JM FINANCIAL

Outlook 2019: Beyond the obvious

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Suhas Harinarayanan
suhas.hari@jmfl.com
Tel: (91 22) 6630 3037

Aishwarya Pratik Sonker
aishwarya.sonker@jmfl.com
Tel: (91 22) 6630 3351

Abhishek Patwari
abhishek.patwari@jmfl.com
Tel: (91 22) 6224 1881

Arshad Perwez
arshad.perwez@jmfl.com
Tel: (91 22) 6630 3080

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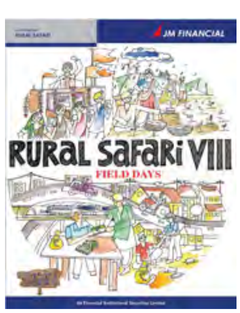

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Beyond the obvious

This is election year in India and if one is willing to look beyond the fact that 5 of the 7 election years in the past 3 decades have yielded positive returns, we estimate that the drivers of capex at the beginning of CY19 are a tad better than those at the beginning of CY18, while the drivers of consumption are a tad worse (at least not better). A tamer outlook for oil in CY19 means the delta to India's growth trajectory depends on how the velocity of money picks up following the NBFC disruption, how fast the housing inventory is run down and the outlook on rural and on global growth. We believe housing and small businesses could bear the brunt of NBFC liquidity issues even in 1HCY19 even as the recent improvement in yields should help banks and Tier-1 NBFCs gradually fill up the space for funding. The slow progress in procurement of Kharif crops and Rabi sowing means that the rural sector will continue to depend on government support where fiscal prudence is leading to spending cuts in 1QCY19/4QFY19. Capacity utilisations for industry, meanwhile, have been on an uptrend and our analysts estimate a double-digit growth in capex over CY18-21, though power generation and housing sectors, big drivers in the past, are unlikely to see immediate revival given elevated levels of supply. The International Monetary Fund (IMF) is forecasting lower YoY global growth in CY19 and we are looking at tightening of global liquidity in CY19.

Based on the above, we estimate Nifty EPS growth at ~26% YoY in FY20, led by financials, telecom and healthcare. However, if we were to exclude the corporate banks (Axis, ICICI and SBI), the growth drops to 17%. Broader markets at 18.7x, a 15% premium to the LTA, is neither too expensive nor cheap and the yield gap at ~210bps is down from 300bps. Among large sectors, select large-cap IT stocks, banks, industrials and non-bank Public Sector Units (PSUs) are in "buy zones". Our main recommendations for 2019 are: i) Overweight private financials, industrials and PSU names, ii) Within midcaps, we are overweight on real estate and chemicals, iii) Neutral (from underweight) in IT after the recent correction and iv) Prefer large caps over midcaps. Our recommended model portfolio is in Exhibit 119.

Consumption outlook a tad worse vs. early CY18

While NBFC credit as % of bank credit increased from 12% in FY08 to 23% (Exhibit 2) now, the share of household debt to GDP rose to '08 levels (Exhibit 3). In our view, government support is necessary to keep rural consumption going given weak agri product prices (crops except rice, wheat and cotton are below support prices, deflation in fruits/veggies). On the positive side, banks and stronger NBFCs are likely to fill the space vacated by weaker NBFCs, and the recent drop in yields and oil prices (USD 10/bbl lower oil price lowers WPI by 1.7pps) are tailwinds; Overall, the consumption outlook is a tad worse (not better) than it was in early CY18, in our view.

Capex outlook a tad better

Capacity utilisations, as per the RBI survey, have risen to 76.1% in 2Q vs. 73.8% in 1Q. Our analysts estimate double-digit growth in capex over CY18-21 led by metals, oil & gas, office and state govt-led spending. Traditional large sectors (power gen, private housing) should remain weak with i) sub-75% PLFs for power until FY23/24 (Exhibit 4) and ii) high inventory in housing. The risk is on central govt capex given fiscal slippages but we expect states to maintain spends, supporting double-digit growth (Exhibits 6 & 7). Overall, capex outlook is a tad better than CY18.

Earnings to be as dispersed as before

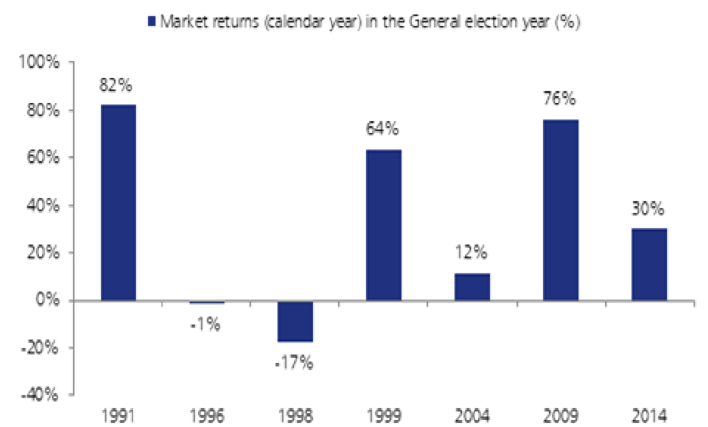
The estimated earnings growth for our coverage universe of 163 stocks is 23.3%/24.8% over FY19/20 YoY and for the Nifty is 14%/26% (Exhibit 101). The sectors with the highest estimated growth rates are financials, telecom, cement and healthcare and the least energy and materials. The main drivers for growth are the credit cost recovery in financials, improvement in ARPUs for telecom, improving cost curve for cement and favourable base effect in healthcare. The risks to earnings are evenly balanced.

Valuations are not as dispersed as before

The valuation-earnings dispersion is not apparent as in prior years (Exhibits 109 & 11). Our recommended overweights are in private financials, industrials and PSU names. Recommended underweight is consumer staples (due to "nil" weight in ITC). Our top-5 large cap picks are Bajaj Finserv, HDFC Bank, Maruti, Tech Mahindra and a PSU basket. Our top midcap picks are Alembic Pharma, Canfin Homes, Fine Organics, JK Lakshmi, Kajaria Ceramics, Oberoi Realty, Teamlease, UPL, V-Guard and Westlife.

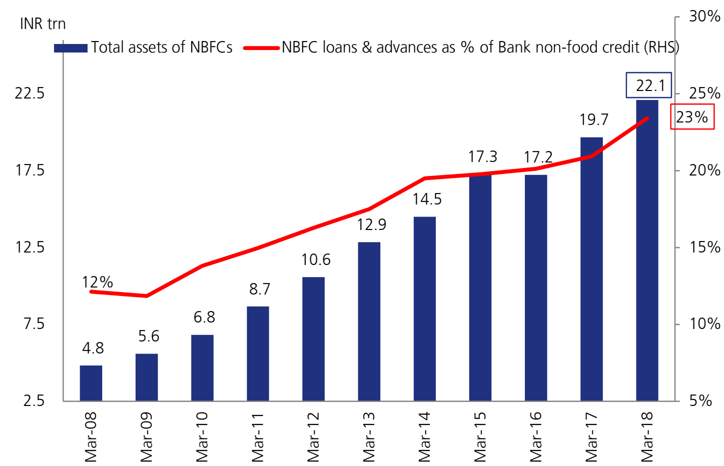
Focus Charts

Exhibit 1. Market tends to yield positive returns in general election years (%)



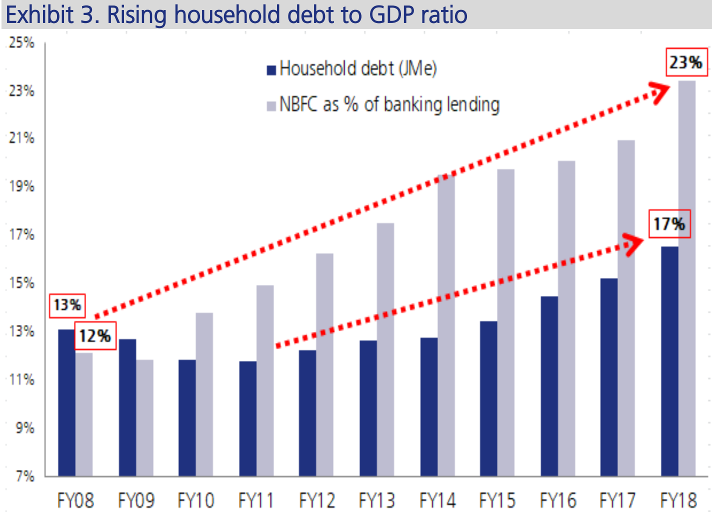
Source: Bloomberg, JM Financial

Exhibit 2. Rising share of NBFC in lending



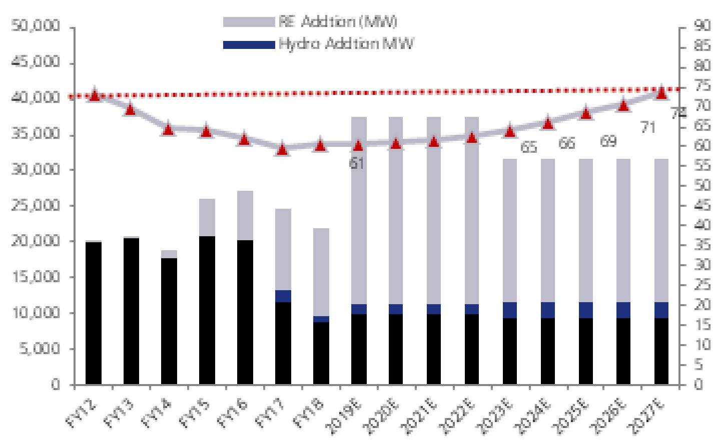
Source: RBI, JM Financial

Exhibit 3. Rising household debt to GDP ratio



Source: RBI, JM Financial

Exhibit 4. 47GW Thermal + 20GW/yr RE addition - Thermal PLFs reach 73% by FY25



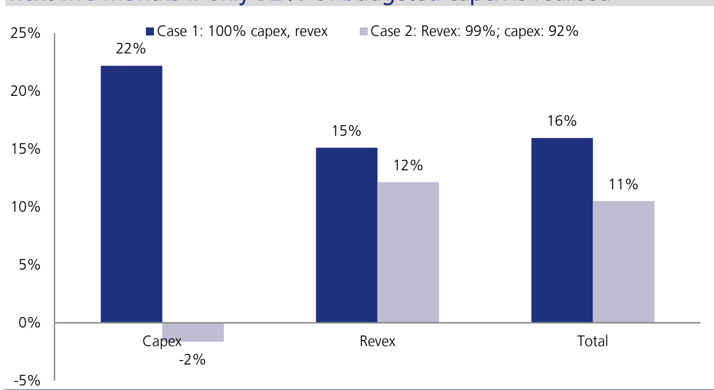
Source: JM Financial, CEA,MNRE

Exhibit 5. Steel capacity utilisation greater than 80%

mn tons	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total crude steel capacity	102	110	124	129	129	134	140
Crude steel production	82	88	90	97	102	109	116
Finished Steel Production	85	91	91	101	105	113	120
Add: Imports	5	9	12	7	7	7	7
Less: Exports	6	6	4	8	10	5	5
Apparent consumption	84	93	97	100	103	115	124
Less: double counting	10	16	16	16	13	18	20
Real consumption	74	77	82	84	91	97	104
Capacity utilization (%)	80.0	81.0	74.0	78.0	80.0	82	83

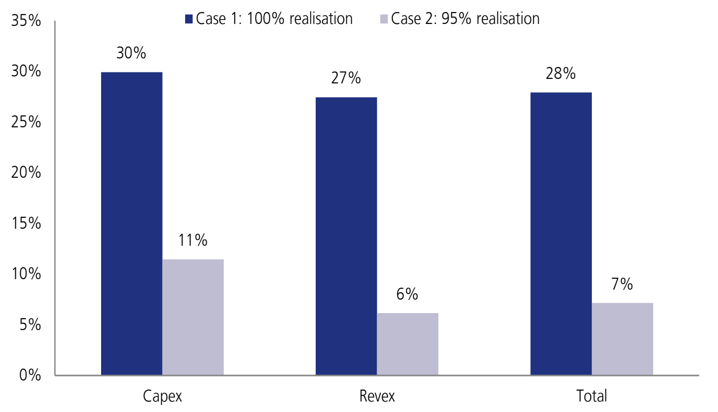
Source: Company, JM Financial; Note: Represents capex of only Indian operations (excluding international capex), JSP capex is for steel business

Exhibit 6. Capex growth for the Centre could fall to -2% YoY for the next five months if only 92% of budgeted capex is realised



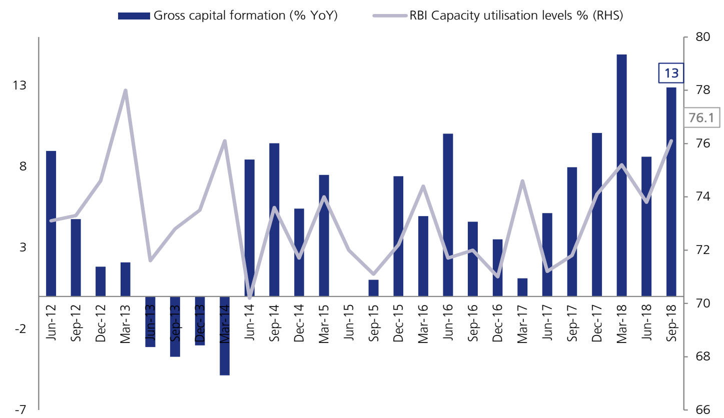
Source: Union Budget 2018-19, JM Financial

Exhibit 7. Even if states engage in capex cuts (95% of BE), capex growth would remain in double-digit in 2HFY19



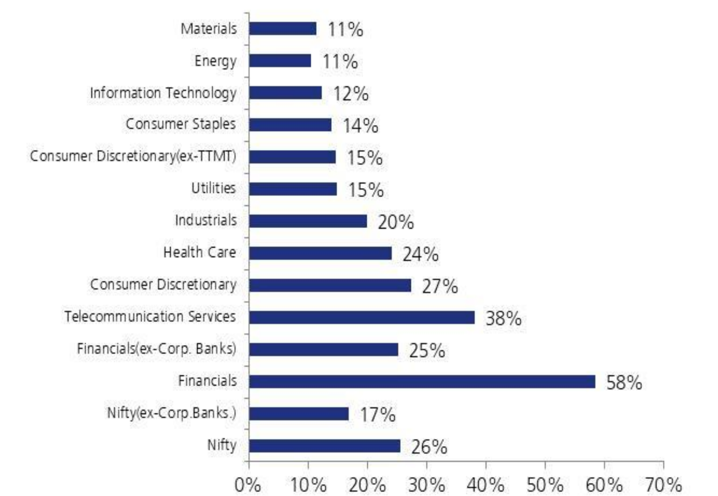
Source: State budgets, JM Financial

Exhibit 8. Capacity utilisation for 2QFY19 stood at 76.1%, highest since Mar'14



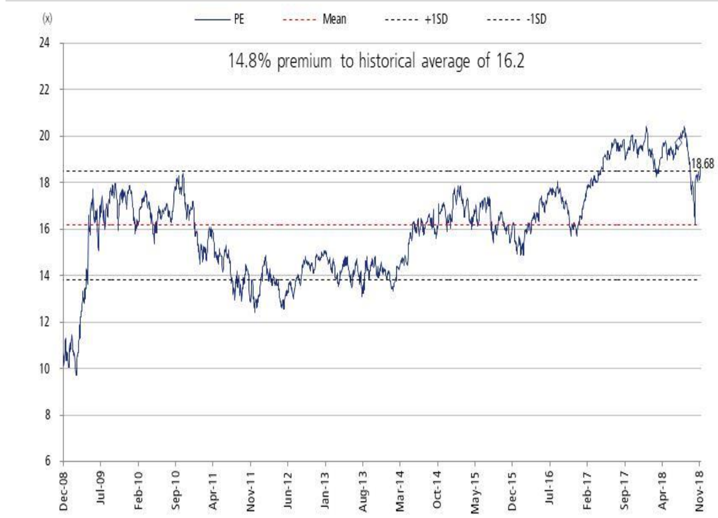
Source: RBI, JM Financial

Exhibit 9. Nifty estimated FY20 EPS growth



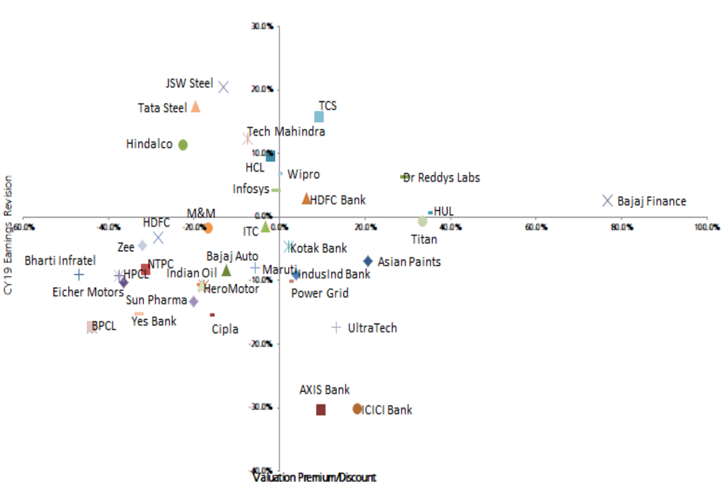
Source: JM Financial

Exhibit 10. Sensex NTM P/E at 18.68x



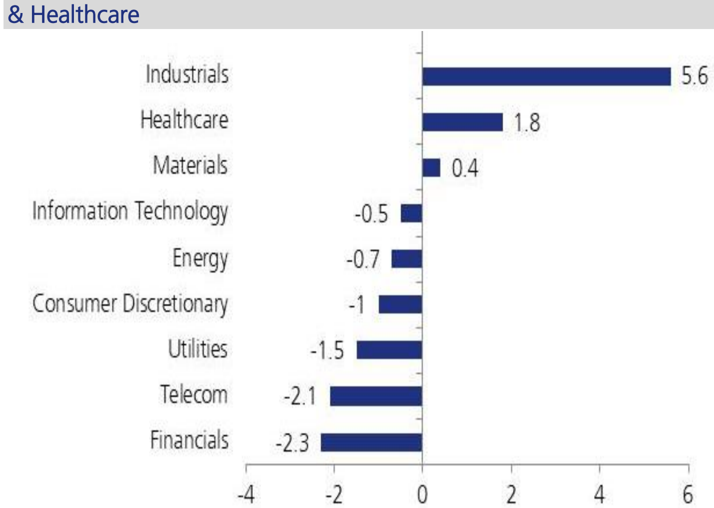
Source: Factset, Bloomberg, JM Financial

Exhibit 11. Nifty Stocks (Earnings Revision vs. Valuation Premium Chart)



Source: JM Financial

Exhibit 12. JM Portfolio weight over Nifty weight (OW on Industrials & Healthcare



Source: JM Financial

Calendar

Calendar 2018-19			
Oct'18	Nov'18	Dec'18	Jan'19
• 2QFY19 Results season • RBI Monetary Policy • ECB Monetary Policy	• FOMC meeting • Kharif crop procurement progress	• Assembly Elections – Madhya Pradesh, Rajasthan, Chhattisgarh, Mizoram • OPEC meet • RBI Board Meeting • Rabi MSP announcement • FOMC meeting • RBI Monetary Policy • ECB Monetary Policy	• RBI Monetary Policy • ECB Monetary Policy • 3QFY19 result season • Banks to achieve 100% LCR by 1Jan'1`9
Feb'19	Mar'19	Apr'19	May'19
• Union Budget • RBI Monetary Policy • State budgets • Trump's 90-day tariff ceasefire ends • Committee on Economic Capital framework to submit report	• RBI Monetary Policy • ECB Monetary Policy • State budgets • Banks deadline to adhere to Basel III (CAR 9%) by Mar'19 • Brexit	• Indian General Elections & four state assembly (Andhra Pradesh, Odisha, Arunachal, Sikkim) • ECB Monetary policy • IMD initial forecast for monsoon • 4QFY19 result season	• General elections results • 4QFY19 results season
Jun'19	Jul'19	Aug'19	Sep'19
• RBI Monetary Policy • ECB Monetary policy • FOMC meeting • IMD revised forecast for monsoon • Declaration of Kharif MSP 2019-20 • OPEC Meet • G-20 meeting	• ECB Monetary policy • FOMC meeting • 1QFY20 result season	• RBI Monetary Policy • Progress of monsoon and Kharif sowing • 1QFY20 result season	• FOMC meeting • RBI Governor's (Urjit Patel) term ends
Oct'19	Nov'19	Dec'19	
• RBI Monetary Policy • Canadian General elections • ECB Monetary policy • FOMC meeting • Maharashtra and Haryana assembly elections • 2QFY20 result season • Dealine for the 15th Finance Commission to submit recommendations	• Declaration of Rabi MSP for • 2019-20 • Jharkhand assembly elections • 1QFY20 result season	• RBI Monetary Policy • ECB Monetary policy • FOMC meeting	

Topic of focus: General elections 2019 – A hump to cross for the markets?

The year 2019 would witness General elections (April/May) along with a host of state assembly elections – **(a)** at least 4 states could have polling along with General elections – Andhra Pradesh, Odisha, Sikkim, Arunachal Pradesh; followed by elections in the state of **(b)** Maharashtra, Haryana, J&K and Jharkhand later in the year. **Consequently investor interest would be firmly on assessing public opinion and any change in political formations would be keenly watched in the run up to the General elections.**

Exhibit 13. A slew of state elections over the next few month culminating in the General Elections (likely Apr-May 19)

Serial No.	State	Likely period of elections	Incumbent political party	Incumbent group
		2019		
1	Andhra Pradesh	Apr/May-19	TDP	OTH
2	Odisha	Apr/May-19	BJD	OTH
3	Arunachal Pradesh*	Apr/May-19	BJP	NDA
4	Sikkim	Apr/May-19	SDF	NDA
	General Elections	Apr and May-19	BJP	NDA
5	Maharashtra	Oct-19	BJP	NDA
6	Haryana	Oct-19	BJP	NDA
7	Jharkhand	Nov/Dec -19	BJP	NDA
8	Jammu and Kashmir		PDP	NDA*

Source: Election Commission, JM Financial, Note * (a) INC had formed the government in state, but later on the party split and members joined BJP,

Transitory impact of Election results on markets

Exhibit 14. Market returns around general election results

	Prior to General election results		Post-election results	
Year of elections	6 Months	1 Month	1 Month	6 Months
1991	26%	4%	9%	40%
1996	12%	7%	6%	-17%
1998	-9%	10%	13%	-17%
1999	32%	-3%	-2%	4%
2004	9%	-9%	-10%	10%
2009	30%	11%	23%	40%
2014	18%	8%	4%	16%
% of instances of positive returns	86%	71%	71%	71%
% of instances of negative returns	14%	29%	29%	29%

Source: Bloomberg, JM Financial

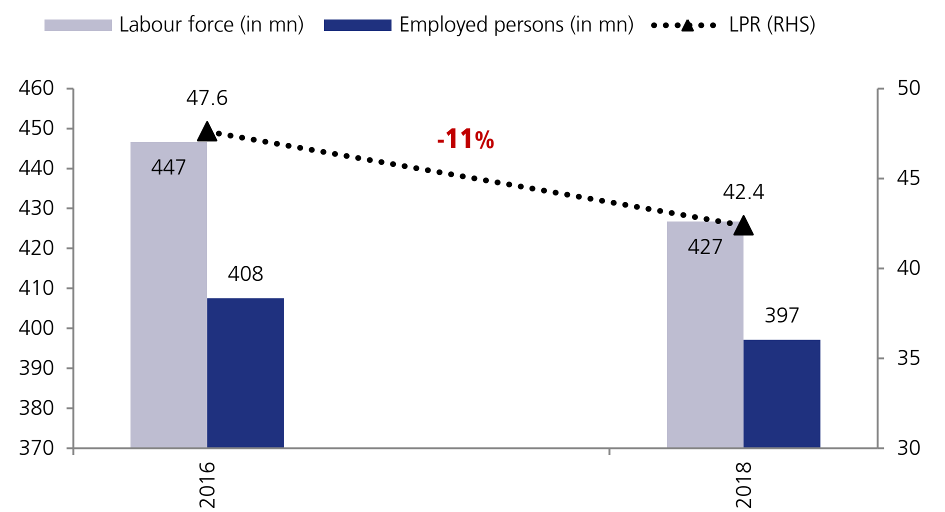
Elections can add to volatility in markets in the short-run, but over a longer period, we believe, the fundamental drivers of earnings & liquidity would determine the market returns. Even historically, it has been observed that election results impact short-term market movements (such as the immediate decline post the surprise win of INC in 2004), while over a longer period, market returns followed the underlying economic conditions.

Key themes for the General elections - Jobs, Rural income growth and leadership

In the run up to the general elections, a host of issues, ranging from economic development, jobs to social and religious issues would likely take the centre stage. Among issues, job creation, rural income growth and national leadership would likely take precedence.

- Job creation plans and unemployment benefits: The resets from demonetisation, GST implementation and RERA etc. had varying impacts on the informal economy which traditionally employs c.40% of labour force (ex of agriculture). While there is paucity of reliable data on employment across the country, anecdotal evidences and some surveys (CMIE) indicate weakness in job growth (exhibit below). As we highlighted in our thematic (India Strategy | What do I do with my degree?), job creation continues to be a highly debated issue and consequently promises around job creation, benefits for unemployment could take prominence going forward. **We have also seen emphasis on job creation and unemployment allowances in the manifestos/promises by the various political parties in the currently underway five state assembly elections (results: 11Dec'18).**

Exhibit 15. Labour force participation – declined by 11% over past two years



Source: CMIE, JM Financial

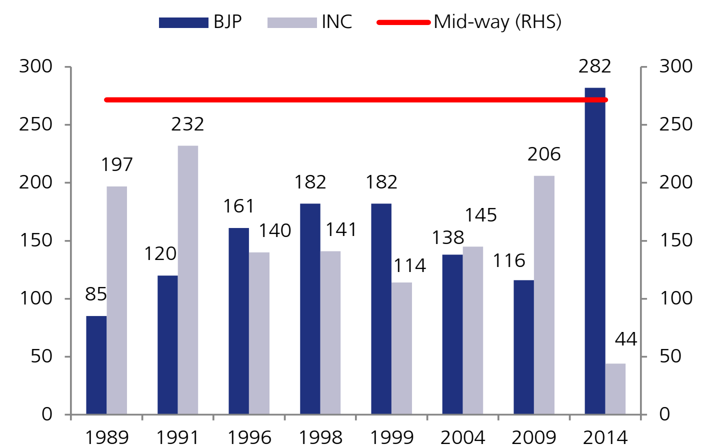
- Schemes/issues around rural income: The issues around Rural India (c.67% of population) are likely to see intense debate with government highlighting achievement across multiple schemes– housing, roads, electricity etc. The opposition would likely talk about any weakness in agri-crop prices and hence impact on the rural income growth. As highlighted earlier, there has been high hopes raised for agri-income growth through the sharp rise in MSP in FY19, and a lack of achieving MSP price could see increasing adverse attention. There could also be increasing demand of farm loan waivers in the run-up to the elections.
- Leadership: BJP has benefited from the popularity enjoyed by current PM, Narendra Modi. A lack of leadership at the opposition can benefit the ruling dispensation in the run-up to the General elections.

Recap of the last general election – BJP recorded a surge in its vote-share in 2014

In the 2014 general elections, BJP recorded a massive win with 282 seats (52% of total) and the ruling alliance NDA won 336 seats, comfortably ahead of the half-way mark. In these elections, BJP recorded its highest ever vote-share in electoral history (31% nationally). Notably, ten states (accounting for 58% of total Lok Sabha (LS) seats) saw massive upsurge in the vote-share of BJP, and consequently, BJP won 85% of its seats from these states (exhibit below).

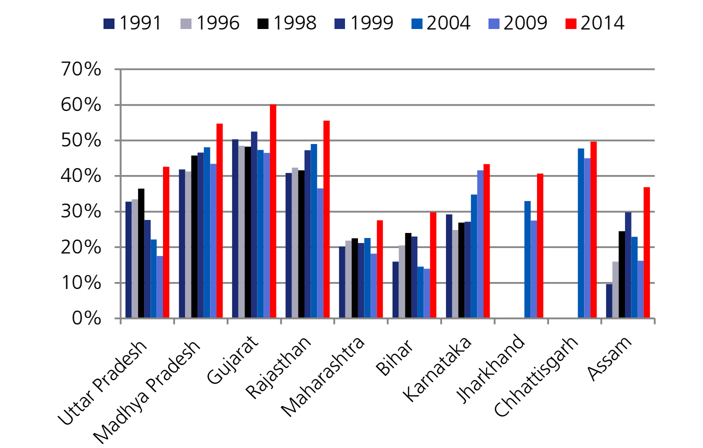
The final outcome of General elections would depend on **(a)** impact, if any from anti-incumbency for the present central Government, and **(b)** possible alliances among the opposition political parties. <u>A key event to monitor would be the results of the 5 assembly elections which would be declared on 11Dec'18</u>. Though, extrapolating a state assembly results to national elections has not worked uniformly in the past (such as in 2004), **significant deviations in the voting share for any party should be carefully noted by the investors.**

Exhibit 16. Seat wins by the largest two national parties in general elections – BJP won absolute majority in 2014



Source: Election Commission, JM Financial

Exhibit 17. Lok Sabha vote share (%) by key states for BJP – Sustenance of the 2014 vote share would be crucial



Source: Election Commission, JM Financial

Exhibit 18. Seat wins of BJP across Lok Sabha elections – 10 states (which account for 58% of total LS seats) account for 85-90% of seat wins for BJP; any change in its vote-share or progress in opposition alliances should be carefully noted

	Total LS	No. of seats in Lok Sabha - BJP							
States	seats	1989	1991	1996	1998	1999	2004	2009	2014
Uttar Pradesh	80	8	51	52	57	29	10	10	71
Madhya Pradesh*	29	27	12	27	30	29	25	16	27
Gujarat	26	12	20	16	19	20	14	15	26
Rajasthan	25	13	12	12	5	16	21	4	25
Maharashtra	48	10	5	18	4	13	13	9	23
Bihar	40	8	5	18	20	23	5	12	22
Karnataka	28	0	4	6	13	7	18	19	17
Jharkhand**	14	-	-	-	-	-	1	8	12
Chhattisgarh**	11	-	-	-	-	-	10	10	10
Assam	14	0	2	1	1	2	2	4	7
Total (10 states)	**315**	**78**	**111**	**150**	**149**	**139**	**119**	**107**	**240**
Total (all states)	**543**	**85**	**120**	**161**	**182**	**182**	**138**	**116**	**282**
10 states as % of total seats	58.0%	91.8%	92.5%	93.2%	81.9%	76.4%	86.2%	92.2%	85.1%

Source: Election Commission, JM Financial, Note:*- State divided in 2000, total 40 seats till 2000, ** - States formed in 2000

Possible scenarios post 2019 elections

For 2019, we will not hazard a guess at the final outcome at this point of time, and would continue with our ground reports across multiple states in the run up to the elections. (India Strategy Election Safari1). As highlighted, the nature/strength of opposition alliances and any impact from anti-incumbency would determine final outcome. There are three scenarios which can play out post the general elections.

Exhibit 19. Likely scenarios post 2019 elections

Scenarios	Details	Drivers	Impact
Scenario I	A near repeat of 2014	Low anti-incumbency, fragmentation in opposition parties	Would indicate continuation of the current Government priorities, can also look at more radical reforms
Scenario II	NDA forming Government with lower seats	Modest anti-incumbency, selective opposition alliances	Would indicate continuation of the Government policies, with less emphasis on radical reforms
Scenario III	Formation of an alternative Government	High anti-incumbency, pan India alliances between opposition, particularly in Uttar Pradesh	Markets could be volatile for few months till clarity emerges on the economic themes and on progress of execution

Source: JM Financial

Exhibit 20. Distribution of LS seats for BJP in the three scenarios for 2019

				BJP Seat Wins in 2019		
Region	Total Seats	Share of Seats (%)	2014	2019-Scenario I	2019-Scenario II	2019-Scenario III
North and Central India	191	35.2%	162	151	120	85
South India	132	24.3%	22	18	16	14
Eastern India	117	21.5%	37	53	33	31
Western India	78	14.4%	53	44	40	34
North-East	25	4.6%	8	18	14	13
Total	543	100.0%	282	284	223	177

Source: JM Financial

The three scenarios around the final 2019 outcome can be shaped accordingly –

- Scenario I: In the first scenario BJP largely maintains its vote share in the North, Central and Western regions and records only a marginal decline in the number of seats. However, these declines are more than compensated by gains from Eastern region (Odisha and West Bengal) and also from North East. This scenario assumes no cohesive alliance among the opposition parties, particularly between SP and BSP in Uttar Pradesh. Even without a gain in South India, BJP would be able to cross the half-way mark comfortably.

- Scenario II: In the second scenario, there is some impact from anti-incumbency along with selective opposition alliances leading to net loss of seats for the ruling party. The loss of seats is not adequately compensated by the gains in Eastern region, though the party also does not report any major declines. In this scenario, BJP would still be likely to form a coalition government with its partners in the NDA.

- Scenario III: In a scenario of high anti-incumbency and increased opposition unity, BJP can witness sharp decline in the number of seats. UP which accounts for 71 seats for the party can potentially witness the highest loss and which would not be compensated by gains in the East on North Eastern states In this scenario, there could be a Government formed by the current opposition parties.

As stated earlier, investors would likely weigh in continuity of economic themes post the election outcome and market returns would follow the fundamental economic drivers.

Inflation Expectations

Throughout FY19, inflation was guided by the movement in food inflation. Due to the i) 39%+ weight in the CPI inflation basket, and ii) benign food prices that have failed to pick up, food inflation contained CPI inflation. Even the depreciating currency and rising oil prices could not materially influence the direction of the index. Core inflation showed weak signs of imported inflation. Exhibit 23 shows the movement of some key core inflation indicators. Even as the INR began depreciating Jan’18 onwards, core inflation rose until Jun’18 but began moderating post that, inching up yet again in Oct’18. Given these, no rate hikes are expected in the Feb’18 monetary policy of the RBI. In fact, the RBI in its Dec’18 policy has hinted that if they sense that low food inflation is more durable in nature, a rate cut could not be ruled out.

Inflation outlook: So far, the government has not come forth with a set plan with the procurement mechanism. Yet we believe that the impact of the MSPs would be limited to 30-40bps. Global agri-commodity remain benign, and the impact of the EL-Nino has not reflected on futures. Exhibit 21 presents our expectation for inflation component wise. We expect an uptick in vegetable and pulses prices post Jan’19. Since CPI closely tracks the movement in vegetable inflation (exhibit 24), CPI inflation is expected to rise at least until early part next year. Key upside risks for the coming months include i) OPEC meet in Dec’18 which may decide on production cuts, ii) tightening monetary policy in the advanced economies, and iii) expected fiscal slippage at the Centre or States level.

Exhibit 21. Inflation expectations

	Weight	FYTD19	Expectations	Inflation Outlook			
				Component	Weight	Correlation with CPI	Comments
Food, beverages+	45.9	1.8	Uptick expected post Jan'19	Vegetables	6.04%	69%	Given an unfavourable base for vegetables prices from late Jan'19/Feb'19, an uptick is expected
				Pulses	2.30%	25%	Pulses imports have finally been brought under control in FY19. YTD imports have been limited (USD 0.56bn vs. USD 2.1bn last year; -73% YoY). Yet there has been a decline in pulses prices since Feb18 • Pulse prices had been lower by 30-40% below MSP in Oct'18, they could come down to lower discount 10% or so by Feb 19 and could be higher on YoY basis. While we do not expect a runaway inflation, a turn-around is strongly anticipated • From Feb19, we are likely to see some lower pulses production YoY due to expected weaker Rabi in states which account for large pulses production (Maharashtra, Gujarat, North Karnataka, parts of Rajasthan). The past few weeks have already seen some increase in the same
Pan, tobacco+	2.4	6.75		All	2.40%	66%	
Fuel and light	6.8	7.41	Remain benign, tracking oil prices	Electricity	2.26%	26%	Coal prices loosely follow movement in oil prices. Since coal prices have come off, an organic growth of 4-5% growth in electricity prices is expected
				Full index	6.80%	64%	Post the OPEC meet on 6-7Dec'18, decision on production cuts, if any, will determine the direction of oil prices and hence the impact on fuel and light inflation. The two share a correlation of 64% with oil prices.
Housing	10.1	7.83	Moderate	House rent	9.51%	67%	Fading impact of HRA allowances under the 7th Pay commission
Clothing+	6.5	4.93	Tracking INR movement	Full index	6.50%	85%	Being the key component under core inflation, will partly get influenced through imported inflation
Miscellaneous	28.3	5.69		Full index	28.30%	78%	

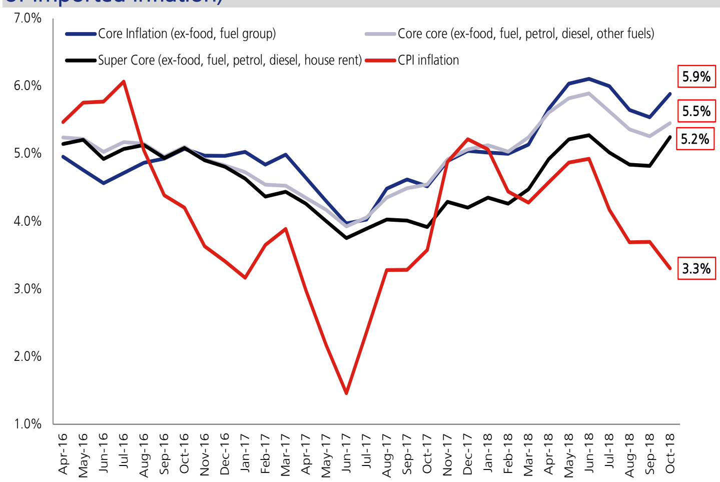
Source: JM Financial

Exhibit 22. Movement of key indicators in CPI inflation

	Weight	FYTD19	Oct-18	Sep-18	Aug-18	Jul-18	Jun-18	May-18	Apr-18	Mar-18	Feb-18	Jan-18	Dec-17	Nov-17	Oct-17
CPI	100.0	4.17	3.31	3.70	3.69	4.17	4.92	4.87	4.58	4.28	4.44	5.07	5.21	4.88	3.58
Food, beverag	45.9	1.80	(0.14)	1.01	0.78	1.73	3.11	3.29	3.00	3.08	3.46	4.58	4.85	4.41	2.26
Pan, tobacco+	2.4	6.75	6.13	5.57	5.41	6.28	8.05	8.00	7.91	7.72	7.27	7.58	7.76	7.89	6.91
Fuel and light	6.8	7.41	8.55	8.63	8.55	7.96	7.22	5.80	5.16	5.73	6.88	7.73	7.90	8.24	6.36
Housing	10.1	7.83	6.55	7.07	7.59	8.30	8.45	8.40	8.50	8.31	8.28	8.33	8.25	7.36	6.68
Clothing+	6.5	4.93	3.55	4.64	4.88	5.28	5.60	5.47	5.11	4.91	4.93	4.94	4.87	5.04	4.68
Miscellaneous	28.3	5.69	6.73	5.65	5.60	5.80	5.66	5.43	4.96	4.16	3.85	3.78	3.79	3.72	3.48

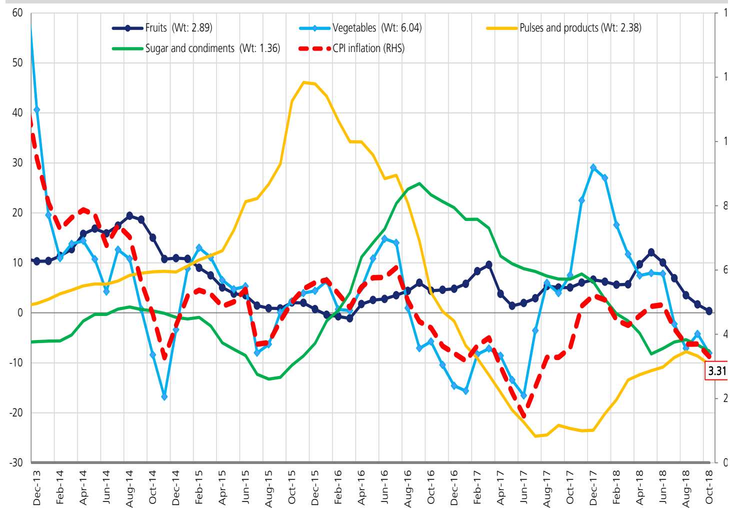
Source: CMIE, JM Financial

Exhibit 23. Core inflation witnessed uptick post Jun'17 until Jun'18, but began moderating post that despite depreciating currency (source of imported inflation)



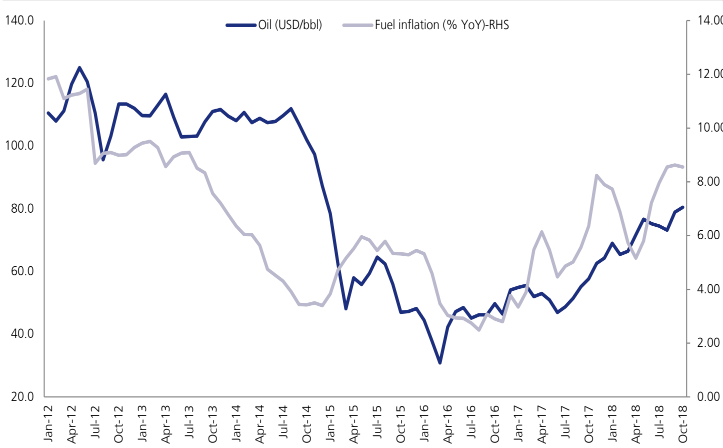
Source: CMIE, JM Financial

Exhibit 24. Vegetables inflation has a correlation of +69% with the All-India CPI index



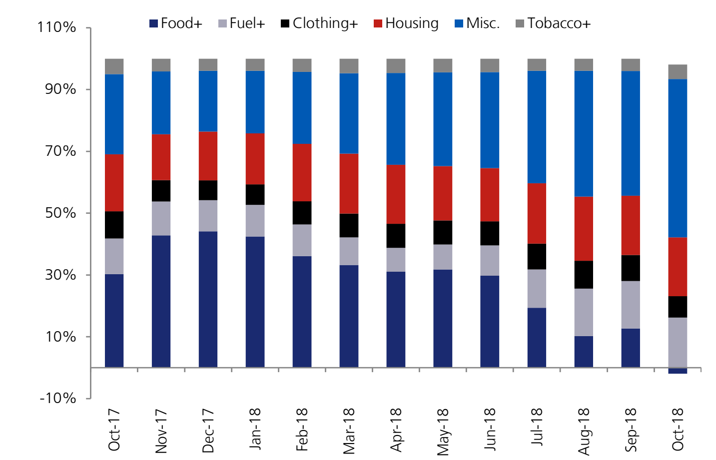
Source: CMIE, JM Financial

Exhibit 25. Oil prices influence fuel and light inflation share a correlation: +64%



Source: CMIE, Bloomberg, JM Financial

Exhibit 26. During phases of low food inflation, the contribution of miscellaneous inflation to over CPI inflation assumes dominance



Source: CMIE, JM Financial

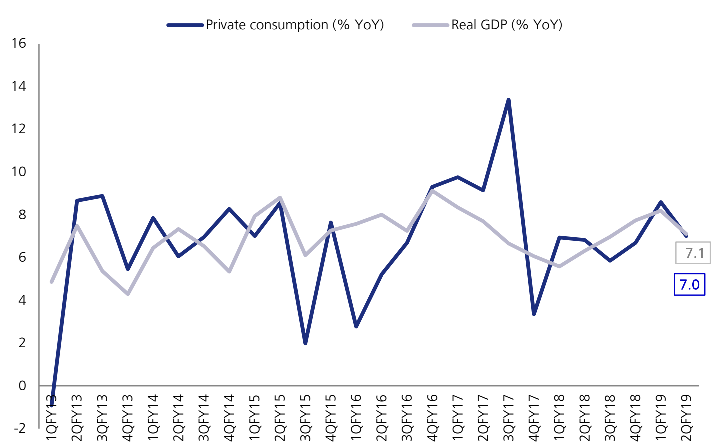
Consumption

Will consumption continue to drive GDP growth?

Over the years, India's gross savings-to-GDP ratio has declined from 35% in FY12 to 30% in FY17. This has been accompanied by an increase in private consumption as % of GDP from 56% in FY12 to 59% in FY18 (exhibit 29,30). Data reveals that after the pick in private consumption 1QFY18 onwards (that slowed consecutively for 5 quarters since 4QFY16), 2QFY19 again witnessed a moderation in private consumption, also reflecting in lower-than-expected GDP growth (Exhibit 27). Default by IL&FS led to significant correction in NBFCs on fears of liquidity concern and ALM mismatch for some of the NBFCs. Sensing a liquidity deficit in the economy, the RBI conducted OMO purchases worth INR 980bn since Sep'18 (exhibit 31, 32). Notwithstanding this, some key announcements such as i) allow banks to provide partial credit enhancement (PCE) to bonds issued by a) systemically important non-deposit taking non-banking financial companies (NBFC-ND-SIs), and b) Housing Finance Companies (HFCs); and ii) relaxed the guidelines for securitisation transactions for NBFCs in respect of loans of original maturity above 5 years, has reflected RBI's intervention to ensure adequate liquidity in the system. Yet, whether this is adequate to take care of void created by the NBFC stress is questionable.

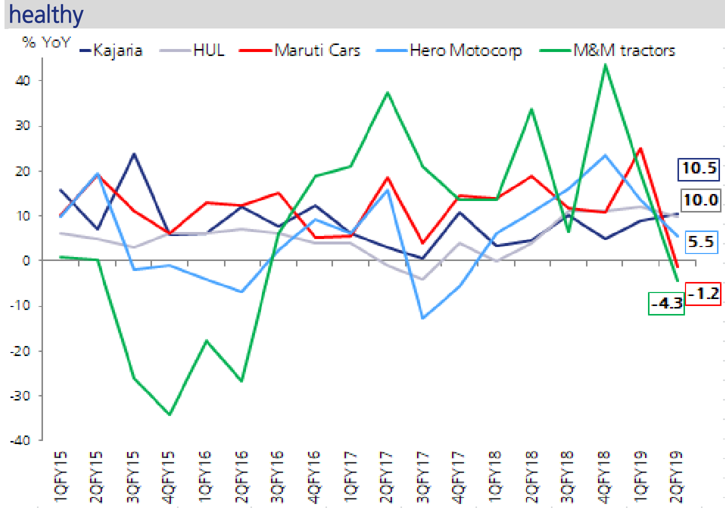
- Sectoral growth in consumption reflects a healthy trend: A glance at the volume-growth in consumption-related companies such as Kajaria, HUL, Maruti, Hero Corp and M&M tractors have exhibited healthy growth since 1QFY18. Although there has been some slowdown in growth in auto-related (M&M tractors, Maruti cars) consumption growth in 2QFY19, the two-year CAGR remains steady and in double-digits 22%, 13% respectively.

Exhibit 27. After slowing for 5 consecutive quarters (from 4QFY16), private consumption picked in 1QFY18. 2QFY19 however, witnessed a moderation in growth vs. 1QFY19



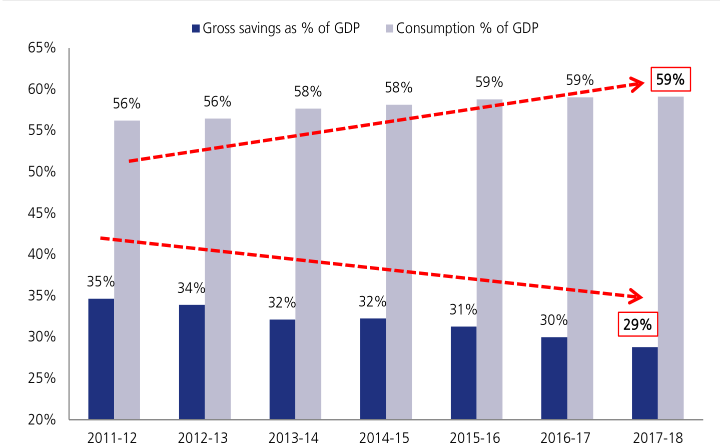
Source: RBI, JM Financial

Exhibit 28. Volume growth in some consumer companies has been healthy



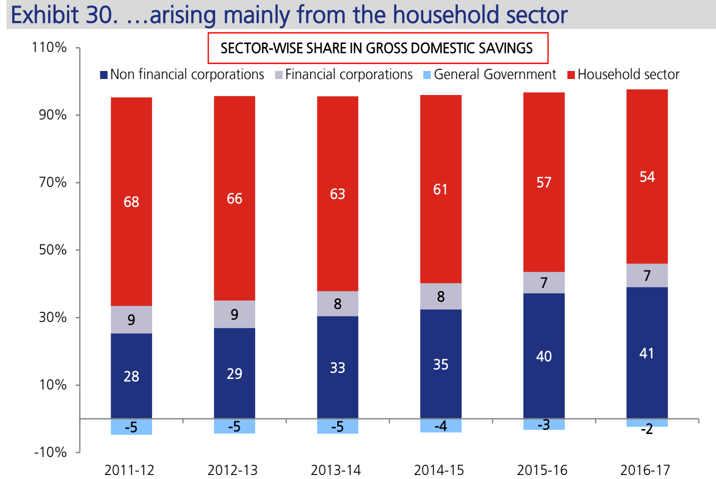
Source: Company, JM Financial

Exhibit 29. Declining gross domestic savings as % of GDP…



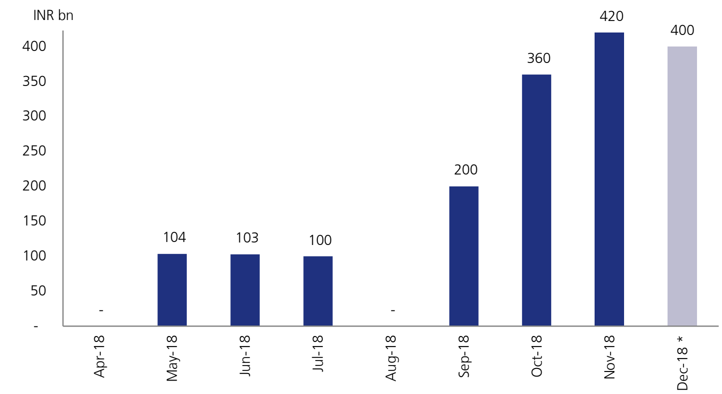
Source: RBI, JM Financial

Exhibit 30. …arising mainly from the household sector



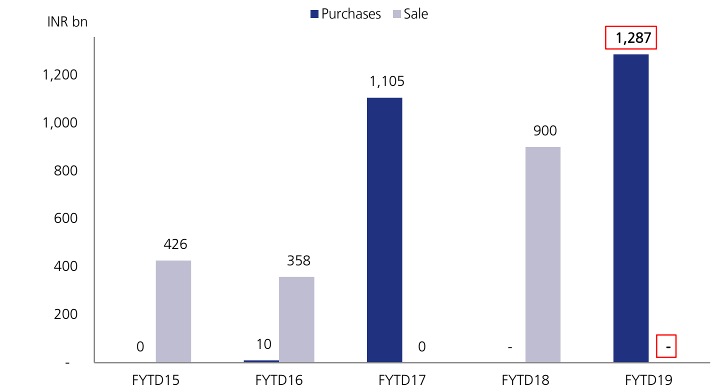
Source: CMIE, JM Financial

Exhibit 31. OMO purchases by the RBI since the beginning of FY19



Source: CMIE, JM Financial; * INR 400bn as announced by the RBI

Exhibit 32. OMO operation of the RBI FYTD19 vs. earlier years



Source: CMIE, JM Financial

Special focus: NBFC Sector

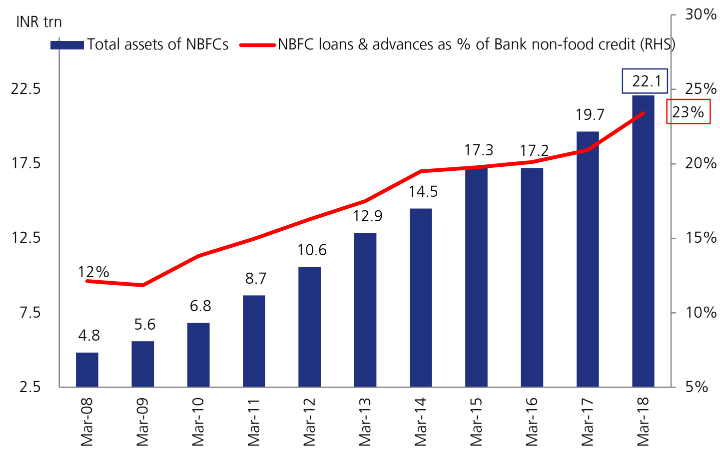
NBFC credit as % of bank credit has increased from 12% in FY08, to 23% in FY18 (exhibit 33). We believe near term focus of NBFCs would be to conserve liquidity which would impact growth and margins. Over the medium term, we believe strong promoter backed NBFCs and HFCs will get disproportionate share of funding going forward. Moreover, competition from new, small and PE backed NBFCs will come down further helping these strong promoter backed NBFCs and HFCs. NBFCs with ALM mismatch will have to slow growth and how fast banks and the NBFCs without ALM mismatch replace them will determine the pace of growth in the sectors that have seen the highest growth.

- ALM mismatch for HFCs – negative mismatch in the short term bucket except HDFC: Over the past year, most HFCs have migrated toward shorter-tenure borrowings as the rate differential between shorter-tenure borrowings was c.100bps cheaper than longer-tenure borrowings. This has created an ALM mismatch in the shorter tenure bucket (up to 1 year). For HFCs under our coverage, ALM mismatch is in the range of 7-24% for up to 1 year and 6-24% for 1-3 yr bucket respectively. Only HDFC has positive mismatch in the short term bucket. So, HFCs are one segment where we expect the growth to slow down, also given that the end market is not healthy with high levels of inventory.

- ALM mismatch for asset financing NBFCs –positive mismatch implying conservative funding profile, MMFS and BAF best placed: Asset financing NBFCs have shown a positive ALM mismatch in their short-term bucket implying conservative funding profile. For companies under our coverage, asset financing NBFCs have positive ALM mismatch in the shorter tenure bucket (up to 1 year) – in the range of 1-18%. Bajaj Finance and MMFS have highest positive ALM profile in the upto 1 year bucket and are best placed with respect to margins in higher rate environment.

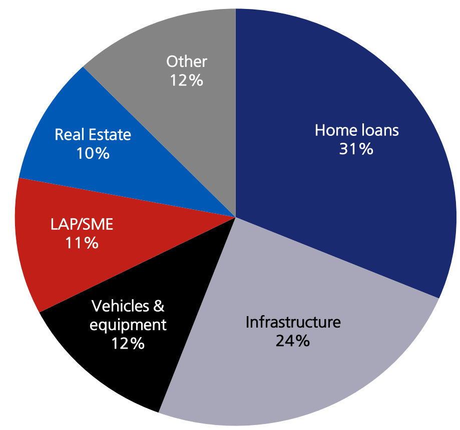
- Pricing power – Rural and niche NBFCs such as MMFS and SHTF best placed: We believe the ability to pass on rate hikes is higher in segments such as consumer finance, gold loans, microfinance loans, two-wheelers, tractors and used CVs for small fleet operators and car loans for self-employed and rural customers. It is lower in the case of car loans for salaried people, home Loans, operational infra loans and LAP/LRD and moderate for developer and SME loans. A number of anecdotal checks indicate some slowing down of credit for NBFCs to the SME sector and that could also impair growth in the near-term.

Exhibit 33. AUM of NBFCs touched INR 22.1trn in FY18



Source: RBI, JM Financial

Exhibit 34. Segment-wise share of lending from NBFCs



Source: JM Financial

Special focus: Banking sector

On the other hand, CY19 is expected to be a good year for the Indian banking sector – we expect a pick-up in loan growth for the sector driven by the corporate banking recovery, the shift away from bond markets and market share gains from NBFCs. Margins (which contracted across the board since the last 2 quarters, apart from one-off interest write-backs from NPL recoveries) should return to normalcy over the next 2 quarters as MCLR-linked loans get re-priced with a lag. For corporate banks, we expect credit cost to remain elevated over 2HFY19, and gradually return to long-term averages from then on.

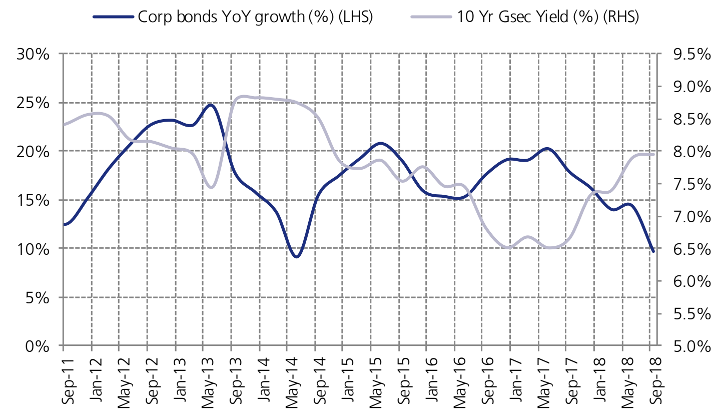
- Bank credit growth expected to pick-up: The non-bank food credit growth which had decreased to 8-9% levels between FY15-FY18, is seeing revival with Nov-2018 witnessing a strong 14.9% YoY growth. We expect that increase in credit growth is on account of 2 reasons:

  1. Shifting of corporate borrowings away from capital markets: For the past 2 years the corporate bond market which was growing at 15-20% YoY driven by benign G-Sec yields, have started showing signs of moderation with gradual pick-up in yields since 2HFY18 (10-year G-sec yield is up by c.130bps since Sep-17). This has resulted in the corporates to shift back their borrowings to the banking system.

  2. Liquidity tightening to shift market share away from NBFCs: NBFCs which have been gaining market share from banks over the past 2 years are now expected to slow down their incremental credit growth given the increased liquidity tightening in the market. This, in turn is expected to provide a fillip to the banking credit growth.

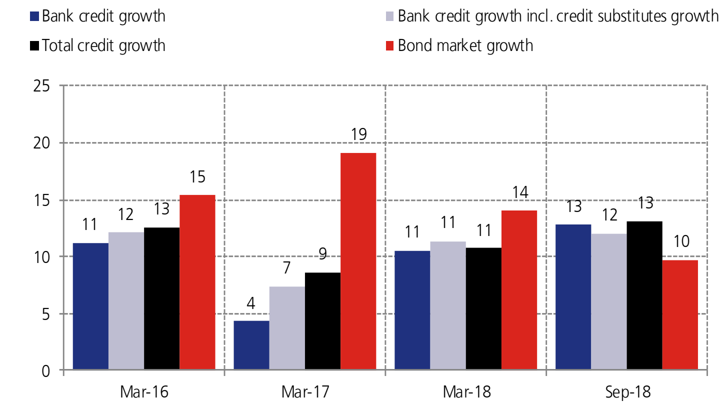
We expect banks to gain market share in housing finance, commercial vehicles and also in SMEs over the course of the next 12-18 months.

Exhibit 35. Corp bonds growth vs. 10-yr G-Sec Yield



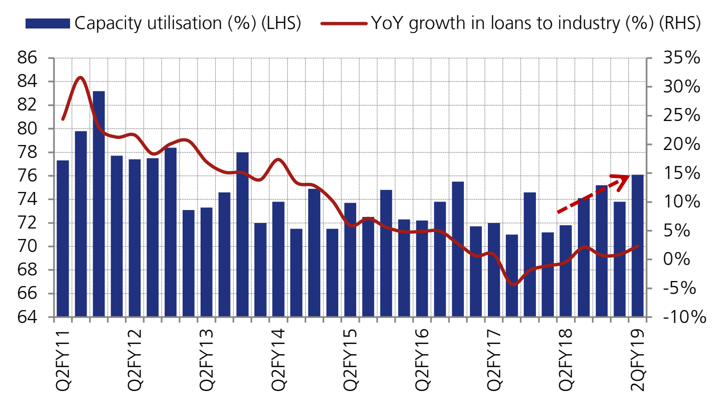
Source: SEBI, Bloomberg, JM Financial

Exhibit 36. Bank and capital market growth



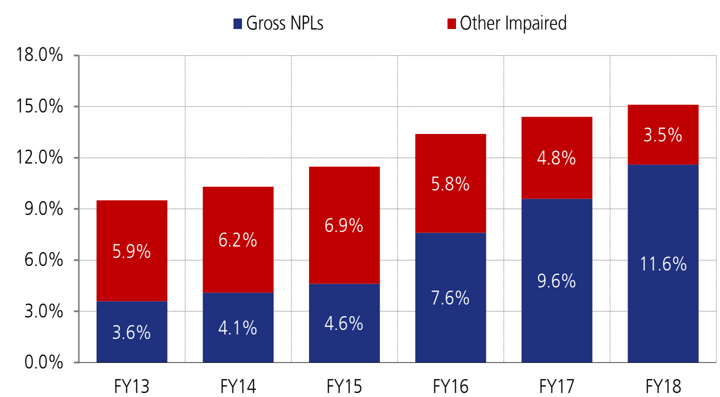
Source: SEBI, RBI, JM Financial

Exhibit 37. Capacity utilisation vs. bank credit to industry



Source: RBI, JM Financial

Exhibit 38. Banking system level stress



Source: RBI, JM Financial

Other factors to impact consumption

Besides the NBFC related issues, going forward, we believe the following factors would play a crucial role in ensuring robust growth in private consumption:

i) **Rural income:** Rural households contribute around 50% to GDP, 40% of FMCG sales, 50% two-wheeler sales, 30% four wheeler sales and 45% telecom contribution (FICCI Oct'18). Rural has been holding up better than urban until now.

- **Monsoon and sowing:** During 2018, monsoon rainfall came at 9.4% below Long Period Average (LPA) largely due to rain deficit in Eastern India, Gujarat and select regions in South. However, kharif sowing was normal (0.7% YoY) and also witnessed a shift towards crops such as Paddy and Sugarcane. A key highlight during FY19 has been the sharp acceleration in MSP growth rates (highest in past five years) with an expectation of expansion in procurement. Rural Safari – VIII: Field Days

- **Delay in kharif crop procurement :** As per media sources, despite multiple announcements by the government, as of the 3rd week of Nov'18, only c.5% of pulse and oilseed Kharif production has been procured at MSP (mostly in Madhya Pradesh,); while government had indicated possible procurement of up to 25% of the production. The procurement of paddy (rice) has been on track in Punjab and Haryana, while it lags in other states. The lower-than-expected procurement is reflecting in the continued price discount to MSP for agri-crops, particularly coarse cereals and pulses.

- **Overall rural income growth to remain steady:** Delayed crop procurement leading to low price realisations along with weak rural liquidity (aggravated by NBFC lending issues) -has added to some softness in near term rural spending sentiment, as the feedback from festival sales indicates. **However, we believe barring West India, rural income growth is on a modest growth trajectory aided by government interventions and consumption growth will remain steady and could see pick-up in line with the easing of liquidity conditions.**

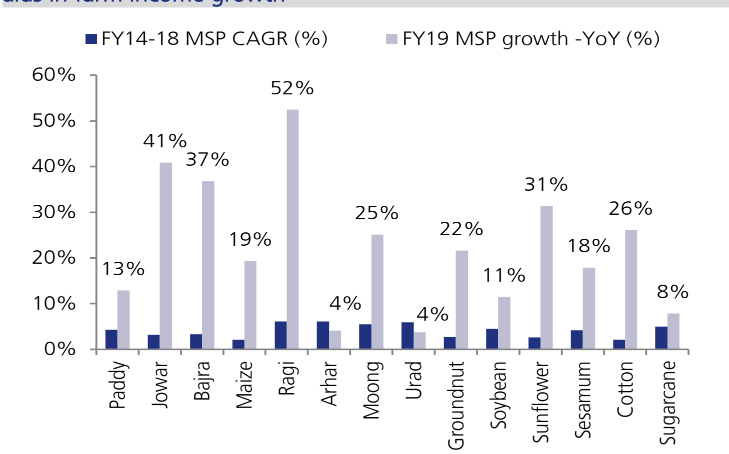
ii) Job-creation in the economy: The Government has been reflecting on payroll additions and increase in EPFO. For eg: a total of 0.4mn jobs were created in 8 core sectors (according to QES) and banking (according to RBI) in FY17. Moreover, according to the Oct'18 series of payroll reporting in India-i) there were 14.6mn new subscribers under the Employees' Provident Funds (EPF) Scheme during Sep'17-Aug'18, and ii) new additions to the National Pension System (NPS) subscribers during the same period stood at 0.689mn persons. However, job prospects do not seem all that rosy:

- The total number of graduates that year was 9mn (which translates to 22 graduates competing for 1 job). In Japan, 1.6 jobs per person
- This has resulted in deteriorating graduate-to-enrolment ratio (31% to 28%) with enrolment growth slowing down as well
- 18.5% of the colleges are having enrolment less than 100 and only 3.6% Colleges have enrolment more than 3000data, in FY17

iii) Land prices and wealth effect: For rural India, overall, wealth effect remains weak, impacting large ticket consumption. We see limited positive momentum in states such as Bihar, eastern Uttar Pradesh and Haryana during our current visit (Sep'18). Yet to encounter a sustained increase in rural land prices and barring regions adjacent to urban areas or where large infrastructure projects are coming up We do not see much evidence of land transactions taking place as yet. For urban India, property prices in the top 5 cities have shown nil changes in the past 5 years (Exhibit 44)

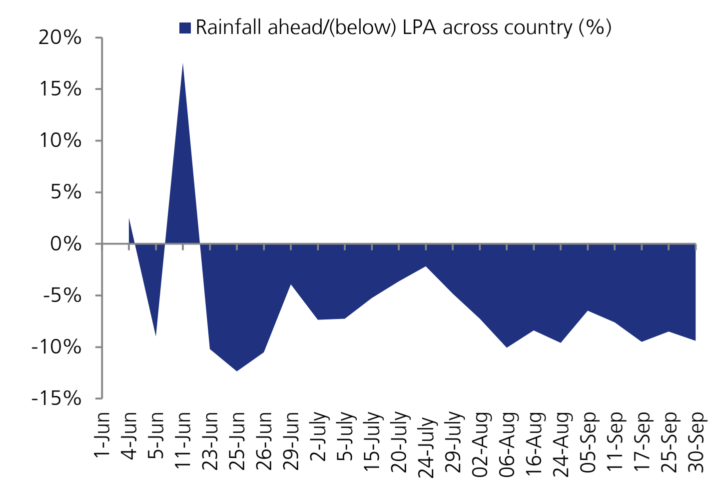
iv) Household debt: We calculate household debt as the sum of outstanding i) personal loans from SCBs (consumer durables, education, credit cards outstanding, vehicles), ii) NBFC credit, and iii) HFC credit. We find that the household debt-to-GDP ratio has grown from c.13% in FY08 to c.17% in FY18, i.e. higher than crisis levels (exhibit 45). Higher debt-to-GDP ratio's are associated with higher economic growth in the short-run, however effects get reversed in three to five years (IMF Oct'17).

Exhibit 39. Sharp acceleration in Kharif MSP growth rates during FY19 aids in farm income growth



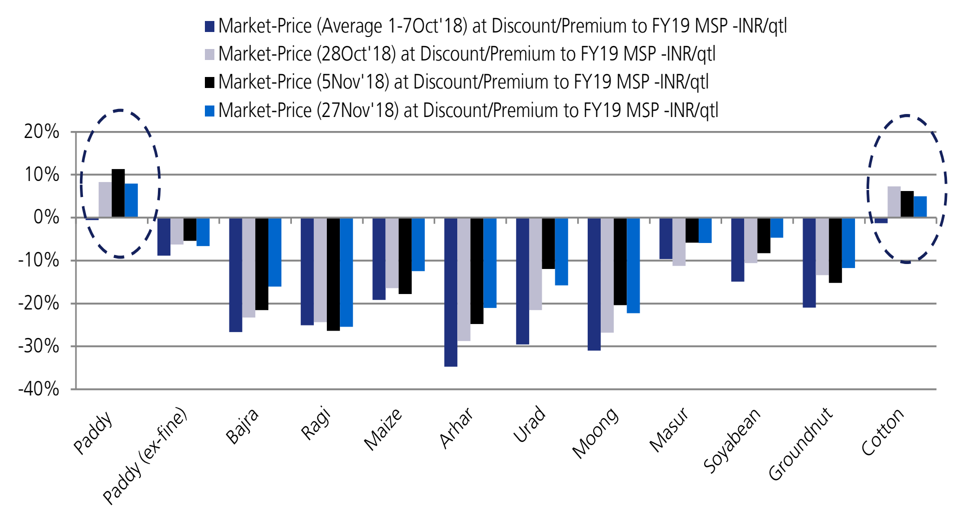
Source: JM Financial

Exhibit 40. Monsoon was lower in 2018 - 9.4% below LPA



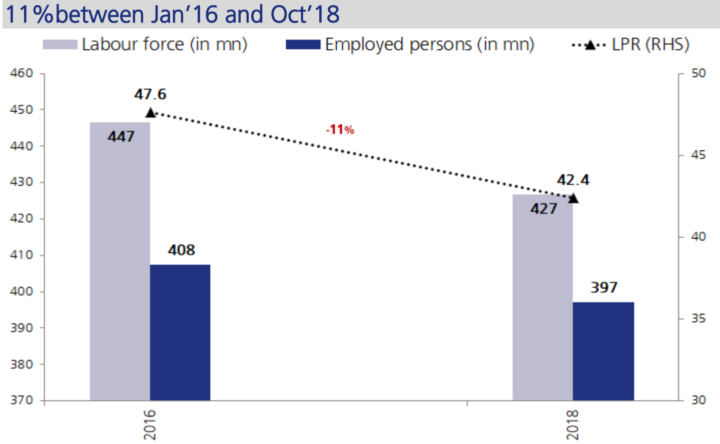
Source: JM Financial

Exhibit 41. Delayed kharif crop procurement – Overall improvement over the month, still market price of coarse cereals/pulses and oilseeds below MSP rates



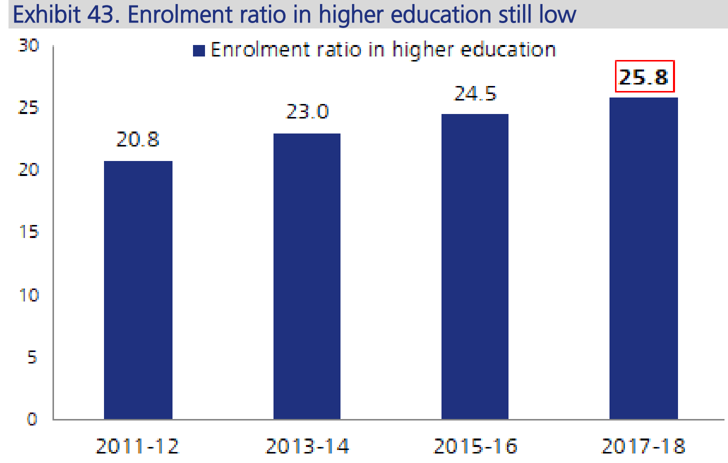
Source: Agmarknet, JM Financial

Exhibit 42. The number of people in labour force declined 11%between Jan'16 and Oct'18



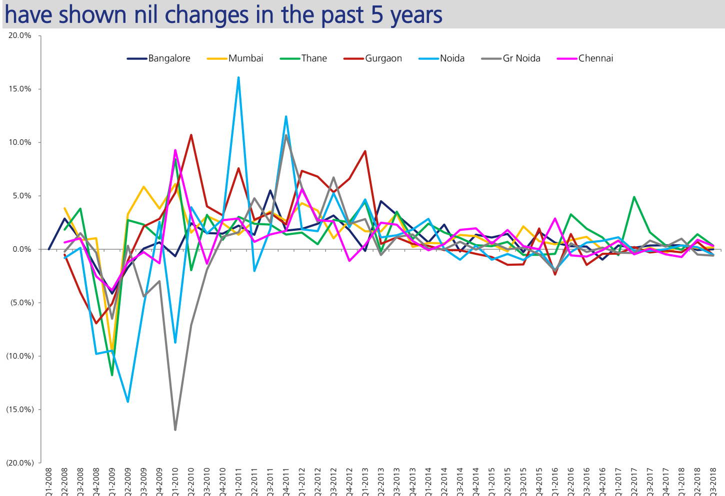
Source: CMIE, JM Financial

Exhibit 43. Enrolment ratio in higher education still low



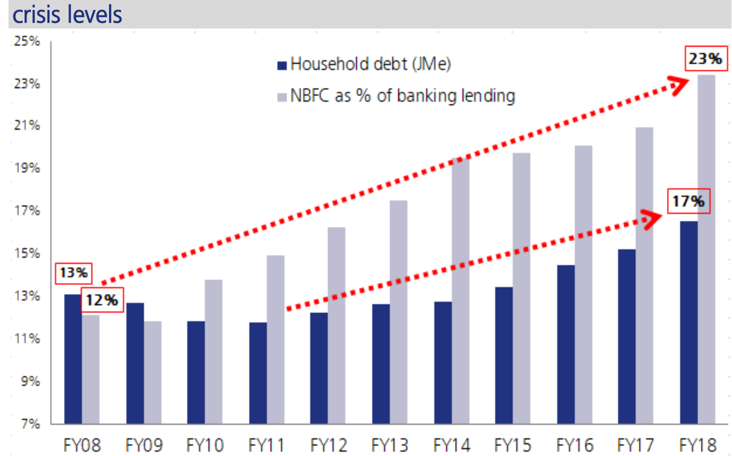
Source: AISHE, JM Financial

Exhibit 44. Wealth effect-Urban property prices in the top 5 cities have shown nil changes in the past 5 years



Source: Various, JM Financial

Exhibit 45. Household debt as % of GDP is estimated to have crossed crisis levels



Source: RBI, JM Financial; Household debt includes i) personal loans (credit card outstanding, education, vehicles, consumer durables, housing), ii) Housing finance credit and iii) NBFC credit

Overall we believe the drivers for consumption in CY19 are weaker than in the beginning of 2018 given the on-going developments in the NBFC sector, rising household leverage and likely lower momentum on rural incomes.

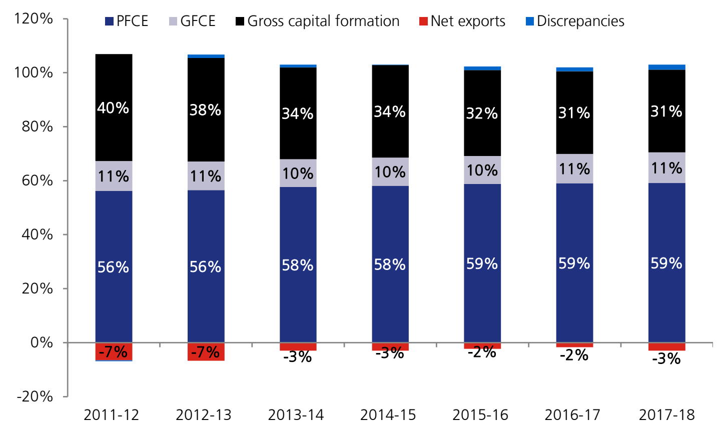
Investments- Falling share of Capital formation in GDP

When to expect uptick in investment cycle?

Sustainable growth demands longer-term investments. While India is a consumption-driven economy, the share of gross capital formation (GCF) in GDP has fallen from c.40% in FY12 to c.30% in FY18 (exhibit 46). This has been seen mainly in the i) real estate+ sector (saw falling share from 25% in FY12 to 21% in FY17; 3.1% 5-year CAGR), and ii) construction (4-year CAGR at -4.9%; 7% share in FY12 reduces to 4% share in FY17). Capital formation in manufacturing expanded at a 5-year CAGR of 8.7%, yielding a rising share from 19% to 21% in FY17. Exhibit 48 shows the largest sectors of capital formation by economic activity and the corresponding change in shares and growth.

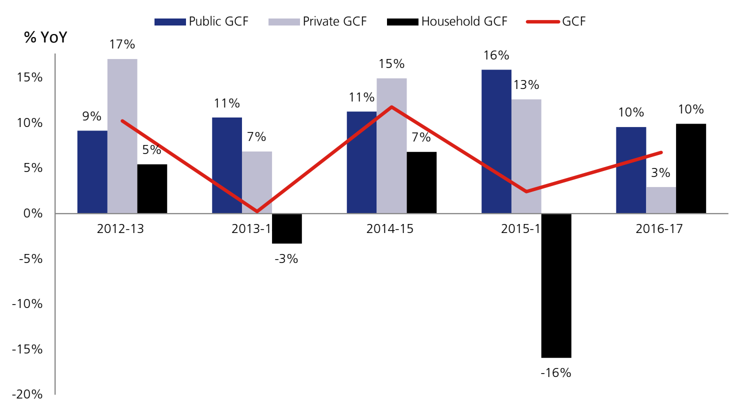
Exhibit 47 shows gross capital formation by sectors. We observe that growth for households (which held the largest share in GCF in FY12) has fluctuated, but modest growth in govt. GCF or private GCF has helped to smoothen fluctuations and maintain stable growth. Given this, we analyse private, public and household capex separately, to assess the capex restoration in India.

Exhibit 46. Declining share of GCF in GDP



Source: RBI, JM Financial

Exhibit 47. Private and Govt. CGF are required to maintain stable GCF growth amid fluctuations in household GCF



Source: CMIE, JM Financial

Exhibit 48. Capital formation by economic activity

	INR bn		CAGR	Changing share in total GCF					
	FY12	FY17		FY12	FY13	FY14	FY15	FY16	FY17
1 **Agriculture, forestry and fishing,** of which	**2,739**	**3,435**	4.6%	**9%**	**8%**	**9%**	**8%**	**7%**	**8%**
Crops	2,344	2,845	4.0%	7%	7%	8%	7%	6%	6%
2 **Industry,** of which	**12,229**	**15,943**	5.4%	**38%**	**37%**	**35%**	**33%**	**34%**	**36%**
Manufacturing	6,150	9,349	8.7%	19%	18%	17%	17%	18%	21%
Electricity, gas, water supply & other utility services	3,084	4,048	5.6%	10%	9%	9%	8%	10%	9%
Construction	2,325	1,807	-4.9%	7%	7%	5%	6%	5%	4%
3 **Services,** of which	**17,089**	**25,149**	8.0%	**53%**	**55%**	**56%**	**59%**	**59%**	**56%**
Real estate, ownership of dwelling & professional services	8,168	9,534	3.1%	25%	24%	26%	28%	22%	21%
Public administration and defence	2,480	4,430	12.3%	8%	8%	8%	8%	9%	10%
Trade and repair services	1,599	3,073	14.0%	5%	10%	6%	9%	10%	7%
Communication and broadcasting services	544	2,002	29.8%	2%	2%	5%	2%	4%	4%
Transport by other means (Roads mainly)	1,656	1,509	-1.8%	5%	4%	2%	2%	3%	3%
Railways	321	796	19.9%	1%	1%	1%	2%	2%	2%

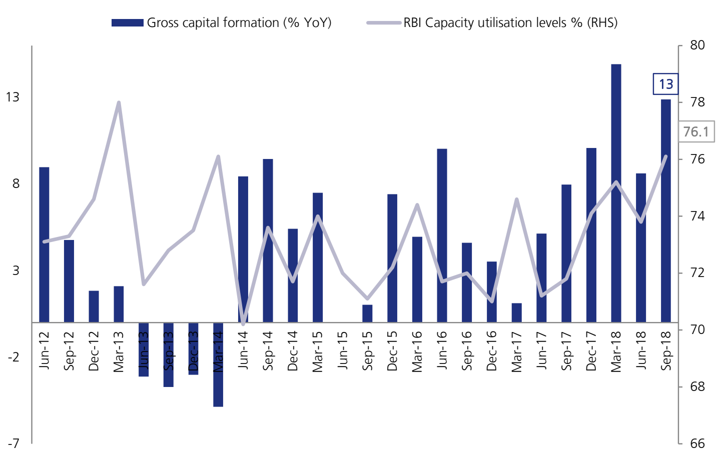
Source: JM Financial

A. Private capex

The private sector accounts for ~40% of gross capital formation in India with manufacturing contributing roughly 40%, followed by real estate (20%), communication & broadcasting services (9%) and power (7%)..

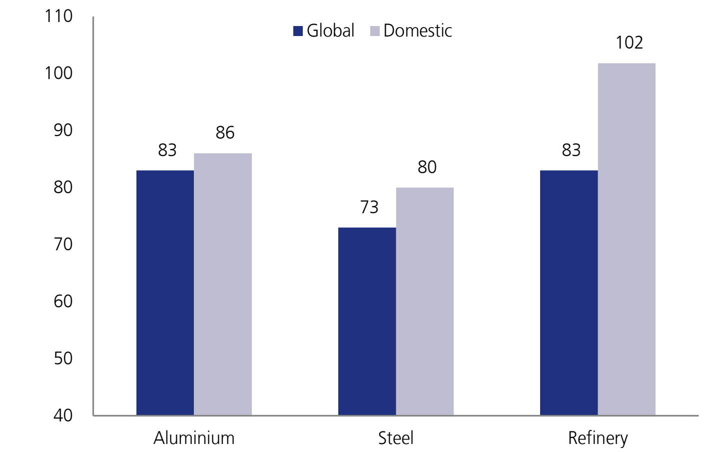
- Current & expected capacity utilisations: RBI's OBICUS (Order Books, Inventories and Capacity Utilisation Survey) reveals CU in 2QFY19 stood at 76.1%, highest since Mar'14 (Exhibit 49). Domestic capacity utilisations of certain industries (steel, aluminium and refinery) are already at levels where planning for new capacity additions could start (exhibit 50), despite the fact that global domestic CU of these industries is below domestic levels.
- Estimates for private capex: Our internal estimates for private capex, shows an increase in capex by a few capital intensive sectors such as oil & gas (FY18-21 CAGR at 35.8%) and industrials (FY18-21 CAGR at 22%), metals & mining (12.7%) and industrials (22%). exhibit 52 shows the overall private capex is estimated to record CAGR of 18% during FY18-20(ex-TTMT and ex-Telecom).

Exhibit 49. Capacity utilisation for 2QFY19 stood at 76.1%, highest since Mar'14



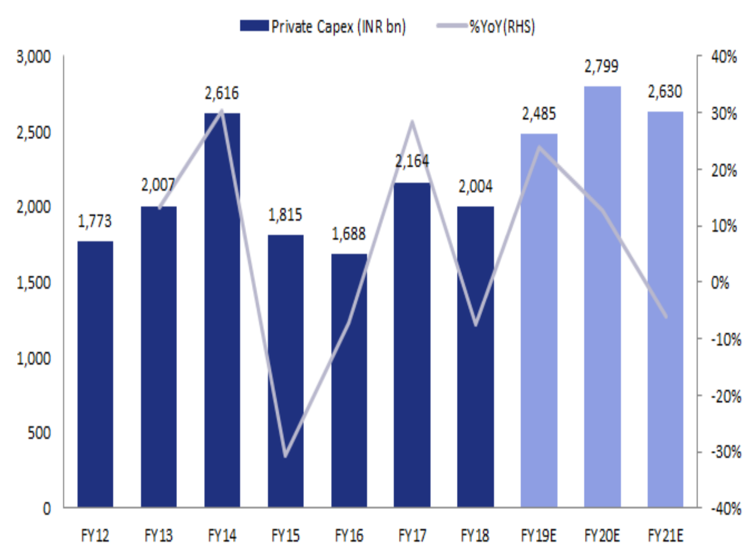
Source: RBI, JM Financial

Exhibit 50. Global vs. domestic capacity utilisation in selected industries for FY18



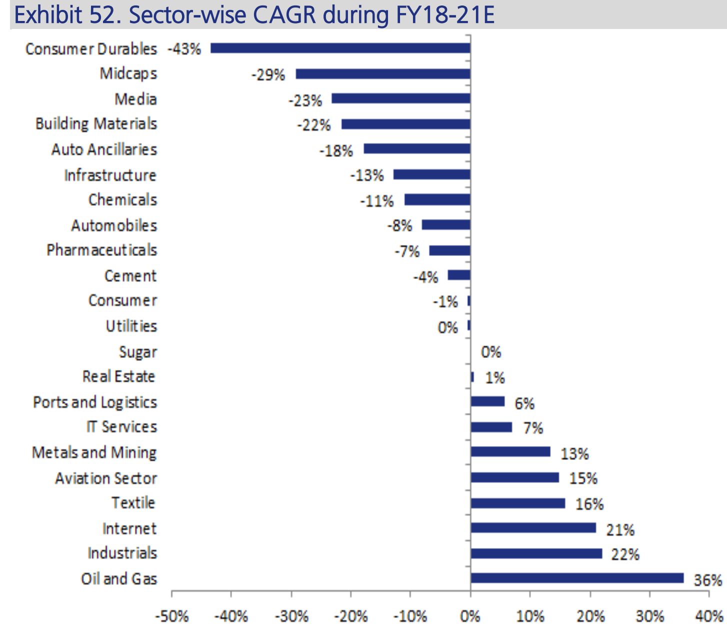
Source: WSA, JPC, BP Global, MoPNG, JM Financial; FY17 CU levels

Exhibit 51. Private sector capex to grow in double-digits over the next 2 years



Source: Company, JM Financial

Exhibit 52. Sector-wise CAGR during FY18-21E



Source: Company, JM Financial

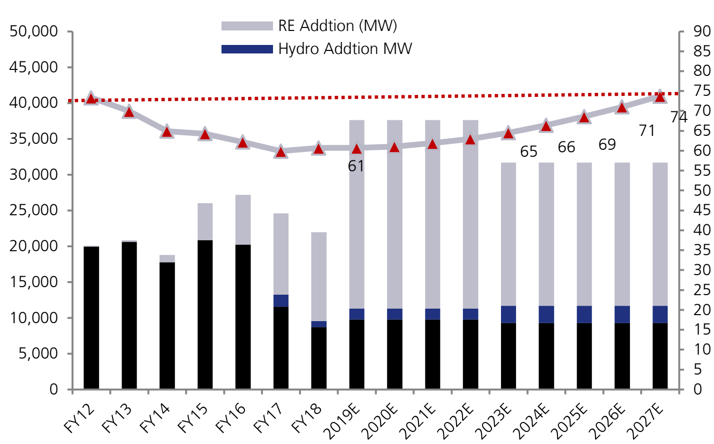
Focus sectors for private capex

i) Power

- **Next cycle of thermal capex depends on renewable energy capex and battery costs:** In the current scenario of a) power demand growing by 5-6% p.a., b) 20-25GW / year of planned solar + wind capex and c) under-utilised thermal capacity (25GW without PPAs) + >48GW of under construction plants, we find thermal PLFs reaching 74-75% only by FY26, implying thermal capex ordering possibly by FY22. However, any improvement in battery storage technology in this period (FY19-23) will work against thermal capex. At the same time in case RE additions fall short of targets, then thermal PLFs may rise to 75% earlier by FY23-24, implying new thermal ordering maybe required by FY20-21. However, given the weak financial capability of banks which are already burdened with >25GW of stranded capacities we find it unlikely for thermal power capex to pick up for next 2-3 years even if RE power additions slowdown.

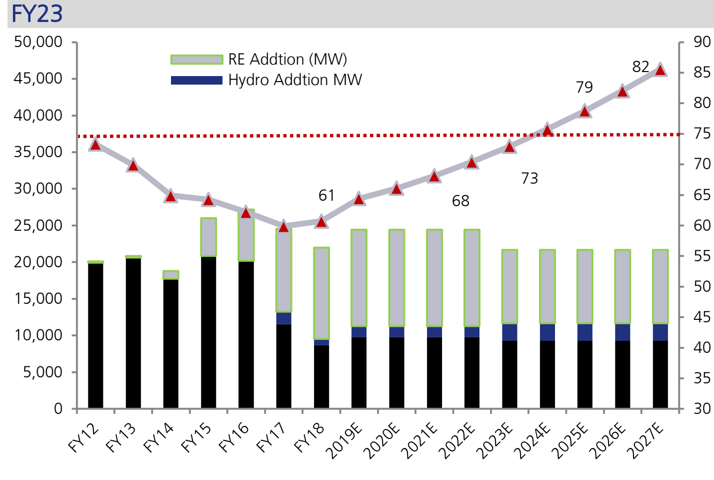
- **Power transmission more focused towards State capex**: As per the National Electricity Plan, incremental transmission capex in India will be more focused towards intra state transmission in FY17-22). States are estimated to have a capex of INR 1.6trn in this period – however historically they have always lagged behind targets with actual capex being only 30-40% of targets. Inter-state capex (by PGCIL) will largely be stagnant at c. INR 1trn while renewables related green energy corridors may add another INR 600bn to the overall basket which will most likely be under competitive bidding (TBCB).Given this scenario we not find much pick up in transmission capex.

Exhibit 53. 47GW Thermal + 20GW/yr RE addition - Thermal PLFs reach 73% by FY25



Source: JM Financial, CEA,MNRE

Exhibit 54. Slower RE capex implies - Thermal PLFs reach 73% by FY23

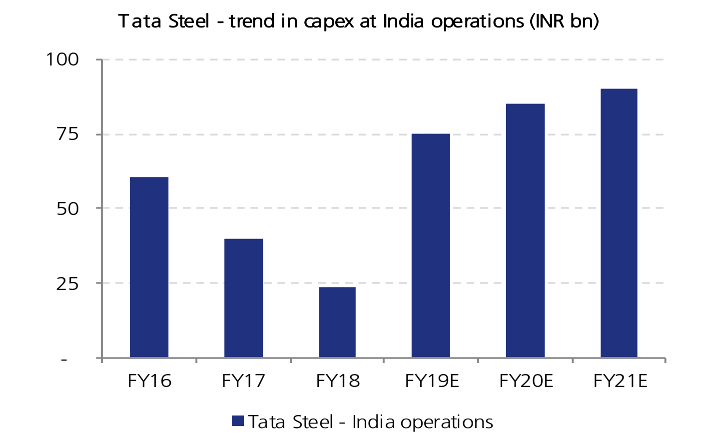


Source: JM Financial, CEA, MNRE

ii) Steel

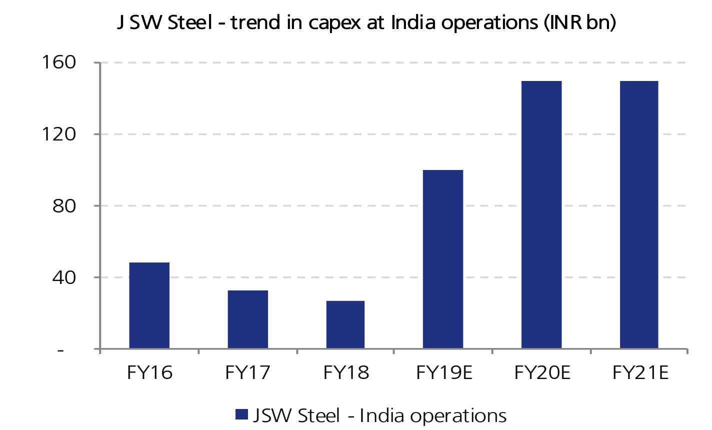
Strong steel cycle fuel aggressive capex plans: Buoyed by the strong steel demand in the country (8%+), steel majors such as Tata Steel and JSW Steel have announced further organic expansions. Tata steel has planned capex of INR 235bn over next 3 year years to expand its capacity from 13mtpa to 18mtpa (expansion of 5mtpa capacity at Kalinganagar). JSW Steel announced capex of INR 44.4bn to a) expand crude steel capacity from 18mtpa to 24.7mtpa, b) modernize/enhance downstream facilities and c) install cost saving initiatives. Other large ferrous companies such as JSP and SAIL are at the end of their expansion cycle and have lower near term planned capex. Hindalco's deleveraging focus and judicious capital allocation based on return ratios has led to lower capital expenditure over FY19-21E – more focussed towards high return downstream and alumina assets.

Exhibit 55. Tata Steel doubles capex to expand from 13mtpa to 18mtpa



Source: Company, JM Financial

Exhibit 56. JSW Steel quadruple capex to expand from 18mtpa to 24.7mtpa



Source: Company, JM Financial

Tata Steel/JSW steel more than double their capex on strong steel cycle

Exhibit 57. Total capex incurred/planned for FY16-18/FY19E-21E (INR bn)

	FY16-FY18	FY19E-FY21E	Growth in planned capex vs. last 3 years capex (x)
Tata Steel	124	250	2.0
JSW Steel	108	400	3.7
Jindal Steel & Power	72	30	0.4
SAIL	174	105	0.6
Hindalco	34	60	1.8
Hindustan Zinc	67	75	1.1
NMDC	69	60	0.9
Total	**646**	**980**	**1.5**

Source: Company, JM Financial; Note: Represents capex of only Indian operations (excluding international capex), JSP capex is for steel business

Exhibit 58. Total capex incurred/planned for FY16-18/FY19E-21E

mn tons	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total crude steel capacity	102	110	124	129	129	134	140
Crude steel production	82	88	90	97	102	109	116
Finished Steel Production	85	91	91	101	105	113	120
Add: Imports	5	9	12	7	7	7	7
Less: Exports	6	6	4	8	10	5	5
Apparent consumption	84	93	97	100	103	115	124
Less: double counting	10	16	16	16	13	18	20
Real consumption	74	77	82	84	91	97	104
Capacity utilization (%)	80.0	81.0	74.0	78.0	80.0	82	83

Source: Company, JM Financial; Note: Represents capex of only Indian operations (excluding international capex), JSP capex is for steel business

iii) Refineries

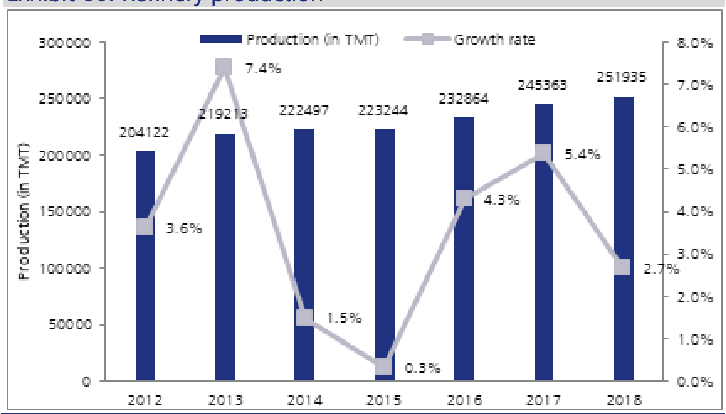
Indian Oil & Gas sector, specifically the Oil Marketing Companies, are investing to upgrade afuels to BS-VI. Also, with improved cash flow, the three major OMC's (IOCL, BPCL, and HPCL) have plans to expand capacities and increase the retail footprint an also enter into city gas distribution sector. This has resulted into the 3 OMCs announcing capex of c. INR 3.5tr over 5 years. Additionally, Gas companies (within our coverage) are likely to invest c. INR 15bn in FY19 to expand their penetration into new geographies and expanding terminal capacities. City Gas Distribution (CGD) has attracted energy companies to enter this high growth market. In recently concluded 9th bidding round for CGD saw companies winning Geographical Areas (GA) alone as well as in partnerships. Exploration companies have been cautious in capex but ONGC and OIL are working steadily towards reducing India's crude import dependence to 67% (currently 83%) by 2022. Indian refiners saw utilisation of 101.8% in FY18 with production capacity of 247.6 MMTPA

Exhibit 59. Estimated Capex of Companies under coverage

Company	Capex		
	2019	2020	2021
BPCL	82,700	2,63,000	2,63,000
GAIL	60,000	65,000	35,000
GujGas	5,106	5,109	4,613
GSPL	1,500	1,575	1,670
HPCL	81,000	1,50,000	1,50,000
IGL	3,646	3,792	3,943
IOCL	1,75,000	1,75,000	1,75,000
OIL	21,661	21,892	22,127
ONGC	3,20,000	1,93,718	1,95,655
PLNG	8,391	4,922	5,070
Total	7,59,003	8,84,009	8,56,078

Source: Company, JM Financial

Exhibit 60. Refinery production



Source: Company, JM Financial

Exhibit 61. Indian Refinery capacity

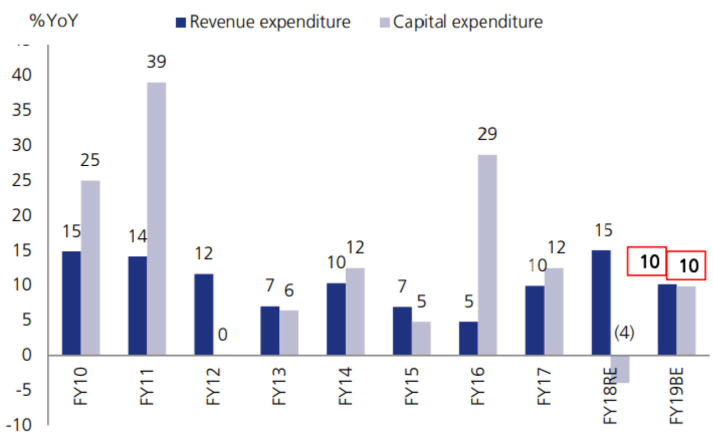
Company	Capacity (in TMT)							Utilization						
	2012	2013	2014	2015	2016	2017	2018	2012	2013	2014	2015	2016	2017	2018
IOCL	54200	54200	54200	54200	69200	69200	69200	102.6%	100.8%	98.0%	98.9%	83.8%	94.2%	99.7%
BPCL	21500	21500	21500	21500	21500	24400	27500	106.2%	107.8%	106.8%	107.8%	112.0%	103.9%	102.4%
HPCL	14800	14800	14800	14800	14800	15800	15800	109.4%	106.6%	105.1%	109.3%	116.4%	112.9%	115.7%
CPCL	11500	11500	11500	11500	11500	11500	11500	91.9%	84.7%	92.4%	93.8%	83.9%	89.2%	93.8%
NRL	3000	3000	3000	3000	3000	3000	3000	94.2%	82.6%	87.1%	92.6%	84.0%	89.4%	93.6%
MRPL	15000	15000	15000	15000	15000	15000	15000	85.3%	96.1%	97.3%	97.5%	103.5%	106.4%	107.5%
ONGC	66	66	66	66	66	66	66	104.5%	86.4%	98.5%	77.3%	101.5%	130.3%	121.2%
RIL	60000	60000	60000	60000	60000	60000	68200	112.8%	114.2%	113.4%	113.4%	115.9%	117.0%	103.3%
NEL	18000	20000	20000	20000	20000	20000	20000	75.0%	98.8%	101.0%	102.5%	95.5%	104.6%	103.5%
BORL	6000	6000	6000	6000	6000	6000	6000	34.1%	95.5%	90.8%	103.5%	106.7%	106.0%	111.8%
HMEL	9000	9000	9000	9000	9000	9000	11300	0.0%	54.5%	103.0%	81.3%	119.0%	116.9%	78.1%
Total	213066	215066	215066	215066	230066	233966	247566	95.8%	101.9%	103.5%	103.8%	101.2%	104.9%	101.8%

Source: Industry, JM Financial

B. Government capex

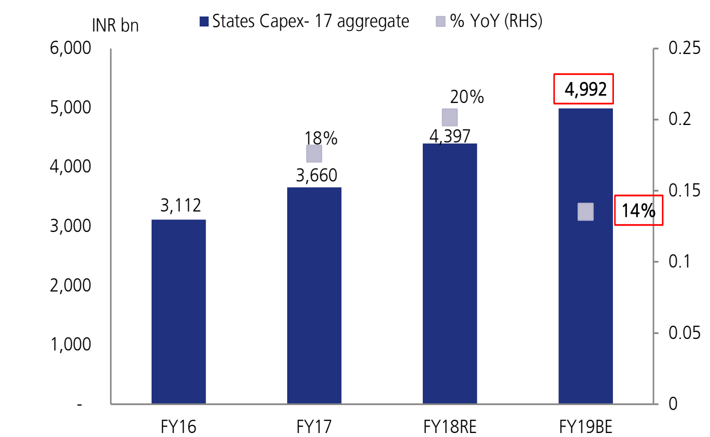
Public sector contributes around c.22-25% to gross capital formation. While both States and Centre engage in capital spending, States form a more crucial point of capital outlay as the capex to GDP ratio for states stands at 3.0% against 1.6% for Centre (adjusting for transfers from the Centre). Moreover, the 3-year CAGR in capex for states stands at 17%, almost 3x of the Centre (6%). Focus areas of capital outlay differ for the two levels of the govt. - Centre's capex spend is mainly directed towards defence, railways, roads, urban development and police (accounting for 75-80% of budgeted capex). States, on the other hand spend majorly towards transport, irrigation, rural development, and water supply, sanitation, housing & urban development.

Exhibit 62. Centre's budgeted capex (INR 3,004bn) is estimated to realise only 92% of BE as the govt. faces revenue shortfall



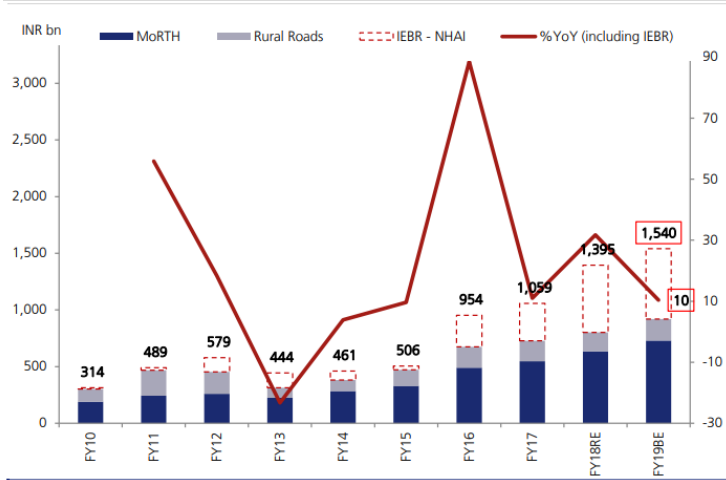
Source: Union Budget 2018-19, JM Financial

Exhibit 63. The aggregate of 17 states budgeted capex growth at 14% YoY in FY19BE



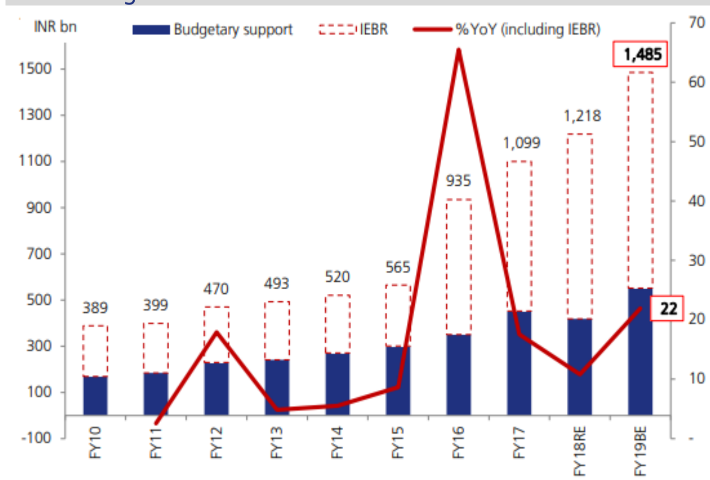
Source: State Budget, JM Financial

Exhibit 64. Roads spending (including IEBR) at INR 1,540bn; 10%YoY in FY19BE



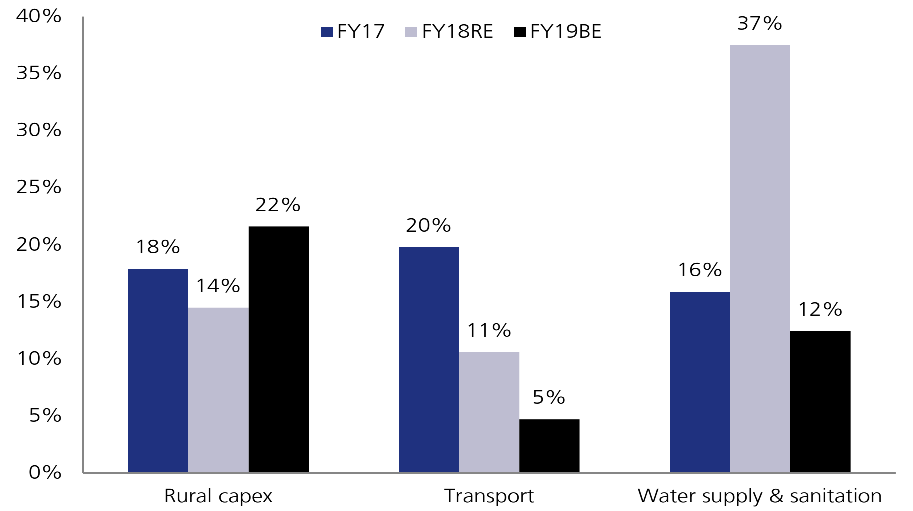
Source: Union Budget 2018-19, JM Financial; ex-IEBR, %YoY in roads stands at 15%YoY vs. 10% in FY18RE; Note the above includes works by Border Roads Development Board

Exhibit 65. Centre's railway spending in FY19 is expected to see cuts vs. the budgeted INR 550bn



Source: Union Budget, JM Financial

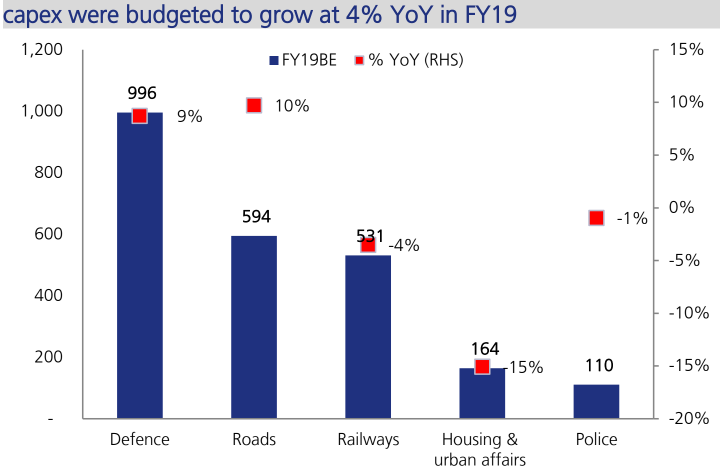
Exhibit 66. Barring transport, States budgeted strong capex growth for top sectors- rural and water supply & sanitation



Source: CGA, JM Financial

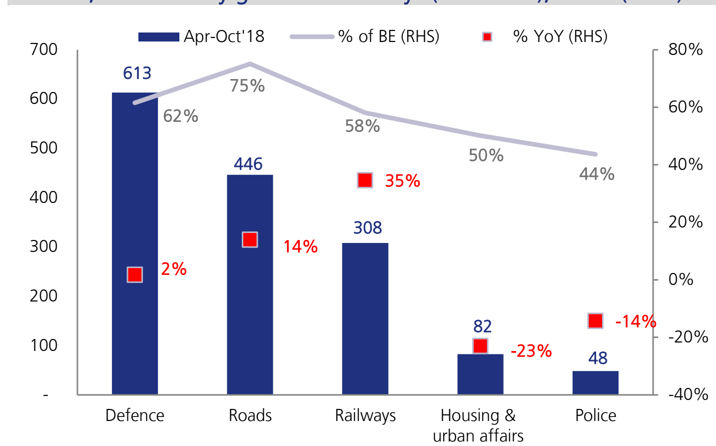
- How is govt. capex panning out FYTD19? For the Centre, two months of consecutive capex contraction lowered cumulative capex growth (FYTD19 (Apr-Oct'18), to 9% YoY vs. 21% YoY in Aug'18. Yet, capex realisation as % of BE remains one of the best in the past 13 years (59% of BE) being directed to railways (35% YoY) and roads (14% YoY)- exhibit 67,68. As far as states are concerned, data on finances show that so far revenues for state have been robust (14%), with capex (ex-loans) expanding at 18%YoY vs. -15% YoY last year. Capex including loans rose 22% YoY vs. a contraction last year (-21%YoY) with expenditure and revenue in line with last year levels (exhibit 69, 70).

Exhibit 67. Top 5 sectors constituting 80% of central government capex were budgeted to grow at 4% YoY in FY19



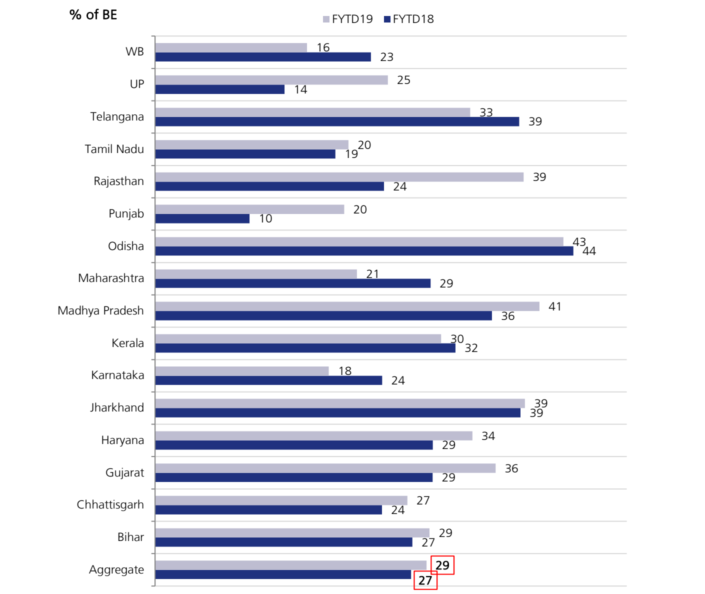
Source: Union Budget 2018-19, JM Financial

Exhibit 68. Apr-Oct'18, 63% of budgeted capex in these sectors was realised, with healthy growth in railways (35% YoY), roads (14%)



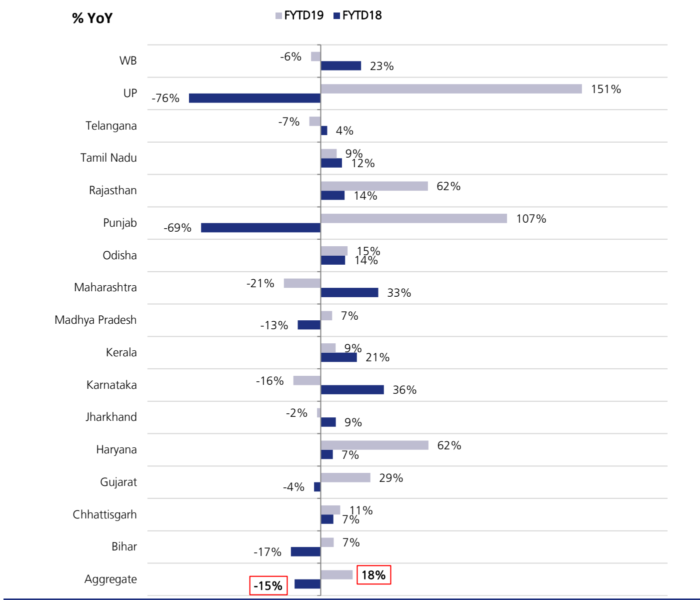
Source: CGA, JM Financial

Exhibit 69. By 1HFY19, states had realised almost 29% of the budgeted capex (ex-loans)



Source: CAG, JM Financial

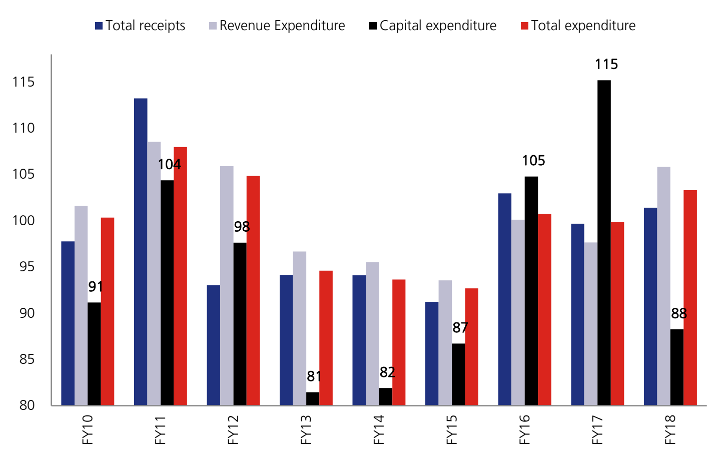
Exhibit 70. 1HFY19 capex growth (ex-loans) for an aggregate of 16 states stands at 18% YoY



Source: CAG, JM Financial

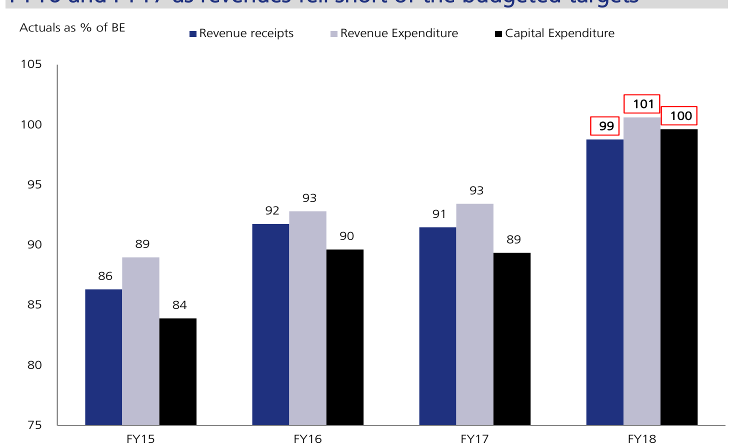
- **Will budgeted capex materialise?** It has been a historical trend that whenever the govt. falls short of revenues, capex cuts are the first to be resorted to. As per our estimates, the Centre this year will fall short of revenues about INR 1trn. This likely will be covered through cuts in capex- around 92% of capex realisation (cuts up to INR 240bn), seen majorly in defence, police, railways and urban development, as these have been the top targets historically, and lag behind in terms of a realisation FYTD19 (exhibit 68). As far as states are concerned, although i) FYTD19 capex growth for states remains healthy (partly due to low base) (exhibit 70), and ii) pattern of higher capex in H2; it should be noted that recent announcements of populist schemes by states- i) freebies in Chhattisgarh, ii) MP power bill waiver, iii) Rajasthan's free electricity for farmers - have not been budgeted for. Hence, some cuts in capex by states could come through if they wish to meet the fiscal deficit target, although given i) an election year, and ii) lack of penal consequences to breach fiscal deficit target, does not constrain states to curb expenditure. Exhibit 71, 72 shows the actual realisation of capex for both states and centre over the years.

Exhibit 71. Actuals as % of BE- Capex realisation remains weak



Source: Union Budget, JM Financial

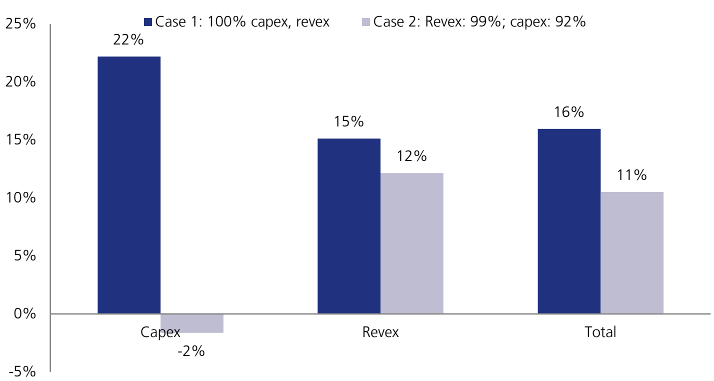
Exhibit 72. States capex realisation remained below 90% in FY15, FY16 and FY17 as revenues fell short of the budgeted targets



Source: State budgets, JM Financial

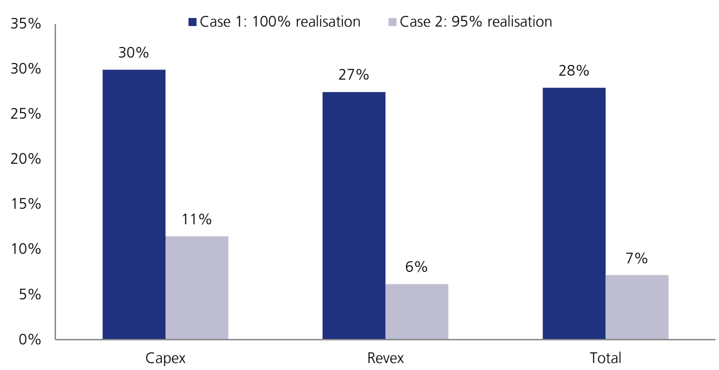
- **Govt. spending cuts in the next six months?** We analyse scenarios for the extent of expenditure cuts for the Centre and states in the coming months to assess whether this could materially slow down growth. Exhibit 73 shows that for the Centre, for the months of Nov-Mar'19, if only 92% of capex is realised, then the capex growth could contract to -2% YoY for these months. This is against a 22% YoY growth if entire budgeted capex was realised. Similarly for states (exhibit 74), we find that if states to engage in capex cuts in 2HFY19, say 95% of BE is realised, then capex growth would remain in 2-digits, although slowing to 11% vs. 30% if 100% of budgeted capex came through in FY19. Overall, despite cuts by the Centre (which are more likely), states capex growth is expected to support overall government capex growth in the coming months.

Exhibit 73. If only 92% of budgeted capex is realised in FY19, then capex growth for the next 5 months could decline to -2% YoY vs. 22% YoY if 100% of budgeted amount was spent



Source: Union Budget 2018-19, JM Financial

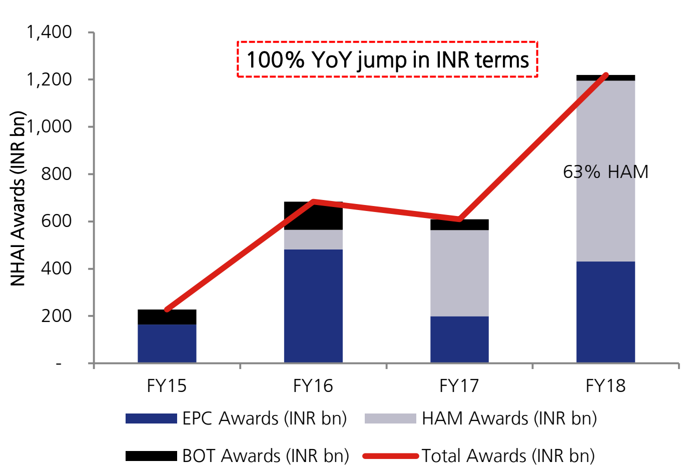
Exhibit 74. If states cut capex; i.e. 95% of the budgeted capex is realised, then capex growth could fall to 11% YoY in 2HFY19 vs. 30%, had entire budgeted capex materialised.



Source: CAG, State budgets, JM Financial

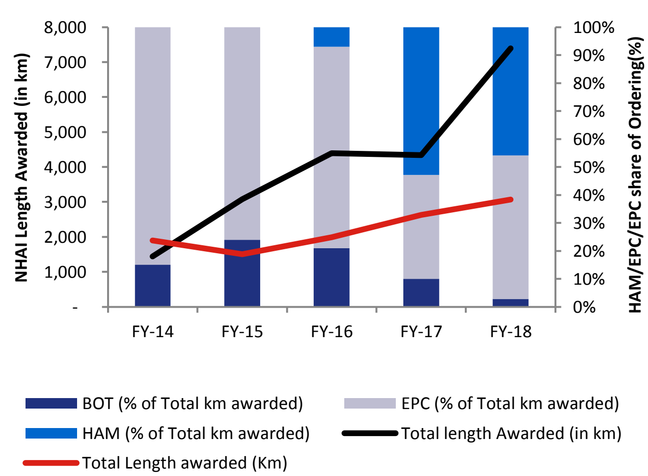
- **Road Sector capex:** After the announcement of Bharatmala, ordering from the National Highways Authority of India (NHAI) jumped 100% YoY in FY18, at c.INR 1.2trn for 7,397km (+70% YoY), with most awards in 4QFY18. However both ordering and execution have slowed down in YTD FY19, on delays in land acquisition and financial closure for higher mix of hybrid annuity model (HAM) projects. Thus we expect road ordering to pick up in 4Q19 (before Central elections), though it not register YoY growth given large base of FY18. However as NHAI acquires land and projects start execution, we expect a pickup in execution and actual capex from FY20.

Exhibit 75. NHAI awards FY15-18 by value (INR bn)



Source: Industry, JM Financial

Exhibit 76. NHAI Ordering/Construction by mode



Source: Industry, JM Financial

- **Metros:** In Aug'17, the Union cabinet approved a new metro rail policy which increases private participation in metro development. The policy mandates PPP component mandatory for states to avail central assistance. It also mandates last mile connectivity to metro stations, Transit Oriented Development (TOD) to promote dense urban development along metro corridors. State governments/Union territories can prepare Detailed Project Report (DPR) in line with the Metro rail policy and can submit for approval and funds. The Ministry of State for Housing and Urban Affairs (MoHUA) had released c.INR 460bn over FY16-YTDFY19 towards metro rail projects. C.515km of metro rail is operational with another 664km of metro rail under development across 15 cities, as reported by the ministry.

Exhibit 77. Funds released by MoHUA

Year	FY16	FY17	FY18	YTDFY19 (up to Sep'18)
Funds released by MoHUA	93	153	140	75

C. Household capex

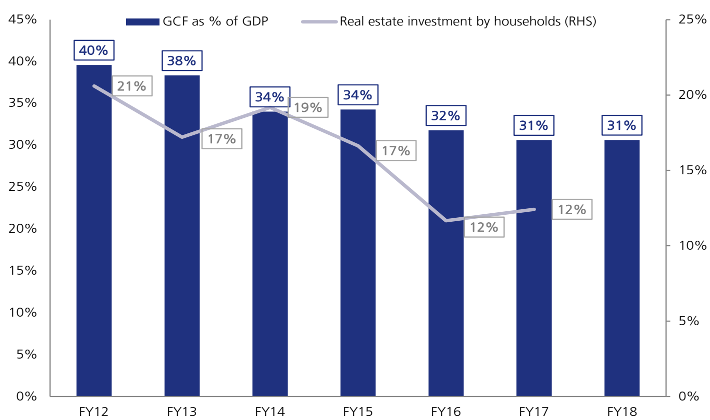
Household's contribution to capital formation is around 30%. Of this, 41% accounts for real estate investment, followed by crops (15%) and trade & repair services (10-14%). In fact, around 60% of the capex in real estate happens through household, followed by private (39%). Household share in real estate capex has however fallen from 80%+ in FY12 to 60% in FY17. Given this, we focus on the housing sector.

Special focus: Real estate/Housing capex

As highlighted earlier, the share of gross capital formation (GCF) in GDP has fallen from c.40% in FY12 to c.30% in FY18 mainly due to i) real estate+ sector (saw falling share from 25% in FY12 to 21% in FY17; 3.1% 5-year CAGR), and ii) construction (4-year CAGR at -4.9%; 7% share in FY12 reduces to 4% share in FY17). Since the household sector is the top contributor to real estate capex (60%), followed by the private sector, the drag on overall capital formation can be revived by recovery in housing demand.

Inventory analysis: Inventory by value peaked across the top 6 cities middle of last year but has stayed elevated (exhibit 80). As per our estimate, as launches slowdown, and there is a natural attrition and cuts to inventory, certain cities can begin to see revival in new launches. We expect NCR to lead that but only at the end of next 6-12 months.

Exhibit 78. The fall in real estate investment has been the key driver for the overall declining share in capital formation as % of GDP



Source: CMIE, JM Financial

Exhibit 79. Real estate prices have yet to record an uptick

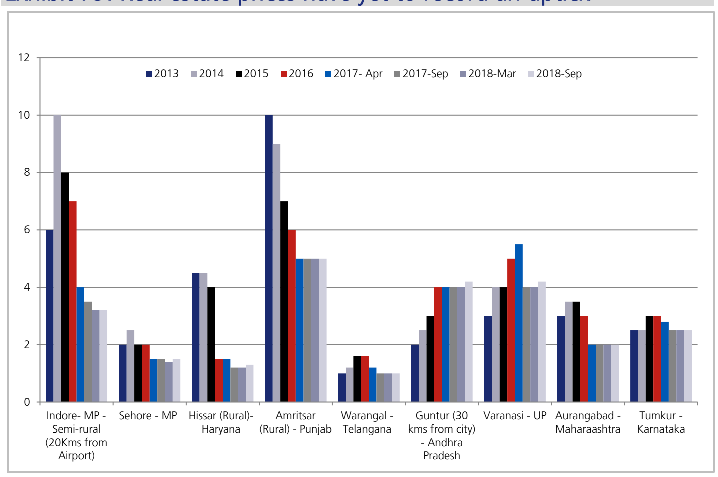
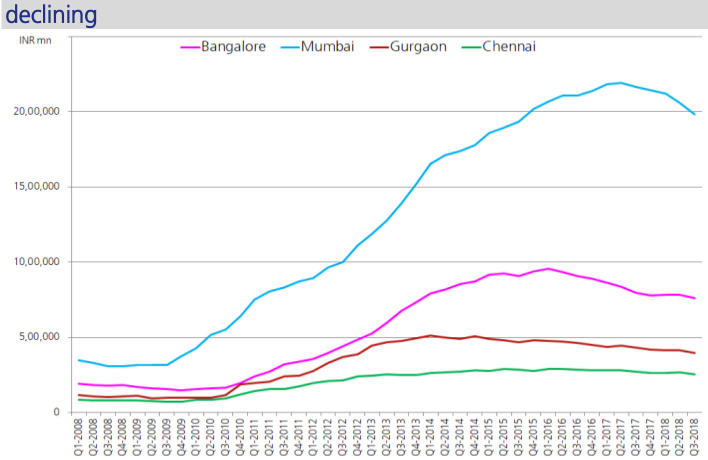
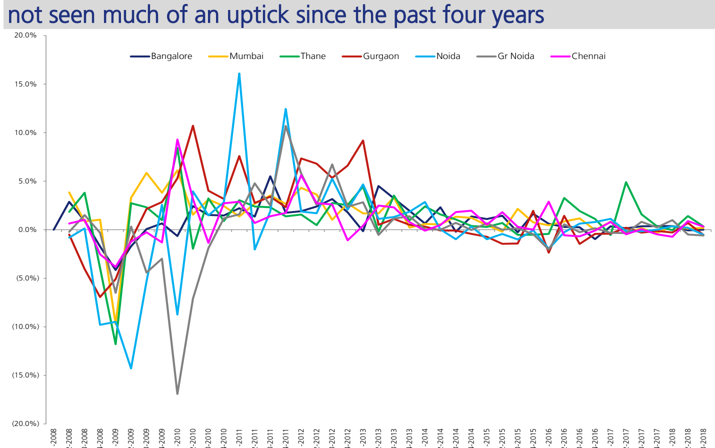


Exhibit 80. Inventory (by value) appear to have peaked and is declining



Source: Various, JM Financial

Exhibit 81. QoQ change in unit price of residential real estate has not seen much of an uptick since the past four years



Source: Various, JM Financial

Affordable housing- Government's effort to revive housing investment

The government has taken various steps to revive housing investment in the affordable sections of the society. The Pradhan Mantri Awas Yojana was launched with the target of building 20 million affordable houses by 31Mar'22 for the people coming under the economically weaker section and lower income groups in urban areas with the assistance of INR 2 trillion (USD 28 billion) from central government.

- PMAY (U): The Union Budget 2018-19 allocated INR 19bn for the CLSS scheme under PMAY(Urban) with INR 10bn earmarked under CLSS – I for economically weaker section (EWS) and lower income group (LIG) and INR 9bn under CLSS – II for middle income group (MIG).

  Progress under CLSS: As on 11Jun'18, a total of 0.16mn beneficiaries were reported under the CLSS scheme, with INR 36.3bn subsidy released. Of these, 0.13mn belonged to the EWS/LIG section, constituting for INR 28.9bn subsidy. For FY19 particularly, only INR 1.7bn, 19% of budgeted amount was released under MIG of CLSS. This is against 45% disbursal (i.e. INR 4.5bn) for EWS/LIG. By 26Oct'18, INR 50bn of housing loan subsidy had been disbursed to 0.23mn CLSS beneficiaries under EWS/LIG and MIG categories.

  Progress under PMAY-U: The data shows that till Nov'18, 6.29mn houses were sanctioned under PMAY-U, of which 1.15mn have been built, i.e. c.18% of the number of sanctioned houses in last three years. This is against a completion percentage of 15% in Jul'18. The government has aided states with around INR 780bn. Work for more than 3mn units is underway. The total investment done by the government in projects under this scheme is around 3.4trn. The total sanctioned amount for central assistance was INR 961bn and INR 323bn have been released in the central assistance. Data shows that the scheme is in progress but it still has a long way to go. The rate at which houses have been built so far may not be enough to meet the housing needs of the country by 2022.

Exhibit 82. The government has allocated INR 19bn for the CLSS scheme under PMAY-U

INR bn	FY17	FY18RE	FY19BE	Output/Deliverables against the outlay
Credit Linked Subsidy Scheme (CLSS) - I for Economically Weaker Section(EWS)/Lower Income Group(LIG)	4.75	8.00	10.00	Disbursal of home loan subsidy to about 1 lakh EWS and LIG a n d Middle Income Group beneficiaries.
Credit Linked Subsidy Scheme (CLSS)-II for Middle Income Group (MIG)	-	6.00	9.00	
Credit Risk Guarantee Fund Trust (CRGFT)	0.15	0.15	0.15	
Institutional Development for Inclusive Urban Governance, Building Material and Technology Promotion Council (BMTPC) and National Building Organisation (NBO)	0.12	0.11	0.14	
Other items of Central Component	0.25	0.55	0.74	30 (National /Regional / State/city Level) Workshops Preparation of SORs for 3 new Technologies. Funding of TSM activities like global construction challenge.
Scheme for drinking water supply for slums affected with Japanese Encephalitis and Acute Encephalitis Syndrome (JE/AEs)	-	-	-	
Other items of States/UTs Component	43.53	45.61	45.01	Sanction of Central assistance to 30 lakh houses approved by States Completion of 21 lakh houses by States/UTs 75% Occupancy of houses
Total- PMAY-Urban	**48.80**	**60.43**	**65.05**	

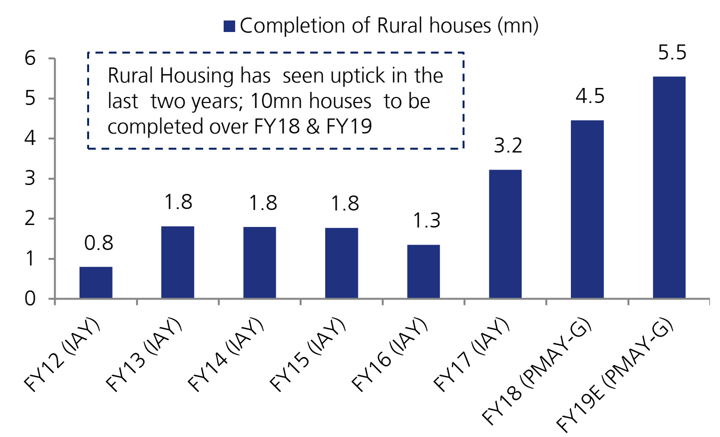
Source: Union Budget, JM Financial

- PMAY (Rural): Rural Housing under PMAY-G is one of the Government's flagship schemes. In terms of completion, the scheme envisages construction of 10 million rural houses by Mar'19; and as of end Nov'18, 5.9 million houses have been completed. However, as 9.0 million households have already received the first instalment and given that the construction of a typical house takes 3-4 months, there is a high probability of reaching near-completion by Mar'19.

  In terms of allocation, PMAY(G) has been allocated INR161/230/210bn from union budget over FY17/FY18/FY19BE. There has also been provision of extra budgetary raise on INR120bn in FY19BE.

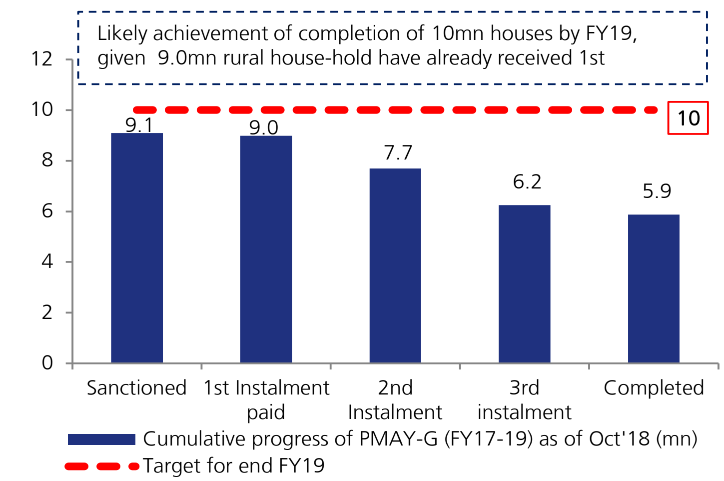
  Progress report: The beneficiaries under PMAY (G) receive payment of INR120,000 to 150,000 in 3-4 instalments (based on states). Among states, the key laggard has been Bihar in terms of completion of houses (impacted by delay in allocation and impact of sand mining ban last year). Going ahead, we expect completion to accelerate across states for the rural housing..

Exhibit 83. Completion of rural houses has seen uptick in past few years



Source: IAY, JM Financial

Exhibit 84. PMAY-G performance



Source: IAY, JM Financial

Exhibit 85. Detailed break-up of Rural house construction under PMAY (G)

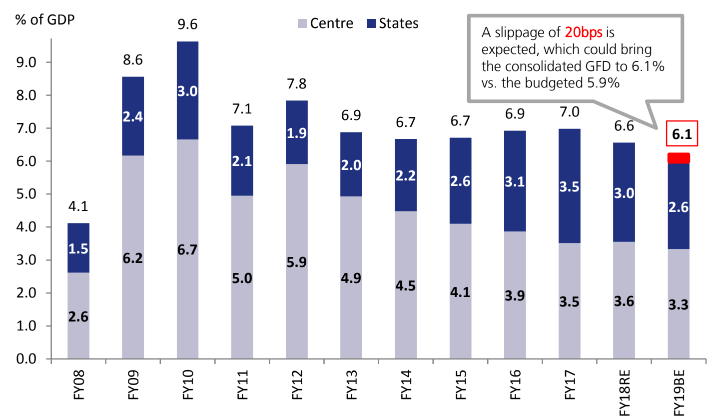
State Name	MoRD Target (mn)	Sanctions (mn)	1st instalment paid (mn)	2nd instalment paid (mn)	Completed (mn)	1st instalment paid as % of Target	2nd instalment paid as % of Target	Completed as % of Target
Madhya Pradesh	1.4	1.4	1.4	1.3	1.1	99.4%	96.1%	79.3%
West Bengal	1.4	1.4	1.4	1.2	1.0	98.5%	89.1%	69.1%
Bihar	1.2	0.9	0.9	0.5	0.2	74.8%	41.9%	18.3%
Uttar Pradesh	1.2	1.1	1.1	1.0	0.9	92.0%	87.5%	74.6%
Odisha	1.0	1.0	1.0	0.9	0.7	99.5%	89.5%	70.3%
Chhattisgarh	0.8	0.8	0.7	0.6	0.5	94.0%	73.5%	57.7%
Rajasthan	0.7	0.7	0.7	0.6	0.5	97.7%	87.6%	66.5%
Jharkhand	0.5	0.5	0.5	0.4	0.3	98.8%	83.5%	57.8%
Maharashtra	0.4	0.4	0.4	0.3	0.3	88.7%	71.4%	58.5%
Tamil Nadu	0.3	0.3	0.3	0.2	0.1	76.6%	54.4%	36.2%
Assam	0.3	0.2	0.2	0.2	0.1	79.8%	73.7%	42.4%
Total (top-11)	9.2	8.7	8.5	7.3	5.6	92.7%	79.6%	60.7%
Total	10.0	9.1	9.0	6.2	5.9	90.3%	62.7%	59.0%

Source: IAY, JM Financial

Government: Slippage likely in FY19

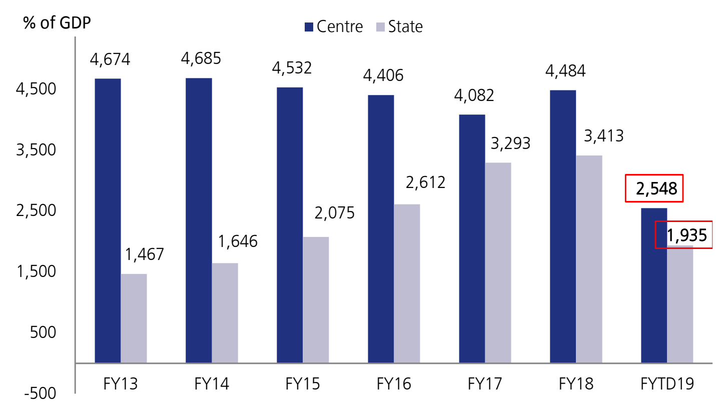
Given significant upside risks to the Centre's fiscal, we expect the government to defer the fiscal consolidation process and revise the FY19 GFD to 3.5% (vs. 3.3% as per FY19BE).

Exhibit 86. Budget for Centre + states is GFD-to GDP ratio of 5.9% for FY19. Might slip due to unaccounted expenditures and revenue shortfall



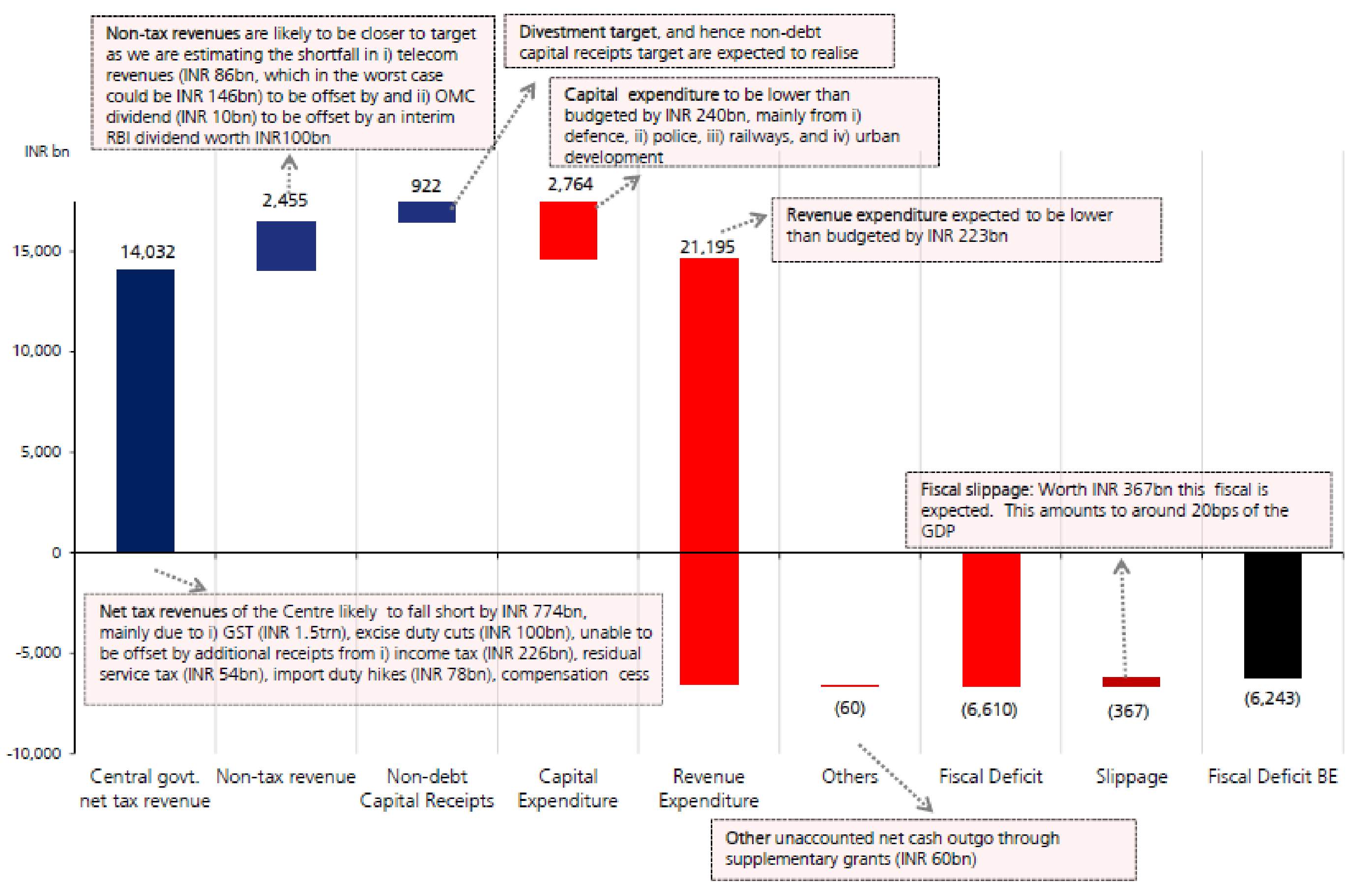
Source: CMIE, JM Financial; FY16, FY17 GFD for states includes UDAY costs

Exhibit 87. The ratio of net market borrowings of states and the Centre has increased from 30% in FY12 to 76% in FY18; FYTD19, the ratio stands at 76%



Source: CMIE, JM Financial; FYTD19: 24Nov'18

Exhibit 88. Centre is estimated to slip the GFD-to GDP target of 3.3% by around 20bps , unless more aggressive cuts are deployed in expenditure to meet the budgeted target of 3.3%



Source: Union Budget, CMIE, CGA, JM Financial

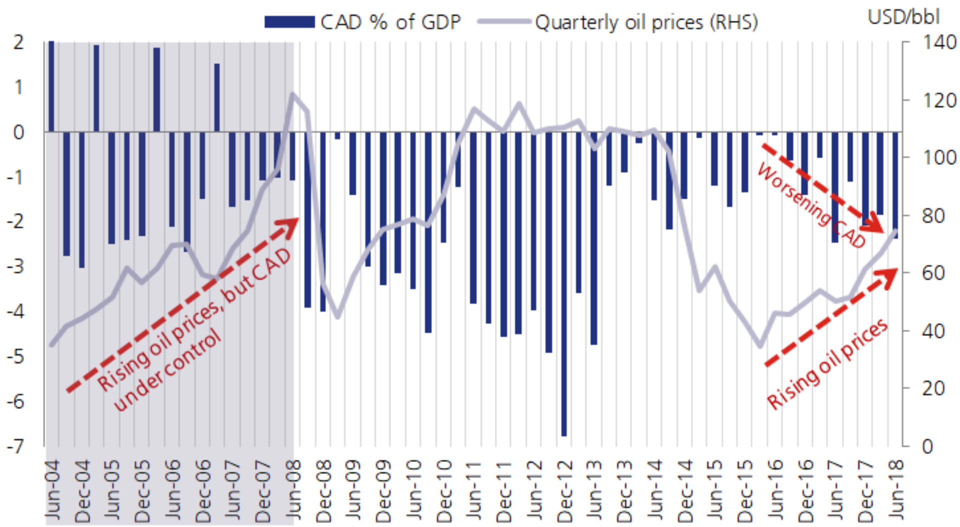
<u>Considering everything, we believe the drivers for capex are in a slightly better position in 2019 over 2018.</u>

External Sector

Assessment of the external front of the Indian economy hinges on three key items- i) global growth, ii) oil prices, and iii) Fed rate changes

- **Moderation in oil prices to contain CAD:** 1QFY19 CAD stood at 2.4% of the GDP, with the key driver being worsening goods deficit. FYTD19 (Apr-Oct'18), import growth stands at 16% YoY, with the largest driver being Crude & petroleum products, followed by electronic goods and coal. Although the contraction in large import items such as pearls, precious & semiprecious stones (5% share); ii) gold (-3%YoY; 6% share), & iii) transport equipment have restrained the import growth, oil prices remain the key determinant for CAD. Oil and related imports hold around 25-28% share in our import bill. India is estimated to imports 1.7bn barrels of oil, of which 20-25% is re-exported. This amounts to around 1.3bn barrels on adjusting for re-exports. Thus, a USD 10/bbl increase implies US$13bn additional import bill, which amounts to 40-50bps of the GDP.

Exhibit 89. Unlike the 2004-08 period, where the CAD stood below <1.5% of the GDP despite rising oil prices, the current phase of rising oil prices

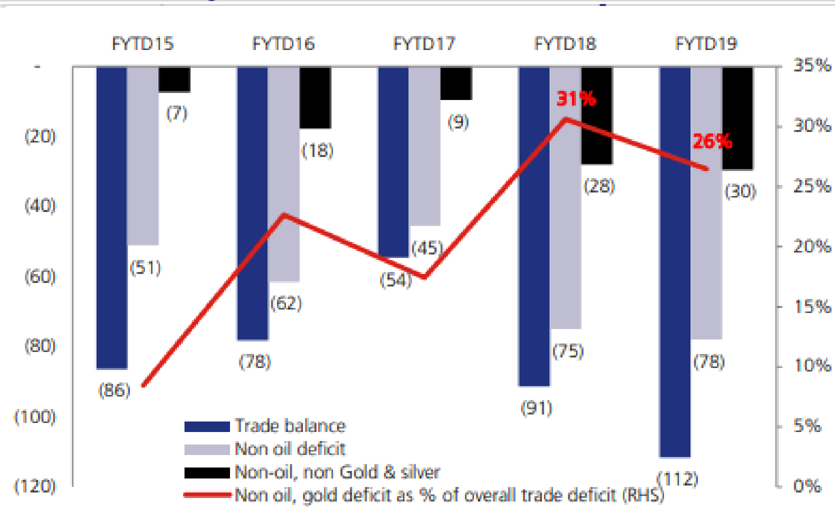


Source: CMIE, Bloomberg, JM Financial

- **The US-China trade war bodes well for India?** The commencement of the US-China trade war opened new opportunity for India, particularly in the agri. sector, to fill in US' market share in China. This has materialised overtime - i) In Jun'18, China lowered import tariffs on selected goods from five nations, India being one of them, ii) India shipped its first ever consignment of non-basmati rice to China in Sep'18, iii) five more rice mills were cleared to export non-basmati rice from India to China in Oct'18, bringing the total to 24 mills, and iv) India got approval to export raw sugar and soyabean to China. While agricultural goods emerged as the short-run beneficiaries, the medium term consequences of a trade war were seen as a trigger for global growth slowdown by the IMF Oct'18. The US-China trade truce in the G20 meet is seen as a positive for global trade.

- **Even as oil prices moderate, core trade deficit for India has worsened:** Gold imports have contracted 3% YoY since Apr'18. Yet, the trade deficit excluding gold & oil imports FYTD19 stands at USD 30bn vs. USD 28bn last year (exhibit 90). This is almost 26% of the overall deficit. While it is lower than 31% last year, it continues to be significantly higher since FYTD15, reflecting deterioration in the core trade balance as well.

Exhibit 90. Non-oil, non-gold trade deficit has worsened FYTD19



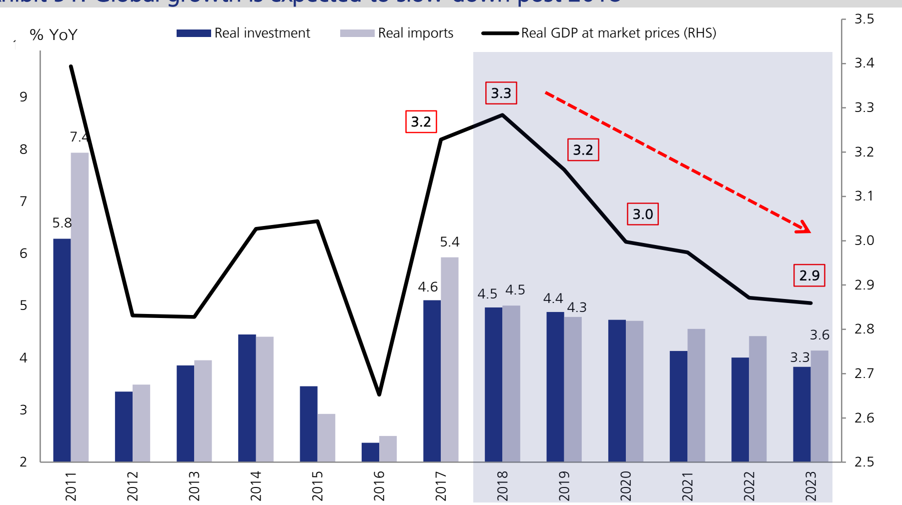
Source: CMIE, Bloomberg, JM Financial

- **Key risks going forward:**
  - **Issues raised at the WTO:** India has continuously been under the light of WTO since Jan'18 owing to complains by other nations in terms of i) subsidies to textiles, cotton, pulses, and now even sugar. A WTO-compliant export subsidy scheme (as notified in Oct'18) is keenly awaited by the commerce ministry.
  - **Nationalisation of the labour market in the Middle East:** Details in our note- India Strategy | A rethink on higher remittances given rising oil prices
  - **Lack of adequate buffers if oil prices rise again:** FYTD19 (Apr-Oct'18), exports growth stands at 13% YoY (lower than import growth of 16% YoY), with positive drivers being Petroleum products, engineering goods. Two of our largest exports, namely i) gems & jewellery (-2% YoY; 15% share), and ii) readymade garments (-12% YoY; 5% share), have contracted however.
  - **Exports not receiving boost from depreciating INR:** Refer to our note- India Strategy | Trade deficit-Should declining oil prices temper concerns?

Special focus: Will Global growth be more equitable in 2019?

In 2016, global growth rate of 2.7% YoY was the lowest since 2009 (-1.6%). With the revival of economic optimism mid-2016, global trade and investments emerged as the key elements to global growth recovery. In Apr'18, the IMF projected global growth to rise to 3.9% in both 2018 and 2019. However, by Oct'18, the growth forecast for both 2018 and 2019 was revised down by 0.2ppts due to i) suppressed activity in early 2018 in some major advanced economies, ii) the negative effects of the trade measures implemented/ approved Apr-Sep'18, and iii) weaker outlook for some emerging market & developing economies arising from country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bill. In addition to the above, global investment and trade growth are estimated to ease in 2018 and 2019 compared with 2017, with a more pronounced decline in trade growth (exhibit 91).

Exhibit 91. Global growth is expected to slow-down post 2018



Source: IMF, JM Financial

- **Risks to growth:** Uncertainty looms from i) trade front: US' threatened actions, the responses by its trading partners, and weakening of multilateral consultation on trade issues, ii) possible failure of Brexit negotiations, iii) financial conditions are tightening for emerging market and developing economies as they adjust to progressive interest rate hikes by the Federal Reserve, and impending end of asset purchases by the European Central Bank.

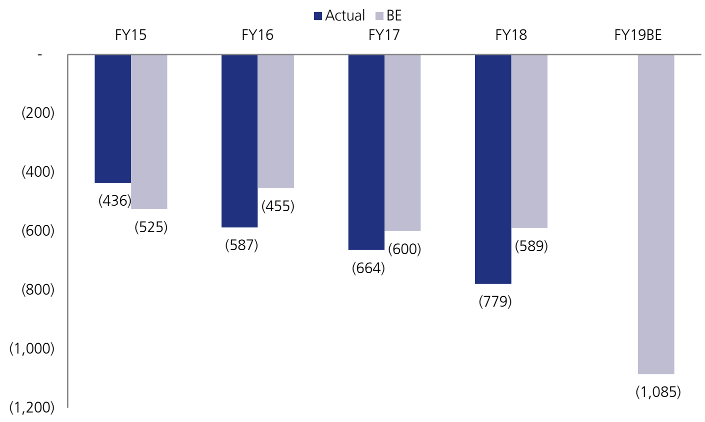
- **Growth outlook:** US growth is expected to decline with the unwinding of the fiscal stimulus beginning 2020, at a time when the monetary tightening cycle will be at its peak. China is likely to slow, reflecting weaker credit growth and rising trade barriers. Yet, overall global growth is expected to remain steady at 3.7% in 2020, as the decline in advanced economy growth from unwinding of US fiscal stimulus & fading favourable spillovers from US demand to trading partners is offset by a pickup in emerging market and developing economy growth.

Exhibit 92. IMF projections- Growth in the US economy is expected to slow 2019 onwards

								Change of 2018 wrt			
Country	2017	2018	2019	2020	2021	2022	2023	2017	2019	2021	2023
Brazil	1.0	1.4	2.4	2.3	2.2	2.2	2.2	0.5	0.9	0.8	0.8
China	6.9	6.6	6.2	6.2	6.0	5.8	5.6	-0.3	-0.4	-0.6	-1.0
India	6.7	7.3	7.4	7.7	7.7	7.7	7.7	0.6	0.1	0.4	0.4
Russia	1.5	1.7	1.8	1.8	1.6	1.3	1.2	0.2	0.1	-0.1	-0.5
United States	2.2	2.9	2.5	1.8	1.7	1.5	1.4	0.7	-0.3	-1.2	-1.5
Euro Area	1.9	2.4	2.0	1.9	1.7	1.6	1.5	0.5	-0.4	-0.7	-0.9

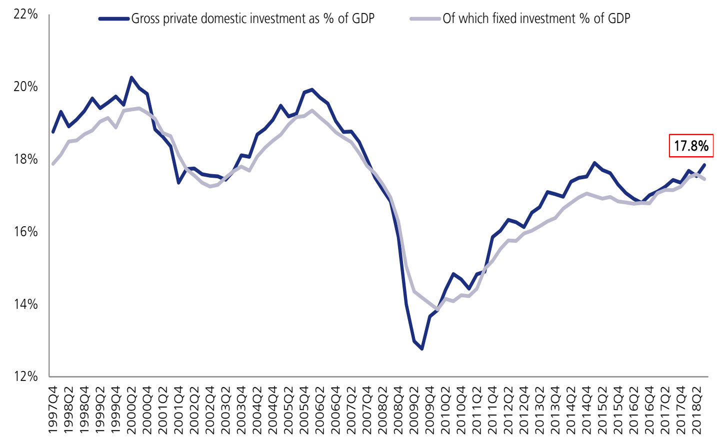
Source: IMF, JM Financial; w.r.t. implies with respect to

Exhibit 93. US' budget deficit of USD 1trn for the fiscal year ending Sep'19 (4.8-5.0% of GDP).



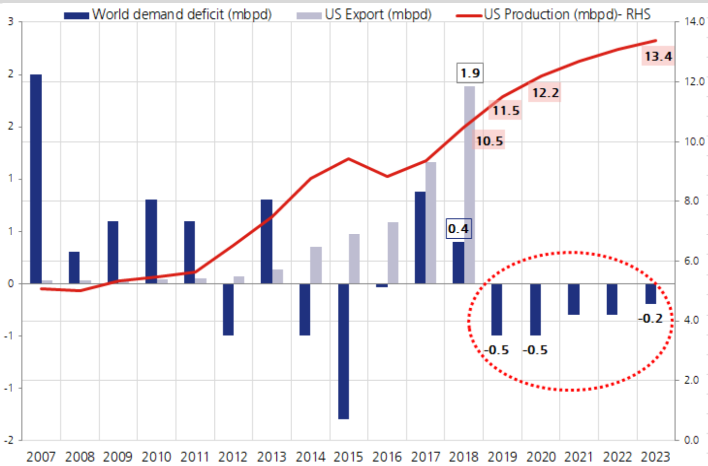
Source: Bureau of Economic Analysis, JM Financial

Exhibit 94. Investment as % of GDP for the US has been rising



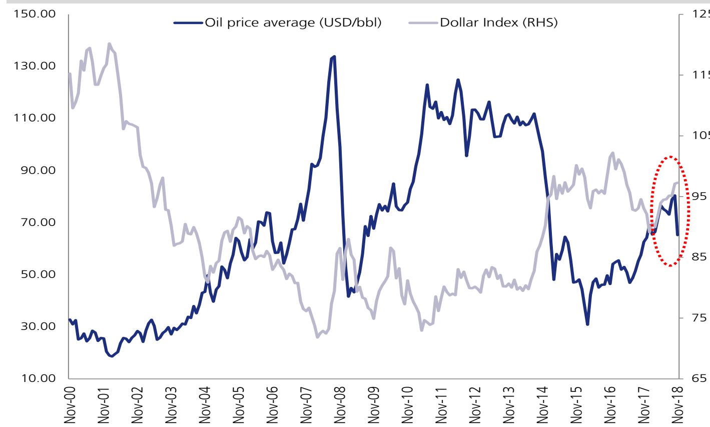
Source: Bureau of Economic Analysis, JM Financial

Exhibit 95. The IEA expects an oversupply in the world oil market in 2019



Source: IEA, Bloomberg, Bureau of Economic Analysis, JM Financial

Exhibit 96. After a coincidental co-movement of dollar index & oil prices from Jan'18 the two series have reverted to diverging trends in Nov'18



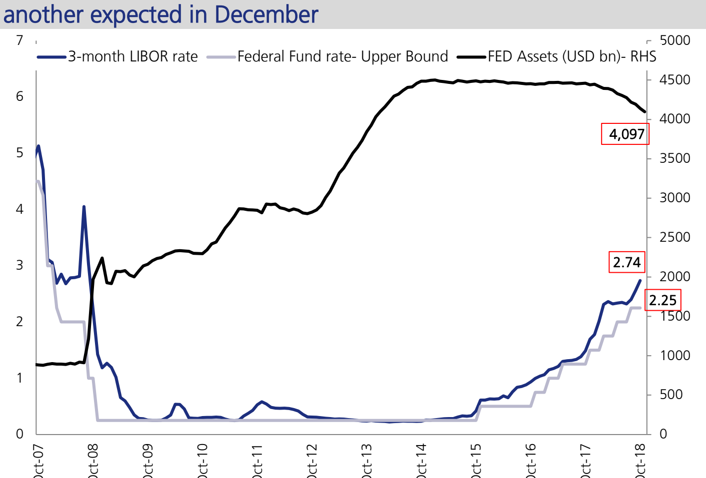
Source: Bloomberg, JM Financial

Special focus: FED's balance sheet normalisation programme

Since the beginning of the Great Financial Crisis in Aug'07, the FED's balance sheet grew in size and saw a change in composition. Total assets rose from USD 870bn on 8Aug'07 to USD 4.5trn on 14Jan'15. However, with relatively favorable economic fundamentals in the United States, the Federal Reserve raised interest-rates first time in nearly 10 years at the end of 2015, becoming the first among major central banks to normalize monetary policy. Consequently, the dollar strengthened. FED assets have been declining since the beginning of the FOMC's balance sheet normalization program in Oct'17. Exhibit 97 shows the movement in balance sheet of the US. The FED raised its benchmark interest rate for the third time this year on 26Sep'18; that made the target range between 2.0-2.25%. Until Nov'18, Fed policymakers indicated another hike in December, and three more in 2019. However, recent dovish comment of the FED about the US economy moving closer to the neutral rate, have triggered expectations of a slower pace in raising rates. It should be noted that rate hikes were one of the primary reasons that India experienced FII outflows worth USD 7.6bn since Jan'18 in Debt and 4.9bn in equity (exhibit 98). The EMBI bonds spreads, reflected by JP Morgan Index rose 44% from 292 in Jan'18 to 420 in Nov'18.

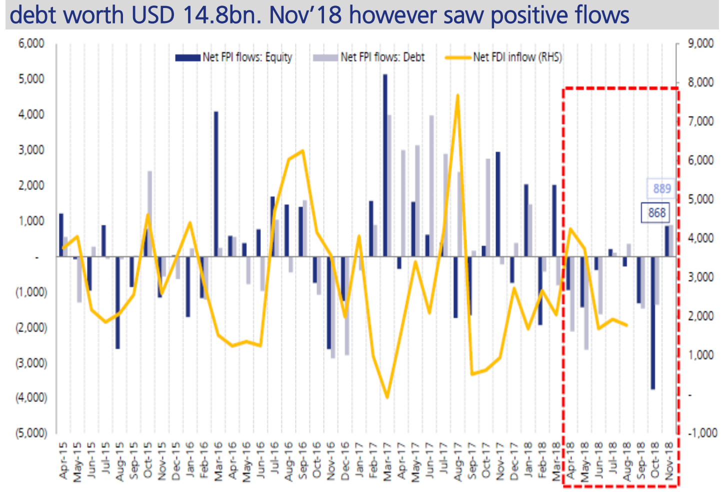
- Plans for tapering for other global banks: The next 12 months would see a decline in the assets of top global central bank assets. The guidance provided by the top global Central banks is mentioned below:
  - ECB: In Jun'18, the European Central Bank announced an extension of its asset purchase program through the end of the year, while indicating it would reduce monthly purchases from €30 billion to €15 billion in Oct'18. The central bank also committed to maintaining rates at current levels at least through the summer of 2019
  - BoE: Saw its second rate hike in a decade in Aug'18
  - BoJ: In July, the Bank of Japan modified its yield curve control policy to allow a wider deviation band for the benchmark 10-year yield around an unchanged target of about 0%. The Bank of Japan also introduced forward guidance on maintaining ultralow policy rates for an extended period of time.

Exhibit 97. The FED has already raised rates thrice this year, with another expected in December



Source: Federal reserve, Bloomberg, JM Financial

Exhibit 98. FYTD19, India witnessed net outflow of FII in equity and debt worth USD 14.8bn. Nov'18 however saw positive flows

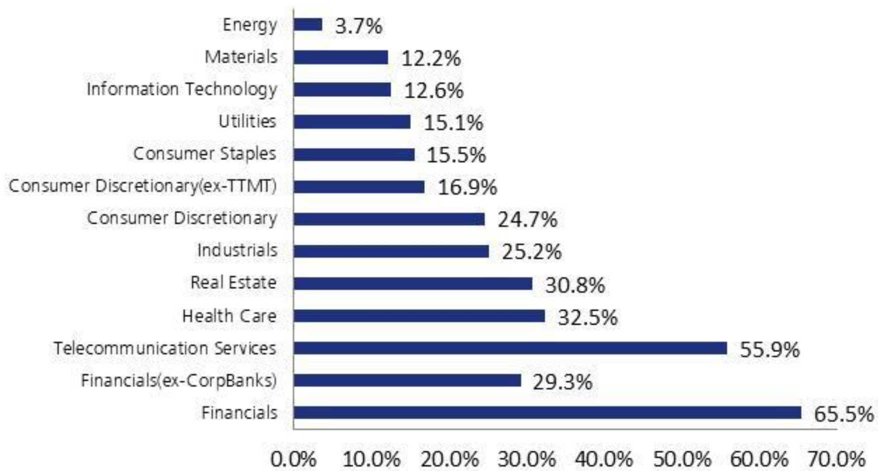


Source: CMIE, Bloomberg, JM Financial

Earnings Growth

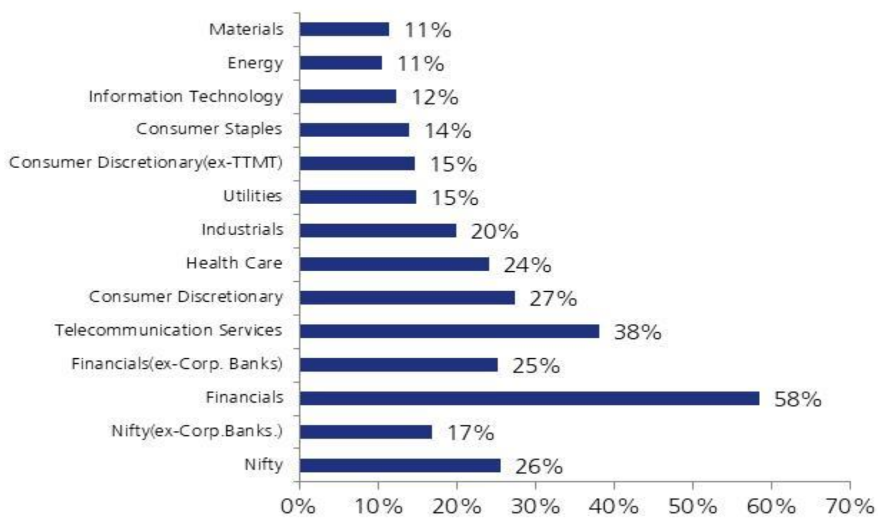
For both the JM Universe and Nifty Universe, the earnings growth for FY20 is driven by financials, telecom, consumer discretionary and healthcare. Within financials, if we were to exclude the 3 large corporate banks (SBI, ICICI, Axis), the FY20 earnings growth falls from 26%YoY to 17%YoY. Improvement in credit costs, bottoming out of ARPUs for the telecom companies are the drivers for the earnings growth for the next year. The lowest growth rates are expected from materials and energy.

Exhibit 99. JM Universe(163 companies)



Source: JM Financial

Exhibit 100. Nifty and Nifty constituents



Source: JM Financial

Our stock-wise expectations for the Nifty stocks are given below. In terms of risk to earnings, we see risks to earnings in consumer discretionary, pharma and telecom sectors. There are also risks to the earnings for the IT companies given estimates have been made at USDINR of 73 vs spot of 70 now.

Exhibit 101. Forecasted growth in Nifty charts

	%YoY (2019E-2020E)					%YoY (2018-2019E)				
Nifty Stocks	Revenue	EBITDA	PAT	Change in EBITDA Margin	Change in PAT Margin	Revenue	EBITDA	PAT	Change in EBITDA Margin	Change in PAT Margin
Asian Paints	16%	17%	18%	0.3%	0.2%	13%	13%	14%	0.1%	0.2%
AXIS Bank	26%	33%	104%	3.1%	10.3%	16%	15%	1,961%	(0.5%)	15.7%
Bajaj Auto	13%	17%	17%	0.6%	0.5%	17%	9%	10%	(1.4%)	(0.9%)
Bajaj Finance	25%	23%	27%	(0.9%)	0.3%	35%	38%	40%	1.3%	1.0%
Bharat Petroleum	(6%)	(7%)	(15%)	(0.0%)	(0.2%)	24%	(9%)	(13%)	(1.3%)	(1.0%)
Bharti Airtel	10%	14%	61%	1.4%	2.4%	9%	18%	177%	3.1%	3.2%
Bharti Infratel	1%	(1%)	(5%)	(0.8%)	(1.1%)	4%	3%	3%	(0.3%)	(0.1%)
Cipla	13%	18%	23%	0.9%	0.9%	8%	11%	2%	0.6%	(0.5%)
Coal India	5%	7%	7%	0.5%	0.3%	9%	9%	25%	(0.1%)	2.0%
Dr Reddy's Labs	14%	20%	29%	1.0%	1.3%	12%	34%	54%	3.2%	2.6%
Eicher Motors	19%	18%	20%	(0.2%)	0.1%	19%	17%	17%	(0.4%)	(0.3%)
GAIL	14%	16%	33%	0.2%	1.3%	29%	18%	14%	(1.2%)	(1.0%)
HCL Tech	11%	8%	6%	(0.5%)	(0.7%)	20%	24%	13%	0.8%	(1.0%)
HDFC Bank	19%	23%	24%	1.6%	1.3%	18%	19%	23%	0.7%	1.3%
HDFC Ltd	19%	19%	16%	0.5%	(1.3%)	21%	22%	(20%)	0.6%	(33.5%)
Hero MotoCorp	8%	9%	9%	0.1%	0.0%	12%	4%	4%	(1.3%)	(0.8%)
Hindalco Industries	22%	19%	10%	(0.4%)	(0.4%)	9%	17%	21%	0.9%	0.4%
Hindustan Petro.	(6%)	6%	(2%)	0.5%	0.1%	17%	(9%)	(24%)	(1.1%)	(1.0%)
Hindustan Unilever	13%	16%	17%	0.8%	0.6%	11%	19%	21%	1.6%	1.3%
ICICI Bank	14%	14%	133%	(0.3%)	14.1%	13%	12%	(20%)	(0.4%)	(5.7%)
Indian Oil	4%	5%	3%	0.1%	(0.0%)	24%	1%	3%	(1.7%)	(0.9%)
IndusInd Bank	26%	27%	58%	0.5%	6.1%	33%	38%	8%	2.2%	(5.5%)
Infosys	12%	12%	12%	0.1%	0.1%	18%	15%	2%	(0.8%)	(3.2%)
ITC	11%	14%	13%	0.8%	0.4%	10%	11%	12%	0.4%	0.6%
JSW Steel	6%	1%	(3%)	(1.2%)	(0.8%)	12%	30%	47%	3.4%	2.3%
Kotak Mahindra Bank	20%	23%	25%	1.7%	1.4%	20%	26%	24%	2.8%	1.1%
Mahindra & Mahindra	12%	18%	14%	0.7%	0.2%	13%	16%	25%	0.4%	0.9%
Maruti Suzuki	14%	17%	16%	0.3%	0.2%	16%	10%	15%	(0.7%)	(0.1%)
NTPC	9%	8%	6%	(0.2%)	(0.3%)	8%	8%	1%	(0.0%)	(0.8%)
ONGC	4%	8%	6%	1.9%	0.5%	25%	51%	36%	9.1%	2.1%
Power Grid Corp.	11%	11%	12%	0.1%	0.2%	18%	19%	26%	0.7%	1.9%
State Bank of India	11%	14%	532%	0.9%	16.1%	9%	9%	165%	0.1%	9.2%
Sun Pharma	14%	18%	22%	1.1%	1.2%	14%	35%	51%	4.0%	4.2%
Tata Motors	9%	33%	129%	2.0%	1.0%	(4%)	(27%)	(64%)	(3.0%)	(1.5%)
Tata Steel	2%	(3%)	(10%)	(0.9%)	(0.7%)	25%	33%	43%	1.0%	0.7%
TCS	12%	13%	12%	0.3%	(0.1%)	22%	27%	24%	1.1%	0.3%
Tech Mahindra	13%	16%	15%	0.6%	0.2%	15%	40%	15%	3.2%	(0.1%)
Titan Company	19%	22%	24%	0.3%	0.3%	19%	27%	26%	0.7%	0.4%
UltraTech Cement	32%	37%	60%	0.7%	1.5%	21%	5%	3%	(2.6%)	(1.2%)
Wipro	10%	18%	21%	1.2%	1.4%	10%	5%	6%	(1.0%)	(0.6%)
Yes Bank	19%	16%	25%	(1.8%)	1.3%	27%	29%	8%	0.7%	(5.0%)
Zee Entertainment	15%	15%	18%	0.0%	0.5%	18%	18%	6%	(0.1%)	(2.3%)

Source: JM Financial

Valuations

We look at multiple valuation metrics to identify stocks for mispricing. We start with the market valuations. At an overall level, the broader market is trading at 18.7x, a premium of 15% to its long-term average, on the back of the the earnings expectations mentioned above. The yield differential between the risk-free and the market's earnings yield has fallen from the highs of 307bps to 228bps now but remains elevated.

Sensex NTM P/E at 18.68x with high growth expectation

Exhibit 102. Sensex NTM P/E at18.68x

Source: Factset, *adjusted for JM values

Exhibit 103. NTM Price to book (P/B) at 2.7x

Source: Factset, JM Financial

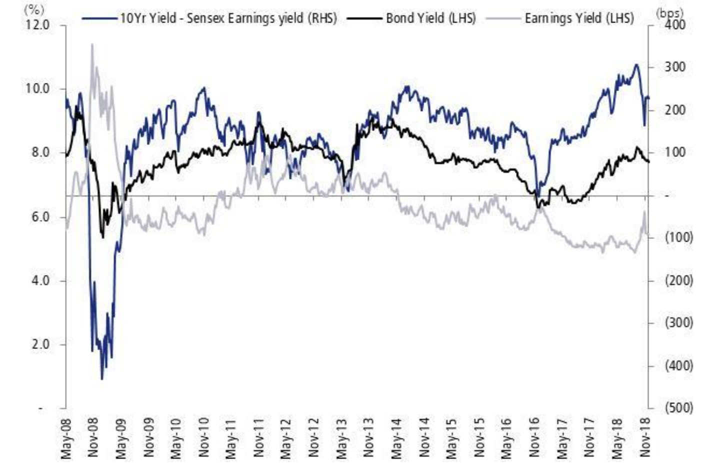
Exhibit 104. RoE @ 14.49 improved marginally

Source: Factset, JM Financial

Exhibit 105. NTM EV/EBITDA at 8.9x

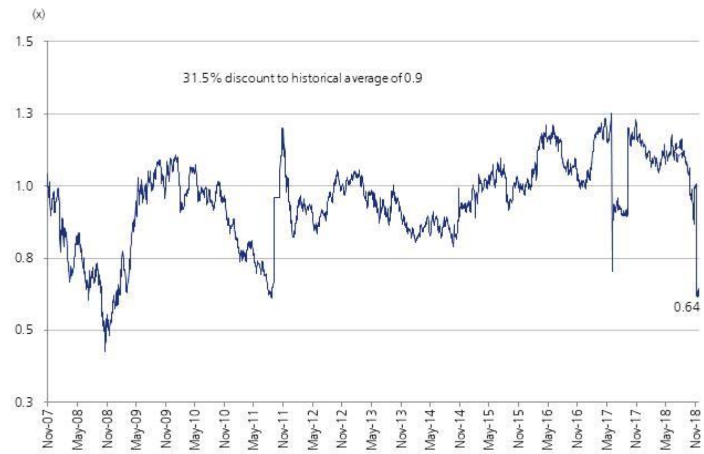
Source: Factset, JM Financial

Exhibit 106. Yield differential b/w 10yr bond and sensex @ 228 bps



Source: Factset, JM Financial

Exhibit 107. PEG @ 0.64 factors in high earnings growth expectation



Source: Factset, *adjusted for JM values

Exhibit 108. Global valuation – India, US, Brazil and Russia have growth expectations at a premium to LTA

Country	Now NTM EPS Growth	Now NTM PE	Now NTM PB	Now NTM RoE	LTA NTM EPS Growth	LTA NTM PE	LTA NTM PB	LTA NTM RoE	Premium/Discount NTM EPS Growth	Premium/Discount NTM PE	Premium/Discount NTM PB	Premium/Discount NTM RoE
India	22.3	18.7	2.7	14.4	15.4	16.1	2.6	16.0	44.6	16.3	5.0	-9.8
US	12.6	15.7	3.0	19.1	11.2	14.6	2.3	16.0	13.0	7.4	28.2	19.4
Brazil	21.7	11.4	1.8	15.4	18.7	11.3	1.3	11.8	16.0	1.0	32.4	31.1
South Africa	11.5	12.6	1.7	13.4	15.4	12.7	2.0	15.6	-25.5	-0.5	-14.5	-14.1
Russia	7.3	5.1	0.7	13.6	5.4	6.2	0.7	10.9	36.2	-18.0	1.9	24.2
China	19.4	13.8	1.9	13.8	26.3	20.3	2.7	13.4	-26.1	-32.1	-29.9	3.2
Indonesia	13.5	15.1	2.3	15.1	14.8	14.5	2.5	17.2	-8.9	4.4	-8.3	-12.2
Mexico	15.0	13.3	1.9	14.5	18.0	16.6	2.5	15.3	-16.5	-20.2	-24.3	-5.1
Taiwan	5.4	13.1	1.6	12.3	14.3	14.1	1.7	11.8	-61.8	-7.4	-2.8	5.0
Thailand	8.1	14.1	1.8	12.7	44.6	12.6	1.7	13.3	-81.8	11.6	6.3	-4.8

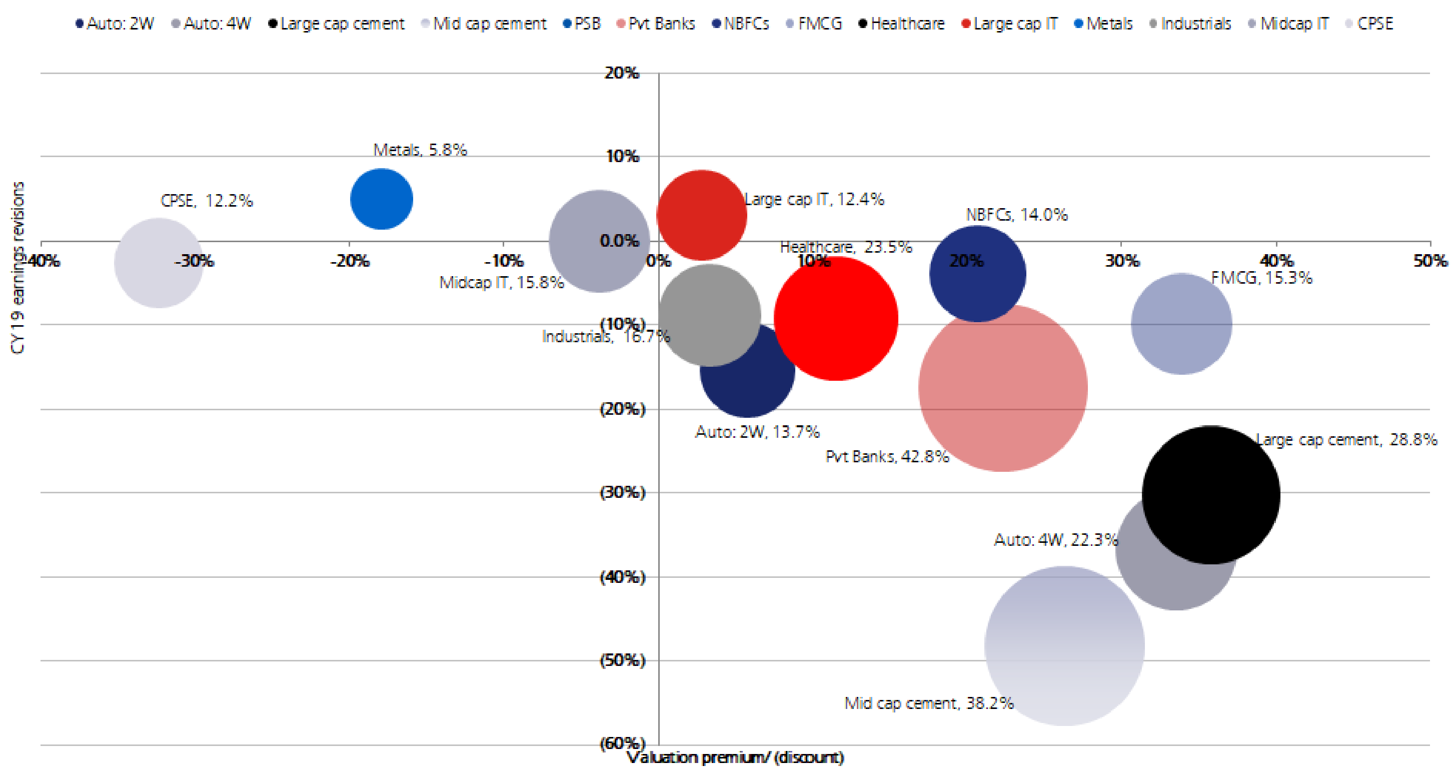
Source: Factset, JM Financial

<u>We then look at sector valuations to identify any sectors for mispricing</u>

Sector Valuation

In the exhibit below, we plot the earnings revisions for FY20 made YTD (Y-axis) with the premium/(discount) the sectors are trading at versus their long term trading history (X-Axis). We see value in the following sectors: a) PSUs (Public Sector Units), b) select large cap IT, c) Industrials and d) select large banks

Exhibit 109. Earnings downgrade adding to premium valuation across sectors

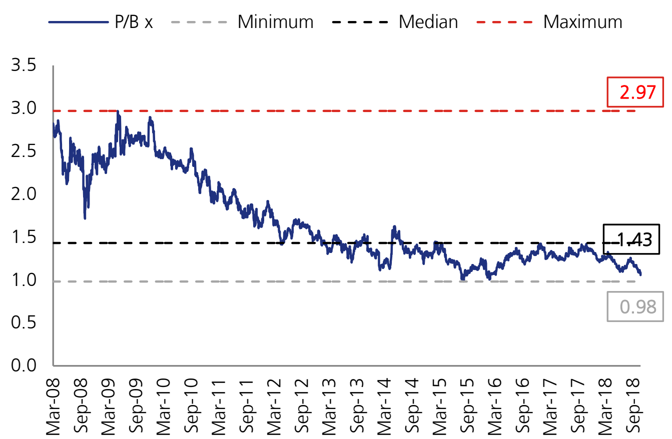


Source: Factset, JM Financial

In fact, when we plot the non-bank PSU stocks, we see value emerging in these names. These stocks have been out of favour ever since the government has announced various ways to achieve their divestment targets, to consolidate banks and the steps they took to manage the rising fuel price risks.

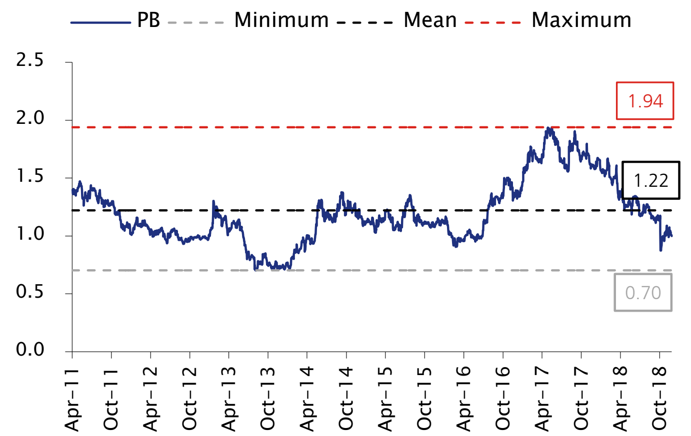
PSU Valuation

Exhibit 110. PB of NTPC



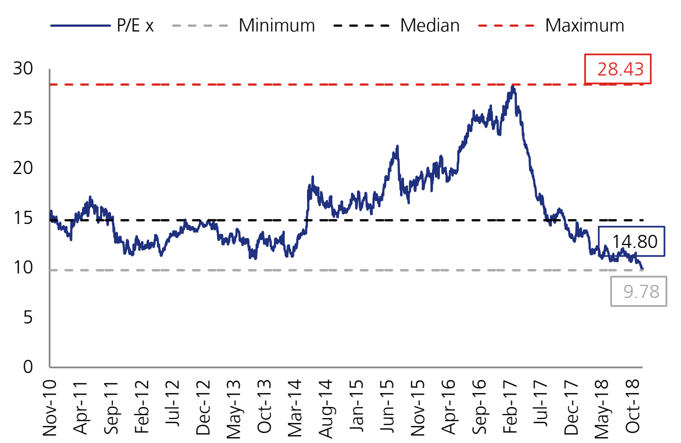
Source: Company, JM Financial

Exhibit 111. PB of ONGC



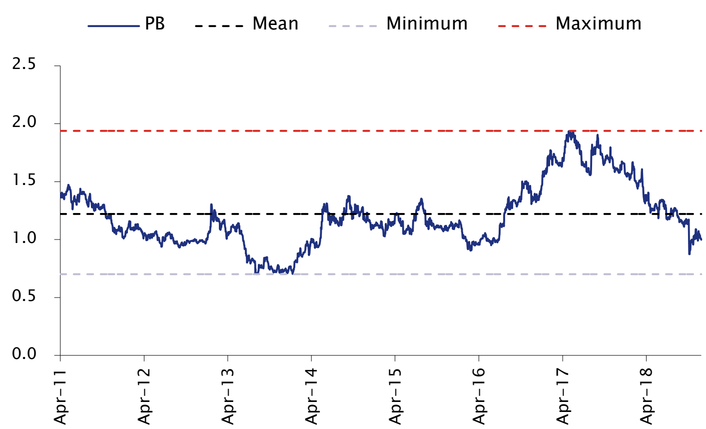
Source: Company, JM Financial

Exhibit 112. PE of Coal India



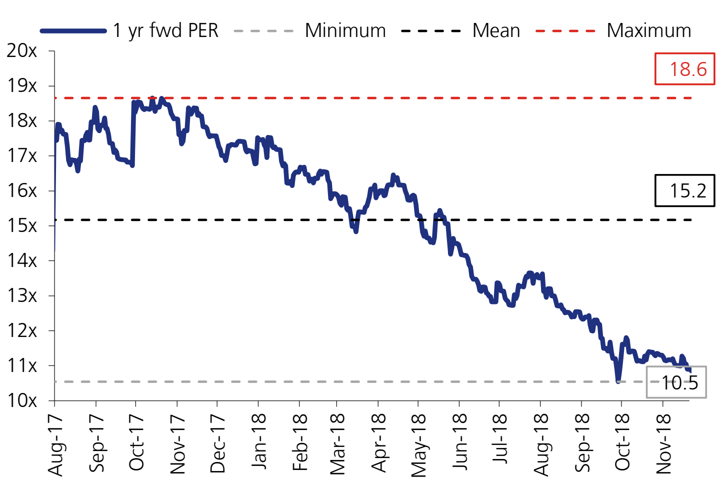
Source: Company, JM Financial

Exhibit 113. PB of Indian Oil



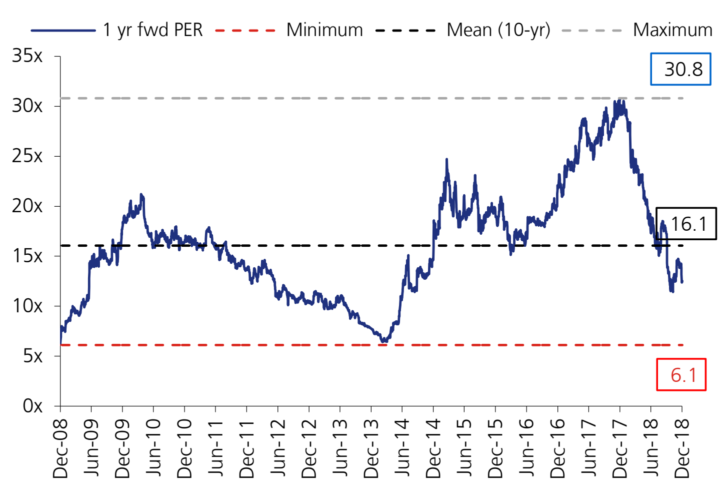
Source: Company, JM Financial

Exhibit 114. EV/EBITDA of Cochin Shipyard



Source: Company, JM Financial

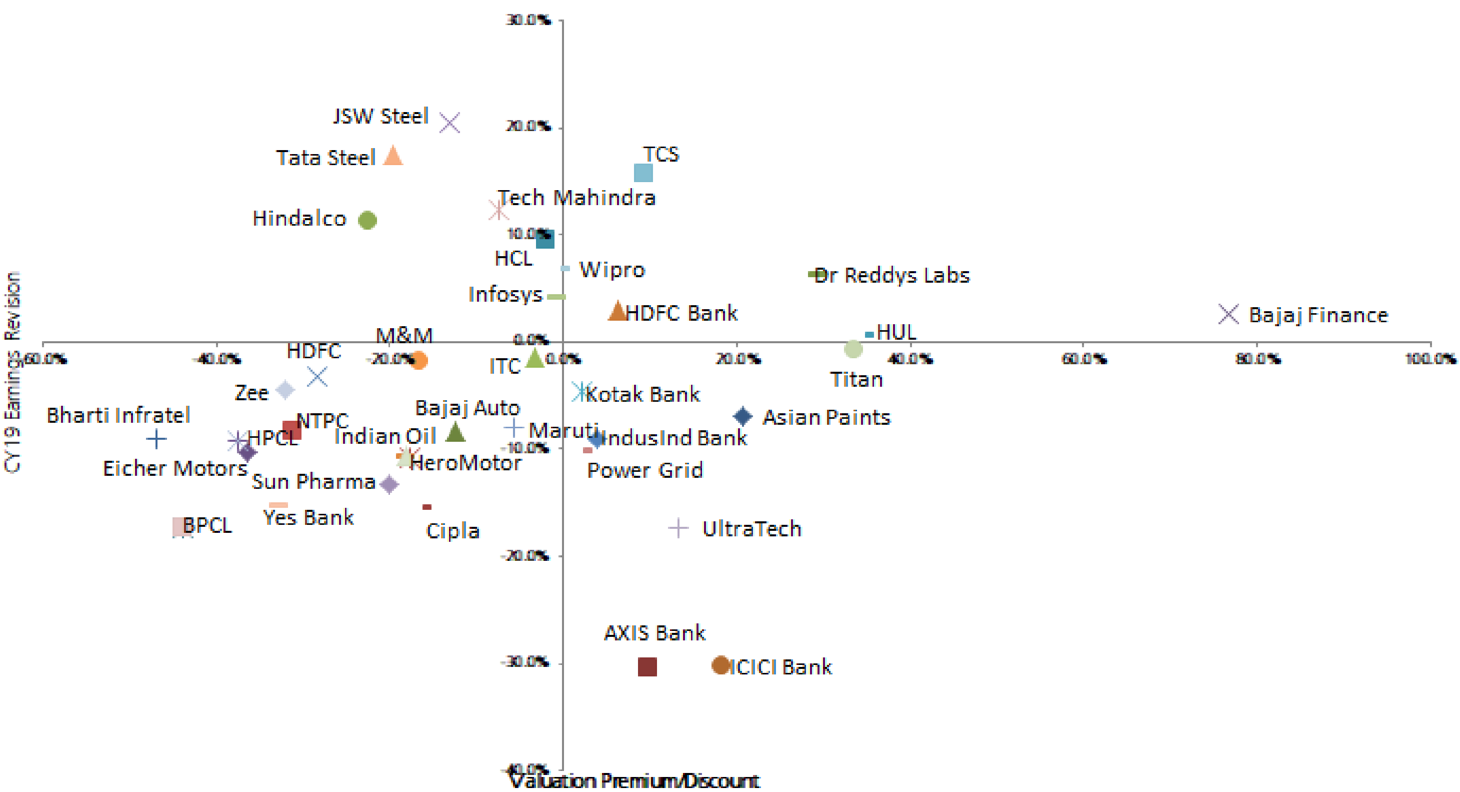
Exhibit 115. PE of Bharat Electronics



Source: Company, JM Financial

Moving from sectors to stocks, we try to pick out stocks where we see element of mispricing. We plot earnings revisions to premium/discount to valuations for the Nifty stocks (see Exhibit 116) and in our opinion, the following stocks stand out- select retail banks (HDFC Bank, IndusInd), select IT (Tech Mahindra, Infosys), Asian Paints, Maruti and the OMCs.

Exhibit 116. Nifty Stocks (Earnings Revision vs Valuation Premium Chart)

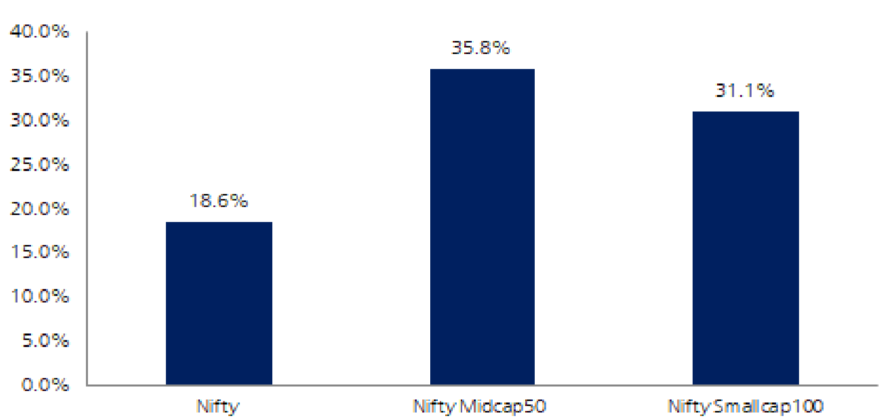


Source: JM Financial

Large caps or midcaps?

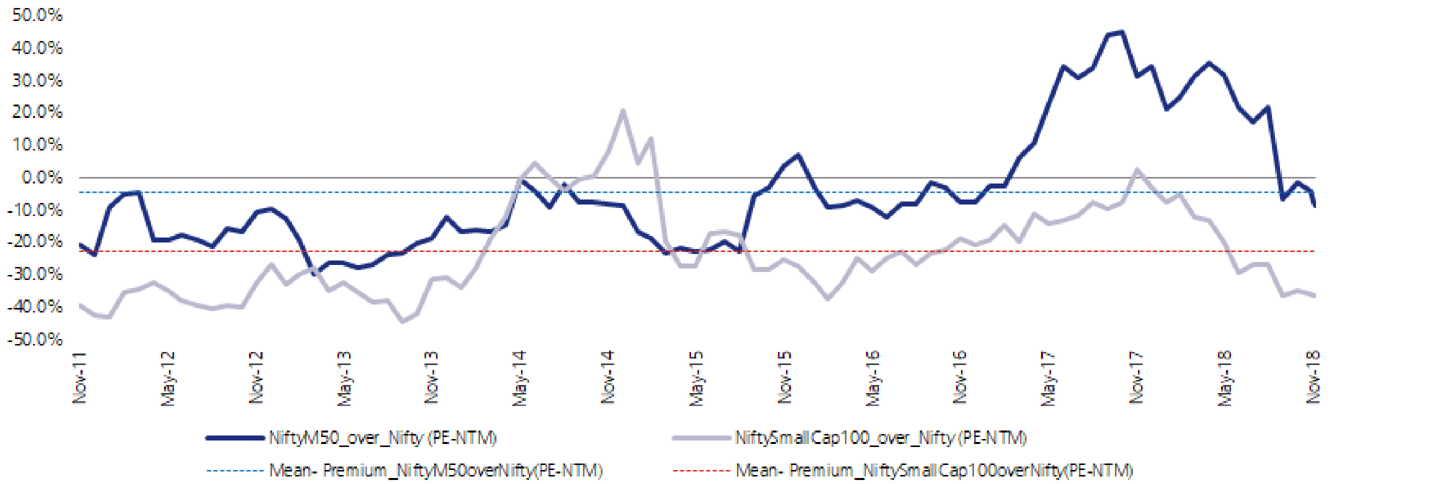
We also compare the consensus expectations for the large cap, midcap and small cap indices. We note that the valuations for the midcap and smallcap have fallen to lower than long term average and are trading at a discount to the large cap multiples. However, we note that the earnings expectations remain elevated for the midcap and small cap indices and hence, we continue to prefer large caps.

Exhibit 117. EPS CAGR(CY18-20)



Source: JM Financial

Exhibit 118. Premium in PE(NTM) of Midcap and Smallcap Indices over Nifty



Source: JM Financial

Model Portfolio

We recommend the following changes to the model portfolio, which is in Exhibit 119. After these changes, we are overweight private financials, industrials and select IT in large caps, in midcaps, we are overweight the chemicals and real estate related sectors.

Exhibit 119. JM Portfolio

Sector/stock	Nifty Wt	Portfolio Wt	Stance	Mkt Cap	CMP	YTD
	(%)	(%)		(Rsbn)	Rs/sh	(%)
Consumer Discretionary	**7.5**	**6.5**	**MW**			
Oberoi Realty	-	0.5		169	464	(4)
Maruti Suzuki	2.4	3.0		2,194	7,263	(25)
Westlife Development		0.5		54	347	5
Sobha Ltd	-	0.5		42	447	(28)
Aditya Birla Fashion & Retail	-	1.0		140	181	5
SRF Ltd	-	1.0		121	2,113	7
Consumer Staples	**8.5**	**2.9**	**UW**			
Hindustan Unilever	2.9	2.9		3,939	1,820	33
Energy	**11.8**	**11.1**	**MW**			
Reliance Industries	9.2	9.2		7,236	1,142	24
ONGC	0.9	0.9		1,810	141	(28)
Indian Oil Corporation	0.7	1.0		1,283	132	(32)
Financials	**37.5**	**35.2**	**UW**			
HDFC Bank	10.5	10.5		5,685	2,091	12
Axis Bank	2.6	3.0		1,560	607	8
IndusInd Bank	1.9	2.5		946	1,572	(5)
Bajaj Finance	1.4	3.0		1,436	2,484	41
State Bank of India	2.5	3.3		2,468	277	(11)
Bajaj Finserv	0.8	3.4		926	5,821	11
HDFC Ltd	7.5	7.5		3,374	1,964	15
Bandhan Bank		1.0		563	472	-
CanFin Homes		1.0		33	245	(48)
Healthcare	**2.7**	**4.5**	**OW**			
Sun Pharma	1.3	1.5		1,019	425	(26)
Torrent Pharma		1.5		289	1,710	21
Alembic Pharma		1.5		116	615	16
Industrials	**5.5**	**11.1**	**OW**			
TeamLease Services	-	1.0		49	2,837	16
Cummins India		1.0		218	788	(13)
Voltas		1.0		179	541	(17)
Larsen & Toubro Ltd.	4.1	4.7		1,939	1,383	10
V Guard		1.4		90	210	(14)
Kajaria Ceramics		1.0		69	433	(41)
Bharat Electronics Ltd		1.0		204	84	(54)
Telecom	**2.1**	**-**	**UW**			
Utilities	**3.5**	**2.0**	**UW**			
NTPC	1.0	2.0		1,165	141	(20)
Information Technology	**13.9**	**13.4**	**MW**			
Tech Mahindra	1.0	1.8		688	702	39
Infosys	5.9	5.9		2,958	677	31
TCS	4.9	4.4		7,540	2,009	49
HCL Technologies	1.3	1.3		1,425	1,023	15
Materials	**7.1**	**7.5**	**MW**			
TATA Steel	0.9	0.9		591	518	(25)
Asian Paints	1.4	1.9		1,249	1,302	12
Ambuja Cement		1.0		424	213	(22)
J K Lakshmi Cement		0.5		32	269	(39)
Hindalco	0.8	1.1		493	220	(20)
Navin Fluorine		0.5		35	713	(14)
UPL Ltd	0.6	1.1		385	755	(1)
Fine Organics	-	0.5		35	1,146	-
Cash		5.8				
Total	**100.0**	**100.0**				

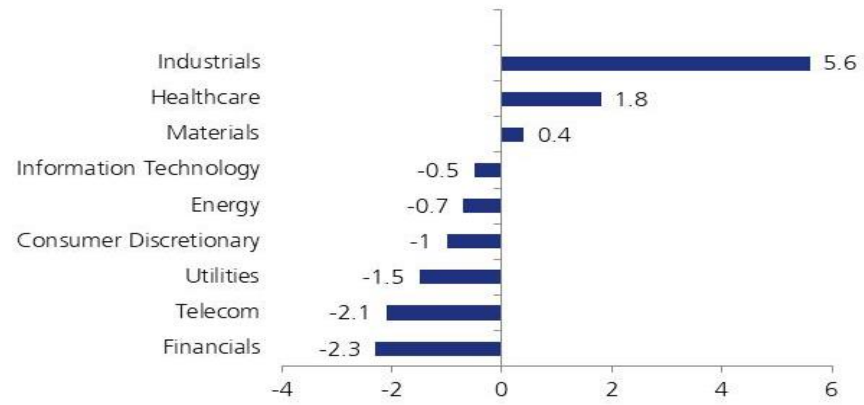
Source: JM Financial

Exhibit 120. Changes to the model portfolio

Action	Rationale
Replace Dalmia Bharat with Ambuja Cement	Ambuja's five year and ten year average valuation discount/premium to large caps is -7% (discount) and 3% (premium). It is currently trading at 30% discount to the large caps' valuations due to significant underperformance on growth concerns. Expansion of 8.5MTPA in India announced by the parent, LafargeHolcim, addresses the growth concerns. With costs on downward trajectory, growth outlook from existing operations improves further. We believe, at the current valuations, Ambuja is better placed in terms of risk reward.
Remove SunTV	While FY19E EPS growth will be strong (25-30% YoY), continued erosion in flagship Tamil GEC's viewership share remains a concern.Valuations are inexpensive at 15x FY19E P/E and >6% FCF yield. However, share price returns critically depend on YoY ad revenue growth sustaining at or near double-digit rates.
Remove Godrej Properties	We believe there will be a pricing volatility in the near term on the back of funding concerns in the real estate sector. However, in the medium term, Godrej Properties will be a key beneficiary of the consolidation in the sector post RERA.
Add IOC	Similar to ONGC, IOC trades at 1.0x book below its five year average of 1.22x. With crude having stabilised, there is no risk to the book value and therefore, there is limited downside. While 3QFY19 may be impacted by 1) inventory losses and 2) the Government had cut the marketing margins by c. INR 1/lit. for Petrol and Diesel, we believe that with crude having corrected sharply, OMCs will be able to recover the marketing margins and therefore, there is limited risk of a downside.
Add Bharat Electronics	BHE is a steady play on India's defence sector that is likely to see a surge in investments due to the government's increased focus and policy initiatives. It has displayed traits of consistent growth and resilient performance with 10%/12% CAGR in sales/net profit over FY03-18, without any decline in sales in last 15 years. Currently the stock trades at 12x FY20 EPS and 2x FY20 BV. After factoring in declining margins for new defence orders coming at 7.5%, we expect revenue/profit CAGR of 14%/9% over FY18-21.
Add ONGC	ONGC now trades at 0.8x P/B which is the lowest in the current decade. With crude price likely to be reasonably stable at c.$60-$70, there is no risk of a Government intervention (under-recovery sharing). Also, historically, even in Government imposes UR, ONGC has earned net realisation of $45-$55 and ONGC had reported profits. Thus, there is very little risk that there could be a destruction in the book value and therefore, stock is already capturing the worst in the current valuation.
Add Fine Organics	FOIL has a unique business model based on proprietary technology to convert vegetable oil (mustard oil, rapeseed oil etc) to high value additives. It is expanding its capacity by c. 50% which is likely to be commissioned in 1QFY20. Additionally, another 15% capacity will get added in 2HFY20. This will result into sustained growth at >20% during FY20-FY22.
Add Kajaria Ceramics	Kajaria, India's largest tile manufacturer, is indicating of an uptick in performance post a prolonged period of downturn on the expectations of a) double digit volume growth b) efficiency and change in fuel mix leading to better control of power and fuel costs and c) bottoming out of the tile realisations. At CMP of 440, it trades at 25.8x FY20E and expected Revenue/EBITDA/PAT growth of 11%/9%/9% over FY18-21E with strong cash generation profile (ROCE>15%) even during the downturn.
Add JK Lakshmi Cement	JK Lakshmi's five year average valuation discount to the large caps' valuation is 16% while the ten year average is 34%. It is currently trading at 48% discount to the large caps due to significant underperformance. Additionally with the significant downwards revisions in the estimates and the cost curve on downward trajectory, we believe there is limited risk on earnings with likelihood of upgrades. We believe the current valuations provide an attractive entry point in the stock.

Source: JM Financial

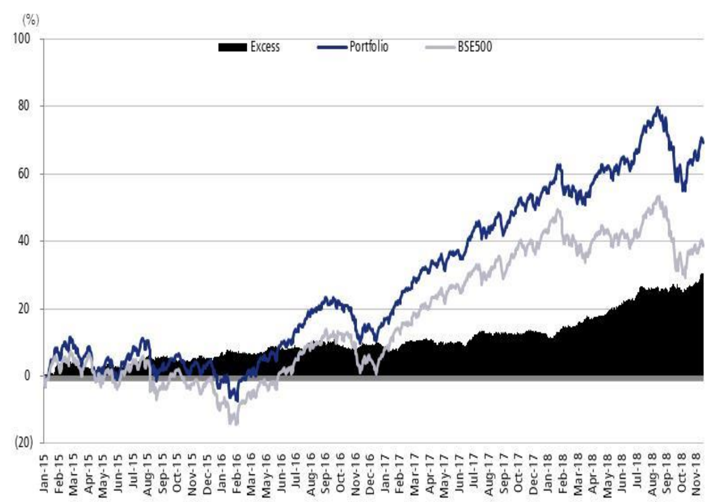
Exhibit 121. JM Portfolio weight over Nifty weight (OW on Industrials & Healthcare)



Source: JM Financial

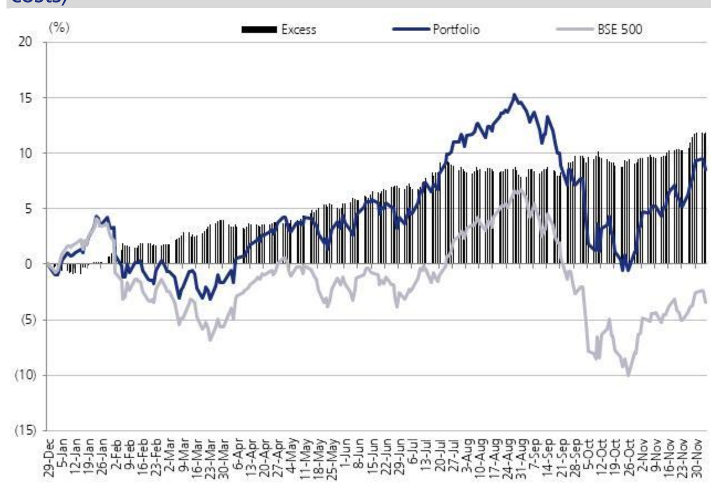
JM model portfolio performance : The model portfolio has outperformed the BSE500 benchmark by 30.38% since its inception in Jan '15 (vs. BSE500 return of 38.7%, excl. execution costs). YTD, the model portfolio's return of 8.5% has been better than BSE500's -3.4% YTD.

Exhibit 122. JMF model portfolio vs. Nifty (excl. execution costs)



Source: Bloomberg, JM Financial, as on 5th December, 2018, inception on 5th Jan '15

Exhibit 123. YTD, JMF model portfolio vs. nifty (excl. execution costs)



Source: Bloomberg, JM Financial, as on 5th December, 2018

Exhibit 124. High Frequency Indicators

Variable	Unit	FYTD19	Nov-18	Oct-18	Sep-18	Aug-18	Jul-18	Jun-18	May-18	Apr-18	FY18	Mar-18	Feb-18	Jan-18	Dec-17
Monetary															
Currency with public (M0)’	INR trn	19.2	19.2	18.6	18.4	18.5	18.6	18.8	18.5	18.2	17.6	17.6	17.1	16.6	16.1
10 year G-sec**	%	7.82	7.76	7.94	8.07	7.82	7.82	7.88	7.78	7.50	7.60	7.60	7.59	7.31	7.18
LAF (reverse repo less repo)***	INR trn	0.29		0.25	0.41	0.34	(0.08)	0.47	0.15	0.07	0.47	0.47	0.46	0.53	0.48
CPI	%	4.2		3.3	3.7	3.7	4.2	4.9	4.9	4.6	3.6	4.3	4.4	5.07	5.21
Fiscal															
Total Receipts (Centre)	%YoY	5.3		(15.8)	2.3	6.7	(25.0)	22.5	14.0	95.6	12.8	(8.5)	27.8	0.5	51.1
Total Expenditure (Centre)	%YoY	12.7		6.2	17.4	27.5	15.5	22.4	15.1	(7.7)	8.5	(35.3)	17.6	(4.7)	20.3
Capital Expenditure (Centre)	%YoY	8.8		(11.8)	(17.2)	43.8	(9.1)	46.9	(28.3)	62.8	(7.3)	@	189.8	22.3	36.2
Revenue Expenditure (Centre)	%YoY	13.2		8.5	25.3	25.7	20.5	20.0	20.4	(17.2)	11.1	20.9	1.9	(9.5)	16.0
Centre’s GFD (% of BE)	%	103.9		8.6	0.6	8.2	17.8	13.4	31.0	24.3	108	22.7	7.2	10.2	1.6
Central net market borrowings: FYTD Cumulative^^	INR bn	2,548		2,334	1,884	1,686	1086	606	126	38	4,484	4,484	4,484	4,264	3,960
	%YoY	(24.7)		(16.1)	(19.6)	(9.5)	(23.3)	(53.9)	(82.4)	(66.5)	9.9	9.9	9.9	13.6	1.3
States net market borrowings: FYTD Cumulative	INR bn	1,935		1,699	1,377	1,162	924	684	477	291	3,413	3,413	2,988	2,671	2352
	%YoY	(4.3)		(4.2)	(13.9)	(4.4)	6.7	18.8	39.3	102.5	(0.4)	(0.4)	5.3	(0.6)	6.0
Industrial															
Manufacturing PMI	-	52.4	54.0	53.1	52.2	51.7	52.3	53.1	51.2	51.6	51.9	51.0	52.1	52.4	54.7
IIP	%YoY	5.2			4.5	4.7	6.5	6.9	3.9	4.8	4.4	4.6	7.0	7.5	7.3
Eight Core Industries	%YoY	5.4		4.7	4.3	4.7	6.6	7.6	4.3	4.6	4.3	4.5	5.4	6.2	3.8
Total CV sales	%YoY	35.7		24.8	24.1	29.6	29.7	41.7	43.1	75.9	19.9	24.6	31.1	39.7	52.6
Railway Freight (NTKm)	%YoY	7.5	5.6	8.8	6.5	8.7	5.7	5.5	7.5	11.8	6.1	7.5	6.0	8.7	12.3
Cargo handled at ports	%YoY	5.3		6.4	4.4	10.1	4.8	7.1	3.0	1.8	5.0	2.3	8.4	13.6	4.8
Truck Freight Rentals (Delhi to Mumbai) per 15 tonnes	INR ‘000	44.2	44.8	44.8	44.0	44.0	44.0	44.0	44.0	44.0	44.6	44.0	44.0	44.0	44.2
Consumer															
Domestic PV sales	%YoY	6.1		1.6	(5.6)	(2.5)	(2.7)	37.5	19.7	7.5	7.9	6.4	7.8	7.6	5.2
Domestic 2W sales	%YoY	11.1		17.2	4.1	3.0	8.2	22.3	9.2	16.9	14.8	18.4	23.8	33.4	41.5
Airline Revenue Passenger Km (domestic + international)	bn	127.8		18.5	17.7	18.4	18.5	18.1	18.6	18.0	199.4	18.4	16.9	18.7	18.4
JM Consumer RM Inflation#	%YoY	16.5		17.0	17.7	17.1	19.3	18.2	15.8	10.4	4.8	6.0	3.4	4.4	4.8
Smartphone shipments	mn	76			43			34			127	30			30
Mobile data used (GB)	bn	10.4						10.4			24.4	8.1			6.5
Digital															
Balances in Jan Dhan Account^	INR bn	843.4	843.4	846.9	850.5	820.4	806.7	792.9	807.17	813.1	784.9	784.9	755.7	738.8	715.0
Online transactions volume (mobile + NEFT+IMPS)	mn	3,844			794.3	712.6	648.5	604.1	557.3	526.9	4,826	560.8	488.1	484.8	473.4
External															
Exchange Rate	INR/USD	69.6	71.8	73.6	72.3	69.9	68.7	67.8	67.6	65.7	65.0	65.0	64.4	63.7	64.2
Forex Reserves	USD bn	392.8*		392.1	400.5	400.1	404.2	406.1	412.8	420.4	424.4	424.4	420.6	417.7	409.4
Trade Balance	USD bn	(112.2)		(17.1)	(14.0)	(17.4)	(17.9)	(17.1)	(14.6)	(14.0)	(157.2)	(13.7)	(12.0)	(15.7)	(14.8)
Services Surplus	USD bn	38.5			6.4	6.2	6.7	6.6	6.0	6.6	69.6	6.5	5.6	6.5	6.1
CAD (% of GDP-Quarterly)	%	(2.4)						(2.4)			(1.9)	(1.9)			(2.0)
Flows (Net)															
FII inflows- Equity	USD bn	(7.0)~	0.9	(3.8)	(1.3)	(0.3)	0.2	(0.6)	(1.2)	(0.9)	3.4	2.0	(1.9)	(2.0)	(0.7)
FII inflow -Debt	USD bn	(7.8)~	0.9	(1.4)	(1.5)	0.4	0.1	(1.6)	(2.6)	(2.1)	18.7	(0.8)	(0.4)	1.4	0.4
Mutual fund inflows-Equity	USD bn	15.0		3.6	1.9	1.3	1.0	2.6	2.4	2.2	37.2	2.3	3.1	2.6	3.0
FDI Inflows	USD bn	13.5				1.9	1.9	1.7	3.7	4.3	31.1	1.8	3.8	1.9	2.7
Others															
Petrol Consumption	%YoY	7.3		4.9	4.3	8.0	8.0	15.2	2.4	9.5	9.8	14.2	9.2	15.6	10.3
Diesel Consumption	%YoY	3.7		6.8	(0.8)	4.4	4.9	7.8	0.4	3.0	6.3	7.9	6.0	14.7	8.6

Source: MoSPI, CGA, RBI, Bloomberg, CMIE, JM Financial;’ as on 23Nov’18 ** average as on 6Dec’18, @: Negative capex for the month, ***as on month end, YTD as on 23Nov’18; * as of 23Nov’18; # JM Proprietary Raw Material Index; ^as on 28Nov’18, ^^ as on 23Nov’18, ~ as on 5Dec’18

Appendix I

1: List of key political parties

Exhibit 125. List of key political parties (alphabetical)

Abbreviation	Party name
AIADMK	All India Anna Dravida Munnetra Kazagham
AITC	All India Trinamool Congress
BJD	Biju Janata Dal
BJP	Bharatiya Janata Party
BPF	Bodoland People's Front
BSP	Bahujan Samaj Party
CPI	Communist Party of India
CPI(M)	Communist Party of India (Marxist)
DMK	Dravida Munnetra Kazagham
INC	Indian National Congress
IND.	Independent & Others
INLD	Indian National Lok Dal
IUML	Indian Union Muslim League
J&K PDP	J&K Peoples Democratic Party
JD(S)	Janata Dal (Secular)
JD(U)	Janata Dal (United)
JMM	Jharkhand Mukti Morcha
KC(M)	Kerala Congress (M)
NCP	Nationalist Congress Party
NOM.	Nominated
NPF	Naga Peoples Front
NDA	National Democratic Alliance (led by BJP)
RJD	Rashtriya Janata Dal
RPI(A)	Republican Party of India (A)
SAD	Shiromani Akali Dal
SDF	Sikkim Democratic Front
SP	Samajwadi Party
SS	Shiv Sena
TDP	Telugu Desam Party
TRS	Telangana Rashtra Samithi
UPA	United Progressive Alliance (UPA)
YSRC	Yuvajana Shramika Rythu Congress Party

Source: JM Financial

- Bharatmala: The Union Cabinet had approved the Bharatmala plan in Oct'17 with INR 5.35trn budgeted for the first phase covering 34,800km to be completed by FY21-22. The plan envisages end-to-end connectivity from factory to market by linking industrial and economic corridors via road connectivity between railway-ports and coastal/border roads. Bharatmala plans indicate NHAI's future order basket at c.30,000 km (i.e. c.9,000km/year vs. 7400km in FY18). However, we expect a lower mix HAM projects in future given issues in financial closure and limited balance sheet strength of road sector players as well as low appetite from lenders. This implies higher mix of EPC projects where NHAI has to 100% of project cost vs. 40% under HAM. Hence this mix change will also impact NHAI's financial ability to order more projects in future.

Exhibit 126. Bharatmala envisages to construct 34,800km of roads with an estimated cost of INR 5,350bn

Plan	Km	Estimated Cost (INR bn)
Economic Corridors- connecting factory to market	9,000	1,620
Inter-corridor & feeder Routes - feeder to NHs from production areas	6,000	660
National Corridors Efficiency Programme- To remove bottleneck in GQ, NHDP Phase-I&II	5,000	750
Border & International connectivity roads -NE, Nepal/Bhutan Border (international trade)	2,000	400
Coastal & port connectivity roads (Strengthens Sagarmala)	2,000	260
Greenfield Expressways (Point to Point)	800	160
Others (incl. Remaining NHDP)	10,000	1,500
Total	**34,800**	**5,350**

Source: PIB, JM Financial

Exhibit 127. Bharatmala funding

Funding	INR bn	Share
Market Borrowings	2,090	35.2%
Private Investment	1,060	17.9%
CRF/Toll/BoT	2,190	36.9%
Additional budgetary Support	590	9.9%
Total	**5,930**	

Source: PIB, JM Financial

Exhibit 128. Some Metro projects- status and details

Metro	City	State	Opening year/Status*	length(km)
		Under construction		
Nagpur Metro	Nagpur	Maharashtra		
Noida Metro	Noida	Uttar Pradesh	Expected to start in Dec 18 (Media)	
Metro Link express for Gandhinagar and Ahmedabad	Ahmedabad and Gandhinagar	Gujarat	Trail run in early 2019 (Media)	
Navi Mumbai Metro	Navi Mumbai	Maharashtra	Apr-20	
Pune Metro	Pune	Maharashtra	Estimated completion by 2021	
		In planning		
Kanpur Metro	Kanpur	Uttar Pradesh		
Vishakhapatnam Metro	Visakhapatnam	Andhra Pradesh	Issues RFP to bidders (Media)	
Surat Metro	Surat	Gujarat	DPR approval pending (Media)	
Coimbatore Metro	Coimbatore	Tamil Nadu		
Guwahati Metro	Guwahati	Assam		
Bhopal Metro	Bhopal	Madhya Pradesh	Approved by Cabinet	
Agra Metro	Agra	Uttar Pradesh		
Meerut Metro	Meerut	Uttar Pradesh		
Varanasi Metro	Varanasi	Uttar Pradesh	Not feasible (Media)	
Kozhikode Light Metro	Kozhikode	Kerala		
Indore Metro	Indore	Madhya Pradesh	Approved by Cabinet	
Thiruvananthapuram Light Metro	Thiruvananthapuram	Kerala		
Dehradun Metro	Dehradun - Rishikesh- Haridwar	Uttarakhand		
Srinagar Metro	Srinagar	Jammu & Kashmir		
Greater Gwalior Metro	Gwalior	Madhya Pradesh		
Jabalpur Metro	Jabalpur	Madhya Pradesh		
		Proposed		
Greater Nashik Metro	Nasik	Maharashtra		
Western railway elevated corridor	Mumbai	Maharashtra		
Chandigarh Metro	Chandigarh	Punjab	Not Viable (Media)	
Gorakhpur Metro	Gorakhpur	Uttar Pradesh	Draft DPR submitted (Media)	

Source: Media, JM Financial

APPENDIX II

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Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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