

Markets: Beating Volatility

Panel Proposes 2-way Roadmap to Push EVs

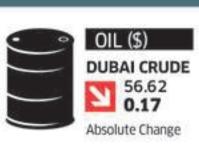
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Market Trends

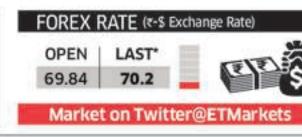
| STOCK IN | % CHANGE | |
|----------|----------|------|
| Nifty 50 | 10802.15 | 0.28 |
| Sensex | 35980.93 | 0.36 |

| MSCI India | 822.64 | -0.42 | SX 40 | 21157.04 | 0.29 |
|------------|---------|-------|--------------|-----------------------|-------------|
| MSCI EM | 2179.45 | -0.49 | Nikkei | 20204.04 | 0.82 |
| MSCI BRIC | 564.35 | -0.14 | Hang Seng | 25875.45 | 0.15 |
| MSCI World | 7943.91 | 0.29 | Strait Times | 3122.94 | 0.65 |
| - | | | - | Values in US 5. Gross | At 7 pm IST |



10-YR YIELD 7.53 **0.11** Figures in %

| OLD RATE | | | *At 10.30pm, After adjusting |
|-----------|-----------------|---------|-------------------------------------------------------------|
| rices per | Troy Ounce (\$) | | for import duty, Indian spot gold lower by \$ 9.73 to US |
| | US | India | Comex gold price on Tuesda |
| PEN | 1289.9 | 1400.74 | The premium on local gold i due to tight supply followin |
| AST* | 1284.3 | 1403.00 | import curbs. |



SMALL-CAP STOCKS could see up to ₹1 lakh cr inflow as fund managers look for potential winners: Analysts

Funds may Need Smart Bets on Small Caps to Beat ETF Show

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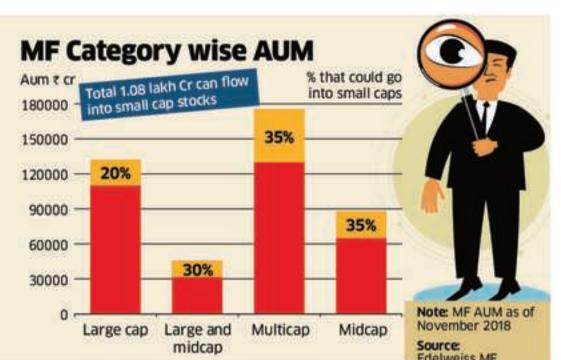
Mumbai: Mutual fund managers investing in blue-chips will have to sharpentheirstock-pickingskills in small-cap stocks if they must recover the ground lost to cheaper exchange-traded funds (ETFs). In the past year, most equity funds have found the going tough because they

could not beat their benchmarks. The biggest worry about the underperformance has been in largecap schemes, raising concerns over their prospects. Fund managers and analysts said loss of position can be overcome by some smart stock picking in small caps, which are yet to be favoured by the broader

"Analysts start covering a stock only when it hits a critical size. Lack of coverage is an edge for the fund manager," says Radhika Gupta, CEO, Edelweiss Mutual Fund.

As per data from Accord Fintech, over the past year, only two of the 32 large-cap and 24 large- and mid-cap schemes and just six of the 33 multicap schemes beat their benchmarks. If this underperformance continues, investors could see a shift tolow-cost passively managed index funds and exchange-traded funds. said analysts.

"To generate alpha, a fund manager could look at mid- and small-cap stocks or reduce expense," says Kaustubh Belapurkar, director, (fund research), Morningstar India. As per the revised rules, large cap



their corpus in top-100 stocks by ning in in small-or mid-cap stocks to market capitalisation. The fund magenerate higher returns. Similarly, mid-cap funds are mannager is free to deploy the remai-

dated to invest at least 65% of their corpus in mid capstocks, leaving the flexibility to invest 35% outside. Multicap funds could invest across large, midand small-cap schemes. Some estimates show the small cap

stocks could potentially see as much as₹1 lakh crore from existing equity mutual fund schemes as fund managers look for potential winners.

Analysts said that post Sebi scheme categorisation, the investible universe for fund managers has shrunk. As per the new mandate, only 100 stocks are available in large caps and 150 in mid caps.

As compared to this, over 2,500 stocks available in small caps, said Edelweiss Mutual Fund. Since the small-capuniverse is large, fund managers may incrementally look forward to investing in this space.

Rupee Tumbles 53 Paise to 70.21 **Against Dollar** on Crude Woes



PTI

Mumbai: The Indian rupee Tuesday plunged by 53 paise to close at 70.21 against the US dollar amid renewed concerns over widening of current account deficit following constant rise in global crude oil prices.

Besides, strong demand for the American currency from importers also weakened the rupee performance. The US dollar's gains against major rival currencies yen, pound and euro too impacted the domestic currency

market sentiments. At the Interbank Foreign Exchange (forex) Tuesday, the rupee opened on a sluggish note at 69.83. It weakened further to hit a low of 70.23 (intra-day). before finally closing at 70.21, showing a loss of 53 paise.

This was the first loss for the Indian currency unit in three sessions. It had risen by 52 paise in the previous two trading days.

On Monday, the rupee had gained 4 paise to end at 69.68 against the US dol-

The brent crude, a global benchmark, was trading at 58.07 per barrel, up1.29%.

Investors seemed to have turned cautious keeping in view persistent rise in crude oil prices, which threaten lifting the country's oil import bill and expanding current account deficit, according to analysts.

Meanwhile, domestic bourses continued their stellar show for the third straight session, with the benchmark Sensex rising by another 130 points on account of fresh inflows by foreign funds and positive global cues.

The Financial Benchmark India Private Ltd (FBIL) set the reference rate for the rupee/dollar at 70.0221 and for rupee/euro at 80.1576. The reference rate for rupee/British pound was fixed at 89.4238 and for rupee/100 Japane-

se ven at 64.37. Foreign funds Tuesday pulled out Rs 553.78 crore from the capital markets on a net basis, while domestic institutional investors purchased shares worth Rs 698.17 crore Tuesday, provisional data showed.

Shares of Gruh Finance ended down 16.4% at Rs 256 while shares of Bandhan Bank ended down 4.8% at Rs 477.05 on Tuesday

Brokerages say Gruh Finance Deal Expensive for Bandhan

Sanam.Mirchandani @timesgroup.com

Mumbai: Analysts believe Bandhan Bank has made an expensive deal in the acquisition of Gruh Finance. Bandhan Bank announced acquisition of Gruh Finance in a share swap deal on Monday. The swap ratio is 568 shares in Bandhan Bank for every 1,000 shares held in Gruh Finance. Shares of Gruh Finance ended down 16.4% at Rs 256 while shares of Bandhan Bank ended down 4.8% at Rs 477.05 on Tuesday. Here's what brokerages said about the merger:

AMBIT CAPITAL

ting on Bandhan Bank with a target price of Rs 280. The merger will help Bandhan decrease promoter stake and reduce concentration in Eastern India and microfinance but the punchy valuations of Gruh Finance make the acquisition 15% book

11% EPS-dilutive for Bandhan based on FY18 reported financials, said Ambit.

ICICIDIRECT

term negative (for Bandhan) positive from a longer-term perspective on a core business basis. One can gradually accumuand low cost to income still convalue per share-dilutive and tes of the bank, the retail broke- The acquisition to be pricey in CLSA.

rage said. ICICI direct has a buy rating on Bandhan Bank with a target price of Rs 575.

PHILLIP CAPITAL

Though the merger is short- The acquisition is expensive for Bandhan Bank and it does Ambit has maintained sell ra- due to high dilution, it will be not fully resolve promoter stake dilution concern. The merger ratio is EPS and Book value dilutive for Bandhan Bank by late from a two to three-year 6.5% and 12% respectively. Geperspective. Robust growth, ographically, it is like the east ter shareholding from 82% to better than banking margins meeting west as Bandhan is dotinue to remain strong attribu- is dominant in western India. which was due in late 2018, said

short term but if the scale up of this business continues to remain profitable than it can provide benefits in long term, the brokerage said. The acquisition will help Bandhan Bank diversify its product basket and de-risk portfolio by addition of secured loan product, said Phillip Capital.

The merger will help HDFC, which has a 58% stake of Gruh, to avoid a conflict of interest as both are in mortgage financing, and provides clarity on capitalisation for Gruh. For Bandhan and Gruh the upside is from cross-leveraging their platforms and scope to improve the funding mix for Gruh but return on equity will be diluted by the SLR and CRR needs along with limited opex synergy. The merger should help Bandhan to reduce the promo-61%, but it is still higher than minant in east India and Gruh the RBI's requirement of 40%

Bonds may face downgrade, no concerns over financials, say fund managers

Cost of Funds for Gruh may Surge as it Loses HDFC Credit-quality Benchmark

Saikat Das @timesgroup.com

Mumbai: As Gruh Finance gets ready to walk down the aisle with Bandhan Bank, treasucost of funds: Housing Development Finance Corp. (HDFC), Gruh's parent and India's mortgage-lending pioneer, would cease to be the credit-quality benchmark for the financier of affordable homes, making borrowings costlier.

"...Merger processes may take time and could impact incremental borrowing costs and terim," said Karthik Sriniva-

san, Group Head - Financial Sector Ratings at ICRA. "Gruh may see a possible revision of its credit rating, given that its rating also factored in its status as a subsidiary of HDFC Ltd."

Gruh's profitability was higry officials at the former are her than its peers, many of ness," said Srinivasan. bracing for a slightly higher which are larger in size. But higher profitability owed more to the fact that Gruh is a subsidiary of HDFC, a triple A-rated, premium mortgage company. Bandhan Bank, despite all its recent successes, received the "AA" tag from ICRA for its longterm bonds.

The immediate impact of the merger would be visible on the Gruh Finance bonds, which may profitability of Gruh in the in- face a rating downgrade. While Gruh's bonds are triple A rated,

This may cause bond yields to rise at the home financier.

"Themerger is credit negative for Gruh while for Bandhan, it will depend on its ability to integrate and scale up the busi-

ments worth Rs 5,000 crore in Gruh through debt securities including bonds and commercial papers, show data from Value Research, a Delhi-based analytics company. More than half a dozen mutual funds, including UTI, ICICI Prudential, and SBI hold such debt securities, show the data updated until Nov 30 last year.

cited "illiquidity" as a problem

Bandhan's debt is ranked lower. for such bonds, although there are no concerns over Gruh's financials.

"Culturally, Gruh and Bandhan are very different organizations - allowing the cultures to co-exist will be key to the success of the merger. Minority Mutual funds have invest- shareholders of Gruh (secured) may not share the same level of excitement for Bandhan (that has seen super-fast growth, largely unsecured)." said Digant Haria, VP, Research, Antique Stock Broking. Some investors tried to sell Gruh debt papers Tuesday but

could not obtain the right pricing, said a dealer with direct knowledge of the matter. But FundmanagersETspokewith those investors did not want

any distress sale.

FUND FLOWS AS PERCENTAGE OF TOTAL M-CAP WANING

India Losing Its Charm Among Foreign Investors

FPI Flow

The participation of foreign portfolio investors (FPIs) in the Indian equities markets is waning. Their fund flow into domestic equities as a percentage of the country's total market capitalisation dropped below 1% in December 2018 compared with 3% two years ago. Also, the FPI trading volume as a percentage of the total volume has dropped to 30% from the 50% in the past three years. The combined FPI outflows of \$11.32 billion from equity and debt instruments in 2018 was the highest since the global financial crisis.

FPIs hold nearly 22% stake in the BSE 100 companies.

The assets under management of FPIs were \$376 billion (₹2.6 trillion) as on December 15, 2018, which is 18.3% of the country's total market capitalisation. FPIs sold equities worth



Debt Equity

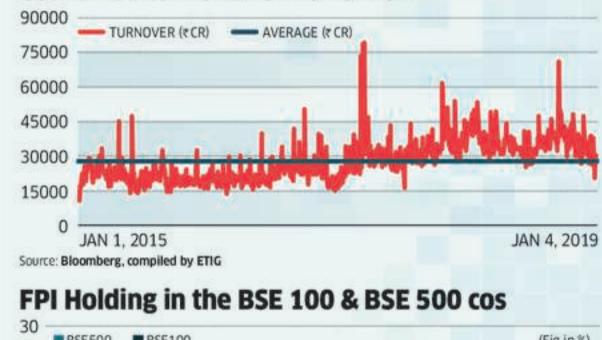
(Fig in \$M)

Total

\$4.5 billion in 2018; they were net sellers for the first time since 2008. The cumulative FPI flow in the past three years at \$6.4 billion was just one-fourth of the inflows in the three years prior to 2016.

-Ashutosh R Shyam/ETIG

Combined turnover of BSE & NSE





MARKETS UP BIG SINCE 2016 ELECTION!

Trump Complains Again About Federal Reserve, Calling Rates 'Rapidly Raised'



Bloomberg

President Donald Trump renewed his complaints about Federal Reserve interest-rate increases, calling borrowing costs "rapidly raised" even though the central bank's pace of hikes has been markedly slower than in previous decades.

"Economic numbers looking RE-ALLY good. Can you imagine if Ihad long term ZERO interest rates to play with like the past administration, rather than the rapidly raised normalized rates we have today," Trump tweeted on Tuesday morning. "That would have been SOEASY! Still, markets up BIG since 2016 Election!"

The central bank cut interest rates to almost zero in December 2008. It held them there for a time spanning most of the Obama administration as the Fed supported a recovery from the worst financial crisis and recession since the Great Depression in which unemployment peaked at 10 percent.

The Fed has raised interest rates by 2.25 percentage points since late 2015 as unemployment declined to below 4 percent. Many investors see the central bank as essentially finished with this tightening cycle. That compares with the mid-2000s, when the Fed increased the benchmark rate by 4.25 percentage points over two years.

While U.S. stocks are still up since Trump's election in November 2016, they've plunged from a record rea-

Wall Street Gains for Third day

US stocks rose on Tuesday, as industrial stocks and Amazon helped extend Wall Street's rebound for a third day on rising hopes of progress in U.S.-China trade talks.

Though little details emerged, a member of the U.S. delegation said the talks will continue for an unscheduled third day. U.S. President Donald Trump

earlier tweeted that the talks were going "very well". - Reuters

ched in September. Trump has repeatedly complained about the Fed's rate hikes and sought to pin blame for stocks' decline on the Fed and Chairman Jerome Powell, whom Trump has discussed firing, Bloomberg reported last month. Powell said last week that he wouldn't resign if Trump asked him to.

Circumstances have been Unfair: Ruia

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We approached the committee of creditors in March and then again in June last year about a restructuring or a proposal, but there was no response. Then in June and in July. the new rule of 12(A) (which allows for the withdrawal of an asset from the resolution process) came out and existing companies (promoters) were permitted to give a proposal which gave us an opportunity, too. Unfortunately, they are now saying that this rule was prospective and we believe that it should not be prospective especially because 29(A) was made retrospective and applicable to us. We feel this is a little unfair. We have given a comprehensive proposal and are now awaiting the decision of the court.

What is the source of financing for the Essar Steel proposal? Financing has two components –

there will be debt of around Rs

30,000 crore taken on the asset and the rest will be equity that we propose to bring along with partners. We are not at liberty right now to disclose the name of the partner.

Many Indian promoters bring in very little equity into the business and this is a major cause behind them getting into a debt trap... I don't think it is because of lack of

equity in our case. Essar Global went about a large expansion programme in the year 2010 involving Rs 1.25 lakh crore, which was funded 30-35% by equity and about 65% in debt which was the standard norm for most project financing in India. Our source of equity was largely the \$5 billion that we got from the Vodafone divestment. From 2012-13, we started facing regulatory and

environmental hurdles like cancel-

coal supply being cut for the power

lation of gas for steel followed by

business. We infused additional

equity of ₹30,000 crore over the next three years to support these businesses in that challenging phase, including ₹10,000-12,000 crore for Essar Steel, over and above the committed ₹1.25 lakh crore. A lot

of it was in equity and part of it was also in the form of unsecured loans to the company from group companies as well as the holding company. And this was unplanned. Whatever money was required to be invested at that time, we did. It was the restructuring that was not done along with RBI's decision to put the company

into IBC. Has the system been unfair to

I won't say the system has been unfair – I just feel the circumstances have been unfair. It (IBC) is a new law and a lot of clarity has to come about and as happens in any other law, it takes time to evolve and we just got caught in the middle of that

Will you do things differently this time if you get back the asset and as a group will you be more vocal about your challenges?

Certainly, a lot more emphasis will be laid on the risks associated with regulatory issues in terms of our business thesis going forward. What are your group plans going

forward? We have to see what happens in Essar Steel but putting that aside, for the rest of the group we continue to remain focused on all the four sec-

tors: metals and mining, energy infra and services. Now that we have a stronger and much lighter balance sheet, we will look at opportunities both within these four sectors as well as in some new sectors.

Apart from steel, what are the sectors you are going to invest in? All the four sectors have potential. In oil and gas, we are in refining and exploration & production. Power is still a portfolio which we need to address fully. Majority of the debt currently there in the rest of the portfolio is in power and because of the problems the sector has faced everybody is in the final stages of addressing them and we are also one of them. Having said that, we still see tremendous potential in the power sector because a lot of the issues that were faced in the past have been addressed.

When it comes to IBC, your offer means full recovery for banks, but the government also wants to send out a message that defaulting promoters will not be spared...

You cannot have a one-size-fits-all policy or rule. Our belief is that there should be a distinction. If there has been a promoter who has done something wrong, then obviously the rules for that scenario have to be different.