Dear All,

Please find below some of the recent informative research reports / articles on the market / economy as on 12th December 2017. Hope you find the same useful

1. Sector Update - Home Décor - Edelweiss Research

2. A blockbuster year of equity issuance : India Strategy - MOSL

3. Regulatory Boost to Mid-caps : India Strategy - CLSA

4. Insider Trading Analysis for November 2018 : Strategy Report - Ambit

Sector Update - Home Décor - Edelweiss Research

The domestic home décor industry—plywood, laminates, tiles, sanitaryware, etc—is a multi-storied compelling growth story, which, even in our conservative estimates, is likely to generate opportunities worth a whopping INR1.5tn by FY22. Our conviction is underpinned by ample catalysts in place to fuel this boom: a) players tapping adjacent categories to maximise wallet share; b) improving affordability & easy availability of products; c) shortening product replacement cycles; and d) government's housing, infrastructure & sanitation push. Within the sector, cut in GST rate to 18% from 28% is envisaged to decisively shift the demand pendulum in favourof organised players. This is likely to propel their market share to 65% by FY22E from 50% in FY17, helping them outpace industry (12%) with 17% CAGR.

Bolstered by robust brand equity and pan-India distribution networks, leading organised players enjoy superior margins compared to unorganised players, reflected in their higher return ratios—20-35% RoCE. Moreover, burgeoning outsourcing opportunities and margin expansion potential are further returnratio sweeteners. From the valuation perspective, we perceive significant rerating potential in emerging categories (tiles, plywood, sanitaryware, etc) as they follow into the footsteps of mature segments (paints, adhesives, wires & cables, among others)—valuations have catapulted to 35-40x FY19E from 10- 15x over the past 7-8 years. Among stocks, we prefer Century Plyboards (CPIB; initiate coverage with 'BUY'), Greenlam Industries (GIL; initiate coverage with 'BUY'), Asian Granito (AGL; initiate coverage with 'BUY'), and Greenply (GPIL; initiate coverage with 'BUY'). We also maintain positive stance on Somany Ceramics (SOMC; 'BUY') and Kajaria Ceramics (KJC; 'BUY').

Please click here to access the detailed report
Home Dècor - Home run; sector update

INDIA STRATEGY : A blockbuster year of equity issuance : MOSL

- 2017-18 has been a blockbuster year for the Indian primary market, with INR700b of capital raised via 122 IPOs so far – an all-time high (beating INR425b in FY08) and far exceeding previous year's INR291b
- Contribution of the new listings (via IPOs) to Indian market cap is at a sevenyear high of 3%. Currently, Indian market-cap to GDP is at 85% on FY18E, of which 2.6% is contributed by the new listings – also a seven-year high
- Insurance dominated the year in terms of new listings. Notably, the top-5 IPOs were from the Insurance space. Top-5 IPOs during the year were GIC (INR112b, 1.4x oversubscribed), New India Assurance (INR95b, 1.2x oversubscribed), HDFC Standard Life (INR87b, 3.8x oversubscribed), SBI Life Insurance (INR84b, 3.6x oversubscribed) and ICICI Lombard General Insurance (INR57b, 2.4x oversubscribed)
- 72% of funds raised via new offerings were accounted by just 13 Insurance and NBFC companies (INR501b). During the year, SME IPOs were a highlight, with 92 SME IPOs getting listed andv raising INR11.9b (previous year: 81 SME IPOs raising INR8.6b). However, SMEs' contribution to total IPOs has almost halved (1.7% FY18 YTD) from the previous year (3%)
- Interestingly, the IPOs were not concentrated but spread across industries (companies from 18 different industries raised funds via IPOs this year)
- In FY18 YTD, IPOs on aggregate were oversubscribed 13x, raising INR9,106b v/s the offer size of INR700b
- Sectors that witnessed massive subscription against the offer size were NBFC (INR3,936b v/s offer size of INR67b), Insurance (INR1,031 v/s offer size of INR434b), Consumer (INR980b v/s offer size of INR24b), Construction (INR782b v/s offer size of INR63b) and Capital Goods (INR578b v/s offer size of INR8b)
- 41 IPOs witnessed mega response (more than 10x oversubscribed), of which 29 were from the SME space
- Offers for Sale (OFS), the dilution of promoters' holdings, saw a significant increase to INR162b in FY18YTD from INR78b last year. This was primarily accounted for by the government's divestment at INR128b (~80% of overall amount)
- The largest OFS was that of NTPC in August 2017 (INR97b), followed by DPSC in April 2017 (INR14b), PNB Housing in November 2017 (INR13b) and NALCO in April 2017 (INR12b)

- Of the nine issues, five have delivered 10%+ returns over the issue price. Seven stocks have outperformed the index. Only two stocks are trading at a discount to the issue price
- QIPs, after two muted years, have shown signs of revival, with capital raised via 28 QIPs reaching a new high of INR407b (205% higher than FY17) so far this year (previous year: 21 QIPs). This number has surpassed the previous year's INR134b, and is the highest till date, beating the earlier peak of INR393b in FY10
- This year also saw the largest QIP issue (SBI with a size of INR150b) in the history of the Indian equity market
- The year is dominated by Financials, which accounts for 79% of the total QIPissuances so far

Regulatory Boost to Midcaps -India Strategy: CLSA

US$2.5bn-3bn buying expected over a three-month period A recent SEBI discussion paper proposes to impose several conditions on domestic equity mutual fund houses and schemes. We analysed the portfolios of 90% (by value) of the domestic equity funds to assess the impact. Our key conclusion is that those conditions will likely lead to c.Rs190bn of buying in mid-cap (mkt cap US$1.4bn-4.4bn) stocks at the cost of large caps and small caps over the next three months. The actual impact may vary depending upon how the mutual fund houses effect the scheme mergers to comply with the norms. Our preferred mid-caps are Godrej Properties, Crompton Consumer, Astral, Jubilant and Arvind.

SEBI circular suggests several changes to MFs…

SEBI came out with a circular on categorisation and rationalisation of MF schemes on 6-Oct-17 to which MFs have to respond in two months. As per the directive, MFs are required to have only one scheme for the categories of multi-cap, large-cap, mid-cap, small-cap, etc. Category viz index funds/ETFs, funds of funds and sectoral funds have no such limitation. Every fund should have a minimum allocation in equity as defined by the fund category, eg large-cap schemes should have minimum 80% investment in large caps, a mid-cap fund should have at least 65% of the AUM in the midcaps, etc. q The circular defines large cap (1st-100th stocks by market cap ie mkt cap of more than US$4.5bn), mid cap (101st-250th ie US$1.4bn-4.4bn) and small-cap (251st and below or US$1.4bn and below) stocks which will be updated half-yearly in June and Dec by AMFI. Funds will have one month time to realign their portfolios once AMFI gives an updated list.

…**which would impact 44% of fund schemes by value**

India’s equity mutual fund AUMs have seen impressive growth of 46% over the past year and a 34% Cagr over 3 years to Rs6.0tn (US$92bn). Flows in pure equity MFs are at an all-time high with US$14bn inflows in Apr-Oct-17 vs US$9bn in full FY17. q Currently, there are a total of 42 mutual funds, which have 315 equity schemes. The top 5 funds account for ~58% of total equity AUM. q Of the MF schemes, 44% by value are currently categorised as large-cap, mid-cap or small-cap schemes and are impacted. The rest are multi-cap/sectoral/ETFs/ arbitrage, etc which are not impacted by these regulatory changes.

Our analysis suggests c.Rs190bn of mid-cap buying
According to the circular, funds benchmarked to midcap indices should have 65% of their assets in mid-caps (101st-250th stock). But from a total AUM of Rs717bn (27 schemes), only one fund had 65% allocation to mid-caps. As per our analysis, Rs193bn of buying in midcaps would be required to reach the 65% lower limit. q Most of the large-cap schemes (Rs1.46tn), which need to reach 80% minimuminvestment in top 100 stocks, are already compliant and only Rs35bn of additional buying would be needed; this could be funded by selling mid- or small-caps.q Among the small-cap funds (Rs272bn AUM), just Rs18bn of buying of small-caps would be required. q The actual net buying would be a function of how the fund houses reclassify the funds or effect mergers of various schemes in order to comply with the SEBIregulation of one scheme per category for a fund house.

Our preferred mid-cap picks
Mid-cap stocks (101-250th stocks) have total market cap of US$368bn with average daily trade value of US$1.1bn of which top 10 liquid names alone trade US$362m. q Our preferred picks amongst these are Godrej Properties, Astral, Jubilant Foods, Arvind and Crompton Consumer. q Other stocks in this bracket where we have a BUY rating include – GSK Consumer, Torrent Pharma, Oberoi Realty, AB Fashions and Varun.**India Strategy - Rural India –**

Insider Trading Analysis for November 2018 – Strategy Report – Ambit

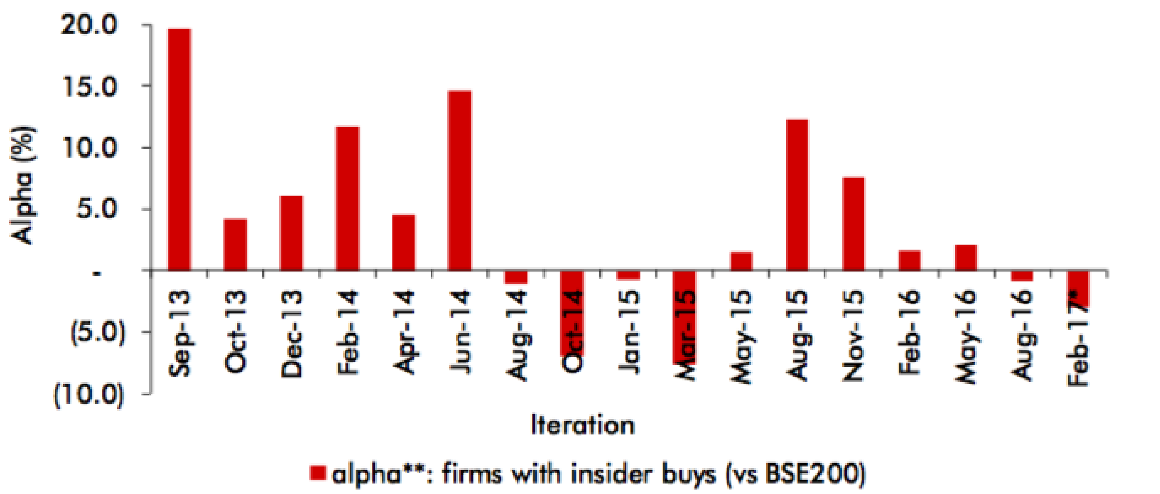
On a live basis, stocks with prominent insider buying highlighted in our 14 Sept 2017 and 17 Oct 2017 editions of the note have outperformed the benchmark BSE500 index by 6.5% and 7.1%, respectively. A strike rate of ~65% for all the live iterations of our portfolio, with a similar strike rate in back tests too, suggests there is ample informational value in analyzing insider trading activities. In November, Adani Ports, Adani Power, Strides Shasun and Lupin were four stocks that witnessed significant insider buying. On the other hand, Bharti Infratel, Delta Corp, Hatsun Agro, Ashoka Buildcon and V-Guard witnessed significant insider selling.

Analysis of insider transactions

On a back-tested as well as live basis, we have found that insider buying is a useful aid in predicting stock market performance even as insider selling seems to have little or no informational value. Our historical analysis over Jan 2008 to Apr 2013 suggests that a portfolio consisting of firms where insiders were net buyers in the preceding month outperforms the broader market by more than ~3.8% in the subsequent three months, translating into 15% return on an annualised basis.

An average alpha of ~3.4% (~14% on an annualized basis) for stocks highlighted as insider BUYs in our last 17 quarterly iterations over Sep '13 to Feb '17 (see Exhibit below) suggests that stocks that were highlighted as witnessing prominent insider buying have outperformed the benchmark (BSE200 Index) handsomely in 11 out of these 17 iterations (i.e. a strike rate of ~65%). In contrast, performance of stocks witnessing insider selling has been in line with the broader markets.

Exhibit 1: Performance of firms with insider 'BUYs' highlighted in our quarterly iterations between Sep '13 and Feb '17



*Source: Bloomberg, Ambit Capital research, Note: The above exhibit plots the rolling 3-month share price performance of stocks seeing insider buying since September 2013. * Performance of the Feb iteration is for the period 03 Feb 2017 to 03 May 2017. ** Alpha here means the performance of stocks we had highlighted in that particular iteration as seeing prominent insider buying vis-à-vis the benchmark BSE200 Index. For example, 19.7% in Sep-13 indicates that firms we had highlighted as seeing prominent insider buying have outperformed the BSE200 Index by 19.7% over the subsequent three months. Similarly, 4.2% in Oct-13 indicates that firms highlighted as seeing prominent insider buying have outperformed the benchmark by 4.2% over the subsequent three months.*