

SLOWING MOMENTUM in some sectors and a stronger growth base of last year to impact Q3 numbers

Nifty50 Cos Likely to Post a Growth of Just 6.7% in Oct-Dec Bottomline

ET Intelligence Group

The Nifty 50 companies are expected to report moderation in topline growth for the third-quarter of FY19 on account of slowing momentum in some sectors and a stronger growth base in the previous year's corresponding quarter. The growth may be faster in the fourth-quarter as the benefit of lower raw material costs to manufacturing companies is expected to reflect fully by then.

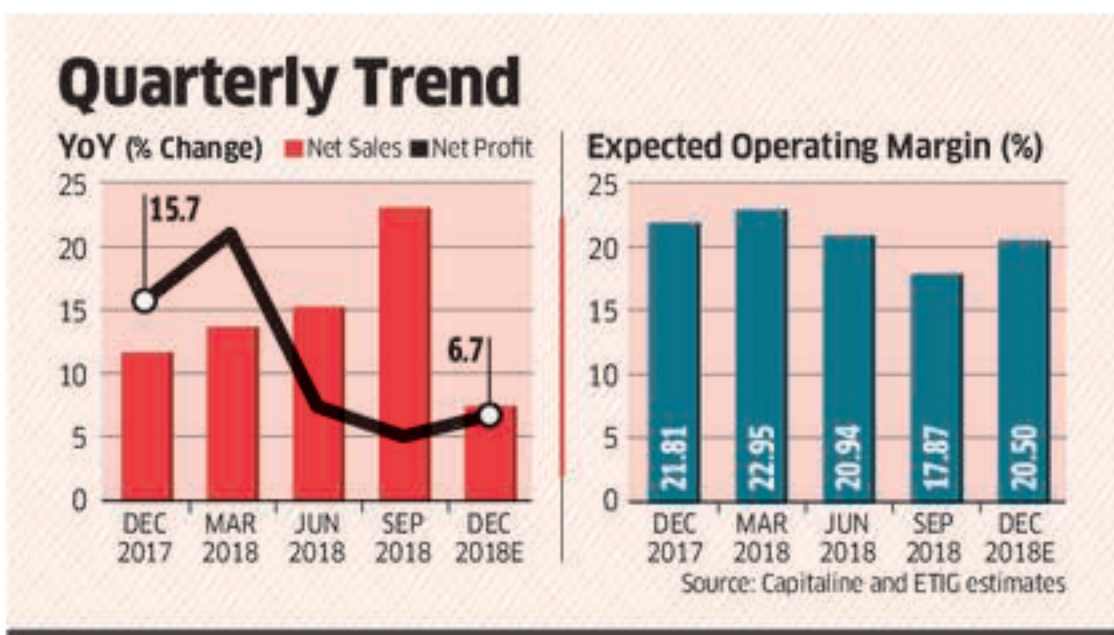
According to ETIG estimates, the aggregate revenue is likely to grow at an eight-quarter low of 7.5% year-on-year in the December 2018 quarter compared with 13% growth in the year-ago quarter. Net profit will grow by 6.7%, making it a third consecutive quarter of single-digit growth. Automobiles, cement, oil and gas, pharmaceuticals, and telecom

Earnings Preview

companies may report subdued numbers, whereas private sector banks, fast-moving consumer goods (FMCG) and information technology (IT) companies may show improvement.

"In the December 2018 quarter, we will see the impact of lower industrial metal prices. Crude prices also have fallen. This will help consumers of commodities and crude oil-based fuel and raw materials. The rupee depreciated by 9%, which will affect importers and borrowers of foreign capital," said Deepak Jasani, retail research head, HDFC Securities. Except tin, other metal prices have fallen by 14-26% while the crude price has dropped by 24% from the year-ago quarter.

The operating margin is expected to be marginally lower by 30 basis points (bps; 100 bps = 1 percentage point) to 20.5% year-on-year. Analysts believe that growth may



resume in FY 20 as stability gradually sets in the banking sector thereby improving credit availability in the system. The street expects 18-28% growth in the Nifty 50 earnings per share. "This will be facilitated largely by the turnaround in corporate banks' profitability. However, performance of the other key sectors of oil and gas, and metals could depend on global growth conditions and domestic policies."

Sector Trends

AUTOMOBILES
Sales volumes of the majority of listed auto companies either fell or grew in single-digits barring Bajaj

Auto. Average discount level remained elevated amid dismal festive demand and mounting dealer inventory. This is likely to put further pressure on margins of auto companies.

BANKING

Provisioning requirement is expected to reduce as the rate of new bad loans reported by banks gradually abates. A lower yield on long-term government bonds should result in higher treasury income. These factors may support profit growth.

CAPITAL GOODS

A sustained order flow from the government will support topline growth in the December quarter. Execution is picking up as companies have reduced the proportion of slow moving orders over the past few quarters.

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RETURNS ATTRACTIVE but high rates could also imply high general cost of borrowing for investment and industrial activities

Real Interest Rate at 18-Mth High, but Will it Attract Inflows?

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Mumbai: India's real interest rate, or the difference between the central bank repo rate and consumer price inflation (CPI), is at its highest in 18 months and ranks among the top in the emerging markets, suggesting that a persistent decline in inflation helped enhance the returns.

CPI fell to 2.33% in November from 3.38% a month earlier; and down from 4.88% in November 2017, mainly due to a sharp fall in food prices and boosted by a favourable base effect. The decline in the CPI, the broad gauge for assessing consumer inflation, has widened the difference between the central bank's benchmark repo rate — currently at 6.50% — and the CPI to the highest since June 2017.

B Prasanna, head global markets group at ICICI Bank, said the past few benign inflation prints increased real rates in India to among the highest among major emerging markets. "High real rates indicate attractive returns, which over a long period of time would help boost the capital pool for a capital deficit country like ours," Prasanna said. "But it could also imply that the general cost of borrowing for investment and industrial activity is high. Most countries would have to navigate this trade-off between generating savings and at the same time not making incremental investments costlier to undertake."

The last time the real rate went above 4% was in June 2017, when it hit 4.79%. That peak was followed by a reduction in the repo rate from 6.25% to 6% in August 2017. So, will history repeat itself this time? Not likely, say bankers and economists. "Although inflation has fallen, it is probably at its lower end. It is expected that inflation will only rise from here and will probably inch up beyond 4% one year hence, which is why the expectation is that the RBI is on an extended pause," said Saugata Bhattacharya, chief economist at Axis Bank. "However, to ease the pressure on rates, the RBI is likely to release more liquidity into the system."

Foreign institutional investors (FIIs) pulled ₹80,919 crore out of Indian debt and equity investments in 2018 after investing ₹2 lakh crore in 2017. Benign inflation and a stable rupee could attract these funds back to Mumbai in 2019.

"Foreign funds are guided by several factors — the long-term view on inflation, the state of fiscal deficit and its funding, global risk sentiment, currency volatility etc.," Prasanna said. "On a standalone basis, sustained levels of higher real rates would imply that Indian assets look attractive on a relative basis, as we would have to increasingly compete for capital flows in a global environment where liquidity is shrinking. But this would not be the sole factor driving flows at any given point of time."

The central bank's monetary policy committee next meets on February 7 when Mint Road is widely expected to change its policy stance to neutral from calibrated tightening, citing weaker than expected inflation.



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Rupee Weakens 2 Paise to 70.20

MUMBAI: The rupee weakened for the second straight session Thursday, slipping by 2 paise to 70.20 against the US dollar on robust foreign fund outflows amid rising trade deficit worries. Meanwhile, the yen surged to multi-year highs on safe-haven buying following a 'flash crash' that spooked the global currency markets. Forex traders said rising domestic fiscal deficit worries, firming crude prices and sustained foreign fund outflows weighed on the local unit. The rupee opened lower at 70.30 and fell further to touch the day's low of 70.53. The domestic currency, however, pared some losses and finally ended at 70.20 per dollar, down by 2 paise against its previous close.

— PTI

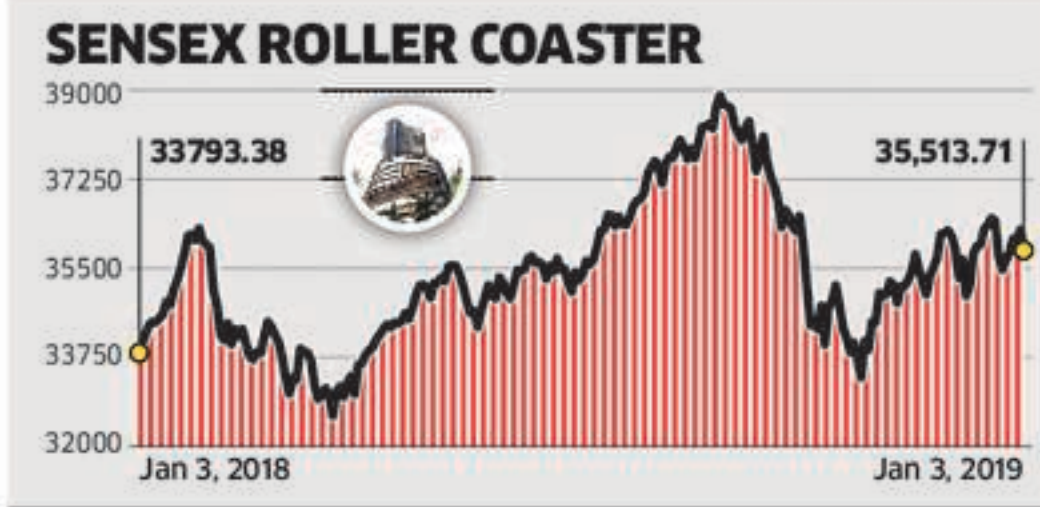
MARKET EXPERTS expect further fall in indices if the weakness in global markets continues; reports of govt planning a farm relief package heighten deficit concerns

Sensex Sheds 378 Pts on Worries over Global Growth, Fiscal Deficit

Our Bureau

Mumbai: Indian stock indices weakened for the second consecutive session on Thursday, ending down 1% on weak cues from overseas markets amid continued worries on slowing global growth. European and Asian indices slipped after technology major Apple downgraded its sales projection citing weak Chinese demand. The Sensex ended about 378 points, or 1%, lower at 35,513.71, while the Nifty ended down 120 points, or 1.1%, at 10,672.25. India underperformed other Asian markets, which fell between 0.3% and 0.9% on Thursday. Global market sentiment was weak also because the meeting between US President Donald Trump and top Congressional leaders to resolve the partial government shutdown in Washington ended in a stalemate.

Reports that Prime Minister Narendra Modi's government is planning a farm relief package in the run-up to the general elections



increased fears that India may miss its fiscal deficit target, especially since the government has already exceeded its budgeted annual deficit in October.

Recently, figures released by the government showed GST collection dropped to ₹94,726 crore in December 2018, lower than ₹97,637 crore collected in the previous month.

The BSE MidCap index ended down 1% and the SmallCap index fell 0.6%. Foreign portfolio investors were net sellers of Indian shares worth ₹973 crore while

domestic institutional investors were net buyers of local shares worth ₹34.5 crore. FPIs have sold in 13 out of the 23 trading sessions since December but due to large buying in some sessions, overall they are net buyers to the tune of ₹1,360 crore.

"There are concerns around global growth. US futures were down after Apple's warning," said Piyush Garg, chief investment officer at ICICI Securities. Shares of Mahindra & Mahindra extended losses and ended as the worst performer on the Sensex owing to disappointing December sales. Mahindra & Mahindra, ONGC, Vedanta, Tata Steel, Larsen & Toubro and Housing Development Finance Corporation ended down 2-3%.

Other major moves included Vijaya Bank and Dena Bank which fell 7.2% and 19.8%, respectively, as market participants were disappointed with the merger swap ratio with Bank of Baroda. Shares of Bank of Baroda ended flat at ₹119.40.

Market experts see further fall in the indices if the weakness in global markets continues. "If the Nifty breaches 10,500, then it may fall to 10,300," said Garg. Gopal Agrawal, senior fund manager at DSP Mutual Fund, said India is likely to relatively outperform other markets going ahead.

"Domestic consumption growth is strong. Indian economy is more locally oriented as well than global oriented," said Agrawal.

SWAP RATIO FAVOURS BOB, SAYS ANALYSTS
►► ON MONEY MATTERS

FPIs NOT COMFORTABLE WITH PORTFOLIO APPROACH

RBI to Meet Foreign Investors Over Waning Interest in Corporate Bonds

FPIs on pause after an RBI circular in April brought in restrictions to their corp bond exposure

Reena.Zachariah@timesgroup.com

Mumbai: Alarmed by the decline in overseas investors' activity in corporate bonds, the Reserve Bank of India (RBI) has called for a rare meeting with foreign institutions to sort out the issues. The drop in their participation in this market follows a central bank circular in April that brought in restrictions to their corporate bond exposure.

RBI is likely to meet representatives of foreign institutions in January, when these investors usually revise their allocations to different countries. The central bank has not met foreign market participants officially in recent years, said bankers.

An email query to RBI remained unanswered till the time of going to press.

Foreign portfolio investors are finding it difficult to abide by the central bank's April circular, forcing many of them to stay away from the debt market, said senior officials with foreign banks.

Last year in April, RBI had said that an FPI, or its entities, could not have more than 50% of investment in a single corporate bond and their portfolios could not take more than a 20% exposure in any single corporate group.

Following this rule, there has been a slowdown in investments

FPI Investments
In ₹ Crore

Month	Equity	Debt
Jan-18	12,984	9,355
Feb-18	-12,491	-2,488
Mar-18	13,372	-7,298
Apr-18	-6,468	-11,868
May-18	-9,660	-17,751
Jun-18	-4,577	-11,002
Jul-18	1,429	718
Aug-18	-1,669	2,357
Sep-18	-9,623	-10,548
Oct-18	-27,623	-10,019
Nov-18	6,223	6,468
Dec-18	2,300	5,805



by FPIs. "It is a concern for FPIs as they can't actively monitor them. Post the RBI rule, apart from other economic reasons, this one added more colour to it. FPIs have taken a pause in investments," said Ajay Manglunia, executive VP (fixed income), Edelweiss Finance.

FPIs are not comfortable with the portfolio approach directed by RBI. Under the rules, an FPI cannot invest more than 10% of their corpus in short-term debt instruments (which mature in less than a year). Thus, even if an FPI is holding a 10-year bond, it will have to sell the paper if it's coming up for redemption next year. This is forcing them to sell prematurely to meet this requirement.

Continued on ►► MONEY MATTERS

Buffett's Apple Losses Make His Track Record in Tech Even Worse

Bloomberg

New York: Warren Buffett has a questionable track record investing in technology companies. It's only getting worse with Apple Inc, which had already lost more than \$350 billion in market value since October, diving Wednesday.

After famously avoiding tech stocks for decades, saying he didn't understand them well enough, the billionaire's Berkshire Hathaway Inc. stashed more than \$10 billion into International Business Machines Corp. starting in 2011. He completely exited the stake about a year ago, ad-



mitting his analysis had been flawed — a rare black mark in a career spent building one of world's biggest piles of wealth.

Now, Buffett's bet on Apple — which amounted to about 252 million shares at the end of September, or more than

5% of the total — looks shakier: The stock fell late Wednesday after Apple slashed its revenue forecast, blaming an economic slowdown in China and saying fewer people upgraded their iPhones than anticipated.

Apple dropped to as low as \$144.51 in extended trading, trimming the value of Berkshire's stake by about \$3 billion. To be sure, Buffett bought most of the shares at lower prices, so he may still be ahead on the overall investment.

When describing companies he was looking to acquire, Buffett once wrote that he prefers "simple businesses," adding, "If there's lots of technology, we won't understand it."

A Monk Who Trades

That accident looks bad. That will cost a lot of money.

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