Dear All,

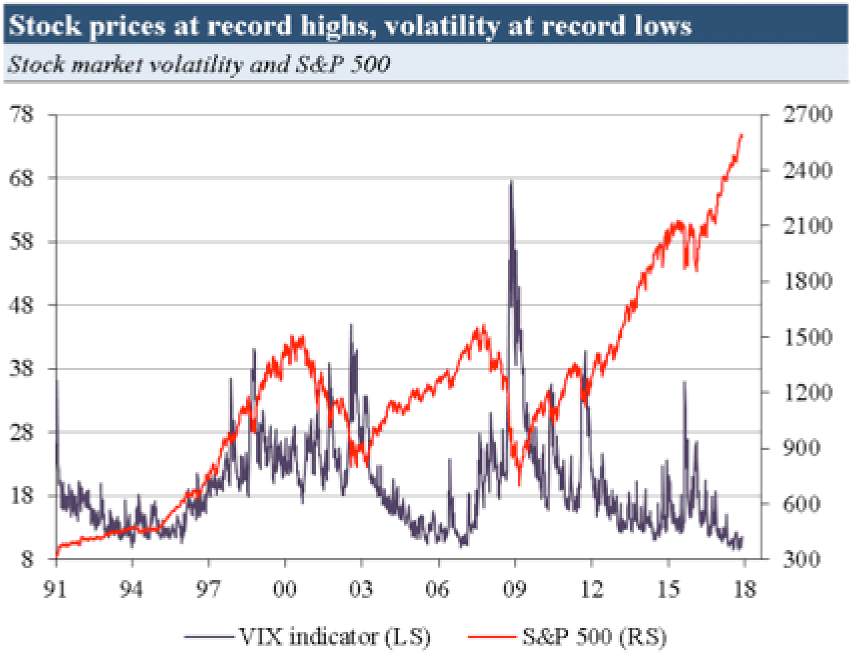
Please find below some of the recent informative research reports / articles on the market / economy as on 22nd November 2017. Hope you find the same useful

1. *Are Markets really as calm as they seem - Dr. Thorsten Polleit, Chief Economist of Degussa and macro-economic advisor to the P&R REAL VALUE fund. He is Honorary Professor at the University of Bayreuth.*
2. *India Equity Strategy - QE Sep-17 Earnings Final Cut: Morgan Stanley.*
3. *India Strategy: Benchmark weights to shift towards Value - Report by Phillip Capital.*
4. *India Strategy(Rural India Back on the saddle) – Report by Motilal Oswal.*

Are Markets Really as Calm as they Seem?- Dr. Thorsten Polleit, Chief Economist of Degussa and macro-economic advisor to the P&R REAL VALUE fund. He is Honorary Professor at the University of Bayreuth.

Indicators for financial market "stress" have reached their lowest levels in decades. For instance, stock market volatility has never been this low since the early 1990s. Credit spreads have been shrinking, and prices for credit default swaps have fallen to pre-crisis levels. In fact, investors are no longer haunted by concerns about the stability of the financial system, potential credit defaults, and unfavourable surprises in the economy or financial assets markets.

Monetary policy plays the significant role. By slashing interest rates and ramping up the quantity of money in the banking system, central banks around the world have kick-started the economies following the 2008/2009 crash. But this is not the full story. The fact that investors expect central banks to stand at the ready to fend off a slowdown of the economy and price declines in stock and housing markets is by no means less important.



Source: Thomson Financial.

India Equity Strategy- QE Sep-17 Earnings Final Cut by Morgan Stanley

For the past seven years earnings revision breadth has been negative, earnings breadth surprise has been a mixed bag and the skew in individual company earnings has taken a toll on headline growth numbers. We think the elements for a cycle turn are now in place and a sustainable growth recovery. Some market participants may be anchored to the decade gone by, remaining skeptical about the earnings growth recovery. We believe the cycle is turning as corporate India has come out of the balance sheet and earnings recession. We expect an earnings CAGR at20% in the next two years. Broad market (1,155companies) revenue growth at 9% YoY (a tad lower than 10% YoY in QE Jun-17) and net profit growth stood at -4% YoY (better than - 12% YoY in QE-Jun 17). Net profit growth would have been at 8% YoY (vs. -4% YoY, currently) if not for five loss making companies. Materials, Pvt. Energy and Oil PSU companies have reported the fastest growth in revenues. Materials and Industrials reported the fastest YoY pick up in profits. Overall, the Telecoms sector was the biggest laggard on revenues, margins and profit growth .For an even broader sample of about 2,500 companies, revenue and net profit growth was 9% YoY and -1% YoY, respectively ,and with an EBITDA expansion of 18bp. MS Coverage earnings surprise breadth and depth improves vs. QE Jun 17: While the breadth of theearnings beat ratio improved further at the aggregate level (to 58% in Sep 17 vs. 48% in Jun 17 vs. 45% in Mar-17), relative stock outperformance weakened a bit (at 46% vs.51% in Jun -17 and 40% in Mar-17). At the aggregate level, earnings surprise depth also improved during the quarter (from -6ppt to -2 ppt). MS coverage companies reported revenue, EBITDA and net profit growth was 12%, 15% and 8% YoY vs. growth expectations of 18%, 18% and 10% YoY, respectively. Seven out of the ten sectors saw beats on net profit growth vs. our analysts expectations. The exceptions were Financials, Energy and Materials. Similarly, margin expansion breadth was strong with 7 out of 10 sectors seeing positive delta but EBITDA margins contracted by 210bp YoY. Healthcare and Telecoms reported the most margin compression. The materialssector *continues to reported the fastest growth in earnings, while Telecomsfollowed by Healthcare reported weak growth trends. All breadth indicators ongrowth - revenues, EBITDA and net profit saw a sequential uptick (refer Exhibit 14 to Exhibit 17). Sensex revenue and net profit growth at 9% YoY and 2% YoY – miss vs. expectations: See the Exhibit 4 to see the key surprises and disappointments. In 1HF2018, Sensex companies grew revenue and net profits at 7% and -2% YoY.*

India Strategy : Benchmark weights to shift towards Value – Report by Phillip Capital

Recent reforms and developments – PSU banks recapitalisation, significant cut in GST rates, and Moody's India credit-rating upgrade – make a strong case for a shift in investment style in favour of value. This is likely to become the overarching theme for the next year (oreven more), and benchmark weights will shift in the direction of the dominant style. The historical change in Nifty's mix provides us with a useful guide to allocate capital across various sectors. In the years that value has outperformed, we found that benchmark sector weights were more skewed towards B2B businesses. We also believe that preference for B2C companies will be marked by a higher allocation for value. The composition of the NSE-50 constituents has changed significantly over the last 15 years. Consumer (staples + discretionary) ranked topmost in 2001 with 33% weight. Financials has now captured this spot with 35% weight, which also includes 9% NBFC. Energy, industrials, telecom, and utilities have lost the most weight in the last 10 years. We believe that the financials sector is close to its peak and is unlikely to see an increase in allocation, but intra-sector re-balancingbetween private corporate and PSU banks is likely to see increase in the sector's weight. Consumer is trading at all-time high valuations, which could see some allocation towards value. We believe the sectors that are likely to see the most increase in allocation are telecom and industrials (infrastructure can be a proxy). With this backdrop, our top value picks from a one-year perspective are ICICI Bank, SBI, PNB, Idea Cellular, NCC, Adani Ports, ITC, and Bajaj Electricals.

India Strategy - Rural India – Back on the Saddle – Motilal Oswal

2QFY18 corporate commentaries point towards rural demand pickup.

After three years of subdued rural consumption, there are now increasing signs of a pickup. As we had pointed out in August, catalysts are in place to drive the awaited revival in rural demand. While two successive years of normal monsoon portend well for farm output, the combination of MSP hikes, direct benefit transfers and farm loan waivers should drive up disposable incomes. Corporate commentary following the 2QFY18 results from B2C sectors like FMCG, Autos, Durables and Retail reaffirms our view. Quite a few FMCG companies see rural growth outpacing or at leastmatching urban growth after many quarters. Auto companies like Hero MotoCorp, M&M and Escorts also highlighted rural growth recovery. India Inc expects the demand trends to strengthen as we move into 2HFY18.

Top Rural Ideas

- *Mahindra & Mahindra: Best bet on rural recovery. Several levers to drive 100bp EBITDA margin expansion over FY17-20.*

- *Hindustan Unilever: Has the widest reach in rural India. Optimum product portfolio to take advantage of rural revival. Expect consistent margin expansion, backed by volume pickup, GST-led efficiencies and scale benefits.*
- *Dabur: Worries on the wholesale channel (due to GST implementation) and rural sales are receding faster than expected.*
- *Mahindra & Mahindra Financial Services: Built a strong foundation in rural India over FY12-17. Growth has picked up after 2-3 sluggish years.*
- *Repco Home Finance: Signs of turnaround after a tough year. Disbursements have picked up and asset quality has improved.*
- *Manpasand Beverages: Rural expansion to continue. Capacity expansion coupled with distribution and product portfolio enhancement to aid earnings.*

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