

Contra Bets Basket

When the third richest person in the world- Mr Warren Buffett has made money on this philosophy '**Be Greedy When Others are Fearful**', we should pay heed to it. Investors have been fearful in taking exposure in automobile, pharmaceutical and PSU sector and their stock prices have corrected brutally. Most of these stocks are trading below their ten year average price/earnings multiple. We have constructed this portfolio as the valuations are cheap and the stocks are offering good dividend yield.

Why Should you Invest in this Portfolio!



Valuation of Stocks in Automobile, PSU & Pharmaceutical Sectors have Fallen Below their 10 Year Average Price/Earnings Multiple Making them Attractive Investments



Automobile Sector Bound to Rebound as Penetration of Two Wheelers in India is Very Low Amidst Emerging Economies

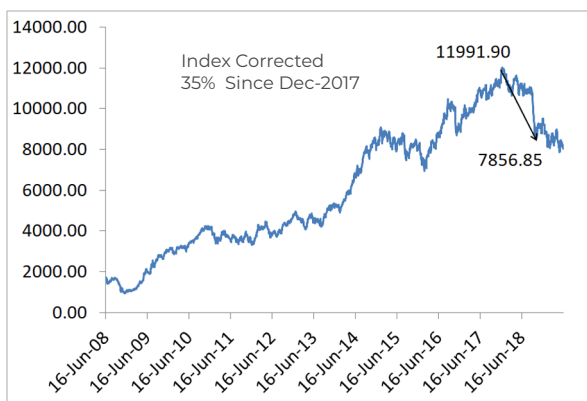


Despite Headwinds, Indian Pharmaceutical Industry will Continue to be the No 1 Drug Supplier to the Largest Consumer of Medicines- the United States of America

Valuation of Stocks in Automobile, PSU & Pharmaceutical Sectors have Fallen Below their 10 Year Average Price/Earnings Multiple Making them Attractive Investments

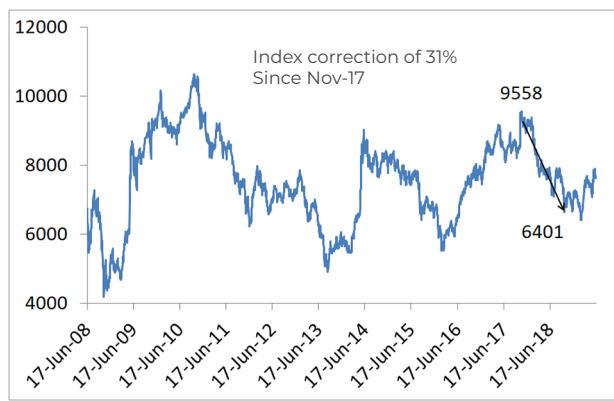
Automobile, Pharmaceutical and PSU Index have taken the maximum beating in the preceding two years as seen in the charts below:

Nifty Auto Index



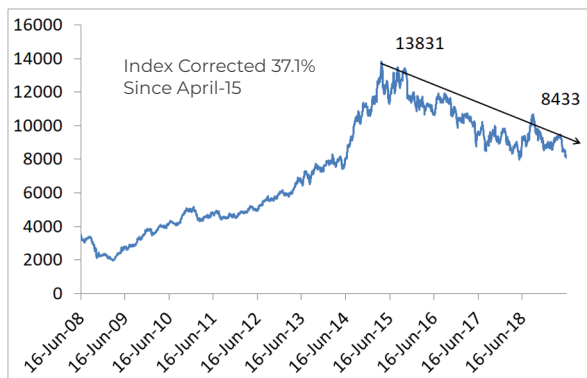
— Nifty auto Index

S&P BSE PSU Index



— S & P BSE PSU

Nifty Pharma Index



— Nifty Pharma Index

Source: ACE Equity

Valuations of stocks in these sectors have fallen below their ten year average price/earnings or price/book multiples. This has made the stocks in these sectors very attractive.

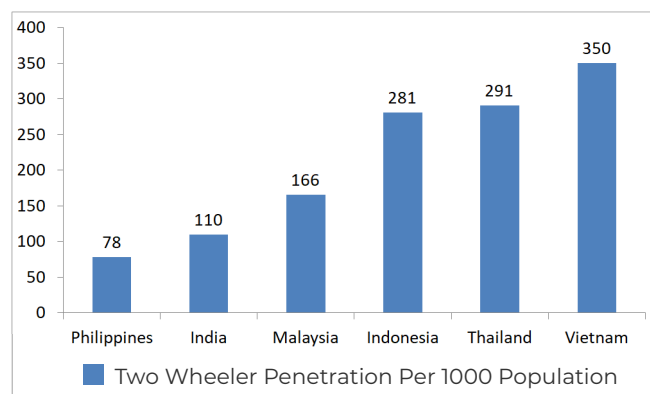
Company Name	TTM PE	10 Year Average PE	Discount to Ten Year Average
SAIL *	0.5	1.1	-53.8%
Aurobindo Pharma	14.4	16.1	-10.7%
Bajaj Auto	16.0	20.2	-20.5%
Engineers India	18.8	20.8	-9.4%
Maruti Suzuki	24.3	25.9	-6.0%

*Price Book Value considered for SAIL as it is an asset heavy business

Source: ACE Equity

► Automobile Sector Bound to Rebound as Penetration of Two Wheelers in India is Very Low Amidst Emerging Economies

Two Wheeler Penetration Per 1000 Population



Source: Investor Presentation of Hero Motocorp

As visible in the chart, for every 1000 population there are just 110 two-wheelers in India. While, for other emerging economies such as Indonesia and Thailand this ratio stands at 281 and 291 respectively. Hence, the industry is still underpenetrated. Since October 2018, there is a slowdown in automobile sector as demand is weak on account of subdued rural and urban wage growth. However, once these key parameters recover there will be a substantial improvement in the sales volumes at these auto majors.

► Political Stability and Healthy Dividend Yield Makes PSU Stocks an Attractive Bet

With Mr Modi coming back to power with great numbers again, political stability has strengthened at the capital which will be sentimentally positive for the PSU stocks. Further, the hefty dividends which these companies dole out make them very attractive. Here is the dividend yield of stocks in our portfolio:

Dividend Yield of PSU Stocks in our Portfolio

Company Name	Dividend Yield (in %)
Oil India	8.6
Coal India	6.5
Engineers India	3.5
ONGC	3.0

Source: ACE Equity

► Despite Headwinds, Indian Pharmaceutical Industry will Continue to be the No 1 Drug Supplier to the Largest Consumer of Medicines- the United States of America

Here is the table which shows the opportunity available in the US market:

Private Healthcare Expenditure	\$ 1.63 trillion
Total Pharmaceutical Sales	\$ 333 billion
Per Capital Pharmaceutical Sales	\$ 1036
Generic Sales	\$ 70 billion (21% of total sales)
Patented Sales	\$ 244 billion (70% of total sales)

Source: Indian Investment Conclave 2018

The overall private healthcare expenditure of USD 1.63 trillion is around 60% of the Gross Domestic Product (GDP) of India. This shows the massive opportunity for Indian players in the US. Further, as drugs go off-patent, there will be more demand for generic drugs which can lead to a huge opportunity for Indian drug players. Hence, this sector has to bounce back as the consumption of antibiotics in the world is on the rise.

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