Straight Drive

A roundup of top events and moves on the Street

Max Financial plunges 5%

Snapping their three-session winning run, shares of Max Financial Services closed 4.99% down at ₹376, even as the company posted a rise of 41% in standalone profit at ₹139.89 crore for December quarter. The company also reported some transition in leadership at group level in a separate regulatory filing which, as per the company, was in line with the transition plan announced last year.

Motherson falls on Q3 numbers

Shares of Motherson Sumi Systems suffered a loss of 1.70% to close at ₹132.75 after it reported 1.19% drop in consolidated profit at ₹554.99 crore.

SpiceJet Q3 profit dives

SpiceJet reported a profit of ₹55.1 crore for October-December. The airline's net fell 77% over the same period last fiscal, when the airline had registered profits of ₹240 crore. Shares of the company closed 2.42% up at ₹80.30.

Tata Steel climbs 2%

Shares of Tata Steel climbed 2.31% to close at ₹480.40 after the company on Friday reported 54.31% year-on-year (YoY) rise in profit at ₹1,753 crore for December quarter. Global financial firm HSBC is optimistic on the stock, placing it as their preferred pick in the ferrous sector. ICICI Securities has a 'Hold' call on the stock with a target price of ₹477, while SBI Capital has a 'Buy' call on the stock with a target price of ₹664 per share.

77 stocks show potential fall

Momentum indicator moving average convergence divergence, or MACD, showed bearish crossovers on 77 counters on the BSE, signalling a potential fall in those counters in coming sessions. Among the stocks that gave bearish signals were Mahindra & Mahindra, Larsen & Toubro, JSW Steel, Indraprastha Gas, VIP Industries, Jindal Saw and Mahanagar Gas. On the other hand, 67 stocks, including Vodafone Idea, Jindal Stainless, Mindtree, Petronet LNG and Caplin Point Laboratories showed bullish crossovers.

250 stocks hit lower circuit

Graphite India, IL&FS Transportation, Kwality, SORIL Infra Resources, Leel Electricals and Punj Lloyd were among 248 stocks that hit lower circuit. Shankara Building, Oriental Trimex, Uttam Galva and Zee Media featured among the 102 stocks that hit upper circuit.

Over 400 hit 52-week lows

Coal India, Indiabulls Housing Finance, JSW Steel, Mahindra & Mahindra, MRF, NTPC, Vedanta and SAIL featured among the 434 stocks that touched their 52-week lows on the BSE.

Nishant Kumar/ETMarkets.com

ET Q&A

KENNETH ROGOFF
Professor of Economics, Harvard University

Time for New RBI Guv to Assert the Institution's Independence

The Reserve Bank of India Governor Shaktikanta Das needs to work overtime to reassert the central bank's independence to the markets, especially after his predecessor Urjit Patel quit under circumstances widely seen as interference from the government, Kenneth Rogoff, professor of Economics at Harvard University, told **Gayatri Nayak** and **Shilpy Sinha** in an interview. Edited excerpts:

What's your assessment of our new governor's monetary policy?
All I heard is that food inflation has been low, core inflation has been high and RBI targets headline inflation. Of course, the way Urjit Patel left didn't look good for the central bank independence, and it is important the RBI establishes itself as independent in the eyes of the market. I think there will be a long path ahead of India if the institutional independence of RBI is questioned.

It's a decade since the global financial crisis. Do you sense another next crisis anytime soon?
A serious global crisis will not happen for decades. They don't happen one on top of the other. The politicians, regulators, investors, the consumers; everybody remembers it, they don't forget right away. There is Trump as the president in US, and the other side of the aisle has become quite left-wing and populist. UK is blowing up without any financial crisis, even Italy, for that matter. Typically, it's not just one thing; policy mistakes also contribute to it. Often, the debt boom that spirals into a crisis happens very quickly.

The last crisis was due to the excess of consumer credit. Do you see the next crisis happening due to excess corporate credit?

ON INTEREST RATES
Interest rates are so low that debt is a problem. And I don't think anybody expects them to go up anytime soon

Corporate debt is currently the leading bogeyman among the international regulators. It is the thing that looks most likely, like sub-prime. Janet Yellen, the former chair of Federal Reserve, spoke about it recently. The Bank of England released new data showing that it is double what we thought it was – \$2.2 trillion, which also happens to be the same as the sub-prime debt.

Could you elaborate?
China is slowing down much harder than we currently envisage. I think there is going to be no hard-landing, but I do think the soft-landing will be on a downward slope. I think they're expecting a severe negative productivity shock because of centralising government power so much. Global interest rates are very low for reasons we half understand.

What would be the ideal level real rate?
No one knows. It's changed a lot. Part of it is because of the financial crisis and it will unwind. But there are demographics, productivity, high savings from Asia. Over the past two years, global interest rates went up by a percent and a half, not impossible because they came down 2% after financial crisis. That would really explode a lot of markets. We could start with corporate funds; emerging market debts would have troubles. The problem is that when safe assets rise one and a half percent, the risky assets will rise two and three times that.

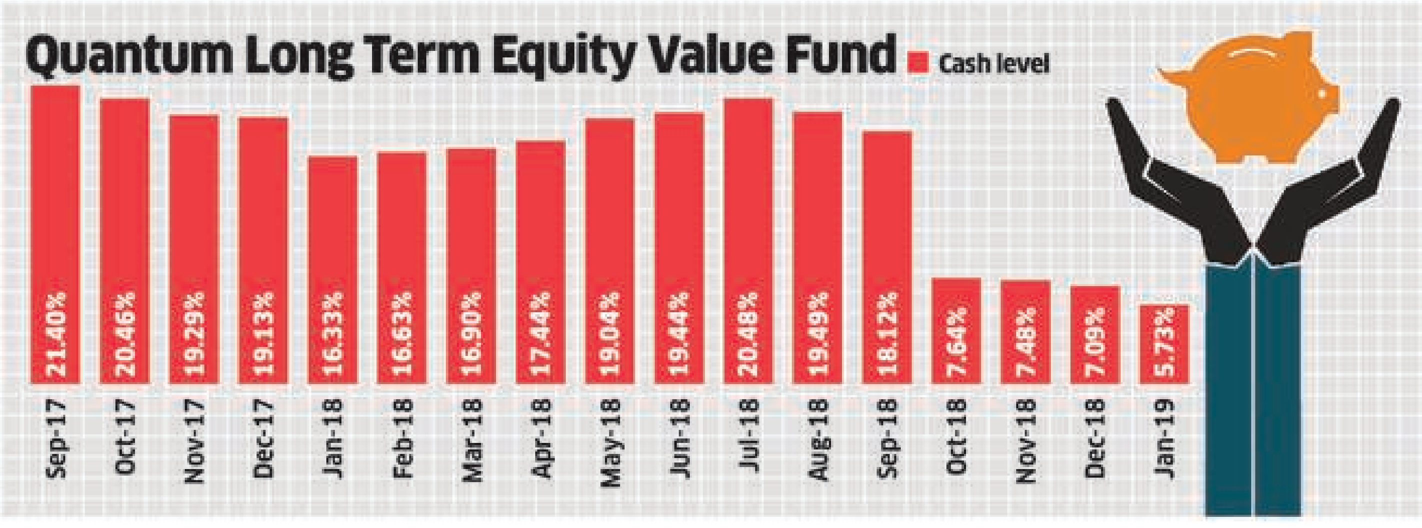
It is not just corporate debt; even government debt is a matter of concern? Where do you see things going?
Interest rates are so low that debt is a problem at the moment. And I don't think anybody expects them to go up anytime soon. The trillion dollar deficit of US is currently not a particularly big problem, but that can change if the interest rates go up. If you look at UK, they are paying low interest, but they have a lot of long-term borrowings. If interest rates go up, they have a lot of time to adjust. Not in US though, if the interest rates go up, the average duration of debt – the average length to make a payment – is as short as it was in 40 years. That makes the borrowing cheap but much riskier. We have a riskier profile than Italy.

ON FINANCIAL CRISIS
A serious global crisis will not happen for decades. The politicians, regulators, investors, the consumers; everybody remembers it, they don't forget right away.

Over a trillion dollar has been pumped in through quantitative easing by central banks and inflation has been well managed so far. Do you see inflation risks in the future?
When you live in a world where short-term interest rate is zero, there is very little difference between quantitative easing and the treasury issuing short-term debt. Quantitative easing in United States is smoke and mirrors. In Europe it is different because they do not have a European government. But in the United States, if the treasury were simply to shorten the maturity structure of its debt and the Fed would abandon quantitative easing, it wouldn't mean anything because the treasury owns the Federal Reserve completely.

CASH LEVEL DOWN TO 5.73% FROM 20.48% IN JULY 2018

Quantum Fund Uses Cash Pile to Buy Stocks Cheap



Fund buys into Shriram Transport, Ambuja Cement, Yes Bank and M&M in recent correction

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Mumbai: Quantum Long Term Equity Value Fund, where value investing is the pronounced fund-allocation theme, has brought down the level of cash at its plan to the lowest in 31 months after a liquidity crisis at para banks caused stocks to slide since early October and presented opportunities to buy scrips cheaper.

Cash levels fell to 5.8%, the lowest since June 2016, at the fund that follows well-defined buy and sell limits. When portfolio constituents hit specific thresholds, the fund sells out the companies and accumulates cash.

It has the option to hold cash as high as 35% in its portfolio. As valuations soared, the fund increased cash to 20.48% in July 2018. However, after the third-quarter correction in the broader markets, the manager began progressively buying equities, lightening the cash portion in the portfolio.

"We follow a bottoms-up approach to investing. Many stocks where valuations were high now seem to be within reach," said Atul Kumar, head (equity Funds), Quantum Mutual Fund. "We were able to add good quality stocks using the recent opportunity. The scheme cash level is now in low-single digits, offering decent potential returns."

In the recent correction, the fund manager used cash in the portfolio to build positions in Shriram Transport, Ambuja Cement, Yes Bank and Mahindra and Mahindra.

BEST 1-YR PERFORMER
The fund has been one of the best performers in the value category over the past year

In May 2014, immediately after the elections when the markets ran up sharply, the fund's cash levels increased to 32.4% and it held on to cash levels of 30% until April 2015.

As per data from Value Research, the fund has been one of the best performers in the Value category over the past year, losing 0.6%, while the category lost 9.71%. Over a three-year period, the fund gained 12.91%, compared with the category average of 12.25%. Generally, equity oriented funds do not hold cash beyond the mandatory 5-8% to meet redemption requests or to add a few select stocks. Wealth managers believe such funds could disappoint investors in the short term as returns are rather volatile.

"When there is no investible opportunity due to high valuations, cash is king. The value strategy followed by the fund has played out well for investors over the long term," said Rupesh Bhansali, head (Distribution), GEPL Capital.

Crackdown on Illiquid Options may Net a Windfall

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However, some of the lawyers feel that these cases are increasing the work burden on Sebi and instead should be resolved through settlement process. The new consent rules allow the regulator to settle even the cases involving serious market violations such as insider trading and fraudulent trade practices. The idea of allowing serious cases to be settled through consent was to dispose smaller violations so that the regulator can focus on the bigger crimes.

"In most of the cases, a minimum penalty of Rs 5 lakh is being levied," said Tomu Francis, partner, Khaitan & Co. "Instead, Sebi perhaps should consider specifying a settlement scheme as permitted under the new regulations for such cases as it may significantly reduce the administrative burden."

Lawyers told ET that most of the entities who have been fined by the regulator are choosing not to challenge the orders further since the amount of fine imposed is minimal compared to the gains made by them. Further, the income tax department is said to be investigation the probe separately.

"Some of the investor accounts being probed are suspected to be mule accounts and tracing the actual culprit could become tricky," said another source. "Although the matters pertain to fraudulent trade practices, the quantum of unlawful gains is very small in most of the cases and hence are being subject to minimum penalty."

Sebi Plans F&O Circuit Filters to Curb Volatility in Equity Stocks

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The second option the regulator has proposed is a combination of the dynamic and fixed price bands, or a call auction mechanism.

The current framework for dynamic price band may be allowed to continue with the initial threshold set by the stock exchanges. This framework would be available up to a threshold. Upon reaching a threshold of 30% intra-day movement, either a fixed price ban on the stock may be imposed or a call auction be conducted for a fixed duration.

Imposing a fixed price band would arrest drastic movements in the price of the stock beyond a certain limit, while introducing the call auction may ensure wider participation from investors.

"For a scrip that is also a constituent of an index, computation of the index may become a challenge during the period of the call auction on account of the lack of availability of current market price for the scrip during the period," Sebi said.

The third course of action suggests no changes to the existing framework.

"While the underlying cash market stocks could continue to have circuit filters, it would not be appropriate to impose any such filters in the F&O segment," said Alok Churiwala, managing director, Churiwala Securities. "As long as there are proper margin and risk management systems in place, there is no need for such additional curbs."

Stock Indices Fall on Fears Over Pledged shares

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Shares of Anil Dhirubhai Ambani Group also fell sharply last week as some lenders dumped the stocks in open market.

"We are suddenly seeing debt challenges in unlisted companies of promoters, which the market didn't know about earlier. In many cases, promoters have taken debt in unlisted entities to fund some other businesses and that's why the overall debt position of the group is becoming more relevant," said Sanjeev Prasad, co-head, Kotak Institutional Equities. "This information (on overall debt position of promoters or promoter's unlisted entities) is not available to minority shareholders of listed companies," said Prasad.

Although Prasad does not see it as a systemic issue given that it is limited to a few companies or conglomerates, he advises caution when it comes to buying these stocks. "Investors should be careful about investing in these companies unless they are sure about the fundamentals value of the listed company and are willing to absorb some losses as technical selling of pledged shares may force stock prices significantly below the true fundamental value of the company for some time," said Prasad.

Shroff of Edelweiss believes value buying could emerge in some of these stocks as they are trading at a deep discount. "The fall in these stocks reflects a crisis of confidence which cannot go on forever," said Shroff.

ONE YEAR OF STRICTER NPA NORMS

Fresh NPA Additions at Lenders Slow Down, Recoveries on the Rise

Bank provisions have increased, but experts say there is a perceptible change in credit culture

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Mumbai: A year after the Reserve Bank of India (RBI) issued the circular directing banks to move to a more stringent non-performing asset (NPA) recognition with the Insolvency and Bankruptcy Code (IBC) as the main route, credit culture has improved, recovery rates have increased and fresh NPAs are on the way down.

Last year when RBI introduced the new norms, setting aside all the restructuring avenues available for banks, bankers were apprehensive due to the increased provision burden they will have to bear after they adhere to the strict one-day default rule of RBI. One year later though bank provisions have increased, there is a perceptible change in credit culture as borrowers have stepped forward with payments to ensure they do not default and force banks' hands.

"The resolution framework brings in required discipline. But there are also a few difficulties which need reconsideration," said State Bank of India (SBI) chairman Rajnish Kumar.

SBI, the largest bank in the country, has also been one of the biggest beneficiaries of the change in the credit culture. For example, the bank has witnessed a rise in recovery and upgrades this fiscal, a clear difference from the fiscal ended March 2018.

According to the analyst presentation on the bank's website, recoveries and upgrades in the three quarters to December 2018 added to ₹25,800 crore, up 78% from ₹14,530 crore in fiscal ended March 2018. The bank has also accelerated provisions this quarter. Its provision coverage ratio (PCR) has improved to 74.63% from 65.92% a year earlier.

Bankers said it has been largely beneficial. "It has forced recognition and resolution, two things that are key in tackling the bad loan problem from the bank's side. From the point of view of borrowers, it has improved credit culture which is a big gain," said a senior executive with a public sector bank.

Last month, the Supreme Court (SC) upheld the Insolvency and Bankruptcy Code, in a boost to resolutions under the new law. However, a petition by the power producers association seeking exemption from the RBI's February 12 circular is yet to be heard by the top court.

Kumar from SBI said some norms like 100% agreement among lenders for restructuring of loans and the requirement of the borrowers to pay at least 20% of the principle needs reconsideration.

Kuntal Sur, financial risk and regulation leader at PWC, said the strict timelines to be maintained under the RBI guidelines could be seen as a bit harsh because businesses go through ups and downs. "But when you see under what background these rules were framed, you understand the RBI's urgency. The new governor (Shaktikanta) Das' assertion that the circular will not be changed will also increase confidence," Sur said.

In a post policy press conference last week, governor Das said there was no proposal on RBI's table seeking modifications to the February 12 circular, dispelling speculation that the government had suggested making rules easier for companies.

The circular sets a 180-day deadline for loans totalling more than ₹2,000 crore to be resolved. In case no resolution is found in this period, the loan has to be referred to the NCLT under the IBC.

Rupee Gains 13 Paise to 71.18

MUMBAI: The rupee strengthened by 13 paise to close at 71.18 Monday on easing crude oil prices, even as the greenback strengthened vis-a-vis other major currencies. This is the fifth successive session of gain for the domestic currency, during which it has climbed 62 paise.

The rupee opened on a firm note at 71.24. It gained further to hit a high of 71.09 and finally settled for the day at 71.18, up 13 paise over its last close.

Easing crude price was a major factor that boosted the rupee sentiments.

–PTI

ET in the Classroom

A Primer on Commodity Derivatives Market

Commodity futures trading was reintroduced by the then NDA government after a four-decade ban in early 2000. Three exchanges cropped up in late 2002 and 2003 offering futures on farm and metals and energy products

1. What are commodity derivatives?
Similar to equity futures and options, they are futures and, options on futures, on a variety of commodities from sugar to gold, edible oils to silver and rubber to crude oil.

2. How many exchanges offer commodity trading?
MCX offers trading on metals and energy products. NCDEX is the country's largest farm futures exchange and ICEX offers trading on plantation products and diamonds. BSE and NSE also recently launched commodity segments to their trading platforms.

3. Is a separate trading account needed to trade?
Your existing equity trading account may be used to trade in commodity futures provided your broker is a member on the commodity exchanges. But Clients trading on NSE and BSE will, through their brokers, have to get registered with the likes of MCX and NCDEX. You can check with your broker as regulator Sebi has allowed financial services firms to merge their commodity broking subsidiaries with their parent companies which offer equity trading.

4. Is there a risk in trading?
Yes there is. Without proper understanding those adept at trading equity F&O should not venture into this segment. It is likely that crude, gold and base metals would attract trading interest in the initial stages from retail equity clients. Hedgers will also be keen to cover their risk on agri counters like wheat, sugar etc.

5. Who are the participants?
Mainly retail and wholesale commodity traders and a few corporate clients besides punters across asset classes. Sebi allows category 3 alternate investment funds to trade and MFs would get approval to trade in due course. Also foreign companies with exposure to Indian commodities not having presence in India have been allowed to trade recently. Banks and FPIs are still not allowed though former can offer broking services to their clients to trade commodity derivatives.

TEXT: **Ram Sahgal**