

India update

Monthly commentary

April 2016

Market overview

- Indian equities rebounded in March, with offshore investors returning after a hiatus on a cautious recovery in risk appetites. Markets celebrated a rebound in commodity prices, only for them to slip again late in the month. Meanwhile, accommodative monetary policies from the ECB and China were welcomed, as was the US Federal Reserve's perceived dovishness on the question of future interest rate hikes, which drove down the previously strong US dollar. Investors were further encouraged when domestic interest rates were slashed on some savings schemes, giving banks greater flexibility to pass on previous rate cuts to borrowers.
- On the economic front, both industrial production and manufacturing were uninspiring, while exports contracted for the 15th straight month in February. However, inflation eased to a four-month low, on a surprise drop in food prices.

Model portfolio news

In March, we initiated a position in fast-moving consumer goods company, Emami. Founded in 1974, and listed in 1995, the Kolkata-based firm has a solid portfolio of popular consumer brands. Management consists of members of the founding families, and has a good track record of investing in the business to grow its brands throughout India.

Note: Any changes refer to those of our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the comments may not apply to all portfolios.

Corporate news

US regulators issued **Lupin** with several observations relating to manufacturing practices and upkeep at its Goa facility. This is Lupin's key site for supplying the US market, which accounts for 45% of total sales. Of particular concern is the lack of controls monitoring product output and performance, which could result in variations in drug characteristics. Lupin could take up to 12 months to rectify the issues; however, it can continue operations at the plant for now. We are in contact with the company.

UltraTech Cement will add 21 million tonnes of cement capacity from buying Jaiprakash Associates for US\$2.4 billion. The deal faces several regulatory hurdles; however, when finalised, it will boost UltraTech's total capacity to 91 million tonnes. Elsewhere, LafargeHolcim is now accepting bids for its entire India operations, via subsidiaries **ACC** and **Ambuja Cements**, after the competition commission approved the sale. **Piramal Enterprises** has made an offer for the assets. While it has legacy manufacturing businesses, its interest in cement is new.

Focus – Mphasis: earning interest

Mphasis share price (INR)



Source: Bloomberg, 30 March 2016

Mergers and acquisitions are alive and well in India. Private equity (PE) firm Blackstone emerged victorious in its bid for Hewlett Packard's majority stake in **Mphasis**, paying an estimated US\$1.1 billion, based on its belief that India's IT sector is poised for robust growth. Mphasis attracted the attention of a number of suitors eager for a piece of the IT services provider. This was a notable shift from a couple of years ago, when the company battled poor sentiment as HP gradually reduced the amount of business it sent its way. However, the sale has solidified HP's working relationship with Mphasis: it has added the firm to its preferred provider programme, as well as committing to a five-year services agreement, guaranteeing minimum revenues of US\$990 million. Meanwhile, Mphasis will also have access to Blackstone's sizeable portfolio of companies.

We hold the companies highlighted above.

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Bloomberg data are for illustrative purposes only. No assumptions regarding future performance should be made.

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