Monthly Report - December 2016

Monthly Overview

Pick Of The Month: GlaxoSmithKline Pharmaceuticals Ltd.

BUY	Target Price: ₹ 3800

Market Cap:	₹ 22990 Crores	Stock P/E:	61.01
Current Price:	₹ 2684	Book Value:	₹ 200.24
Target Price:	₹ 3800	Dividend yield:	1.80%
Upside potential:	40%+ (12-15 months)	52 Week High/Low:	₹ 3872 / ₹ 2600

Focus on Multi National Pharma Companies (MNCs):

MNCs will continue to enjoy premium given the size and product profile

• Multinational corporations (MNCs) in the global pharmaceutical industry have been reporting sluggish growth over the last few years, being held back by several factors including implementation of cost containment measures in developed countries, lack of strong product pipelines, and expiry of patents on existing products. However, going forward the MNCs in India have started showing better growths.

• Emerging markets however represent an exciting opportunity for most pharma MNCs, given that these markets are expected to achieve a size of more than USD500bn by 2020; the Indian market is expected to grow to a size of USD40bn by then.

• Pharma MNCs are currently launching branded generics in the Indian market via product localisation, a strategy that involves local branding, sourcing and pricing. This strategy helps them launch products at competitive prices, thereby addressing affordability issues. With localisation, the pharma MNCs operating in India have been able to improve their growth rates and this strategy is expected to yield future growth.

• The scaling up of field force by pharma MNCs in India to increase geographic penetration and the launch of new products in the Indian market has led to an increase in personnel costs for them. This, along with the increase in promotional and marketing expenditure on new launches, has brought pressures on operating margins, although they are still largely within the range of comfort. The margins are expected to improve once the incremental investments in marketing and sales translate into higher sales and profits.

• The inorganic route remains one of the preferred routes for pharma MNCs looking to enter the Indian branded generics market or expand their market share therein. Through acquisition, pharma MNCs get access to a ready product basket and infrastructure, besides management capabilities in the Indian market. While the M&A activity in the Indian market has so far involved large size deals, smaller acquisitions including licensing opportunities that could increase the market shares of the pharma MNCs and fill critical gaps in their portfolio may also be expected in future.

• Healthy cash flows and parent company linkage help Indian arms of Pharma MNCs to maintain a strong credit profile. **Thus these companies being Cash Rich results in higher levels of Dividends and better ROEs / ROCEs**

• The strong impact which MNCs negatively experienced was the pricing defined as per NLEM, since all the products were at a premium companies had to experience a brunt on that which negatively impacted their ratios and future visibility and growth.

Company Profile:

GlaxoSmithKline Pharmaceuticals (Glaxo) is the 6th largest pharmaceutical player in the Indian market with a market share of ~3.7%. Glaxo therapeutics segments anti-infectives, dermatology, gynaecology, diabetes, oncology, cardiovascular diseases and respiratory diseases. The company continues to focus more on the acute portfolio and hunts for opportunities in high-growth therapeutic areas such as CVS, CNS, diabetes and oncology. Further, with a strong parentage, the company plans to increase its product portfolio through patented launches and vaccines.

Key Triggers:

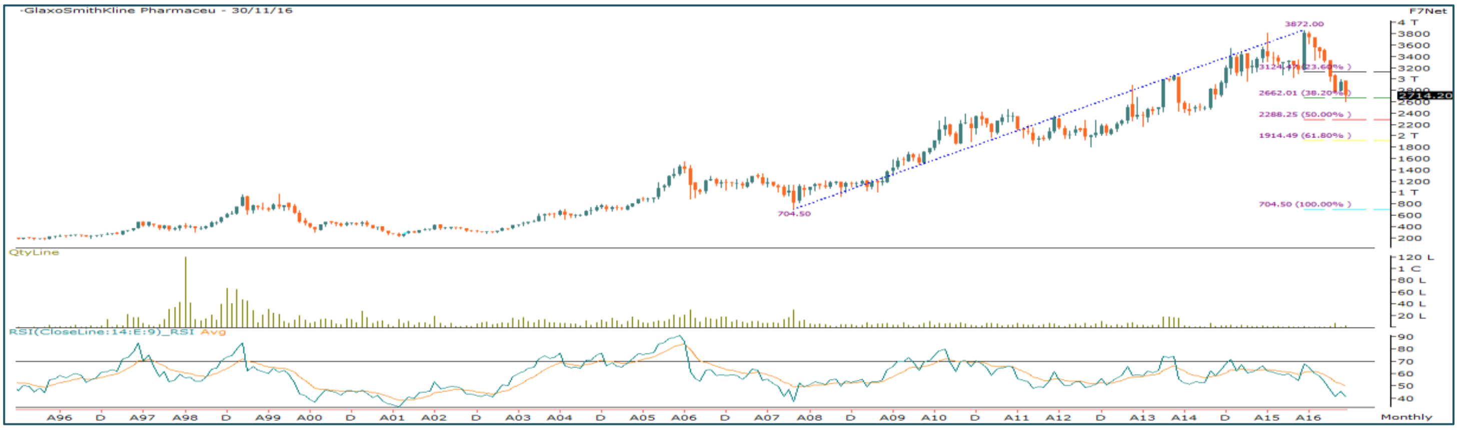
Focus on India business: Glaxo has been constantly launching new products in the market with the focus on the Specialty segment. The vaccine franchise of Glaxo continues to be strong and regularly launch products from its global kitty. The recently introduced vaccine for pneumococcal conjugate disease, Synflorix, has become the biggest brand in the vaccine portfolio of the company in the second year of its launch. Also, in FY2015, GlaxoSmithKline Plc UK, entered into three inter-conditional agreements with Novartis AG (Novartis), Basel, Switzerland. In one such agreement Glaxo agreed to acquire Novartis' vaccines business (excluding influenza vaccine) and its manufacturing capabilities and facilities, and in the second agreement, Glaxo agreed to sell the rights of its Marketed Oncology Portfolio, related R&D activities and AKT Inhibitors currently in development to Novartis. Globally, these transactions with Novartis were completed on March 2, 2015.

Mass specialty products: DPCO 2013 ruling which led to reduce the prices of the drugs negatively impacted the mass markets and mass specialty segment which contribute 60% of its sales, de-grew by 12% in CY2013. Supply constraints too negatively impacted the sales. However, going forward, with company's own facilities coming on stream in FY17, we expect the volatility in sales to end. Overall, we expect the domestic formulations to increase 10% CAGR over FY16-18E on the back of newer launches.

Large capex: Glaxo has announced a Rs864cr investment in India to set up a medicine manufacturing unit. The new facility will substantially increase the company's manufacturing base which is expected to be operational by 2017.

Strong balance sheet - strong acquisition, higher dividends: Glaxo has a cash balance of Rs2,000cr, which could be used for future acquisitions or higher dividend payouts. The company's parent company Glaxo increased stake in it through a voluntary open offer, after which parent holds 75% stake in the Indian subsidiary.

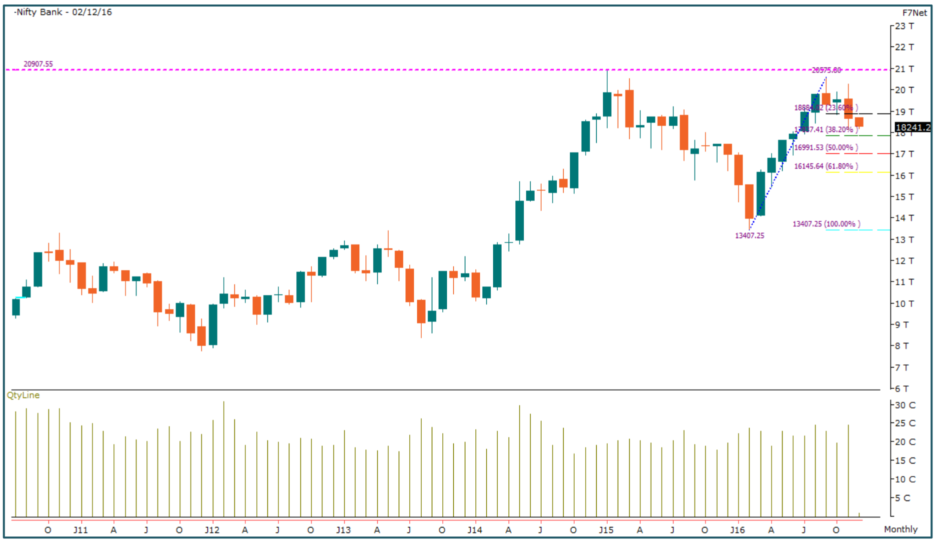
Technical Overview: GlaxoSmithKline Pharmaceuticals Ltd



- As depicted on the monthly chart, the stock rallied from the low of 704.5 to the high of 3872 levels and after around 40% retracement it is showing positive inclination.
- The falling ADX on the monthly chart is indicating that the downtrend trend strength is weakening.
- On the daily chart stock has formed kind of double bottom pattern with bullish RSI diversion which are indicating that the stock is forming stong base and rather the bears are loosing control .
- The stock is depicting positive inclination from the oversold zone and from here the risk reward ratio is more favourable for longs.

Based on above mentioned technical & fundamental rational, we can build long position in the stock with 12-15 months perspective and target can be placed at around 3800. We can accumulate the stock in the range of 2650-2750. We believe the stock is having high performance prospects with long-term perspective so one can hold the stock for longer time for better returns.

Nifty Bank- Overview



Montly Closing	18628	
Monthly High: 20310	Monthly Low : 18144	
Sector Bias:	Positive to Neutral	
Support Level:	17750	16990
Resistance Level:	19420	20310

Sector Outperformers
Bank of Baroda
Bank of India

Sector Underperformers
Federal Bank
Indusind Bank

Nifty Bank index remained weak during the month of November. It recorded losses of more than 4.5%. Technically, Bank Nifty started the month of November with sideways consolidation and after knee-jerk reaction on US election outcome and demonetization it started to show weakness. The only positive sign is that Bank Nifty is still trading quite above the 200DMA (17750). RBI recently hiked CRR by 100% to absorb a part of the surplus liquidity arising from the return of the demonetized notes so from the Policy review of 7th December expectation are low on rate cut. Though long-term structure looks good, over short to medium-term volatility with negative bias is likely to persist. Investors can accumulate selected stocks like SBIN, CANBK, HDFC with staggered manner.

Nifty 50- Overview

Monthly Chart:

Nifty Outlook

Nifty formed consecutive third negative candle on a monthly chart. Nifty reverted form 50% Fib retracement level placed at around 7900 of the rally from the low of 6825 to the high of 8968. Nifty is trading below important averages that are 50Day EMA-8395, 200Day EMA-8298 and 50Week EMA-8261. It is hovering around 200DMA since last few trading days. Nifty failed to cross 9119 high made in March 2015 and recent high of 8968 and from there Nifty has corrected till 7916 which is more than 1000Points for which 400-500Points pull back is always possible post which we expect Nifty correction towards 7600 or 7400 in next 2-3months time.

Market Synopsis

Nifty depicted strong negative impulse during November and closed the month with the losses of around 5%. During November the victory of controversial US presidential candidate Donald Trump on 8th November led to panic among investors but Nifty shown good recovery after that. However, the government announced demonetization of high-value notes which again created drastic volatility in the market. This step is likely to disrupt the business activity of few sectors and the corporate earnings for next 1or 2 quarters, though it is having big long-term positive implications on the economy.

In the month of December lots of key events are lined up which may leave major impact on domestic equities. After Brexit, Italy referendum which will be held in Italy on Sunday 4th December will impact equities globally. Secondly European Central Bank (ECB) policy review of 8th December and then the two days US FOMC meet, which will start from December 13 are other influential events. On the domestic front, State election results and RBI policy review held on 7th December is crucial though recently RBI raise the cash reserve ratio (CRR) of banks to 100% of NDTL to drain excess liquidity temporarily leaves little scope to reduce the Repo rate further.

The continuous slowdown of global economy, expected US interest rate hike and weakening of Rupee are the concern factors and secondly the year-end pressure, as it may induce FII's to pull out further money from domestic markets. FII outflows in FY16 so far are highest compared to last few years. GST implementation coupled with the ongoing reforms can radically change the domestic economy and can propel FII flows as the economy still showing strong footing compare to other emerging economies. The current volatility may prevail but value buying in overbeaten heavyweights in staggered manner can be considered with long-term perspective. Few sectors like FMCG, Power and IT are looking lucrative.

Nifty Outlook:	
Short-term	Neutral
Medium-term	Neutral to Negative
Long-term	Bullish

Montly Closing	8225	
Monthly High: 8670	Monthly Low : 8916	
Monthly Bias:	Neutral	
Support Level:	7890	7650
Resistance Level:	8480	8600

Moving Average	
Days	SMA
50 Days	8495
200 Days	8165
200 Weeks	7443

Event Calendar

Date	Event	Period	Survey	Actual	Prior
1-Dec-16	Nikkei India PMI Mfg	Nov	--	--	54.4
5-Dec-16	Nikkei India PMI Services	Nov	--	--	54.5
5-Dec-16	Nikkei India PMI Composite	Nov	--	--	55.4
5-Dec-16	BoP Current Account Balance	3Q	--	--	-$0.30b
7-Dec-16	RBI Repurchase Rate	39417	--	--	0.0625
7-Dec-16	RBI Reverse Repo Rate	Dec-07	--	--	0.0575
7-Dec-16	RBI Cash Reserve Ratio	Dec-07	--	--	--
7-Dec-16	TOPLive: Reserve Bank of India December Policy Decision				
9-Dec-16	Trade Balance	Nov	--	--	-$10160.0m
9-Dec-16	Local Car Sales	Nov	--	--	195036
9-Dec-16	Imports YoY	Nov	--	--	0.081
9-Dec-16	Exports YoY	Nov	--	--	0.096
12-Dec-16	CPI YoY	Nov	--	--	0.042
12-Dec-16	Industrial Production YoY	Oct	--	--	0.007
13-Dec-16	Manpower Survey	1Q	--	--	0.31
13-Dec-16	SEA Total Edible Oil Imports	Nov	--	--	--
13-Dec-16	SEA Palm Olein Imports	Nov	--	--	--
13-Dec-16	SEA Crude Palm Oil Imports	Nov	--	--	--
13-Dec-16	SEA Sunflower Oil Imports	Nov	--	--	--
13-Dec-16	SEA Soybean Oil Degummed Imports	Nov	--	--	--
13-Dec-16	SEA Edible Crude Palm Kernel Oil Imports	Nov	--	--	--
14-Dec-16	Wholesale Prices YoY	Nov	--	--	0.0339
26-Dec-16	Eight Infrastructure Industries	Nov	--	--	--
30-Dec-16	Fiscal Deficit INR Crore	Nov	--	--	--

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