### Key Highlights

- Excessive money printing led global equities higher but velocity of money falls to a record low.
- Despite excess liquidity, Emerging markets underperformed Developed and Frontier markets.
- Nifty trends up with a cap around 6550-6650. Trailing stop for Nifty to be placed at 5900.

### Market close to the upper end of the band; Prudence in Trailing Stop Loss

- **Nifty’s Outlook** - The short term trend on Nifty remains positive as indicated by the Global Equity comparison chart but, the up-move may remain capped at 6550-6650. Rather than capping the upside, we recommend a trailing stop strategy for trading this up-move. A price action below 5900 (another important level based on Broadening pattern, Options analysis and Volume Distribution) should confirm a sell indication and Nifty is expected to drift to the next important band of 5200-5300.

- **Key Risks** - Rising global bond yields, depreciating Rupee, rising CPI, low Real GDP and Broadening pattern in developed markets & Nifty.

### Sector Outlook

<table>
<thead>
<tr>
<th>SECTOR NAME</th>
<th>YOY (%)</th>
<th>MOM (%)</th>
<th>OUTLOOK*</th>
<th>POTENTIAL MOVERS &amp; SHAKERS</th>
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<tbody>
<tr>
<td>Realty</td>
<td>-34.31</td>
<td>5.94</td>
<td>Positive</td>
<td>DLF, IReli</td>
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<td>Tata Motors, Maruti</td>
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<td>TV Today, Dish TV</td>
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<td>FMCG</td>
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<td>Cement (Custom)</td>
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<td>Negative</td>
<td>ACC, Ultra Tech</td>
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*Sector rotation is a medium term model. Check our periodic reports for regular updates.

### Top Picks - 2014

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>CMP</th>
<th>Target</th>
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<tbody>
<tr>
<td>Divi’s Lab</td>
<td>1,250</td>
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<td>Hindalco</td>
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<td>FDC Ltd</td>
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<td>ACC Ltd</td>
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<td>IndusInd Bank</td>
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<tr>
<td>Yes Bank</td>
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<td>220</td>
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**Shubham Agarwal, CMT, CFA**  
Head - Technical Research

**Sacchitanand Uttekar**  
Technical Analyst

**Bhavin Desai**  
Equity Derivatives Analyst

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2014: Action Packed Year

Nifty for the CY 2013 saw an appreciation of 6.7% amid positive funds flow from foreign investors and continued liquidation from domestic institutions. Despite massive funds flow, Nifty was just able to witness a small YoY absolute increment.

Inter-market Analysis

Global Equity as an asset allocation did well with Developed and Frontier markets moving up by more than 20% but Emerging markets saw a tough time and declined by 8%. Commodity market continued its consolidation along with the Dollar Index. However, global bond yields rose throughout the year as per expectations in our last yearly report.

CY 2014 is expected to be a year of large movements both for Equities and Commodities. The consolidation for Emerging market index and Commodity index is very similar and both are placed at a pullback within the long term trend which is still bearish. The pattern seems to be mature enough for a breakthrough and the price action will confirm the direction within few months. A threat of a Broadening Pattern on the World Equity chart indicates that upside is limited to 10%-15% from current level post which, a steep decline can be expected. Even though our Global Equity comparison model shows some of the Emerging markets as temporary improvers, the longer term trend is not so convincing yet. Within the emerging markets, Nifty has been an outperformer and with this temporary effect of Emerging markets moving up, Nifty can be one of the major movers.

Macro Indicators

In line with our last yearly analysis the interest rates started rising, and is now a global trend and India might not be able to escape from this movement. Velocity of money in the US hits a fresh low since 1960’s. Each phases of QE led DJIA to a higher high and this shows that the excessive printed money is being used to buy assets than for real economic growth (an alarming sign). Net foreign reserves of India, falling real rate, low real GDP, rising CPI, falling bank deposits, rising Yields and depreciating rupee are some of the factors which can keep Nifty consolidating in the long term trend.

Nifty

Nifty in real and dollar terms has been drifting lower which does not indicate a change in the long term downtrend after adjustment of those factors. P/E multiples for the index is quoting at an immediate resistance. Broadening pattern for Nifty remains a threat for the medium term trend. The broadening pattern and the channel on Nifty coincide with a resistance in the band of 6550-6650. However, multiple studies (namely - Broadening pattern, Options analysis and Volume distribution) signify the level of 5300 which can turn out to be an important level for the year ahead.

For trading the view depicted by various studies using options, one can deploy vertical spreads around pivotal levels. As we go along the report, one would find detailed discussion on execution of the strategies.

Sectors

IT surpassed the high of 2000 IT bubble but the fundamental ratios still quote at a deep discount. This indicates that the IT Index has enough room to move up on the long term scale. On the other hand, Banking for the first time in last 12 years, refused to lead the Nifty at a higher high. Ratios are not at an extreme and pullback can be used as an opportunity to sell. PSU banks fell most and there is lack of any sign of reversal which may keep the sector under selling pressure. Realty is the only sector which is placed positive for a short term movement (the long term trend remains down, its just an expectation of a temporary pullback) in our Sector Rotation model which can be traded for few weeks/months.(Expected outperformers from every sector for asset allocation are listed in this report.)

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The world equity market index has been moving in a channel and is gradually approaching the upper end of the band. Another 10%-15% upside should lead to exhaustion of momentum, post which, a pullback can be expected.

Consolidation in the commodity index has reached a mature stage and 2014 should be a year of breakout for the commodity market. Given the fact that the index is placed at a 76.4% retracement; odds favor a decline in commodity prices.

Dollar index is placed well within a symmetrical triangle and the pattern seems to be maturing. Unless the index sustains below 76, the probability of an upward breakout is high which can lead the index above 102.

In line with our last year's report, yield has moved higher post a selling climax and is yet to test its temporary resistance at 3.6. The bond yield is expected to enter a consolidation phase for a while post 3.6 however, the long trend remains up.

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Developed markets have been the best performers in the globe. The chart pattern indicates a formation of a Broadening pattern which is bearish in nature. Upside is capped to 10%-15% and a reversal indication from there could lead to a momentum sell off.

MSCI Frontier Markets Index

Last year’s return of the developed market was highest at 25% and it still remains an outperformer. The excessive printing of money seems to have helped equity prices to move up.

Long term trend for the Frontier market remains down and the recent pullback should be taken as an opportunity to exit for global investors.

Despite the long term downtrend in Frontier markets, it saw a big jump on a year’s scale with a gain of 21%. These markets were recipients of the ample liquidity.
The emerging market index has been consolidating for past some years and the pattern seems mature enough. This chart pattern suggests higher odds of a breakdown due to lack of participation in times when most markets have been doing well.

On a year's scale the emerging market saw a correction of around 8% which is a significant underperformance to the globe where other markets saw decent upside. This indicates lack of interest in emerging markets from investors.

The relative strength chart (lower panel) of emerging market compared to developed market indicates a breakdown from the upward sloping trend line. This indicates that underperformance could continue.

The relative strength chart of Nifty Vs. Emerging Markets has been sloping upwards. Nifty is better placed compared to other emerging markets but unless the trend in emerging markets turn up, it would be difficult for Nifty to hold its gains.
Money printing has been at record highs but the circulation of money seems to be sloping downwards. The velocity is at a fresh low since 1960’s. This indicates that the money is being used to buy assets than for real growth which is an alarming sign.

Can RBI really help by keeping interest rates low? Ans. No. Interest rates are rising across the globe and it's a change in a long term cyclicality of interest rates. Rising interest rates is alarming as Present Value of any asset class would shrink due to rising discounting factor.

The chart clearly states that in all phases of QE, the DJIA has witnessed an abrupt move. The rally has more to do with the excessive printing of money than other facts.
Economic Movements - India

Real GDP of India has been moving down significantly over the recent years and unless there is a dramatic shift of trend, the Equity markets can witness a prolonged consolidation.

Despite recent improvements in reserves, negative foreign reserve remains a fact. The USDINR may remain depreciating unless these factors witness a major fix.

CPI of India has recently moved to higher highs and this is a concerning fact as it may create a push for the Indian bond yields as well. Most of the assets have been unsuccessful to get real returns after discounting for the high CPI.

Real rate in India has been falling due to rising inflation and comparatively not so high bond yields. Hence, outflow from the bond markets can continue and fresh money can be expected only if real rates move up.

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Economic Movements - India

**India Deposit Ratios Weekly Aggregate - YoY**

Deposits with Banks have been decreasing which indicates a slowdown in the interest for fresh investments due to low real rate of return.

**India 10 YR Yield**

Yields have flared up in line with the global movement. The yield is moving towards an important level of 9.5 and sustaining above that should be treated as a change to long term consolidation. This will be an important data to watch in the near future.

**FII Net Outstanding Investment - Debt**

The chart clearly indicates a first time (in past 13 years) steep decline in the investments of FII's in the Indian bond markets. Due to low real rate returns, outflow/ deceleration of inflow in the bond market can continue.

**USDINR**

The long term trend for Rupee remains depreciating. Multiple continuation patterns indicate a healthy trend. Floor for USDINR is placed around 55 and upside in the chart seems open. This is a negative for foreign investors.

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Nifty had a low correlation with the QE and the above chart clearly shows that money flow was not so encouraging in terms of price action. In good times of global performance, Nifty has not been able to catch up with the movements.

Net investments of FIIs in India continued to see a rising trend but despite this fact Nifty was not able to see much action in absolute price terms.
Nifty

Nifty after adjusting for the CPI has been in a downtrend and the above chart shows that in real terms Nifty is almost about to re-test its low of 2008. Unless the real Nifty starts its up move, the absolute movements should be ignored as that can be temporary in nature.

Most of the Indian ETF's listed abroad have been in a downtrend. The above chart indicates a fresh breakdown from a consolidation which is accelerated by the USDINR depreciation.

A plot of Forward & Trailing P/E of Nifty indicates that the multiple is at a historical resistance and unless the multiple witnesses a breakthrough, the odds remains high for a mean-revert towards the south.

The consolidation on Nifty seems to be immature on the log scale and an extension to the consolidation can be expected. The lack of momentum around the all time high also adds reasons to believe that the break out if happens could be immature.
Nifty

Nifty has been oscillating within a Broadening pattern on the weekly chart for which the bands are placed at 6550 & 5300. The pattern is bearish in nature and indicates that the upside can remain capped. However, only on a price action below 5900 sell positions can be created for momentum.

Nifty Z-score

The Z-score of Nifty has not moved to an over-optimistic level but is already above the comfort zone for fresh positions. A trailing stop strategy should be adhered to for the existing long trades.

A probable channel on Nifty on the weekly scale also indicates the upside to remain capped around 6650. Hence, combining the broadening and channel, resistance can be expected in the band of 6550-6650.

INDIA VIX

India VIX is moving towards the lower end of the long term band and after some consolidation at the lower extreme the index can be expected to mean-revert higher which would then be a negative for Nifty.

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Nifty is placed in the advancing space when compared to the Global Equity markets. This indicates that for the short term the index might outperform the developed world and then the index may again resume its trend of underperformance. This outperformance may lead Nifty towards the upper band of patterns which is placed around 6550-6650.

**FII Activity**

Foreign investments into equity in the period of May 09 till date were at Rs. 462797 cr. and a return of 41% compared to an inflow of just Rs. 197008 cr. and 531% return in the period of Sep 03 to Jan 08. This states that Nifty is not able to hold on to big gains despite positive funds flow.

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Analysis conducted on the heaviest written options each expiry for the past 5 years data gives the important pivotal levels for the Index. The next important level below 5950 is placed at 5300 which exactly coincides with the support of the Broadening pattern.

**Consolidated Volume**

Analysis of consolidated volumes for the past 5 years when plotted as a distribution returns the above histogram. It is really interesting to see that the third independent study also indicates congestion around the level of 5300 which is after 5900 (another important level).
**Option Strategies - 2014**

**Nifty at 6000**  
**Buy 6100 Call**  
**Sell 6400 Call**  
- 5900 remains important level based on Broadening pattern, Options analysis and Volume Distribution. Considering the importance of the level, Nifty in close proximity (around 6000) gives a bargain hunting opportunity for a possible pull back from the level.  
- Expiry Date: Choose third Expiry (In the month of Jan choose March expiry options)  
- If Nifty closes below 5900, Square-up the entire position  
- If Nifty Holds 5900 for all three expiries, continue to hold the trade till expiry

**Nifty below 5900**  
**Buy 5800 Put**  
**Sell 5500 Put**  
- Nifty has been oscillating within a Broadening pattern on the weekly chart for which the bands are placed at 6550 & 5300. The pattern is bearish in nature and indicates that on a price action below 5900, sell positions can be created for momentum.  
- Expiry Date: Choose third Expiry (In the month of Jan choose March expiry options)  
- Continue to hold the trade till expiry

**Nifty at 6600**  
**Buy 6500 Put**  
**Sell 6200 Put**  
- A probable channel on Nifty on the weekly scale also indicates the upside to remain capped around 6650. Hence, combining the broadening and channel, resistance can be expected in the band of 6550-6650.  
- Expiry Date: Choose third Expiry (In the month of Jan choose March expiry options)  
- Continue to hold the trade till expiry

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The MSCI IT index has reported a higher high than the IT bubble of 2000 but the price multiples still seem to be in a deep discount which indicate continuation of uptrend for IT as a sector.

Price to Book ratio of Banknifty is still above historical lows and this states that the downtrend may not find immediate support for the banking stocks. The underperformance from Banknifty can continue in near future.

CNX IT is quoting at a fresh all time high and the long term trend remains up. Its price multiples are yet to reach to previous highs and is still available at a discount.

PSU Banks were one of the largest underperformers in CY 2013. The multiples are moving towards fresh lows with no signs of rebound. The stocks should be avoided unless a steep price reversal is visible with healthy patterns.
Mid cap banks were another set of underperformers and continue to remain in a downtrend. Pullback in mid-cap banks should be used as an opportunity to sell.

In the past 12 years of movements, Banking has been leading the Nifty at every higher high but the recent movement was the first evidence where the index refused to make a higher high when Nifty reported an all-time high. This can be taken as a negative divergence.

Realty is placed in the advancing space and is the only sector which is expected to outperform the benchmark with increasing momentum. Small-cap & Metals have been outperforming the Nifty. Fall in momentum has been witnessed in IT and Pharma which are expected to enter a temporary pullback. FMCG remains a strong sell.

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Top Picks - 2014

**Divi's Lab**

- CMP : ₹1,250
- Target : ₹1,630

- The continuation pattern breakout on the long term scale is suggesting a price target of 1630.
- Divi's is well positioned in the CRAMS space, given its strong relationships with innovators, presence across the CRAMS value chain, and its ability to support the innovator in late life-cycle strategies.
- We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India. Capacity utilization at DSN SEZ would continue to ramp-up aided by FDA approval of the remaining 3 blocks.

**Hindalco**

- CMP : ₹119
- Target : ₹165

- Post a strong up move stock has corrected back to 78.6% retracement level; where a falling wedge bullish pattern has occurred.
- Consensus recommendation indicator; over pessimistic
- Company's new smelting capacities are coming up near energy sources and alumina facilities are near bauxite mines, thus ensuring low cost of production.
- We expect Novelis to deliver strong earnings growth, given its focus on high margin business, expansions in key markets and continued efforts to improve operating efficiencies.

**Idea**

- CMP : ₹162
- Target : ₹220

- Technically on the monthly scale stock has broken out from a six year bottoming formation (Rounding Saucer). Pullback if any could be utilized to add fresh longs for a pattern target of 220.
- Idea's strong execution in established as well as new circles will drive wireless traffic CAGR of 10% over FY13-16E.
- Idea continues to have one of the strongest balance sheets in the sector with net debt /annualized EBITDA of 1.3x and net debt/equity of 0.68x at the consolidated level. Continued RPM improvement and significant QoQ decline in roaming, access charges provided support to earning.

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Top Picks - 2014

**Bajaj Electricals**  
**BUY**  
**CMP :** ₹230  
**Target :** ₹320

- Time & Price analysis along with a recent breakout from the long term consolidation is suggesting a fresh up trend in the offing.
- Consensus indicator rebounding from extremes
- With a strong dealer network, supported by an underpenetrated rural market, rapid urbanization and a growing middle class will boost growth.
- Stock is trading at an attractive valuation considering the strong performance of the CD, lighting and recovery in the E&P. Rural India is a sweets spot which throws up an opportunity for the company to grow at a more rapid pace in future.

**eClerx Services**  
**BUY**  
**CMP :** ₹1073  
**Target :** ₹1,400

- The sector has been a top performer for CY 13 which has helped the stock to resume its uptrend after the recent breakout from the consolidation. The price evidence is suggesting the uptrend momentum to continue.
- It has >30% 5-year CAGR in profits, with RoE >35% and average dividend payout >40%. The INR depreciation is likely to add to core earnings growth and improve competitiveness and profitability
- We expect ~25% EPS CAGR over FY13-FY15E driven by volume growth and favorable exchange rate.

**FDC Ltd**  
**BUY**  
**CMP :** ₹129  
**Target :** ₹170

- Strong breakout from a continuation pattern on the long term scale is suggesting a pattern target of 170
- Brand “Electral” - a solution for dehydration - is a cash cow
- Exports double since 2007, potential market for opthalmics=1200XFY 12 exports
- BUYBACK concluded, dividend hike possible to return cash to shareholders

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Top Picks - 2014

ACC Ltd  

SELL  
CMP : ₹1,089  
Target : ₹850

- On the weekly scale a bearish reversal pattern (Head & Shoulder) formation is seen with its neckline resting near 1180.
- Recent price developments saw a pullback towards its neckline.
- The price evidence in hand is suggesting a long term bearish trend; the stock can be sold for a target of 850.

IndusInd Bank  

SELL  
CMP : ₹414  
Target : ₹320

- Stock had been an outperformer within the banking space since 2009. The structural bullish trend got capitulated when the Higher Top Higher Bottom structure on the intermediate scale saw a major shift as the stock witnessed a severe sell off near 460 level.
- Several failed attempts in the final quarter of the CY & formation of bearish signals near the breakdown zone are signaling towards the continuation of the down move.
- We expect the stock to decline back to its recent swing support near 320.

Yes Bank  

SELL  
CMP : ₹370  
Target : ₹220

- Long Term bullish structure got deteriorated when the stock saw a sharp selloff in the month of July 2013
- Post this vertical decline the stock saw a smart pullback towards the 61.8% retracement level, where a Bearish Engulfing candlestick pattern is seen. Stock has been unable to sustain above 400 & seems ready for a fresh down move.
- We expect the stock to continue its declining move & retest its long term support near 220. Hence we recommend a sell on rise up to 400.

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**Expected Outperformers within Sectors**

**DLF**  
**Real Estate**  
**CMP : ₹169**  
- DLF is quoting around the long term support and a consolidation around the lower extreme indicates a pause/pullback to the downtrend. It has the largest weight in the Realty index and can remain an outperformer within the sector.
- DLF is a major beneficiary of recent policy reforms.
- Success in large divestments implies higher potential to deleverage, making DLF a strong play.

**IBREAL**  
**Real Estate**  
**CMP : ₹68**  
- IBreal has tested its long term support.
- Consolidation post re-testing its long term support indicates limited downside and possible outperformance in the case the sector moves up.
- Sector rotation model indicates Realty as a short term buy and this movement can be beneficial for IBreal.

**TCS**  
**Technology**  
**CMP : ₹2222**  
- TCS has been a relative outperformer within the sector and the consolidation on the relative strength chart suggests that the outperformance can continue.
- IT as a sector is expected to remain positive over the long term.
- TCS enjoys the tailwind of INR depreciation as a larger exporter of IT services from India.
- We expect TCS to post USD revenue at a CAGR of 16% over FY13-15E and EPS at a CAGR of 17% during this period.

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Expected Outperformers within Sectors

Dr Reddy  Pharma  CMP : ₹2496
- Dr Reddy remains in a secular up-trend and the breakout from long term consolidation indicates a prolonged upmove.
- Reiterates strong growth traction over the coming quarters: Management expects to achieve strong growth led by the US, PSAI and emerging market and without any major inorganic growth initiatives. Company continues to focus on its five key markets - the US, India, Russia, Germany and the UK.
- US market will be a key contributor led by commercialization of its pipeline of 62 ANDAs (pending approval) and the contribution from FTF/ low competition opportunities.

Maruti  Auto  CMP : ₹1798
- Maruti has formed a long term base and is expected to outperform within the Auto space.
- Maruti Suzuki is the largest passenger vehicle manufacturer in India, with 1.2m units. It dominates the domestic cars segment with ~41% market share.
- The slowdown in growth in the domestic market is allowing the company to become a sourcing base for the parent for certain models leading to rise in exports. Exports is expected to be a key driver of volumes and value for Maruti over FY14/ FY15.

Tata motors  Auto  CMP : ₹363
- Relative strength of Tata Motors has been moving up and is expected to remain an outperformer within the Auto space.
- Tata Motor’s domestic business has been under pressure on account of economic slowdown. Any revival in the economy will lead to operating leverage gains in Tata Motors.
- The JLR business continues to show robust growth with re-launches likely to add to growth. JLR is the cash cow for Tata Motors and free-cash flows in FY16E holds the potential for larger dividend payouts to Tata Motors and pass-off to shareholders.

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Expected Outperformers within Sectors

Bharti  
**Telecom**  
**CMP : ₹329**

- Bharti has been consolidating on the long term scale and due to this formation, downside from the current level is limited.
- It remains one of the top pick from the Telecom sector.
- Bharti Airtel is an integrated telecom operator across India, Sri Lanka, Bangladesh and Africa.
- Industry consolidation is driving improved pricing power. Over FY13-16E, we expect cumulative FCF of ~USD3.6bn.
- Data is a significant opportunity with revenue growing ~100% YoY.

Sesa Sterlite  
**Metals**  
**CMP : ₹199**

- Sesa Sterlite has formed a Reversal/Base on the long term scale
- The scrip has been a relative outperformer within the Metal space
- A breakout from the consolidation raises expectation of a move up with any uptick in the Metal sector.
- It can continue to outperform the Metal Index.

ICICI Bank  
**Banking**  
**CMP : ₹1067**

- The relative strength chart of ICICI Bank compared to Banknifty has been moving up after a long consolidation. The scrip can remain an outperformer within the Banking space.
- ICICI Bank is our favoured pick in the Banking space.
- ICICI Bank is expected to deliver EPS CAGR of 14%+ over FY14/15E, on a higher base of ~22% over FY10-13. Helped by healthy RoA of 1.6%+ (core ROA of 1.4-1.5%), core RoE is expected to remain healthy at ~15% in FY15E.
Expected Outperformers within Sectors

TV Today | Media | CMP : ₹110

- TV Today has formed a rounding bottom on the chart which is a long term reversal pattern.
- Sharp upmove can be expected in the stock over the coming months.
- TV Today is a key beneficiary of the digitization of Cable-TV networks. With Phase-I and Phase-II digitization behind us, we expect meaningful benefits to start accruing now in financials of TV Today.
- We are projecting a 170% CAGR in earnings driven by benefits of digitization.

ONGC | Energy | CMP : ₹276

- ONGC has been consolidating from a long time and the downside seems to be limited on the chart. The scrip can outperform the Energy sector.
- ONGC is a key beneficiary of the proposed gas price doubling. Also, a whole-some diesel reform is possible if there is a conclusive majority in the Lok Sabha elections.
- ONGC currently trades at ~40% discount to its global peers on EV/BOE (1P basis) and timely execution of diesel reforms and passing on of benefits of gas price hike could lead to stock’s re-rating.

Britannia | FMCG | CMP : ₹917

- Britannia remains in a secular up-trend and is expected to outperform the FMCG Index.
- It is the market leader in the biscuits category, with a market share of 38% (in value terms). Biscuits has been one of the fastest growing categories in the FMCG segment, with annual volume growth rate of 12-15% in the last five years.
- This volume growth and premiumisation of product offering have aided strong profit growth in the recent quarters. Given the underlying improvement in Britannia’s fundamentals, we expect the re-rating to sustain.
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