Dear All,

Please find below some of the recent informative research reports / articles on the market / economy as on 5th June 2017. Hope you find the same useful

1. India Equity Strategy - Stars Aligned for Larger Formal Economy: Which Sectors Will Benefit? – Citi research

2. Strategy: Post fiction / The 'Pictures' of Dorian Gray – Kotak Institutional Equities research

3. How input tax credit is calculated– Mint

4. India will sell only electric cars within the next 13 years - World Economic Forum

India Equity Strategy - Stars Aligned for Larger Formal Economy: Which Sectors Will Benefit? – Citi research

For its size and stage of development, the Indian economy is significantly unorganized1 and informal2. Around 92% of the employment is in informal sectors and c50% of GDP comes from the unorganized sector, a factor that has been a drag not only on productivity and growth but also on govt finances and labor welfare. But the ongoing macro moves are widely expected to change the course of the economy and push larger parts of it to the organized/formal segment. This report takes a deep dive into the sector impact and identifies medium-term winners.

Structural forces accelerating formalization — The Indian government's ongoing structural initiatives (and the GST roll-out) will accelerate the transition toward the organized sector. Moves towards a less-cash economy, indirect-tax changes through GST, direct tax compliance, e-commerce, and some progress on labor law reforms, among others, will prove disruptive to traditional structures in the medium term and result in accelerated formalization as well as economies of scale in the long term. We look at the impact of these factors across sectors.

Sector/Stock beneficiaries: Formalization will be a game changer for Consumer staples, Jewellery, Paints, Auto Parts, Pharma/Hospitals/Diagnostics, and Agrochemicals. Most of these sectors are already seeing a shift toward the organized sector, translating into larger market shares for the organized sector. Big potential beneficiaries: Asian Paints, Britannia, Crompton Consumer, Dr.

Lal's, Exide, Makemytrip, Marico, PI Industries and Titan.

Strategy: Post fiction / The 'Pictures' of Dorian Gray – Kotak Institutional Equities research

Post fiction - We believe the marked change in fundamentals of the Indian generic pharmaceuticals sector over the past one year offers valuable lessons about risks from (1) linear extrapolation of extant factors, (2) potential negative changes to 'impregnable' business models and (3) invisible harmful shifts in market structures. Investors may want to review the 'moats' of the current favorites in order to ensure that the 'moats' are real and their views not biased by consensus views and share prices. The large erosion in the market capitalization of the Indian generic pharmaceutical stocks (see Exhibit 1) reflects a marked change in the fundamentals of the sector and the companies. Exhibit 2 shows that US revenues of DR. Reddy and SUN Pharma have dropped sharply from peak levels leading to inevitable downgrades by the Street. We would note that the same Street was projecting very strong performance for the same companies in the not-too-distant past. n our view, the Street was perhaps over-confident of the business models of the companies and market structure of the products. These companies simply enjoyed high pricing and profitability in limited competition products during the exclusivity periods. This may have led the Street to extrapolate that this strong pricing and profitability of products would hold for an extended period of time, a view that was oblivious of the inevitable pricing pressure from more competition in the market post the limited-competition periods.

The 'Pictures' of Dorian Gray. The performance of several market darlings over the past few years brings to mind the Oscar Wilde classic of the eternally youthful man whose portrait shows his true, wretched state of being. Stock prices suggest that companies are doing fabulously well while financial and operating metrics show a less glamorous picture. A lot is riding on a big turnaround in the fundamentals of the companies. We can only hope that the market is fated for better than Dorian Gray.

In our view, stocks should be valued appropriately in the context of their business models and the market structures they operate in. We have seen several instances in the past when the market has focused disproportionately on the short-term strengths (or weaknesses) of the business models and ignored the inevitable shifts in underlying factors that may weaken (or strengthen) the business model. The generic pharmaceutical sector is a good example. The market had perhaps overlooked the most important characteristic of the business models of the companies—generic! Look for our discussion of lessons on the same in a separate note.

GST- How input tax credit is calculated– Mint

From 1 July, GST would be charged on almost all the goods and services that we consume. There are five different GST rates—0%, 5%, 12%, 18% and 28%—which are prescribed for various goods and services. In the present regime, different taxes are charged at different stages of manufacture and trade of the goods and services. Going forward, almost all these indirect taxes will get subsumed under GST. Further, because of the input tax credit provision, only value additions at various stages will be taxed.

The input tax credit is expected to bring down the overall taxes charged on the product at present. Now, since input credit will be available to the seller at each stage, the final cost of the product must come down. Therefore, if input credit mechanism works efficiently, final consumers may see cost reduction (since tax is not embedded in value, its credit can be availed) .

This will benefit the ultimate consumer as the cost of production or services for service providers, traders or manufacturers will get reduced due to availability of more input tax credit and this will help in bringing down the price of goods or services to that extent.

India will sell only electric cars within the next 13 years - World Economic Forum

Every car sold in India from 2030 will be electric, under new government plans that have delighted environmentalists and dismayed the oil industry. It’s hoped that by ridding India’s roads of petrol and diesel cars in the years ahead, the country will be able to reduce the harmful levels of air pollution that contribute to a staggering 1.2 million deaths per year.

India’s booming economy has seen it become the world’s third largest oil importer, shelling out $150 billion annually for the resource – so a switch to electric-powered vehicles would put a sizable dent in demand for oil.

It’s been calculated that the revolutionary move would save the country $60 billion in energy costs by 2030, while also reducing running costs for millions of Indian car owners.

Happy Reading….