Thematic Research **June 24, 2016**

Britain exit (Brexit) from European Union and its impact...

The United Kingdom has become the first independent nation to break away from the European Union as its citizens voted overwhelmingly in favour of an exit from the block in a referendum held yesterday.

The pound collapsed to its lowest level against the dollar since 1985 and global markets also tumbled as the trend started firming in favour of Brexit. UKIP leader Nigel Farage has called the vote a victory for real people, and declared June 23 as "Independence Day".

Before we understand the impact of Brexit, let us see what are the Benefits to Britain on exit from European Union

1) **Full sovereignty regained**
   Opting out of the Eu will now help UK establish full sovereignty as Britain will not have to comply with EU regulations, which are mostly constituted in Brussels and brought into force by agreement of other member countries.
2) **EU membership not to cost UK growth**
   The UK, being a net contributor to the EU budget, can now effectively use billions of pounds for its own growth and decide how to spend its money.
3) **Freedom from EU regulations' burden**
   Many argued that the EU has burdened UK with regulations costing the British economy as much as 600 million pounds per week. After Brexit, the UK will now be able to amend some EU laws to make savings shrugging off the burden of EU regulations.
4) **Trade control regained**
   Companies in the UK will now be free from the burden of EU regulations and be able to conduct its own negotiations with other countries. Nearly half of UK's overseas trade is conducted with the EU.
5) **More employment prospects**
   A divorce with the EU will help lesser regulations at the workplace, which could potentially create more jobs. UK will now be free to receive fresh investments from outside of EU.
6) **Wages lost due to high immigration to be curtailed**
   The UK will now be able to have its own regulation for work going to the high number of migrants to the country. As EU citizens have the right to work in any member state.

Impact of Brexit on Oil & Markets

Oil prices slumped by more than 6 percent on Friday after results of a landmark referendum showed Britain had voted to leave the European Union, causing huge market uncertainty and fracturing European efforts to forge greater unity.

Financial markets have been racked for months by worries about what Brexit, or a British exit from the European Union, would mean for Europe's stability, but were clearly not factoring in the risk of a leave vote.

U.S. crude was down $2.77 at $47.34 a barrel at around 0314 GMT. Brent crude was down $2.75 at $48.16 a barrel. Bad economies in the UK and Europe are not good for oil and there could be a domino effect on other economies in Asia. The result leaves the crude oil market in thrall to other drivers but even if the dust settles soon prices are likely to see swings, albeit around an equilibrium mark of $50. Oil prices had risen more than 30 percent this year before Thursday's fateful UK vote.

Impact on India and its Sectors

1) UK has always acted as a gate pass for Indian companies to access the European companies, its more because of the access to financial markets in London and ease of doing business with Europe, from UK. Why will anyone want to set up office in Europe and learn the local language to get access to the markets, when the same can be done sitting in London?
2) India has positive trade surplus of $3.64 billion in terms of bilateral trade with Britain. The total trade stood at $14.02 billion in FY16, out of which $8.83 billion was in exports and $5.19 was in imports.
3) For the month of April 2016 the exports to Britain stood at 17.66%(USA 17.80%) of the total exports. In terms of imports, India imports only 1.45% of its net imports from UK.
4) If we look at exports from India to UK, the major exports are textiles and clothing, followed by machinery and auto ancillaries. India's major exports in terms of pharma are US, UK followed by Europe.

Information technology: IT companies are expected to take the biggest hit, as clients in the UK and the EU may postpone spending because of the uncertainty over how things pan out from here on. This could have a negative impact on revenue growth from Europe, which accounts for up to 30 per cent of top lines for top five IT firms. The UK alone accounts for 10-15 per cent of revenues for these companies. The numbers could jeopardise the Nasscom projection of 10-12 per cent growth for the growth in FY17.

Automobile: Tata Motors will be hit the most in the auto space. It's subsidiary JLR is seen losing 1 billion pounds ($1.47 billion) in profit by the end of the decade as a result of Brexit. Bharat Forge's revenues from Europe stood at 39 per cent.

Auto component maker Motherson Sumi has its Netherland-based subsidiary Samvardhana Motherson Automotive System Group BV (SMRPBV) accounting for more than 80 per cent of its revenues and 45 per cent of consolidated profits. Motherson Sumi Chairman V C Sehgal said that Brexit will not impact much as the company has two plants in UK which caters only to British customers. "We are planning to set up third plant in the UK – Brexit or no Brexit," he said.

"I think that we have seen a knee jerk reaction and there is huge job ahead to go out of Europe... There are many aspects which must be done and it will be almost two to three years, as about 10 years ago, there was clause inserted that if a country is set to leave then the Government, (it) has to extract itself on conditions, which have to be agreed and as well other things. So as far as I am concerned, it will be business as usual and as well I do not see any changes as England is still a part of the EU and does not cease to be because of a referendum," said Sehgal.

Apollo generates around 30 per cent of its revenues and 25 per cent of profits from Europe through its Netherlands-based subsidiary Apollo Vredestein Apollo Vredestein. There could be translation gain or loss depending on currency movement.

Metals: Among the metal stocks, Tata Steel has significant exposure to the UK and the European Union via its subsidiary Tata Steel Europe. The arm accounts for 25-30 per cent of the company's total volume. Though the actual exit of Britain will take a couple of years, companies Tata Steel will have to make alternate arrangements to sell their products in the European Union.

Just before the vote, Tata Steel Europe had told its staff the relationship between the UK and the EU is very relevant for the company. "The EU is by far our largest export market, with over a third of our UK steel heading there... (and) access to that market is fundamental to our business," Tim Morris, head of public affairs at Tata Steel Europe said. If Britain were to exit the EU, Tata Steel would no longer be able to influence some of the major regulations such as environmental controls and anti-dumping measures which impact its UK operations. "It is likely we would still need to adhere to EU rules to enter that market. The difference: we would no longer have a say in how they are set up or applied." Tata Steel UK is in the process of selling its UK business and is negotiating with the British government to retain part of its operations. The voting today would expedite the sale process, analysts said. On the other hand, JLR sells 25% of its products made in UK to rest of Europe and it is in the process of setting up another plant in Slovakia to cater to the demand.

Capital goods: Among the capital goods names, Cummins India generates 20 per cent of overall sales from Europe and roughly 3-5 per cent from the UK. But the company is unlikely to see any major impact from the event Cummins' manufacturing plants are located in India and Cummins Inc (parent company) sources products (mainly mid/high KVA engines) from Cummins India to sell in Europe and elsewhere.

Ajcon Global views:

We at Ajcon are of the opinion that Indian markets will recover from the initial fall to 7950 in Nifty which is due to exaggerated first reaction.

Disclaimer

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above para, We and our affliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

AJMERA AJCON GLOBAL

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Corporate and Broking Division
408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:
101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40

ASHOK KUMAR AJMERA

Digitally signed by ASHOK KUMAR AJMERA
DN: CN = ASHOK KUMAR AJMERA, C = IN, S = Maharashtra, O = Personal
Date: 2016.06.24 15:09:09 +05'30'