



MONEY MATTERS
Time for the New Gov to Assert RBI's Independence
Q&A with Kenneth Rogoff

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10888.8	0.50
Sensex	36395.03	0.41
MSCI India	820.21	0.60
MSCI EM	2323.61	0.09
MSCI BRIC	606.22	0.21
MSCI World	8355.96	0.07
SX 40	21388.64	0.47
Hang Seng	28143.84	0.71
Straits Times	3206.27	0.13

Values in US \$, Gross At 7 pm IST

OIL (\$)	BOND
DUBAI CRUDE	10-YR YIELD
61.93	7.36
0.41	0.02
Absolute Change	Figures in %

GOLD RATE	US	India
Prices per Troy Ounce (\$)	1318.1	1450.73
OPEN	1318.1	1450.73
LAST*	1310.7	1443.82

*At 10.30pm. After adjusting for import duty, Indian spot gold lower by \$ 2.05 to US Comex gold price on Monday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹/\$ Exchange Rate)	OPEN	LAST*
	71.26	71.17

Market on Twitter@ETMarkets

Earnings Watch

Results Scheduled Today...
Sales in ₹Crore PAT

Bloomberg Consensus Est	Dec-18 Estimate	YoY% Change
Asahi India Glass	793.10	25.50
Bata India	743.36	10.29
Coal India	23827.46	15.06

Aggregate Results So Far

Based on 1737 Cos' Earnings	Dec-18 (₹Cr)	QoQ %Chg	YoY %Chg
Net Sales	1979300	3.59	19.13
Op Profit	308858	-1.64	-4.87
Interest	258703	4.34	17.56
Net Profit	74406	-23.77	-37.25

SOURCE: ETIG DATABASE

REGULATOR SAYS move may help arrest abnormal movements beyond a certain limit, give time to promoters to assess movement of stock and respond

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



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Mumbai: The Securities and Exchange Board of India has proposed price bands for all futures & options (F&O) stocks, seeking to curb excessive price volatility in equity scrips that have derivative instruments available for trading.

The capital-markets regulator said an examination of the price movements of F&O stocks in the past six months showed that 40 scrips witnessed intra-day movements of more than 20%. Of this, 29 scrips saw intra-day movements between 20% and 30%. It further said that five stocks moved between 30% and 40% and six more than 40%.

"Concerns have been raised that investor wealth is getting wiped out in a single day by violent falls in stocks for which derivative products are available, as no price bands or circuit filters are applicable on them," Sebi said Monday in a discussion paper. "In view of the recent abnormal intra-day price movements, suggestions are being made to review the rules to prevent such extraordinary price movements."

The regulator, which has proposed three solutions, would garner stakeholder views on the subject until February 20.

The first seeks to put in place individual, stock-wise price bands of 20% either way, including scrips on which derivati-

ves are available under the compulsory rolling settlement. Sebi said the benefit of imposing price bands on such scrips is that the move may help arrest abnormal movements beyond a certain limit. It may also afford some opportunity to listed companies and their promoters to assess the movement of the stock, and enable them to make market announcements that may restore the price to a normal range.

The challenge of implementing this proposal is that at present only those stocks satisfying the enhanced eligibility criteria are being permitted in the derivatives segment. Imposition of price bands on such stocks could potentially hamper fair price discovery and liquidity.

"It may lead to mis-alignment between the price of the underlying in the cash segment and the price of the derivative products. While the price movement of the underlying scrip in the cash segment would be bound with the price band, any price movement in the derivative products may go much beyond (that)," Sebi said.

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USE OF ILLIQUID OPTIONS FOR MONEY LAUNDERING

Crackdown may Net a Windfall

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Mumbai: The crackdown against use of illiquid stock options for money laundering could boost the cash reserve of the Securities and Exchange Board of India (Sebi). The regulatory probe involves over 9,000 entities including brokers, wealthy investors and promoters of several small companies and is expected to fetch over ₹600 crore for the market regulator in fines. This is among the biggest crackdowns undertaken by Sebi since its inception, said two people privy to the development.

Sebi has already served over 2,000 show cause notices to various investors while another 1,000 are expected before the end of the current fiscal. Sebi is planning to initiate regulatory action against others by November, said a source cited above.

It has also passed final orders in about 90 such cases and in most of them the regulator has levied minimum fine in the range of ₹5 lakh to ₹10 lakh.

The investigation pertains to use of stocks where options are thinly traded in the market to launder money. These investigations pertain to the period between 2015 and 2016 when the low volumes in derivatives of a stock

exchange were exploited by investors. The investigations started when Rajeev Agrawal, erstwhile whole-time member (WTM) of Sebi, issued an ex-parte order against 59 entities in 2015 for misusing the stock exchange platform. This order had paved way for more investigations into such trading patterns.

Consider an investor 'A' who has incurred significant capital gains in a year. In order to offset these gains, they use illiquid stock op-

tions to book losses. The counterparty to these contracts, say investor 'B', books profit in these options. B already has an arrangement with A wherein he retains around 10-15% of the profits made and transfers rest of the money to 'A' through non-banking channels.

In some of the cases, the regulator also suspects that investors placed synchronized buy and sell orders in the same options within seconds from each other and also reversed their positions very fast creating artificial volumes in the scrip.

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EMAMI, APOLLO HOSPITALS DENT STREET SENTIMENT

Indices Fall on Fears Over Pledged Shares

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Mumbai: Shares of Emami and Apollo Hospitals led the sell-off in the broader market on Monday as fear of companies with high pledged shares continued to cast a shadow on investor sentiment.

Select NBFCs such as IIFL Holdings and Dewan Housing Finance fell 8% and 3.5%, respectively. The BSE MidCap index fell 1.5% to 14,117.55 and the SmallCap index fell 1.5% to end at 13,450.47.

India's largest hospital chain Apollo Hospitals ended down 10.6% at Rs 1,124.95--- its biggest fall in over seven years, due to rise in shares pledged with lenders.

According to news reports, the company said in a conference call that it increased pledged shares by nearly 5% in January because of unwinding of a deal with KKR. Promoters hold 34.4% in Apollo Hospitals,

of which 74.8% is pledged. Pledged shares as a percentage of promoter holding has risen for six straight quarters in Apollo Hospitals to 74.8% from 67.86% at the end of the April-June quarter of 2017.

FMCG company Emami's shares fell 5% to Rs 366.25. Company's promoters hold 72.7% in Emami, of which 47.6% is pledged.

"The market sentiment is weak and there is no catalyst for the market to go up. Investors are wary of stocks where pledged shares are high so they are pre-empting and selling out," said Gautam Shroff, head-sales, trading at Edelweiss.

The fear around companies with high pledged holding began after promoter of Essel Group failed to bring fresh shares as collateral to make up for the slump in prices of the group stocks. Investors have since lost appetite for companies with high leverage.

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'PERFORMANCE GAP BETWEEN BENCHMARKS AND BROAD MARKET LIKELY TO NARROW'

Buy Mid- & Small-caps Now: Morgan Stanley

IGL, Indian Hotels, Cyient, Ipca Lab, Just Dial, Amara Raja and Apollo Hospitals among top mid-cap ideas

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Mumbai: Morgan Stanley believes that it is time for investors to start looking at stocks in the broader market given the relative damage they have suffered.

The broad market is likely to play catch up in the coming months, and the wide performance gap between the benchmarks and the broad market is likely to come down with the broad market rising rather than Nifty falling, said Morgan Stanley.

"The performance gap between narrow and broad market is close to all-time peaks. Valuations have nothit all-time lows, but significant de-rating has happened. The bid has vanished and breadth indicators are in buy territory," said Morgan Stanley. The BSE MidCap and SmallCap indices have fallen 16% and 27% in the last one year while the benchmark Sensex has gained 6% during the period.

Indraprastha Gas, Indian Hotels, Cyient, Ipca Lab, Just Dial, Amara Raja, Apollo Hospitals, Edelweiss Financial, Jubilant Food-Works, Oberoi Realty and Prestige Estates are among the top mid-cap ideas of Morgan Stanley. All these stocks are rated overweight by Morgan Stanley. These stocks fit the description of growth at a reasonable price, said Morgan Stanley. They will bring positive change in return on capital in the coming two years, strong earnings growth and reasonable valuations, the firm said.

Top Picks

Company Name	OMP in ₹	% Chg in last 1 Year
Jubilant FoodWorks	1318.8	30.1
Ipca Laboratories	730.1	14.1
Just Dial	467.9	-1.1
Indian Hotels Co	135.4	-2.1
Apollo Hospitals	1125.0	-2.6
Oberoi Realty	440.2	-4.9
Cyient	587.8	-6.1
Indraprastha Gas	273.9	-9.4
Amara Raja Batteries	739.7	-12.5
Prestige Estates	200.8	-35.6
Edelweiss Financial	134.8	-47.9

Compiled by: ETIG Database

FALL IN LOCAL UNIT REKINDLES INTEREST IN TECH STOCKS

Nifty Loses 2% in Dollar Terms Since Jan 1 as Rupee Slips

After being among the top performers globally in the last quarter of 2018, Indian equities appear to have lost steam, with the Nifty yielding a negative 2% in dollar terms in the year to date period and the rupee falling by a similar percentage point against the world's reserve currency.

By contrast, 15 of the most-widely tracked global indices are in the green, putting the spotlight on the potential returns this quarter for overseas investors who collectively own about 44% of the free float in Indian equities.

The retreat was paced by heavyweights: Larsen & Toubro, the country's biggest engineering company, lost 15.7% (or 13.6% in rupee terms) after its proposed buyback offer failed to get the regulator's approval. Indusind Bank, ICICI Bank, Maruti Suzuki India and HDFC Bank were the other stragglers. These stocks corrected between 5.4%

and 7.7% in dollar terms. Some analysts also attribute the decline to profit booking. After the Nifty hit a near-term low early October, these stocks led the revival of the broadest local indices, helping make India feature on the leader-board globally last quarter.

To be sure, the slide in the rupee against the dollar has rekindled interest in technology stocks. Dollar returns on Infosys, HCL Technologies and TCS are between 5.9% and 11.8% in the year to date. In rupee terms, the returns are even higher. The stock of Axis Bank, which reported a strong quarterly performance, has climbed 10.5% in dollar terms and 13.2% in rupee terms. The biggest Nifty stock Reliance Industries, which has the weighting of 9.51% on the index, gained 9.5% in dollar terms since the beginning of the year.

-Jwalit Vyas & Sailesh Kadam

Performance of 15 FII-heavy stocks

COMPANY	1 Year (% Return)		Jan 1, 19 - Feb 11, 19	
	INR Return	USD Return	INR Return	USD Return
HDFC	16.1	4.9	-3.1	-5.4
HDFC Bank	19.5	8.0	-0.4	-2.9
RIL	37.1	23.9	11.8	9.1
TCS	36.4	23.3	8.6	5.9
Infosys	38.0	24.7	14.6	11.8
Kotak Bank	25.3	13.2	4.3	1.8
ICICI Bank	7.5	-2.9	-3.9	-6.3
Axis Bank	26.5	14.3	13.2	10.5
ITC	3.3	-6.7	-1.9	-4.3
Maruti	-21.1	-28.7	-3.9	-6.3
HUL	34.1	21.2	0.1	-2.3
Indusind Bank	-10.3	-18.9	-5.4	-7.7
HCL Tech	14.7	3.7	11.9	9.1
L&T	-7.7	-16.6	-13.6	-15.7
Bajaj Finance	61.8	46.2	-0.1	-2.6

Source: ETIG database

RETURN OF GLOBAL INDICES (in %)

COUNTRY (Index)	India (NIFTY)	Japan (Nikkei)	Indonesia (IHCI)	Germany (DAX)	France (CAC)	Korea (KOSPI)	South Africa (JALSH)	Malaysia (KLSE)	UK (FTSE)	US (DOW)	Thailand (SET)	China (SHCOMP)	Hong Kong (HSI)	Brazil (IBOV)	Russia (RTSI)
YTD	-2	1	2	3	4	6	6	6	7	8	8	8	9	12	19
1 Year	-7	-6	-10	-18	-10	-12	-17	-4	-8	2	-8	-22	-5	-2	-12
Oct 9 - Till date	12	-12	1	-12	-11	-7	-1	7	-10	-12	-6	-8	-1	-2	-12



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