

India Equity Strategy

India Investor Conference Takeaways: Elections Over Earnings

- **There's a lot happening: A busy week** — and the second day of company meetings (30+) at our India conference. While economic/business activity seems only moderate, corporates are increasingly 'waiting for the elections', and political pundits are making more aggressive election calls. For now, its elections over earnings.
- **With more Economic overhangs, than sparks** — The consumer and rural are now showings soft spots; Jewelry, fast food, rural trucks/transportation and a few in staples - there is some spreading of pain (non-metro cities seem ok). There was the odd bright spark in capital good: which should surprise and cheer - but not enough to brighten a dulling economic environment.
- **Though there is the foreign to sparkle** — We saw it in IT/Pharma earnings in 3Q14 (+37%) - and we see it in managements' commentary and outlook. There's geographic expansion, market momentum and rising ambition - widening its lead over India's domestic business. We believe this part of India's economy and market has legs.
- **But now political pundits are making bigger calls** — We had two of India's leading journalists/TV presenters: Mr. MJ Akbar and Mr. Ravish Kumar of NDTV TV. While a generation, target audience and styles apart; both suggested recent opinion polls indicating the NDA alliance gaining ground (220+ seats) - were in sync with their feel too. No one's making a hard call (at our [Macro Day](#) either), but the calls are getting bolder.
- **The TAKEAWAY** — There's the top down: economy's soft, elections the swing, and political pundits are beginning to sing. There's the bottom up: 70+ businesses (pls see our corporate meetings takeaway notes, links overleaf), their problems and their plans, but each one with their own story. Its elections over earnings, for now.

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Figure 1. Summary of takeaways from the conference

Company	RIC	Rtng	TP (Rs)	Price - 14 Feb (Rs)	Key Takeaways
Apollo Hospitals	APLH.BO	1	960	912	In Investment mode for the next leg of growth (Link to note)
Aurobindo Pharma	ARBN.BO	1	675	490	Strong US pipeline to drive growth and margins.
Coal India	COAL.BO	1	325	261	1) Volume likely to get better, 2) Pricing unlikely to fall, 3) Grade dispute to be resolved soon (Link to note)
Fortis Healthcare	FOHE.BO	1	142	97	Capacity could double with no additional capex (Link to note)
Glenmark Pharmaceuticals	GLEN.BO			530	Unfolding US pipeline to drive rerating (Link to note)
HDFC	HDFC.BO	2	940	772	Remains conservative, retail growth still strong, asset quality very comfortable
IDFC	IDFC.BO	1	135	95	See no major growth opportunities except some refinancing, margins could correct, asset quality guidance still 1.0-1.5% NPLs, restructuring details only available post March
Ipsca Laboratories	IPCA.BO	1	900	823	1) Trebling capacity for Indore SEZ with very little incremental capex 2) Business expected to grow at 16-20% for next 5 yrs. (Link to note)
JustDial	JUST.BO	2	1,350	1,479	(1) Mgmt ~100bps margin expansion in FY15 despite higher promotional spend and increased sales force. (2) The company is increasing its involvement in fulfillment of branded electronic goods on the Search+ platform. (Link to note)
Kotak Mahindra Bank Limited	KTKM.BO	2	790	646	Remains cautious, asset quality should have bottomed provided economy doesn't slip further
Mahindra Finance	MMFS.BO	2		244	Asset quality has seen some deterioration recently and mgmt doesn't expect trends to ease soon, growth to take a backseat
Marico	MRCO.BO	1	255	215	Seeing slight improvement in volumes; Margins could taper off going forward
NALCO	NALU.BO	3	34	33	1) Focusing on managing costs and 2) Looking to expand alumina capacity - timelines uncertain as clearances are awaited
Oberoi Realty	OEBO.BO	1	253	185	Weak sales continue
Oil & Natural Gas Corporation	ONGC.BO	1	327	276	Subsidies should decline going forward: gas prices to move up (Link to note)
Oil India	OILI.BO	1	537	457	Subsidies should decline going forward: gas prices to move up (Link to note)
P C Jeweller	PCJE.NS	NR		90	Modest consumer sentiment - PC is relatively better than peers; working on supply side issues
Reliance Infrastructure	RLIN.BO	1	591	358	NTPC to supply power to Delhi DISCOMs at least till 26 Mar, 2014. Resolution of issues recent issues relating to Delhi Distribution and commissioning of Mumbai Metro are key near-term events (Link to note)
Sesa Sterlite	SESA.BO	2	190	190	Focus on 1) production growth across assets, 2) deleveraging and 3) minority buyouts of government stake in HZL and Balco
Sobha Developers	SOBH.BO	1	426	271	Slowdown in Gurugram, New launches ahead
Sun Pharmaceuticals Industries	SUN.BO	1	740	609	US biz margins may not sustain with more competition coming in (Link to note)
Sunteck Realty	SUNT.BO	1	492	241	Expecting to deliver key projects soon
The Phoenix Mills	PHOE.BO	1	287	212	Retail assets ramping up well
Tribhovandas Bhimji Zaveri (TBZ)	TBZL.BO	NR		125	Weak demand trends; Non metros doing better; Will consolidate on store expansion plans
Westlife Development (McDonald's India)	WEST.BO	NR		351	Tepid sentiment / negative SSS trends; but accelerating store expansion
Zee Entertainment Enterprises	ZEE.BO	3	265	261	Ad market should grow 10-12%; Next yr margins may see a dip (high investments in new channels)

Source: Companies, Citi Research

Appendix A-1

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