Business Standard
MUMBAI | TUESDAY, 19 FEBRUARY 2019

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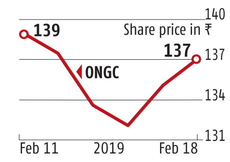
QUICK TAKE: STREET BULLISH ON ONGC



The ONGC stock gained 3.8 per cent after the firm posted better-than-expected third quarter results led by higher crude oil prices, increase in gas sales, and a weak rupee. Brokerages have retained their buy rating on the stock, expecting higher gas production and prices

TSI P11
R&D SPIN-OFF A POSITIVE FOR GLENMARK PHARMA

Sensex falls eighth straight day, longest losing streak in 6 years

Despite a rally in global markets, tension along the border dampened sentiment

SUNDAR SETHURAMAN
Mumbai, 18 February

Despite a rally in global markets, the Indian bourses fell on Monday as cross-border tension between India and Pakistan dampened investor sentiment.

The benchmark Sensex ended with losses for an eight straight trading session—its longest losing streak since August 2013. The strike on India's paramilitary forces last week prompted investors to assess the economic and geopolitical repercussions.

The Sensex ended 310 points, or 0.87 per cent lower at 35,498.44, while the Nifty 50 index fell 0.8 per cent, or 83 points, to 10,641. The India VIX index, an indicator of market volatility, surged 9.4 per cent—most in nearly two months.

Most Asian markets headed north following encouraging economic data from China and optimism that trade talks between the US and China would yield positive results.

"Indian markets fell even as global bourses gained. Typically, gains in global markets rub onto Indian markets as well. Asian markets gained on Monday on the back of positive developments in China trade talks. The selling spree back home has continued, amid foreign outflows, as escalation of tensions at the border has impacted sentiment," said Vinod Nair, head of research, Geojit Financial Services.

LAGGING PEERS
India has hugely underperformed in past eight sessions

ASIA	Change (%)*
Indonesia	–0.76
Japan	1.95
South Korea	0.34
China	5.20
Singapore	2.56
INDIA	**3.99**
EUROPE	
Eurozone	0.94
Britain	0.71
France	1.63
Germany	–0.42
AMERICAS	
United States	1.94
Brazil	3.05

*Since Feb 06 Source: *Bloomberg*

"Volatility in the market will continue due to lack of domestic triggers and investors are likely to remain cautious. Global market stands positive, supported by hope of US-China trade deals," he added.

Foreign portfolio investors (FPIs) pulled out ₹1,240 crore from domestic stocks, while domestic investors bought shares worth ₹2,336 crore. Barring two, all the sectoral indexes ended the session with losses.

China's Shanghai Composite index gained nearly three per cent, while Hong Kong and Japan rose nearly two per cent each. Trade talks between the US and China are set to resume in Washington this week. Last week, representatives of both countries met in Beijing. US President Donald Trump on Friday said that Washington was closer than ever before to having a "real trade deal" with China.

Meanwhile, the benchmark Sensex shed nearly 1,500 points, or four per cent, after eight days of losses. Many shares in the broader market have tumbled this month amid concerns over rising debt, liquidation of pledged shares and weak corporate earnings.

"The sentiment is subdued at the moment because of cross-border tensions," said Andrew Holland, CEO, Avendus Capital Public Markets Alternate Strategies. "The small- and mid-cap stocks have already been under pressure."

The Indian market has under performed most major global markets this month. Since February 6, the Indian markets have declined four per cent even as most Asian, European and US markets have made positive strides following pause in interest rate increase by the US Federal Reserve.

Back home, an unexpected cut in policy rates by the Reserve Bank of India (RBI) failed to lift the fortune of domestic stocks.

Market participants said investors will keenly eye developments at the border, government action and outcome of the US-China trade talks.

"Military escalation along the border with Pakistan will have a negative sentimental impact on the markets. It needs to be seen if the government changes its focus now and cuts down on doles to boost consumer spend," Abhimanyu Sofat, head of research, IIFL Securities told *Bloomberg*.

Reliance Group shares up after pact with lenders

BS REPORTER & BLOOMBERG
Mumbai, 18 February

Shares of Anil Ambani-led Reliance Group companies rallied on Monday after the firm reached an agreement with lenders to not sell any shares pledged by promoters till September.

The pact comes just days after some lenders had dumped pledged shares after a sharp fall in share prices led to a plunge in the value of their collateral. Under the new pact, the Reliance Group will pay principal and interest to the lenders, according to the scheduled due dates specified in the loan agreements, an official spokesperson of the group said.

The group also told lenders it has appointed investment bankers to sell its 30 per cent shareholding in Reliance Power (RPower). Shares of RPower gained the most at 11.3 per cent, followed by Reliance Infrastructure (RInfra), which rallied 10.9 per cent. In intra-day trade, the two stocks had gained as much as 20 per cent. Reliance Capital settled 2.9 per cent higher after advancing as much as 12 per cent on the news.

"We are grateful to our lenders for believing in the intrinsic and fundamental value of our companies, and granting their in-principle approval to standstill arrangements," the group spokesperson said in a statement.

Earlier this month, some creditors sold ₹550 crore worth of shares in the four companies, according to filings. The Reliance Group had termed the sale by firms including Larsen & Toubro (L&T) Finance and Edelweiss Group as "illegal, motivated and wholly unjustified." The pact entered with the Reliance Group comes weeks after a similar agreement between Essel Group and lenders.

Essel Group, a diversified conglomerate with interest ranging from media to packaging, faced a similar struggle in February. Essel signed a pact with lenders to stop credit of its group companies from being classified as in default until September 30. The pact provided the group time to sell stakes in some of its companies, including raising a planned $1.2 billion from sale of part of Zee Entertainment Enterprises, the country's biggest publicly-traded television network.

Reliance Communications (RCom) announced plans earlier this month to file for bankruptcy, adding to a litany of woes for the Ambani-controlled business group.

Anil Ambani

TOPSY TURVY

Name	Feb 18, 2019	% Chg*	% Chg**
Reliance Power	11.35	–56.93	11.27
Reliance Comm	6.10	–47.41	10.91
Reliance Infrastructure	123.40	–53.77	7.40
Reliance Home Fin	25.45	–26.34	6.71
Reliance Naval & Engg	9.00	–23.73	5.26
Reliance Capital	152.80	–19.22	2.86
Reliance Nippon Life Ass Mang	155.25	14.32	2.64

* Change over Feb 01, 2019; ** Change over previous day
Compiled by *BS* Research Bureau

THE COMPASS

Voltas misses Street estimates on slack sales of cooling products

But projects segment continues to do well, pushing up overall sales in the third quarter

UJJVAL JAUHARI

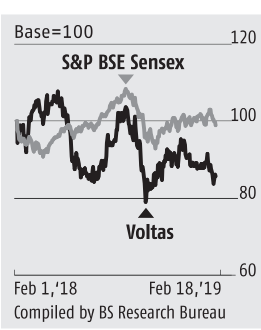
The sales of Voltas' unitary cooling products, especially air conditioners (ACs), continued to disappoint, resulting in the company missing estimates in the December quarter (Q3).

With the weather conditions remaining pleasant and the sales of ACs not picking up during the first half of FY19, high-channel inventories impacted its sales in the December quarter, too, say analysts. The segment, which contributes more than a third to the overall sales, saw revenues decline by about three per cent year-on-year (YoY) in Q3, albeit on a high base.

The projects segment (electro-mechanical projects and services), which contributed more than half the sales, compensated by reporting a 16 per cent growth.

This helped Voltas report a year-on-year increase of 8.5 per cent in overall revenues.

With cooling products' revenues suffering, rising costs and rupee depreciation meant segmental margins were down 450 basis point (bps) YoY to 8.5 per cent. Thus, overall operating profit at ₹116 crore was down by three per cent YoY. Net profit at ₹80.9 crore also declined 19.4 per cent YoY and came much lower than ₹98.7 crore indicated by *Bloomberg* estimates.



Compiled by BS Research Bureau

While recovery in AC sales is being looked at with optimism, Voltas has maintained its leadership position in the room AC segment. Voltas has also received positive response to new products launched under its joint venture with Arcelik, say analysts.

The company is launching white goods under the joint venture. With long-term demand drivers in place, Arafat Saiyed of Reliance Securities believes the Voltas-Arcelik JV is set to garner a sizable market share over time. Thus, a recovery in sales of air conditioners over the next three months, with the onset of the summer season, remains the key for sentiment to improve.

The projects segment is growing owing to efficient execution in both domestic and international markets. The favourable mix of orders also meant that the project segment's margins grew 80 bps YoY in Q3.

The outstanding order book for projects has improved three per cent YoY to ₹5,000 crore as of end December 2018. Not surprising then, the stock of Voltas is up 1.5 per cent post results.

Analysts at JM Financial, who have maintained a positive rating, believe growth in room ACs will kick-start in FY20 and margins will remain in the 11-12 per cent range.

Concerns over PFC's acquisition of REC may finally end

Expected high cost of funds to be offset by dividend income, say analysts

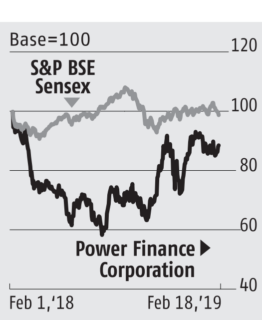
SHREEPAD S AUTE

With Power Finance Corporation (PFC) acquiring the government's entire stake of 52.85 per cent in REC, many investors were worried.

The concerns were over the capital position of PFC, which would weigh on its loan book growth and profitability.

But, it seems, the Street is now getting convinced about the deal. "After clarification on the deal, we believe PFC would be able to meet the regulatory requirements on capital ratio," said Deepak Kumar, analyst at Narnolia Financial Advisors. The company management, too, is confident of sustaining the momentum.

In the December 2018 quarter (Q3), PFC posted a 34 per cent year-on-year (YoY) rise in disbursement and its loan book rose by about 14 per cent. This also propelled its top line, with net interest income growing 27.8 per cent YoY to ₹2,435 crore.



Compiled by BS Research Bureau

Another aspect that worried investors was a likely rise in funding cost as the acquisition would partly be funded through debt. However, "We will make sure that the debt funding does not lead to a significant rise in the cost of funds," said NB Gupta, director-finance at PFC.

Even in Q3, with use of low-cost financing such as 54 EC bonds, PFC was able to lower its cost of funds from 8.3 per cent in December 2017 to 8 per cent in Q3. This, in turn, helped keep net interest margin at 3.4 per cent levels in Q3, albeit marginally lower than the year-ago quarter. "Though there would be some impact on the cost of funds, expected dividend income from REC would offset the same at the bottom line," Kumar adds. Though the equity-debt mix is not known, rough calculations suggest that PFC's investment to acquire REC would yield about 6.7 per cent. This is assuming total cost of ₹15,000 crore for 104.37 crore shares and annual dividend receipt per share of ₹9.5.

Meanwhile, faster resolution of stressed cases where PFC and REC have jointly lent, should also help. In Q3, PFC saw ₹319 crore reversal in provisions due to upgradation of non-performing assets (NPAs), pushing up its net profit by 71 per cent YoY to ₹2,076 crore.

63 moons to file lawsuits worth ₹10,000 crore against Chidambaram, 2 others in NSEL case

VEENA MANI
New Delhi, 18 February

63 moons technologies on Monday said it had served former finance minister P Chidambaram and two bureaucrats legal notices and would file ₹10,000-crore damage suits against them in the ₹5,600-crore National Spot Exchange (NSEL) case.

The company has alleged three of them destroyed the exchange ecosystem to favour its competitors, resulting in huge losses for its shareholders.

The two bureaucrats concerned are Ramesh Abhishek, former chief of the Forward Markets Commission (FMC), and K P Krishnan, a former finance ministry official.

Abhishek is now secretary, Department for Promotion of Industry and Internal Trade, and Krishnan is secretary at the Ministry of Skill Development and Entrepreneurship.

The company alleged Chidambaram and others had taken "unnecessary action against 63 moons".

"Despite the fact that there is no money trail traced to the NSEL, 63 moons and its founders were investigated by several agencies. As a result, a damage of ₹10,000 crore was caused to the company," said 63 moons in a press statement.

Chidambaram and Krishnan refused to comment on this. A query sent to Abhishek got no reply.

The company said it had already filed a criminal complaint with the Central Bureau of Investigation and submitted all the supporting documents

The company said it had filed a criminal complaint with the Central Bureau of Investigation (CBI) and submitted supporting documents.

At a press conference on Monday, 63 moons founder Jignesh Shah alleged that markets regulator Securities and Exchange Board of India (Sebi) had not acted upon the evidence various investigative agencies gave it. Putting the blame on brokers, Shah said the crisis could have been resolved if the regulator took brokers to task.

Citing a Serious Fraud Investigation Office (SFIO) report, the company said it had found 148 brokers were responsible for the scam and the regulators should look into their role.

The SFIO has noted the NSEL had lured many companies into joining the spot exchange when their financial position was known.

The investigative agency said certain companies joined "for the sole purpose of arranging finances without much hassle".

It has noted the NSEL had not accounted for the money received by trading, which violated income-tax provisions.

Shah said anyone responsible should be punished and not he alone.

The SFIO has noted in many cases bank reference letters have not been provided.

Shah said ₹600 crore had been paid.

Infy settles severance payout case with Sebi

SHRIMI CHOUDHARY
New Delhi, 18 February

The Securities and Exchange Board of India (Sebi) has accepted Infosys' consent plea and settled the charges of disclosure lapses pertaining to the severance package paid to the company's former chief financial officer (CFO) Rajiv Bansal.

According to a Sebi order passed on February 15, the IT major has paid ₹34.35 lakh to the regulator under the settlement proceedings regulation.

The matter pertains to the ₹173.8 million severance offer given to Bansal in October 2015 when he was allegedly forced to step down due to differences with then chief executive Vishal Sikka over the acquisition of Israeli technology firm Panaya for $200 million. Following this settlement, the regulator has disposed of the "proposed adjudication proceedings in respect of the applicant for the defaults". Enforcement actions, including restoring or initiating the proceedings, could be initiated if any representation made by them is found to be untrue, the Sebi order said.

The company in its meeting with the regulator's internal committee in February 2018 had proposed to pay ₹34.35 lakh towards settlement charges. The amount was approved by the panel of whole-time members of Sebi, the order noted. The regulator had initiated the adjudication proceeding against the technology major in 2017. The company filed a consent application subsequently after a Sebi show-cause notice was issued.

During Sebi's examination of the Infosys scrip, issues pertaining to severance payment to Bansal was also looked into. Bansal resigned from the company on October 11, 2015, according to the order. During the examination, prima facie, it was found that the severance payment was made without the prior approval of the audit committee. Even the nomination and remuneration committees were not consulted. These were found to be in violation of the various listing norms. While questions were raised about the company's disclosure norms, Infosys founder NR Narayana Murthy sought removal of R Seshasayee as chairman over governance issues.

The public spat led to Sikka and Seshasayee quitting Infosys in August 2017 and co-founder Nandan Nilekani returning to take charge till things normalised. With the consent plea, Infosys is looking to put an end to a two-year saga that saw a major management and board churn.

The deal with Bansal had turned controversial, setting off speculation that there could be wrongdoing in the Panaya acquisition. An anonymous whistleblower had written to the Infosys board and market regulators calling for an investigation into the deal.