

Crystal Ball gazing 2016

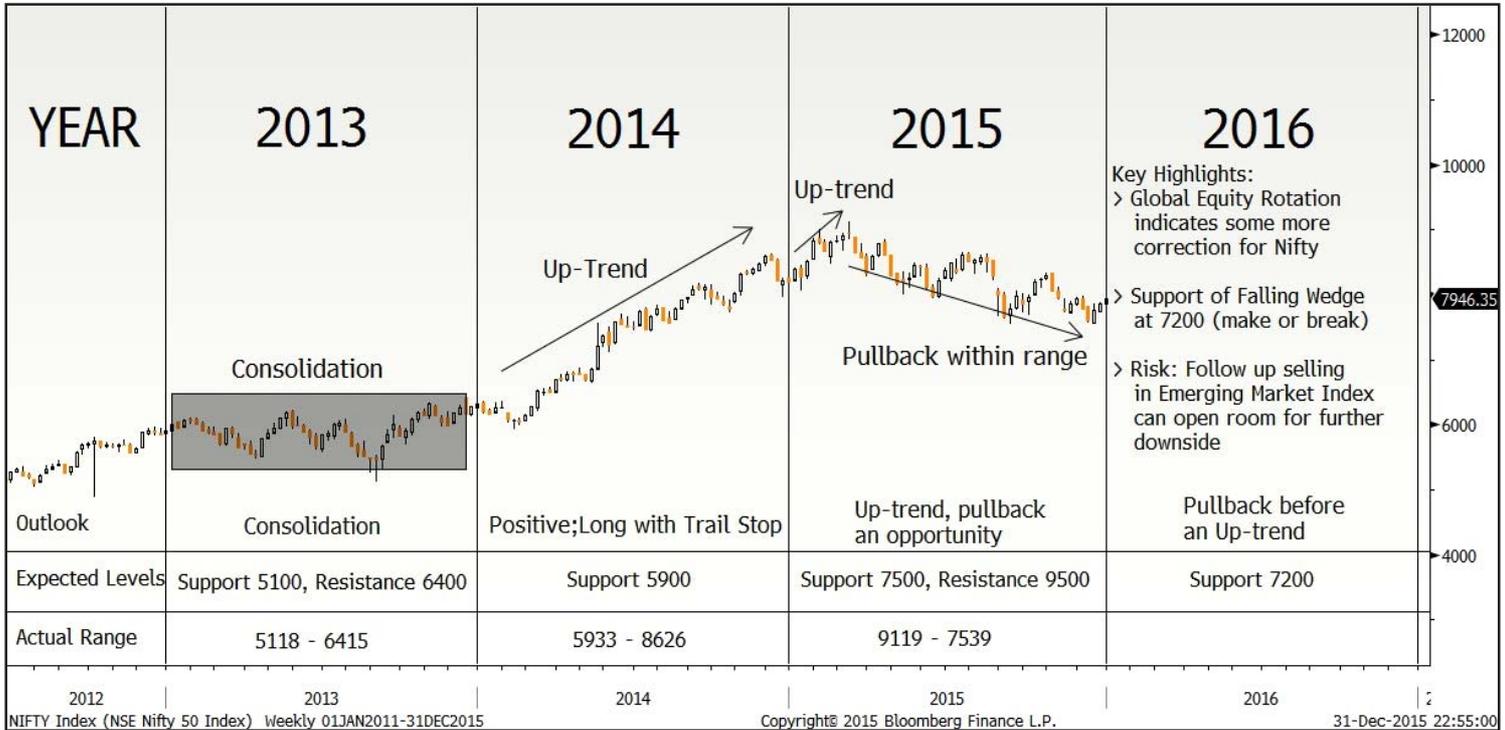


Nifty : 7946

1st January 2016

Quantitative Research

Crystal Ball Gazing: Past performance & Future Expectation



Nifty continues to oscillate

- **Nifty's Outlook** - Nifty remains consolidating within the Falling Wedge pattern with support at 7200 and breakout point being 8200. The range is expected to contract with time before a directional move. 7200 remains a make or break point and positions can be created once Index is around the same with a stop marginally below it. Upside remains open and can be traded with trailing stops later.
- **Key Risks** - Follow up selling in Emerging Market Index (below 750) followed by a slide below 7200 can negate the outlook and open more downside.

Sector	YoY (%)	Potential Outperformers
Media	10.30	Dish TV, ZEE Ltd
Pharma	9.26	Dr Reddy
Small-Cap	7.21	Wonderla
Mid-Cap	6.46	Arvind
FMCG	0.33	Jublfoods
IT	-0.03	Tata Elexi
Auto	-0.32	Bosch
Energy	-0.66	Petronet LNG, IGL
Infra	-8.91	Crompton Greav
Bank	-9.68	ICICI Bank
Realty	-15.02	HDIL
Metals	-31.35	JSW Steel

Top Picks - 2016

Stock Name	CMP	Target
Arvind	358	430
Bajaj Fin	6009	7400
Bosch	18647	23500

Stock Name	CMP	Target
DishTV	101.5	140
Wonderla	397	490
TataElexi	2244	2960

Stock Name	CMP	Target
IGL	529	640
Petronet	256	310
PNB	116	94

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Note: To remain updated about the expected developments discussed in this Yearly report, please follow our MONTHLY QUANTITATIVE REPORT

Macro to Micro Trends



Quantitative Research

1st January 2015

2016: Nifty continues to oscillate before a move up

CY 2015 ended the year with a loss of 4% for Nifty after a 31% increase in CY 2014. The year started with continued up-trend but later entered a pullback mode with a prolonged consolidation and negative bias. Emerging Markets, Frontier Markets and Commodities saw a plunge in prices and Dollar Index continued its appreciation.

Asset Classes

Global Equities remains in a long term Broadening structure which is Bearish in nature but the resistance area is still far which keeps the room open for any further move up. Commodity Index is quoting at 2008 extremes but still lacks signs of reversal. A time correction or continued down-trend are the likely events keeping the probability of meaningful reversal very low. Dollar Index continues its uptrend and is expected to remain healthy post a confirmation above 101 for 120 as the next level. US Bond Yield remains oscillating with expectation of a rally over the longer term.

Inter-market & Macro Analysis

Emerging and Frontier Equity Market Indices saw a steep correction after an almost five year consolidation. Follow-up selling in these will be a trigger to believe a prolonged sell off but till that does not happen, the possibility of these being a whipsaw cannot be ruled out. Relatively Nifty is placed better compared to other Emerging and Asian markets. Till there is no follow-up selling in Emerging Markets as a whole, Nifty is expected to continue its outperformance comparatively. Flows in Indian ETFs remains low to negative given that currency has been a hit on returns to Foreign investors and despite absolute gains in Nifty overtime, P&L for these investors remains negative. FIIs market share fell from around 16% to 12% but is stable around these keeping the Nifty oscillating with negative bias. RBI reserves went up along with the Real Rate differential of US and India being low supporting the outperformance of Rupee compared to other Emerging market currencies. USDINR can remain supportive to Nifty with an expected consolidation for few months within overall downtrend in Rupee. Nifty adjusted for USD is 26% lower than 2008 peak and after adjusting for CPI is 35% lower than the same.

Nifty

The study of Global Equity Rotation still indicates Nifty to be placed in the Deteriorating zone which remains a concern for a couple of months. A 'Falling Wedge' pattern on Nifty remains in construction with possibility of one more leg of swing before a breakout. The level for pattern breakouts are placed far at 7200 & 8200 which should contract with time. Z-score of Nifty is one positive development which saw an extreme beyond 2.5 SD which historically has been a sign of bottom however, even a move up to 7200 may keep this indicator positively placed. Dual Distribution within RSI has been working well and unless the breakout confirms on Nifty from the wedge followed by a confirmation from RSI above 65, any up-trend should not be believed to be participated. Implied volatility for 2016 remains low but the slope is high indicating later during the year sharp movements can be expected (coincides with an expected Wedge breakout). Option Open Interest for the long dated options including Jan 16 indicates hurdles at 8200 & 8500 with the only support being 7500. Historical OI and Volume congestion also indicates 8200 as a pivotal point.

Sectors

An output from the Derivative Sector study along with the Sector Rotation model (intended for 2-4 months outlook) Auto, Energy, Small Cap and Mid Cap come out to be expected outperformers. Pharma and PSU Banks are placed negative with all other sectors being shifting with low conviction.

Macro to Micro Trends

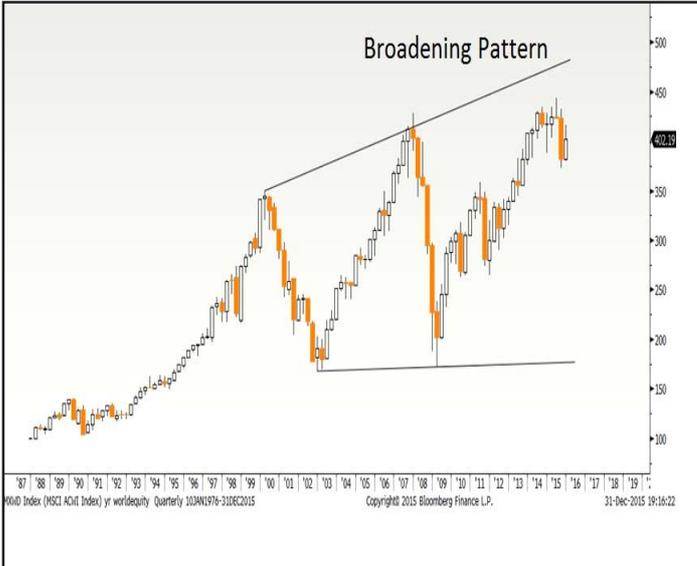


1st January 2016

Quantitative Research

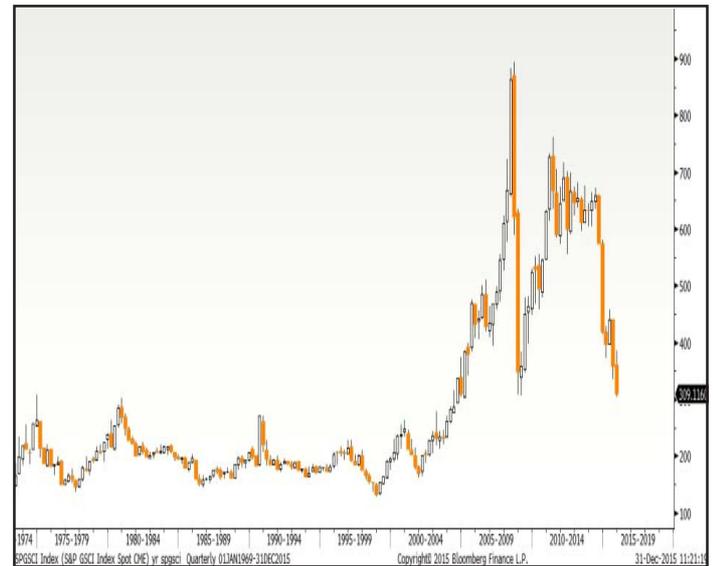
Asset Classes

MSCI World Equity Index



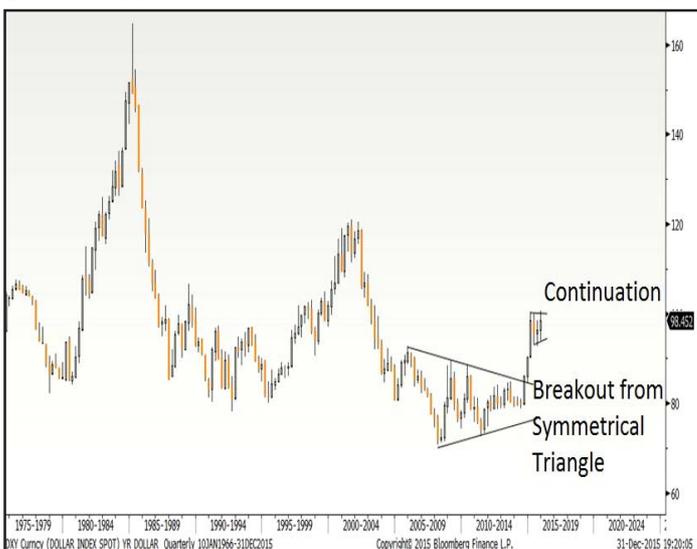
MSCI World Equity Index has a Broadening pattern under formation from past few quarters. The pattern is Bearish in nature but the resistance line is still far which keeps the room open for one more leg of upside before the pattern triggers.

Goldman Sachs Commodity Index



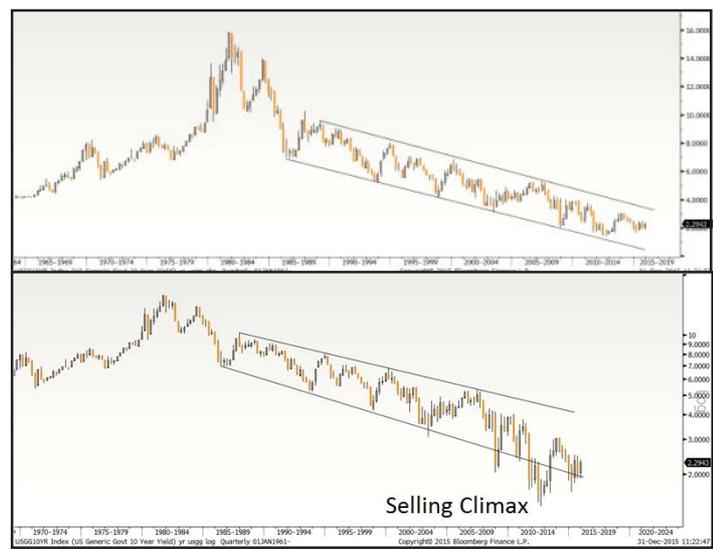
The Commodity Index corrected significantly post a consolidation and is quoting at the 2008 swing low. A long term reversal is un-likely and the possibility remains for a time-correction if at all the fall halts.

Dollar Index



After a 30 year correction on the Dollar Index, it broke out from a reversal pattern in Sep 14 which was expected to invite momentum. A continuation pattern post this breakout strengthens the pattern and expectation remains for 120 if not higher on a sustained move above 101.

US 10Yr Bond Yield

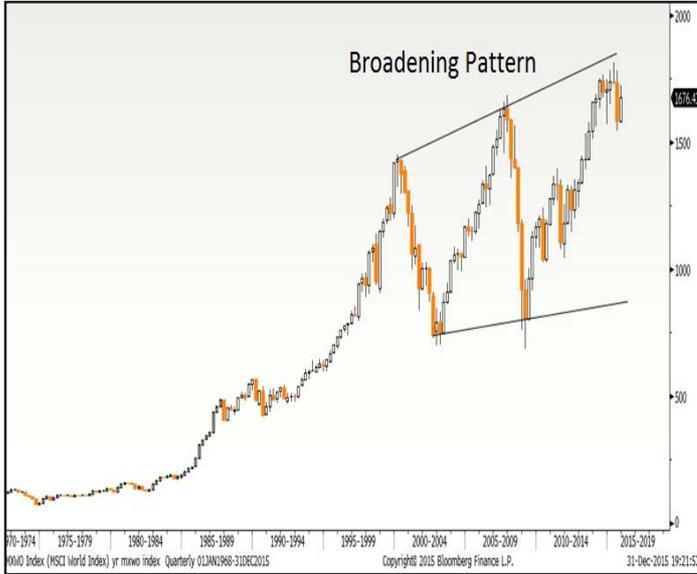


Bond Yield in US has been placed in the declining channel for more than 30 years and if looked at the log chart, it indicates a Selling Climax. The yields are expected to witness a reversal which was also an indication from the FED move in 2015 of raising the rates.

Macro to Micro Trends

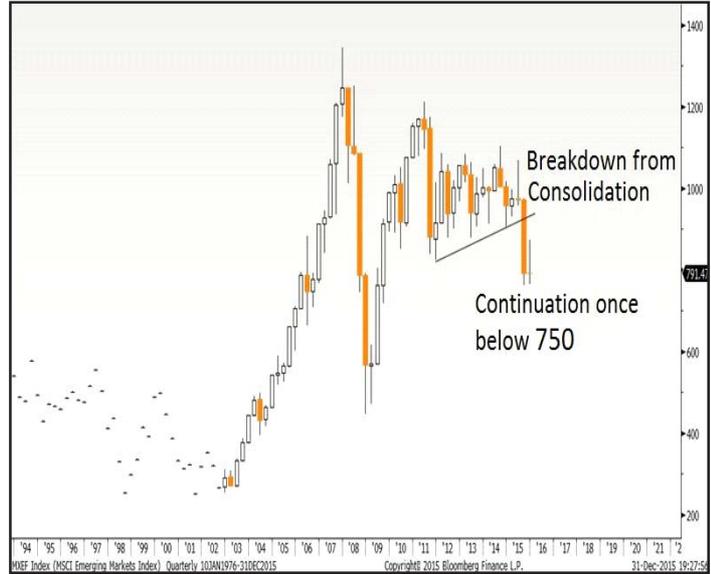
Equity Indices Categorical & Regional

MSCI Developed Market Equity Index



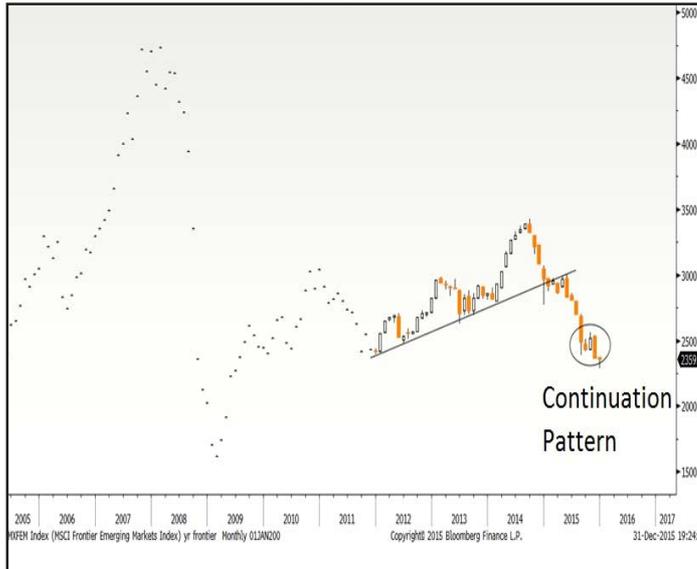
The MSCI Developed Market Equity Index has a similar setup to the World Equities and indicates a Broadening pattern in formation which is bearish in nature but the extreme is yet to be tested for the pattern to trigger.

MSCI Emerging Market Equity Index



The MSCI Emerging Market Equity Index was consolidative in nature until mid 2015 but broke down in later half. This breakdown raises a concern for a longer term downtrend which will be triggered only below 750 which is the pattern support of the 'Inside Bar'. This if happens will be a significant negative for India as well.

MSCI Frontier Market Equity Index



The MSCI Frontier Market Equity Index continued its downtrend and is still far away from support zone. A recent breakdown from a continuation pattern re-confirms the downtrend and liquidation of asset is expected in the same.

MSCI Asia Ex. Japan Equity Index



The MSCI Asia Ex. Japan Equity Index saw a breakdown post attempting to re-test the swing high of 2007-2008. A follow-up selling would confirm the regional downtrend and if happens will be another sign of risk to Indian Equities.

Macro to Micro Trends



Quantitative Research

1st January 2016

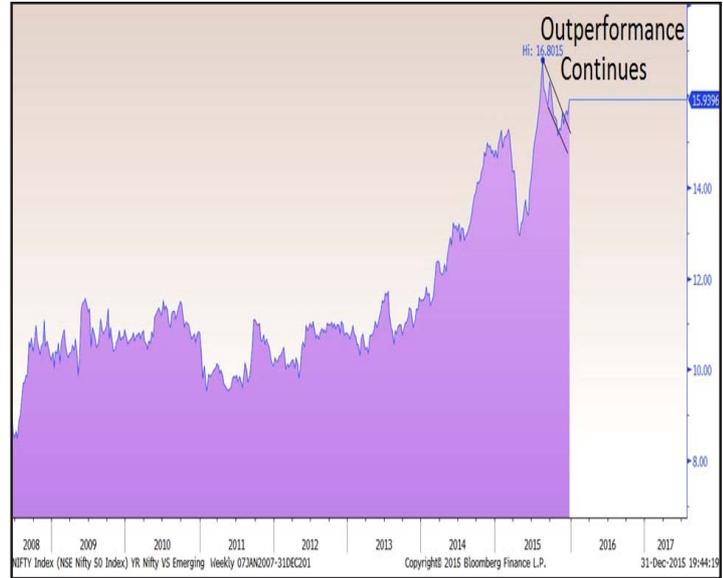
Inter-Market & Economic Movements

NIFTY Vs. Emerging Markets



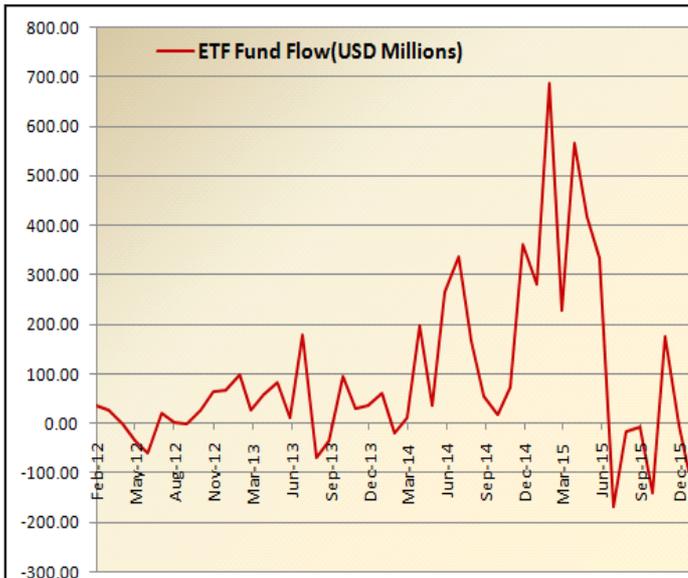
Nifty has been relatively outperforming other emerging markets and has fresh signs of breakout in the Relative Strength chart. Till the level of 750 holds for the MSCI Emerging Market Index, Nifty can remain a better performer. However, a breach below the same will be alarming due to expected broader sell-off.

NIFTY Vs. Asia Ex. Japan



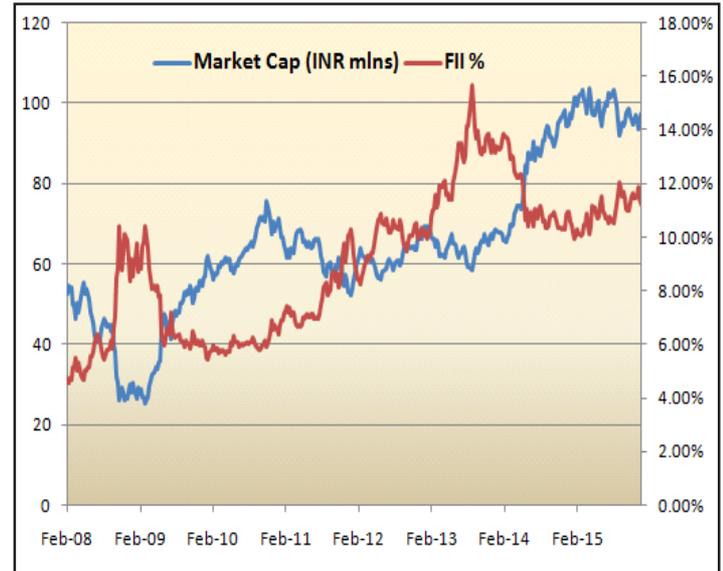
Nifty stands out from the Asian Equities (ex. Japan) in terms of relative performance and is expected to outperform the regional indices given the strength.

INDIA ETF Fund Flow



Funds flow in Indian ETFs have witnessed a complete reversal and has been negative due to the returns after accounting for Currency. As the returns are still not favorable Foreign Funds may remain limited to flow in India.

FII Investment Vs. Market Cap

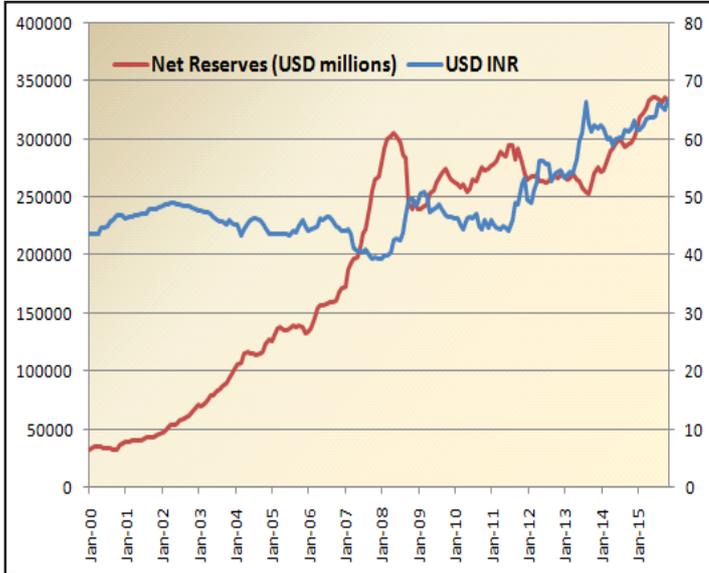


Liquidation from FIIs have not seen a significant reversal yet and has been keeping Indian Equities consolidating with a negative bias.

Macro to Micro Trends

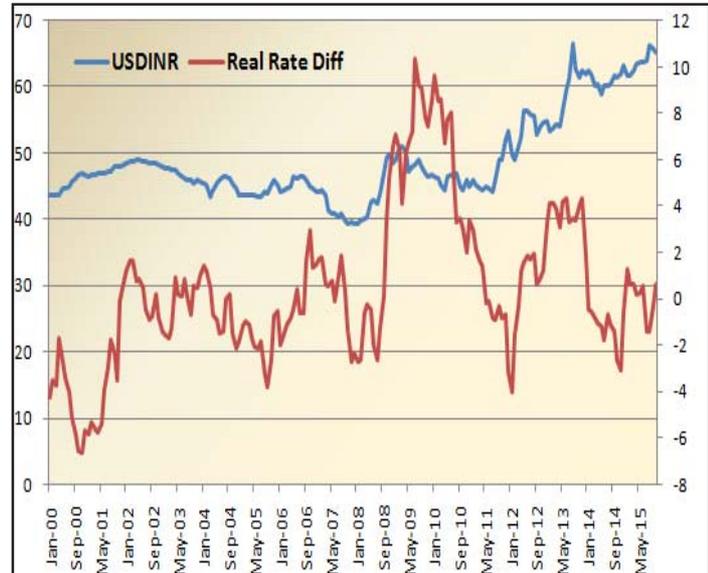
...Inter-Market & Economic Movements

RBI Net Reserve Vs. USDINR



RBI Reserve and USDINR has a negative correlation historically and as the reserve has been rising, Rupee is expected to witness a range bound activity which is an outperformance compared to other Emerging market currencies which are trending down with higher momentum.

USDINR Vs. Real Rate Differential US



The real rate differential of US and India has a positive correlation with USDINR which indicates that lower rate differential can keep the Rupee consolidative around the current larger band and further round of depreciation of Rupee may not be immediate.

USDINR



Even though the overall trend in Rupee is depreciating in nature the immediate few month has higher odds for a time correction within the spike range of 69-70. The correlation with Nifty on the short term chart is low but a stabilized rupee could help from further foreign outflows.

JP Morgan Emerging Market Currency Index



The JP Morgan Emerging Market Currency Index continues to be in a significant downtrend with Rupee slightly outperforming the same. Due to the fact of negative breakdowns in Emerging Equities it would be important to see if confirmation happens with lower lows which will again be alarming.

Macro to Micro Trends

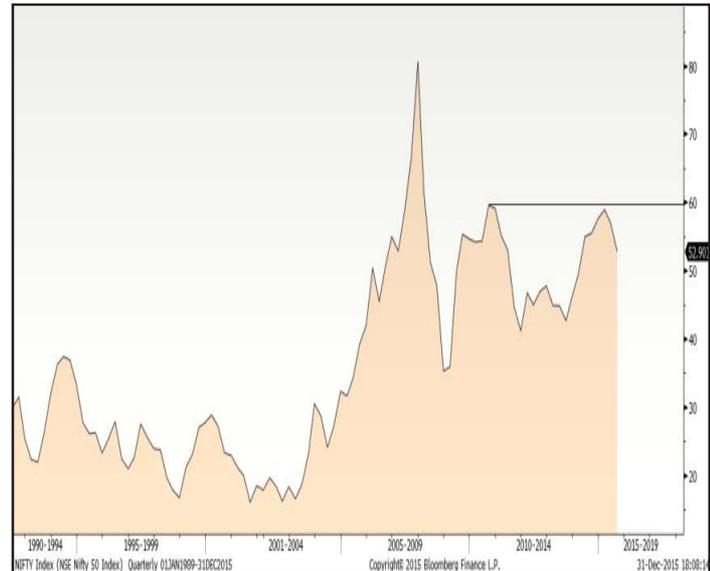
Nifty & Indian ETF

Nifty in USD



Nifty in Dollar terms remains 26% lower than the 2008 peak and despite the fact of positive absolute returns to Indian investors, currency has come as a hit to Foreign investments. This has been keeping the foreign flows limited and can continue to remain muted unless absolute return are visible for sometime.

Nifty adjusted for CPI



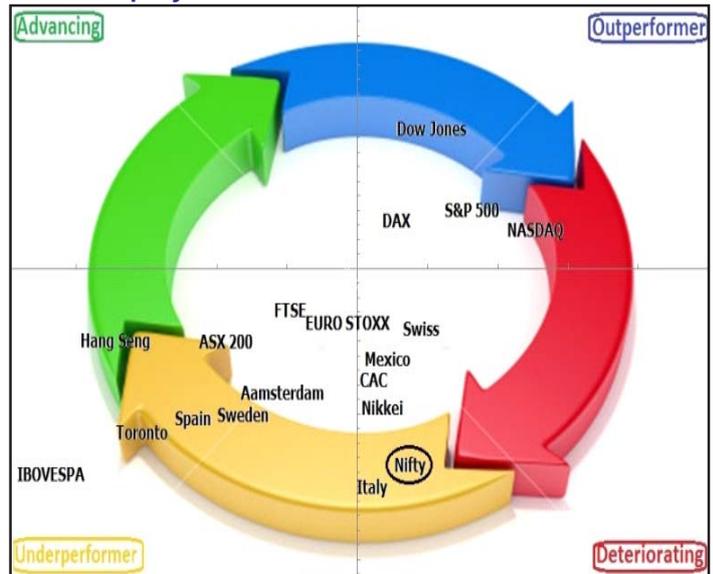
After adjusting the CPI from Nifty returns, the return to Indian Investors has been 35% negative. Even though in absolute terms the Nifty has made a new high but the momentum is not enough to make up for opportunity costs.

Wisdom Tree India Earnings ETF



Wisdom Tree India Earning ETF is still quoting 30% lower than the 2010 peak which is very similar to other ETF returns to Foreign Investors. The trend is still not encouraging for fresh investments by Foreigners.

Global Equity Rotation



Nifty is placed in Deteriorating within the Global Equity Rotation. This indicates that an immediate move up may be unlikely and Nifty should underperform the Global Equities for few more months.

Macro to Micro Trends

Nifty

NIFTY Falling Wedge



A 'Falling Wedge' is evident on the medium term scale of Nifty. This development indicates the breakout zones being 8200 & 7200 for a larger trend. As the wedge is declining in nature and one more leg within is very much possible, the support needs to be revised lower to 7200 from the earlier expectation of 7500.

NIFTY Candlestick



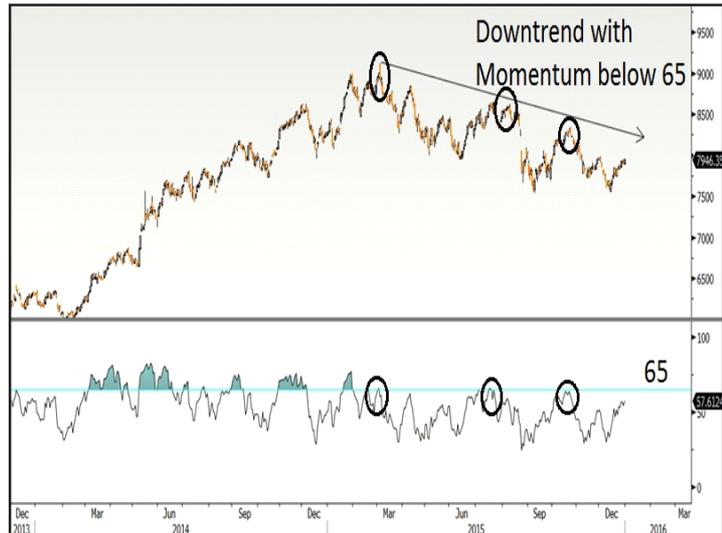
As stated in our interim reports, Nifty has a short term bullish pattern of 'Piercing Line' at the earlier swing low which led to the current reversal but for the pattern to exist 7500 is the immediate level of support. Short term traders can take a bet with a 50 points stop around the level which if doesn't work 7200 will be the important and only expected reversal point.

NIFTY Z-score



Z-score of Nifty is one of the few positive indicators which suggests that an extreme was attempted by Nifty with a push in Zscore below 2.5 and gradually the trend might start resuming upwards. However, even a further low towards 7200 may not change the outcome. Past instances supports a reversal post this temporary consolidation.

NIFTY RSI



The Dual Distribution theory within RSI has been working perfect where in a downtrend the momentum indicator should not cross 65. So far every swing peak in Nifty has been followed by the same. If the Nifty breaks above 8200 (or modified level with time) followed by the breach in momentum indicator above 65, that would be a re-confirmation for an uptrend (reversal).

Macro to Micro Trends

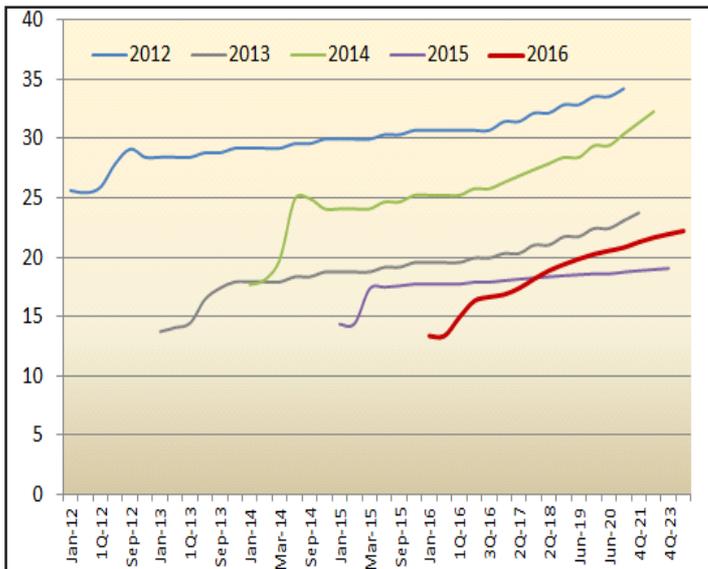


1st January 2016

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...Nifty

Nifty Options Implied Volatility Term Structure



Above chart indicates Implied volatility of ATM options for upcoming and past expiries. Notable fact is that although in absolute terms the 2016 curve remains lower than preceding years. The slope of 2016 curve remains higher, indicating expectation of volatility in the coming months. This coincides with the earlier pattern of Wedge which could breakout in a couple of months.

Nifty Options Open Interest

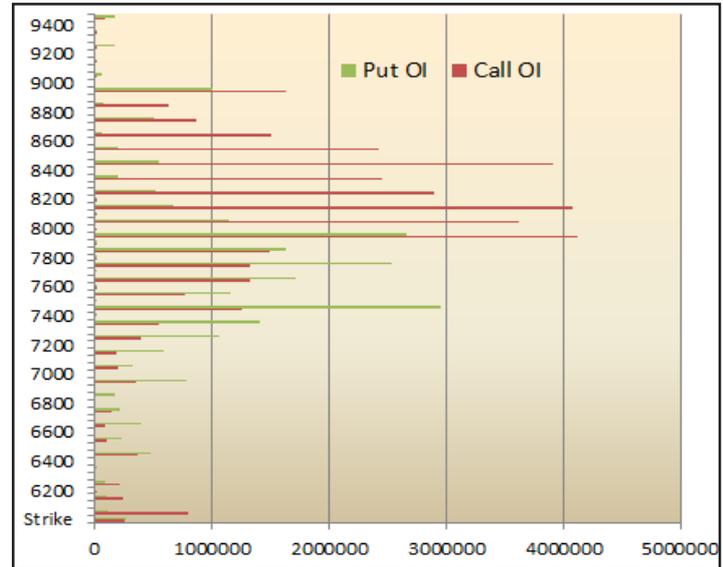
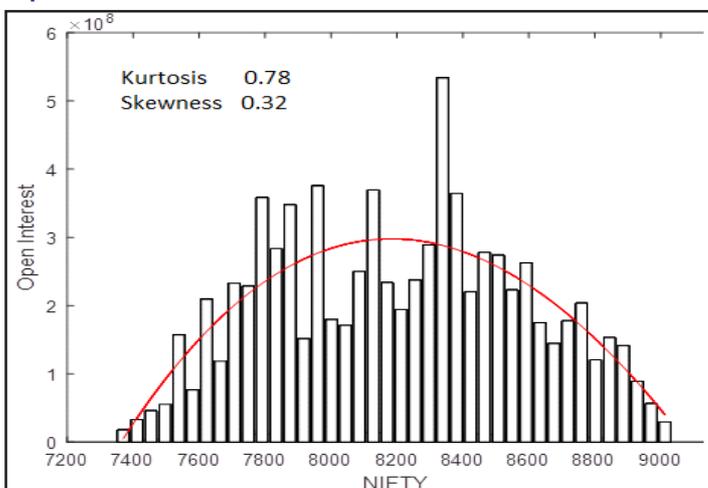


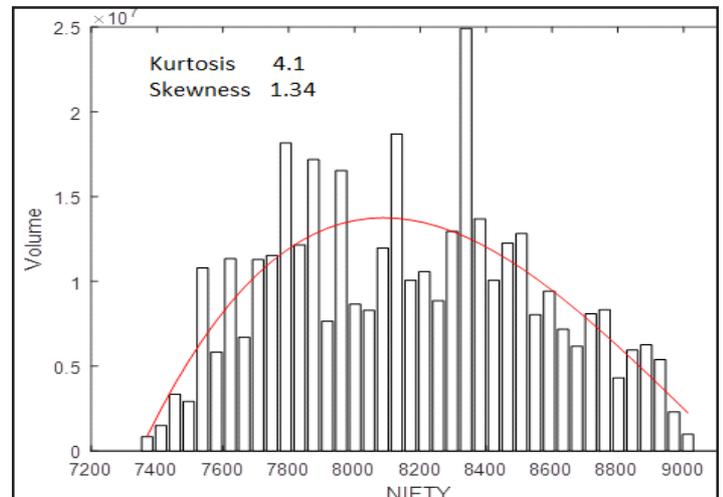
Chart shows Nifty Options Open Interest standing for the January'16 & beyond expiries. One notable is immediate hurdle on the upside remains at 8000, crossover of which could open upside up to 8200. Subsequent hurdle remains at 8500 commanded by the far month expiry calls indicates medium term hurdle. On the lower side 7500 is the only strike with meaningful OI, below which there seems to be lack of conviction about a consensus floor.

Open Interest



Historical Open Interests around Nifty levels indicate the pivotal points being 8200 & 8400 on the upside which can be taken as breakout points which almost coincides with the next years option congestion. Also statistically the distribution is almost normal defining the consolidation phase in past.

Volume

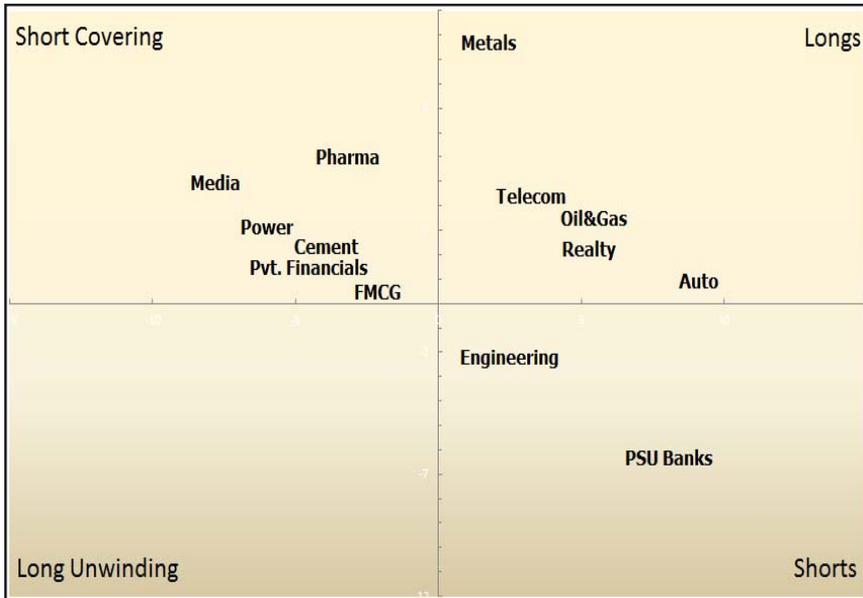


Historical Volumes around Nifty levels also confirm similar level to as in OI but the Kurtosis indicates a peaked centre around 8100-8200 which coincides with the expected breakout zone from the Falling Wedge.

Macro to Micro Trends

Sectors

Sector OI



Sector OI

The Neutralizers

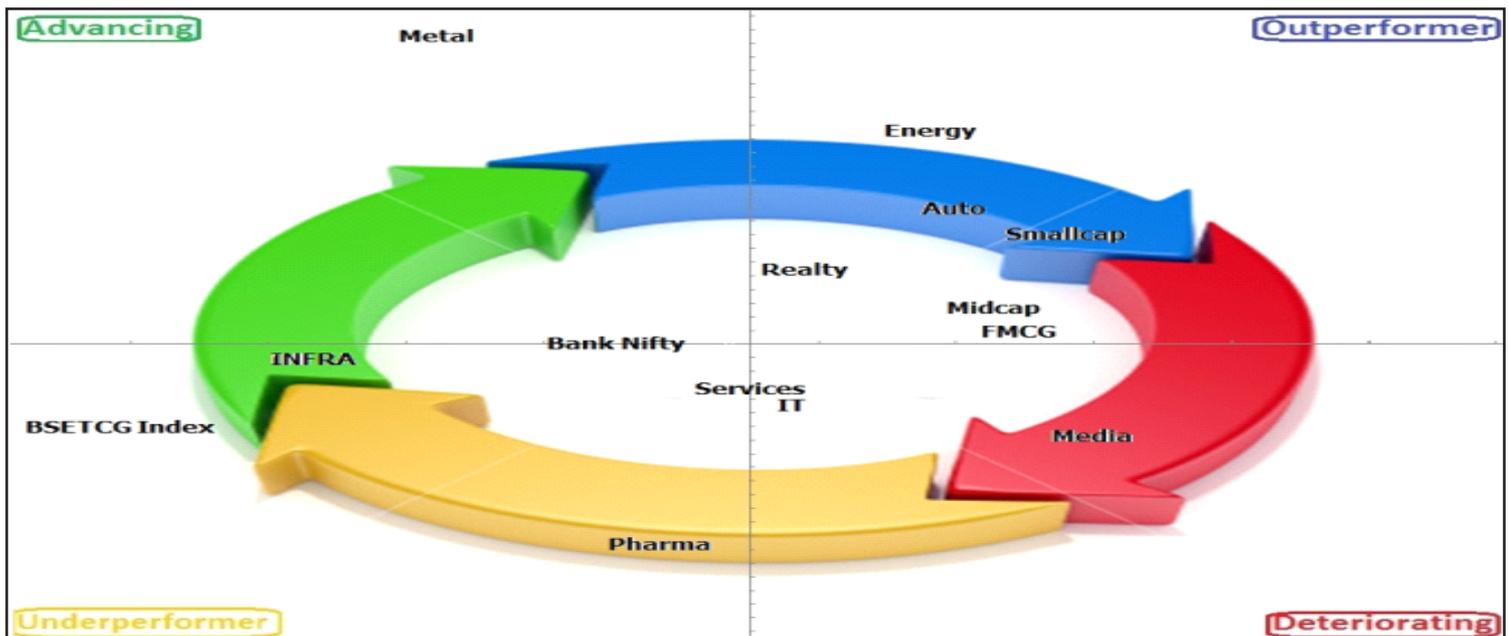
- Short Covering: Private Financials (except Longs in RelCapital) , IT, Media, Metal (Mix of Short Covering & Fresh Longs), Pharma, Power, Cement
- Mixed Build up: Auto (Longs in Select stocks, Shorts in Tata Motors twins), FMCG (Mix of Short Covering & Longs in Smaller Names)

Incremental OI:

- Longs : Oil & Gas (Initial Longs in Gas stocks)
- Shorts: PSU Banking, Engineering
- Longs by Single largest Contributor: Telecom (RCOM), Realty (HDIL)

Stock futures December series rollovers were higher than 3M average by over 2% but the Open Interest tally went up by 7%. Notably the contribution to the increment comes from some of the short heavy counters, adding exorbitant amount of longs over shadowing the modest short covering.

SECTOR ROTATION



The Sector Rotation model is a medium term model in nature for an expectation of few months. The model indicates Auto, Small cap, Mid cap and Energy to continue its outperformance with Pharma being the only expected underperformer. Media has turned neutral from the positive zone whereas Capital Goods may witness pullback from the ongoing downtrend.

Macro to Micro Trends

Quantitative Research

Top Picks - 2016

Arvind

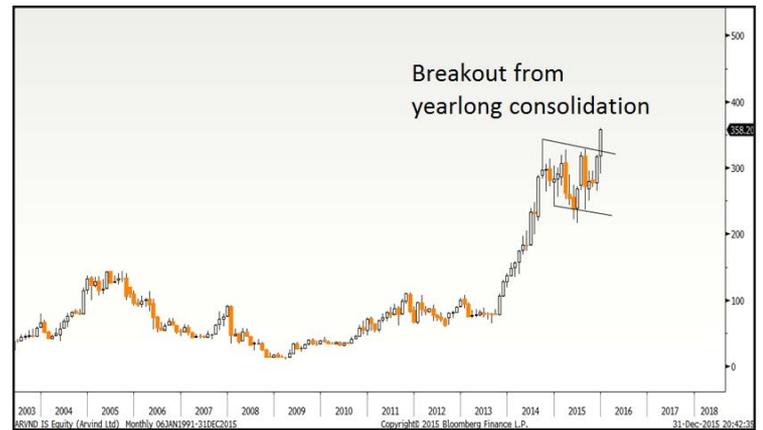
BUY

- ✓ Arvind Mill has broke out from a yearlong consolidation
- ✓ It has evolved into a brand power house with a portfolio of ~30 brands with 13 owned and 17 licensed brands
- ✓ The management has guided for margin expansion in the brands business to the extent of 150bp YoY in FY16
- ✓ We believe the business mix change in favor of brands and retail will reduce capex intensity and drive improvement in return ratios

CMP : 358

Target : 430

Stop Loss : 330



Bajaj Finance

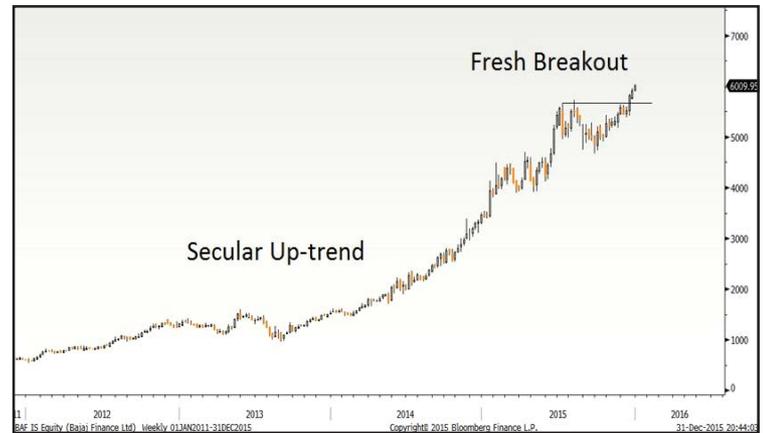
BUY

- ✓ Fresh breakout from the continuation pattern augurs well for the secular uptrend to remain intact
- ✓ Bajaj Finance is the largest consumer durables and lifestyle financier in the country and has been continuously gaining market share in these businesses
- ✓ One of the key strengths that BAF has built over time is a quick turnaround time unmatched by most other retail financiers
- ✓ We raise FY17/18 PAT by 6%/5% on the back of strong growth momentum. The stock is currently trading at 3.9x/3.4x FY16/17E BV

CMP : 6009

Target : 7400

Stop Loss : 5570



Bosch

BUY

- ✓ Bosch is placed at the lower end of oscillation & provides a phenomenal reward to risk ratio for portfolio longs
- ✓ Bosch enjoys very strong and unique positioning in the auto component industry with focus on technology enabling high value add, strong relationships with OEMs
- ✓ Bosch has several levers to drive over 20% CAGR in revenues over the next 5-6 years (~23% CAGR over FY15-18), as Bosch is at forefront of technological evolution of the Indian auto industry

CMP : 18647

Target : 23500

Stop Loss : 17300



Top Picks - 2016

Dish TV

BUY

- ✓ Falling wedge on the intermediate scale nears termination while the Pullback to the rounding bottom provides a fresh opportunity for longs
- ✓ DITV is a beneficiary of mandatory digitization as it will benefit from increased content cost and tax parity vs cable (hitherto unorganized)
- ✓ DTH operators like DITV benefit from their direct subscriber ownership driving ability to innovatively package and price content

CMP : 101.5 Target : 140 Stop Loss : 85



Wonderla

BUY

- ✓ Breakout from Rounding bottom & the follow up move augurs well for the uptrend
- ✓ We believe Wonderla is on track to be a pan-India player over the long run and will be a major beneficiary of the amusement park industry's development
- ✓ Company is one of the largest and most profitable parks in India. With the new park opening in Hyderabad in FY17, we believe it has huge potential to grow

CMP : 397 Target : 490 Stop Loss : 375

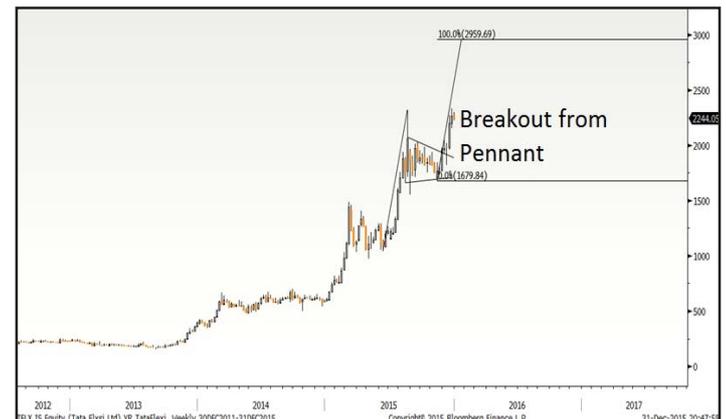


Tata Elxsi

BUY

- ✓ Breakout from Pennant on the long term scale could see an extended up move
- ✓ Higher offshoring in auto to drive multi-year growth: Just 0.4% offshoring penetration and 40-50% cost savings - offshoring to India can be a multi-year growth story. This, we believe can drive 32% CAGR in automotive revenues for Tata Elxsi as against 42% revenue CAGR over FY12-15.
- ✓ With a pure service business model requiring minimal capital investments, Tata Elxsi delivers superior return ratios - 77% RoCE and 51% RoE for FY17E along with ~48% dividend payout.

CMP : 2244 Target : 2960 Stop Loss : 2020



Macro to Micro Trends

Top Picks - 2016

IGL

BUY

- ✓ Rising Three on the monthly scale exhibits strength to continue
- ✓ IGL is a monopoly gas distribution company in the National Capital Region (NCR)
- ✓ IGL will be a major beneficiary after the Honorable Supreme Court has suggested to ban the registration of diesel cars above 2000cc from 1st January 2016 to 31st March 2016. Government of Delhi has also mandated conversion of all taxis to CNG by 31st March 2016

CMP : 529 Target : 640 Stop Loss : 495

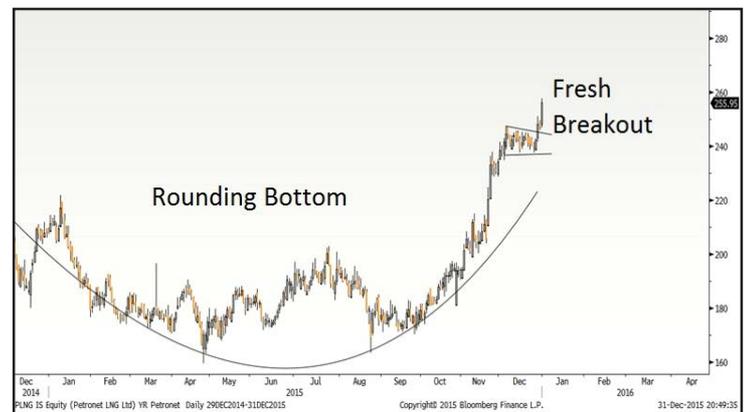


Petronet

BUY

- ✓ Fresh breakout from continuation post the rounding formation augurs well for a sustained upmove
- ✓ Petronet LNG is a direct play on the India's natural gas deficit situation and with its first-mover advantage, ability to ramp-up volumes at affordable cost
- ✓ Petronet LNG plans to expand its capacity from current 15mmtpa to 29mmtpa. FY18E earnings show a sharp jump (+35% YoY) based on Petronet LNG long-term volumes. We are increasing our FY16 earnings by ~5% to factor in higher third-party regas volumes and model FY16/FY17 volumes at 11.6/11.8 (v/s 11/11.6 earlier)

CMP : 256 Target : 310 Stop Loss : 235



PNB

SELL

- ✓ Negative sector outlook
- ✓ Continuation pattern on the immediate scale augurs well for the weakness to continue
- ✓ A breach below 118 could accelerate momentum

CMP : 116 Target : 94 Stop Loss : 124



Option Strategies - 2016

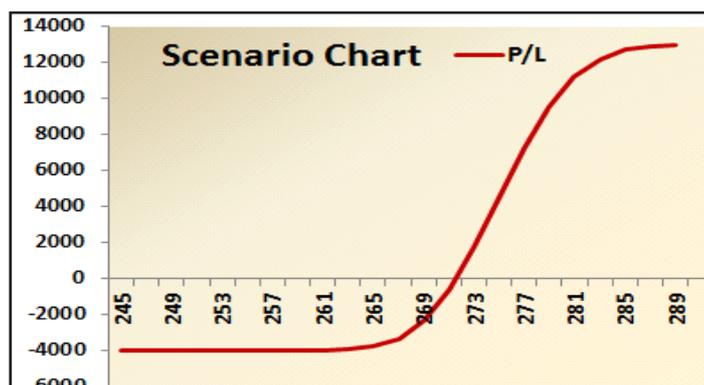
ICICI Bank

Bull Spread

- ✓ Bargain hunting Longs were seen in last few trades of December series builds expectation of further upside
- ✓ Heaviest Call in Jan series options remains at 280 creating head room until that price point
- ✓ Considering the low implied volatility, the move is expected to be slow and is recommended to be traded with Bull spread

Target Profit : INR11500 Stop loss : INR4000

Buy 1 Lot Jan 270CE, Sell 1 Lot Jan 280CE



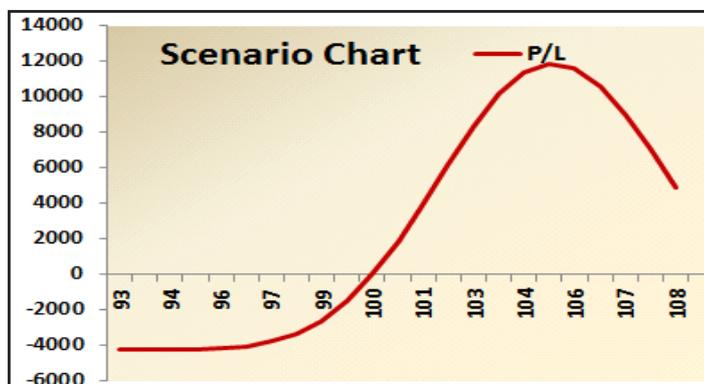
Dish TV

Long Call Butterfly

- ✓ Bargain hunting attempts in recent dip indicates expectation of further upside
- ✓ On the higher side though the option congestion indicates a slowdown in move around 105-110
- ✓ Amid such a Call congestion, initial longs are recommended to be traded with Long Call Butterfly

Target Profit : INR11000 Stop loss : INR4300

Buy 1 Lot Jan 100CE, Sell 2 Lots Jan 105CE
Buy 1 Lot Jan 110 CE



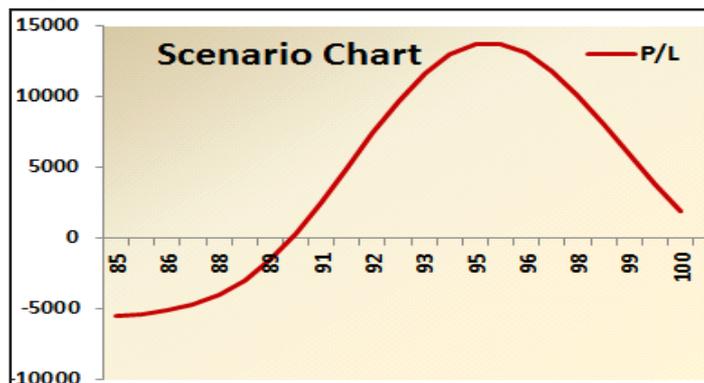
Ashok Leyland

Long Call Butterfly

- ✓ The stock has been in Long-Long unwinding cycle
- ✓ The Call congestion though indicates the up move could be slow (95 Call being heaviest, 100 Call being reasonably congested)
- ✓ Such Positive move with possible gyrations is recommended to be traded with Long Call Butterfly

Target Profit : INR11000 Stop loss : INR5500

Buy 1 Lot Jan 90CE, Sell 2 Lots Jan 95CE
Buy 1 Lot Jan 100CE



Option Strategies - 2016

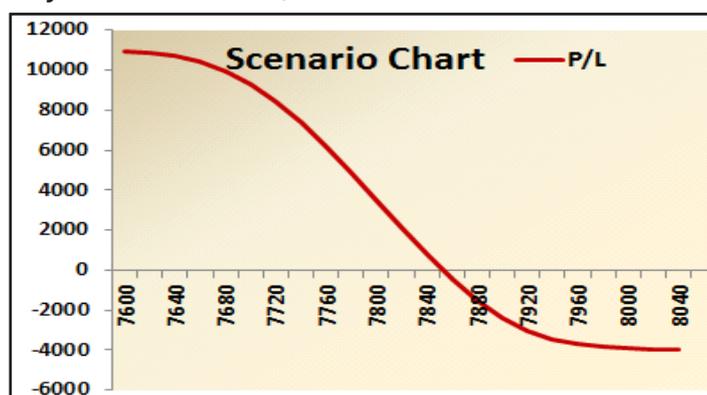
Nifty

Bear Put Spread

- ✓ Considering the Neutral set of cues at this Juncture it makes sense to create a hedge in index, in case shorts get re-instated
- ✓ Implied Volatility remain low, hence a Bear Put spread is recommended to Hedge
- ✓ Put congestion is lower as the Put writers remain vary of creating position, though 7800 has highest congestion hence 7700 (adjusted for Premium) can be sold

Target Profit : INR10000 Stop loss : INR3900

Buy 1 Lot Jan 7900PE, Sell 1 Lot Jan 7700PE



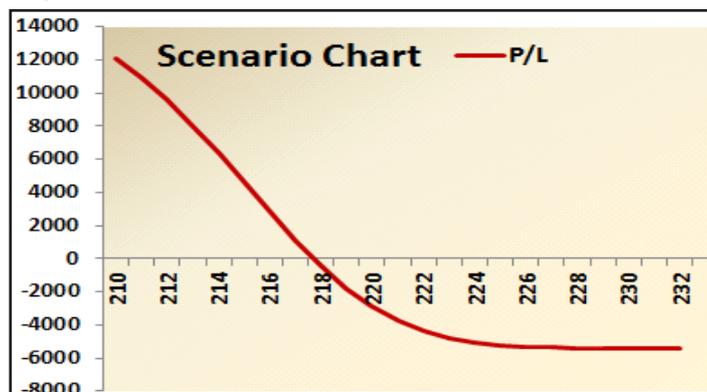
SBI

Bear Put Spread

- ✓ The stock has been in short-short unwinding cycle
- ✓ Lower level Put congestions remain less (Heaviest Put not even 50% of highly congested Call)
- ✓ Breach of 220 could accelerate the fall, hence Bear spread is recommended with selling slightly farther Put

Target Profit : INR12000 Stop loss : INR5500

Buy 1 Lot Jan 220PE, Sell 1 Lot Jan 210PE



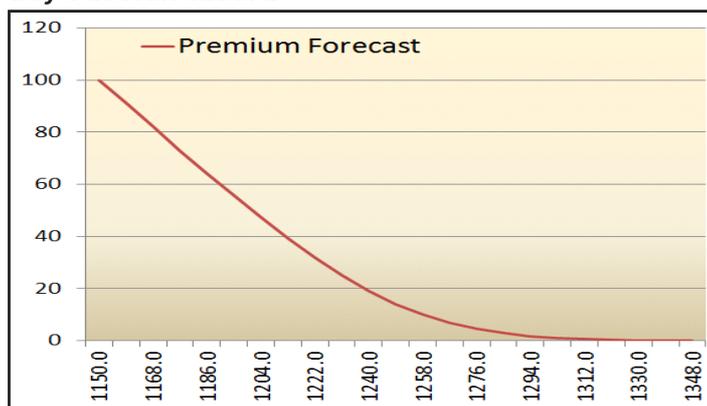
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Long Put

- ✓ The stock has added shorts in Dec15 expiry and is expected to go down further, considering short rollovers
- ✓ Lower Strike Puts are not finding in enough writers, which keeps the downside open
- ✓ Since we do not have any meaningful consensus on the lower level congestion, Long Put is recommended to capitalize on any extended fall

Target Profit : INR50 Stop loss : 0

Buy 1 Lot Jan 1250PE



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