil prices as it remained exposed to geopolitical tension. However crude oil bunked the trend and witnessed a substantial correction during the month of August. Presently crude oil prices had been trading near its 9-month low level. On the technical front the consecutive lower low formation in weekly chart has changed the outlook in the commodity from neutral to negative however the rising trendline since May 2010 onward might initiate support around 90.50, along with it weekly RSI is placed near its oversold price condition and hence further decline in prices seems unlikely, till then a rangebound trading action can be seen and momentum might change to positive with a decisive close above 97 which in turn would open the gates for prices to test the 110/dollar mark. An inverse correlation exists between crude oil prices with that of the Indian equity market. Further depreciation in crude oil price would however prove well for our domestic equity market as crude oil constitutes the major portion of India's import.

10 Year Bond Yield India: Indian 10 year bond yield continue to decline in the month of August and settled at 8.54%, declining by 10 bps. Continuous decline in bond yield since April 2014 has a negative connotation in the market as further depreciation in bond yield might lead to fund outflow from domestic market and might seek superior return from other emerging countries. Further with U.S economy steadily recovering participation by foreign institutional investors have slowed marginally. On technical front the yield have bounced from its downward sloping trend channel placed at 8.44% and hence a weekly close above the previous swing high of 8.70% would confirm of a reversal of the downmove and might revisit prior level of 9.05-9.15%.

10 Year Bond Yield US: The broader trend in the yield has been negative. Previously US bond yield reacted from its critical resistance

placed at 3.01% and hence inability to breach past the said resistance level drags the Index lower. Presently medium term support level of 2.49-2.41% has been breached and now heading lower till 1.94%. Consequently declining US bond yield has a positive implication as foreign fund tends to chase in high yield assets of emerging markets like India which in turn would strengthen the domestic currency and narrow down the trade deficit.

Indian Rupee: Indian rupee depreciated during the month of August and reached 4-month high of 61.95 however the currency was unable to sustain such high level and declined to close below the demand line of the upsloping trendline currently placed at 60.60. Further the currency had been trading within the rising channel line since May 2014, breach of the said pattern implies a bullish structural buildup. Minimum price target from the said pattern stands around 59 in medium term. Hence it seems selling pressure in USD is likely to persist.

Summing it up

Positives:

1. Bullish Broadening pattern in daily chart projects upside potential of 8500 in medium to long term.
2. Rising channel formation projects minimum upside of 8100 in near term.
3. According to Gann Theory positive momentum in the market might remain till mid October.
4. 10 year bond yield India seems to be on a reversal mode and might revisit higher level.
5. 10 year bond yield US breached crucial support zone and might test lower levels of 1.94%.
6. USDINR is facing selling pressure and sustaining below the trend deciding level of 60.60 would lead to further price appreciation.

Negatives:

1. Divergent situation exist as midcap and small cap Index underperformed the Key benchmark Index
2. Presence of negative divergence in oscillator and buy crossover in daily chart indicates Nifty to remain choppy in the forthcoming month.
3. Nifty remains stretched from its crucial moving average and potential correction of 1-2% remains.
4. Indian VIX is at its historical low level and pullback from present level might have a negative percussion in Indian equity market.
5. Projected Retracement level of 2008 initiate's resistance at 7950.
6. DJIA is near crucial resistance level of 17150 with potential negative divergence.
7. Presence of Symmetrical triangle formation in Dollar Index in weekly chart indicates that further upside in the currency remains.
8. Nymex crude testing crucial support level, any pullback in price might act negatively for Indian equity market.

To sum up Indian equity market started the month on a subdued note as geo-political tensions regained supremacy. Nervousness in Ukraine and Middle East dominated fears across global market with US President Barak Obama authorizing air strikes in Iraq which in turn impacted Indian rupee that dropped near five-month low on rising fund outflow and dollar buying. However on due course recovery in global market was attributable to reports on Russia ending its military exercise near Ukraine and the situation in Iraq too stabilized. Hence the domino effect of surge in US market was seen in the Indian markets too. Optimism stems from the fact that Crude oil weakened to below $ 102 and hence easing pressure on India's twin deficit as crude oil constitute major portion of India's import bill. At the latter end of the month, Indian equity market scaled new highs as Prime Minister Narendra Modi in his first Independence Day Speech addressed to the nation emphasizing the need for better governance and stressed the need to promote the manufacturing sector. Meanwhile no surprises were seen from the recently held RBI's monetary policy as the Central Bank prudently chose to leave the repo rate and CRR unchanged at 8% and 4% respectively. Sentiment in the market however remained jittery as the economic data were not so encouraging, CPI increased to 7.96% as compared to 7.46% the previous month, IIP data too came below expectation at 3.7% against previous revised figure of 5%. Presently it seems that persistent high inflation had been the major obstacle for the economy to take the growth path and hence the RBI's cautious measures. Market too seems to have interpreted of a lesser possibility of an interest rate cut. On the monsoon front situation somewhat improved owing to better rainfall in recent days reducing the overall deficit. The earning season so far has registered a substantial growth of 39%(YOY) at Rs. 62787 Cr in net profit (excluding Bank, NBFC & Oil Companies) for the first quarter of this fiscal. Net Profit margin also recorded an increase of 8% in Q1FY15. It seems the previous euphoria or hope rally of a better govt. has faded and in turn the rally has turned into an earning based. However the core issues such as loan growth, credit quality of banks, volume growth for consumer stocks and domestic order inflows for industrial companies were largely weak in 1QFY15. Foreign Institutional Investors too continued their buying spree as they perceive sub-par growth is bottoming out. Active participation by the mutual fund also helped the Indian Equity market to scale new high. Increasing mutual fund participation indicates that the retail investors might play an active role in the next leg of rally. Meanwhile RBI in its recently released Annual Report stated that the economy could grow in the range of 5-6% in FY15E with persistent high risk of inflation of 6% for FY16E. RBI though remains worried of the ongoing geopolitical tension and the sudden withdrawal of stimulus package by developed countries like US. Going ahead in the forthcoming month the ongoing meet by the global central banks at their annual conference in Jackson Hole would be keenly watched. However the recent developments are nearing a transatlantic gap in monetary policy. The world's two most powerful bank aren't exactly in sync as Federal Reserve Bank of US and Bank of England debates over raising interest rates while in contract European Central Bank and the Bank of Japan is considering of more stimulus. Market is likely to witness a knee jerk reaction of the impulsive route towards interest rate hike by the world's biggest economy US. On the technical front Nifty continues to surge higher and is likely to continue its upward trend in the forthcoming month condition being the domestic economy remains immune to global shock of geopolitical tension and interest rate hike by US. Nifty managed to sustain above the breakout level of 7800 led mostly by Oil & Gas and Banks, though Index remained choppy throughout the month but strength was visible at the latter end as Small Cal and Mid cap too joined the bash. Price action formed a sizeable bull candle with added higher high formation recovering the entire losses from the earlier start of the month. It seems that the Index is set to challenge its recent life time high of 7929 and is destined to move towards the 8100 in the near term. However on the oscillator front presence of negative divergence in weekly chart might maintain a negative outlook and the crucial resistance of 7950 stemming from the projected 138.5% retracement of the entire fall of 2008 might act as a crucial barrier for Index to head higher. Though the broader trend in the market would continue to remain positive due to the presence of expanding triangle in daily chart and hence buy on dip should be the ideal approach. The worst case scenario that can develop from the existing scenario is Nifty witnessing consolidation in price action and remaining confined within the newer trading range of 7650-7950.

Market Diary

BEST PERFORMERS FOR THE MONTH (CNX 100)

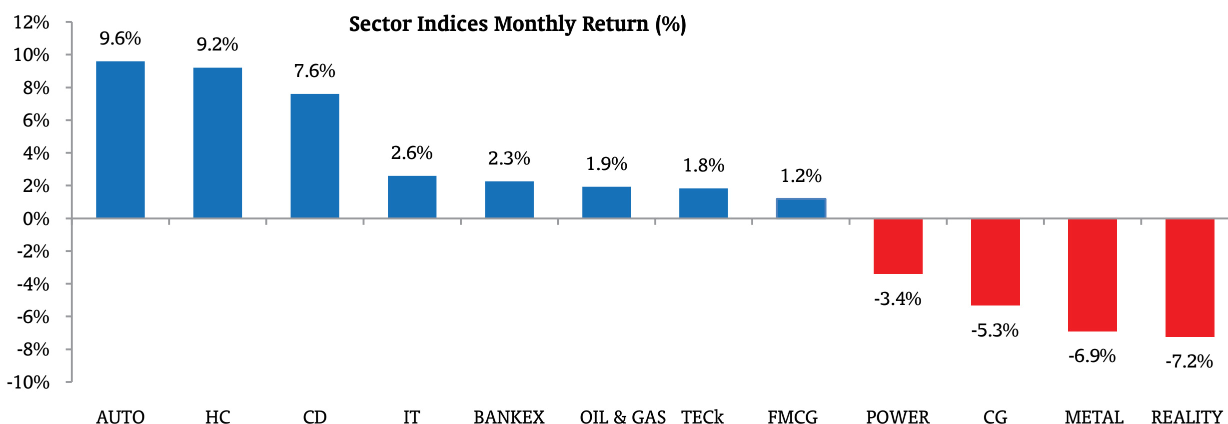
Sl No.	Co. Name	Cl. Price 25.07.2014	Cl. Price 25.08.2014	Var (%)
1	HINDPETRO	384.5	455.1	18.4%
2	ADANIENT	426.9	502.5	17.7%
3	M&M	1210.6	1411.4	16.6%
4	BHARATFORG	693.3	794.3	14.6%
5	CIPLA	445.7	508.0	14.0%
6	M&MFIN	238.7	272.0	14.0%
7	APOLLOHOSP	1029.7	1161.0	12.8%
8	BPCL	591.6	666.5	12.7%
9	DABUR	199.6	224.0	12.2%
10	MARUTI	2509.3	2810.1	12.0%
11	LUPIN	1129.9	1264.8	11.9%
12	GLENMARK	636.3	711.0	11.7%
13	BOSCHLTD	13257.6	14730.0	11.1%
14	KOTAKBANK	944.7	1041.0	10.2%
15	TATAMOTORS	461.1	507.5	10.1%
16	OFSS	3213.3	3533.5	10.0%
17	RANBAXY	583.1	640.4	9.8%
18	TATACHEM	340.8	373.5	9.6%
19	UNIONBANK	192.7	211.0	9.5%
20	ADANIPORTS	268.1	293.2	9.4%

(Source: BSE)

WORST PERFORMERS FOR THE MONTH (CNX 100)

Sl No.	Co. Name	Cl. Price 25.07.2014	Cl. Price 25.08.2014	Var (%)
1	HINDALCO	191.8	164.3	-14.3%
2	RECLTD	306.4	268.7	-12.3%
3	JINDALSTEL	283.2	249.9	-11.8%
4	TATAPOWER	100.7	90.3	-10.3%
5	RCOM	132.2	119.5	-9.6%
6	RPOWER	90.8	82.2	-9.4%
7	TATASTEEL	557.6	510.3	-8.5%
8	LT	1658.0	1520.1	-8.3%
9	COLPAL	1637.2	1508.7	-7.8%
10	DLF	204.8	190.3	-7.1%
11	SIEMENS	901.5	841.0	-6.7%
12	SAIL	87.5	81.6	-6.7%
13	RELCAPITAL	589.2	553.7	-6.0%
14	IDFC	155.0	146.6	-5.4%
15	ASIANPAINT	637.4	604.2	-5.2%
16	COALINDIA	377.0	358.7	-4.9%
17	NTPC	149.0	142.1	-4.6%
18	SSLT	292.3	279.4	-4.4%
19	PETRONET	184.3	177.0	-4.0%
20	TCS	2605.8	2521.7	-3.2%

Indices Performance 25.07.2014 –25.08.2014



Source: BSE

Commodities - Monthly Round up

"The secret of getting ahead is getting started"

Mark Twain

Crude Oil

West Texas Intermediate crude oil futures marked a fifth straight weekly decline during the month of August, a rare event to see and also the longest decline in past nine months. Ample global supply coupled with slack in demand for gasoline in the US spurred this bearish sentiment. Stronger Dollar also dampens this sentiment at large. It once hit a low of $92.50 which was the lowest price quote since January. The European benchmark crude that is Brent crude made a low near $101 at ISE exchange which again the lowest quote since June'2013. The American Petroleum Institute said in its monthly report on Thursday that US crude production surged to the highest in 28 years in July. Carl Larry, president of Oil Outlooks & Opinions LLC in Houston, said for Bloomberg: "The focus is definitely on the U.S. and on concern about demand as we head into the maintenance season. Everybody is wondering if demand will stay steady. People are reducing risk exposure now."

Further pressuring prices on the supply side, OPEC raised its crude output in July, despite geopolitical tension in some of its member countries. Iraq's output remained near record high levels as the country's southern parts, which account for most of nationwide production, were unaffected by clashes with the Islamic State in the north. Saudi Arabia, the Organization's top producer, had its output raised to 10 million barrels per day in July. Meanwhile, Libyan crude production also rose as the country managed to reopen its biggest export terminal Es Sider, among others, and loaded a second tanker. Albeit still below its 1.4-million-bpd levels from a year earlier, Libya's output are gradually rising, having reached around 610 000 bpd

Technical Analysis

Let's start with some bigger picture of the market. The weekly chart which is given below is showing that crude futures is just at its strong support zone of $92 but above all we can identify one Head & Shoulder Pattern which itself now carrying a bearish implication for the market. The neckline of the figure which is at $95.30 is now already taken out of the market and also got a close below that level which again signifies the breakdown. Now if the pattern holds out then the target of this bearish run can put it near $77. Our recommendation at this time is of course short in the market and if lucky enough then short it at its probable pullback which should end near $95.20 area and wait for the target. In between this $95 to $77 we got another good support level at $85 where we can have various swing peaks and troughs in the past, so in safer side if this figure validates our assumption then it's better to go for a partial profit near $85 and trail the stop loss at selling price. At initial the stop loss should be $101.50. Weekly RSI is also pointing out this bearishness as its now below 50 marks and also entering into bearish zone of 45. Long term moving average 200 Weekly simple, is guarding the way near $90.

In MCX, the market is now resting near a good support zone of 5600 but if our above assumption holds with not a great depreciation in INR then there is a plenty of chance that in MCX crude we are moving towards 5200 levels. We have already taken out a significant support zone of 5950 in the month of August itself, so already it's confirmed the bearishness.

Weekly Chart: WTI Crude Oil Continuous

INR

The continuous appreciation of the Rupee against US Dollar can be seen as the result of continuous fund inflow in India's domestic stock market and still there is no sign of abating of this trend. Even there is an expectation that global rating agency Standard & Poor may upgrade India's sovereign scale by a notch which will boost up this ongoing euphoria. Standards & Poor currently rates India as 'BBB', the lowest in the investment grade, with a negative outlook. Government bond yields are seen falling. The speculation of a rating upgrade is helping to attract foreign institutional investor's flows in bonds.

Technical Analysis

Last month INR was trading in a very narrow range after its July breakout. Weekly RSI is turning negative but still above 50 which is an indication of bullishness. As per support is concerned, we can mark 59.80 as a strong support zone which is the low of the weekly candle marked on 28th July'2014. Only a weekly closing below that support area can inflict bearishness to the market and if not then another upward journey can be seen in the market sooner rather than later. And this time the overall target will be 63.10. So here our recommendation is to go for long in USD/INR with stop at 59.30. It's always better if we can maintain the stop as weekly closing price basis as we are building up our assumption on the weekly chart.

In worst case scenario if our stop loss triggers and that is also in weekly basis then it will be quite clear that market will be then heading towards 57.30. So we are now opening our second recommendation that if our stop triggers based upon weekly closing then traders may take another risk by short in the market for a target of 57.30 pacing stop at 60.90.

Weekly Chart: USD/INR

World Economic Event Calender – September 2014

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
JN: Markit/JMMA Japan Manufacturing PMI CH: HSBC China Manufacturing PMI IN: HSBC India Manufacturing PMI EC: Markit Eurozone Manufacturing PMI UK: Markit UK PMI Manufacturing SA	US: ISM Manufacturing US: Markit US Manufacturing PMI JN: Monetary Base YoY US: Construction Spending MoM UK: Markit/CIPS UK Construction PMI	EC: GDP SA QoQ US: MBA Mortgage Applications US: Factory Orders EC: Markit Eurozone Composite PMI EC: Retail Sales MoM	UK: Bank of England Bank Rate US: Initial Jobless Claims EC: ECB Main Refinancing Rate US: Trade Balance US: ADP Employment Change	US: Change in Nonfarm Payrolls US: Unemployment Rate US: Change in Manufact. Payrolls JN: Leading Index CI
8	9	10	11	12
JN: GDP SA QoQ JN: BoP Current Account Balance CH: Trade Balance	UK: Industrial Production MoM JN: Tertiary Industry Index MoM UK: Manufacturing Production MoM JN: Machine Tool Orders YoY UK: Trade Balance	JN: Machine Orders MoM US: MBA Mortgage Applications JN: PPI YoY US: Wholesale Inventories MoM IN: Exports YoY	US: Initial Jobless Claims CH: CPI YoY US: Monthly Budget Statement US: Continuing Claims US: Bloomberg Consumer Comfort	JN: Industrial Production MoM IN: Industrial Production YoY US: Univ. of Michigan Confidence US: Retail Sales Advance MoM US: Import Price Index MoM
15	16	17	18	19
US: Industrial Production MoM US: Empire Manufacturing IN: Wholesale Prices YoY UK: Rightmove House Prices MoM EC: Trade Balance NSA	UK: CPI YoY UK: CPI MoM US: PPI Final Demand MoM UK: PPI Output NSA MoM EC: ZEW Survey Expectations	US: FOMC Rate Decision UK: Jobless Claims Change EC: CPI YoY US: CPI MoM US: MBA Mortgage Applications	US: Initial Jobless Claims US: Housing Starts UK: Retail Sales Ex Auto MoM US: Philadelphia Fed Business Outlook JN: Trade Balance	JN: All Industry Activity Index MoM US: Leading Index EC: ECB Current Account SA
22	23	24	25	26
US: Existing Home Sales EC: Consumer Confidence US: Chicago Fed Nat Activity Index	CH: HSBC China Manufacturing PMI EC: Markit Eurozone Manufacturing PMI US: Markit US Manufacturing PMI US: Richmond Fed Manufact. Index US: FHFA House Price Index MoM	US: MBA Mortgage Applications US: New Home Sales JN: Markit/JMMA Japan Manufacturing PMI	US: Initial Jobless Claims UK: Nationwide House PX MoM US: Durable Goods Orders US: Durables Ex Transportation US: Bloomberg Consumer Comfort	US: GDP Annualized QoQ US: Univ. of Michigan Confidence JN: Tokyo CPI Ex-Fresh Food YoY US: GDP Price Index US: Personal Consumption
29	30			
EC: Consumer Confidence US: Personal Income UK: Mortgage Approvals US: Pending Home Sales MoM US: Dallas Fed Manf. Activity	JN: Industrial Production MoM UK: GDP QoQ US: Consumer Confidence Index CH: HSBC China Manufacturing PMI IN: RBI Repurchase Rate			

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

Group Companies

Ashika Credit Capital Ltd.
(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

Ashika Commodities & Derivatives Pvt. Ltd.
(Member : NCDEX, MCX, NMCE, ICEX, NSEL, NSPOT & ACE)
CIN No. U51909WB2003PTC096985

Head Office
Trinity
226/1, A.J.C. Bose Road
7th Floor, Kolkata-700020
Phone:033-4010 2500
Fax No:033-22891555
Email: ashika@ashikagroup.com

Corporate Office
1008, Raheja Centre,
214, Nariman Point, 10th Floor
Mumbai-400021
Phone:022-66111700
Fax No: 022-66111710
Email: mumbai@ashikagroup.com

www.ashikagroup.com

design at aicl (info@aicl.in)