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OUTLOOK 2020

Metals | Gold | Insurance | Pharma

7th January 2020

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Summary

What boosted the market in 2019?

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•Despite the major headwinds in 2019 From the trade war between the U.S. and China and the slowdown in global economic growth, to Britain's messy exit from the European Union and the potential impeachment of President Trump, nothing has dampened the enthusiasm for stocks as they scaled new highs despite the speed breakers

•Geopolitical tensions and various macroeconomic factors failed to keep the market under pressure as support from policymakers and various monetary and fiscal easing in the U.S. and China kept the fear at bay to support the growth in 2019

•The stock market's stellar run in 2019 can be attributed to a dramatic policy shift at the Federal Reserve Policy. The Fed raised rates four times in 2018, including a December 2018 hike that took its key rate to 2.5 percent. It was a different story in 2019, when after a change of heart the Fed lowered rates three times. Falling interest rates sent investors on a quest for yield, forcing more money into stocks expected to appreciate, pay dividends or both. The Fed's key rate is now back to a range of 1.50% to 1.75%. Additionally, the Fed has said it expects to leave rates unchanged for 2020, giving investors clarity on top of what remain historically low rates

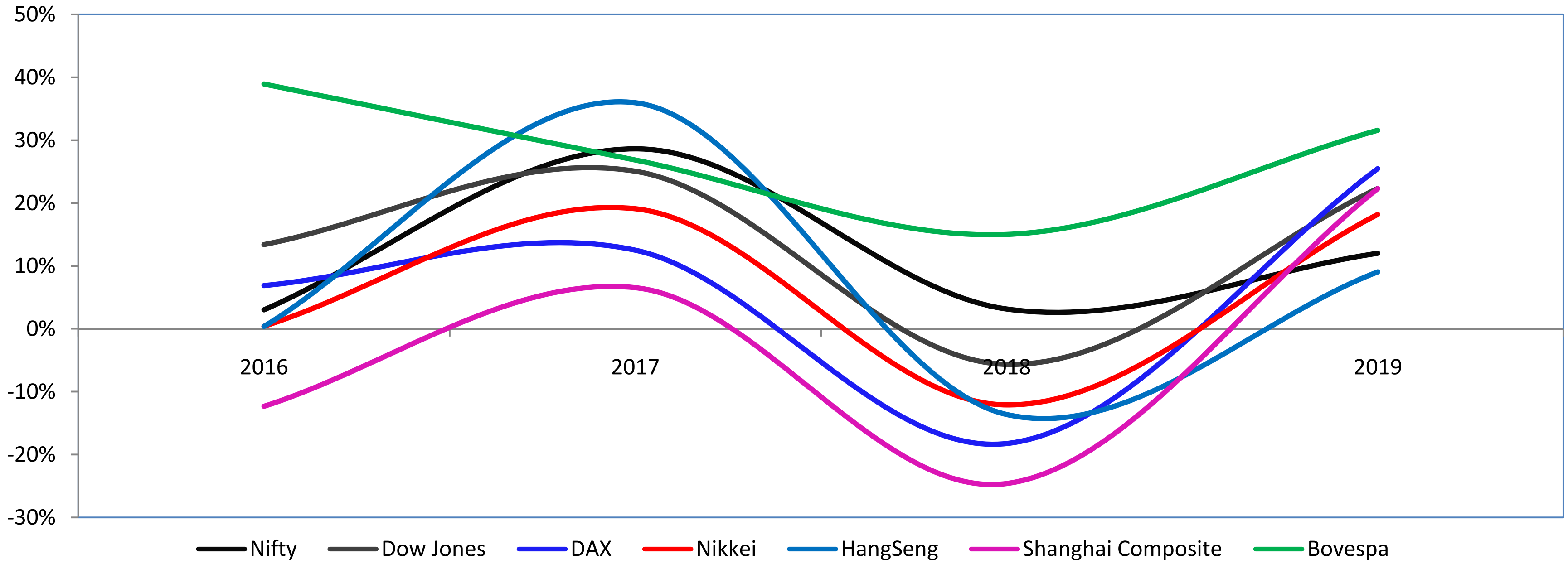
Source: Dealmoney research, Ibef, Company research

•Much of 2019 was dampened by the economy slowdown because of the trade war fears between US- China another was the U.K.'s plans to depart from the European Union i.e Brexit. On the lack of these factors the International Monetary Fund has recently downgraded its 2019 estimate for global economic growth to 3%, the lowest since the financial crisis

•But as the year came to a close, with U.K. seem to gain more rather than it would loose as it achieved a negotiated exit from the EU versus a hard one and trade tensions eased with the phase one deal between the U.S. and China

Source: Dealmoney research, Ibef, Company research

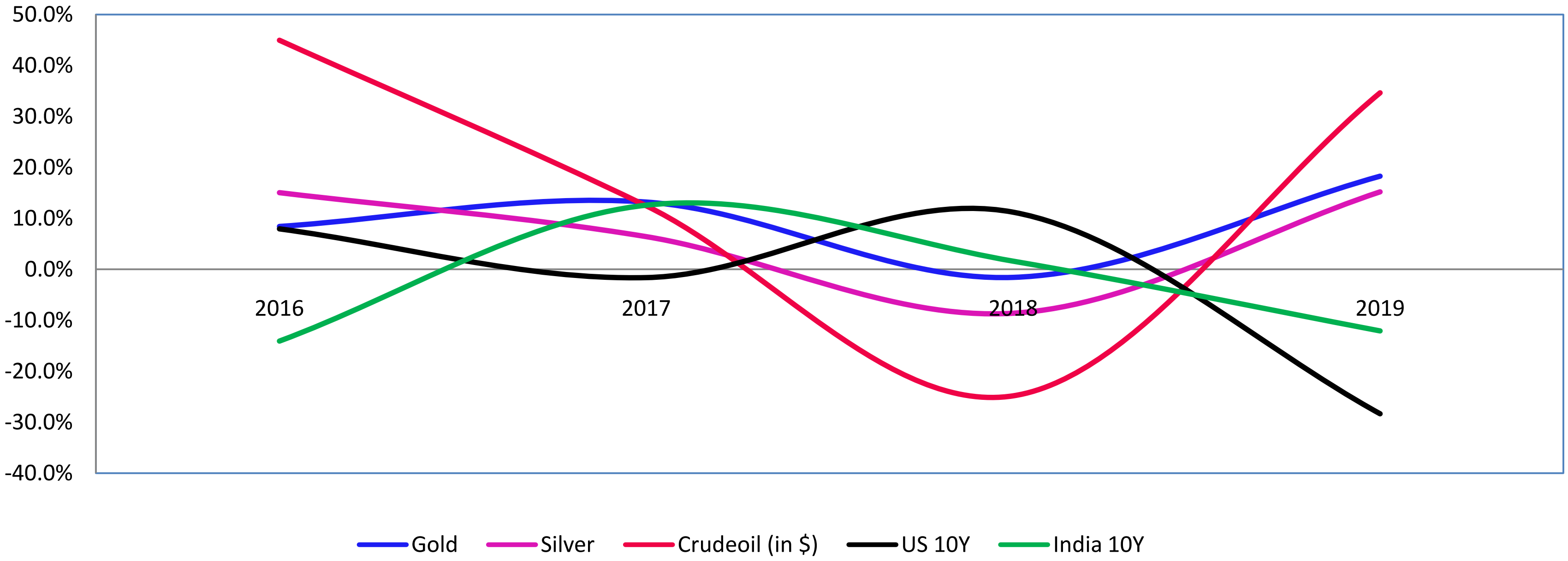
Global Indices



- Global Equity Indices rally with Bovespa (32%) outperforming significantly followed by DAX (+25%) and Dow Jones (22%)
- Indian benchmark Indices followed global trends as Sensex (+14%) and Nifty (+12%) gained

Source: Dealmoney research, Ibef, Company research

Commodities & Bond Yield - 2019



- Gold breaks out of 6 year range and shines in 2019 by gaining 18%; Silver joins in hand with gains of 15%
- Crude oil regains lost ground and was the best performing commodity by gaining 35%
- US and India 10 years bond yield fell by 28% and 12% respectively, favoring Equities

Geo-political tensions can be speed bump

- **Recovery in the business cycle is expected to pick up in early 2020**. We expect growth to accelerate in the US economy at a modestly pace of 2-2.25%, for several reasons. First, the drag from the trade war should fade absent further escalation. Second, easier financial conditions should provide a boost that is already becoming evident in the housing data. Third, we expect the strength in consumer spending to outlast the weakness in business investment

- **Risk to the growth outlook is a gradual change in the macroeconomic factors.** The risk which can impact most is that growth flat lines as inflation rises. This might pressure the negative correlation between stock and bond returns over time, reducing the diversification properties of bonds. Another risk is a deeper economic slowdown which can be led by US- China if there emerges a material escalation of global trade disputes which could in turn cut short the expected manufacturing and capex recovery that underlies our views

- **Major political events — the 2020 US presidential election, the UK election, and an eventual Brexit** — and geopolitical developments will likely influence the ebb and flow in credit sectors, sovereign rates, and the US dollar. US tariffs on imports from China have probably peaked, and there could even be a partial rollback of tariffs as part of a phase one “mini deal.” However, the longer-term US-China bilateral relationship has clearly deteriorated. Countries will be incented to appease their domestic populace and promote protectionism over globalism

Source: Dealmoney research, Ibef, Company research

Global growth slows, but no recession

GDP (in local currency, percent change)	2018	2019	2020
World	3.2	2.7	2.6
Brazil	1.1	0.9	1.3
Canada	1.9	1.4	1.3
China	6.6	6.2	5.7
Eurozone	1.9	1.1	0.8
India	6.8	6.1	6.4
Japan	0.8	1	0.3
Mexico	2	0.3	1.1
Russia	2.2	1.3	1.7
United States	2.9	2.3	2.1
United Kingdom	1.4	1	0.5

Manufacturing Index slowing

Industrial Production (percent change)	2018	2019	2020
World	3.1	1.3	2
Brazil	0.9	-0.9	1.3
Canada	3	1.5	1.7
China	6.3	5.7	5.2
Eurozone	0.9	-0.5	0.4
India	5.2	3.6	4.3
Japan	1	-0.9	0.6
Mexico	0.1	-1.2	0.6
Russia	2.9	2.3	2
United States	4	1	1.1
United Kingdom	0.8	-0.2	0.4

Source: Dealmoney research, Ibef, Company research

- In our view, the policy interventions needed to get growth to rebound to 6.5% levels are not politically challenging, particularly once the de-stocking of the last year or so starts to reverse. However, it is unclear at this stage when these actions may be taken—even though growth may recover a few quarters later, the market is likely to respond much faster. FY21 EPS growth could still be reasonable at 12-14%, even though meaningfully below current estimates of 28%. Market performance in CY20 though would be affected by how FY22 EPS moves—we expect this too to settle at a low to mid-teens growth on the reduced FY21 base

- ***The best investment opportunities for 2020 will be in emerging markets for both equities and bonds but incase if geo-political tensions increases, we might see commodities heading higher. Bullins and Energy will be the key commodities to look this year. The headwinds in the Emerging markets are now decreasing and could provide an opportunity in the China and Indian markets. Though Equity returns in the U.S. and globally will not yield the returns as of 2019 we still see a potential upside in the market for 2020***

Source: Dealmoney research, Ibef, Company research

Glance 2019 – India

The market reached and all time high on the back of various factors such as:

- Interim Budget in Feb 2019 which promised to provide stimulus to the growth
- Lok Sabha elections which was won by BJP
- RBI cutting the rate by 135bps for the year 2019
- Corporate Tax rate cut

What damped the market:

- Trade war between US – China
- NBFC crisis
- Economy slowdown
- Auto Sector Slowdown
- Leaving of FPI tax

Source: Dealmoney research, Ibef, Company research

India 2020 – Largecap roars valuation

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•**Domestic credit conditions remain tight** as market concerns in the shadow banking sector have persisted for too long. After the outbreak of the shadow banking crisis at end-2018, GDP growth slid from 5.8% y-o-y in Q1 2019 to 4.5% in Q3. The reason we remain concerned about growth prospects are that the cyclical factors responsible for the slowdown look to persist well into 2020 and the current phase of slowdown comes in the middle of a broader downturn in trend since 2016 (Figure 34), driven by a slump in investments and employment opportunities

•**The slowdown in economic growth has been led by industry, exacerbated by de-stocking**. While inventory adjustments end naturally, we still see pro-cyclical forces in credit (two-decade lows in nominal GDP growth could drive further tightening of credit conditions), fiscal (both state and central governments cutting spending, or a hike in GST) and sentiment (GFCF growth slowing; consumer sentiment weakest this decade). The rise in bond yields after MPC's recent pause, the mergers of large PSU banks, and decisions by some state governments to re-open contracts awarded by their predecessor governments are also risks

•**Indian annual corporate earnings growth over last 5 years had been mere 4.2%** which is way below the historical average. ***Though sales growth for Nifty from FY15 to FY19 had been decent 9.5%, the reported profit growth has consistently disappointed. This disappointment is the key reason why Indian market trades at an apparent high valuation multiple while price gain had been sub-par***

Source: Dealmoney research, Ibef, Company research

•With stressed balance sheets, the investment cycle has slumped. Over the past decade, new investment projects announced by the government and private sector have moderated. The slowdown in demand and elevated levels of real lending rates are likely to lead to a further decline in capacity utilisation and cap impetus for fresh investment. Meanwhile, households are facing an earnings crunch in terms of more unemployment and declining real wages. Banks (and shadow banks) continue to lend to households, despite lower income growth, which has resulted in leverage-driven consumption, but at the cost of falling household savings. The drop in capital stock combined with a decline in labour input has led to a plateauing of potential growth

•Policy interventions are needed to get growth to rebound to 6.5% levels are not politically challenging, particularly once the de-stocking of the last year or so starts to reverse. Much of the earnings growth is also expected to be from firms that are only indirectly affected by domestic macroeconomic factors. FY21 EPS growth could still be reasonable at 12-14%, even though meaningfully below current estimates of 28%

•Earnings growth for India Inc. can be seen to support markets in the new year. A possible economic recovery, lower corporate tax rate, clean up of bad assets at banks, above average monsoon and accommodative central bank stance support the outlook. We expect narrow market performance to continue for now, as economic uncertainty continues to push funds into the “safe” stocks

Source: Dealmoney research, Ibef, Company research

Economic Story in Charts

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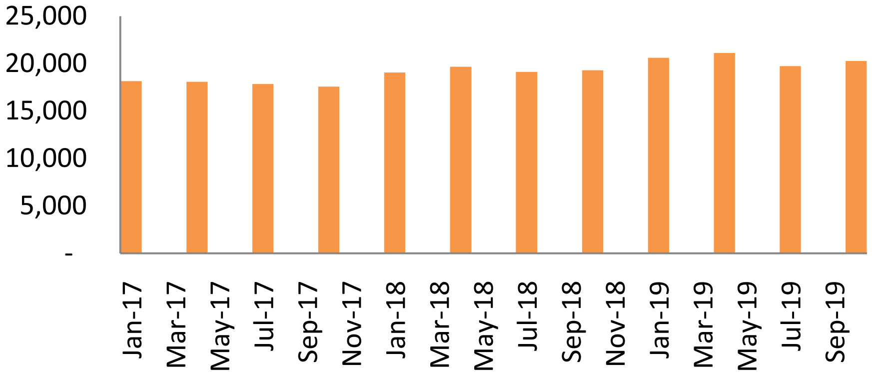
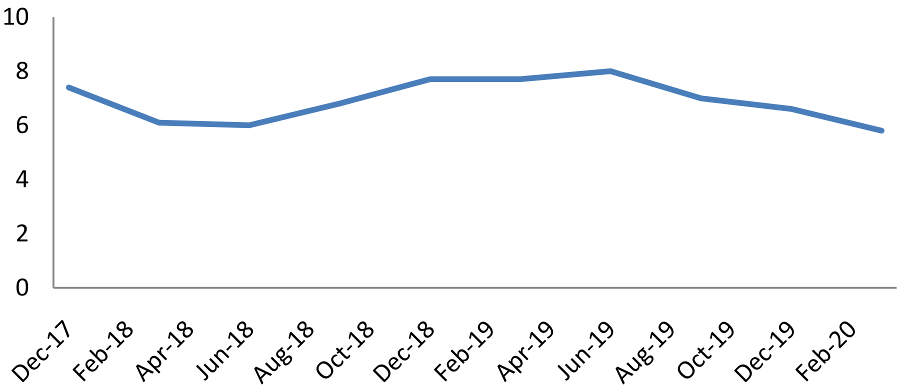
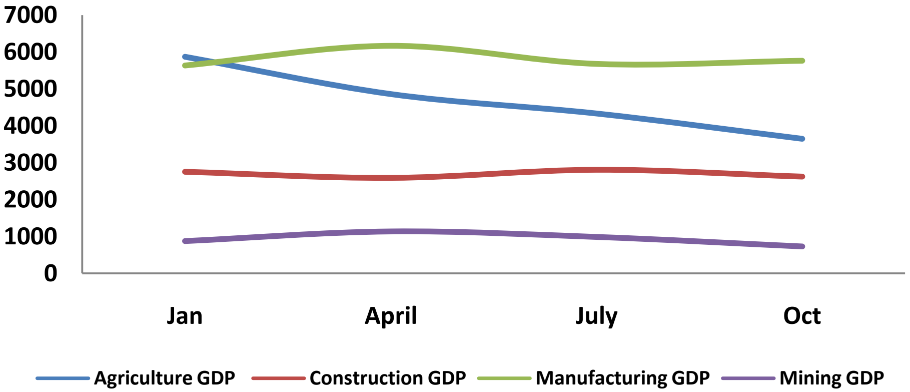
Consumer spending



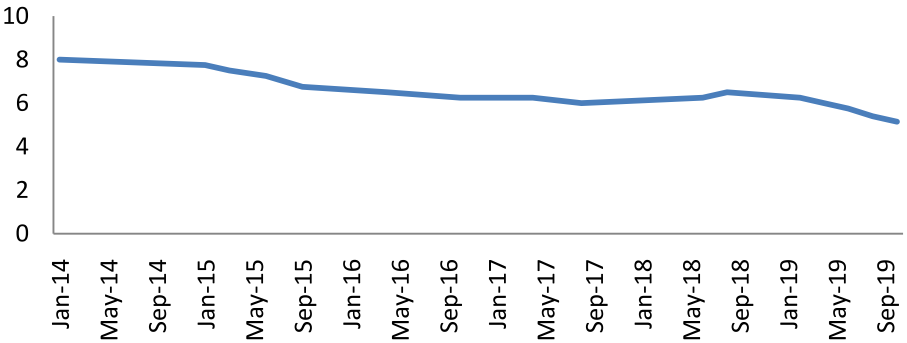
GDP growth rate



Sectorwise GDP contribution



Repo Rate



Source: Dealmoney research, Ibef, Company research

Inflation & Inflation Growth

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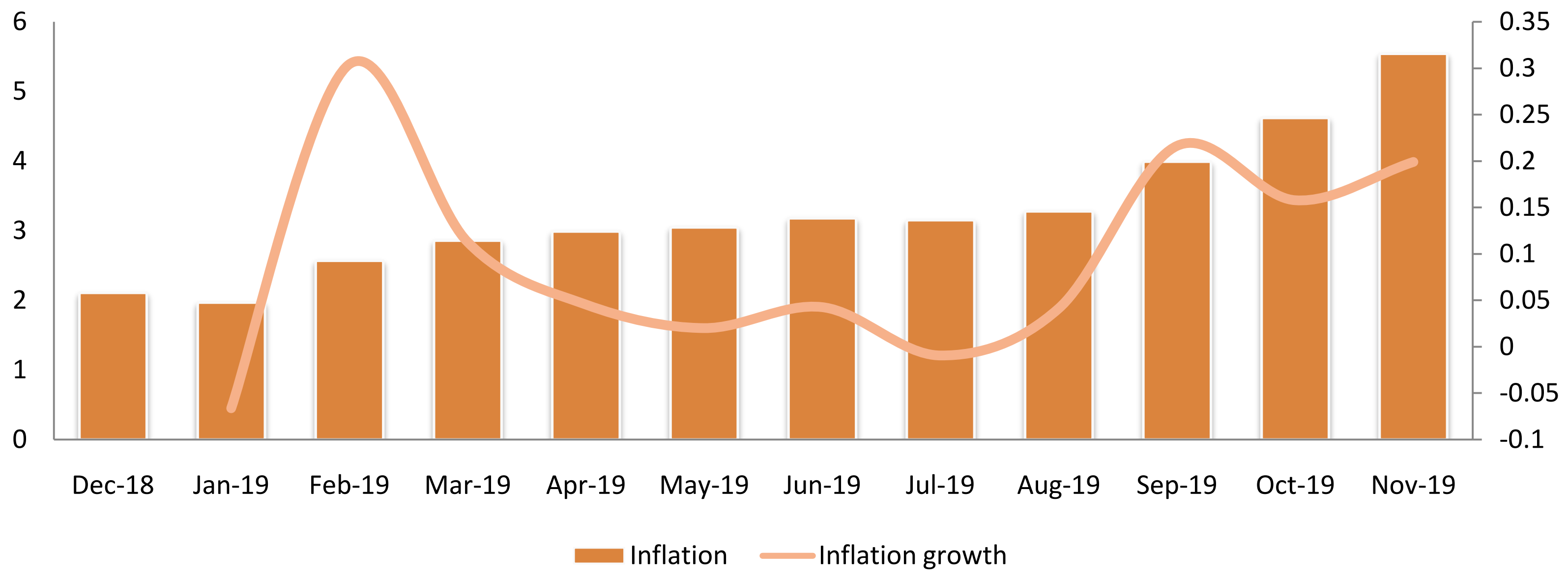


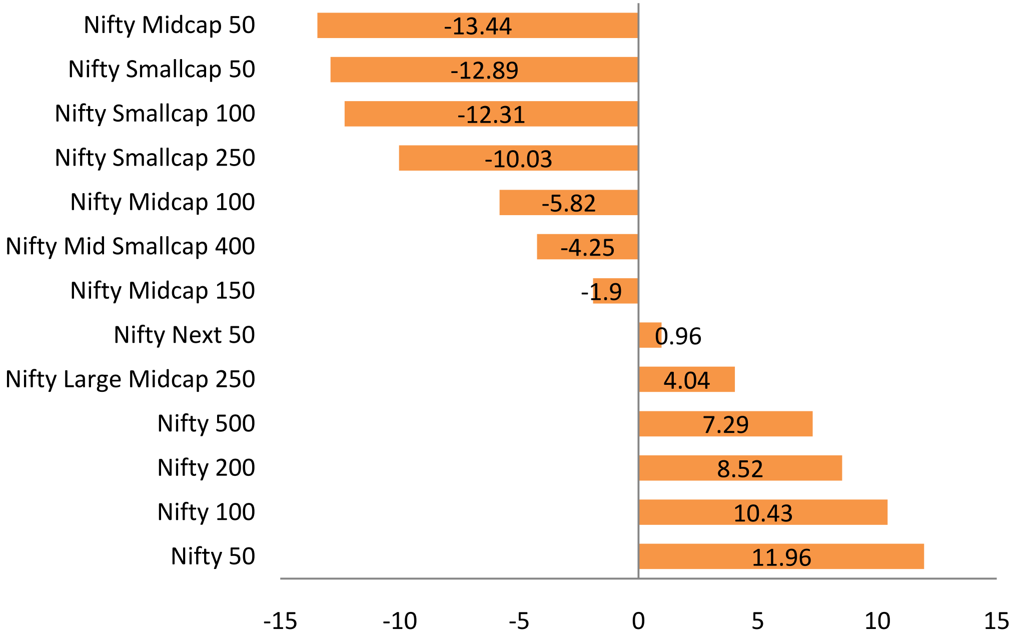
- Overall Inflation continued to rise and remain a cause of concern
- Monthly Inflation growth trend was an average of 15% with high of 30% in Feb from a low of -7% in Jan
- Average inflation (m-o-m) was at 3% for 2019
- Food and Retail Inflation was more relative to commodity and industry prices

Nifty – **to take a pause in Q1 2020, brighter H2**

- Bulls are on a roll in 2019 as Nifty gains 12%
- Fortunately, past 4 months lifted the broad market sentiments
- ***Q12020 to witness profit booking ahead of budget at 11,600-11,750 levels before rallying further to 13,215***

Source: Dealmoney research, Ibef, Company research

Nifty Indices CY 2019 Returns



- Nifty 50 gave a return of 12% which comprises of the majority of Large cap stocks
- Midcap and Small-cap lost its charm
- Corporate rate tax cut's maximum benefit is to larger firms as they pay higher taxes

Source: Dealmoney research, Ibef, Company research

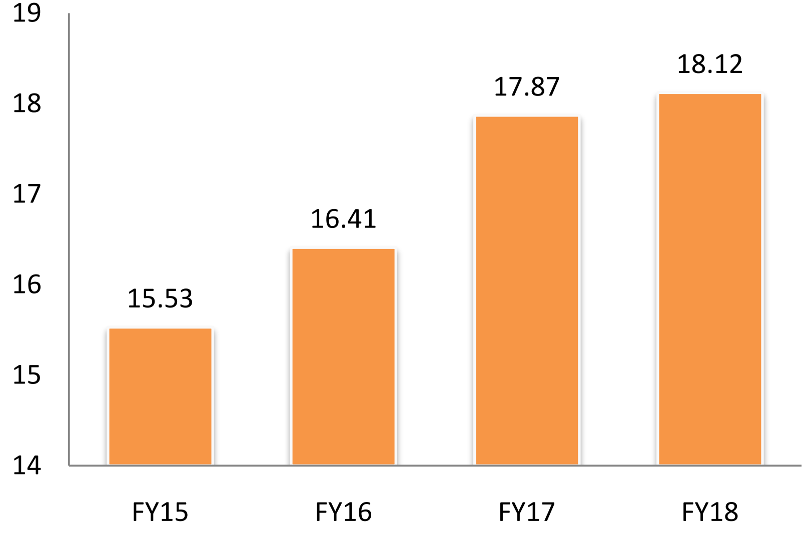
DEALMONEY RESEARCH PERSPECTIVE

What's in Store for 2020??

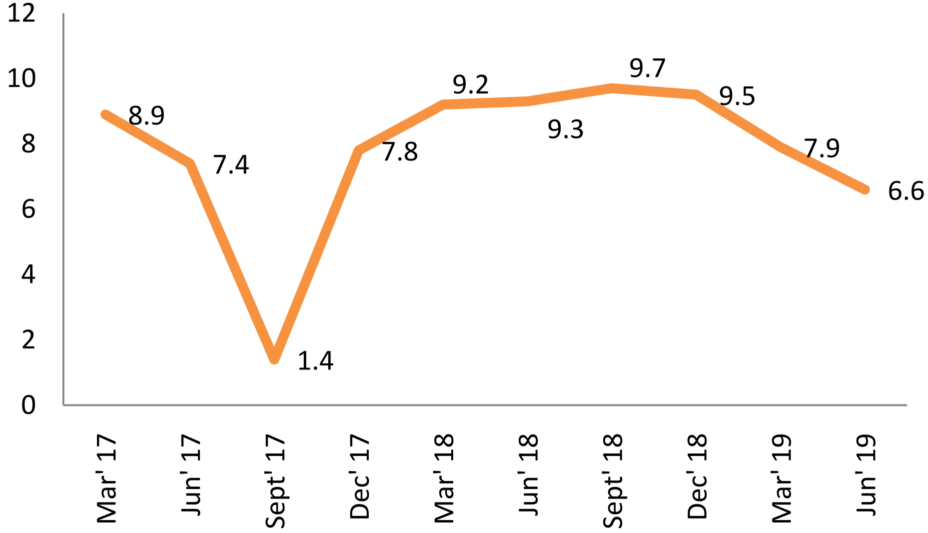
Pharmaceuticals- Sustained Demand

- Indian pharmaceutical sales grew by 11.5 percent year-on-year (based on data up to Sept 2019)
- Medicine spending in India projected to grow at 9-12 percent over the next five years
- India to become one of the top 10 countries in terms of medicine spending
- India’s cost of production is significantly lower than that of the US and almost half of that of Europe
  - This gives competitive edge to India over many other competing nations
- Growth to be driven by
  - Manifold rise in public healthcare spending
  - Rising patient awareness
  - Expanding insurance coverage across individual income pyramids and
  - Emergence of new hospital formats
- ***Dealmoney Research Top Picks 2019:   DrReddy Lab & Aurobindo Pharma***

Annual Turnover of Indian Pharmaceutical Market (US$ billion)



Quarterly Growth in Indian Pharma Market (%)



Source: Dealmoney research, Ibef, Company research

- The market has been gaining confidence, it is also facing a period of altering changes. First, it is experiencing **manifold rise in public healthcare spending** and the broader healthcare sector is experiencing discontinuous development, a rising patient awareness, expanding insurance coverage across the income pyramid and the emergence of new hospital formats illustrates this flux. Second, in the past 3 to 4 years, **industry structure in pharmaceuticals has changed with remarkable shifts in the leader board**. Four of the top ten players, including the market leader, are new entrants. Finally, traditional sources of growth are making room for newer ones. For example, while new products will cease to drive growth, existing large brands would need to make up the gap

- Rise in the income levels and enhanced medical infrastructure has established the step-up in growth trajectories. This growth has been broad-based across therapy and geography segments. Several leading players are beginning to focus on new and emerging opportunities. The pace of innovation in business models has been unprecedented. The launch of branded generics businesses and significant expansion of market coverage by multinationals illustrates this point. As a result, the expectations from the India businesses have risen and aspirations have become bolder

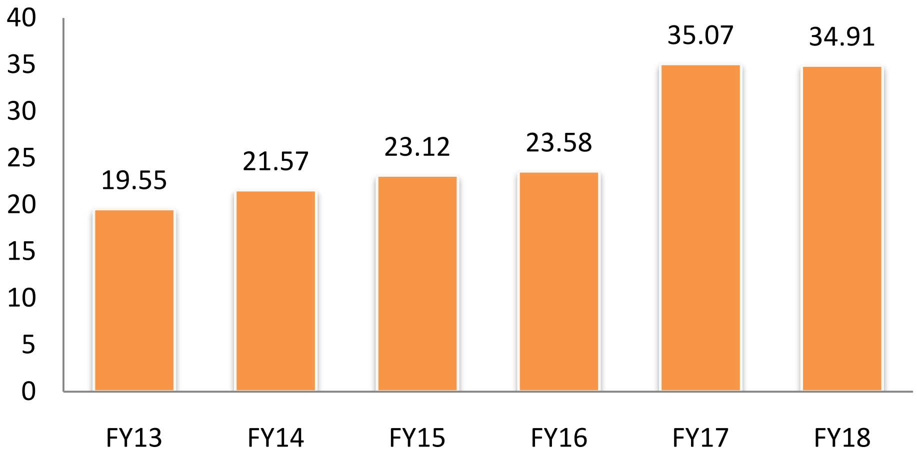
Source: Dealmoney research, Ibef, Company research

Pharmaceuticals – Industry Summary

- The pharmaceutical industry was valued at $ 36.7 bn in 2018. The market is expected to expand at a CAGR of 22.4% over 2015–20 to reach $ 55 bn
- Medicine spending in India is projected to grow 9-12 percent over the next five years, leading India to become one of the top 10 countries in terms of medicine spending
- The Indian pharmaceuticals market stood at Rs 12,492 crore (US$ 1.79 billion) for the month of September 2019 and sales stood at Rs 36,725.2 crore (US$ 5.25 billion) in the three months ended September
- In September 2019, the Indian pharmaceutical sales grew by 11.5 percent year-on-year
- India's domestic pharmaceutical market turnover reached Rs129,015 crore (US$ 18.12 billion) In 2018, growing 9.4 percent year-on-year (in Rs) from Rs 116,389 crore (US$ 17.87 billion) in 2017
- India's cost of production is significantly lower than that of the US and almost half of that of Europe. It gives a competitive edge to India over others
- The Ayurveda sector in India is expected to reach US$ 4.4 billion by 2018 end and grow at 16 percent CAGR till 2025

Source: Dealmoney research, Ibef, Company research

Healthcare spend by government in India on a steady upward trajectory



- Government expenditure on health increased from Rs 1.26 lakh crore (US$ 19.55 billion) in FY12 to Rs 2.25 lakh crore (US$ 34.91 billion) in FY18, implying a CAGR of 12.3 percent
- As per Economic Survey 2018-19, government expenditure (as a percentage of GDP) increased to 1.5 percent in 2018-19 from 1.2 percent in 2014-15 for health

Source: Dealmoney research, Ibef, Company research

Drivers of growth:

- With market diversity on the rise, the drivers of growth have proliferated and become more subtle
- Population growth of 1.3% every year and a steady rise in disease prevalence will increase the patient pool by nearly 20 per cent by 2020
- Affordability of drugs will rise due to sustained growth in incomes and increases in insurance coverage. By 2020, nearly 650 million people will enjoy health insurance coverage. Private insurance coverage will grow by nearly 15 per cent annually till 2020
- Accessibility to drugs will expand due to growth in medical infrastructure, new business models for Tier-II towns and rural areas, launches of patented products, and greater government spending on healthcare
- The acceptability of modern medicine and newer therapies will increase due to aggressive market creation by players, an increased acceptance of biologics and preventive medicine, and a greater propensity to self-medicate
- Affordability increases will be the single largest driver of growth. More than 28 million households, nearly 20 per cent of all households in rural areas, will climb out of the deprived income class in rural areas during the next decade. In addition, health coverage through RSBY will further enhance the affordability for healthcare, and enable rural patients to be treated for serious illnesses and higher cost procedures. These markets could grow further if the shortage of doctors and other care delivery points is addressed. There are 0.33 allopathic physicians per thousand people in rural areas which is half the national average. While the government has announced plans of upgrading infrastructure at primary health centers (PHCs) and community health centers (CHCs), the shortage of manpower continues to be a bottleneck

Source: Dealmoney research, Ibef, Company research

As the Indian pharmaceuticals market grows in size and diversity, there are several opportunities that will scale up to their full potential. Five opportunities – patented products, consumer healthcare, biologics, vaccines and public health – appear to be emerging, and offer significant potential going forward. The more remarkable impact of these five opportunities is their ability to spur the aggressive. growth scenario. More than 50 per cent of the difference between the aggressive growth case (i.e., USD 70 billion market in 2020) and the base case (i.e., USD 55 billion market in 2020) is predicated on these segments growing at rates much higher than expected.

Government steps crucial to growth in healthcare:

The government needs to play a direct role in driving access to healthcare through long range initiatives. Moreover, it needs to ensure that the industry maintains its confidence and is not affected by extraneous shocks.

- *Raise healthcare spending to stated 3 per cent of GDP*: The government has announced plans to increase its spending in healthcare to 3 per cent of GDP. The current growth trajectory, in which this spending is increasing at 18 per cent annually, will take the government's healthcare spending up to 1.6 per cent of GDP by 2020

- *Invest in healthcare infrastructure, particularly in Tier-II and rural markets*: The government plans heavy investments in medical infrastructure during the next decade. A majority of this spending will go towards upgrading infrastructure in primary and secondary care centers, i.e., district hospitals, PHCs and CHCs

Source: Dealmoney research, Ibef, Company research

- *Execute Rashtriya Swasthya Bima Yojana (RSBY) according to plan*: The government has announced plans to cover approximately 400 million people through RSBY; 19 million families have already been covered and implementation seems to be on track. However, specific attention needs to be given to two areas. First, while RSBY is creating affordability, more doctors and hospitals need to be empanelled such that access does not become a bottleneck. Second, the private insurance players involved in RSBY need to remain viable and committed to the long-term success and scaling up of the initiative

•The growth curve for the Indian pharmaceutical industry is likely to remain at 11-13 per cent in FY2020, on the back of healthy demand from the domestic market, given increasing spend on healthcare along with improving access. This along with moderation in pricing pressure for US market, new launches and market share gains for existing products and consolidation benefits will drive growth in FY2020. The growth would however be constrained by regulatory interventions such as price controls, compulsory generalization and United States Food and Drug Administration (USFDA) oversight for manufacturing deficiencies.

•India's pharmaceuticals market has grown in confidence and firmly moved on to an accelerated growth path. The central question now rests around the true nature and the full extent of this market's potential. Backed by solid fundamentals, the market is giving rise to a variety of business opportunities. We feel confident that strong player intent, investments and actions will underpin future growth and enable the Indian pharmaceuticals market to break into the global top tier.

Source: Dealmoney research, Ibef, Company research

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Source: Dealmoney research, Ibef, Company research

Dr Reddy's Laboratories – Strong Products Lineup

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•Dr Reddy's Laboratories is a 25-year old company cateringto the needs of the pharmaceutical sector. Dr Reddy's started its operation in 1984 in the Actove Pharmaceutical Ingredients (API) segment, with a single drug in 60 tonne facility near Hyderabad. In 1986 its shipped its first consignment of Methyldopa drug to West Germany. It is among the top three API players in world. Dr Reddy's, a global pharmaceutical company, has its headquarters located in India. It has a global presence in more than 100 countries, with subsidiaries in the US, UK, Russia, Germany and Brazil; joint ventures in China, South Africa and Australia; representative offices in 16 countries and third-party distribution set ups in 21 countries

•Dr Reddy's Laboratories launched Imitrex (sumatriptan succinate) tablets in dosages of 25mg, 50mg, and 100mg in the US. It is the authorized generic version of GlaxoSmithKline's Imitrex. It is first company to launch Imitrex (generic version) in the US market. These tablets are for treatment of acute treatment of migraine in adults

•The company is having 6 FDA-inspected plants in INDIA, 1 Cytotoxic facility, 1 FDA-inspected plant in Mexico, 1 FDA-inspected plant in Mirfield, UK, 3 Technology development centers (2 in Hyderabad, INDIA; 1 in Cambridge, UK)

Source: Dealmoney research, Ibef, Company research

- **Surprisingly strong Q2FY20**:The Company witnessed solid growth in overall September quarter. It posted 26.1% growth in YoY to Rs. 4,813 crores which was aided by one time gain on divestment in Neurology brand of Rs. 720 crores. On the cost front, EBITDA margin expansion was due to rise in gross profit, fall in raw material and employees cost. The company's bottom-line doubled majorly due to Rs. 3.3bn due to recognition of deferred tax assets for Rs. 5.2 bn. The company's revenue mix is largely contributed by global generics, of which Europe is 68.4% which has reduced from 80.4% in Q2FY19. North America which was contributing 29.7% in Q2FY20 has reduced to 68.4% in Q2FY20 on back of price erosion and dampened volumes
- **Powerful products for launches in pipeline**: Dr Reddy has already launched 8 new product of late while a few of it are first-in-market and limited competition. The management intimates total of 30+ launches in the on-going financial year. As yet, 13 launches are done. Dr Reddy has entered into new vertical, i.e, nutrition segment. It has launched a drink for diabetic patient by the name 'Celevida' helping them manage sugar level. India has around 73 mn diabetic patients and another 80 mn pre-diabetic population. The market size of this segment falls around 4400 crores which is expected to more than double by 2025. Thus, the company is taking a strong effort to capitalize this opportunity
- **Valuation**:

  The company has a strong revenue visibility given it strong product launches and entering new nutrition segment augurs well with the outlook. The stock currently trades at 19.2x TTM P/E FY19. We recommend a buy on the stock at the CMP of Rs. 2,885 with the target of Rs.3,330

Source: Dealmoney research, Ibef, Company research

Profit and Loss Account

	FY17	FY18	FY19	FY20E
Net Sales	14,196	14,281	15,448	16,993
Total Expenditure	11,724	11,930	12,270	12,638
Operating Profit (Excl OI)	2,472	2,351	3,178	4,355
Other Income	172	155	338	371
Operating Profit	2,644	2,506	3,516	3,984
Interest	63	79	89	98
PBDT	2,580	2,428	3,427	3,886
Depreciation	1,027	1,077	1,135	1,204
Profit Before Taxation & Exceptional Items	1,554	1,350	2,292	2,682
Exceptional Income / Expenses				
Profit Before Tax	1,554	1,350	2,292	2,682
Provision for Tax	297	438	386	424
Profit After Tax	1,257	912	1,906	2,258

Balance Sheet

	FY17	FY18	FY19	FY20E
Shareholders Funds	12,262	12,572	14,024	16,281
Secured Loans	60	63	55	55
Unsecured Loans	485	2,446	2,145	1,200
Deferred Tax Assets / Liabilities	(516)	(346)	(384)	-
Other Long Term Liabilities	343	293	218	240
Long Term Provisions	84	82	79	87
Trade Payables	1,057	1,335	1,367	1,504
Other Current Liabilities	2,340	2,411	2,821	3,103
Short Term Borrowings	4,363	2,556	1,213	1,152
Short Term Provisions	661	592	497	527
Total Current Liabilities	8,420	6,894	5,897	6,285
Total Liabilities	21,138	22,004	22,034	24,149
ASSETS				
Net Block	6,931	6,968	7,191	8,070
Capital Work in Progress	610	768	473	463
Intangible assets under development	2,715	2,703	2,461	2,707
Non Current Investments	683	465	334	368
Long Term Loans & Advances	482	565	427	469
Other Non Current Assets	35	37	38	38
Currents Investments	1,427	1,833	2,253	2,253
Inventories	2,853	2,909	3,358	3,727
Sundry Debtors	3,799	4,053	3,987	4,425
Cash and Bank	387	264	223	257
Other Current Assets	452	766	850	935
Short Term Loans and Advances	767	674	440	435
Total Assets	21,138	22,004	22,034	24,149

Source: Dealmoney research, Ibef, Company research

Aurobindo Pharma Ltd. – Lucrative Valuations

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Aurobindo Pharma was founded in 1986 by Mr. P. V. Ramaprasad Reddy and Mr. K. Nityananda Reddy. It started its operation with a single unit manufacturing semi synthetic penicillin (SSPs) at Pondicherry. It has a product presence in key therapeutic segments like SSPs, cephalosporins, antivirals, CNS, cardio-vascular, gastroenterology, etc. The company is the market leader in semi-synthetic penicillin drugs. It has set up overseas branches/ representative offices located in Ethiopia,Tanzania, Kenya, Uganda, Italy, Ghana, Vietnam, and United Kingdom.

Aurobindo has invested significant resources in building a mega infrastructure for APIs and formulations to emerge as a vertically integrated pharmaceutical company. Aurobindo's five units for APIs and four units for formulations are designed for the regulated markets. Its manufacturing units is approved by USFDA, UKMHRA, WHO, MCC-SA and ANVISA-Brazil.

Strong performance in Q2: Aurobindo’s topline majorly comes from USA. USA’s share in the current quarterly increased to 51% in Q2FY19 from 49% in Q2FY18 and then comes Europe which contributes 25% of the topline. USA and Europe both grew by stellar growth of 27% and 21% respectively. The company has filed 20 ANDAs and received approval for 3 in the current quarter. September quarter was largely driven by Europe and US while regulatory headwinds still persist. Further, the new launches will drives growth.

Source: Dealmoney research, Ibef, Company research

US market to be key growth trigger: Since 2003, the company has filed 51 ANDA filings till now. ***Topline of the company has multi-fold from $100mn in 2009 to $1bn in 2017***. The company garnered a CAGR of 17% from FY17-19. US market form 46% of the topline. Post acquisition of Sandoz' US dermatology and oral solid business, Aurobindo Pharma will become the second largest generic player in the US prescription wise.

Valuation:

We, expect a strong coming quarters for Aurobindo with the string revenue visibility. Near term catalysts include strong pipeline, Sandoz deal closure and potential approvals from USFDA. Currently, the stock is trading at the TTM PE valuation of 15.97x. and FY20 PE of 10.5x. We recommend a ***buy at Rs. 450 with the target of Rs.634.***

Source: Dealmoney research, Ibef, Company research

Profit and Loss Account

	FY17	FY18	FY19	FY20E
Net Sales	14,910	16,463	19,564	21,750
Total Expenditure	11,475	12,691	15,612	17,517
Operating Profit (Excl OI)	3,434	3,772	3,952	4,233
Other Income	116	102	155	73
Operating Profit	3,550	3,874	4,107	4,161
Interest	67	78	263	173
PBDT	3,483	3,796	3,845	3,988
Depreciation	428	558	668	726
Profit Before Taxation & Exceptional Items	3,056	3,238	3,177	3,262
Exceptional Income / Expenses			(88)	
Profit Before Tax	3,056	3,238	3,089	3,262
Provision for Tax	760	818	727	815
Profit After Tax	2,296	2,420	2,362	2,446
EPS	39.28	41.36	40.36	41.75
PE	14.5	11.0	15.2	10.5

Balance Sheet

	FY17	FY18	FY19	FY20E
Share Capital	59	59	59	59
Total Reserves	9,313	11,622	13,832	16,278
Minority Interest	2	2	2	
Secured Loans	178	451	180	180
Unsecured Loans	4	-	-	-
Deferred Tax Assets / Liabilities	(118)	76	98	98
Other Long Term Liabilities		11	11	11
Long Term Provisions	39	56	47	57
Trade Payables	2,155	2,373	2,677	2,945
Other Current Liabilities	1,287	1,967	2,545	2,800
Short Term Borrowings	2,903	4,031	6,573	6,573
Short Term Provisions	261	294	247	247
Total Liabilities	**16,082**	**20,942**	**26,271**	**29,248**
ASSETS				
Net Block	4,834	6,521	8,456	9,807
Capital Work in Progress	1,237	1,400	1,342	2,356
Intangible assets under development	221	184	327	310
Non Current Investments	246	312	360	468
Long Term Loans & Advances	256	262	364	401
Other Non Current Assets	81	87	39	85
Inventories	4,331	5,858	7,246	7,592
Sundry Debtors	2,765	3,080	3,414	4,160
Cash and Bank	513	1,262	1,957	2,134
Other Current Assets	1,085	1,223	1,920	1,403
Short Term Loans and Advances	512	754	828	533
Total Assets	**16,082**	**20,942**	**26,271**	**29,248**

Source: Dealmoney research, Ibef, Company research

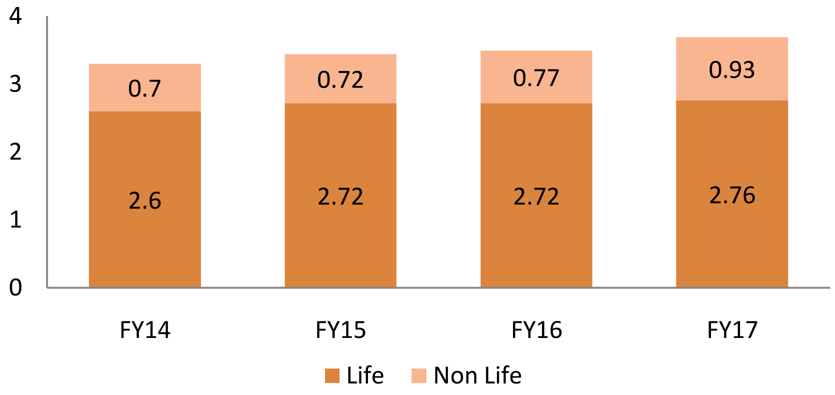
Insurance - Gaining Prominence

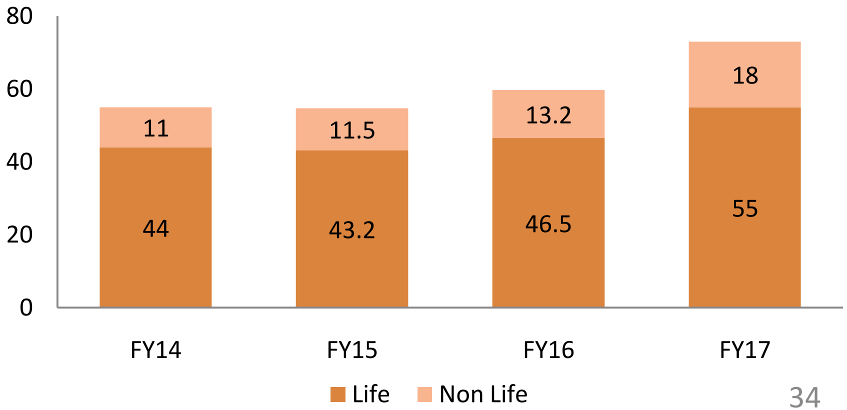
- Insurance industry in India consists of 57 insurance companies of which 24 are in life insurance and 33 are in non-life insurance
  - Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from them, among the non-life insurer companies there are six public sector insurers
- India’s insurance market is one of the lowest penetrated markets.
  - Government initiatives and public awareness are likely to drive future growth
  - Initiatives like Ayushman Bharat and Pradhan Mantri Fasal Bima Yojana (PMFBY) in 2017-18 to aid in growth momentum
- Improved regulatory framework will lead to further change in the way the industry conducts its business and engages with its customers offering larger choices and options to consumers
- Overall Indian insurance industry is expected to reach US$ 280 billion by 2020
  - Life insurance industry in the country is expected grow by 12-15 per cent annually for the next three to five years
- Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance
- ***Dealmoney Research Top Picks are: SBI Life Insurance and HDFC Life Insurance***

Source: Dealmoney research, Ibef, Company research

- Crop insurance segment contributed 8.6 percent to gross direct premiums of non-life insurance companies in FY20 (up to June 2019). Customers can now pay their health insurance premium in installments. Earlier, health insurance companies used to collect the insurance premiums from customers on annual basis
- Enrolments under the Pradhan Mantri Suraksha Bima Yojana (PMSBY) reached 130.41 million in 2017-18
- Strong growth in the automotive industry over the next decade to be a key driver of motor insurance
- At 3.69 per cent, India was ranked 41st in 2017 in terms of insurance penetration with life insurance penetration 2.76 per cent and non-life insurance penetration at 0.93 per cent. In terms of insurance density India was ranked 73rdin 2017 with overall density at US$ 73

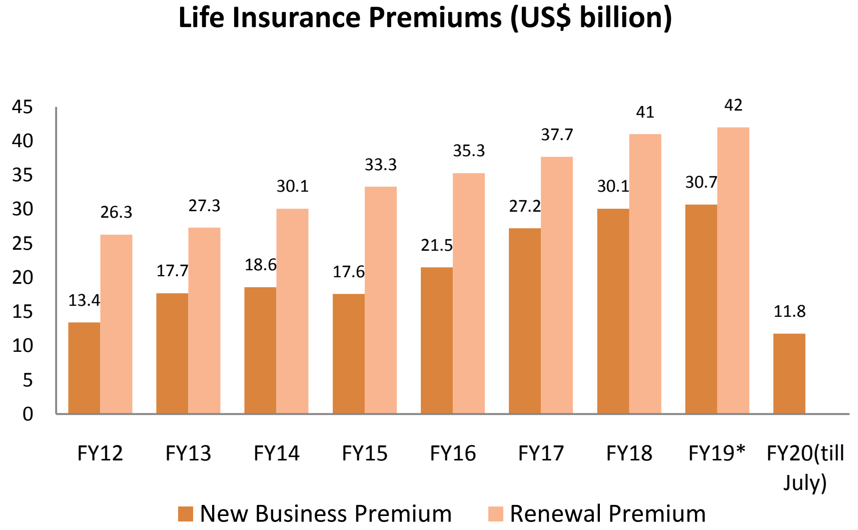
Insurance Penetration (Premiums as % of GDP)Insurance Density (Premiums Per Capita) (US$)

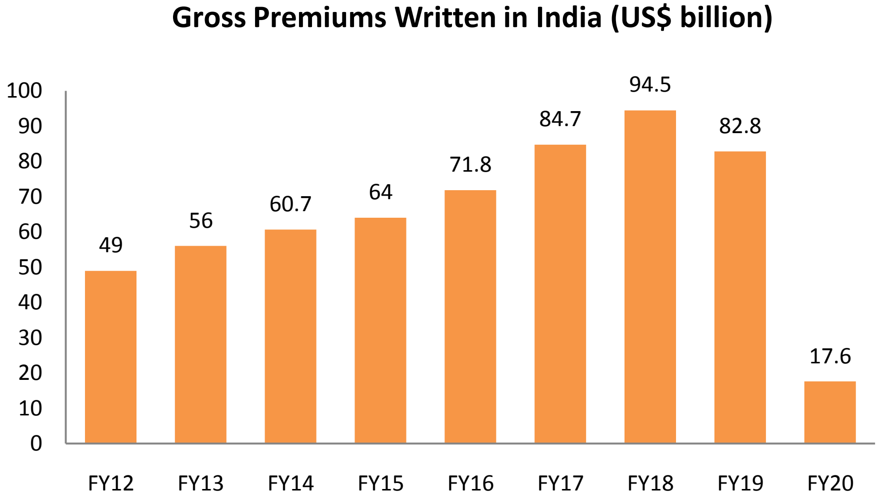




Source: Dealmoney research, Ibef, Company research

Dealmoney





- Life insurance in India has a huge growth potential. By 2020, it is expected to account for 35 per cent of India's total savings. Over FY12–18, premium from new business of life insurance companies in India have increased at a 14.44 per cent CAGR to reach Rs1.94 trillion (US$ 30.1 billion). In FY19, premium from new life insurance business increased 10.73 per cent year-on-year to Rs2.15 trillion (US$ 30.7 billion)

Source: Dealmoney research, Ibef, Company research

Government initiatives / policies

- Foreign Direct Investment (FDI) limit for the insurance sector increased from 26% to 49%
- Life insurance companies operational for 10+ years are now allowed to go public by IRDA
- Government plans to divest a significant stake in PSU general insurance companies in order to execute the steep disinvestment target
- Several flagship schemes have been launched by the government to boost the insurance sector

Schemes

- Pradhan Mantri Jan Suraksha Bima Yojana: This scheme focuses on providing affordable insurance to people below the poverty line, in rural areas
- Pradhan Mantri Jeevan Jyoti Bima Yojana: This initiative provides life insurance for people employed in the unorganized sector
- Atal Pension Yojana: This guarantees pension Coverage to all citizens in the unorganized sector who join the National Pension System (NPS)
- Ayushman Bharat Yojana: Each beneficiary family will receive medical insurance cover of INR 5 lakh, which they can use to get treatment at public or private hospitals

Source: Dealmoney research, Ibef, Company research

- In India, a large section of the society continues to be uninsured and underinsured. The ubiquity of innovative technology and the onset of insurtechs can potentially resolve for two major issues that the industry is currently facing: that of lower penetration rates and the paucity of customized products. Insurtechs are adding another dimension to the insurance industry. They are leveraging technology to create more customized products and tapping investors at a relatively lower cost. The way forward is going to be incumbent upon the speed at which insurance companies adopt technology and implement technological solutions. From that perspective, we have only just begun to scratch the surface. There continues to be enormous future potential for insurers to effectively harness the value of technology

- The insurance companies in India are at the cusp of yet another wave of change. This change is likely to be more disruptive and consequently, is expected to add value across the entire spectrum of insurance products and services

Source: Dealmoney research, Ibef, Company research

SBI Life – Dominant Player

SBI Life Insurance Company Limited (SBI Life) established in 2001 is a joint venture between State Bank of India (SBI) and BNP Paribas Cardif S.A. and is one of the leading life Insurance companies in India. SBI has an unrivalled strength of over 22414 branches across the country making it the largest banking group in India. BNP Paribas Cardif S.A. is the life and property & casualty insurance arm of BNP Paribas one of the strongest banks in the world.

SBI Life offers a comprehensive range of life insurance and pension products. The company offers individual and group products which include savings and protection plans to address the insurance needs of diverse customer segments. SBI Life has a multi-channel distribution network comprising of an expansive Bancassurance channel with SBI and agent network comprising of 108261 Insurance Advisors (IAs) as on March 31 2018.

Growth to continue momentum: For the Q2FY20 its gross written premium grew by 33.3% YoY to Rs. 10243cr, and its New Business Premium (NBP) grew at 33.8% YoY to Rs. 4670cr and Renewal Premium grew 32.8% YoY t Rs.5574cr. Its market share also increased by 200bps YoY to 21.8% in terms of NBP among the private insurers. Its AUM also increased to 22.7% to Rs. 154760cr.

New Tie-ups with banks performing better – The tie-ups such as Allahabad Bank, Syndicate, Repco, P&S Bank are doing better than expectations. Management expects contribution from these tieups to touch 10% in New Business Sales as early as FY22E. They are also looking to add new partners shortly.

Source: Dealmoney research, Ibef, Company research

Business Growth going ahead:

In terms of growth, the management said that they would continue to perform in line with what they have delivered so far YTD and that they would be affected by industry headwinds but would still continue to outperform. One of the reasons for handling the industry slowdown better is because of SBI's reach which has been able to absorb the shocks better.

In terms of annuity, the company sources business from 1) up-selling to existing group customers as they retire, 2) selling to NPS customers, and 3) selling to individual customers of banks. Overall, annuity remains a focus area. Contribution of annuity on APE basis is 1.1-5% since it is mostly single premium. ▯ Recently, LIC launched 2 products, one of which had pricing which is higher than the company's. The company further stated that it is in the process of reviewing its pricing and that it wants to be competitive with the nearest peer group of companies. Credit life business during H1FY20 is Rs. 6 bn and GTI is Rs. 0.9 bn, on NBP basis. In terms of APE, credit life is about Rs. 0.6 bn and GTI is Rs. 0.9 bn. ▯ Despite revising rates on Platina (guaranteed savings), the company has seen good flows. It is about 5-7% of individual flows.

Exposure to NBFCs has not impacted much except DHFL:

The company stated its focus on retired products through guaranteed products and protection has paid, while ULIPs have grown as well. Total combined exposure to Indiabulls, Yes Bank and DHFL is Rs. 3.8 bn. None has defaulted except DHFL. The company stated that it has no exposure to ADAG. As per the company, the investment in DHFL was in the shareholders' AUM. The impact related to ULIP has already been marked to market.

Source: Dealmoney research, Ibef, Company research

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Valuation:

The strong footprint of its parent SBI and its presence and brand with huge network of branches (more than 24,000) would help it to grow its market share among the private players with less overhead cost. The low penetration in the insurance sector will also provide a growth trigger further. Stock it trading at PE of 66.9x of FY20 EPS we recommend a ***buy at Rs.985 for target of Rs.1,250***

Source: Dealmoney research, Ibef, Company research

Shareholders' Profit & Loss Account

	FY17	FY18	FY19	FY20E
Transfer from Technical A/c	655	829	998	1,188
Investment Inc.	410	464	519	579
Total Income	1,064	1,293	1,518	1,766
Other Expenses	27	33	46	138
Contribution to Technical A/c	63	76	99	113.85
Total Expenses	90	108	145	251.85
PBT	975	1,184	1,373	1,514
Tax	20	34	46	45
Reported PAT	955	1,150	1,327	1,469
Adj PAT	955	1,150	1,327	1,469
Adj EPS (Rs)	9.6	11.5	13.3	14.7
PE	102.4	85.5	73.9	66.9

Balance sheet

	FY17	FY18	FY19	FY20E
Source of Funds				
Share Capital	1,000	1,000	1,000	1,000
Reserves & Surplus	4,465	5,374	6,460	7,929
Fair Value Change	87	153	116	117
Shareholders' Fund	5,552	6,528	7,576	**9,046**
Policy Liabilities	48,324	55,556	64,954	68,202
Others	45,349	55,879	70,185	71,589
Policyholder's Fund	93,673	111,434	135,140	**139,791**
Funds for Future appropriations	0	193	282	412
Total	**99,225**	**118,156**	**142,998**	**149,249**
Application of Funds				
Shareholders'	4,296	5,014	5,723	7,154
Policyholders'	46,962	54,486	64,472	76,586
Assets held to cover linked liabilities	44,573	54,936	69,129	61,836
Loans	178	171	173	181
Fixed assets	538	581	595	609
Net Current assets	2,678	2,968	2,905	2,883
Total	**99,225**	**118,156**	**142,998**	**149,249**

Source: Dealmoney research, Ibef, Company research

HDFC Life – Growing with times

HDFC Life Insurance Company Limited (Formerly HDFC Standard Life Insurance Company Limited) ('HDFC Life' / ‘Company’) is a joint venture between HDFC Ltd., one of India’s leading housing finance institution and Standard Life Aberdeen, a global investment company. Established in 2000, HDFC Life is a leading long-term life insurance solutions provider in India, offering a range of individual and group insurance solutions that meet various customer needs such as Protection, Pension, Savings, Investment and Health. As on March 31, 2019 the Company had 38 individual and 11 group products in its portfolio, along with 8 optional rider benefits, catering to a diverse range of customer needs.

Strong Q2FY20 despite pressure on macro front: HDFC Life Insurance Company’s profit grew at 7.6 per cent to Rs 308.7 crore for the second quarter ended September 30, 2019, as compared to Rs 287 crore in the same quarter last year. Company reported a 10.4% YoY growth in gross premium income reaching Rs 7,555cr. Income from first year premiums increased 20.4% YoY to Rs. 1,452cr, whereas single premiums saw a growth of 10.4% YoY to Rs. 3,567cr (contributing 47.2% of total gross premium). . Income from single premiums, however, slowed down this quarter growing at 5.5% YoY to Rs. 2,536cr. Q2FY20 saw a further increase in company’s market share by 220 bps to 15.2%. Assets under management grew 16% YoY to Rs 1.31 lakh cr in H1FY20 (vs. 1.13 lakh cr in H1FY19).

Source: Dealmoney research, Ibef, Company research

HDFC life held HDFC Life – Tech Edge event: wherein the company using technology to provide a seamless experience to its customers, channel partners and other stakeholders. The integration of technology would provide a seamless experience to the insurers and insurance companies. Company has built its technology services mostly around the product & service of mortality, morbidity, longevity and covering risk on interest rates and enables it to innovate to the core. Its initiatives are panning well driving its cost margins lower and helping its business mix.

Staying ahead in competition: HDFC Life has tried to make quantum leap in last six seven years to support new engines of growth areas like retirement solutions, annuities, small sachets of insurance and pure protection. It online channel has grown 89% CAGR in last two years, It has also build-in capabilities to reduce risks of underwriting through data analytics for accurately predicting customer behavior, minimizing frauds and customization. Two-third business is generated through partners and HDFCLI has 240 partnerships with 40 partner being new age non-BFSI. It has been able to build strong partnerships led by deep integration in the partner platforms enabling customization as per business needs, minimize underwriting and documentation in turn helping deliver results within no time on back of independent API engines.

Source: Dealmoney research, Ibef, Company research

Providing best customer service is the goal of HDFC Life: HDFC LIFE has been focusing to build its digital tech around providing better facility to the customers which is enabling it to raise the servicing benchmarks and delight customers/other stakeholders. The company has been able to (i) reduce the policy issuance time to less than 4 hours in H1FY20 (2 days in FY15). Lower the claim settlement period to 1.2 days (FY17: 9.3 days), increase the claim settlement ratio to 99% (FY15: 90.5%), driving a significant improvement in the customer satisfaction score to 93% (85% earlier) and (iv) significantly increase the number of channel partners to 270+ (FY15: 31).

Valuation:

We expect HDFC Life to use tech as a medium to continue its product innovation and advancements to sustain its performance across business cycles. In an challenging macro-environment, it's WRP has grown by 35% on Individual, compared to industry growth of 11%. This has enabled it to increase its market share by 220 basis points to 15.2%. Its strong business partners have enabled it to grow its product mix further driving growth. With FY20E PE of 80.5x we recommend a ***buy at current CMPRs. 630 for the target of Rs.756***

Source: Dealmoney research, Ibef, Company research

Shareholders' Profit & Loss Account

	FY17	FY18	FY19	FY20E
Transfer from Technical A/c	786	1,002	1,207	1,424
Investment Inc.	227	293	429	601
Total Income	1,013	1,295	1,636	2,025
Other Expenses	64	12	38	76
Contribution to Technical A/c	35	157	309	371
Total Expenses	99	169	346	447
PBT	914	1,127	1,290	1,578
Tax	22	18	13	25
Reported PAT	892	1,109	1,277	1,553
Adj PAT	892	1,109	1,277	1,553
Adj EPS (Rs)	4.5	5.5	6.3	7.7
PE	137.8	112.7	98.4	80.5

Balance sheet

	FY17	FY18	FY19	FY20E
Source of Funds				
Share Capital	1,998	2,012	2,017	2,017
Reserves & Surplus	1,808	2,706	3,641	5,194
Fair Value Change	32	31	-3	3
Shareholders' Fund	3,839	4,749	5,656	**7,214**
Policy Liabilities	32,382	42,319	53,635	54,707
Others	54,199	57,807	64,490	71,374
Policyholder's Fund	86,581	100,127	118,124	**126,082**
Funds for Future appropriations	867	959	1,103	1,268
Total	**91,286**	**105,835**	**124,883**	**134,564**
Application of Funds				
Shareholders'	3,246	4,070	5,050	6,265
Policyholders'	34,692	45,347	57,124	63,233
Assets held to cover linked liabilities	53,800	57,185	63,377	65,618
Loans	48	19	80	119
Fixed assets	353	341	333	337
Net Current assets	-852	-1,128	-1,082	-1,008
Total	**91,286**	**105,835**	**124,883**	**134,564**

Source: Dealmoney research, Ibef, Company research

Dealmoney Technical Setup to Vouch for…

CRB Commodity Index – Uptrend Possible

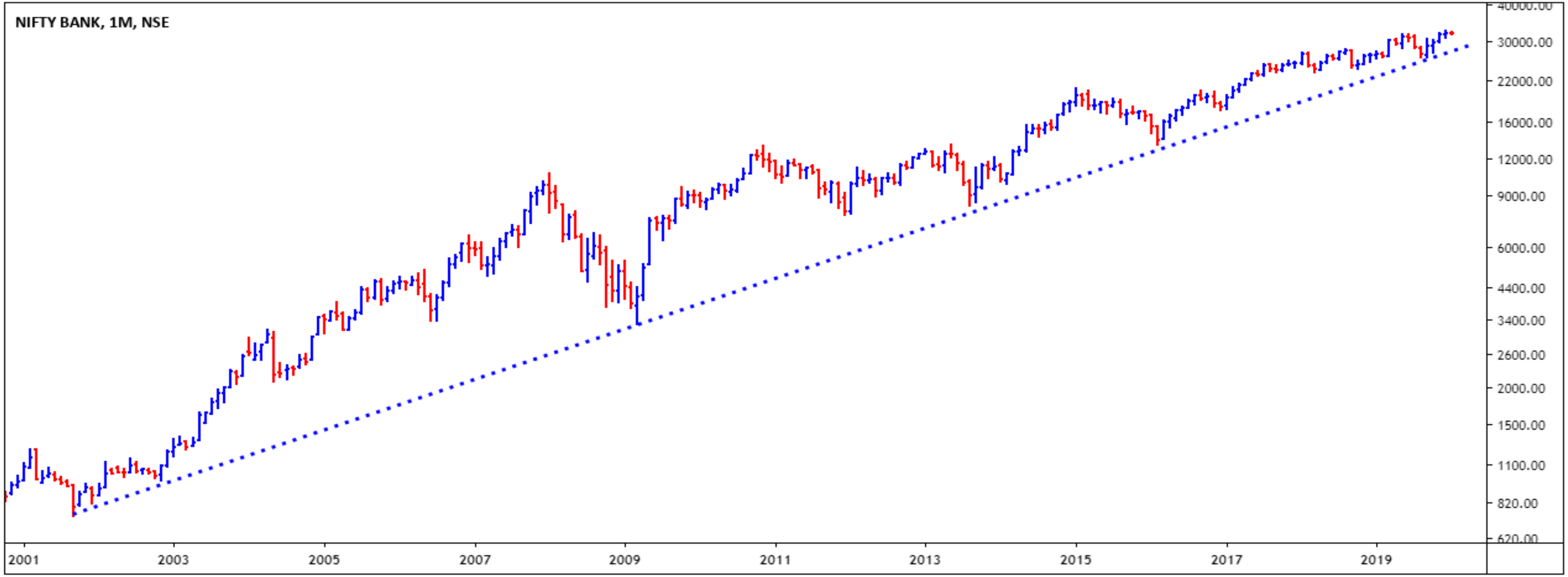
- Thomson Reuters Commodity Index comprises of a basket of 19 commodities with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals and 13% to industrial metals
- Index has ended is 20 months bearish trend as it breaks out of falling trendline and bullish head & shoulder
- Commodity Index has reversed from lows which marks a major bottom in place. ***2020 can be the year for commodities***

Gold 2020 – Shines to Continue

Dealmoney

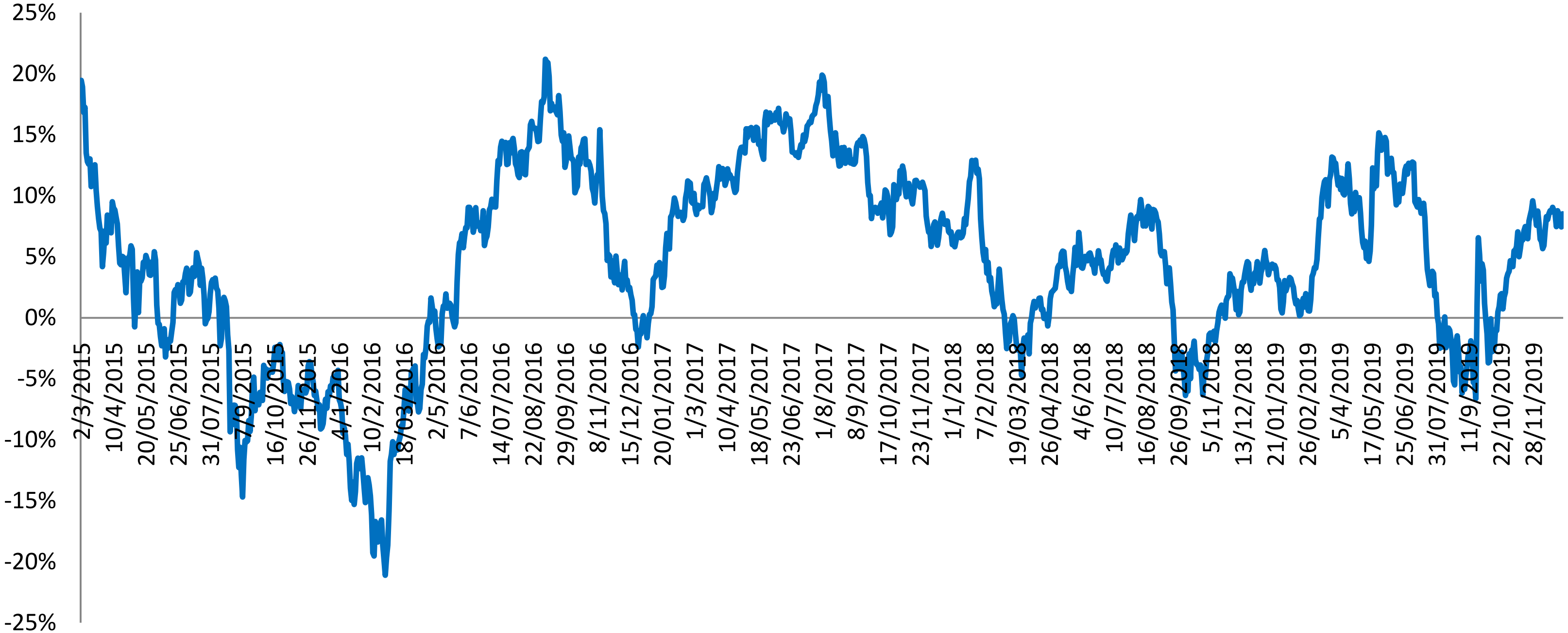
- Gold breaks out of 6 years rectangle after retracing by 50% (at $1051) in 2015.
- RSI in the “second panel” has witnessed bullish range shift indicating the bullish trend to continue.
- *Dealmoney Research expects Gold to touch $1700-1760 this year.*

Bank Nifty – Steady Upsides



- Long term trend for Bank Nifty remains bullish as it is forms higher high and higher low structures on chart
- Fall below 28,000 will change the trend we expect the bullish trend to continue in 2020 towards 39,000

Bank Nifty Deviation from 200 DEMA



- Chart indicates deviation of prices from its 200 Days Exponential Moving Average
- Deviation is shrinking since 2015
- Dealmoney expects retracements back to 200 DEMA which is currently at ~29,000

Bank Nifty Weekly Chart

Dealmoney

- Bearish Butterfly Harmonic pattern on weekly chart indicates the pause to recent bullish momentum. The reversal can take index to retest the levels of 29,000-30,000
- Dealmoney not expecting changed trend as this dip can just be a retracement fall where we anticipate bargain buying

Nifty Pharma – Positive Divergence

- Since its fall from 2015, this is the first time Pharma Index has formed a bullish harmonic pattern with positive divergence on RSI and breaking out of falling trendline too

Nifty Metal – Positive Vibes

- Metal index has broken 24 months falling channel indicating an end of its bearish trend and sunrise of new day
- It has formed higher high – high low for 3 consecutive time for the first time since 2018
- Bullish range shift on RSI is strengthening the bullish momentum

Hindalco forms major bottom

- The stock has broken out of its 2 years falling trendline (red line) and trending higher
- Bullish range shift on RSI strengthens the momentum
- Dealmoney Research expects stock to move towards Rs.274 in 2020

Jindal Steel & Power – above key EMA

Dealmoney

- The stock has witnessed sharp recovery from the lows of ~91 forming tweezers bottom candlestick pattern
- On weekly chart, stock has moved above 200EMA
- Dealmoney Research expects the stock has more upside left towards the target of Rs.220

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