

MCONNECT

A MAGAZINE

**“IN SHORT, BAD NEWS IS
AN INVESTOR’S BEST FRIEND,**

IT LETS YOU TO BUY A SLICE
OF FUTURE GAINS AT
MARKED-DOWN
PRICES...”

- WARREN BUFFETT



“25 YEARS OF
CONTINUOUS GROWTH
AND INNOVATIONS
WE ARE GEARED FOR
MANY MORE”

Asset Manager
Mr. Anand Radhakrishnan.
MD & CIO, Franklin MF

Industry Expert
Mr. VK Banka
MD, Dwarikesh Sugars Ltd

Investment Manager
Mr. Manish Gunwani
CIO, Nippon India MF

**Message from CMD****DEAR READERS,****"CULTURE IS CHANGING IN INVESTMENT & TRADING"**

Year 2019 ended with the popular indices breaching all-time high. But the year 2019 gave tough time for both traders as well as investors in India. Market breadth has been narrow, the large cap indices are showing gains while mid cap & small cap indices were flat to negative. India-specific funds / portfolios values are also down during the year. Now moving into 2020, nobody expects India to move to the high growth path of 8% plus real GDP growth. 5- 6% would be a realistic assumption, given the current weak economic constraints.

Investors are still not sure whether this growth slowdown in India is cyclical or structural? The slowdown has already surprised everyone in terms of its wide spread nature. In 2020, investors are expecting reformist economic agenda and stable policy-making from the Modi government. The last five years the economy has faced a series of shocks (like demonetisation, goods and services tax, non-banking financial company crisis) but general clean-up and deleveraging will help corporate India becoming stronger. The government has announced series of economic stimulus, but these measures have not had an immediate impact on the economy. But these measures will start showing visible impact in the near future.

There is a clear belief among global investors that this is India's best chance to move ahead on public sector bank reforms, administrative changes and making India a more predictable and stable business destination. This government has the political mandate, and leadership has been pro-growth & development. The govt. has shown the willingness to take risks. This government has built the dream of delivering on the USD \$5 trillion ambition. Lot of money is now looking at investment opportunities in India. This explains to an extent why markets are rising even as the economy is slowing down.

At Mehta Group we advise investors to create portfolio strong enough to withstand difficult times. Portfolio diversification is a good thing but focussing on quality & value help one to become a seasoned investor. As you know we are focused towards midcap category, it gave us a tough time to perform against market volatility. As Mehta we also underperformed to the benchmark due to regulatory changes and mutual fund reclassification.

Historically it has been witnessed that even great bull runs have shown bouts of panic moments. The volatility witnessed in the markets has inevitably made investors lose money despite the great bull runs. However, the investors who have invested money systematically, in the right shares and held on to their investments patiently have been seen generating outstanding returns. Hence, it is prudent to have patience and follow a disciplined investment approach besides keeping a long-term broad picture in mind. We feel retail investors should seek guidance from investment advisers while investing in equities.

Mconnect is loaded with valuable thoughts by market experts and internal resources. I am sure that this edition brings out some key points for readers to take investment decision. We expect readers will appreciate this edition just like all our earlier editions.

Relationship is a very important word. It all begins with a relationship & you will always keep hearing from us. This is the most important value in our business. From 1995 and even before that, it is our focus to providing financial success to all those who are in relationship with us. You make us complete, to me, we are just one big family. We always believe in improvement & we need your feedback to improve "Mconnect".

I am happy to proudly say Mehta Group is celebrating 25 years of rewarding relationship. This was not an easy task in a highly competitive industry during a period of rapid change in all areas. We continue to see selective, but interesting return-enhancement and diversification opportunities. Our focus is on process and having a good stable team with a clear cut philosophy. The key to client funds is risk-adjusted performance backed robust research and portfolio diversification. All of these things has really helped us to remain in this business of financial service for last 25 years.

Markets have cycles; there are ups and downs in the economy as well as the financial markets and corporate sector. We have always focussed on the long term and this philosophy has helped. We take huge pride in having an outstanding team which has stayed with us with a clear cut philosophy and process. We hope you enjoy reading.

**CA RAKESH MEHTA**

Chairman, MEHTA GROUP

On behalf of Mehta Group Wishing you & your family a very Happy & Prosperous 2020 !



Somerset Indus Healthcare Fund II

Growth Equity | Mid Sized Indian Companies | Healthcare Focused



Somerset is a healthcare sector focused Private Equity Firm where its investment professionals have extensive knowledge, relationships with domestic players, and access to and experience dealing with global participants that can bring new technologies and provide access to new markets. The fund engages with its portfolio companies extensively in areas of portfolio expansion, talent acquisition and strategy and operational aspects.

Somerset strategy is to target investments in the \$5 to 10 million range where the need for capital remains significant, and where capital can be deployed most productively. Although, buy-outs may gain favor in the longer term, India will continue to be a growth market, and the Fund will concentrate on growth equity investments in its sectors of focus. As the PE market matures, and access to capital ceases to be a significant issue, Indian companies will value PE investors for their sector knowledge, operating expertise and ability to provide access to global markets.

Somerset seeks to make private equity and equity-related investments primarily in growth-oriented healthcare companies in India. The team will use its successful private equity investment experience, healthcare systems knowledge, in depth India specific healthcare experience and knowledge base to make investments in Indian healthcare companies that can deploy the capital successfully to grow their business and increase profitability. Somerset's investment professionals have committed a significant amount of personal capital. Somerset expects to make controlling or influential minority investments in Indian healthcare companies, in connection with various transaction structures including leveraged buyouts, build-ups and growth financings.

PORTFOLIO CONSTRUCTION & RISK MANAGEMENT

Ticket Size	USD 7-10 million upto USD 15 million for Pharma Sector
Areas of Interest	Within Healthcare, the Fund will focus on the following Sub-Sectors: <ul style="list-style-type: none"> Healthcare Delivery Medical Devices Healthcare Insurance Diagnostics Healthcare IT Preventive care & Wellness Retail Models Pharma
Approach	Select a company within a sub-sector following a: <ul style="list-style-type: none"> Thematic focus Underlying growth prospects of the sub-sector
Documentation & Due Diligence	Focus on documentation, diligence and deal structuring to ensure legal and financial security of the Fund and its Investments
Strategic & Operational Support	Provide support at all levels, especially to top & operational management in: <ul style="list-style-type: none"> Strategy People Development Portfolio Sourcing for product & services Financial System and IT / MIS systems
Additional Value Creation	Leverage our network to help the company: <ul style="list-style-type: none"> Leverage its strengths in new markets and sectors Extend its business model Develop spin-offs, as demonstrated in past portfolio companies
Regular Monitoring	Regularly address both operational and growth/ funding aspects
Exit Strategy	Strategic and secondary sale

FUND I - PORTFOLIO INVESTMENTS



Exited **Two** investments and in process of **Two** more partial exits
Taking the total capital returned to investors to **60%**

TRACK RECORD - SOMEREST INDUS HEALTHCARE FUND I



**Guest Column - Asset Manager****MR. ANAND RADHAKRISHNAN, CFA**Managing Director & Chief Investment Officer - EME India,
Franklin Templeton Asset Management (India) Pvt Ltd.

Mr. Anand Radhakrishnan is MD & Chief Investment Officer - Equity for Franklin Templeton Asset Management (India) Pvt Ltd. Mr. Radhakrishnan is responsible for overseeing all the local equity funds. His responsibility includes mentoring all the porvdia Bluechip Fund, Franklin India Equity Fund and Franklin India Technology Fund. Also he is co-portfolio manager for Franklin India Focused Equity Fund and Franklin Build India Fund.

Mr. Radhakrishnan has been in the investment management industry since 1994. He started his career with FT in 2004. His past assignments include Fund Manager, with Sundaram Mutual Fund for 8 years; Deputy Manager, Equity Research with SBI Funds Management Ltd.

Mr. Radhakrishnan earned his Post Graduate Diploma in Management from Indian Institute of Management, Ahmedabad in 1994. He earned his Bachelor of Technology degree, specializing in Chemical Engineering from Anna University, Chennai in 1990. He is a CFA charter holder.

Outlook on Indian Capital Markets considering recent fall in GDP, rising inflation and RBI's status quo decision on policy rate**FEW SCHEMES UNDER MANAGEMENT:**

- ▶ Franklin India Bluechip Fund
- ▶ Franklin India Equity Fund
- ▶ Franklin India Technology Fund
- ▶ Franklin India Focused Equity Fund (Co-portfolio manager)
- ▶ Franklin Build India (Co-portfolio Manager)



The domestic GDP growth has witnessed a sequential decline for the sixth consecutive quarter with the Q2FY20 growth coming in at just 4.5% equaling the longest slowdown in the past 23 years. While the decline in GDP growth is driven primarily by slowdown in gross fixed capital formation, this has in turn been driven by a more broad- based weakening of consumption and credit supply. On the positive side, government spending to stimulate domestic demand including income support for farmers and low- income households, and investments has helped the private final consumption expenditure component of GDP, which has seen a modest growth recovery, reversing a prolonged downtrend. However, overall domestic and external demand conditions continue to remain feeble as seen in recent high frequency data (IIP, Fuel Consumption, Power Demand, Auto sales monthly data) clearly signal a demand slowdown. The revised GDP growth forecast from RBI stands at 5% for FY2020.

In a bid to turn the tide against slowing growth, the government announced a series of measures over the last quarter aimed to help continue to improve the ease of doing business in India. The primary moves included

1. Roll- back of FII surcharge
2. Relaxation in FDI rules in manufacturing, coal mining and digital media industries
3. Clarity on BSVI transition regulations
4. Increase in liquidity support for HFCs and NBFCs
5. Merger and recapitalization of PSU banks
6. Exports related incentives and very significantly



7. Rationalization of corporate tax rates that makes corporate tax rates competitive versus other markets.

Further reforms like disinvestments/ privatization, land and labor reforms, tax cuts in income tax rates/DDT/ LTCG, etc. are expected in the coming months. These measures along with improvements in implementation of big-ticket reforms of the first term, including simplifying the GST mechanism and tightening the bankruptcy law could aid growth by lifting some of the current constraints.

The RBI has lowered interest rates by 135bps so far in

CY2019 and maintained an accommodative stance. The MPC in a surprise move kept the repo rate unchanged even as it sharply reduced its GDP growth forecast by 110bps for FY20 and maintained its accommodative stance. It reiterated that there is policy space for future action. Household inflation survey expectations for 3-month and 12-month ahead have inched up. It seems that RBI has placed a higher weight on near term inflation number compared to growth. Post policy announcement the market saw a sell off across the yield curve. The future rate actions of the MPC are likely to be dependent on effective transmission of rate cuts delivered so far, evolution of growth-inflation dynamics, revival of investment and consumption demand, inflation print and upcoming Union Budget. With higher inflation forecast and growth projection revised sharply downwards, we expect RBI to be data dependent for further policy action. Our bias is for more easing as unlike past episodes of rising inflation, the present backdrop of weak consumption and consumer confidence lowers the risks of a wider pickup in prices, which gives policymakers headroom to ease without worrying over broader rise in inflation and allow for fiscal and monetary stimuli together for kickstarting consumption and investment growth over the long term.

Globally, the investor sentiment continues to fluctuate based on news flows especially those related to a US-China trade deal and recent progress shows potential for a favorable outcome of Phase one trade deal. However, sustainability of this optimism will hinge on the success of trade negotiations between the US and China. Global central banks are adopting easier monetary stance, providing sustenance to global economic growth. Even as downside risks to growth emanate from slow policy actions, lack of stability in demand conditions and muted credit growth in the economy, a moderate pace of growth recovery is anticipated in 2020 on the back of traction from past policy actions, low base effect and expectation of global growth recovery. Also, steps towards strengthening financial sector are beginning to show results with significant clean-up of stressed assets across corporate India. Stock

selection will remain the key to returns over the next few quarters as growth will only come from companies that are able to negotiate an uncertain economic backdrop.

Overall, clearly there are far more negative stories now versus a year ago and they are more strident. However we believe that while the economic commentary is negative and rightly so, specific to the markets a primary positive constant has been easy monetary policy globally and as long as that remains markets as a whole are likely to be supported. However even as ultra-low rates have forced markets to hunt for yields and consistently forced discount rates lower, given the backdrop of a slow economy, performance has been limited in most cases to large cap stocks with predictable earnings and a reasonable growth narrative. This trend may continue for a while more, but long-term investors are likely to be better rewarded if they invest in a broader more diversified portfolio.



Disclaimer: The information herein above is meant only for general reading purposes and the views being expressed only constitute opinions and therefore cannot be considered as guidelines, recommendations or as a professional guide for the readers. The document has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. The sponsors, the Investment Manager, the Trustee or any of their directors, employees, affiliates or representatives (entities & their affiliates) do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information. Recipients of this information are advised to rely on their own analysis, interpretations & investigations. Readers are also advised to seek independent professional advice in order to arrive at an informed investment decision. Entities & their affiliates including persons involved in the preparation or issuance of this material, shall not be liable in any way for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including on account of lost profits arising from the information contained in this material. Recipient alone shall be fully responsible for any decision taken on the basis of this document.

**Industry Expert****Mr. Vijay S Banka**

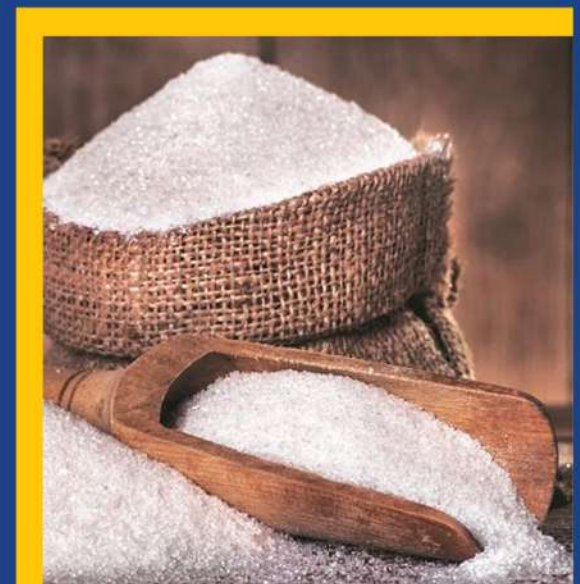
Managing Director, Dwarikesh Sugar Industries Ltd. A qualified Chartered Accountant with more than 26 years of experience in field of finance.

SUGAR INDUSTRY - GLIMPSES

In the last one decade Indian sugar industry has undergone a paradigm shift. The seasonality associated with the industry which was mainly induced by arrears of sugarcane price payment is a past phenomenon. The increase in sugarcane price over successive years (be it SAP or FRP) has made the sugarcane crop very remunerative vis-à-vis other cash crops. Assured off-take by sugar mills, ethical practices followed by sugar mills, relative sturdiness of the crop and its pest resistance abilities and assured cane price payment, albeit sooner than later have led the farmers to place more & more reliance on this crop. This phase has also coincided with the Pan India increase the sugarcane crushing capacities. The cyclicity now witnessed emanates from unforeseen weather conditions in Maharashtra & Karnataka. The disruption of predictable nature of cyclicity and evolving nature of new cyclicity is a challenge which many sugar companies have had to go through and surmount.

Another interesting development witnessed in the last decade has been the emergence of Uttar Pradesh as a Prima Donna of the sugar industry. Though big swings in production numbers are accounted for by Maharashtra & Karnataka, state of Uttar Pradesh has assumed the leadership position. Incubation and propagation of improved, high yield & high recovery varieties such as Co 0238 has catapulted UP into a position of strength. From a stagnant average season recovery of around 9.50% which characterised UP sugar industry for several decades the average recovery is now more than 11.50%, bettering all expectations and imaginations. In the cacophony of sectoral swings it was also seen that some nimble footed sugar companies used the available opportunities of reasonably higher sugar prices during 2016-18 and deleveraged their balance sheets thus making their financial position robust.

Barring unforeseen circumstances likely to be triggered by weather conditions in Maharashtra & Karnataka production of sugar in the country of > 32 million tons will be a rule rather than an exception. Juxtaposed with the consumption of 26 Million tons, now growing at an annual average of around 2% poses serious challenges for the sugar balance in the nation. However it must be acknowledged that both Government and the industry have risen to the occasion and are on trajectory to replicate the Brazilian model which will result in course correction, meaning increased sacrifice of sugar in favour of ethanol.

**ETHANOL THE NEXT GROWTH DRIVER AND GAME-CHANGER**

Indian government made a decisive intervention when it came to ethanol production. In the past, the government permitted molasses processing to manufacture ethanol through a specific route (C-Heavy). In a landmark reform, the government permitted and encouraged manufacturers to manufacture ethanol through alternative routes such as B-Heavy and cane juice in exchange for superior realisations. This permission not only offered sugar manufacturers with a superior revenue stream when seen from a corporate perspective but by the virtue of the process consuming a larger sugar output, helps moderate the national sugar inventory.

The opinion expressed in this article are those of the author alone and should not be regarded as investment advice. Investors should obtain their own independent advice before taking a decision to invest in any securities.



Buoyed by initiatives undertaken by the Government to strengthen the ethanol blending program, more and more sugar companies are bolstering their distillery capacities which will increase ethanol production and strengthen their forward integration plans. Besides, this initiative will enable the companies to optimize the use of molasses generated and help moderate the impact of sectoral volatility. The Companies are investing in cutting edge technologies for waste water recovery and zero liquid discharge, thus strengthening their credentials to grow sustainably around an environment-friendly foundation. Government has set an ambitious target of blending 10% ethanol by 2022 which is to be progressively increased to 20%. Ethanol business will thus not only be a big risk mitigant for sugar companies but will also help sugar companies generate reasonable returns from sugar business by moderating the sugar stocks.

With Power Corporations progressively reducing the power tariffs, power business for sugar companies has become a defensive bet. Future growth in top-line and bottom-line will evidently come from sugar & ethanol businesses.

PROBABLE SUGAR INDUSTRY TURNAROUND

World-over sugar industry is regulated and India is not an exception. The present handholding of the Government in the form of export stimulus, regulation of sugar selling price and maintenance of buffer stock crucial until the issue of overhang surplus stock is addressed. The present stock level is daunting. However with the impending lower production in the State of Maharashtra, expected export of at least 5 million tons and sacrifice of sugar in favour of ethanol, the rigor of excessive stock will be partially lessened. The Global sugar balance has seen correction which position can be used by Indian sugar industry to correct their own imbalance.

In the coming years with increased ethanol production resulting in moderation of sugar production will help develop industry's wherewithal to deal a couple of millions tones surplus production. Sugar industry is thus poised for a positive metamorphosis. For the industry to be on auto-pilot mode though, is some distance away.



Disclaimer: The information herein above is meant only for general reading purposes and the views being expressed only constitute opinions and therefore cannot be considered as guidelines, recommendations or as a professional guide for the readers. The document has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. The sponsors, the Investment Manager, the Trustee or any of their directors, employees, affiliates or representatives (entities & their affiliates) do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information. Recipients of this information are advised to rely on their own analysis, interpretations & investigations. Readers are also advised to seek independent professional advice in order to arrive at an informed investment decision. Entities & their affiliates including persons involved in the preparation or issuance of this material, shall not be liable in any way for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including on account of lost profits arising from the information contained in this material. Recipient alone shall be fully responsible for any decision taken on the basis of this document.

**MANISH GUNWANI**

is CIO - Equity Investments at Nippon India Mutual Fund. He graduated from IIT Chennai with a B.Tech and has done PGDM from IIM Bangalore. He has over 21 years of work experience primarily in equities spanning roles in equity research and fund management.

**MR. MANISH GUNWANI, CIO**

Nippon India, FM

INDIA OPPORTUNITY AMIDST CHALLENGES

On a long-term structural basis, Indian economy appears to well-placed for multi-year growth. However, there are doubts about India's overall growth prospects owing to near term cyclical slowdown. The slowdown has been severe as the real GDP growth for 1HFY2020 came in at 4.8%yoy.

Understanding factors behind the current slowdown**1 Weak global growth:**

Global growth has been at the weakest point in 10 years. As per IMF, 2019 real GDP growth is likely to be lowest since global financial crises at 3%yoy. Emerging markets are also growing at the slowest pace in this decade at below 4%yoy. In terms of major causes, US- China trade tensions and global monetary tightening in the 2HCY2018 led to a material deceleration in global growth.

2 Informal sector under pressure:

Various structural reforms which the Government has undertaken over the last few years have led to improved growth potential for the medium to long term. However, some of these reforms were introduced in and this has led to some income displacement & sentimental impact to the small and medium enterprises (SMEs). During the 2QFY19 India witnessed a mini liquidity crisis in the NBFCspace which also impacted fund availability to SMES.

3 Consumption slowdown:

Post the independence, this is the first decade where share of consumption in India's overall GDP has risen. Consumption remained the clear growth engine, wherein low inflation and steady increase in consumer leverage led to steady growth in consumption till FY2018. Post the NBFC crises, higher risk aversion among lenders in general led to slower flow of credit towards retail sector. This in turn led to consumption slowdown in key segments like autos and housing.

4 Slowdown in private capex:

Heightened global uncertainty, low profitability growth and tougher credit conditions led to deceleration in private capex in recent period.



POLICY RESPONSE

In response to the slowdown both the Government as well as the RBI have taken various steps to revive growth.

RBI: The RBI has done massive policy easing by infusing liquidity worth over 3 Lakh Cr INR post the breakout of NBFC crisis in 2HFY2019. Alongside, the RBI has so far cut policy rate by 135 bps in CY2019 while keeping the policy stance accommodative to signal further policy easing.

GOVERNMENT: Key measures undertaken includes...



Corporate rate tax cut: Amongst the major reforms, Corporate tax rate cut is a huge reform. India has reduced the effective corporate tax rate to 25.1% from an estimated over 30%. In addition, firms who set up a new unit will enjoy effective tax rate of 17.1%. Corporate tax rate cut is a big shot in the arm for India's enhanced competitiveness versus global peers. Along with large interest from domestic entrepreneurs India can attract massive FDI (Foreign Direct investments) flows.

PSU Banks recapitalization/consolidation: Upfront release of INR 700 billion to PSU banks. Announced merger of 10 PSU banks into 4.

Revival of the housing market: To provide credit support to stalled housing projects, Government has announced setting up of fund with initial corpus of INR 250 bn.

Various other sector specific measures to revive autos, NBFCs and SME segments.

Factors working in favour

▶ Lower crude oil prices:

Despite various geo political uncertainties, crude oil price has been well behaved at a lower level of around 60 \$ per barrel.



▶ Low inflation:

Lower global commodity prices, muted domestic demand and various compliance reforms undertaken over the last few years have led to sustained low inflation.

▶ Monsoon:

With above normal monsoon this year, the outlook for winter (rabi) crop is benign and this bodes well for rural incomes in near term.

▶ Improvement in monetary transmission:

With the surplus liquidity in the banking system persisting for the last 6 months, monetary transmission has picked up pace. Policymakers have taken various steps to bring the confidence back in the credit market. Lending rates have also started to decline and this bodes well for credit growth recovery in the coming quarters.

▶ Worst of the NPAs getting behind:

With the introduction of the IBC there has been significant progress on the resolution of stressed assets for the financial system. Banks balance sheets are in much better shape and continues to improve.

▶ Record high foreign exchange reserves and stable currency:

India's forex reserves are at record high on the back of strong foreign capital inflow led BoP surplus. INR has also been very stable in the past few quarters.

To conclude, while there is no doubt that Indian economy has slowed down, probably more than expected but at the same time we are seeing some promising signs. The financial system is recovering with credit spreads coming down, global growth seems to be stabilizing and government spending has improved. We believe the Indian economy has very likely bottomed at least near the bottom. We remain optimistic on equity revival based on positive factors like policy support, lower crude oil prices, easy liquidity coupled with reasonable valuations.

Disclaimer: The information herein above is meant only for general reading purposes and the views being expressed only constitute opinions and therefore cannot be considered as guidelines, recommendations or as a professional guide for the readers. The document has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. The sponsors, the Investment Manager, the Trustee or any of their directors, employees, affiliates or representatives (entities & their affiliates) do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information. Recipients of this information are advised to rely on their own analysis, interpretations & investigations. Readers are also advised to seek independent professional advice in order to arrive at an informed investment decision. Entities & their affiliates including persons involved in the preparation or issuance of this material, shall not be liable in any way for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including on account of lost profits arising from the information contained in this material. Recipient alone shall be fully responsible for any decision taken on the basis of this document.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.



Stock of the quarter

EXIDE INDUSTRIES LTD

AUTO PARTS & EQUIPMENTS

RECOMMENDATION: ACCUMULATE

Market Cap (Cr) - Rs 15,249 | Cmp Rs: 179 | Target Rs: 226

26th December 2019

About the Company: Kolkata based Exide Industries Ltd (Exide) is India's largest 7 decade old manufacturer of lead acid storage batteries and power storage solutions provider. The company manufactures the widest range of storage batteries in the world from 2.5 Ah to 20,400 Ah capacities, covering the broadest spectrum of applications. With nine factories equipped with world's latest and most advanced machineries, spread across the country, seven factories are dedicated to manufacturing batteries and the other two factories for Home UPS Systems.

INVESTMENT RATIONALE

Largest player in lead acid battery: Exide Industries Ltd (Exide) is the largest lead acid battery manufacturer in India with leadership in Auto OEM and replacement segment. Exide is expected to improve its market share because of its continuous market and product level strategies. Also with the auto scrappage policy strong replacement demand for vehicles and economic recovery would lead to better capacity utilisation and margins improvement going forward. Further demand would also come in from AUTO OEM and Industrial segment which will help retain its leadership position. Its increasing investments in technology like its peers are helping it provide better service to its customers.

Diversified revenue across industries with early entrant in the lithium ion biz: Exide sells its batteries to a large customer pool, spanning across the automobile and industrial battery segments. The industrial battery customers are primarily from sectors like power, railways, telecom, solar projects etc. A diversified user base mitigates demand risks to some extent. Exide has entered the domestic lithium ion battery manufacturing business by forming a JV with Switzerland based Leclanche SA in Gujarat in (75:25) ratio. The JV is initially for installing three assembly lines in the facility for manufacturing different types of products. Of the three, a battery pack assembly line is expected to be operational by the Q3 FY20 and other two are expected to be ready by end of Q4 FY20. Exide's wide marketing network, along with Leclanche SA's technical competence is likely to provide a positive edge to the JV in the domestic lithium battery market..

Recovery in margins to be on cards: Exide's revenue was supported by healthy growth in replacement and industrial segments (UPS, Solar and Infrastructure segments). It grew by 4% in Q2 YoY to Rs 3779 Cr. Slowdown in revenue growth was mainly due to fall in OEM segment. Exide's operating margins improved 250bps in Q2 FY20 to 10.91% against 8.43% last year. Lower lead prices and improving product mix has helped Exide achieve such margins. Lead prices have corrected by 17% on YoY basis, while the product mix has improved with reduced share of OEM revenues. With such improving performance PAT has reached to the levels of Rs 247 Cr in Q2 FY20 against Rs 214 Cr in Q2 FY19

MVIEW

We believe Exide is pure OEM play in the field of Auto ancillaries; we also appreciate Exide despite the steep fall in revenues of the OEM segment, it could owe for healthy growth from the replacement and industrial segments. At CMP Exide Industries is trading at 15x FY20 PE which is quite lower PE multiple in last five years due to down cycle in Auto Industry. However we assume and witness positive up-trend in Auto sales from Q3-Q4-FY20 and also expect lower lead prices would improve hereon and support sustainable operating margins going forward. Considering all rationales assuming supportive lead prices and better product mix and focusing on cost control with technology upgradation as strategies to improve the bottom-line. We recommend investors to "Accumulate" Exide with a Target Price of Rs 226 with 12-18 month which translates to 28% upside from the current level with favourable risk-reward.

PROFIT & LOSS STATEMENT (RS CR)

Particulars	FY17	FY18	FY19	FY20E
Income From Operation	8613	13083	14721	15899
YOY Growth		52%	13%	8%
Expenditure				
Cost of Material Consumed	4986	6087	7076	7313
Changes in Inventory	-279	10	-4	0
Employee benefit expense	520	962	1034	1214
Other Expenditure	1319	3004	3328	3657
Excise duty	970	275	0	0
Changes in valuation of liability of life insurance policy	0	1350	1735	1925
Total	7516	11688	13169	14109
EBIDTA Rs	1097	1395	1552	1789
YOY Growth		27%	11%	15%
EBIDTA Margin %	12.7%	10.7%	10.5%	11.3%
Interest	4	106	107	114
Depreciation	206	267	344	433
Exceptional items	0	-42	108	0
PBT	886	1022	1101	1242
Other Income	90	68	40	79
PBT	976	1090	1141	1321
Tax	282	354	402	330
PAT Rs	694	736	739	991
YOY Growth		6%	0%	34%
PAT Margin %	8.1%	5.6%	5.0%	6.2%
EPS	8.16	8.17	9.97	11.66

Data as on 26 th December 2019



NATURAL GAS

Natural gas prices tumbled more than 14% in December as warmer than normal weather is expected to cover most of the east coast for the next few days.

The warm weather is expected to reduce natural gas demand, which should turn the trajectory of inventory draws upward.

Hedge funds bought back some of their short positions in futures and options but remain short to the extent of 3 contracts short for every 1 contract long.

Support can be seen as demand increases driven by power generation and buildings sectors, according to the EIA. Total U.S. consumption of natural gas rose by 7% compared with the previous week.

Natural gas consumed for power generation climbed by 7% week over week. Industrial sector consumption increased by 5% week over week. In the residential and commercial sectors, consumption increased by 7%.

Some traders covered their shorts last week because of the uncertainty. Originally, traders were looking for stronger cooling around January 3-5, but this was moved to January 1-4, encouraging some weaker shorts to close their bearish positions.

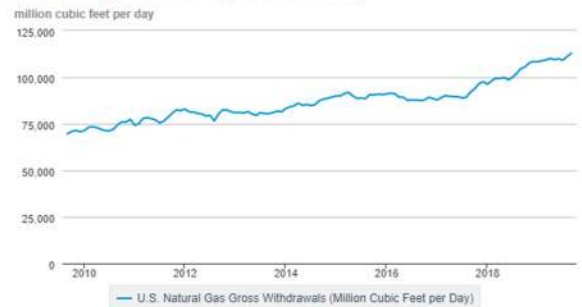
MCX NATURAL GAS					
Moving Averages	SMA	EMA	SMA SIGNAL	EMA SIGNAL	Price Performance
5 Days	164.4	163.9	SELL	SELL	Period Performance
10 Days	162.6	164.9	SELL	SELL	1 Week -2.33
20 Days	168.6	168.7	SELL	SELL	1 Month -15.52
50 Days	176.9	173.1	SELL	SELL	3 Month -13.20
100 Days	171.8	173.7	SELL	SELL	6 Month 4.02
200 Days	172.7	178.8	SELL	SELL	1 Year -60.84

Technical Indicator		Pivot Points Classic			
Name	Value	Name	Value	Resistance	Support
RSI (14)	45.46	Williams%R	-60.74	172.8	152.2
CCI (14)	-43.24	UltimateOsc	59.97	180.4	144.6
ATR (14)	6.74	Stochastic		189.6	135.8
MACD (12,26)	-4.77	%K	27.14		
ADX (14)	16.74	%D	30.00	Pivot Point	162.5

HIGHLIGHTS

1. Some traders covered their shorts last week because of the uncertainty. Originally, traders were looking for stronger cooling around January 3-5, but this was moved to January 1-4, encouraging some weaker shorts to close their bearish positions.
2. Meteorologists projected the weather in the Lower 48 U.S. states will turn from near normal now to warmer in December month.
3. Gas production in the Lower 48 states rose to 94.1 billion cubic feet per day (bcfd) on Thursday from a six-week low of 94.0bcfd on Wednesday due to declines in Texas and Pennsylvania.

U.S. natural gas production (gross withdrawals)



This year, gas in storage so far stands at 3.411 tcf, according to the Energy Information Administration's reading for the week ended Dec. 13. That is 638 bcf, or 23%, higher than the same week a year ago and just 9.0 bcf below the five-year average.

Only Real Cold Will Redeem This Winter's Pricing

OUTLOOK

On a Weekly substructure, Natural Gas Prices are trading in Down Trend in the past many weeks. Natural Gas prices are showing a bearish pattern in the coming weeks. Natural Gas near 205 to now trading below 160 Further Natural Gas Trading Below its Middle "Bollinger Band" formation which designates the Bearish Trend in the counter.

Moreover prices of Natural Gas trading below its major Moving Average like 20,50,100,200 which also suggests more Downside in the coming days. In addition, a momentum indicator RSI (14) trading below 50 levels, on Daily substructure which is suggested more down Momentum for coming days.

Another Major Indicator MACD on Daily has shifted below 0 lines with Negative crossover which denotes that price may remain Bearish for the coming days.

Mview: SELL NATURAL GAS ON JUMP 170, ADD MORE 180, SL ABV 195 & TGT 142-130.



Disclaimer: The information herein above is meant only for general reading purposes and the views being expressed only constitute opinions and therefore cannot be considered as guidelines, recommendations or as a professional guide for the readers. The document has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. The sponsors, the Investment Manager, the Trustee or any of their directors, employees, affiliates or representatives (entities & their affiliates) do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information. Recipients of this information are advised to rely on their own analysis, interpretations & investigations. Readers are also advised to seek independent professional advice in order to arrive at an informed investment decision. Entities & their affiliates including persons involved in the preparation or issuance of this material, shall not be liable in any way for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including on account of lost profits arising from the information contained in this material. Recipient alone shall be fully responsible for any decision taken on the basis of this document.



OUR SERVICES

BROKING

- EQUITIES - BSE, NSE & MSEI
- DERIVATIVES - NSE
- COMMODITIES - MCX & NCDEX
- DIAMOND - ICEX
- CURRENCY - NSE

WEALTH MANAGEMENT

- DEMAT SERVICES - CDSL
- PMS & AIF
- LOAN AGAINST SHARES
- RESEARCH ADVISORY
- DISTRIBUTION - MUTUAL FUNDS/IPO/BONDS

Disclosures: The following Disclosures are being made in compliance with the (herein after referred to as the Regulations). Mehta Equities Ltd. (MEL) is a SEBI Registered Research Analyst having registration no. INH00000552. MEL, the Research firm as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MEL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and BSE Limited (BSE), Multi Commodity Exchange of India (MCX), National Commodity & Derivatives Exchange Ltd. (NCDEX) & ICEX for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Neither MEL nor its associates or the Research Analyst(s) named in this report or his/her relatives individually own 1% or more securities of the company(ies) covered under this report, at the relevant date as specified in the SEBI (Research Analysts) Regulations, 2014 but MEL and/or its associates and/or Research Analyst may have actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MEL and its associate company(ies), their directors and Research Analyst and their relatives may; from time to time, have a long or short position in, and buy or sell the securities or derivatives thereof of companies mentioned herein. MEL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. To enhance transparency, MEL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MEL and/or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MEL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. **Terms & Conditions:** This report has been prepared by MEL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MEL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose only and clients has to initiate decision to buy or sell or hold, considering their own risk before investing, MEL will not treat recipients as customers by virtue of their receiving this report. MEL may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and must not alone be taken as the basis for an investment decision. **Analyst Certification:** The views expressed in this research report accurately reflect the personal views of the analyst(s) and investment committee(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analyst fulfills all the qualification required as per SEBI Research Analyst Regulations 2014. **Disclosure of Interest Statement:** Analyst ownership of the stock: No

903, Lodha Supremus, Dr. E. Moses Road, Worli Naka, Mumbai - 400018

Tel: +91 2261507100 / Fax: +91 2261507102 / Website: www.mehtagroup.in / Email id: info@mehtagroup.in

Dealing Desk : 022-61507118/119/120 Research Desk : 022-61507123/124/142 Commodity Desk : 022-61507125/126/128
 Risk Management Desk : 022-61507135/136/137 Mutual Fund Desk : 022-61507144/145/147
 Wealth Management Desk : 022-61507197 IT Desk : 022-61507157/158/137 Backoffice Desk : 022-61507169/170/172
 Compliance Desk : 022-61507179/180 Account Desk : 022-61507183/184/185