What do the Institutions Say: Compilation of recent market research reports as on 8th June 2018

Dear All,

Please find below some of the recent informative research reports / articles on the market / economy as on 8th June 2018. Hope you find the same useful.

1. Tyre makers in India line up aggressive capacity expansion plans - Business Standard
2. India: RBI hops off the fence; delivers a dovish hike - Nomura
3. Earnings Wrap Q4 FY18 - ICICI Direct
4. Follow The Millionaires ***Ruchir Sharma*** **-** India should be concerned by the large exodus of its wealthiest residents
5. India Equity Strategy - A Half Circle, A Churn…. and Chances - Edelweiss

Tyre makers in India line up aggressive capacity expansion plans - Business Standard

Tyre makers in India have lined up an aggressive capacity expansion plan to meet the growing demand from automobile manufacturers and replacement market after fully recovering from demonetisation and the GST (goods and services tax). A total of Rs 136.4 billion is expected to be pumped in by the tyre makers over the next 7-10 years. A substantial portion of this expansion, the first in the past five to seven years, would be used for creating greenfield facilities.

RPG Group's Ceat Tyres plans to increase its existing output by 35-40 per cent. Besides ramping up its capacity for bus and truck radials at its Halol plant in Gujarat, it plans to set up a greenfield unit for passenger car radials, said Anant Goenka, managing director at Ceat. Ceat has earmarked an investment of Rs 12-15 billion. "The demand from replacement segment as well as the original equipment manufacturers (OEMs) has been quite strong," Goenka said.

Fuelled by a record two-wheelers and truck volumes, automobile sales in India have been expanding at a brisk pace month-on-month. The industry produced a total 29 million vehicles, (including all segments) a growth of 14.78 per cent over the same period last year, according to Society of Indian Automobile Manufacturers (Siam).

A strong order book from the export and domestic markets, government's stance on anti-dumping regulations and a relatively stable natural rubber price have boded well for the tyremakers. But a soaring crude price is set to mount pressure on profitability from the current quarter itself for most companies. Crude-based raw materials such as carbon black, account for close to 45 per cent costs for tyre firms. Crude prices have risen from an average $62 to $75, Goenka said.

But with robust demand from across all segments, most tyremakers have been passing on the incremental costs through price hikes, analysts said. "We expect raw material costs to increase by 3-4 per cent over the next two quarters due to recent increase in crude prices, which will require price increase of 2-2.5 per cent," Nishit Jalan and Hitesh Goel, analysts at Kotak Institutional Equities, said in a report.

Ceat's rivals MRF and Apollo Tyres, too, have been stepping on the gas with expansion with their facilities. In its first big expansion outside Tamil Nadu, MRF, a leader in bus, truck radial and two-wheeler tyres, has earmarked an investment of Rs 45 billion in Gujarat over the next decade. It will be firm's ninth unit. Varghese Koshy, executive vice-president, MRF, could not be reached for a comment. In January, Apollo Tyres said it was pumping in Rs 18 billion in a new factory in Chittoor, Andhra Pradesh. With a capacity to make 5.5 million tyres a year, the unit will feed domestic and export markets and will go on stream in the next two years. The investment in AP was part of a Rs 45-billion capex outlined for 2017-18 and 2018-19. "The expansion in Chennai, is almost through," said Apollo Tyres spokesperson. The Chennai unit can now make 120,00 radials.

Rajiv Budhraja, director general at Automotive Tyre Manufacturers Association, said the expansion was overdue on two counts. First, the 5-6-year-old facilities had become saturated. Second, since the last couple of years, the demand from auto firms was weak and the demand in the replacement market was affected due to the GST and note ban, he said.

https://www.business-standard.com/article/printer-friendly-version?article_id=118050600755_1

India: RBI hops off the fence; delivers a dovish hike - Nomura

In our view, the RBI's decision to hike rates but leave its stance unchanged sends an important signal. It is true that global uncertainties are quite high; but with inflation projected by the RBI to stay above 4% throughout FY19, an "almost closed" output gap and rising inflation expectations, the stance could have easily changed to tightening to signal that it intends to bring inflation back to the medium-term target of 4%. The reluctance to change stance suggests to us that the MPC believes interest rates are closer to neutral and that it is not about to embark on a significant tightening cycle unless global conditions change materially. Hence, the RBI remains data dependent.

In the near term, we expect the positive effects of remonetisation to continue to support a strong cyclical recovery in the next one to two quarters. However, we are increasingly concerned that the current growth recovery is not sustainable. Bank bad-asset resolution is still a work in progress and the new investment pipeline remains dry. Hence, as the remonetisation effects fade, we believe the ongoing cyclical recovery is also likely to fade in H2 FY19, hurt further by the adverse terms of trade (higher oil prices), tighter financial conditions and weaker investment activity ahead of the elections, in contrast to the RBI's assessment that investment growth will remain robust.

On inflation, food price inflation remains subdued currently, but the government's impending decision to raise kharif (summer) MSPs to at least 1.5x production cost is a clear upside risk to this. In the near term, core inflation momentum is also likely to remain elevated due to the closing output gap and the adverse effects of higher oil prices and a weaker currency. If we are right about slower activity in H2 FY19, then core inflation momentum should, however, ease off during this period.

As such, the next four or five months are likely to be a period of high growth/high inflation, followed by a period of moderating growth/low inflation. Macro stability concerns have also come to the fore due to rising US rates and pressure on balance of payments. Given our expectation of average CPI inflation around 4.5-5.0% in FY19 and the need to keep real rates

around ~1.5%, we see a repo rate of ~6.5% as the near-term neutral rate target. Hence, we expect a 25bp rate hike in August, followed by a pause, consistent with our view that the next few months of high growth/inflation will give way to lower growth/inflation later this year. Note that the RBI's average CPI inflation projection (ex-house rent allowance) at 4.65% in FY19 implies a real repo rate of 1.6%. In our view, the RBI will need to consider tightening beyond this stage if oil prices move above $80/bbl sustainably, if the government embarks on populist policies ahead of elections that entail fiscal slippage, and if BOP pressures re-emerge.

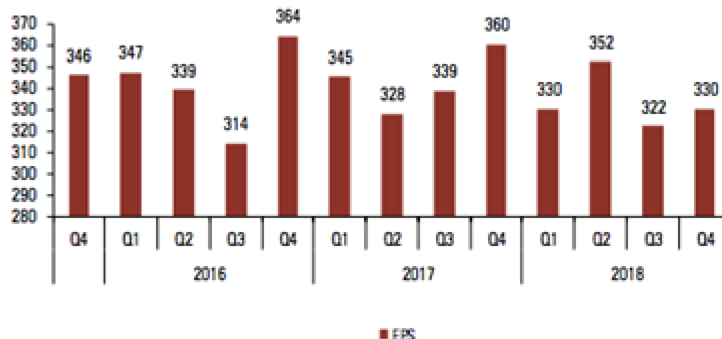
Earnings Wrap Q4 FY18 - ICICI Direct

Sensex companies (ex-banking space) continued their positivemomentum with Q4FY18 the first quarter that was marked by double digit bottomline growth. It is largely attributable to robust consumer demand and successful economic transformation post demonetisation and GST. For Sensex companies (ex-banks), netsales in Q4FY18 are up healthy 15.7% YoY to | 538,048 crore. Companies continued to witness falling gross margins (down 186 bps) on account of a rise in commodity prices, which was more than compensated by operating leverage benefits (up 250 bps) on account of sweating of assets with consequent increase in EBITDA margins by 28 bps to 19.1% in Q4FY18. Corresponding EBITDA for the quarter was at | 102,678, up 17.3% YoY. PAT in Q4FY18 was up 15.0% YoY to | 57,491 crore. PAT is adjusted for one-offs at Tata Motors and Tata Steel. On a full year basis, in FY18, sales increased 10.9% YoY resulting in bottomline growth of 10% YoY

- At a broader level (listed universe), the earnings seasons was marred by losses at large public and private sector banks, owing to increased provisioning following a RBI directive. However, with much of the pain already recorded and IBC resolutions underway, we expect incremental slippages to be contained aiding moderate provisions. This, coupled with improving credit growth, will enable profitability to improve in PSU and corporate banks over FY19-20E
- On the sectoral front, in Q4FY18, overall auto volumes increased 23.9% YoY mainly due to low base & strong growth momentum across segments. In the FMCG space, double digit volume growth is encouraging. This, coupled with ~15% volume growth in the cement space, depicts robust demand prospects domestically. In the capital goods space, robust execution led to healthy double digit growth in sales amid robust build-up of order book. Going forward, with forecast of normal monsoon 2018 and firm rural demand amid a pick-up in industrial activity (increased sales of M&HCV, cranes), we expect Sensex to stage an impressive earnings recovery, growing in excess of 20% CAGR over FY18-20E
- Topline growth for the quarter was led by the commodity space viz. oil & gas (up 32.2% YoY) and consumer driven auto space (up 19.0% YoY). Pharma & telecom continued their underperformance with topline growth of -2.0% & -10.5%, respectively. FMCG performance looks muted (up 1.8% YoY) despite robust growth at HUL (up 11.1% YoY) primarily tracking de-growth at ITC (down - 4.6% YoY). Tier-I IT companies witnessed average growth of 1.2% QoQ in constant currency terms in Q4FY18. Cross currency provided strength of ~120-190 bps to dollar revenue growth to 2.9% sequentially · Bottomline growth, on the other hand, witnessed a divergence. Growth was led by metals (up 129% YoY) primarily tracking loss to profit at Tata Steel, followed by the oil & gas space (up 24.1% YoY, upbeat crude price). IT & telecom reported de-growth at the PAT level. Telecom operators continued to bleed in Q4 on account of continued price erosion (fresh round of price cut by Jio in January 2018) and international IUC cut impact

EPS for the quarter i.e. Q4FY18 was at ₹ 330/share, down 8.4% YoY (₹ 360/share in Q4FY17). De-growth in EPS for the quarter was largely accounting for increase in provisioning of restructured assets at key public sector as well as large corporate banks. Decline in EPS was partly compensated by increase in profitability by the consumer space namely FMCG and domestic automobile space

Exhibit 2: Sensex EPS at ₹ 330/share in Q4FY18



Source: Bloomberg, Reuters, ICICI Direct Research

@ for calculation of EPS we have considered standalone profit for Bajaj Auto, Cipla, HDFC, HDFC Bank, Hero MotoCorp, Hindustan Unilever, ITC, L&T, M & M, Maruti Suzuki, NTPC, ONGC and Reliance Industries while for the rest of the companies, consolidated profit has been considered

Follow The Millionaires - ***Ruchir Sharma*** **-** India should be concerned by the large exodus of its wealthiest residents

Tracking the rich has become a voyeuristic global industry, but it can also provide serious clues about where countries are headed. When a country begins to fall into economic and political difficulty, wealthy people are often the first to ship their money to safer havens abroad. The rich don't always emigrate along with their money, but when they do it is an even more telling sign of trouble ahead.

Since 2013, New World Wealth, a research outfit based in South Africa, has been tracking millionaire migrations by culling property records, visa programmes, and intel from services that cater to the wealthy. In a global population of 15 million millionaires, nearly1,00,000 changed their country of domicile last year.

In most countries it is fair to assume any millionaire exodus is comprised mainly of locals, since the wealthy class is generally dominated by citizens or longtime residents. In 2017, the largest exoduses came out of Turkey, where a stunning 12% of the millionaire population emigrated, and Venezuela. As if on cue, the Turkish lira is now in a free fall. There were also significant migrations out of India under the tightening grip of its tax authorities, and Britain under the cloud of Brexit.

On the flip side, slowing outflows can be a welcome sign, and in 2017 the biggest shift for the better came in that cauldron of anti-rich hostility, France.

Equally surprising was the lack of change in the United States, where the arrival of a billionaire president seemed to neither attract nor repel millionaires. A net total of 9,000 millionaires migrated to the US last year, but they represent a drop in the ocean of 5 million American millionaires. Like so many people, millionaires seemed unsure of America's direction under a president who offers tax cuts for the rich but presents himself as a populist champion of the working class.

Meanwhile, Britain and France appeared to be trading places as magnets for wealth. For decades the rich had been drawn to Britain by loose regulations and the comforts of London. Until 2016 Britain saw a sizable influx of millionaires every year but the flow suddenly reversed last year, when 3,000 left Britain amid fears that its exit from the European Union will undermine London as a financial capital.

Long seen as the anti-Britain, a place where prying bureaucrats and high taxes scared off the wealthy, France had seen a growing exodus of millionaires. However, it peaked in 2016 with a net outflow of 12,000, and slowed to just 4,000 last year. The most likely reason; the May election of President Emmanuel Macron, who promised a lighter-touch bureaucracy, and lowered wealth and capital gains taxes.

Displaced millionaires will not attract much sympathy, but no country gains by losing its wealthiest residents. Stunningly, despite optimism about its growth prospects, India in 2017 suffered a net loss of 7,000, or 2%, of its millionaire population. That matched the flight from the sanction-battered economy of Russia, and may be driven by the elite's growing concerns about an official anticorruption drive and "tax terrorism" – unlimited authority given to tax officials to target the rich.

In the worst cases, bouts of capital flight can gain momentum until the value of the currency collapses, plunging the nation into crisis. Balance of payments records show that 10 of the last 12 major currency crises, dating back to the Mexican peso meltdown of 1994, began when residents started sending money abroad, which was typically two years before the currency collapsed. Often politicians blamed these crises on "evil" foreign speculators, but it was the locals who saw trouble coming first.

Right now, this accounting offers clear evidence of looming financial difficulty in only one major country: Turkey. Early last year, affluent Turks began effectively moving large sums of money out of the country by exchanging their lira bank deposits for dollars and euros. Meanwhile foreigners were still buying Turkish assets. The 12% decline in Turkey's millionaire population was second only to the 16% decline in the small basket case of Venezuela. Wealthy Turks appear to be fleeing deteriorating financial conditions, high inflation, and President Recep Tayyip Erdogan's crackdown on critics.

Millionaire migrations can be a positive sign too. Losses for Turkey, India and Russia were gains for safe havens like Canada, Australia and the United Arab Emirates. The glittering emirate of Dubai gained 5,000 millionaires in 2017, boosting its affluent population by 6%, the largest increase in the world.

Locals are also the first to return when conditions begin to improve. Following seven of the last 12 major currency crises, residents started bringing money back earlier than foreigners.

More broadly, politicians might reconsider the tendency to blame capital flight on "immoral" foreigners. The assumption that global money managers are more savvy and quick than provincial locals is not borne out by the historical record. Nor is the assumption that locals are more loyal to the home market than foreigners. Millionaires move money mainly out of self-interest, to find more rewarding or safer havens, not patriotism. Leaders who create the right conditions to keep millionaires home will find that everyone, not just the wealthy, ends up richer for it.

India Equity Strategy - A Half Circle, A Churn…. and Chances - Edelweiss

It's all changed! and, India's come a 'Half Circle'. Its macro has moved from robust to risky, the micro from lagging to looking up and the 2019 general election from a given to a lot of guesses. This mix is likely to keep the market going around in circles in the year's run-up to the election. But, within this Churn, the market usually does well in the year prior to General Elections—there's a growth streak that's beginning to come through and visible consolidation of market shares. India's valuations, relative under-performance and the election haze are likely to collar the market (19-17x one-year forward: 11500-10500 on Nifty). But, it's throwing up sectoral and stock Chances that we recommend picking up.

The market could well go around in circles over the next year. But, we do see sectoral and stock opportunities that will crest absolute and relative returns. We are seeing rising momentum in IT (digital backed by currency upsides), rural (changing terms of trade, election sops), industrials (smelling small capex now) and private banks (market opportunity), and we pick 14 stocks that should generate handsome returns.

Large-cap picks: Dr. Reddy's, Infosys, Kotak Mahindra Bank, L&T, M&M, RIL, Yes Bank.

Mid-cap picks: AIA Engineering, Cochin Shipyard, Dr. Lal, Equitas, Gujarat Gas, Quess, SIS.

Please click on the below link for the detailed report:

India Equity Strategy - A Half Circle, A Churn…. and Chances