

GROUND VIEW



INDIA 2017

A DIGITAL LIFTOFF

ANNUAL EDITION

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Rosie Ferns

FOR EDITORIAL QUERIES

PhillipCapital (India) Private Limited
No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400 013

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phillipcapitalindiainstitutionresearch@phillipcapital.in

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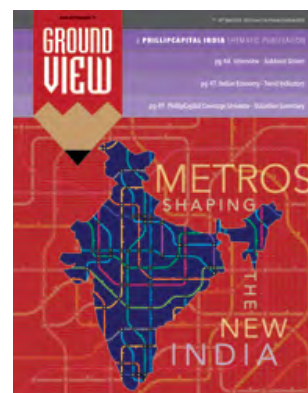
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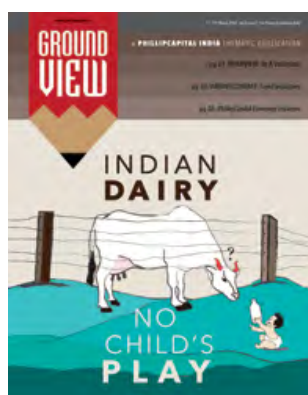
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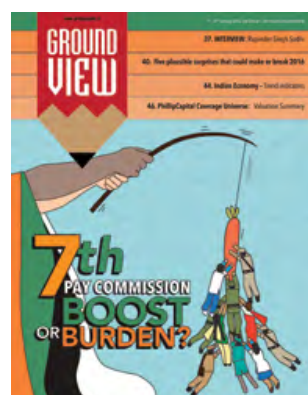
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This time it's different

I am really pleased and privileged to bring to you the 3rd edition of "Annual Ground View", which tries to identify and explore issues that will shape the year ahead.

The year 2017 has started on a positive note for the markets even as the political environment in India remains uncertain. The death of Tamil Nadu's matriarch and the political uncertainty in the most populous northern state of Uttar Pradesh will have long-term implications on the political stability of these two very important states. However, market optimism is stemming from the aggregate numbers represented by high-frequency indicators like automobile numbers, inflation, and IIP, which indicate a far lesser-than-perceived impact of demonetisation. There is also an air of optimism globally with commodities rallying on robust US GDP growth and China holding its course.

As the earnings base becomes more reasonable, it is quite likely that the corporate earnings growth trajectory will revert to the mean. Faster earnings growth on a low base can be transitory and sustenance of this growth is the key to valuations. India has had very limited periods of high growth rates and sustenance has been a problem. However, this time it seems more likely to be different. Demonetisation has induced more people than ever to become a part of the formal system. GST implementation in 2017 will provide more impetus to this conversion cycle.

For this year's annual edition of ground view, the PhillipCapital research team travelled across India to gauge the on-the-ground developments post demonetisation. The cover story "**India 2017: A digital liftoff**" explores the changing paradigm in India marked by businessmen planning for the long-term in the backdrop of game-changing digital initiatives by the government. All these are clear markers for a long-term sustainable growth rate. Also in the issue are stories from across sectors with interesting ideas like organized players gaining market share, fast changing landscape in financial services sector, growth of digital currency, or the changing face of the logistics sector amongst others.

Wishing everybody a very happy new year!

Vineet Bhatnagar



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By Naveen Kulkarni & Aashima Mutneja



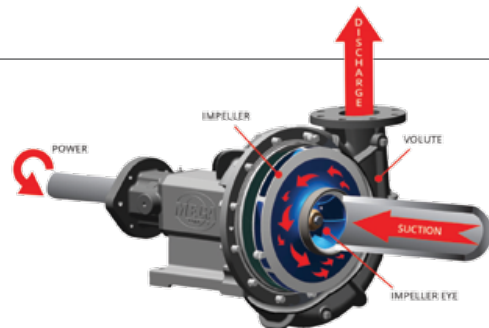
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INDIA
2017
— A —
DIGITAL
LIFTOFF

Turning the page on 'INCREMENTALISM'



2016 was more eventful than anybody expected. Political events in developed and emerging economies in 2016 will have far-reaching consequences in the years to come. Even as economic challenges were subdued compared to 2015, people around the world have become jittery espoused by events such as Brexit. More than the decline of liberalism, it is the flailing of incrementalism – in developed and developing economies. Incrementalism is something that people are wholeheartedly rejecting.

India has been the shining star amongst developing economies with a solid GDP growth rate, but here too, incrementalism is clearly flagging. The recent economically distorting event of demonetisation, which till date has been politically successful, is a testimony to the waning interest in incrementalism. The ruling party, BJP, has improved its chances in the upcoming assembly elections in the most populous state of India, Uttar Pradesh, according to a recently conducted opinion poll.

Apart from this, the party has been winning municipal elections across the country after demonetisation.

With demonetisation, incrementalism in India has taken many steps backwards and a new order is likely to emerge amidst the ensuing chaos and distortion. While the economic impact of the recent events is not very difficult to calibrate, the critical examination lens is social science – which has significant long-term ramifications.

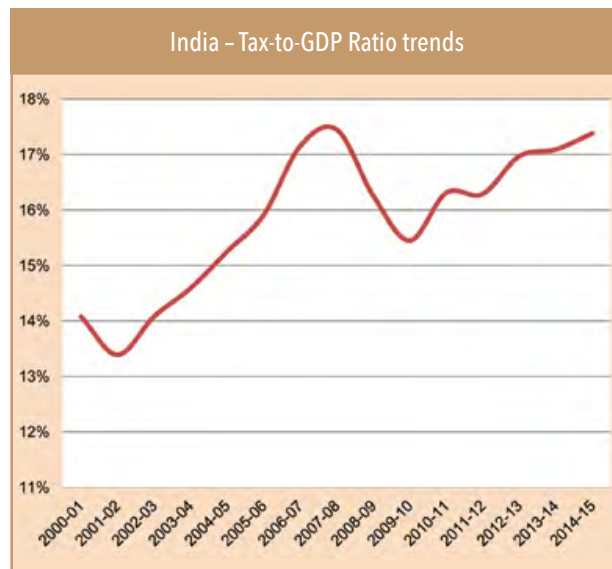
| Party | Vote Share % | |
|----------|-------------------------------|--------------------------------|
| | Pre-Demonetization (Oct 2016) | Post-Demonetization (Dec 2016) |
| BJP | 31 | 33 |
| BSP | 28 | 26 |
| SP | 25 | 26 |
| Congress | 6 | 6 |
| Other | 10 | 9 |

Source: India Today-Axis Polls <http://www.elections.in/uttar-pradesh/exit-poll.html>

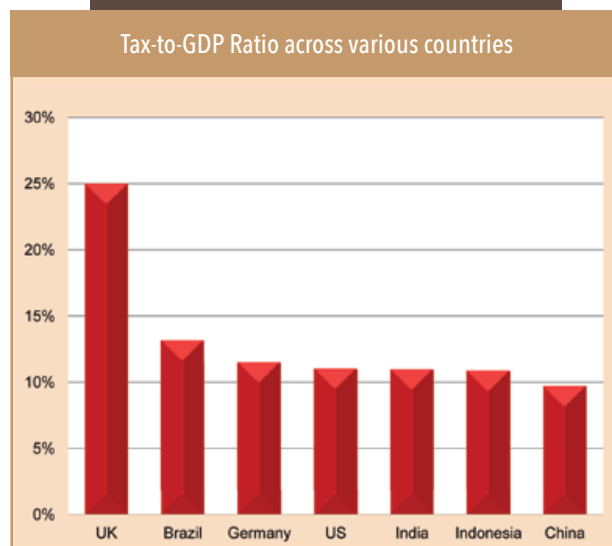
Demonetisation: A social experiment

The finance minister of India made a very interesting statement recently. He said “payment of legitimate taxes is part of a citizen’s duty and non-payment is visited with severe consequences. We’ve lived through the last seven decades in India under the impression that if avoidance (of taxes) could be done, there wasn’t anything immoral. It was considered commercial smartness. But some people were visited with very serious consequences”. This expression is a very poignant indication of the direction PM Modi wants take India in – by completely changing the social fabric of the nation with a multi-pronged attack on the ways Indians conduct themselves. India has most often been associated with the phrase ‘A Jugaad Economy’ (innovative shortcuts including bribery), ways and means of doing business that benefits only individuals or a particular group, but have negative long-term consequences for many. The jugaad mindset changes the ways of doing business, as long-term growth prospects dwindle, this mindset fosters rent-seeking behavior, which is not easy to change especially in India, a country of 1.3bn people – with one of the most diverse demographics in the world. A big shake up of the order was needed to change this mindset.

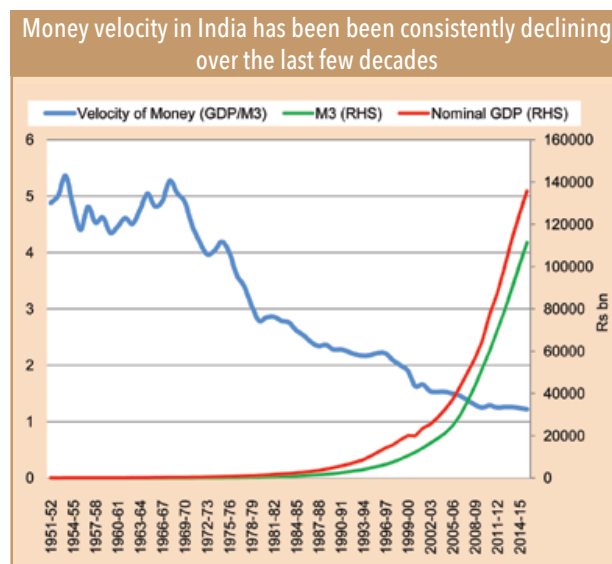
And demonetisation has shaken up this order in a big way. India’s economy is dominated by small-scale businessmen and traders. Smaller businesses compete on cost by evading taxes. Demonetisation has given this form of business a severe jolt. “Many people have migrated to selling goods with proper invoices. One cannot get payment without giving a proper invoice now” says Nilesh Jain, a garments manufacturer from Chennai. The scarcity of cash in the system and constant threat of tax authorities is forcing businessmen across industries to migrate to the formal way of doing business. Nilesh adds, “Demonetisation has gotten people worried enough and then there



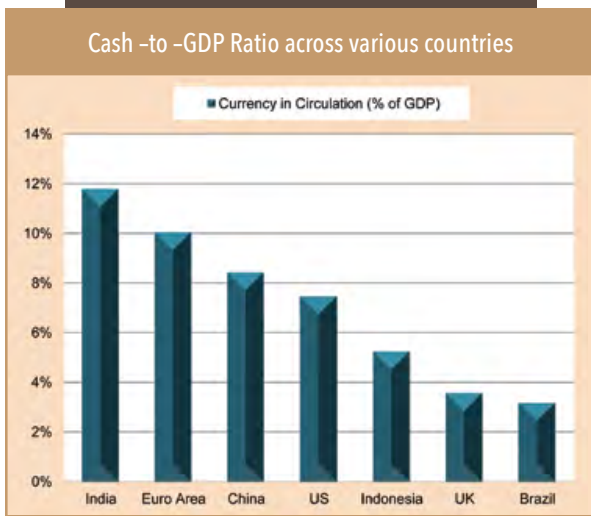
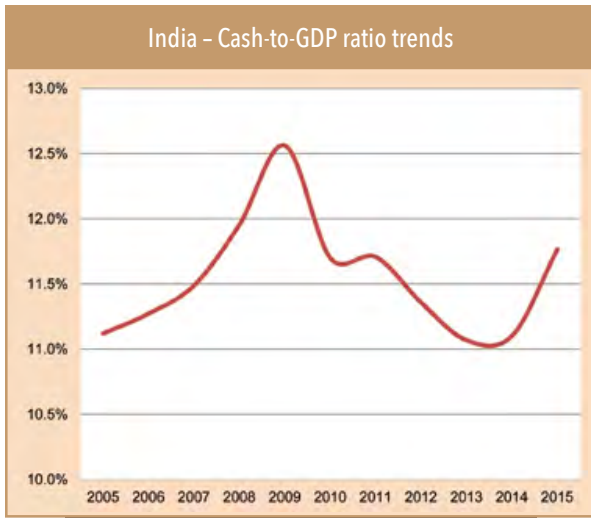
Source: Ministry of Finance



Note: India Tax-to-GDP ratio is as of CY13. Rest all countries data is as of CY14.



Source: RBI



is GST, which will be implemented soon. People are now reorganising their businesses to be more compliant.”

However, greater tax compliance is just one cog in the machinery. The big picture is one of financial deepening, which will translate to faster economic growth. Economic growth depends on efficiency of transactions, which is captured by velocity of money. India has had declining velocity of money for decades because of higher monetisation and faster growth of the informal economy. Cash creates friction, slowing velocity of money, and leads to greater leakages to the informal system. Reduction of cash in the system, complemented with digital currency is just the beginning of the 360° digital revolution being planned in India. Some tools are already in place, but after looking at the amount of planning done by the Indian government, many aspects of this ‘social experiment’ start making sense.

Digital currency is just the beginning

“Future toh digital ka hi hai – abhi POS machine ka order dia hai (future belongs to digital transactions, I have recently ordered a POS machine)”, says Rajesh Agrawal, a despondent wholesaler sitting in his vacant 10’X10’ outlet for electrical accessories in the otherwise bustling Parry’s wholesale market in Chennai, one of the biggest in southern India. Demonetisation has taken a toll on such cash-trading wholesale businesses in India. Rajesh is not the only one who has started thinking about doing business using cash substitutes. Penetration of PayTM, a private mobile wallet, has increased manifold after demonetisation.

The government of India is incentivising customers, retailers, and even farmers, to embrace digital currency. “I believe around 600-700mn people will start using digital currency in the next five years. Demonetisation has been a key trigger point for its widespread adoption,” says Mehul Desai, CEO of

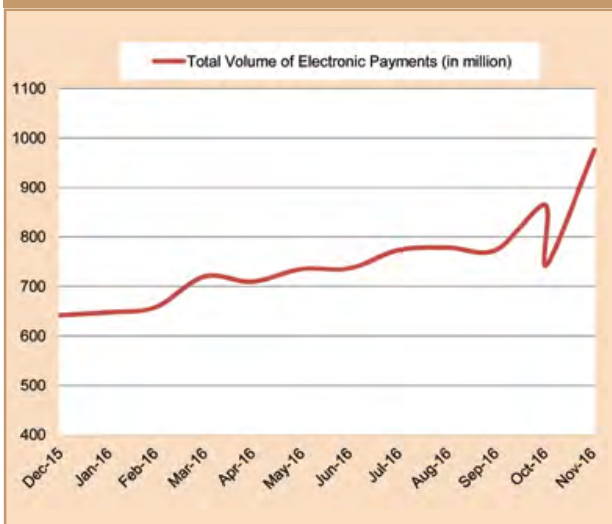


Dezai, a technology consulting company involved in providing strategic advisory in areas of ICT, payments, and innovation. Currently, 70% of total transactional value is through cash. When 600-700mn people in India start using digital transactions, most of the transactional value will move to digital currency. After demonetisation, the jump in number of e-transactions is 13%. Mehul says, "At a strategic level, the quest for cashless is about providing a framework that will go far and beyond the finance and retail verticals, transforming delivery of healthcare, education, and government services. As I have repeatedly stated, the journey towards a true cashless society will impact everything from the access to and cost of capital, to national security".

While the benefits of a widespread adoption of digital currency for the government are immense, the true benefits of digital currency for Indian citizens will actually come from the financial deepening that coming-of-age of digital transactions will bring. In the initial days of demonetisation, many vendors adopted payTM and other cash substitutes, but as cash availability in the system improved, the smaller vendors are increasingly going back to cash modes. This is because the long-term benefits of using cash substitutes are not clear to the small vendors.

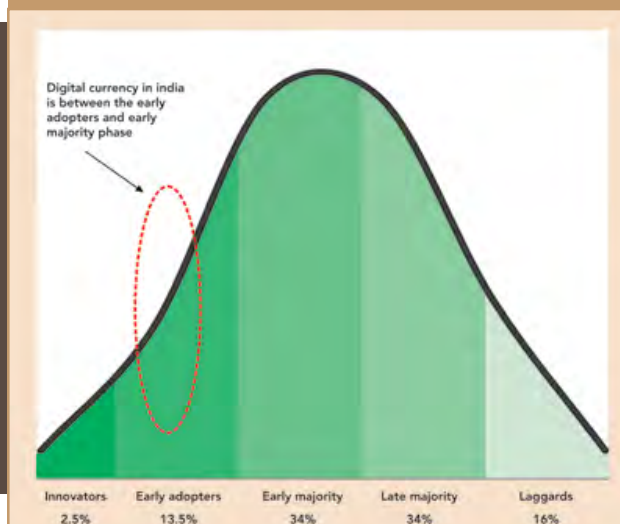
Apart from clarity on long-term benefits, any widespread adoption depends on satisfying an end-user need. For example, mobile wallet application on Uber works well because it satisfies a genuine end-user need, better than cash. The benefits of higher digital-currency penetration leading to financial deepening depend on end-user applications. This is an area where the government of India is actually making a quantum leap.

Growth of Digital Transactions

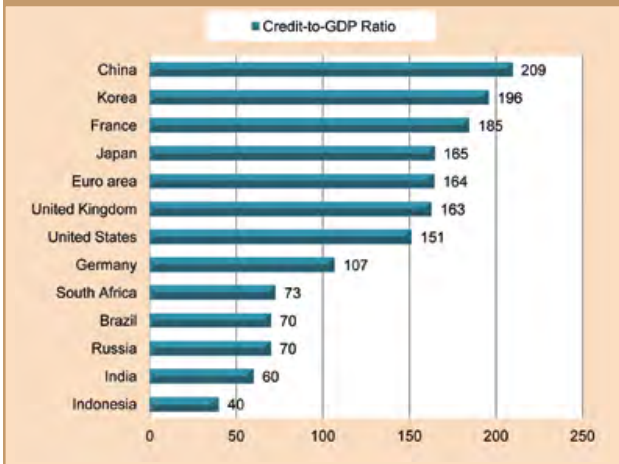


Source: RBI

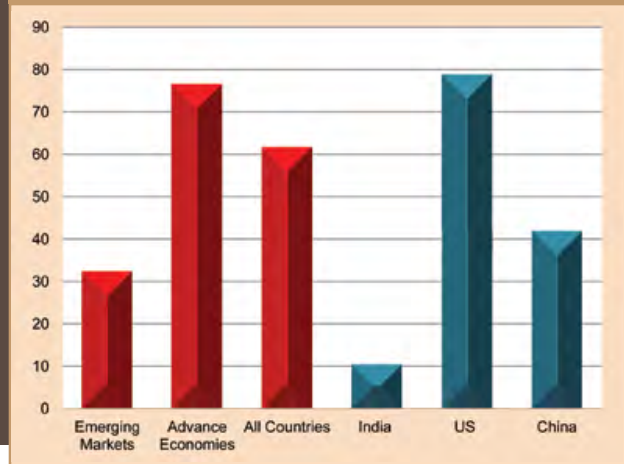
Diffusion of Innovation



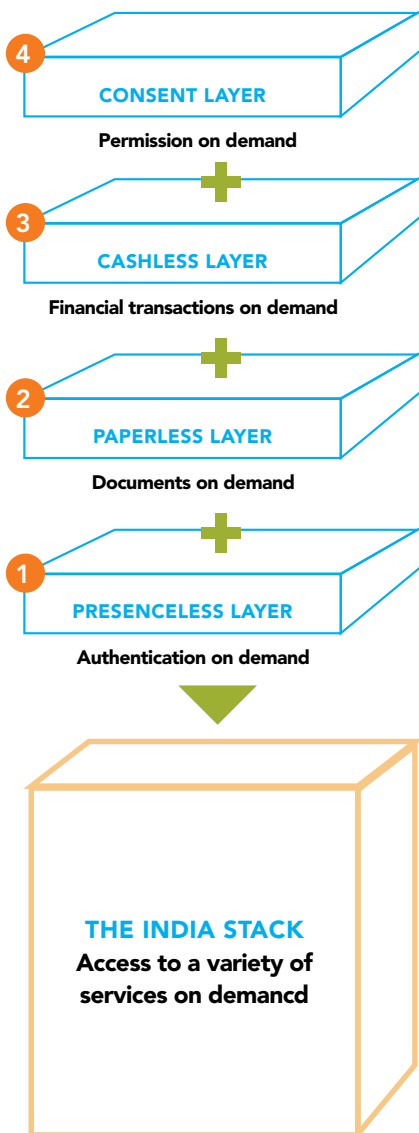
Credit-to-GDP ratio across countries



Comparison of Household Credit (% GDP) of India vs other countries



Source: Bank of International Settlements



So how does it 'stack' up?

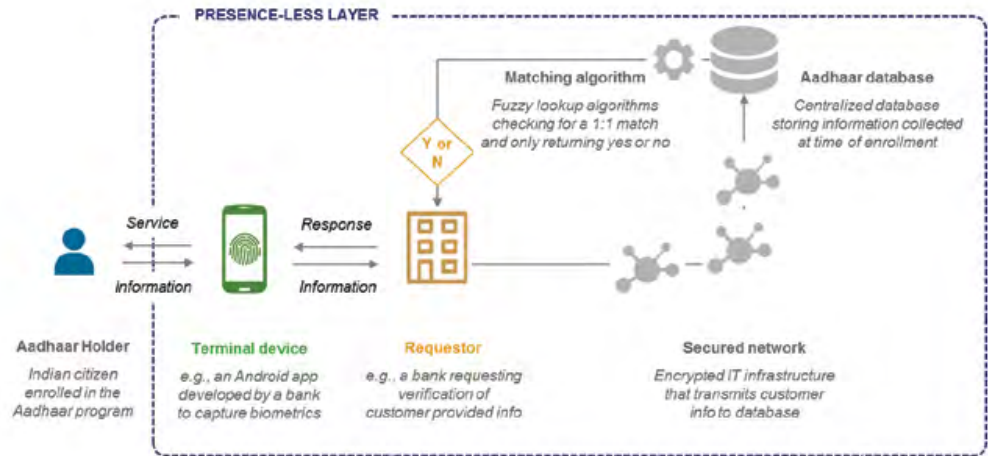
Financial deepening is one of the most critical parameters for acceleration in velocity of money and faster GDP growth rate. Financial deepening (indicators are credit to GDP ratio) reduces the demand for money as more people rely on the formal financial system. This creates higher efficiency and lower leakages into the informal system translating to both a larger tax base and higher GDP growth. India has one of the lowest household-credit-to-GDP ratios among major developing economies. One of the biggest problems for India has been establishing the identity of its people, as most identification instruments (except passport) have suffered from reliability. Enter Aadhar (means foundation), which is the starting point of the upcoming fintech revolution in the country. Aadhar's objective is to catapult India into an era where every resident has a permanent, unique, and secure digital identity. Currently Aadhar has issued more than a 1bn unique ids after verification of documents and gathering biometric data. The first step of establishing identity is nearly complete and since 2013, Aadhar is being used to make direct benefit transfers to 300 mn Indians.

After establishing the identity of the public at large, the real revolution can start. Using Aadhar as the backbone, one of the biggest initiatives of the government is 'India Stack' (most likely to be renamed). Through an open application programming interface (API) sitting atop the biometric-enabled Aadhaar system, the India Stack provides a way to build an entire digital world around a uniquely identifiable individual. The applications can be designed for desktops, phones, wearables, and pretty much any hardware one can conceive. This forward-looking vision is central to India Stack's philosophy. Typical examples of modern day platforms are Google's operating system Android or the government's GPS platform, which have spun an array of innovative applications.

The India Stack is comprised of four layers that perform "basic" functions and operate independently

1. Presence-less layer: Significant productivity gains

Modern day devices like smartphones can easily capture biometric information. An application, let us say a banking application developed on the India Stack platform, can capture biometric information from the device and along with the Aadhar number, it can verify the identity of the individual, which it can further process. Reliance Jio has been activating SIM cards based on biometric information of the individuals sent to the Aadhar cloud, which use sophisticated algorithms returns



(yes or no) for verification. After a positive verification, the Jio SIM card is activated within five minutes – a process that could have taken days earlier. There are significant produc-

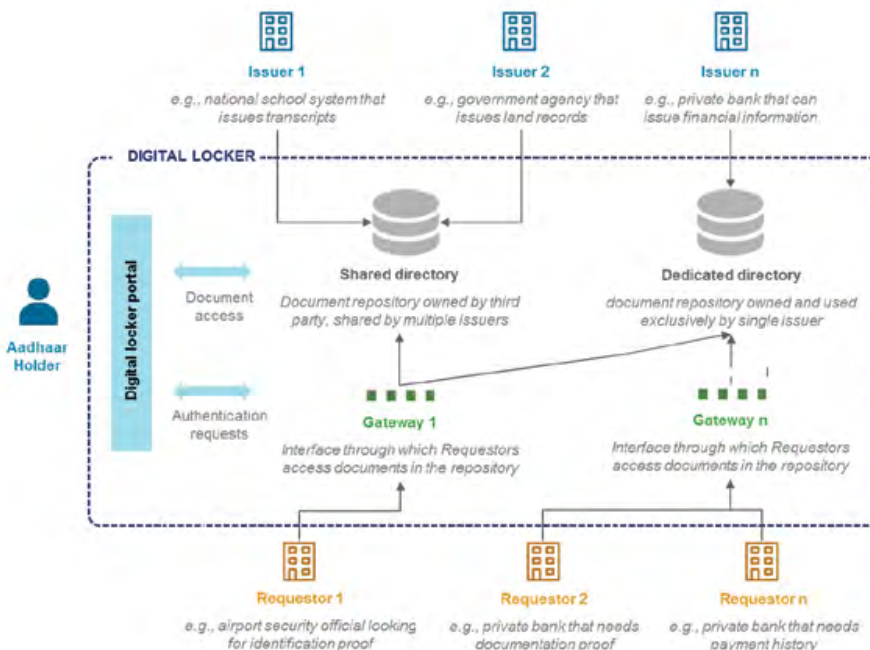
tivity gains to be extracted here but the true potential for these gains lie in how this layer interacts with the other layers of the stack.

2. Paperless Layer- Huge cost savings

Building on the digital presence-less layer is the paperless layer that focuses on eliminating the paperwork drag on productivity. It consists of two simple components: Digital Locker and Digital Signature. The Digital Locker links each unique Aadhar number to a set of digital documents that can be shared with

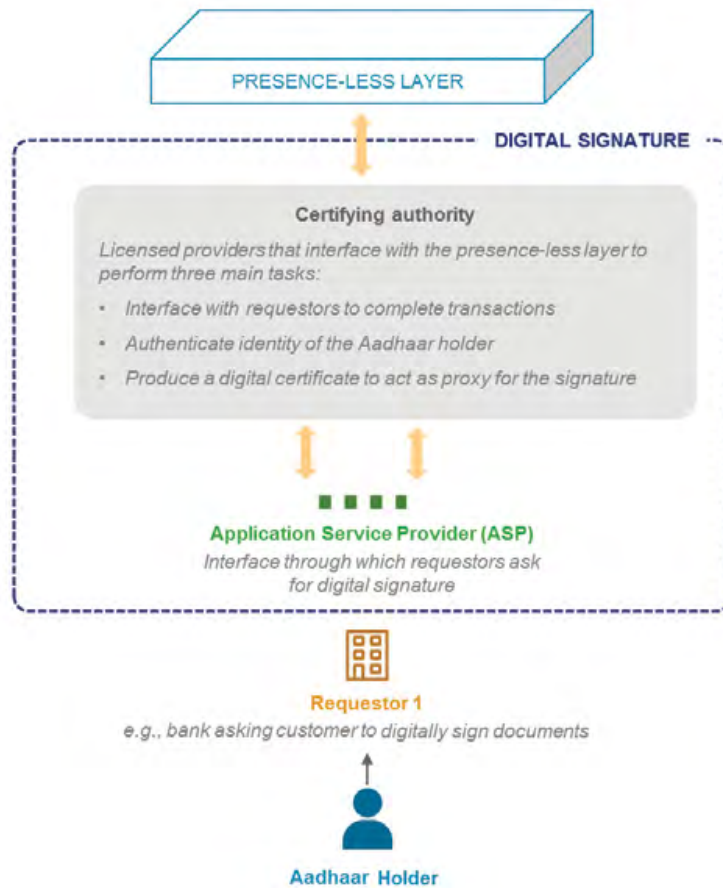
any entity that requests such information. Each of these documents will have a Document ID and a digital signature that assures the users of its authenticity and accuracy, while giving the owner the ability to control who accesses the information and for how long. The benefits of reduced fraud and admin-

istrative burden are obvious, and the government has already started offering the "proof of address" document bundle under its "e-KYC" banner. The second element of the paperless layer, Digital Signature, allows individuals to electronically sign a contract using the Application Service Provider (ASP) interface. The requestor of the signature (banks, insurance companies, etc.) will use an ASP to capture customer biometrics, which in turn will send these details to a certifying authority for identification. Upon authentication, the certifying authority returns a unique digital certificate, which serves as a proxy for signature. This entirely digital process offers individuals the flexibility to securely sign information anywhere, anytime. Key to watch: Emergence of proprietary third-party ASPs that provide document management solutions.



3. Cashless Layer: Reducing friction in the system

The Cashless Layer of the India Stack consists of the powerful Unified Payments Interface (UPI) system that empowers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing, and merchant payments – into one hood. Without deep diving into the complex technical architecture that underlies the UPI system, for all practical purposes, think of UPI as an instantaneous payments bridge between any two entities. The benefits of a world where all financial transactions take place instantaneously are profound, and when combined with the digital locker (that helps logging and storing of these transactions), the opportunities are limitless.



Source: <https://medium.com/wharton-fintech/the-bedrock-of-a-digital-india-3e96240b3718#f1mulkaj1z>

UPI - Benefits to the ecosystem participants

BENEFITS FOR BANKS:

1. Single-click two-factor authentication
2. Universal application for transaction
3. Leveraging existing infrastructure
4. Safer, secure, and innovative
5. Payment basis single / unique identifier
6. Enable seamless merchant transactions

BENEFITS FOR END CUSTOMERS:

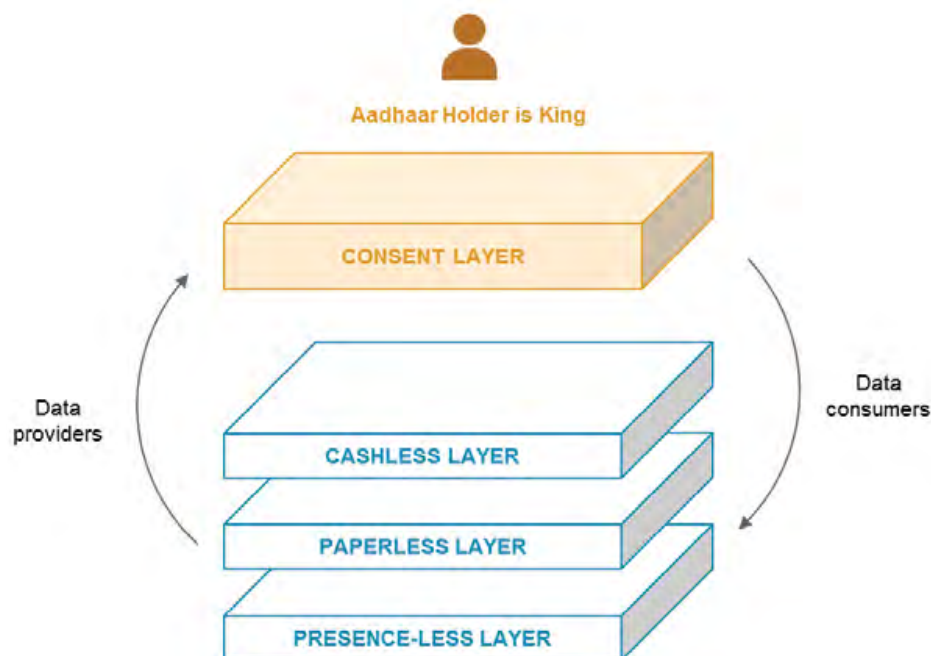
1. Round the clock availability
2. Single application for accessing different bank accounts
3. Use of virtual ID is more secure – no credential sharing
4. Single-click authentication
5. Raise complaint from a mobile app directly

BENEFITS FOR MERCHANTS:

1. Seamless fund collection from customers - single identifiers
2. No risk of storing customer's virtual address like in cards
3. Tap customers not having credit/debit cards
4. Suitable for e-Com and m-Com transaction
5. Resolves the COD collection problem
6. Single click 2FA facility to customer - seamless pull
7. In-app payments (IAP)

4. Consent Layer: Expanding horizons

While the technicalities behind the consent layer are still being worked on, the concept is to offer individuals the ability to share specific data about themselves from the layers covered above. Access will be provided in the form of consent tokens that are time-bound and identity-verified. This ability to create a digital world around every individual and then offering them the flexibility to choose how much of the information they would like to share provides a foundation for many disruptive opportunities in the future, especially in the financial services sector.



Indian Financial Sector: Poised for digital disruption

JAM (Jan Dhan Yojna, Aadhar, and Mobile) forms the foundation of the Indian Stack. While the benefits of Aadhar-based programs are well documented, Aadhar, combined with the other two elements, offers a plethora of disruptive opportunities for the government as well as private players. Higher productivity, lesser frauds, and increased transparency will lower transaction and customer-acquisition costs. With reduced costs, minimum ticket size will come down, volumes will increase, and customer segments that were previously excluded from the purview of financial transactions will now be tapped.

Take for example the case of a small-street vendor who does not have a bank account or any credit history, but is in need of a small loan. In today's banking model, and given the sales/servicing cost associated with a small loan, it is

highly likely that the vendor will be denied any loan options. However, with the introduction of a stack, this vendor, with the help of Aadhar/e-KYC, can share his details that are stored in a digital locker through an Authorisation API. The lending entity can then offer loan options through another credit-marketplace-based API and the vendor can accept the best offer via a paperless contract using the Digital Signature format and perform all subsequent transactions - receive loans, sell goods, repay loans - via the cashless UPI payment systems.

Disruptive Risks offer big opportunities

Disruptions provide a great opportunity to generate returns, but on an average, equity markets and portfolio managers loathe disruptions. This is because disruptions are marked by significant increase in portfolio risks, but the earnings potential remains elusive. Also, disruptions first cause damage

to the existing order and businesses where investors have significant positions. Most fund managers surveyed by Ground View sounded negative about the growth prospects in the medium term. However, increasingly, the consensus seems to be moving towards a conclusion of "recovery is not very far". This means portfolio managers are likely to start adding risk. However, the key question will be what types of risks to add to portfolio:

- Margin risks, which have increased significantly as greater compliance means higher costs
- Demand destruction versus demand deferment risks
- Need for solid data or picking on observational trends

All these are very tricky plays, but they also present significant opportunities.

India Equity Strategy: Calibrating beta

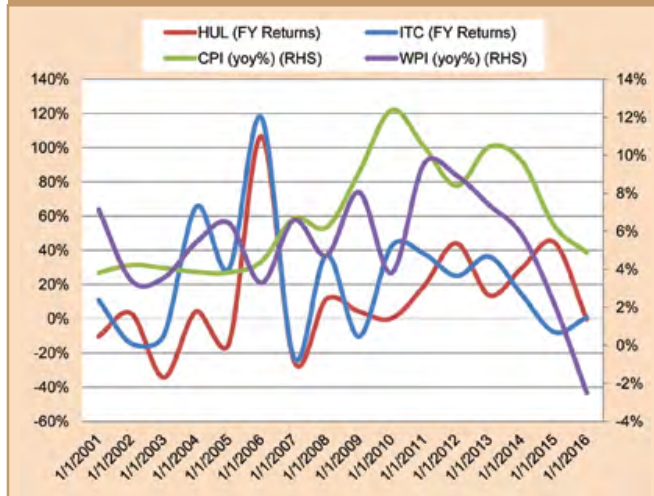
The biggest question that portfolio managers today are contemplating is how much risk or beta to add to an equity portfolio for 2017. With an impending digital revolution in India as a backdrop, an equity strategy should also take into consideration the improving global scenario – which provides room to add beta. The portfolio for 2017 should have a balanced approach as India GDP growth rate is unlikely to accelerate unless household GFCF, dominated by construction, picks up. Meanwhile, rising system liquidity will continue to discount earnings further into the future. Another key variable for the year will be the implementation of GST, which will bring structural efficiencies as well as challenges for companies across sectors. 2017 is likely to be a year where companies that show visibility or improvement in earnings-growth trajectory are likely to be re-rated.

PhillipCapital India's key equity themes for the year 2017 are as follows:

Pricing power to be key: 2017 will see a slowdown in GDP initially, but inflation could rise. Globally, inflation is rising and India has a higher sensitivity to commodity inflation. Apart from global inflationary headwinds, domestic inflation could also increase because of supply-side shocks. In this environment, pricing power is a key factor. Consumer staples and tobacco typically have higher pricing power and allocation to these sectors will rise over the medium term.

Informal to formal sector conversion is set to accelerate: The economy has seen demand destruction in categories characterised by cash transactions. With weakening of the cash dominated channels, the informal sector has started losing market share. Categories with a rather large informal channel include plywood, jewel-

Consumer Staples - Best hedge against inflation shocks



Steel Prices (\$/ton)



Aluminium Prices (\$/ton)



Brent Crude Prices (\$/bbl)



Zinc Prices (\$/ton)



Copper Prices (\$/ton)



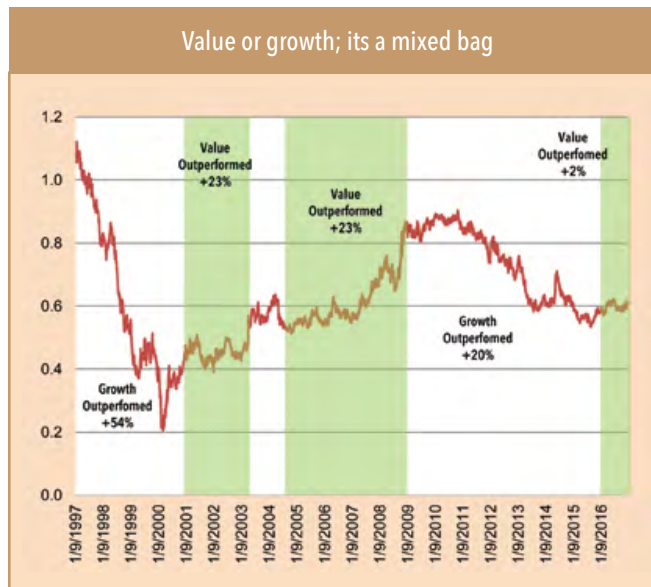
Gold Prices (\$/oz)



ry, building materials, food, paints, and household products such as detergents. Another key trend is – migration of informal lending in real-estate industry to the formal industry. Housing finance companies have seen a marked increase in transactions in lease-rental discounting. Among the whole host of categories that are likely to enjoy the benefits of a migration to the formal industry, financial services, paints, and some building materials such as plywood or tiles show the most potential.

Playing commodities: Another way to play the inflation cycle is with plays related to mining and agri commodities. The government's focus clearly will be on the rural economy over the next two years – in the run up to general elections. Farm equipment and agri inputs will typically find a fit with this theme. Global commodities have just started doing well with structural developments of improving US GDP growth rate and policy focused towards infrastructure spending. If China continues to hold, which is very likely, commodities will continue to do well. Steel, oil, zinc and aluminium should perform well.

Financials with low-risk strategy: Financial sector is clearly the biggest beneficiary of the government's initiatives, but



the benefits will accrue over the longer term. In an expanding economy marked by moderate degree of inflation, financials outperform. But 2017 is likely to be a mixed bag with the first half likely to see slower growth, while the second half will see an acceleration of growth. One key variable is inflation, which depends on multiple factors. Interest rate cuts are likely to be deferred, but the second half of the year could see some rate cuts. In this environment, calibrating the risk from financials is very critical. Housing is very likely to pick up significantly in the second half of the year. Housing finance companies and private banks typically offer well-calibrated beta in this environment. Some high-quality PSU banks could also gain in the current environment.

Value or growth; it's a mixed bag: At this point, value versus growth is almost a trick question. If the assumption is clear that economic expansion is given, then system liquidity will push fund managers to discount the short-term and focus on the long-term – which will be dominated by value. Typically, in a high expansionary GDP-growth cycle, value outperforms. However, such scenarios are seldom clear and risk appetite of investors changes with time. With a mix of higher liquidity and slower growth, typically growth companies re-rate. At this juncture, traditional growth sectors like pharma and technology are facing structural headwinds, which leaves consumer and the private banking space to play growth. Value plays are likely from commodities sectors, which have global developments and visibility. Pure valuation plays with no visibility of earnings or sustainability of margins are likely to underperform, which will include weaker PSU banks.

TURBULENCE UP AND TAMILNADU

DELHI DIARIES



If the new year has started on a gloomy note, it is with some justification. As if the effects of demonetization were not enough, two of India's most important states – Tamil Nadu and Uttar Pradesh – are witnessing deep and wide political turbulence.

Tamil Nadu is India's most urbanized state, surpassing both Gujarat and Maharashtra, according to the Socio Economic and Caste census of 2011. Of the total households in the state, more than 42% are in urban areas. The even spread of small, medium, and major towns, migration of people from rural areas in search

of employment, the presence of industrial estates in all districts aided by a massive land bank of the state government, zero labour problems, superb roads, and most of all, a bureaucracy that is responsive – have all contributed to propel Tamil Nadu to become a front-runner in well-administered states. True, it is not a model of democracy – it is more like a guided democracy. But if you are poor, the state takes care of you from cradle to grave. There is a degree of continuity in policy regardless of the complexion of the party in power.

Nevertheless, with the dawn of 2017,

all that is threatening to change. As Chief Minister, All India Anna Dravida Munnetra Kazhagam (AIADMK) leader Jayalalithaa was both the chief executive of the government and the political leader of the party. She had an elaborate intelligence-gathering network that kept her abreast of political developments in the state and enabled her to preempt threats. One example was the way she threw out the relatives of her companion Sasikala Natarajan from her residence in 2012 because she got reports that she could be tainted by association in their corruption.

Dinodia Photos / Alamy

Now Tamil Nadu has a Chief Minister – and a party chief: and they are different people. In politics, it is extremely difficult to balance two poles of power. Already, there is clamour that Chief Minister O Panneerselvam, whom Jayalalithaa had appointed as her proxy, should step down and Sasikala be appointed CM. Politics is about playing one off the other to ensure your interests and investments are safe. Ministers and MLAs know this well.

Then there is the issue of corruption. In the past, ministers were so mortally scared of being found out by Jayalalithaa that rent-seeking was done only with her knowledge and complicity. Now, however, there is no fear any more. Panneerselvam may be Chief Minister but he can do nothing without the go-ahead of the party chief Sasikala Natarajan. And if AIADMK is seen as enriching itself at the expense of the little guys in the state, it will be pushed down a hole it will find hard to clamber out of. Jayalalithaa managed to reach where she did because she was ruthless. Her successors are simply not capable of that order of ruthlessness.

All this has grave implications for those invested in the state. Tamil Nadu worked for investors – there is no auto company in India that is not in Tamil Nadu – because the bureaucracy and the political leadership worked in tandem and with efficiency. Is that going to continue to be the case? Suddenly, leaders we had not heard of before – like Nanjil Sampath who was given an Innova car by Jayalalithaa; or Thambidurai, an otherwise senior leader but not one who spoke much – have started talking. They have an opinion, a point of view. Will Sasikala listen to them? Or simply ignore them? And if she does, doesn't she do it at her peril?

A state that was known for its solidity, its predictability, and policy continuity suddenly looks fragile and frail. With a Chief Minister who is seen as effete, charges will start being voiced against him that he cannot protect the interests of the state adequately. Just wait for it.



Up in the north, Uttar Pradesh (which if it had been a country, would have been the world's sixth biggest) is also undergoing massive tumult. Some of it is natural, ahead of the assembly election which must be completed before May 2017. But at the heart of family war that has broken out in the Samajwadi Party between Chief Minister Akhilesh and father and uncles Mulayam and Shivpal, lies the war-chest of treasures associated with being in government: money, power, and the capacity to 'get things done'.

It is now clear that despite his best efforts, and with all the power at his command, Akhilesh is not his own man. The real power lies with Shivpal, till recently his PWD minister, and Mulayam's second wife, Sadhana, who believes her son (from Mulayam), Prateek, is the real heir to Mulayam and that Akhilesh is just an imposter.

Then there is a huge clan to manage –

where the only profession seems to be politics. With no other means to earn an income, politics involves getting and giving contracts. This makes it imperative not just to come to power but to stay there. And various members of the Yadav parivar are invested in various factions of the Samajwadi Party.

Akhilesh himself has spent a large part of his tenure as CM creating opportunities via a roadway system. He has succeeded to some extent – and this will be one factor in the political evaluation of the 75 lakh first time voters who will join the electorate in 2017. Many of these young voters are Akhilesh admirers – secretly wishing they could stand up to their elders in the family. Another set believes whatever he may say, Akhilesh will ultimately always stand with his family – and never for ordinary people. In real terms, this translates as protecting those policemen who may have refused to take action against a fellow Yadav, or committed atrocities against dalits.

In order to protect himself, Akhilesh is trying to take a leaf out of the book of Vishwanath Pratap Singh – get external arbiters to adjudicate and get his family out of his hair. So doing a deal with the Congress is a possibility. But then, the 'leader' of the Muslims in SP – Azam Khan – is there to prevent this from happening. For he knows that if Akhilesh and Congress tie up, the Muslims will leave the Samajwadi Party and more to the point, his leadership, and decamp to the alliance. In that scenario he will lose his source of power.

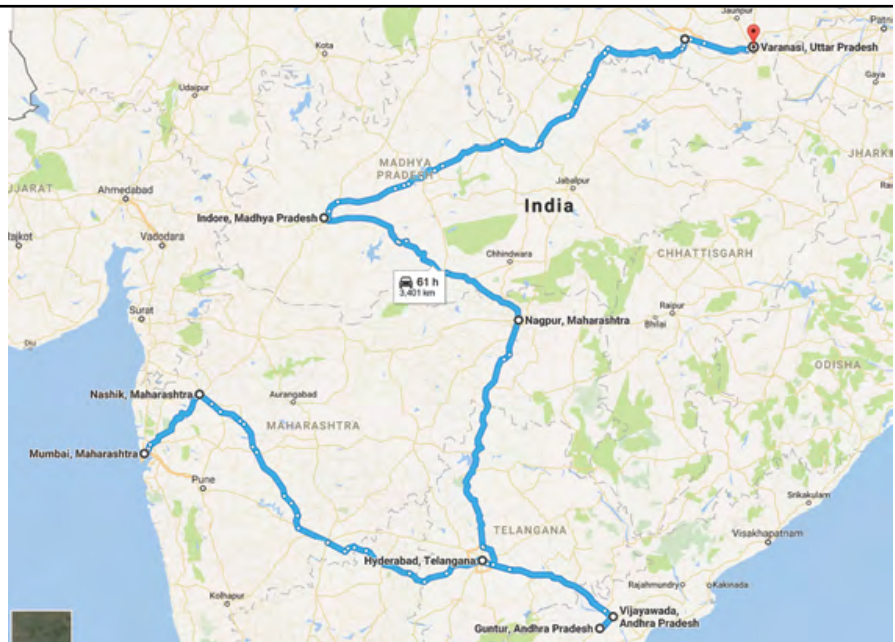
Everything, they say, happens for the best. But with UP and Tamil Nadu both facing severe political uncertainty, it is hard to see how this can be for the best!

Sombre mood, recovery on tenterhooks

GV started its journey from Vijayawada (the business capital of Andhra Pradesh) and in all, covered nine regions in three states to understand the current mood and gauge the outlook. After demonetisation, the mood has been sombre and seems to have further deteriorated in December. Impact on sales has not just been due to shortage of cash, but also weaker consumer confidence taking a toll.

Customer profile and product basket differentiates OEMs: Demonetisation impacted the entire automotive sector across categories. The 'post-demonetisation crisis' or liquidity crunch also brought to the fore various strengths and weakness of the OEMs, which offset the winners from the losers. To gauge the impact on OEM performance under pressure, GV looked at customer profile, product basket, and reach.

OEMs with higher exposure to the middle and salaried class, and the fleet segment fared significantly better than OEMs exposed to more rural areas and the business community. The range of products offered (catering to different consuming segments) also determined the impact. It is widely believed that the penetration (across OEMs) of financing would act as a good hedge to direct cash sales and hence lower the demonetisation impact. However, the actual LTV in a few categories showed up the dangers of believing in generalisations. GV observed that OEMs with higher finance penetration but lower LTVs saw a bigger negative impact on volumes than others. Case in



Places covered: Hyderabad, Vijayawada, Guntur, Indore, Nagpur, Nashik, Mumbai, Allahabad and Varanasi

"When the going gets tough, the tough gets going"

point was UV sales – which were dented significantly (M&M negatively affected).

Ticket sizes of various products also mattered. Products at the bottom-end and top-end of the pyramid took the biggest hit. The highest impact was on entry-level 2Ws and higher-end cars. The impact on 2Ws was largely because of the cash crunch. For higher-end cars, lower consumer confidence and business sentiments will elongate recovery. The extent of the impact was visible from Toyota's hefty discounts (after demonetisation) on its recently launched Innova Crysta.

Its product range and target segments played an important role in determining the impact on an OEM. Players like Maruti and Royal Enfield (RE), which

have larger waiting periods for their products, are likely to see a lower impact. While waiting has reduced sharply for them too, it is not enough to impact their sales. Lower waiting periods are a function of cancellations and lower bookings.

Recovery might take at least a quarter: Most dealers expect recovery to begin in February-April, as (1) cash circulation normalises and (2) on expectations of a union budget aligned to boost consumption. With Rabi (winter crop) sowing 6% higher yoy, and strong farm incomes in the recent Kharif season (monsoon crop), rural consumption is bound to recover soon. Innovative financing schemes are something OEMs and financiers have started offering in an endeavour to lure customers.

“We have sharply cut our wholesale orders for January 2017 as we are sitting on very large inventory,”

-Says an Andhra-based M&M dealer; similar feedback from a couple of other M&M dealers in central and western India.



A rural Hyundai dealer with huge inventory and sharp dip in sales

| Model | Expected E&S Price* | Total Benefits* |
|--------------|---------------------|-----------------|
| WAGON R AMT | ₹5.10 | ₹80,000 |
| CELERIO AMT | ₹5.87 | ₹70,000 |
| ALTO K10 AMT | ₹4.28 | ₹72,500 |

Maruti's local newspaper advert trying to lure customers highlighting impending price hikes. Do note the emphasis on credit-card payments

Nissan emphasising down payment financing in its advertisement

Passenger vehicles

UVs – vast impact, high system inventory: Higher priced vehicles, mainly UVs, have seen a sharp decline in bookings. A couple of M&M dealers said they saw 50-60% declines in volumes in December 2016, even worse than November. “The key reason for a sharp fall in M&M’s sales is because 60-75% of the customers are politicians, businessmen, traders, or are in agri-related businesses – their income stream is largely cash denominated,” one revealed when probed. Nearly all of Scorpio/XUV500 customers are highly vulnerable to demonetisation and about 60% of the rest of M&M’s portfolio constitutes customers with large cash income streams. While more than 70% customers opt for loans for financing, loan amounts in case of UVs are very low. For example, a businessman or politician buying an XUV500 worth Rs 1.6mn would usually take a loan of Rs 0.5mn and pay the rest (Rs 1.1mn) upfront and in many cases cash. Demonetisation has not only affected these customers due to a cash crunch, but also shaken consumer confidence, especially in high-ticket items. Even Maruti’s recent blockbuster launch – the Vitara Brezza – has seen waiting periods fizzling out to about four months in some areas (from about eight months before demonetisation).

Passenger cars – marginal impact, Maruti doing well: Among all OEMs, Maruti has come out virtually unscathed due to its strong product portfolio, reliable brand, lower ticket size, increased sales to Uber/Ola, and higher proportion of salaried/government employees as customers. Maruti dealers highlighted that footfalls were down 30% in November 2016, but nearly normalised in December. Bookings too have nearly stabilised, but Vitara Brezza’s waiting has come down to four months (from eight) due to cancellations. **Maruti dealers said that inventory in the system is still low at 20-25 days; waiting period in Vitara Brezza and Baleno provides a cushion, which should lead to smooth sailing for Maruti**

Discounts only marginally higher, down-payment funding a theme in PVs: Despite demonetisation taking a toll on sales, discounts have only marginally increased – that too mainly due to the December phenomenon. All OEMs seems to believe that higher discounts will not be able to prop sales, as they see demand improvement only after cash in the system increases. However, OEMs were giving higher exchange benefits, considering the year-end phenomena. Financiers have started financing down payments –the customers can pay the down payment amount to the financier three months after vehicle delivery at a nominal interest rate of 2%.



Two wheelers

Immense pain- 100% LTV schemes introduced, but in vain: Two-wheeler dealers have seen a 30-50% sales dip – Bajaj’s dealers were better off in terms of inventory, whereas Hero’s dealers were bloated with inventory. The rural segment has seen sharper cuts, while the urban demand is still holding off.

Hero Motocorp - Bloated inventory: Hero dealers expect a 30-40% dip in bookings, more so in rural areas. Sounding sombre, they said inventory is as high as three months in a few cases. They expect to see wholesale impact in the near-term for Hero Motocorp, as it tries to normalise channel inventory. While they expect some improvement from January 2017, as the company’s financing arm recently launched 100% LTV financing, past experience suggests this does not lead to any material improvement in sales.

Royal Enfield- Mixed reviews: The feedback for Royal Enfield was mixed – urban dealers said they experienced no impact on sales, while rural dealers said they saw a sharp dip in their sales. A RE dealer in Vijayawada said his sales decreased to just 40 units in December 2016 from 120 units in October 2016; he also said that Classic 350 which earlier had a waiting of three months is now available off the shelf in certain colours. A large RE dealer in Kerala (RE’s biggest market) said his sales dropped to under 300 units in December (from 450+ units in October) and that mainly his rural portfolio was dented. In general, RE dealers were the most upbeat about a swifter recovery in demand and believed wholesale impact on the company would be smaller as waiting period in few states would provide a cushion.

Bajaj Auto: Bajaj’s rural/semi urban segment took a big hit. A large dealer said his sales fell to 600 units from ~1500 units between October and December. “Hamara rural side mein kaafi impact aaya hai, urban bhi slow hai but rural se better hai (my rural sales are affected quite a bit; urban is slow, but better than rural),” he said. Bajaj dealers were also apprehensive about the timing of new launches, given the demonetisation impact. “New launches ka timing thik nahin hai, product aache hai but market supportive nahin hai (the new launches time is not appropriate, the products are good but the market will be unable to support them now),” a dealer said. However, dealers also said that channel inventory is better (at 1-2 months) than other OEMs.

High inventory in showrooms across OEMs



Hero MotoCorp’s advertisement highlighting 100% LTV scheme by Hero Fincorp

Tractors

GV met with tractor dealers in Guntur, Varanasi, Gujarat and few parts of Maharashtra. While demonetisation has taken a toll, dealers are relieved by the fact that December to February is a lean season for tractor sales. "Abhi toh off season hai. Season March se chalu hoga, aur tab tak situation normal ho jayegi (It's off season now. The season will start from March and by then things will be back to normal)," says a Gujarat-based M&M dealer. Demonetisation has affected sales as they majorly are cash based (down payments). However, flexibility from dealers in accommodating farmers has helped manage sales. A few dealers said they even helped farmers open bank accounts, deposit cash, and transfer funds to ensure continuity of sales. Few also offered credit periods for down payments. "Farmers ke paas paisa hai par bank account nahin hai. Hum unke liye account khol rahe hai aur line mein lag kar paisa bhi deposit kar rahe hai (Farmers have money but no bank accounts. We not only opened accounts for them, we also stood in line and made deposits for them)," said a Maharashtra-based Escorts dealer who asked his employees to focus only on managing and helping farmers use their cash for tractor sales.

Good kharif farm income and rabi sowing sales are likely to revive demand sharply from March 2017. There is also an expectation in rural areas that the budget would provide many SOPs for boosting rural demand. The key issue that tractor dealers face is – low resale value of old tractors and losses on old tractor inventory. "The used-tractor market is entirely cash-based and we have incurred huge losses on our existing inventory as prices crashed. Brokers for used tractors deal in cash and the liquidity crunch impacted their buying capacity," says an Andhra-based dealer.



Dealer stuffed with old tractor inventory as resale value crashes

Tyre dealers

Lower fleet miles start hurting: Mr Srinivas Rao from Andhra Pradesh is a worried man as truck tyre sales have seen a sharp drop in December because of lower movement of trucks. He said that November truck tyre sales were pretty strong as availability of Chinese tyres had started decreasing and fleet operators used old currency to stock tyres in November. However, due to this very stocking and reduction in fleet miles, Mr Rao has seen a 50% drop in truck tyre sales in December. His saviour has been 2W and PV tyres, which have seen only a small dent in demand.

Chinese imports have been drying up since September due to tax raids on importers, fear of anti-dumping duty, followed by demonetisation. Chinese tyre availability is still very low in the market, but demand is now a concern. "Sir Chinese maal toh aaj kal dikh nahi raha market mein (Chinese tyres are not to be seen in the market these days)," said Mr Rao.

JK tyres gaining, price hikes in the offing: JK Tyres has been gaining market share in the trucks segment with its aggressively priced truck tyres (~Rs 27,000 a pair). Tyre dealers said that JK can compete at these prices because of tax benefits at their Haridwar plant. This led to market share gains not only from domestic competitors, but also Chinese players who price their products at Rs 23,000-30,000. Dealers also said that JK Tyres has recently taken price hikes and that they expect an announcement from Apollo Tyres soon, to combat rising rubber prices.

Chinese tyres are not to be seen in the market these days



Dealers have seen rising truck-tyre inventory in December



GV saw Ceat tyres branding, even at small puncture shops in villages

2W and PVs better off

Mr Rao disclosed that 2W and PV tyre sales have seen a smaller dip of 10-20% in December. He expects a recovery soon in both these segments, as tyres are deemed a necessity. Ceat is a success story in the 2W/PV segment – on digging deeper it seem like increasing SKUs, improved quality, and using a distributor-led model were the key ingredients of its success. While moving through the small lanes in various rural markets, Ceat’s strong brand promotion strategy was obvious. The Ceat brands were visible in small tyre puncture stores and on three wheelers. Conversations with dealers and customers reveal that Ceat and MRF are the two most aggressive players in rural markets and enjoy a robust brand image. According to dealers, since they have committed to an annual offtake with MRF, the company saw a smaller demonetisation impact.

Batteries

The batteries segment has seen a 20-25% sales impact after demonetisation, dealers say. Both Exide and Amaron have taken 5-7% price hikes recently, to offset rising lead prices. The anticipated shift to organised from unorganised does not seem to have arrived yet. A small Andhra-based player, Gowell Batteries is doing well despite headwinds. GV’s interaction with smaller battery retail shops showed that second-hand battery sales have started (these had virtually stopped after demonetisation).



Changing paradigms in Indian financials

It's not just that people fear change – though they undoubtedly do. It's also that they genuinely believe, often on an unconscious level, that when they've been doing something in a particular way for a while – it must be a good way to do things. And the longer they've been doing it that way, the better it is. Whether it is demonetisation (now) or dematerialisation (few years ago), people will always be averse to changes due to their inability to comprehend the benefits of those changes.

Reforms have multiple effects – some short term and some gradual. To understand the immediate impact of demonetisation one need not be an economist or need not even possess the ability to comprehend the quantity theory of money. The immediate impact has been that the liquidity squeeze has had an adverse impact on consumption and hence on the overall economy in the short term; but this takeaway is mostly true if the intent of demonetisation was simply to replace old notes with new ones.

However, demonetisation is not the end, but a means to an end. And, that end is bringing the 'Bharat' to 'India' – basically financial inclusion.

GV endeavoured to highlight changes/developments seen in BFSI after demonetisation. It's too early to mention how significant these changes/developments can prove for the entire segment, but it underscoring them was a must. GV visited branches of HFCs, NBFCs, SME units, and met industry experts and consultants in key markets (NCR, Mumbai, Gujarat, Chennai).

Key observations

Property prices in high-cash real-estate markets to correct:

The real-estate sector in cities such as Ahmedabad, Surat, Indore, Ludhiana, NCR, and Kolkata has historically been a high-cash one. The drive against black money will cause prices to fall as fresh bookings take a knock and inventory levels are still high.



Under construction project in Surat

Feedback from property dealers and builders:

- Ahmedabad:** 48% rise in unsold inventory in last two years with a 14% price appreciation, but sales remained strong as the inventory period declined to 34 months. The curb on black money could result in a price correction, as the cash component in this market has been quite high at ~30%.
- Kolkata:** Dealers say unsold inventory has increased by 78% in the last two years, but sales have also been slow. Because of this, the period of inventory has increased by 55% to 46 months. The price correction here can be meaningful as this market also carries a high cash component.
- NCR:** Completely different view vs. general perception (sharp price correction). Brokers and builders do not see any meaningful price cut. Their reasons: (1) Prices have corrected by about 6% in NCR in the last two years; factoring inflation, the correction is more than 20%, (2) 'months of inventory' have declined by 29% in last two years to 58 now, (3) cartelisation/arrangement among builders for price discipline.
- Mumbai:** Despite being low cash, Mumbai can see some correction because of high inventory months (55) and low affordability.

State of residential property market

| Unsold stock (mn. sq. ft.) | Q2 14-15 | Q2 15-16 | Q2 16-17 | Grw (Q2FY17 Vs Q2FY15) |
|-------------------------------|-------------|-------------|-------------|---------------------------------|
| Ahmedabad | 68 | 80 | 101 | 48% |
| Bangalore | 139 | 178 | 173 | 24% |
| Chennai | 65 | 72 | 67 | 3% |
| Hyderabad | 53 | 59 | 68 | 27% |
| Kolkata | 29 | 34 | 52 | 78% |
| MMR | 171 | 217 | 271 | 59% |
| NCR | 319 | 346 | 366 | 15% |
| Pune | 70 | 89 | 111 | 59% |
| 8 Cities | 913 | 1076 | 1207 | 32% |
| Price (Rs/Sq.ft) | | | | |
| Ahmedabad | 2,796 | 2,870 | 3,194 | 14% |
| Bangalore | 5,288 | 5,404 | 5,487 | 4% |
| Chennai | 5,063 | 5,111 | 5,285 | 4% |
| Hyderabad | 4,306 | 4,223 | 4,634 | 8% |
| Kolkata | 4,463 | 4,451 | 4,384 | -2% |
| MMR | 13,186 | 12,912 | 12,985 | -2% |
| NCR | 5,183 | 4,993 | 4,884 | -6% |
| Pune | 5,375 | 5,486 | 5,334 | -1% |
| 8 Cities | 6,449 | 6,491 | 6,675 | 4% |
| Months Inventory | | | | |
| Ahmedabad | 37 | 45 | 34 | -8% |
| Bangalore | 39 | 37 | 38 | -3% |
| Chennai | 50 | 30 | 45 | -10% |
| Hyderabad | 33 | 36 | 33 | 0% |
| Kolkata | 30 | 38 | 46 | 53% |
| MMR | 44 | 59 | 55 | 25% |
| NCR | 82 | 64 | 58 | -29% |
| Pune | 22 | 37 | 34 | 55% |
| 8 Cities | 44 | 47 | 46 | 5% |

Source: Laises Foras

Takeaways from interaction with direct selling agents (DSAs):

- Loan against property (LAP) business was down 30-40% after demonetization
- Fresh pipeline build up is very slow
- The pullback was due to valuation knocks on properties
- High-ticket LAPs were more impacted – lenders are moving to the Rs 2-5mn ticket-size loans. They have increased collection efforts in anticipation of borrowers facing repayment challenges.
- Balance-transfer businesses are down 50% in the last two years due to stagnant property prices.
- Salaried home-loan business (after initial hiccups) is recovering. Potential borrowers had postponed decisions in anticipation of a sharp correction in property prices and interest rates – which did not happen. Files have started moving again and enquiries has resumed. Overall, the salaried home-loan business was down 15-20% after demonetisation.

Shift in unorganised lending in CRE to the organised lending market:

The most anticipated effects of demonetisation on the real-estate sector are – a correction in product prices and consolidation. While this is one aspect, the other is a shift towards formal lending institutions for the sector. Historically, this sector has been a conduit for converting black money into white with some estimates pegging 30% of real-estate deals as 'black'. A rough assessment indicates that the unorganised financing market in real estate is worth Rs 3-4tn (30-40% of total mortgage loans). Unorganised financiers fund projects through pre-booking sales and convert black money into white due to the difference in market rates and ready-reckoner rates.

After demonetisation, funding from informal sources has virtually dried up, and bookings have taken a knock as buyers postponed their purchases anticipating lower prices and interest rates. To add to the sector's woes, project funding from banks slowed. In these circumstances, housing finance companies saw an uptick in demand for their Lease Rental Discounting (LRD) business in December 2016. Our channel checks suggest a strong pick up in LRD sanctions by HDFC and LICHF.

An example of a shift in market opportunity is the commercial real estate (CRE) business of banks. After the Lehman crisis, banks in India went slow on CRE; their CRE loan book CAGR slowed to 11% in the previous five years compared to 15% for total loan book. The proportion of CREs to total mortgage loans dropped to 22% vs. 28% five years ago. This created an opportunity for NBFCs such as Piramal Enterprise, Edelweiss Financial Services, and few HFCs, which saw an exponential growth in their CRE portfolio.

If the aim of demonetisation is to curb black money, then the informal real-estate funding market will eventually shift to the formal lending system (HFCs and banks) – thus increasing the industry size.

Trends in LAP

| AUM LAP Rs bn | FY13 | FY14 | FY15 | FY16 | CAGR (FY16-13) |
|---------------|------|------|------|------|----------------|
| Total | 1300 | 1700 | 2300 | 2700 | 28% |
| Banks | 676 | 850 | 1127 | 1296 | 24% |
| NBFC | 338 | 476 | 667 | 783 | 32% |
| HFCs | 273 | 374 | 506 | 621 | 32% |

Source: Crisil Research

Bank-loan eligibility of borrowers under LIP to improve.

Since India is traditionally a cash-based economy, the unaccounted income of borrowers (not documented) was never appraised by banks. This has created a market opportunity for some NBFCs and HFCs, whose business models are based on programming the cash income of borrower, which is known as Liquid Income Programme (LIP).

Some of the affluent self-employed customer of HFCs / NBFCs, who have been denied adequate credit facilities by banks due to low accounted income, could see an increase in banking facilities as their accounted incomes improve.

A famous eatery in up-market Chennai availed a high-value loan against property from a south-based HFC, despite strong cash flow. Since the mode of transaction was cash, the accounted income was much lower than the eateries actual cash flow. Hence, banks offered much lower loans to this eatery than what the HFCs did. Once this type of borrowers start accounting for liquid (cash) income, their income profile will improve, and banks will begin extending higher credit limits to them at lower costs compared to HFCs.

Business models that were purely based on the LIP of customers will see a major setback once the economy starts migrating to 'white'. Andromeda (largest DSA) said that its LAP business that is based on LIP has come to a standstill after demonetisation. LIP contributes 30% of the LAP business, most of which is catered to by NBFCs and HFCs. The segment has seen strong growth in the last three years (32% CAGR in FY13-16) with an AUM of around Rs 800bn. With the migration

of unaccounted economy to the main stream, a large part of the LIP business has the potential to shift to banks (including SFBs) in the long term, or see pressure on its yields as banks will also start competing for this business due to improved customer eligibility.

SMEs: Still bleeding

MSMEs have been struggling for adequate formal credit at reasonable rates. Most of the SME owners and consultants said that working capital funding from formal sources has not been adequate. MSMEs are mostly in the B2B segment, serving large corporates in the value chain. These large corporate customers of MSMEs bargain for a higher credit period, thus stretching the WC cycle of MSMEs.

The Nayyak committee recommendation on working capital has become every bank's rule book. Banks sanction a maximum working capital limit of 20% of turnover (additional 5% being owner's contribution), which would translate into a working capital cycle of 90 days. However, the actual WC cycle for MSMEs crosses 150 days usually. In order to meet additional working-capital loan needs, MSMEs are forced to resort to: (1) false bill entries in order to escalate turnover, and (2) high-cost funding from non-banking sources like NBFCs (SME funding / LAP).

Mr Rajesh Dubey, consultant at SME Bots, believes that the asset-quality review (AQR) by RBI will have a rub-off effect on MSMEs as well. Mr Dubey believes that banks' migration to Basel-3 also impacted MSMEs due to mandatory rating. The rating profile for MSMEs has been perennially weak, leading to higher risk weightage for this segment. To add to its woes, demonetisation will impact the business momentum, leading to cash-flow constraints. Bankers say there hasn't been a meaningful increase in



prepayments of stressed loan accounts in the MSME segment, unlike what few media reports suggest.

The government's recent move to raise the credit limit for the small industry (to 25% of turnover and then to 30% from the initial 20% – for enterprises that transact digitally) will provide some relief to the segment.

NBFCs most affected, but recovering fast

After demonetisation, NBFCs were in bad shape as the liquidity crunch impacted their business. However collection have been mostly satisfactory in November (except MMFIs) because of: (1) repayment in old currency by borrowers, (2) truck operator's cash flow remaining stable due to waiver of toll tax (this accounts for ~20% of operators' total fleet costs), and (3) spill-over impact of the festive season. In subsequent months, few segments such as car finance and CV finance gained some traction, but utility vehicles remained a drag.

GV's visit to rural branches of NBFCs indicated that the farming segment was the worst hit due to demonetisation, as farmers either postponed selling their produce or have not received cash after sales. However, this segment is set to recover fast – as cash inflow is just delayed. While fresh sowing of crops was a bit delayed, it has been recovering fast.

Collection efficiency was better in November (lenders accepted old currency for repayments), but declined in December (due to liquidity crunch and demand destruction). Lenders are hopeful that the situation will improve with the increase in new currency. Business showed recovery in December, especially in auto finance and new CV finance.

Demonetisation is a trigger point for customers' move towards digital transactions

Indian businesses and entrepreneurs have been resilient in adapting to changes. After demonetisation, many mer-

If the intent of demonetisation was to bring unaccounted income under the tax net, then accounted transactions will see an increase – translating into increased funding limits by lenders.



Digital payment used for petty transaction by road side eatery

chants migrated to digital transactions in order to overcome the currency shortage. The phenomena of even petty merchant establishments accepting digital money demonstrates their ability to adopt.

Mass adoption of digital payments will come about through the ease of such transactions, government's push and promotion for a cashless economy, customer incentive for cashless transactions, and demonetisation. Mr Mehul Desai, a technocrat and pioneer in e-wallet technology, likens the November 8th deci-



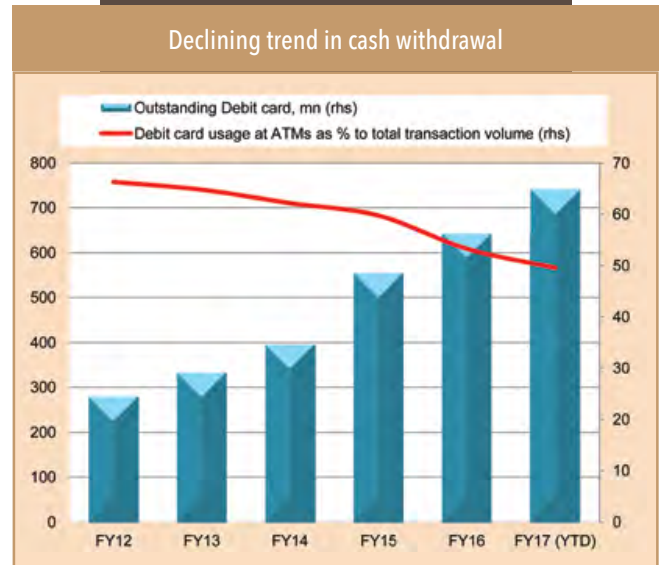
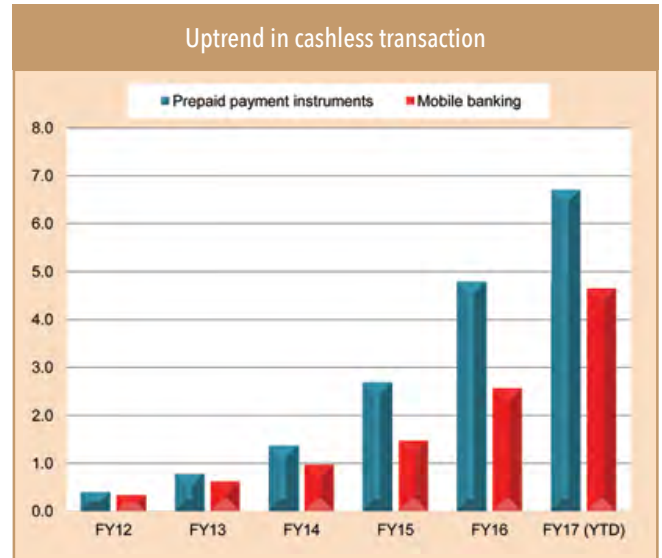
Mr. Mehul Desai

sion of Gol to the Asian Games of 1984, which led to a revolution in the Indian colour television market. He expects that in next five years, around 500-700mn (40-50% of population) people will transact digitally in India.

Incrementally, more financial transactions are moving to alternate channels such as prepaid payment instruments, mobile banking, and retail clearing. Conversely, ATM debit-card transactions (used largely to withdraw cash) have been declining and moving in favour of alternate channels (mobile banking, PPI, NEFT).

Mr Desai believes that the key to successful adoption of electronic transactions is the value in end applications. If meaningful end applications (itune, Uber, Wechat) are made available, consumer would adopt them. The rest – UPI, Paytm, mobile wallet, and USSD (Unstructured Supplementary Service Data) –are the means to an end.

Higher adoption of electronic transactions by customers will free banks' resources from routine transactions and improve efficiency in the system. Moreover, the present cost structure of point of sale (POS) terminals will not be a viable solution for the larger community of merchants, but UPI could be an answer.



Conclusion:

Banking and financial services are passing through unprecedented times, which will have long-term ramifications. Business models of NBFCs based on liquid income programmes may be at risk. The conversion of Bharat with India (more financial inclusion) will bring lot of customers under the formal banking net, thus creating an opportunity for banks, but the key success factor for banks will be their ability and efficiency in grabbing this opportunity.

Indian Pumps Industry

Over the past month, GV interacted with some of India’s largest pump companies, water and irrigation departments of states, industry consultants, and dealers to understand the outlook of the pumps industry and the potential impact of demonetisation and GST.

Indian pumps market has remained muted over the last few years

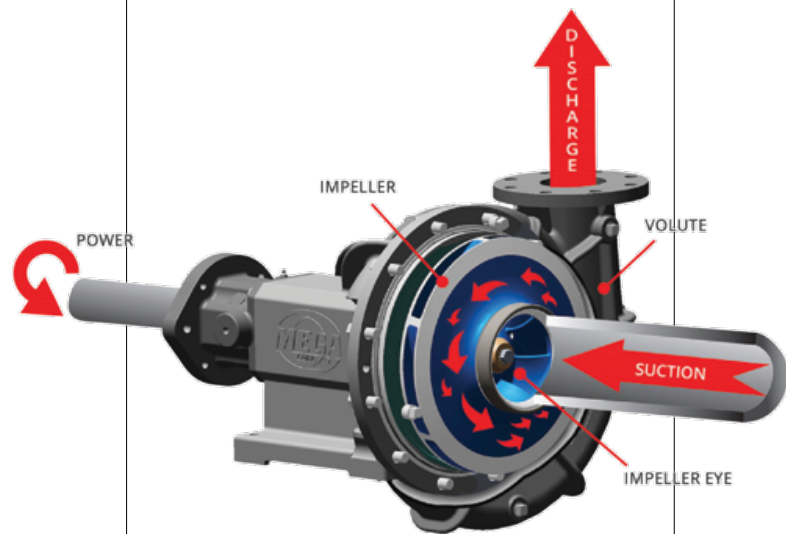
An industry consultant said that the Indian pumps market declined in FY15, and saw muted growth in FY16 – basically, it remained flat in FY14-16 at Rs 105bn. Growth was impacted by (1) a fall in capex in the oil & gas sector due to a decline in oil prices, (2) sluggish agriculture demand due to drought over the last 2-3 years, and (3) slowdown in construction activity.

The Indian pump market remained flat over FY14-16

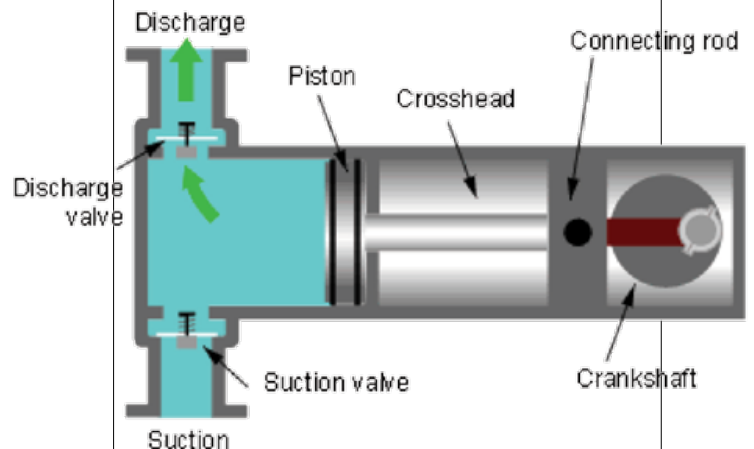


TYPES OF PUMPS

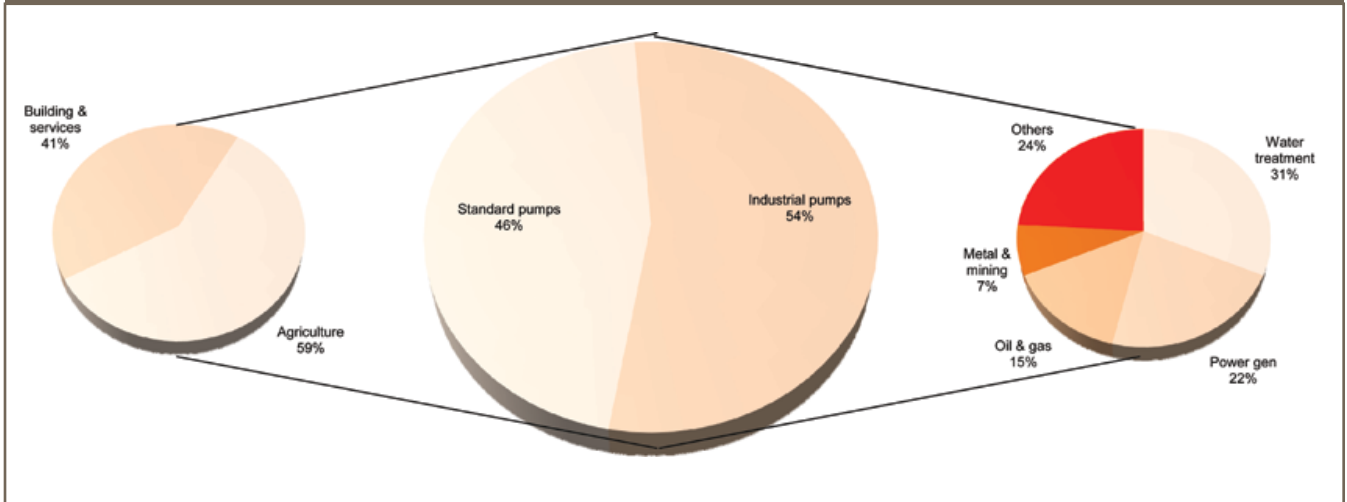
Based on technology, pumps can be classified into two categories: **A centrifugal pump**, which uses a rotating impeller to move the fluids.



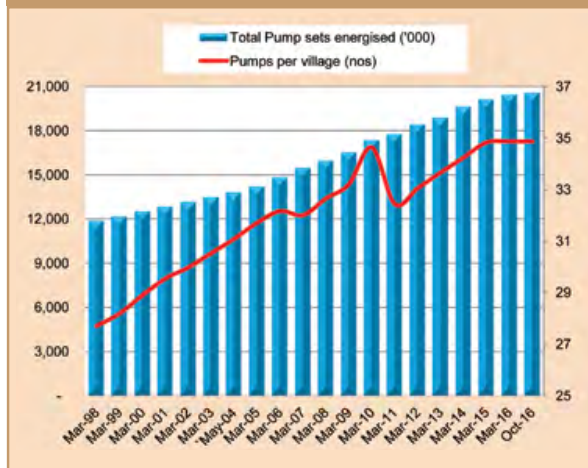
A positive displacement pump, which moves fluids by capturing a certain volume into a chamber and forcing (displacing) it into a discharge system



Indian pumps industry

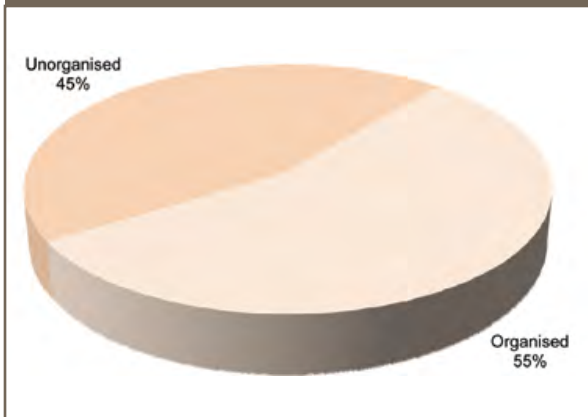


India has 20mn electrified pump-sets in the agri sector with an average of 35 pump-sets per village



Source: CEA

... and unorganised players hold a strong presence in standard pumps market with 45% market share



Agri and domestic pumps account for 46% of total pumps demand:

Based on the end usage, the Indian pumps market can be classified into three broad categories: (1) agriculture, (2) building and services (households), and (3) industries – comprising water & wastewater management, power, oil & gas, metals & mining, and chemicals.

Based on channel checks, in the medium term, the domestic pumps industry should be driven by:

1. Shift from unorganised to organised manufacturers in standard pumps
2. Government schemes promoting energy-efficient and solar pumps
3. Focus on micro irrigation - a thrust for optimal utilisation of water in agriculture
4. Capex in oil & gas - new refineries and BS-6 emission norms
5. Overall pick up in industrial activity

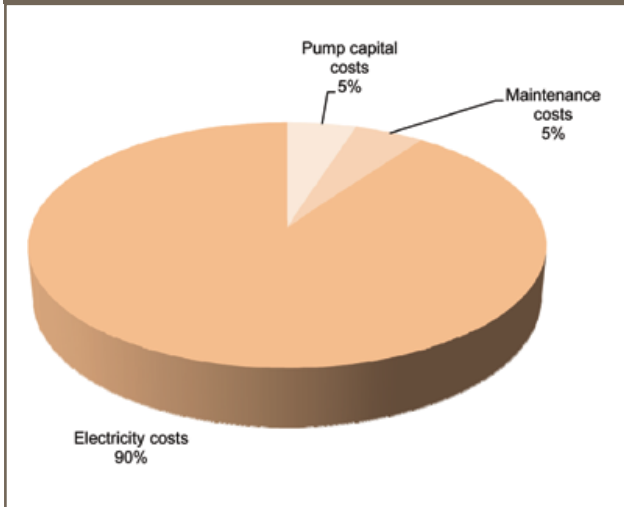
Shift towards organised manufacturers in standard pumps:

The agriculture sector accounts for approximately 80% of India's total water consumption. The Central Electricity Authority (CEA) says there are more than 20mn electrified pump-sets in the agriculture sector. Unorganised standard pumps manufacturers have a strong presence in the agri sector. Even though the share of unorganised players has fallen to 45% from 60% in FY11, it is still considerable. Unorganised players' pumps are 20-30% cheaper due to (1) avoidance of taxes (excise 12.5% + VAT 4-6%), and (2) inferior quality of raw material (non-star-rated = less energy efficient and lower output). Consequently, these pumps still have a significant presence in the agriculture sector.

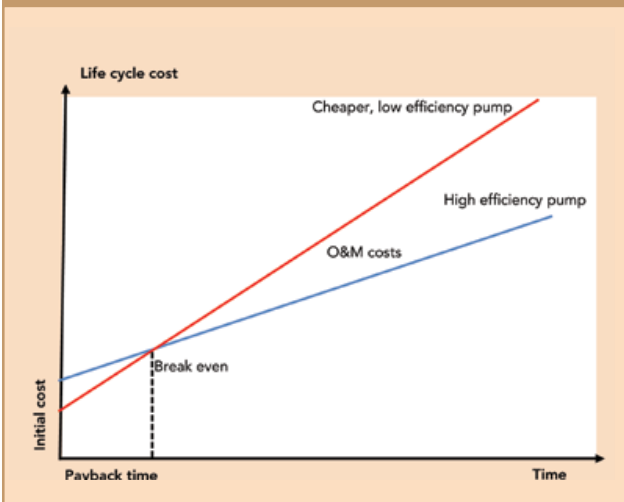
Lifecycle costs:

Interaction with companies such as Kirloskar Brother (KBL), KSB, and Shakti pumps revealed that electricity costs account for around 85-90% of the pumps' lifecycle costs. Hence, their marketing pitch in the agriculture sector centres around the low lifecycle costs of star-rated pumps, despite higher upfront costs vs. non star-rated pumps. Non star-rated pumps typically have an average energy efficiency of 25-30% versus 40-45% for star-rated pumps. Hence, there is a potential 35% saving in energy consumption.

Electricity accounts for 85-90% of the lifecycle costs of the pumps

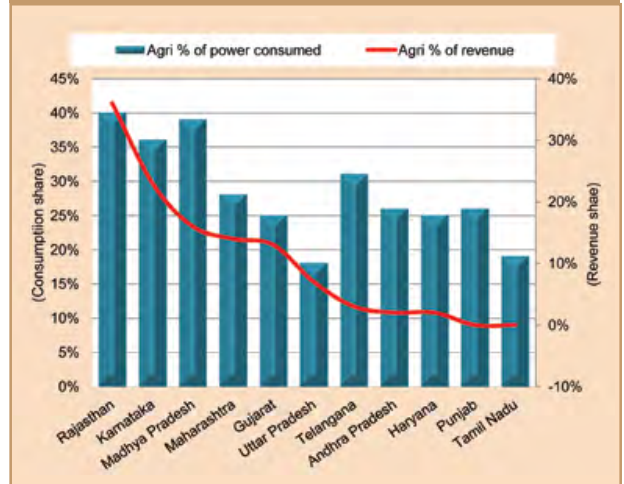


High-energy-efficient pumps lead to 35% saving in lifecycle costs

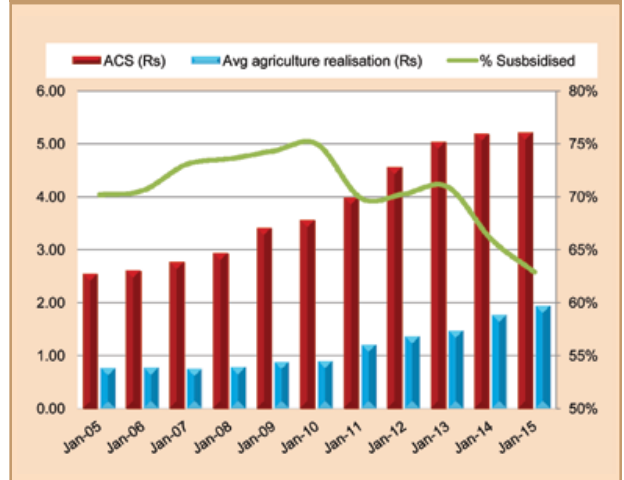


Source: IMPA, Grundfos

Agriculture accounts for 23% of India's total electricity consumption while it contributes to only 9% of its electricity revenue due to states' huge subsidies



More than 60% of agri electricity costs are subsidised by states directly or through cross-subsidy charges on industrial and commercial consumers



Source: PFC, Ministry of Power

GST:

Its implementation will be a positive driver for the energy-efficient organised pump manufacturers, as GST will help to reduce the price gap. Inefficient pumps of unorganised players currently cater to around 45% of the standard pumps market in India.

Government schemes: AgDSM and solar pumps

Agriculture consumers account for 23% of total electricity consumption, but contribute only 9% of the revenue of power distribution companies (discoms). This is due to huge subsidy that states provide, either directly, or through cross-subsidy charges levied on industrial and commercial consumers. Consequently, there is a need to bring down the share of agriculture's consumption of electricity. Towards this end, the central government has two ongoing schemes: (1) agriculture demand-side management (AgDSM) project, and (2) solar pumping programme for irrigation and drinking water.

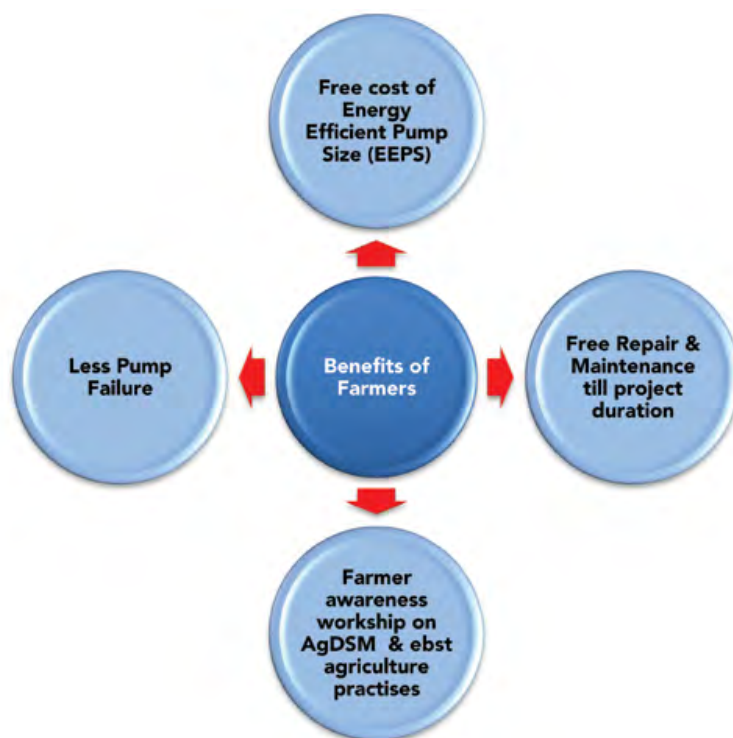
We see the government schemes potentially offering a Rs 58bn annual opportunity

| Government Initiatives | Pumps (mn) | Opportunity (Rs bn) | Annual opportunity (Rs bn) |
|----------------------------------------|------------|---------------------|----------------------------|
| Energy efficient programme (FY2016-22) | 7 | 350 | 50 |
| Solar Pumps (FY2016-21) | 1 | 50 | 8 |
| Total | 8 | 400 | 58 |

Agriculture Demand Side Management (AgDSM) project

The AgDSM program aims to replace nearly 7mn pump-sets with star-rated energy-efficient ones by 2016-22 in four states – Andhra Pradesh, Maharashtra, Rajasthan, and Karnataka. Upfront capital costs would be borne by the Energy Efficiency Services Ltd (EESL), which will recover these costs from power discoms through savings in power costs. This scheme will provide a huge opportunity of around Rs 350bn (Rs 58bn, 56% of existing overall pumps market size) for the energy-efficient organised players. EESL's ultimate target is to replace all the 20mn inefficient electrified pump-sets in India with BEE star-rated pump-sets. EESL is in process of starting two projects – 100,000 pump-sets in Maharashtra and 500,000 in Karnataka.

AGDSM PROJECT FOR ENERGY-EFFICIENT PUMPS TO BENEFIT FARMERS THROUGH LOWER LIFE COSTS...



.... and power discoms through lower subsidy burdens

| BENEFITS TO THE DISCOMS | | | |
|----------------------------------|-------------------------------------------------------|----------------------------------------------|----------------------|
| Reduction in power purchase cost | Monetary benefits because of sharing of energy saving | Lower load shedding reduction in peak demand | Lower subsidy burden |

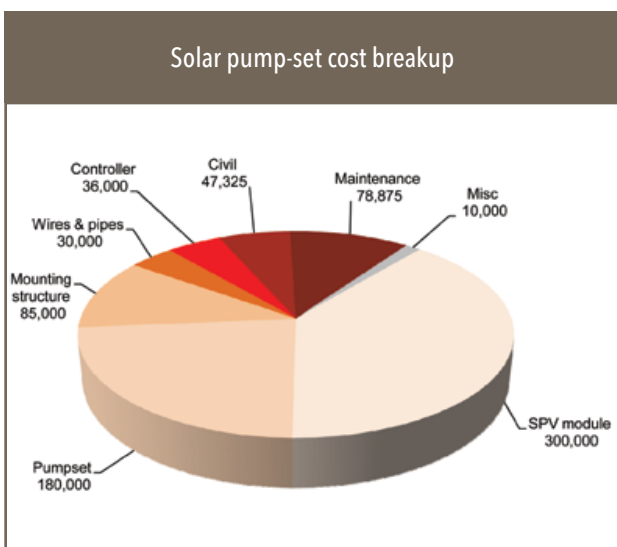
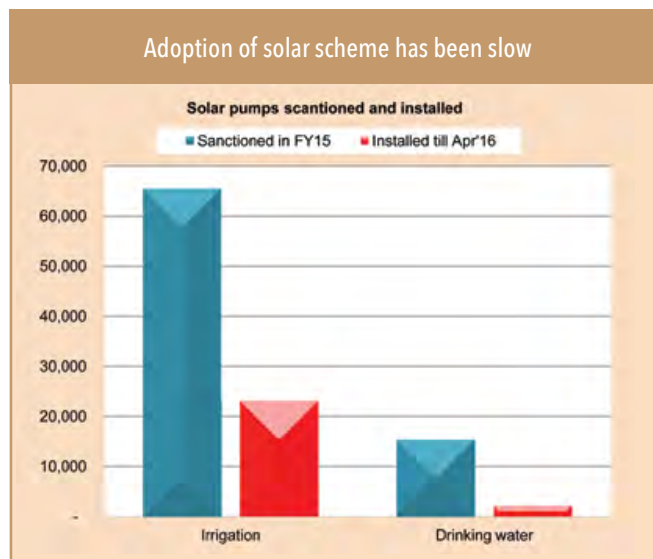
AgDSM pilot projects have shown encouraging results with a payback period of 3-4 years for discoms and savings for farmers

| | Solapur | Byadgi & Nippani | Malavalli | Rajanagaram Mandal |
|------------------------------------------------------|------------|------------------|-----------|--------------------|
| Power Discoms | MAHADISCOM | HESCOM | CESC | APEPDCL |
| Total pumps replaced / to be replaced | 2,209 | 590 | 1,337 | 2,496 |
| Avg. rating of pumps | | 5hp | 5hp | 18hp |
| Avg cost of pump (Rs) | 31,960 | 44,068 | 37,622 | 78,766 |
| Investments (Rs mn) | 71 | 26 | 50 | 197 |
| Annual energy saved (mn kWh) | 6.1 | 3.0 | 5.7 | 21.3 |
| Energy saved (%) | 26% | 37% | 37% | 30% |
| Annual savings to discoms (assuming Rs3/kWh subsidy) | 8,346 | 15,254 | 12,718 | 25,601 |
| Annual savings to farmer (assuming Rs1/kWh) | 2,782 | 5,085 | 4,239 | 8,534 |

Source: EEGL

Solar pumping programme for irrigation and drinking water

Under the solar pumping programme, the Government of India expects to install at least 1mn solar water pumps in FY16-21 for irrigation and drinking water. This will provide an annual opportunity of around Rs 8bn (~8% of existing annual pumps market) for energy efficient / organised players. However, channel checks show that the adoption of this scheme has been slow, as it is highly dependent on government subsidies. Over the past six months, subsidies in certain states such as Rajasthan have declined to 70% from 86%, leading to lower demand for solar pumps. A similar trend was seen in a recent tender in Maharashtra too.



Solar pumps subsidy scheme in some of the states

| | Rajasthan | Maharashtra | Madhya Pradesh | Andhra Pradesh | Tamil Nadu |
|----------------------------|-----------|-------------|----------------|----------------|------------|
| Share of net sown area (%) | 13% | 12% | 11% | 5% | 3% |
| GOI subsidy - MNRE | 30% | 30% | 30% | 33% / 44% | 30% |
| State Govt subsidy | 40% | 65% | 60% / 55% | 53% / 41% | 50% |
| Overall subsidy | 70% | 95% | 90% / 85% | 86% / 85% | 80% |

Source: MNRE, Respective States

Focus on micro irrigation

India has a net sown area of 141mn hectares (Mha) as of FY14 (latest available data), of which only 68Mha (48%) was irrigated while the rest remains dependent of rainfall. Of the net irrigated area, 62% (vs. 29% in 1951) was achieved through ground-water sources (wells and tube-wells). This increase in the utilisation of ground-water sources for agriculture has resulted in depleting ground-water levels (dipping by 0.4m every year). Additionally, India has already achieved 80% of its ultimate irrigation potential (major, medium, minor), leaving limited scope for further major expansion. Hence, the need of the hour is to improve the efficiency of the existing irrigated land by using micro irrigation, which limits wastage of water.

In order to use maximum irrigation potential, the government is focusing on micro irrigation through the Pradhan Mantri Krishi Sinchai Yojana (PMKSY), which will provide solutions in the irrigation supply-chain, viz. water sources, distribution network, and farm-level application. This programme will mainly ensure access to water for every agriculture farm (har khet ko pani) and increasing agricultural production and productivity by increasing availability and efficient use of water.

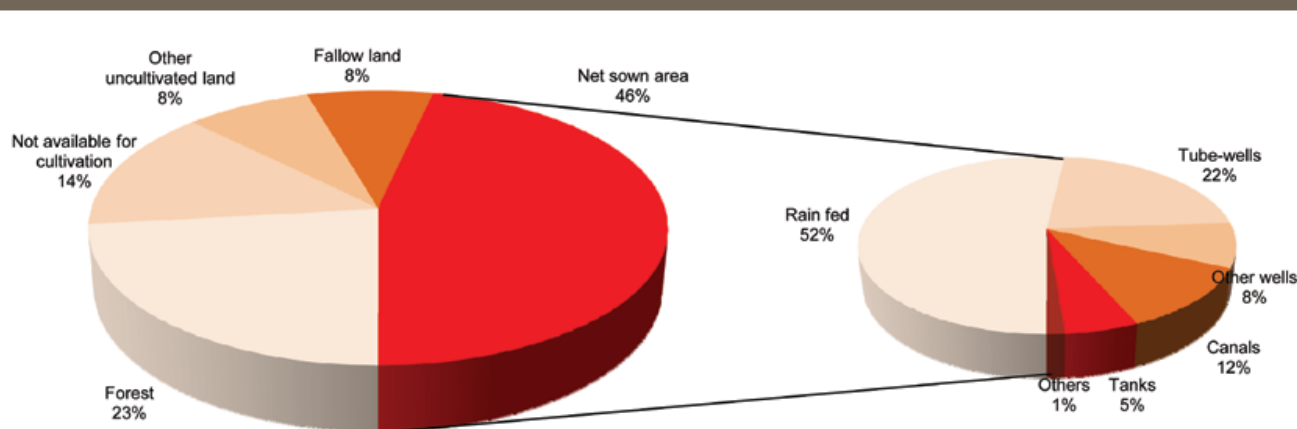
Under PMKSY, an outlay of Rs 500bn was approved for FY16-20, of which more than Rs 163bn is allocated for micro irrigation - (per drop more crop – drip-and-sprinkler irrigation). The allocation to micro irrigation has increased by 10x to Rs 23bn in FY17BE (vs. just Rs 2bn in FY06) and doubled since FY14's Rs 12.6bn. Further, the government has planned an outlay of Rs 121.6bn over FY18-20.

The increased utilisation of the drip-and-sprinkler irrigation systems will add to the demand for pumps.

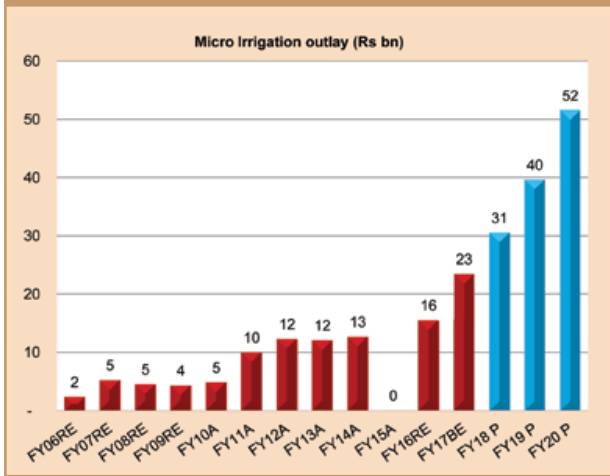
India has created 80% of its irrigation potential...

| (Mha) | Ultimate Irrigation potential | IP created FY12 | IP created (%) |
|------------------|-------------------------------|-----------------|----------------|
| Major & medium | 58.5 | 47.4 | 81% |
| Minor surface | 17.3 | 15.7 | 91% |
| Minor ground | 64.1 | 49.4 | 77% |
| Minor Irrigation | 81.4 | 65.1 | 80% |
| Total | 139.9 | 112.5 | 80% |

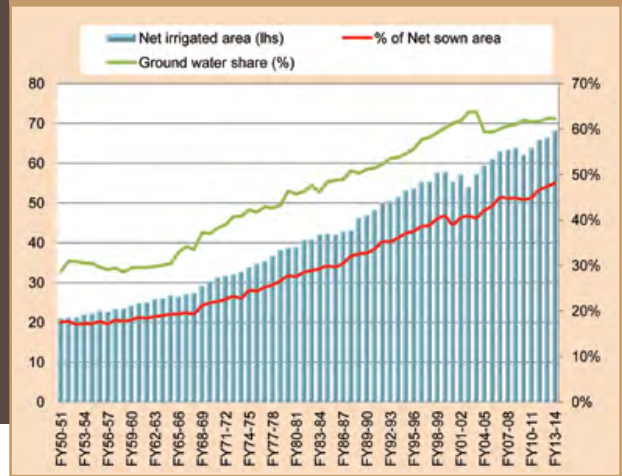
... however, a majority of irrigation is still dependent on rain water (52%) and ground water (30%)



To address this, government is focusing on micro irrigation for optimum utilisation of water for irrigation and has increased budget allocation



Share of ground water consumption for irrigation has doubled to >60% of net irrigated area since 1951, leading to depleting levels

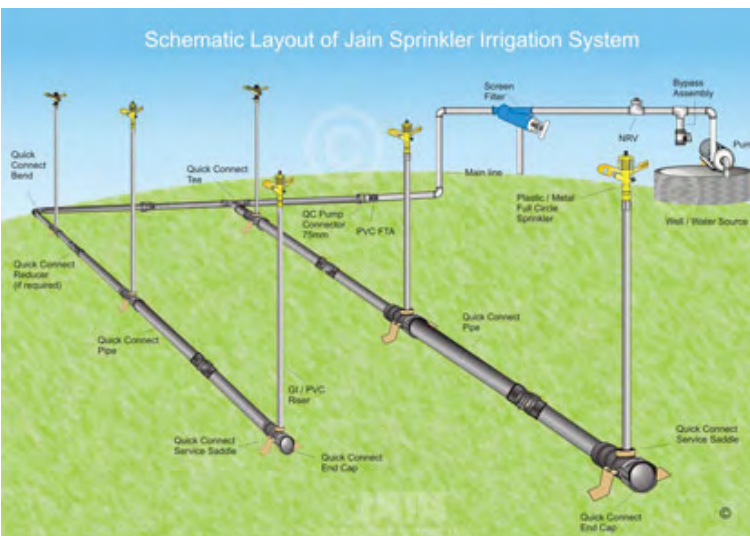


Source: WIRD, Ministry of Agriculture, India Budget

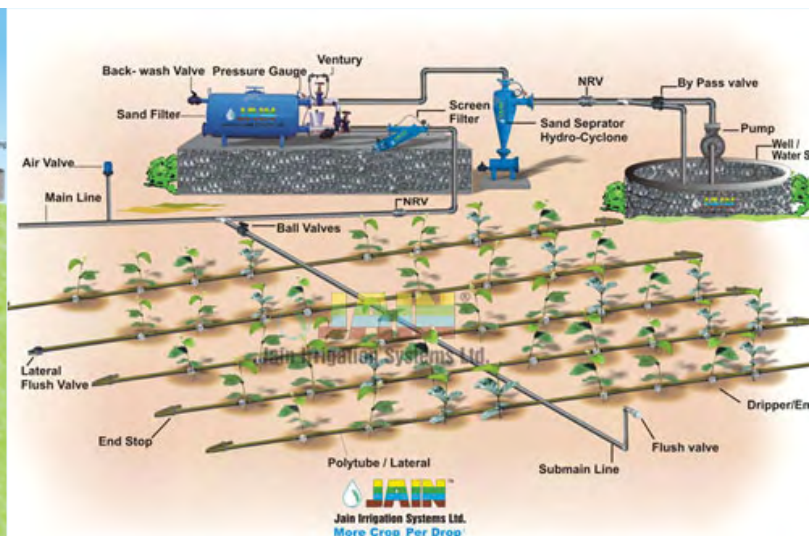
Oil & Gas – BS-6 emission norms and new refining capacity to drive capex

Based on interaction with companies such as Sulzer, Kirloskar Brothers, and KSB, it seems like the domestic refining capex is likely to pick up led by new capacity additions planned by OMCs and the adoption of BS-6 emissions norms. India's oil marketing companies (OMCs) plan to add 105mtpa of refining capacities by 2025 to address the strong domestic demand for fuel, by spending around Rs 3tn in this period. Further, India has decided to adopt Bharat Stage 6 (BS-6)

emission norms for the vehicles by 2020. In order to adhere to these norms, OMCs have planned to spend Rs 290bn over FY17-20. The flow-control equipments (pump systems) account for 7-8% of the capex in a refinery. Ordering for the pumps is back-ended, typically 1.0-1.5 years after the projects start. Pumps used in this industry need to adhere to American Petroleum Institute (API) specifications. In India, currently five players (KSB, Kirloskar Ebara, Sulzer, ITT India, and Flowserve) provide API-specification pumps for oil and gas.



Layout of the sprinkler irrigation system



Layout of the drip irrigation system

Source: Jain Irrigation

Capex for new capacity additions and upgrade to BSVI

| (Rs bn) | Capacity add by 2025 (mmtpa) | Capex for new capacity | Capex for BSVI | Total |
|-----------------------------------------------|------------------------------|------------------------|----------------|-------|
| IOCL | 21 | 545 | 120 | 665 |
| Mega refinery | 40 | 1,000 | - | 1,000 |
| Paradip petcoke gasification | - | 150 | - | 150 |
| IOCL Total | 61 | 1,695 | 120 | 1,815 |
| BPCL | 23 | 640 | 50 | 690 |
| HPCL | 21 | 620 | 40 | 660 |
| MRPL | - | - | 45 | 45 |
| CPCL | - | - | 10 | 10 |
| NRL | - | - | 25 | 25 |
| Total | 105 | 2,955 | 290 | 3,245 |
| Opportunity for pump industry (@ 3% of capex) | | 89 | 9 | 97 |

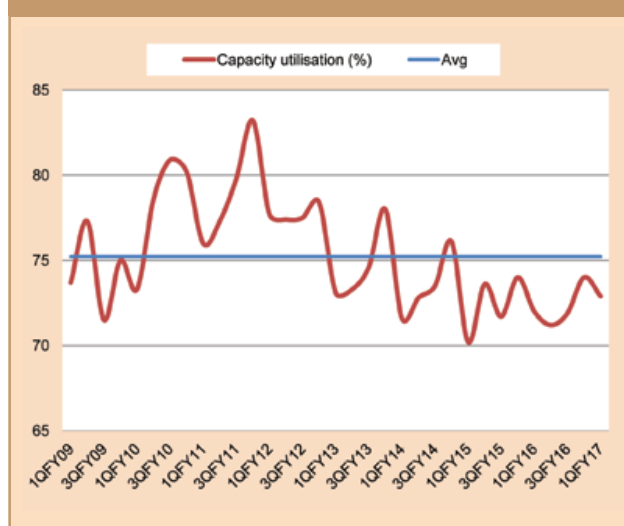
Types of Crude Pumps required in a refinery

| Service / processes | Flow (m3/hr) |
|------------------------------|--------------|
| HS crude transfer pump | 1400 |
| High TAN crude transfer pump | 200 |
| FCC Feed pump | 200 |
| SDA Feed pump | 410 |
| HCU Feed pump | 475 |
| SHC Feed pump | 365 |
| Hydrogen Feed pump | 130 |
| Sour water pump | 100/25 |

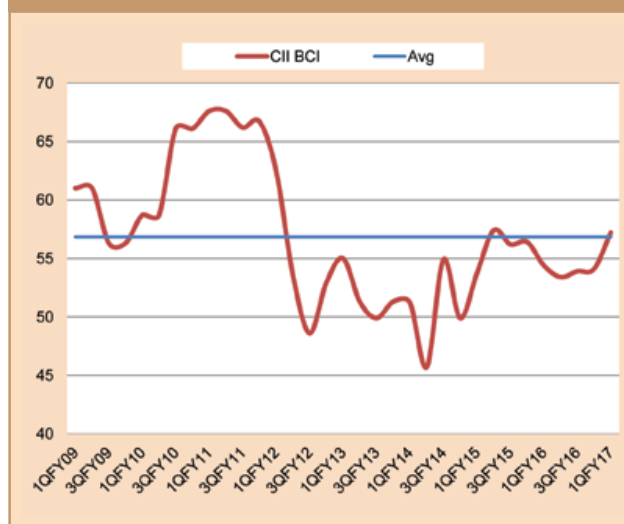
Pick up in industrial activity

As per the RBI, industry capacity utilisation is still below the average of 75% since FY09. However, in 1QFY17, the business confidence index recovered (after bottoming in 2QFY14) to the average of the last eight years. Improved industry capacity utilisation and business outlook will lead to a pick up in the demand for pumps.

Industrial capacity utilisation is still below the average of 75%



CII business confidence index has improved from the bottom in FY14, but is still below its peak of FY11



Feedback from the ground

Standard pumps: This has remained a major contributor (despite a slowdown in demand from the agriculture sector due to weak monsoon) in the last 2-3 years. Although unorganised players have lost market share, they still have a strong presence because states supply subsidised power to agri consumers, which discourages them from shifting towards energy-efficient mechanisms. However, the shift towards organised players is picking up speed – one of the major organised players said that it has gained market share due to improvement in agri and domestic-household demand.

The standard pumps market will be driven by: (1) government-led schemes to promote energy efficient pumps and solar pumps, (2) an increase in urbanisation and better housing along with increase in consumption by households with less dependency on the municipal water supply, (3), better monsoons leading to higher farmer income, (4), mechanisation leading to a shift from wells (irrigated 8% of net sown area) to tube-wells, and (5) replacement demand. Although momentum is picking up in the solar pumps scheme, the rate is slow as: (1) 5-15% of the cost under the scheme is to be borne by the farmer and (2) states are finding it difficult to match their share of subsidy (40-60%) under the scheme.

Industrial

Oil & Gas: Pumps demand from this sector was weak due to a fall in oil prices and a slowdown in capex. However, demand is likely to pick up because of the new refining capacity additions by OMCs and capex driven by the adoption of BS-6 emission norms. In the upstream segment, pumps demand was met through imports from global players.

Chemicals: Pick up in new capacity additions with US\$ 3bn of chemical projects proposals in 2016 (US\$ 1.7bn in 2015) for environment clearance will drive demand.

Power: Demand from the power sector remains weak due to a slowdown in thermal power capex. As per CEA's draft national electricity plan 2017-22, India does not require any new coal-based capacities until 2022 with around 180GW of capacity operating at 60% PLF, 50GW of capacity under construction, and huge planned renewable-capacity addition. The government intends to replace and modernise old inefficient thermal plants; nuclear-power capacity additions are likely to be a key demand driver for this segment.

Metals & mining: Demand from mining has shown an improvement led by a pick up in coal production.

Irrigation and others: Telangana awarded Palamuru Rangareddy irrigation EPC contracts worth Rs 300bn, of which electromechanical would be Rs 81bn for which orders will be placed over the next six months.



Companies such as BHEL, Andritz, and ITT should be beneficiaries. Lack of funding could stall other projects in Telangana and Rajasthan, though Andhra Pradesh could provide opportunities.

Conclusion

Based on elaborate channel checks, it looks like drivers for pumps are falling into place, particularly in the standard pumps segment. However, demonetisation will affect demand negatively in the near term (next two quarters). That said, standard pumps are essential equipment for a farmers – they cannot delay the purchase indefinitely. In the industrial segment, most companies and consultants are positive about demand from oil & gas and water treatment, but believe that continued slowdown in new power capacity addition will keep the industry at best flat for next 12 months. Widespread pick up in capex by the private sector (as seen between 2004 and 2009) will lead to a rise in demand for industrial segment pumps.

Key players in the pumps industry



Kirloskar Brothers Ltd (KBL), established in 1888 and incorporated in 1920, is a part of the Kirloskar group. It engineers and manufactures agriculture, domestic and industrial pumps, valves and hydro turbines. It provides complete fluid management solutions for large infrastructure projects in the areas of water supply, power plants, irrigation, oil & gas (downstream through JV with EBARA) and marine & defence. Kirloskar EBARA (KEPL), a JV between KBL and EBARA, is engaged in manufacturing of highly engineered pumps and allied products for critical applications in hydrocarbon processing, oil & gas, fertiliser, chemical, water treatment plant and power sectors.



KSB Pumps Ltd (KSB), incorporated in 1960, is a subsidiary of KSB AG, Germany. It manufactures agriculture, domestic and industrial pumps and valves. Its products and services are designed for industry, building services, process engineering, waste water & water sector, mining and energy applications.



Shakti Pumps (SPIL), established as partnership firm in 1982 and incorporated in 1995, is engaged in the manufacturing of energy efficient stainless steel submersible pumps, pump-motors, solar pumps, and pressure-booster pumps. Its pumps find application in irrigation, residential, as well as industrial sectors. It has the capacity to produce around 0.45mn pumps annually from its facility at Pithampur, Madhya Pradesh.



WPIL, established in 1952 as Johnston Pumps India, is engaged in manufacturing pumps and pumping systems. It is also engaged in execution of water supply projects on a turnkey basis for industrial units, power utilities, irrigation departments, etc. It has three manufacturing units in Kolkata and one unit in Ghaziabad, Uttar Pradesh.



CRI Pumps Pvt Ltd (CRI), incorporated in 1996, is an India-based manufacturer of pumps, pipes, wires & cables, valves and solar pumping system for residential, agriculture, industries, building, wastewater, mining, oil & gas and civil applications, solar system.

It has manufacturing facility of >2mn pumps and motors per annum.



Mather & Platt Pumps Ltd (M&P), incorporated in 2000, is a subsidiary of Wilo SE. It is engaged in manufacturing of centrifugal pumps and pumping systems for building services, water and waste water management and industries like metals, power, mines, oil and gas, food and beverage, cement, fire-fighting, and others.



Grundfos Pumps India Ltd (GFPII), incorporated in March 1998, is a wholly owned subsidiary of Grundfos Holdings, Denmark. Grundfos main products include circulator pumps for heating and air-conditioning as well as other centrifugal pumps for the industry, water supply, sewage and dosing.



Sulzer Pumps India (Sulzer), incorporated in 1974, is subsidiary of Sulzer AG, Switzerland. It is engaged in manufacturing of engineered and pre-engineered pumps and systems for the hydrocarbon processing, power generation, oil and gas, water, pulp and paper and general industries.

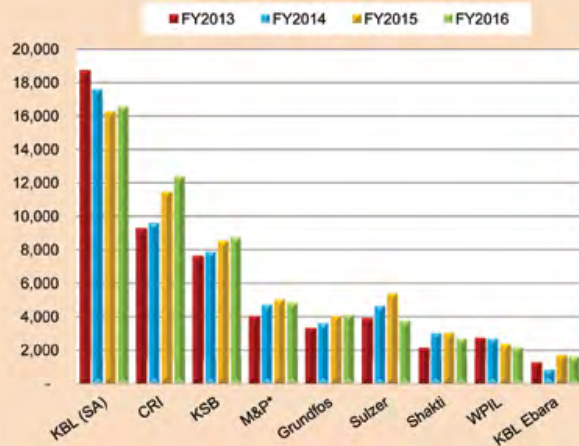
Capital goods: Sector view 2017

- Capex to be driven by government (centre+ state) in 2017. Private sector capex is not likely to pick up.
- Sectors where investments are likely to happen: railways – Rs 2.5tn, downstream oil & gas – Rs 1tn, irrigation – Rs 750bn, defence - Rs 500bn, and water – Rs 300bn. Sectors such as metals, power generation, and power transmission & distribution will continue to lag.
- B2C businesses such as consumer electricals will feel the direct impact of demonetisation. Indirect impact will be seen on execution of real estate projects and companies that have exposure to this segment. State funded projects could also face near-term pressure because of lower state earnings.

Rationale for sub segments

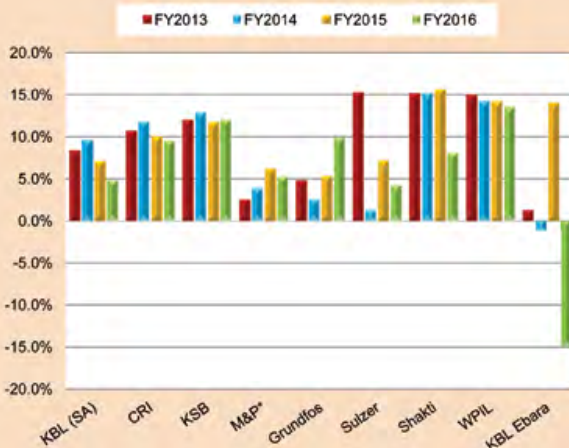
- Railways: Capex to be driven by network decongestion with projects having IRR >12%, which will face no financing issue. Railways to award Rs 2.5tn worth new orders over next three years, 80% of which would be construction-related and the rest would be product-related.
- Oil & gas (downstream): Demand gap in domestic refining capacity (ex RIL and Essar) coupled with investments by refineries to upgrade to BS-6 emission norms. Over next three years, we expect total refinery capex of Rs 1tn.
- Irrigation: States such as Telangana, Karnataka, and AP will drive capex in irrigation. Telangana alone is likely to award projects of Rs 750bn over FY17-19, 75-80% of whose scope will be civil construction. However, state finances could be a key headwind.
- Defense: Based on the defense budget (capital), India can award Rs 500bn of new orders every year. Companies such as L&T, Tata Power, and Reliance Defense are well placed to win marquee orders.
- Water: Nammami Ganga capex to pick up in FY18. Overall capex by this program is Rs 320bn.

Sales (Rs bn)

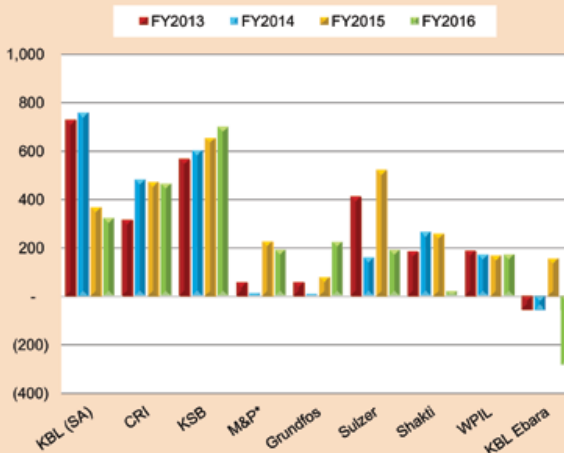


Source: Respective companies, ACE Equity *Annualised

EBITDA margin



PAT (Rs bn)



No major impact of Demonetisation visible

Near-term volume impact of demonetisation for the cement sector appears temporary. However, there seems to have been a transition (structurally) in the psychology of consumer spending. Across many regions that GV visited, this shift reflects in more judicious spends and sustained cuts in discretionary expenditure towards goods and services perceived as 'luxury' and 'unnecessary'. This should also mean more fund allocation towards building capital and investing in asset classes such as equity, debt, gold, real estate, and land (in the longer term) – all this points to demand for cement not being as badly hit as widely expected.

While November went off well as people adapted to (demonetisation) changes, December 2016 was a relatively tough month for the industry – this is when the real impact of the liquidity crisis was felt. A cyclone in south India and the demise of Tamil Nadu's Chief Minister Jayalalitha did not help matters in the south, but this region's growth will look good because of last year's low base (Tamil Nadu floods).

Overall, expectations of a recovery for the cement industry and normalcy from Q4 are strong, worse case from Q1. Most participants do not seem overly concerned about FY18 and expect growth to be ~8% pan-India. Given the low base for FY17, and assuming things normalise faster than anticipated, growth numbers for FY18 could even exceed those expectations.

The south market appears more organised to handle demonetisation and seems least affected, followed by the west. Even a remote region like northeast appeared in sync with the new norms; in fact, it seems to have discovered a few really innovative ways to neutralise the impact of demonetisation. For example, cement traders exchanged Rs 2,000 currency notes with FMCG wholesalers and distributed this cash in the market to ease problems, or stocked up of steel pellets (a non-perishable commodity unlike cement). Volumes in north and east India were more affected than other regions. Gujarat was the most impacted in west India.



Overall, expectations of a recovery for the cement industry and normalcy from Q4 are strong, worse case from Q1. Most participants do not seem overly concerned about FY18 and expect growth to be ~8% pan-India

All participants ruled out inventory write-off risks.



Small sub-dealers in east and south India appear very organised and use accounting software for their everyday transactions

The regional difference is stark – November 2016 mom volume impact in the north was nearly 20-30% while it was only about 0-10% in the south. All participants ruled out inventory write-off risks.

The period after demonetisation saw some smart moves from south and west players who adapted to the change by extending their credit cycles; it is generally 30 days, which they extended by another 15-30 days. North and east saw more disruption because these markets are more traditional in their business dealings and largely cash and carry. Barring Gujarat and a few pockets in the north, impact on pricing in Q3 was inconsequential (relative to the volume impact). This was a saving grace because any price war would have been suicidal. Pricing in most parts of the country was largely stable and commentary from almost every segment of the industry remained optimistic even after factoring demonetisation.

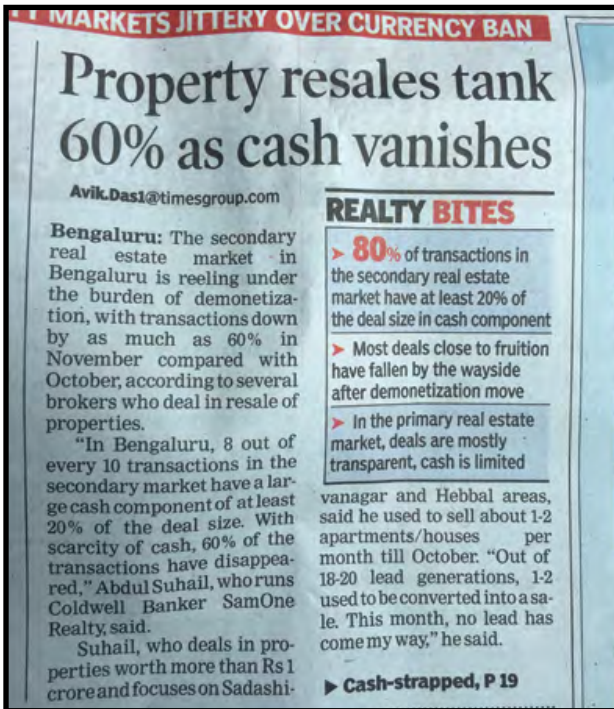
GV saw industry veterans and leaders such as Mr N Srinivasan (Vice Chairman & Managing Director of The India Cements) taking stock of the situation in south India by personally vis-



iting various dealers and stockists and address issues. This was a great example of the industry's proactive approach in order to avoid collateral damage.



Despite mom volume falls, south India attempted price hikes in Q3 to avoid price falls in anticipation of low demand due to demonetisation. Pricing in regions such as northeast improved by Rs 10-15/bag, while prices in other regions remained stable. However, due to cash discounts Q3 numbers of cement companies may not show improvement in realisations. The market expects realisations for manufacturers to soften by Rs 5-10/



Property resale market impacted big-time, so primary sales should move better in the medium term

bag qoq in Q3 for most regions, but rules out significant corrections beyond this. Companies with a December financial year ending are believed to have compromised volume targets in many regions in order to support cement prices.

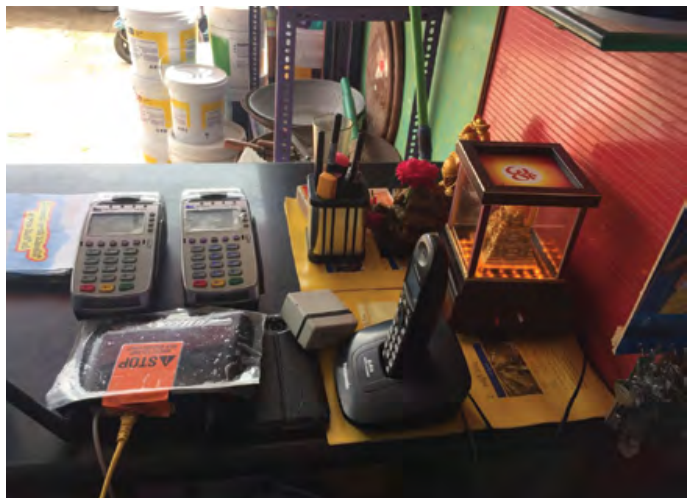
Larger concerns and issues for the industry due to demonetisation mainly emerged in logistics; most of these the cement companies have addressed and they expect business to get better from here. There have also been issues regarding wages to daily labourers (especially for contractors) that it is looking into.

Of the participants GV met, none had negative comments about the structural long-term impact of demonetisation on cement demand. Most expect a 15-20% correction in real estate prices, which they see increasing housing demand in the medium to long term. The common view is that sale of land will take a hit and land prices will correct materially. In the immediate term, demand for housing would remain subdued as buyers wait for a price correction. While the near-term volume impact would remain uncompensated, the trade-off would be better bonding of industry players to establish a maturity that offsets volume impact through better pricing. The 'learning' for the industry should make it more sensitive towards prices in the longer term. Feedback suggests recovery in south and west India will be faster than other regions.

How has cement demand been impacted? The negatives as well as medium-term positives

Cement sales are classified largely as trade and non-trade; trade accounts for ~70% of industry sales. Though there are no structural demand issues, cash crunch has negatively affected near-term demand. Reasons:

Individual house builders: Nearly 60-65% of the industry's total cement sales are directly / indirectly to the housing segment. This includes sales to real estate and individual house builders (IHB), which contribute more than 40-45% of sales – this is where demonetisation has hit the hardest as most sales in this category are retail and mainly paid in cash. To offset the impact, cement dealers have started accepting payments through debit / credit cards, mobile wallets, and RTGS. In certain cases, GV saw cement dealers accepting payments through cheques – where they would release supply when the cheque was honoured. What came as a pleasant surprise was that few cement dealers have organised multiple swipe machines at their counters to avoid inconvenience to customers. However, this was true for only about 20-30% of the dealers GV visited and that too largely in south and west India. Other regions still need to adapt to changes, and this is a near-term concern for the industry.



For Rs 90 an hour, someone's willing to queue up for you

Bookmychotu, a start-up based in Noida, is offering 'helpers' to stand in queues outside banks and ATMs

Mumbai Mirror Bureau
 mirrorfeedback@timesgroup.com
 TWEETS @MumbaiMirror

A start-up in New Delhi is mining what seems to be a very palpable need. It provides people who can queue up for you – at the ATM, bank and so on – for Rs 90 per hour. The service is available in Delhi and the National Capital Region. Bookmychotu, founded by Satjeet Singh Bedi and Govin Kandhari in January this year, claims to be the country's "first on-demand helper booking website". And, it burst out of relative anonymity after it started running a campaign on social media last week, within days of the government's demonetisation move.

Its 'Hire Hourly Helpers @ Rs 90 per hour' pitch is accompanied by a photograph of a long line of people waiting outside an ATM. The photograph is captioned: "We are against black money. We want to help our government fight this problem!!"

The timing of the launch of the service has invited both criticism and amusement in equal measure

on social media. Many people have protested the start-up's use of 'chhotu', the generic, blanket identity for child workers, in its name. On its website, the company claims that all its staffers are over 18.

In an interview with a website, Kandhari said that the idea behind the name was because "we aim to make it a household name across India and especially northern Indians, who usually have domestic helpers as an integral part of their homes and out of love they give them nicknames like Chotu which is very easy to recall."

On its Facebook posts, Bookmychotu has stated that its "boys will not go inside the bank". "They will just stand in the queue for our customers as we understand that there can be some emergency and our helpers can help you in the same by saving your valuable time."

According to a Delhi-based start-up expert, Bedi and Kandhari had originally started a grocery delivery service called Convenient Cart in July last year.

When that failed to take off, they converted the operation into a helper-booking website. Bedi is a former employee of a business consulting firm, while Kandhari's family is among Coca-Cola's largest bottlers in north India. Both the founders could not be reached for comment.

Labourers stood in bank and ATM queues for the affluent for commissions

Shortage of labour and workers: Many contractual labourers and workers returned to their home towns where they found better and faster earning opportunities. These people earned more by standing in queue or exchanging cash for others at bank counters in exchange for a commission ranging from 10-30%. The inedible ink concept to prevent people from doing this did not work; in fact, most bank branches did not even adopt this approach. Therefore, in November and December 2016 (when cash exchange was halted) the affluent deposited cash in various bank accounts including Jan Dhan accounts through the less affluent, who stood in queues outside ATMs and at bank counters for a commission. This had in a material impact on construction activity. Acute labour shortage resulted in lower cement demand.

Stocking up of TMT bars / other house construction related raw materials: Though theoretically cement can be stored for even six months, it is to an extent a perishable commodity. It has the risk of being exposed to moisture and few industry participants maintain that it loses its strength if not used within a specific time. In the demonetisation melee, consumers stocked up on other non-perishable construction-related raw materials while avoiding purchases of cement. Most cement channel partners/distributors/retailers also tend to deal in building-material product categories – and they figured out multiple ways to keep the window open for accepting discontinued currency (despite it not being legal ten-

Acute labour shortage resulted in lower cement demand

der) and depositing it in bank accounts. While this kept cement sales low for these channel partners, their sales of other non-perishable construction-related products increased. Since customers have bought other construction material, cement dealers and channel partners expect cement demand to kick in eventually; most expect demand to recover in Q4/Q1.



Standing in queues became a legitimate way of earning money in the wake of demonetisation. In fact, a few companies were quickly set up to rent out 'queueers'!!



Govt signs MoU with cement cos

Hyderabad: The Telangana State Housing Corporation has signed an MoU with 32 cement companies for supplying cement bags at the rate of ₹230 each for a two bedroom housing programme.

A local newspaper article in November 2016 – a recent contract between government and cement manufacturers in Telangana

Aggregates are predominantly a cash-and-carry business:

Usage of cement depends on availability of aggregates such as sand, stones, etc and these are used together in ready-mix concrete plants to manufacture concrete. Though cement is an organised business, other aggregates are not (except in few cases in south India where even aggregates are more organised than in other regions). This has taken a toll on cement consumption, as availability of other complementary raw materials to manufacture concrete was an issue in certain cases.

Where is the supply chain impacted?

Supply-chain in the cement industry largely depends on road transport and involves two aspects – transportation of cement from factory to dealers and warehouses, and transportation from warehouses to final consumers. While the first leg is mainly the responsibility of the manufacturer, it does not have primary responsibility towards the second aspect (to ensure that no inventory is stuck in the channel and that material is effectively being transported from the channel partners to the consumers). However, the second leg of the supply chain is quite crucial, as it affects the production schedule and operating efficiencies of the cement manufacturer. The entire supply-chain ultimately depends on smooth availability of trucks. Several issues emerged in this area because of demonetisation.

Availability of trucks and an effective transport system for inward and outward freight is the lifeline of the industry

What are these issues?

Transportation is highly labour intensive, especially road transport. Almost all trucks require manual labour for loading and unloading at multiple stages. For example:

- A 'pure format' of road transport (where the entire transportation is only by road) may involve loading and unloading of cement bags at least twice before being delivered to the final channel partner – once at the factory and then from the warehouse to the channel partner or final consumer (in case of institutional clients).
- In case transportation is through rail, it will involve loading and unloading multiple times (may be thrice or even more) – once at the factory (in case the factory does not have automated wagon loading), second at the arriving depot of the railway rake, and third from the railway rake depot to the final channel partner or consumer. If the railway loading terminal is far from the factory, another leg of loading and unloading would be involved. One of the leading cement manufacturers says that the industry avoids rail transport unless the loading facility is accessible, as the economics of loading wagons from a distant terminal adds to the secondary freight and negates the whole financial advantage of using the railways.

Loaders (manual labour) are paid hefty wages. In most cases, they earn more than Rs 50,000 per month; some may earn as much as Rs 100,000-150,000 a month depending on how many hours and how much they work in a day. These workers are generally used to payments in three formats:

- 1. Payment from the C&F agents:** They are responsible for warehouse operations; C&F agents bill cement companies for warehouse operations and pay labourers in cheque or cash



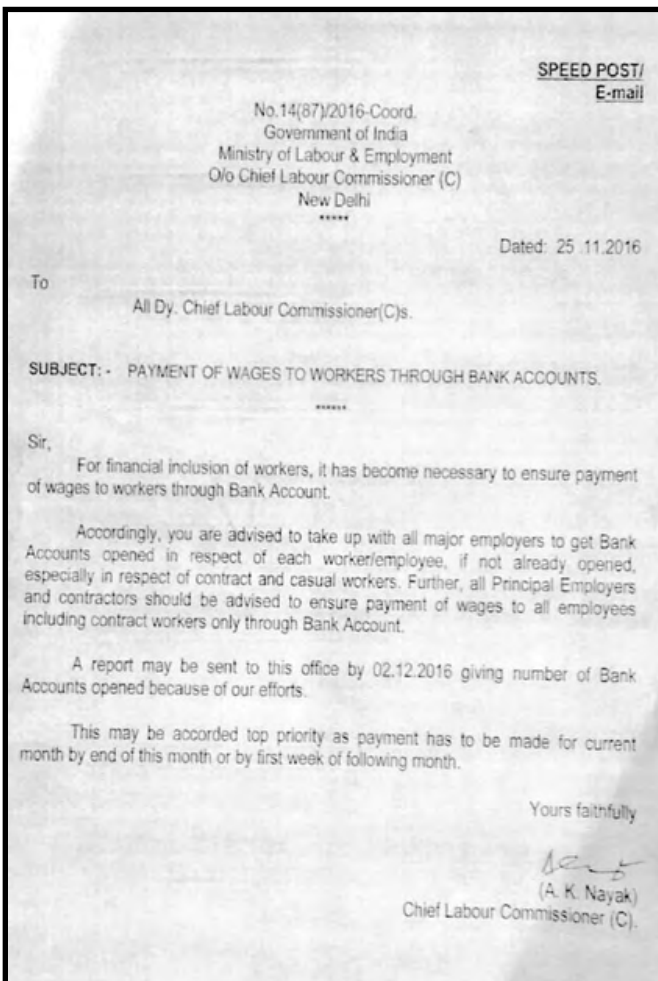
Loaders at a warehouse who earn 'Mamol'

2. Payment from transporters: This payment may also be in cheque or cash

3. A compensation called 'Mamol' paid by cement manufacturers to labourers in cash: Earlier, transporters used to bill this amount to cement manufacturers, which the latter paid them via cheques or bank transfers. Transporters would then pay this amount in cash to individual labourers. Though Mamol is paid as a 'gesture', labourers are used to this compensations and it is presumed to be a part of their wage payments. It varies from Rs 20-40/tonne and hence it is a sizeable amount. This has been a worrisome aspect within logistics after demonetisation.

The key issue: Payments to C&F and transporters made via bank transfers (Mamol), which is a sizeable amount, was only in cash. This is one of the key income sources for labourers. After demonetisation, transporters are unable to arrange sufficient cash – which affected supply chain and transportation. Labourers do not trust transporters enough to wait for Mamol payments after the liquidity crunch abates.

Solution identified: As a temporary measure, transporters have selected individual labourers who are old timers (loyal and elderly) and opened bank accounts for them. To assure other labourers of their good intentions, transporters are transferring the total Mamol sum to these select older labourers' accounts and asking them to distribute it to the others. This is obviously not a permanent solution and the long-term solution would be that all labourers that transporters employ needs to be verified by regulatory authorities and need to have individual bank accounts into which their income can be paid.



Notice received by a contractor to make all payments to labourers through bank accounts.



Toll booths have now started accepting various modes of payments

Other issues with labourers and transporters

- Drivers don't have adequate pocket expenses for the trip: Normal trip distances for the industry are about 300-500kms – with time taken anywhere between 24 and 48 hours. However, in some cases (south to east, northeast to east) trip distances are higher (may be upwards of 800 kms). In these cases, when the trip takes nearly 4-5 days, drivers usually do not have enough cash to pay for expenses such as food, truck breakdowns, etc.
- Labourers lack proper documents: About 25-30% of labourers have bank accounts. However, for the 70% that don't, they also don't have documentary evidence (such as PAN, Aadhar, election cards) that are needed to support their legal status towards opening bank accounts.
- Migrant labour may not want to open bank accounts: In many parts of the country, the labour force consists of migrants; hence, they are not very open to having bank accounts because they lack local identity proof and are not literate enough to transfer money to their hometowns through bank accounts via mobile apps / online platforms. Also, the relatives of such labourers in their hometown are either elderly or their families (in most cases wives and children of such labourers) lack the wherewithal to operate bank accounts and receive money. Money orders still remains a preferred way.
- Illiteracy will be a major hindrance: Most labourers are illiterate and probably would not be very comfortable with the transition to a cashless system. Debit cards, mobile wallets, and cheque-books would probably prove difficult for them to learn and adopt.

“
Why worry about payments if you can disburse your employees' emoluments electronically through Prepaid Cards. I disbursed salaries for the blue collared workers through State Bank eZ Pay Card.
- Contractor
 ”

Promotional advertisement in local newspapers through banks and petrol pumps to promote cashless transactions and avoid inconvenience.

Naidu mulls free smartphones for BPL families

In the wake of troubles being faced by common man after demonetisation if ₹500 and ₹1000 notes, AP chief minister Chandrababu Naidu is contemplating giving smart phones to below poverty line (BPL) families in the state. Naidu wants to achieve twin objectives with this: One is to enable the poor people to get used to cashless and digital transactions and the other to overcome the shortage of low denomination notes. Naidu directed his officials to prepare a blueprint to launch the programme immediately. The total requirement could be 60-70 lakh mobiles, a senior official said. Popular brands like Celkon, Micromax and Karbon have set up their plants in AP, officials hope it won't be a problem for the government to procure mobile phones in bulk at a reasonable price. P2

We are happy we could be of help to disburse cash at the times like these. We joined hands with banks like State Bank to disburse cash.
- Petrol Pump Owner

Initiatives by the government in south India - distribution of smart phones to promote e-payments

What do we read on the ground?

Industry is optimistic about growth but concerns due to demonetisation are visible in the near term: Though the industry does not seem overly concerned on the medium growth potential, it appears slightly worried about the near-term impact especially in regions such as north India and Gujarat. While a few are confident of a recovery in Q4, others suggest the recovery is a bit distant – say Q1 or Q2FY18.

Operating margins for the industry will remain under pressure; this change in opex could become structural: Demonetisation will lead to structural long-term changes in the operating matrix of the industry, especially in logistics. If and when the industry becomes organised (workers being paid directly in their individual bank accounts), workers may demand higher wages to compensate for tax.

Overloading will become more difficult, dent operating costs: In a few cases, some companies paid transporters (usually in cash) for deliberate overloading. Given the current governance environment, there is a definite expectation that this practice will fade, materially impacting operating costs, especially for the ex-south-based cement manufacturers (where overloading is prominent).

For now, lower impact on non-trade sales: For Q3, margins of cement manufacturers will be much lower than anticipated as a large chunk of the remunerative business vertical – trade sales – has been hit hard. Non-trade margins are not materially lower than trade, but are definitely not equivalent. Most institutional buyers receive quite discounted rates, as they negotiate for larger quantities; hence, margin impact is inevitable for Q3. The bright side is, Q4 onwards, as and when the trade segment recovers, the sector's margins would recover.

Commentary on pricing remains very positive: No participant seemed concerned about a price falls or a breakdown of price discipline. Price correction in few pockets (Gujarat) has been material, but the industry remains optimistic of a price recovery. Prices in most pockets have softened by Rs 5-15/bag. However, the industry made desperate attempts across all pockets to increase prices in Q3 or made announcements of price hikes to arrest falls. Given the volume impact seen in Q3, the price correction is immaterial on a relative basis. Prices are likely to bounce back by Rs 20-30/bag in Q4, given

the optimism of a demand revival.

Cost-push will have an impact in Q3; attempts will be made in Q4 to offset this: Fuel prices have run up sharply and are likely to have an impact on Q3 earnings. Fuel prices (pet coke) for March delivery are believed to be at ~US\$ 100/tonne – near highs. Industry will face a double-whammy of price falls and rising input cost in Q3. However, in all foreseeable scenarios, prices in Q4 should be increased to offset the cost-push and earn some incremental margins.

The conclusion: Near-term pain is visible for the cement industry either because of an inability to pass on higher costs (south India) or due to the demonetisation volume impact (north). Channel partners and dealers are actually more optimistic about a demand revival for cement in FY18 than manufacturers. Significant concerns about FY18 volumes are not widely visible.

In the worst case, FY18 volumes could fall 5-10% vs. original expectations. However, there seems to be greater chances that FY18 will be a turnaround year and surprise positively. If the industry takes a call to increase cement prices driven by better demand off-take from infrastructure projects and the housing segment, earnings are likely to rebound.

Though the picture looks dull right now, this is more because of factors other than demonetisation – such as rising costs. Demonetisation has definitely had a volume impact in north India, Gujarat, and parts of east India – but this is because these are conventionally cash-and-carry markets. Expectations of a demand revival hold strong in the latter half of Q4 and in Q1FY18 in almost all regions of the country, as labourers stop finding standing in bank queues lucrative and return to their regular jobs. The best part is that the industry appears to be united on pricing, which could improve its pan-India pricing power by Rs 15-25/bag in Q4/Q1. Cement manufacturers' price sensitivity to earnings is much higher than volume sensitivity. Hence, FY18 earnings do not appear to be at a material risk. Mid-cap stocks should be key gainers given that they have more near-term earnings triggers backed by capacity additions (as compared to large-caps) and the valuation gap between mid-caps and large-caps is too wide.

Demonetization derails GST, progress underway



GST seemed to have taken a backseat amidst demonetisation, until recently when a breakthrough was achieved with the states on dual control. GST implementation is delayed to July 2017, says FM, which is still a reasonable timeframe considering the adverse revenue impact to states from demonetization. While GST is a much-awaited tax reform by corporates and investors, it will be inflationary and growth neutral.

States come on board despite demonetization-led revenue loss:

While states were not fully convinced about all aspects of GST, they were relatively in favour of GST until a month back – that is until demonetisation hit political parties' and states' fiscal revenues. The same states looked sceptically at GST, to the extent that it may not go through for a few more quarters. States have lost considerably in revenues due to the central government's currency ban. Revenue losses have come in the form of lower stamp duty, VAT collection, impacted by sluggish demand in general, and particularly for the real estate.

The states' revenue position has been hit by the currency ban imposed by the central government which will affect their spending negatively (in quality and value). Additionally, states will be implementing 7th pay commission recommendations (salary hikes for government employees) over the next two years, which will be

an added hit to their revenues and fiscal account. While the central government has promised reimbursement of revenue losses because of GST (for five years), states are worried about the sizeable loss of taxes from various streams (demonetisation + 7th PC + GST). Thus, it was anticipated that the previously conceived GST implementation schedule may be thrown out of kilter!

However, in the recently held meeting between the centre and states, unexpected happened when a breakthrough was achieved towards agreement on dual control and tax sharing between the centre and states. Most of the states (except West Bengal) agreed with the tax sharing formulae (a business turnover of Rs 15mn to be largely taxed by the states and above Rs 15mn will be equally taxed by the centre and states). This was a big hurdle crossed and sooner than expected. This led to FM announcing a GST implementation date of 1st July 2017.

Demonetization + GST should aid tax compliance:

FY17 tax revenue will surpass expectations led by higher indirect tax collections and income disclosure schemes. While IDS (1) garnered Rs 650bn (below government's target of Rs 1000bn), IDS (2) (which is open till March 2017) should attract higher funds due to penalty and compliance fears post demonetization. We perceive demonetization as one amongst the other measures government has taken/will take to create fears in the minds of tax evaders. This should result in higher tax compliance and tax collections.

Anticipated sluggish economic activity will continue to weigh on taxes. While private investment cycle will further worsen (pain likely for next two years), private consumption will at best rise gradually, a surge is unlikely (as the benefit of 7th PC and monsoon is waned/derailed). Lack of financial savings from demonetization as well as limited upside to tax collections (sluggish economic activity), any kind of sharp rise in government spend in FY18 is unlikely. Additionally, 2019 is a union election year, and the government will incrementally start focusing on rural spending, possibly hurting the quality of spend (low capex). GST introduction

would also mean that the central government will have to start reimbursing states from FY18 itself – impact spend quality. To meet the spending needs, it is likely that the government may seriously pursue SUUTI dilution to bring in additional revenue – to the extent of about Rs 500bn – and partially use it for capex.

While much has been made of the government encouraging market borrowing as a funding route for key infrastructure entities (railways, NHAI), this mode's success (at least for the next couple of years until the administrative machinery gains some experience) is not guaranteed. Thus, for now, greater reliance will continue on the government for funding capex.

Informal to formal sector – yes, but not immediately:

Demonetisation before GST will push businesses and consumers to the formal sector, but not in a significant way. While the government is taking sound steps to increase tax compliance – it is unlikely that these will yield results soon. IDS, demonetisation, and other measures will certainly lead to stricter tax compliance – the complacency and 'psyche' of Indian businessmen, particularly small businesses, needed to be shaken. GST – whose key benefit is in the form of a tax set-off to producers – will offer an additional fillip to tax compliance and bind benefits of all the government policies announced towards improving tax compliance. That said, it is quite likely that the reduction in the informal sector's size will be gradual and perhaps even insignificant – until the government is forceful about compliance (it is possible that the government will have better income data availability after demonetisation).

Path ahead:

All the states will have to pass SGST law in their assemblies, commodity-wise GST bracket is still unknown (most important to gauge spectral benefits), and trial-run by the corporates. GST implementation in July 2017 will be a positive for the corporate (tax set-off benefit and easy tax administration), neutral for government, and dampener for consumers due to higher CPI.

EVENTS 2017

BY AASHIMA MUTNEJA

JANUARY

Q3FY17 Earnings
Jan 19th – ECB Monetary Policy Meeting
Jan 20th – Trump will be sworn in as the 45th US President

FEBRUARY

Feb 1st – FY18 Union Budget Presentation
Feb 4th – Punjab State Polls
Feb 4th – Goa State Polls
Feb 11th – 27th – Phase I to V of UP State Polls will be completed
RBI Monetary Policy Meeting

MARCH

Mar 4th -8th – Phase VI and VII of UP State Polls will be completed
March 4th-8th – Phase I- II of Manipur State Polls will be completed
March 9th – ECB Monetary Policy Meeting
March 14th-15th – FOMC meeting - Summary of Economic Projections
End of March – UK PM Theresa May will invoke Article 50
Rabi harvesting begins

APRIL

GST Bill implementation
April 23rd - 1st Round of French Presidential Elections
1st IMD Monsoon Forecast
Q4FY17 Earnings
April 27th – ECB Monetary Policy Meeting
RBI Monetary Policy Meeting

MAY

May 7th - 2nd Round of French Presidential Elections (given no outright majority in the 1st round)
May 26th-27th – Italy holds the 43rd G7 Summit
Iran's Presidential Elections

JUNE

June 8th – ECB Monetary Policy Meeting
Jun 13th -14th – FOMC meeting and Summary of Economic Projections
RBI Monetary Policy Meeting
2017 ICC Champions Trophy

JULY

Q1FY18 Earnings
July 7th-8th – Germany holds G20 Summit
July 20th – ECB Monetary Policy Meeting

PhillipCapital Ground View Conference

Kharif Sowing

AUGUST

RBI Monetary Policy Meeting

SEPTEMBER

Sep 7th – ECB Monetary Policy Meeting
Sep 19th-20th – FOMC meeting and Summary of Economic Projections
19th National Congress of the Communist Party of China

OCTOBER

Q2FY18 Earnings
Oct 26th – ECB Monetary Policy Meeting
RBI Monetary Policy Meeting
German Federal Elections
19th National Congress of the Communist Party of China

NOVEMBER

Kharif Harvesting
Gujarat Legislative Assembly Elections

DECEMBER

Dec 12th-13th – FOMC meeting and Summary of Economic Projections
Dec 14th – ECB Monetary Policy Meeting
RBI Monetary Policy Meeting

Fast *iM*proving Consumer Goods

Where do we go from here?

“December has been pretty good; we will be exceeding our target for the month. However, January will be more interesting because December was also a month of channel filling, as stock levels had severely depleted in November. For the quarter, we should close at 100 index year on year,” says one of the largest distributors for FMCG products in India. On the face of it, the impact of demonetisation is short lived for the FMCG sector, but taking a closer look, it has changed the ways in which business is being conducted in India, and this has long-term implications for FMCG companies. The consumer sector’s landscape is fast changing. Bigger players are emerging stronger but innovative companies that can catch the early trends of rising consumption using digital channels stand to gain the most. There is a bigger role for modern trade in both B2B and B2C transactions and the general trade landscape is changing. All these – companies with focus on digital channels, modern wholesale and modern trade – will be the real winners.

In the last two months, the ground view team travelled across India to interact with channel partners in most key states in the country including Tamil Nadu, AP, Maharashtra, Madhya Pradesh, and Uttar Pradesh. Three major themes playing out in the FMCG sector now are: (1) a rise in digital transactions, (2) significant slowdown in the wholesale channel and emergence of organised wholesaling, and (3) outperformance by larger FMCG players vs. smaller ones.



“Everybody’s swiping here in Vijayawada. Even rural people swipe. Everyday, you see advertisements promoting debit cards and going cashless. So you see no queues at banks,”

- Shanthakumar, a taxi driver in Vijayawada,

Digital currency gets a shot in the arm

“Everybody’s swiping here in Vijayawada. Even rural people swipe. Everyday, you see advertisements promoting debit cards and going cashless. So you see no queues at banks,” said Shanthakumar, a taxi driver in Vijayawada, a tier-2 city in the south Indian state of Andhra Pradesh, summarising the cash situation of his city. He is right to a large extent – digitisation of monetary transactions was initiated way back in the 1990s in AP by the then state government led by CM Chandrababu Naidu.

While coastal Andhra may be among the leading states in terms of digitisation of monetary transactions, digital transactions across the country have increased significantly – according to recent RBI data. The cash crunch has forced many consumers to use alternate transaction mediums like cards and digital wallets, and a significant number of traders have adopted new mediums to avoid loss of business. Throughout the country, many traders who did not accept card payments earlier, have started ordering for new POS machines to avoid loss of business. While procuring new POS machines from banks takes 2-4 weeks on an average, a significant number of retailers across cities have adopted quicker solutions like Paytm digital wallet. Installation of these user-friendly digital wallets takes not more than five minutes on a mobile phone, and we have seen its adoption across businesses from roadside hawkers to large showrooms in most tier 1/2 cities.

Paytm, a digital wallet provider with 150mn users currently, added 5mn users within two weeks of demonetisation and is currently doing 7mn transactions a day, which is more than those of debit/credit cards combined. Even credit and debit card transactions are on the rise. Canara Bank saw a ten-fold rise in daily transaction value on POS machines to ₹66.4mn by December 9 from ₹6.8mn on November 8.

As more consumers migrate to digital mediums, businesses will have to adapt to the new order. India has 712mn debit cards, over 150mn mobile wallets, and 26mn credit cards outstanding. While a significant number of debit cards are not active, demonetisation is likely to result in a huge number of card activations and a surge in mobile wallet transactions.

Increase in digital transactions will be very beneficial for FMCG companies as has been concluded by many research papers (including one by Braga et al.). Digital transactions help increase spending propensity and frequency among consumers. As a result, forthcoming changes in spending patterns will dictate both product and distribution strategies for consumer companies. Larger pack sizes, premiumisation, a bigger discretionary portfolio, modern trade, and a robust online strategy will dominate boardroom discussions of consumer companies.

Traditional vs. modern wholesale

Mr Mahaveer, a wholesaler, in the busy One Town market of Vijaywada is a worried man these days. He is the top dealer of personal care products in the One Town market and the go-to dealer for interstate transactions, but has seen his customers almost disappear after demonetisation. "We have never seen such a slowdown in our lives. Sales have fallen by almost 60-70% and we are afraid of sending any truck out of Andhra Pradesh for fear of goods seizure by tax authorities," he exclaimed when asked about his sales trajectory after demonetisation. Mahaveer has also reduced purchases of fresh products and is undergoing destocking to manage his cash crunch due to demonetisation and loss in sales.

For most national FMCG companies, the wholesale

Throughout the country, FMCG wholesale sales are down 40-60% after demonetisation.

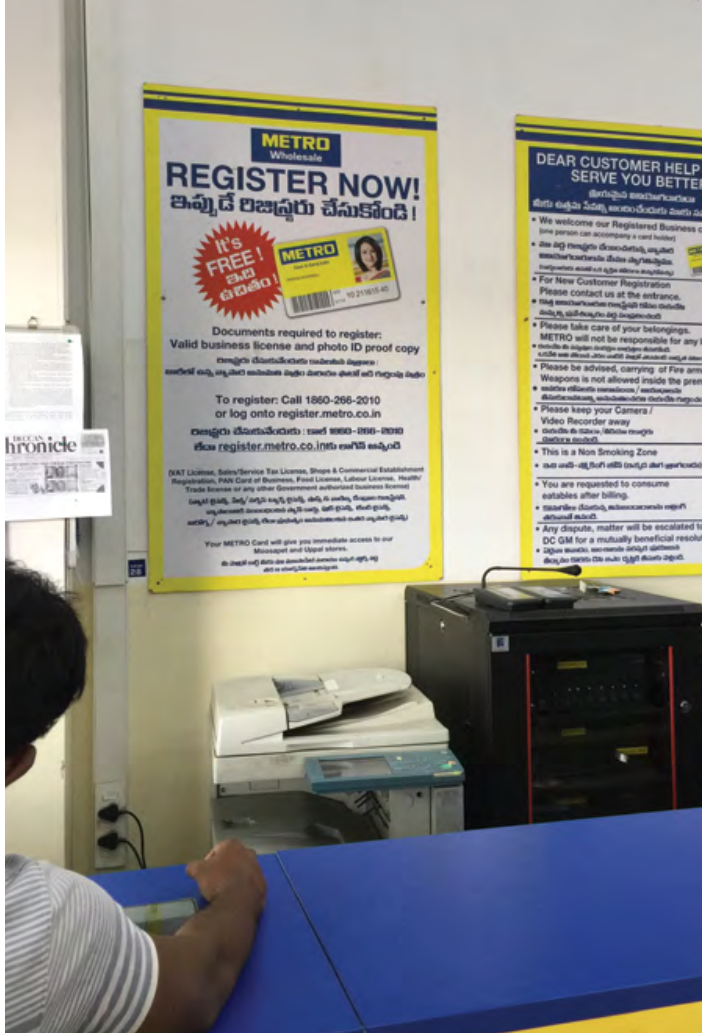
channel contributes to around 40-60% of total sales. The wholesale contribution tends to be higher (as high as 80%) for local and smaller brands that lack the financial wherewithal to develop a deep direct distribution channel. Due to legacy reasons and thin margins (1-2% for wholesalers vs. 8-15% for retailers), most traditional wholesalers transact only in cash and stay outside the taxation net, accumulating huge unaccounted cash in the process.

A severe cash crunch afflicts wholesalers currently, as limits have been set on withdrawal of new notes and many transactions have moved to digital. Many wholesalers in India rarely transact using the formal channels and only transact in cash. Demonetisation has disrupted their business model; throughout the country, FMCG wholesale sales are down 40-60% after demonetisation. The impact has been even higher for wholesalers focusing more on interstate transactions, as these transactions have almost come to a standstill. Also, some wholesalers move goods interstate without proper invoices. In the current state of affairs, moving goods without proper invoices has become a huge challenge because of the checks on highways.

The Siyaganj wholesale market of Indore not only caters to nearby towns and villages, but also acts as a hub for interstate wholesale transactions across western and northern India. "We normally do not have time to talk to people other than customers throughout the day. But since 9th November (first day after demonetisation), the market has had a desolate look and it refuses to improve," said Mr Gautam sitting in his wholesale outlet of FMCG products in Siyaganj. "Brands like Parachute, Good Knight, and those of essential products have not seen a major hit, but discretionary categories like skin and body care, premium hair care brands like Livon and Set Wet have been hit hard – to the tune of 50-60%."

Compared to retailers, who work on 8-15% margins on the sales value, wholesalers work on very thin margins (1-2%).

METRO Wholesale



Metro Cash and Carry, Best Price by Walmart and Reliance Fresh have made big inroads into the wholesale business with many outlets reporting positive like to like growth

Some wholesalers have either quickly adapted to new norms and now deal in cheques or have adopted innovative ways to circumvent the banking channels. Mr Sawant, a large FMCG distributor in Pune explained how traders (wholesalers and retailers) have handled money rotation in the absence of cash, "Earlier, the wholesale channel contributed to less than 5% of cheque payments and only dealt in cash. However, post demonetisation, some wholesalers have adopted the formal banking channels to avoid loss of business. Some, bent on avoiding banking channels, have gone a step further – they now collect unnamed cheques from their debtors (retailers) and forward these to distributors."

Modern trade gains big

While the traditional wholesale channel has struggled to cope with new ways of doing business, modern wholesale like Metro Cash And Carry or Best Price by Walmart are gaining at the expense of traditional wholesalers. "We exceeded our target in November and our business grew by more than 8% mom. We saw gains in food and FMCG products. Retailers have been purchasing goods from us as we transact only on cards and provide competitive prices," said a store manager of Metro Cash And Carry not wishing to be named. Metro Cash and Carry, Best Price by Walmart and Reliance Fresh have made big inroads into the wholesale business.

"Modern trade has been doing very well and it is almost 30% of our sales," says an Area Sales Manager in South India for a leading MNC beverages company. The news-flow about modern trade across India is quite similar. Apart from this, retailers who accept digital modes of payments and try to position themselves as supermarkets have done reasonably well in this downturn. Channels that have been part of the formal system have done reasonably well, and modern trade (with better means of handling volumes in the formal system) has done even better. Both organised wholesaling and retailing seem to be coming of age and demonetisation has clearly provided the necessary boost to these mediums.

Channels that have been part of the formal system have done reasonably well, and modern trade (with better means of handling volumes in the formal system) has done even better

Staples normalised; discretionary consumption hit harder

While traditional wholesale-channel sales across regions have fallen 40-60% for large FMCG companies, corresponding distributor sales have fallen by only 5-15%. This is because the direct sales channel and organised retailing have successfully stepped up. The traditional wholesale channel is in the process of finding out ways and means to do business the formal way; in the meantime, distributors have adjusted to the disruption faster and stepped up the direct sales and direct reach.

Mr Murali, channel partner for a very large FMCG player in Andhra Pradesh says, "Immediately after demonetisation, sales had dropped by almost 50% (in the first two weeks). We closed November with a 20% decline. Since then, as liquidity improved, sales have stabilised and in December we are at only 5% below-normal levels."

The step up in direct distribution has also occurred due to significant reduction in the phenomenon of undercutting. Undercutting is the process in which distributors, in order to complete or exceed their targets, sell goods (below company-prescribed margins) to wholesalers based outside their company-defined areas. Some of these goods are also sold to wholesalers in other states and transported illegally to benefit from differential VATs across states. As the financial power of wholesalers has been significantly weakened, distributors across regions have seen a drastic reduction in undercutting. This has helped them improve their direct sales and also their direct distribution reach.

For top brands in categories like oral care, soaps, and detergents and coconut oil, December sales are down by 5-10%. For categories that are more discretionary (like skin care, premium biscuits, gels, and deodorants), the sales dip is higher at 15-20%.

David vs. Goliath: Goliath winning this one though

The slowdown in the wholesale channel has had different implications for larger and smaller FMCG players. The cash crunch following demonetisation has made it difficult for wholesalers and retailers to purchase multiple brands of products in each category. This has forced them to prioritise some companies and brands over the others.

Smaller companies have been hit harder in the last two months compared to larger ones. Heinz Tomato Ketchup has seen dip in secondary sales of ~80% in rural Andhra Pradesh after demonetisation while the dip in sales for Maggi or Kissan is significantly less (~20%). While Bajaj Almond Hair Oil has seen a dip of more than 60% in its wholesale channel in Indore, Marico's hair oil portfolio is relatively better off (5-10% dip). This is true for many other staples categories where larger brands are relatively unaffected in comparison to local and smaller brands.

"How will one survive if one does not do business with HUL?," quipped Mr Raju, owner of a grocery store in Guntur, when asked which companies' products have been given priority in purchases. Due to limited amount of liquidity, most traders have given preference to larger FMCG brands for purchases because: (1) sales rotation is faster for key brands of larger companies, and (2) traders cannot afford to lose out on direct distribution from large companies (as wholesale purchase is relatively costlier). On an average, smaller brands provide higher credit in the sales channel to compete against larger and established brands. Due to their limited financial muscle, some smaller brands may find it difficult to compete with larger players in managing their supply chains and extending additional liquidity into the channels.

We believe this will have a significant impact on the market share of organised players who will stand to gain from smaller and local players. Since regaining lost market share is a time-consuming and costly process, demonetisation may lead to an acceleration in the current consumption trend in favour of organised and branded players.



(L-R) Mugi - Regional home care brand in South India AND President coconut oil - Local brand sold at a discount to Parachute's coconut oil

Final word: Winners and Losers

Most FMCG companies seem to have coped pretty well and are likely to be back on their growth trajectories. While ways and means of doing business in the distribution channels is changing, the immediate impact on company financials does not seem to be significant. Some companies have coaxed wholesalers with higher margins and longer credit periods, the impact of these changes on working capital or margins is still not clear. Pricing pressure has not been evident and illegal channels have taken a significant thrashing. Some of the key takeaways for leading FMCG companies are:

ITC: Business was back to normal within a week. Recent price hikes aiding volume growth for the quarter. The sale of illicit cigarettes and inter-state movement of goods has declined significantly. ITC's business seems to be positively impacted by demonetisation and the company is likely to emerge much stronger.

HUL: Clearly, the size and reach is helping the company to exercise market power on retailers. HUL is likely to gain market share in the process.

Colgate: Basic staples category. It has tremendous pricing power on its side. It is likely to be one of the least impacted FMCG companies.

Marico: The staples categories of the company (like Saffola and Parachute) have not been dented much, but discretionary categories have seen some

impact.

GSK Consumer: November was a very bad month for the company, but December seems to be reviving fast. The likely impact could be higher than the sector's average.

Britannia: Biscuits category, being part grocery and part impulsive has seen a higher decline (10-15% in December) as compared to staples

Dabur: The impact is similar to other FMCG companies like Marico, but Dabur has a higher exposure to the rural channel, which saw significant demand destruction in the short term. The company could show a higher-than-average decline in sales.

GCPL: In the India business, Household insecticides and Soaps have not seen a significant impact; Hair Care portfolio

has been hit harder

Bajaj Corp: Due to the lack of large portfolio and more dependence on wholesale channel, Bajaj Corp has been hit harder in hair oils than Marico

Asian Paints: Secondary sales in decorative paints have taken a significantly knock in November and December. The industrial category is likely to see limited impact. While the negative effect on Asian Paints is likely to be higher than the sector average, it has the capability of managing its performance for the quarter – as October was a very good month for the company.

Gold Finance NBFCs: Slower disbursement and higher repayments puts pressure on balance sheets

GV visited branches of all the three biggest gold finance NBFCs to gauge the impact of demonetisation on the gold loan business and customer behaviour. Mumbai is a key market for all these NBFCs, as it accounts for a significant part of their total AUM. Key conclusions:

- Though business fell by more than 90% in the first week after demonetisation, it has recovered significantly over the next 30 days – disbursement rates are now back to 65% of the pre-demonetisation average run rate.
- With current repayments rate being higher at 70% than disbursement run rate of 65% of the earlier levels, gold stock has come down by ~3.5% since 8th November.
- Interaction with customers and branch manager suggested that strict action against gold hoarders and lower demand for capital due to business slowdown has led to increased number of prepayments
- With a fall in gold prices, lending rate per gram across companies reduced by 2.5% to Rs 2,034.
- Branch managers attributed the slowdown largely to the cash crunch due to lower current-account limits; were hopeful of business returning to normal levels once cash limits were restored.

Based on the data provided by the branch, it seems likely that AUMs will fall 4-5% qoq. Moreover, with a fall in gold prices, the auction amount is likely to increase. Nevertheless, as LTVs remain capped at 75%, loss-given default will remain negligible.

Key data of a gold loan branch in Mumbai

| | % change | | | | |
|--------------------------------------|-----------------------|---------------------|----------------------|----------------------|----------------|
| | 30 th Sept | 8 th Nov | 13 th Dec | Since demonetisation | Since last qtr |
| Gold stock (kg) | 66 | 67.2 | 65 | -1.5 | -3.3 |
| Daily Disbursement (lakh) | 15 | 15 | 9 | -40.0 | -40.0 |
| Dialy disbursement (no of customers) | 32 | 30 | 20 | -37.5 | -33.3 |
| Dialy Repayment (no of customers) | 15 | 15 | 20 | 33.3 | 33.3 |
| Loan/ gm | | | | | |
| @50% LTV | 1466 | 1438 | 1384 | -5.6 | -3.8 |
| @60% LTV | 1725 | 1688 | 1634 | -5.3 | -3.2 |
| @75% LTV | 2156 | 2088 | 2034 | -5.7 | -2.6 |



Impact of demonetisation on infrastructure sector

Over the last month, GV interacted with multiple fleet owners, consultants, labour suppliers, and companies to gauge the impact of demonetisation on the infrastructure sector. Key takeaways:

Traffic on BOT projects: Fleet owners' business is down 50% yoy and is expected to be further impacted by 10-20% after toll restarted in December. Fleet owners do not have enough cash to provide for daily necessities (food etc) to drivers. Many trucks carrying non-perishable items have been stuck at various highways due to non-availability of cash to be paid at various check-posts. The situation is likely to revive only gradually after the curbs on cash withdrawals are lifted – the organised segment is likely to benefit disproportionately after that, leading to consolidation in the sector.

Labour availability: Labour supply for construction was impacted sharply, immediately after the demonetisation announcement, with most workers going back to their villages. However, gradually, workers are coming back and execution is returning to normal. Companies have been proactively helping their workers to open bank accounts and making arrangements for payments to their bank accounts. However, execution still remains below last year's levels.

Increase in receivables from state governments: Demonetisation process has led to a fall in property sales and vehicle registrations, leading to a direct loss of stamp duty and road tax for state governments. To that extent, they are cash starved (Telangana



Toll operators and BOT developers like IRB Infrastructure have already started promoting non-cash toll payments at various toll plazas

government receipts have fallen to Rs 2bn per month from Rs 20bn) and might delay payments for their construction projects, negatively affecting the working capital cycle or revenue growth (or both) for construction companies.

Other than these, the impact of demonetisation on infrastructure companies has been limited. Being a B2B business, with government (state and centre) as their clients, companies appear confident of their order inflow pipelines – especially from the roads, metros, irrigation, and buildings segments.

Potential order award opportunity in 2017

In order awards in various segments the progress has been along expectations in CY16. While multiple metro projects were awarded/approved, NHA awarded ~5,000km of road projects (incl MoRTH). While it is still quite far from the FY17 target of 25,000km (which was expected to be

NHAI pipeline for next six months

| Stretch | 4/6 Laning | EPC/BOT/HAM | Length (km) | Project Cost (Rs cr) | Date of bid submission |
|-------------------------------------------------------|------------|-------------|----------------|----------------------|------------------------|
| Kishangarh to Gulabpura | 6 | DBFOT | 90.0 | | 09.12.16 |
| Assam East West Corridor | 4 | EPC | 30.0 | | 09.12.16 |
| Solarpur to Bijapur | 4/6 | BOT (Toll) | 109.1 | 1,576.8 | 14.12.16 |
| UP NH-28 | 4 | EPC | 14.7 | 450.7 | 15.12.16 |
| Singhara to Bijhabahal | 4 | HAM | 103.8 | 1,073.7 | 15.12.16 |
| Handia to Varanasi | 6 | HAM | 72.4 | 2,065.0 | 15.12.16 |
| Chakeri to Allahabad | 6 | HAM | 145.1 | 1,430.2 | 17.01.17 |
| Porbandar to Dwarka | 4 | HAM | 117.7 | 1,463.2 | 30.12.16 |
| Vadodara Mumbai Expressway | 6 | BOT (Toll) | 124.3 | 7,523.0 | 05.01.17 |
| Nalagampalli to AP/Karnataka border | 4 | EPC | 47.7 | 673.0 | 22.12.16 |
| Jhansi to Khajuraho - Package 1 | 4 | HAM | 76.6 | 1,255.0 | 23.01.17 |
| Jhansi to Khajuraho - Package 2 | 4 | HAM | 85.4 | 920.5 | 23.01.17 |
| Kutchery Chowk-Ranchi Piska More-Biju Para | 4 | EPC | 34.0 | 239.7 | 09.01.17 |
| Biju Para - Kuru | 4 | EPC | 21.0 | 154.3 | 09.01.17 |
| Piska More - Palma | 4 | EPC | 23.1 | 165.1 | 09.01.17 |
| Jetpur - Somnath | 4 | EPC | 143.3 | 220.3 | 26.12.16 |
| Vikkaravandi to Pinalur - Sethiyapohu | 4 | EPC | 60.3 | 848.5 | 26.12.16 |
| Waranga to Mahagaon | 4 | HAM | 66.9 | 1,059.7 | 28.12.16 |
| Mahagaon to Yavatmal | 4 | HAM | 80.2 | 1,098.1 | 28.12.16 |
| Bodhre to Dhule | 4/6 | HAM | 62.8 | | 28.12.16 |
| Yavatmal to Wardha | 4 | HAM | 64.9 | 988.3 | 28.12.16 |
| Aurangabad to Telwadi | 4/6 | HAM | 85.8 | | 28.12.16 |
| Bridge over River Ganga connecting Farakka-Raiganj | 4 | EPC | 5.9 | 516.6 | 28.12.16 |
| Tulja to Ausa | 4 | HAM | 67.4 | 905.0 | 09.01.17 |
| Pandoh bypass to Takoli | 4 | HAM | 20.7 | 2,485.9 | 02.01.17 |
| Anandauram-Pendurthi-Anakapalli | 6 | HAM | 63.5 | 2,392.4 | 03.01.17 |
| Punjab/Haryana border - Jind | 4 | EPC | 68.3 | 639.8 | 03.01.17 |
| Nidagatta-Mysore | 6 | DBFOT | 61.1 | 2,299.0 | 05.01.17 |
| Bangalore - Nidagatta | 6 | DBFOT | 56.2 | 2,196.1 | 05.01.17 |
| Thalassery-Mahe Bypass | 4 | EPC | 18.6 | 813.7 | 10.01.17 |
| Bihar - Jharkhand Border (Chordaha) to Gorhar | 6 | HAM | 71.3 | 1,071.5 | 12.01.17 |
| Chitradurga - Davanagere including Chitradurga bypass | 6 | HAM | 72.7 | 999.0 | 12.01.17 |
| Hubli - Haveri | 6 | HAM | 63.4 | 983.7 | 13.01.17 |
| Stand alone Ring Road/ Bypass around Jammu City | 4 | EPC | | 1,471.8 | 16.01.17 |
| Delhi-Meerut Expressway from Dasna to Meerut | 6 | EPC | 32.0 | 1,522.4 | 16.01.17 |
| Gorhar To Barwa Adda | 6 | HAM | 80.5 | 1,303.2 | 17.01.17 |
| Davanagere - Haveri | 6 | HAM | 78.9 | 836.4 | 18.01.17 |
| Barhi-Koderma | 4 | EPC | 27.5 | | 03.02.17 |
| Samrala Chowk to Ludhiana Municipal Limit | 4 | EPC | 13.0 | 792.3 | 03.02.17 |
| Pimpalgaon- Nashik- Gonde | 6 | EPC | 60.0 | | 07.02.17 |
| Total | | | 2,520.0 | 44,433.5 | |

missed anyways), the traditionally strong order flow in the January-March quarter should see the number inching closer to 10,000km.

Road segment: NHA has a strong order award pipeline for the next three months – looking to award ~2,500km of projects with expected project costs of Rs 440bn in the first three months of CY17.

Metro segment: Large number of metro projects saw their EPC contracts awarded this year – the major ones being Mumbai Metro (phase 2A, 3 and

7A), Ahmedabad Metro (UG section), and stretches of Nagpur Metro. At the same time, multiple projects like Delhi Metro Phase 3, Lucknow Metro Phase 1A, and Hyderabad Metro are expected to start operations over the next six months. Lastly, many projects like Pune and Mumbai Phase 4, 2B saw their DPRs being approved, along with the foundation stones being laid. Overall, CY17 promises to be an action-packed year in terms of awarding activity in the metro segment. We see close to ~200km of metro projects being awarded with an estimated project cost of ~Rs 600bn.

Potential Metro projects to be awarded in 2017

| City/Line | Name of Corridor | Project Cost (Rs bn) | Length (km) | Status |
|-------------------|----------------------------------------|----------------------|--------------|--------------------------------------------------------------|
| Mumbai | | | | |
| Phase 4 | Wadala - Ghatkopar-Thane-Kasarvadavali | 120.0 | 40.0 | Foundation stone laid; bidding in 2017 |
| Phase 2B | DN Nagar - Bandra - Mankhurd | 55.9 | 21.4 | Foundation stone laid; bidding in 2017 |
| Chennai | | | | |
| Phase I Ext | Washermanpet to Wimco Nagar | 37.0 | 9.0 | Approved in Dec-16 |
| B'lore | | | | |
| Phase II - Purple | Mysore Road - Kengeri | 118.4 | 6.5 | Bids to be invited in 2017 |
| Phase II - Green | Hesaraghatta cross - BIEC | | 3.8 | Bids to be invited in 2017 |
| Phase II - Red | Gottigere - Nagavara | | 21.3 | Bids to be invited in 2017 |
| Nagpur | | | | |
| NS | North-South Corridor | 41.6 | 9.7 | 10km under construction; remaining to be invited soon |
| EW | East-West Corridor | | 8.6 | 10km under construction; bids invited for 8km |
| Lucknow | | | | |
| Phase II | Charbagh - Vasant Kunj | 48.9 | 12.0 | DPR approved |
| Ahmedabad | | | | |
| East - West | Vastral Gam - Thaltej Gam | 21.7 | 8.1 | Under Construction; bids for remaining 8km invited in Dec-16 |
| North - South | Motera Stadium - APMC | 21.3 | 8.2 | Under Construction; bids for remaining 8km invited in Dec-16 |
| Other potential | | | | |
| Pune | | 114.0 | 31.5 | DPR approved; foundation stone laid in Dec-16 |
| Kanpur | | 105.0 | 36.0 | DPR approved; foundation stone laid in Oct-16 |
| Vijaywada | | 67.7 | 26.0 | Bids invited in Nov-16 |
| Vizag | | 134.9 | 42.5 | DPR approved in Nov-16 |
| Kozhikode | | 25.1 | 13.3 | DPR approved; foundation stone laid in Feb-16 |
| Trivandrum | | 42.2 | 21.8 | DPR approved; foundation stone laid in Feb-16 |
| Total | | 586.9 | 191.4 | |

Major cities metro network update

| Delhi | Project Cost (Rs bn) | Length (Kms) | Underground length (km) | No. of Stations | Status |
|--------------|----------------------|--------------|-------------------------|-----------------|-------------------------------------|
| Phase I | 105.7 | 65.0 | 13.2 | 58 | Operational |
| Phase II | 187.8 | 124.9 | 34.9 | 85 | Operational |
| Phase III | 410.8 | 159.3 | 53.8 | 107 | 22km operational; 95km by June-2017 |
| Phase IV | 550.0 | 105.9 | 35.0 | 81 | Geotechnical bids invited |
| Total | 1,254.3 | 455.1 | 136.9 | 331 | |

Major cities metro network update

| Mumbai | Name of Corridor | Project Cost (Rs bn) | Length (km) | No. of Stations | Status |
|--------------|-------------------------------------------|----------------------|--------------|-----------------|------------------------------------------|
| Phase I | Versova-Andheri-Ghatkopar | 24 | 11.4 | 12 | Commissioned in Aug-14 |
| Phase 2 | Dahisar-Charkop-Bandra-Mankhurd | 120 | 40.0 | 36 | Foundation stone laid; bidding in 2017 |
| Phase 2A | Dahisar-DN Nagar (part of above) | 64 | 18.6 | 17 | Under construction |
| Phase 3 | Colaba-Bandra-SEEPZ | 231 | 33.5 | 27 | Under construction |
| Phase 4 | Wadala-Ghatkopar-Thane-Kasarvadavali | 120 | 40.0 | 25 | Foundation stone laid; bidding in 2017 |
| Phase 5 | Thane-Bhiwandi-Kalyan | 84 | 25.0 | 17 | DPRs approved |
| Phase 6 | Jogeshwari-Vikhroli Link Road | 67 | 14.5 | 13 | DPRs approved |
| Phase 7 | Dahisar(E)-Andheri(E)-Bandra(E) | 81 | 27.0 | 24 | Plan & Funding approved |
| Phase 7A | Andheri (E) - Dahisar (E) (part of above) | 62 | 16.5 | 16 | Under construction |
| | Navi Mumbai Metro | 41 | 23.4 | 20 | Under construction |
| | Mumbai Monorail | 25 | 20.1 | 18 | Phase I operational; Phase II by June-17 |
| Total | | 793 | 234.9 | 192 | |

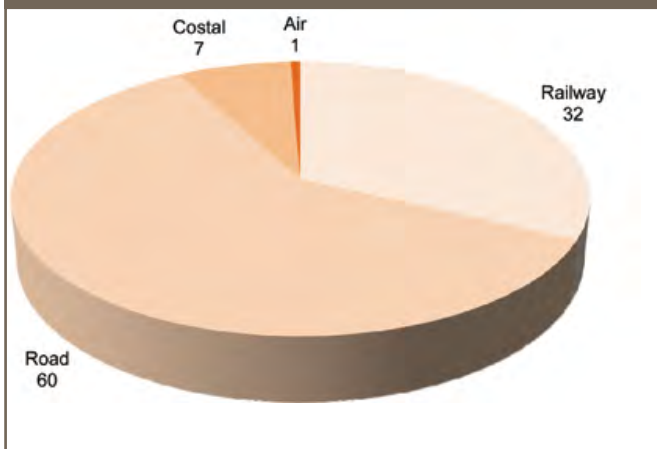
Road transport: Moving towards cashless payments



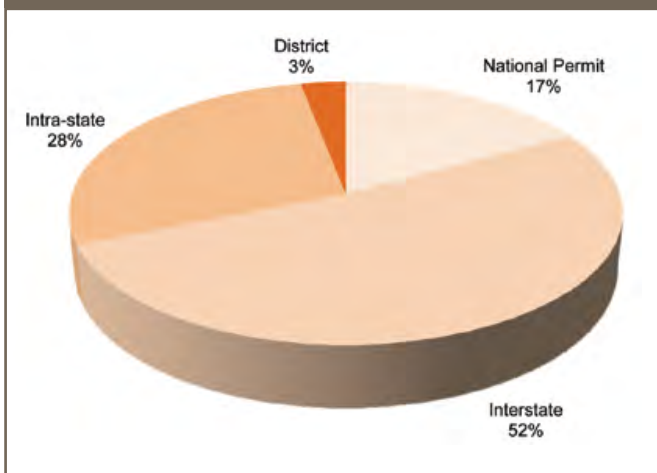
Demonetisation has affected road transport mainly due to a demand slowdown, rather than due to operational issues. Organised players have gradually moved to online payments through petrol cards, fast-track payments at tolls, and prepaid cards to drivers. Freight rates saw a decline of 20-25% in November, but recovered in December in select cargo. Average cash requirement per driver per day is ~Rs 2,000-2,500 and most transporters prefer shorter lead distances in a slowdown. Demonetisation will help companies to move towards GST compliance faster. After GST, the tax compliance will increase with all-India registration and returns filing in each operating state. Small players will find it difficult to operate and follow compliance requirements after GST. Smaller fleet operators are attaching themselves to organised players as trade is moving to the latter.



Modal share in cargo movement



Truck fleet break up



With around 60% share, road transport has remained a backbone for logistics, followed by railways with a 32% share. The Total Transport System Study (TTSS) carried out by RITES for the Planning Commission calculated that railways' share in total inter-regional freight traffic has progressively come down to 32% from 89% in 1951 and 65% in 1978-79. Capacity constraints and priority for passenger traffic has helped road transport to increase its market share to 60% from 12% in 1950-51, despite rail transport being about 30% cheaper than road.

The biggest beneficiary of the move towards a 'less-cash' society after demonetisation will be road transportation. The industry is expected to move to cash-less payments in a big way from its current norm of about 80% cash-based business. This reduction in cash will bring in reporting transparency and will help organised players to increase market share. Online payments will help to reduce working capital and will receive additional discounts on fuel-buying and toll payment. The Indian trucking industry is highly unorganised with 75% of trucking firms owning small fleets of less than five trucks and 11% operating more than 20 trucks. Only about 17% of the Indian truck fleets have a National permit while most (52%) run only between select states. Old vehicles are normally used for interstate and district-level transportation.



Demonetisation to benefit organised players

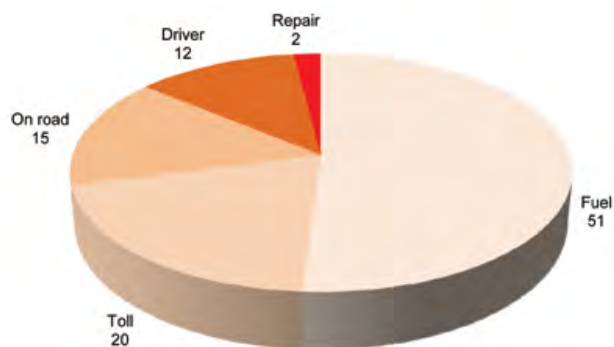
Organised players are better placed to withstand operational issues and short-term slowdown compared to small fleet owners as: (1) they have better access to credit, (2) strong customer relationships and network, and (3) higher cashless payments. Unorganised players still rely on cash for most of their revenue transactions and some support black money by 'under reporting' cargo.

"Our company saw limited impact due to demonetisation as we had already moved towards cashless payments for most of our transactions. Operationally there isn't much of an impact for us, but the demand side impact is about 10-15%. We need to wait for December numbers for more clarity," said the CFO of Patel Integrated Logistics, Mr Mahesh Fogla.

The government provided temporary relief by allowing old notes at petrol pumps and waiving off toll payments – which are major costs for operators (about 51%/20% of total cost). Some of the organised players with long-term contracts benefited from the waiver on toll charges, as they were able to retain these benefits.

However, Mr SP Singh, member of IFTRT (Indian Foundation of Transport Research & Training) said that players with long-term contracts comprised a less percentage of the total fleets and that most of the volume was still on short-term contract or through attached vehicles, where

Cost Breakup for Truck operations



rates have corrected by 20-25%. Smaller fleet owners, who do more spot business, reduced rates in response to a fall in demand and deducted costs associated with toll charge and fuel from pricing. Most routes saw freight rates declining in November.

The sudden announcement of demonetisation impacted trade, resulting in higher waiting periods for return cargo (increased by 3-5 days). Most operators choose to run only small distances, thereby affecting fleet availability. Fleet utilisation of the industry normally falls after Diwali, but this time it fell to ~60% in November 2016 vs. to about ~75% usually. With higher cost of waiting and no guarantee for return cargo, operators were reluctant to reduce rates beyond a point,

“Modiji’s sudden step caused a little trouble for some. However, the future seems to be very bright. Our business will become systemic and self-driven because of cashless online transactions and we will need less working capital. Our operational expenses will be paid directly by ICICI Bank. As such, banks provide fast-track services for road tax (toll), which will benefit us with 10% discount. Secondly, our fuel card will be properly used by all OMCs – IOCL, BPCL, and Reliance. The third major advantage is that all ‘middle men’ payments to brokers will be eliminated and a lot of money that was wasted due to internal slippages will stop.”

- Mr Lalit Gandhi, Promoter & Managing Director,
Chartered Logistics

as waiting period for return cargo increases costs substantially. “Looking at demand slowdown, trucking rates should be down by 40% after demonetisation,” said an operator.

Transporters with a greater portion of attached vehicles are better placed to manage their businesses by quickly reducing their scale of operations. “We shifted from owned vehicles to leased ones (now operate with a 85-90% leased fleet). These are attached vehicles on a trip basis. Driver shortage and poor condition on roads is a major concern,” said Mr Mahesh Fogla of Patel Integrated Logistics. Smaller fleet operators are getting attached to organised players as trade is moving in that direction.

Road transport can be further divided into: (1) parcel and priority parcel delivery (less-than-truckload services or LTL), (2) courier, and (3) full-truckload (FTL) services. The impact was limited on consolidators who were managing LTL. “Parcel booking was marginally affected in December while we were able to maintain business in November,” said one of the largest LTL operators. “Volume impact for FTL was 15-20% for November and we expect a 2-3 month recovery period. Agri export will start next month and we expect recovery in business as we anticipate a good season.”

Moving towards cash-less transaction should not be difficult for fleet owners. All transporters have bank accounts; in fact, they (fleet owner) cannot enter the system without opening bank accounts as vehicle buying starts with loans and EMIs. However, average cash

Truck freight after demonetisation

| Round trip for 15 ton pay load (Rs) | Rentals as on 2nd Nov | Rentals on 1st Dec | Change(%) | Avg (April -Sept 2016) | Avg (April-Sept 2015) |
|-------------------------------------|-----------------------|--------------------|-----------|------------------------|-----------------------|
| Delhi- Mumbai-Delhi | 92500 | 70000 | -24% | 79900 | 87283 |
| Delhi-Nagpur-Delhi | 92400 | 70000 | -24% | 79600 | 86700 |
| Delhi-kolkatta-Delhi | 93600 | 71000 | -24% | 81667 | 88783 |
| Delhi-Banglore-Delhi | 143900 | 101000 | -30% | 126950 | 137167 |
| Delhi-Chennai-Delhi | 145100 | 102000 | -30% | 127450 | 136917 |
| Delhi-Hydrabad-Delhi | 129400 | 98400 | -24% | 113883 | 122867 |

requirement per driver per day is ~Rs 2,000-2,500, excluding fuel and toll charges. Most unorganised owners are reluctant to go 'cashless' due to unofficial benefits of under-reporting of cargo, carrying untaxed cargo, overloading cargo, and paying lower wages to drivers. Nevertheless, industry experts believe that there will now be a trend reversal – only about 20% business will be conducted in cash and the rest 80% payments will be through cheques or debit cards or reward points.

“Freight rates have started recovering in December for some routes with demand from steel, fertiliser and rice cargo, Transportation charges are at around Rs 1,500 per tonne (about Rs 2 per tonne per km) for a 20-tonne truck.”

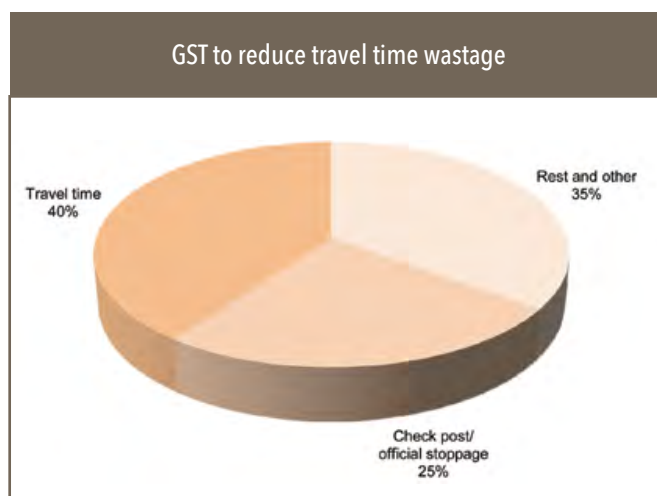
- A truck operator who manages a fleet from Nagpur to Pune.

One fleet operator said, “After demonetisation, all businesses, labour payments, salary payments will be through proper channels; even the driver will receive a proper salary issued by the organisation. As of now, many drivers do not receive regular salary payments by operators or organisers. But going forward, majority of labour will be on rolls and will be entitled for a Provident Fund and other benefits. A lot of positives for the industry, but they could take some time – let’s say 3-4 months could be painful and then the road industry will turn into a fantastic service industry with proper governance.” Participants hope that cashless operations will reduce slippages in cash transactions (malpractices by drivers and brokers). The playing field could become more level with unfair trade practices by unorganised players falling. In any case, organised players with a large fleet receive higher volume discounts for fuel purchases (~Rs 1 per litre) and online payments of toll through the ‘fast track’ route entail a 10% discount.

“With demonetisation, interest rates will decrease 1-2%, because of which our profits will improve, enabling us for more capital investments” – Mr Lalit Gandhi, Promoter & Managing Director of Chartered Logistics

Getting ready for GST

Demonetisation has pushed operators towards cashless systems, with inherently better reporting. It will reduce the GST impact significantly, as players are already adjusting to a new normal. The new GST tax model will render individual state administrative borders irrelevant for most industries, driving rationalisation of logistics operations and infrastructure. Major changes after GST: (1) consolidation of warehouses, (2) improved efficiencies due to reduction of trade barriers, (3) revaluation of sourcing and manufacturing decisions, and (4) growth in free-trade warehousing (FTWZ) and multimodal logistics parks (MMLP). Additionally, GST will leave an audit trail of the movement of goods across state boundaries, which will lead to



transparency in logistics.

Average running of the truck is ~250-400km per day in India compared to ~800-1,000km in developed countries. Truck transport is impacted by multiple checkpoints for inspection, payment of tolls and taxes, and Octroi. With the removal of trade barriers, downtime for vehicles (check-post inspection, filing of waybills/entry permits, compliances under entry tax laws, and local levies) is likely to reduce. After GST, inter-state movement of goods will be subject to IGST, under which all movements will be 'tax paid'.

After GST the waiting time (~2-4 hours) at check posts will stop. Time at toll collections will also reduce

once toll tax becomes cashless. Today vehicles stand in queue waiting for change; when this stops, it will both fuel and travel time significantly. Like in developed countries, vehicles could move out using online toll payment – like “fastrack” system, where the gate opens electronically and the payment is automatically debited from a card. Operators are also likely to benefit from input credit including excise duty paid on vehicles. GST would be significantly positive for fleet owners. Currently there is duty of ~27% duty on vehicle purchase (excise duty and VAT), which is not compensated under existing tax structure. Under GST, both will be reimbursed, which will reduce the capital cost for the buyer. Mr Mahesh from Patel Integrated believes that GST will provide operational efficiency and not tax benefits, as any benefit would be passed on to consumers.

Road transport on major routes

| Route | Average Speed | Avg stoppage expense (Rs / tonne -km) | Avg trip expense (Rs / tonne-km) | Avg freight rate (Rs / tonne-km) |
|-----------------|---------------|---------------------------------------|----------------------------------|----------------------------------|
| Delhi-Bangalore | 35.93 | 0.35 | 1.45 | 1.94 |
| Delhi-Mumbai | 33.56 | 0.37 | 1.42 | 2.01 |
| Delhi-Chennai | 45.00 | 0.29 | 1.37 | 1.62 |
| Mumbai-Chennai | 26.30 | 0.25 | 1.36 | 2.28 |
| Nagpur-Delhi | 29.82 | 0.20 | 1.29 | 2.07 |
| Nagpur-Pune | 37.69 | 0.10 | 1.91 | 2.65 |

Indian trucks' productivity is very low at ~250 km per day vs. ~800km in developed countries. This could easily be increased to at least 350km per by cutting congestion and introducing electronic toll collections

CFS trade: Limited impact of demonetisation; DPD may disturb business in the short term

India's gateway port for exim cargo, JNPT, has 32 CFS (container freight stations) for handling and storage of containers along with value-added services. Operations at CFS' are mainly through cheque or online payments and are already well documented due to custom and shipping requirements. Therefore, this business has seen only limited demonetisation impact.

“Container handling is down, in line with the industry slowdown of 15-20% after demonetisation, and will take 2-3 months to recover,” said an officer at JNPT Port's CFS facility. Also, it is difficult to gauge the impact of demonetisation, considering recent announcement of Direct Port Delivery (DPD) at JNPT Port. The government is promoting DPD and around 7000 TEU per month of volume has shifted to this with ~800 customers who have applied for registration for DPD so far. Industry experts in CFS' believe that the business disruption due to DPD at JNPT would be short term, considering operational difficulties at the port.

“It takes 2-3 days to get containers out of ports for existing CFS players with their own dedicated team at the port. Direct delivery for individual customers will create a mess as ports do not have infrastructure. Costs through DPD are the same – ~Rs 10,000 per TEU – as through CFS. But DPD requires upfront payment for container bookings and needs all documents in advance, which many customers may not be able to fulfil,” said an officer at Navkar Corporation. As a result, customers are negotiating with CFS operators for better rates and concessions after the DPD

“Container handling is down, in line with the industry slowdown of 15-20% after demonetisation, and will take 2-3 months to recover,”

- An officer at JNPT

ABOUT DPD

Jawaharlal Nehru Port Trust (JNPT) has extended its Direct Port Delivery (DPD) facility to all its Accredited Client Programme (ACP) clients, irrespective of their trade volume (earlier facility was available to customers with monthly container volume of more than 300). Around 143 ACP clients will immediately benefit from the extension of the DPD facility. Under DPD, importers can get direct delivery of their consignments at their destination from the port (instead of moving it to a CFS) – the idea is to enable big savings in terms of time and cost. It falls under the government’s thrust towards ‘ease of doing business’ and has been actively promoted by the Government of India. Before February 2016, 11 agencies were availing DPD, but with the volume restriction lifted, this number has increased to 62; JNPT Port sees this number at 146 agencies eventually. “The port trust aims to route 30% of its inbound traffic via DPD,” said the CMD of JNPT Mr Anil Digikar. The port is also working on operational efficiency. Its Import Dwell Time has come down from 76 hours two year ago to 33 hours (the international benchmark is 36 hours). Likewise, turnaround time has come down to 1.77 days from 2.24 days (benchmark is 2.2 days).

announcement. CFS operators are ready to reduce their ground-rate charges. In fact, some operators are even moving toward packaged deals. With bargaining power shifting to customers, CFS business profitability is likely to establish a new normal. CFS’ are focusing on value-addition, stuffing, de-stuffing, and warehousing solutions to customers and are better placed to provide cost-effective solutions to customers.

Conclusion

- Road transportation will be a major beneficiary of demonetisation – with trade shifting towards organised players. These players have gradually moved to online payments through petrol cards and fast-track payments at toll as well as pre-paid cards to drivers.
- Industry experts that only about 20% business will now be in cash and the rest 80% will be through cheques, debit cards, or reward points.
- Players in retail truck load (express) and LTL are better placed vs. FTL players.
- Operators will benefit from GST implementation with higher asset turnover, higher tax benefit (excise and VAT on vehicle purchase), and increased third-party logistics.
- CFS business is seeing structural changes in the short term with the DPD option for customers. The government is working on reducing logistics costs significantly (target ~50% reduction) to improve competitiveness of Indian manufacturers. Proposed modal shift towards railways should benefit container train operators in the medium to long term.

Rightly in *the CAPEX phase*



Although the Indian specialty chemicals industry has traditionally been focused on catering to domestic demand, China's curtailment of its chemical industry (either by forced shutdowns or restrictive practices) over the last two years has pushed the Indian industry towards becoming the fastest-growing in the world – with an annual growth of 13-15%. The visible export opportunity because of China's ongoing slowdown (it is the chemical manufacturing hub of the world with over 40% value share) makes India a viable alternate source of specialty chemicals for the global market. Currently, the Indian specialty chemicals industry (valued at >US\$ 20bn) accounts for only about 3% of the global market and is highly fragmented with very few mid-sized players. The key question – Is the Indian industry well equipped and capable enough to cater to the robust export demand.

Chinese environmental issues (which look far from resolved) make India stand out as an alternate source

Ever since the implementation of strict environment policies in January 2015, the Chinese chemical industry has seen thousands of plant shutdowns and a ~15% volume decline in various chemical exports in CY15. Industry experts believe China would have certainly witnessed a similar trend in 2016 as well. India (with cheap work force, quality standards, rapid growing economy, and good demand) has emerged as a decent alternate source of chemicals for the world.

Although China's initial environment cleansing moves (that restricted the growth of the chemical industry) started some time ago, there seems to be

“China's emerging middle classes are health conscious and forcing the government to fight pollution. Consequently, China's government will continue to remain strict about the implementation of tight environmental laws that might affect the industry in the near future.”

- Mr Kai Pflug, a leading specialty chemicals consultant from Shanghai

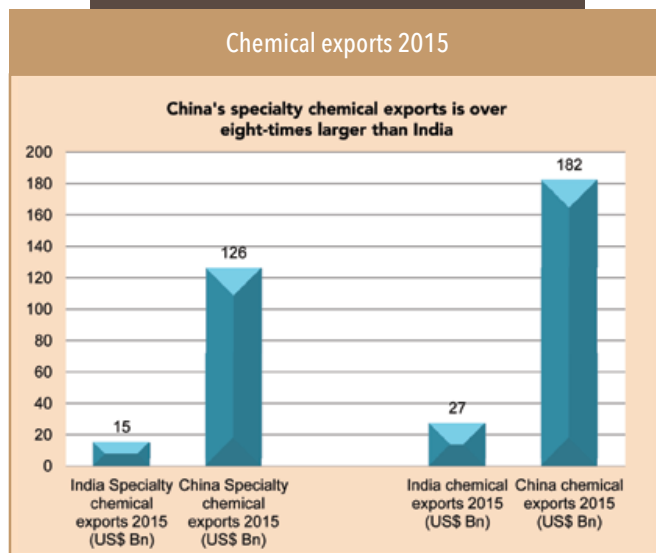
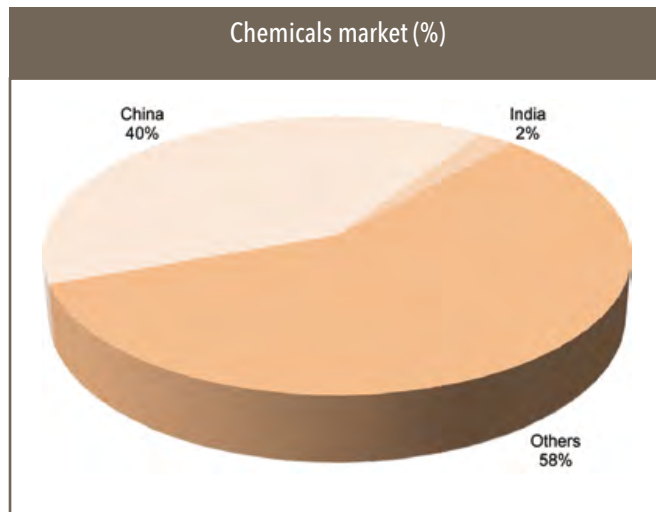
no visible let up in policy measures or implementation. In fact, China (battling recurring pollution enveloping its cities) has taken the following strict measures as recently as December 2016: (1) ordered more than 1,200 factories to either suspend or cut output, (2) adopted a law to levy environment taxes on polluting industries (to be implemented 1 January 2018 onwards), and (3) given strict indications to provincial agencies, municipal, and local governments to move hazardous chemicals away from residential areas over the next three years. Such policy measures would add to the woes of the Chinese chemical industry, which is already under government restrictions and facing cost pressures due to stricter compliances.

Mr Kai Pflug, a leading specialty chemicals consultant from Shanghai, says, "China's emerging middle classes are health conscious and forcing the government to fight pollution. Consequently, China's government will continue to remain strict about the implementation of tight environmental laws that might affect the industry in the near future. China's government has made it mandatory for chemical plants to operate from chemical parks and only ~45% of the country's chemical industry is currently based out of such parks. This implies major plant shutdowns or relocations over the next couple of years".

Additionally, China's 13th five-year plan (2016-2020) emphasises innovation and compulsory reduction of overcapacity in basic chemicals. Over 40% of China's total chemical exports (about US\$ 180bn in CY15) are basic chemicals – so the planned reduction in overcapacity coupled with stricter implementation of environmental laws would sustain the ongoing slowdown in Chinese chemical exports over next couple of years, which will prove a boon for the Indian industry.

Huge export potential, but India yet to gear up to embrace the opportunity

In spite of restrictive environmental laws, China remains the undisputed leader of chemicals in the world with a market size of US\$ 1.4tn (i.e., ~40% global market share) in 2015. China's chemical exports were valued at US\$ 182bn in 2015. India



(considered the best alternate source) with a chemicals market of US\$ 77bn in 2015 accounted for just about 2.2% of the global chemicals market. India's specialty chemicals market – valued at +US\$ 20bn – accounted for about 3% of the global market.

India exported US\$ 27bn worth of chemicals in 2015 compared to China's US\$ 182bn. India's specialty chemical exports (excluding bulk organic and inorganic chemicals) were US\$ 15bn while China's were eight times bigger at US\$ 126bn.

Slowing Chinese exports of chemicals throws up great exports visibility for India. However, India currently plays a very tiny role in the overall global chemicals and specialty chemicals market. A fragmented industry and lack of innovation have

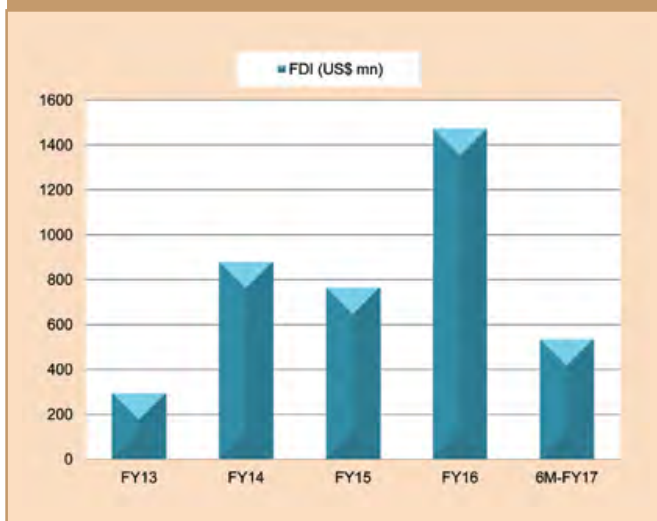
New chemical projects announced in India (US\$ mn)



Cumulative value of proposed projects (Rs bn)



FDI in Chemical sector



been key deterrents for the domestic market. Thus, industry experts emphasise the need for India to invest in global scale capacity, technology platforms, R&D, and IPR – in order to differentiate, create greater customer value, and develop strategic partnerships with customers.

India is in the capacity-building phase

Key strengths of the Indian specialty chemicals industry – healthy domestic demand on rising population (with lowest per-capita consumption) and relatively strong GDP growth. The visible exports opportunity from an ongoing slowdown in Chinese chemicals suggest accelerated and quality growth for India over the next few years – and the Indian industry has rightly geared up for capacity creation. As per Centre for Monitoring Indian Economy (CMIE), the announced capital expenditure of the chemical industry saw a spectacular 40% CAGR over last two years to about US\$ 11bn in 2016.

A similar rapid capex trend is visible from the Ministry of Environment & Forests (MoEF) environmental clearance statistics. A study of capex projects (already accepted by State Expert Appraisal Committee) over 2014-16 indicates that the cumulative value of projects under the environmental clearance process has doubled to Rs 105bn in 2016 from Rs 54bn in 2014. Moreover, the Make-In-India initiatives of the Government of India have doubled the FDI into the Indian chemicals sector in FY16 to US\$ 1.4bn from ~US\$ 700mn in FY15.

As per MoEF's environmental clearance statistics, SRF will play a leading role in creating manufacturing capability for the Indian industry, with a capital commitment of Rs 53bn in specialty chemicals and packaging films. Other leading chemicals peers with large capex include – Gujarat Alkalies and Chemicals (planned capex of around Rs 40bn), Grasim Industries (Rs 32bn), Seya Industries (Rs 25bn), Pidilite Industries (Rs 21bn), Styrolution India (Rs 16bn), and Vinati Organics (over Rs 7bn). All such capacity creation initiatives along with China's exports softening and global peers looking at India as an alternate source of specialty chemicals, ensures a leading role for the Indian industry in global specialty chemicals markets.

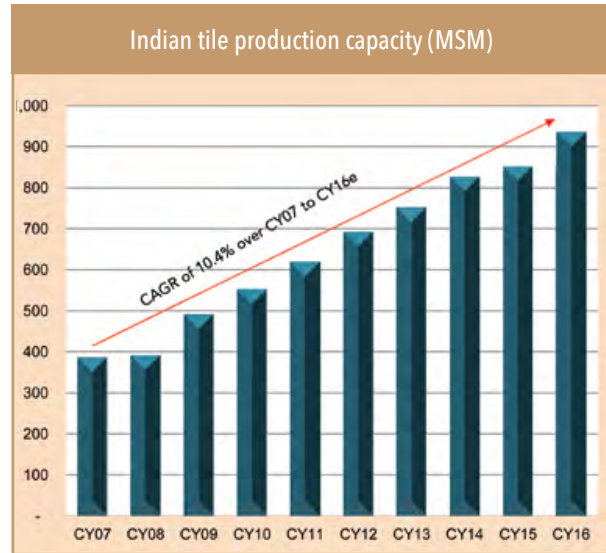
Indian Tiles Industry – Ups and downs

Dealers and Morbi players say demonetisation impact was dominant (visible liquidity issue). While November sales were negatively impacted by only about 20%, December sales were down 30-40%, and January and February 2017 sales will be dented quite a bit – by more than 40%. They expect a slowdown for the next six months (three months for demonetisation + three months for GST). So far, postponed construction activity was a major reason for the slowdown (a liquidity shortage).

The Indian tile industry has taken a production cut of ~35% and is currently operating at ~55% (CUF – capacity utilisation factor). Morbi accounts for 85% of the industry and operates through 650 facilities; among these ~100 units have temporarily shutdown. New capacity addition in Morbi is delayed by 2-3 months; ~60 new plants should come up in 8-10 months with an average capacity of ~13,000 sqm/day.

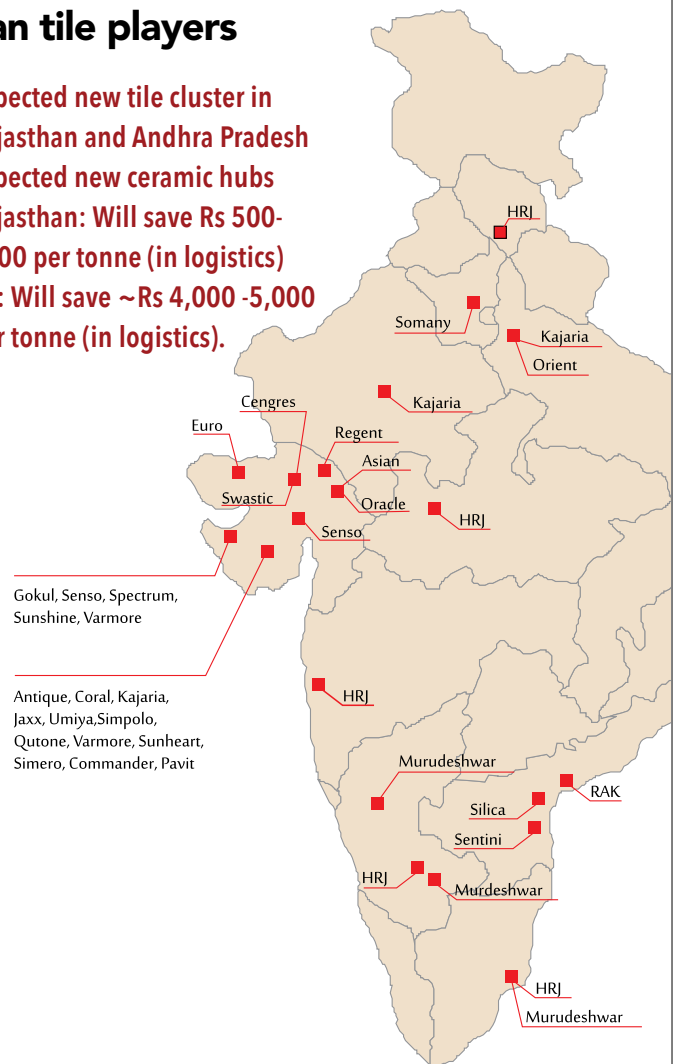
A new-born in the ceramic world

The industry is expecting new ceramic clusters in AP and Rajasthan, majorly to cater to southern and northern markets. Currently, leading tile companies like Kajaria, Somany, HR Johnson, and RAK have a presence in these regions through JVs or through their own manufacturing. Other industry players like Asian Granito, HSIL, and Morbi players are working to set up



Indian tile players

- Expected new tile cluster in Rajasthan and Andhra Pradesh
- Expected new ceramic hubs
- Rajasthan: Will save Rs 500-1000 per tonne (in logistics)
- AP: Will save ~Rs 4,000 -5,000 per tonne (in logistics).



their presence in these areas – the industry expects these plants to be up and running in the next 1-2 years.

The cost of business has increased by approximately 7-10% (a shift from kaccha to pukka has resulted in a cost increase; higher employee cost and taxes) – said one of the unlisted companies. The industry (Morbi players) has taken a price hike of 8-10% across products. “We are currently operating at 50-60%, price hikes of 8-10% will help make our EBITDA positive. If EBITDA becomes negative, then it will be a pain for Morbi players” – Morbi Association President.

The industry is seeing lower offtake from private builders and retailers/individuals, but sees a growth from the export market and government projects (government schemes); expects to grow at 9-10% (volume, long-term).



To increase focus on exports, Morbi Ceramics Association organised road shows and a focussed event “Vibrant Ceramics - 2016” to increase these players’ visibility in the global market. Morbi’s president said that they received export orders worth of ~Rs 6bn and enquiries of Rs 1.3bn worth of orders in the event

GROWTH ENGINES FOR THE INDIAN TILES INDUSTRY ACCORDING TO MR TAPAN JENA, INDUSTRY EXPERT

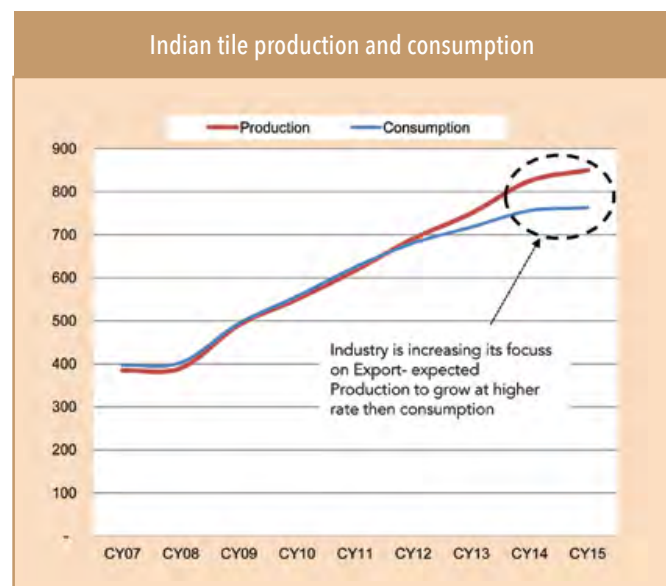
NEAR TERM:

Export, government projects

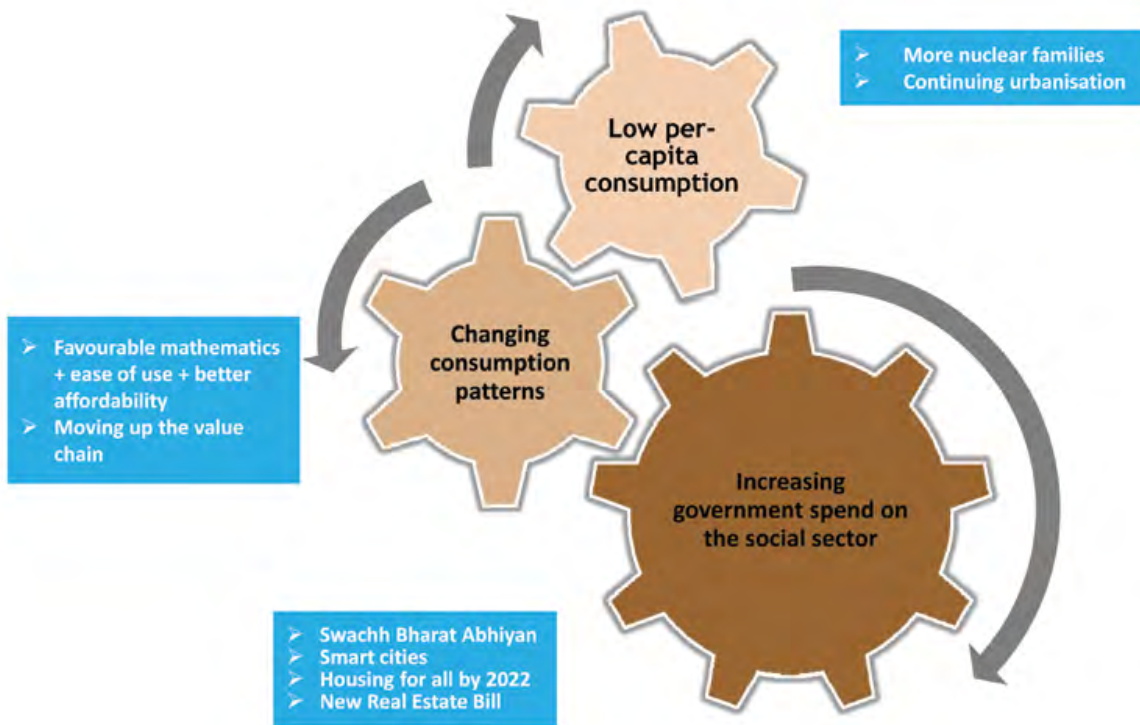
LONG TERM:

Domestic consumption, shift to organised players, exports, government projects, and new markets like cladding.

Indian tile production and consumption

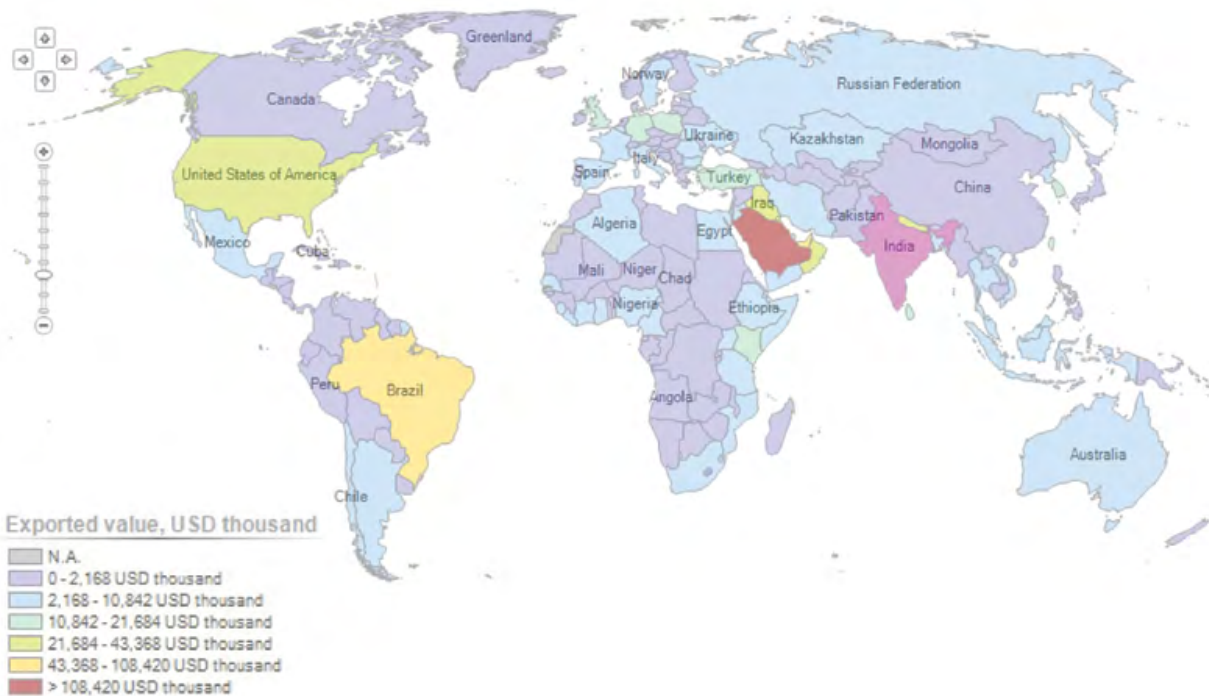


Long-term growth drivers



Tile importing countries

Currently Middle east is the biggest exporting hub for India. The industry expects Dubai, USA, Poland, Saudi Arabia, Brazil, Mexico, Oman, Nepal, and Sri Lanka to be the next big export market for India.

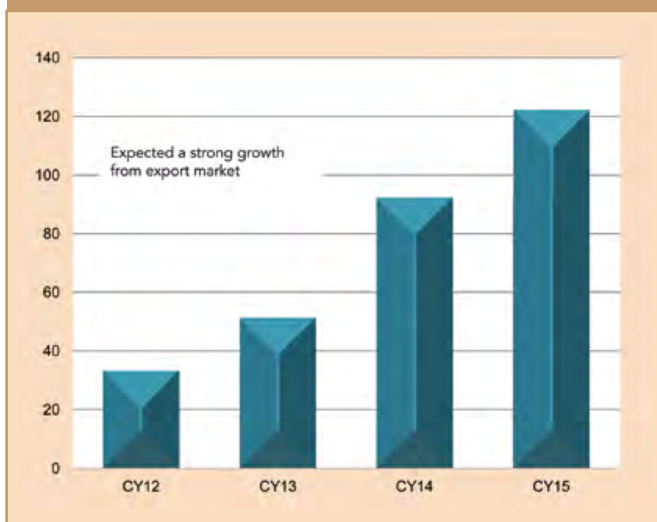


Emerging trends in the indian tile industry

Morbi – increasing exports:

Over the last three years, with domestic production outpacing demand by 5%/9%/11% in CY13/14/15, Indian tile manufacturers have been increasingly focusing on exports. While the Middle East is one of the largest export markets, countries such as Bangladesh, Sri Lanka, Brazil, and Africa are also becoming quite big.

India tile export - in msm



At present, overseas sales accounts for ~10% of revenues (CY15) of the Indian tile industry, but this metric is expected to rise significantly over the coming decade (in CY16, industry expects exports at about Rs 60bn, ~20% of the total Indian tile industry). Contributing factors include – capex by Indian manufacturers (Morbi is coming up with 60-70 new plants says Morbi Ceramic Association), increasing customisation for international markets, globally competitive manufacturing-cost profile, and innovations that compete with international standards. Global imposition of ADD on Chinese tiles should result in an abatement of supplies, serving as a kicker for Indian manufacturers to ramp up exports.

AGL's marketing head said that Asian Granito will be opening a 45,000 sq. ft showroom in Morbi majorly to cater to the export market.

International roadshows

| Country | Date |
|----------------------|--------|
| Dubai,UAE | Aug-16 |
| Tampa,USA | Aug-16 |
| Warsaw,Poland | Sep-16 |
| Jaddah,Saudi Arabia | Sep-16 |
| Riyadh, Saudi Arabia | Sep-16 |
| Brazil | Oct-16 |
| Mexico | Oct-16 |
| Muscat,Oman | Oct-16 |
| Kathmandu,Nepal | Nov-16 |
| Colombo,Sri Lanka | Nov-16 |

EXPORT SHARE OF SOME INDIAN COMPANIES

| COMPANY NAME | Export Share as % of sales in FY16 |
|------------------|------------------------------------|
| Sunheart | 30% |
| Simpolo | 20% |
| Qutone | ~20% |
| Wintel Ceramics | ~60% |
| Swastik Ceramics | 8% to 9% |
| ICON | ~80% |

AGL's marketing head said that Asian Granito will be opening a 45,000 sq. ft showroom in Morbi majorly to cater to the export market.

Cladding – a new market for the Indian tiles industry

The industry is trying to increasing the usage of tiles with the adding of cladding tiles in its portfolio. In developed countries, cladding constitutes ~40% of the tile industry, while in India it is currently at 0.5%.

About the cladding market: The size of the Indian cladding market is ~Rs 70mn vs. the Indian paint industry at ~Rs 250bn (indoor and outdoor wall paints). Cladding grew 60% in FY15, majorly due to an increase in the number of cladding material options and acceptability in the market. Major cladding materials include stone, brick, wood, RCC, laminates, plastic, metals, and tiles. Some Morbi-based companies are now taking initiatives for providing complete cladding solutions.

Key advantages of cladding:

- Lightweight
- Moisture resistant
- Energy saving
- Easy maintenance
- Protection against rainwater
- Economical, with a long life

Cladding tiles different from other materials (costing)

| Cost difference | Outdoor Wall - Material | | | | |
|---------------------------|-------------------------|---------------|--------------|-------------|--------------------------|
| | Rates (Rs. sq. ft.) | Natural Stone | Tiles | Paints | Wood/Timber |
| Material Cost (Range) | | 70-250 | 40-80 | 15-20 | 200-500 |
| Avg. Material Cost: | | 125 | 60 | 18 | 350 |
| Installation Cost: | | 115 | 80 | 12 | 130 |
| Laying labor cost | | 60-80 | 40-50 | 6-12 | 60-80 |
| Laying material cost | | 35 | 35 | 1-2 | 50-70 |
| Polishing | | 10 | 0 | 2-4 | 0 |
| Others | | 0 | 0 | 0 | 0 |
| Maintenance Cost: | | Nil | Nil | 60 | Nil |
| 5-10 years | | Nil | Nil | 30 | life is only 5 to 7 year |
| 10-20 Years | | Nil | Nil | 30 | |
| Total Cost | | 240 | 140 | 90 | 480 |



One of the cheapest and best options for wall cladding

Before

After

Renovating/ building new showrooms/display centres/dealership



Some under-construction showrooms in North India

Dealers and companies (listed and unlisted) said they foresee a 4-month slowdown and lower footfalls. Dealers and mid-sized players are looking at this as an opportunity and are planning to increase their presence to benefit from the shift towards organised players. Many dealers are using this time (lower footfalls) for renovation or expanding their showrooms

Morbi – Becoming bigger: The past decade has seen the emergence of several unlisted players from Gujarat. A tight grip over manufacturing costs, focus on quality, and increasing reach are some of the common threads that have enabled these companies to rack up credible growth in market share and revenues. These players are aggressively looking at becoming sizeable national brands in the next

decade. At the 'Vibrant Ceramics Export – 2016' (held for the first time by Morbi players) it was observed that small- and mid-sized unlisted players are coming forward to increase their branding and market visibility. As an unlisted player puts it, "With the new generation coming in, Morbi players are now focusing on making a brand or increasing advertisement spend."

Mid-sized players increasing their distribution network

| Company name | Current no. of dealers/own showrooms | Adding dealers in next 1 year |
|--------------|--------------------------------------|-----------------------------------------------------------|
| AGL | 4500* | ~200* |
| Sunheart *** | 35 | 20 in the next 4-5 months also adding ~100 dealer network |
| Simpolo | ~2000* | 300* |
| Qutone | ~450 | ~150 |
| Simero | ~250 | ~100 |
| Almas** | ~50 | ~100 |
| Creanza | Nil (A new brand of Morbi) | 20-30 |
| Swastik | 700 | - |

Note: *Dealers and Sub-Dealers (total touch points)

**a new brand of Morbi recently hired a famous TV actress for branding

*** Own showrooms



Some under-construction showrooms of western India

Vibrant Ceramics: 200 companies. 230 brands



A sister concern of Pavit Ceramics - Morbi player

A Simpolo JV with a European company

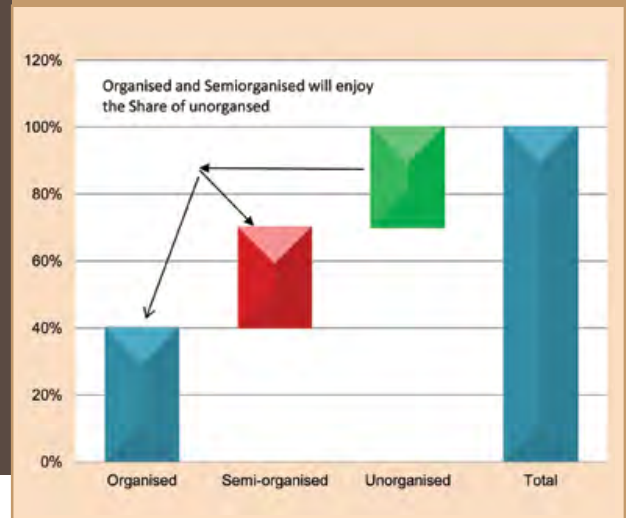


A company with four brands - THE LAVISH GROUP (Morbi-based)

Morbi companies increasing their advertising spend



Organised/unorganised/semi-organised



EVENTS THAT DEFINED 2016

BY ROSHAN SONY

#SYRIANCIVILWAR #EuropeanMigrantCrisis

#Saudi-Iran-Relations # B o k o H a r a m

#ISIS #SouthChinaSeaTerritorialDisputes

#YemeniCivilWar # Z I K A V I R U S

X e n o p h o b i c #Iran-US-Relations

#Hillary # T r u m p #USPresidentialElection

D e m o n e t i s a t i o n # M o d i

C a u v e r y #ColdWar2 # K a s h m i r U n r e s t

#BurhanWani # H a n u m a n t h a p p a

#JatReservationAgitation

N O R T H K O R E A N U C L E A R T E S T S

#BrusselsBombing #RioOlympics #UrjitPatel

P O L A R I S A T I O N #Duterte #PanamaPapers

E I N i n o # I n d i a H e a t w a v e D e a t h s

R o h i t h V e m u l a # U r i A t t a c k s

#SurgicalStrikes #SiachenHanumanthappa

#AntiNational #KanhaiyaKumar #Intolerance #JNUrow

J a y a l a l i t h a #VijayMallyaRuns #NiceAttacks

#TurkeyCoup #OneChina # P a t h a n k o t

#AkhileshYadav # U P E l e c t i o n s

It would be an understatement to say that 2016 was a 'weird' and 'unsettling' year. Bad news including wars, diplomatic tension, terrorism, and civil unrest dominated headlines. Most people were glad to see the back of 2016 and hope that 2017 will truly bring good tidings. The two biggest surprises of 2016, were **Brexit** and **Donald Trump** winning the US presidential election. **North Korea** tested weapons of mass destruction with no apparent care of the world's censure. **US** and **Russia** engaged in 'simulated aggression', especially over the Baltic Sea, in what is now widely termed 'Cold War 2'. The Russian government was accused of 'rigging' the US election. While the '**migrant situation**' eased a bit after the highly controversial **EU-Turkey deal** was sealed, thousands of migrants (mainly Syrian, Afghan, and Iraqi) continued to try and cross the seas to Greece and Italy, many dying tragically in the process.

The 'civil war' in Syria raged on with thousands of casualties, mass executions by ISIS, and bombing of cities; however, by the end of



2016, ISIS was believed to have lost more than half of its territory. The United Nations High Commissioner for Refugees said that the number of people **displaced** by conflicts in the world was at its highest ever at 65.3mn. **Rodrigo Duterte** became the Philippines President after frequently announcing his support for the extrajudicial killings of over 1,400 alleged criminals and street children by vigilante death squads and since assuming office made bizarre and offensive statements including telling the US President to 'go to hell' and abusing the Pope.

Minister Arun Jaitley released the "less cash" campaign – a 40-day road map of the Confederation of All India Traders, which aimed to promote the usage of digital payments across the country. More portentously, in October, Chandrababu Naidu 'reiterated' his call for banning Rs 1000 and Rs 500 notes and moving towards an entirely digital economy at a press conference in AP. Demonetisation initially received overwhelming support from prominent bankers and

2016 in India

Demonetisation

Demonetisation late in the year, was the biggest news of 2016 back home. The BJP government sent the Indian economy and administrative system into a tizzy by declaring Rs 500 and Rs 1000 notes illegal tender overnight on 8th November. There was a hint of what was to come in July itself when The Union Finance



industrialists as well as citizens, but was later heavily criticized by top economist and some bankers for shoddy execution. Cash shortages, deaths of people waiting in queues to withdraw and deposit money, political protests, strikes, income tax raids and cash seizures, and higher usage of 'digital payments' characterised the two months that followed. What particularly put off citizens was that while millions waited in queues for their daily quotas of cash, millions of rupees in new notes were being seized by authorities all over the country scarcely a few days after demonetisation was announced. Many, who had initially lauded the move, began to question if the country's administration will be able to really effect any change, considering the deep roots of corruption. With uproar over demonetisation, the winter session of parliament was a complete washout. Long-term effects (positive or negative) of this bold move are not yet comprehensible, but almost



all observers agree that it will dent medium-term economic growth.

Tension in Kashmir

Tension in Kashmir prevailed through the year after Hizbul Mujahideen commander **Burhan Wani** was killed by the Indian police and army in a joint operation. **A heat wave** in April and May killed hundreds of people. In the early part of the year, Dalit student **Rohith Vemula's** suicide turned quickly into a political battleground. This was followed by **JNU students** raising slogans against the execution of terrorist Afzal Guru; the government came down hard, arresting (until then) relatively unknown student leader Kanhaiya Kumar, and inadvertently thrusting him into the limelight. At around the same time, Amnesty said in its annual report that **intolerance** in India was rising. This added fuel to increasingly vocal and polarised views on anti-nationalism, freedom

of speech, and curbs on personal freedom. While some believed that older students were leeching off India's educational system and using it as a stepping-stone into big-league politics, others thought that the administration was trying to stifle the freedom and voices of the youth.

In a blow to Narendra Modi's otherwise very successful diplomatic soirees, the **Nuclear Suppliers Group** rejected India's membership despite an unprecedented strong diplomatic push. The biggest (negative) surprise was that Australia, New Zealand, and Ireland also joined in China's objection to India's membership on account of it not being a party to the non-proliferation treaty. However, soon after, India joined the MCTR, one of the four powerful global nuclear export control regimes (NSG, the Wassenaar Agreement, and the Australia Group are the other three).

TamilNadu **CM J Jayalalitha** dies

TamilNadu CM J Jayalalitha who expelled her close friend VK Sasikala in August over a 'slapping' scandal, passed away in December and in an ironic twist, it was Sasikala who oversaw her last rites. Jayalalitha, or Amma, as she was popularly known, was hospitalised in September 2016 and had made no public appearances ever since. As early as October DMK chief M Karunanidhi had expressed doubts about whether she actually approved the allocation of new portfolios. Many politicians such as Rahul Gandhi, Venkaiah Naidu, and DMK's Stalin were not allowed to directly see her when they went to visit her at the hospital. After her death, petitions were filed asking for an investigation into her death. While the Madras High Court seemed inclined to allow her body to be exhumed, the Supreme Court dismissed petitions filed by expelled AIADMK MP Sasikala Pushpa and a youth organisation seeking a CBI investigation into what they termed her 'mysterious death'. VK Sasikala succeeded her as the party chief.



India-Pakistan relations

Indo-Pak Relations deteriorated significantly after the Pathankot attacks followed by the September 2016 Uri attacks. This led to military confrontation across the Line of Control,

with increased ceasefire violations. India conducted surgical strikes against militant launch pads across the LoC in PoK

Natural disasters 2016

2016 was termed 'The Year of Earthquakes' – the ones in Ecuador, Italy, Taiwan, and Indonesia were the deadliest. The winter storm, Jonas, in the early part of the year battered most of northeast America. Hurricane Matthew raged on early October and is believed to have killed more than 1,500 people. Floods in North Korea killed almost 140 people. Flooding killed many people in India, Nepal, and Pakistan. A heatwave killed several people in India. In late May and early June 2016 flooding began after several days of heavy rain in Europe, mostly in Germany and France; the floods killed more than 20 people.





Biggest cyber hacks in 2016

- Dyn attacks — Largest attacks so far. Servers of company Dyn that runs most of the internet's domain name servers were attacked



- India: About 3.2mn debit cards of Indian banks compromised. What was more scary was that the hacks went undetected for months
- Legion attacks: Victims included Rahul Gandhi, Vijay Mallya, and some NDTV journalists
- Yahoo! reported major data thefts (about a billion user accounts were compromised)

Automobile scandals

- Mitsubishi Motors admitted in April to falsifying fuel efficiency of two of its models, along with two cars produced for Nissan
- Suzuki says it used improper fuel economy tests for Japan
- German car giant Volkswagen admitted to cheating emissions tests in the US. Volkswagen deployed 'cheat programs' in about 11 million cars over the world and 500,000 in the US during model years 2009 through 2015

Events in focus for 2017

- Assembly polls in Punjab (February), Uttar Pradesh (February-March), Uttarakhand (February), Goa (February), Manipur (February), Gujarat (November), Himachal Pradesh (December)
- Donald Trump will be sworn in as US President on January 20



- India's Union Budget on 1st February; more taxes on markets are expected
- The Indian government may move to a calendar year
- In March, UK's PM will begin the legal process for the country's separation from the EU
- French presidential election in April
- July: G20 summit
- September: Elections in Germany

January

- **Terrorists attack India's Pathankot air base**
- Saudi Arabia executed Nimr al-Nimr, a prominent Iranian Shia Sheikh; relations deteriorate between the two countries
- **More than 1,000 women say they were assaulted by immigrants in Germany on New Year's Eve**
- The International Atomic Energy Agency says Iran has adequately dismantled its nuclear weapons program; UN can lift sanctions
- **The World Health Organization announces an outbreak of the Zika virus**
- Congress performs well in Maharashtra's panchayat polls
- **North Korea conducts a nuclear test after a gap of three years; it continues its aggression through the year, including one more nuclear test in September**



- Hyderabad University PhD student Rohith Vemula, a Dalit, commits suicide after being suspended from the university hostel. His death sparks protests and outrage across the country as an alleged case of discrimination against Dalits; soon takes on a political tone
- **Oil price drops below US\$ 28 a barrel – the lowest since 2003**

- India: Solar power tariff touches a new low of Rs 4.34/unit
- **Fierce blizzard hits the east coast of the US and causes major damage and loss of life**
- Delhi kick-starts the 'odd-even' scheme in a bid to curb pollution
- **India decides to skip BS-5 – to leapfrog to BS-6 norms from April 1, 2020**
- India slips 11 paces to #89 on a global index of talent competitiveness

February

- **Russia escalates intervention in the Syrian Civil War**
- India-Nepal trade, affected by a five-month long blockage, inches back to normal
- **A 6.4 magnitude earthquake strikes Taiwan leaving 117 dead**
- India levies minimum import price on 173 steel products
- **NATO Secretary says NATO and Russia are "not in a cold-war situation, but also not in the partnership established at the end of the Cold War"**
- Indian jewellers strike over PAN card requirements purchases over Rs 200,000
- **India summons US Ambassador to India over US' decision to sell more F-16 fighter jets to Pakistan. Later, in May, the Obama administration announces that the US will not finance the sale of F-16 fighter jets to Pakistan**
- Turkish Prime Minister accuses Russia of acting as a "terrorist organization" in Syria
- **India imposes a curfew in some parts of Kashmir**
- A group of students in JNU India shout slogans against the hanging of Parliament attack terrorist Afzal Guru in 2013. Government takes a tough stance
- **The Jat agitation for reservation paralyses Haryana for 10 days**
- Iran says that it plans to increase its

- crude oil output until it achieves pre-sanction levels, flouting OPEC's efforts to restrain output
- IMF chief believes growth for world economy will be 'tedid'
- Amnesty report condemns 'growing intolerance' in India



- **SC refuses to quash National Herald case against Sonia and Rahul Gandhi**
- India's rural-focused budget is hailed by most

March

- **Sartaj Aziz, a top foreign affairs adviser for Pakistan, publicly admits for the first time that the Afghan Taliban's leadership is living in the country and that Islamabad has "considerable influence" over them**



- Liquor baron Vijay Mallya, who is facing legal action for allegedly defaulting loans worth over Rs 90bn from several banks, flees the country
- **The United States extends sanctions against Russia over its military intervention in Ukraine**

- Malaysia bans recruitment of foreign workers after protests over plans to recruit 1.5 million people from Bangladesh
- **OROP: SBI disburses first instalment of arrears worth Rs 14.7bn**
- The EU and Turkey agree on a controversial plan to ease the migration crisis, which includes returning thousands of migrants to Turkey – effectively making it a ‘migrant holding centre’. The deal includes acceleration of Turkey’s long-stalled bid for membership in the EU, billions of euros in extra aid (€ 6bn by 2018), and visa-free travel for Turks once the country satisfies EU criteria
- **Brussels bombings kill 32 and injures more than 300**

April

- **Panama Papers – 11.5mn documents leaked that detail financial and attorney-client information for more than 214,488 offshore entities including noted personalities and heads of state. Big names include Putin, Nawaz Sharif, the Marcos family, Jehangir Soli Sorabjee, Harish Salve, Amitabh and Aishwarya Bacchan, and Vinod Adani**



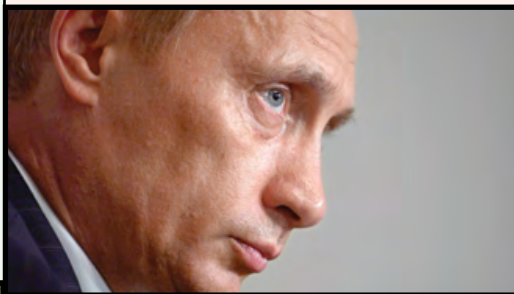
- Indian women's rights activists are barred by angry villagers and local authorities from entering

Shani Shingnapur temple despite a court ruling guaranteeing access

- **Mehbooba Mufti, leader of the Peoples Democratic Party, becomes J&K's first female Chief Minister**
- Fire at a temple in the Kollam district of Kerala. More than 100 people die
- **Goldman Sachs agrees to pay US\$ 5.06bn to settle allegations that it sold packages of shoddy mortgages prior to the global financial crisis**
- OPEC and non-OPEC countries meet in Doha and fail to agree on an output freeze
- **India CAG says lack of coordination between the RBI and the Departments of Commerce and Revenue led to ineffective policies for trade in gold, precious metals, and jewellery; cost exchequer +Rs 200bn.**

May

- **Rodrigo Duterte wins the Philippine presidential election after a campaign in which he promised to defeat crime by killing tens of thousands of criminals**



- Russian President Vladimir Putin threatens to "neutralize" a new ballistic missile defence system that the United States activated in Europe
- **India: CBI interrogations for the Rs 36bn AgustaWestland chopper scam begin. Delhi-based lawyer Gautam Khaitan tells CBI he had received money. Later, former Air Chief SP Tyagi's cousin tells CBI that he had "financial dealings" with two Italian middlemen**

involved

- Venezuela declares a 'state of emergency'
- **India gets its own insolvency law that will enable timely settlement of bankruptcy cases**



- Bombay HC upholds the beef ban in Maharashtra
- **The US Senate passes a legislation that will allow 9/11 victims to file lawsuits seeking damages from Saudi Arabia; Saudi threatens to pull billions of dollars from the US economy**
- The Eurozone agrees to a € 10.3bn (US\$ 11.5bn) bailout package for Greece

June

- **The Gotthard Base Tunnel (the world's longest and deepest railway tunnel) opens following two decades of construction**
- **India's proposal to join Nuclear Suppliers Group rejected**
- 7th Pay Commission implementation approved
- **Raghuram Rajan says he will not serve a second term as RBI Governor**

- India becomes a member of weapon exports regulatory body Missile Technology Control Regime
- **Germany recognises the Armenians genocide leaving Turkey furious**
- Mathura (Uttar Pradesh) violence: 24 people are killed and 368 arrested as police attempt to clear members of a squatter group from land that they were occupying
- **Orlando massacre: In US' deadliest mass shooting and worst terror attack since 9/11, a suspected ISIL fighter shoots more than 50 at a gay nightclub in Orlando, Florida**



- Brexit! (52% leave vs. 48% stay). The UK votes to leave the EU. Scotland and Ireland say they will leave the UK if needed to keep their countries fully connected to the EU. David Cameron resigns. Many protest rallies are held in subsequent months, but come to naught
- Turkey fails to meet the criteria

- set by the EU to obtain visa-free travel to its member states
- Philadelphia becomes the first US city to levy 'sugary drinks' tax
- Suspected ISIL militants attack Turkey's Istanbul Atatürk Airport killing more than 40
- **Toyota announces a recall of 2.9mn vehicles worldwide**

July

- PM Modi revamps his cabinet. Prakash Javadekar replaced Smriti Irani as HRD minister
- Burhan Wani, a militant commander of the Kashmir-based Hizbul Mujahideen, is killed by Indian security forces; anti-Indian protests in all 10 districts of the Kashmir Valley follow. Widespread curfews are imposed. J&K Police and Indian paramilitary forces use pellet guns, tear gas shells, rubber bullets, as well as assault rifles to restore law and order, resulting in the deaths of more than 85 civilians, with over 13,000 civilians injured. Two security personnel die while over 4,000 are injured in riots.
- **Philippines President Rodrigo Duterte urges Filipino citizens to murder people suspected of using illegal drugs**
- ISIS terror bombs Malaysia for the first time
- **Australia: The incumbent Malcolm Turnbull government is re-elected in the 2016 federal election**
- Donald Trump is nominated as the Republican Party candidate and Hillary Clinton is nominated the Democratic Party candidate for the US presidential election of 2016
- **Nice attack: ISIS claims responsibility for a 19-tonne cargo truck deliberately driven into crowds celebrating Bastille Day on the Promenade des Anglais in Nice, France, resulting in the deaths of 86 people. France extends state of emergency by three**

months

- A faction of the Turkish armed forces attempts a coup to oust President Recep Tayyip Erdoğan and other state institutions, fails. Military and civilian casualties in the hundreds follow
- **Five Dalit youth in Una, Gujarat, assaulted and shamed for skinning a dead cow. Pandemonium in the Indian parliament follows**



- Theresa May becomes the Prime Minister of the United Kingdom
- **The Bank of Japan announces a JPY 6tn stimulus package for Japan's economy**

August

- **Sasikala slapping: DMK MP Trichy Siva and AIADMK MP Sasikala Pushpa trade slapping charges. Party supremo J Jayalalitha expels Sasikala. Sasikala says her life in danger**
- Anandiben Patel resigns as Gujarat Chief Minister; Vijay Rupani sworn in
- **Malaysia's National Security Council Act comes into effect giving PM Najib Razak sweeping new powers**
- A bridge collapses on the Mumbai-Goa highway over the flooded Savitri River; two buses and several small vehicles feared swept away
- **The Rajya Sabha passes the**

long-pending GST Bill, GST Council set up, and tax rates finalised. Assam becomes the first state to ratify GST. In the next two months, 22 more states follow

- The 2016 Summer Olympics are held in Rio in Brazil. They are dogged with controversies including pollution in the venues used for water sports, unfit living conditions in the 'athletes' village', and fears of the Zika virus affecting delegates
- **The Bank of England cuts the key interest rate to 0.25%, its first cut since 2009**
- Urjit Patel, formerly the RBI's deputy governor for monetary policy, becomes the new RBI governor replacing Rajan
- **Japan orders its military to shoot down any North Korean missiles that threaten to strike Japan at anytime**



- The first cracks publicly visible in UP's Samajwadi Party. SP chief Mulayam Singh Yadav attacks his son CM Akhilesh Yadav for ignoring his uncle Shivpal Yadav at an I-day function
- **Women are allowed into the inner sanctum of Haji Ali Dargah in Mumbai**

September

- **Karnataka starts releasing Cauvery water to Tamil Nadu; violent protests ensue**
- Chikungunya, dengue outbreaks in Delhi
- **US and China ratify the Paris global climate agreement**

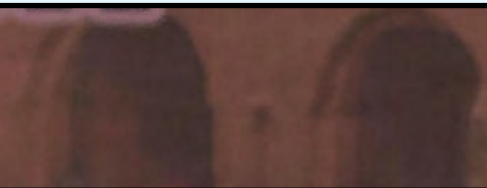


- Uri attack: Suspected Lashkar-e-Taiba militants attack a battalion headquarters of the Indian Army in North Kashmir's Uri town killing 17 jawans and injuring 19 other personnel. Eleven days after the attack, the Indian Army conducts "surgical strikes" against suspected militants in Pakistan-occupied Kashmir.
- **Mother Teresa is canonised**
- Tamil Nadu Chief Minister J Jayalalithaa hospitalised
- **Russia and Saudi Arabia say they would cooperate to 'stabilise' oil output**
- German chancellor Angela Merkel's party loses a key election
- **A Russian Sukhoi Su-27 fighter comes within 10 feet of a US aircraft over the Black Sea**
- Modi begins review of Indus Water Treaty – says blood and water cannot flow together
- **General Motors recalls 4.3mn vehicles**
- India decides to boycott the SAARC summit to be held in Pakistan in November
- **North Korea carries out its fifth nuclear test, defying UN resolutions**
- India conducts surgical strikes on terrorists along the LoC – targets seven terror launch pads

- **The United States Congress passes a law allowing families of the victims of the September 11 attacks to sue Saudi Arabia**
- Hillary Clinton is treated for pneumonia

October

- **UK PM Theresa May announces March 2017 as the deadline for triggering Article 50**
- Ceasefire violations from Pakistan continue
- **India's telecom spectrum auction called off on day 5, deemed a failure; raises only Rs 658bn (expected to raise Rs 5.7tn). Failure attributed to the high reserve price**



- AP CM Chandrababu Naidu reiterates his demand for abolishing currency notes of Rs 1,000/500 denominations to curb black money
- **India and Russia seal many big-ticket defence deals; to purchase missile systems, frigates, and jointly produce helicopters**
- The Obama administration suspends bilateral talks with Russia about cessation of hostilities in Syria; Russia suspends a 2000 treaty with the US for cleaning up weapons-grade plutonium
- **Just a couple of days after Karan Adani, CEO, Adani Ports and SEZ leaves without meeting J Jayalalitha, AIADMK announces that she is well and will return home soon**
- The GBP touches a 31-year low

against the USD

- **The US lifts sanctions against Burma (Myanmar)**
- A video shows US presidential candidate Donald Trump having a lewd conversation about women in 2005
- **Samsung recalls and suspends production of its Galaxy Note 7 smartphones**



- Hurricane Matthew hits – death toll keeps mounting
- **Canada-Europe sign the Comprehensive Economic and Trade Agreement**
- Suspected ISIS gunmen attack a Pakistani police training academy killing about 60 people
- **Clashes erupt on the Myanmar-Bangladesh border; the Myanmar government blames Rohingya insurgents and subsequently cracks down on them. UN cites human rights violations**
- The Maldives leaves the Commonwealth of Nations after 34 years
- **Uttar Pradesh Chief Minister Akhilesh Yadav sacks uncle Shivpal Yadav from the State cabinet**
- Tata Sons board votes to remove Cyrus Mistry from the post of chairman

November

- **Pakistan accuses eight Indian diplomats of espionage and terrorism amid rising tensions concerning Kashmir**
- US warns its citizens of a greater ISIS threat at popular spots in India
- **Delhi sees terrible pollution and**

smog. The air quality index hits 999 (500 is rated hazardous)

- More than 400 people die over 20-25 days due to smog in Tehran
- **Syrian Democratic Forces begin a campaign to recapture Al-Raqqah from ISIS**
- The Indian government shuts down Hindi news channel NDTV India for 24 hours alleging its coverage of January's Pathankot attack revealed sensitive military secrets
- **India 2016 demonetisation: India abolishes Rs 500 and Rs 1000 notes**
- Donald Trump narrowly loses the popular vote, but becomes the president-elect of the United States after defeating Hillary Clinton in the electoral college
- **Apollo Hospitals says Jayalalithaa is 'living beautifully' without ventilator. She still has not made any public addresses since her hospitalisation in September**



- More than 140 people die as the Indore-Patna Express derails near Pukhrayan in Uttar Pradesh due to a rail fracture
- **Firecracker sales banned in Delhi**
- India-Pakistan tensions escalate; Pakistan threatens full-scale war. Militants attack Indian Army base in Nagrota, Kashmir. India protests ceasefire violations
- **The Indian Supreme Court orders all cinemas must play the national anthem, and that the audience must stand during its performance before a film is screened**

December

- **President of South Korea, Park Geun-hye, impeached on charges of influence peddling**
- Tamil Nadu Chief Minister Jayalalithaa

passes away

- **Cyclone Vardah brings Chennai to a standstill**
- Sasikala succeeds Jayalalithaa as AIADMK chief, but will not take over as CM (a first for the party)
- **Non-OPEC countries agree to cut oil output; to help increase world oil prices**
- Andrei Karlov, the Russian ambassador to Turkey, is assassinated in Ankara
- **Denmark withdraws its seven F-16 fighter jets from military operations against ISIL**
- Supreme Court bans sale of liquor on national and state highways
- **Ruffling feathers, Trump talks to Taiwanese President Tsai Ing-wen on the phone; this is the first known contact between a US president or president-elect with a Taiwanese leader since the US recognised the People's Republic of China in 1979**
- Christine Lagarde, the MD of IMF, goes on trial in France for alleged negligence as FM resulting in the loss of hundreds of millions of euros; found guilty
- **Yahoo! announces data breaches in billion plus accounts**
- ISIL claims responsibility for a truck driven into the Christmas market in Berlin; 12 dead
- **BJP forms government in Arunachal Pradesh after 33 out of 43 Peoples' Party of Arunachal MLAs led by Chief Minister Pema Khandu, joined the party**
- Anil Bajjal takes oath as Lt Governor of Delhi
- **Obama and Trudeau jointly ban offshore oil drilling in the Arctic Ocean and parts of the Atlantic coast**

Indian Economy – Trend Indicators

Monthly Economic Indicators

| Growth Rates (%) | Sep-15 | Oct-15 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 | Aug-16 | Sep-16 | Oct-16 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| IIP | 3.7 | 9.9 | -3.4 | -0.9 | -1.5 | 2.0 | 0.3 | -1.3 | 1.3 | 2.2 | -2.5 | -0.7 | 0.7 | - |
| PMI | 51.2 | 50.7 | 50.3 | 49.1 | 51.1 | 51.1 | 52.4 | 50.5 | 50.7 | 51.7 | 51.8 | 52.6 | 52.1 | 54.4 |
| Core sector | 3.7 | 3.2 | -1.3 | 0.9 | 2.9 | 5.7 | 6.4 | 8.5 | 2.8 | 5.2 | 3.0 | 3.2 | 5.0 | - |
| WPI | -4.6 | -3.7 | -2.0 | -0.7 | -0.9 | -1.0 | -0.9 | 0.8 | 1.2 | 2.1 | 3.7 | 3.9 | 3.6 | 3.4 |
| CPI | 3.3 | 3.5 | 3.8 | 4.0 | 3.9 | 4.4 | 4.0 | 4.3 | 4.0 | 3.8 | 4.0 | 4.2 | 4.5 | 4.6 |
| Money Supply | 10.7 | 10.6 | 10.7 | 11.0 | 11.1 | 11.3 | 10.3 | 10.0 | 10.1 | 10.4 | 10.4 | 10.3 | 12.1 | 10.9 |
| Deposit | 10.6 | 10.5 | 10.4 | 10.9 | 11.1 | 11.0 | 9.9 | 9.3 | 9.5 | 9.7 | 9.5 | 9.2 | 11.3 | 9.8 |
| Credit | 7.1 | 8.8 | 9.8 | 11.1 | 11.4 | 11.6 | 11.3 | 9.2 | 9.8 | 9.4 | 9.7 | 9.6 | 11.2 | 8.5 |
| Exports | -24.2 | -17.1 | -24.4 | -14.7 | -13.6 | -5.7 | -5.5 | -6.7 | -0.8 | 1.3 | -6.8 | 1.2 | 4.6 | 9.6 |
| Imports | -26.1 | -21.1 | -30.3 | -3.9 | -11.0 | -5.0 | -21.6 | -23.1 | -13.2 | -7.3 | -19.0 | -13.5 | -2.5 | 8.1 |
| Trade deficit (USD Bn) | -10.2 | -9.7 | -9.8 | -11.7 | -7.6 | -6.5 | -5.1 | -4.8 | -6.3 | -8.1 | -7.8 | -7.7 | -8.3 | -10.2 |
| Net FDI (USD Bn) | 2.8 | 4.9 | 2.7 | 3.6 | 4.1 | 2.8 | 1.4 | 2.0 | 1.5 | 3.3 | 3.6 | 4.9 | - | - |
| FII (USD Bn) | -2.4 | 4.5 | -3.8 | -2.6 | -1.5 | -2.4 | 4.3 | 1.1 | -0.4 | -0.2 | 2.7 | 1.0 | - | - |
| ECB (USD Bn) | 2.6 | 2.1 | 3.2 | 3.0 | 1.4 | 1.4 | 1.5 | 0.3 | 1.3 | 1.1 | 1.2 | 3.2 | - | - |
| Dollar-Rupee | 65.6 | 65.3 | 66.7 | 66.2 | 67.8 | 68.4 | 66.2 | 66.3 | 67.3 | 67.5 | 67.0 | 67.0 | 66.6 | 66.8 |
| FOREX Reserves (USD Bn) | 350.0 | 353.6 | 351.6 | 352.1 | 349.2 | 346.8 | 355.6 | 361.6 | 360.9 | 360.8 | 365.5 | 366.8 | 370.8 | - |

Quarterly Economic Indicators

| Balance of Payment (USD Bn) | Q1FY15 | Q2FY15 | Q3FY15 | Q4FY15 | Q1FY16 | Q2FY16 | Q3FY16 | Q4FY16 | Q1FY17 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Exports | 81.7 | 85.3 | 79.0 | 70.8 | 68.0 | 67.6 | 64.9 | 65.8 | 66.6 |
| Imports | 116.3 | 123.9 | 118.3 | 102.5 | 102.2 | 104.7 | 98.9 | 90.6 | 90.4 |
| Trade deficit | -34.6 | -38.6 | -39.3 | -31.7 | -34.2 | -37.2 | -34.0 | -24.8 | -23.8 |
| Net Invisibles | 26.7 | 28.5 | 30.9 | 30.2 | 28.0 | 28.6 | 26.9 | 24.4 | 23.5 |
| CAD | -7.9 | -10.1 | -8.4 | -1.5 | -6.1 | -8.6 | -7.1 | -0.3 | -0.3 |
| CAD (% of GDP) | 1.6 | 2.0 | 1.7 | 0.3 | 1.2 | 1.7 | 1.3 | 0.1 | 0.1 |
| Capital Account | 19.2 | 16.5 | 23.6 | 30.7 | 18.6 | 8.1 | 10.9 | 3.5 | 7.1 |
| BoP | 11.2 | 6.9 | 13.2 | 30.1 | 11.4 | -0.9 | 4.1 | 3.3 | 7.0 |

| GDP and its Components (YoY,%) | Q2FY15 | Q3FY15 | Q4FY15 | Q1FY16 | Q2FY16 | Q3FY16 | Q4FY16 | Q1FY17 |
|-----------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Agriculture & allied activities | 2.8 | -2.4 | -1.7 | 2.5 | 2.0 | -1.0 | 2.3 | 1.8 |
| Industry | 6.2 | 3.4 | 6.9 | 7.1 | 8.5 | 10.3 | 9.2 | 7.7 |
| Mining & Quarrying | 7.0 | 9.1 | 10.1 | 8.5 | 5.0 | 7.1 | 8.6 | -0.4 |
| Manufacturing | 5.8 | 1.7 | 6.6 | 7.3 | 9.2 | 11.5 | 9.3 | 9.1 |
| Electricity, Gas & Water Supply | 8.8 | 8.8 | 4.4 | 4.0 | 7.5 | 5.6 | 9.3 | 9.4 |
| Services | 9.9 | 11.7 | 8.3 | 8.3 | 7.9 | 8.5 | 8.1 | 8.4 |
| Construction | 5.3 | 4.9 | 2.6 | 5.6 | 0.8 | 4.6 | 4.5 | 1.5 |
| Trade, Hotel, Transport and Communications | 8.4 | 6.2 | 13.1 | 10.0 | 6.7 | 9.2 | 9.9 | 8.1 |
| Finance, Insurance, Real Estate & Business Services | 12.7 | 12.1 | 9.0 | 9.3 | 11.9 | 10.5 | 9.1 | 9.4 |
| Community, Social & Personal Services | 10.3 | 25.3 | 4.1 | 5.9 | 6.9 | 7.2 | 6.4 | 12.3 |
| GDP at FC | 8.1 | 6.7 | 6.2 | 7.2 | 7.3 | 6.9 | 7.4 | 7.3 |

Annual Economic Indicators and Forecasts

| Indicators | Units | FY9 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16E | FY17E | FY18E |
|----------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|
| Real GDP/GVA growth | % | 6.7 | 8.6 | 8.9 | 6.7 | 4.9 | 5.6 | 7.1 | 7.2 | 6.8 | 7.4 |
| Agriculture | % | 0.1 | 0.8 | 8.6 | 5 | 1.2 | 4.3 | -0.2 | 1.2 | 4 | 3 |
| Industry | % | 4.1 | 10.2 | 8.3 | 6.7 | 5.1 | 0.4 | 6.5 | 8.8 | 5.5 | 10.6 |
| Services | % | 9.4 | 10 | 9.2 | 7.1 | 6 | 8.2 | 9.4 | 8.2 | 7.8 | 7.4 |
| Real GDP | Rs Bn | 41587 | 45161 | 49185 | 52475 | 54821 | 90844 | 97275 | 104272 | 111362 | 119603 |
| Real GDP | US\$ Bn | 908 | 953 | 1079 | 1096 | 1008 | 1503 | 1595 | 1604 | 1662 | 1772 |
| Nominal GDP | Rs Bn | 56301 | 64778 | 77841 | 90097 | 101133 | 112728 | 124882 | 135762 | 150594 | 168176 |
| Nominal GDP | US\$ Bn | 1229 | 1367 | 1707 | 1881 | 1859 | 1864 | 2047 | 2089 | 2248 | 2491 |
| WPI (Average) | % | 8.1 | 3.8 | 9.6 | 8.7 | 7.4 | 6 | 2 | -2.5 | 3 | 3 |
| CPI (Average) | % | 9 | 12.4 | 10.4 | 8.3 | 10.2 | 9.5 | 6.4 | 4.9 | 4.6 | 4 |
| Money Supply | % | 20.5 | 19.2 | 16.2 | 15.8 | 13.6 | 13.5 | 12 | 10.3 | 11 | 11.5 |
| CRR | % | 5 | 5.75 | 6 | 4.75 | 4 | 4 | 4 | 4 | 4 | 4 |
| Repo rate | % | 5 | 5 | 6.75 | 8.5 | 7.5 | 8 | 7.5 | 6.75 | 5.75 | 5.25-5.5 |
| Reverse repo rate | % | 3.5 | 3.5 | 5.75 | 7.5 | 6.5 | 7 | 6.5 | 5.75 | 5.25 | 4.75-5 |
| Bank Deposit growth | % | 19.9 | 17.2 | 15.9 | 13.5 | 14.2 | 14.6 | 12.1 | 9.7 | 14 | 8 |
| Bank Credit growth | % | 17.5 | 16.9 | 21.5 | 17 | 14.1 | 13.5 | 12.5 | 10.7 | 8 | 9 |
| Centre Fiscal Deficit | Rs Bn | 3370 | 4140 | 3736 | 5160 | 5209 | 5245 | 5107 | 5351 | 5339 | 5045 |
| Centre Fiscal Deficit | % of GDP | 6 | 6.4 | 4.8 | 5.7 | 5.2 | 4.6 | 4.1 | 3.9 | 3.5 | 3 |
| State Fiscal Deficit | % of GDP | 2.4 | 2.9 | 2.1 | 1.9 | 2 | 2.2 | 2.9 | 2.4 | 2.7 | 2.8 |
| Consolidted Fiscal Deficit | % of GDP | 8.4 | 9.3 | 6.9 | 7.6 | 6.9 | 7.1 | 6.6 | 6.3 | 6.2 | 5.8-6 |
| Exports | US\$ Bn | 189 | 182.4 | 251.1 | 309.8 | 306.6 | 318.6 | 316.7 | 266.4 | 275.7 | 279.8 |
| YoY Growth | % | 13.7 | -3.5 | 37.6 | 23.4 | -1 | 3.9 | -0.6 | -15.9 | 3.5 | 1.5 |
| Imports | US\$ Bn | 308.5 | 300.6 | 381.1 | 499.5 | 502.2 | 466.2 | 460.9 | 396.4 | 392.5 | 412.1 |
| YoY Growth | % | 19.7 | -2.5 | 26.7 | 31.1 | 0.5 | -7.2 | -1.1 | -14 | -1 | 5 |
| Trade Balance | US\$ Bn | -119.5 | -118.2 | -129.9 | -189.8 | -195.6 | -147.6 | -144.2 | -130.1 | -116.8 | -132.3 |
| Net Invisibles | US\$ Bn | 91.6 | 80 | 84.6 | 111.6 | 107.5 | 115.2 | 116.2 | 107.9 | 102.9 | 106.5 |
| Current Account Deficit | US\$ Bn | -27.9 | -38.2 | -45.3 | -78.2 | -88.2 | -32.4 | -27.9 | -22.2 | -13.9 | -25.8 |
| CAD (% of GDP) | % | -2.3 | -2.8 | -2.6 | -4.2 | -4.7 | -1.7 | -1.4 | -1.1 | -0.6 | -1 |
| Capital Account Balance | US\$ Bn | 7.8 | 51.6 | 62 | 67.8 | 89.3 | 48.8 | 90 | 41.1 | 39 | 63.4 |
| Dollar-Rupee (Average) | | 45.8 | 47.4 | 45.6 | 47.9 | 54.4 | 60.5 | 61.2 | 65.5 | 67 | 67.5 |

Source: RBI, CSO, CGA, Ministry of Agriculture, Ministry of commerce, Bloomberg, PhillipCapital India Research

PhillipCapital India Coverage Universe: Valuation Summary

| Name of company | Sector | CMP Rs | Mkt Cap Rs mn | Net Sales (Rs mn) | | EBIDTA (Rs mn) | | PAT (Rs mn) | | EPS (Rs) | | EPS Growth (%) | | P/E (x) | | P/B (x) | | EV/EBITDA (x) | | ROE (%) | | | |
|---------------------|---------------|-----------|------------------|-------------------|-----------|----------------|---------|-------------|---------|----------|-------|----------------|-------|---------|-------|---------|-------|---------------|-------|---------|-------|-------|-------|
| | | | | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E |
| Tata Motors | Automobiles | 460 | 1,478,952 | 2,778,630 | 3,195,336 | 446,700 | 562,265 | 156,757 | 230,352 | 49 | 72 | 41.8 | 46.9 | 9.4 | 6.4 | 1.6 | 1.3 | 4.0 | 3.1 | 16.5 | 19.9 | 8.6 | 11.2 |
| Bharat Forge | Automobiles | 901 | 209,829 | 72,614 | 80,294 | 13,685 | 15,935 | 6,242 | 8,008 | 27 | 34 | -4.7 | 28.3 | 33.6 | 26.2 | 5.3 | 4.7 | 16.5 | 13.8 | 15.8 | 17.8 | 12.1 | 14.2 |
| Mahindra & Mahindra | Automobiles | 1,186 | 736,522 | 443,257 | 497,442 | 58,953 | 66,906 | 36,700 | 42,038 | 62 | 71 | 11.5 | 14.5 | 19.1 | 16.7 | 2.8 | 2.5 | 12.4 | 10.8 | 14.7 | 15.1 | 12.7 | 13.4 |
| Ashok Leyland | Automobiles | 80 | 227,386 | 214,973 | 252,194 | 24,432 | 28,655 | 13,514 | 16,763 | 5 | 6 | 21.6 | 24.0 | 16.8 | 13.6 | 3.4 | 2.8 | 9.0 | 7.2 | 20.2 | 20.5 | 17.1 | 18.5 |
| Apollo Tyres | Automobiles | 184 | 93,711 | 131,251 | 143,714 | 21,052 | 23,156 | 11,091 | 12,176 | 22 | 24 | 6.1 | 9.8 | 8.4 | 7.7 | 1.3 | 1.1 | 5.3 | 4.7 | 15.4 | 14.7 | 11.7 | 11.3 |
| Maruti Suzuki | Automobiles | 5,088 | 1,537,029 | 667,073 | 760,102 | 108,847 | 121,988 | 72,498 | 84,503 | 240 | 280 | 58.6 | 16.6 | 21.2 | 18.2 | 4.7 | 3.9 | 14.0 | 12.4 | 22.1 | 21.2 | 22.3 | 21.7 |
| Mahindra CIE | Automobiles | 184 | 69,662 | 54,170 | 66,956 | 6,497 | 9,384 | 3,147 | 5,040 | 10 | 13 | 90.4 | 37.1 | 18.9 | 13.8 | 2.6 | 1.6 | 11.2 | 7.2 | 14.0 | 13.7 | 12.1 | 21.6 |
| Bajaj Auto | Automobiles | 2,664 | 770,917 | 255,269 | 300,115 | 53,960 | 63,930 | 43,406 | 51,405 | 150 | 178 | 18.8 | 18.4 | 17.8 | 15.0 | 5.2 | 4.2 | 13.8 | 11.1 | 29.1 | 28.1 | 30.3 | 29.6 |
| Hero MotoCorp | Automobiles | 3,163 | 631,661 | 314,421 | 363,560 | 53,333 | 59,632 | 38,093 | 42,785 | 191 | 214 | 21.6 | 12.3 | 16.6 | 14.8 | 6.4 | 5.2 | 11.8 | 10.4 | 38.6 | 35.0 | 37.9 | 35.1 |
| Escorts Ltd | Automobiles | 320 | 39,261 | 39,725 | 45,855 | 3,187 | 4,476 | 2,243 | 2,972 | 19 | 25 | 115.9 | 32.5 | 17.0 | 12.9 | 1.9 | 1.7 | 12.2 | 8.2 | 11.1 | 13.0 | 7.7 | 12.2 |
| Ceat Ltd | Automobiles | 1,218 | 49,276 | 60,151 | 70,844 | 7,784 | 9,567 | 4,294 | 5,583 | 105 | 137 | -6.2 | 30.0 | 11.5 | 8.9 | 2.0 | 1.7 | 6.6 | 5.1 | 17.7 | 19.1 | 17.4 | 18.9 |
| Cummins India | Capital Goods | 776 | 215,107 | 49,688 | 56,607 | 8,241 | 9,789 | 7,576 | 8,806 | 27 | 32 | 0.4 | 16.2 | 28.4 | 24.4 | 5.7 | 5.2 | 26.2 | 21.9 | 20.1 | 21.2 | 19.4 | 20.4 |
| Engineers India | Capital Goods | 293 | 98,824 | 14,797 | 17,487 | 2,813 | 3,396 | 3,257 | 3,602 | 10 | 11 | 28.2 | 10.6 | 30.3 | 27.4 | 3.6 | 3.5 | 25.5 | 21.3 | 11.9 | 12.9 | 13.1 | 14.1 |
| Siemens | Capital Goods | 1,086 | 386,853 | 113,677 | 114,685 | 11,405 | 12,999 | 6,699 | 8,025 | 19 | 23 | 15.7 | 19.8 | 57.7 | 48.2 | 7.1 | 5.7 | 31.4 | 26.5 | 12.2 | 11.8 | 9.6 | 39.7 |
| Crompton Greaves | Capital Goods | 74 | 46,254 | 60,489 | 65,839 | 5,474 | 6,348 | 1,933 | 2,727 | 3 | 4 | 62.0 | 41.1 | 23.9 | 17.0 | 1.0 | 0.9 | 7.2 | 5.9 | 4.1 | 5.6 | 3.2 | 5.0 |
| VA Tech Wabag | Capital Goods | 500 | 27,243 | 32,032 | 38,052 | 2,750 | 3,336 | 1,409 | 1,775 | 26 | 32 | 58.5 | 26.0 | 19.4 | 15.4 | 2.5 | 2.3 | 9.9 | 7.8 | 12.9 | 14.6 | 9.9 | 11.1 |
| Volvas | Capital Goods | 308 | 101,879 | 67,924 | 77,522 | 6,028 | 6,988 | 4,556 | 5,208 | 14 | 16 | 43.9 | 14.3 | 22.4 | 19.6 | 3.7 | 3.3 | 16.7 | 14.0 | 16.7 | 16.7 | 16.6 | 16.7 |
| BHEL | Capital Goods | 129 | 316,230 | 285,773 | 319,103 | 14,555 | 29,303 | 9,854 | 19,409 | 4 | 8 | n.a. | 97.0 | 32.1 | 16.3 | 0.9 | 0.9 | 14.7 | 7.2 | 2.9 | 5.5 | 2.2 | 4.2 |
| ABB India | Capital Goods | 1,052 | 222,822 | 88,400 | 102,059 | 7,755 | 10,029 | 3,730 | 5,155 | 18 | 24 | 15.2 | 38.2 | 59.7 | 43.2 | 6.9 | 6.3 | 28.2 | 21.5 | 11.6 | 14.7 | 10.4 | 12.7 |
| Larsen & Toubro | Capital Goods | 1,352 | 1,260,494 | 1,142,337 | 1,287,758 | 137,710 | 162,555 | 53,352 | 61,534 | 57 | 66 | 16.9 | 15.3 | 23.6 | 20.5 | 2.7 | 2.5 | 16.5 | 14.0 | 11.3 | 12.0 | 4.6 | 5.2 |
| KEC International | Capital Goods | 143 | 36,725 | 91,633 | 97,479 | 7,703 | 8,614 | 2,463 | 2,959 | 10 | 12 | 9.1 | 20.2 | 14.9 | 12.4 | 2.1 | 1.9 | 7.6 | 6.5 | 14.4 | 15.1 | 9.8 | 10.4 |
| Thermax | Capital Goods | 825 | 98,244 | 49,096 | 54,434 | 4,254 | 4,900 | 2,867 | 3,319 | 24 | 28 | 4.1 | 15.8 | 34.3 | 29.6 | 3.8 | 3.5 | 22.7 | 19.3 | 11.2 | 11.8 | 10.0 | 11.1 |
| Inox Wind | Capital Goods | 186 | 41,299 | 50,023 | 50,119 | 7,784 | 7,735 | 4,565 | 4,493 | 21 | 20 | 0.3 | -1.6 | 9.0 | 9.2 | 1.9 | 1.6 | 6.3 | 5.4 | 20.8 | 17.7 | 14.9 | 13.5 |
| Dalmia Bharat Ltd | Cement | 1,652 | 146,674 | 81,114 | 84,727 | 20,304 | 23,089 | 5,205 | 5,600 | 59 | 63 | 172.5 | 7.6 | 28.2 | 26.2 | 3.9 | 4.0 | 10.2 | 8.8 | 13.8 | 15.1 | 8.2 | 8.2 |
| Shree Cement | Cement | 1,5594 | 543,236 | 90,772 | 98,584 | 31,833 | 35,748 | 18,381 | 20,311 | 528 | 583 | 203.1 | 10.5 | 29.6 | 26.7 | 7.1 | 5.9 | 16.5 | 14.3 | 24.0 | 21.9 | 23.2 | 23.1 |
| Dalmia Bharat Ltd | Cement | 1,652 | 146,674 | 81,114 | 84,727 | 20,304 | 23,089 | 5,205 | 5,600 | 59 | 63 | 172.5 | 7.6 | 28.2 | 26.2 | 3.9 | 4.0 | 10.2 | 8.8 | 13.8 | 15.1 | 8.2 | 8.2 |

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: Valuation Summary

| Name of company | Sector | CMP | Mkt Cap | Net Sales (Rs mn) | | EBIDTA (Rs mn) | | PAT (Rs mn) | | EPS (Rs) | | EPS Growth (%) | | P/E (x) | | P/B (x) | | EV/EBITDA (x) | | ROE (%) | | ROCE (%) | |
|-----------------------|------------|-------|-----------|-------------------|---------|----------------|---------|-------------|---------|----------|-------|----------------|-------|---------|-------|---------|-------|---------------|-------|---------|-------|----------|-------|
| | | | | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E |
| HeidelbergCement | Cement | 114 | 25,925 | 18,694 | 20,437 | 2,904 | 3,631 | 1,020 | 1,554 | 4 | 7 | 163.8 | 52.4 | 25.4 | 16.7 | 2.6 | 2.2 | 11.0 | 8.1 | 10.2 | 13.5 | 8.3 | 10.3 |
| India Cement | Cement | 128 | 39,319 | 60,035 | 66,592 | 10,226 | 11,472 | 2,601 | 3,949 | 8 | 13 | 80.1 | 51.8 | 15.1 | 10.0 | 1.1 | 1.0 | 6.1 | 5.0 | 7.3 | 10.4 | 7.5 | 9.3 |
| JK Cement | Cement | 714 | 49,912 | 37,763 | 45,175 | 6,005 | 8,230 | 1,503 | 2,999 | 21 | 43 | 137.1 | 99.5 | 33.2 | 16.6 | 2.9 | 2.7 | 12.7 | 9.1 | 8.9 | 16.3 | 6.4 | 9.1 |
| JK Lakshmi Cement | Cement | 359 | 42,285 | 31,203 | 36,664 | 4,797 | 6,257 | 751 | 1,817 | 6 | 15 | 221.9 | 142.1 | 56.3 | 23.3 | 3.0 | 2.7 | 12.6 | 9.1 | 5.3 | 11.7 | 6.3 | 9.2 |
| Mangalam Cement | Cement | 273 | 7,289 | 9,475 | 9,874 | 1,296 | 1,551 | 372 | 617 | 14 | 23 | -281.8 | 65.9 | 19.6 | 11.8 | 1.4 | 1.3 | 9.5 | 7.5 | 7.0 | 10.8 | 6.1 | 8.1 |
| OCL India | Cement | 760 | 43,244 | 29,529 | 33,165 | 5,857 | 6,592 | 3,224 | 3,721 | 57 | 65 | 57.5 | 15.4 | 13.4 | 11.6 | 2.6 | 2.2 | 6.9 | 5.6 | 19.5 | 19.3 | 17.5 | 20.6 |
| Shree Cement | Cement | 14360 | 500,256 | 90,772 | 98,584 | 31,833 | 35,748 | 18,381 | 20,311 | 528 | 583 | 203.1 | 10.5 | 27.2 | 24.6 | 6.5 | 5.4 | 15.1 | 13.1 | 24.0 | 21.9 | 23.2 | 23.1 |
| Ultratech Cement | Cement | 3,300 | 905,751 | 289,472 | 361,256 | 61,865 | 80,231 | 34,527 | 38,577 | 126 | 141 | 51.0 | 11.7 | 26.2 | 23.5 | 3.8 | 3.3 | 14.9 | 13.7 | 14.4 | 14.1 | 11.4 | 10.6 |
| Bajaj Electricals Ltd | Electricis | 231 | 23,378 | 46,946 | 50,568 | 2,605 | 2,989 | 1,069 | 1,284 | 11 | 13 | 11.8 | 20.0 | 21.8 | 18.2 | 2.8 | 2.5 | 10.9 | 9.3 | 12.7 | 13.5 | 10.6 | 11.1 |
| Finolex Cables Ltd | Electricis | 417 | 63,737 | 25,780 | 28,026 | 4,037 | 4,573 | 3,229 | 3,398 | 21 | 22 | 69.3 | 5.2 | 19.7 | 18.8 | 3.7 | 3.2 | 15.0 | 12.6 | 18.6 | 16.8 | 19.1 | 17.3 |
| Havells India Ltd | Electricis | 367 | 229,134 | 62,253 | 71,739 | 8,779 | 9,912 | 6,240 | 6,953 | 10 | 11 | 21.7 | 11.4 | 36.7 | 32.9 | 7.9 | 7.2 | 24.6 | 21.5 | 21.6 | 21.9 | 19.2 | 19.8 |
| KEI Industries | Electricis | 138 | 10,717 | 25,741 | 28,654 | 2,740 | 3,129 | 2,460 | 2,830 | 32 | 37 | 13.4 | 15.0 | 4.3 | 3.8 | 2.4 | 1.9 | 5.6 | 4.6 | 55.4 | 51.2 | 26.9 | 29.2 |
| VGuard Industries Ltd | Electricis | 163 | 49,378 | 21,454 | 24,841 | 2,307 | 2,736 | 1,550 | 1,889 | 5 | 6 | 38.8 | 23.2 | 31.8 | 25.8 | 8.3 | 6.6 | 21.4 | 17.9 | 26.2 | 25.6 | 26.7 | 26.4 |
| Andhra Bank | Financials | 49 | 33,036 | 6,123 | 6,782 | 29,260 | 32,586 | 10,570 | 12,416 | 14 | 16 | 76.2 | 17.5 | 3.5 | 3.0 | 0.0 | 0.0 | 1.1 | 1.0 | 162.5 | 181.0 | 9.6 | 10.1 |
| AXIS Bank | Financials | 446 | 1,066,274 | 82,684 | 92,879 | 120,520 | 100,622 | 32,977 | 56,097 | 14 | 23 | -60.1 | 69.3 | 32.4 | 19.1 | 0.0 | 0.0 | 8.8 | 10.6 | 228.8 | 242.8 | 6.1 | 9.9 |
| Bank of Baroda | Financials | 152 | 350,808 | 29,585 | 33,135 | 83,430 | 67,044 | 21,096 | 49,375 | 9 | 21 | -139.1 | 134.1 | 16.7 | 7.1 | 0.0 | 0.0 | 4.2 | 5.2 | 180.8 | 199.2 | 5.7 | 12.4 |
| Bank of India | Financials | 111 | 117,388 | 23,007 | 25,622 | 70,387 | 42,032 | 654 | 25,771 | 1 | 24 | -100.9 | - | 162.3 | 4.7 | 0.0 | 0.0 | 1.7 | 2.8 | 354.9 | 346.3 | 0.2 | 7.6 |
| Canara Bank | Financials | 270 | 146,689 | 17,054 | 19,027 | 48,372 | 43,340 | 16,073 | 25,218 | 28 | 41 | -153.4 | 49.6 | 9.8 | 6.5 | 0.0 | 0.0 | 3.0 | 3.4 | 582.2 | 594.7 | 5.9 | 8.5 |
| Cholamandalam Inves | Financials | 959 | 149,780 | 296 | 353 | 4,108 | 3,731 | 7,487 | 9,981 | 48 | 64 | 31.7 | 33.3 | 20.0 | 15.0 | 0.0 | 0.0 | 36.5 | 40.1 | 276.5 | 334.2 | 18.8 | 20.9 |
| Corporation bank | Financials | 42 | 48,348 | 6,591 | 7,394 | 30,747 | 27,572 | 1,075 | 5,946 | 1 | 4 | -118.2 | 394.0 | 46.8 | 9.5 | 0.0 | 0.0 | 1.6 | 1.8 | 95.1 | 93.2 | 1.0 | 5.0 |
| DCB Bank | Financials | 114 | 32,466 | 1,866 | 2,223 | 950 | 930 | 1,936 | 2,505 | 7 | 8 | -0.5 | 15.0 | 16.7 | 14.6 | 0.0 | 0.0 | 34.2 | 34.9 | 69.8 | 85.4 | 10.2 | 10.6 |
| HDFC Bank | Financials | 1,201 | 3,066,150 | 105,514 | 123,893 | 32,025 | 38,530 | 146,510 | 175,679 | 58 | 69 | 19.2 | 19.9 | 20.7 | 17.3 | 0.0 | 0.0 | 95.7 | 79.6 | 333.1 | 389.2 | 18.7 | 19.2 |
| HDFC Limited | Financials | 1,226 | 1,942,374 | 4,042 | 4,365 | 1,644 | 1,644 | 73,588 | 81,113 | 47 | 51 | 3.7 | 10.2 | 26.3 | 23.9 | 0.0 | 0.0 | 1,181 | 1,181 | 241.5 | 270.6 | 20.4 | 20.1 |
| ICICI Bank | Financials | 261 | 1,516,823 | 99,840 | 22,400 | 162,259 | 121,444 | 85,083 | 71,498 | 15 | 12 | -12.7 | -16.1 | 17.8 | 21.3 | 0.0 | 0.0 | 9.3 | 12.5 | 162.7 | 167.6 | 9.2 | 7.4 |
| Indian Bank | Financials | 237 | 113,925 | 4,764 | 6,041 | 18,795 | 17,880 | 14,995 | 16,966 | 31 | 35 | 110.8 | 13.1 | 7.6 | 6.7 | 0.0 | 0.0 | 6.1 | 6.4 | 366.3 | 396.9 | 10.5 | 10.5 |
| Indusind Bank | Financials | 1,156 | 690,547 | 36,706 | 46,472 | 8,046 | 9,715 | 29,659 | 38,207 | 50 | 64 | 29.3 | 28.8 | 23.3 | 18.1 | 0.0 | 0.0 | 85.8 | 71.1 | 339.0 | 394.8 | 15.6 | 17.4 |

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: Valuation Summary

| Name of company | Sector | CMP Rs | Mkt Cap Rs mn | Net Sales (Rs mn) | | EBIDTA (Rs mn) | | PAT (Rs mn) | | EPS (Rs) | | EPS Growth (%) | | P/E (x) | | P/B (x) | | EV/EBITDA (x) | | ROE (%) | | | |
|-------------------------|------------|-----------|------------------|-------------------|---------|----------------|---------|-------------|---------|----------|-------|----------------|--------|---------|-------|---------|-------|---------------|-------|---------|-------|-------|-------|
| | | | | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E |
| UC Housing Finance | Financials | 525 | 264,797 | 1,642 | 1,872 | 2,624 | 1,754 | 19,638 | 23,422 | 39 | 46 | 18.2 | 19.3 | 13.5 | 11.3 | 0.0 | 0.0 | 100.9 | 150.9 | 213.0 | 251.8 | 19.7 | 20.0 |
| Mah & Mah Financ | Financials | 276 | 157,036 | 2,971 | 3,217 | 11,290 | 8,930 | 8,286 | 11,494 | 15 | 20 | 23.2 | 38.7 | 18.8 | 13.6 | 0.0 | 0.0 | 13.9 | 17.6 | 117.7 | 133.3 | 13.0 | 16.2 |
| Manappuram Finance | Financials | 71 | 59,965 | 17,952 | 22,649 | 9,435 | 12,425 | 5,955 | 7,830 | 7 | 9 | 76.6 | 31.5 | 10.1 | 7.7 | 1.9 | 1.6 | 6.4 | 4.8 | 20.1 | 22.3 | 4.5 | 4.9 |
| Muthoot Finance | Financials | 291 | 116,064 | 29,670 | n.a. | 17,273 | n.a. | 10,723 | n.a. | 27 | n.a. | 32.5 | - | 10.8 | - | 1.8 | - | 6.7 | - | 17.8 | - | 3.6 | - |
| OBC | Financials | 111 | 38,425 | 11,018 | 12,394 | 29,240 | 27,158 | 5,491 | 7,243 | 16 | 19 | 226.6 | 20.3 | 7.0 | 5.8 | 0.0 | 0.0 | 1.3 | 1.4 | 418.3 | 410.3 | 3.9 | 4.8 |
| Punjab National Bank | Financials | 120 | 255,356 | 33,023 | 36,326 | 101,370 | 81,296 | 19,045 | 32,451 | 9 | - | -143.2 | -100.0 | 13.7 | - | 0.0 | 0.0 | 2.5 | 3.1 | 196.2 | 208.0 | 5.1 | 7.8 |
| Repro Home Finance | Financials | 600 | 37,537 | 364 | 474 | 600 | 601 | 1,802 | 2,354 | 29 | 37 | 20.0 | 29.8 | 20.8 | 16.1 | 0.1 | 0.0 | 62.6 | 62.4 | 178.8 | 212.2 | 17.4 | 19.2 |
| Shriram City Union Fina | Financials | 1,845 | 121,655 | 539 | 537 | 7,102 | 7,697 | 6,286 | 8,034 | 95 | 122 | 18.6 | 27.8 | 19.4 | 15.1 | 0.1 | 0.1 | 17.1 | 15.8 | 759.5 | 861.1 | 13.2 | 15.0 |
| Shriram Transport Fin | Financials | 936 | 212,374 | 716 | 823 | 17,165 | 18,679 | 17,233 | 20,661 | 76 | 91 | 46.3 | 19.9 | 12.3 | 10.3 | 0.0 | 0.0 | 12.4 | 11.4 | 512.9 | 592.9 | 16.7 | 16.5 |
| SKS Microfinance | Financials | 623 | 85,886 | 1,045 | 1,505 | 499 | 590 | 7,295 | 8,381 | 53 | 60 | 122.2 | 13.7 | 11.8 | 10.3 | 0.0 | 0.0 | 172.2 | 145.6 | 207.9 | 266.1 | 34.4 | 25.5 |
| State Bank of India | Financials | 248 | 1,921,676 | 184,269 | 204,784 | 283,537 | 269,311 | 109,095 | 134,407 | 13 | 16 | 5.1 | 20.7 | 18.4 | 15.2 | 0.0 | 0.0 | 6.8 | 7.1 | 197.7 | 212.2 | 7.2 | 8.0 |
| Union Bank | Financials | 128 | 87,992 | 15,220 | 16,832 | 48,963 | 46,540 | 8,368 | 14,157 | 11 | 17 | -44.0 | 58.0 | 11.6 | 7.4 | 0.0 | 0.0 | 1.8 | 1.9 | 324.3 | 329.8 | 4.0 | 6.1 |
| Agro Tech Foods | FMCG | 457 | 11,136 | 7,444 | 7,793 | 543 | 567 | 240 | 275 | 10 | 11 | 2.4 | 14.6 | 46.5 | 40.6 | 3.1 | 3.0 | 21.2 | 20.0 | 6.7 | 7.4 | 6.6 | 6.2 |
| Apcoctex Industries | FMCG | 306 | 6,349 | 5,640 | 6,557 | 798 | 1,074 | 500 | 691 | 24 | 33 | 30.2 | 38.0 | 12.7 | 9.2 | 2.9 | 2.4 | 7.6 | 4.9 | 22.7 | 25.8 | 25.0 | 28.7 |
| Asian Paints | FMCG | 908 | 871,335 | 161,910 | 188,249 | 30,068 | 35,936 | 18,900 | 22,705 | 20 | 24 | 6.3 | 20.1 | 46.1 | 38.4 | 13.3 | 11.5 | 28.8 | 23.8 | 28.9 | 29.9 | 29.4 | 30.4 |
| Bajaj Corp | FMCG | 378 | 55,703 | 8,388 | 9,478 | 2,244 | 2,554 | 1,987 | 2,167 | 13 | 15 | -18.3 | 9.0 | 28.0 | 25.7 | 13.2 | 15.3 | 24.7 | 22.0 | 47.2 | 59.6 | 41.0 | 55.1 |
| Britannia | FMCG | 2,901 | 348,110 | 87,808 | 100,336 | 6,662 | 9,499 | 5,007 | 6,906 | 42 | 58 | -38.7 | 37.9 | 69.5 | 50.4 | 18.1 | 15.7 | 52.2 | 36.5 | 26.0 | 31.2 | 25.2 | 31.2 |
| Colgate | FMCG | 887 | 241,251 | 42,419 | 48,306 | 9,867 | 11,249 | 5,914 | 6,724 | 22 | 25 | -2.7 | 13.7 | 40.8 | 35.9 | 18.8 | 15.1 | 24.2 | 21.0 | 46.0 | 42.1 | 51.3 | 46.7 |
| Dabur India Ltd | FMCG | 277 | 487,501 | 88,740 | 97,932 | 16,109 | 17,936 | 13,203 | 14,842 | 8 | 9 | 5.4 | 13.4 | 36.9 | 32.5 | 10.0 | 8.5 | 30.2 | 27.0 | 27.0 | 26.1 | 25.0 | 24.5 |
| Emami | FMCG | 1,040 | 236,148 | 31,005 | 35,115 | 8,389 | 9,503 | 5,498 | 6,661 | 24 | 29 | 72.1 | 21.1 | 42.9 | 35.5 | 14.7 | 12.5 | 28.4 | 24.5 | 34.3 | 35.4 | 18.1 | 22.1 |
| Glaxo Smithkline Cons | FMCG | 5,149 | 216,536 | 41,948 | 45,920 | 6,846 | 7,638 | 7,152 | 8,060 | 170 | 192 | 4.1 | 12.7 | 30.3 | 26.9 | 7.8 | 6.9 | 27.0 | 23.5 | 25.8 | 25.6 | 27.4 | 27.2 |
| GCPL | FMCG | 1,547 | 526,875 | 101,171 | 111,692 | 18,439 | 20,781 | 12,888 | 14,864 | 38 | 44 | 12.4 | 15.3 | 40.9 | 35.4 | 8.7 | 7.3 | 29.4 | 25.7 | 21.2 | 20.6 | 16.5 | 17.2 |
| Hindustan Unilever | FMCG | 834 | 1,805,005 | 308,214 | 343,848 | 62,520 | 69,113 | 41,029 | 45,423 | 19 | 21 | -0.1 | 10.7 | 44.1 | 39.8 | 57.6 | 71.5 | 28.5 | 25.9 | 130.8 | 179.6 | 120.9 | 160.7 |
| ITC | FMCG | 246 | 2,980,643 | 399,103 | 422,736 | 152,397 | 162,039 | 104,443 | 111,133 | 9 | 9 | 11.1 | 6.4 | 28.3 | 26.6 | 8.5 | 8.4 | 19.1 | 18.0 | 30.1 | 31.5 | 23.5 | 23.9 |
| Jubilant Foodworks | FMCG | 823 | 54,275 | 25,562 | 29,016 | 2,213 | 2,669 | 604 | 833 | 9 | 13 | -47.3 | 38.0 | 89.2 | 64.6 | 6.5 | 5.9 | 24.5 | 20.0 | 7.3 | 9.1 | 7.2 | 9.1 |
| Manico Industries | FMCG | 259 | 334,051 | 65,107 | 75,527 | 12,389 | 14,084 | 8,573 | 9,762 | 7 | 8 | 18.3 | 13.9 | 39.0 | 34.2 | 13.2 | 11.1 | 26.5 | 23.0 | 34.0 | 32.5 | 31.7 | 30.8 |

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: Valuation Summary

| Name of company | Sector | CMP Rs | Mkt Cap Rs mn | | Net Sales (Rs mn) | | EBIDTA (Rs mn) | | PAT (Rs mn) | | EPS (Rs) | | EPS Growth (%) | | P/E (x) | | P/B (x) | | EV/EBITDA (x) | | ROE (%) | | | | |
|-------------------------|----------------|-----------|------------------|-----------|-------------------|---------|----------------|---------|-------------|--------|----------|-------|----------------|-------|---------|-------|---------|-------|---------------|-------|---------|--------|-------|-------|------|
| | | | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | |
| Nestle | FMCG | 5,919 | 570,704 | 101,096 | 112,742 | 21,507 | 24,159 | 14,162 | 12,459 | 33,145 | 16 | 18 | 17.1 | 13.7 | 45.8 | 40.3 | 17.2 | 15.0 | 26.4 | 23.0 | 37.6 | 37.2 | 40.5 | 39.7 | |
| Adani Ports & SEZ | Infrastructure | 287 | 594,674 | 77,415 | 85,521 | 51,476 | 57,189 | 33,145 | 36,854 | | | 16 | 18 | 16.4 | 11.2 | 17.9 | 16.1 | 3.6 | 3.0 | 15.6 | 13.8 | 20.3 | 18.7 | 10.6 | 10.7 |
| Ashoka Buildcon | Infrastructure | 155 | 29,008 | 30,066 | 35,089 | 8,938 | 10,989 | 1,087 | 1,214 | 1,087 | 6 | 6 | 10.5 | 11.7 | 26.7 | 23.9 | 1.5 | 1.4 | 7.9 | 6.3 | 5.5 | 5.9 | 5.7 | 6.4 | |
| GMR Infrastructure | Infrastructure | 13 | 75,449 | 94,388 | 94,438 | 33,267 | 35,629 | -28,985 | -25,388 | | -5 | -5 | 70.7 | -12.4 | -2.4 | -2.7 | 1.7 | 4.9 | 14.8 | 13.4 | -73.7 | -182.4 | -0.6 | -0.1 | |
| GVK Power | Infrastructure | 6 | 9,001 | 48,605 | 51,068 | 28,264 | 28,952 | -3,136 | -2,543 | | -2 | -2 | -53.9 | -18.9 | -2.9 | -3.5 | 0.6 | 0.6 | 8.3 | 7.8 | -21.7 | -16.8 | 3.4 | 3.5 | |
| IRB Infrastructure | Infrastructure | 216 | 76,054 | 57,142 | 63,658 | 30,815 | 35,748 | 6,436 | 6,561 | | 18 | 19 | 1.2 | 1.9 | 11.8 | 11.6 | 1.3 | 1.2 | 7.5 | 6.5 | 11.0 | 10.0 | 3.6 | 3.8 | |
| ITD Cementation | Infrastructure | 167 | 25,880 | 37,158 | 40,874 | 3,158 | 3,474 | 1,261 | 1,497 | | 8 | 10 | 89.8 | 18.6 | 20.5 | 17.3 | 3.7 | 3.0 | 9.4 | 8.6 | 18.0 | 17.6 | 16.5 | 16.6 | |
| J Kumar InfraProjects | Infrastructure | 229 | 17,290 | 16,199 | 21,059 | 2,835 | 3,580 | 1,243 | 1,569 | | 16 | 21 | 20.5 | 26.2 | 13.9 | 11.0 | 1.2 | 1.1 | 6.9 | 6.1 | 9.3 | 10.7 | 8.9 | 10.0 | |
| KMR Construction | Infrastructure | 171 | 24,095 | 13,087 | 16,359 | 1,832 | 2,290 | 1,209 | 1,364 | | 9 | 10 | -85.0 | 12.8 | 19.9 | 17.7 | 2.9 | 2.5 | 14.0 | 11.4 | 15.4 | 15.0 | 14.1 | 13.6 | |
| MBL Infrastructures Ltd | Infrastructure | 44 | 1,834 | 25,458 | 28,004 | 2,546 | 2,800 | 722 | 733 | | 17 | 18 | -15.1 | 1.5 | 2.5 | 2.5 | 0.2 | 0.2 | 4.8 | 4.8 | 9.5 | 8.9 | 8.8 | 8.4 | |
| NCC | Infrastructure | 83 | 46,392 | 88,468 | 99,079 | 8,183 | 9,165 | 2,785 | 3,708 | | 5 | 7 | 17.5 | 33.1 | 16.7 | 12.5 | 1.3 | 1.2 | 7.4 | 6.7 | 7.6 | 9.3 | 10.3 | 11.1 | |
| PNC InfraTech Ltd | Infrastructure | 104 | 26,796 | 20,142 | 24,170 | 2,618 | 3,190 | 1,971 | 1,849 | | 8 | 7 | -17.7 | -6.2 | 13.6 | 14.5 | 1.7 | 1.6 | 10.4 | 8.4 | 13.6 | 11.3 | 13.4 | 11.1 | |
| HCL Technologies | IT Services | 839 | 1,183,819 | 531,915 | 569,277 | 114,352 | 120,698 | 89,723 | 95,452 | | 63 | 67 | 10.5 | 6.4 | 13.4 | 12.6 | 3.4 | 3.0 | 10.3 | 9.6 | 25.2 | 24.0 | 24.7 | 23.6 | |
| Infosys Technologies | IT Services | 977 | 2,244,689 | 690,977 | 775,133 | 186,020 | 211,246 | 143,791 | 164,562 | | 63 | 72 | 6.6 | 14.4 | 15.5 | 13.6 | 3.3 | 2.9 | 10.0 | 8.5 | 21.1 | 21.3 | 22.0 | 22.7 | |
| KPIIT Technologies | IT Services | 137 | 27,117 | 33,082 | 35,485 | 3,794 | 4,296 | 2,319 | 2,642 | | 12 | 14 | -20.1 | 13.9 | 11.3 | 10.0 | 1.7 | 1.4 | 6.8 | 5.6 | 14.7 | 14.6 | 13.6 | 13.2 | |
| Mindtree Ltd | IT Services | 493 | 82,879 | 52,659 | 58,111 | 7,186 | 8,385 | 4,504 | 5,425 | | 27 | 32 | -18.6 | 20.4 | 18.4 | 15.3 | 3.1 | 2.8 | 11.3 | 9.5 | 16.9 | 18.2 | 17.7 | 19.2 | |
| NIIIT Technologies | IT Services | 432 | 26,512 | 27,763 | 30,453 | 4,624 | 5,094 | 2,624 | 2,921 | | 43 | 48 | -3.3 | 11.3 | 10.1 | 9.1 | 1.5 | 1.4 | 4.3 | 3.5 | 15.3 | 15.2 | 13.0 | 14.9 | |
| Persistent Systems | IT Services | 635 | 50,788 | 28,846 | 31,926 | 4,659 | 5,190 | 3,172 | 3,493 | | 40 | 44 | 6.7 | 10.1 | 16.0 | 14.5 | 2.7 | 2.4 | 10.5 | 9.4 | 16.8 | 16.3 | 16.6 | 16.2 | |
| Tata Consultancy | IT Services | 2,297 | 4,525,383 | 1,186,692 | 1,295,897 | 326,263 | 343,516 | 260,352 | 274,608 | | 132 | 139 | 7.5 | 5.5 | 17.4 | 16.5 | 5.2 | 4.5 | 13.6 | 12.8 | 29.9 | 27.0 | 31.5 | 28.2 | |
| Tech Mahindra | IT Services | 471 | 457,952 | 288,975 | 316,144 | 44,234 | 49,836 | 29,048 | 32,481 | | 33 | 37 | -5.1 | 11.8 | 14.2 | 12.7 | 2.7 | 2.4 | 10.0 | 8.6 | 19.1 | 18.7 | 15.2 | 15.1 | |
| Wipro | IT Services | 474 | 1,151,991 | 549,360 | 580,828 | 110,588 | 114,608 | 84,181 | 90,660 | | 35 | 37 | -4.5 | 8.1 | 13.7 | 12.7 | 2.3 | 2.1 | 11.1 | 10.3 | 16.9 | 16.3 | 16.2 | 16.0 | |
| Allcargo Logistics | Logistics | 172 | 43,461 | 59,212 | 66,851 | 5,670 | 6,778 | 2,943 | 3,615 | | 12 | 14 | 5.8 | 22.8 | 14.8 | 12.0 | 2.4 | 2.1 | 8.3 | 6.8 | 16.3 | 17.3 | 11.8 | 14.4 | |
| Container Corp Of India | Logistics | 1,177 | 229,485 | 55,481 | 61,739 | 10,115 | 11,968 | 7,253 | 8,410 | | 37 | 43 | -7.9 | 16.0 | 31.6 | 27.3 | 2.6 | 2.5 | 22.1 | 18.6 | 8.3 | 9.1 | 8.2 | 8.9 | |
| Gateway Distriparks | Logistics | 247 | 26,834 | 10,902 | 12,342 | 2,411 | 3,262 | 1,081 | 1,782 | | 10 | 16 | -1.3 | 64.9 | 24.8 | 15.0 | 2.8 | 2.6 | 13.5 | 10.0 | 11.3 | 17.2 | 8.3 | 11.9 | |
| Navkar | Logistics | 177 | 25,234 | 4,646 | 7,908 | 1,975 | 3,161 | 1,193 | 2,047 | | 8 | 14 | 6.8 | 71.6 | 21.1 | 12.3 | 1.8 | 1.5 | 14.5 | 8.7 | 8.3 | 12.2 | 7.9 | 11.5 | |
| VRL Logistics Ltd | Logistics | 281 | 25,626 | 18,204 | 19,624 | 2,471 | 2,735 | 896 | 1,056 | | 10 | 12 | -12.4 | 17.9 | 28.6 | 24.3 | 4.6 | 4.2 | 11.4 | 10.1 | 16.0 | 17.3 | 11.3 | 12.6 | |

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: Valuation Summary

| Name of company | Sector | CMP Rs | Mkt Cap Rs mn | Net Sales (Rs mn) | | EBIDTA (Rs mn) | | PAT (Rs mn) | | EPS (Rs) | | EPS Growth (%) | | P/E (x) | | P/B (x) | | EV/EBITDA (x) | | ROE (%) | | | |
|------------------------|-----------|-----------|------------------|-------------------|-----------|----------------|---------|-------------|---------|----------|-------|----------------|-------|---------|--------|---------|-------|---------------|-------|---------|-------|-------|-------|
| | | | | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E |
| DB Corp Limited | Media | 369 | 67,815 | 23,652 | 26,731 | 6,813 | 8,014 | 4,058 | 4,847 | 22 | 26 | 36.6 | 19.4 | 16.7 | 14.0 | 4.7 | 4.4 | 9.9 | 8.3 | 28.4 | 31.7 | 24.7 | 27.6 |
| Dish TV | Media | 86 | 91,987 | 32,740 | 37,555 | 11,371 | 14,565 | 3,389 | 5,367 | 3 | 5 | -51.9 | 58.4 | 27.1 | 17.1 | 12.6 | 7.3 | 8.3 | 6.1 | 46.4 | 42.4 | 57.5 | 47.2 |
| HMV | Media | 280 | 20,547 | 9,901 | 10,778 | 2,462 | 2,891 | 1,993 | 2,361 | 27 | 32 | 10.3 | 18.5 | 10.3 | 8.7 | 1.9 | 1.6 | 8.1 | 6.2 | 18.2 | 17.8 | 20.4 | 19.9 |
| HT Media | Media | 76 | 17,666 | 27,311 | 29,520 | 3,781 | 4,329 | 2,310 | 2,750 | 10 | 12 | 32.6 | 19.0 | 7.6 | 6.4 | 0.8 | 0.7 | 6.2 | 4.7 | 9.9 | 10.4 | 9.1 | 9.3 |
| Jagran Prakashan | Media | 179 | 58,583 | 22,853 | 24,721 | 6,265 | 7,084 | 3,656 | 4,266 | 12 | 13 | 11.4 | 16.7 | 15.6 | 13.3 | 3.0 | 2.6 | 9.5 | 7.9 | 19.1 | 19.3 | 15.8 | 15.6 |
| Ortel Communication | Media | 145 | 4,403 | 4,646 | 7,908 | 1,975 | 3,161 | 1,193 | 2,047 | 8 | 14 | 6.8 | 71.6 | 17.3 | 10.1 | 1.4 | 1.2 | 3.9 | 2.1 | 8.3 | 12.2 | 7.9 | 11.5 |
| Zee Entertainment | Media | 466 | 448,001 | 65,355 | 67,083 | 16,965 | 21,685 | 10,269 | 15,053 | 11 | 16 | 12.4 | 46.6 | 43.6 | 29.7 | 6.4 | 4.3 | 25.2 | 18.1 | 14.8 | 14.5 | 16.7 | 18.0 |
| Hindalco Inds | Metals | 161 | 333,579 | 1,034,837 | 1,071,588 | 131,922 | 137,352 | 30,064 | 33,525 | 15 | 16 | 285.5 | 11.5 | 11.1 | 9.9 | 0.8 | 0.8 | 7.1 | 6.4 | 7.3 | 7.6 | 5.4 | 5.5 |
| Hindustan Zinc | Metals | 274 | 1,155,625 | 174,849 | 194,319 | 96,157 | 117,663 | 83,178 | 103,441 | 20 | 24 | 1.5 | 24.4 | 13.9 | 11.2 | 2.7 | 2.3 | 9.1 | 6.8 | 19.5 | 21.0 | 19.6 | 20.9 |
| JSW Steel | Metals | 177 | 428,694 | 530,872 | 591,212 | 134,507 | 147,638 | 43,150 | 50,833 | 179 | 210 | 211.9 | 17.8 | 1.0 | 0.8 | 0.2 | 0.2 | 6.3 | 5.4 | 19.6 | 19.0 | 9.9 | 10.1 |
| NALCO | Metals | 66 | 128,153 | 72,089 | 77,808 | 12,945 | 14,162 | 9,019 | 9,765 | 5 | 5 | 77.5 | 8.3 | 14.2 | 13.1 | 1.2 | 1.2 | 7.8 | 7.8 | 8.6 | 8.9 | 6.7 | 7.8 |
| SAIL | Metals | 53 | 217,862 | 427,690 | 508,894 | 16,075 | 40,607 | -14,663 | -1,844 | -4 | -0 | -64.4 | -87.4 | -14.9 | -118.1 | 0.6 | 0.6 | 33.5 | 14.4 | -3.9 | -0.5 | -0.0 | 1.7 |
| Tata Steel | Metals | 430 | 417,331 | 1,141,936 | 1,343,417 | 152,526 | 186,759 | 35,127 | 64,668 | 36 | 67 | 279.1 | 84.1 | 11.9 | 6.5 | 1.3 | 1.1 | 8.0 | 6.2 | 11.4 | 17.8 | 4.8 | 6.7 |
| Vedanta Ltd | Metals | 235 | 696,555 | 720,078 | 847,756 | 210,679 | 252,322 | 48,186 | 83,511 | 16 | 22 | 54.0 | 38.2 | 14.5 | 10.5 | 1.5 | 1.1 | 6.6 | 5.1 | 10.1 | 10.8 | 7.5 | 9.4 |
| KDDL | Midcap | 197 | 1,986 | 4,760 | 5,513 | 279 | 459 | 30 | 97 | 3 | 10 | -44.0 | 228.4 | 66.9 | 20.4 | 2.4 | 2.3 | 12.1 | 7.5 | 3.7 | 11.4 | 4.6 | 7.8 |
| PEBS | Midcap | 149 | 5,107 | 91,007 | 108,439 | 16,345 | 20,034 | 6,408 | 8,378 | 12 | 16 | -13.9 | 30.7 | 12.2 | 9.3 | 1.2 | 1.1 | 4.6 | 4.0 | 9.7 | 11.4 | 6.3 | 7.1 |
| Pennar Inds. | Midcap | 42 | 5,091 | 15,352 | 19,052 | 1,918 | 2,411 | 672 | 893 | 6 | 7 | 53.3 | 32.9 | 7.6 | 5.7 | 0.9 | 0.8 | 3.9 | 3.1 | 11.9 | 14.0 | 14.2 | 15.9 |
| Praj Inds. | Midcap | 84 | 15,067 | 11,257 | 14,084 | 1,162 | 1,931 | 799 | 1,354 | 5 | 8 | 16.8 | 69.5 | 18.7 | 11.0 | 2.2 | 2.0 | 12.1 | 7.2 | 12.0 | 18.3 | 11.5 | 18.2 |
| Sintex Industries | Midcap | 85 | 44,233 | 91,007 | 108,439 | 16,345 | 20,034 | 6,408 | 8,378 | 12 | 16 | -13.9 | 30.7 | 6.9 | 5.3 | 0.7 | 0.6 | 7.0 | 5.9 | 9.7 | 11.4 | 6.3 | 7.1 |
| The Byke Hospitality | Midcap | 171 | 6,845 | 2,761 | 3,427 | 580 | 720 | 329 | 424 | 8 | 11 | 36.7 | 28.8 | 20.8 | 16.1 | 4.8 | 3.8 | 11.6 | 9.1 | 23.0 | 23.8 | 22.5 | 24.0 |
| Castrol India | Oil & Gas | 390 | 192,805 | 38,546 | 42,261 | 11,422 | 12,797 | 7,942 | 8,825 | 16 | 18 | 12.7 | 11.1 | 24.3 | 21.8 | 26.6 | 23.7 | 16.1 | 14.3 | 109.5 | 108.4 | 118.5 | 115.0 |
| GUJARAT GAS LTD | Oil & Gas | 554 | 76,246 | 50,503 | 56,444 | 9,887 | 11,410 | 3,672 | 4,703 | 27 | 34 | 84.9 | 28.1 | 20.8 | 16.2 | 3.2 | 2.8 | 10.0 | 8.6 | 15.4 | 17.2 | 8.7 | 9.4 |
| GUJARAT GAS LTD | Oil & Gas | 554 | 76,246 | 50,503 | 56,444 | 9,887 | 11,410 | 3,672 | 4,703 | 27 | 34 | 84.9 | 28.1 | 20.8 | 16.2 | 3.2 | 2.8 | 10.0 | 8.6 | 15.4 | 17.2 | 8.7 | 9.4 |
| Gujarat State Petronet | Oil & Gas | 138 | 77,765 | 10,702 | 12,402 | 9,313 | 10,911 | 4,893 | 6,040 | 9 | 11 | 10.1 | 23.5 | 15.9 | 12.9 | 1.8 | 1.6 | 8.6 | 7.0 | 11.3 | 12.6 | 9.3 | 10.5 |
| Gulf Oil Lubricants | Oil & Gas | 661 | 32,788 | 11,475 | 13,488 | 1,887 | 2,363 | 1,243 | 1,569 | 25 | 32 | 23.9 | 26.3 | 26.4 | 20.9 | 10.2 | 8.0 | 17.2 | 13.6 | 38.8 | 38.1 | 29.0 | 31.4 |
| Indraprastha Gas | Oil & Gas | 941 | 131,747 | 37,088 | 40,722 | 10,090 | 11,034 | 5,966 | 6,629 | 43 | 47 | 39.3 | 11.1 | 22.1 | 19.9 | 4.6 | 4.0 | 12.3 | 10.9 | 20.9 | 19.9 | 18.6 | 18.1 |

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: Valuation Summary

| Name of company | Sector | CMP | Mkt Cap | Net Sales (Rs mn) | | EBIDTA (Rs mn) | | PAT (Rs mn) | | EPS (Rs) | | EPS Growth (%) | | P/E (x) | | P/B (x) | | EV/EBITDA (x) | | ROE (%) | | ROCE (%) | |
|----------------------|-----------|-------|-----------|-------------------|-----------|----------------|---------|-------------|---------|----------|-------|----------------|-------|---------|-------|---------|-------|---------------|-------|---------|--------|----------|-------|
| | | | | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E |
| Petronet LNG | Oil & Gas | 372 | 279,113 | 267,706 | 287,917 | 23,224 | 27,096 | 12,790 | 15,249 | 17 | 20 | 19.6 | 19.2 | 21.8 | 18.3 | 3.8 | 3.3 | 12.1 | 10.2 | 17.5 | 18.2 | 12.6 | 14.1 |
| Reliance Industries | Oil & Gas | 1,087 | 3,527,245 | 2,921,804 | 3,496,944 | 398,294 | 584,973 | 219,750 | 298,152 | 74 | 101 | -19.4 | 35.5 | 14.6 | 10.8 | 1.2 | 1.1 | 13.2 | 8.6 | 8.4 | 10.3 | 5.5 | 7.2 |
| Aurobindo Pharma | Pharma | 697 | 407,746 | 159,605 | 178,790 | 38,976 | 45,591 | 24,753 | 29,428 | 43 | 51 | 21.4 | 18.9 | 16.4 | 13.8 | 4.4 | 3.4 | 11.3 | 9.3 | 26.8 | 24.8 | 25.3 | 25.7 |
| Biocon | Pharma | 1,015 | 203,020 | 38,639 | 46,465 | 9,483 | 11,545 | 5,392 | 6,655 | 27 | 33 | 19.6 | 23.4 | 37.7 | 30.5 | 4.3 | 3.9 | 21.9 | 18.1 | 11.0 | 12.2 | - | - |
| Cadila Healthcare | Pharma | 359 | 367,575 | 97,958 | 111,249 | 22,283 | 25,422 | 15,631 | 17,948 | 15 | 18 | 6.2 | 14.8 | 23.5 | 20.5 | 5.6 | 4.6 | 17.0 | 14.7 | 22.6 | 21.5 | 17.8 | 18.0 |
| Cipla Ltd | Pharma | 580 | 466,549 | 15,149 | 17,556 | 3,863 | 4,740 | 1,413 | 1,901 | 18 | 24 | -9.9 | 34.6 | 33.0 | 24.5 | 3.5 | 3.1 | 121.9 | 99.2 | 20.8 | 22.8 | - | - |
| Divi's Laboratories | Pharma | 736 | 195,279 | 44,131 | 51,593 | 16,117 | 19,812 | 11,870 | 14,045 | 45 | 53 | 9.2 | 18.3 | 16.5 | 13.9 | 3.8 | 3.1 | 12.1 | 9.9 | 23.0 | 22.5 | - | - |
| Dr Reddy's Labs. | Pharma | 3,070 | 508,524 | 148,697 | 164,583 | 30,483 | 38,677 | 16,696 | 22,775 | 98 | 134 | -17.4 | 36.4 | 31.3 | 23.0 | 4.2 | 3.6 | 17.6 | 13.5 | 13.4 | 15.7 | 8.4 | 11.1 |
| Glenmark Pharma | Pharma | 897 | 252,964 | 89,592 | 103,388 | 20,610 | 25,085 | 12,215 | 15,696 | 43 | 56 | 32.8 | 28.5 | 20.7 | 16.1 | 4.7 | 3.7 | 13.7 | 11.0 | 22.5 | 22.7 | 15.0 | 17.1 |
| Ipsca Laboratories | Pharma | 540 | 68,183 | 32,197 | 38,184 | 5,016 | 7,123 | 2,380 | 4,288 | 19 | 34 | 74.7 | 80.2 | 28.4 | 15.8 | 2.7 | 2.3 | 14.4 | 9.9 | 9.4 | 14.5 | 7.5 | 12.3 |
| Lupin | Pharma | 1,493 | 673,931 | 168,586 | 192,620 | 45,367 | 53,828 | 28,673 | 34,590 | 64 | 77 | 29.6 | 20.6 | 23.5 | 19.4 | 5.0 | 4.1 | 15.6 | 12.8 | 21.3 | 20.9 | - | - |
| Sun Pharma | Pharma | 629 | 1,507,904 | 320,223 | 348,598 | 108,972 | 125,059 | 71,519 | 82,596 | 30 | 34 | 23.6 | 15.5 | 21.1 | 18.3 | 4.0 | 3.4 | 12.5 | 10.4 | 19.1 | 18.5 | 16.0 | 16.0 |
| Titan Company | Retail | 354 | 314,498 | 128,390 | 146,821 | 11,986 | 14,271 | 7,785 | 9,640 | 9 | 11 | 12.9 | 23.8 | 40.4 | 32.6 | 7.4 | 6.4 | 26.1 | 21.6 | 20.1 | 21.0 | 20.7 | 21.6 |
| Aarti Industries | Specialty | 703 | 57,718 | 31,676 | 36,208 | 6,905 | 8,074 | 3,443 | 4,132 | 42 | 50 | 34.0 | 20.0 | 16.8 | 14.0 | 4.6 | 3.6 | 10.4 | 8.9 | 28.3 | 27.0 | - | - |
| Atul Ltd | Specialty | 2,094 | 62,112 | 29,097 | 32,266 | 5,296 | 6,131 | 3,095 | 3,635 | 104 | 122 | 14.9 | 17.5 | 20.1 | 17.1 | 4.0 | 3.3 | 11.7 | 9.7 | 20.0 | 19.4 | - | - |
| Camlin Fine Sciences | Specialty | 117 | 12,035 | 5,593 | 7,490 | 895 | 1,438 | 227 | 599 | 2 | 6 | -44.2 | 163.9 | 49.6 | 18.8 | 5.8 | 4.5 | 16.0 | 10.5 | 14.4 | 26.8 | - | - |
| Meghmani Organics | Specialty | 42 | 10,783 | 16,014 | 17,484 | 3,139 | 3,584 | 967 | 1,133 | 4 | 4 | 17.1 | 17.2 | 11.2 | 9.5 | 1.5 | 1.3 | 4.9 | 4.0 | 13.1 | 13.4 | 11.2 | 12.1 |
| SRF Ltd | Specialty | 1,573 | 90,314 | 50,103 | 56,097 | 10,672 | 12,061 | 5,120 | 5,947 | 89 | 104 | 18.1 | 16.2 | 17.6 | 15.2 | 2.9 | 2.5 | 10.4 | 9.2 | 15.3 | 15.0 | 9.5 | 10.0 |
| Vinati Organics | Specialty | 625 | 32,229 | 7,188 | 8,427 | 2,164 | 2,624 | 1,350 | 1,673 | 26 | 32 | 40.6 | 24.0 | 23.9 | 19.3 | 5.0 | 4.1 | 14.8 | 11.8 | 20.7 | 21.1 | - | - |
| Bharti Airtel | Telecom | 320 | 1,277,969 | 1,005,185 | 1,097,939 | 361,076 | 404,685 | 45,975 | 77,036 | 11 | 19 | 17.8 | 67.6 | 27.8 | 16.6 | 1.8 | 1.6 | 6.8 | 6.0 | 6.5 | 9.7 | 6.0 | 6.8 |
| Bharti Infratel | Telecom | 351 | 649,952 | 84,732 | 88,529 | 58,942 | 61,502 | 26,398 | 28,609 | 14 | 15 | 13.5 | 8.4 | 24.7 | 22.8 | 3.9 | 3.8 | 10.0 | 9.3 | 15.7 | 16.6 | 11.8 | 12.8 |
| Idea Cellular | Telecom | 74 | 267,218 | 394,873 | 412,429 | 139,155 | 138,427 | 13,347 | 2,309 | 4 | 1 | -56.4 | -82.7 | 20.0 | 115.5 | 1.0 | 1.0 | 4.8 | 5.1 | 4.9 | 0.9 | 4.7 | 3.5 |
| Tata Communications | Telecom | 637 | 181,417 | 220,447 | 237,790 | 36,115 | 40,386 | 1,401 | 3,882 | 5 | 14 | -35.7 | 177.1 | 129.5 | 46.7 | -35.3 | -67.5 | 7.1 | 6.2 | -27.3 | -144.5 | 4.8 | 6.6 |

Note: For banks, EBITDA is pre-provision profit

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Talk to us on 022 2483 1919

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