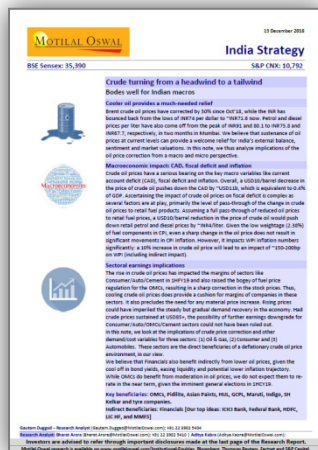


BSE Sensex: 36,195
Nifty-50: 10,850

Refer our latest India Strategy report on Crude turning from a headwind to a tailwind



Corporate profit to GDP: Analyzing growth across cycles

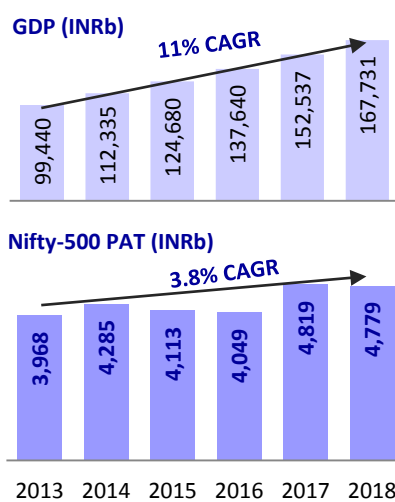
2018 mirroring 2003 bottom

As part of our continued effort to provide a broad and informative perspective of the market and the economy, we, in this note, take a close look at the corporate profit contribution of various sectors/companies in Nifty-500 to GDP. As a lot has changed over the last 15 years, we step back and analyze trends in retrospect to come up with some interesting observations.

Interpreting the corporate profits to GDP metrics over 2003-18

- India's corporate profit to GDP ratio dropped from 7.8% to 3% over 2008-18. For the Nifty-500 universe, the ratio has declined from 5.5% to 2.8% – a 15 year low – over the same period. Earnings have lacked resilience over the last decade due to a multitude of macro-micro factors. In this note, we analyze 'corporate earnings as a percentage of GDP' in greater detail. We use Nifty-500 as a proxy for corporate earnings as it contributes 93% of India's market-cap.
- Notably, the corporate profit to GDP ratio has been on a downward spiral since 2010, barring 2017, when profits of global cyclical like Metals and O&G had rebounded and losses at PSU Banks had reduced over the preceding year.
- However, we expect the trend in corporate profits/GDP to turn better, led by normalization of profits at Corporate Banks and gradually improving trends in the capex cycle. Even Telecom and Utilities – the two sectors that have witnessed huge investments over the years without any commensurate returns – should start contributing to earnings over the next five years, in our view.
- In our analysis, we look at the 2003-18 period in two parts: [1] 2003-08 and [2] 2008-18.

Profits have been stagnant



2003-08: The Golden Phase...

- The corporate profit to GDP ratio doubled from 2.8% to 5.5% over 2003-08, with Nifty-500 profits growing at a substantial 31%, 2x the pace of underlying GDP growth (CAGR of 14.5%).
- This surge was driven by the export-, investment- and capex-oriented sectors. Over 2003-08, the global economy was growing at a faster clip, helping the export-oriented players. Capacity investment across sectors was also significant as investment cycle took off.
- Of the 2.7% improvement in the profits/GDP ratio over this period, 1.6% was contributed by Metals, Telecom, Technology, Capital Goods and Cement.

2008-18: ...that lost luster

- Over the last decade, the corporate earnings distress in India has translated into corrosion in the Nifty-500 profit/GDP ratio from 5.5% to 2.8%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Similar to 2003-08, the movement in the ratio over 2008-18 was driven by a few sectors – 88% of the fall was driven by PSU Banks (36%), Oil & Gas (19%), Metals (18%) and Telecom (15%).
- Private Banks, NBFC, Autos and Technology were the only sectors witnessing an improvement in the profit/GDP ratio over the last decade.

2003-18: Wild swings in fortunes

- Sectors that have been most stable and rising to prominence over these 15 years are Technology, NBFCs, Private Financials, Autos and Metals. Profits of these sectors as a percentage of GDP has increased by 3-4x over 2003-18.
- Profit contribution to GDP of NBFCs is at a new high, while that of PSU Banks is at a new low. Auto has seen a 3.5x jump in profit to GDP over 2003-18.
- Consumer's contribution has been quite stable, underscoring the resilient nature of the sector.
- O&G's contribution has come off from 1.05% to 0.66% over 2003-18, but is still significant, given the preponderance of large PSU players in both upstream and downstream in the sectoral profit pool.
- Capital Goods' contribution tripled from 0.09% to 0.28% in five years from 2003-08. However, it thereafter declined by more than half over 2008-18.
- Similarly, after moving up 8x from 0.1% in 2003 to 0.8% in 2008, Metals' profits as a percentage of GDP declined steeply to 0.2% before bottoming out in 2016 (now at 0.3%).
- Telecom has gyrated between losses and profits over 2003-18.

Value migration toward Private Corporates at play

- We analyzed India's corporate profit to GDP distribution over the last 15 years in three categories: PSUs, MNCs and Private Corporates.
- PSUs' corporate profit to GDP is down from 1.8% in 2003 to 0.4% now, given the significant value migration away from public to private in sectors like Banking, Telecom and Airlines, even as PSU heavy sectors like Oil & Gas and Utilities underperformed on profit growth versus underlying GDP growth.
- Losses of PSUs have been gains for the Indian Private Corporate sector, with the latter's profit/GDP ratio rising from 0.8% in 2003 to 2.2% in 2018.

The bottom yet?

- We expect the corporate profit to GDP trend to improve FY19 onward, even as we do not foresee acceleration like 2003-08.
- Corporate Banks (both PSU Private) – one of the biggest contributors to the downtrend in corporate profit to GDP – are expected to drive the expansion as asset quality bottoms, fresh slippage generation moderates, provisioning cost normalizes and loan growth recovers.
- In Capital Goods and Cements, we expect the private capex cycle to recover gradually. Incipient signs of capex spending in select sectors (Refining, Steel and Cement) offer some confidence in their contribution to aggregates.
- Telecom and Utilities, which have seen significant capex investments and balance sheet expansion (rising capital employed) without commensurate returns, may have troughed, in our view, and can contribute to this cycle over the next few years. Rising competitive intensity and entry of a deep-pocketed new operator necessitated capex investments, weakening ARPU and driving

Exhibit data is sourced from Capitaline, RBI, Companies, and MOSL database

down profits and return ratios. However, as telecom players repair their balance sheets (de-leveraging, asset monetization) and competitive intensity peaks out, we expect profitability in this sector to see gradual improvement.

- We expect sectors like Consumer, Auto and Private Banks (especially Retail) to stay stable as far as their contribution as a percentage of GDP is concerned.
- We note that in every cycle, new sectors evolve and contribute to the profit to GDP metrics. This is a reflection of the change in the underlying economy. In the earlier upcycle of 2003-08, sectors like Infrastructure, Cement, Capital Goods and Construction evolved, even as investments— as proportion of GDP – galloped. A few sectors that were not listed a decade back are now listed and growing well. They also have a strong long-term growth path ahead of them, given the under-penetration in their respective segments. For example, Consumption and Financials have seen relatively good performance vis-à-vis investment-oriented sectors. Over the last few years, Insurance (Life and General), Asset Management Companies, Organized Retail, Lifestyle Consumption, etc., have scaled up and been gaining traction. We expect their contribution in the profit to GDP equation to inch up further.

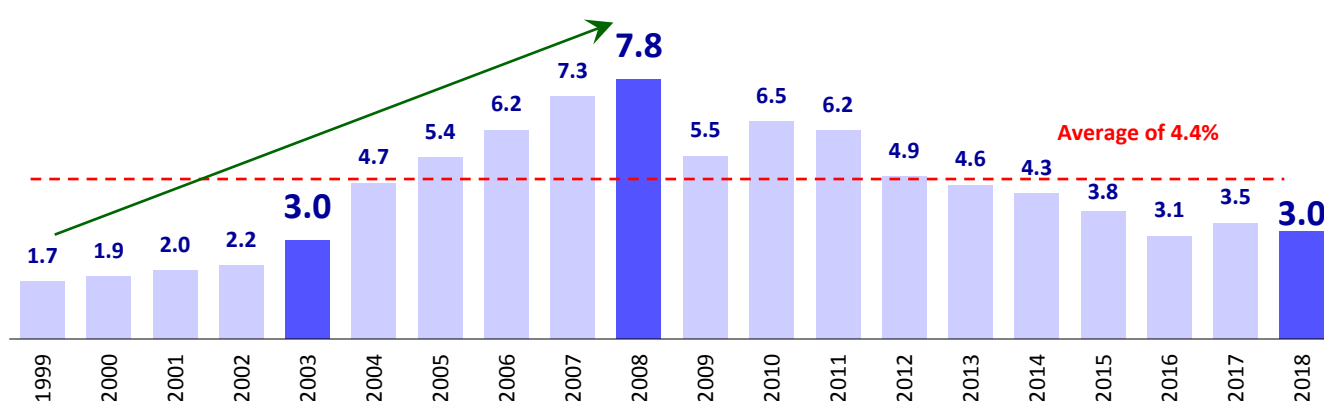
Exhibit 1: Sectoral Corporate profit to GDP for Nifty-500 (%) – NBFCs at all-time high; Banks at new low

| Sector | Profit to GDP (%) | | | | Change (x) | | |
|------------------|-------------------|------------|------------|------------|------------|------------|------------|
| | 2003 | 2008 | 2013 | 2018 | 2003-2018 | 2008-2018 | 2003-2008 |
| Automobiles | 0.08 | 0.21 | 0.28 | 0.28 | 3.8 | 1.4 | 2.8 |
| Financials | 0.74 | 1.00 | 1.20 | 0.27 | 0.4 | 0.3 | 1.4 |
| Banks - PSU | 0.46 | 0.51 | 0.49 | -0.44 | -1.0 | -0.9 | 1.1 |
| Banks - PVT | 0.11 | 0.18 | 0.30 | 0.28 | 2.5 | 1.6 | 1.6 |
| NBFCs | 0.15 | 0.26 | 0.37 | 0.40 | 2.7 | 1.5 | 1.8 |
| Insurance | 0.02 | 0.05 | 0.04 | 0.04 | 1.8 | 0.7 | 2.5 |
| Capital Goods | 0.09 | 0.28 | 0.17 | 0.11 | 1.2 | 0.4 | 3.1 |
| Cement | 0.02 | 0.20 | 0.10 | 0.06 | 3.1 | 0.3 | 9.8 |
| Chemicals | 0.03 | 0.09 | 0.06 | 0.07 | 2.6 | 0.8 | 3.0 |
| Consumer | 0.17 | 0.20 | 0.20 | 0.20 | 1.2 | 1.0 | 1.2 |
| Healthcare | 0.08 | 0.16 | 0.17 | 0.16 | 1.9 | 1.0 | 1.9 |
| Hotels | 0.00 | 0.01 | 0.00 | 0.00 | 3.0 | 0.2 | 13.0 |
| Infrastructure | 0.01 | 0.04 | 0.01 | 0.01 | 1.0 | 0.1 | 6.7 |
| Logistics | 0.01 | 0.02 | 0.01 | 0.01 | 0.8 | 0.5 | 1.5 |
| Media | 0.01 | 0.01 | 0.02 | 0.02 | 1.7 | 2.2 | 0.8 |
| Metals | 0.10 | 0.78 | 0.19 | 0.31 | 3.2 | 0.4 | 8.1 |
| Oil & Gas | 1.05 | 1.17 | 0.60 | 0.66 | 0.6 | 0.6 | 1.1 |
| Real Estate | 0.00 | 0.19 | 0.03 | 0.04 | 9.4 | 0.2 | 40.1 |
| Retail | 0.00 | 0.01 | 0.01 | 0.02 | 10.4 | 2.6 | 4.0 |
| Technology | 0.10 | 0.33 | 0.39 | 0.42 | 4.1 | 1.3 | 3.2 |
| Telecom | -0.04 | 0.24 | 0.05 | -0.14 | 3.8 | -0.6 | -6.6 |
| Textiles | 0.01 | 0.01 | 0.02 | 0.02 | 1.6 | 1.5 | 1.1 |
| Utilities | 0.27 | 0.42 | 0.42 | 0.21 | 0.8 | 0.5 | 1.6 |
| Misc | 0.04 | 0.11 | 0.07 | 0.11 | 2.8 | 1.0 | 2.7 |
| Nifty-500 | 2.8 | 5.5 | 4.0 | 2.8 | 1.0 | 0.5 | 2.0 |

Corporate profits to GDP at one-and-half decade low

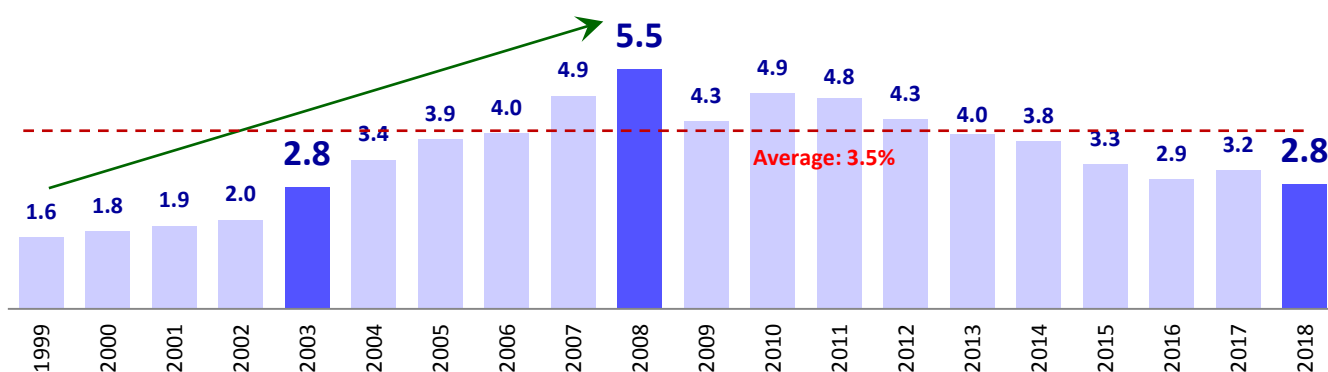
- The continued soft patch in earnings over the last decade has resulted in steady deterioration in the corporate profit to GDP ratio. Corporate profit as a percentage of GDP has dropped to 2.8% – a 15-year low – from the peak of 5.5% in 2008.
- Nifty-500 profits have remained stagnant at INR4-4.8t over the last five years, even as nominal GDP has continued to grow steadily. Over 2013-2018, profit CAGR of 3.8% has significantly lagged GDP CAGR of 11%.
- The ratio has consistently declined since 2010 (except for 2017) and is also lower than the long-period average of 3.9% (2003-2018). The 2017 aberration was owing to a rebound in profits of global cyclicals like Metals and O&G and the loss reduction in PSU Banks over FY16.
- However, we now believe that India's earnings growth has bottomed out and that the corporate profit to GDP ratio should expand hereon. Our confidence stems from the bottoming out of the asset quality cycle in PSU and Private Corporate Banks and some initial signs of green-shoots in private corporate capex. Consumption, too, remains robust.

Exhibit 2: India Inc. (Listed + Unlisted) – Trend in Corporate profit to GDP ratio

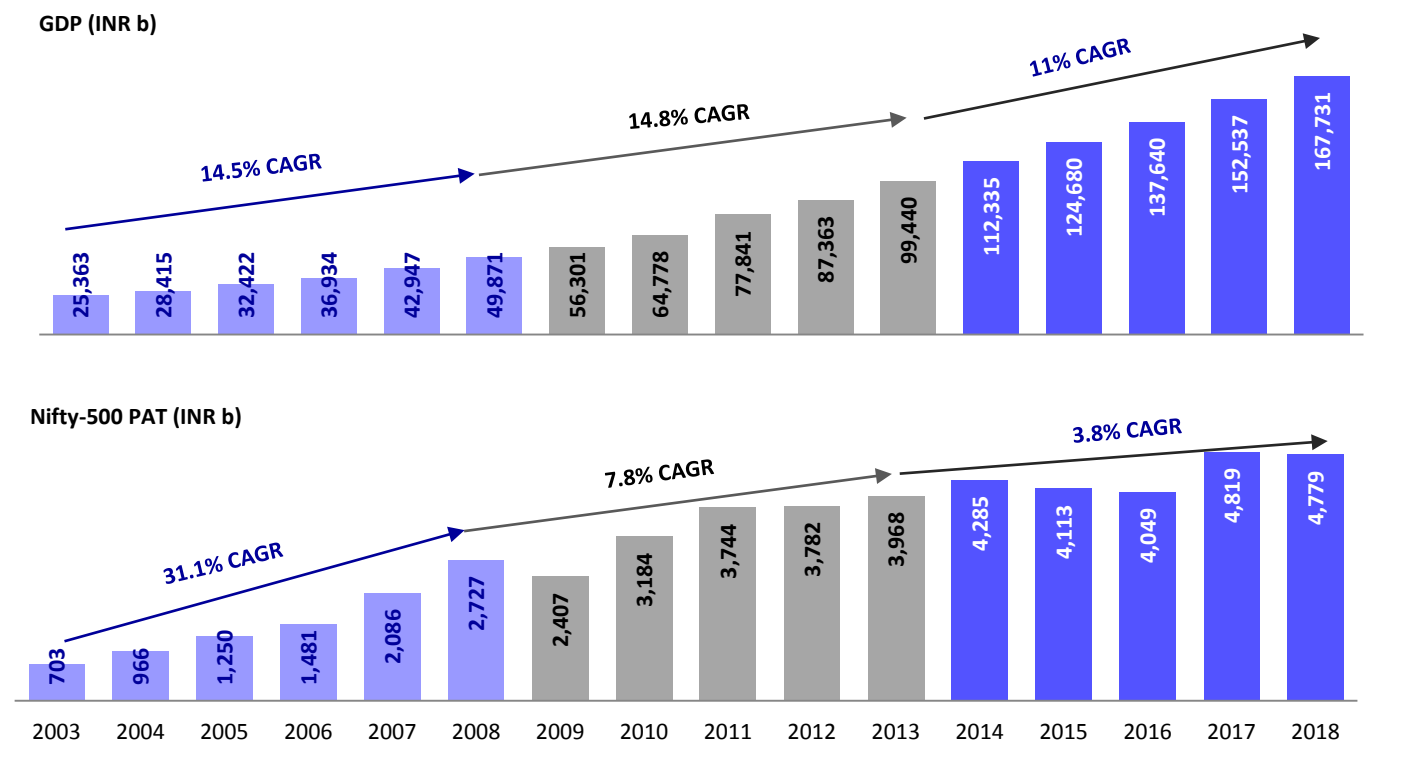


Note: Corporate profit sourced from Capitaline for listed/unlisted companies (7,500+ companies)

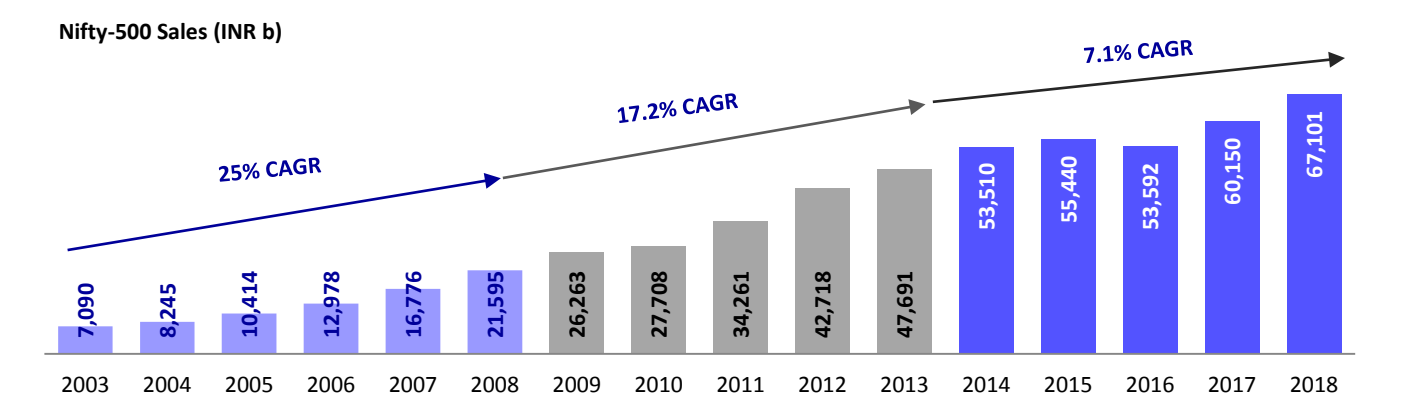
Exhibit 3: Nifty-500 - Corporate profit to GDP ratio has touched a 15-year low



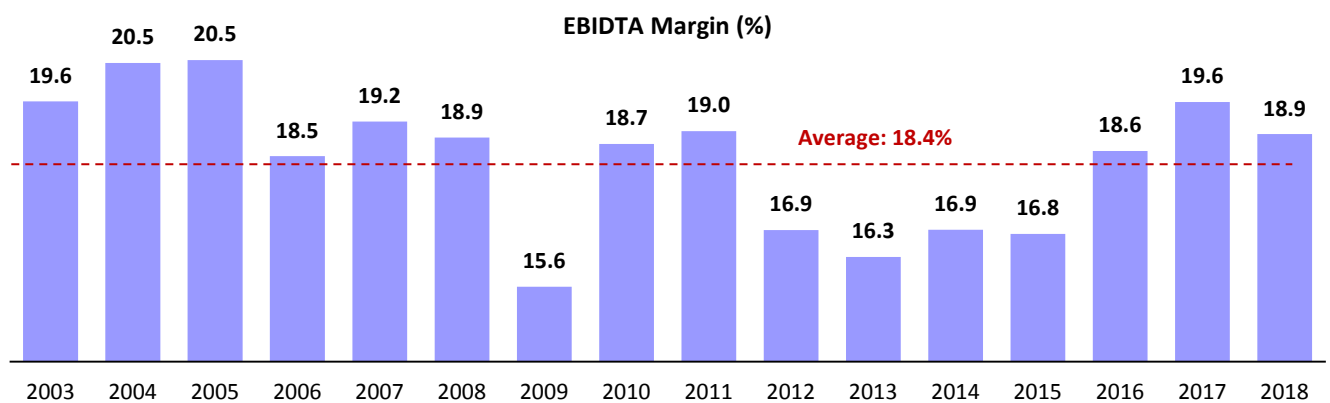
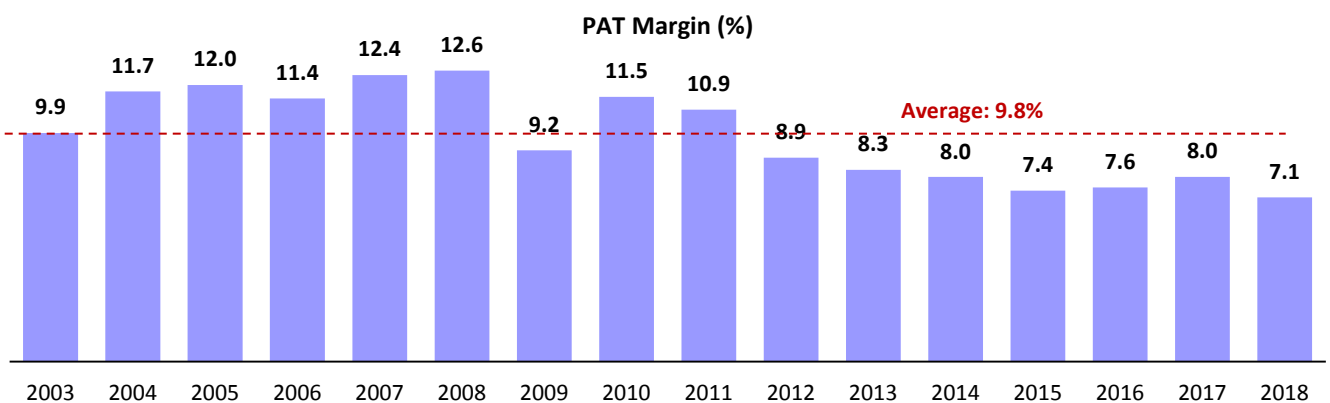
- As we can infer from exhibit 3, Nifty-500's profits have broadly flat-lined around INR 4-4.8t over the last five years, the period when asset quality problems of corporate banks (PSUs and Private) emerged, resulting in a sharp jump in provisioning requirements.
- Meanwhile, Nominal GDP, aided by Consumption, maintained a healthy pace of 11% CAGR over 2013-18

Exhibit 4: Contrast between corporate PAT growth and GDP growth

- Moderation in the top-line CAGR of Nifty-500 is due to a combination of correction in commodity prices and some softening in the top-line growth of Consumer-oriented sectors.

Exhibit 5: Trend in Nifty-500 Sales (INR b)

- As shown in Exhibits 6 and 7, the operating margins of the Nifty-500 Universe inched up over 2015-18 after being range-bound over 2012-15 – a reflection of softening in commodity prices and operating leverage in a few sectors. However, the PAT margin did not reflect a similar improvement over 2015-18 due to higher provisioning costs of Corporate Banks. In fact, it shrank 30bp over 2015-18 and still well below the peak of 12.6% reached in 2008.
- Operating margins of Nifty-500 ex Financials broadly hovered in the 13-13.5% range over 2012-15, before breaking into the 14-15% band post commodity price correction over 2015-16. However, it is still far away from the peak of 16.6% clocked in 2005. Similarly, the PAT margin collapsed from the peak of 11% in 2008 to 5.6% in 2015. Thereon, it steadily climbed to 7.3%, largely as a flow-through of the improvement in the operating margins (while operating margins expanded 190bp, PAT margins expanded 170bp over 2015-18).

Exhibit 6: Nifty-500 EBDITA Margin (%)**Exhibit 7: Nifty-500 PAT Margin (%)**

Corporate profit to GDP doubled over 2003-08...

- Over 2003-08, the corporate profit to GDP ratio doubled from 2.8% to 5.5%, with Nifty-500 profits growing at 31%, 2x the pace of underlying GDP growth (14.5% CAGR).
- This surge was driven by the export-, investment- and capex-oriented sectors. Over 2003-08, the global economy was growing at a faster clip, helping the export-oriented players. Capacity investment across sectors was also significant as investment cycle took off.
- Of the 2.7% improvement in the profits/GDP ratio over this period, 1.6% was contributed by **Metals, Telecom, Technology, Capital Goods** and **Cement**.
- The **Telecom** sector saw a sharp upswing as India embarked on unprecedented subscriber addition and density improvement.
- Technology** sector benefited from global growth and the inflexion point of Indian IT, when it build scale and took rapid strides.
- Top five contributors to the profit delta during this period were RIL, Tata Steel, SAIL, DLF, Bharti Airtel and RCom.

Exhibit 8: Contributors to the rise in corporate profit to GDP (FY03-08)

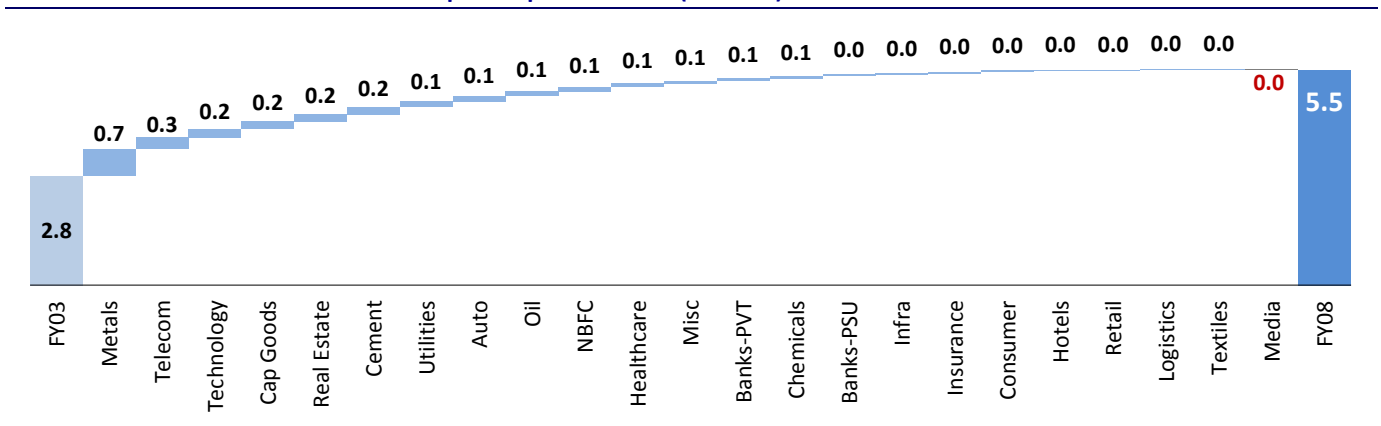


Exhibit 9: Stocks with positive contribution to change

| Company | Sector | Contributor to change (FY03-08) | |
|----------------|---------------|---------------------------------|-----|
| | | pp | % |
| Reliance Inds. | Oil & Gas | 0.23 | 8.7 |
| Tata Steel | Metals | 0.21 | 7.7 |
| S A I L | Metals | 0.17 | 6.3 |
| DLF | Real Estate | 0.15 | 5.7 |
| Bharti Airtel | Telecom | 0.14 | 5.1 |
| Rel. Comm. | Telecom | 0.11 | 4.0 |
| TCS | Technology | 0.10 | 3.7 |
| Coal India | Utilities | 0.10 | 3.5 |
| Hind.Zinc | Metals | 0.08 | 3.1 |
| Infosys | Technology | 0.06 | 2.1 |
| NMDC | Metals | 0.05 | 2.0 |
| Grasim Inds | Cement | 0.05 | 1.7 |
| M R P L | Oil & Gas | 0.04 | 1.5 |
| B H E L | Capital Goods | 0.04 | 1.5 |
| JSW Steel | Metals | 0.04 | 1.4 |

Exhibit 10: Stocks with negative contribution to change

| Company | Sector | Contributor to change (FY03-08) | |
|-----------------|-------------|---------------------------------|------|
| | | pp | % |
| I O C L | Oil & Gas | -0.10 | -3.7 |
| H P C L | Oil & Gas | -0.03 | -1.1 |
| Hind. Unilever | Consumer | -0.03 | -1.1 |
| B P C L | Oil & Gas | -0.03 | -1.0 |
| NLC India | Utilities | -0.02 | -0.9 |
| Power Fin.Corp | NBFCs | -0.02 | -0.8 |
| O N G C | Oil & Gas | -0.01 | -0.5 |
| Oriental Bank | Banks - PSU | -0.01 | -0.4 |
| Bajaj Holdings | NBFCs | -0.01 | -0.4 |
| Natl.Fertilizer | Chemicals | -0.01 | -0.3 |
| GAIL (India) | Oil & Gas | -0.01 | -0.3 |
| Dish TV | Media | -0.01 | -0.3 |
| J & K Bank | Banks - PVT | -0.01 | -0.2 |
| TVS Motor Co. | Automobiles | -0.01 | -0.2 |
| Dr Reddy's Labs | Healthcare | -0.01 | -0.2 |

Corporate profit to GDP 2003-2008: This surge was driven by the export, investment and capex-oriented sectors

Exhibit 11: Nifty-500 profits expanded at 31% CAGR over 2003-08

| Sector | PAT (INR b) | | Change | | Profit to GDP (%) | |
|------------------|-------------|--------------|------------|-----------|-------------------|------------|
| | 2003 | 2008 | (x) | CAGR | 2003 | 2008 |
| Automobiles | 19 | 104 | 5.4 | 40 | 0.1 | 0.2 |
| Banks - PSU | 117 | 254 | 2.2 | 17 | 0.5 | 0.5 |
| Banks - PVT | 28 | 88 | 3.2 | 26 | 0.1 | 0.2 |
| NBFCs | 37 | 131 | 3.5 | 29 | 0.1 | 0.3 |
| Insurance | 5 | 25 | 4.8 | 37 | 0.0 | 0.1 |
| Capital Goods | 23 | 138 | 6.1 | 43 | 0.1 | 0.3 |
| Cement | 5 | 101 | 19.2 | 81 | 0.0 | 0.2 |
| Chemicals | 7 | 43 | 6.0 | 43 | 0.0 | 0.1 |
| Consumer | 43 | 98 | 2.3 | 18 | 0.2 | 0.2 |
| Healthcare | 21 | 80 | 3.8 | 30 | 0.1 | 0.2 |
| Hotels | 0 | 7 | 25.5 | 91 | 0.0 | 0.0 |
| Infrastructure | 1 | 19 | 13.1 | 67 | 0.0 | 0.0 |
| Logistics | 3 | 8 | 3.0 | 24 | 0.0 | 0.0 |
| Media | 3 | 5 | 1.5 | 9 | 0.0 | 0.0 |
| Metals | 25 | 391 | 15.9 | 74 | 0.1 | 0.8 |
| Oil & Gas | 266 | 583 | 2.2 | 17 | 1.1 | 1.2 |
| Real Estate | 1 | 93 | 78.9 | 140 | 0.0 | 0.2 |
| Retail | 1 | 4 | 7.8 | 51 | 0.0 | 0.0 |
| Technology | 26 | 164 | 6.4 | 45 | 0.1 | 0.3 |
| Telecom | -9 | 122 | -12.9 | LP | 0.0 | 0.2 |
| Textiles | 3 | 7 | 2.2 | 17 | 0.0 | 0.0 |
| Utilities | 68 | 207 | 3.1 | 25 | 0.3 | 0.4 |
| Misc | 10 | 56 | 5.4 | 40 | 0.0 | 0.1 |
| Nifty-500 | 703 | 2,727 | 3.9 | 31 | 2.8 | 5.5 |

...and then halved over 2008-18

- Over the last decade, the corporate earnings distress in India has translated into corrosion in the profit/GDP ratio from 5.5% to 2.8%.
- Just like the 2003-08 period, the movement in the profits/GDP ratio over 2008-18 was driven by a few sectors. We note **that 88% of the fall in the ratio from 5.5% in 2008 to 2.8% in 2018 was driven by just four sectors: PSU Banks (36%), Oil & Gas (19%), Metals (18%) and Telecom (15%).**
- Private Banks, NBFC, Autos and Technology were the only sectors witnessing an improvement in the profit/GDP ratio over the last decade.
- **PSU Banks** have been impacted by rising NPAs (especially in corporate-oriented banks), higher provisions, higher slippages and lower loan growth – all combining to drive meaningful deterioration in profitability and return ratios. However, we believe that the asset quality cycle has now bottomed out and the contribution of PSBs' profits to GDP should improve significantly over FY19-21.
- **Metals** have seen significant swings in profitability post 2008. It went down from 0.8% in 2008 to 0.2% in 2013 and bottomed out in 2016. The fortunes of sectoral profitability are inextricably linked to underlying commodity prices and have swung in line with prices. Post 2016, the sector has seen massive profitability jump owing to rising commodity prices and a phase of de-leveraging in a few big companies. In fact, MOSL Metals Universe profits have grown 3x from INR130b in 2016 to INR470b in 2018.
- **Telecom's** profitability nosedived due to elevated competitive intensity post the entry of Reliance Jio. This, coupled with rising capex intensity and lower operating margins, has pushed the sector toward losses.
- NBFCs meanwhile have delivered a solid performance over the last decade, with consistent market share gains and rising penetration in several segments (home/vehicle finance, etc.) due to the underlying stress in PSU Banks. The profit to GDP ratio of NBFCs has expanded consistently over the last decade. In fact, the MOSL NBFC Universe PAT has delivered 20% CAGR over 2008-18.
- Key stocks contributing to the fall in the profit to GDP ratio over 2008-18 are ONGC (-10%), RCom (-10%), SBI (-8%), RIL (-7%) and Tata Steel (-6%).

Exhibit 12: Contributors to the fall in the corporate profit to GDP ratio (FY08-18) (pp)

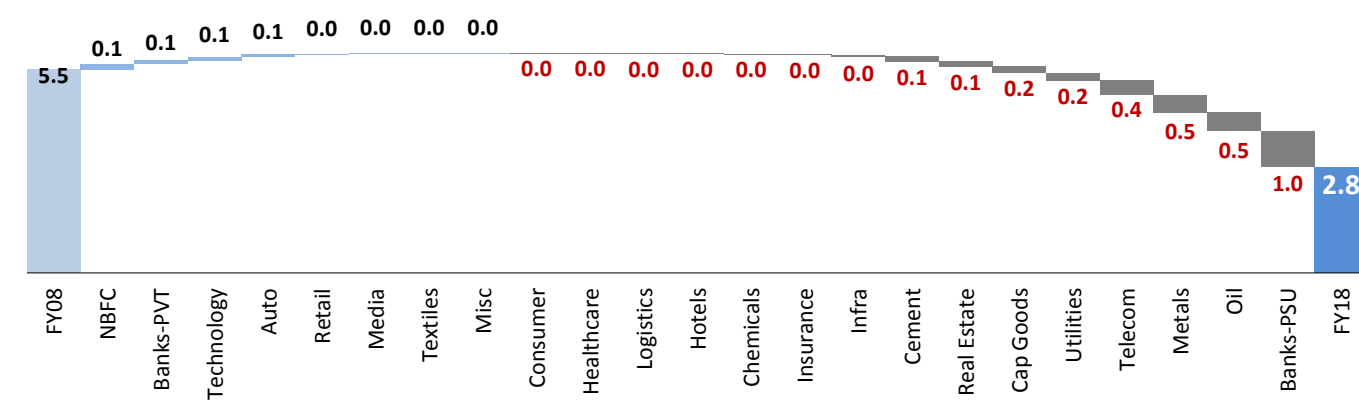


Exhibit 13: Stocks with positive contribution to change

| Company | Sector | Contributor to change (FY08-18) | |
|------------------|-------------|---------------------------------|-----|
| | | pp | % |
| HDFC Bank | Banks - PVT | 0.08 | 3.0 |
| TCS | Technology | 0.05 | 2.0 |
| H D F C | NBFCs | 0.04 | 1.6 |
| Thomas Cook (I) | Misc | 0.03 | 1.3 |
| HCL Technologies | Technology | 0.03 | 1.2 |
| Vedanta | Metals | 0.03 | 1.2 |
| Piramal Enterp. | Healthcare | 0.02 | 0.9 |
| Indiabulls Hous. | NBFCs | 0.02 | 0.9 |
| Yes Bank | Banks - PVT | 0.02 | 0.8 |
| IndusInd Bank | Banks - PVT | 0.02 | 0.8 |
| Power Grid Corp | Utilities | 0.02 | 0.8 |
| B P C L | Oil & Gas | 0.02 | 0.7 |
| Interglobe Aviat | Misc | 0.02 | 0.7 |
| Adani Ports | Misc | 0.02 | 0.7 |
| Kotak Mah. Bank | Banks - PVT | 0.02 | 0.7 |

Exhibit 14: Stocks with negative contribution to change

| Company | Sector | Contributor to change (FY08-18) | |
|----------------|-------------|---------------------------------|-------|
| | | pp | % |
| O N G C | Oil & Gas | -0.27 | -10.2 |
| Rel. Comm. | Telecom | -0.25 | -9.6 |
| St Bk of India | Banks - PSU | -0.21 | -7.9 |
| Reliance Inds. | Oil & Gas | -0.18 | -6.7 |
| Tata Steel | Metals | -0.17 | -6.4 |
| S A I L | Metals | -0.15 | -5.9 |
| DLF | Real Estate | -0.13 | -5.0 |
| Bharti Airtel | Telecom | -0.12 | -4.6 |
| PNB | Banks - PSU | -0.12 | -4.4 |
| NTPC | Utilities | -0.09 | -3.3 |
| Bank of India | Banks - PSU | -0.07 | -2.9 |
| IDBI Bank | Banks - PSU | -0.06 | -2.4 |
| Coal India | Utilities | -0.06 | -2.4 |
| I O B | Banks - PSU | -0.06 | -2.4 |
| Canara Bank | Banks - PSU | -0.06 | -2.3 |

Corporate profit to GDP 2008-2018: Fall from 5.5% in 2008 to 2.8% was driven by just four sectors

Exhibit 15: Just 6% CAGR in profits over 2008-18

| Sector | PAT (INR b) | | Change | | Profit to GDP (%) | |
|------------------|--------------|--------------|------------|----------|-------------------|------------|
| | 2008 | 2018 | (x) | CAGR | 2008 | 2018 |
| Automobiles | 104 | 477 | 4.6 | 16 | 0.2 | 0.3 |
| Banks - PSU | 254 | -745 | -2.9 | PL | 0.5 | -0.4 |
| Banks - PVT | 88 | 463 | 5.2 | 18 | 0.2 | 0.3 |
| NBFCs | 131 | 674 | 5.1 | 18 | 0.3 | 0.4 |
| Insurance | 25 | 62 | 2.5 | 10 | 0.1 | 0.0 |
| Capital Goods | 138 | 180 | 1.3 | 3 | 0.3 | 0.1 |
| Cement | 101 | 108 | 1.1 | 1 | 0.2 | 0.1 |
| Chemicals | 43 | 123 | 2.9 | 11 | 0.1 | 0.1 |
| Consumer | 98 | 329 | 3.3 | 13 | 0.2 | 0.2 |
| Healthcare | 80 | 263 | 3.3 | 13 | 0.2 | 0.2 |
| Hotels | 7 | 6 | 0.8 | -2 | 0.0 | 0.0 |
| Infrastructure | 19 | 9 | 0.5 | -7 | 0.0 | 0.0 |
| Logistics | 8 | 14 | 1.7 | 6 | 0.0 | 0.0 |
| Media | 5 | 36 | 7.4 | 22 | 0.0 | 0.0 |
| Metals | 391 | 521 | 1.3 | 3 | 0.8 | 0.3 |
| Oil & Gas | 583 | 1,114 | 1.9 | 7 | 1.2 | 0.7 |
| Real Estate | 93 | 73 | 0.8 | -2 | 0.2 | 0.0 |
| Retail | 4 | 36 | 8.8 | 24 | 0.0 | 0.0 |
| Technology | 164 | 701 | 4.3 | 16 | 0.3 | 0.4 |
| Telecom | 122 | -240 | -2.0 | PL | 0.2 | -0.1 |
| Textiles | 7 | 32 | 4.9 | 17 | 0.0 | 0.0 |
| Utilities | 207 | 354 | 1.7 | 6 | 0.4 | 0.2 |
| Misc | 56 | 190 | 3.4 | 13 | 0.1 | 0.1 |
| Nifty-500 | 2,727 | 4,779 | 1.8 | 6 | 5.5 | 2.8 |

Interesting observations over the last 15 years

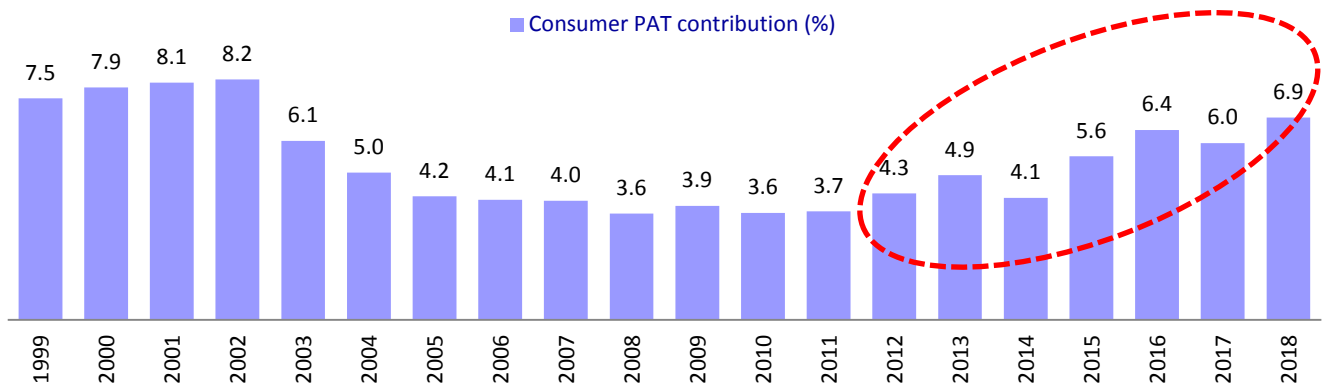
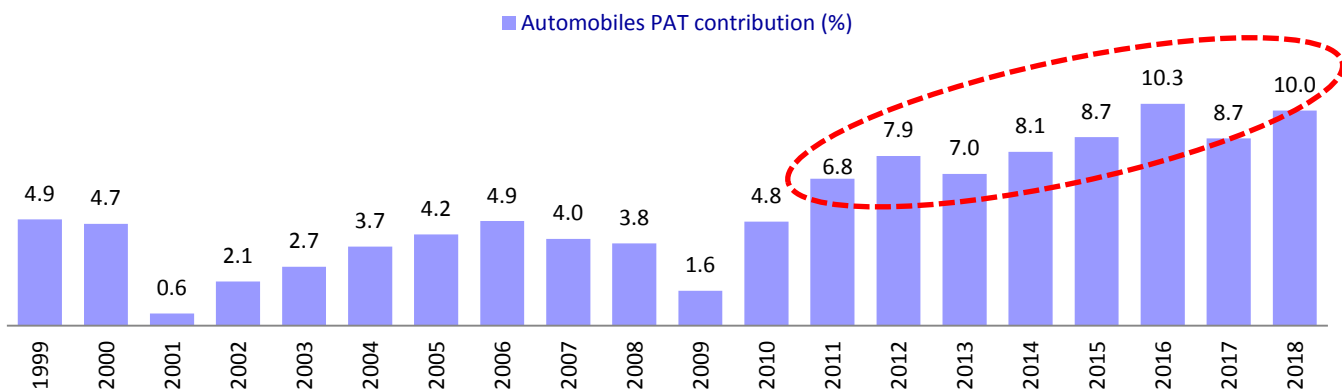
- Sectors that have been most stable and rising to prominence over these 15 years are Technology, NBFCs, Private Financials, Autos and Metals. Profits of these sectors as a percentage of GDP have increased by 3-4x over 2003-18.
- Healthcare (1.9x) and Insurance (1.8x) have also seen an increase.
- Profit contribution to GDP of NBFCs is at a new high, while that of PSU Banks is at a new low. NBFC has seen the most consistent improvement in the profits to GDP metric. Moreover, it has been the only sector to exhibit an improvement in every five-year block over 2003-18.
- PSU Banks has been the only laggard, with a significant swing toward losses. While its profit to GDP hovered in a narrow range over 2003-13, asset quality clean-up and peaking of corporate stress have resulted in a significant deterioration over 2013-18.
- Auto has seen a 3.8x jump in profit to GDP over 2003-18, as the sector's profitability increased in consonance with its penetration across segments.
- Consumer's contribution has been quite stable, even as the economy underwent multiple swings. This underscores the resilient nature of the sector.
- O&G's contribution has come off from 1.05% to 0.66% over 2003-18, but is still significant, given the preponderance of large PSU players in both upstream and downstream in the sectoral profit pool.
- Capital Goods' contribution has undergone a roller-coaster ride. It first tripled from 0.09% to 0.28% over 2003-08 and then fell by more than half in the subsequent 10 years. This is a clear reflection of the pain that domestic private capex cycle has gone through over the last decade.
- Metals, given the cyclicity associated with the underlying business, saw its profits as a percentage of GDP move up 8x from 0.1% in 2003 to 0.8% in 2008 (second largest in pecking order after O&G in 2008). However, its contribution declined all the way to 0.2% before bottoming out in 2016 (now at 0.3%).
- Telecom has gyrated between losses and profits over 2003-18. It was one of the key contributors to the improvement in the profit to GDP ratio over 2003-08. However, the sector's fortunes have consistently deteriorated post 2008 with rising competitive pressures and sharp elevation in capex intensity, resulting in both P&L and balance sheet stress.

Exhibit 16: Sectoral Corporate profit to GDP for Nifty-500 (%) – NBFCs at all-time high; Banks at new low

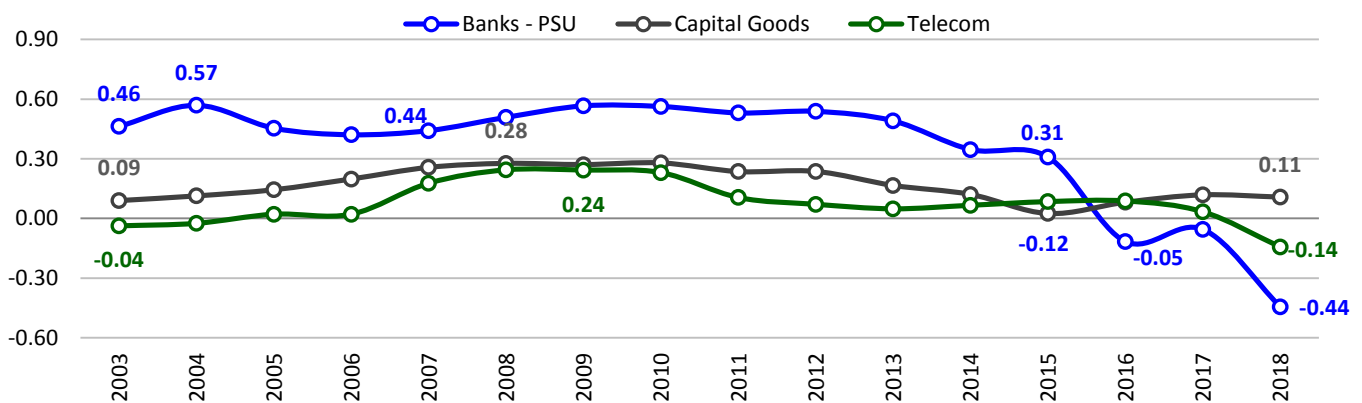
| Sector | Profit to GDP (%) | | | | Change (x) | | |
|------------------|-------------------|------------|------------|------------|------------|------------|------------|
| | 2003 | 2008 | 2013 | 2018 | 2003-2018 | 2008-2018 | 2003-2008 |
| Automobiles | 0.08 | 0.21 | 0.28 | 0.28 | 3.8 | 1.4 | 2.8 |
| Financials | 0.74 | 1.00 | 1.20 | 0.27 | 0.4 | 0.3 | 1.4 |
| Banks - PSU | 0.46 | 0.51 | 0.49 | -0.44 | -1.0 | -0.9 | 1.1 |
| Banks - PVT | 0.11 | 0.18 | 0.30 | 0.28 | 2.5 | 1.6 | 1.6 |
| NBFCs | 0.15 | 0.26 | 0.37 | 0.40 | 2.7 | 1.5 | 1.8 |
| Insurance | 0.02 | 0.05 | 0.04 | 0.04 | 1.8 | 0.7 | 2.5 |
| Capital Goods | 0.09 | 0.28 | 0.17 | 0.11 | 1.2 | 0.4 | 3.1 |
| Cement | 0.02 | 0.20 | 0.10 | 0.06 | 3.1 | 0.3 | 9.8 |
| Chemicals | 0.03 | 0.09 | 0.06 | 0.07 | 2.6 | 0.8 | 3.0 |
| Consumer | 0.17 | 0.20 | 0.20 | 0.20 | 1.2 | 1.0 | 1.2 |
| Healthcare | 0.08 | 0.16 | 0.17 | 0.16 | 1.9 | 1.0 | 1.9 |
| Hotels | 0.00 | 0.01 | 0.00 | 0.00 | 3.0 | 0.2 | 13.0 |
| Infrastructure | 0.01 | 0.04 | 0.01 | 0.01 | 1.0 | 0.1 | 6.7 |
| Logistics | 0.01 | 0.02 | 0.01 | 0.01 | 0.8 | 0.5 | 1.5 |
| Media | 0.01 | 0.01 | 0.02 | 0.02 | 1.7 | 2.2 | 0.8 |
| Metals | 0.10 | 0.78 | 0.19 | 0.31 | 3.2 | 0.4 | 8.1 |
| Oil & Gas | 1.05 | 1.17 | 0.60 | 0.66 | 0.6 | 0.6 | 1.1 |
| Real Estate | 0.00 | 0.19 | 0.03 | 0.04 | 9.4 | 0.2 | 40.1 |
| Retail | 0.00 | 0.01 | 0.01 | 0.02 | 10.4 | 2.6 | 4.0 |
| Technology | 0.10 | 0.33 | 0.39 | 0.42 | 4.1 | 1.3 | 3.2 |
| Telecom | -0.04 | 0.24 | 0.05 | -0.14 | 3.8 | -0.6 | -6.6 |
| Textiles | 0.01 | 0.01 | 0.02 | 0.02 | 1.6 | 1.5 | 1.1 |
| Utilities | 0.27 | 0.42 | 0.42 | 0.21 | 0.8 | 0.5 | 1.6 |
| Misc | 0.04 | 0.11 | 0.07 | 0.11 | 2.8 | 1.0 | 2.7 |
| Nifty-500 | 2.8 | 5.5 | 4.0 | 2.8 | 1.0 | 0.5 | 2.0 |

Divergence between corporate profit and GDP growth

- Although real GDP growth has grown faster than corporate profits, the divergence can be easily explained – consumption has replaced investments as the key driver of GDP growth. Since consumption is a more scattered activity than investments (and thus, less representative of the listed space), Nifty-500 is unlikely to mirror GDP growth.
- Not surprisingly then, while Nifty-500 profits have fallen, the contribution of consumption-oriented sectors like Auto, Consumer and Retail has increased over the recent period.
- We expect these sectors to continue benefiting from the continued strong consumption trends, even as investment activity gradually picks up.

Exhibit 17: Consumer sector PAT contribution has increased over the years**Exhibit 18: ..same is the case for Automobiles**

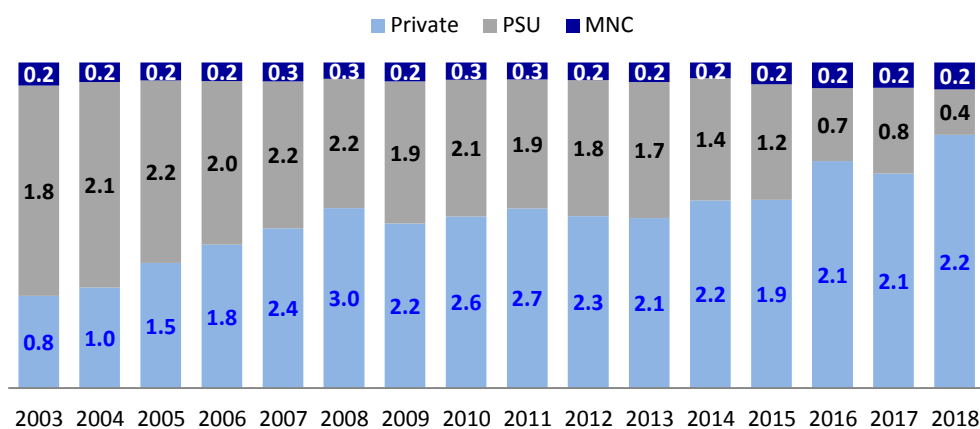
- On the other hand, the contribution of Capital Goods (lack of private capex spending), PSBs (stress in asset quality and NPAs impacted profitability) and Telecom (sharp reversal in the fortunes of this sector post the entry of Reliance Jio in 2016) has been quite disappointing as discussed in the earlier section. We, nevertheless, expect normalization in this space, going forward.

Exhibit 19: PSU Banks, Telecom and Capital Goods have dragged corporate profit growth (Corporate profit to GDP %)

Private v/s PSUs: Private sector's profit to GDP expands ~3x over 2003-18

- We analyzed India's corporate profit to GDP distribution over the last 15 years in three categories: PSUs, MNCs and Private Corporates.
- PSUs' corporate profit to GDP is down from 1.8% in 2003 to 0.4% now, given the significant value migration away from public to private in sectors like Banking, Telecom, Airlines, even as PSU heavy sectors like Oil & Gas and Utilities have underperformed on profit growth versus underlying GDP growth.
- The losses of PSU have been gains for the Indian Private Corporates, with the latter's corporate profit to GDP ratio rising from 0.8% in 2003 to 2.2% in 2018.
- MNCs' contribution has remained stable over the years.
- We expect the structural trend of shift from public to private in the share of corporate profit to GDP to continue, given the eroding competitive advantage of the PSUs in several sectors like Banking and Insurance. While the monopolistic businesses like upstream and downstream Oil & Gas and Utilities players do enjoy a certain size in terms of absolute profits, growth has been a perennial issue for them.

Exhibit 20: Corporate profit to GDP (%) – by business group



Clear and continuous migration from PSUs to private entrepreneurs

Have we seen the bottom of corporate profit to GDP?

- We expect the corporate profit to GDP trends to improve FY19 onward, even as we do not foresee acceleration like 2003-08.
- Corporate Banks (both PSU Private) – one of the biggest contributors to the downtrend in corporate profit to GDP – are expected to drive the expansion as asset quality bottoms, fresh slippage generation moderates, provisioning cost normalizes and loan growth recovers.
- In Capital Goods and Cement, we expect the private capex cycle to recover gradually. Incipient signs of capex spending in select sectors (Refining, Steel and Cement) offer some confidence in their contribution to aggregates.
- Telecom and Utilities, which have seen significant capex investments and balance sheet expansion (rising capital employed) without any commensurate returns may have troughed in our view, and can contribute in this cycle over the next few years as Telecom players repair balance sheets (de-leveraging, asset monetization) and competitive intensity peaks out. We expect profitability of this sector to see gradual improvement.
- We expect sectors like Consumer, Auto and Private Banks (especially Retail) to stay stable as far as their contribution as a percentage of GDP is concerned.
- Overall, we estimate Nifty profits to grow 13% in FY19 and 24% in FY20 – a decent pick-up – led by Financials (expected to account for ~58% of incremental earnings of the Nifty in FY20).
- For the MOSL Universe, we expect profits to grow 17%/28% in FY19/20, again led by Financials.

Exhibit 21: Expect Nifty ex corporate lenders PAT CAGR of 12% over FY18-20

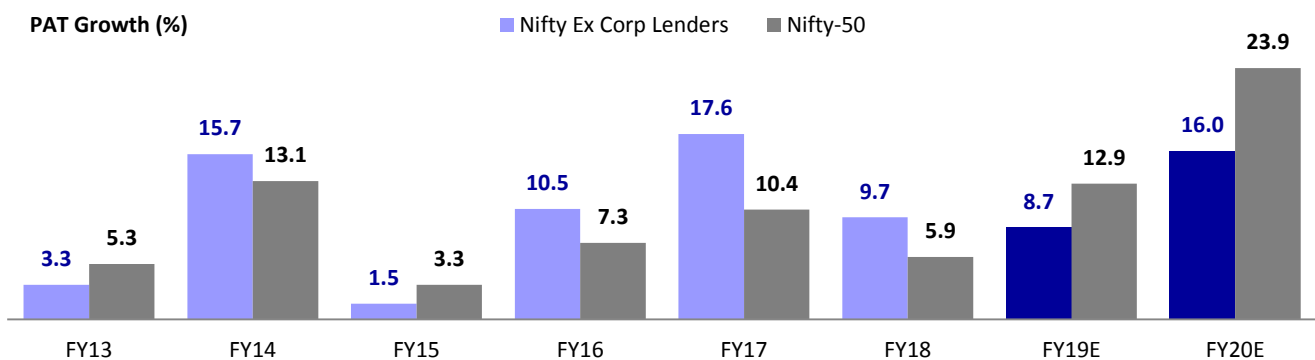


Exhibit 22: Nifty EPS – 5% CAGR over FY08-18; expect 19% CAGR over FY18-20

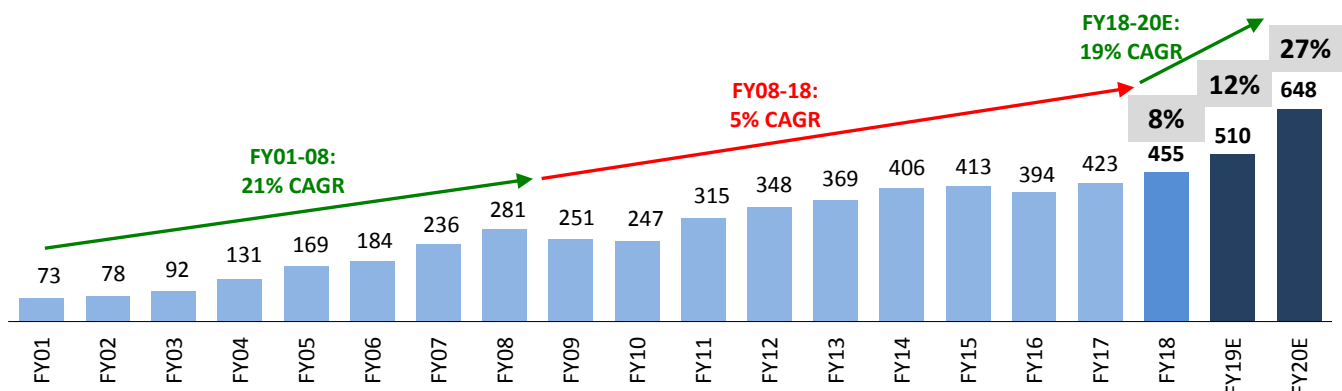
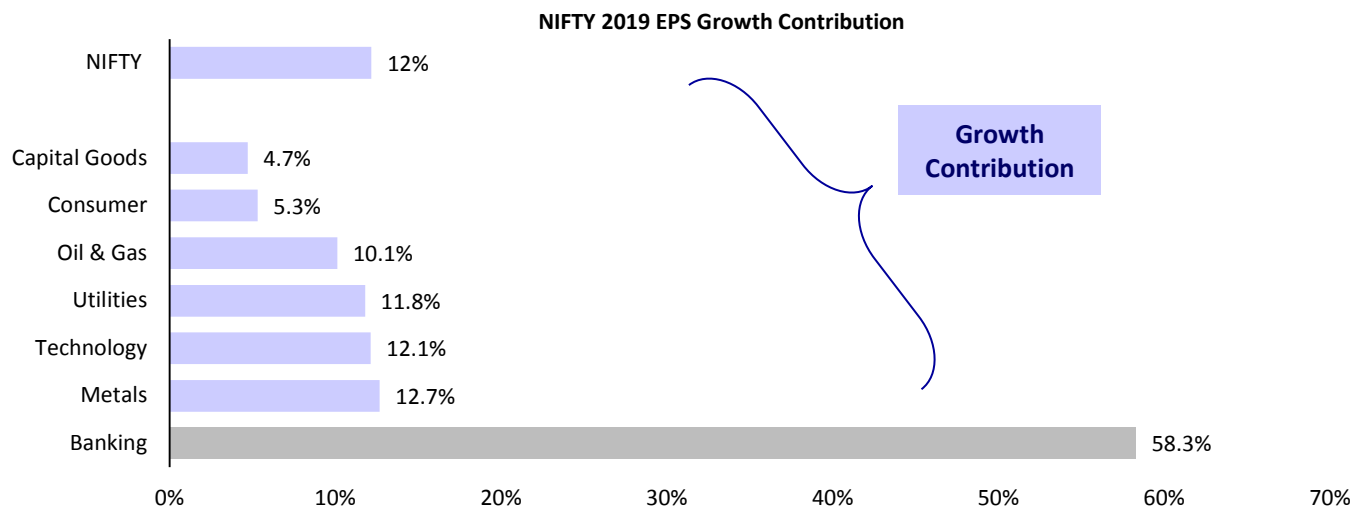
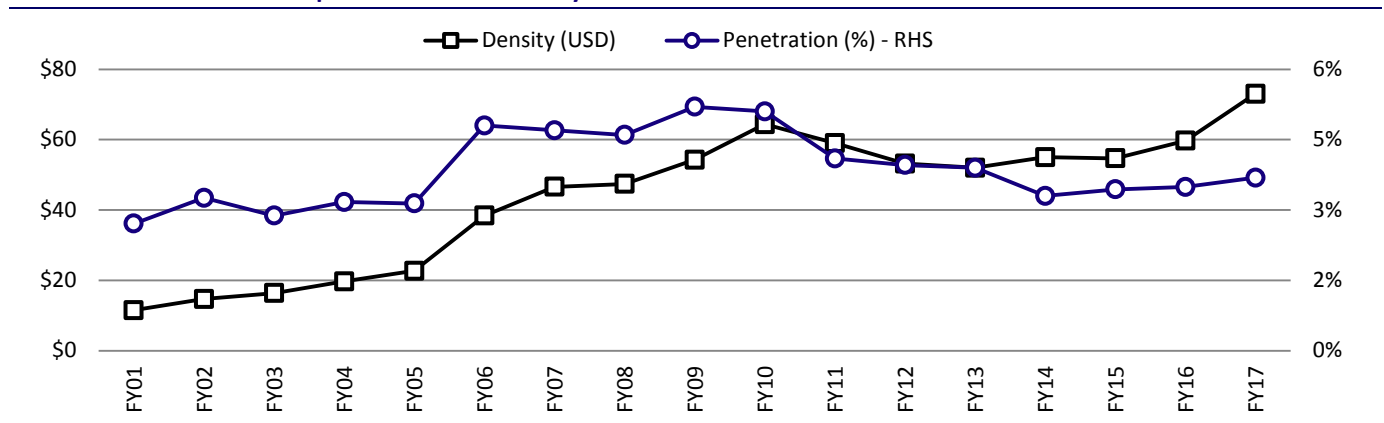


Exhibit 23: Financials would drive earnings growth in FY19**Exhibit 24: MOSL Universe profit pool (INR b)**

| Sector | EBIDTA (INR b) | | | | | PAT (INR b) | | | | |
|------------------------------|----------------|--------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|
| | FY16 | FY17 | FY18 | FY19E | FY20E | FY16 | FY17 | FY18 | FY19E | FY20E |
| Auto (16) | 851 | 833 | 922 | 953 | 1,147 | 374 | 342 | 393 | 340 | 473 |
| Capital Goods (16) | 165 | 211 | 254 | 301 | 356 | 85 | 126 | 146 | 172 | 209 |
| Cement (13) | 140 | 172 | 198 | 220 | 267 | 88 | 101 | 103 | 119 | 155 |
| Consumer (19) | 360 | 384 | 423 | 489 | 569 | 243 | 261 | 289 | 333 | 389 |
| Financials (36) | 2,084 | 2,491 | 2,629 | 2,995 | 3,663 | 556 | 688 | 358 | 920 | 1,612 |
| Private Banks (12) | 777 | 932 | 1,010 | 1,162 | 1,458 | 402 | 415 | 410 | 504 | 751 |
| PSU Banks (7) | 966 | 1,151 | 1,110 | 1,242 | 1,512 | -40 | 45 | -335 | 70 | 455 |
| Life Insurance (2) | 20 | 17 | 25 | 22 | 26 | 25 | 26 | 27 | 24 | 28 |
| NBFC (15) | 322 | 392 | 484 | 569 | 667 | 169 | 203 | 256 | 322 | 378 |
| Healthcare (20) | 357 | 352 | 312 | 362 | 463 | 209 | 225 | 182 | 210 | 278 |
| Infrastructure (4) | 34 | 39 | 38 | 44 | 50 | 11 | 12 | 16 | 17 | 17 |
| Logistics (2) | 18 | 15 | 16 | 20 | 23 | 12 | 10 | 10 | 15 | 17 |
| Media (8) | 59 | 64 | 71 | 92 | 108 | 33 | 35 | 30 | 40 | 53 |
| Metals (10) | 522 | 808 | 1,050 | 1,262 | 1,271 | 135 | 229 | 398 | 476 | 484 |
| Oil & Gas (14) | 1,450 | 1,829 | 2,193 | 2,520 | 2,776 | 795 | 1,094 | 1,155 | 1,201 | 1,363 |
| Excl. OMCs (11) | 1,003 | 1,242 | 1,518 | 1,921 | 2,200 | 557 | 713 | 759 | 919 | 1,059 |
| Retail (2) | 12 | 14 | 21 | 27 | 33 | 8 | 9 | 13 | 17 | 22 |
| Technology (15) | 755 | 822 | 849 | 1,024 | 1,163 | 597 | 644 | 678 | 775 | 848 |
| Telecom (4) | 538 | 539 | 448 | 381 | 466 | 97 | 71 | -2 | -193 | -204 |
| Utilities (7) | 729 | 731 | 822 | 955 | 1,122 | 351 | 323 | 346 | 417 | 480 |
| Others (24) | 203 | 225 | 258 | 274 | 390 | 87 | 108 | 129 | 117 | 174 |
| MOSL (210) | 8,277 | 9,528 | 10,502 | 11,919 | 13,867 | 3,682 | 4,279 | 4,243 | 4,974 | 6,369 |
| MOSL Excl. OMCs (207) | 7,830 | 8,942 | 9,827 | 11,320 | 13,291 | 3,443 | 3,898 | 3,847 | 4,692 | 6,065 |

- We note that in every cycle, new sectors evolve and contribute to the profit to GDP metrics. This is a reflection of change in the underlying economy. In the earlier upcycle of 2003-08, sectors like Infrastructure, Cement, Capital Goods and Construction evolved, while Investments as proportion of GDP galloped. Few sectors that were not listed a decade ago are now listed and growing well. They also have a strong long-term growth path ahead of them given the under penetration in their respective segments. For example, Consumption and Financials have seen relatively better performance vis-à-vis investment oriented sectors. Over the last couple of years, Insurance (Life and General), Asset Management Companies, Organized Retail, Lifestyle Consumption, etc. have scaled up and are now gaining traction. We expect their contribution in the profit to GDP equation to go up further.
- Insurance is at a very nascent stage in India and its contribution to profit pool is close to zero. The sector's penetration in India declined from a peak of 5.2% in FY09 to 3.3% in FY14 and recovered marginally to 3.7% in FY17. Bulk of the decline happened during the years of major regulatory changes. With improving product offerings and macro drivers, insurance penetration in India is likely to increase over the next few years, in our view. As such, this will lead to an increased contribution of Insurance to overall corporate profitability.

Exhibit 25: India: Insurance penetration and density trend



India Strategy, Thematics and Quant Research Gallery

MOTILAL OSWAL January 2019

India Strategy

New Year, New Forces

Research Team (Sauran Duggal@MotilalOswal.com)

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MOTILAL OSWAL 20 August 2018

India Strategy

BSE Sensex: 38,279 S&P CNX: 11,552

Some interesting facts

Nifty at all-time high: a trip down the memory lane

Insightful reading on the Nifty's journey since the new millennium

- The Nifty celebrates a new milestone today – a lifeful 11,500. This achievement seemed unachievable in 2002, when the index hovered around the edge of 1K. As might as the fifty years old, we note that it has been a journey down numerous highways and byways. We, thus, thought it would be interesting to look back and look some exciting aspects of this voyage.
- Change is the only constant and index structure is no exception. Over the years, the representation in Nifty-50 has undergone a sea change in consonance with the changes in the underlying economy – new sectors have evolved, while some have lost relative importance in the Indian index.
- A Flashback – 2002 to 2018**
 - Since its base period (January 1995), the Nifty has delivered a CAGR of 11%. However, its total market cap is up 35x, implying a 31% CAGR.
 - Notably, since December 2002, total market cap is up 24x, implying a 23% CAGR. However, the Nifty has delivered a CAGR of 14%.
 - From the fifty constituents of 2002, 44/50 is the best performing stock with a CAGR of 31%, while ITC is the only stock to deliver negative returns.
 - Only 10% (5 stocks) of the Nifty constituents have consistently remained on the index since December 2002. Combined weight of these 5 stocks has declined to 1.4% from 7.1% around 18 years ago.
 - Notably, 15 stocks that got listed over the period – Maruti (listed in July 2003), TCS (August 2004), IITR (August 2004), NTPC (November 2004), Tata Steel (July 2005), Tech Mahindra (August 2006), Power Grid (October 2007), Adani Ports (November 2007), Bajaj Auto (May 2008), Bajaj Finserv (May 2008), Coal India (November 2010), Bharti Airtel (December 2012) and IndusInd Housing (July 2013) – are part of the index now.
 - Staying in the top-10 is not easy. Over the last 18 years, Reliance Industries (RIL) is the only stock to have maintained its position in the top-10 in Nifty-50. However, the stock's weight in the index has declined from 12.3% in December 2002 to 9.4% in August 2018.
 - Since 2002, the largest weighted Nifty stock of the year has failed to outperform the Nifty index over the subsequent five years.
 - There are 6 stocks outside the Nifty with market cap higher than the lowest-market-cap Nifty stock.
 - The weight of Financials has seen a secular rise in the benchmark index. Private Financials now contribute 34.3% (vs 18% of Nifty-50). It can expand even further given that the index doesn't have any representation of insurance yet.
 - Technology's weight (13.7%) is showing signs of revival after slipping to a five-year low of 11.4% in 2017.

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MOTILAL OSWAL 13 June 2018

India Strategy

BSE Sensex: 35,693 S&P CNX: 10,843

Sensex reconstitution: Upgrade in FY19 EPS

Weight of Metals to increase 130bp to 2.4%, healthcare to hit eight-year low

- The S&P BSE Sensex composition is all set for a reshuffle on Monday, June 18, 2018. Investors will replace Dr. Reddy's Labs.
- In this report, we analyse how these changes will (i) impact the earnings for the benchmark, and (ii) alter the weights of various sectors.

Sensex reconstitution: Metals' weight will double to 2.4% (+130bp)

- Victrola will be included in the benchmark, with weight of 1.1%, taking Metals' weight to 2.4% (+130bp). With this inclusion, the Metals sector will have two stocks in the benchmark (Tata Steel having 1.1% weight).
- With the exit of Dr. Reddy's Labs (weight: 0.8%), Healthcare stands to lose the most in terms of weight (-70bp to 1.7%). Earlier, in December 2017, Opto and Lupin were excluded from the benchmark.
- Healthcare's weight will now be at an eight-year low, with the exclusion and also due to the significant underperformance of the sector over the last two years. Sun Pharma (weight: 1.7%) will be the only healthcare stock in the benchmark index.
- Other loans include Private Banks (-20bp), Technology (-10bp), Consumer (-10bp), and Autos (-10bp).
- The least impacted sectors would be Oil & Gas, NBFCs, Capital Goods, Utilities, PSU Banks, Telecom and infrastructure.

Of the top-10 stocks to be most impacted, four are from Financials

- The aggregate weight of the existing Sensex stocks will decline by 70bp.
- The 10 stocks to be impacted most in terms of weight by the reshuffle: Opto Bank (-4bp), Reliance Inds (-3bp), HDFC Bank (-3bp), Infosys (-3bp), ITC (-3bp), IICI Bank (-3bp), TCS (-3bp), SBI (-3bp), total Bank (-3bp), and Adani Bank (-3bp).
- Top-10 stocks currently constitute 66.1% of the Sensex. Post reshuffle, this will likely come down to 63.7% (-40bp).

58% of Sensex constituents unchanged over 10 years

- Out of the 31 stocks in the Sensex, 18 have been part of the index since FY08. Of these 18, three each are from Technology and Auto, Private Banks, Consumer and Oil & Gas have two stocks each, while PSU Banks, NBFC, Capital Goods, Metals, Telecom and Utilities have one stock each in the index.
- Combined weight of these 18 stocks will decline to 77.6% from 79.1% in 10 years ago.

Sensex EPS for FY19/FY20 to see upgrade of 1.7%/1.8%

- Sensex EPS for FY19/FY20 will see an upgrade of 1.7%/1.8%, primarily due to a higher increase in Free Float EPS (+1.7%/2.4% for FY19/FY20) than Free Float market cap (+0.9%).
- We now estimate Sensex EPS at INR 176 for FY19 (+16% YoY) and INR 241 for FY20 (+25% YoY). Excluding corporate banks (SBI, ICICI Bank, Axis Bank), Sensex profits are expected to post 24% growth for FY19.

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MOTILAL OSWAL 13 December 2018

India Strategy

BSE Sensex: 35,390 S&P CNX: 10,792

Crude turning from a headwind to a tailwind

Bodes well for Indian macros

Crude oil provides a much-needed relief

Brent crude oil prices have corrected by 30% since Oct 16, while the WTI has bounced back from the lows of \$47.76 per barrel to \$50.71. Now, petrol and diesel prices per litre have also come off from the peak of INR 81.5 and INR 71.5 and INR 71.5, respectively, in two months in Mumbai. We believe that sustenance of oil prices at current levels can provide a welcome relief for India's external balance, sentiment and market volatilities. In this note, we thus analyse implications of the oil price correction from a macro and micro perspective.

Macroeconomic impact: CAD, fiscal deficit and inflation

Crude oil prices have a serious bearing on the key macro variables like current account deficit (CAD), fiscal deficit and inflation. Overall, a USD/bbl decline in the price of crude oil pushes down the CAD by USD 12.13B, which is equivalent to 0.4% of GDP. As per the impact of crude oil prices on fiscal deficit is complex as several factors are at play, primarily the level of pass-through of the change in crude oil prices to retail fuel products. Assuming a full pass-through of reduced oil prices to retail fuel prices, a USD/bbl decline in the price of crude oil would push down retail petrol and diesel prices by ~10% after, down the weightage (1.34%) of fuel components in CPI, with a sharp change in the oil price does not result in significant movements in CPI inflation. However, it impacts inflation numbers significantly, a 10% increase in crude oil price will lead to an impact of ~120 bps on YoY (including indirect impact).

Sectoral earnings implications

The rise in crude oil prices has impacted the margins of sectors like Consumer/Auto/Chemical in 2017/18 and also raised the target of fuel price regulation for the OMCs, resulting in a sharp correction in the stock prices. Thus, coming crude oil prices does provide a cushion for margins of companies in these sectors. It also provides the need for any material price increase. Rising prices could have impacted the results but gradual demand recovery in the economy, had crude prices sustained at USD/bbl, the possibility of further earnings downgrade for Consumer/Auto/Chemical companies could not have been ruled out.

In this note, we look at the implications of crude price correction and other demand-side variables for these sectors. (1) Oil & Gas, (2) Consumer and (3) Automobiles. These sectors are the direct beneficiaries of a deflationary cycle of price automation, in our view.

We believe that Financials also benefit indirectly from lower oil prices, given the cost off in bond yields, easing liquidity and potential lower inflation trajectory. While CADs do benefit from moderation in oil prices, we do not expect them to re-ignite in the near term, given the imminent general elections in 2019/20.

Key beneficiaries: OMCs, Adani Ports, IITR, GCLF, Maruti, Indigo, SH Bank and tyre companies.

Indirect beneficiaries: Financials (Top tier banks: ICICI Bank, Federal Bank, HDFC, LIC MF, and MRF).

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MOTILAL OSWAL 12 December 2017

India Strategy

BSE Sensex: 33,456 S&P CNX: 10,322

A blockbuster year of equity issuance

BSEI accounts for the lion's share in fund raising

- It has been a spectacular year for the Indian IPO market, with equity issuances across categories increasing ~2.5x over the previous year. This can be primarily attributed to the optimistic market mood and strong flows, with key indices delivering positive returns (Nifty up ~12% in FY18 FYT) for the second consecutive year.
- The last 24 months have seen IPOs of companies from several new sectors, such as Life Insurance, General Insurance, AMC, New-age banks, Staffing and Real Estate. This is a great sign for the Indian capital markets, in our view, as it offers investors diversification to play India's growth story.
- Globalization of domestic savings has been the key driver of the IPO cycle – this trend will continue, as we expect a higher share of domestic savings to flow into equities over the next year. Strong domestic flows, coupled with higher FDI equity (both in primary and secondary markets), have driven strong fund-raising. Most IPOs/SPVs were in the sector of technology/IT services, which is a clear sign of balance sheet strengthening. As we expect the growth cycle to resume from 2017/18, the nature of IPOs/SPVs would also be driven by growth requirements. However, a revival of the private equity cycle is key prerequisite for this, in our view.
- In this report, we take a deep dive into this year's issuance and also the trend for the next year.

Highest-ever fund-raising through IPOs

- 2017-18 has been a blockbuster year for the Indian primary market, with INR700B of capital raised via 122 IPOs so far – an all-time high (beating INR425B in FY17) and far exceeding previous year's INR291B.
- Contribution of the new listings (via IPOs) to Indian market cap is at a seven-year high of 3%. Currently, Indian market cap to GDP is at 80% on FY18E, of which 3.0% is contributed by the new listings – a six-year-high.
- Insurance dominated the year in terms of new listings. Notably, the top-5 IPOs were from the insurance space. Top-5 IPOs during the year were GIC (INR112B, 1.4x oversubscribed), New India Assurance (INR75B, 1.2x oversubscribed), HDFC Standard Life (INR75B, 3.8x oversubscribed), SBI Life Insurance (INR44B, 5.1x oversubscribed) and ICICI Lombard General Insurance (INR37B, 2.4x oversubscribed).
- 72% of funds raised via new offerings were accounted for by just 13 insurance and NBFC companies (INR501B).
- During the year, 34E IPOs were a highlight, with 82 34E IPOs getting listed and raising INR11.9B (previous year: 82 34E IPOs raising INR8.4B). However, 34E's contribution to total IPOs has almost halved (1.7% FY18 FYT) from the previous year (3%).
- Interestingly, the IPOs were not concentrated but spread across industries (companies from 18 different industries raised funds via IPOs this year).

13x oversubscription for IPOs

- In FY18 FYT, IPOs on aggregate were oversubscribed 13x, raising INR9,500B vs the offer size of INR700B.
- Sectors that witnessed massive subscription apart from the offer size were NBFC (INR2,500B vs offer size of INR75B), insurance (INR1,051B vs offer size of

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MOTILAL OSWAL 20/11/2018

VOICES

India Inc on Call

VOICES, a quarterly product from Motilal Oswal Research, provides a ready reference to all the past results earnings analysis attended by our research analysts during the quarter. Besides making available to the investor our key takeaways from these interactions, it also provides links to relevant research updates, transcripts and audio links of the respective conference calls.

This quarterly report contains:

- Key takeaways from the post results management commentary for 152 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

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BULLS & BEARS

INDIA VALUATIONS HANDBOOK

* Sectors in order of premium / discount to historical averages

| BEST PERFORMERS MoM (%) | WORST PERFORMERS MoM (%) |
|-------------------------|--------------------------|
| IT/ITES | Pharmas |
| Metals | Industrials |
| Adani Ports | Capital Goods |
| Industrials | Healthcare |
| Oil/Refining | Consumer |
| LPL | Auto |
| HDFC | Banking |
| Bajaj Finserv | Insurance |
| HDFC Bank | Real Estate |
| Hero Moto | Telecom |

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FUND FOLIO

Indian Mutual Fund Tracker

SIP contribution up by ~29% in last one year and 2x in last two years

SIP contribution (pkr b)

Equity AUM rises for fifth consecutive year (+9.5% in CY18)

INR8.4t

INR1,286b

Net inflows in equities down by 15% in CY18

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NOTES

Explanation of Investment Rating

Investment Rating

| | |
|--------------|--|
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | > - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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