

July 17, 2018

Q1 earnings have kick-start and we are anticipating good earnings for IT, Banks, FMCG, Autos, Auto Ancillary, HFC, NBFC sectors.

Most of the stocks in the midcap & smallcap space have corrected almost 50% from their highs.

The auto sales numbers which is reported every month is also showing growth across the segments.

Most of the automobile companies have reported good export which indicated the demand from the international markets is very strong.

The transformation of converting their traditional business to digitization is almost over and we are seeing digitization space growing across sector.

Favorable Risk – reward ratio for Mid & Small caps

The Macro Scenario

Midcap and Smallcap index have significantly corrected from their peaks and are now trading at decent levels. Most of the stocks in the midcap & smallcap space have corrected almost 50% from their highs. As the Q1 earnings have kick-start and we are anticipating good earnings for IT, Banks, FMCG, Autos, Auto Ancillary, HFC, NBFC sectors. We feel quality midcaps and smallcaps companies in this sector will be a buying opportunity at current levels. Many companies in the mid & small cap sector have reduced their debt, finished their expansion plans and will reap the benefits of their investments. Hence we feel it is an idle time to enter in good quality mid and small cap stocks. It is advisable to not time the market but be invested in the market at the current levels where the risk is very less. At the current levels, we can look at deploying 10% of the corpus into midcaps to take the benefit of the falling prices.

As mid and small caps are all trading at very low valuations, we feel there are couple of sectors which is likely to do well.

1. Auto Sector

Most of the companies in the Auto space have reported very good set of numbers both on a quarterly as well as on a yearly basis. The auto sales numbers which is reported every month is also showing growth across the segments of tractor industry, 2 wheelers, passenger vehicles and commercial vehicles. It has been 4 consecutive month in a row, most of the automobile companies continuous to report very good set of monthly numbers despite the current period being a non-festive period. Most of the automobile companies have reported good export which indicated the demand from the international markets is very strong. We feel companies like Maruti, Bajaj Auto, Ashok Leyland and M&M will continue to do well.

2. IT Sector.

IT sector is facing lot of tailwinds from the depreciating rupee. The IT sector did not rally for long time as a result; most of the companies in the IT space are trading at attractive valuations. The transformation of converting their traditional business to digitization is almost over and we are seeing digitization space growing across sector, hence many large-cap and midcap IT companies will continue to post good set of numbers going ahead. Stocks like FSL, NIIT Ltd., Intellect Design arena from the mid-size IT companies will continue to do good as they have just turned around. Also Large and Midsize companies like Infosys,

Since many companies in the consumption sector operate in the rural economy, we feel this sector will not face significant corrections owing to increase in MSPs.

Irrespective of any government at the helm, we feel the rising younger population of the country will continue to buy homes

Most of the pharma companies earn their revenues in dollars; pharma companies will get the benefit of rupee depreciation.

TCS, NIIT Ltd. are few companies from the IT space we feel will grow.

3. Consumption Sector

The current government in the budget has raised MSP by 1.5x which will directly benefit the rural economy. Since many companies in the consumption sector operate in the rural economy, we feel this sector will not face significant corrections. Also, the monsoon is expected to be above normal which will again add on to the rural economy. Hence, we feel good companies like Britannia, Marico, Westlife Development, which has a good management at helm, is expected to not correct in relation to the broader index.

4. Housing Finance Sector

The HFC sector rallied in the initial years on the appointment of PM Modi, but currently the sector is facing the risk from the rise in the bond yields. Despite the headwinds from the bond yields, we believe this segment will do very well in the future as there is a growing demand in this sector. Irrespective of any government at the helm, we feel the rising younger population of the country will continue to buy homes. Also migrations from tier 2–tier 3 cities to tier 1 cities are increasing which will augment the demand for the HFC's. Companies like DHFL, LIC Housing and HDFC are all trading at attractive valuations and will continue to good in the long term.

5. Pharma Sector

Pharma sector has been an under performer since past couple of years and we feel the overhang of USFDA for most of the pharma companies have settled. Also most of the pharma companies earn their revenues in dollars; pharma companies will get the benefit of rupee depreciation. Hence we feel good quality pharma stocks like Cipla, Glenmark and Sun Pharma can be accumulated at current levels on account of their attractive valuations.

Research Analyst:Foram Parekh – Fundamental Analyst, Email: foram.parekh@indiabulls.com**Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906****Disclosure:**

We /I, Foram Parekh, Mba, author(s) hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. We/I, also certify that no part of our/my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or Indiabulls Ventures Limited does not have any financial interest in the subject company. Also Research Analyst or his relative or Indiabulls Ventures Limited or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative Indiabulls Ventures Limited or its associate does not have any material conflict of interest.

Disclaimer:

This document has been prepared by Indiabulls Ventures Limited (IVL), for use by the recipient as information only and is not for circulation or public distribution. This document is published in accordance with Regulation 18 of the SEBI (Research Analysts) Regulations, 2014 & IVL research analysts have adhered to the code of conduct under Regulation 24 (2) of the SEBI (Research Analysts) Regulations, 2014. IVL researches, aggregates and faithfully reproduces information available in public domain and other sources, considered to be reliable and makes them available for the recipient through this document. However, IVL make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability, error, omissions with respect to the information contained in this document. Recipients should be aware that past performance is not necessarily a guide for future performance & value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities/financial instruments. Nothing in this document constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. Anything contained in, not contained in, assumed to be implied, warranted, excluded from being warranted or vaguely alluded to shall not be attributed to, blamed upon, or otherwise associated with IVL nor IVL shall be responsible, accountable, discountable, or in presence or absence thereof for any liability arising from the use of this document. IVL, its directors and/or employees doesn't accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

IVL directors/employees and its clients may have holdings in the stocks mentioned in the document. This report is based on technical, fundamental and derivative analysis on studying

July 17, 2018

charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

Indiabulls Ventures Limited : www.indiabulls.com

Corporate Office: Indiabulls Ventures Limited, Indiabulls Finance Center, Tower 1, 8th floor, SenapatiBapatMarg, Elphinstone Road (W), Mumbai – 400013.