

Markets

SATURDAY, OCTOBER 19, 2019

EXPERT VIEW

Indian equities outperformed major global markets for the week. Equity markets witnessed a sharp rally on foreign investor buying, progress in US-China trade talks and Brexit deal.

— Sanjeev Zarbade, VP — PCG Research, Kotak Securities

Money Matters

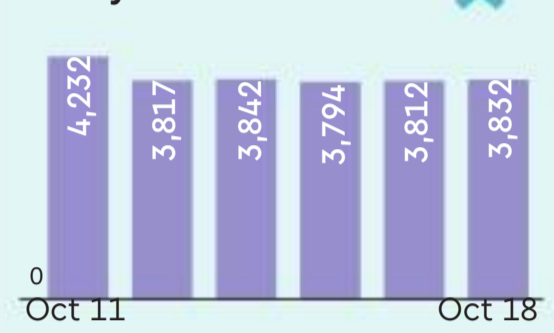
G-SEC

Benchmark yield rose due to selling pressure



LAF

Bank borrowing under RBI's short-term window rose by ₹20 crore



₹/\$

The rupee appreciated on global cues



€//\$

The euro rose against the dollar



Quick View

HDFC mops up ₹5,000 cr via bonds

MORTGAGE LENDER HDFC has raised up to ₹5,000 crore by issuing bonds on a private placement basis. The bids were opened on Friday and closed the same day. The object of the issue is to augment the long-term resources of the company. Proceeds will be utilised for financing/refinancing the housing finance business requirements.

INTERVIEW: CHANDRESH NIGAM, MD & CEO, AXIS AMC

'Wealth creation over five-year period will happen from quality growth business'

As the environment gets tougher for companies, businesses that are centres of excellence within their industry would fare well, Chandresh Nigam, MD & CEO, Axis Asset Management Company (AMC), tells Chirag Madia and Yoosef KP. Wealth creation over the five-year period will happen from quality growth business, he believes. Edited Excerpts:

What is your view on slowing economy? I feel that economy is headed for slightly tougher time. I don't know whether it will go further down in terms of gross domestic product (GDP) growth. But it's also naive to think that somebody can just pump money and things will start improving. It can happen for six-twelve months but not long term. India has a huge competitive and innovative issue. Just a few days ago, India slipped down 10 places to be ranked 68th in the annual global competitiveness index 2019. Now, in some companies, there is institutionalisation of innovation, but as an economy overall we are seriously lagging in innovation. So in this kind of environment it is better to focus and invest in businesses which are centres of excellence within their industry or sector. While there are announcements of corporate tax, I think if they can do some something on personal income tax it can have a long-term impact.

When will the demand pick up? I think demand is fine across the country, barring UP and Bihar due to the recent floods. In Karnataka and south India, you will see growth of 7-8% in consumer product category. In Haryana and Punjab, some parts of Rajasthan and Madhya Pradesh, land prices and liquidity are badly

MPC MINUTES

Slowing growth prompted RBI gov to favour another rate cut

PRESS TRUST OF INDIA
Mumbai, October 18

SLOWING ECONOMY AND subdued private investments prompted RBI governor Shaktikanta Das to opt for 25 basis points reduction in policy rate earlier this month, as per the minutes of the MPC meeting released on Friday.

Das-headed Monetary Policy Committee (MPC) reduced the key policy rate for the fifth time in a row since January, taking the total to 135 basis points.

As per the minutes, Das said domestic demand has moderated significantly and the weakening of private consumption, which for long has been the bedrock of aggregate demand, is a matter of concern.

Private investment has also lost traction, with the corporate sector being reluctant to make fresh investments even though capacity utilisation in the manufacturing sector has operated close to the long-term average in the recent period, he opined during the MPC meeting.

Das also said the government has also initiated several measures in recent



RBI governor Shaktikanta Das

months which, together with monetary easing by the RBI, are gradually expected to work their way through the real economy. At the same time, continuing slowdown of the economy requires all-out efforts to strengthen private consumption and investment.

"As the inflation scenario remains benign with headline inflation projected at below target in the remaining period of

2019-20 and Q1:2020-21, there is policy space to address growth concerns. Hence, I vote for reducing the policy repo rate by 25 basis points," Das said.

All the six members of the MPC had voted in favour of a rate cut.

MPC member and RBI deputy governor Bibhu Prasad Kanungo said the slowdown of GDP growth in the recent period has been underpinned by deficient domestic demand.

MPC member Ravindra H Dholakia, however, favoured a reduction of 40 bps.

RBI executive director Michael Debabrata Patra said over the recent weeks, monetary and fiscal actions have been undertaken and it is important to buttress this coordinated endeavour. He voted for a 25 bps rate cut.

Pami Dua said the growth-inflation dynamics call for another 25 basis points cut, bringing the cumulative easing this year to 135 basis points.

However, Chetan Ghate, who too voted for a quarter percentage point cut, opined that the monetary policy cannot be a permanent form of stimulus.

L&T Finance Q2 net dives 69%

PRESS TRUST OF INDIA
New Delhi, October 18

L&T FINANCE HOLDINGS on Friday reported a 69% fall in its net profit to ₹174 crore for the second quarter ended September 30, following one-time adjustment due to the deferred tax assets (DTA) after reduction in the corporate tax. Total income increased to ₹3,711.85 crore, against ₹3,302.35 crore in the year-ago period.

Under the new reduced tax guidelines, corporates that have taken higher provisions and created DTA at 34.94% need to revise the tax rate to 25.17%, leading to a one-time P&L (profit & loss) charge of 9.77%, a company spokesperson said.

"Following this, LTFH is opting for lower CTR of 25.17%, leading to lower tax liability from FY20 onwards. As a part of its robust risk management framework, over the last three years, LTFH has implemented accelerated provisions to enhance PCR (provision coverage ratio). "Consequently, Q2FY20 results reflect one-time impact of ₹473 crore due to reversal of DTA as on April 1, 2019," the spokesperson said.

Reliance Capital blames older downgrade for fresh default

FE BUREAU
Mumbai, October 18

RELIANCE CAPITAL (RCL) has blamed a ratings downgrade made last month for its default on interest and principal obligations due on October 16 and 17. The company informed the stock exchanges in a late-evening notification on Thursday that CARE Ratings' September 20 downgrade of its debt worth ₹17,000 crore to default grade had resulted in lenders making accelerated demands for repayments which the company was not in a position to fulfil.

"Further to the above, we, vide our communication dated October 11, 2019 submitted, this rating downgrade has initiated acceleration, etc. of various facilities by certain lenders and consequential demands for immediate payment of amounts that were otherwise due and payable in a phased manner over the next 8 years till March 2028, as per the original terms of lending. It is expected that the debt servicing of the company in relation to the accelerated amounts and otherwise will be delayed,"

RCL informed the stock exchanges.

In its rating rationale for the downgrade, CARE Ratings had said the rating revision took into account an instance of delay in servicing of coupon on several non-convertible debentures by the company. The coupon was subsequently serviced with a delay of one working day.

"Coupon payments of certain non-convertible debentures (NCDs) of RCL were due on September 09, 2019. The debenture trustee for these NCDs has informed CARE (via its email dated September 11, 2019) that RCL has delayed the payment of coupon on these NCDs by one working day and paid the same on September 11, 2019. This constitutes an event of default as per CARE's default recognition policy," the ratings firm had said.

RCL's liquidity is critically dependent on monetisation of its sale of group assets/investments within the given timelines, given that there are scheduled repayments of standalone debt worth ₹1,642 crore from August 2019 to December 2019, CARE had said.

ICICI Lombard General Insurance Q2 net profit rises 5%

FE BUREAU
Mumbai, October 18

ICICI LOMBARD GENERAL Insurance Company on Friday reported a net profit of ₹308 crore for the second quarter, a rise of 5.11% compared to the year-ago period.

Gross direct premium income (GDPI) was at ₹2,953 crore for the reviewed quarter, compared with ₹3,530 crore in the same quarter last year, a fall of 16.34%.

ICICI Lombard largely stayed away from new crop business due to the hardening of reinsurance rates and that can be

one of the reason for dip in GDPI.

Excluding the crop segment, GDPI increased to ₹2,898 crore, compared with ₹2,530 crore in Q2FY19, a growth of 14.5%, the company said in an exchange filing. The industry growth (excluding crop segment) for Q2 FY20 was 15.4%.



effectuated as real estate money is stuck. Obviously in such scenario, people will forget about buying luxury cars. Haryana was biggest market for luxury cars, that part of the market is gone, it is a cyclical high. People say there is no demand for real estate, but in affordable housing projects 30% properties are sold within first day itself, so you have to get right products. We have an alternate investment fund dedicated to real estate, where we are seeing so many proposals, there is demand, but it's not as high as some people would have liked it. NBFCs are not lending, but some companies are still showing 19-20% growth in advances, and some others are showing 38% increase in advance. India is 25-30 different markets.

We have seen corporate tax cuts, reforms are happening. But how should investors look while investing in this period when there is slowdown?

We are all trained to look at averages and average index earnings in the last five years were in single digits. At the same time, there are portfolios whose earnings have been growing at 20%, so if you look

at them you will ask where is the slowdown. It depends on how you look at the companies. We say that even if GDP grows by say 5-6%, there are business which are growing at 15-20%.

On the other hand, there are stocks which are down by 30-50% but they were never part of our universe. Over the long term, we think that markets will do well because underlying business which we buy will also do well. But for various intermediate time frames, these can be at variance. So as a fund house, if you ask me whether I am stock investor or business investors? I think if someone is really interested in long term, they should be business investors.

The biggest arbitrage available in the market is for people who think long term. I am very clear that wealth creation over the five-year period will happen from quality growth business.

Which are the sectors you think will do well going forward?

If we look at overall GDP, I don't think any sector in particular will do very well. Some companies will do phenomenally well, but I doubt on overall sectors. IT may be reasonable because of currency benefits but double-digit growth will not be seen. In terms of consumer sector, last quarter was very bad, hopefully with good rains, rural demand should start picking up in the second half of the year. I think good quality and risk-managed financials will also do well going forward.

What is the investment rationale of equity funds of Axis AMC?

We believe in buying in companies which are creating wealth. If they create wealth

for themselves, they will create wealth for shareholders. We look at companies that will improve their market share, have better pricing power and good cash flows. In some cases, we also look at companies whose bottom line grows faster than top line. Some time when we focus on profits, we tend to forget on cash flows, you can show huge profits but it will not make any sense if there is no cash flow.

Are these reasons for strong performance of several of equity schemes?

In a portfolio two things work, what goes up you should have lot of it and not have much exposure in stocks that take a south-bound journey. If we say we will not allow non-quality company to come in our portfolio that itself is 70% of risk management. Just because some stocks are cheap or their value is good we will not consider them in the portfolio. It's a fairly well thought-out process and which we have run successfully over the last decade.

Why are the cash levels so high in few of your equity schemes. Do you foresee more corrections in the market?

We don't manage cash; we manage overall portfolio risk. In the last one-and-a-half years, we have seen continuous flows in our schemes, so we can go and buy same stuff which might sometimes have overall risk management problems for us. So, I would say high cash levels are a passive number and not an active number. No fund manager is paid to take a cash call. But we don't get unnecessary stressed to take high cash call as our fund managers were fairly negative on economy since August last year. So if we find new companies, we are happy to invest.

SC refuses to entertain PMC depositors' plea for lifting cash withdrawal restrictions

PRESS TRUST OF INDIA
New Delhi, October 18

THE SUPREME COURT on Friday refused to entertain a plea filed on behalf of scam-hit PMC Bank account holders seeking lifting of restrictions imposed by the Reserve Bank of India on cash withdrawals.

A Bench headed by Chief Justice Ranjan Gogoi said, "We are not inclined to entertain this petition under Article 32 (writ jurisdiction). Petitioner can approach the high court concerned for appropriate relief."

The bank has been put under restrictions by the RBI following the discovery of a ₹4,355-crore scam. Deposit withdrawals have been capped at ₹40,000 over a six-month period, causing panic and distress among depositors.

During the hearing on Friday, solicitor general Tushar Mehta said the government is aware of the seriousness of the situation and the ED is taking appropriate action against the culprit.

Advocate Shashank Sudhi, appearing for petitioner Bejon Kumar Mishra, said he has filed the petition on behalf of 500 PMC Bank account holders seeking lifting of restrictions imposed by the RBI on cash withdrawals.

On Wednesday, around 50 depositors of the PMC Bank staged a protest outside the RBI demanding revoking restrictions on cash withdrawal.

The petition filed before the court sought a direction for issuance of "exhaustive and comprehensive guideline" to safeguard the banking and cooperative deposits in the eventuality of emergency financial crisis where citizens are financially stranded by acts of a few "unscrupulous persons".

The plea said the Centre and the RBI should be directed to ensure complete insulation and insurance of hard-earned deposited money of people in various cooperative banks, including nationalised banks, by enacting an appropriate measure of 100 per cent insurance coverage towards the deposited amount.

It said that a high-powered committee



Fourth PMC tragedy: 83-year-old dies

PRESS TRUST OF INDIA
Mumbai, October 18

IN YET ANOTHER tragedy arising from troubles at PMC Bank, an 83-year-old depositor of the crippled cooperative lender died on Friday, which the family attributed to its inability to arrange for funds to pay for a critical heart surgery.

Ironically, the diseased, Murlidhar Dharra, had as much as ₹80 lakh in deposits with PMC Bank, but could not withdraw the money because of the RBI curbs.

This is the fourth incidence of death of depositors of PMC Bank which has been under RBI curbs, including limits on cash withdrawals at ₹40,000 per depositor over a six-month period. Earlier, two people have died of cardiac arrests, and a lady doctor committed suicide.

It can be noted that under the RBI directions, exceptions can be made for medical emergencies, but it is not known immediately whether the bank refused a request from the family.

should be constituted to look into complete affairs of working and their operation in all cooperative banks in order to have a robust and transparent mechanism which can inspire confidence of common public in cooperative banks.

ANALYST CORNER

Maintain 'neutral' on TVS Motor, target price ₹434

MOTILAL OSWAL

BETTER PRODUCT MIX, cost cutting drive profitability. Volumes declined ~19% Y-o-Y (-4% Q-o-Q) to 885.8k units in 2QFY20. Realisations increased ~7% YoY (+1.4% Q-o-Q) to ₹49.1k (our estimate: ₹48.6k), driven by an improved mix and price increases. Revenues were down ~13% Y-o-Y to ₹43.5 billion. Gross margin improved ~240bp Y-o-Y (+170bp Q-o-Q) to 26.6% (our estimate: 25%), driven by cost-cutting initiatives (120bp Q-o-Q) and mix (40bp Q-o-Q).

EBITDA margin improved 20bp YoY (+80bp Q-o-Q) to 8.8% (our estimate: 7.8%). Low tax boosted adj. PAT to ~ ₹1.8 billion (our estimate: ~ ₹1.5 billion), a decline of ~15% Y-o-Y. For 1HFY20, revenue/EBITDA/PAT were down ~4%/2%/6% YoY.

Heavy rain during Navratras in the central/east region and Maharashtra resulted in much lower retails. However, retails have started

picking up since the last few days due to receding rains. Diwali retails are expected to be good for TVSL. Rural economy will likely improve either in 4QFY20 or 1QFY21 as sentiment is turning positive. The strong focus on cost reduction is leading to a continuous improvement in margins.

TVSL expects further commodity cost benefit in 2HFY20. Inventory is stable at five weeks. 1HFY20 capex stood at ~ ₹3.3 billion and investments in subs at ~ ₹2.4 billion. FY20 capex pegged at ~ ₹6 billion.

We upgrade our EPS estimates by ~21%/7% for FY20/21, led by better margins and lower tax (deferred tax revaluation).

Valuations at 30.7x/23.9x FY20/21E EPS already reflect a large part of the earnings drivers, leaving no margin of safety for execution risk and change in competitive intensity. Maintain 'neutral' with a target price of ₹434 (18x Sep'21E EPS + ₹44/share for value in NBFC).

Maintain 'buy' on PVR, target price ₹2,100

EDELWEISS

PVR's Q2FY20 revenue came in line, while EBITDA and PAT (excluding Ind AS 116) surpassed estimates. Strong content fuelled revenue, EBITDA and PAT spurt of ~37%, ~57% and ~98%, respectively. Footfalls (consolidated) rose ~25% Y-o-Y with 37.8% occupancy.

The focus on promoting F&B offerings led to 13% Y-o-Y (₹99) SPH growth, spurring 38% growth in F&B revenue. Ad revenue jumped 16% YoY despite a tough ad environment. PVR Pictures shined in Q2FY20— raked in ₹650 million distribution revenue. Though we remain positive on multiplexes, we will keep an eye on: i) time windows between theatrical & digital release; and ii) any impediments to screen expansion. Maintain 'buy' with a target price of ₹2,100.

PVR's NBOC (consolidated) grew ~32% Y-o-Y bolstered by ~25% Y-o-Y surge in footfalls despite the general economic slowdown. The company's standalone performance

also remained strong with NBOC, F&B and ad revenue jumping ~25%, ~31% and ~9% YoY, respectively, propelling revenue ~24% YoY. Adjusting for Ind AS 116, PVR's EBITDA rose ~57% YoY with EBITDA margin expanding ~250bps YoY to 20% (multi-quarter high) despite elevated expenses.

Screen expansion continues to remain in focus—screen count at 800 in Q2FY20 and on track to meet 80 screen opening guidance for FY20.

Employee expenses rose 18% on comparable basis due to some one off expenses and increase in minimum wages in some states. South has been the slowest segment in H1FY20, has not done as well as English and Hindi, PVR has 30% strike rate in terms of audience participation in F&B, May open 50-60 screens in H2FY20; and vi) PVR's Utsav brand is expanding rapidly in Tier III cities. Despite an unfavourable base, we expect Q3FY20 to be benign for PVR owing to the solid start and robust content pipeline.