

Week Gone By

- ⇒ UK public sector borrowing excluding banks in February declined to its lowest level for the month since 2007, figures from the Office for National Statistics showed Tuesday. Net borrowing excluding public sector banks dropped by GBP 2.8 billion year-on-year to GBP 1.8 billion, which was lowest for February since 2007.
- ⇒ According to the International Stainless Steel Forum (ISSF), global stainless steel crude steel production fell 1.5% to 113.01 million tons in the fourth quarter 2016, an increase of 11.4%, compared to the same period of the previous year.
- ⇒ Germany services Purchasing Managers' Index climbed more-than-expected to 55.6 in March from 54.4 in February, flash survey results from IHS Markit showed Friday.
- ⇒ Iron ore futures in China have slipped to their lowest figures in around two months as falling steel prices are triggering concerns about weaker demand for Iron ore. The most-traded iron ore on the Dalian Commodity Exchange fell 1.3% to reach 584.50 yuan a tonne that is around \$ 87.6 a tonne.

Week Ahead

- ⇒ Auto stocks will be in focus as auto companies will start reporting sales volume data for March 2017, starting from Saturday, 1 April 2017.
- ⇒ Aviation stocks will be in focus as PSU OMCs will revise jet fuel prices by next weekend. PSU OMCs revise jet fuel prices on the last day of every month. Aviation turbine fuel or jet fuel constitutes more than 50% of operating cost for airliners. Prices of jet fuel are directly linked to crude oil prices.
- ⇒ The data on final estimates of Q4 December 2016 gross domestic product (GDP) will be unveiled on Thursday, 30 March 2017. Dallas Federal Reserve Bank President Dennis Kaplan participates in a moderated discussion at the US Chamber of Commerce's Capital Markets Summit in Washington, D.C. on the same day.
- ⇒ On the global front, in the US, the Conference Board will unveil the headline Consumer Confidence Index for March on Tuesday, 28 March 2017.

Technical View

Nifty closed with a gain of 0.70% at 9108. Index failed to sustain above the previous weeks high. Price has earlier surpassed the down sloping trend line which is drawn connecting the previous peaks after consolidating around it which is a bullish signal for medium term trend. RSI has halted at its oversold mark, wherein it faces resistance from its previous peak as well. Going ahead till index maintains above 9060 it is expected to continue its up move towards 9220-9300 while support past 9060 comes at 8970-8860.

1-Nifty 50 - 24/03/17



Weekly Wealth

DOMESTIC INDICES

	24-March-17	17-March-17	Weekly Chg (%)
Nifty	9,108	9,160	-0.6
CNX Nifty Junior	24,806	24,915	-0.4
Nifty 100	9,391	9,443	-0.5
Nifty 500	7,905	7,933	-0.4
Nifty Midcap 100	16,936	16,902	0.2
Sensex	29,421	29,649	-0.8
BSE 100 Index	9,417	9,465	-0.5
BSE 200 Index	3,954	3,970	-0.4
BSE 500 Index	12,485	12,525	-0.3
BSE Mid-Cap	13,849	13,893	-0.3
BSE Small Cap	14,078	14,013	0.5

NIFTY TOP GAINERS (WEEKLY)

	24-March-17	17-March-17	Weekly Chg (%)
Kotak Mahindra	879.4	848.3	3.7
Coal India	297.9	289.3	3.0
NTPC	164.6	160.0	2.9
Bank of Baroda	169.1	164.9	2.5
Lupin	1,487.8	1,456.6	2.1

NIFTY TOP LOSERS (WEEKLY)

	24-March-17	17-March-17	Weekly Chg (%)
Idea Cellular	90.9	108.1	-15.9
Axis Bank	489.4	517.2	-5.4
Dr Reddys Labs	2,628.4	2,736.3	-3.9
TCS	2,427.2	2,525.8	-3.9
Maruti Suzuki	6,004.7	6,192.6	-3.0

WORLD INDICES

	24-March-17	17-March-17	Weekly Chg (%)
Nikkei index	19,263	19,522	-1.3
Hang Sang Index	24,358	24,310	0.2
Kospi Index	2,169	2,165	0.2
Shanghai SE Comp	3,269	3,237	1.0
Strait Times Index	3,143	3,169	-0.8
Dow Jones	20,635	20,935	-1.4
NASDAQ	5,818	5,901	-1.4
FTSE	7,328	7,434	-1.4

FOREX

	24-March-17	17-March-17	Weekly Chg (%)
USD/INR	65.4	65.5	-0.2
GBP/INR	81.7	80.9	1.0
Euro (Rs.)	70.7	70.3	0.6
JPY/INR(100)	58.9	57.9	1.7

FII - ACTIVITY

(Rs. Cr.)

Date	Purchases	Sales	Net
20/03/2017	4,931.6	4,875.0	56.7
21/03/2017	8,539.1	6,876.4	1,662.7
22/03/2017	6,557.7	6,201.0	356.6
23/03/2017	5,979.8	4,885.3	1,094.5
24/03/2017	5,979.8	4,885.3	1,094.4
MTD	106,201.2	86,402.6	19,798.6

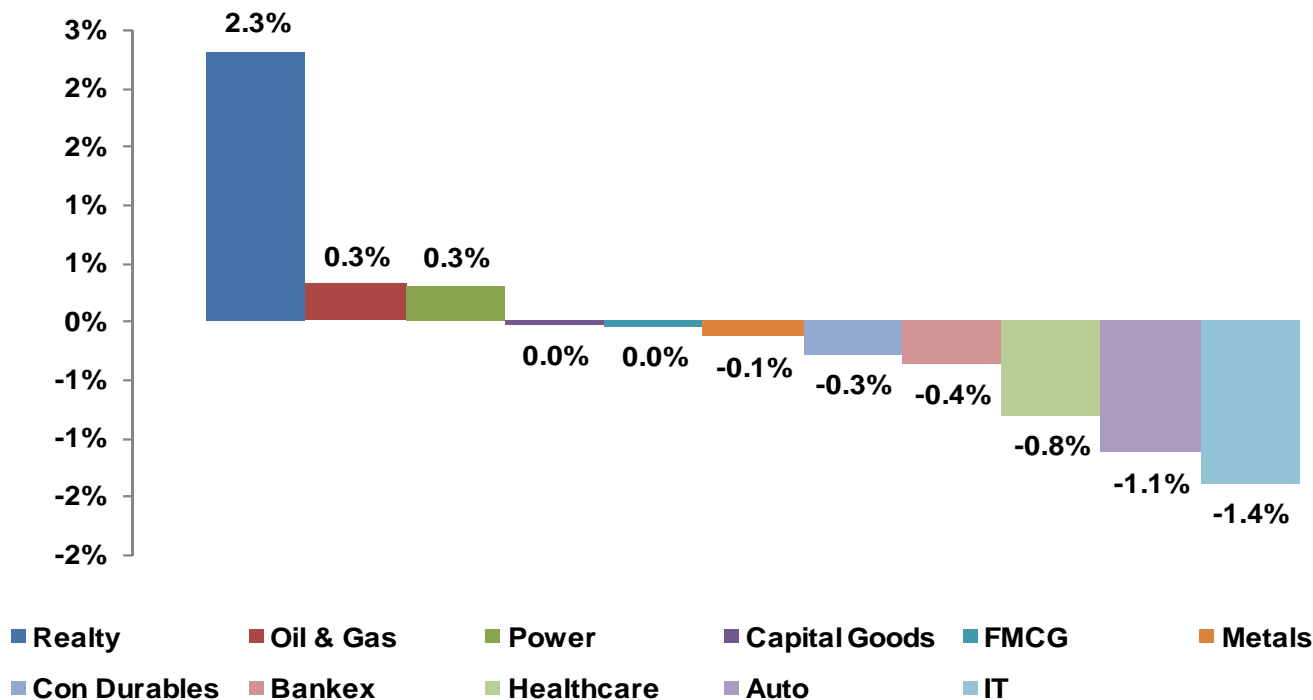
DII - ACTIVITY

(Rs. Cr.)

Date	Purchase	Sales	Net
20/03/2017	2,173.1	2,709.3	-536.2
21/03/2017	2,426.3	3,224.8	-798.6
22/03/2017	2,336.4	3,116.3	-779.9
23/03/2017	2,449.7	3,040.5	-590.8
24/03/2017	2,449.7	3,040.5	-590.8
MTD	43,441.7	52,790.6	-9,348.9

Weekly Wealth

BSE Weekly Sectoral Performance



Source: BSE, BP Equities Research

TOP OPEN INTEREST GAINERS (WEEKLY)

	17-March-17	24-March-17	Weekly Chg (%)	17-March-17	24-March-17	Weekly Chg (%)
	Share Price (Rs)			Open Interest		
DIVISLAB	764.3	623.3	-18.4	5,034,000	10,539,000	109.4
ICIL	186.5	203.3	9.1	4,630,500	9,243,500	99.6
M&M	1306.9	1276.1	-2.4	3,786,500	5,033,000	32.9
ARVIND	405.7	391.6	-3.5	5,982,000	7,900,000	32.1
JINDALSTEL	130.7	120.0	-8.2	35,316,000	45,864,000	29.8

TOP OPEN INTEREST LOSERS (WEEKLY)

	17-March-17	24-March-17	Weekly Chg (%)	17-March-17	24-March-17	Weekly Chg (%)
	Share Price (Rs)			Open Interest		
JETAIRWAYS	479.1	493.6	3.1	6,354,000	5,025,000	-20.9
HINDZINC	294.6	295.3	0.2	14,505,600	12,112,000	-16.5
SINTEX	100.9	99.9	-0.9	52,240,500	43,847,250	-16.1
RELCAPITAL	603.1	601.7	-0.2	12,942,000	10,893,000	-15.8
LICHSGFIN	587.5	601.4	2.4	6,941,000	6,009,300	-13.4

Source: NSE, BP Equities Research



Weekly Wealth

Bulk Deals

Date	Scrip Name	Client Name	Exchange	Deal Type	Quantity	Trade Price (Rs)
20/03/2017	GREENPLY LTD.	SBI MUTUAL FUND A/C MAGNUM MIDCAP FUND	BSE	BUY	2,842,466	275.00
21/03/2017	BHARAT FINANCIAL INCLUSION LIMITED	CITIGROUP GLOBAL MARKETS MAURITIUS PRIVATE LIMITED	NSE	BUY	800,000	821.60
22/03/2017	CEAT LTD.	JWALAMUKHI INVESTMENTS HOLDINGS	BSE	BUY	1,432,897	1,290.4

Source: Company, BP Equities Research



Learning Curve

Long term investments must be in equity to beat inflation

The best way is to say it bluntly: Your long-term investments must be kept in equity-backed investments. Not doing so will expose you to the dire spectre of old-age poverty. Except for the small proportion of people who have inherently inflation-linked lifelong income, everyone else must invest almost all their long-term investments in equity. Last week, I had concluded this column by showing that deposit-type savings yield very little real (above inflation rate) rates of return and those who depend on these exclusively need to save a lot more in order to avoid hardships in the future. Unless you have earned rental income that can be hiked periodically, or you have a government pension, you will have to fight inflation yourself. How will you fight this battle? There's only one weapon you have, which is equity-backed investments. However, the problem is India's investment culture, which is changing, but not fast enough. Once upon a time, India was a pure fixed-income country. Except for a tiny handful of punters, all financial investments were made into deposits of one kind or another. This was true at least till the mid-1990s. The only time the investor dabbled in equities was when he filled out his application form for an IPO, or 'issue', as it was then called. And in any case, this 'issue' was seen more as a lottery ticket than a reasoned investment. Then, from the mid-1990s onwards, there rose a small but distinct equity culture where individuals started investing in equity mutual funds in reasonable numbers. However, when seen in the context of the size of the saving population and the kind of money that is invested in deposit-type products, equity exposure is tiny. To understand why inflation can be beaten substantially only by equity, let's step back and think from the basics. There are only two ways of investing money—either you lend it to someone, or you own your own business. When you lend, you get a basic return but do not share in the upside. For anyone who is good at doing business, the best way to invest is in your own. Fortunately, because of the existence of stock markets, any of us can become owners (or rather, part-owners) in a business. We can reap the financial advantages of being owners with very few challenges that the real owners face. This means investing in equity. Equity could mean buying shares, but for beginners it generally means investing in equity-based mutual funds. This may sound like a dogmatic statement, but it's actually a realistic one. To appreciate this, one should understand the source of equity profits. The ultimate source of profits is the general growth of the economy. On an average, stocks should grow at a rate that is at least equivalent to the growth of the economy. And the inflation rate is built into the growth of the economy. If inflation is 5% and the real economy grows at 5%, then stocks on the whole could match 10%. And that's just the average. As an investor, if you are able to select stocks that are better than the average (through a good equity mutual fund, for example), then you can beat the general rate of economic growth by a larger margin. The fear that people have is that of volatility. The daily noise (I won't call it news) from the stock markets is such that the overwhelming impression we get is of volatility. However, this is but an illusion. If you were to look at the equity markets once every 10 years, you would consider them (and rightly so) the greatest investments in the world.

Source: *Economic Times*

Batteries

Company Overview

Amara Raja Batteries Limited (AMRJ) was founded by Dr. Ramachandra N Galla in 1985. It is the second largest lead-acid battery manufacturer in India. The company started by supplying batteries to the industrial segment and diversified to the automotive battery segment in 2000 through a technical tie-up with Johnson Control Inc (JCI), the world leader in automotive batteries. JCI also picked up a 23% stake in AMRJ in 1998 (subsequently increased to 26%). It entered the two-wheeler (2W) replacement segment in FY2008. Over the years, AMRJ has been able to gain significant market share in both automotive OE and replacement segments. The Galla family owns another 26% stake in the company.

Investment Rationale

Battery Business to remain Duopoly in nature

The battery business in India has undergone a shift from monopoly to duopoly in nature. Amara Raja and Exide are the only emerging players. The battery business has certain entry barriers like technological competence, OEM approval & relationship, brand and distribution network. Exide and Amara Raja are the only two companies who have been able to overcome these barriers successfully.

GST implementation will be an aided advantage

The share of unorganized segment in auto replacement market has been declining over the years as customers are becoming more brand conscious. However, it still accounts for around 35% of auto replacement market particularly in the commercial vehicle and tractor segments. There is an expectation that implementation of GST would accelerate the pace of market shift from unorganized segment to organized segment and the price differential will narrow down by 5-10%. The stricter regulation on scraping and processing of old batteries will act as a beneficiary as the unorganized sector is thriving because of less cost they incur in taxes and compliance. Gradually, the revenue and profitability of the company will increase and it will gain market share.

Johnson control provides strategic edge

Amara Raja Batteries has a strong advantage on innovation (products, advertising) and its parentage, enabling superior manufacturing (low cost) and products. As battery technologies, such as lithium-ion evolve, strategic global partnerships and low-cost architecture will play important roles. Johnson Control, the world leader in automotive batteries, has played an important role in AMRJ's success, helping it get access to the best product technology and manufacturing practices. With Johnson already working on Lithium ion battery, it will have an added advantage and will continue to provide technical benefits. And also the Johnson Control does not charge royalty on providing technological services.

Valuation & Outlook

The outlook for the entire battery industry is expected to improve with recovery in OEM volumes and increasing competitiveness with GST implementation. The company is having a strategic advantage because of having a technical tie-up with Johnson Control. We expect double-digit volume growth for the company in the next 3 years, mainly driven by strong growth in the aftermarket segment for both 4W and 2W. We value the stock at 25x FY19E earnings and arrive at a Target Price of Rs 1064/-.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	874
Target Price (Rs)	1064
BSE code	500008
NSE Symbol	AMARAJABAT
Bloomberg	AMRJ IN
Reuters	AMAR.BO

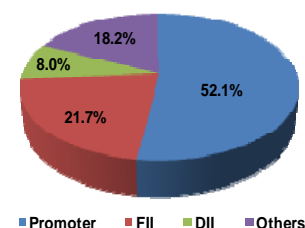
Key Data

Nifty	9,154
52WeekH/L(Rs)	1077/773
O/s Shares (mn)	171
Market Cap (Rs Bn)	151
Face Value (Rs)	1

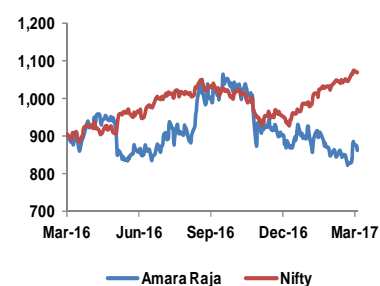
Average volume

3 months	356,220
6 months	322,380
1 year	316,120

Share Holding Pattern (%)



Relative Price Chart



Research Team

022-61596407



Weekly Wealth

Key Financials

YE March (Rs. mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	42,113	46,907	53,653	62,442	73,921
Growth%	22.5%	11.4%	14.4%	16.4%	18.4%
EBITDA	7,441	8,625	9,651	10,983	12,706
Growth%	22.8%	15.9%	11.9%	13.8%	15.7%
Net Profit	4,109	4,894	5,437	6,141	7,270
Growth%	11.8%	19.1%	11.1%	12.9%	18.4%
Diluted EPS (Rs.)	24.1	28.7	31.8	36.0	42.6
Growth%	11.8%	19.1%	11.1%	12.9%	18.4%

Key Ratios

EBITDA(%)	17.7%	18.4%	18.0%	17.6%	17.2%
NPM (%)	9.8%	10.4%	10.1%	9.8%	9.8%
RoE (%)	24.2%	23.3%	21.4%	20.3%	20.1%
BV/Per Share (Rs.)	99	123	149	177	211

Valuation Ratios

P/E (x)	36.7x	30.8x	27.7x	24.6x	20.7x
EV/EBITDA (x)	20.1x	17.4x	15.4x	13.2x	11.5x
Market Cap./ Sales (x)	3.6x	3.2x	2.8x	2.4x	2.0x

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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