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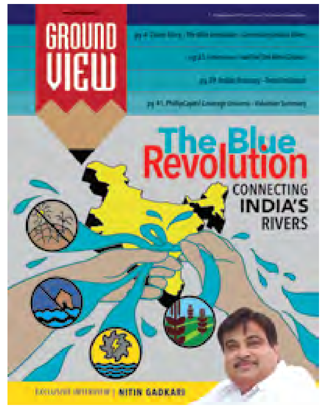

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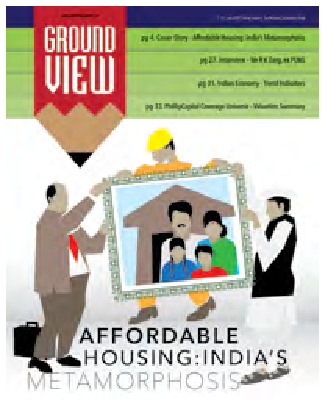

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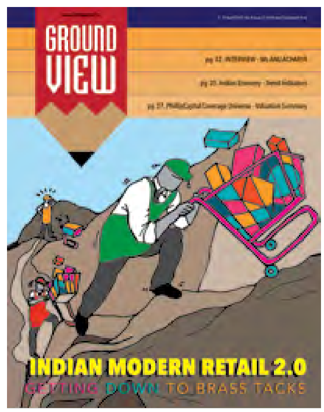

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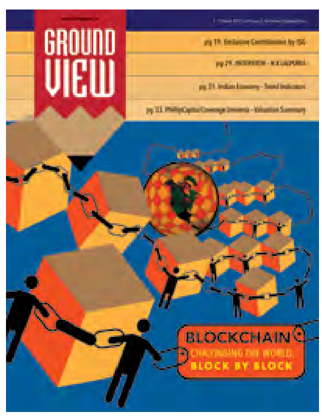

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Structural reforms taking shape but challenges ensue...

I am very pleased to present to our readers the fourth edition of our annual Ground View magazine, which tries to explore the emerging themes for the year ahead. The year gone by was monumental. It was a year of transition, not only for India, but even globally, as power equations saw a marked shift. Even as the Indian economy trudged out of demonetisation blues, the government implemented GST, a major reform that saw execution challenges. The structural nature of these reforms is changing the very economic and social fabric of India. While these changes have caused hardships for a large percentage of the population, PM Modi's election report card remains quite intact. However, with 2019 Lok Sabha elections not very far away, rural India is posing a big challenge for the ruling party and for PM Modi.

With its huge labour force employed in agriculture, marked by low productivity and structural issues of dwindling land holdings, rural India has always been a challenge. Apart from significant structural issues, the agrarian economy has a disproportionate political clout, which can topple any government's re-election plans. BJP experienced this in the 2004 re-elections, when in spite of all the glory of the India Shining campaign, rural India rejected the party.

Needless to say, the rural economy and farmer distress will be key agendas that the government is likely to address in the next twelve months. One of the keys to the government's policy framework is 'Doubling Farm Income by 2022'. Our cover story "Overhauling the rural growth engine" penned by analysts Naveen Kulkarni and Neeraj Chadawar tries to decipher the alternatives that the government has, to engender sustainable rural growth. Also read in this issue – our analysts' takes on the prognoses of various sectors and companies that are best-placed to deliver operational performance in 2018.

Wishing everybody a prosperous new year!

Vineet Bhatnagar

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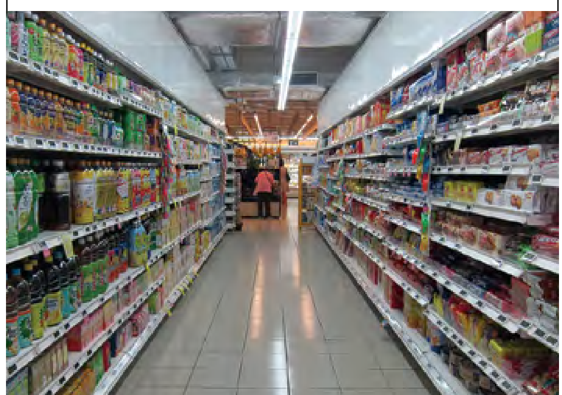

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OVERHAULING THE RURAL GROWTH ENGINE

COVER STORY

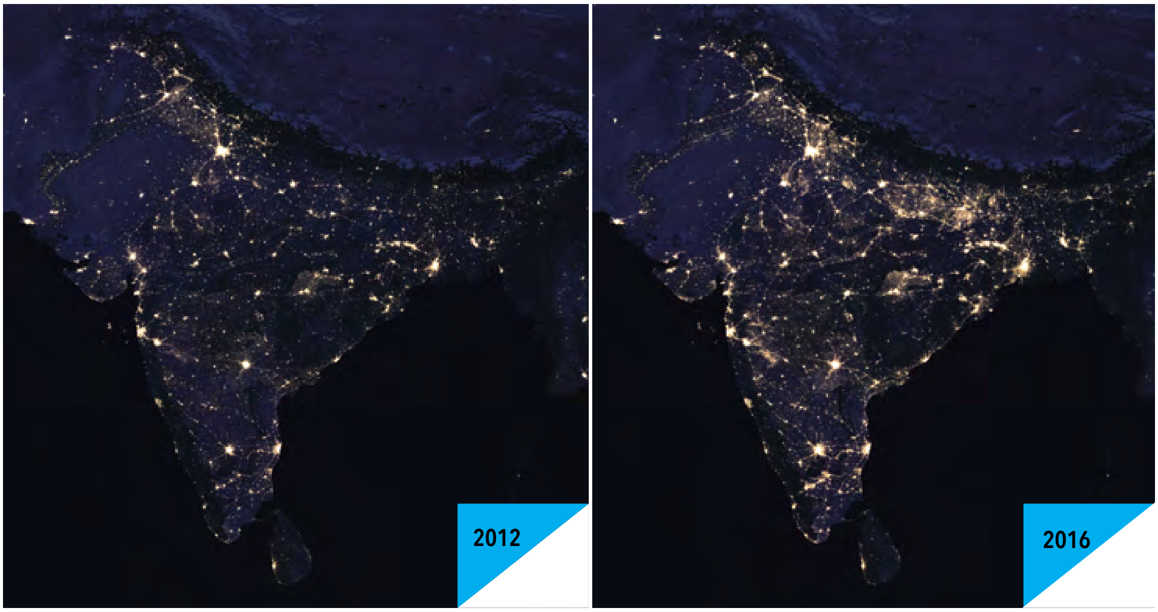
BY NAVEEN KULKARNI & NEERAJ CHADAWAR

PM Modi's rural conundrum

Rural India has made good progress over the last decade. Particularly, rural electrification has taken great strides. Kishan Pandey, an auto dealer in Siwan, Bihar, seemed quite happy about the improved electricity supply to his area. "We get power 18 hours a day now, which was just six hours a day in the 1990s," he beamed. Like many others in Siwan, Kishan was quick to convert this better power supply into a business opportunity. He took an agency for electric auto-rickshaws (E3Ws), and is doing pretty well for himself (in fact, E3Ws are changing the transportation landscape in India, but more on this later). While rural India has undoubtedly progressed, the rural economy still faces structural challenges. While these take time to resolve, time, unfortunately, is not a luxury in politics – and politics eventually affects everything. With each passing month in 2018, the bugle call of the 2019 elections will keep getting louder.

Pic: Peter Righteous

A bird's eye view of 'electrifying India'



Source: NASA - Earth at Night (Night Lights)

Meanwhile, anti-incumbency amongst the farming community is palpable. "We have always voted for the BJP, but now we are angry. It was better during the NCP rule in Maharashtra. Farmers were making good income. Production has gone up, but our costs have increased much more and profits have reduced. The government should do much more for farmers," fumed Harish Mankad, a farmer involved in horticulture who had come to sell his produce at the Nashik APMC market. This market is one of the largest ones for agriculture products; farmers from western India gather at this APMC to sell their produce to traders and wholesalers.

Recent elections in Gujarat where the ruling party lost a large chunk of seats in rural areas, indicate similar trends. The farming community is clearly not very happy with the ruling party. Indeed, if one were to look at only rural Gujarat, then the opposition party (Congress) seems to have won the majority. While it can be argued that some caste equations played out in favour of the Congress, the dissatisfaction of rural India is evident in many states.

Gujarat assembly election results

		2012		2017	
Category	**Total**	**BJP**	**INC**	**BJP**	**INC**
Urban	42	38	4	36	6
Rural	140	77	57	63	71
Total	**182**	**115**	**61**	**99**	**77**

Rural India has a highly fragmented land-holding structure and most people are employed in farming. This usually leads to inadequate income and widespread poverty – which pose the biggest challenges to PM Modi for his 2019 re-elections. His reform programme is structural and will bear fruits in the long-term. However, the dissatisfaction of farmers and small-scale traders because of GST implementation is proving difficult for Mr Modi to mollify. The consensus view is that the year ahead and the upcoming budget will have to focus on the rural economy. However, the critical question is whether something meaningful can be achieved over the next 12 to 15 months that can spur growth prospects, or will the government be lured by populist measures – which eventually harm the economy more than the benefits they purportedly proffer.

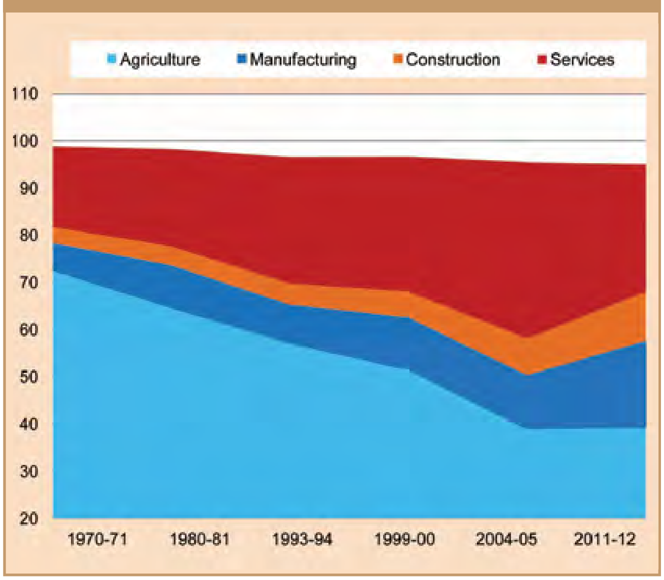
Key problem with agriculture – the sheer size of the workforce in the sector, marked by dwindling productivity

Rural India is not just about farming anymore

After liberalisation, rural India's employment pattern changed significantly. It is often erroneously assumed that the rural economy is primarily dependent on agriculture, but the truth is that the contribution of agriculture to the rural economy has dwindled significantly after the liberalisation of the Indian economy, which started in 1991. The share of agriculture to the rural economy has declined from as high as 72% in the early 1970s – to 39% by 2012. This means that now the contribution of agriculture is a little higher than one third.

The primary reason for the decline in agriculture's contribution has been its slower growth rate vs. other sectors. According to NITI Aayog (National Institution for Transforming India) statistics, the 'net domestic product' growth of manufacturing and construction sectors has been the fastest, and their contribution has increased most rapidly.

Component and share of rural NDP at current prices (%)



Source: NITI Aayog

Rural net domestic product growth

% (at 2004-05 prices)

	Agri	Mfg	Construction	Services	Non-Agri	Total
1971-94	2.6	5.2	3.9	6.1	5.7	3.7
1994-05	1.9	8.4	7.9	8.6	7.9	5.1
2005-12	4.3	15.9	11.5	3.5	9.2	7.5

While the contribution of other sectors in the rural economy has increased significantly, their employment generation capability has been inadequate. Manufacturing, which is among the fastest growing sectors in rural India, has seen much lower employment generation compared to the sector's growth. This sector now contributes around 18% of the rural economy, but its employment contribution is much less at around 9%. Conversely, while agriculture has seen its economic contribution come down to less than 40%, it still contributes 64% of rural employment. This is the key problem with agriculture – the sheer size of the workforce in the sector, marked by dwindling productivity.

Productivity in the agriculture sector has not seen any marked improvement after the Green Revolution, as the size of landholdings has kept declining over the last 50 years. Between 1995-96 and 2010-11, the average farm size declined to 1.15 ha from 1.41 ha. Small holders now cultivate 42% of operated land and constitute 83% of total landholdings. This increase is most prominent in the case of marginal and small farms. Between 1995-96 and 2010-11, there was a decline in the number of holdings with medium and large farms – a matter of concern. Fragmented and scattered holdings (state of most of marginal and small farms in India) do not allow better utilization of farm resources and technology adoption by farmers, which reduces their productivity. It also hinders diversification,

Change in land holdings in India

	1970-71	1976-77	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06	2010-11
Marginal (<1 ha)	51.0%	54.6%	56.4%	57.8%	59.4%	61.6%	62.9%	64.8%	67.1%
Small (1-2 ha)	18.9%	18.1%	18.1%	18.4%	18.8%	18.7%	18.9%	18.5%	17.9%
Medium (2-10 ha)	26.2%	24.4%	23.1%	21.8%	20.2%	18.5%	17.2%	15.9%	14.3%
Large (> 10 ha)	3.9%	3.0%	2.4%	2.0%	1.6%	1.2%	1.0%	0.8%	0.7%

Source: Agriculture statistics

Small holders now cultivate 42% of operated land and constitute 83% of total landholdings

which is considered a key in enhancing the farmers' income.

The decline in land holdings because of the inheritance system in India has led to significant fragmentation of land holdings, which in turn has led to a decline in productivity and income for farmers, further resulting in an increase in the number of agri labourers (even as cultivators, who own their land, have declined since 2001). While the contribution of agriculture to GDP is at an all-time low, agri labourers have grown at a very high pace.

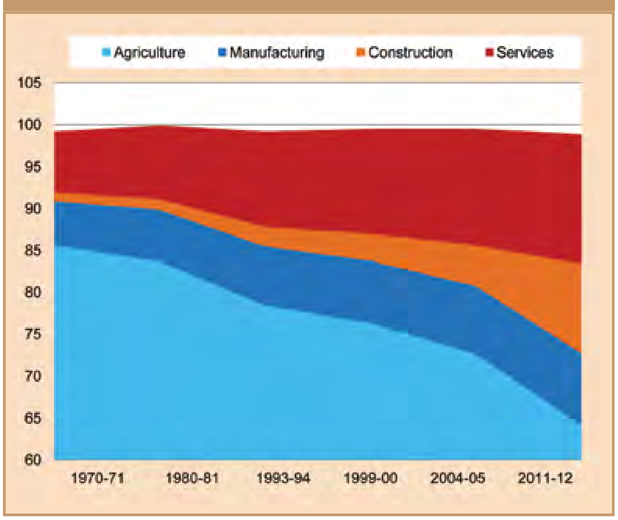
India's rural economy is marked by its huge labour force employed in agriculture – with a lower productivity vs. other sectors. The construction sector is capable of absorbing this huge workforce, and its productivity is also

Agri labour breakup (mn)

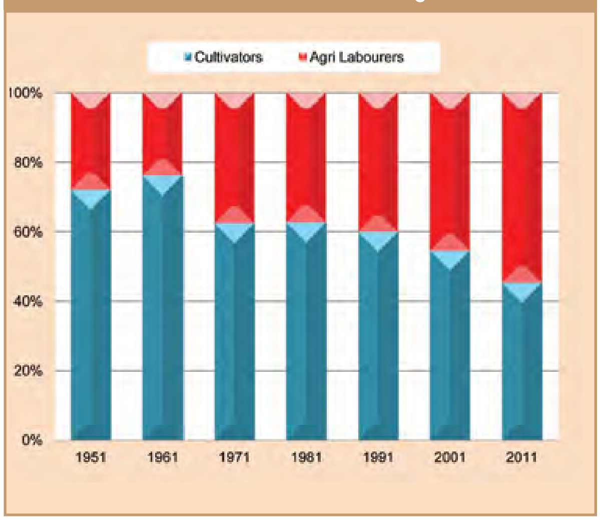
Year	Total agricultural workers	Cultivators	Agricultural labourers
1951	97.2	69.9	27.3
1961	131.1	99.6	31.5
1971	125.7	78.2	47.5
1981	148.0	92.5	55.5
1991	185.3	110.7	74.6
2001	234.1	127.3	106.8
2011	263.1	118.8	144.3

Source: Agriculture statistics

Component and share of rural employment (%)



Within agri workers, share of agri labourers is rising while cultivators is falling



Source: NITI Aayog

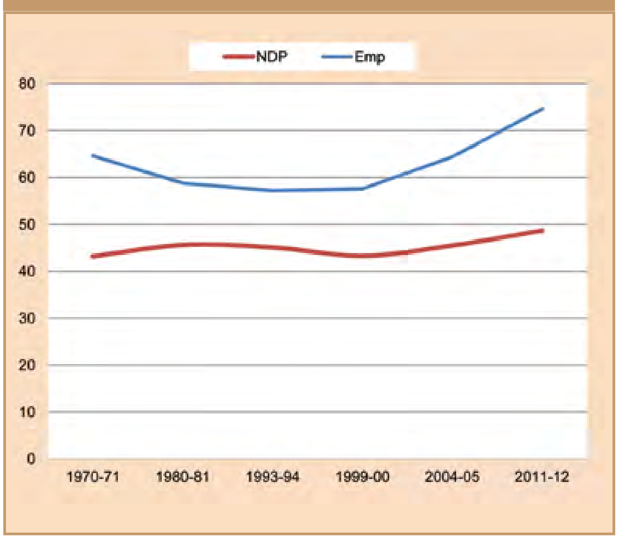
The focus of the government over the next 15 months will be to kick-off as many government schemes as possible in the infrastructure sector, which can generate employment for rural India

higher. This kind of a shift has worked in countries such as China, and there is no reason to believe that it will not work in India.

'India building' is the answer

The construction sector has already provided huge employment to rural India. In terms of employment growth for the rural economy, this sector has outstripped every other sector. The focus of the government over the next 15 months will be to kick-off as many government schemes as possible in the infrastructure sector, which can generate employment for rural India. The Pradhan Mantri Awas Yojana (Housing for all) and MNREGA schemes are two projects that can generate rural employment and provide some relief to labour issues.

Construction sector's share of the rural economy in total NDP and workforce %



Source: NITI Aayog

Doubling farm income - still a key to policy making

Doubling of farmers' incomes by the 75th anniversary of Indian independence (in 2022) is an ambitious project of the incumbent government. Challenges for the farming sector are manifold. First, agriculture is a state subject and it will require tremendous coordination between state and central governments to achieve goals. The present regime is best-placed to achieve targets, as the ruling party BJP is in power in 19 of India's 29 states. Farmers constitute a significant portion of the workforce. However, what is even more noteworthy is the political attention this sector commands. Farmer suicides frequently become headline stories, even as a huge number of deaths caused by poor infrastructure in Mumbai (especially its local trains) receive little attention. The political ramifications of not providing adequate support to farmers are quite far reaching, which no political party can afford to ignore.

The DFI (doubling of farmers' income) policy focuses on improving the remuneration for farmers, and also emphasises productivity gains and land-leasing reforms

A new holistic approach in the making

In India, 119mn households are engaged in farming, but the sector's average monthly income per household is quite low at less than ₹ 6,500 (US$ 100) even as the average monthly expenditure is ₹ 6,223 (US $ 98). This means that agricultural households can hardly make any substantial investments to improve their practices. With such a large population creating a sustainable vote bank, it is clear that the agriculture sector has received continuous attention of policy makers and stakeholders. According to the NITI Aayog, earlier agricultural policies largely concentrated on enhancing productivity and output, but none of them

directly targeted augmenting farmers' incomes. This government's agricultural policy focus has shifted decisively towards making farming more directly market-led.

According to its policy document, the "Doubling of Farmers' Income (DFI)" policy will follow a 'holistic' approach. DFI's goal is concomitant to the many associated and well-thought-out schemes such as insurance for mitigating losses (Pradhan Mantri Fasal Bima Yojana), ensuring effective marketing through unified national agricultural marketing platform (e-National Agricultural Market), the GST rollout, and improving soil health via promoting organic farming through Paramparagat Krishi Vikas Yojana. All these measures will contribute towards maximising gains from farming. The government believes that if all schemes are implemented in their true spirit, then Indian agriculture will surely see a revolution.

Pillars of doubling farm income

On the ground, the APMC act reforms are yet to benefit farmers substantially. "We can directly sell our produce to anybody, but the system is gamed in favour of agents and we have not yet seen any major benefits of the change in the APMC act," said a farmer who had come to sell his produce of fruits at the Nashik APMC market. Reforming the Agricultural Produce Marketing Committees (APMC) Acts was a major initiative in the government's aim to double farmers' incomes.

It is frequently cited that farmers only earn a fraction of the retail price. For example, in the Nashik APMC market, farmers were selling pomegranates at ₹ 15-20 per kg to agents and intermediaries while pomegranates retail at ₹ 80-100 per kg in Mumbai. Even in the Nashik wholesale market, the price for customers was ₹ 60 per kg. Clearly, there is a significant difference between the wholesale price that the farmer is paid for his produce and the retail prices. If wholesale price inflation were to be ahead of retail price inflation, then farmers' net incomes should rise and the benefits will be significant. However, this is not an easy ask. The doubling of farmers' income actually focuses on the most key component, which is improving the remuneration for farmers. Apart from this, the policy also emphasises productivity gains and land-leasing reforms.

Remunerative practices at mandis are the key

Improving remuneration for farmers is a key to improving the rural economy. The most critical aspect is a better APMC Act, which will lead to wholesale prices catching up with retail prices, marked by lesser intermediaries and a better supply chain. According to the government "Under the APMC Act, farmers are required to sell a large number of commodities in the vast majority of the states in a local mandi, where intermediaries often manipulate prices. These same intermediaries then sell the produce to the next layer of intermediaries. Because mandis lack good storage and warehousing facilities, especially when it comes to fruits and vegetables, substantial wastage occurs, undermining the price received by the farmer. Mandis also charge multiple entry, exit, and other fees. Therefore, it is essential that states genuinely reform APMC acts.

The Vajpayee government had originally initiated this reform via a model APMC Act, but most states implemented this only half-heartedly – this needs to change. Several steps are required. Reformed APMC acts should fully empower farmers to sell their produce to whomsoever they wish. Simultaneously, actors other than APMC mandis should be conferred the right to buy produce directly from the farmer and to set up alternative marketplaces. This will create competition and pave the way for the farmer to receive lucrative prices. Conditions also need to be created for the emergence of aggregators who would collect produce from farmers for sale in competitive marketplaces. This is necessary to serve small farmers for whom it is neither feasible nor profitable to take their produce to such markets."

However, this level of reform will take considerable time, and it is unlikely to have any impact on farmers' incomes in the next 12 months. A booster dose is required, and pricing could help, but it is also a very dangerous tool as it can lead to inflation spiralling out of control, which eventually does more harm than good in the medium to long term.

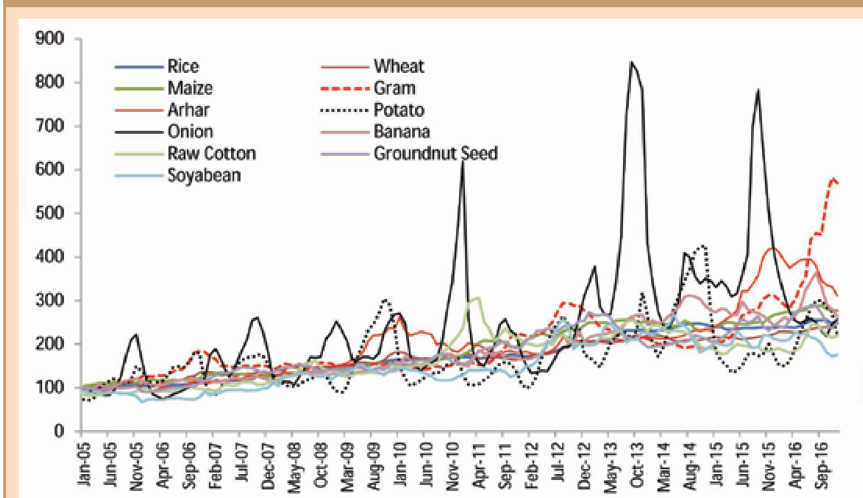
Pricing support is another critical area, but inflation is a major challenge

APMC is a state subject and even states that have changed the act have implemented it with half-hearted measures, according to the central government. Much more needs to be done for improving the remunerative practices for farmers. "Every product should have a minimum support price (MSP). Even perishables should have some floor price," quips a farmer in the Nashik mandi. Prices for vegetables and fruits fluctuate a lot, and many times farmers have to sell these products at a loss. However, MSP for all kinds of agricultural produce is not a practical solution, and it is unlikely to be implemented. Nevertheless, other measures to reduce the price volatility could see the light of the day.

Another problem is that the current policy framework is inadequate. Over the last 40 years, the price-policy implementation has mainly boosted wheat and rice among food grains, and sugarcane and cotton among other crops. This situation has resulted in a demand-supply imbalance for other food commodities such as pulses and oilseeds, as famers see growing wheat and paddy as low-risk propositions. There could be interesting interventions by the government in supporting pricing, which could provide an immediate boost for farm incomes – but these measures could also prove inflationary.

One of the pricing measures that is being talked about by the government is "price deficiency payment". According to the NITI Aayog, "MSP may still be used for need-based procurement, under the deficiency payments system; a subsidy would be provided on other targeted produce in case the price falls below an MSP-linked threshold. This approach would not require procurement, thereby preventing the accumulation of unwanted stocks. More importantly, it would spread price incentives to producers in all the regions and all the crops considered important for providing

Trend in the WPI of select agricultural commodities



Source: NITI Aayog

price support. Each farmer would register her crop and acreage sown with the nearest APMC mandi. If the market price then falls below the floor price, the farmer would be entitled to the difference up to a maximum of, say, 10% of the MSP-linked price that could be paid via Direct Benefit Transfer (DBT) into an Aadhaar-linked bank account. This system would keep the quantum of the subsidy in some check and also meet the restrictions on the subsidy imposed by the World Trade Organization (WTO)".

Pic: Dushyant Kumar Thakur

Dairy is the key income driver for rural India

Crop income growth has been sluggish, but ancillary agri-activities (dairy farming, animal husbandry) and other activities (fisheries) have seen better growth over the years. In an interview with a leading media channel, Mr RS Sodhi (the Managing Director of Gujarat Cooperative Milk Marketing Federation or GCMMF) had said – "Lower food-commodity prices have resulted in declining farmer income. Animal husbandry has been a key income generator for farmers. Government should do much more for dairy farming".

There are some challenges in this sector such as fodder and the rising population of unproductive male cattle. However, dietary habits are changing, and consumption of milk and value-added products is on the rise. The growth of cooperatives have led to improvement in milk procurement and processing. This sector is very critical and can see significant impetus. PM Modi understands this sector very well as he has seen the unprecedented growth of GCMMF, India's most successful milk cooperative and owner of the iconic Amul brand. The dairy industry could see more government support and higher growth rates in the years ahead.

More farm loan waivers in the offing?

Farm-loan waivers are quick-fix solutions and are a moral hazard in the long run. Loan waivers also act as election propaganda tools – and they are effective. BJP's promise of loan waivers in the UP election would have contributed at least a little to its win. However, the present government policy is slightly better, as there is a focus on reaching the really needy. "Maharashtra farm-loan waiver was for ₹ 1.5 lakhs (₹ 150,000) and for farmers with higher outstanding loans, the benefit of ₹ 1.5 lakhs was given only after the remaining debt was paid off," said a farmer in Maharashtra.

While this is a much better implementation of the waiver scheme, as the really needy are getting the benefits, it might not prove as good for vote-bank politics. "In the last farm-loan-waiver scheme, rich famers got their loans waived off on their Mercedes Benz car," scoffs a local politician in Maharashtra who did not wish to be named. While the authenticity of such claims is doubtful, farm-loan waivers are a tricky subject and generally do not bode well for the long term. They are like painkillers – with each passing year their efficacy only reduces, but by then, the patient is hooked on and cannot imagine life without them.

Farm-loan-waivers announced

State	₹ bn	Benefit	Announced
Maharashtra	300	For farmers up to five acres of land	Jun-17
UP	363.6	To 9.4mn small & marginal farmers	Apr-17
Punjab	15	To 1.03mn farmers	Jun-17
Karnataka	81.7	To 2.2mn farmers	Jun-17
Total	**760.2**		

Other states that demanded a waiver

State	Total farm loan (₹ bn)	Comment
Madhya Pradesh	812.3	Out of ₹ 812.3bn, ₹ 560.5bn is a crop loan as of Dec 2016
Rajasthan	500	Set up a high-level committee for loan waivers
Total	**1312.3**	

In summary, boosting real rural growth through agriculture is a challenging task to say the least. The solutions are long-term, and the government is serious about implementing the policy for doubling of farmers' income. However, time is short, and the lure of populist measures cannot be ruled out. Pricing and further loan waivers, particularly after PSU bank recapitalisation in some form, appear likely. Nonetheless, the key to improving rural incomes is as follows:

- The interest of the farming community in agriculture is declining, and consequently, workers that are self-employed in agriculture are leaving this industry. This reported shift is good, provided these workers are productively and gainfully employed in alternate sectors and industries. As there is a huge labour workforce in rural India, employment generation through construction and other government schemes will be a key focus area (for example . Pradhan Mantri Awaas Yojana and MNREGA). Moreover, roads and Infrastructure projects should take off.

- Pricing support through MSPs and allied programs could see more impetus.

- Other animal husbandry activities such as dairy could see an upsurge.

- Quick fixes such as farm-loan waivers, especially in the light of PSU bank recapitalization, cannot be ruled out.

Rural India is not the only game in town. Women, youth, and Tamil Nadu in play

Even as the leading opposition party (Congress) could see some resurgence, and it is most likely to approach the polls with a comprehensive strategy, BJP's election machinery is still very robust. The saffron party has been ahead of the curve in most instances, and it will be rather difficult for any other political party to make inroads in the Loksabha elections. "People will vote for the Congress in Karnataka assembly elections, as BJP is fragmented here. But in the Loksabha elections, they will vote for PM Modi and BJP," declared Shankar Prasad, a driver in Mangalore. This is a common refrain across India, where people believe that PM Modi is the right person to lead India.

The ruling party has made good strides in wooing women voters, and the steps taken have seen some results in states such as Uttar Pradesh, where the sweep in assembly elections could be, to some extent, attributed to switching of women voters. The government's LPG scheme, girl child education, the recent banning of triple talaq and many others are resonating with women voters, apart from which, India's youth, especially in the north, is seeing and experiencing development after a very long time. They also seem more and more aligned with the ruling party.

Progressive youth of UP and Bihar – two big ones in the pocket

Your GV correspondent asked an Ola driver (driving a brand new Hyundai i10 in Patna Bihar) – who is more popular here, Nitish Kumar or Narendra Modi? His reply was emphatic – Narendra Modi. "Bihar has changed in the last decade. Prohibition has been implemented strictly – a measure that is helping in bringing crime rates down. The combination of Nitish and Modi is the best solution for the state," he elaborated.

The state of Bihar is changing, and it is clearly changing for the good. "Siwan was not a safe city 15 years ago. It could even have been described as the murder capital of Bihar. Now, it is much safer. Nitish's government has cracked down on criminals, but there is also a cultural shift among the youth. The youth of Bihar is much more connected with the world and aware of the progress outside. They are not so interested in caste-based politics. They don't see bravado as a cool thing. They want to make money and see progress in their own lives," articulated Shambhu Yadav, who runs a skill-training institute in Siwan, Bihar. With its kidnappings spree in the 1990s, Bihar was labelled one of the most unsafe states in India to travel to. Your correspondent was advised not to travel to Bihar by the urban elite of Mumbai.

The picture of Bihar from Mumbai is that it is quite unsafe, even as Mumbaikars fail to realise walking on a foot over-bridge in a Mumbai suburban railway station, or attending a swank party in a South Mumbai hotel are equally unsafe – all because of poor infrastructure. However, Bihar's safety concerns (in terms of crime) have come down immensely. Even the city of Siwan appeared to be quite safe with no major glitches for travellers. One must be careful about moving around at night (because of the heavy winter fog and random criminal acts), but in general, people do not worry about safety as much as they had to before.

"Roads in Bihar are very good now. Many have come up in the last few years," said Salman, a driver for a private taxi service. Infrastructure impetus is clearly visible – with many projects in various stages of completion. Reduction in crime rate and infrastructure development provide a big boost to any economy, and this was clearly visible in Bihar and UP.

Uttar Pradesh saw a major reduction in crime rate after Mayawati came to power, but corruption allegations threw the party off-course. Samajwadi Party continued with good infrastructure work, but was caught up in the vortex of corruption allegations and an inner-party rift, which eventually led to its downfall – and BJP cashed in fully. The UP chief minister, in recent investor road shows, focused on two major aspects: (1) reducing the crime rate in the state, and (2) reducing corruption through online and single-window clearances of projects. All these initiatives could mean that many projects, apart from government-infrastructure projects, are likely to take off over the next 12-18 months. More projects imply improving employment opportunities. Needless to say, the ruling party is in the driving seat in these two major Indian states.

New boss down south?

Tamil Nadu, one of the most progressive states of India, is seeing a big change in the political landscape. Jayalalitha, or Amma as she was popularly known, ruled the state with an iron fist. Her charismatic personality and fighting spirit was second to none in Tamil Nadu, but she breathed her last on 5th December 2016 (or maybe earlier say conspiracy theories). Her passing has created a huge political vacuum in the state. The recent court verdict on the 2G scam, where members of the Tamil opposition DMK party were acquitted, has clearly renewed the party's strength while the ruling AIADMK party is in a disarray.

Tamil Nadu, a state that has always been enchanted by film stars who invariably became very successful politicians (MGR, Jayalalitha), is seeing the entry of two biggest film stars from South India. Shivaji Rao Gaekwad, known and adored as Rajinikant and popularly called 'Thalaivar' (meaning boss in Tamil), has made his big-bang entry into politics. Kamal Haasan, probably one of the best actors in India, has also announced his entry into Tamil Nadu politics. Any true Tamilian worth his salt would believe that Rajinikant deserves a shot, but whether Rajini will play any active role in the 2019 elections remains to be seen. All this has just opened up the possibility of alliances being forged in Tamil Nadu. BJP is still very strong in the north, but in western India, it may not be as strong as it was in 2014 – therefore, Tamil Nadu might just prove to be a 'king maker' in 2019.

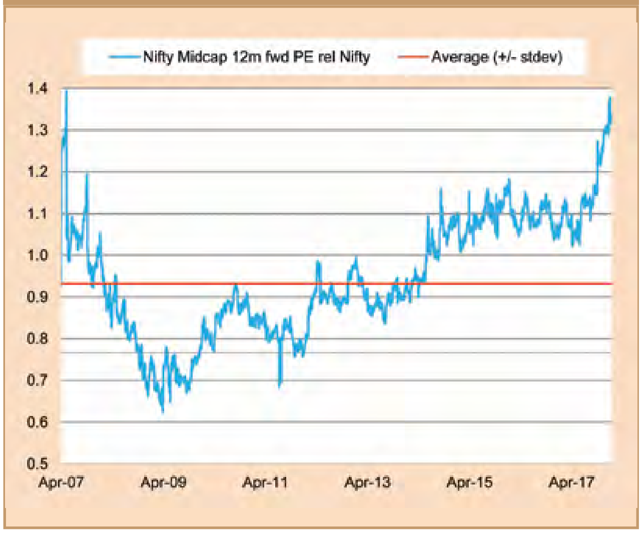
Equity strategy in times of emerging macro challenges and valuation concerns

The cyclically adjusted price earnings ratio (CAPE) or popularly known as Shiller's PE for MSCI India is at 22.6x vs. its long-term average of 23.7x (5% discount to the long-term average). Mid-caps, on the other

India reasonably valued on Shiller PE

Source – Bloomberg

Mid-cap approaching bubble valuations



Source - Bloomberg

hand, are stretched on valuations – trading at 2.3x stdev above long-term average compared to the large-caps on one-year-forward PER.

While there is some hope in terms of valuations, there are new challenges emerging on the macroeconomic front. It is difficult to envisage that the government will not take at least some populist measures over the next 12 months in the run up to the Loksabha elections. Oil prices have continued rising, and inflation is inching up. The pressures on fiscal deficit are clearly rising. PM Modi's approval ratings in general have been firm, but this has also been to some extent because of a weak opposition. However, the Congress party has been gaining some traction in the recent past and it would be foolish to write it off – upcoming Karnataka elections should be a good trend indicator. With this backdrop, an equity portfolio should be positioned on the following themes:

Value will be the overarching theme in 2018: Value as an investment style has gained good traction after demonetisation. B2B businesses have started outperforming B2C categories. After the PSU banks recapitalisation, the value investment style has outperformed growth by a significant margin. The markers for value and growth can be cloudy for Indian stocks, as many growth stocks in IT and pharmaceuticals now trade at multiples that resemble value stocks. However, traditional value sectors like industrials, banking, telecom and energy will see improvement in operating performance; this, backed by reasonable valuations will translate into significant outperformance for value stocks.

Infrastructure is the theme to play: Construction is the big game that can improve GDP growth prospects in the longer term. The progress in infrastructure development, especially under Shri Nitin Gadkari, has been exemplary. The next 12 months will see many projects being awarded in roads and irrigation. 'Housing for all' is another big government scheme that should see more allocation. Plays associated with these schemes will outperform in 2018.

Rural as a growth theme: Many times, the rural theme has fallen short of expectations. Some areas, such as agricultural equipment, have performed well; consumption stories have also done well. Policy announcements will stoke the prices of stocks with rural exposure, so it is important to have sufficient exposure to rural plays. This theme can be played through financials and consumption stocks, including discretionary.

Consumer is still the king: Even as there is a dearth of structural plays in the sector, and valuations are super stretched, there are plays in the consumer discretionary space that will see significant outperformance. QSR, retailing, and other consumer discretionary plays are well-poised for another good 2018.

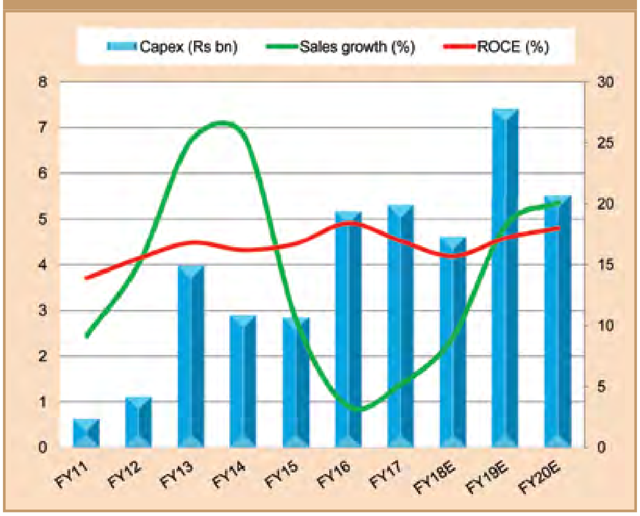
Pic : Vikramaditya Rai

According to PhillipCapital India Research, the following companies will deliver operational performance in 2018. Significant outperformance will be driven by rural as a growth theme and Infrastructure plays.

Aarti Industries

Aarti is a true speciality chemicals company based on its strengths such as: (1) global scale leadership, (2) presence in the longest chain of benzene derivatives, (3) long-standing supply pacts with global MNCs, (4) established supply-chain management, (5) India-specific cost advantage, and (6) weakening Chinese competition. Moreover, ARTO has had two back-to-back multi-year customized and exclusive supply agreements with global companies. These not only enhance its long-term earnings visibility, but also strengthen its growth trajectory. Additionally, these long-term deals provide an assurance for improved operating and financial efficiency. Its unique business model of manufacturing customised/specialty products for global MNCs stands out among its Indian peers.

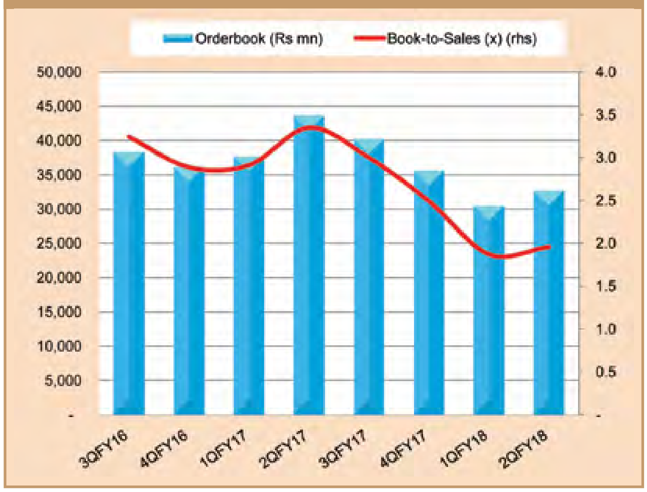
Aarti: Incremental operational trend



Ahluwalia Contracts

Ahluwalia Contracts is expected to be the biggest beneficiary of the surge in order awards in the housing sector, especially due to the government's focus on 'Housing for All' and 'Smart Cities' programs. Its relatively weak orderbook of ₹ 33bn (2x book-to-sales) is a concern for near-term growth – however, that concern too, is being pacified gradually, with orders trickling in. Ahluwalia is the only net cash company in the infrastructure space with NWC days of less than 100.

Ahluwalia: Orderbook vs. book-to-sales



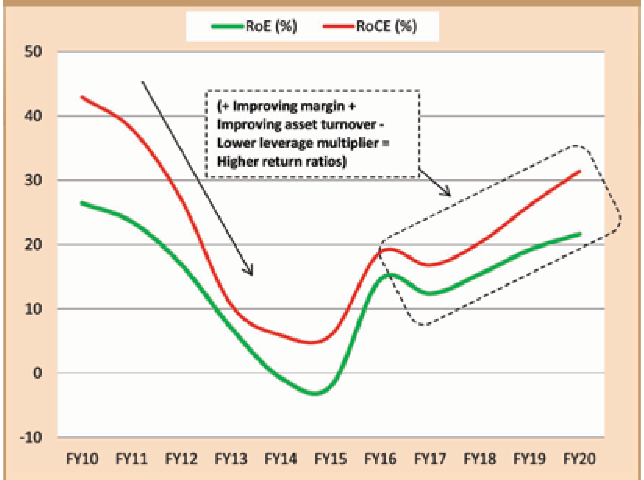
Source: Company, PhillipCapital India Research Estimates

Bajaj Electricals

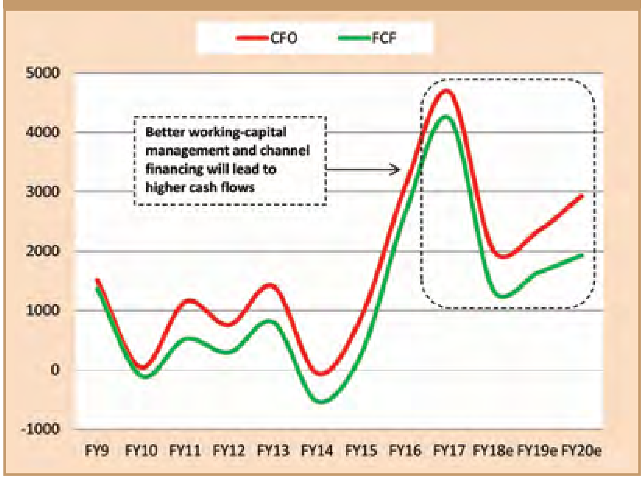
Bajaj is one of the oldest brands in the consumer durables space with a pan-India presence, and it is a market leader in products such as irons, water heaters, mixers, and juicers. Its TOC (Theory of Constraints) and RREP (Range and Reach Expansion Program) was started about a couple of years ago. These programmes have started yielding results (they covered more than 70% of its targeted market by September 2017 and are expected to be complete by FY18).

BJE is increasing its touch points and improving its product mix under RREP, resulting in revenue visibility and margin improvement for its consumer durables business. Tight control on working capital and channel financing under TOC is resulting in lower working capital needs (WC days to fall to 60 by FY19 from 88 in FY16, FCF of ₹ 10bn over FY16-19 – highest in the last eight years).

BJE: ROE vs. ROCE trends



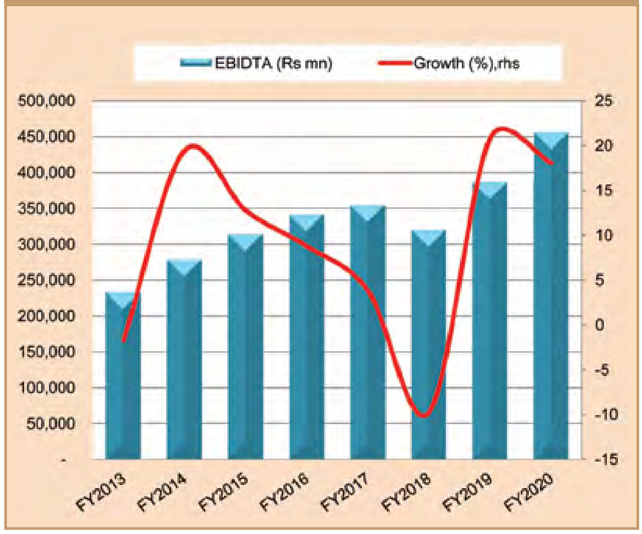
BJE: Strong improvement in cash flow



Bharti Airtel

Bharti's twin engines, India and Africa, will fire up: The company's strategy of investing ahead of the market in 4G technology and spectrum has started yielding results. It now has the best product offering in the market in terms of range of products from 2G to 4G. This means that Bharti will gain subscribers from the exiting 2G players such as RCOM and also some data subscribers during the Idea-Vodafone merger transition. Its inorganic initiatives (acquiring Telenor's operations and Tata Teleservices) will bear fruit in 2018. Bharti will gain significant market share in 2018 (PC expectations: +400-500bps) which will help the company to register ahead-of-market revenue and EBIDTA growth. The Africa business is also gaining immense traction. 2018 will be a landmark year for Bharti in terms of operating performance – both India and Africa will deliver.

Bharti: Operating performance



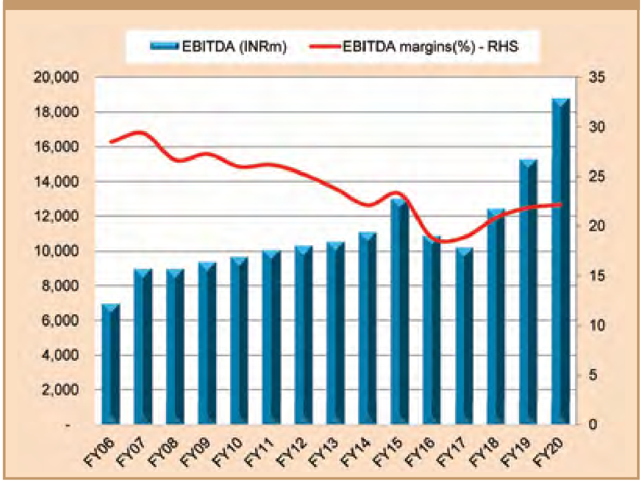
Concor

Concor enjoys a significant competitive advantage and economies of scale because of scheduled services between major port traffic centres, and its nationwide terminal network. DFC (Dedicated Freight Corridor) will enhance its competitive edge significantly (hub-and-spoke model is gaining prominence) by reducing lead times with higher speeds (~2x) and higher cargo carrying capability by double stacking of containers. This is leading to significant reduction in capital intensity, which in turn is improving return ratios. Investment in multimodal logistics parks will start contributing from FY19.

With improvement in container infrastructure, substantial incremental demand is expected to come from a shift of general cargo in break bulk to containerised form, as is the case globally. The company has increased its market share at JNPT to 83% and has been able to turn around its domestic business with route development and aggressive marketing.

Concor: Container volume trend (TEU)

Concor: EBITDA and margin trend



HCl Tech

Over the last 10 years, HCLT acquired just one company, Axon, in 2008. However, in the last one year, it has made six partnerships with IBM and six acquisitions, adding ~US$ 500mn to its revenues. It finally appears to be making amends to its capital-allocation policy and is looking to invest in new-age digital-technology companies to secure future growth.

It is the largest Indian IT player in the ERD domain (third-largest in the world), with revenues of US$ 1.3bn in FY17. This domain is defying the industry downtrend, driven by the domain expertise developed by Indian players over the last decade. It also acquired Geometric Software and Butler America, in this domain. At the same time, its IMS business appears to be holding up well, with 71% of its IMS revenues coming from G2000 clients – who will take at least 3-5 years to migrate to the cloud platforms – giving it enough time to reinvent itself, and develop capabilities to grow, in a cloud environment.

With innovation in its DNA, and a much smaller workforce (only 119k employees vs. TCS/Infosys/Wipro's 390k/201k/178k) to reskill, HCL tech is the best way to play the revival of the Indian IT sector. The stock is currently trading at 14x FY19 P/E.

HCLT revenue growth chart

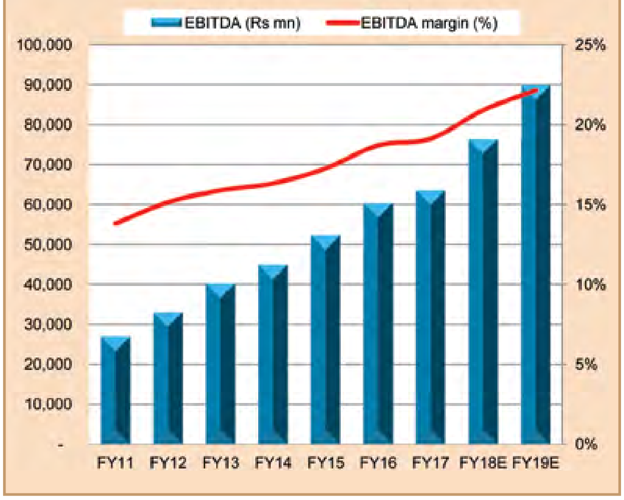
Hero MotoCorp

With 52% of its sales coming from rural markets, Hero is a big beneficiary of the government's rural push.

- Strong latent demand: The two-wheeler (2W) industry remained subdued over FY13-17, with just 1% growth. FY18 was the first year of rebound and the industry is now eyeing double-digit growth – this momentum should continue and the industry should grow at 11% in FY19.
- Strong moat: With the widest distribution network, best brand in the economy and executive segments, and a pickup likely in rural demand – the odds are stacked in Hero's favour.

Hero: Volume growth finally picks up

HUL: Cost rationalisation program led to health EBITDA growth



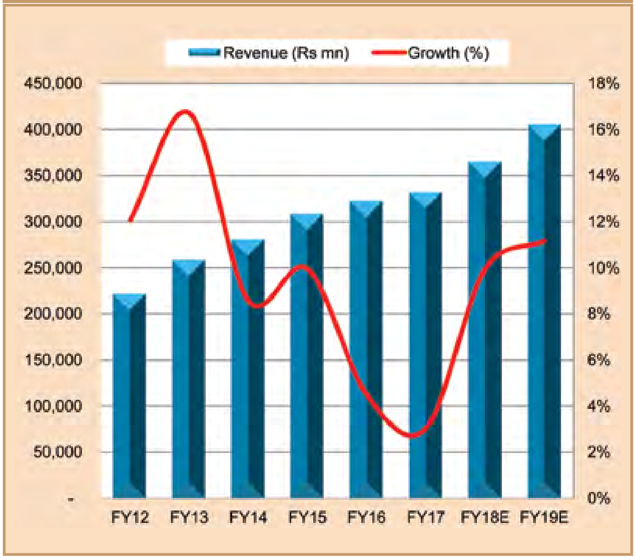
HUL

HUL is likely to be a key beneficiary of government spending on creation of rural infrastructure ahead of general elections in 2019. This is because its suitable product portfolio and direct distribution reach has enabled it to come out almost unscathed from the vagaries of demonetisation and GST implementation. Operating margin should improve due to focus on premiumization, cost savings, GST-related savings, and benign input costs.

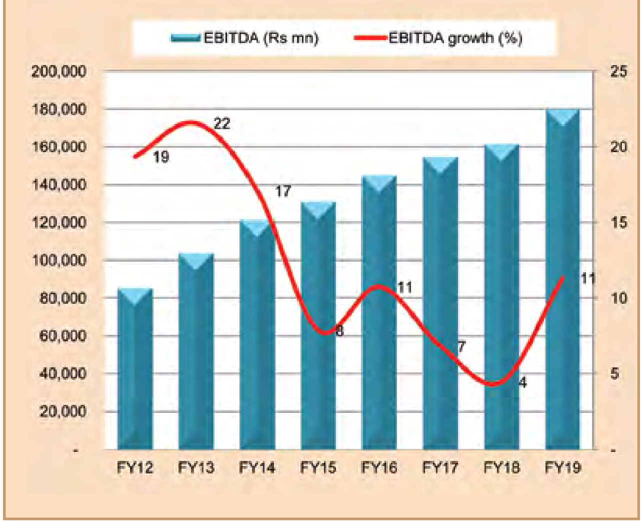
ITC

ITC has seen tremendous stress in 2017 in its cigarettes business because of a sharp increase in GST taxation. Steep rise in cigarette prices have led to a decline in volume growth in 2017, but the FMCG others business has grown at a robust pace. ITC will see benefits of GST in 2018 and most likely tax pressures on the cigarette business will start moderating. Low base, combined with moderate tax increase and GST benefits will mean cigarette volumes will fare much better in 2018. ITC will see a significant improvement in operating performance as well as profitability as both businesses – FMCG others and cigarettes – improve.

HUL: Premiumisation and rural recovery drive double-digit revenue growth



EBITDA growth will improve

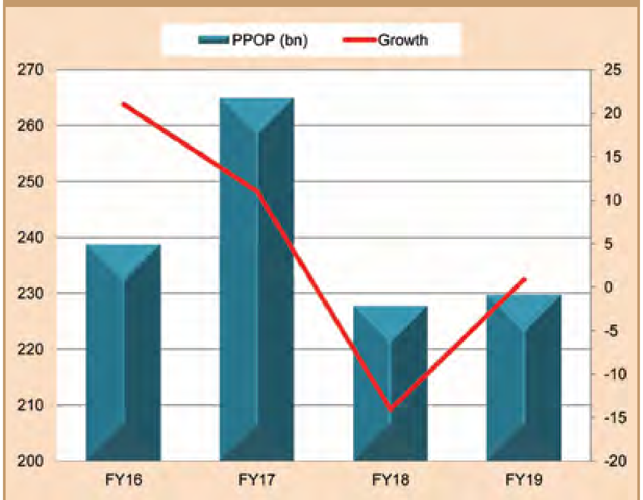


ICICI Bank

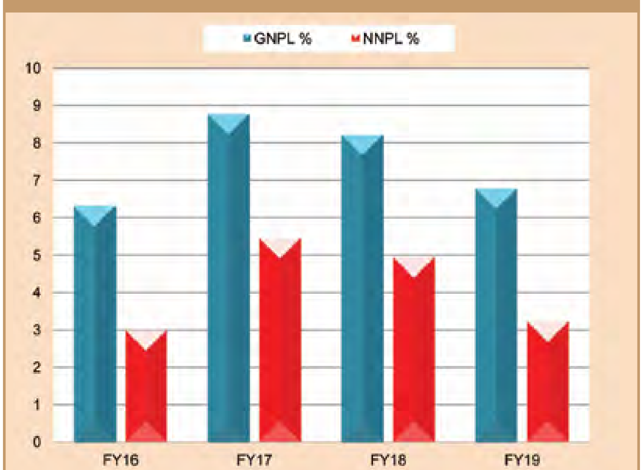
ICICI Bank has a diversified portfolio comprising of a retail loan book of 54% and corporate loan book of 42% (inclusive of overseas loans of 15%). While corporate loan growth has been sluggish due to muted capex demand but retail loans remained strong. Capex led credit growth is expected to pick up from FY19 onwards.

Pressure on profitability is likely to remain high in FY18 due to higher credit costs led by provisioning requirement for the second list of NCLT cases. However, from FY19, credit costs will moderate, as incremental slippages from corporate loans will reduce while existing NPAs would largely have been provided.

ICICI Bank: Pre-provision profit growth trend



ICICI Bank: Asset quality trend

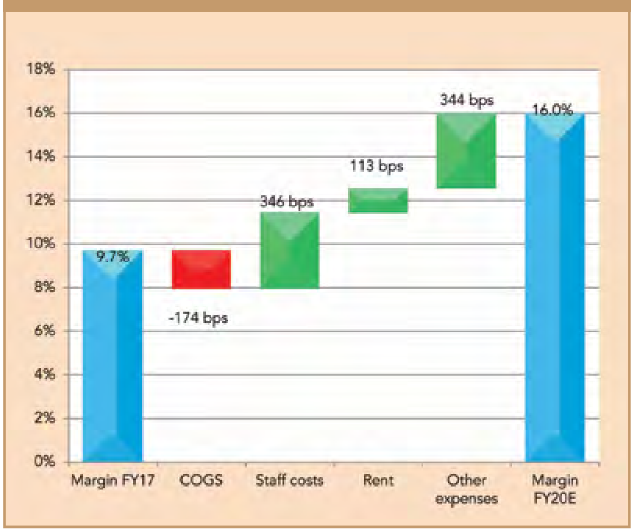


Jubilant Foodworks

JUBI is poised for structural double-digit SSS growth in the medium term based on an improved product proposition, increased traction on the everyday value offer and night deliveries, and major sporting events (cricket and football world cups). Its margin gains are likely to accelerate in the medium term (EBITDA margin to almost double to 16% in FY20 from 9.7% in FY17 because of various store-level cost rationalisation measures and benefits of operating leverage).

Jubilant: SSSG (%)

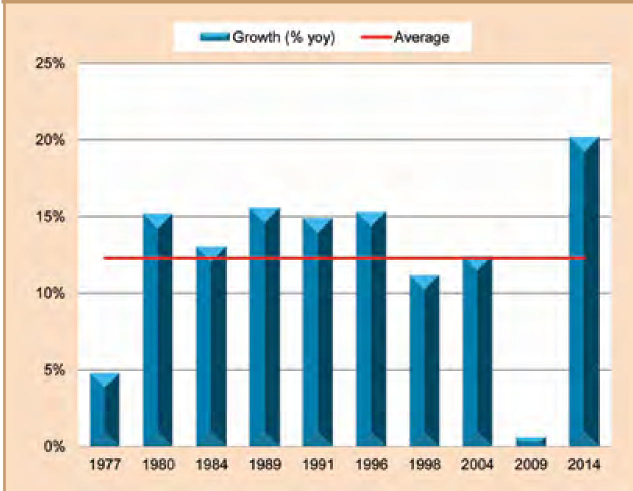
Jubilant: EBITDA margin to double over FY17-20



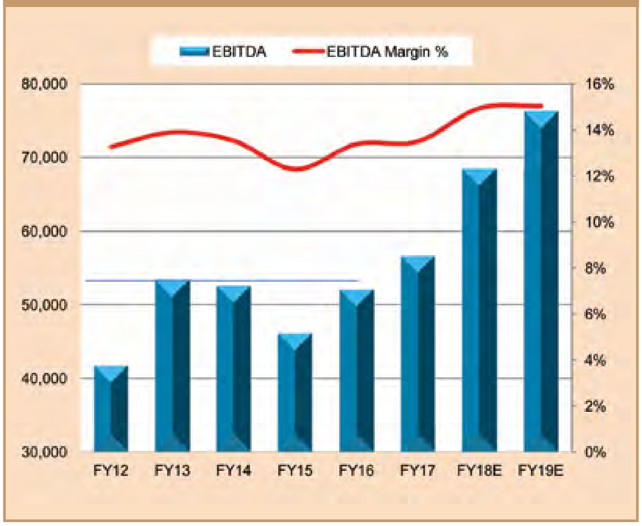
M&M

M&M's tractor segment will continue do well (PC expectations: double-digit growth in FY18). The automotive segment has had its share of struggles, but should see improvement as rural demand picks up and as new launches add a ray of hope. M&M is the only player in the market to offer electric vehicles to retail consumers in India.

M&M: Election years have usually seen strong tractor growth



M&M: EBITDA finally improving after a long lull

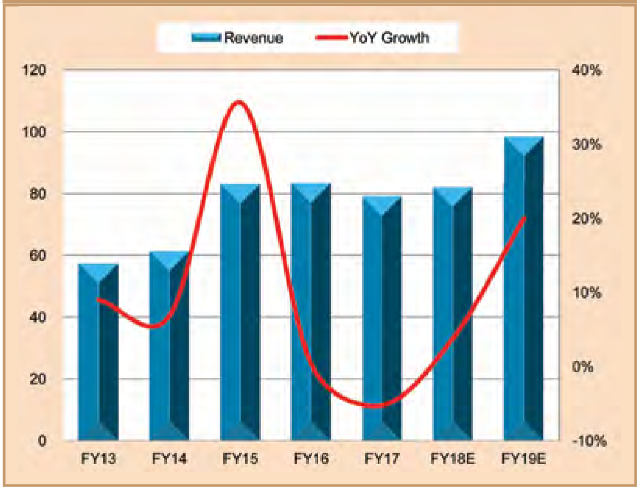


NCC

NCC is the second-largest player in the EPC space (after L&T) – present across the segments (roads, metros, buildings, irrigation) and has a pan-India presence. The company has made a remarkable balance-sheet transformation over the last three years – debt down from ₹ 25bn in FY14 to ₹ 16bn in FY17 – leverage down from 1x to 0.5x. Its strong order book of ₹ 280bn – 3.8x TTM sales – provides high revenue visibility for the next three years. NCC is likely to be the biggest beneficiary of the surge in order awards in buildings, roads, irrigation, and metros. However, it is constantly looking to monetize assets – sale of its real estate and BOT projects will provide further cash and lower leverage.

NCC: Order book vs. book-to-sales

NCC: Revenue trend



Parag Milk Foods

Dietary habits are changing and consumption of milk and value-added products is rising. PARAG is a direct play on the high-growth value-added dairy products space. Its focus on consistent product innovation, entry into high-margin categories (whey powder), benign milk prices and favourable product mix will lead to sustained better margins, which coupled with high revenue growth would translate into sharp earnings growth.

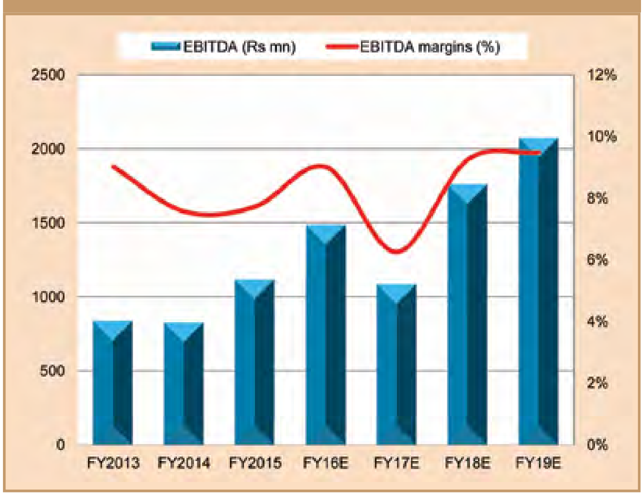
Shriram Transport

Shriram Transport will be a beneficiary of good monsoon, leading to higher demand for used vehicles – 70-80% SHTF customers use vehicles for transporting agri produce. Buoyancy in the rural economy, aided by good monsoon, should drive growth higher. SHTF has opened 15% branches and hired 40% of its employees in the last three quarters. An employee starts sourcing business after 3-6 months of training. With a favourable economic scenario, such an expansion will drive productivity levels sharply higher (from Q3FY18). With better cash flow in the economy, especially in the rural geography, asset quality should improve

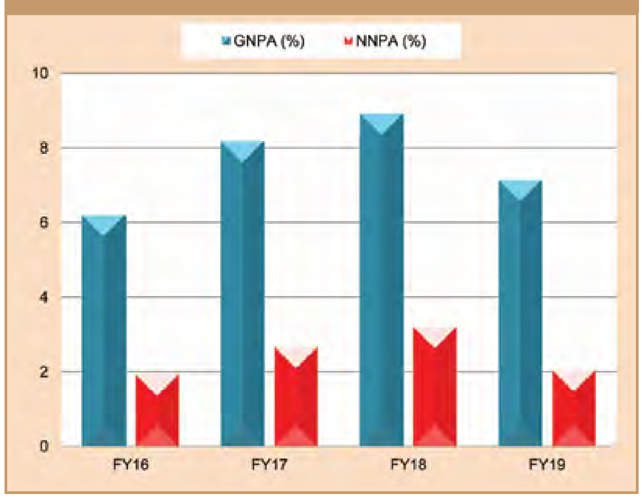
Parag: Revenue CAGR of 12% over FY17-19

SHTF: Pre-provision profit growth

Parag: EBITDA CAGR of 38% over FY17-19



SHTF: Asset quality

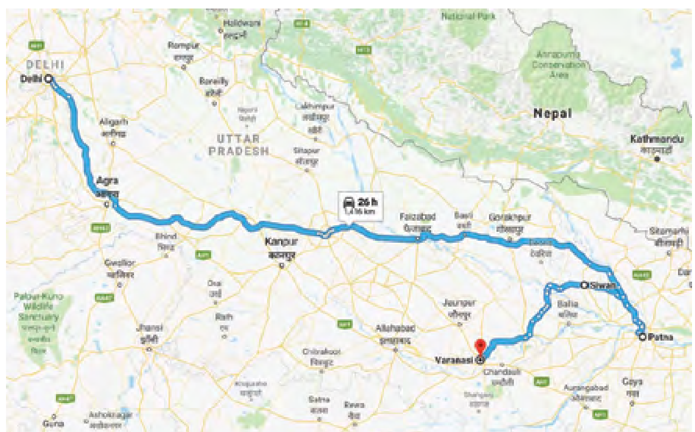


BY NITESH SHARMA

PC's auto analyst Nitesh Sharma poses with a couple of E3W rickshaw drivers

GV becomes *athletic*

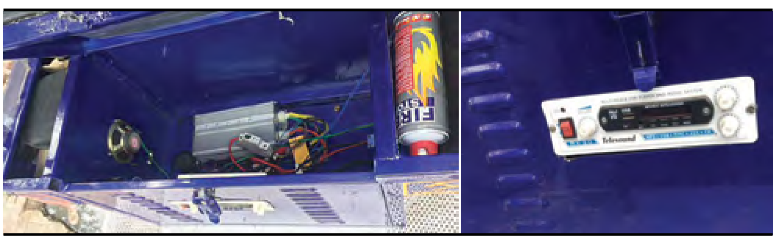
In the course of the publication's journey, GV's auto analysts have already travelled to most Indian states, and while they were always keen on a visit to the hinterlands of Bihar, there was a sense of apprehension. Finally, they made it! They ventured into Patna and Siwan in Bihar to gauge the mood in the core rural regions of the country. The journey started from Delhi with meetings with dealers and truckers at Sanjay Gandhi Transport Nagar and then continued to Patna, Siwan, and wound up in Varanasi. Overall, the mood on the ground remained far from cheerful, with discounts pushing sales across categories.



KEY TAKEAWAYS
• Electric 3Ws are becoming established even in rural regions
• Shocked to find that Scorpio is a top seller in a region.
• Discounts and schemes in 2Ws.
• Aggressive discounting in MHCVs.

An e-rickshaw driver in New Delhi is very happy with his investment

Electric 3W showroom in a village in Bihar; the rickshaw runs 80kms on a single charge



Boasts of a music system, storage space, and fire extinguisher

Assembled in India, but using Chinese components.

Chaoyang tires and a Chinese brand suspension is visible

In India, the electric vehicles (EV) mania is already here

The more widespread view was that EVs would take almost a decade to catch up. However, they are already a 'mania' and somehow, they have found their way into the farthest regions of the country. It was surprising to see the amount of electric 3Ws operating on Delhi roads, but it was truly stunning to see E3Ws selling in a small village in Bihar. Mr Yadav, an owner of an E3W dealership in a small village near Siwan, Bihar, said, "Sirji, badee tejee se bik rahaa hai E rickshaw yahaan, kuch kharcha nahi maangti, petrol ka bhi kharcha nahi, yaha chote distance ke bhade ke liye sahi hai (The E3Ws are selling fast here. There is no maintenance, cost of running is very low, and it is ideal for short-distance rides)."

He also said that the cost of an e-rickshaw, at around ₹ 150,000, is much lower than ICE 3W and that with electricity now available 18-20 hours a day across Bihar, e-rickshaws are catching up fast as a mode of local transport. The E3W brand was assembled in India, but many of its parts were imported from China – the obvious ones being tyres and suspension (see picture). It was shocking to see such rapid penetration of electric 3Ws, that too without any major 3W player launching an electric version yet. The spread of E3Ws has created such a shift in perception, that it won't be surprising to see most public transportation becoming electric in the next five years.

Two wheelers: Aggressive discounts to push sales

Competitive activity across segments has increased, but what was really surprising was discounting in the otherwise sane 2W segment. GV saw players offering up to ₹ 2,100 cash discounts or offering free insurance on motorcycles. Moreover, 2W players are using their financing arm to offer low-cost or interest-free loans. While demand seemed reasonably strong across regions, players have been trying to lure customers in a bid to gain share. Finance penetration has increased in 2Ws, with dealers seeing as much as 60% of their sales being financed.

Hero's ad offers free insurance worth ₹ 2,100. Lucrative financing schemes by Hero Fincorp

Hero: Higher discounts, but holding its fort

Hero dealers saw healthy growth rates YTD. However, a rural dealer in the Siwan region (in Bihar), touted a 20% yoy growth in volumes. It was shocking to see Hero dominate as much as 70% marketshare in this region, with very low presence of Bajaj/Honda; apparently, a TVS dealer was recently ousted. Hero dealers remain optimistic about double-digit growth continuing in FY19 as well; moreover, dealers are still hopeful of Hero's bounce back in the scooters and premium motorcycles space, where it is apparently trying its best to make an impact. "Sir hum motorcycle mein aage hai, Honda scooter mein, par bahot jaldi hum dono mein aage ho jaayenge (We are leaders in motorcycles, Honda is a leader in scooters, but very soon we will overtake Honda in scooters as well)," says Mr Banwari, a large dealer of Hero in Bihar.

During the festive season, Hero was offering a cash discount of up to ₹ 2,000 and was offering free insurance on select models during GV's visit. Moreover, Hero Fincorp was pretty aggressive in 2017, offering lucrative interest rates. Inventory levels were marginally higher than average for dealers.

Bajaj Auto: Hoping for a scooter entry, finally

In Delhi and Bihar alike, Bajaj Auto was seen giving equally lucrative offers (as Hero) – discounts of ₹ 2,100, or free insurance (depending on the model). While dealers complained about V-Series and Avenger Series sales fizzling out, they were extremely excited by the grapevine – that Bajaj is launching an electric scooter soon. Dealer inventory was about average at 4-5 weeks.

Honda Grazia has become a show stopper

Honda Motorcycles and Scooters Ltd: Strengthens its scooter foothold

Honda dealers expected sales growth of 10-12% in FY18. Activa sales have been strong and the newly launched Grazia has received tremendous response. Dealers expect scooter engine sizes to consistently increase, as customers start upgrading to powerful scooters. In the scooter segment, the salaried-class and students were the biggest customers, with 45% and 25% contribution to sales. Scooter inventory was at 2-3 weeks while motorcycles' was up to eight weeks. Offers included free insurance and accessories worth ₹ 2,000.

TVS Jupiter Classic has been seeing good demand

Trucks parked in Sanjay Gandhi transport Bazzar

MHCV: King of the ring

Fleet operators and MHCV dealers in New Delhi and Mumbai highlighted that while business has been slowly improving, overall, it still lacks lustre. "Business thandaa ho gayaa hai firse Diwali ke baad (business has cooled off again after Diwali)," grumbled Mr Rathi, a large fleet operator. When asked how OEMs are posting such high growth in MHCV sales if business is actually not so great, fleet operators said that apart from the overloading ban, it was only the very high level of discounts that has lured fleet operators to replace aged trucks. "Agar discount kam hotaa hai, toh koi truck nahi kharidegaa; waisa dhandha nahi bacha (if discounts are lowered, fleet operators won't buy trucks, business is not that strong)," clarified Mr Rathi.

Asked about the quantum of discounts currently offered, Mr Rathi said, "December quarter mein 20% discount de rahe hai, September mein 16% thaa (OEMs are giving 20% discount in Q3FY18 vs. 16% in Q2FY18)." This aggressive discounting trend looks like it will continue, unless Tata Motors decides to ease its newfound aggression.

Passenger vehicles: Maruti continues with its low inventory phase, M&M is very famous in the hinterlands of Bihar

Delhi and Bihar seemed weak regions for Maruti, with dealers posting muted 4-5% volume growth FYTD. However, inventory with dealers remained very thin at 1-2 weeks. The waiting period for Baleno and Brezza remained in the 12-week territory and it was surprising to see almost a month's waiting period for S-Cross. Dealers in Delhi highlighted a fall in demand from cab aggregators as a key reason for Maruti's muted performance in the region.

M&M is a preferred brand here

In many parts of Bihar that GV visited, M&M's Scorpio were the preferred choice of vehicle. It was startling to find M&M as a leader in one of the districts with 50% market share selling 250 units/month, ahead of Maruti's 30% share in that region. Mr. Khan, a large dealer of M&M in the Siwan region, pointed out that M&M's Scorpio was the most preferred vehicle, as customers there prefer large and bulky vehicles. "Maruti koi nahi letaa kyuki choti gaadi hai (no one buys Maruti as it is small), Mr Khan explained. He said that until three years ago, Bolero was the top-selling vehicle, but now Mahindra Scorpio has taken over, as customers demand higher-quality rides. In GV's November 2016 visit to eastern UP, dealers had highlighted that Maruti's Dzire was overtaking Bolero as the top-selling vehicle in that year, as quality of roads improved. However, luckily for M&M, road quality remains poor in Bihar.

Tyre dealers – higher fleet miles, low Chinese tyre availability, pricing holding up

Mr Srinivas Rao from Delhi is a happy man as truck tyre sales are up 15%+ for him. He cites increased fleet miles, low availability of Chinese tyres, and importantly, expensive Chinese tyres as the key reasons for a demand surge. Mr Rao said that a pair of Chinese TB₹ now cost ₹ 30,000 (vs. ₹ 23,000 previously) which compares to similar-priced low-cost variants of domestic brands, while flagship variants of domestic brands sell for around ₹ 35,000. "Sir Chinese maal lenekaa benefit nahi bachaa abhi (there is no benefit of buying a Chinese brand tyre)," said Mr. Rao. He believes that low competition from Chinese players has meant price hikes by domestic brands are holding up well.

Chinese products are not selling, as their cost is almost similar to domestic tyres

BY VAIBHAV AGARWAL

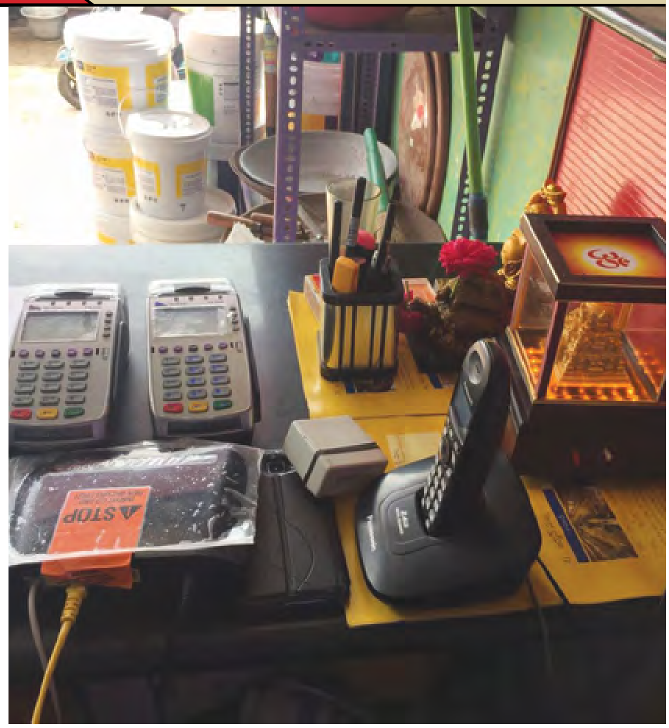
Looking EAST

2017 has remained a challenging year for the cement industry. As per Department of Industrial Policy & Promotion, cement production fell 2% yoy in April-October 2017. However, the validity of these numbers is uncertain. GV's checks pointed at 3-4% industry growth in this period, most of which was led by east-India markets. The demand in the east remains most robust (in double digits) followed by central, north, south, and west markets. Cement manufacturers who have been through a consolidation phase or have increased their capacities (organically or inorganically) continue to outperform in terms of volume growth. The industry saw multiple challenges in 2017, most of which were structural and permanent, including:

- Latent effect of demonetisation – mainly dented the southern markets
- GST rollout – though this was not a major concern, it created teething troubles in the initial months
- Strict loading compliances severely dampened the earnings of several manufacturers – Shree Cement remains the worst affected (led to its de-rating by nearly 20%)
- Accommodating the largest consolidation move in the sector – UltraTech acquiring Jaypee
- Sand-mining bans dented cement demand in several states
- Pet-coke ban (implemented by the Supreme Court of India, subsequently withdrawn on a conditional basis)

Latent effect of demonetisation – mainly impacting southern markets

In the initial phases of demonetization, the southern markets, being less-cash, were least impacted . However, this less-cash nature was limited to the cement distribution system while end markets such as real estate and contractors continued to depend on cash and were negatively affected, which in turn hurt distributors. In order to keep business as usual, cement distributors sought support from cement manufacturers in the form of extended credit periods, which increased the working capital cycle of the industry, especially of southern manufacturers.



Even small retail outlets are now prepared for digital payments with multiple swipe machines. In this picture, one machine is for the outlet's cement business and the other one is for paints.

Traders are becoming more organised with the GST rollout. This picture is of a retailer in east India who has changed his invoicing mechanism after the GST rollout. He is learning to adapt to the changes in invoicing systems.

GST rollout for the cement sector

The rollout was smooth, except for initial teething troubles and a few structural changes in the distribution system, which impacted short-term demand dynamics. The rollout led to the proportion of ex-factory sales increasing multifold, as all buyers were inclined to take full credit of the GST impact by paying the requisite GST on freight component. Because of GST, the differential EBITDA contribution gap between trade and non-trade sales reduced significantly (to just about ₹10 per bag say from ₹20-25 earlier), as the differential in cost of sales for cement manufacturers narrowed. While this was more of an initial challenge (now streamlined), it is a key structural change in the distribution system of the sector (but for the better).

Strict loading compliances severely dampened the earnings profile

After GST, and given the very strong retaliation on overloading by various NGOs / environmentalists, it is a thing of the past for the cement sector. Ground checks revealed extremely strict adherence to overloading norms in almost all regions of the country. GST has made it extremely difficult for cement manufacturers to not to comply with truck-loading norms, as the processes of invoicing and transportation have become much more transparent. It is very unlikely that this will reverse, and ground checks suggest a sustained impact of ₹4-10 per bag (depending on region of operation and lead distance travelled). North and east markets have seen very high overloading in the past, so much so that few plants in east India were shut on grounds on non-compliance to environmental norms. The overloading practices of these plants were severely damaging the roads around the plant and hurting the local habitat. In order to avoid local agitation, in many cases, loading compliance has also been applied to dumpers for limestone transfer from mines. Manufacturers such as Shree Cement have been worst hit, visible in the structural de-rating of the stock by nearly 20%.

Accommodating the sector's largest consolidation – UltraTech buying Jaypee

This was the sector's largest consolidation move which had wide-ranging implications. It impacted the distribution dynamics of the states in which the acquisitions were made as UltraTech needed to be accommodated in terms

Cement dumper waiting for load clearance at a weigh bridge

Weigh indicators at a loading terminal of a cement plant

The UltraTech-Japyee acquisition has changed the sector dynamics in many of the companies' large operating states. It may take a couple of quarters more for things to settle, as UltraTech slowly ramps up capacity utilisation of acquired plants to match its current utilisations

of volume share. Volume pushers such as Shree Cement had to compromise on its volume push strategy – likely to be visible in its Q3 numbers. Another problem was the difference in the mindsets of the managements of UltraTech and Jaypee. While UltraTech has always been predominantly a brand-conscious company, Jaypee's business model has been based on a volume-push strategy. It was difficult to convince erstwhile Jaypee distributors to come on board UltraTech's strategy.

Sand-mining bans dent cement demand in several states

Sand is essential for cement usage. For manufacturing concrete, with every tonne of cement nearly four tonnes of sand is needed. For all other usage, for every one tonne of cement nearly eight tonnes of sand is required. Broadly, the ballpark ratio of cement to sand is 1 : 6. Many state governments of the country such as Tamil Nadu, Bihar, West Bengal, Rajasthan, and Uttar Pradesh have been regularly intervening in sand mining, denting the availability of sand. The worst impacted state is Tamil Nadu, where no resolution seems to be in sight. Various NGOs and environmentalists have raised regular concerns about sand mining, because in many cases this activity is done beyond the allotted quota, leading to illegal sand mining. As a result, many states are now depending on 'crush sand' for their requirements. The problem is that all states do not have enough crush-sand infrastructure (factories, licenses) – and this continues to affect sand availability. Though this issue is longstanding, 2017 was one of the worst years for cement demand because of lack of sand availability in the states mentioned above.

Crush sand is taken from a quarry. It is manufactured by crushing rocks, quarry stones, or larger pieces into sand-sized particles

An illegal sand-mining site

Pet coke ban implemented by the Supreme Court, subsequently withdrawn

In November 2017, the Supreme Court of India issued an order implementing a ban on pet coke usage by cement manufacturers in overall plant operations in Rajasthan, Haryana, and Uttar Pradesh. GV found that many cement manufacturers in other regions voluntarily changed their fuel (to coal from pet coke) anticipating a ban. Few state governments also issued 'soft notices' to cement manufacturers; while these did not outright ban pet coke, they seemed to advise cement manufacturers to stop using or avoid using pet coke.

The industry filed a petition arguing that as long as emission norms of cement factories are within prescribed environmental norms, the industry should be allowed to use any fuel. This plea was partially successful and cement manufacturers were allowed to use pet coke in kiln operations, subject to the plant fulfilling environmental norms. However, the power plants may not be able to use pet coke again. This was another setback for the industry in 2017, and if this stay, which lasted for nearly a month, is implemented permanently, it will definitely have cost implications for cement manufacturers.

All the issues that the industry faced in 2017 are structural and will have long-term implications for the sector:

- After demonetisation, the distribution network, aggregate manufacturers, and other raw material suppliers have learned to be more organised.

- GST brought more parity to the industry's product mix and in many markets the realisations and EBITDA contribution from trade and non-trade sales have moved more closer.

- The largest cement major of the sector UltraTech acquiring Jaypee has brought major consolidation into the sector, which will take a couple of quarters more to play out. It will be a challenging task for both UltraTech and as well as the industry to accept this consolidation move – from UltraTech's perspective the key challenge will be to ramp up its consolidated capacity utilisation and garner additional premium for products sold from acquired Jaypee plants. This implies improving base cement prices in these markets, which is a long-term structural positive for the sector.

- The most crucial issue, which may continue to overhang the industry in 2018, will be sand – and it will remain state-specific. Tamil Nadu does not seem to have a resolution in the medium term; hence, demand is likely to remain low in this state. Rajasthan has implemented fresh bans towards the end of November 2017. Availability issues in other states are yet to be fully resolved. The key takeaway from this issue in 2017 is that respective states are likely to roll out permanent measures to address the problem of sand availability (by installing more crush sand factories, issuing new licenses, monitoring sand mining more stringently). Though these measures will take time to fall in place, they should help to prevent sand issues cropping up again.

- The pet-coke ban overhang is over for now, but the learning for cement manufacturers is that their plant operations can be interrupted if they do not comply with environmental norms. It is fair to assume that all cement manufacturers are now making doubly sure that plants consistently remain environment friendly, as this will mean lesser complications in the future.

Overall, 2017 has set a roadmap for cement manufacturers and largely addressed or has brought clarity to many structural issues that were directly or indirectly affecting the sector over the last many years. Going forward, the focus of cement manufacturers will remain limited to core business issues. Their performance will be more consistent as norms are now prescribed or being prescribed for several issues which have been impacting them consistently in the past.

2018 roadmap

Demand will pick up in 2018 with the pre-election period round the corner; general elections are due to be held in India by 2019 to constitute the seventeenth Lok Sabha. Therefore, 2018 is the only year left for the government to prove its on-the-ground execution. Construction activity picks up generally 15 months before general elections and this momentum sustains until about 2-3 months before elections. Historically, cement demand growth in pre-election years has been 5-7%. The key risk to 2018 is that if demand does not revive in 2018, cement demand revival will

JK Lakshmi Pro + launched its premium brand in north India as well. It was initially only in East India remain questionable until the end of CY19.

With Aachar Sanhita (model code of conduct for political parties) being implemented before elections, new projects cannot be executed. Demand until the end of election will remain sustainable only from the existing projects. Even after the general elections are over, the new elected government usually remains preoccupied with the making policy agendas and cabinet formation. Hence, a good six months in 2019 can be written off with no incremental demand likely from any new projects except for projects that were already under execution before the Aachar Sanhita is announced.

Ear to the ground:

- Demand in many pockets such as Andhra Pradesh, Telangana, and the whole of east India remains robust. These regions continue to register double-digit yoy growth. Demand in Andhra Pradesh and Telangana is being driven by fast-track execution of irrigation and infrastructure projects while in east India, infrastructure, housing, and projects to build toilets are driving demand.

- Underperforming states like Karnataka have registered a near double-digit yoy growth in recent months. Recovery is seen as a given in Maharashtra and Gujarat.

- Tamil Nadu and Kerala are unlikely to turn around in 2018 because of lack of political stability and sand issues.

- Rajasthan was impacted by sand issues towards the end of November 2017. Still, the demand in this state remains reasonable. Building toilets has contributed significantly to demand in Rajasthan.

- Demand in other pockets of north India is also picking up. Demand in Uttar Pradesh has gained momentum after sand issues were been partially resolved. Strong revival is seen in this state in 2018.

Dalmia Bharat on an aggressive marketing campaign in East India

Sanghi Cement tries new branding tactics in west India

- Overall, demand sentiment is seen rising in 2018 driven by infrastructure, housing, irrigation, and projects related to building toilets gathering pace. Signs of recovery are already visible in specific areas. The worst in terms of demand seems over and demand should improve from here.

What to expect from the industry

The industry has been able to gain clarity on several structural issues in 2017. The way forward in 2018 will only be consistency in performance, improvement in operating matrix, and improvement in overall operating parameters.

There are still a few notable consolidation moves pending in the industry, which would be meaningfully favourable in the long term. Recent media articles have suggested a strong possibility of Binani Cement being taken over by few cement majors. Names such as UltraTech, Dalmia Bharat, Shree Cement, and a few PE funds have been in the limelight for this deal. Dalmia Bharat has also already confirmed through a press release that it is looking at acquiring Murli Industries. These deals are likely to be executed in 2018, but since these cases are referred to NCLT, the execution timelines may elongate.

Dalmia Bharat seems the strongest and most aggressive candidate to grow inorganically in 2018. Cement majors such as UltraTech and Shree may face the CCI hurdle in large acquisitions in north India. For other mid-tier cement manufacturers such as JK Cement, JK Lakshmi Cement, and India Cements, improving their operating-cost matrix, garnering better market shares through ramp up of utilisations and improving EBITDA contribution through better branding and cost savings will be the key.

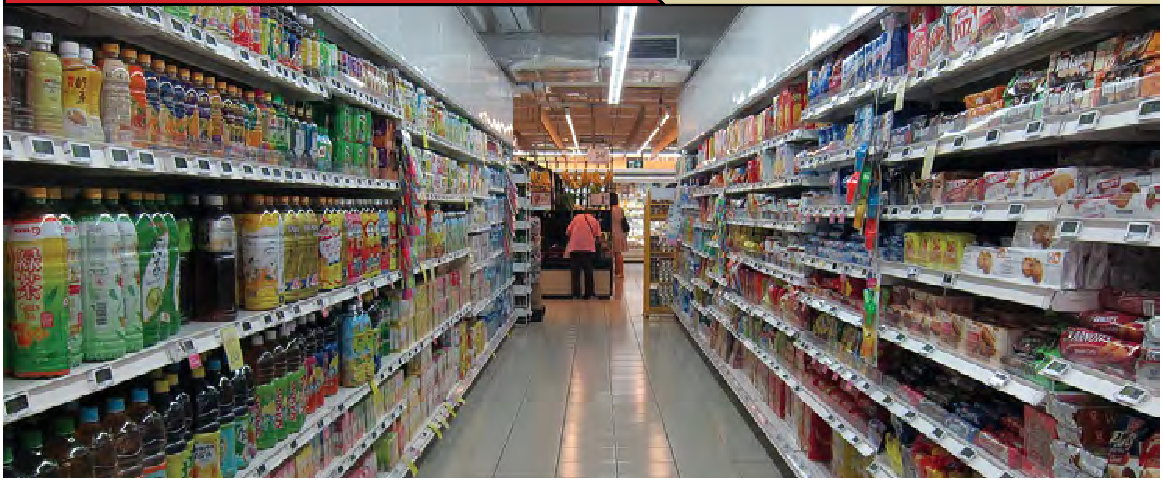
Composite cement is also likely to be a new and big change for the industry in 2018. Cement manufacturers such as Ambuja and

JK Lakshmi's composite cement brand in East India, which garners a premium of nearly ₹20 per bag

JK Lakshmi have already taken this initiative in a few pockets of east India and have been able to garner a premium of ₹15-20 per bag. Composite cement will add a big cost lever to the industry, as it significantly improves the blending ratio, though the prospects of manufacturing composite cement will be limited to markets where slag is available.

2018 should be a turnaround year for the cement industry and the beginning of a fresh upcycle. Stability of the cost curve, better brand premium and branding exercises, and steady ramp ups in utilisations are the key factors to watch. On the downside, if 2018 proves disappointing, the industry will continue to struggle until CY19.

BY NAVEEN KULKARNI



Age of empires cometh!

A generational shift

"My business is down 50% after GST. Retailers do not have adequate knowledge and most have not registered. They face problems in transporting goods, as transporters refuse to take stocks without a proper GST invoice. Transporters even ask for a higher price. Our customers are primarily from eastern India; many are uneducated and can only count money. Asking them to file online quarterly returns is too much for them," grumbles a dejected-looking Nitesh Kumar, a Sadar Bazaar-based wholesaler who markets his in-house brand Roop Kareena Bindi. Sadar Bazaar is probably the biggest wholesale market in India, situated near one of Old Delhi's most famous and busiest markets – Chandni Chowk. While Sadar Bazaar caters mainly to the northern part of India, its enterprising dealers are adept at moving stocks across India – from the farthest eastern corners to other large trading destinations of Maharashtra and Gujarat. Even after accounting for the fact that December-end is a relatively quiet period for business, the slowdown in economic activity at Sadar Bazaar was conspicuous.

"Every year the wholesale market is seeing a decline of about 5%. With GST, the pace of decline is accelerating," says Anuj Bhalla of Om Sons, a leading distributor of FMCG products based in Sadar Bazaar. Anuj believes that the new channels – online and modern trade – are putting significant pressure on the traditional wholesale business model. Even as the wholesale market has continued to decline, Anuj contends that business of large FMCG companies like HUL, Nestle, and P&G has not been affected much, as consumer demand for their products has remained unchanged because other channels have stepped up. Retail channels in general trade have managed without wholesale support for branded goods.

Burdened by paperwork

The most commonly cited problem with GST implementation is the challenges that small traders and wholesalers face in filing returns. Even after the government has introduced composite schemes of 12% and 5% for GST-filing once every quarter, retailers and distributors are struggling to comply. "We did not know which forms to fill. Our CA himself was confused. We eventually filed our July returns in the month of December and even paid penalty. If our situation is like this, then imagine the situation of smaller traders and wholesalers," says Mohammad Akram, a distributor for a leading consumer durables brand in Siwan, Bihar.

"We have opted for the composite scheme of 12% as filing monthly returns had become too burdensome. But we are at a loss now, as we cannot send goods outside Delhi and with no input credit, our costs have increased. GST is not a good and simple tax, but it is really Gabbar Tax for us," says Shyam Tiwari, a wholesaler of stainless steel utensils based in Sadar Bazaar. GST filing has become an onerous process for wholesalers. However, it is largely business as usual for typical retail outlets in India, for whom most sales come from grocery items such as rice and wheat (out of the GST purview). Eventually, all retailers will have to come under the ambit of GST, but smaller retailers who do not need to transport goods, are able to manage their situation much better – even without GST registration.

It's NOT a zero-sum game

The loss of the wholesale channel does not automatically mean significant gains for the retail channel. Even as other channels will step up, the efficiency with which the wholesale channel operates in India is quite difficult to replicate in the short term. In the longer term, a more compliant wholesale channel will be a big gain for the economy, but in the short term, many products such as plastic toys, common household items like brooms etc., have largely been the purview of by the wholesale channel. These categories are mostly dominated by the so called informal sector. There is no compensation for the loss of sales for such products in the short term. In the medium to long term, organised players will step up their game and find big opportunities in many consumer products.

Wholesale dependence

Company	Wholesale contribution
Colgate	50%
Dabur	45%
Emami	50%
GSK Consumer	50%
HUL	35%
Marico	35%
GCPL	35%
Nestle	25%
Britannia	35%

The rise and rise of the FMCG 'super powers'

The beauty of leading Indian FMCG companies has not been their ability to play the system, but rather their capability in managing the business in a cost-efficient manner, while being a part of the formal economy. Leading FMCG companies understand the systems and processes well. They are able to educate their trade channels and are also able to create new channels to cater to new customers. "Earlier it was 40% cheque payment and 60% cash, but after this demonetisation and GST implementation, 80% is cheque payment. Working capital needs are increasing, but the system is much better. Retail channel has stepped up even as wholesale continues to struggle. After all these challenges, this year has been much better than last year in the run up to Diwali. After Diwali too, sales have been good," explained a Territory Sales Officer of one of the largest FMCG companies in India.

Entry into new product categories will hold the key for further growth

Clearly, the leading FMCG companies are winning the game.

"Demand has improved after the GST rate cut, which was passed on by the FMCG companies. They have also stepped up promotion schemes," affirmed a supermarket retailer in Coimbatore. This was another common refrain – that demand for branded FMCG products like cosmetics is picking up. All these initiatives bode very well for leading FMCG players. The top Indian FMCG companies such as Hindustan Unilever, Nestle, and P&G have very strong retail networks and they are focused on reducing their dependence on the wholesale channel. HUL and Nestle's dependence is significantly lower than the industry average. With a further cut in GST rates, a strong retail network, and well-established systems, these companies are poised to gain market share in well-established categories like detergents, foods, cosmetics, and others.

The shrinking of the informal economy, and the resulting opportunities in new product categories will be the new game in town. Entry into new product categories will hold the key for further growth. The current situation offers a once-in-a lifetime opportunity to take the existing business to an altogether new scale and level.

Pace of innovations and inorganic activity will step up

The market is opening up for products marked by a large informal sector. This informal sector is pretty big in categories such as clothing, plastic products, household goods, and many others. With demonetisation and GST, the supply chain for these goods has been heavily disrupted. Manufacturers of such products rely primarily on the wholesale and informal channels for moving their goods. With the introduction of GST and subsequent challenges in transporting goods, the informal sector's supply chain has been completely disrupted. This has opened up a huge market opportunity for large consumer companies to enter new categories, which hitherto was very challenging. This will lead to a step-up in product innovations, but could also mean a pick-up in inorganic activity for the large consumer companies, as they would enter new categories.

Some challenges

As observed earlier, the decline in the wholesale segment is not positive for the overall economy, as it has been a very efficient medium for distribution. New channels have emerged, but their reach is very limited compared to this ingenious traditional channel. Building supply chains beyond a certain level is not value accretive for most companies. Also, the informal channel provided value to customers in a very cost-effective manner; hence, its contribution to the economy is significant. Developing new products, scale and supply chains is a very long-term process. FMCG companies are clearly watching the space very closely. The bigger question that remains is – which companies would be able to exploit this opportunity to the fullest and which ones will get left behind?

Last word

The largest consumer companies of India HUL, ITC, P&G, and Nestle have world-class supply-chain networks and a tremendous understanding of the Indian consumer. It seems quite straightforward that they will benefit the most from an opportunity arising from the market opening up. However, theoretical constructs may or may not translate into reality. Hunger to build new businesses is more critical. In this regard the following will be the key to watch:

- **HUL**, for all its glory, does not have the best record where innovations are concerned. Nonetheless, it has picked up a lot of traction in the last five years and market feedback about its products continues to be encouraging. The verdict on its recent Ayush range of products is not out, but the company has managed to take an ambitious step forward in entering the fast-growing naturals category.

- **ITC's** cigarette business has seen some huge challenges in the last 10 years. This means that its FMCG business will become the most important component. ITC will try to exploit this opportunity to the fullest.

- **P&G's** record in India is a mixed bag and many of its products are lagging HUL. It will be interesting to see if it picks up steam. Its health and hygiene products continue to perform ahead of the market.

- **Nestle** is reviving its business model by launching new products. It has a huge opportunity to scale up its business; for now, it is focused on volume-led growth. It has the capability to innovate and should see continued traction over the next few years.

- **Marico's** ability to execute has consistently surprised expectations. It has the innovation capabilities and could also grow through the inorganic route. The company could just be the dark horse to scale up the business the most.

- **Emami** has never shied away from making bold inorganic moves. Its innovation track record is not particularly great and it is likely to take the inorganic route.

- **Dabur** has lost some traction in the last few years. However, the company has a strong naturals background, and it is gaining some ground.

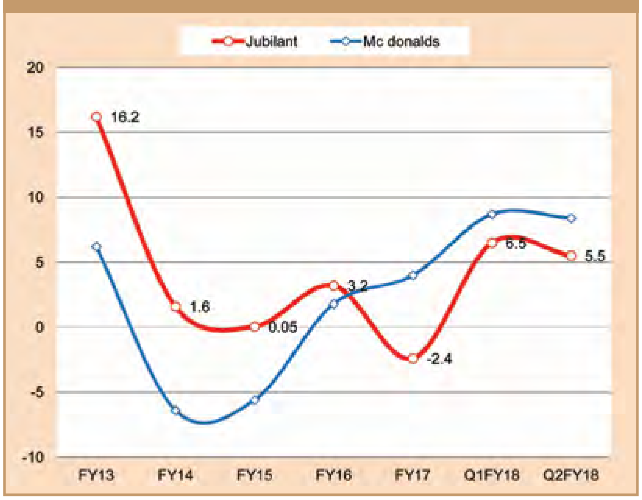
BY VISHAL GUTKA & PREEYAM TOLIA

QSR: Getting back its flavour?

Has food become stale?

"The past few years have been bad for the eating out industry because of higher discounting from well-funded aggregators, opening up of new QSR and fine-dining formats, demonetisation, and lack of job opportunities in urban areas – which led to lower spending," lamented a store manager in charge of a leading pizza chain located in a densely populated area in Mumbai. It is difficult to counter his views – price hikes in the QSR industry were higher than CPI inflation index and salary growth, which led to deteriorating SSS growth over the past 3-4 years. Quality issues have also cropped up. Pooja Sanghvi, 28, a young professional from Bhandup, a Mumbai suburb (she represents a core target audience for fast food companies) says that product quality of food had deteriorated, especially pizza. She says QSR companies are using lesser and lesser quantities of expensive key ingredients such as cheese and toppings etc. "Moreover, the crust is quite dry," she complained.

SSG trends have seen an improvement from 1QFY18



Source: Company, PhillipCapital India

Many customers have downgraded to udipi/ local restaurants due to their 'value for money' proposition (these places hardly charge any tax) while some others were swayed by higher discounts given by online food aggregators.

QSR chains are gung-ho about regaining lost ground

Focus-group interviews with Dominos and McDonald's store managers, area sales managers, and customer executives and delivery personnel on the ground revealed a strategic shift marked by improving customer experience and razor-sharp focus on removing cost inefficiencies. Needless to say, this is a win-win strategy, both for the consumers and stakeholders. QSR companies are trying to lure customers by improving the experience, product quality, and innovation in their food portfolios. Customer reviews on the various social media


platforms suggest an encouraging response to a revamp of the pizza range (Domino's) and innovation across key QSR chains (paneer makhani pizza, chatpata naan, Italian and Mexican rice).

Dinesh, a store manager who has been with McDonalds for the past 6.5 years at the 'Experience of the Future (EOTF) store' at CR2 Mall, Nairman Point says, "Footfalls have increased significantly after the store's revamp". This store now offers a new range of facilities such as mobile chargers, self-ordering kiosks, table delivery, computer games for children, and a cold-drink vending machine.

New flavours and innovative dishes are also generating excitement among customers. Sarvesh Meharwal, 26, a software engineer working with India's largest IT company declared that McDonald's "Chatpatta naan is awesome!"; he has also tried the Italian rice, salad, and soups (served in only a few McD stores) and is of the opinion that "while the taste of Italian rice is yummy, it is not filling enough". About his customer experience he seemed to be happy. "I got stuck when I tried to self-order a combo meal through the kiosks, but Ganesh (18) a customer executive standing beside me happily helped". Ganesh apparently gave RFID tag to Sarvesh, which Sarvesh kept on his table, and hot food was delivered on his table within five minutes. Another customer who was sitting besides Sarvesh, after having a combo McD Egg Burger, had ordered one more burger, but then realized that it made much sense to try the new offerings (Italian rice, salad). Dinesh, a store manager, was very obliging and allowed him to exchange his McD Egg Burger with the rice dishes, which the customer executive at the counter had refused.

Visits to three kiosks on the Mumbai Metro (there are six kiosks on the metro line between Andheri to Ghatkopar) led to an interesting experience at Domino's 'Slice-O-Pizza' outlets. These kiosks (sized 100-200 sq ft) have a healthy mix (50:50) of pizza slices (priced at ₹29 for vegetarian and ₹35 for non-vegetarian) and regular sized pizza. All pizzas were made in the kiosk itself and raw materials were supplied directly from commissaries.

Despite being a kiosk, mainly targeting the on-the-go (pizza slices) market, c45-50% of sales came from regular-sized pizzas. Mehul Sheth, 32, a Borivali resident explains, “It’s simple maths – it’s better to buy regular onion-capsicum veg. pizza that costs ₹89 instead of buying a single slice that costs ₹29 (which makes its effective cost ₹116)”.

The Ghatkopar metro kiosk was one of the busiest with sales of ~₹800,000 to ₹900,000 per month. However, the quality of pizza slices varied significantly across the three outlets and the management has to put in good amount of work in bringing in consistency in product quality before ramping it up on a pan-India basis.

A delivery boy (not wishing to reveal his name) at the Domino’s Worli store revealed that “Response has been good for night deliveries, generally these orders come from corporates. After 11 PM, our area of operation expands from Mahim to Malabar hill (11-12 kms) and delivery takes around 40-45 minutes vs. the usual practice of 30 minutes.” He says the Worli store received very healthy orders on Christmas and New Year’s Eve, since the store remained opened throughout the night. McDonalds (the dine-in format) closes by 11 PM and it hasn’t focused much on night deliveries.

Customer is King! And long live the King!

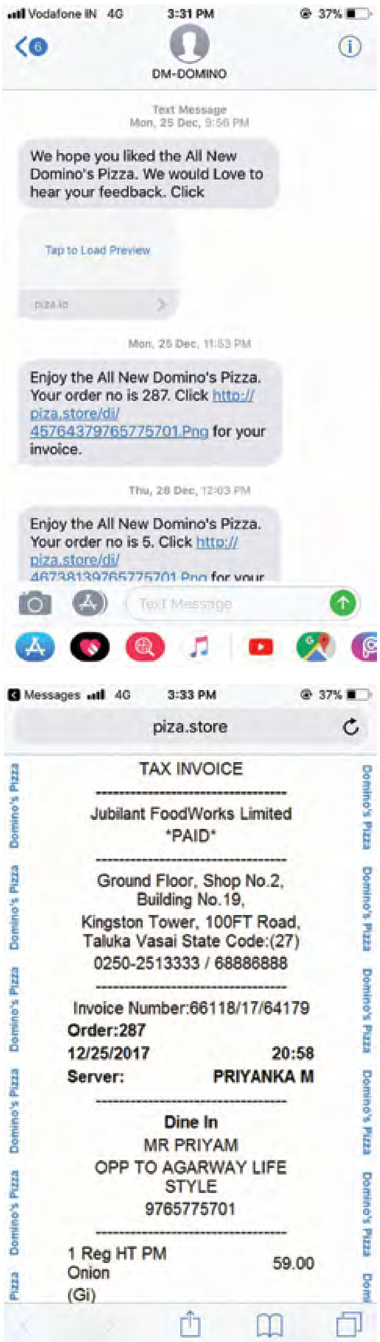
Mahavir Jain, 29, a chartered accountant says, “Domino’s staff gave full attention to my complaint of delay in delivery of garlic breads and assured me that this would not happen again”. The store executives capture all customer-related data and an SMS is sent for feedback whenever a customer has a meal in any of the Domino’s outlets. Jubilant Foodworks has started giving digital bills on cell phones instead of a physical bill.

Dinesh, a store manager at a McDonalds EOTF store insists all the customers fill

The quality of pizza slices varied significantly across outlets

Burned crust, dry toppings

Perfect crust and toppings



out a survey at Mcdmyvoice.com; this survey is quite comprehensive in terms of customer profile, ratings, and product quality.

Domino's management has been proactive in handling the issue of bugs in their oregano packs by making the following changes: (1) improved packaging, (2) transportation in refrigerated trucks, (3) labelled its packets as "for immediate consumption", and (4) reduced its shelf life to three months from six earlier.

With increasing health consciousness, McDonalds has also moderated the quantity of salt by 20% and it has been able to reduce the quantity of fat / oil in its mayonnaise by upto 40%.

Online ordering is on a roll

This mode of ordering has gone up substantially for QSR players due to availability of cheap smartphones, data rates dropping to a rock-bottom, and increased discounting by online aggregators. The Domino's app had improved functionality; while there were many glitches while ordering over the mobile app, ordering through the website was much more easier.

Cutting the fat

"We have brought a sharp focus on driving productivity and cost optimisation across the organisation. Some areas that saw cost improvement were supply-chain, logistics, advertisement and promotions, and a few other administration costs," said Pratik Pota, CEO, Jubilant Foodworks in a 2QFY18 concall. There has been a mindset shift in Jubilant Foodworks (from the top to the bottom) in terms of cost optimization and efforts are being made to save every single penny.

For example, Domino's has discontinued its discounts coupons (c40%, irrespective of the value of the bill) to its employees (two coupons per month) and has also stopped giving sweet boxes to its employees during the festive season. Moreover, the store manager no longer has discretionary powers to give ad-hoc discounts based on quantum/ value of orders. Jubilant has started appointing delivery staff (₹50 per delivery) on the "pay-per-use" model, thereby converting fixed costs into variable costs. McDonald's has been able to reduce store operating costs for most of its dine-in restaurants by installing smart AC systems (adjusts air flow depending upon footfalls and heat), LED lamps, waterless urinals, and customised water basins.

An ex-employee of Swiggy said, "Two or three years back, there was lot of attrition from delivery QSR chains as people got lured by the high salary offered by online aggregators, but later on, due to lack of career progression opportunities and intense work pressure, people decided to switch back to QSR chains".

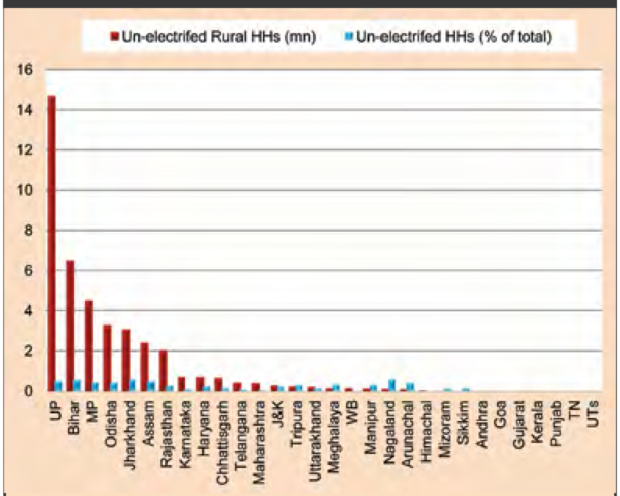
Still under a lot of heat!

An increasing shift towards healthy food and rising health consciousness amongst patrons can derail the QSR growth story. With the recent acquisition of Food Panda by Ola, competition among food-tech aggregators is likely to intensify. Higher discounts by online food aggregators to grab the share of an increasing online delivery market could significantly hurt the growth prospects of QSR companies. Proper Implementation of hygienic practices for cooking food, better consumer service, legal compliance in terms of food safety, and fire-fighting systems are key for sustaining long-term growth of the QSR industry.

BY JONAS BHUTTA & VIKRAM RAWAT

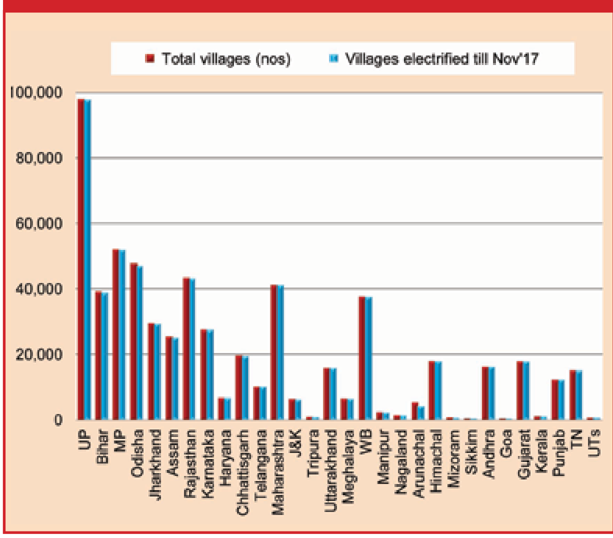
HOUSEHOLD ELECTRIFICATION IN INDIA

India still has 23% un-electrified rural households with 63% in UP, Bihar, and MP...



Source: Ministry of Power

… despite achieving more than 99% village electrification across all states



Source: Ministry of Power

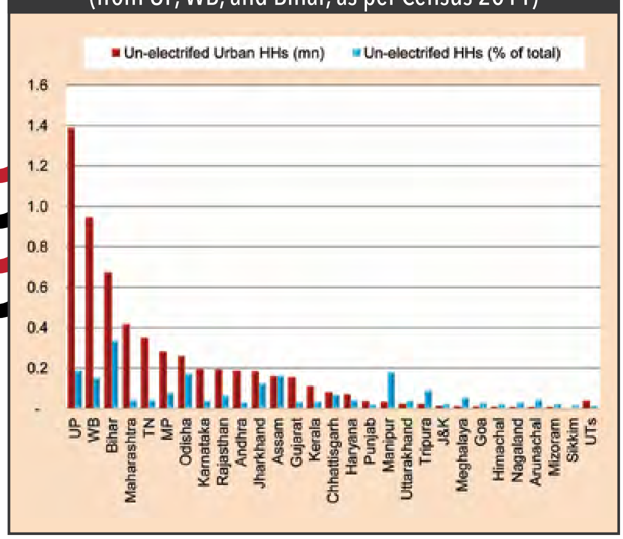
INDIA HAS ABOUT 260MN HOUSEHOLDS (HHS) OF WHICH 70% ARE IN RURAL AREAS, IN MORE THAN 597,000 VILLAGES.

THOUGH INDIA HAS ACHIEVED 99% VILLAGE ELECTRIFICATION, ABOUT 40MN HHS (23% OF RURAL HHS) ARE STILL UN-ELECTRIFIED.

THREE STATES, UTTAR PRADESH (14.6MN), BIHAR (6.5MN), AND MADHYA PRADESH (4.5MN) HAVE THE HIGHEST NUMBERS OF UN-ELECTRIFIED RURAL HHS, ACCOUNTING FOR ALMOST 63% OF TOTAL UN-ELECTRIFIED HHS.

EVEN IN URBAN AREA, AS PER CENSUS 2011, INDIA IS YET TO ACHIEVE 100% ELECTRIFICATION.

India still needs to achieve 100% urban household electrification; around 7% are un-electrified (from UP, WB, and Bihar, as per Census 2011)



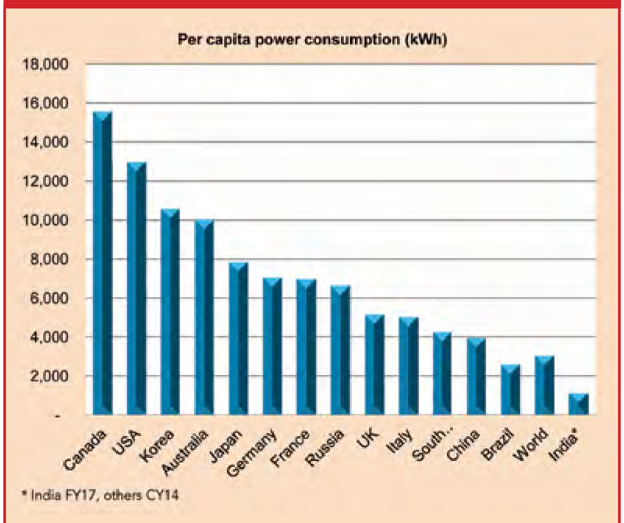
Source: Ministry of Power

Why the focus on household electrification?

India's power demand has seen modest growth in the past ten years (5.2% CAGR). The country's per-capita power consumption (1122kWh) is materially lower than the global average of (>3000kWh in 2014). One key reason for this sub-optimal demand (other than weak industrial activity in the recent past) is lack of access to power in rural India and inconsistent power supply.

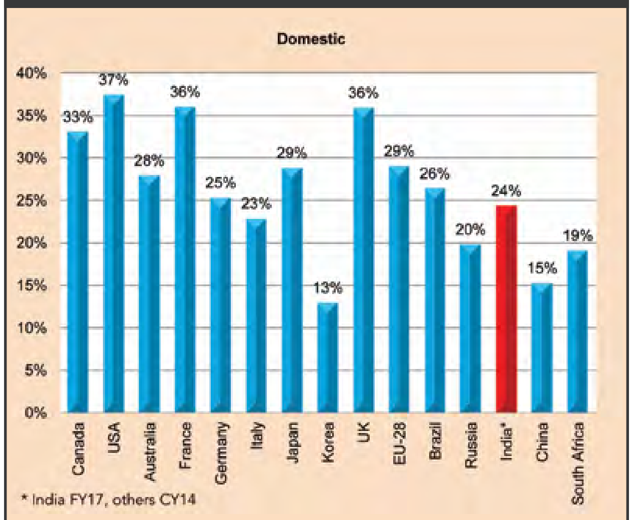
Domestic consumption accounts for 24% of overall power consumption, while the major users of power remain industries at 40%. This is in contrast to developed nations such as United States, where domestic households account for 37% of consumption.

India's per-capita power consumption is materially lower than the global average...

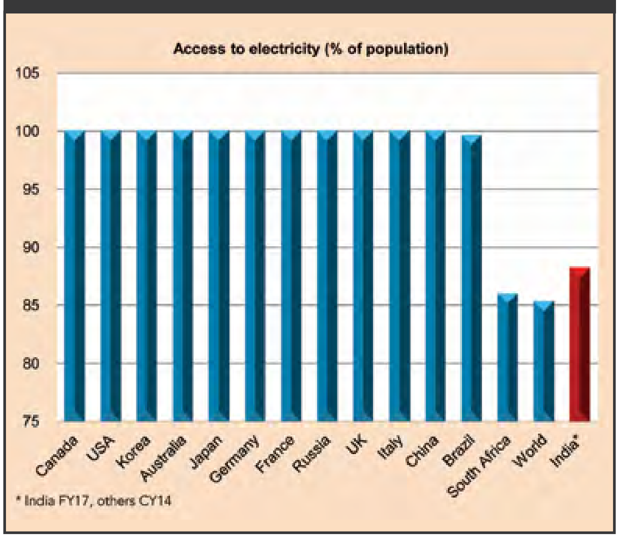


Source: IEA, Ministry of Power, NFHS

Domestic consumption is lower in contrast to developed nations due to lack of access and consistent supply to households

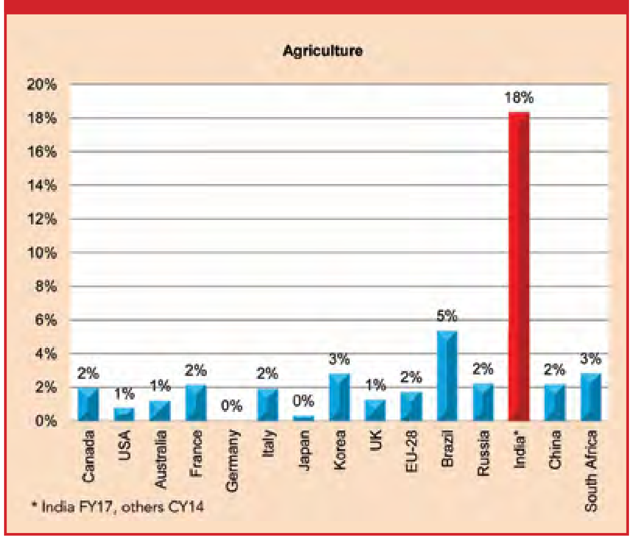


... due to lack of access of power to households, mainly in rural India



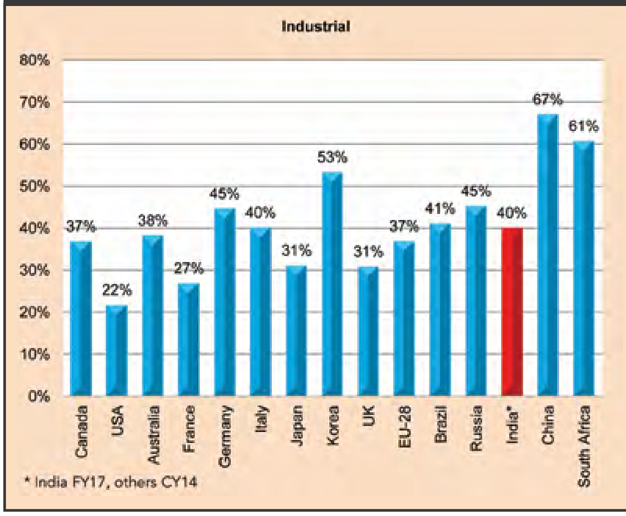
Source: IEA, Ministry of Power, NFHS

The consumption is highest in agri due to dependence on ground water irrigation



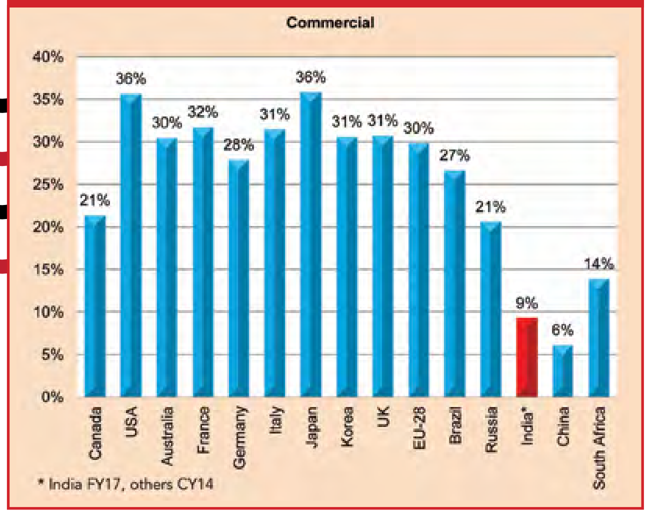
Source: IEA, Ministry of Power, NFHS

Industrial share is largely in line with industrial nations...



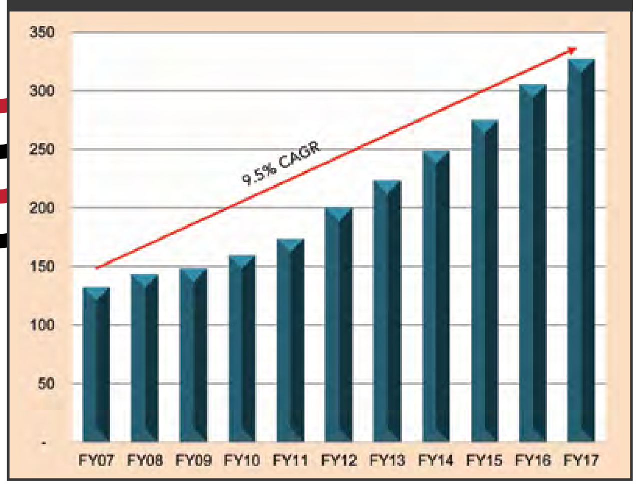
Source: IEA, Ministry of Power, NFHS

...while commercial consumption is one of the lowest after China



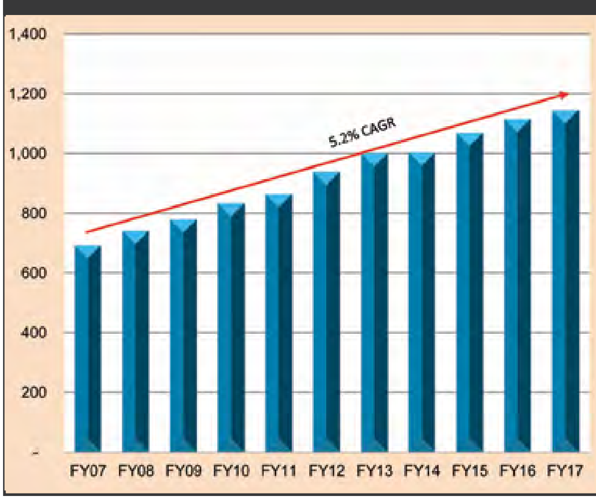
INDIA HAD FOCUSED ON GROWING POWER SUPPLY IN THE PAST TEN YEARS, BUT SPARKING DEMAND IS NOW A NECESSITY

India's installed power capacity grew at 9.5% CAGR over FY07-17 to 327GW led by govt focus on improving power supply...



Source: Ministry of Power

... however, power demand grew at a modest 5.2% CAGR



Source: Ministry of Power

... leading to a significant decline in power capacity utilisation and impacting financials of power gencos

Source: Ministry of Power

Various government schemes that focus on raising demand and plugging leakages

Under the Electricity Act, 2003, the central and state governments have the joint responsibility of providing electricity to rural areas. The act mandates that the central government should, in consultation with the state governments, provide for a national policy on: (i) standalone power systems for rural areas (systems that are not connected to the electricity grid), and (ii) electrification and local distribution in rural areas. Consequently, the Rural Electrification Policy was notified in August 2006.

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in March 2005, with the goal of (i) electrifying all un-electrified villages/ un-electrified hamlets and providing access to electricity to all households and free electricity connection to BPL families.

Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) was launched in December 2014 with an outlay of ₹ 430.3bn (GBS ₹ 334.5bn) and subsumed the ongoing RGGVY scheme in the 12th and 13th plans (₹ 295.7bn). The scheme focuses on: (i) separation of agricultural and non-agricultural electricity feeders to improve supply for rural consumers, (ii) improving the sub-transmission and distribution system, including metering at distribution rural areas, and (iii) rural electrification by carrying forward targets specified under the RGGVY.

Restructured Accelerated Power Development & Reforms Programme (R-APDRP) was approved on July 2008 with a total outlay of ₹ 515.8bn for IT enablement and strengthening of the distribution sector in urban areas – towns and cities with a population of more than 30,000 (10,000 for special category states).

Integrated Power Development Scheme (IPDS), launched in December 2014 with an outlay of ₹ 326.1bn, subsumed the existing R-APDRP programme (outlay of ₹ 440.1bn). The scheme focuses on: (i) strengthening of sub-transmission and distribution networks in urban areas, (ii) metering of distribution transformers / feeders / consumers in urban areas, and (iii) IT enablement of the distribution sector and strengthening of distribution networks under R-APDRP for the 12th and 13th plans, by carrying forward the approved outlay of R-APDRP to IPDS.

Even though on paper India is 99% electrified, 20% of households remain un-electrified

Definition of an electrified village does not cover all households: A village is classified as electrified if it has: (i) basic infrastructure such as distribution transformers and lines in the inhabited locality, (ii) electricity in public places like schools, panchayat office, health centres, dispensaries, and community centres, and (iii) at least 10% of the total number of households in the village are electrified. Hence, the focus was not on 100% households electrification.

Structural disincentives for discoms to supply power to households/ agriculture consumers: Power supplied to households (24%) and agriculture (18%) consumers is significantly below the average cost of power, which is partly cross-subsidised by industrial/commercial consumers. An increase in the power supply to households (lower end) will deteriorate the consumer-mix of already financially struggling discoms, given the slow growth in industrial demand and constraints in tariff hike

Gap in average cost of power supply and revenue

(₹ / kWh)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Agriculture	0.74	0.77	0.87	0.89	1.20	1.26	1.46	1.76	1.87	1.71
Domestic	2.32	2.34	2.49	2.63	3.05	3.17	3.54	3.82	4.09	4.15
Non domestic	4.94	5.22	6.02	5.60	6.30	6.25	7.32	7.74	8.19	8.55
Industrial	4.07	4.06	4.20	4.41	4.99	5.21	5.93	6.65	6.88	7.20
Avg realisation without subsidy	2.27	2.39	2.63	2.68	3.03	3.30	3.76	4.00	4.15	4.23
Avg cost of supply	2.76	2.93	3.40	3.55	3.98	4.55	5.03	5.19	5.21	5.43
GAP (₹ / kWh)	(0.49)	(0.54)	(0.77)	(0.87)	(0.95)	(1.25)	(1.27)	(1.19)	(1.06)	(1.20)

Source: PFC

Focus on universal household electrification

In September 2017, the government of India launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya) scheme. The scheme focuses on achieving universal household electrification by providing last-mile connectivity and electricity connections to all households in rural and urban areas.

Under the scheme, a free electricity connection will be provided to all remaining eligible un-electrified households with at least one deprivation on the basis of Socio Economic and Caste Census (SECC) 2011 data. Other households will be provided a connection at ₹ 500 per household, which will be recovered by the discom in 10 equal instalments. The households located in remote and inaccessible areas will be provided with solar photovoltaic (SPV)-based standalone systems with LED lights, fan, power plug, etc.

The total cost of the scheme is estimated to be ₹ 163.2bn, of which ₹123.2bn (75%) will be provided by the central government as a grant from the gross budgetary support (GBS).

30mn un-electrified households are expected to be electrified

	(mn)
Total no of rural households	179.60
Electrified rural households	133.60
Un-electrified rural households	46.00
BPL households sanctioned under DDUGJY & yet to be electrified	17.90
Balance rural households yet to be covered	28.10
Economically poor un-electrified households in urban areas	5.00
Total un-electrified households	33.10
Round off	30.00

Source: Ministry of Power

₹163.2bn outlay, of which the central government will support 75%

	Rural un-electrified HHs			Urban un-electrified HHs			Total un-electrified HHs		
	HHs (mn)	Cost (₹ bn)	GBS (₹ bn)	HHs (mn)	Cost (₹ bn)	GBS (₹ bn)	HHs (mn)	Cost (₹ bn)	GBS (₹ bn)
Connections to households	25.00	75.00	56.25	5.00	15.00	11.25	30.00	90.00	67.50
Last mile connectivity wherever required	25.00	37.50	28.13	5.00	7.50	5.63	30.00	45.00	33.75
Solar PV systems for HHs in remote areas	0.50	25.00	18.75	-	-	-	0.50	25.00	18.75
Total	**25.50**	**137.50**	**103.13**	**5.00**	**22.50**	**16.88**	**30.50**	**160.00**	**120.00**
Contingencies incl. publicity etc		2.75	2.75		0.45	0.45	-	3.20	3.20
Total	**25.50**	**140.25**	**105.88**	**5.00**	**22.95**	**17.33**	**30.50**	**163.20**	**123.20**

Source: Ministry of Power

Under the financial support by GOI, the states have been grouped into two categories:

- Special category states eligible for 85% GoI grants: These include north and north-eastern states including Sikkim, J&K, Himachal Pradesh, and Uttarakhand and also the union territories of Andaman and Nicobar and Lakshadweep.
- Other states eligible for 60% GOI grants.
- Further, states will be eligible for an additional GOI grant of 50% of loan funding (5%/15%) in case of achievement of 100% household electrification by December 2018.

Challenges

- Increase in household electrification will lead to unfavourable consumer mix due to higher cost of power supply and lower tariff to these consumers, leading to further financial distress in discoms.
- Although the scheme provides for free connections to households, inability of these households to pay for the electricity charges will be a concern.

Funding support by GOI under Saubhagya

Agency	Nature	States	States
Government of India	Grant	85%	60%
Utility / State contribution	Own	5%	10%
Loan	Loan	10%	30%
Milestone linked Grant by GOI (50% of loan - 100% electrification by Dec'18)	Grant	5%	15%
Maximum grant (incl. milestone linked)	Grant	90%	75%

Phasing of project spending and GOI grant

(₹ bn)	FY18	FY19	Total
Rural HHs electrification	42.00	98.25	140.25
Urban HHs electrification	7.00	15.95	22.95
Total Project costs	49.00	114.20	163.20
Rural HHs electrification	31.00	74.88	105.88
Urban HHs electrification	5.00	12.33	17.33
GOI Grants	36.00	87.20	123.20

Source: Ministry of Power

Key beneficiaries

Opportunity under Saubhagya scheme

Activity	HHs (mn)	Cost (W bn)	Key components	Beneficiaries
Connections to HHs	30.0	90.0	Smart Energy Meter, 9W LED lamp, Wire, PVC pipes, Circuit breaker & switches	All consumer electrical players majorly Bajaj Electricals, Orient Electricals, Surya Roshni, KEI, HPL, Genus Power, Havells, Crompton, L&T, Luminous (for battery), Tata Solar
Last mile connectivity wherever required	30.0	45.0		
Solar PV systems for HHs in remote areas	0.5	25.0	200-300Wp power packs with battery bank, maximum 5 LED lamps, 1 DC fans etc	
Total	**30.5**	**160.0**		

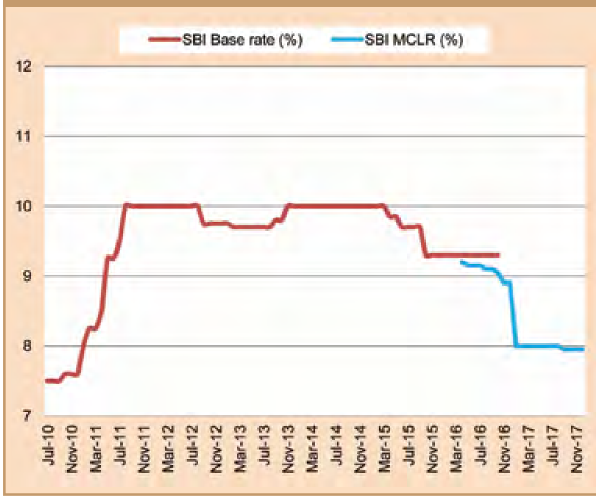
Source: Ministry of Power

Industrials sector view: 2018

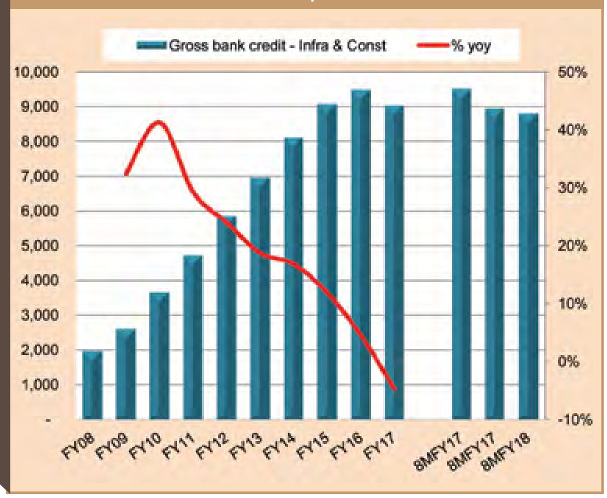
2018 (FY19) is the final year before India goes into general election mode. Government capex is likely to drive investments in FY19 as well (as seen in FY17 and FY18). Faster decision-making on the part of government agencies should lead to quicker order finalisations due to election code of conduct, which may come into effect in 4QFY19 – this will also lead to faster execution and cash recovery.

Macro trends: Still show no signs of a broad based recovery in capex

Interest rates remain low…



…yet bank credit to infra (ex-telecom) has declined 2% YTD due to lower loans to power and roads sectors

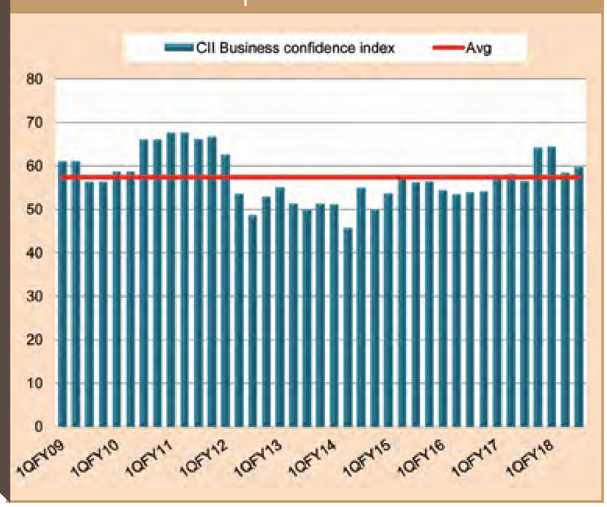


Source: Ministry of Power

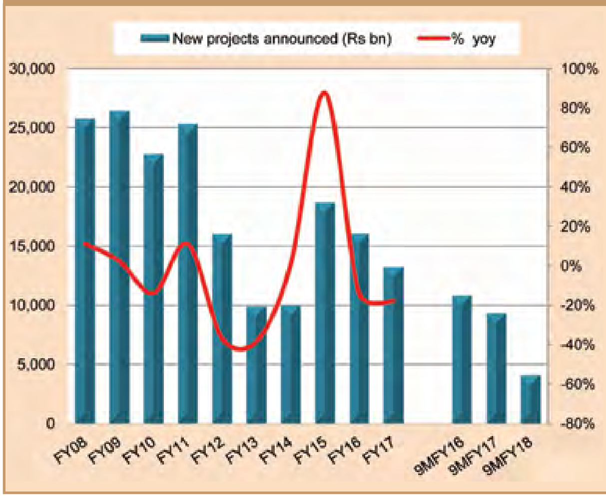
Industry capacity utilisation remains below 75% since FY13

Source: Ministry of Power

Business confidence is showing signs of recovery in 3QFY18 as GST implementation was in 2QFY18…



…but it hasn't yet shown up in new project announcements (-57% in 9MFY18)



Source: Ministry of Power

Exchange rate remains flat YTD at ₹65 per USD

Outlook on new orders: Positive

Sectors that should drive new orders in FY19 are railways (conventional and metro), hydrocarbons (downstream), defence, construction equipment, irrigation & water, and steel. Power generation, T&D are likely to be laggards.

Railways capex trends

(₹bn)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17RE	FY18BE
New lines	36	53	53	59	58	71	202	185	212
Doubling	24	22	23	27	30	39	105	205	180
Gauge conversion	36	32	28	25	30	36	36	51	37
Signalling & telecom	11	10	8	9	9	10	9	10	23
Electrification	7	6	8	10	13	14	23	35	35
Total	114	123	121	130	139	170	374	486	486
% yoy		8%	-2%	8%	7%	22%	121%	30%	0%
% of Railways capex	29%	30%	27%	25%	26%	29%	40%	40%	37%
Railways capex	397	408	451	523	539	587	935	1,210	1,310

Metro-rail projects

Project name	Phase	State	Length (kms)	Stations (nos)	Project costs (₹bn)
Delhi Metro phase-4	Phase-4	Delhi	103.9	79	552.1
Pune Metro	Phase-2	MAH	23.3	23	79.5
Bangalore Metro	Phase-2A	KNT	17.0	13	42.0
Kanpur Metro	Phase-1	UP	32.4	31	137.2
Varanasi Metro	Phase-1	UP	29.2	26	131.3
Agra Metro	Phase-1	UP	30.0	31	108.3
Merrut Metro	Phase-1	UP	35.0	31	115.4
Bhopal Metro	Phase-1	MP	27.9	30	69.6
Indore Metro	Phase-1	MP	31.6	30	75.2
Patna Metro	Phase-1	Bihar	30.9	26	169.6
Guwahati Metro	Phase-1	Assam	61.4	54	180.2
Surat Metro	Phase-1	Gujarat	40.4	38	152.3
Vijaywada / Amaravati Metro	Phase-1	AP	26.0	25	67.7
Visakhapatnam Metro	Phase-1	AP	42.6	41	88.0
Kozhikode Light Metro	Phase-1	Kerala	13.3	14	25.1
Trivandrum Metro	Phase-1	Kerala	21.8	19	42.2
Total			**566.6**	**511.0**	**2,035.8**

Opportunity from oil & gas (downstream)

(₹bn)	Greenfield	Brownfield	BS-VI	Petchem	FY18-20	FY20-25
IOCL	1,000	450	130	650	830	1,400
HPCL	370	200	40	200	810	-
BPCL	-	440	50	-	250	240
MRPL	-	-	45	-	45	-
CPCL	250	-	15	-	15	250
Total	**1,620**	**1,090**	**280**	**850**	**1,950**	**1,890**

Opportunity from steel

Project	State	Company	Capacity (mtpa)	Capex (₹ bn)
Kalinganagar expn - Ph-2	Odisha	Tata Steel	5.0	210
Dolvi expansion	Maharashtra	JSW Steel	5.0	150
Auto-grade steel plant	Andhra Pradesh	Arcelor-SAIL JV	1.5	50
Total			**11.5**	**410**

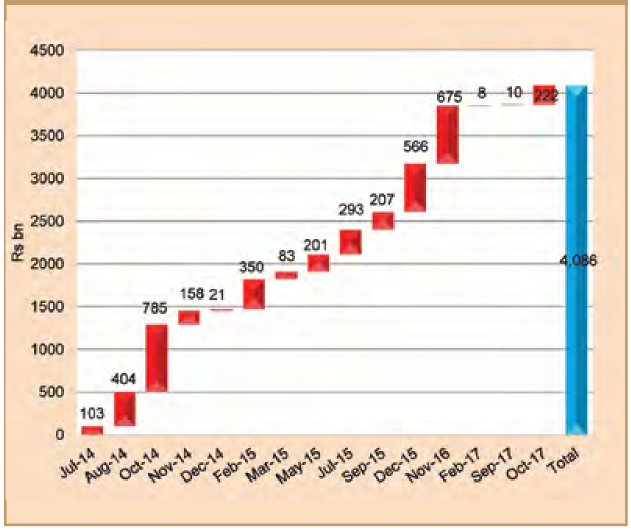
Namami Ganga: ₹62bn/₹4.2bn of STP projects approved/awarded in YTD FY18

	Projects approved		Projects awarded		Projects to be awarded	
State	STP (MLD)	Costs (₹mn)	STP (MLD)	Costs (₹mn)	STP (MLD)	Costs (₹mn)
UKD	191	7,550	82	2,734	109	4,816
UP	134	11,940	50	1,510	84	10,430
Delhi	658	10,106	-	-	658	10,106
Bihar	286	24,735	-	-	286	24,735
JKD	4	502	-	-	4	502
WB	131	6,924	-	-	131	6,924
Total	1,404	61,756	132	4,243	1,272	57,513
HAM	478	27,464	132	4,243	346	23,221
EPC	926	34,292	-	-	926	34,292

Water treatment: ₹136bn opportunity over 2-3 years

Project	Capacity (MLD)	Value (₹bn)
Namami Ganga	1,272	57.5
Delhi - 3 STPs	651	8.3
Mumbai - 4 STPs	1,871	28.5
Pune STP's	396	10.0
Orissa	190	5.0
Rajasthan	600	3.5
Tamil Nadu	150	14.0
AMRUT-MP		5.0
HMEL-Bhatinda		2.0
HPCL-Vizag		2.5
India - Total	**5,130**	**136.3**

Defence: DAC approved ₹4.1tn (US$ 63bn) of projects since July 2014

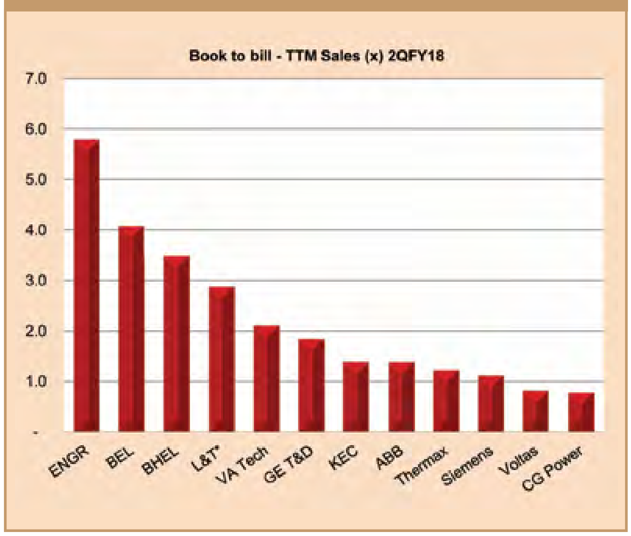


Source: Ministry of Power

Outlook on revenue growth: Positive

Companies in the industrial sector enjoy good revenue visibility for FY19 due to robust orderbook as of 2QFY18. Challenges on land acquisition and right of way still exist. However, disruptions caused by demonetisation and GST are largely behind us. Focus of companies on exports will also remain a key driver of sales.

Order book-to-bill as of 2QFY18

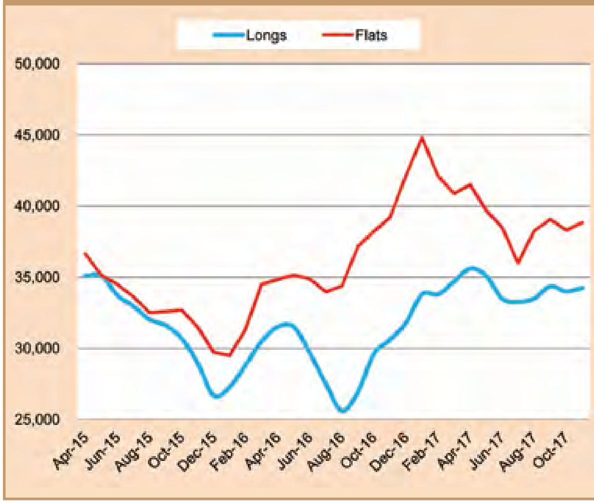


Source: PhillipCapital, Respective companies, * L&T book to bill is adjusted for services revenue

Margin trends: Neutral

Prices of key raw materials such as steel (long) and copper have risen by 12% and 25% respectively in the past 12 months. This, coupled with continued impact of high competitive intensity, will drag margins. However, higher volumes could lead to operating leverage, and could offset the negatives of higher raw material prices and competition – thereby impact on margins could be neutral.

Steel prices (long) increased by 12% in last 12 months



and Copper prices by 25%...

Source: SteelMint, Bloomberg

Working capital: Positive

Improving general liquidity and focus on execution should improve cash flows for capital goods companies.

Receivable days of capital goods companies

Receivables days	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
ABB India	166	168	151	158	153	158	153	149	152	129	120	115	115
BEL	149	189	170	199	240	199	240	202	185	185	180	175	170
BHEL	226	236	272	301	373	301	373	454	477	410	390	380	380
CG Power	84	93	98	94	92	94	92	160	154	124	126	126	126
Cummins	85	75	67	65	60	68	72	78	75	70	65	65	65
Engineers India	58	40	30	48	69	48	69	91	88	97	110	105	100
GE T&D India	164	194	159	199	238	199	238	211	257	219	165	155	140
KEC	183	218	185	179	200	179	200	189	263	244	256	243	233
L&T *	108	103	123	119	120	119	120	128	102	101	110	107	102
Siemens India	128	127	132	142	140	142	140	111	105	115	110	110	110
Thermax	49	60	104	121	90	121	90	121	121	103	92	96	106
Va Tech	189	218	281	258	246	258	246	245	283	286	302	276	262
Voltas	77	82	90	96	102	96	102	99	87	88	88	88	88

Source: PhillipCapital, Respective companies, *L&T receivable days adjusted for financial revenues

EVENTS 2018

BY NEERAJ CHADAWAR

JANUARY

Implementation of MIFID-2

Jan 25: ECB monetary policy meeting

FEBRUARY

Feb 1: FY19 Union Budget

State election* - Meghalaya, Nagaland, Tripura

Feb 2: Sula Fest 2018, Nashik

Feb 7: RBI Monetary Policy Meeting

Feb 8-11: 14 Auto Expo 2018, Pragati Maidan, New Delhi

Feb 9-25: 2018 Winter Olympics in South Korea

Feb 28: National Accounts Data (GDP)

MARCH

Mar 4: Italian general election

Mar 8: ECB monetary policy meeting

Mar 18: Russian presidential election

Mar 20-21: FOMC meeting and summary of economic projection

APRIL

Rabi harvesting begins

Apr 2 to May 25: IPL 2018

Apr 4-18: Commonwealth Games in Gold Coast, Australia

Apr 26: ECB monetary policy meeting

MAY

Karnataka assembly election

May 9-20: CANNES Film Festival, France

May 27: Columbian presidential election

May 31: National accounts data (GDP)

JUNE

Jun 12- 13: FOMC meeting and summary of economic projection

Jun 14: ECB monetary policy meeting

Jun 14 to Jul 15: FIFA World Cup

Garfield, the cartoon cat turns 40 in 2018!

JULY

Kharif sowing

Jul 10: The 10th anniversary of the Apple App Store

Jul 26: ECB monetary policy meeting

AUGUST

Aug 18 to Sep 2: 2018 Asian Games, Indonesia

Aug 31: National Accounts Data (GDP)

SEPTEMBER

2018 Asia Cup cricket

Sep 9: Swedish General Election

Sep 13: ECB monetary policy meeting

Sep 15- 10th year of Lehman Brothers bankruptcy

Sep 25-26: FOMC meeting and summary of economic projection

OCTOBER

Brazilian general election to elect the President and Vice President

Oct 25: ECB monetary policy meeting

NOVEMBER

Kharif harvesting

Nov 6: US mid-term elections 2018

Nov 6-17: UN climate change conference, Germany

Nov 28 to Dec 6: 2018 Men's Hockey World cup, India

Nov 30: National accounts data (GDP)

DECEMBER

Assembly Election* - Rajasthan, MP, Chattisgarh, Mizoram

Dec 13: ECB monetary policy meeting

Dec 18-19: FOMC meeting and summary of economic projection

***Tentative**

BY KISHOR BINWAL & MANISH AGARWALLA

STRONGER FOUNDATION

THE housing loan market saw growth moderation in CY17, marred by demonetization and GST implementation. The mortgage growth rate was 14% yoy at the end of September 2017. There is a wide divergence in the growth rate of small-ticket loan and big-ticket loans – the former (loans less than ₹2.5mn) is likely to have grown at 20% yoy compared to 11% for the latter (loans more than ₹2.5mn). A deep dive into the number suggests that the growth in small-ticket loans was driven by loans given under the Pradhan Mantri Awas Yojna (PMAY).

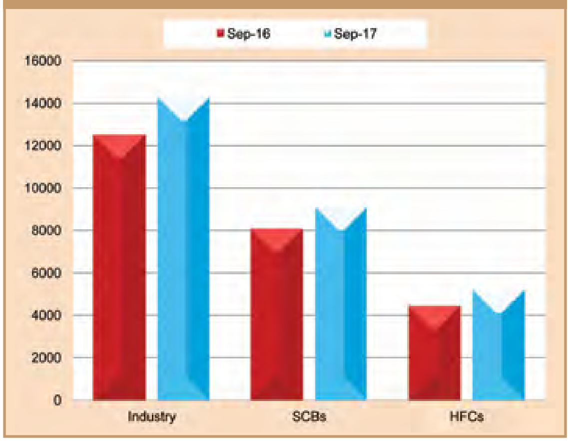
The home-loan industry increased by ₹1.8tn yoy to touch ₹14.3tn at the end of September 2017 with small-ticket loans contributing ₹0.75tn to the increase and ₹1tn coming from big-ticket loans. The PMAY scheme contributed almost 67% to the increase in small-ticket loans.

Understanding the divergence was necessary to discern any future trend, for which GV met with industry veterans, developers, and sales and marketing entities.

The traditional medium-range to high-range mortgage market took the heat from various developments in the real-estate market such as implementation of GST and RERA. Demand has largely emanated from end-users only, and investors have vacated the space. Investors are still evaluating the real-estate scenario after RERA. Also, the rise in transaction cost after GST is another factor that has kept investors dormant in the real-estate market. End-users prefer ready-to-move properties, which already have an occupancy certificate. Hence, the activity in the secondary market has improved compared to the primary market.

Housing loan growth

Outstanding mortgage loans, ₹bn



Source: MHUPA

Progress under PMAY scheme

PMAY ₹ bn	Q2FY17	Q4FY17	Q2FY18
Investment, ₹ bn	546	957	1546
Central assistance involved, ₹ bn	150	278	444
Central assistance released	42	78	122
Houses grounded for construction, nos	305323	535769	1222651
Houses involved, nos	1010424	1773052	2861201

Mr. Ashutosh Limaye – Head Research & REIS at JLL – sees the real market consolidating. According to him, the primary market will continue to witness low levels of activity for the next 6-9 months, as big developers enter into partnerships or form 'joint development models' with smaller developers. In the long run, the industry will become transparent, healthy, accountable, and mature. RERA has empowered buyers on two fronts – information (transparency) and protection (justice). In CY17, the secondary market was active, but Mr. Limaye expects the primary market activity to improve from mid-2018.

"Warehousing, student housing, senior citizen housing, specialized commercial offices such as co-workspaces will see good traction," said Mr. Limaye when quizzed about new segments that can create demand for real estate.

Older projects are finding it difficult to get buyers because of higher unit costs as these projects are loaded with various amenities, have higher built-up areas than newer projects, and there is an additional burden of 6% on buyers due to GST being higher than the earlier VAT rate. Builders are in a slightly better position to pass on the input tax benefit to buyers in newer project as tax credit is easier. There is demand for affordable projects – these projects have gained momentum due to increased affordability, spurred by the government's subsidy scheme.

Mr. Ved Prakash – Director of Kan India Realtors Pvt Ltd – believes that builders who offer better affordability per dwelling are able to sell their product. For example, Omkar Realtors managed to sell most units of its recently launched Malad and Andheri (crowded Mumbai suburbs) projects because they were priced at ₹8-9mn for 310-325 sq. ft. carpet areas. Similarly, Thane-Ghodbander is emerging as the next hot destination, as it offers value for money with 2BHKs (two bedrooms, a living room, and kitchen) available between ₹8 - 10mn. "Areas like Badlapur, Asangoan, Shahapur are also picking up from the affordability point of view," he added.

Mr Deepak Kumar, a real-estate broker operating from Andheri to Malad, shares Mr. Prakash's views. "The residential market is improving and should advance more, a few months down the line, once more clarity on GST emerges. Now the buyers are the end-users, and they prefer to buy ready buildings with occupancy certificates. Buyers are attracted towards areas where overall ticket sizes are smaller, even if it means moving away from 'town'," said Mr. Kumar. He cited the example of Sahyog Homes, an under-construction project at Jogeshwari Link road, which offers an all-inclusive price of ₹13-14mn for 2BHKs with a carpet area of 572 sq. ft.

"This project is garnering huge interest due to its location and price point per dwelling unit," he confirmed.

Some of the smaller and marginal builders are finding it difficult to deal with the changing landscape due to higher and complicated compliance. Mr Saiprakash, promoter of Sai Estate Finance Consultancy, which operates within the far-flung Mumbai suburbs of Mira Road and Bhayender, believes that builders are not launching new projects because they want to 'study' the RERA act and GST. "GST has increased prices by 6% and smaller builders are still grappling with migration to the GST era," he said.

Mr. Karan Doshi, promoter of Saanvi Heights (a project at ODC-Ram-mandir) in Mumbai suburb Jogeshwari, believes that the residential markets are moving slow because customers are not willing to bear the additional cost of 6% under GST. "For us, inquiries and sales have been going up in the last month, as we have received our occupancy certificate and our building is fully complete," he said. "Customers have confidence (because of occupancy certificates and complete projects) and are willing to pay even more for ready-to-move new properties," he added.

Among states, Uttar Pradesh has the highest housing shortage in India. Despite this opportunity, the state has never been able to enthuse mortgage financiers because of reasons such as low per-capita income, lack of industrialisation, and poor law and order. This seems to be changing with the government's endeavour to push infrastructure growth, promote education, and improving law and order in the state. A leading mortgage financier explained the growth scenario - the state has seen a CAGR of +25% in home loan over the last 6-7 years, with western UP being a prime growth area. Cities such as Lucknow, Varanasi, Agra, and Jhansi are leading growth, as people are migrating to bigger cities lured by better infrastructure and better education. Demand is driven by self-constructed residential housing, which contributes 90-95% of growth, followed by loan against property. The target market segments are teachers, government officials, and the salaried middle class. The region has a high asset-quality history with a GNPA of just 0.1%. Major financiers in the region are HDFC, LICHF, Indiabulls Housing, PNB Housing, DHFL, and SBI. It's very clear that an under-penetrated state such as UP offers a strong opportunity for mortgage financiers.

Conclusion

Indian real estate is going through a transition phase because of the new regulation and tax structure. These transitory phases are never healthy for any industry in the short term; however, they do make industries stronger so that the next leg of growth is more sustainable. Buyers today are more comfortable dealing with ready-to-move properties, as they do not want to risk the time overrun. RERA, which provides assurance for timely completion and justice in case time overruns happen, could change the landscape. After RERA, compliance cost is likely to increase – hence smaller players will find it difficult to cope, leading to industry consolidation. The affordable segment will continue to grow at an accelerated pace, driven by PMAY scheme. The mid-market segment will see some consolidation before gaining momentum. Construction finance is another area that can expand the opportunity for organised financiers after RERA.

BY VIBHOR SINGHAL

A **MAMMOTH** OPPORTUNITY BECKONS

2018 is expected to be a BIG year for infrastructure, with huge investment opportunities on the anvil across various segments. GV met with multiple government officials (state and centre), consultants, and companies, to analyse the opportunity in the sector.

Roads

Roads is expected to witness significant momentum in the order award process. Much of FY18 had been spent in ironing out the processes under the new chairman (4th NHAI chairman in three years) and ensuring that all projects that are awarded would have more than 90% land acquired.

- NHAI will fall significantly short of its target of 25,000km awards in FY18 – it will, at best, end up awarding 10,000-12,000km (incl MoRTH).
- However, a robust pipeline exists, with land acquisition complete – which should lead to a decent pick up in FY19 and beyond.

The Union cabinet recently approved the development of 83,677km of roads – for ₹6.92tn – over the next five years. Various parts of this mammoth road development programme are:

- **Bharatmala:** The envelop of all road projects to be undertaken over the next five years. It envisages construction of 34,800km for ₹5.35tn. It will be implemented by various bodies like NHAI, MoRTH, NHIDCL, and state PWD departments.
- **Sagarmala:** Projects connecting major ports to the national highways. While part of these projects have already been awarded, Sagarmala phase will address the cargo evacuation problem at major ports by upgrading the existing road network to 6/8 lanes.
- **CharDham Project:** This phase, in its first part, would connect four religious places of Kedarnath, Badrinath, Gangotri, and Yamunotri in Uttarakhand with 'disaster-proof' two-lane roads. In its second part, the project would encompass enhancing connectivity to other religious places. Length: 2,500km. Capex - ₹500bn (Phase 1 – Length: 900km; capex: ₹120bn)

Bharatmala Paryojna

CORRIDOR	km
Economic Corridor	9,000
Inter corridor & Feeder	6,000
Efficiency improvement	5,000
Border roads & Intntl connectivity	2,000
Coastal Roads & Port connectivity	2,000
Greenfield Expressways	800
Balance NHDP	10,000
Total Bharatmala	**34,800**

Metros

MRTS is slowly becoming the poster-boy of development in every state. Every state government and city municipality in India wants to be able to boast of a metro network. Currently, eleven cities in the country have an operational metro network – three of these became operational in 2017. Three more cities are expected to join the metro bandwagon over the next two years – Nagpur, Ahmedabad, and Pune. Additionally, metro projects in twelve more cities are under the development stage, entailing investments of ₹1tn. Overall, ₹4tn investment is riding on various metro projects – ₹2.8tn to be awarded over next three years.

Operational metro projects

Project Name	Proposed Length Km	Project Cost (₹bn)	Operational Length Km	Operational Cost (₹ bn)	Implementing Agency	Current Status	Commencement of service (expected)
Delhi Metro	455.1	1,254.3	349.2	704.3	DMRC	Phases I , II, III operational	Phase IV awarding to start in 2018
Kolkata Metro	41.9	67.0	28.1	67.0	IR & KMRCL	North-South Corridor operational	East-West Corridor by Dec-19
Bengaluru Metro	114.9	408.5	42.3	138.5	BMRCL	Reach 1,2, 3 operational	Phase II recently approved
Gurgaon Metro	12.1	33.7	12.1	33.7	HUDA, IL&FS*	Phase I operational in Nov-13	Phase II in Mar-17
Mumbai Monorail	20.1	11.1	8.9	11.1	MMRDA	Phase I operational in Dec-13	Phase II by June-18
Mumbai Metro	11.4	24.0	11.4	24.0	R-Infra	Phase I operational in June-2014	Multiple phases at various stages
Jaipur Metro	35.8	135.4	9.6	20.2	JMRC	Phase I operational in June-2015	Phase II planned for 24km
Chennai Metro	143.0	603.9	27.9	146.9	CMRL	Line I operational in June-2015	Line II to be operational by Oct-17
Lucknow Metro	35.0	117.7	8.5	28.6	LMRC	Phase 1A operational in June-17	EPC contracts for Phase 1B awarded; Phase 2 delayed
Kochi Metro	25.6	51.5	18.2	36.6	KMRL	Phase I partly operational in Sep-17	
Hyderabad Metro	71.2	160.0	29.8	67.0	L&T*	Part operational in Nov-17	
Total	**966.1**	**2,867.0**	**546.0**	**1,277.9**			

Under-construction metro projects

Project Name	Proposed Length Km	Stations No.	Project Cost ₹ bn	Under Construction Length (Km)	Implementing Agency	Current Status	Expected CoD
Mumbai Metro	223.5	180	769.2	68.6	MMRDA, CIDCO	EPC contractors for Phase 2A, 3, 7A awarded - 2B, 4 and 6 under awarding process	Phase 7 - 2019, Phase 2A - 2020, Phase 3 - 2021
Nagpur Metro	38.2	36	86.8	38.2	NMRCL	All construction contracts awarded	2019
Ahmedabad Metro	37.9	32	117.3	37.9	MEGA	All construction contracts awarded	2019/ 2020
Pune Metro	31.5	30	114.3	18.0		Contracts for 18km awarded - others in awarding process	2019
Total	**331.2**	**278**	**1,087.7**	**162.7**			

Planned metro projects

Project Name	Length (Km)	No. of Stations	Project Cost (₹ bn)	Status
Kanpur Metro	36.0	29	105	DPR approved; foundation stone laid in Oct-16
Varanasi Metro	26.0	22	75	DPR approved in May-16
Meerut Metro	30.0	22	65	DPR submitted; yet to be approved
Agra Metro	25.0	23	65	DPR submitted; yet to be approved
Ludhiana Metro	28.8	27	87	DPR being prepared
Chandigarh Metro	37.6	30	136	DPR being prepared
Bhopal Metro	85.0	89	80	DPR approved in Dec-16
Indore Metro	107.0	75	120	DPR approved in Dec-16
Vijaywada Metro	26.0	25	68	Bids invited in Nov-16
Vizag Metro	42.5	41	135	DPR approved in Nov-16
Kozhikode Metro	13.3	14	25	DPR approved; foundation stone laid in Feb-16
Trivandrum Metro	21.8	19	42	DPR approved; foundation stone laid in Feb-16
Total	**479.0**	**416**	**1,003**	

Irrigation

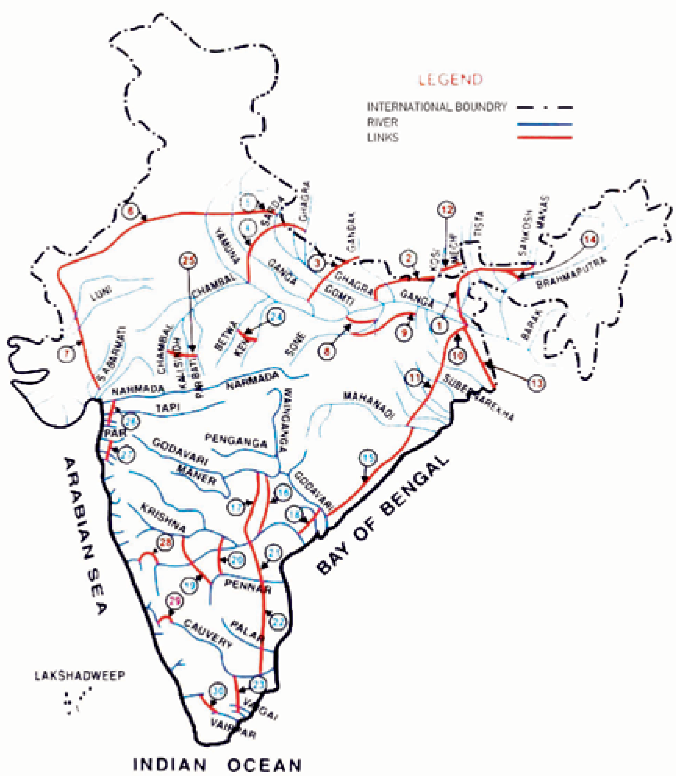
Irrigation has been the biggest driver of infrastructure spends across the years, and the momentum is expected to continue in 2018.

- Top-15 India states are expected to spend ₹984bn on irrigation projects in FY18
- A similar spend would translate into an investment opportunity of ₹3tn over the next three years
- States like Telangana, Karnataka, AP and MP – which are relatively 'dry' states – have always spent more on irrigation than other states

In addition to the 'regular' spend on irrigation by various state governments, we expect order award activity to start on the NRLP (National River Linking Programme) in 2018.

National River Linking Program

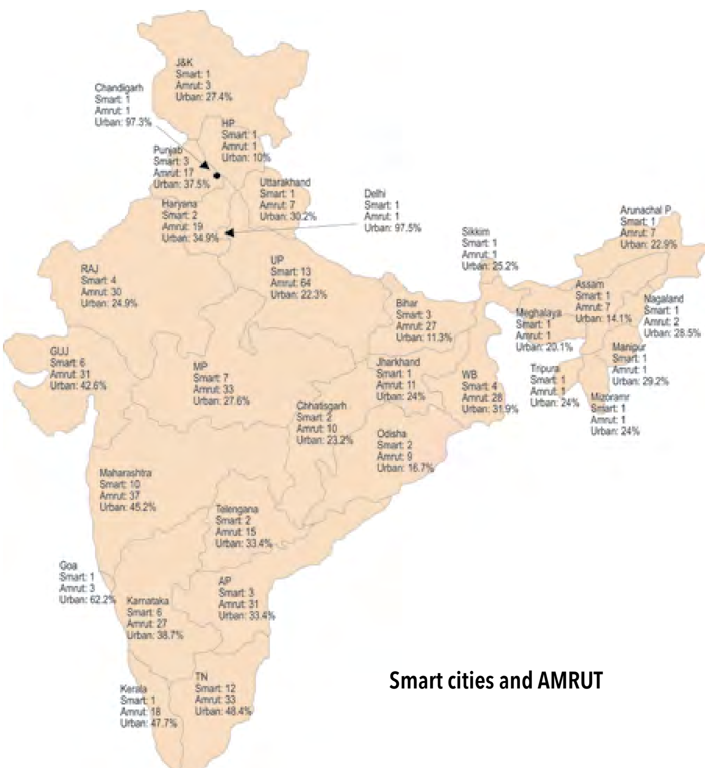
- NRLP envisages to link 34 main rivers in India – through **50 dams and 15,000km length of canals**
- In turn, it will add **34 mn hectares of incremental irrigated land, along with generating 32GW of hydro power**
- The project will cost **₹11.4tn – to be executed over the next 10-15 years**



National River Linking Programme (NRLP)
Click here for a detailed report

State's irrigation layout

States (₹ bn)	FY14	FY15	FY16	FY17	FY18 BE
AP	31.0	42.9	45.8	74.4	120.6
Bihar	18.0	16.5	19.4	16.9	31.0
Chhattisgarh	16.8	15.4	23.4	22.0	25.7
Gujarat	67.8	76.5	83.1	80.7	94.0
Haryana	9.1	9.7	5.4	6.1	8.3
Karnataka	63.8	77.8	74.0	90.0	133.0
MP	45.4	41.3	64.8	83.0	94.0
Maharashtra	78.8	70.1	85.8	84.5	55.5
Orissa	22.1	28.5	40.6	57.0	70.5
Punjab	3.6	6.6	7.5	15.8	8.7
Rajasthan	10.8	12.7	13.9	20.2	24.0
Tamil Nadu	9.7	12.4	10.8	15.0	29.0
Telangana			95.4	145.6	226.7
Uttar Pradesh	29.6	40.9	58.1	66.1	40.9
West Bengal	7.2	13.7	21.8	13.7	22.0
Total	**413.8**	**464.9**	**649.8**	**791.0**	**983.9**



Smart cities and AMRUT

Buildings

Historically, the year before Union Elections witnesses a surge in order awards in the buildings segment – with the governments tendering orders for residential colonies, education and health institutes, and low-cost housing. 2018 is expected to be no different – in fact, the tendering is only expected to increase, due to strong government focus on low-cost housing under PMAY.

- **National Gramin Awaas Mission (NGAM):** The government plans to spend ₹3.5tn to build ~30mn houses for the homeless by 2022 in rural areas. NGAM will replace the Indira Awaas Yojana (IAY) that covered BPL families only.
- **Pradhan Mantri Awaas Yojana (PMAY):** To construct 20mn affordable houses by spending of ₹3tn over the next four years.

22mn housing units to be built by 2022, under PMAY

– 12mn units in urban areas – ₹1.86tn

– 10mn units in rural areas – ₹1.27tn

The Smart-City and AMRUT projects are also expected to contribute their share in the order awards for the buildings segment.

– 100 Smart Cities and 500 AMRUT cities to be upgraded

– UP gets the lion's share with 13 cities under SMART and 64 under AMRUT

– ₹500bn to be spend by the centre, on EACH of these two projects, over the next five years

– Equal contribution to be brought in the states

The cities selected have already started project preparations and implementation:

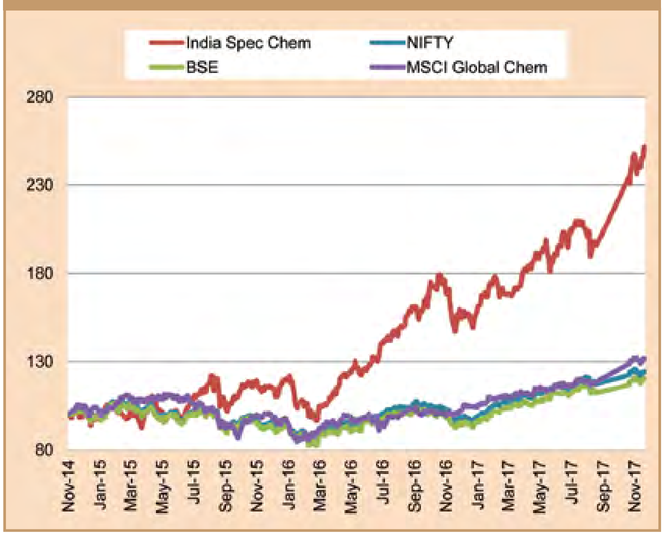
- The projects launched by Ahmedabad – sewage treatment plant, housing project, and smart learning in municipal schools.
- Bhubaneswar – railway multi-modal hub, traffic signalisation project, and urban knowledge centre.
- New Delhi Municipal Council – mini-sewerage treatment plants, 444 smart class rooms, Wi-Fi, smart LED streetlights, city surveillance, command and control centre.

BY SURYA PATRA & MEHUL SHETH

How sustainable is the **dream run**?

The Indian specialty chemicals industry delivered a stellar equity performance (about tripling return) over the last two years. This was the best possible answer to a question that Ground View's October 2017 edition raised which was "Will the investor community continue to ignore the Indian specialty chemicals sector, with a market size of about US$ 25bn?" Specifically, the Indian Specialty Chemicals Industry Index delivered a return of 152% over the last two years, far outshining the performances of the NIFTY (24%), BSE India (21%), and MSCI Global Chemicals Index (32%).

The Indian chemicals industry has beaten most stock market indices



The equity performance was well supplemented by improved operating performance. In the last two years, the Specialty Chemicals Index's revenue CAGR was 3% (impacted by a correction in crude prices and slowdown in global agrochemicals demand), but EBITDA CAGR at 19% was superlative. Healthy operating performance and, more importantly, a strong visible exports opportunity (because of China's slowdown) attracted long-awaited investment interest for this traditionally ignored sector.

In fact, slowdown in China and a customised specialty product approach by Indian specialty players has helped companies to improve global reach by gaining better market share, reflected in overall strong financial performance.

Mr K. A. Ramakrishnan, Head of Chemical Practice and Partner, Avalon Global Research believes that the Indian specialty chemicals industry is set to sustain healthy growth momentum led by advantageous domestic demand, strong GDP, and rising per-capita income

Will the China-led investment momentum continue further?

Steady growing domestic chemical demand supported by the fastest-growing economy in the world and a large population base have always been the key strengths of the Indian industry. However, the spurt in investment interest was ignited because of a visible slowdown in China's chemical industry, ever since its government announced stricter environmental pollution measures in January 2015.

Why is the China factor so influential?

China's chemicals market size is about US$ 3.5tn (~35% of the global market); exports are about US$ 200bn chemicals and US$ 136bn of specialty chemicals – which is eight times larger than Indian exports. That means a minor slowdown in Chinese exports could lead to a huge exports opportunity for India's industry as it is considered an alternate global manufacturing hub of chemicals. Hence, the 'China factor' remains a leading force for a growth in the exports of Indian chemicals.

Updates on Chinese environmental policy implementation…

Effective 1st January 2015, the Chinese government implemented its stricter environmental protection policies that enforced strict penalties (with no upper limit), seizures and shutdowns of plant and property of illegal environment polluters, and compulsory effluent treatment. This resulted in the plants of thousands of small and midsized chemicals players closing down, and incremental cost pressure because of effluent treatment requirements. As a result, China's chemicals industry (the primary source of various chemicals to the world) suffered a 10% decline in exports.

"Dyes and pigments and related industries, and organic and inorganic chemical industries will see a significant impact because of relocation policy. On the other hand, sweetener, aroma, and electronic chemicals industries will see only moderate impact."

– Dr. Kai Pflug, Management Consultant (China)

Belying the skepticism of the entire world about whether China would actually continue such a strict environment-policy implementation, China's Ministry of Environmental Protection moved one step ahead. It made it mandatory for all polluting industries to operate from industrial clusters situated away from habitats. This made the survival of many chemical manufacturers in China difficult, and caused either permanent shutdowns or relocation of manufacturing units into the industrial belt.

Such policy initiatives have already dented China's exports performance significantly, as also its economic progress. The last two years saw a large correction in China's chemical exports to its leading destinations. For example, chemicals exports to Germany fell 15%, followed by India (-14%), US (-7%), and Korea (flat).

Recently, Chinese authorities, with an intention of 'stocktaking' their environmental policy implementations conducted inspections of thousands of chemicals manufacturers over a period of five months. They found more than 54% of some 41,928 enterprises across the country in violation of environment protection laws.

"China plant shutdowns and relocation in the Chemical Park are going on for the last one or two years. But from this year, they (China's government) have started a round of inspections, under which they go to specific provinces. My feeling is that this is not the end of it. This, in fact, is to get much more serious and stricter. Progress with relocation of chemical plant into chemical parks is relatively very slow; I feel the pressure on chemical companies could get intense in the near term."

– Dr Kai Pflug, Management Consultant (China)

China's government has issued a new directive making it mandatory for all small to mid-sized chemicals plants that fall into the 'toxic' category to relocate by the end of 2020. Also, all larger plants classified as producing toxic chemicals must relocate by the end of 2025, and must start the process by no later than 2020. Otherwise, the existing plants can also be reengineered to produce non-toxic products, or must be permanently closed if reengineering or relocation is impossible. This makes it very clear that a large number of chemicals manufacturers will undergo a phase of plant shutdowns or relocations into industrial clusters over the next few years, which implies a continued slowdown of China's chemicals industry and exports for the foreseeable future. This offers a much longer window (of a few years at least) for Indian chemicals peers to establish themselves in the international market by building global clientele and ultimately tapping the export opportunity emerging out of a China slowdown.

"Accelerated growth visibility for the industry comes from huge export opportunities due to weakening Chinese competition (because of curbs imposed by Chinese environmental policies), de-risking procurement policy of global MNCs from China, and a higher focus on outsourcing manufacturing to India by advanced countries such as North America, Europe, and Japan."

- Mr Sanjay Chaturvedi, President - Praj Industries; Ex-Strategy Director, Rohm and Haas and Dow Chemicals

How well is the Indian industry positioned?

It's not just the exports opportunity emerging from China's slowdown that is exciting for the Indian industry, but also the stabilisation in chemicals prices, as Chinese dumping stops or abates. In addition, as MNCs shift their focus towards India (from China) as an alternate source of chemicals, the growth visibility of the Indian industry increases. While China's chemical exports into India saw a 14% decline over the last two years (indicating less dumping), China's key advantage – low labour costs – is no longer a reality. Moreover, the rise in China's operating costs due to compulsory effluent treatment makes India a preferred destination for chemicals sourcing for global peers. In addition, India's traditional focus on customisation (against the "global-scale play" by China), import substitution, and rising adoption of vertical integration bode well for a long-term healthy and accelerated growth for the Indian chemicals/specialty chemicals industry.

"The specialty chemicals industry will see 12-15% CAGR to touch US$ 110-140bn by 2025. Leading growth segments include specialty polymers, construction chemicals, industrial and institutional cleaners, flavours and fragrances, paints and coatings, plastic additives, adhesives and sealants, personal care chemicals, food additives, and colours (dyes & pigments)."

– Mr Suyog Kotecha, Partner, McKinsey and Company.

Mr. Kotecha concludes, "India seems like the only bright spot globally for strong growth in the chemicals market. Drivers that make India the fastest growing chemicals industry in the world are – emergence as an alternate hub (to China) of chemicals manufacturing for the world, low-cost advantage, respect for intellectual property, and MNCs' focus on de-risking their sourcing from China."

EVENTS THAT DEFINED 2017

BY ROSHAN SONY

#BitcoinBubble #TheresaMay
#HurricaneHarvey #USTaxCuts
#PrinceMohammadBinSalman
#NorthKorea #Venezuela #Feminism
#EmmanuelMacron #Padmavati #LeoVaradkar
#NirmalaSitharaman #Modi
#DeraSacha#Euroboom #ManchesterBombing
#IslamicTerror #RightToPrivacy
#PRESIDENTTRUMP #Hyperloop
#ParadisePapers #IndiaSupremeCourt
#WeinsteinEffect #MetroRail #Jerusalem
#RahulGandhi #Covfefe #BJP #KevinSpacey
#TripleTalaq #FidgetSpinners #RateHikes
#Rohingya #WannaCry #SpanishConstitutionalCrisis
#Catalonia #ISISOnTheRun #SyrianCivilWWar
#ManushiChillar #EmmersonMnangagwa
#IndiaGST #GujaratAssemblyPolls
#SalvatorMundi #IndiaChinaDoklamStandoff #Qatar
#MeToo #Erdogan #Zimbabwe #SolarEclipse
#Migrant *#Women'sMarch*

A year of change and contrasts

The year seemed to be about breaking away from convention, about increasingly divisive politics, and polarisation. However, strangely, that very polarisation and divisiveness brought many people together in solidarity too. At a global and meaningful scale, US President Donald Trump was the biggest convention-breaker and game changer. The largest shift he has brought about is in the world's perception of America. The superpower does not seem to be keen on continuing its role as the leader and defender of the modern world. Trump's America seems more withdrawn, more inward looking, more upfront about its "America First" ethos, less diplomatic, and more aggressive about its interests over anybody else's. In the wake of America's image makeover under Trump, other large and powerful countries, including China and Russia, seemed more than willing to fill in the gaps that Big Brother has left behind.

For now, the UK seems in no position to assume global leadership, as it grapples with the Brexit issue. Europe is still handling its immigration crisis and the looming threat of terror. Australia, never one to participate much in global politics, has also begun to seem more insular – it tightened its immigration policy in 2017. Canada, while not insular at all under Justin Trudeau, retained its distance from the global political arena.

Meanwhile, things were looking up for Europe in 2017 economically. While the EU entered the year under the gloom of Brexit and reeling from the collapse of Italy's oldest bank, it left 2017 with a recovery so strong that the International Monetary Fund said Europe's recovery would spill out into the rest of the world and make the region an "engine of global trade" and economic growth. The European Commission forecasted the euro zone to have grown 2.2% in 2017, the fastest pace in a decade.

In other good news, ISIS was almost extinguished in 2017. At its peak in 2014-15, the terrorist group controlled roughly 50% of Syria and 40% of Iraq. By the end of 2017, it controlled less than 6% of Syria's land and had lost all its territory in Iraq. However, 2017 saw many lone-wolf and small-scale attacks and it is feared that as it loses its grip in Syria, these attacks could increase. Meanwhile, Trump's decision to recognise Jerusalem as Israel's capital and move the US embassy from Tel Aviv to the city created big shockwaves, especially in the Middle East. However, things changed organically too for the Arab world. Saudi Crown Prince Mohammed bin Salman was seen to be leading reform in his country while adopting an increasingly hawkish foreign policy that has seen the war in Yemen spiralling and a harder stance against Iran.

An oil-production-cut arrangement with OPEC helped lift oil prices in 2017, even though rising production from competitive sources like US' shale tapered growth. Gold prices rose almost throughout the year as the US Fed raised interest rates three times and inflation rose above the 2% mark. Copper prices were up more

than 25% in 2017 because of better-than-expected economic growth in China, coupled with labour issues in Chile and Indonesia. World food prices rose 8% in 2017. Automobile recalls continued with huge ones from Hyundai, Ford, Volkswagen, and General Motors.

In Zimbabwe in southern Africa, former President Robert Mugabe's reign finally came to an end.

India: A mostly positive year

For India, the year began on a sombre note with the gloom of late 2016 demonetisation still fresh. However, the limits on daily cash withdrawals started lifting soon enough and the general sentiment was that the Modi administration had successfully weeded out a large chunk of the black money in India. By April, the cash situation

on the ground was almost normal. The Railway Budget was merged into the Union Budget in 2017 and ISRO launched a record number of satellites in a single mission. It was also a year of major Supreme Court judgements in India – from the Triple Talaq ruling to the Right to Privacy.

In Tamil Nadu Sasikala Natarajan was put in jail in the disproportionate assets case, effectively ending her Chief Ministerial ambitions while Palaniswamy won the trust vote. Meanwhile, the south Indian superstar Rajnikant announced that he would be entering politics. In Mumbai, in the BMC polls, BJP managed to win a substantial number of seats thwarting Shiv Sena's ambition of going it alone or forging another alliance. In fact, BJP was on a roll this year – in March, it won assembly elections in UP, Goa, and Manipur; in December, it won Gujarat and Himachal. Its Gujarat victory was bitter-sweet though; it lost ground, especially to the Congress, and in rural areas. The party also swept the polls in the Delhi municipal elections. Perhaps BJP's biggest coup of 2017 was the break-up of the odd alliance between Nitish Kumar and Laloo Prasad Yadav and the subsequent support it lent to Kumar to form a government in Bihar. BJP also emerged as the largest party in the Gram Panchayat Elections in Maharashtra.

Modi's government put in place the Goods and Services Tax, the biggest tax reform in the country since independence. It subsumed around 17 different taxes and became effective from 1 July 2017.

In November, it cut GST rates for 200 items. Smaller businesses and traders are still struggling to cope up with GST's rather intense 'filing' system and compliance. 2017 was also a year of metro rail inaugurations in India. The Kochi, Lucknow, and Hyderabad metros began operations this year. India had a new President sworn in – Ramnath Kovind – and a new Vice President – Venkaiah Naidu

and the country celebrated its 71st year of Independence. India also got its second female defence minister in **Nirmala Sitharaman**. India's ties with Afghanistan continued to strengthen, much to Pakistan's chagrin. The Doklam standoff with China ended quickly and painlessly.

The income tax department seemed to be going after unexplained cash deposits quite rigorously in 2017; it said it had sent more than a lakh notices. Sadly, the year had its fair share of disasters – three major train derailments, floods in West Bengal and Gujarat, the tragic stampede in Mumbai and the Kalmala mills fire in December ended the year on a rather sombre note.

What does 2018 hold? Most likely, a year of no major shocks

In 2017, many economies saw their growth rates rising even as the political situation in these countries remained polarised or tense. This trend is likely to continue in 2018 as well. Small business confidence in the US is at its highest level since 1983! Unemployment is low and the economy is growing with corporate profits rebounding. **Theresa May** has won a reprieve after her last-minute deal with the EU in December

2017. Angela Merkel's position in the coalition politics of Germany is more precarious – her CDU party and the SDP party recently indicated that their preliminary coalition talks were successful. This means Merkel may avoid facing the German electorate, at least for now. However, a collapse of these negotiations cannot be ruled out.

Considering the improving economic performance of the developed world, it is most likely that expansionary monetary policies will be reversed, without an adverse impact. China and India are likely to sustain their leadership roles in global economic growth. The US seems to be positioned to retreat from being a leader of international trade cooperation under Trump's administration. However, this could be political posturing in order to secure more favourable trade terms for the US – time will tell. Digitisation and a shift to online mobile payment systems will continue with the US and China leading the way, particularly China.

Some economists believe that one of the biggest risks for the world is mounting public debt. The world's total gross debt-to-GDP ratio is almost 250% (it used to be about 200% before the global financial crisis), triggering warnings that sustainability of a recovery is doubtful and that an inevitable rise in interest rates could trigger another global crisis. Unpredictability of geo-politics, specifically North Korea leading to tension between the US and China and tensions in the Middle East, specifically between Saudi Arabia and Iran could spark a flashpoint, are seen as risks. However, the broader view is that there is no impending debt crisis. In fact, most economists believe that in 2018, asset values will keep on increasing along with demand-driven growth.

For India, rising inflation (largely because of rising oil prices) and rising interest rates (as a result of inflation) are the biggest threats. However, broadly, growth should continue to rise (even though India will probably struggle to breach the 7% GDP growth barrier, especially if the investment cycle does not revive enough). The United Nations believes India's economy will grow 7.2% in 2018 and 7.4% in 2019, surpassing China's growth rate. Credit agency Moody's said that structural reforms such as GST and bankruptcy code will help reduce inefficiencies (in India) and improve trend growth over the long run. However, it also cautioned that persistent banking sector weakness from a high proportion of non-performing assets will weigh on growth; if these are not resolved, credit for investment-related activities will be constrained. Even if growth is not pushed by investment, an election-year increase in public spending is likely to drive growth for India. However, most experts agree that India's private capital formation needs to increase to reinforce the sustainability of its growth.

POSSIBLE GOOGLIES FOR 2018

- Further deterioration in the relations between North Korea and America

- A hard landing of China's economy

- China's alarmingly high credit-to-GDP ratio triggering a financial crisis. China's economic growth is fuelled by rising debt – its total outstanding credit was said to be 260% of its GDP in 2016 (some economists believe that this figure could be as high as 600% if off balance sheet numbers are considered)

- Trump's protectionist agenda affecting America's trade ties with China

- China and Russia increasing their global leadership role as the US looks more inward

- US' attempt to decertify Barack Obama's 2015 nuclear deal with Iran; China is likely to oppose this, with the support of Europe and Russia.

- Closer ties between Russia and China and Russia and Europe, as UK and the US increasingly detach themselves

- Democrats' bid to take the house (US) in mid-term elections

- A Yen plunge if Japan hikes rates as a response to inflation

- Oil prices rising about US$ 70 per barrel if Russia keeps backing Saudi Arabia's effort to cut production even as US shale supply increases.

- Six countries face elections in Latin America – risk of authoritarian or populist leaders coming to power as anti-incumbency is high in almost all countries there

- Increasing innovation and development in artificial intelligence and related technologies worldwide

- The stability of Theresa May's government

- Another big announcement by the Modi government against corruption that will ensure a 2019 win

- As ISIS gets pushed back in Syria, it could increase lone-wolf or organised attacks for global attention; the group could also target conflict zones such as Myanmar for recruitment/ operations.

- Italy polls: Emergence of the Five Star Movement party, which is a Euro-dissenter. This could influence the way Italy participates in the EU

- Bitcoin-related losses

- Angela Merkel's shaky coalition government.

January

- A gunman opens fire in a nightclub in Istanbul killing at least 39 people.
- **Donald Trump sworn in as the 45th President of the United States.**
- The Supreme Court of India rules it would be a 'corrupt practice' to appeal for votes during elections on the basis of religion, caste, race, community or language. This behaviour would call for disqualification of the candidate in any election.
- **The Reserve Bank of India lifts limits on cash withdrawals.**
- Mexican President Enrique Peña Nieto rejects the idea that Mexico would pay for any border wall between the United States and his country.

February

- **India: The 92-year-old railway budget is discontinued and merged into the general budget.**
- The Indian Space Research Organisation launches a record 104 satellites in a single mission.
- **In a surprise result, former Prime Minister Mohamed Abdullahi Mohamed becomes President of Somalia.**
- The Islamabad High Court indefinitely bans the celebration of Valentine's Day in Pakistan.
- **Tamil Nadu: Supreme Court convicts Sasikala in the disproportionate assets case. Palaniswamy wins trust vote.**
- 100 dead in an ISIS attack on a Sufi shrine in Pakistan.
- **BJP wins 83 seats in the Shiv Sena stronghold of Mumbai's BMC polls. Shiv Sena wins 90.**

March

- Election results are declared in five states. Adityanath Yogi takes oath as the new Chief Minister of Uttar Pradesh, Manohar Parrikar as CM Goa, Biren Singh CM – Manipur, Amarinder Singh CM – Punjab.
- **Gujarat passes a law that makes the slaughter of a cow punishable by life imprisonment.**
- The Dow rises above 21,000 points – a new all-time high.
- **The Fed hikes interest rates by 25bps.**
- North Korea fires four ballistic missiles into the sea near Japan.
- **US temporarily suspends premium processing of H1B visas.**
- The third protocol amending the existing India-Singapore Double Taxation Avoidance Agreement comes into force.
- **Samsung group chief to be charged with bribery and embezzlement.**
- The Yemen crisis deepens. An estimated 18.8mn people are assumed to be in need of some kind of humanitarian assistance.
- **Central Electricity Authority: Indian solar energy sector crosses a milestone in January – generates over 10bn units of electricity for the first time.**
- Trump signs an order to undo Obama's climate change regulations.
- US drone strike kills top al-Qaeda leader Qari Yasin in Afghanistan.
- **Carrie Lam wins the election for Hong Kong's Chief Executive.**

April

- India inaugurates the 9.2-kilometer Chenani-Nashri Tunnel in J&K
- **China and Nepal begin their first-ever combined military exercises, focusing on counter-terror operations. This does not sit well with India.**
- Pakistan sentences former Indian Navy officer Kulbhushan Yadav to death for espionage and sabotage.
- **The United States dropped the "mother of all bombs" — the most powerful conventional bomb in the American arsenal — on an Islamic State cave complex in Afghanistan.**
- Hyundai (Sonata and Santa Fe) and Kia (Optima, Sorento, and Sportage) are recalling 1.5mn cars – over 1.3mn in United States and 170,000 in South Korea – over an engine defect.
- **Australia adds stricter requirements to**

its citizenship application process.

- Turkey passes two new decrees – expels more than 4,000 civil servants and bans television dating programmes.
- **President Trump completes 100 days in office. India media hails this term as 'mostly positive for Indo-US' ties.**
- Sweeping victory for BJP in Delhi's municipal polls.
- **WHO develops anti-malaria vaccine.**
- World Bank approves US$ 375mn loan for India's first waterway project.
- **Muhammad V is formally installed as the 15th King of Malaysia.**
- Peggy Whitson, commander of the International Space Station, breaks the record for most total days spent in space by any NASA astronaut (more than 534 days).
- **A congress of female Islamic clerics in Cirebon, Indonesia, issues several fatwas, one of which opposes child marriage.**

May

- The Indian Supreme Court upholds death sentences for the four men convicted in the 2012 Nirbhaya gang rape and murder case.
- **France swears in Emmanuel Macron as the 25th President of France.**
- At least 126 people are dead, and 97 missing, after mudslides and floods caused by heavy rain in Sri Lanka. Over 100,000 people have been displaced.
- **Chennai metro's first underground line opens.**
- In an unprecedented order, the Supreme Court sends Calcutta High Court judge Justice C S Karnan to jail for six months for contempt of court.
- **Scientists at NASA have name a new organism discovered by them at the International Space Station after the much-loved APJ Abdul Kalam – Solibacillus kalamii.**
- ED files money-laundering case against Karti Chidambaram, son of former Congress FM Chidambaram.
- **The Manchester Arena bombing in Britain leaves 22 dead including children, many injured.**
- 40% drop in the number of American visas granted to Pakistani nationals under the new Trump administration even as the number of non-immigrant US visas to Indians increase 28%.
- **South Koreans vote in a presidential election, with Moon Jae-in of the Democratic Party of Korea winning the election.**
- A worldwide cyber-attack by the WannaCry ransom-ware cryptoworm targets computers running the MS Windows operating system by encrypting data and demanding ransom payments in the Bitcoin crypto-currency.

June

- **Kochi Metro inaugurated.**
- Six convicted, one acquitted in 1993 Mumbai blasts case
- **The Boston Consulting Group posited in June 2017 report that 1% of the Americans will control 70% of the country's wealth by 2021.**
- Leo Varadkar, a 38-year-old Indian-origin doctor, makes history by becoming Ireland's youngest and the first openly gay prime minister
- **Trump announces the United States will withdraw from the Paris Climate Agreement which aims to combat climate change by limiting greenhouse gas emissions.**
- British Prime Minister Theresa May (Conservative) loses majority but forms a new government with the support of the Democratic Unionist Party of Northern Ireland. Snap election had resulted in a hung parliament (Conservatives lost 12 seats and Labour gained 29).
- **The Qatar diplomatic crisis begins. Qatar receives a list of demands from neighbouring countries, led by Saudi Arabia.**
- Saudi King Salman names son Mohammed bin Salman as first heir.
- **PwC says in a report that over 13,000 MW of hydropower projects are facing cost and time overruns.**
- India to become a full member of the Shanghai Cooperation Organisation (SCO), meaning the country will have a greater say in pushing for effective action in combating terrorism and on issues relating to security. SCO is seen as a counterbalance to NATO.
- **India No 2 in number of obese kids; China tops table**
- US Vice-President Mike Pence says: The Paris climate deal would have given a

virtual free pass to India and China and cost the American economy more than 6.5 million jobs.

- **French President Emmanuel Macron wins assembly elections.**
- Swiss banks' profit halves to CHF 7.9bn; staff count reduces.
- **India Ratings and Research (Ind-Ra) says in a report that coal availability declined at thermal power stations in April and May, with stocks touching critical levels and super critical levels at eight plants in India.**
- The Federal Reserve raises interest rates for the second time in three months, citing continued US economic growth and job market strength.
- **Turkey decides to stop teaching evolution to its students until their university level curriculum, deeming it controversial and too complex to understand.**
- Trump confirms that the United States will withdraw from the 2015 Paris Agreement on climate change mitigation.
- **FSSAI issues draft regulations for organic food products in India.**
- Turkey's president refuses a demand by major Arab states to remove Turkish troops from Qatar; says the list of ultimatums has threatened Qatar's sovereignty.

July

- **Goods and Services Tax launched in India – this is India's biggest tax reform in the 70 years of its independence.**
- Floods in Gujarat and West Bengal result in hundreds of deaths.
- **Ram Nath Kovind is the 14th President of India.**
- Ford recalls 117,000 vehicles for safety defect
- **On 4th July, North Korea tests its first intercontinental ballistic missile (capable of reaching Alaska) and later launches another ICBM (reportedly capable of reaching Chicago).**
- Bihar Chief Minister Nitish Kumar ends his 20-month-old Grand Alliance with Rashtriya Janata Dal (RJD) and the Congress. He forms a government with BJP's support.
- **Reliance Defence delivers two patrol vessels to the Indian Navy.**
- The Indian government tells the Supreme Court that the Income Tax Department's surveys, searches, and seizures over the last three years have resulted in about ₹ 720bn worth of undisclosed income coming to the fore.
- **Over 90,000 trucks stay off the road in Punjab to protest against the state government's move to disband truck unions.**
- The US starts rolling out its expedited-entry programme (for pre-approved, low-risk travellers) for India.
- **Singapore implements a new law that bans foreigners from taking part in protests.**
- Bank of Japan says business confidence hits three-year high.
- **The US House of Representatives passes a US$ 621.5bn defence expenditure bill that proposes to advance defence cooperation with India.**
- SEBI's analysis shows Indian CEOs earn up to 1,200 times the salary of their average staff. Public sector companies' CEOs' salaries were only 3-4x their median employee wages.
- **Supreme Court suspends ban on cattle trade for slaughter.**

August

- India's celebrates its 71st year of Independence.
- **Supreme Court bans instant triple talaq calling it unconstitutional. It also rules that 'privacy is intrinsic to life and liberty".**
- 'Godman' Gurmeet Ram Rahim Singh conviction in rape case leads to violence by Dera Sacha Sauda's followers in Punjab.
- India announces that it is to deport an estimated 40,000 Rohingya refugees.
- **Net migration to Britain falls to its lowest level in three years.**
- Philippines sees the largest increase in HIV/AIDS in the Asia Pacific region.
- **China issues its second safety advisory for travel to India citing train accidents, natural disasters, and frequent infectious diseases.**
- Mid-year Review tabled in Parliament: Government's capital expenditure will rise by 25% to ₹ 3,900bn by 2019-20; defence outlay alone will jump 22%
- **Hurricane Harvey brings death, destruction to Houston (US).**
- Rwanda's incumbent leader, Paul Kagame, secures a landslide victory in the country's presidential election. He has won international praise for his governance since the nation's 1994 genocide.

- **Millions of United States residents and visitors are able to witness a total solar eclipse that crosses through N. America.**
- Prince Philip, Duke of Edinburgh, retires from public appearances at the age of 96.
- **Pentagon says not to pay Pakistan US$ 300mn in military reimbursements.**
- India's highway liquor ban: The SC clarifies that the ban on sale of alcohol within 500 meters of state and national highways does not apply within city limits.
- **General Motors recalls nearly 800,000 pickup trucks worldwide.**
- Pakistan's new PM Shahid Khaqan Abbasi forms his cabinet.
- **India: Onion prices spike on tight supplies.**
- India's Lok Sabha passes Bill to replace NPA ordinance. This allows the RBI to directly intervene in bad-loan resolution.
- **Ahmed Patel retains his Rajya Sabha seat for the fifth time.**
- The Indian government annuls its fifth round of coal-mines auctions due to a tepid response.
- **India to get 10 military copters from Russia in first tranche.**
- USFDA hikes fees for processing ANDAs by US$ 100,000 for FY18.
- **Trump slams Pak over terror safe havens, warns of consequences.**
- India China agree to end border standoff in Doklam; both withdraw their armies.
- **Volkswagen US recalls over 280,000 vehicles to fix a faulty fuel pump.**

September

- **Trump announces an end to DACA, a program put in place to help young undocumented immigrants reach full citizenship. 15 states and DC sue the Trump administration over this.**
- Hyperloop signs pact to connect Vijayawada and Amaravati.
- **India: Suresh Prabhu takes charge as commerce & industry minister**
- India: Crisil forecasts bleak revival prospects for 21GW stressed assets in the power sector.
- **India: Lucknow Metro inaugurated.**
- Saudi king allows women to drive from 2018.
- **India: Retirement fund body EPFO says it has asked its field offices to take action against erring 700 PF trusts that have not filed online returns.**
- Japan agrees to help with the construction of an Indian bullet train.
- **Prominent Indian journalist and Lankesh Patrike editor Gauri Lankesh is shot dead outside her house in the city of Bengaluru.**
- 22 killed, many injured in a horrific railway station stampede in Mumbai.
- India's total renewable energy capacity crossed 60,000MW in the September quarter.
- **India's Telecom Commission extends the payment schedule for spectrum to 16 years (from 10).**
- India's PM Modi launches a ₹ 163.2bn scheme — Pradhan Mantri Sahaj Bijli Har Ghar Yojana 'Saubhagya' — to provide electricity connections to over 40mn families in rural and urban areas by December 2018.
- **S&P cuts China's credit rating over rising debt fears.**
- Home Minister Rajnath Singh says Rohingyas are not refugees but illegal immigrants who will be deported.
- **Rajiv Mehrishi, a 1978 batch IAS officer of the Rajasthan Cadre, takes charge as the Comptroller and Auditor General (CAG) of India.**
- North Korea conducts its sixth nuclear test, says it was a hydrogen bomb.
- **Rohingya Muslims flee as more than 2,600 houses burned in Myanmar's Rakhine.**
- China runs world's fastest commercial bullet train at 350 kmph.
- **US resumes processing H-1B visas after a five-month break.**
- UN imposes tough sanctions on N. Korea.
- **India agrees to provide further assistance to Afghan defence forces.**
- German Chancellor Angela Merkel wins a fourth term, but with a far less firm coalition.

October

- **The Catalan parliament voted in a secret ballot to unilaterally declare independence from Spain.**
- BJP emerges as the largest party in the Gram Panchayat Elections in Maharashtra for the first time followed by Congress.

- **The Maharashtra government (India) releases ₹ 40bn under the first phase of the over ₹ 340bn farm-loan waiver scheme.**
- 70 Indian words added to Oxford dictionary, including abba, anna, jugaad, dadagiri, funda, timepass, natak, and gulab jamun.
- **The New York Times publishes a story detailing decades of allegations of sexual harassment against Harvey Weinstein. Actors Rose McGowan and Ashley Judd are among the women who come forward.**
- An investigation by the Federation of Indian Animal Protection Organisations reveals animal cruelty in milk-producing centres in 10 states; milk from sick cows a major health hazard.
- **Asian Development Bank commits US$ 65.5mn to check coastal erosion in Karnataka.**
- Fake stamp-paper kingpin Abdul Karim Telgi dies.
- **Data shows that India's wind power installations fell sharply in the first half of the year.**
- The most powerful bomb blast ever witnessed in Somalia's capital kills hundreds of people.
- **India: The revamped Bureau of Indian Standards Act comes into force from Oct 12.**
- Inland Waterways Authority raises ₹ 6.6bn through bonds.
- **India rules out joining NPT as a non-nuclear weapon state.**
- India's Kaleshwaram irrigation project gets forest land clearance.
- **Wal-Mart says its online sales will growth 40% next year.**
- US economist Richard Thaler wins Economics Nobel; WSJ had reported that India's ex-RBI governor Raghuram Rajan was among the probables for the prestigious prize.
- **UN blacklists Saudi-led coalition for killing children in Yemen.**
- OnePlus gains over 50% of the Indian smartphone market share in Q2.
- **The Trump administration backs India's opposition to the China-Pakistan Economic Corridor; says it passes through disputed territory.**
- A gunman opens fire upon an outdoor concert in Las Vegas, USA; more than 60 people die and hundreds are injured.
- **King Salman of Saudi Arabia visits Russian President Vladimir Putin in Moscow.**

November

- India: GST rate on 178 daily items reduced to 18% from 28%.
- **Paradise Papers expose: 714 Indian entities linked to offshore accounts.**
- Journalists start reporting on the contents of 13.4 million documents leaked from the offshore law firm Appleby, along with business registries in 19 tax jurisdictions that reveal offshore financial activities of politicians, celebrities, corporate giants, and business leaders.
- **US unemployment rate falls to 4.1%, lowest in 17 years.**
- Chanda Kochhar, Priyanka Chopra in Forbes' list of world's most powerful women.
- **Bank of England lifts its official rate to 0.50% from 0.25%, its first increase in more than 10 years.**
- Hyderabad Metro Rail begins public operations.
- **Grey smog makes Indian capital Delhi's air 30 times more polluted than WHO's recommended limit, one year after a similar smog event.**
- Manushi Chhillar wins the 6th Miss World crown for India in Sanya, China.
- **32 die in an NTPC boiler explosion. More than 100 injured.**
- Kenneth Juster sworn in as US Ambassador to India.
- **Fed keeps interest rates unchanged, remains on road to December hike.**
- US President Trump selects Fed Governor Jerome Powell to become head of the US central bank.
- **The new president of Zimbabwe, Emmerson Mnangagwa, officially sworn in**
- India GDP shows 6.3% growth in the July-September quarter. It was 5.7% in the April-June quarter, and 7.5% in Q2FY17.
- **Shinzó Abe is officially reinstated as Prime Minister of Japan following elections in October.**
- Hundreds of sexual abuse victims and their supporters march in Hollywood, California.
- **An earthquake (7.3) on the Iran-Iraq border, just inside Iran, kills more than 600 people and injures more than 8,000.**

- **Italy fails to qualify (for the first time since 1958) for 2018 FIFA World Cup after being defeated by Sweden.**
- Salvator Mundi, a painting generally attributed to Leonardo da Vinci, is sold at auction Christie's in New York City for more than US$ 450mn; setting a new record for the sale of an original work of art.
- **Credit rating agencies declared that Venezuela was in default with its debt payments.**
- India: Income Tax notices sent to 116,000 for cash deposits of over ₹ 2.5mn.
- **Ivanka Trump comes to India (Hyderabad) to attend Global Entrepreneurs Summit.**
- As Pakistan frees 26/11 terror mastermind Hafiz Saeed, US says Pakistan should arrest and charge him for his crimes. In the same month, the nephew of 26/11's mastermind Lakhvi is killed in an encounter in J&K.
- **UN climate talks wrap up as US continues to defend the usage of fossil fuels.**
- Egypt mosque attack leaves more than 300 dead, and more than a hundred injured.

December

- Bitcoin futures get a go ahead to trade on the Chicago Mercantile Exchange.
- **The United States pulls out of the UN Global Compact on Migration. Under the Trump administration, the US has by this time pulled out of commitments such as UNESCO, UN cultural and educational body, and the 2015 Paris climate change accord.**
- South Korea and United States launch their largest-ever joint aerial drill called Vigilant Ace.
- **Cyclone Ockhi hits southern India causing deaths in Tamil Nadu and Kerala.**
- The Chabahar Port in Iran opens. Located in southeastern Iran on the Gulf of Oman, it serves as Iran's only oceanic port. It is jointly developed by India, Iran, and Afghanistan. The port is of great strategic importance to India because it allows India to bypass Pakistan to trade with Afghanistan and other central Asian countries.
- **The United States Senate passes the Republican tax reform bill – the largest change to the U.S. tax code in 30 years.**
- US Supreme Court allows Trump's travel ban (from eight countries, six of them from Muslim-majority countries) to take full effect.
- **Trump recognises Jerusalem as the capital of Israel; US starts the process of moving its embassy to Jerusalem from Tel Aviv.**
- Saudi Arabia lifts a ban on commercial cinemas that had lasted more than three decades.
- **Rahul Gandhi is elected unopposed as the head of the opposition Congress Party.**
- UP civic polls: BJP scores big, pockets 14 of 16 mayoral seats; BSP bags two.
- **In India, the centre says it plans to allow consumers to switch power service companies (an option currently available to telecom consumers).**
- Elite export-control regime Wassenaar Arrangement (WA) admits India as its new member.
- **Supreme Court allows use of petcoke by the cement industry.**
- Jharkhand coal scam case: Former CM Madhu Koda convicted
- **Scorpene-class submarine INS Kalvari joins Navy.**
- US mulls stopping spouses of H-1B visa holders from working.
- **Gujarat assembly polls: BJP wins with a majority, but its tally deteriorates while Congress' tally improves. BJP wins with a clear majority in Himachal Pradesh assembly polls.**
- South India film superstar Rajinikanth announces his entry into politics.
- **Shops, hotels in Maharashtra (India) are allowed to stay open round the clock.**
- India tops list of migrants living abroad at 17mn: UN.
- **India 2G scam: All 18 accused including A Raja acquitted.**
- Fodder scam: Court convicts Lalu Prasad, acquits Jagannath Mishra.
- **UN Security Council imposes new sanctions on North Korea.**
- Japan's November consumer prices rise for 11th straight month.
- **Saudi Arabia to impose a 5% value-added tax from 2018.**
- India spends only ₹ 6.45bn out of the ₹ 99bn it has set aside for the 'Smart City' mission.
- **US: For the first time in over 25 years, a Democrat wins a senate seat in Alabama.**
- Walt Disney buys Murdoch's Fox for US$ 52bn.

Indian Economy – Trend Indicators

Monthly Economic Indicators

Growth Rates (%)	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
IIP	4.9	5.7	4.9	5.7	2.6	3.8	1.9	3.8	3.2	2.8	-0.2	0.9	4.3	
PMI	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2
Core sector	3.1	5.3	7.1	3.2	5.6	3.4	0.6	5.3	2.8	4.1	0.8	2.6	4.9	
WPI	1.1	1.4	1.3	1.8	2.1	4.3	5.5	5.1	3.9	2.1	0.9	1.9	3.2	2.6
CPI	5.0	4.4	4.2	3.6	3.4	3.2	3.7	3.8	3.0	2.2	2.4	3.3	3.3	-0.6
Money Supply	10.3	12.1	10.9	8.5	6.2	6.4	6.5	7.3	6.2	7.0	7.4	7.1	7	6
Deposit	9.2	11.3	9.8	15.3	14.5	13.2	12.1	11.2	9.7	10.3	10.5	9.8	9.7	8.1
Credit	9.6	11.2	8.8	4.7	4.7	4.6	4.4	4.7	3.9	4.7	5.6	5.79	5.89	6.5
Exports	-0.3	4.6	9.6	2.3	5.7	4.3	17.5	27.6	19.8	8.3	4.4	3.9	10.3	25.7
Imports	-14.1	-2.5	8.1	10.4	0.5	10.7	21.8	45.3	49.1	33.1	19.0	15.4	21.0	18.1
Trade deficit (USD Bn)	-7.7	-8.3	-10.2	-13.0	-10.4	-9.8	-8.9	-10.4	-13.2	-13.8	-13.0	-11.4	-11.6	-9.0
Net FDI (USD Bn)	4.4	4.6	2.4	4.5	2.7	3.8	1.1	0.6	1.8	3.8	1.6	4.0	8.6	
FII (USD Bn)	1.0	3.0	-1.8	-5.5	-4.0	-0.4	2.5	9.0	2.7	4.7	4.7	4.6	3.3	0.6
ECB (USD Bn)	3.2	2.5	1.8	0.5	2.8	1.8	2.2	3.3	1.7	1.1	1.6	1.9	1.6	
Dollar-Rupee	67.0	66.6	66.8	68.4	67.9	67.9	66.7	64.9	64.2	64.5	64.6	64.2	63.9	65.3
FOREX Reserves (USD Bn)	366.8	372.0	367.2	365.3	360.3	361.6	362.8	370.0	372.7	378.8	386.5	392.9	394.6	399.7
NRI Deposits (USD Bn)	130.1	130.0	124.4	113.1	109.8	110.1	111.6	116.9	117.2	117.5	118.1	119.2	118.5	

Quarterly Economic Indicators

Balance of Payment (USD Bn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Exports	68.0	67.6	64.9	65.8	66.6	67.4	68.8	77.4	73.7
Imports	102.2	104.7	98.9	90.6	90.5	93.1	102.0	107.1	114.9
Trade deficit	-34.2	-37.2	-34.0	-24.8	-23.8	-25.6	-33.3	-29.7	-41.2
Net Invisibles	28.0	28.6	26.9	24.4	23.4	22.2	25.3	26.3	26.9
CAD	-6.1	-8.6	-7.1	-0.3	-0.4	-3.4	-8.0	-3.5	-14.3
CAD (% of GDP)	1.2	1.7	1.3	0.1	0.0	0.0	1.4	0.6	2.4
Capital Account	18.6	8.1	10.9	3.5	7.2	12.8	6.1	10.4	25.4
BoP	11.4	-0.9	4.1	3.3	7.0	8.5	-1.2	7.3	11.4

GDP and its Components (YoY, %)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Agriculture & allied activities	2.6	2.3	-2.1	1.5	2.5	4.1	6.9	5.2	2.3
Industry	7.1	9.2	12.0	11.9	9.0	6.5	7.2	5.5	1.5
Mining & Quarrying	11.2	12.2	11.7	10.5	-0.9	-1.3	1.9	6.4	-0.7
Manufacturing	8.5	9.3	13.2	12.7	10.7	7.7	8.2	5.3	1.2
Electricity, Gas & Water Supply	2.5	5.7	4.0	7.6	10.3	5.1	7.4	6.1	7.0
Services	8.3	9.0	9.0	9.4	8.2	7.4	6.4	5.7	7.8
Construction	4.8	1.6	6.0	6.0	3.1	4.3	3.4	-3.7	2.0
Trade, Hotel, Transport and Communications	10.6	8.3	10.1	12.8	8.9	7.7	8.3	6.5	11.1
Finance, Insurance, Real Estate & Business Services	10.2	13.0	10.5	9.0	9.4	7.0	3.3	2.2	6.4
Community, Social & Personal Services	6.3	7.2	7.5	6.7	8.6	9.5	10.3	17.0	9.5
GDP at FC	7.8	8.2	7.3	8.7	7.6	6.8	6.7	5.6	5.6

Annual Economic Indicators and Forecasts

Indicators	Units	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Real GDP/GVA growth	%	8.6	8.9	6.7	6	5.6	7.1	7.9	6.6	6.5-6.7	7-7.5
Agriculture	%	0.8	8.6	5	1.5	4.2	-0.2	0.7	4.9	2	3
Industry	%	10.2	8.3	6.7	5	4.5	6.5	10.2	7	4.9	5.8
Services	%	10	9.2	7.1	6.1	8.2	9.4	9.1	6.9	8.6	8.8
Real GDP	₹ Bn	45161	49185	52475	85992	90844	97190	104905	111854	119349	127942
Real GDP	US$ Bn	953	1079	1096	1694	1581	1589	1603	1667	1843	1984
Nominal GDP	₹ Bn	64778	77841	87360	99466	112366	124451	136820	151837	167173	186230
Nominal GDP	US$ Bn	1367	1707	1824	1828	1859	2035	2090	2264	2582	2887
WPI (Average)	%	3.8	9.6	8.7	7.4	6	2	-2.5	3.7	3	3.5-4
CPI (Average)		12.4	10.4	8.3	10.2	9.5	6.4	4.9	4.5	3.4	3.7-4.2
Money Supply	%	19.2	16.2	15.8	13.6	13.5	12	10.3	7.3	9.5	10
CRR	%	5.75	6	4.75	4	4	4	4	4	4	4
Repo rate	%	5	6.75	8.5	7.5	8	7.5	6.75	6.25	6	6
Reverse repo rate	%	3.5	5.75	7.5	6.5	7	6.5	5.75	5.75	5.75	5.75
Bank Deposit growth	%	17.2	15.9	13.5	14.2	14.6	12.1	9.7	11.2	8	11
Bank Credit growth	%	16.9	21.5	17	14.1	13.5	12.5	10.7	4.7	9	10
Centre Fiscal Deficit	₹ Bn	4140	3736	5160	5209	5245	5107	5328	5343	5684	5959
Centre Fiscal Deficit	% of GDP	6.4	4.8	5.7	5.2	4.6	4.1	3.9	3.5	3.4	3.2
State Fiscal Deficit	% of GDP	2.9	2.1	1.9	2	2.2	2.6	3.6	3	3.5	3.2
Consolidated Fiscal Deficit	% of GDP	9.3	6.9	7.6	6.9	7.1	6.6	7.5	6.5	6.9	6.4
Exports	US$ Bn	182.4	251.1	309.8	306.6	318.6	316.7	266.4	280.1	299.7	305.7
YoY Growth	%	-3.5	37.6	23.4	-1	3.9	-0.6	-15.9	5.2	7	2
Imports	US$ Bn	300.6	381.1	499.5	502.2	466.2	460.9	396.4	392.6	459.3	470.8
YoY Growth	%	-2.5	26.7	31.1	0.5	-7.2	-1.1	-14	-1	17	2.5
Trade Balance	US$ Bn	-118.2	-129.9	-189.8	-195.6	-147.6	-144.2	-130.1	-112.4	-159.6	-165.1
Net Invisibles	US$ Bn	80	84.6	111.6	107.5	115.2	116.2	107.9	97.1	108.3	116.2
Current Account Deficit	US$ Bn	-38.2	-45.3	-78.2	-88.2	-32.4	-27.9	-22.2	-15.3	-51.2	-48.8
CAD (% of GDP)	%	-2.8	-2.6	-4.2	-4.7	-1.7	-1.4	-1.1	-0.7	-2	1.5-2
Capital Account Balance	US$ Bn	51.6	62	67.8	89.3	48.8	90	41.1	36.5	64.9	82
Dollar-Rupee (Average)		47.4	45.6	47.9	54.4	60.5	61.2	65.5	67	64.8	64.5

Source: RBI, CSO, CGA, Ministry of Agriculture, Ministry of commerce, Bloomberg, PhillipCapital India Research

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹mn)		EBIDTA (₹mn)		PAT (₹mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Mahindra & Mahindra	Automobiles	1,335	829,314	469,648	512,657	64,339	70,743	38,972	42,877	66	72	5.7	10.0	20.3	18.5	2.7	2.5	13.2	12.0	13.4	13.3	11.5	11.6
Escorts	Automobiles	730	89,475	48,701	55,226	4,864	6,398	3,248	4,377	27	37	76.8	34.8	26.8	19.9	4.5	3.7	18.2	13.3	16.9	18.7	15.5	17.9
Tata Motors	Automobiles	435	1,378,765	2,882,226	3,233,423	358,292	511,906	85,415	171,957	27	53	43.2	101.3	16.4	8.1	2.1	1.7	5.5	3.7	13.1	21.3	5.1	9.6
Bharat Forge	Automobiles	695	323,654	82,880	93,446	17,594	20,766	9,065	11,280	39	48	59.3	24.4	17.9	14.3	3.5	2.9	19.0	16.0	19.3	20.2	15.6	17.0
Bajaj Auto	Automobiles	3,241	937,867	240,876	272,778	46,878	54,962	41,416	47,952	143	166	8.2	15.8	22.6	19.6	4.8	4.2	19.8	16.8	21.3	21.3	21.5	21.8
Hero MotoCorp	Automobiles	3,733	745,478	321,711	367,889	55,656	62,715	40,793	44,039	204	221	20.8	8.0	18.3	16.9	6.1	5.0	13.4	11.9	33.2	29.8	33.8	30.6
Apollo Tyres	Automobiles	237	120,715	146,541	163,475	18,093	23,837	9,154	12,457	18	24	-16.7	36.1	13.2	9.7	1.5	1.3	8.6	6.4	11.3	13.5	7.6	9.7
Mahindra CIE	Automobiles	246	93,204	66,956	72,789	9,384	10,440	5,040	6,258	13	17	37.1	24.1	18.5	14.9	2.2	2.3	9.7	8.6	13.7	15.3	21.6	27.1
Ceat	Automobiles	1,689	68,302	64,527	72,822	6,494	9,559	3,329	5,402	82	133	-19.2	62.3	20.6	12.7	2.6	2.2	11.5	7.7	12.6	17.4	10.7	15.4
Ramkrishna Forgings	Automobiles	734	23,922	10,900	13,306	2,189	2,803	529	989	16	30	144.3	87.0	45.2	24.2	3.3	2.9	13.5	10.1	7.2	12.0	11.2	13.7
Maruti Suzuki	Automobiles	8,215	2,481,678	752,966	852,355	111,138	130,183	79,929	94,348	265	312	8.9	18.0	31.0	26.3	5.8	4.9	22.4	19.1	18.7	18.7	19.0	19.2
Ashok Leyland	Automobiles	125	365,671	221,827	257,841	24,091	28,260	13,488	16,268	5	6	-14.3	20.6	26.4	21.9	4.9	4.1	15.0	12.4	18.5	18.6	17.6	18.5
BHEL	Capital Goods	98	358,512	305,572	336,381	18,613	28,947	11,072	18,991	5	8	7.6	71.5	21.6	12.6	0.7	0.7	13.0	8.2	3.3	5.5	3.1	4.8
Larsen & Toubro	Capital Goods	1,211	1,695,991	1,239,144	1,405,735	131,752	151,037	71,840	81,660	51	58	21.1	13.5	23.6	20.8	3.1	2.8	20.0	17.8	13.0	13.2	6.1	6.2
VA Tech Wabag	Capital Goods	588	32,096	34,907	38,142	3,376	3,897	1,624	2,049	30	38	60.1	26.2	19.7	15.6	2.9	2.5	9.4	7.5	14.5	16.0	11.7	12.4
CG Power & Industrial	Capital Goods	85	53,555	58,417	67,566	5,201	6,977	1,542	3,090	2	5	-15.6	100.5	34.7	17.3	1.3	1.3	11.1	8.4	3.7	7.2	3.5	5.0
GE T&D	Capital Goods	400	102,380	51,481	57,424	4,289	4,908	2,577	3,031	10	12	97.7	17.6	39.7	33.8	8.3	7.0	24.9	21.5	21.0	20.8	22.4	22.6
Voltas	Capital Goods	546	180,547	69,762	77,439	6,339	7,032	4,953	5,412	15	16	12.4	9.3	36.4	33.3	5.0	4.5	28.1	24.8	13.7	13.4	14.1	13.9
Bharat Electronics	Capital Goods	185	455,158	100,063	110,024	19,075	20,850	14,920	16,683	7	7	-9.9	11.8	27.7	24.8	5.0	4.5	21.1	18.4	18.0	17.9	14.8	16.1
Engineers India	Capital Goods	184	123,689	17,441	27,307	3,355	5,373	3,296	4,399	5	7	-8.3	33.4	35.2	26.4	5.3	4.8	30.9	19.0	14.9	18.4	14.4	21.6
KEC International	Capital Goods	306	78,746	96,410	111,795	9,767	11,573	4,202	5,355	16	21	25.6	27.4	18.7	14.7	4.0	3.3	9.6	8.1	21.6	22.3	13.6	14.7
Cummins India	Capital Goods	896	248,496	54,701	63,351	9,104	10,812	8,206	9,511	31	34	17.7	10.0	28.7	26.1	6.1	5.7	27.2	22.9	20.1	21.8	20.6	21.5
Siemens	Capital Goods	1,273	453,216	116,504	138,484	13,303	16,040	8,660	10,509	24	30	36.5	21.4	52.3	43.1	6.1	5.7	31.0	25.5	11.7	13.2	10.0	11.3
ABB India	Capital Goods	1,385	293,483	96,854	111,109	8,853	11,137	4,925	6,369	23	30	31.5	29.3	59.6	46.1	8.1	7.3	32.1	25.4	13.6	15.8	12.3	14.4
Thermax	Capital Goods	976	116,350	48,706	53,918	4,655	5,827	2,976	3,827	25	32	0.2	28.6	39.1	30.4	4.2	3.8	24.4	19.1	10.8	12.6	10.8	12.4
Inox Wind	Capital Goods	138	30,669	50,119	58,869	7,735	9,283	4,493	5,712	20	26	-1.6	27.1	6.8	5.4	1.2	1.0	4.0	3.1	17.7	19.3	13.5	15.9
India Cement	Cement	189	58,379	63,900	68,226	9,480	11,346	2,737	4,253	9	14	67.8	55.4	21.3	13.7	1.1	1.1	9.2	7.4	5.2	7.7	5.2	6.7

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
JK Lakshmi Cement	Cement	435	51,181	35,758	39,746	5,350	7,012	1,542	2,726	13	23	90.9	76.8	33.2	18.8	3.3	2.9	12.6	9.3	10.0	15.6	8.6	12.0
JK Cement	Cement	1,008	70,491	43,854	51,242	8,331	9,477	3,012	3,876	43	55	32.6	28.7	23.4	18.2	3.5	3.1	11.2	9.6	15.1	17.3	9.1	10.4
Mangalam Cement	Cement	394	10,508	9,922	11,413	1,628	2,257	682	1,096	26	41	98.6	60.6	15.4	9.6	1.8	1.6	8.7	5.7	11.7	16.7	8.9	12.7
Dalmia Bharat	Cement	3,073	273,419	88,437	97,219	24,976	28,096	6,608	8,769	74	99	91.6	32.7	41.3	31.1	5.7	4.8	12.8	10.9	13.7	15.4	9.4	10.5
Ambuja Cement	Cement	280	555,087	239,971	277,037	38,078	48,425	17,400	22,120	9	11	34.7	27.1	31.9	25.1	2.7	2.6	13.3	10.5	8.6	10.3	8.0	9.9
Ultratech Cement	Cement	4,399	1,207,715	338,001	446,092	71,792	99,280	32,513	46,454	118	169	19.8	42.9	37.1	26.0	4.4	3.8	19.1	13.4	11.9	14.8	9.2	10.4
HeidelbergCement India	Cement	155	35,023	19,946	21,147	3,182	3,605	1,164	1,602	5	7	72.2	37.6	30.1	21.9	3.3	2.9	12.4	10.3	10.9	13.1	8.6	10.0
ACC	Cement	1,799	337,904	126,710	145,238	15,811	21,987	8,286	12,444	44	66	28.9	50.2	40.8	27.2	3.8	3.6	20.3	14.7	9.3	13.2	8.1	11.7
OCL India	Cement	1,474	83,854	33,165	-	6,592	-	3,721	-	65		15.4	-	22.5	-	4.3	-	11.8	-	19.3		20.6	-
Shree Cement	Cement	19,128	666,377	100,942	119,136	29,401	37,197	15,868	20,868	455	599	18.7	31.5	42.0	31.9	8.2	6.9	21.8	17.1	19.5	21.5	19.4	23.4
ICICI Bank	Banks	317	2,031,671	226,675	252,895	227,622	229,629	77,783	99,070	12	15	-28.0	27.1	26.1	20.6	2.0	1.9	8.9	8.8	7.7	9.4	1.7	1.7
State Bank of India	Banks	314	2,713,485	766,859	848,570	526,645	566,964	93,642	178,356	11	21	-597.7	90.5	28.9	15.1	1.4	1.3	5.2	4.8	5.0	8.7	0.3	0.5
Bank of Baroda	Banks	170	390,670	144,105	166,072	109,408	114,325	13,413	39,306	6	17	-3.0	193.0	29.2	10.0	1.0	1.0	3.6	3.4	3.6	10.0	0.2	0.5
Punjab National Bank	Banks	197	419,848	165,019	200,775	151,294	178,557	21,145	43,048	10	19	55.5	99.0	20.4	10.2	1.0	0.9	2.8	2.4	101.6	132.4	0.3	0.6
LIC Housing Finance	Banks	605	305,498	37,364	41,824	32,587	36,361	20,156	22,642	40	45	4.4	12.3	15.2	13.5	2.4	2.1	9.4	8.4	16.9	16.6	1.3	1.3
Repco Home Finance	Banks	613	38,378	4,069	4,848	3,644	4,327	1,973	2,500	32	40	8.2	26.6	19.5	15.4	3.0	2.5	10.5	8.9	16.3	17.7	2.0	2.2
Canara Bank	Banks	403	240,529	113,918	130,134	92,397	93,958	10,996	14,945	18	24	-34.3	33.7	22.3	16.7	0.8	0.8	2.6	2.6	3.8	4.9	0.2	0.2
HDFC Limited	Banks	1,762	2,806,841	110,346	127,268	120,602	138,216	78,938	89,903	50	57	6.1	13.9	35.5	31.1	6.4	5.7	23.3	20.3	18.9	19.3	2.3	2.2
AXIS Bank	Banks	532	1,275,880	187,025	210,987	160,239	169,786	46,588	70,829	19	29	26.0	51.3	27.5	18.2	-	2.0	8.0	7.5	-	11.6	-	1.1
Indian Bank	Banks	336	161,354	60,389	68,718	46,374	50,325	19,345	23,991	37	45	25.3	24.0	9.2	7.4	1.0	0.9	3.5	3.2	10.5	8.3	0.7	0.5
HDFC Bank	Banks	1,822	4,708,300	401,934	476,616	311,413	370,126	177,343	212,107	69	83	21.9	19.6	26.3	22.0	4.5	3.9	15.1	12.7	18.4	19.1	2.0	2.0
Indusind Bank	Banks	1,628	974,558	77,698	98,061	70,841	89,858	38,433	49,655	64	83	34.0	29.2	25.3	19.6	4.1	3.4	13.8	10.8	17.2	19.0	2.0	2.1
DCB Bank	Banks	180	55,461	9,910	12,277	5,367	7,118	2,754	3,847	9	13	28.2	39.7	20.1	14.4	1.9	1.7	10.3	7.8	10.9	12.5	1.1	1.2
Union Bank	Banks	171	124,256	94,881	105,446	72,152	70,586	5,240	8,474	6	9	-20.2	41.2	26.5	18.8	0.5	0.5	1.7	1.8	4.5	9.3	0.1	0.2
Oriental Bank of Com	Banks	139	48,014	52,521	58,194	39,907	41,551	-5,441	-1,222	-14	-3	-54.6	-79.1	-9.7	-46.2	0.4	0.4	1.2	1.2	-4.3	-1.0	-0.2	-0.0
Dewan Housing Fin	Banks	650	203,730	23,486	28,015	19,846	24,239	11,423	14,462	-	-	-	-	-	-	-	-	10.3	8.4	13.4	15.0	1.2	1.3
Britannia	FMCG	4,658	559,223	102,978	115,529	15,080	18,408	10,185	12,246	85	102	28.5	20.2	54.8	45.6	16.4	13.2	36.6	29.8	29.8	28.8	32.3	31.2

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Jubilant Foodworks	FMCG	1,618	106,742	29,016	32,884	2,669	3,262	833	1,111	13	17	38.0	33.3	127.1	95.3	11.6	10.3	39.6	32.2	9.1	10.9	9.1	11.0
ITC	FMCG	266	3,235,089	422,736	468,424	162,039	185,526	111,133	126,312	9	11	6.4	13.7	28.7	25.3	9.1	8.9	19.5	17.0	31.5	35.1	23.9	26.6
Hindustan Unilever	FMCG	1,242	2,687,199	393,154	437,031	79,598	89,039	52,150	58,426	24	27	20.3	12.0	51.6	46.1	35.7	30.9	33.3	29.6	69.1	67.0	73.8	72.4
Colgate	FMCG	1,040	282,743	42,826	48,660	10,239	12,680	6,319	7,848	23	29	9.4	24.2	44.7	36.0	18.7	15.4	27.5	21.9	41.9	42.7	45.4	46.9
Glaxo Smithkline Cons	FMCG	5,384	226,423	45,920	51,195	7,638	8,718	8,060	9,157	192	218	12.7	13.6	28.1	24.7	7.2	6.3	24.8	21.3	25.6	25.7	27.2	27.3
Titan Company	FMCG	655	581,633	146,821	168,169	14,271	17,027	9,640	11,658	11	13	23.8	20.9	60.3	49.9	11.9	10.3	40.3	33.8	21.0	22.1	21.6	22.7
Asian Paints	FMCG	1,178	1,130,319	191,772	221,379	32,416	38,431	21,620	25,753	23	27	7.2	19.1	52.3	43.9	12.9	11.3	34.5	29.0	24.7	25.6	24.0	25.1
Godrej Consumer Prod	FMCG	978	666,340	103,223	114,634	21,554	24,001	15,061	16,866	22	25	-43.1	12.0	44.2	39.5	10.2	8.5	31.5	27.8	23.1	21.5	17.1	17.5
Emami	FMCG	1,257	285,196	35,115	39,502	9,503	10,695	6,661	7,537	29	33	21.1	13.2	42.8	37.8	15.2	12.7	29.7	25.8	35.4	33.7	22.1	23.9
Agro Tech Foods	FMCG	538	13,118	8,558	9,174	760	913	389	499	16	20	57.4	28.3	33.7	26.3	3.4	3.1	17.6	14.3	10.0	11.9	9.8	11.7
Marico Industries	FMCG	312	403,143	73,527	83,627	14,084	16,186	9,762	11,311	8	9	13.9	15.9	41.3	35.6	13.4	11.3	27.9	24.0	32.5	31.8	30.8	30.6
Dabur India	FMCG	342	602,968	84,552	93,342	16,043	18,061	13,803	15,648	8	9	8.1	13.4	43.7	38.5	10.7	9.1	37.8	33.0	24.4	23.6	22.3	22.1
Bajaj Corp	FMCG	468	69,001	8,482	9,324	2,679	2,995	2,374	2,650	16	18	1.9	11.6	29.1	26.0	15.1	16.0	25.9	23.3	51.9	61.5	49.7	59.4
Parag Milk Foods	FMCG	271	22,829	19,114	22,326	2,058	2,535	980	1,278	12	15	31.4	30.4	23.3	17.9	2.8	2.4	11.5	9.1	11.8	13.4	12.6	14.1
Nestle	FMCG	7,288	702,663	103,361	115,903	20,593	23,864	12,062	14,252	125	148	19.5	18.2	58.3	49.3	21.3	19.4	34.0	28.5	36.6	39.4	37.9	40.9
Sadbhav Engineering	Infrastructure	311	53,281	38,184	43,911	4,105	4,830	1,985	2,140	12	12	5.7	7.8	26.8	24.9	2.9	2.6	16.6	14.1	10.7	10.4	9.4	9.2
KNR Construction	Infrastructure	278	39,078	16,359	20,448	2,290	2,863	1,364	1,548	10	11	12.8	13.5	28.7	25.2	4.0	3.5	18.0	14.5	15.0	14.7	13.6	13.3
JKumar Infra	Infrastructure	251	18,962	17,250	21,562	2,932	3,666	1,184	1,614	16	21	12.2	36.4	16.0	11.7	1.3	1.2	7.6	6.4	8.2	10.3	8.3	9.8
IRB Infrastructure	Infrastructure	241	84,770	63,658	70,244	35,748	41,446	6,561	6,920	19	20	1.9	5.5	12.9	12.2	1.3	1.2	6.8	5.7	10.0	9.7	3.8	4.3
Ahluwalia Contracts	Infrastructure	311	20,850	16,120	19,344	2,055	2,611	1,121	1,544	17	23	30.3	37.8	18.6	13.5	3.5	2.9	10.0	7.7	20.3	23.3	19.6	22.8
PNC Infratech	Infrastructure	204	52,244	24,170	29,004	3,190	3,829	1,849	2,057	7	8	-6.2	11.3	28.3	25.4	3.0	2.7	16.4	13.7	11.3	11.4	11.1	11.2
Adani Ports & SEZ	Infrastructure	437	905,524	100,576	115,115	64,808	74,459	35,135	41,955	17	20	-5.9	19.4	25.8	21.6	4.4	3.7	16.9	14.3	16.9	17.0	10.8	11.5
NCC	Infrastructure	110	61,013	99,079	113,933	9,165	10,539	3,708	4,636	7	8	33.1	25.0	16.5	13.2	1.5	1.4	8.3	7.3	9.3	10.5	11.1	11.7
ITD Cementation	Infrastructure	186	28,929	28,780	-	3,022	-	1,214	-	8		23.2	-	23.8	-	3.8	-	10.9	-	16.0		15.6	-
Hindustan Construction	Infrastructure	39	39,822	41,400	49,680	4,968	5,962	1,524	3,049	2	3	89.0	100.1	26.1	13.1	1.4	1.3	12.3	9.9	5.5	10.2	6.4	8.7
Ashoka Buildcon	Infrastructure	234	43,699	34,938	40,130	10,142	10,872	-406	-310	-2	-2	291.5	-23.6	-107.6	-140.8	2.7	2.8	8.7	8.0	-2.5	-2.0	6.1	6.5
Cyient Limited	IT Services	544	61,217	38,998	43,692	5,383	6,376	4,098	4,823	36	43	10.7	17.7	14.9	12.7	2.6	2.3	9.6	7.8	17.2	17.8	16.3	17.2

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
L&T Technology Serv	IT Services	827	84,351	35,630	40,556	6,297	7,565	4,807	5,737	47	56	13.1	19.3	17.5	14.7	4.4	3.5	13.7	11.3	25.3	24.1	26.3	25.0
Tech Mahindra	IT Services	468	456,623	316,144	337,980	49,836	55,179	32,481	36,377	37	42	11.8	12.0	12.6	11.3	2.4	2.0	8.6	7.4	18.7	18.2	15.1	15.2
HCL Technologies	IT Services	856	1,221,074	504,696	544,999	108,405	117,064	84,599	90,831	61	65	1.3	7.4	14.1	13.1	2.9	-	11.2	10.2	22.8	22.2	22.8	22.1
NIIT Technologies	IT Services	644	39,547	30,453	32,652	5,094	5,544	2,921	3,248	48	53	11.3	11.2	13.5	12.1	2.1	2.0	6.0	5.2	15.2	16.3	14.9	15.4
KPIT Technologies	IT Services	149	29,358	35,485	37,438	4,296	4,669	2,642	2,891	14	15	13.9	9.4	10.8	9.9	1.6	1.4	6.1	5.1	14.6	13.7	13.2	12.8
Persistent Systems	IT Services	655	52,380	31,926	34,204	5,190	5,689	3,493	3,805	44	48	10.1	9.0	15.0	13.8	2.4	2.2	9.7	8.7	16.3	15.6	16.2	15.6
Wipro	IT Services	293	1,427,157	580,828	610,615	114,608	121,746	90,660	96,598	37	40	8.1	6.5	7.8	7.4	1.3	1.2	12.7	11.6	16.3	15.6	16.0	15.4
Mindtree	IT Services	474	79,665	58,111	62,793	8,385	9,256	5,425	5,948	32	35	20.4	9.6	14.7	13.4	2.7	2.4	9.1	8.0	18.2	17.7	19.2	18.7
Tata Consultancy	IT Services	2,626	5,174,639	1,295,897	1,380,128	343,516	358,423	274,608	287,294	139	146	5.5	4.6	18.8	18.0	5.1	4.9	14.7	14.0	27.0	27.0	28.2	26.8
Infosys Technologies	IT Services	923	2,119,895	775,133	852,350	211,246	229,930	164,562	178,936	72	78	14.4	8.7	12.8	11.8	2.7	2.7	7.9	7.2	21.3	22.9	22.7	23.1
Intellect Design Arena	IT Services	148	19,969	10,040	11,187	756	906	299	447	-	-	-	-	-	-	2.4	2.3	29.8	25.1	-	-	2.3	2.9
Majesco	IT Services	526	12,382	8,185	9,883	18	504	-90	226	-4	10	-163.9	-350.3	-136.9	54.7	4.3	4.0	645.7	23.2	-3.1	7.2	-0.7	5.4
Dish TV	Media	76	81,068	31,694	34,904	9,954	12,365	1,614	2,633	2	2	5.0	63.1	50.2	30.8	12.2	8.8	8.4	6.2	24.4	28.5	28.0	28.8
Hindustan Media Vent	Media	234	17,192	10,021	10,741	2,332	2,641	2,145	2,478	29	34	10.8	15.5	8.0	6.9	1.3	1.1	7.0	5.4	15.6	15.4	17.2	16.9
DB Corp Limited	Media	370	68,047	24,602	26,994	7,192	8,230	4,325	5,153	24	28	16.0	19.1	15.7	13.2	3.7	3.3	8.8	7.4	23.5	24.7	21.6	23.0
Zee Entertainment	Media	529	508,317	67,083	75,250	21,685	25,223	15,053	17,946	16	19	46.6	19.2	33.8	28.3	4.9	4.5	20.9	17.7	14.5	16.0	18.0	16.7
Jagran Prakashan	Media	179	58,468	24,808	27,029	7,171	5,500	4,327	5,179	14	33	16.5	139.4	13.1	5.5	2.6	-	7.8	10.6	19.5		15.7	35.8
Ortel Communications	Media	31	952	3,025	3,468	1,084	1,308	88	319	3	11	-29.9	262.7	10.8	3.0	0.6	0.5	2.4	1.6	5.5	16.6	8.1	11.2
HT Media	Media	103	23,857	26,025	27,677	3,449	3,783	2,063	2,375	9	10	21.1	15.1	11.6	10.0	0.9	0.8	7.7	6.1	8.1	8.4	8.2	8.5
Hindalco Inds	Metals	271	607,570	1,071,588	1,074,324	137,352	138,599	33,525	45,005	16	22	11.5	34.2	16.7	12.4	1.3	1.2	8.4	7.8	7.6	9.3	5.5	6.1
JSW Steel	Metals	266	643,464	591,212	631,337	147,638	157,297	50,833	56,318	210	233	17.8	10.8	1.3	1.1	0.2	0.2	6.9	5.9	19.0	17.6	10.1	10.0
Tata Steel	Metals	706	685,776	1,239,565	1,267,471	210,463	221,444	68,724	79,305	71	82	74.1	15.4	10.0	8.6	1.9	1.6	6.9	6.2	18.5	18.0	7.2	7.5
Hindustan Zinc	Metals	322	1,359,496	211,706	234,043	126,959	146,435	97,857	116,770	23	28	17.7	19.3	13.9	11.6	3.7	3.1	9.0	7.3	26.4	26.2	31.8	30.1
Vedanta	Metals	341	1,265,705	876,762	999,234	247,270	314,566	95,991	145,571	26	39	70.6	51.7	13.2	8.7	1.9	1.6	7.2	5.3	14.3	18.7	11.3	14.3
NALCO	Metals	93	179,859	88,024	92,129	18,482	21,029	11,467	13,078	6	7	120.3	14.1	15.7	13.8	1.7	1.6	8.1	7.2	10.8	11.6	9.4	10.2
SAIL	Metals	80	329,581	511,379	565,680	44,805	68,841	-4,909	6,952	-1	2	-81.2	-241.6	-67.1	47.4	0.9	0.9	17.4	11.2	-1.3	1.9	1.4	2.8
Praj Inds.	Logistics	77	13,882	14,084	16,481	1,931	2,474	1,354	1,754	8	10	69.5	29.5	10.1	7.8	1.9	1.6	6.6	4.8	18.3	20.8	18.2	21.0

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	**Sector**	**₹**	**₹ bn**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Pennar Inds.	Logistics	69	8,298	19,052	22,465	2,411	2,375	893	562	7	5	32.9	-37.0	9.3	14.8	1.3	1.2	4.4	4.3	14.0	7.8	15.9	11.5
Indo Count Industries	Logistics	112	22,148	20,813	22,707	3,329	3,782	1,800	2,121	9	11	-22.5	17.9	12.3	10.4	2.2	1.9	7.3	6.5	18.0	18.2	17.1	17.4
PEBS	Logistics	104	3,553	5,700	6,939	618	813	268	368	8	11	10.0	37.1	13.2	9.7	1.4	1.3	6.5	5.2	10.9	13.4	12.0	14.2
Sintex Industries	Logistics	27	15,119	108,439	123,311	20,034	22,374	8,378	8,641	16	17	30.7	3.1	1.7	1.6	0.2	0.2	4.5	4.0	11.4	10.6	7.1	7.4
KDDL	Logistics	235	2,543	5,513	6,569	459	609	97	166	10	16	228.4	70.0	24.3	14.3	2.8	2.5	8.7	6.5	11.4	17.2	7.8	10.1
Gateway Distriparks	Logistics	272	29,579	4,325	4,920	1,119	1,388	1,058	1,487	10	14	42.8	40.5	27.9	19.9	2.9	2.8	28.3	22.7	10.4	13.9	9.9	13.5
Container Corp Of India	Logistics	1,379	336,196	59,870	70,369	12,599	15,497	8,952	11,010	37	45	24.5	23.0	37.6	30.5	3.6	3.4	26.5	21.5	9.6	11.2	9.9	11.6
Navkar	Logistics	194	27,595	7,908	9,875	3,161	3,998	2,047	2,751	14	19	71.6	34.4	13.5	10.0	1.6	1.4	9.5	6.8	12.2	13.6	11.5	13.3
Allcargo Logistics	Logistics	179	44,999	60,190	66,166	5,036	5,769	2,561	3,154	10	13	10.5	23.1	17.6	14.3	2.3	2.1	9.7	8.4	13.0	14.4	11.9	12.6
VRL Logistics	Midcap	370	33,774	18,945	20,659	2,477	2,957	967	1,229	11	13	37.2	27.1	34.9	27.5	5.8	5.3	14.1	11.7	16.7	19.3	12.9	15.7
V-Guard Industries	Midcap	225	95,505	5,700	6,939	618	813	268	368	8	11	10.0	37.1	28.7	21.0	3.1	2.8	155.4	118.4	10.9	13.4	12.0	14.2
Bajaj Electricals	Midcap	393	39,899	46,459	-	3,127	-	1,635	-	16		51.8	-	24.4	-	3.2	-	14.1	-	13.2	-	10.9	-
Finolex Cables	Midcap	626	95,679	5,700	6,939	618	813	268	368	8	11	10.0	37.1	80.0	58.3	8.7	7.8	155.7	118.6	10.9	13.4	12.0	14.2
KEI Industries	Midcap	337	26,226	30,113	34,939	3,238	3,934	2,930	3,610	38	46	19.0	23.2	9.0	7.3	4.5	3.5	10.0	8.0	50.0	48.7	23.8	27.6
Havells India	Midcap	496	310,199	86,487	100,382	10,564	12,827	6,382	7,952	10	13	6.9	24.6	48.6	39.0	8.6	7.7	29.6	24.1	17.7	19.7	16.5	18.4
Muthoot Finance	NBFC	506	202,261	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shriram City Union Fin	NBFC	2,327	153,453	32,249	38,763	20,243	24,144	7,699	9,889	117	150	38.5	28.4	19.9	15.5	2.7	2.4	7.6	6.4	14.4	16.2	2.9	3.1
Cholamandalam Invest	NBFC	1,244	194,417	28,544	35,198	17,668	21,712	8,948	11,170	57	71	24.5	24.8	21.7	17.4	3.8	3.2	11.0	9.0	19.0	20.0	2.7	2.8
Shriram Transport Fina	NBFC	1,302	295,379	61,031	69,773	47,627	54,525	18,437	21,647	81	95	46.6	17.4	16.0	13.6	2.3	2.0	6.2	5.4	15.2	15.6	2.3	2.4
Mah & Mah Finance	NBFC	436	248,124	37,312	45,326	25,973	30,639	8,946	12,696	14	21	104.3	41.9	30.1	21.2	2.9	2.6	9.6	8.1	11.3	12.9	1.8	2.1
Manappuram Finance	NBFC	101	84,700	23,348	29,584	13,306	16,519	8,415	10,404	10	12	28.7	23.6	10.1	8.1	2.2	1.8	6.4	5.1	23.4	23.8	5.1	5.1
Magma Fincorp	NBFC	178	42,146	12,482	13,931	6,726	8,146	2,313	3,722	10	16	1,716.3	60.9	18.2	11.3	1.8	1.6	6.3	5.2	10.2	14.7	1.7	2.5
Indiabulls Housing Fin	NBFC	1,230	521,840	50,764	63,843	57,945	73,111	35,662	44,759	-	-	-	-	-	-	-	-	9.0	7.1	28.0	31.8	3.0	2.9
Bharat Financial Inclus	NBFC	972	134,291	11,500	16,436	6,204	9,045	5,707	5,530	41	39	94.9	-4.1	23.7	24.7	4.5	3.8	21.6	14.8	20.9	16.8	4.6	3.3
Castrol India	Oil & Gas	410	202,894	39,952	42,789	11,988	12,830	8,098	8,651	16	17	13.6	6.8	25.1	23.5	27.0	24.2	16.1	15.0	107.9	103.2	128.2	123.6
Indraprastha Gas	Oil & Gas	1,572	220,024	36,908	42,092	11,034	12,546	6,722	7,741	48	55	17.7	15.1	32.7	28.4	6.5	5.6	19.2	16.7	19.8	19.8	17.4	17.5
Gujarat State Petronet	Oil & Gas	209	117,996	11,959	13,006	10,641	11,546	6,537	7,077	12	13	31.6	8.3	18.0	16.7	2.4	2.1	10.8	9.6	13.1	12.9	11.5	11.4

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
GUJARAT GAS	Oil & Gas	922	126,994	55,979	65,711	10,526	12,658	4,019	5,423	29	39	83.1	34.9	31.6	23.4	6.5	5.4	14.1	11.5	20.6	23.0	8.9	10.6
Gulf Oil Lubricants	Oil & Gas	796	39,532	12,518	14,598	2,143	2,572	1,482	1,684	30	34	22.4	13.6	26.6	23.5	9.0	7.4	18.0	14.9	33.7	31.6	28.0	28.3
Petronet LNG	Oil & Gas	263	393,825	270,164	296,606	31,067	34,137	20,665	23,464	14	16	-39.4	13.5	19.1	16.8	4.1	3.5	11.8	10.4	21.6	20.9	17.5	18.2
Reliance Industries	Oil & Gas	947	6,159,751	3,496,944	3,674,568	584,973	605,572	298,152	319,565	101	108	35.5	7.0	9.4	8.8	1.0	0.9	13.1	12.4	10.3	10.1	7.2	7.2
Mangalore Refinery	Oil & Gas	138	241,946	444,981	467,249	45,534	50,348	23,441	27,772	13	16	14.5	18.5	10.3	8.7	2.1	1.8	6.4	5.4	20.3	20.8	14.9	16.1
Chennai Petroleum	Oil & Gas	463	68,909	296,439	317,455	17,923	22,176	8,422	10,198	57	68	-22.8	21.1	8.2	6.8	1.8	1.5	6.9	5.4	21.9	22.6	12.1	13.5
Ipca Laboratories	Pharma	527	66,455	35,868	41,753	5,882	7,960	3,121	4,627	25	37	68.3	48.2	21.1	14.3	2.4	2.0	11.7	8.4	11.2	14.2	9.3	12.5
Aurobindo Pharma	Pharma	789	462,408	175,659	191,408	42,158	46,321	26,807	29,399	46	51	17.0	9.7	17.1	15.6	4.0	3.3	11.5	10.2	23.5	20.9	22.8	21.4
Divi's Laboratories	Pharma	1,073	284,821	39,944	45,488	13,165	15,446	9,116	10,788	34	41	-17.1	18.3	31.2	26.4	5.1	4.5	21.6	18.2	16.2	16.9	-	-
Cadila Healthcare	Pharma	508	519,959	119,958	124,571	26,603	29,409	19,005	20,868	19	20	31.2	9.8	27.4	24.9	6.4	5.3	20.1	17.8	23.0	20.8	17.2	16.5
Sun Pharma	Pharma	760	104,866	15,045	316,536	7,642	79,102	6,671	48,210	48	20	2.9	-58.1	15.8	37.8	0.0	4.3	13.7	-0.7	21.5	11.4	5.6	9.8
Cipla	Pharma	636	511,780	16,227	18,407	4,300	5,246	1,817	2,333	23	29	39.4	28.4	28.1	21.9	3.5	3.1	119.7	97.9	21.9	23.7	-	-
Lupin	Pharma	1,061	479,492	165,209	182,413	37,000	45,496	19,821	25,681	44	57	-31.6	29.6	24.2	18.7	3.2	2.8	14.4	11.4	13.0	14.8	-	-
Glenmark Pharma	Pharma	648	182,958	95,012	103,716	22,898	25,164	12,894	14,601	46	52	-1.9	13.2	14.2	12.5	3.0	2.5	9.5	8.4	21.3	19.6	14.4	14.9
Dr Reddy's Labs.	Pharma	2,411	399,791	151,422	171,097	28,013	36,786	14,082	20,570	83	121	17.0	46.1	29.2	20.0	3.1	2.7	15.6	11.6	10.5	13.5	6.3	8.8
Biocon	Pharma	380	228,180	46,609	55,338	10,215	13,236	5,331	7,213	9	12	-13.2	35.3	42.8	31.6	4.8	4.4	24.1	18.8	10.6	13.2	9.7	12.1
SRF	Specailty Che	1,743	100,061	55,780	62,722	9,483	12,607	4,105	6,305	71	110	-15.8	53.6	24.4	15.9	2.9	2.5	13.2	9.9	11.7	15.5	7.5	10.1
Meghmani Organics	Specailty Che	119	30,340	17,163	20,358	3,398	4,296	1,180	1,428	5	6	73.0	21.0	25.7	21.2	3.6	3.1	10.1	8.3	14.1	14.6	12.7	13.8
Camlin Fine Sciences	Specailty Che	84	8,727	7,425	9,790	1,040	1,586	459	854	4	8	-506.4	86.1	19.0	10.2	3.5	2.6	11.4	7.6	19.6	27.1	-	-
Aarti Industries	Specailty Che	947	77,760	35,413	40,998	7,189	8,814	3,531	4,565	43	56	11.8	29.3	22.0	17.0	4.7	3.8	12.8	10.7	22.4	22.8	-	-
Vinati Organics	Specailty Che	997	51,441	8,751	11,653	2,549	3,737	1,649	2,356	32	46	21.3	42.9	31.2	21.8	6.1	4.8	20.9	14.4	19.5	21.8	-	-
Atul	Specailty Che	2,452	72,720	33,552	37,612	5,435	6,544	3,337	4,103	112	138	3.3	23.0	21.8	17.7	3.2	2.8	13.2	10.5	14.6	15.4	-	-
Idea Cellular	Telecom	107	384,851	354,183	372,687	92,980	97,327	-19,820	-24,807	-6	-7	395.8	25.2	-19.4	-15.5	1.7	2.0	9.7	9.2	-9.0	-12.7	0.5	0.1
Bharti Airtel	Telecom	543	2,171,388	914,244	1,003,275	318,695	374,894	39,100	90,613	10	23	-26.8	131.7	55.6	24.0	2.9	2.6	10.5	8.7	5.3	10.9	4.9	6.9
Bharti Infratel	Telecom	419	774,338	93,542	101,747	66,639	73,529	30,998	34,689	17	19	12.7	11.9	25.0	22.4	5.3	5.7	10.9	9.8	21.4	25.6	15.7	18.2
Tata Communications	Telecom	681	194,000	188,796	200,469	28,498	32,949	4,408	7,493	15	26	49.8	70.0	44.0	25.9	20.4	24.2	9.4	8.0	46.4	93.6	4.7	7.2

Source: PhillipCapital India Research Estimates

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