

# India Market Strategy

## Demonetisation – Hope, fear & what's priced in #2

### Equity Strategy

India

#### Knowns/unknowns of demonetisation impact. Transfer of wealth and income

We have been expecting earnings cuts and demonetisation is a further drag near-term. It makes FY18/19 outlook more uncertain. What is given in our view: 1) Near-term economic disruption (-ve consumer discretionary, non-banks); 2) medium-term supportive of credit cycle (+ve financials) and 3) formalisation of economy (+ve consumer staples/discretionary and broader market). What remains uncertain in our view: 1) whether impact prolongs beyond 3-6 months; 2) policy response (fiscal/monetary) if any – nature, scale and timing; and 3) impact from GST implementation and other follow-up anti-graft measures. It is a transfer of wealth away from informal sector to Govt/ RBI, which may be used to enhance macro stability, higher transfers to poor, SOE bank recap or drive housing/infra spend. The income generating ability may transfer away from informal sector too – to govt (higher taxes) and formal economy (higher market share). We move consumer staples to OW.

#### Stress testing sector/market earnings and GDP for 3 scenarios

We look at 3 scenarios. 1) 'Quick recovery' where disruption lasts only for a month – impact on numbers insignificant. 2) 'Slower Recovery' scenario assumes approx. 6 months of disruption. FY17 real GDP may be at 6%. Base effect and probably some mild policy stimulus from the authorities may mean FY18 real GDP at 8%. 3) 'Informal Economy Dislocation' scenario assumes prolonged slow activity (business failures, layoffs) with associated impact even on the formal economy. FY17 real GDP growth may be very weak at 3.2% but may recover to 8.5% in FY18. In all the scenarios, FY19 real GDP may revert to below 8% growth after recovering in FY18, unless we see a second stimulus in FY19. Our NIFTY FY17/18 earnings growth for above 3 scenarios are 9%/16%, 5%/14%, 0.0%/0.0% with Scenario 2 as base case for now and compared to earlier 10%/14% estimates. Street estimates for FY17/18 are at 13.4%/19.7% implying cuts ahead. Earnings of trucks/tractors/cement and their financiers remain most vulnerable, more so in Scenario 3. Consumer staples may be relatively immune.

#### What's priced in? Buy here or wait for lower levels?

Our investor discussions suggest that they expect the impact to be short-lived and many view it as a big long-term positive. Nifty has underperformed GEM by 3% since demonetisation. These suggest markets may be pricing in somewhere between Scenario 1 and 2, definitely not Scenario 3. Lower yields In India (10-y down 50bps since demonetisation) may support higher valuations near-term though impact on long-term fair value remains unclear to us ([link](#)). Sectors/stocks impacted by the demonetisation are down 10-20%; the correction is from steep levels though. We screen for stocks by comparing valuations vs past 1-yr averages and looking at earnings scenarios. Stocks included in our most preferred list are Eicher, Tata Motors, ICICI Bank, SBI, HUL, Britannia, LICHF. Stocks included in our least preferred list are MMFS, Hero Motor, Titan, PNB, Ashok Leyland. Top mid-cap picks are MCX, PVR, Voltas, LICHF. Our 2017-end base case/upside/downside Nifty scenarios are revised to 8800/9600/6400. This suggests that risk-reward for Nifty is more balanced now vs being unattractively skewed prior to recent correction. The range of the skew is quite wide now, suggesting heightened uncertainty around potential outcomes. Will RBI cut rates on 7 December? Lower policy rates might be symbolic but why unnecessarily signal that the economy is in trouble at this stage amidst higher US Fed rates and (in our view) a weaker rupee?

#### What to watch out for?

We would be 1) tracking power demand ([link](#)), 2) doing channel checks (cash availability, production cuts and layoffs by informal economy ([link](#)), 3) tracking crop sowing, 4) cash deposited/withdrawn and 5) Govt/RBI policy moves.

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## Activity is down, what might the recovery look like?

It is clear that there has been some meaningful disruption to the economy from the demonetisation program. The evidence from the press has been echoed by our own channel checks ([link](#)). The aggregate scale of the impact is hard to judge from any one observer's point of view, but financial market prices have probably already captured a large degree of the fallout by amalgamating the host of observations and packets of information available to market participants. Much more open to speculation is the shape of the recovery. We present three scenarios, two of which have activity bouncing back and one where, absent stimulus, activity fails to return to the ex-anti baseline scenario. We are gravitating towards the second scenario as our base case (from the first) but will wait until after the September quarter GDP figures (due 30 November) before revising our standing forecasts. We note that a prolonged disruption, with meaningful informal sector job losses and business closures, is also possible; but at this stage we attach a low probability of less than 20% to this outcome.

**Figure 1: Sensitivity analysis of impact on economy of cash crunch**

|  | Whole economy | Agri | Mining | Manufacturing | Utilities | Construction | Trade, repair, hotel and restaurant services | Transport, storage, communication and broadcasting* | Financial services | Real estate, dwelling and professional services** | Public |
|--|---------------|------|--------|---------------|-----------|--------------|--|---|--------------------|---|--------|
| Weight in economy (% GDP)  | 100.0         | 17.0 | 2.6    | 16.2          | 2.6       | 8.3          | 12.1   | 6.5   | 5.7                | 15.0  | 14.0   |
| Incremental impact of cash shortage (% change)                     | -13.5         | -5.0 | 0.0    | -5.0          | 0.0       | -50.0        | -30.0  | -15.0   | 0.0                | -21.0   | 0.0    |
| Impact on GDP of cash shortage per four weeks of disruption (ppts) | -1.0          | -0.1 | 0.0    | -0.1          | 0.0       | -0.3         | -0.3   | -0.1  | 0.0                | -0.2  | 0.0    |

Source: UBS Estimates \*50% of Transport, storage, communication and broadcasting is 'road transport'

\*\*assume 30% of this sector relates to services exports.

## Three scenarios

We have updated our subjective sensitivity analysis of how much activity has slowed as a result of the demonetisation (Figure 1). As in "[India Cash Crunch](#)" the weakness in each sector is based on our interpretation of anecdotal evidence, now including our own channel checks. From this starting point we present three scenarios (plus one) as the availability of cash returns (Figure 2).

The first 'Quick Recovery' scenario assumes that the logistical disruption lasts only a month and that spending plays catch-up in December such that activity in the economy is above the ex-anti baseline for a time before falling back to a level similar to that expected under the ex-anti baseline scenario. The period of catch-up spending (as might occur after a period of bad weather that keeps people in their homes) is justified on the basis that confidence in the economy is undiminished, with job losses and business failures limited. This limited period of disruption means growth rates in FY 17 and FY 18 are little changed from the ex-anti baseline scenario of 7.4% and 7.6% real GDP growth respectively.

The second 'Slower Recovery' scenario assumes the recovery to normality takes longer. There is still a period of catch-up spending and probably some mild stimulus from the authorities, but because some business closures and layoffs occur activity ends up a little below the level in the ex-anti baseline scenario after the initial shock and recovery (i.e. in H2 FY18). However, because of this disruption there may subsequently be more room for productivity gains (see 'silver lining' below). Under this scenario the longer period of disruption means real GDP growth in FY 17 is noticeably slower at 6% while that of FY 18 is faster at 8% due to the recovery during that year and the stronger base effect.

In the third scenario, 'Informal Economy Dislocation' we assume that the disruption to the informal economy (business failures, layoffs) is more meaningful and the associated impact on the formal economy is such that the level of activity recovers more slowly and to only circa 4% below the ex-anti baseline scenario. Growth in FY 17 is a very weak 3.2% recovering to 8.5% in FY 18. While possibly triggering a larger productivity enhancing drift towards the formal sector, such a sharp slowdown is likely to be unacceptable to the authorities. As such a major stimulus effort might be probable under such a scenario, perhaps in the form of a 1ppt of GDP widening of the Budget deficit and easier monetary policy (see below). Specifically, use might be made of cash hand-outs, minimum (agricultural) support prices and employment guarantee schemes. Under such an "Informal Economy Dislocation + Major Stimulus" scenario, activity recovers more quickly to a level closer to the ex-anti baseline scenario. Even so, because of the lags in the policy response, real GDP growth is still around 4% in FY 17 albeit with a strong rebound in FY 18 the effects of which fade in FY 19.

**Figure 2: Growth scenarios based on different recovery paths**

| Real GDP growth, % yoy                                     | FY 2017 | FY 2018 | FY 2019 | Level in H2 FY18<br>versus baseline (i.e.<br>total activity lost before<br>long term benefits) |
|--|---------|---------|---------|--|
| Baseline (ex-anti)   | 7.4     | 7.6     | 7.8     | na   |
| Scenario 1: Quick Recovery                                 | 7.3     | 7.6     | 7.8     | -0.1%  |
| Scenario 2: Slower Recovery (some mild stimulus)           | 6.0     | 8.0     | 7.8     | -1.2%  |
| Scenario 3: Informal Economy Dislocation                   | 3.2     | 8.5     | 7.4     | -4.0%  |
| Scenario 3+: Informal Economy Dislocation + Major Stimulus | 3.6     | 10.4    | 7.1     | -2.0%  |

Source: UBS Estimates

## Creative disruption – the silver lining

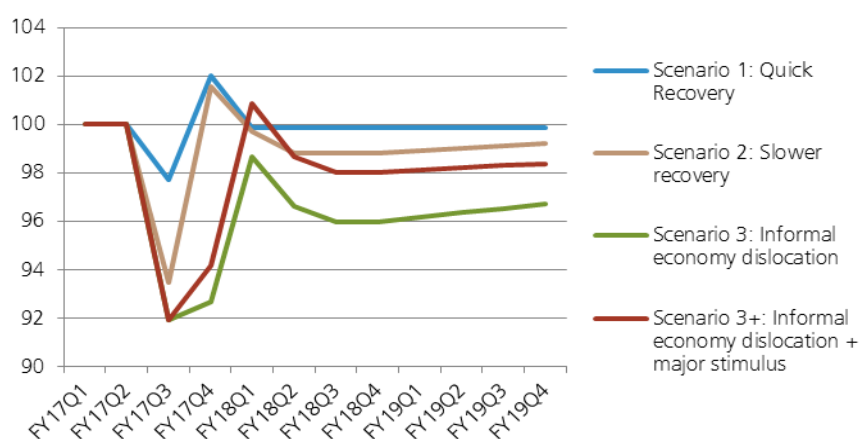
A core goal of the demonetization scheme is to encourage growth in the formal economy relative to the informal economy. The rationale is that the capital and

labour employed in the formal economy is more efficient. Amongst other things this is because of better access to banking and international trade.

As discussed in our scenario analysis above, it is possible that the shock of demonetization throws workers out of jobs and forces companies to shut down. And while the disruption will occur in both the informal and formal economies it should be disproportionately in the informal economy. The silver lining may then be that these capital and labour resources from the informal economy can then be redeployed in the formal economy. This process could in turn combine with the reflationary effect of the conversion of cash into banking system deposits or RBI dividend related stimulus that we discussed in [India: cash crunch](#) – *if* policy makers allow either reflationary dynamic. That is a big *if*, but one implication could be a stronger pace of ex-post trend growth than likely under our baseline scenario. The effect could perhaps be disproportionately stronger in scenarios where the disruption to the informal economy has been greater since the risk of hitting capacity constraints would be less than in the Quick Recovery scenario where fewer resources are 'freed up'. We represent these ideas in our scenarios, albeit in the knowledge we are piling assumptions on assumptions. Nonetheless, some sense of the possible implications can be gleaned from FY 19 trajectories in the below figure.

**Figure 3: Recovery scenarios**

Real GDP outcome by scenario relative to ex-anti baseline (baseline = 100)



Source: UBS Estimates

## A problem with the GDP numbers

The above scenarios not only assume a certain weakness in the economy and the paths whereby the weakness might be reversed. They also assume that the GDP numbers will capture this variation in the economy. That might be true for the annual GDP estimates. The annual GDP estimates use data sets including over 500,000 company accounts to measure activity in many parts of the economy. Quarterly GDP estimates are less likely to capture the shock to the informal sector of the economy. Where quarterly GDP is estimated directly (as opposed to extrapolated from annual data) the input data is invariably based on goods output or the flow of international goods trade (even for service sectors of the economy – refer Appendix). As such it is unlikely that the quarterly GDP data will accurately pick up the scale of disruption to activity, especially if it is concentrated in the consumer facing cash economy. Because annual data including a broad set of corporate accounts may not be available until 10 months after the end of the year

(refer Appendix), one needs to interpret the GDP data in the near term with even more caution than normal.

## **The monetary policy response – rates on hold unless activity stays weak**

According to press reports, the value of demonetised 500 and 1000 notes exchanged or deposited is close to 8tn, close to 58% of the stock of money demonetised. No doubt in large part due to regulatory and logistical reasons, that far exceeds the new notes distributed. One upshot has been a sharp rise in bank deposits. To manage the potentially sharp rise in the monetary base of the banking system, and prevent banks from expanding balance sheets on what could be a temporary increase in liquidity, the RBI has been sterilising via reverse repo operations and on 26 November imposed a 100% CRR on the rise in Net Time and Deposit Liabilities received between 16 September and 11 November (around two thirds of recent surge in deposits see ['RBI's sterilization move to dent bonds rally'](#)). Even after this sterilization move, we see little reason for the RBI to add to recent weeks' decline in market interest rates by cutting rates on 7 December. Lower policy rates might send a symbolic message, but we doubt the authorities want to unnecessarily telegraph that the economy is in trouble at this stage. Lower policy rates are possible at the February meeting, or sooner if the economy looks weak, but much depends on the flow of cash out of the banking system as more cash withdrawals become possible, the recovery in activity and the impact of global market conditions on the rupee. If our second scenario comes to pass, with the level of activity stabilising below the ex-anti baseline in H2 FY 18, we suspect the RBI will be more likely to avoid increasing rates, rather than cut rates, in the context of higher US Fed rates and (in our view) a weaker rupee.

In the meantime the authorities' focus will likely be on getting cash to parts of the economy starved of it. In addition to the numerous revisions to the demonetisation scheme, we note a proposed change to the income tax law which could add elements of a tax amnesty to the policy framework - which, if it comes to pass, would likely further add momentum to the return of old notes and withdrawal of new cash.

# Sectoral impact

Figure 4: Demonetisation impact by sector

| Sector                      | Demonetisation impact   | What's priced in   | Link to report   |
|-----------------------------|---|--|--|
| Cement                      | Channel checks suggest cement average daily volumes have dropped to 35-60% of usual. ACC remains most sensitive.  | Stock prices of cement companies have come off sharply though we believe they only partly factor Scenario 2.   | <a href="#">India Cement Sector – Demonetization – another headwind</a>  |
| Banks                       | We believe loan growth for banks with higher share of CV/Cars/mortgage finance is at greater risk due to potential slowdown in underlying demand. Banks offering >5% SA deposit rate are better placed to offset margin pressure due to falling term deposit costs. We believe investors are less concerned about NPLs now than three months ago. BOB and PNB are most sensitive while KMB is relatively robust.  | We believe current stock price of coverage banks are fully pricing in Scenario 1, partly pricing in Scenario 2, however not all pricing in Scenario 3  | <a href="#">Which banks are most impacted by demonetisation?</a>   |
| NBFC                        | We believe truck financiers (SHTF & MMFS) would have a medium-term negative impact if money in circulation remains tight for few months. Demand for microfinance loans would be more resilient. While stressed cash flows in the SME and developer segment could hurt Loan Against Property (LAP) and corporate loans, we believe companies with higher share of affordable housing loans and salaried employee base (LICHF) would see limited impact. .        | Market seems to be factoring in moderation in loan growth for next 12 months. For truck financiers, market is also factoring in increase in GNPLs as these stocks now trade below 5-yr average P/BV multiples. For housing finance companies, market now factors in moderation in loan growth, in our view and we believe that that HDFC and LICHF could surprise on growth and earnings. For microfinance companies, while moderation in growth in FY17 is priced in, sharp increase in GNPLs is not, in our view |  |
| Auto                        | Our checks indicate a significant sales decline of 50%-60% for 2-wheeler dealers - even in metro cities. Enquiry & sales levels are improving in the last few days, albeit from rock bottom. For cars our checks suggest the decline has been c30%, with rural being weaker.  | We believe the recent correction in auto stocks of 10%-15% since demonetization largely factors in scenario 2 where demand remains weak for 5-6 months before recovering. Ashok Leyland, Eicher, M&M are expected to be most sensitive.  | <a href="#">India Auto Sector – Demonetization – A speed bump or a restart?</a>                                  |
| Pharma                      | Being non-discretionary items, we believe the impact on companies' earnings could be limited. For our covered companies, we estimate domestic business to contribute 16-44% of total FY17 sales, with Dr Reddy's being the least exposed. NA  | NA   | <a href="#">Indian Pharma – Little impact from demonetisation, near-term headwinds from US generic deflation</a> |
| Power                       | Industrial power consumption contributes 42% of total Indian power consumption. If disruption due to demonetization prolongs, industrial power demand could get impacted. Accordingly prefer discoms over gencos.   | Investors expect industrial power demand to remain subdued for sometime  | <a href="#">India Utilities – Demonetisation – could it impact power demand?</a>                                 |
| Consumers                   | Consumer staples could remain relatively immune and expected to take share from regional brands as barriers to entry in the segment have increased materially. In our base case, consumers replenish staple products in the next 15 days to one month. Companies that have higher dependence on the wholesale trade could face longer trade disruption, ie, two to three months. Expect more revenue and earnings downgrades for consumer discretionary stocks. | Stocks are building in Scenario 2, possibly partially Scenario 3. Asian Paints, Titan are more vulnerable in Scenario 3 while GCPL, Marico are robust.   | <a href="#">Indian Consumer Sector – Dissecting demonetisation – positive for staples</a>                        |
| Industrial & Infrastructure | Transitory impact of demonetisation is not seen as material for industrial and infra companies (if cash crunch is addressed in a month), it has the potential to delay capex recovery if it slows demand growth in the informal economy. Government contractors BHEL, BEL are expected to remain immune   | A near-term pick-up in investment cycle still priced in. We think investors expect demonetisation-driven disruption to persist over near term only.  | <a href="#">India Industrial &amp; Infrastructure – Demonetisation – could it delay capex recovery?</a>          |

Source: UBS

**Figure 4: Demonetisation impact by sector: Earnings estimates sensitivity**

| Sector                      | FY18E Earnings Change |                 |                 |
|-----------------------------|-----------------------|-----------------|-----------------|
|                             | Scenario 1            | Scenario 2      | Scenario 3      |
| Cement                      | -0.4 to -1.4%         | -11.8 to -21.1% | -29.8 to -53.2% |
| Banks                       | 7.8 to -3%            | -0.7 to -8.5%   | -9.6 to -25.8%  |
| NBFC                        | -0.6 to -19.1%        | 0 to -10.7%     | -12.9 to -31.2% |
| Auto                        | No impact             | -6 to -49%      | -11 to -89%     |
| Consumers                   | 0 to -2.5%            | -1 to -7%       | -2 to -15%      |
| Industrial & Infrastructure | No impact             | 0 to -10.2%     | 0 to -13.2%     |

Source: UBS

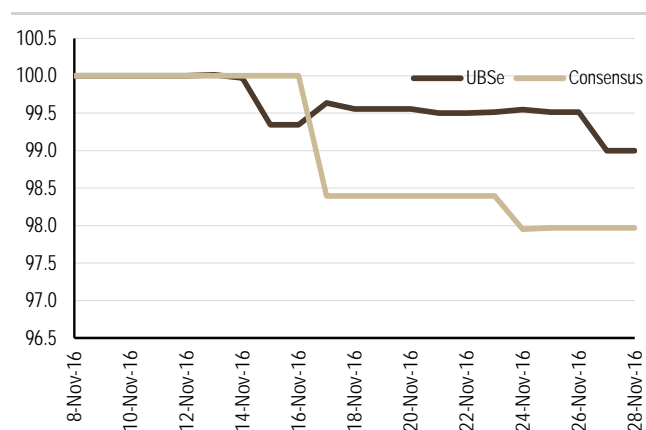
Across sectors, consumer staples government contractors like BHEL & BEL are expected to enjoy relative immunity to demonetisation.

On the other hand, maximum impact of demonetisation is expected to reflect in truck OEM's earnings (Eicher, Ashok Leyland) as categories like tractors, trucks and light commercial vehicles are likely to witness a sharper slowdown. Financials exposed to these remain more vulnerable to earnings cuts. Among cement stocks, ACC is expected to see more pronounced earnings cuts compared to peers while IRB comes across as relatively more fragile than other infrastructure/industrial companies.

## What's priced in?

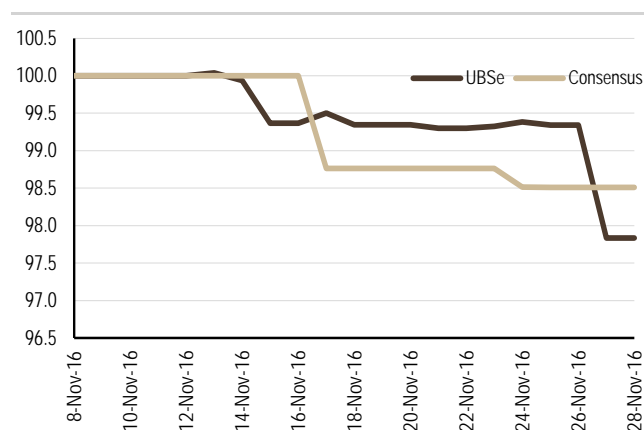
Post the demonetisation announcement on Nov 8, 2016, Nifty FY17/18 EPS have seen marginal cuts.

**Figure 5: UBS vs. Consensus Nifty FY17E Earnings since demonetisation**



Source: UBS, Datastream

**Figure 6: UBS vs. Consensus Nifty FY18E Earnings since demonetisation**



Source: UBS, Datastream

We look at stock-wise earnings sensitivity to Scenario 2 and 3. We then compare the PE multiples on these 2 scenarios with last 1-year average to get a sense of what's priced in.

**Figure 7: Price and valuation performance of different sectors/stocks**

| Company name               | Bloomberg        | UBS rating    | Mcap (US\$m) | Price performance        |      | Current 1yr Fwd PE | 1yr Avg - 1yr Fwd PE | 1-y fwd PE                    | 1-y fwd PE                    |
|----------------------------|------------------|---------------|--------------|--------------------------|------|--------------------|----------------------|-------------------------------|-------------------------------|
|                            |                  |               |              | Since demonetisation (%) |      |                    |                      | based on Scenario 2 estimates | based on Scenario 3 estimates |
| Banks                      |                  |               |              |                          |      |                    |                      |                               |                               |
| SBI                        | SBIN IN Equity   | Buy           | 28,622       | 0.4%                     | 12.9 | 10.5               | 12.4                 | 14.3                          |                               |
| BOB                        | BOB IN Equity    | Neutral       | 5,467        | 9.5%                     | 10.3 | 9.7                | 11.8                 | 14.0                          |                               |
| PNB                        | PNB IN Equity    | Sell          | 4,245        | -2.5%                    | 9.6  | 7.1                | 12.8                 | 15.7                          |                               |
| Axis Bank                  | AXSB IN Equity   | Neutral       | 16,423       | -3.7%                    | 15.1 | 12.5               | 15.0                 | 17.1                          |                               |
| ICICI Bank                 | ICICIB IN Equity | Buy           | 21,620       | -9.9%                    | 13.1 | 11.6               | 14.8                 | 16.8                          |                               |
| HDFC Bank                  | HDFCB IN Equity  | Buy           | 43,606       | -5.6%                    | 17.5 | 18.3               | 18.8                 | 20.7                          |                               |
| Kotak Mahindra             | KMB IN Equity    | Buy           | 20,032       | -7.6%                    | 24.7 | 25.4               | 37.0                 | 37.8                          |                               |
| IndusInd Bank              | IIB IN Equity    | Neutral       | 9,107        | -13.3%                   | 17.7 | 19.8               | 20.3                 | 23.1                          |                               |
| Federal Bank               | FB IN Equity     | Buy           | 1,749        | -9.3%                    | 12.2 | 10.6               | 12.4                 | 14.2                          |                               |
| Yes Bank                   | YES IN Equity    | Sell          | 6,993        | -6.3%                    | 12.8 | 12.7               | 17.5                 | 18.6                          |                               |
| Cement                     |                  |               |              |                          |      |                    |                      |                               |                               |
| ACC                        | ACC IN Equity    | Neutral       | 3,598        | -12.6%                   | 17.1 | 17.1               | 23.8                 | 38.0                          |                               |
| Gujarat Ambuja             | ACEM IN Equity   | Sell          | 5,900        | -16.5%                   | 14.7 | 14.7               | 24.6                 | 33.7                          |                               |
| UltraTech Cement           | UTCEM IN Equity  | Neutral       | 13,987       | -11.5%                   | 20.0 | 20.0               | 25.7                 | 30.1                          |                               |
| Consumer                   |                  |               |              |                          |      |                    |                      |                               |                               |
| ITC                        | ITC IN Equity    | Buy           | 41,021       | -8.6%                    | 24.0 | 24.3               | 23.4                 | 23.6                          |                               |
| Hindustan Lever            | HUVR IN Equity   | Buy           | 26,385       | -0.8%                    | 36.5 | 38.3               | 36.4                 | 37.3                          |                               |
| Britannia Industries       | BRIT IN Equity   | Buy           | 5,186        | -8.2%                    | 32.6 | 34.6               | 32.5                 | 32.6                          |                               |
| Marico Industries          | MRCO IN Equity   | Buy           | 4,685        | -4.1%                    | 34.0 | 37.7               | 35.0                 | 35.5                          |                               |
| Colgate-Palmolive India    | CLGT IN Equity   | Buy           | 3,693        | -4.7%                    | 34.3 | 35.7               | 34.8                 | 35.5                          |                               |
| Nestle                     | NEST IN Equity   | Neutral       | 8,823        | -2.5%                    | 40.2 | 43.0               | 36.0                 | 37.1                          |                               |
| Dabur India                | DABUR IN Equity  | Buy           | 7,114        | -6.7%                    | 30.6 | 31.3               | 30.9                 | 31.4                          |                               |
| GCPL                       | GCPL IN Equity   | Neutral       | 7,102        | -6.4%                    | 30.9 | 32.9               | 31.1                 | 31.4                          |                               |
| Emami                      | HMN IN Equity    | Buy           | 3,617        | -6.3%                    | 27.6 | 28.9               | 27.3                 | 27.5                          |                               |
| Asian Paints               | APNT IN Equity   | Buy           | 13,065       | -11.4%                   | 38.3 | 43.4               | 38.6                 | 39.5                          |                               |
| Titan Industries           | TTAN IN Equity   | Neutral       | 3,958        | -17.4%                   | 20.2 | 26.8               | 28.6                 | 30.5                          |                               |
| Auto                       |                  |               |              |                          |      |                    |                      |                               |                               |
| Maruti                     | MSIL IN Equity   | Buy           | 21,514       | -13.7%                   | 20.2 | 20.1               | 22.3                 | 24.0                          |                               |
| Hero Motocorp              | HMCL IN Equity   | Sell          | 9,027        | -7.9%                    | 15.9 | 16.5               | 16.9                 | 17.5                          |                               |
| Bajaj Auto                 | BJAUT IN Equity  | Sell          | 3,358        | -5.2%                    | 17.0 | 18.0               | 17.6                 | 18.3                          |                               |
| Eicher Motors              | EIM IN Equity    | Buy           | 7,984        | -16.7%                   | 25.3 | 32.8               | 30.7                 | 37.9                          |                               |
| Ashok Leyland              | AL IN Equity     | Sell          | 3,236        | -14.8%                   | 14.0 | 17.6               | 24.3                 | 40.1                          |                               |
| Mahindra and Mahindra      | MM IN Equity     | Buy           | 10,507       | -16.0%                   | 13.0 | 16.6               | 17.9                 | 20.7                          |                               |
| Tata Motors                | TTMT IN Equity   | Buy           | 21,257       | -15.8%                   | 7.6  | 8.6                | 8.0                  | 8.3                           |                               |
| NBFCs                      |                  |               |              |                          |      |                    |                      |                               |                               |
| HDFC                       | HDFC IN Equity   | Buy           | 28,681       | -10.4%                   | 23.4 | 24.5               | 23.3                 | 24.6                          |                               |
| LIC Housing Finance        | LICHF IN Equity  | Buy           | 3,967        | -1.6%                    | 12.0 | 12.2               | 11.8                 | 13.2                          |                               |
| Indiabulls Housing Finance | IHFL IN Equity   | Neutral (CBE) | 4,339        | -10.0%                   | 9.7  | 10.4               | 10.1                 | 11.4                          |                               |
| Bharat Financial Inclusion | BHAFI IN Equity  | Buy           | 1,247        | -17.5%                   | 13.1 | 16.6               | 14.0                 | 16.3                          |                               |
| Shriram Tran. Fin          | SHTF IN Equity   | Buy           | 3,062        | -12.2%                   | 10.8 | 13.6               | 12.5                 | 13.6                          |                               |
| Mahindra Finance           | MMFS IN Equity   | Sell          | 2,399        | -16.7%                   | 16.1 | 17.1               | 18.5                 | 20.3                          |                               |

Source: Bloomberg, UBS estimates



**Figure 8: Price and valuation performance of different sectors/stocks**

| Company name                | Bloomberg       | UBS rating | Mcap (US\$m) | Price performance              | Current 1yr<br>Fwd PE | 1yr Avg - 1yr<br>Fwd PE | 1-y fwd PE                          | 1-y fwd PE                          |
|-----------------------------|-----------------|------------|--------------|--------------------------------|-----------------------|-------------------------|-------------------------------------|-------------------------------------|
|                             |                 |            |              | Since<br>demonetisation<br>(%) |                       |                         | based on<br>Scenario 2<br>estimates | based on<br>Scenario 3<br>estimates |
| Industrial & Infrastructure |                 |            |              |                                |                       |                         |                                     |                                     |
| L&T                         | LT IN Equity    | Neutral    | 18,401       | -2.9%                          | 20.0                  | 22.1                    | 20.5                                | 21.0                                |
| IRB Infra                   | IRB IN Equity   | Neutral    | 960          | -16.7%                         | 7.3                   | 9.9                     | 7.8                                 | 8.0                                 |
| ABB                         | ABB IN Equity   | Sell       | 3,269        | -2.6%                          | 43.6                  | 52.5                    | 35.5                                | 37.1                                |
| Thermax                     | TMX IN Equity   | Sell       | 1,430        | -3.4%                          | 26.0                  | 28.0                    | 32.1                                | 33.5                                |
| Cummins India               | KKC IN Equity   | Sell       | 3,083        | -9.1%                          | 24.4                  | 27.6                    | 24.8                                | 25.2                                |
| BHEL                        | BHEL IN Equity  | Sell       | 4,544        | -10.9%                         | 9.7                   | 9.7                     | NM                                  | NM                                  |
| BEL                         | BHE IN Equity   | Sell       | 4,502        | 5.0%                           | 22.5                  | 20.5                    | 21.2                                | 21.2                                |
| SMID                        |                 |            |              |                                |                       |                         |                                     |                                     |
| Jubilant Foodworks          | JUBI IN Equity  | Sell       | 852          | -9.1%                          | 48.5                  | 49.8                    | 54.0                                | 60.6                                |
| Kajaria                     | KJC IN Equity   | Neutral    | 1,201        | -13.4%                         | 24.9                  | 28.2                    | 26.6                                | 28.5                                |
| Voltas                      | VOLT IN Equity  | Buy        | 1,449        | -15.7%                         | 18.6                  | 22.0                    | 19.5                                | 21.1                                |
| Havells                     | HAVL IN Equity  | Sell       | 3,038        | -15.3%                         | 28.0                  | 31.4                    | 31.9                                | 34.3                                |
| TTK Prestige                | TTKPT IN Equity | Sell       | 865          | -14.4%                         | 35.9                  | 33.6                    | 39.7                                | 42.2                                |
| Page Industries             | PAG IN Equity   | Sell       | 2,081        | -20.0%                         | 35.9                  | 33.6                    | 47.9                                | 51.4                                |
| MCX India                   | MCX IN Equity   | Buy        | 926          | -6.0%                          | 42.6                  | 47.9                    | 29.7                                | 26.9                                |
| PVR Limited                 | PVRL IN Equity  | Buy        | 769          | -12.0%                         | 29.7                  | 28.4                    | 30.2                                | 31.9                                |
| Pidilite Limited            | PIDI IN Equity  | Sell       | 4,667        | -9.5%                          | 37.4                  | 39.6                    | 39.2                                | 41.4                                |
| Cholamadam                  | CIFC IN Equity  | Neutral    | 2,183        | -13.3%                         | 16.8                  | 18.5                    | 17.7                                | 18.7                                |
| UPL                         | UPLL IN Equity  | Buy        | 3,918        | -8.1%                          | 14.5                  | 13.9                    | 13.9                                | 14.4                                |
| Coromandel                  | CRIN IN Equity  | Buy        | 1,045        | -7.3%                          | 14.1                  | 12.4                    | 14.7                                | 15.6                                |

Source: Bloomberg, UBS estimates

Our NIFTY FY17/18 earnings growth for 3 scenarios are 9%/16%, 5%/14%, 0.0%/0.0% with Scenario 2 as base case for now and Scenario 1/3 as Upside/Downside ones. Our new top-down base case earnings compares to earlier 10%/14% growth estimates for FY17/18. Street estimates for FY17/18 are at 13.4%/19.7% implying likely sharp cuts ahead.

We use the above scenarios to evaluate risk-reward for Nifty. Our 2017-end Nifty fair value for these scenarios are:

Scenario 2 (base case) - 8800 based on 17x 1-y forward PE multiple in line with past 1 year average.

Scenario 1 (upside scenario) - 9600 based on 17.5x 1-y forward PE multiple reflecting some rerating as earnings surprise positively. The rerating is capped at 17.5x reflecting near-peak valuations already

Scenario 3 (downside scenario) - 6400 based on 17x 1-y forward PE multiple in line with past 1 year average.

This framework suggests that risk-reward for Nifty is more balanced now vs being unattractive skew prior to recent correction. The range of the skew is actually quite wide vs history, suggesting heightened uncertainty around potential outcomes.

**Figure 9: Various Nifty scenarios for end-2017**

| Scenarios                          | EPS Growth |       | 1 year fwd EPS |                | PE multiple |       |       |       |        |        |        |
|------------------------------------|------------|-------|----------------|----------------|-------------|-------|-------|-------|--------|--------|--------|
|                                    | FY17E      | FY18E | FY19E          | (for end-2017) | 14x         | 15x   | 16x   | 16.5x | 17.0x  | 17.5x  | 18x    |
| <b>Bottom-up analyst estimates</b> |            |       |                |                |             |       |       |       |        |        |        |
| UBS analysts' bottom-up            | 11.5%      | 20.9% | 15.7%          | 585            | 8,200       | 8,800 | 9,400 | 9,700 | 9,950  | 10,250 | 10,500 |
| Street bottom-up                   | 13.4%      | 19.7% | 16.1%          | 591            | 8,300       | 8,900 | 9,500 | 9,750 | 10,000 | 10,300 | 10,600 |
| <b>UBS top-down strategy view</b>  |            |       |                |                |             |       |       |       |        |        |        |
| UBS top-down Base Case             | 5.0%       | 14.0% | 15.0%          | 519            | 7,300       | 7,800 | 8,300 | 8,600 | 8,800  | 9,100  | 9,300  |
| UBS downside scenario              | 0.0%       | 0.0%  | 12.0%          | 424            | 5,900       | 6,400 | 6,800 | 7,000 | 7,200  | 7,400  | 7,600  |
| UBS upside scenario                | 9.0%       | 16.0% | 16.0%          | 551            | 7,700       | 8,300 | 8,800 | 9,100 | 9,400  | 9,600  | 9,900  |

Source: UBS estimates

## Top ideas and sector positioning

We analysed the earnings scenario and valuations for the stocks to better understand what may be priced in and where the risk-reward is attractive. This is relevant given yet heightened uncertainty on macro environment near-term. Based on this, we make following changes to our top-down most and least preferred stock lists:

We add to our most preferred list: Eicher, Tata Motors, ICICI Bank, HUL, Britannia.

We remove from our most preferred list: Asian Paints, Shriram Transport.

We add to our least preferred list: MMFS, Titan, PNB, Ambuja

We remove from our least preferred list: Baja Auto, Infosys

**Figure 10: UBS India Most and Least preferred stocks**

|                      |            |         | M cap    | CMP    | PT     | %      |         | P/E (x) | P/BV (x) | EV/EBITDA | EV/OpFCF | RoAE   | Net Debt/Equity | EPS CAGR |
|----------------------|------------|---------|----------|--------|--------|--------|---------|---------|----------|-----------|----------|--------|-----------------|----------|
| Company Name         | Bbg Ticker | Rating  | (US\$ m) | (Rs)   | (Rs)   | upside | FY17E   | FY18E   | FY17E    | FY17E     | FY17E    | FY16   | FY16            | FY16-19E |
| Most Preferred       |            |         |          |        |        |        |         |         |          |           |          |        |                 |          |
| Britannia Industries | BRIT IB    | Buy     | 5,158    | 2,958  | 4,000  | 35.2%  | 36.2    | 30.7    | 13.7     | 19.7      | 21.5     | 54.3%  | 2.2             | 19.1%    |
| Bharti Airtel        | BHARTI IB  | Buy     | 18,475   | 318    | 500    | 57.5%  | 22.6    | 17.6    | 1.7      | 4.9       | 10.6     | 8.6%   | 130.5           | 23.8%    |
| Coal India           | COAL IB    | Buy     | 28,021   | 305    | 375    | 23.1%  | 13.5    | 11.5    | 5.3      | 9.2       | 10.1     | 31.7%  | (148.5)         | 20.5%    |
| Eicher Motors        | EIM IB     | Buy     | 7,981    | 20,226 | 28,000 | 38.4%  | 29.9    | 23.4    | 8.0      | 18.8      | 20.3     | 34.2%  | (35.1)          | 32.1%    |
| HDFC Bank            | HDFCB IB   | Buy     | 43,452   | 1,185  | 1,450  | 22.3%  | 21.1    | 17.7    | 3.1      | -         | -        | 18.3%  | -               | 18.3%    |
| Hindustan Unilever   | HUVR IB    | Buy     | 26,359   | 837    | 1,000  | 19.4%  | 39.3    | 34.6    | 38.8     | 24.1      | 25.5     | 112.6% | (74.8)          | 10.8%    |
| ICICI Bank           | ICICIB IB  | Buy     | 21,523   | 255    | 350    | 37.1%  | 16.4    | 13.8    | 1.4      | -         | -        | 11.4%  | -               | 16.4%    |
| ITC                  | ITC IB     | Buy     | 41,029   | 234    | 320    | 37.0%  | 19.6    | 17.1    | 6.0      | 13.0      | 14.1     | 31.6%  | (46.7)          | 15.7%    |
| LIC Housing Finance  | LICHF IB   | Buy     | 3,962    | 539    | 660    | 22.4%  | 13.3    | 10.7    | 2.1      | -         | -        | 19.6%  | -               | 23.3%    |
| Lupin                | LPC IB     | Buy     | 9,760    | 1,505  | 2,000  | 32.9%  | 23.1    | 19.2    | 4.3      | 11.8      | 15.3     | 23.3%  | 58.8            | 22.5%    |
| Motherson Sumi       | MSS IB     | Buy     | 5,811    | 302    | 356    | 18.0%  | 25.1    | 19.1    | 5.6      | 9.8       | 13.1     | 33.7%  | 102.4           | 23.5%    |
| Power Grid           | PWGR IB    | Buy     | 14,546   | 191    | 215    | 12.6%  | 13.4    | 11.4    | 1.8      | 7.6       | 11.3     | 14.7%  | 236.6           | 18.2%    |
| State Bank of India  | SBIN IB    | Buy     | 27,561   | 254    | 335    | 32.1%  | 18.3    | 10.4    | 1.1      | -         | -        | 7.3%   | -               | 33.3%    |
| Tata Motors          | TTMT IB    | Buy     | 22,481   | 455    | 660    | 45.1%  | 9.7     | 6.9     | 1.2      | 3.5       | 5.9      | 16.1%  | 41.7            | 23.9%    |
| Least Preferred      |            |         |          |        |        |        |         |         |          |           |          |        |                 |          |
| Ambuja               | ACEM IB    | Sell    | 4,613    | 204    | 244    | 19.5%  | 26.3    | 20.9    | 2.7      | 11.0      | 16.3     | 7.9%   | (27.0)          | 28.1%    |
| Ashok Leyland        | AL IB      | Sell    | 3,242    | 78     | 71     | -9.3%  | 16.7    | 16.6    | 3.4      | 8.8       | 11.3     | 20.9%  | 19.7            | 9.2%     |
| MMFS                 | MMFS IB    | Sell    | 2,401    | 290    | 325    | 12.1%  | 19.8    | 15.8    | 2.3      | -         | -        | 11.4%  | -               | 23.2%    |
| BHEL                 | BHEL IB    | Sell    | 4,548    | 128    | 70     | -45.2% | (769.3) | (561.7) | 0.9      | (37.0)    | (14.4)   | -2.7%  | (30.1)          | 169.8%   |
| Cummins India        | KKC IB     | Sell    | 3,091    | 766    | 720    | -6.0%  | 26.1    | 23.3    | 5.7      | 25.7      | 29.3     | 24.8%  | (2.8)           | 10.4%    |
| Hero MotoCorp        | HMCL IB    | Sell    | 9,016    | 3,102  | 2,800  | -9.7%  | 17.4    | 16.0    | 5.6      | 10.3      | 11.3     | 43.2%  | (1.2)           | 5.7%     |
| Titan                | TTAN IB    | Neutral | 3,963    | 307    | 350    | 14.1%  | 32.3    | 26.9    | 5.8      | 19.3      | 21.3     | 20.8%  | 0.0             | 18.8%    |
| InterGlobe Aviation  | INDIGO IB  | Sell    | 4,664    | 889    | 800    | -10.0% | 15.8    | 13.3    | 6.6      | 16.5      | 17.7     | 176.5% | (81.3)          | 11.2%    |
| L&T                  | LT IB      | Neutral | 18,399   | 1,356  | 1,585  | 16.9%  | 23.4    | 18.6    | 2.4      | 13.3      | 15.3     | 11.2%  | 216.8           | 18.2%    |
| PNB                  | PNB IB     | Sell    | 3,920    | 137    | 100    | -27.1% | 17.6    | 10.9    | 0.7      | -         | -        | -10.3% | -               | 203.0%   |
| United Spirits       | UNSP IB    | Sell    | 4,041    | 1,910  | 1,650  | -13.6% | 56.8    | 43.4    | 9.5      | 24.4      | 33.0     | 18.9%  | 199.6           | 52.3%    |

Note: Prices as of 28 November.

Source: UBS Estimates

**Figure 11: UBS India top SMID (Small & Midcap) picks**

|                      |            |        | M cap    | CMP   | PT    | %      | P/E (x) |        | P/BV (x) | EV/EBITDA | EV/OpFCF | RoAE   | Net Debt/Equity | EPS CAGR |
|----------------------|------------|--------|----------|-------|-------|--------|---------|--------|----------|-----------|----------|--------|-----------------|----------|
| Company Name         | Bbg Ticker | Rating | (US\$ m) | (Rs)  | (Rs)  | upside | FY17E   | FY18E  | FY17E    | FY17E     | FY17E    | FY16   | FY16            | FY16-19E |
| Top SMID picks       |            |        |          |       |       |        |         |        |          |           |          |        |                 |          |
| Dish TV              | DITV IB    | Buy    | 1,379    | 89    | 120   | 35.0%  | 38.7    | 27.6   | 9.8      | 7.5       | 8.0      | 761.7% | 212.8           | 17.3%    |
| Info Edge            | INFOE IB   | Buy    | 1,581    | 900   | 1,025 | 13.9%  | 50.1    | 41.2   | 5.1      | 32.1      | 31.7     | 8.9%   | (55.8)          | 26.6%    |
| MMYT                 | MMYT US    | Buy    | 1,001    | \$24  | \$35  | 45.8%  | (9.4)   | (40.8) | (29.3)   | (387.4)   | 53.2     | -75.4% | 3.2             | 137.7%   |
| Multi Commodity Exch | MCX IN     | Buy    | 926      | 1,247 | 1,600 | 28.3%  | 44.7    | 29.1   | 4.1      | 22.4      | 21.0     | 6.4%   | (35.9)          | 45.8%    |
| PVR                  | PVRL IB    | Buy    | 770      | 1,133 | 1,400 | 23.6%  | 37.7    | 26.9   | 4.6      | 10.8      | 16.7     | 19.4%  | 46.8            | 24.8%    |
| Voltas               | VOLT IB    | Buy    | 1,448    | 301   | 450   | 49.7%  | 21.2    | 17.5   | 3.3      | 14.4      | 14.9     | 16.6%  | 9.5             | 21.7%    |

Note: Prices as of 28 November.

Source: UBS Estimates

We move Consumer Staples to Overweight to reflect the transfer of wealth and potentially earnings generation ability from informal sector to Govt/formal sector. We move Cement part of Materials to Underweight and keep Metals & Mining at Neutral, with Coal still an Overweight.

**Figure 12: UBS India Sector Positioning**

| Overweight                                | Neutral                | Underweight                    |
|---|------------------------|--------------------------------|
| Auto Parts                                | Autos 4W               | Autos 2W                       |
| Coal                                      | Consumer Discretionary | Corporate Private Banks        |
| Media                                     | Metals & Mining        | Infrastructure & Capital Goods |
| Pharmaceuticals                           | Power Utilities        | IT Services                    |
| Retail Private Banks, Non-bank Financials | SOE Banks              | SMID (Small and Midcap)        |
| Consumer Staples                          |                        | Cement                         |
| Telecom                                   |                        |                                |

Source: UBS Estimates

## What to track?

### Power demand

Industrial power consumption contributes 42% of total Indian power consumption (FY15 data). If disruption due to demonetisation prolongs, industrial power demand could get impacted. Media reported that Delhi's industrial power demand is down 20% post demonetisation quoting Tata Power Delhi Distribution chief. Daily power supply numbers do not suggest this trend on an all-India level as yet. Power supply during week ending 21st Nov is down only 2% compared to the first week of November. This is within the normal volatility witnessed in daily power supply. We reckon that production schedules are unlikely to be altered, if at all, so soon. Our channel checks across cities/towns in India suggest that even small industries have not yet planned any production cuts. We will keep monitoring the daily power supply prints to look for consistent declining prints higher than the normal volatility.

### Channel checks

We spoke to various companies, dealers and wholesalers across cities/towns in India over the last 2 weeks to get a sense of initial impact of demonetisation. Our discussions suggest there is disruption but the extent varies across sectors/segments. We also spoke to consumers across India (across geographies, and across metro cities, large and small towns) to check for any signs of normalisation in disruption. As per our conversations, ATM/bank queues have been reducing but not in all towns/areas. There has been no issue in availability of FMCG essentials, fruits and vegetables, and prices had been somewhat down initially (some instances of increase too). We spoke to many self-employed traders and distributors (steel, cement, capital equipment, textile, consumer durables, paint, agri input) and small enterprise owners (tiles, garments, medicine, jewellery, wood) across various regions in India. Many indicated a significant decline in sales, especially initially. Even though business activity seems to be recovering for them, it is still at least 20-25% below usual. However, they are not yet indicating any intention of laying off employees or likelihood of delaying loan repayments.

### Crop sowing

Crop sowing data will indicate if cash crunch will end impacting rural economy over 2017. Initial trends suggest no impact though channel checks suggest decline in fertiliser offtake too. We await more clarity to make a call on this given the conflicting data points.

**Figure 14: Rabi sowing trends**

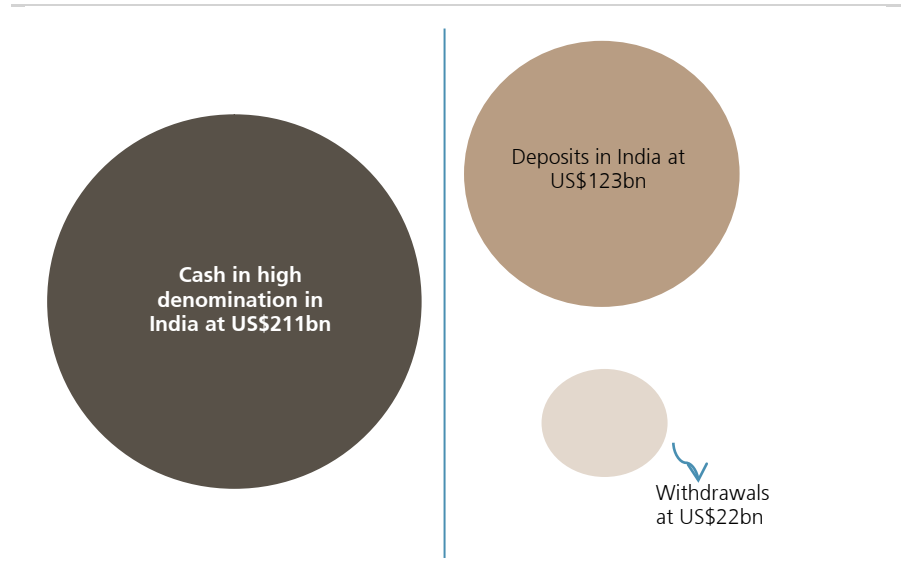
| Lakhs hectares         | 2016 | 2015 | yoy chg |
|------------------------|------|------|---------|
| 11-Nov                 | 147  | 127  | 13.7%   |
| 18-Nov                 | 242  | 243  | -0.7%   |
| Addition over the week | 95   | 117  | -23.0%  |

Source: Agricoop

## Cash deposited/withdrawn

Cash deposited will indicate potential for surplus accruing to RBI and thus possibility of a fiscal bounty to the Govt – though we remain sceptical of the latter as being a given. Cash withdrawal will suggest whether the economy is getting enough liquidity back to revive part of business as usual, beyond repairing the cash crunch linked transactions freezing.

**Figure 15: Value of demonetised notes exchanged/deposited is close to 55% of the money stock demonetised**



Source: Press reports, UBS estimates

## Policy moves by RBI/Govt

RBI has been sterilising via reverse repo operations and on 26 November imposed a 100% CRR on the rise in Net Time and Deposit Liabilities received between 16 September and 11 November (around two thirds of recent surge in deposits see ['RBI's sterilization move to dent bonds rally'](#)). We see little reason for RBI to cut rates on 7 December. Lower policy rates might be symbolic but why unnecessarily telegraph that the economy is in trouble at this stage in the context of higher US Fed rates and (in our view) a weaker rupee?

The Govt has tabled a bill in Parliament laying out various scenarios of tax applicable on unaccounted cash, including a version of effectively a new disclosure scheme. This may suggest Govt looking to precipitate proactive disclosure, immediate tax collection boost and potential liquidity boost through lock-up of some of the unaccounted money.

# Appendix

**Figure 16: Will indicators used to generate quarterly GDP pick up informal economy disruption?**

| Sector                        | Indicators used for quarterly GDP estimation  |
|-------------------------------|---|
| Agriculture                   | Quarterly agriculture production estimates of forecast crops.   |
| Livestock                     | Quarterly production of milk, egg and wool.   |
| Forestry                      | Annual forecast is apportioned equally in all four quarters.  |
| Fishing                       | Quarterly production of inland and marine fish.   |
| Mining and quarrying          | Monthly production of coal, crude petroleum and Index of Industrial Production (Mining).  |
| Manufacturing                 | Monthly Index of Industrial Production (Manufacturing) Electricity, gas and water supply: Monthly Index of Industrial Production (Electricity), For water supply, the government expenditures.  |
| Utilities                     | Electricity, gas and water supply: Monthly Index of Industrial Production (Electricity), Water supply, the government expenditures.   |
| Construction                  | Monthly production of cement, steel and bricks.   |
| Trade, hotels and restaurants | Quarterly Gross Trading Index, which is computed using the value of output of commodity producing sectors and imports.  |
| Railways                      | Monthly data on Net tonne Kms. and Net passenger Kms  |
| Transport by other means      | Production of commercial vehicles for the road transport, cargo handled at major ports for water transport and passenger kilometers flown and freight tonne kilometers flown for the air transport.   |
| Communication                 | Total stock of telephone connections  |
| Banking and insurance         | The sum of aggregate deposits and bank credits deflated by the wholesale price index (WPI) for banking, life insurance (sum assured) and life fund deflated by WPI for life insurance and non-life fund (gross less claims) deflated by WPI for non-life insurance. |
| Public administration         | Data on revenue expenditure of central government, excluding interest payments deflated by consumer price index for industrial workers.   |
| Other services                | For the public component, central government revenue expenditure. For private part, apportioning equally the forecast in all the four quarters.   |

Source: Ministry of Statistics and Programme Implementation

**Figure 17: National accounts data release dates**

| Release   | Date of release | Time lag                    | Comment  |
|---|-----------------|-----------------------------|--|
| Advance estimates of annual national income/GDP     | 7 Feb           | 2 months before end of year | Based on limited set of company accounts                             |
| Provisional estimates of annual national income/GDP | 31 May          | 2 months                    | Based on company accounts  |
| Estimates of Q1 GDP (Apr-Jun)                       | 31 Aug          | 2 months                    | Based on extrapolation and high frequency goods sector activity data |
| Estimates of Q2 GDP (Jul-Sep)                       | 30 Nov          | 2 months                    | Based on extrapolation and high frequency goods sector activity data |
| Estimates of Q3 GDP (Oct-Dec)                       | 7 Feb           | 2 months                    | Based on extrapolation and high frequency goods sector activity data |
| Estimates of Q4 GDP (Jan-Mar)                       | 31 May          | 2 months                    | Based on extrapolation and high frequency goods sector activity data |
| First revised estimate of national income/GDP       | 31 Jan          | 10 months                   | Based on fuller set of company accounts                              |

Source: UBS, Gol

## Links to related research:

[India Market Strategy - Demonetisation – Eyes and Ears on-the-ground](#)

[India Market Strategy – Demonetisation – Hope, fear and what's priced in?](#)

[Indian Consumer Sector – Dissecting demonetisation – positive for staples](#)

[Which banks are most impacted by demonetisation?](#)

[India Utilities – Demonetisation – could it impact power demand?](#)

[India Industrial & Infrastructure – Demonetisation – could it delay capex recovery?](#)

[Eicher Motors – Demonetization blues](#)

[India Auto Sector – Demonetization – A speed bump or a restart?](#)

[Indian Pharma – Little impact from demonetisation, near-term headwinds from US generic deflation](#)

[India Cement Sector – Demonetisation – another headwind](#)

[India Metals & Mining - Demonetisation low risk; not no risk](#)

[Macro on-the-ground: Does GST take a backseat with demonetisation?](#)

[APAC Economic Perspectives – India: Cash Crunch](#)

[India Market Strategy – Cash is no longer king](#)

*We would like to thank Krishna Mahale and Nikunj Mehta for their contributions.*

### Valuation Method and Risk Statement

We believe the risks to our long-term estimates (for example, for corporate earnings) and macroeconomic variables (such as GDP growth rates and inflation) are an economic slowdown, a weakening currency, global economic events, and government policy changes.

## Required Disclosures

This report has been prepared by UBS Securities India Private Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

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### UBS Investment Research: Global Equity Rating Definitions

| 12-Month Rating   | Definition  | Coverage <sup>1</sup> | IB Services <sup>2</sup> |
|-------------------|---|-----------------------|--------------------------|
| <b>Buy</b>        | FSR is > 6% above the MRA.  | 45%                   | 28%                      |
| <b>Neutral</b>    | FSR is between -6% and 6% of the MRA.   | 39%                   | 25%                      |
| <b>Sell</b>       | FSR is > 6% below the MRA.  | 15%                   | 17%                      |
| Short-Term Rating | Definition  | Coverage <sup>3</sup> | IB Services <sup>4</sup> |
| <b>Buy</b>        | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |
| <b>Sell</b>       | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |

Source: UBS. Rating allocations are as of 30 September 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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| Company Name                                    | Reuters  | 12-month rating | Short-term rating | Price       | Price date  |
|---|----------|-----------------|-------------------|-------------|-------------|
| <b>ACC Limited</b>                              | ACC.BO   | Neutral         | N/A               | Rs1,314.85  | 28 Nov 2016 |
| <b>Ambuja Cements</b>                           | ABUJ.BO  | Sell            | N/A               | Rs204.20    | 28 Nov 2016 |
| <b>Ashok Leyland</b>                            | ASOK.BO  | Sell            | N/A               | Rs78.25     | 28 Nov 2016 |
| <b>Asian Paints Ltd.</b>                        | ASPN.BO  | Buy             | N/A               | Rs938.00    | 28 Nov 2016 |
| <b>Bajaj Auto</b>                               | BAJA.BO  | Sell            | N/A               | Rs2,637.45  | 28 Nov 2016 |
| <b>Bank of Baroda<sup>7</sup></b>               | BOB.BO   | Neutral         | N/A               | Rs162.95    | 28 Nov 2016 |
| <b>Bharat Electronics</b>                       | BAJE.BO  | Sell            | N/A               | Rs1,386.70  | 28 Nov 2016 |
| <b>Bharat Heavy Electricals Limited</b>         | BHEL.BO  | Sell            | N/A               | Rs127.65    | 28 Nov 2016 |
| <b>Bharti Airtel Ltd.<sup>7</sup></b>           | BRTI.BO  | Buy             | N/A               | Rs317.50    | 28 Nov 2016 |
| <b>Britannia Industries</b>                     | BRIT.BO  | Buy             | N/A               | Rs2,957.55  | 28 Nov 2016 |
| <b>Coal India</b>                               | COAL.BO  | Buy             | N/A               | Rs304.75    | 28 Nov 2016 |
| <b>Cummins India</b>                            | CUMM.BO  | Sell            | N/A               | Rs766.05    | 28 Nov 2016 |
| <b>Dr. Reddy's Labs<sup>16</sup></b>            | REDY.BO  | Neutral         | N/A               | Rs3,175.85  | 28 Nov 2016 |
| <b>Eicher Motors Limited</b>                    | EICH.BO  | Buy             | N/A               | Rs20,226.40 | 28 Nov 2016 |
| <b>Godrej Consumer Products</b>                 | GOCPL.BO | Neutral         | N/A               | Rs1,436.60  | 28 Nov 2016 |
| <b>HDFC Bank<sup>5a, 6b, 7, 16</sup></b>        | HDBK.BO  | Buy             | N/A               | Rs1,185.35  | 28 Nov 2016 |
| <b>Hero MotoCorp</b>                            | HROM.BO  | Sell            | N/A               | Rs3,101.50  | 28 Nov 2016 |
| <b>Hindustan Unilever</b>                       | HLL.BO   | Buy             | N/A               | Rs837.25    | 28 Nov 2016 |
| <b>ICICI Bank<sup>4, 6a, 6b, 7, 16</sup></b>    | ICBK.BO  | Buy             | N/A               | Rs255.35    | 28 Nov 2016 |
| <b>Info Edge (India)</b>                        | INED.BO  | Buy             | N/A               | Rs899.85    | 28 Nov 2016 |
| <b>Infosys Ltd<sup>16</sup></b>                 | INFY.BO  | Sell            | N/A               | Rs979.65    | 28 Nov 2016 |
| <b>InterGlobe Aviation</b>                      | INGL.BO  | Sell            | N/A               | Rs889.10    | 28 Nov 2016 |
| <b>IRB Infrastructure</b>                       | IRBI.BO  | Neutral         | N/A               | Rs188.00    | 28 Nov 2016 |
| <b>ITC</b>                                      | ITC.BO   | Buy             | N/A               | Rs233.50    | 28 Nov 2016 |
| <b>Kotak Mahindra Bank<sup>7</sup></b>          | KTKM.BO  | Buy             | N/A               | Rs750.05    | 28 Nov 2016 |
| <b>Larsen &amp; Toubro<sup>7</sup></b>          | LART.BO  | Neutral         | N/A               | Rs1,356.15  | 28 Nov 2016 |
| <b>LIC Housing Finance</b>                      | LICH.BO  | Buy             | N/A               | Rs539.30    | 28 Nov 2016 |
| <b>Lupin Limited</b>                            | LUPN.BO  | Buy             | N/A               | Rs1,504.75  | 28 Nov 2016 |
| <b>Mahindra and Mahindra Financial Services</b> | MMFS.BO  | Sell            | N/A               | Rs290.00    | 28 Nov 2016 |
| <b>Makemytrip<sup>16</sup></b>                  | MMYT.O   | Buy             | N/A               | US\$24.00   | 28 Nov 2016 |
| <b>Marico Ltd</b>                               | MRCO.BO  | Buy             | N/A               | Rs250.10    | 28 Nov 2016 |
| <b>Motherson Sumi Systems<sup>2, 4, 5</sup></b> | MOSS.BO  | Buy             | N/A               | Rs301.75    | 28 Nov 2016 |
| <b>Multi Commodity Exchange of India</b>        | MCEI.BO  | Buy             | N/A               | Rs1,247.35  | 28 Nov 2016 |
| <b>Power Grid Corporation of India</b>          | PGRD.BO  | Buy             | N/A               | Rs191.00    | 28 Nov 2016 |
| <b>Punjab National Bank<sup>7</sup></b>         | PNBK.BO  | Sell            | N/A               | Rs137.15    | 28 Nov 2016 |
| <b>PVR</b>                                      | PVRL.BO  | Buy             | N/A               | Rs1,132.60  | 28 Nov 2016 |
| <b>Shriram Transport Finance</b>                | SRTR.BO  | Buy             | N/A               | Rs926.95    | 28 Nov 2016 |
| <b>State Bank of India<sup>6a, 6b, 7</sup></b>  | SBI.BO   | Buy             | N/A               | Rs253.60    | 28 Nov 2016 |
| <b>Tata Motors Ltd.<sup>16</sup></b>            | TAMO.BO  | Buy             | N/A               | Rs454.80    | 28 Nov 2016 |
| <b>Titan Company</b>                            | TITN.BO  | Neutral         | N/A               | Rs306.65    | 28 Nov 2016 |
| <b>United Spirits Ltd</b>                       | UNSP.BO  | Sell            | N/A               | Rs1,910.30  | 28 Nov 2016 |

| Company Name      | Reuters 12-month rating | Short-term rating | Price | Price date           |
|-------------------|-------------------------|-------------------|-------|----------------------|
| <b>Voltas Ltd</b> | VOLT.BO                 | Buy               | N/A   | Rs300.55 28 Nov 2016 |

Source: UBS. All prices as of local market close.

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Additional Prices: Federal Bank, Rs69.90 (28 Nov 2016); UltraTech Cement, Rs3,503.00 (28 Nov 2016); Colgate-Palmolive India, Rs931.00 (28 Nov 2016); Nestle India Ltd., Rs6,291.40 (28 Nov 2016); Dabur India Ltd., Rs276.95 (28 Nov 2016); Emami Ltd, Rs1,098.60 (28 Nov 2016); Maruti Suzuki India, Rs4,897.10 (28 Nov 2016); Indiabulls Housing Finance, Rs706.95 (28 Nov 2016); Bharat Financial Inclusion Ltd, Rs680.50 (28 Nov 2016); Shriram City Union Finance, Rs1,863.35 (28 Nov 2016); ABB India, Rs1,059.60 (28 Nov 2016); Thermax, Rs828.70 (28 Nov 2016); Jubilant FoodWorks, Rs890.60 (28 Nov 2016); Kajaria Ceramics, Rs519.15 (28 Nov 2016); Havells India, Rs334.50 (28 Nov 2016); TTK Prestige, Rs5,119.70 (28 Nov 2016); Page Industries, Rs12,814.20 (28 Nov 2016); Pidilite Industries, Rs624.85 (28 Nov 2016); Cholamandalam Investment & Finance, Rs960.60 (28 Nov 2016); UPL Ltd, Rs627.90 (28 Nov 2016); Coromandel International, Rs247.30 (28 Nov 2016); Source: UBS. All prices as of local market close.

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