Flashback 2019 & Market Outlook for 2020

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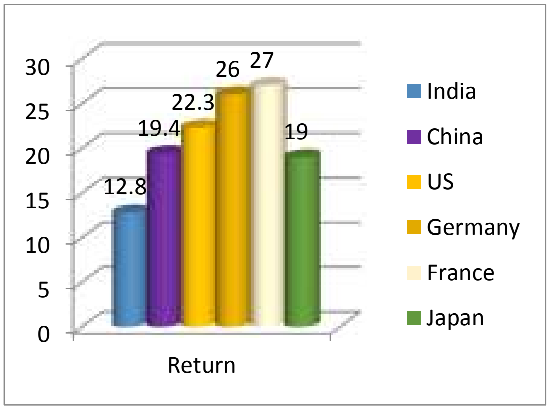
Index

Report Card 2019.....!



The Indian capital market has just given **photofinishing performance** as compared to global emerging markets.
It was basically **index management performance** by the Indian market.

Contributors in the Nifty index

NIFTY CONTRIBUTORS (50 STOCKS)		
S.NO	COMPONENTS	CONTRIBUTION TO INDEX
1	RELIANCE	4.14%
2	HDFC	1.73%
3	HDFC BANK	2.35%
4	ICICI BANK	3.34%
5	KOTAK BANK	1.64%
6	BAJAJ FINANCE	1.19%
	TOTAL	14.39%
	INDEX RETURN	12.80%
	REMAINING COMPONENTS	-1.59%

Major contribution to the index was from banking stocks i.e. (HDFC Bank, ICICI Bank, Kotak Bank) they only contributed half of the rally in the Nifty index.

Another major contribution was from the giant oil & gas cum telecom player i.e. Reliance Industries which itself contributed around Quarter rally of the benchmark index Nifty due to its successful debut in telecom sector made in F.Y.2017, which reported ARPU of RS.126.2 & Improved performance in its retail business (Reliance Retail).

The interest rate cuts by the Reserve Bank of India by 135Bps in C.Y. 2019 which brought Repo rate at 5.15%, has made the positive sentiments in the market.

The interest rate cut by the RBI & steady performance on NPA front by the banks had been the sole reason for sterling performance by the Nifty Bank index. The benchmark index has given return of around 19% in the year.

The Benchmark index was able to post such performance only due to contribution by the leading banks only (i.e. ICICI Bank, HDFC Bank & Kotak Bank)

Contributors in the Bank Nifty Index

BANK NIFTY CONTRIBUTORS (12 STOCKS)		
S.NO	COMPONENTS	CONTRIBUTION TO INDEX
1	ICICI BANK	9.83%
2	HDFC BANK	6.51%
3	KOTAK BANK	4.62%
	TOTAL	20.96%
	INDEX RETURN	18.92%
	REMAINNING COMPONETS	-2.03%

Sectoral Index Performance

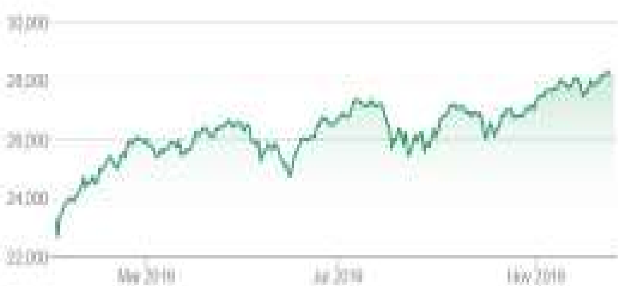
SECTOR PERFORMANCE			
INDEX	2019 OPEN	2019 CLOSE	RETURN
AUTO	9235	8290	-10.23%
METAL	3150	2800	-11.11%
MEDIA	2566	1820	-29.07%
PSU BANK	3090	2536	-17.93%
PHARMA	8868	8070	-9.00%
MNC	13940	13800	-1.00%
FMCG	30516	30200	-1.04%
ENERGY	14335	15950	11.27%
INFRA	3175	3266	2.87%
REALITY	232	281	21.12%
IT	14440	15725	8.90%
POWER	2000	1920	-4.00%
OIL & GAS	13750	14800	7.64%
CAPITAL GOODS	18820	16950	-9.94%
MIDCAP	17875	17125	-4.20%
SMALL CAP	6450	5830	-9.61%

Performance by the Global Markets

Dow Jones the US Market index has posted the **return of around 22%** in 2019, which seems good looking to the amid trade tension & uncertainty due to US-china Trade deal & tight labour market.

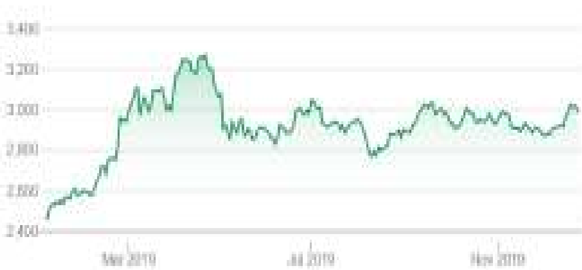
The American economy is likely to grow at GDP of 1.8%.

The rally was driven by the technologically, banking & FMCG shares.



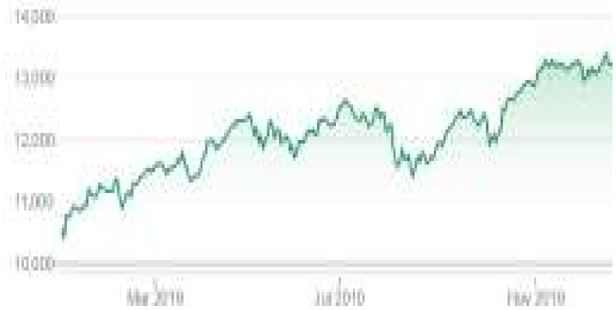
Shanghai the Chinese Benchmark has **rallied around 19%** on grounds of intensive manufacturing exports & low paid labours but the challenge for china going forward is to find new drivers of growth while addressing the social & environmental legacies of china's pervious development path.

Further the trade traffic imposed by the US are probably to be resolved in upcoming quarters as both countries are likely to announce the new trade policy soon.



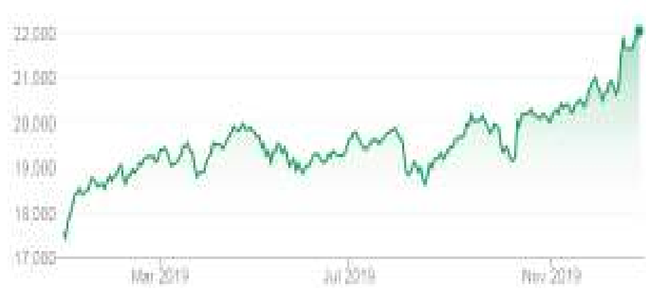
DAX the German Index has outperformed globally by **record gains of around 26% which is 2nd highest in the decade.**

The rally in the DAX is amid of the major slowdown in the German economy as the economy might have been gone into recession in the Q3 of C.Y.2019 as it posted the growth rate at 0.1% which has turned into positive as compared to previous quarter & record breaking rally in the bond markets.

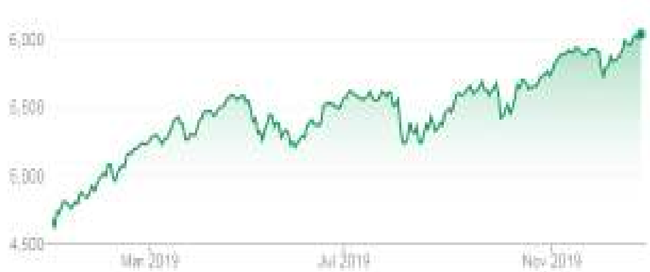


FTSE an UK based London stock market's Benchmark has shown **moderate gains in 2019 for around 13%,** Consumer spending has continued to drive the economy, helped by strong real earnings growth. Strong employment growth has been forecasted for 2020& 2021 which might further accelerate the economic growth there.

London's household income and spending are both forecast to increase over the next three years, albeit at a relatively slow rate.



CAC the French Benchmark has delivered the blockbuster rally of **record gains of around 28%** in 2019 which is its highest gains since 2000. Economic activity is likely sustaining a **solid pace of expansion** in the fourth quarter, following a resilient outturn in the third quarter. Household spending appears to have remained the mainstay for growth as the **unemployment rate fell in October and consumer confidence reached an over 12-year high in November.**



Hang Sang a stock market index in Hong Kong has posted **the return of around 8% in 2019.** The economy declined notably in the third quarter, as widespread protests undercut domestic demand. Private consumption and fixed investment nosedived, while exports were also down markedly.

The economy is seen recovering next year on a favourable base effect and some support from fiscal stimulus. However, activity is set to remain weak, as political turmoil will likely continue weighing on domestic activity.

Nikkei the Japanese stock markets has delivered the **returns of around 19% in 2019**. The economy grew faster than initially estimated in the third quarter, according to a second GDP release. The improvement was due to upgraded estimates for the domestic economy, notably fixed investment.

In 2020, economic growth is likely to slow notably, largely as the sales tax hike will constrain private consumption. Moreover, continuing trade tensions will weigh on the external sector.

Indian Economy 2019

For the first time in seven years, India's **GDP grew below 5 percent** year over year for two consecutive quarters, forcing policymakers and markets to rethink India's outlook.

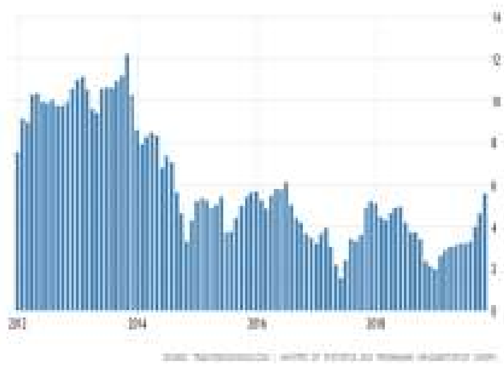
The **first quarter of FY2019–20 registered 5 percent growth**, with the **4.5 percent in second Quarter of FY 2019-20** this is slowest since the fourth quarter of FY2012–13. Three of the four growth engines—private consumption, private investment, and exports—have slowed down significantly. Consumption, the biggest contributor of growth, fell to an 18-quarter low of 3.1 percent in Q1 FY2019–20, pointing to fragile consumer sentiment and purchasing ability. Investments grew 4 percent, marginally up from 3.6 percent in the previous quarter. Exports grew 5.7 percent and have remained volatile owing to global uncertainties around trade and investments and geopolitical tensions. The fourth engine, government consumption and investment, is running out of steam because of the limited elbow room the government has for counter-cyclical spending as the budget deficit remains under pressure.

On the industry side, **several core sectors including auto, real estate, and manufacturing are in deep waters.** Domestic auto sales in India continue to slump, with the overall auto industry reporting a decline of 23.55 percent in August 2019. With a decline of 31.57 percent in the month, the downfall in the passenger vehicle segment has continued for over a year for the first time in a decade. The real estate sector is grappling with the worst-ever slowdown in many decades—over 1.3 million

houses worth about 5 percent of GDP are lying unsold across India.

It must be noted that key indicators like job creation and consumer demand, even for fast-moving consumer goods (FMCG), has been on a decline since the third quarter of the last fiscal. The spending power has been hit so hard that consumers have shifted to cheaper daily essentials in both urban and rural markets.

Rising inflation rate has done as the work of drought in runny poverty, as the inflation rate seeing the figure of **5.55% in November 2019 which is highest in 40 months**.



The slowdown indicates that domestic demand has taken a breather. **Several factors—such as stagnating rural wages, tightening lending conditions (because of the ailing health of the financial institutions), and rising unemployment—are contributing to low demand for goods and services**. Additionally, structural factors are contributing to the sluggishness. These include changing consumer preferences due to a rising proportion of millennial among consumers and technology innovations, both of which are transforming demand patterns.

On the supply side, **excess idle production capacity**, **weakening corporate profits**, and **infrastructure bottlenecks** have slowed down investment in production facilities and hiring.

Not much relief is expected from the global economy either. Growth is slowing across the globe and the International Monetary Fund **(IMF) has cut its 2019 global growth forecast to 3.0 percent from 3.2 percent**. Global trade volume growth has been steadily declining since 2018 owing to uncertainties around trade policies. **The World Trade Organization (WTO) economists expect merchandise trade volume growth to fall to 2.6 percent in 2019—down from 3.0 percent in 2018**. In the United States, despite a tight labor market and strong retail sales, policy uncertainties are weighing on business sentiment, and thereby business investment decisions. Sharply falling long-term yield rates and policy rate cuts by the Federal Reserve are indications of economic headwinds in the coming quarters.

As for the Indian economy, all these will likely affect export growth while uncertainty will likely impact business investments as capital flows remain volatile.

So, how is the health of the overall economy?

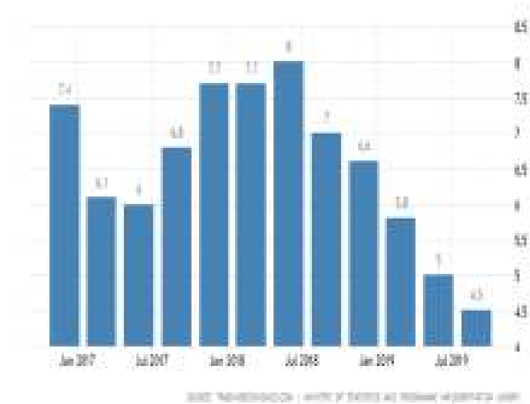
In the past, the government **managed to consolidate its fiscal position** within the budget target **through reforms and asset sales**. However, the government's incentives to stimulate the economy (more on this in the next section) and poor revenue collections have put pressure on the fiscal balance. In the past four months, the government has already spent 77 percent of the budgeted amount of the fiscal deficit of FY2019–20. The security yield curve has moved up higher because of the increasing downside risks of a possible sovereign rate cut and crowding out of private investments in the economy.

On the external front, the fall in domestic demand and low international crude oil has kept the current account deficit under control. However, significant risks loom due to geopolitical tensions in the Middle East and a possible rise in oil prices. Given that India is a net oil importer, higher oil prices could have negative implications on the external account. Nonetheless, lower domestic and global demand will likely cap this risk.

Foreign direct investment (FDI) has picked up over the past few quarters as India remains an attractive investment destination, while return prospects in advanced nations are poor. However, foreign institutional investment has been volatile and will likely remain so because of heightened uncertainties and poor investment sentiment. Factors concerning growth, capital outflows, and global trade disputes as well as uncertainty have weighed on the Indian rupee. It dropped to an all-time low and has stayed above the psychologically important 70-rupee mark against the US dollar over the past few months. But in near term the dollar seems to breach the level of Rs.74.

GST Revenue collection is showing the higher collections in the past 4 months with the highest collection since May at Rs.103492 Cores in November month due to increased consumer spending due to festive seasons & better compliance.

GDP Growth rate has been **slowest in the past 6 years**; IMF has slashed its GDP forecast on India to 7% for 2020 & the **central bank has also revised its target to 6.1%**.



The improved GST collection, aggression of the government towards its divestment program, relief to the corporate in corporate tax rate cut, relief package to NBFC sector shows the some sign of revival in the economy.

Measures taken by FM Nirmala Sitaraman to boost economy were:-

- Withdrawal of enhanced surcharge on LTCG & STCG.
- Reduction in the corporate Tax rates to as low as 22% for existing companies & 15% for new manufacturing companies.
- Rs.70000 Cr upfront package to PSBs.
- Clearance of statutory dues of MSME within 30days.
- Enhanced depreciation to auto sector on unsold inventory
- Another funding of Rs.5 lacs Cr to public sector banks.
- Provide incentives for housing and automobile sectors to revive demand. Even temporary time-bound relief will help.

But all these measures seem to be short term only as to improve the sentiment in the economy.

2020 Prospects

As we go into 2020, the goal of crafting a **$5 trillion economy seems to be far far away at this pace**. India needs to grow @12% to achieve this dream by 2025. In spite of increasing urbanisation in the last decade, the **rural economy still contributes about 46 per cent to the national income**. Once a predominantly agrarian economy, now rural India is more diversified, with the non-agricultural sector contributing to about two-thirds of household incomes.

To bring back the economy on track the government **will have to take much more steps to enhance the consumptions**; to improve the manufacturing growth, stable inflation rate, higher industrial production and low WPI & CPI.

As per the reports and our projections India's economy is likely to g**row around 6.5-8.00 % in 2020-2024**, which seems to be lower than the average of 2015-2019.

While reliance on **consumption will continue**, the large informal labour share indicates that **there is room to strengthen the consumption base.**

Sustaining efforts to prop up the **health of the banking sector is a vital challenge**, while bridging the **disparity in urban and rural infrastructure is important** for spreading investment and economic opportunities while addressing urbanisation.

We think there's a tentative sense of **stabilization in the Indian economy**, an **improving global economy and domestic policies such as corporate tax cuts** should help to **lift economic activity in India.**

In addition, the country's central bank, the Reserve Bank of India, **"probably isn't quite done"** with easing monetary policy yet — which is also likely beneficial to growth.

The **trade deal between U.S & china** which is likely to be announced soon shall certainly give the directions to the economy in the near term.

Also planning of the government to **spend 100lakhs Crores in next five on infrastructure** may be a **game changer** on the front of increasing the rural employment & increasing the industrial output.

The government may take steps in upcoming union **Budget on 1st February 2020**, in relation to the:-

- increasing the in hand realised earnings by **slashing the personal tax rates** Accordingly, the sources said, those having annual income between 2.5- 10 lakh may be taxed at the rate of 10 per cent while individuals earning between 10-20 lakh may get to pay tax at a lower rate of 20 per cent. The tax exemption limit may, however, remain unchanged at 2.5 lakh.
- Increasing the **benefits for the first home buyers**
- **Booster package for the Real-estate companies & increasing rural employment**.
- **Changes in the FDI limits** for various sectors.

In relation to government's focus on divestment of its share in PSUs, **the government can raise about Rs 1.1 lakh crore by selling its direct holding above 51% in listed non-financial PSUs or about Rs 2.5 lakh crore by selling its direct and indirect holding including stakes of LIC** and other PSUs above 51% in listed nonfinancial PSUs.

The deal of BPCL & Air India could be announced anytime in between January-March 2020.

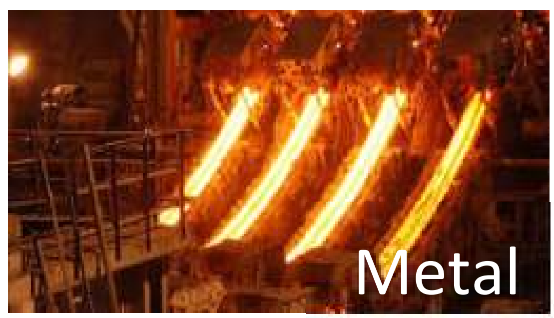
Company	Market Cap (₹ Cr)	Govt Stake (%)	Proceeds that can be raised by selling	
			Entire Stake (₹ Cr)	up to 51% (₹ Cr)
ONGC	158,300	64.3	101,787	21,054
Indian Oil	139,500	52.2	72,819	1,674
NTPC	116,000	56.4	65,424	6,264
Coal India	114,200	71.0	81,082	22,840
BPCL	106,900	53.3	56,978	2,459
Power Grid	103,400	55.4	57,284	4,550
GAIL (India)	59,600	52.2	31,111	715
Container Corp.	34,800	54.8	19,070	1,322
NMDC	29,500	72.3	21,329	6,284
Bharat Electronics	25,700	58.8	15,112	2,005
Other 39 companies	202,400	-	153,247	50,023
Banks/Finance				
State Bank of India	232,900	57.1	132,986	14,207
GIC	37,600	85.8	32,261	13,085
Bank of Baroda	35,000	69.2	24,220	6,370
PNB	26,900	75.4	20,283	6,564
Power Finance	25,000	59.1	14,775	2,025
Bank of India	20,200	89.1	17,998	7,696
New India Assurance	16,800	85.4	14,347	5,779
Canara Bank	13,900	70.6	9,813	2,724
Allahabad Bank	9,900	92.0	9,108	4,059
UCO Bank	9,200	92.5	8,510	3,818
Other 15 companies	82,000	-	70,448	28,628
Total			1,029,992	2,14,145

SOURCE : Kotak Institutional Equities

On the Repo Rate front we predicate that RBI seems to be on **wait & watch mood** and just **awaiting the signals from the FM's Budget** to cut its repo rate. In 2020**, RBI may give rate cut around 25-40Bps** seeing the concern over the dull consumptions & further the RBI **kept the room for the same by keeping the Rates unchanged in its December policy.** But the though **timing of it will depend on the evolution of growth-inflation dynamics in FY2021**.

It is all about **taking the "Green Shots"** for the revival of the economy on early basis.

Sectoral Outlook



Banking Sector

The implementation of the government policy with regarding to the **Insolvency & Bankruptcy Act is looking major beneficiary** for the banking companies. The IBC has empowered the bankers and allowed them to liquidate the assets of the debtor, even after a single default.

More importantly, corporate have stopped taking the banks for granted. The delay in the resolution of the defaulter shall be eliminated now onward. Amount around Rs. **75000 Cr has been recovered till 31.03.2019** since its inception.

The banking sector can be one of the sectors which **may outperform the market in the upcoming decade**, as the **implementation of the IBC and changing NPA scenario** shall improve the performance of the banking companies.

The capital infusion by central government into the Public sector banks gives the strong support to the banks to lend more. The overall **capital infusion into state-run banks from FY2015-19 stood around Rs.2.56 trillion**, from which around 40% has been infused only in FY19. This infusion has been done to help the small PSB to come out to the RBI's PCS norms. This infusion shall improve the credit lending growth banks.

The NPA's of the total banking sector **reduced by 230 Bps** and stood at 9.3% in March, 19.

The **Amalgamation** of the small state run banks with larger one shall deliver **synergic gain and help then in lower their cost & efficiently** scale their operations.

Because right now what is happening is that the small state runs don't have money to lend with poor management in banks but the larger state run bank are standing with ample money to lend but not having good credit growth, so these mergers shall help them to resolve the problem & stands **Win-Win situation** for everybody.

As per the report of ICRA the NPA that would be generated by banks shall by near to 1.9-2.4%. And the total **Nonperforming assets are expected to come down to 8.3 Lacs Cr in FY2020** which would be around 7.9% against 9.2% of FY19.

The **increase in the credit landing products** by the banks has generated the good portfolio among them to improve their credit growth.

The repo rate cut done by RBI of 135Bps has improved the NIM of the banks as the benefit of rate cut has not been fully passed on by the bank to customers.

The banking index **"Nifty Bank" has outperformed in the Indian markets** by delivering the return of **around 19%** in which the total contributor was from private sector banks. **The Public sector bank index has given negative return** of **around 18%** due to poor management.

The rally in the Private Banks was mainly due to **realization of money from the Non-performing Assets** which were settled through IBC plus **increase in NIM** due to rate cuts by RBI.

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
SBIN	333	405	9 to 12 Months
HDFCBANK	1275	1400	9 to 12 Months
ICICIBANK	538	680	9 to 12 Months
AXISBANK	752	920	9 to 12 Months

Auto Sector

Indian automotive industry is **among the largest automotive industries across the globe**. The India automotive industry accounts for **7.2% of the country's total Gross Domestic Product** (GDP). Two wheelers market is the major segment in the Indian automobile market with approximately 80% market share, owing to a growing middle class and a young population in the country.

Moreover, the **market players are now exploring the rural markets** of the country which has been further augmenting the growth of Indian automobile industry growth. On the other hand, passenger vehicles segment accounts for about 15% of total automobile industry of the country. India is also a flourishing automobile exporter to its neighbouring countries such as Africa, Bangladesh and Sri Lanka among others and also has robust export progression prospects for the nearby future.

2019 seems not to be the year for Indian automobile industry as the total automobile **sales declined by around 15-25% this year**. This is the biggest fall in the last 19 years.

The Indian automobile industry saw its worst-ever half-yearly performance (April-September 2019) as sales dived 17.08 per cent to 11,736,976 units. The passenger vehicles segment saw an overall decline in sales of 23.56 per cent at 1,333,251 units in this period.

It may take longer than expected for a strong recovery in the auto segment as overall vehicle sales across categories registered a steep decline.

Additionally, the India automotive industry is anticipated to **observe major changes** in the form of electric vehicles (EVs), shared mobility, **Bharat Stage-VI emission, scrappage policy** ,high registration cost and safety norms which will significantly influence the growth of automobile industry in the country.

Further **bumper discounts** given by the companies in stock clearance sales will **impact their operating profit margin** in results. The incentives taken by the government seem not to be sufficient to pick up the demand of the sector.

The rural income seems to not be improving in near term because of **low farm income**. The reports of farmers' distress**, slow growth in rural wage rates** and **high unemployment** figures indicate that the recent economic slowdown has affected rural parts of the country more than urban areas.

Way ahead for the Industry…!!

The **sound of rain is a welcome relief** that allays the anxieties of farmers. In the same way, the **recent demand spike in retail during Dhanteras seems to have sown the seeds of hope in the Indian automobile industry**. The recent slowdown intensified due to the flood in area like Kerala, Gujarat & other parts of country, impact of GST and hiked insurance costs of vehicles.

However, the recent heavy-lifting on providing fiscal stimulus with corporate tax cuts, repo rate slashes and cheaper loans to facilitate recovery in the beleaguered property market and automobile sector, **mainly benefit urban India, rather than rural India**, as the economy there is mainly informal and transmission is not direct.

"The passenger vehicle segment's goal of reaching 5 million domestic sales by 2020 looks far away as it is set to shrink to around 3 million units in FY 2019-2020, down from 3.4 million units in FY 2018-2019".

According to industry experts, the financial problems that have cropped up **because of the credit crunch in non-banking financial companies (NBFC)**, coupled with the slowdown in the national road construction programme and delay in awarding new infrastructure projects by the government, have dented the sales volume of construction equipment by over 25 per cent in the first half of FY'20.

Further, according to data from the Centre for Monitoring Indian Economy (CMIE), **India's unemployment rate rose to 8.5 per** cent in October, the highest since August 2016, and up from 7.2 per cent in September this year.

The government must accelerate the process of bringing impactful reforms with due diligence which can yield immediate results in spurring demand, resolving liquidity crunch and creating new jobs. The industry, which has reaped massive growth in the last one decade, also must be judicious in terms of job cuts and not resort to it, creating another spell of pressure in the environment.

The auto sector index "Nifty Auto" as underperformed this year with negative return of around 11%.

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
HEROMOTOCO	2445	2700	9 to 12 Months
ENDURANCE	1068	1250	9 to 12 Months
GABRIEL	122	160	6 to 9 Months
JAMNAAUTO	46	55	6 to 9 Months
RICOAUTO	46	60	6 to 9 Months
SUBROS	254	290	6 to 9 Months
WABCOINDIA	6480	7500	9 to 12 Months
WHEELSIND	595	750	9 to 12 Months
TIMKEN	923	1220	9 to 12 Months

Pharma Sector

Indian pharmaceutical sector industry **supplies over 50 per cent of global demand** for various vaccines, **40 per cent of generic demand in the US** and **25 per cent of all medicine in UK**. India contributes the **second largest share of pharmaceutical and biotech workforce** in the world.

As per Economic Survey 2018-19, **government expenditure (as a percentage of GDP) increased to 1.5 per cent in 2018-19** from 1.2 per cent in 2014-15 for health. **Indian pharmaceutical sector is expected to grow at a CAGR of 22.4 per cent** and medical devices market is expected to grow to US$ 55 billion by 2020. FDI increased to **74 per cent in existing** pharmaceutical companies and **100 per cent for new projects.**

Indian drugs are **exported to more than 200 countries in the world**, with the US as the key market. Generic drugs account for 20 per cent of global exports in terms of volume, making the country the largest provider of generic medicines globally and expected to expand even further in coming years. Pharmaceutical exports from India, which include bulk drugs, intermediates, drug formulations, biological, Ayush & herbal products and surgical reached US$ 19.14 billion in FY19 and US$ 5.17 billion in FY20 (up to August 2019). **The exports are expected to reach US$ 20 billion by 2020.** In FY18, 31 per cent of these exports from India went to the US. **Healthcare sector witnessed private equity investment of US$ 1.1 billion with 27 deals in first half of 2019.**

Helped by the growth in domestic and export markets, India's Pharma industry is set to rise by 9-11 per cent over the previous fiscal and it is **likely to touch $41.9 billion in FY20**.

While on the **domestic front, the industry is expected to grow at around 12 per cent** and reach $20.4-$20.8 billion during FY20**, exports are likely to touch $21.1 billion in this fiscal with a growth rate of 8 to 10 per cent**, according to a study by Care Ratings.

Moreover, the need for **affordable healthcare** in pharm emerging and developed nations are likely to support exports of branded generics to these countries. Also, **rising per capita incomes in pharm emerging nations** will contribute to the rise in branded generics exports from India

Indian pharma companies are likely to **focus on development of specialty medicines or complex generics** to augment their portfolio and increase share in world exports.

This (growth in domestic market) will be backed by **growth in presence of chronic diseases**, increasing per capita income, **improvement in access to health care facilities** and penetration of health insurance. These factors are expected to increase the volumes of Indian Pharma industry and the volumes are likely to grow faster compared to total domestic market growth rate

Generic drugs, with 71% market share, form the largest segment of the Pharmaceutical industry in India. In the domestic market by revenue, Anti-Invectives (13.6%), Cardiac (12.4%) and Gastrointestinal (11.5%) had the biggest market share.

In fiscal 2019, formulation exports increased as players focused on new launches in conventional segments and **increased their focus on niche, specialty and limited competition products**. Although **pricing pressure exists in the US** market, it is likely to have **fallen to mid-single digits in fiscal 2019**. The price erosion is expected to moderate going ahead. Competitive intensity in the US market peaked in 2017 and the situation is seen to be improving.

Though exports growth is expected to slow, **revenue from exports markets for Indian players is expected to grow at a faster rate**, as large players look to develop **capabilities in the specialty** and bio similar segment **through the inorganic route.** The exports growth in semi-regulated markets would also improve slightly as players look at new markets with low avenues for growth in regulated markets.

The Pharma Index "Nifty Pharma" has given negative return of around @10% in 2019, but the same is expected to turnaround in upcoming decade. The Pharma sector has the potential to deliver the double digit return in the next few years.

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
GSK Consumer	8287	10500	9 to 12 Months
Sanofi India	6985	7500	9 to 12 Months
SYNGENE	322	430	9 to 12 Months
FDC	211	270	9 to 12 Months
P&G Hygiene	11360	13500	6 to 9 Months

FMCG Sector

Fast-moving consumer goods (FMCG) sector is the **4th largest sector in the Indian economy** with Household and Personal Care accounting for 50 per cent of FMCG sales in India. Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The **urban segment (accounts for a revenue share of around 55 per cent) is the largest contributor** to the overall revenue generated by the FMCG sector in India.

However, in the last few years, the FMCG market has grown at a **faster pace in rural India compared with urban India**. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50 per cent of total rural spending.

The government has allowed **100 per cent Foreign Direct Investment (FDI) in food processing and single-brand retail and 51 per cent in multi-brand retail.** This would bolster employment and supply chains, and also provide high visibility for FMCG brands in organised retail markets, bolstering consumer spending and encouraging more product launches. The sector witnessed healthy **FDI inflows of US$ 14.67 billion, during April 2000 to March 2019.**

The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as Soap, Toothpaste and Hair oil now come **under 18 per cent tax bracket** against the previous 23-24 per cent rate. Also rates on food products and hygiene products have been reduced to 0-5 per cent and 12-18 per cent respectively

The GST is expected to transform logistics in the FMCG sector into a modern and efficient model as all major corporations are remodelling their operations into larger logistics and warehousing.

Rural consumption has increased, led by a combination of increasing incomes and higher aspiration levels; there is an increased demand for branded products in rural India. The rural FMCG market in India is **expected to grow to US$ 220 billion by 2025 from US$ 23.6 billion in FY18**. In FY18, FMCG's rural segment contributed an estimated 10 per cent of the total income and it is forecasted to contribute 15-16 per cent in FY 19. FMCG sector is forecasted to grow at 12-13 per cent between April–June 2019.

On the other hand, with the **share of unorganised market in the FMCG sector falling**, the organised sector growth is expected to rise with increased level of brand consciousness, also augmented by the growth in modern retail.

The FMCG sector is a **pure play of the rural consumptions** of Indian economy as the rural employment on the edge of improvement due to **favourable government policies** likely to be announced in the upcoming union budget in February 2020.

But **beside all these positive measures announced by the government in 2019 the demand is not growing as expected**. The per capita consumption is not growing due to which there has been lacklustre volume growth in the FMCG sector companies during the first half of 2019.

Illustration: ANIRBAN BORA

RBI has also **adopted its measures to pick up the demand by slashing the interest rates by 135Bps in CY2019** to give more liquidity in the markets but this seems to be seen not sufficient.

Rural household consumption slumped to a seven-year low in the September quarter, in a sign that the prolonged agrarian distress and near-stagnant rural incomes have eroded demand for consumer good

Consumption of packaged consumer goods by rural households also grew at a slower pace than in urban areas for the first time in seven years.

The rural economy has been plagued by falling crop prices and declining incomes, resulting in a severe slump in demand. Falling income has not only singed farmers but also landless wage workers, who together account for two-thirds of all rural households.

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Erratic rainfall in the last three months caused floods in as many as 13 states and **worsened the plight of farmers**, compounding the slowdown

The slump in consumption has been hurting packaged goods makers over the last few quarters. Earlier this week, Hindustan Unilever Ltd (HUL), India's largest household goods maker, said it has not seen an uptick in demand. For the September quarter, HUL's revenue rose 6.7% to 9,852 crore from a year earlier. Sales volume rose **just 5% during the period as demand cooled, especially in rural India. "On an overall market basis, the slowdown has happened more in rural areas than in urban. During good times, rural growth used to be 1-1.5 times that of urban in the last four-five years. Now, it has come down to half of urban growth," Sanjiv Mehta, chairman and managing director of Hindustan Unilever**, the local unit of the Anglo-Dutch firm, said after announcing the September quarter earnings.

We expect growth in Q4 2019 to be in the 6.5-7.5% range. The growth forecast for Q1 2020 (January-March) is in the range of 7.5-8.5%. It expects demand to bounce back early next year.

The economy shall take more 2-3 Quarters to fully generate the required demand to push the economy. The Indian economy is currently undergoing major transformation phase which will need some more time for revival.

The monsoon plays an important role in the consumption drive sectors, good monsoon gives the better purchasing power with the households & the monsoon had been good this year even though the companies are unable to generate the volume growth in the market.

We are now finally seeing early signs of the declining trends being arrested.

Although the FMCG sector benchmark "Nifty FMCG" has given the neutral return by negative 1% in 2019 but the 2020 seem to be all set deliver strong return by the sector.

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
Gillette	6599	7750	9 to 12 Months
ITC	238	270	9 to 12 Months
ADFFOOD	307	370	9 to 12 Months
GODFRYPHLP	1271	1480	6 to 9 Months

IT Sector

The IT industry in India is a key part of the country's economy. In 2017, information technology and its various subsectors represented **almost eight percent of the nation's overall GDP**. In financial year 2019, this industry in India generated **annual revenue close to 180 billion U.S. dollars**, a significant increase from the generated revenue ten years ago. A majority of this revenue was generated in exports while domestic revenue totalled to less than 50 billion U.S. dollars for the mentioned period.

India's IT & ITeS industry grew to US$ 181 billion in 2018-19. Exports from the industry increased to US$ 137 billion in FY19 while domestic revenues (including hardware) advanced to US$ 44 billion.

Spending on Information Technology in India is **expected to grow over 9 per cent** to reach US$ 87.1 billion in 2018.

Revenue from digital segment is expected to comprise 38 per cent of the forecasted US$ 350 billion industry revenue by 2025.

Indian IT's core competencies and strengths have attracted significant investments from major countries. The computer software and hardware sector in India attracted cumulative **Foreign Direct Investment (FDI) inflows worth US$ 37.23 billion between April 2000 and March 2019 and ranks second in inflow of FDI**, as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT).

As a part of Union Budget 2018-19, **NITI Aayog is going to set up a national level programme that will enable efforts in AI** and will help in leveraging AI technology for development works in the country.

In the **Interim Budget 2019-20, the Government of India announced plans to launch a national programme on AI** and setting up of a National AI portal.

National Policy on Software Products-2019 was passed by the Union Cabinet to develop India as a software product nation.

Cloud computing and artificial intelligence will once again dominate the technology headlines, but 2020 could be a breakout year for edge computing.

While the rupee's near constant slide against the dollar has sparked off concerns over its macroeconomic position, it has proved to be a boon for export-oriented businesses.

In fact, we expects that Indian IT services companies could see **improvement in margins by as much as 100-150 basis points in near term due to the depreciating rupee**, based on factors such as their offshoring levels and individual hedging policies. Given that the sector had been facing a lot of headwinds, this comes as a welcome break. The depreciation in rupee is expected up to the levels of 75 in the near term.

Leading companies such as Infosys, Tata Consultancy Services, HCL Technologies, Wipro, Tech Mahindra and Mindtree each have different hedging policies, which is one of the key factors determining gains from the falling rupee. **Usually, domestic IT firms reportedly hedge 30 per cent of their total bills receivable.**

However, while the broad consensus is that the rupee is unlikely to recover anytime. The IT sector cannot bet on a lingering currency advantage. **"The positive impact of falling rupee would be seen more in near-term than for longer period".**

India is the topmost offshoring destination for IT companies across the world. Having proven its capabilities in delivering both on-shore and off-shore services to global clients, emerging technologies now offer an entire new gamut of opportunities for top IT firms in India. **The industry is expected to grow to US$ 350 billion by 2025 and BPM is expected to account for US$ 50-55 billion out of the total revenue.**

The Indian IT Index "Nifty IT" has given **positive return of around 10% in 2019 & we further expect to give similar return in 2020.**

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
INFY	733	820	9 to 12 Months
LTI	1750	2030	9 to 12 Months
LTTS	1489	1820	9 to 12 Months
FSL	41	52	9 to 12 Months
SONATASOFT	310	370	9 to 12 Months

Metal Sector

India **holds a fair advantage in cost of production** and conversion costs in steel and alumina. Its strategic location enables convenient exports to develop as well as the fast-developing Asian markets.

India produces **95 minerals– 4 fuel-related minerals, 10 metallic minerals, 23 non-metallic minerals, 3 atomic minerals and 55 minor minerals** (including building and other minerals).

Rise in infrastructure development and automotive production are driving growth in the sector. Power and cement industries are also aiding growth in the metals and mining sector. **Demand for iron and steel is set to continue, given the strong growth expectations for the residential and commercial building industry**.

India **ranks 4th in terms of iron ore production** globally. In FY18, production of iron ore stood at 210 million tonnes. India has around 8 per cent of world's deposits of iron ore.

According to Ministry of Mines, **India has the 7th largest bauxite reserves- around 2,908.85 million tonnes in FY17.** Aluminium production stood at 1.33 million metric tonnes during Apr-Aug 2018 and is forecasted to grow to 3.33 million tonnes in FY20.

The **domestic steel sector witnessed challenging Q2FY20 with demand growth slipping to 1.7% YoY** in August 2019 compared to 6.4% YoY in April 2019. This, coupled with a **sharp fall in steel prices due to trade war** resulted in INR 3500 – INR 3800/t impacting profitability for all major companies in Q2. **Consequently, raw material prices have also fallen sharply**, but the **benefit would flow in Q3FY20E onwards**.

We believe owing to monsoons, steel sector seasonally have weaker Q2 demand and 2HFY20 is expected to be better than 1HFY20 from pickup in infrastructure activities.

Going forward, the **outcome of US-China trade negotiations would trigger the future trajectory of global metal sector.**

Admittedly, it takes long time for agreement on such a complicated and vital trade deal. However, given the tough stand taken by both the trade partners on their respective demands and lacking solidarity, **it seems unlikely to have defined and clean deal in near term**. In anticipation of continuity of elevated duties, various industries have started investing to augment capacity or restart closed capacities. **This poses additional risk to the deal as it would become for US to dilute its demands**.

Auto sales, Freight traffic, Property sales would **remain under prolonged weakness** due to highly volatile environment.

China announced measures including cut in VAT, rationalization of Govt fees/taxes and increase in spending to stimulate growth. However, the impact would be limited in light of fading sentiments and under distress fiscals of Govt.

Further Indian Ratings & research has **revised its outlook on the steel sector to 'stable-to-negative'** due to expectations of tepid demand in steel sector. The downgrade by Ind-Ra could be only the starting of the downgrading by the rating agencies, as it **may lead to structural de-ratings for the sector.**

Ind-Ra has revised downwards its fiscal 2019-20 steel demand growth expectations to **around 4 per cent from the previous forecast of 7 per cent.**

India is determined to raise the **per capita consumption of steel from its current low of 72 kg per capita to 160 kg per capita by 2030**

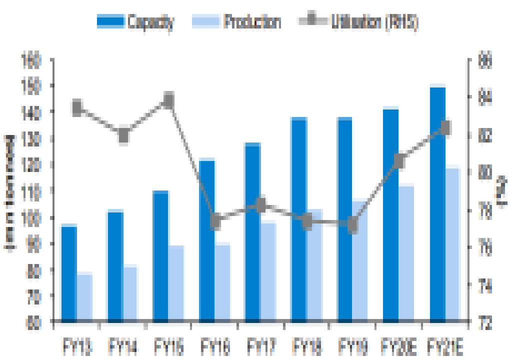
We expects overall steel sales volumes and margins to weaken further in Q4 of FY2019-20 after industry witnessed margin correction in Q2 of FY2019-20 and Q1 of fiscal year 20.

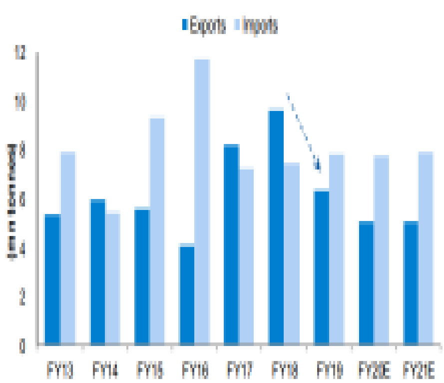
We expect China to be **more lenient on its production cut's drive as weak economy** and priority to avoid job losses has gained more significance over reforms. The theme is vindicated by record production in past couple months. This would keep global **prices under pressure in medium term.**

Steel prices have been continuously softening while raw material cost prices have only seen partial declines, thereby squeezing the gross spreads for steel producers.

Muted property sales to slow down the project pipeline materially. **Weak macros reversed capacity rationalization initiative.**

Falling exports & underutilization of available capacity utilization are the major cause of worry for this sector.





In CY2019 the Indian metal Index "Nifty Metal" has given the **negative return around 11%** citing the reasons of current slowdown in the economy.

We expect demand growth to slow down to 6.0% in FY20E, led by high base of Govt spending, weakness in Auto and white goods segments. Growth is expected to improve to 6.5% in FY21E as pick-up in Govt spending and gradual revival in auto and other sectors would aid the demand.

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
MIDHANI	156	190	6 to 9 Months
NMDC	129	150	9 to 12 Months
COALINDIA	211	260	6 to 9 Months
MOIL	146	180	6 to 9 Months

Infrastructure Sector

Infrastructure sector is a **key driver for the Indian economy**. The sector is highly responsible for propelling **India's overall development** and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development.

Over the past year, the Government (Centre and the States) has seen a worsening of fiscal stress, driving a slowdown in public infra capex. **As per the Sep-19 RBI study on State finances, FY20E State infra spend will fall by 4.5% compared with ~16% CAGR over FY16-19** (not assuming further worsening since the presentation of the state budgets).

According to the RBI data on state finances, overall spend by all Indian states on infrastructure build-out (housing, urban development, water supply & sanitation, irrigation, energy and transport) saw a 16.1% CAGR over FY16-19. **However, for FY20, the budgeted spend on these categories for all the states suggests a 4.5% decline over FY19** (RE)

But we **expect the big announcement regarding the infra spending by the government in the upcoming budget.**

Increased impetus to develop infrastructure in the country is attracting both domestic and international players. Private sector is emerging as a key player across various infrastructure segments, ranging from roads and communications to power and airports. In order to boost the construction of buildings in the country, the Government of India has decided to come up with a **single window clearance facility to accord speedy approval of construction projects.**

Indian economy has the requirement of **investment worth Rs. 50 trillion in infrastructure by 2022** to have sustainable development in the country.

The rural road development can be seen in the upcoming decade as **only 24% of the national highway network in India is having four-lane connectivity**; therefore we can see the major development in this sector as there is **immense scope for improvement.**

Foreign Direct Investment (FDI) received in Construction Development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to March 2019 stood at US$ 25.05 billion, according to the Department of Industrial Policy and Promotion (DIPP).

In the past, the responsibility for providing infrastructure services was vested solely with the Government. This was mostly due to a number of reasons including lumpiness of capital investments, long gestation periods, externalities, high risks and low rates of return.

The Government has recently announced guidelines for **private investment in highway development through the Build Operate Transfer (BOT)** route. Besides simplifying procedures and providing more financial concessions, these measures would facilitate preparation of detailed feasibility reports, clearances for the right way of land, relocation of utility services, resettlement and relocation of the effected establishments, environmental clearance and equity participation in the highway sector. The **Government has also approved clear and transparent guidelines for encouraging private sector participation in ports** and is in the process of setting up a tariff regulatory authority in 11 major ports

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
LT	1305	1550	9 to 12 Months
ABB	1289	1550	9 to 12 Months
AIAENG	1650	1920	9 to 12 Months

Telecom Sector

This sector was **the best performing sector of the 2019**. The tariff war between the companies has taken cool off recently as all the companies have nearly **doubles their tariffs in November 2019.**

India is currently the **world's second-largest telecommunications market with a subscriber base of 1.20 billion** and has registered strong growth in the past decade due to commercial launching of the mega giant operator Reliance jio.

The telecom industry's **contribution to GDP is estimated to reach 8.2% by 2020**, by when industry players are slated to also **leverage 5G technologies to connect with global markets** and ring in a fully networked, knowledge and services economy

The launch of Jio had brought major destruction in this industry in 2017 & 2018, but now it seems that the **worst is now over** and now onwards we may see **strong earnings growth in this sector**.

Over the next five years, rise in mobile-phone penetration and increase in data costs may affect the subscribers of the companies but the **ARPU is likely to increase.**

FDI inflows into the telecom sector during April 2000 – March 2019 totalled to US$ 32.82 billion, according to the data released by Department for Promotion of Industry and Internal Trade (DPIIT).

FDI cap in the telecom sector has been increased to **100 per cent from 74 per cent**; out of 100 per cent, 49 per cent will be done through automatic route and the rest will be done through the FIPB approval route.

FDI of up to 100 per cent is permitted for infrastructure providers offering dark fibre, electronic mail and voice mail.

The Government of India has **introduced Digital India programme** under which all the sectors such as healthcare, retail, etc. will be connected through internet

Ratings firm Icra has **maintained a 'negative' outlook for the Indian telecom industry**, saying recovery measures by beleaguered telecoms will not be able to sustain the blow dealt by the Supreme Court order on adjusted gross revenue. The order left 15 telecoms facing 1.47 lakh crore in additional statutory dues, with Bharti Airtel and Vodafone Idea the worst hit, facing combined dues of over Rs.89,000 crore.

Although **clarity is awaited on the final outcome** of **review petitions filed by operators** in the Supreme Court, We believes that in case **AGR dues have to be funded through debt**, it has the potential to derail the deleveraging attempts by the industry.

Due to intense competition and pricing pressure in recent years, the average revenue per user (ARPU) of the industry fell from Rs.169 in the first quarter of fiscal 2017 to Rs.124 in the first quarter of FY20. ARPU is likely to rise from Q3FY20 onwards due to price hike done by companies.

We expect the **tariff hike to the tune of 70-95%** by telecoms to manifest into improvement in ARPU levels and cash flow generation. "However, despite the debt reduction, the key coverage indicators are expected to remain weak with estimated **debt/Ebitda likely to be more than 7x** and interest **coverage less than 2x** as on Q2 FY20. **The impact of tariff hikes will be visible in FY21**, when the Ebitda is expected to improve by 20% over FY20 levels.

Overall the outlook on **telecom sector seems to be positive** due to the intense rate hike done of companies.

The third largest telecom player **Bharti Airtel had performed best in this sector by around 60%** this year and was also the best performer of Nifty Index.

Our Picks from the Sector

Name of Stock	CMP	TGT	Time Frame
BHARTIARTL	456	550	9 to 12 Months
RELIANCE	1515	1650	9 to 12 Months

Hold only, fresh buying not recommended at these levels