ET Markets

Beating Volatility

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FINANCE & COMMODITIES

Despite Who was in Power, India Grew over Last 20 Years

Q&A with KV Kamath

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10831.5	0.84
Sensex	36108.47	0.92
MSCI India	816.04	0.44
MSCI EM	2263.79	0.01
MSCI BRIC	584.39	0.02
MSCI World	8173.31	0.04
SX 40	21239.14	0.88
Nikkei	20593.72	0.14
Hang Seng	27008.20	0.01
Strait Times	3171.11	0.68

Values in US $, Gross — At 7 pm IST

OIL ($) — DUBAI CRUDE 60.52, 0.40 (Absolute Change)

BOND — 10-YR YIELD 7.29, 0.01 (Figures in %)

GOLD RATE

Prices per Troy Ounce ($)

	US	India
OPEN	1284.60	1392.97
LAST*	1280.60	1400.02

*At 10.30pm, After adjusting for import duty, Indian spot gold lower by $ 8.64 to US Comex gold price on Wednesday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
71.19	71.33

Market on Twitter@ETMarkets

JET OPEN OFFER

Sebi Unlikely to Give Etihad an Exemption

Reena Zachariah & Joel Rebello

Mumbai: The Securities & Exchange Board of India (Sebi) is unlikely to exempt Etihad Airways from making an open offer to minority shareholders of Jet Airways even as lenders led by the State Bank of India try to persuade the regulator to do so, said two people familiar with the matter.

"The current regulations do not permit any such exemption," said one person who is involved in the process. "The rules permit exemptions only for those companies that are being resolved under the bankruptcy code."

SBI chairman Rajnish Kumar met Sebi chairman Ajay Tyagi on Wednesday to discuss the issue. Neither Kumar nor Tyagi could be contacted.

"Sebi itself cannot go against the provisions of the statutory takeover code and therefore, an open offer exemption is likely only if the process goes via IBC route," said Sumit Agrawal of RegStreet Law Advisors.

Continued on ▸▸ Smart Investing

At 28.5 times trailing four quarters earnings, stock's one of the cheapest in FMCG sector, but all eyes will be on next month's Union Budget for the way ahead

ITC's Cigarette Volumes may not Sustain, Street has Worries

ET ANALYSIS

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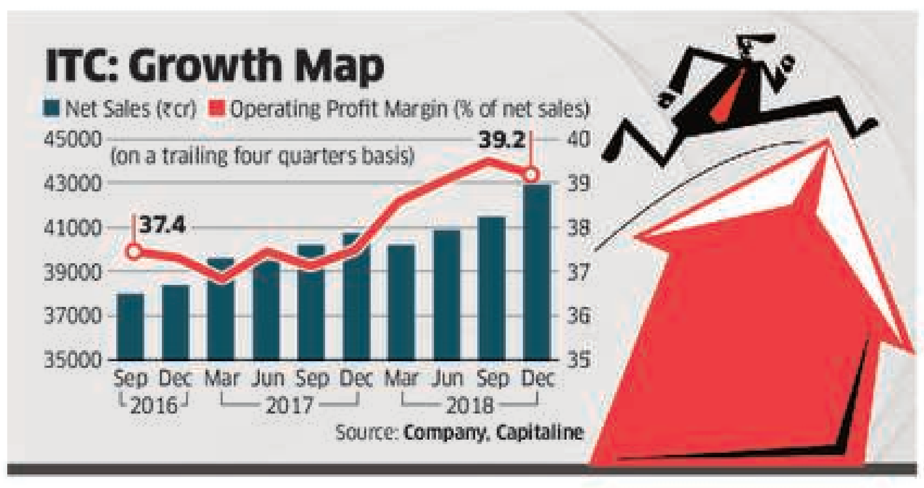

ET Intelligence Group: Despite an encouraging show on the topline front, it's the bottom-line performance of ITC that the Street has frowned upon. Notwithstanding a double-digit revenue growth aided by around 8% volume surge in cigarettes, the Street was not pleased with the December quarter performance of tobacco-to-FMCG major ITC. As a result, the stock slumped more than 4%, declining for the fifth consecutive session on Wednesday.

ITC posted a 4% increase in net profit – the slowest growth in the past 11 quarters – against an expectation of double-digit growth. The operating margin too decreased by 140 bps over the year-ago level. Higher raw material cost (including higher leaf tobacco prices) dented the bottom-line growth. Input cost grew nearly 20%, higher than the 15% growth in revenues. Likewise, other expenses (including ad spend) grew faster than the top-line growth.

The cigarette business contributes over 80% to the company's bottom-line. So, any headwind in the business has a direct impact on the bottom-line and valuations. Little wonder then that the Street ignored the smart gains in cigarette volumes against a corresponding drop a year ago. The same was also the case with the non-cigarette businesses that posted a double-digit growth in revenues. The margins of the FMCG and hotels business also improved over the earlier quarters.

The ITC stock is trading at the same level as two years ago. It has predominantly been a value stock rather than a growth one. With increased taxation and curbs on smoking, the cigarette volumes are unlikely to have a secular increase. The company has been zealous in steadily improving its profitability. Hence impact on the bottom-line in any quarter is likely to evoke a negative response from the Street.

Trading at 28.5 times its trailing four quarters earnings, the stock is one of the cheapest in the FMCG sector. The price-to-earnings multiple of the ET FMCG Index stands at 47. However, the subdued bottom-line performance of the December quarter doesn't make the stock any more attractive.

With the Q3 results behind it, the Street is going to closely track next month's Union Budget for the triggers on ITC. The stock typically trades flat, or weak, ahead of the Budget in the fear of higher taxes on cigarettes.

GAIN FROM BENIGN FUEL PRICES COULD BE HIGHER THAN PEERS

IndiGo Loses, its Rivals Lose More; Growing Capacity Begins to Pay Off

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Long Haul

InterGlobe Aviation

	FY18	FY19	FY20
Revenue	22,500.52	28,785.95	35,640.15
EBIDTA	2,956.46	1,521.10	3,684.35
PAT	1,982.23	1,128.20	2,648.65

Figures in ₹ cr; Source: Bloomberg; Compiled by ETIG Database

ET Intelligence Group: The December 2018 quarter financial performance of India's largest airline by market share (43%) reflects the successful implementation of a carefully crafted strategy of gaining market share (gained 3% in the past two quarters) with a slight consideration to gaining pricing power in the industry.

This is summed up in two key financial variables. One: the revenue per available seat km (RASK), and two: high capacity addition.

In the December quarter, considered the peak travel season, Indigo's RASK fell by 3% to ₹3.7, compared with the same quarter last year. This fall is largely due to the airline's conscious decision to install high capacity in the industry.

This strategy did not provide much room to its competitors to raise fares as they were forced to match the attractive fares offered by IndiGo. IndiGo could afford this strategy, given its balance sheet strength and cash, but this wasn't a good business proposition for its rivals. Even in the March 2019 quarter, IndiGo would install 34% additional capacity in the industry. In the airline's post result conference call, its management said that it in 2019, its capacity would grow by 25%, while the industry's by 19%.

Earnings Review

This is a long-term strategy, whereby after gaining market share, the airline might increase fares, which means optimum utilisation of its market share, which is likely to grow to 45% in the next three years from 43%, reckon analysts. The effectiveness of this strategy can be seen in the airline's earnings per share (EPS) in the next 1-2 years. According to estimates of Bloomberg's pool of analysts, the airline's EPS is expected to grow to ₹68.9 in FY20 from ₹29.35 in FY19.

At present, this strategy has impacted the airline's December quarter performance as its revenue of ₹7,916 crore came in a tad below analysts' estimate of ₹7,965 crore. Due to high fuel prices (up 31% in the December quarter on a y-o-y comparison) and currency depreciation (depreciated close to 10% in the December quarter on the same basis), the airline's profits fell massively by 75% to ₹190 crore in the quarter under review, compared with the same quarter last year.

In the coming quarters, the airline said in its post result conference call that it plans to increase its presence in international markets as the management suggested that large part of its incremental capacity would be directed to international routes. Analysts pointed out that the airline's strategy of providing relatively attractive fares may not bear the desired results as it would face stiff competition on international routes from well-entrenched foreign airlines.

On the domestic operations, IndiGo is placed to gain considerably from benign fuel prices (fallen 13% in January till date, against last January), which would add to its earnings in a meaningful way.

Being a dominant player with a strong balance sheet, its gain would be higher than its peers. On the valuation front, considering FY20's earnings, the airline is trading at an EV/EBIDTA of 8.73, which is quite attractive when compared with its past three-year average of 12.3.

ET GRAPHICS

NBFC SECTOR FALLS OUT OF FAVOUR

Where The Big Bulls are Putting Money and What They are Avoiding

The buy or sell activities of well-known investors of Dalal Street are keenly watched by market participants who try to mirror their stock moves. **ET** takes a look at what investors such as Rakesh Jhunjhunwala, Ashish Kacholia, Anil Kumar Goel and Dolly Khanna have bought and sold in the December quarter. Non-banking finance companies' space in particular has fallen out of favour with these investors.

— **Sanam Mirchandani**

RAKESH JHUNJHUNWALA

The billionaire investor has cut stake in mortgage lender Dewan Housing Finance Corp by 0.7% – the steepest cut in his holdings on a quarter-on-quarter basis. Shares of Dewan Housing had fallen 57% in 2018, most of it in the last four months because of liquidity crunch in the sector. Jhunjhunwala increased the stake by the highest quantum in Federal Bank to 3.4% from 1.7%.

ASHISH KACHOLIA

The name of Kacholia, known for his mid- and small-cap picks, showed up in the December quarter shareholding data of IFB Industries with a stake of 1.05%. It is not known if Kacholia already held stake or bought the entire stake in IFB December quarter because holding of individual investors shows up in exchange data only if it crosses 1%. Kacholia increased stake in V2 Retail by 1.2% and reduced holding in KEI Industries by 0.9%.

ANIL KUMAR GOEL

Value investor Anil Kumar Goel has made no reductions in stake in his portfolio, according to sharholding data of companies in which he holds stake, so far. Goel has increased stake in Samtex Fashions by 6.2% and in Amarjothi Spinning Mills by 0.1%.

DOLLY KHANNA

Chennai-based Dolly Khanna has reduced holding in Manappuram Finance by 0.04%. However, Khanna has increased holding by 0.5% in Muthoot Capital. Khanna is viewing paper and alcoholic beverages companies favourably, as her name has shown up in list of shareholders over 1% holding of JK Paper, Som Distilleries and Associated Alcohols.

Company Name	December quarter-end Holding (%)	September quarter-end Holding (%)	Change in Holding (%)
RAKESH JHUNJHUNWALA			
Federal Bank	3.45	1.74	1.71
NCC	10.78	9.45	1.33
Jubilant LifeSciences	1.88	1.57	0.31
Fortis Healthcare	1.66	2.41	-0.75
Dewan Housing	2.46	3.19	-0.73
Autoline Industries	7.88	8.34	-0.46
*NCC stake held by Rakesh and Rekha Jhunjhunwala			
ASHISH KACHOLIA			
IFB Industries	1.05	-	-
V2 retail	2.56	1.33	1.23
Mastek	1.97	1.73	0.24
KPIT Technologies	2.13	1.95	0.18
KEI Industries	1.84	2.75	-0.91
ANIL KUMAR GOEL			
Samtex Fashions	12.34	6.17	6.17
Amarjothi Spinning Mills	3.24	3.11	0.13
KRBL	5.32	5.26	0.06
* KRBL stake held by Anil Kumar and Seema Goel			
DOLLY KHANNA			
JK Paper	1.24	-	-
Som Distilleries	1.08	-	-
Associated Alcohols & Brew	1.03	-	-
Muthoot Capital Services	1.72	1.19	0.53
NOCIL	2.41	1.98	0.43
Nilkamal	2.04	1.8	0.24
Rain Industries	2.66	2.81	-0.15
Manappuram Finance	1.03	1.07	-0.04

Data compiled by ETIG Database

IL&FS CRISIS HITS MORE INVESTORS

After Birla and HDFC MFs, UTI Marks Down IL&FS SPVs' Debt

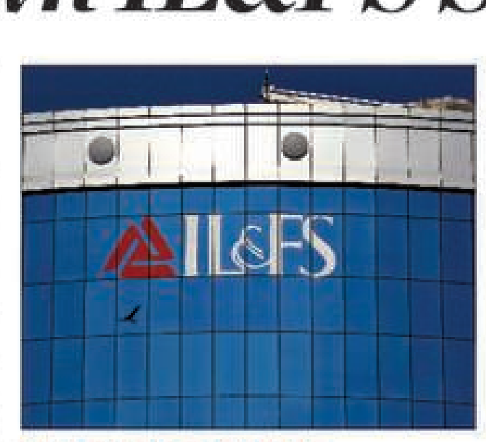
Prashant Mahesh and Saikat Das

Mumbai: The value of various debt schemes of UTI Mutual Fund fell as much as 2.22% on Tuesday after the asset manager marked down investments in the Special Purpose Vehicle of IL&FS. A day earlier, NAVs of schemes of Aditya Birla Sun Life Mutual Fund and HDFC Mutual Fund dropped too because of a reduction in investment value of two IL&FS SPVs.

Seven open-end schemes and 10 close-end schemes of UTI Mutual Fund own securities of Jorabat Shillong Expressway, an SPV of IL&FS. The country's sixth-largest mutual fund cut its investment value in the SPV by 25% after Crisil downgraded its rating on the non-convertible debentures (NCDs) of Jharkhand Road Projects Implementation to D' from BB(SO)/ Watch Negative'. The SPV defaulted on about ₹73 crore on Monday.

While there is no rating action on Jorhat Shillong Expressway yet, UTI MF has marked down investments as it expects a downgrade soon.

Open-end schemes of UTI that hold the security are UTI Banking & PSU Debt Fund, UTI Bond Fund, UTI CCF- Savings Plan, UTI Dynamic Bond Fund, UTI Hybrid Equity Fund, UTI RBP and UTI ULIP.



WIDENING LOSSES

NAVs of AMC's schemes fell by 0.2-2.22% in a single day, with the highest damage of 2.22% in UTI Banking and PSU Debt Fund

ET in the Classroom

Why MFs Marked Down Investments in IL&FS SPVs

▸▸ MONEY MATTERS

The NAVs of these schemes fell by 0.2-2.22% in a single day, with the highest damage of 2.22% in UTI Banking and PSU Debt Fund. Schemes of UTI MF cumulatively hold ₹559 crore in the company.

On Monday Aditya Birla SL Mutual Fund had written off its investment in Jharkhand road projects by 20%, while HDFC Mutual Fund had written off its investment by 25% in Hazaribaug Ranchi Expressway. While the Hazaribagh Ranchi Expressway and Jorabat Shillong Expressway (JSEL) repayments are said to be falling due on March 31.

Earlier, IL&FS management sent letters to bond holders of those SPVs as they declined to repay citing a moratorium by the National Company Law Appellate Tribunal. In one case, they sought refund of repayments made since October.

While some of the bond holders were said to be planning legal action, they later decided against it as the default is more of a 'technical' reason, sources said. All such SPVs have cash to repay.

"The current environment calls for caution in the credit space. Therefore, we recommend no incremental allocation to 'Credit Funds' and advice core debt allocation towards AAA oriented strategies," said Kotak Wealth Management in a note.

Large State-Run PSUs Face Losses

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Mumbai: Some of the large state government-run organisations are staring at losses from investments in IL&FS bonds.

Standalone provident funds from Haryana Vidyut Prasaran Nigam (HVPNL), Maharashtra State Electricity Board and Maharashtra State Road Development Corporation (MSRDC) are some of the entities with exposure of ₹150-500 crore, said two people with direct knowledge of the matter.

"Haryana Vidyut is said to be a large holder of bonds (estimated at ₹500 crore) sold by IL&FS group companies," one of the persons cited above told ET. The company transmits power in Haryana.

Email queries sent to those corporations remained unanswered till the time of going to press.

Noida-based Educational Consultants Pvt Ltd, India Postal Insurance and Army Insurance Funds, used for personnel welfare, too, owned bonds running to tens of crores.

These provident funds need not take immediate marked-to-market hit in line with mutual funds as they do not account quarterly. But, they will have to provide for any losses that may be incurred in investments. Employees are unlikely to suffer as trustees managing retirement money are mandated to infuse cash for any such loss.

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Centbank Financial Service, a custodian for bondholders in IL&FS and IL&FS Financial Services, is expected to file a petition in the National Company Law Tribunal, demanding a seat on the board. The move is aimed at protecting the interest of bondholders.

Many such bondholders, including Infosys, SBI and GIC Re, feature on the list of companies whose employees face potential hit on their retirement savings, with pension funds at these entities investing in various debt papers of the troubled infrastructure financier IL&FS, ET reported on January 21.

According to market estimates, provident funds of companies have an exposure of ₹15,000-20,000 crore to the IL&FS group, ET reported on January 15.

Rupee Gains 11 Paise, Closes at 71.33

The rupee Wednesday settled higher by 11 paise at 71.33 against the US dollar on increased selling of dollars by exporters and banks. The up-move was supported by weaker dollar against its major rivals, although intense selling in domestic equities impacted traders sentiment, capping gains in the domestic currency value. PTI