



Sector Updates

28th September-3rd October 2015

FINNACLE INVESTMENTS

Macroeconomic View

Global News

- The global growth has moderated, especially in the Emerging Market Economies (EME's), global trade has deteriorated and the risks to growth have increased.
- In the U.S., weighed down by the strength of the dollar, industrial production slowed as capital spending in the energy sector was cut back and the exports were contracted. Also, the Fed yet again postponed to change its rate in the last month.
- In the Euro Area, with the change in the Monetary Policy, increased domestic consumption, and less slack in Labor Market, the recovery has strengthened a bit.
- Japan is faltering under the weight of weak private consumption and exports.
- China is recovering from slower industrial production and weaker imports. The devaluation of the Chinese currency has had unsettling effects on financial markets across the world.
- Brazil and Russia are fighting with recession and runaway inflation respectively.

Domestic News

- One of the key highlights this week for the economy has been the 50 basis points rate-cut by the RBI. The RBI reduced the Repo Rate (also known as the Policy Rate) to 6.75%, the lowest in 4 years.
 - Cash Reserve Ratio unchanged at 4%
 - Statutory Liquidity Ratio unchanged at 21.50%
 - Limits for FPI investment in debt securities will now be announced or fixed in Rupee terms
 - GDP growth rate expected to be 7.4%, it is expected to pick up towards the latter part of the fiscal year
 - Ten banks have already announced a cut in their lending rates by about 40 basis points
- Key considerations for reducing the rate has been to spur economic activity and mitigate the impact of slowing China on India.
- Investment is likely to respond more strongly if there is certainty about the extent of monetary stimulus in the pipeline
- The Reserve Bank will be vigilant for signs of Monetary Policy Re-adjustments that are needed to keep the economy on the target disinflationary path. The Fifth Bi-Monthly Monetary Policy Statement will be announced on December 1, 2015.
- Even after a total of 125 basis points cut in the repo rate this year by the RBI, the lending rates have only fallen by about 35-70 basis points.
- The benchmark 10-year Government yield dropped by 17 basis points to 7.56%, its lowest since July, 2013.
- Inflation has dropped to a nine-month low. Wholesale inflation dropped to an all-time low of – 4.95%. Retail inflation fell to 3.66%.
- As a result of the softening aggregate demand, output price growth was weak, but input material costs have fallen, leading to an increase in margins for most producers. However, the decline in demand has offset new investment intentions.
- The GDP growth slowed down to 7% in the June quarter as compared to the 7.5% growth in March quarter.



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Sector: Healthcare and Pharmaceuticals

Analysts: Ankita, Anuj, Ayush

Developments

Drug Regulator seek for stricter standards of Pharma manufacturing laws

After the past events of Indian pharmaceutical companies coming under scanner of the US Food and Drug Administration (USFDA) regarding the production, quality and sanitation issues, the Drug Controller of India (DCGI) is planning to propose changes to the Drug and cosmetic act 1940 and Drug and cosmetic act 1945 to raise the drug manufacturing standards in line with the Good Manufacturing Practices (GMP) recommended by the WHO.

Mandatory marketing code for pharmaceutical firms: Govt.

The current voluntary Uniform Code of Pharmaceutical Marketing Practices (UCPMP) released by the department of pharmaceuticals in January will be made mandatory by the government. A similar attempt was tried in 2011 which was later backtracked due to protest from industry. The move has mixed reviews as some of the regulations are counterproductive for the industry. Drug makers may soon be prohibited from offering gifts to doctors to prescribe their products, along with stricter norms for the benefits given to them. The US and European Union already have stringent marketing regulations in place along with disclosure norms for the companies in this regard.

Pradhan Mantri Janaushadhi Yojana' to be launched by October End

The government plans to launch the Pradhan Mantri Janaushadhi Yojana'-Facilitate the sale of generic medicines through 3200 stores by the end of financial year. These stores will sell medicines and equipments made by public sector companies. The state policies in various states currently do not allow sale of generic medicines through state-run hospitals to avoid misuse.

Market Performance

Pharma sector continues to outperform the market with a net growth of 1.9% growth in the index CNX pharma. This is attributed the overall industry outlook which is positive for the industry due to demand from domestic and foreign markets.



Top Performers

Stock: Dr. Reddy's Labs

Rationale: Emerges as the top Sensex gainer up 6.5%. It launched Esomeprazole Magnesium Delayed-Release Capsules USP in dosages of 20mg and 40mg after the approval of USFDA. This is the generic equivalent of Nexium, a popular drug that decreases the amount of acid produced in the stomach.

Stock: Lupin Ltd.

Rationale: Acquisition of GAVIS Pharmaceuticals LLC and Novel Laboratories Inc by Lupin, causes its stock to end nearly 6% higher.

Under Performers

Stock: Pfizer weekly return of -4.31%.

Rationale: Company stock has hit the 52 week high last week on the news of selling of its plant in Thane but after the withdrawal of notice the stock lost the gain.



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Sector: FMCG-FMCD

Analysts: Shubham Aggarwal, Abhi Kothari, Prateek

Developments

In September, the manufacturing growth become seven month low for India

- As per Market, the Nikkei Manufacturing Purchasing Managers' Index (PMI) was 51.2 in September 2015 which is lowest in last seven months.
- Assumed reasons are softening demand and output and slowing growth in global economies.
- Due to the recent cut in repo rate by RBI, the estimated growth for this fiscal year has also come down to 7.4%.
- This year, lot of new launches from different consumer packed goods companies are also unable to pop up sales. There were almost 80% higher numbers of new launches as compared to last year resulting in average growth of 7% in March quarter and 11% in June quarter.
- The firms have also increased their promotion budget significantly but the sales still stagnated.

Dinshaw's Dairy is planning to raise \$100 million

- The Nagpur based leading milk and dairy product manufacturer is planning to dilute approximately 25-30% equity in private equity capital.
- After this the company will be valued at \$350 million approximately.
- The dairy sector in India is growing at the rate of 5% driven by the inclination of consumer towards higher protein diets. Hence it has attracted many private equity investors and international firms.

Asus and Foxconn have signed a partnership to manufacture Smart phones in India

- The manufacturing would be in Sri City in Andhra Pradesh and will manufacture Zenfone 2 Laser and Zenfone Go.
- The aim to manufacture 1.5lakh smart phones per month and production is expected to start by first month of next fiscal year.
- The Indian Smartphone market is fastest growing in world and is expected to overtake US as second largest market globally.
- Many other global players like Xiaomi, Motorola and Gionee have also started assembling their phones in India from last few years.

NCDRC issued notice to Government on Nestle plea for Maggi ban

- National Consumer Disputes Redressal Commission (NCDRC) has issued a notice to Government after Nestle filled a plea on Maggi ban case. The Government has to respond by 8th Oct 2015.
- A similar notice is also issued to Nestle India on a separate plea from government of India seeking further testing of Maggi noodles.

- Nestle also seeks to recall of NCDRC order on plea of DCA (Department of Consumer affairs) of Rs 640crore against Nestle India for unfair trade practices.

Market Performance



FMCG stock index grew by 2.4% this week. Stocks of major players like ITC, Nestle, Dabur, Marico, Britannia, Colgate Palmolive, Agro tech, Emami, Godrej Consumer and many others contributed to this week's upward movement. RBI rate cut further fuelled the sentiments of this sector as demand would pick up soon.

Top Performers

Stock: ITC

Rationale: ITC share price jumped close to 2% due to Government has decided to defer implementation of bigger health warnings on cigarette packs until April 2016 as parliamentary panel wanted to assess that how bigger health warnings would affect the industry. Government had said that it wanted 85% coverage of health warnings instead of current norms of 20%.

Stock: Nestle India Ltd.

Rationale: Nestle stock price rose 3.2% after Nestle decide to terminate its 12 year contract with Maggi manufacturer SAJ Food Products as company wants to focus more on improving quality of its noodles. This news is in line with its strategy to bring Maggi back and induce more consumer trust towards the brand.

Stock: Dabur

Rationale: Dabur stock price increased 1.46% this week. Dabur announced that it will adopt five villages in Uttar Pradesh and make them 'Open-Defecation Free' within the current fiscal year. This announcement coincided with



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anniversary of Swachh Bharat initiative. The company has also decided to financially support the poor households in construction of toilets in their homes.

Under Performers

This week saw prices of stocks like Godfrey Phillips, Vimal oil and foods limited, GSK consumer health care limited and few small players stock falling marginally.

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Sector: Auto and Auto Components

Analysts: Sriram N, Mounica Reddy

Developments

RBI rate cut boosts up car sales before Diwali

Auto companies believe that the recent rate cut by RBI, the third one this years, will bring about a spur of sales in the automotive sector. Although there would be a minimal impact on the EMI rates, it is significant enough for customers to flock over towards the auto showrooms. Banks like SBI and BOI have already slashed their base rates, which would lead to an increase of disposable income in the hands of consumers prompting them to go out and invest in different items such as vehicles.

Eicher Motors on a new high as Royal Enfield sales go up by 59% in September

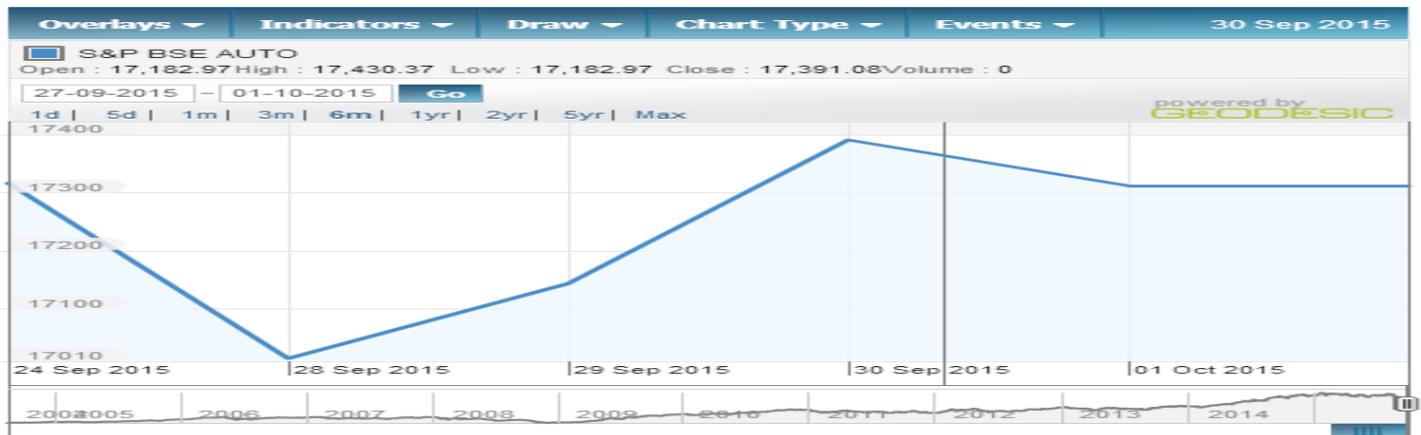
The two wheeler's division of Eicher Motors, Royal Enfield saw yet another great month as the sales % increased by 58.78% last month. It sold a total of 43,741 units in the month of September alone as compared to 28,020 units in September 2014. This is most certainly one stock which investors would love to watch out for. It also scored in the exports division as it rose by 56.25% with sales of 750 units compared to previous year's 480 units.

Probe into VW India emission standards extended till October end

With the recent global controversy of Volkswagen not adhering to emission standards, India's ARAI(Automotive Research Association of India) says it would require time till October end to come up with conclusive results. The global market leader in the automotive in terms of sales has admitted to fitting devices to switch on pollution controls, when the car is undergoing testing, enabling them to cheat on pollution norms.

Market Performance

The market saw a low for the first two days followed up by a rapid rise owing to the slashing of the repo rates, after which it settled down at a high.



Top Performers

Stock: Mahindra and Mahindra Limited
Price on 27th September, 2015: Rs 1220.55
Price on 03rd October, 2015: Rs 1248.50
Change %: 2.3%

Rationale: Mahindra saw a rapid rise in its share value which can be attributed both to the rate cut and the boom in the sales of its premium SUV XUV500.

Under Performers

Stock: Tata Motors
Price on 12th September, 2015: Rs 303.65
Price on 19th September, 2015: Rs 297.00
Change %: -2.2%

Rationale: Tata Motors continues onwards with its abysmal run since the Chinese devaluation crisis which prompted S&P's outlook of the company to change from positive to stable. The slackness in the Chinese markets dealt out a major dent in its overall sales.



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Sector: Information Technology

Analysts: Nikhil Sharma, Saket Sohan

Developments

PM Modi's visit to Silicon Valley

Prime Minister Narendra Modi visited Silicon Valley this Sunday and met many start-up to pitch his idea on 'Digital India' initiative. The trip was to bring the tech giants to India and things like building new manufacturing base in India for Apple to cloud computing of Google were discussed in length and breadth. He touched everything from internet of things to green energy and a series of new announcements were made after meeting CEO giants such as Sundar Pichai, Satya Nadella, Tim Cook and Mark Zuckerberg. Top 3 announcements were:-

- Google to bring wireless internet to 500 railway stations in India
- Microsoft to help government in providing low cost broadband to five lakhs villages
- Qualcomm to invest 10 billion rupees in for startups in India

HCL facing biggest crisis in 7 years, rings alarm for all other IT companies

Noida based tech giant warned of a business slowdown to the stock exchange in its first quarter. It decided to write down the cost incurred on work it did for a client and set aside \$20 million in this quarter. Also, currency movement will affect its business by 80 basis points. Therefore analysts who were expecting a revenue growth of 3%-3.5% were warned by HCL as the company believes that the revenue is not expected to expand more than 1.7% to 2.2%. As soon as the news came shares of HCL Technologies (HCL Tech) plummeted 12.65 per cent to close at Rs 857.90 in Thursday's trade.

While other IT companies saw a rise in their shares still it does rings an alarm as most of the companies are seeing delays in deals with their clients and there can be deterioration in growth prospects.

Infosys and General Electric to work together on Internet of Things

Infosys's long time customer General electrical have collaborated to bring solutions in the IoT space that would be designed to help solve problems related to asset efficiency for manufacturers and other industrial companies. The focus would be on building intelligent linkages between design, production and testing. Last two pilot projects of Infosys in Industrial Internet space was approved by Industrial Internet Consortium, which was formed last year by Cisco, IBM, AT&T, GE and Intel and with this new deal Infosys seems to strike the right chord in the era of IoT.

Market Performance

The week brought a mixed bag for IT companies where companies like Infosys and TCS saw a rise in its share prices with bunch of new announcement and on the other hand companies like HCL and Mindtree dragged the market down. Overall increase of 1% was noted this week in the IT sector.

TCS, Infosys, Wipro, Tech Mahindra and NIIT have formed the consortium on an experimental basis to expand in China and so coming weeks would be interesting to see how these companies fare in the stock market.

Top Performers

Stock: Infosys Ltd.

Rationale: Infosys saw one of its best week in recent times where the company saw a surge of around 6% in its share. Deal with General Electric over Internet of things, cutting its SAP solution delivery costs, moving ahead of HDFC and becoming third highest in market capitalization and bagging number of awards in Shanghai helped the company in performing well throughout the week.

Under Performers

Stock: HCL Technologies Ltd.

Rationale: Over the week HCL technologies Ltd. saw an average dip of 9.2% while on Thursday the shares were trading at a record low of 15% which finally ended at 12.5% after it gave a revenue warning for a second consecutive quarter. The company has announced that it will hold a meeting of the Board of Directors of the Company on 19 October 2015 to formulate further strategies.

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Sector: Banking, Financial Services and Insurance

Analysts: Tanisha Parul, Samarth Salem

Developments

RBI cuts rate by 50 basis points to 6.75%

Reserve Bank of India lowered its interest rate to a 4 year low of 6.75%. This bigger than expected step aims at boosting economic growth by making use of record low consumer price inflation. Banks have turned alert to reduce their lending rates. It has established the new inflation target of about 5% by 2017. RBI further added that it would allow foreign investors to buy more federal government bonds, probably attracting close to \$18 bn into the nation.

Banks reduce lending rates

With RBI slashing repo rates, several banks have reduced their base rates. Base rates is the yardstick through which all lending rates are measured.

Bank Name	Old base rate (%)	New base rate (%)	Cuts (bps)
SBI	9.70	9.30	40
ICICI Bank	9.70	9.35	35
HDFC Bank	9.70	9.35	35
Bank of Maharashtra	10.00	9.70	30
YES Bank	10.50	10.25	25
Allahabad Bank	9.95	9.70	25

RBI has lowered the repo rate by a total of 125 base points in the year 2015 but banks had cut base rate only by 35-70 bps till now.

Pradhan Mantri MUDRA Yojna on a roll

MUDRA (Micro Units Development and Refinance Agency Limited) has benefitted over 42 lakhs people by granting loans of Rs. 26,000. Prime Minister launched the scheme in Jharkhand to promote small entrepreneurs thus facilitating generation of employment and GDP growth. The scheme, which aims at “funding the unfunded” targets 5.75, crore people.

Banks to be held accountable for mis-selling their insurances

In the insurance Regulatory and Development Authority of India (IRDAI) will now consider bank and its employee responsible for all the insurance products they sell. Previously, banks were corporate agents and agents could not be held liable. According to the new Insurance Act, corporate agents have to act in the best interest of the customer.

Market Performance



In anticipation of the decision by the RBI, the markets dipped on the 29th, but quickly caught up after the news. With the sudden rate cuts being announced by different Banks, the investors have yet to find out how the individual Banks will perform to it.

Top Performers

Stock: Standard Chartered Bank

Rationale: The stock was up by 3.31% this week. The bank has not declared a cut in the lending rates yet, however will follow suit due to increased competition.

Under Performers

Stock: Kotak Mahindra Bank

Rationale: The stock fell by 1.25%. There was no significant drop in any stock within the sector. However, the sector is likely to pick up soon owing to how they capitalize on the recent rate cut.



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Sector: Telecommunications

Analysts: Akshi, Megha, Pranay

Developments

Tata Communications teams up with Microsoft to connect businesses

- Tata Communications has joined hand with Microsoft to boost employee productivity and streamline business processes
- The partnership aims to connect businesses via Azure Express Route to 'Office 365', a group of software plus services subscription by Microsoft

Total telephone subscriber base increases by 0.23 percent in July

- As per TRAI report, mobile sector continued to dominate growth in the sector with total telephone subscriber base in the country rose marginally from 100.69 in June 2015 to 100.93 crore at the end of July 2015.
- Airtel being the major contributor whose net subscriber addition in July increased by over 10 lakh followed by Idea Cellular and Reliance Communications with net addition of 6.79 and 5.34 lakh subscribers.

Telecom Department gives nod to single emergency number 112

- Department of Telecommunications has approved the proposal of TRAI of existence of single emergency number
- All the existing numbers such as 100, 101, 102 and 108 will continue to exist for a period of one year and will then be re-routed to single emergency number

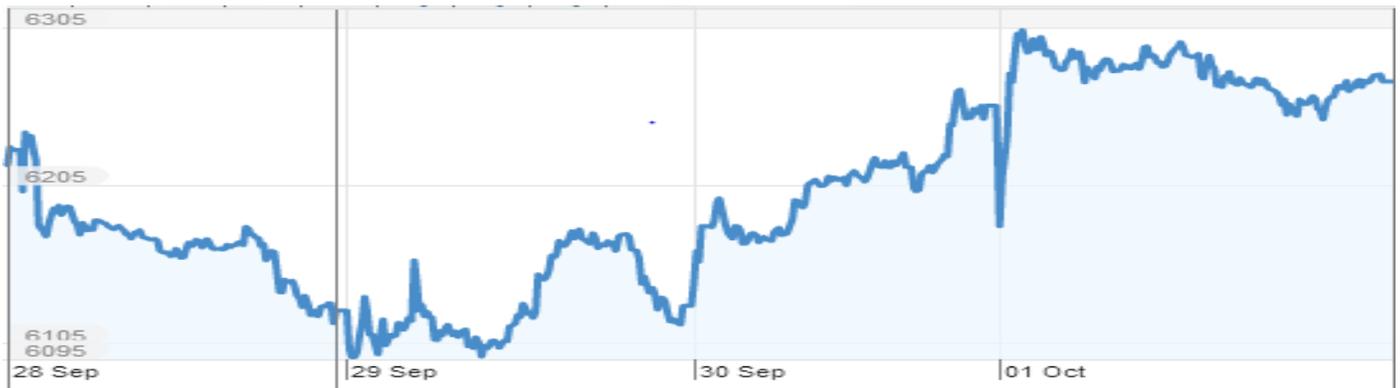
Telecom ministry grants ISP license to Tamil Nadu

- The Telecom Ministry has issued Internet Service Provider license to the government for providing broadband and internet services.

Reliance Communications to partner Reliance Jio to launch 4G services

- The partnership involves trading and sharing of mobile airwaves and to offer high 4G services.
- Reliance Communications can access 4G services of Reliance Jio which would in turn can use former's 2G and 3G services when needed.

Market Performance



Telecom sector has performed well again this week with an increase of 0.24%. The constant increase is because of 4G service deployment.

Top Performers

Idea Cellular (7.8% ↑)

Reliance Communications (6.9% ↑)

Partnership with Reliance Jio has led to an increase in stock price of RComm

Bharti Airtel (2.0% ↑)

Competitor MTN has faced operational issues in Nigeria which is Bharti's biggest market in Africa. Because of this Airtel is estimated to increase its Africa revenue by 4-5%

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Sector: Oil and Gas

Analysts: Akshay, Vaibhav

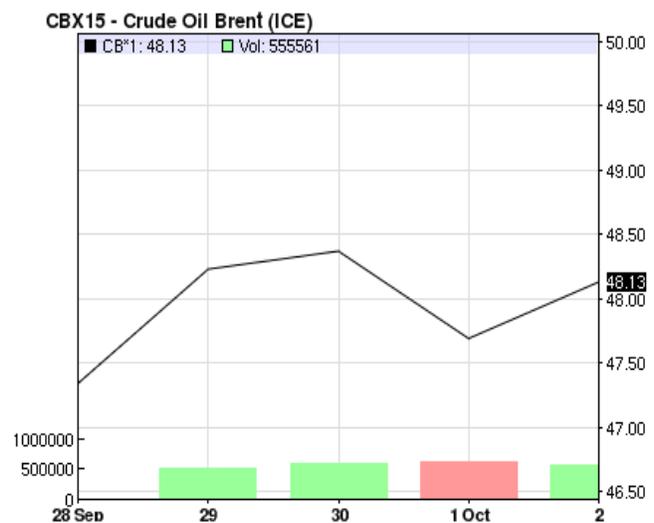
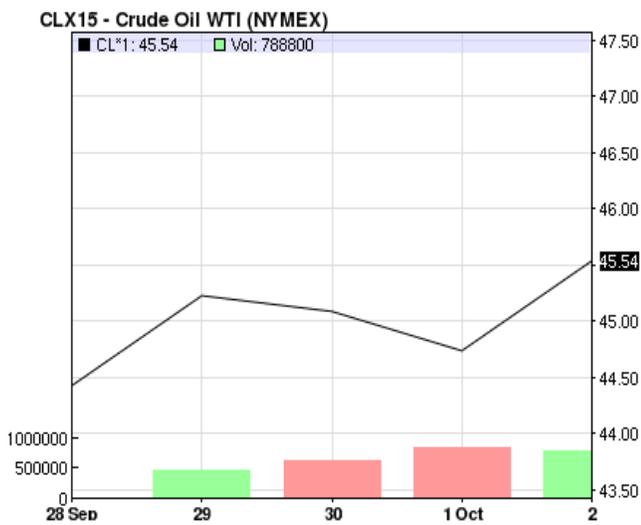
Developments

Natural Gas prices cut by 18% following a global slide in commodity prices

The government has cut the natural gas prices by 18% bringing the price of natural gas to \$3.82 permmBtu (million British thermal units) for six months. This brought joy to the retail consumers but has now become a problem for the producers as lower prices will hurt their profits. Also, the reduction in gas prices will reduce the input costs for power and fertilizer companies in India. Standard and Poor’s had a different take on this saying that the cut in gas prices will discourage the oil exploration and production companies from committing new capital expenditure. But the impact on cash flows of the Reliance industries and PSU behemoth ONGC will be minimal. One can expect a 4-5% reduction in the EBITDA of ONGC due to this rate cut. But the investors are well prepared for a low price level future and hence the stocks of these companies had no immediate impact of the falling gas prices.

Oil prices up again after the fall due to the weak US job data

US Oil rig count declined again for the fifth consecutive time this week causing the oil prices to erase the losses led by the weak US job data released by the Fed. Number of oil fields reduced in all of the country’s shale basins bringing the count of working oil rigs to 614 which is the lowest since August 2010. US EIA (Energy Information Administration) reported that the production has fallen by 0.4% from last week to 9.1 million barrels per day which suggests that the supply is trying to get in tune with the demand.



India to pay \$1.4 Billion towards Iran Oil dues

On 12th of October India will pay will be paying its second instalment of \$700 million to Iran for Oil dues. This comes within weeks of the first instalment of \$700 million paid by the Indian refineries this Wednesday. In August Iran had asked India to release the amount to \$1.4 billion towards the oil dues. India is the second largest importer of Oil from Iran (After China). In August 2015 total oil dues stood at \$6.6 billion. First instalment was paid by Essar Oil (\$335 million), MRPL (\$300 million), IOCL (\$62 million) and about \$3 million by HPCL. 45% of the total amount of the Iran Oil dues will be remitted in Rupees which Tehran uses to buy non-sanctioned goods from India. The sanctions on Iran are likely to terminate by 2016 which will make it easier for India to cement its long standing trade with Iran.

Rs 1.5 Trillion to be invested in the seven years by Indian Oil Corporation

Indian Oil Corporation is set to invest 1.5 trillion Rupees in the next five to seven years considering the future demand for energy. This includes Rs50,000 crore for expanding the existing brownfield refineries. The investment will include planned expansion of 10 refineries, infrastructure and other facilities. The new refinery in Paradip will commence operation from November, adding a total capacity of 11 million tonnes which will lead to increase in the India Oil refineries to over 35% share of the national refining capacity and 50% of the total market share in petroleum product retail. Capacity of the Gujarat refinery will be increased to 18 million tonnes as compared to 13.7 million tonnes at present, Mathura refinery to 8 million tonnes in two phases, Panipat refinery to 20 million tonnes from 15 million tonnes at present and Barauni to 9 million tonnes in two phases from 6 million tonnes at present.

Diesel prices hiked by 50 paise, Petrol prices remains unchanged

With effect from 1st October, the government has increased the price of diesel by 50 paise per litre. Diesel will now cost Rs.44.95 as compared to Rs.44.45 at present. No changes were made to the petrol prices. The reason for the increase was given to the increasing prices of crude oil and the effect of INR-USD exchange rate. This is the first increase in diesel prices since May which led to a hike of Rs 2.71 per litre.

Market Performance



The market performed better this week as compared to previous week. It increased by 1.09%. Stocks like BPCL and Petronet underperformed this week. However stocks like Reliance, Cairn and ONGC outperformed the market.

Top Performers

Stock: Reliance, ONGC

Rationale: Indian Government has decided to reduce the natural gas prices by 16%. It will discourage oil exploration and production companies to introduce new capital to the market. However, the impact on ONGC and Reliance would be least. The EBIDTA of ONGC will reduce by 4-5% for the Fiscal year ending March 2016. But the company's financial ratios are strong enough to absorb this impact. And Reliance is not much impacted by this move because government doesn't allow Reliance to charge above \$ 4.2 mmBtu. Also gas is insignificant business portion for Reliance.

Under Performers

Stock: BPCL

Rationale: Last week BPCL declared that it is all set to start work on Rs 5000 crore petrochemicals complex which is the part of Rs 20000 crore expansion of Kochi refinery. This would have led to high price last week. But this week market would be again correcting itself to normal for this company which would have led to decrease in price of BPCL.

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4th October 2015

Sector: Retail and textile

Analysts: Ishu Agrawal, Aurosikha

Developments

Garment exports growth slows

India's garment export slowed to 16% in September after an impressive 23% year-on-year growth in August. Even then the export situation is better than last fiscal year according to the data released by AEPC (Apparel Exports Promotion Council). Increase in exports is majorly due to robust growth, steady flow of orders from the US and Europe as well as a weak rupee. In order to increase India's space in export market, AEPC Chairman suggested for competitive pricing besides timely and better quality delivery.

Repo Rate cut a major relief for textile industry

The decision of RBI to slash repo rate by 50 bps to bring it at 6.75% has been hailed by Southern India Mills' Association. This will help the capital intensive textile industry in the globalized environment. It will reduce the burden in tariff rates and cost of funding. The reduction in interest rate will bring in more investments for the industry which will make the "Make in India" vision a reality.

Decline in deal value

There has been a decline in investor's interest in traditional retail and consumer sector. The reason is high valuation and shift to online retail. The promoters want to wait and get better valuations. In short term, the borrowing cost are high so valuations are high. The value of M&A deals have declined.

Retail chains tie up with mobile wallets

Last week, retail chain Shoppers Stop Ltd. tied up with mobile wallet FreeCharge. This will provide a more convenient payment option, cash-back offers and discounts to customers. The brick-and-mortar retailers can reduce their operational charges and less processing fee, while wallets will get more customers and more revenues. Many retailers like Big Bazaar, Café Coffee Day, Pizza Hut, KFC have tied up with mobile wallets. Even banks have introduced mobile wallet services. ICICI bank has Pockets, Axis bank Lime, State Bank of India SBI Buddy, HDFC bank PayZapp.

Market Performance

The reduction in repo rate has boosted the market last week. The market's positive reaction has been the major reason for stocks performing well.

Top Performers

Stock: Welspun India

Rationale: Majorly because the Sensex performed well overall due to the positive sentiment for repo rate cut. Also the textile industry is doing good on their export business.

Under Performers

Stock: Cantabil Retail India

Rationale: Even with market performing better Cantabil stock slumped. One reason is the entrance of new fashion retailers. Last week Swedish fashion retailer H&M opened their first outlet in Delhi. They provide fashionable apparel at affordable prices which is eating into Cantabil space.

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