

# Markets: Beating Volatility

### Retail Inflation Dips to 2.19% in Dec as Food Prices Soften

ECONOMY ►► 12

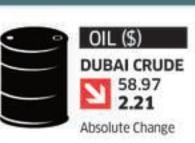


### **Market Trends**

STOCK INDICES		% CHANGE	
Nifty 50	10737.60	0.53	
Sensex	35853.56	0.43	

	MSCI India	810.96	1.04
I	MSCI EM	2219.63	1.02
	MSCI BRIC	572.81	1.08
	MSCI World	8063.09	0.19

SX 40	21169.21	0.00
Hang Seng	26298.33	1.38
Starit Times	3173.46	0.79



BOND	
O-YR YIE	LD
7.22	
0.36	

GOLD I	RATE		
Prices pe	r Troy Ounce (\$)		
	US	India	
OPEN	1288.00	1402.59	
LAST*	1296.10	1411.62	

10.30pm, After adjusting mport duty, Indian spot lower by \$ 14.09 to US ex gold price on Mon-The premium on local is due to tight supply



#### FOREIGN INVESTORS CREATING SIGNIFICANT SHORTS ON THE INDEX

# **FPIs' Index Futures Positions Hint at** Room for a Bigger Correction in Nifty

The Nifty has substantially more room to correct, if foreign portfolio investors' (FPIs) cumulative net open interest (OI) positions on index futures (mainly Nifty and Bank Nifty) in the year through January 14 is anything to go by.

Data from March 2018 more succinctly indicate that whenever cumulative net OI has been around or exceeded minus 1,00,000 index futures contracts the Nifty tends to bottom out; and when the net OI stands at anywhere between 16,000 and 55,000 contracts, the index tends to have topped, according to Sharekhan by BNP Paribas' FPI net OI data. As on January 14, the net OI figure stands at minus 27,979 contracts, indicating that there's

more room for correction, says Rohit Srivastava,

"The implication is that FPIs are creating significant

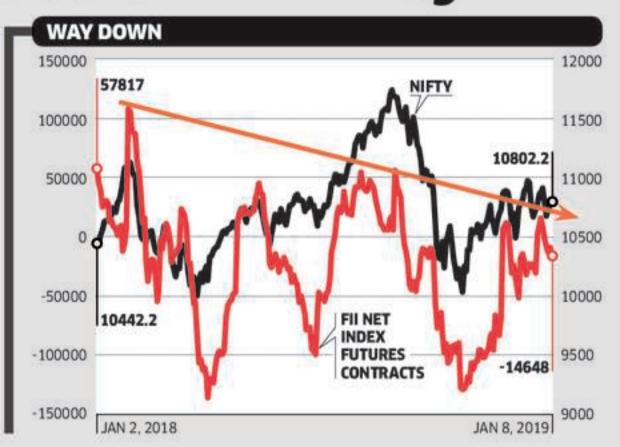
shorts on the way down (Nifty correction), but not

technical expert at Sharekhan by BNP Paribas.

adding substantial longs when the market rallies," he said. For example, on March 12, 2018, when net position was 24,127 contracts, the Nifty topped around 10,421 and corrected to 9,998 on March 23. On April 4 last year, net FPI position was minus

1,34,006 contracts at Nifty level of 10,128, which rose to 10,801.84 on May 15. On October 26, net OI was minus 1,27,331 contracts with Nifty bottoming at 10,030. On December 31, the figure was 16,817 contracts (Nifty 10,862.54) and on January 14 Nifty minus 27,979 contracts (Nifty 10,737.6).

Several reasons are being offered by market watchers, like relatively elevated stock valuations, balance sheet tightening in the US, which is causing funds to flow into US treasury's from emerging markets like India, and more recently political uncertainty and the Indian rupee' weakness. -Ram.Sahgal@timesgroup.com



#### **ET GRAPHICS**

### **Rupee Falls** 43 P to End at Near 1-mth Low **Against Dollar**



PTI

Mumbai: The rupee Monday plunged by 43 paise to close at nearly one-month low of 70.92 against the US dollar amid weak industrial output growth data, fall in domestic equity markets and sustained foreign fund outflows.

A weak US dollar against major global currencies and fall in crude oil prices, however, capped losses of the domestic

70.50 and touched a high of 70.44 per US dollar in early trade.

The domestic currency, however, recovered some lost ground and finally settled for the day at 70.92 per dollar, down 43 paise over its previous closing. This is the lowest closing level since December 17 when the rupee closed at 71.56 per dol-

paise to close at 70.49 against the US dol-

Industrial output growth dropped to a 17-month low of 0.5 per cent in November on account of contraction in the manufacturing sector, particularly consu-

Meanwhile, the dollar index, which gauges the greenback's strength against a basket of six currencies, dipped 0.11 per cent to 95.56 in late after noon trade. Brent crude, the global benchmark, was trading at USD 59.63 per barrel, lo-

Meanwhile, foreign funds sold shares worth Rs 687.20 crore on a net basis Friday, while domestic institutional investors bought equities to the tune of Rs 123.17 crore, provisional data showed.

The Financial Benchmark India Private Ltd (FBIL) set the reference rate for the rupee/dollar at 70.8244 and for rupee/euro at 81.2469. The reference rate for rupee/British pound was fixed at 90.9640 and for rupee/100 Japanese yen at 65.50.

valuations and earningsenhancing triggers. The

At the Interbank Foreign Exchange (forex), the rupee opened on a firm note at

But it pared early gains later and fell to an intra-day low of 70.95 against the US

On Friday, the rupee had weakened by 8

HDFC Securities Head PCG & Capital Markets Strategy V K Sharma said weaker economic data, fall in domestic equity and foreign fund outflow weighed on the rupee sentiment.

mer and capital goods.

wer by 1.41 per cent.

Bought by: SBI MF Market Cap (₹): 72,600 cr Among oil marketing companies (OMCs), Bharat Petroleum Corporation Limited (BPCL) is placed well in terms of company is expected to deliver sustainable free cash flow as it plans to reduce capex. The company's expansion at its Kochi refinery should improve its gross refining margin.

**BPCL** 



NTPC Bought by: ICICI /Reliance MF Market Cap (₹): 1.19 lakh cr

NTPC's stock has relatively low beta, which makes it a defensive in current volatile markets. This is one of the key reasons why the company's stock has seen high amount of buying from fund managers. Besides this, the company's stable return on equity of close to 15%, and low debt-toequity make it one of the key beneficiaries of consistently growing power demand of 5-6% (annual). In a situation when incremental supply has not proportionately caught up with power demand, NTPC is

Top AMCs' Activity in December 2018

strong distribution network

augur well for life insurance

companies. Private sector life

insurance companies are taking

market share from their public

sector peers and now have a

51% market share in total new

business and ICICI Prudential

is among the market leaders.

With the improving product

mix towards protection and

launched last year, value

of new business margin is

likely to improve, leading to

improvement in margins in

coming years.

high-margin savings products

WHAT MUTUAL FUNDS BOUGHT AND SOLD IN DECEMBER

**Fund Managers Look for Earnings** 

Visibility, Dominant Cos in Sectors

Leading fund houses have been cautious in their stock-picking strategies in December. In the absence of a clear earnings

growth visibility, leading fund managers have clearly shown inclination to value stories across market capitalisation. These

value stories are largely based on three key factors: favourable nature of the business model of a company, earningsenhancing impact of reversal of trend in a sector, and clear dominant position of a firm in its respective sector which gives

it an edge over its peers. Keeping these factors in mind, fund managers have selected companies which show visibility of earnings' growth in the coming quarters. Here are a few key companies. - Rajesh N Naidu & Prashant Mahesh

AIMIC		JELL	Complete Exits	riesii buy
ICICI	ONGC	HDFC Bank	8K Miles Software	Tube Investments
	India Oil	State Bank of India	Balrampur Chini	Westlife Developmen
	NTPC	GAIL	Capital First	Merck
HDFC	REC	Indiabulls Housing Finance	Apollo Hospitals	JK Cement
-	Coal India	Avenue Supermarts	Blue Dart Express	Sun TV Network
	NTPC	GAIL	Capital First	
Reliance	Coal India	Bajaj Finance	BEML	Akzo Nobel India
	ONGC	Bosch	Capital First	Tata Sponge Iron
	NTPC	Bharat Financial Inclusion	Escorts	Central Depository
Aditya Birla SL	ICICI Bank	Aurobindo Pharma	Aavas Financiers	Chambal Fertilisers
	Kotak Bank	TCS	Alembic Pharma	Avanti Feeds
	ONGC	Reliance Industries	Capital First	Avenue Supermarts
SBI	Reliance Industries	Motherson Sumi Systems	BEML	Castrol India
	Axis Bank	Wipro	Capital First	Tube Investments
	JK Cement	Grasim Industries	Godrej Agrovet	PVR

#### ICICI Pru Life Bought by: Franklin Temp MF Market Cap (₹): 50,266 cr India is an underpenetrated market and the rise in population offers significant growth potential for saving and protection business. Favourable demographics, increasing customer awareness of financial products and a

expected to benefit amply in the coming quarters.

#### L&T Finance Holdings Bought by: DSP MF

Market Cap (₹): 27,213 cr The company has been expanding its retail book which consists of rural and housing. and select wholesale financing. The company has carefully cut down on its exposure to various segments such as construction equipment, gold loans, commercial vehicles and leasing activities, which had larger proportion of nonperforming assets (NPAs). Its stage 3 gross NPAs (90 days past due) as a percentage of total advances fell to 7.1% in the September 2018 quarter from nearly 11% in the year-ago quarter. The NPA provision improved to 62.5% from 53.6% by similar comparison. The return on equity was 18.5% in the September quarter. The company clarified in the September quarter results presentation that it had no exposure to businesses of IL&FS

which have been impacted due

to non-payment of interest.

#### State Bank of India Bought by: HDFC MF

Market Cap (₹): 2.68 lakh cr One of the key reasons for the high amount of buying in SBI is among banks it is placed well to show reversal in trend in its non-performing assets (NPA). Most analysts point out that slippages in its NPAs would come down in the coming quarters. Besides this, favourable interest rate is expected to boost net interest margin for the bank. It must be noted that SBI is one of the banks which has not lost market share in deposits or credit segments.



#### **STOCK GAINS OVER 16%**

### **Jet Soars on Report Goyal may Step Down**



#### Our Bureau

Mumbai: Jet Airways' stock soared over 16% on Monday after a media report said a resolution plan for the airline's bailout will be finalised this week and that founder chairman Naresh Goyal will cede controlling stake and step down from the board.

The stock closed at ₹294.40, beating the Sensex which fell a tad. This was the biggest gain for Jet's stock since November 15, when it rose 24%.

A consortium of lenders led by State Bank of India, the countbeen meeting frequently to stitch together a resolution plan for Jet. India's second biggest airline has defaulted on loans for December, and delayed employee salari-

es and aircraft lease rentals. Etihad Airways, which owns 24%

in Jet, to increase its stake. Abu Dhabi-based Etihad's key condition has been that Goyal should give up ownership and decision making powers, as ET had reported earlier.

According to a media report on Monday, Goyal has changed his long-enduring stance of retaining control in the airline, ceding to Etihad's demand. The report said his stake may decline to 20-25% (ET had reported Etihad's demand of 22%) from 51% currently. Etihad may increase its stake significantly from 24% and banks may raise equity as part of restructuring. It also said Goyry's largest bank by deposits, has al's son Nivaan Goval may replace him on the board.

ET on Monday had reported that Etihad has also put forward additional clauses including that it won't pledge its shares to Jet's lenders for loans and that banks Jet has been trying to convince have to lend double the amount that Etihad puts in as equity.

**PROPOSED STAKE SALE** in renewable energy assets may fetch ₹8,000 crore to the cash-strapped company

# Brookfield, Macquarie, KKR in Race for IL&FS Green Assets

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Mumbai: Global Infra Partners, KKR, Brookfield, I Squared Capital and Macquarie are among the 15 large funds in the race for buying over 1,000-megawatt renewable energy assets of Infrastructure Leasing & Financial Services Ltd (IL&FS).

The proposed sale of the stake held by the IL&FS Group in these assets and businesses is likely to garner ₹6,000-8,000 crore.

IL&FS had called bids for the asset management services unit of the wind power plants and the business division that develops and implements these projects. This includes a controlling stake in wind power plants with an aggregate capacity of communications head Sharad Goel 873.5 MW as well as those under construction with a combined capacity of 104 MW. Solar power plants and projects under development of about 300 MW capacity are also up for grabs.

The newly-constituted IL&FS board called for expressions of interest to assess the interest in its stake in the renewable energy assets in November 2018. The stake sale in subsidiaries is part of the company's resolution plans.

Burdened under a ₹91,000-crore debt load, the infrastructure finance company had approached the National Company Law Tribunal (NCLT) to resolve the issue with creditors without going in for liquidation. IL&FS has been looking to sell stakes in subsidiaries to monetise and pare its debt. It has also submitted a plan to NCLT, looking to cut non-essential

Arpwood Capital and JM Financial to 12-13% by FY22 from 7.7% in FY18," were appointed as financial and said Sabyasachi Majumdar, group transaction advisors. Alvarez & head for corporate ratings at ICRA.



Marsal is the resolution consultant. KKR, Macquarie and Brookfield said they would not like to comment for the story, while IL&FS corporate declined to comment.

India is expected to install 175 giga watt(GW) of renewable energy generation plants, including 60 GW of wind power by 2020. The bidding activity in the rene-

wable energy sector has remained sizeable with central nodal agencies like the Solar Energy Corporation of India and NTPC Limited (NTPC) as well as state distribution utilities issuing bids for wind and solar power capacities of about 10 GW and 15 GW during 2017 and 2018, Icra had said in

"The wind and solar power projects remain highly cost-competitive against the conventional sources and would continue to increase their sharein the generation mix over the next few years. As per Icra estimates, the share of renewable energy in the generation mix is expected to increase

# MFs Retain Exposure to NBFCs Despite Turmoil, but Move to Less-risky Players

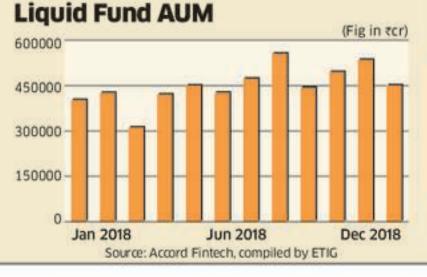
### **ANALYSIS**

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ET Intelligence Group: The spectre of asset-liability mismatch in several non-banking finance companies (NBFC) three months ago has prompted mutual funds (MFs) to realign their debt exposure by giving preference to less risky lenders. Contrary to the general perception, they have not cut exposure to the sector.

The total MF exposure to debt in- such as Bajaj Finance, Capital First, struments with maturity of under three months was more or less stable at Rs 1.9 lakh crore in the December 2018 quarter compared with the previous quarter, according to Credit Suisse. It suggests that most of the short-term debt issued by IIFL, Edelweiss Financial Services, NBFCs has been rolled over.

MFs increased exposure to NBFCs



L&T Finance Holdings, PNB Hou-

sing Finance, Mahindra & Mahind-

ra Financial Services and Hero Fin-

Corp in the range of 5-75% in the

past three months. They reduced ex-

posure to DHFL, Indiabulls Group,

tal debt exposure since September

MF Exposure to NBFC/HFC ■MF Exposure to NBFC/HFC Expsoure(%) — SEBI Limit(%) Nov 2018 Dec 2018 Aug 2018 Sept 2018 Source: Credit Suisse

ter group to raise funds at a higher cost by issuing long-term debt instruments. On the other hand, quality NBFCs benefited from tapping the MF route to move further into the short-end of borrowings. SEBI has stipulated and JM Financial by 7-11% of the to- a limit of 40% to a sector for the debt mutual funds. It was 33% at the end

2018. This would necessitate the lat-

of December 2018, according to Credit Suisse.

The share of liquid and money market funds in the total fixed income increased by 380 basis points to 39.1% in December 2018, according to AMFI. As a result, the total fixed income assets under management grew 2% in the past three months to Rs 11.4 lakh crore.

### **FUND RETURNS FALL BY 200-300 BASIS POINTS**

# Volatile NBFC Debt, Maturity **Profiles Hit Corp Credit Funds**

Crisis in the NBFC space hit long-term exposures of the funds as perpetual bond yields spiked

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Mumbai: Corporate credit funds, once considered safer substitutes to high-yielding bonds, fared their worst in about four years as volatility in NBFC debt and misaligned maturity profiles whittled down returns by 200-300 basis points.

In the past one year, credit funds have yielded 5.22% compared with 7.7-9.3%: The laggards, which in-8.50-9.50% in normal circumstances, showed data from Value Rese-

arch, an online mutual fund por-turns, data showed.

"Wherever fund houses have taken a hit by selling NBFC papers in losses, their average returns have come down significantly," said Dhirendra Kumar, founder and CEO of Value Research. "Investors may continue to shy away from credit funds unless confidence is regained in NBFC debt securities."

DSP Mutual Fund sold bonds of DHFL at a higher yield, triggering speculation that there could be ratings downgrades in the housing finance company. In the secondary market, DSP sold DHFL securities worth Rs 300 crore at yields of 11%, about 200 basis points higher than normal rates.

Top performing funds, including Aditya Birla and Franklin, yielded cluded DSP and BoI AXA, yielded -0.11 to -2.5% annual negative re-

"Credit funds' performance depends on the duration play and mark-to-market valuations," said A Balasubramanian, CEO, Aditya Birla Sun Life AMC. "There are no credit losses although. Credit funds should regain momentum this year with calmness coming back to the debt market."

Typically in credit funds, shorter maturity papers are the preferred bets. Some of the fund houses took long-term exposures, betting on the interest rate outlook. A sudden crisis in the NBFC space sent such bets haywire, with perpetual bond yields spiking.

Bond yields and prices move in opposite directions.

Perpetual bonds, perceived as riskier instruments, have no fixed maturity. But they have mostly a provision to allow investors an exit after 10 years.