

Dear All,

Please find below some of the recent informative research reports / articles on India's Economic / Market Outlook for 2018. Hope you find the same useful.

- 1. India Strategy 2018 - IIFL Institutional Equities.**
- 2. India's 2018 Economic Outlook – Motilal Oswal Report.**
- 3. India's Strategy (2018 Outlook) – ICICI Securities.**
- 4. India Themes 2018 – CLSA.**
- 5. 18 Stocks for 2018 – JM Financial.**

India Strategy 2018 - IIFL Institutional Equities

2018 will be a year of contrast. On one hand growth will accelerate as the economy recovers from the twin shocks of demonetisation and GST transition. However, macro stability will worsen slightly as both inflation and CAD will inch up and fiscal consolidation will take a pause. Earnings growth will accelerate to mid-teens but will still miss the 20% + consensus estimate. High valuations, even adjusted for depressed profit cycle, will limit market returns to earnings growth at best.

Earnings growth to improve, but valuations a big challenge: Higher economic growth and rising commodity prices are a favourable backdrop for corporate earnings. After many years of single-digit growth, corporate earnings will grow in mid-teens in FY19. However, valuations, which are two standard deviations above average, more than reflect the earnings recovery. Equity market returns will at best mirror the earnings growth.

Portfolio strategy – bottom-up focus: Given the backdrop of improving earnings delivery and high valuations, this year it is less a sector-specific and more a bottom-up, stock-focused portfolio strategy. Investors should overweight stocks with high medium-term earnings visibility, which will offset the valuation risks they take.

Top Large cap BUYs		Top Mid cap BUYs	
Bajaj Finance	Larsen & Toubro	CIFC	Shankara Building
Biocon	Motherson Sumi	Atul Ltd	Somany Ceramics
Infosys	Power Grid Corp	Capacite Infra	TeamLease
InterGlobe Aviation	Tata Motors DVR	Crompton	Thermax
Kotak Mahindra Bank	Zee Entertainment	J K Cement	Ujjivan Fin.

Top Sells	
AU Small Finance Bank	Idea Cellular
Avenue Supermarts	Lupin
Cadila Healthcare	SRF
Eicher Motors	TVS Motors
	Wipro

2017 Top BUYs performance	Performance (%)	
	Absolute	Relative
Nifty Index	28.6	
Large Cap Buys		
HCL Tech	9.6	(19.0)
HPCL	50.7	22.0
Motherson Sumi	75.3	46.7
Power Grid	11.5	(17.2)
Sun Pharma	(8.7)	(37.4)
Mid Cap Buys		
City Union Bank	53.4	6.2
AIA Engg.	20.3	(27.0)
Balkrishna Ind.	117.9	70.7
Navin Fluorine	65.8	18.5
Indraprastha Gas	83.5	36.2

Source: Bloomberg, IIFL Research. Mid-cap relative performance based on NSE midcap 100 Index

Click on the below link to read the detailed report.

[IIFL - Strategy - 20180102](#)

India's 2018 Economic Outlook – Motilal Oswal Report.

2017 was a remarkable year in many ways. Retail inflation was the lowest in almost four decades, the Indian Rupee (INR) strengthened against the US Dollar (USD) for the first time in seven years, and the path-breaking Goods & services tax (GST) finally became a reality. However, as the year ends, concerns about fiscal deficit target, economic recovery and inflation uptick have started to emerge. Against this backdrop, the research report has down the forecasts for the next two years. It is believed that while real GDP growth will remain sub-7% for the second consecutive year, the Reserve Bank of India (RBI) will likely choose to look through low base-driven high inflation and the

INR may weaken only mildly against the USD. Fiscal profligacy, crude oil prices and an uncertain global economic recovery, however, are the key risks to the forecasts.

India's Strategy (2018 Outlook) – ICICI Securities.

Equities top cross asset-class performance in CY17, which will result in continued flows from domestic investors in CY18: Equities trounced all other asset-class performance in CY17 (large-caps > 29%; midcaps > 46%; small-caps > 54%; gold (5%), bonds (4.3%) and real estate (4.5% upto Sept'17)) and will reinforce the trend of rising flows of Indian household savings towards equities (CY17 DII flows was US \$14bn). Amongst global peers, India was one of the top performing equity market in CY17 despite volatile but overall positive FPI flows (US\$ 7.7 bn). Positive earnings growth surprise unlikely as hurdle rate is high in CY18: Unlike the beginning of CY2017, which began with high uncertainty on growth outlook in the aftermath of demonetisation, CY18 is starting off on a relatively optimistic note and higher sense of certainty post the implementation of GST, sovereign rating upgrade by Moody's, and signs of growth revival post Q2FY18 corporate earnings. The swing in outlook from uncertainty to one of optimism on growth outlook during CY17 resulted in the stellar CY17 performance of Indian stocks which is missing in CY18.

India Themes 2018 – CLSA.

Despite significant domestic flows, India only just performed in line with emerging-market peers as foreign investors lowered their 2017 weighting for the country due to expensive valuations, downward EPS revisions and better alternatives elsewhere. We expect the earnings trajectory to improve meaningfully this year with disruptive changes like demonetisation and GST implementation behind us and as a solid foundation for long-term improvement in economic growth rates and corporate profitability has been laid. Large equity raisings and bank recapitalisation should help accelerate a cyclical recovery. Fiscal concerns and politics are key risks in 2018.

Key stocks for 2018

Large-cap BUYS

HDFC	HDFC IN
ICICI Bank	ICICIBC IN
Indusind Bank	IIB IN
L&T	LT IN
Lupin	LPC IN
M&M	MM IN
NTPC	NTPC IN

Mid-cap BUYS

Crompton Consumer	CROMPTON IN
Godrej Properties	GPL IN

SELLs

Shriram Transport	SHTF IN
Colgate	CLGT IN
HPCL	HPCL IN

18 Stocks for 2018 – JM Financial.

After a spectacular rally in 2017, 2018 is expected to be marked by heightened volatility as several factors such as a) Rate hike by US Fed along with quantitative tightening b) Brexit developments, c) Higher crude prices. For India, earnings recovery has been slower than expected with Nifty PAT growth in 1h F Y18 clocking growth of just 2.1% leaving high ask for 2H FY 18 even as consensus retain ~20%YoY growth for FY19E. Valuations at current juncture appears rich however despite deteriorating return matrix India Inc's ROE are still higher than most of its peers. It is believed that pace needs to quicken in resolution of non-performing loans, revival in power sector, substantial job creation and to top it, a busy calendar over next 15 months could delay a broad based recovery in capex to beyond 2018. However, rural capex, government push on affordable housing, unorganised to organised shift, revival in steel capex, are still likely to play out in 2018 itself. While that provides the macro backdrop, a 18% earnings estimate CAGR for the broader markets over next 2 years and other market indicators (Market PE, Yield gap) reflect that view and even though the research report is not looking at any meaningful earnings downgrades here, it is likely that the year 2018 would end with moderate gains on Index. Bottom up approach is subscribed and 18 stocks are recommended for Investment for the year 2018.

2018 : Top Picks

	Mkt Cap (Rs. bn)	CMP (Rs. /sh)	P/E FY18E	P/B Trailing	Target Range
Stocks					
APL Apollo Tubes Ltd	47	1989.6	25.6	6.5	2310 - 2330
Future Retail Ltd	258	524.4	41.6	9.7	630 - 645
Vedanta Ltd	1200	322.8	12.1	2.0	365 - 375
Hindalco Industries Ltd	599	267.0	12.4	1.3	300 - 310
Petronet LNG Ltd	381	254.0	13.5	4.7	290 - 300
Tata Motors Ltd	1355	426.9	15.1	2.5	540 - 550
Larsen & Toubro Ltd	1781	1271.3	25.9	3.5	1560 - 1580
State Bank of India	2758	319.6	27.7	1.1	360 - 375
IndusInd Bank Ltd	1000	1667.9	26.8	4.8	2050 - 2120
Mahindra & Mahindra Financial	293	475.0	26.8	3.9	540 - 550
Indian Oil Corp Ltd	1981	407.9	10.6	1.9	480 - 490
Federal Bank Ltd	217	110.5	-	2.1	135 - 140
PNB Housing Finance Ltd	222	1333.1	-	4.0	1625 - 1680
UPL Ltd	375	738.5	18.3	5.1	925 - 950
Hindustan Oil Exploration Co L	18	137.8	-	5.3	160 - 165
Mahindra CIE Automotive Ltd	101	268.1	31.1	3.1	300 - 310
L&T Finance Holdings Ltd	327	179.3	16.3	4.0	225 - 235
Granules India Ltd	36	140.4	19.9	3.6	155 - 160