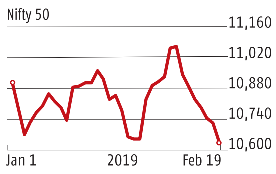
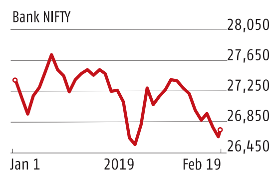
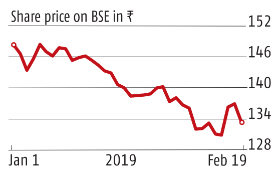
TODAY'S PICKS



Nifty
Current: **10,604 (fut 10,615)**
Target: **NA**
Stop long positions at 10,525.
Stop short positions at 10,685.
Big moves 10,490, 10,735. A long 10500p (71), short 10400p (48) could gain 10–15 if the index tests 10,525.

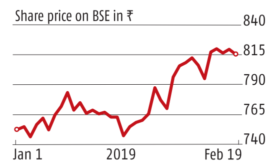
Bank Nifty
Current: **26,685 (fut: 26,709)**
Target: **NA**
Stop long positions at 26,550.
Stop short positions at 26,850.
Big moves 27,050, 26,350. Trend still negative.

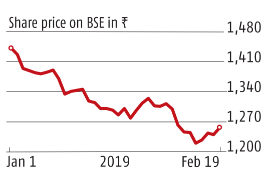




NTPC
Current price: **₹134**
Target price: **₹130**
Keep a stop at ₹136 and go short. Add to the position between ₹131 and ₹132. Book profits at ₹130.

UPL
Current price: **₹817**
Target price: **₹824**
Keep a stop at ₹813 and go long. Add to the position between ₹822 and ₹823. Book profits at ₹824.





Larsen & Toubro
Current price: **₹1,264**
Target price: **₹1,282**
Keep a stop at ₹1255 and go long. Add to the position between ₹1275and ₹1280. Book profits at ₹1282.

DEVANGSHU DATTA

Target prices, projected movements in terms of next session, unless otherwise stated

Multiple concerns make a dent in State Bank stock

Farm loan waiver, exposure to IL&FS and other stress pools may impact growth target

SHREEPAD S AUTE
Mumbai, 19 February

Despite overall progress in terms of asset quality and profit in the December quarter (Q3), investors have been lukewarm to the shares of State Bank of India.

The stock fell 10.5 per cent from February 1, after the bank's Q3 results. It also under performed the Nifty Bank index that fell 2.3 per cent during the same period.

Despite the improvement shown in the last two consecutive quarters, investors are seeking consistent performance.

The bank's management, on its part, is confident about softening of bad loan or non-performing asset (NPA) with the recovery of ₹34,000 crore from eight accounts in the coming months. It foresees below 7 per cent gross NPAs and below 3 per cent net NPAs by March 2019 from about 9 per cent and 4 per cent as of December 2018, respectively. But, some accounts could take the sheen off and may also impact the bank's near-term growth.

Analysts at Macquarie indicated that they are not confident of SBI's ability to achieve aggressive asset quality guidance since the bank is yet to see the full impact of its farm loan waiver, exposure to DHFL and those related to IL&FS special purpose vehicles (SPVs).

With farm loan waivers announced by many state governments recently, the Street is worried about the asset quality pressure of SBI given its large agriculture portfolio. As on December 2018, SBI's agricultural loan book was over 18 per cent of the entire banking sector's exposure to the agricultural (including allied activities) sector. Also, agriculture accounted for 10-12 per cent to SBI's overall gross NPAs at least from the June 2017 quarter.

As seen in the past, though agriculture loans are not a cause of stress for banks, they could face temporary asset quality pressures with an expected delay in reimbursement of loan amount by governments, said G Chokkalingam, founder & managing director, Equinomics Research & Advisory.

Although during its Q3 earnings, the bank had said its agricultural NPAs will remain in the range of 9-11 per cent, the jury is out on this.

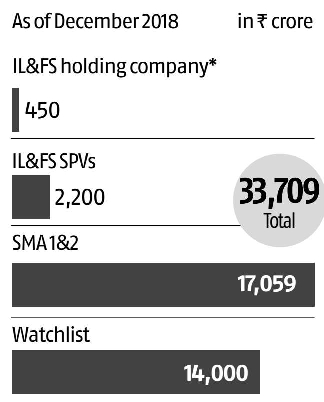
Further, SBI has about ₹11,000 crore exposure to Dewan Housing Finance (DHFL) and ₹2,200 crore to IL&FS SPVs. Both these accounts were standard in the bank's book at least till December 2018 quarter. But issues at DHFL and some IL&FS SPVs have been recognised as NPAs by other lenders and are thus worrying. CRISIL also recently downgraded some IL&FS SPVs to default. Although the relief is that the SPVs are functional and have cash available with them, they stopped paying given the legal restrictions.

SBI's spokesperson declined to comment on individual accounts.

Further, SBI has over ₹31,000 crore of the potential stressed pool (watch list and SMA 1 & 2) as of December 2018. All the above-mentioned factors could take a toll on capital adequacy and growth of the bank in the near term.

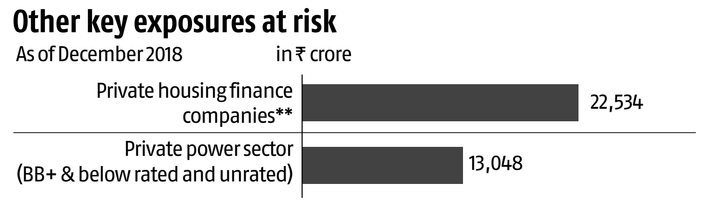
Barring DHFL and expected NPAs from its agriculture book, other potential sources of stress could amount to over 22 per cent of SBI's net worth adjusted for net NPAs as of December 2018. Its tier-1 capital and total capital adequacy stood at 10.54 per cent and 12.77 per cent, respectively. Also, slower growth of deposits is another challenge for the entire banking sector.

PRESSURE ON GROWTH CAPITAL



Figures in ₹ crore as of December 2018,
* Of ₹900 crore total exposure, 50% has been provided, Adjusted net worth is net worth minus net NPAs, Source: Bank

Other key exposures at risk



**other than backed by large private sector institutions, Power sector has 50% provision coverage, Source: Bank

Emami up 13% over share divestment

SAMIE MODAK
Mumbai, 19 February

Investors have cheered the move by Emami promoters to divest their shareholding in the company to reduce debt and keep share pledging in check. Following the move, shares of Emami gained nearly 13 per cent on Tuesday to close at ₹407.5.

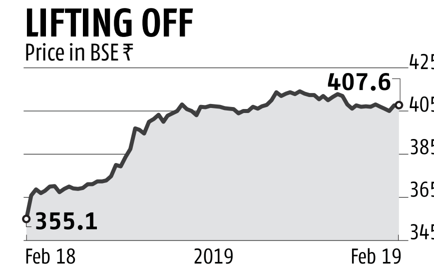
On Monday, the promoters – the Agarwal and Goenka families – of the consumer goods company announced that they have sold 10 per cent stake in Emami for ₹1,600 crore. The move was to pare the debt of other group companies such as Emami Cement and Emami Power. While the move resulted in a drop in promoter holding in the Kolkata-based company from 72.74 per cent to 62.74 per cent, it would also help in bringing promoter shares pledged with lenders.

"The stake sale proceeds will reduce promoter debt which was used in creation of assets like cement and solar power," the company said in a statement.

The share sale took place on the stock exchange platform and SBI Mutual Fund, Premji Invest, Amundi, IDFC and L&T Mutual Fund were among the buyers, the company added.

The move gains significance in the light of the recent developments in companies belonging to the Essel Group and Anil Ambani-led Reliance Group. The promoters in the two groups had availed loan by pledging shares of listed companies.

LIFTING OFF



Compiled by bS Research Bureau Source:Bloomberg

Investing in MFs? Avoid these common mistakes

Take a calculated risk of topping SIP investments in a bear market

SARBAJEET K SEN

Reports suggest that inflows into equity mutual funds, which saw huge investor interest during the past few years due to rising stock indices, have fallen for the third straight month in January 2019. Equity fund inflows, including tax-saving funds, stood at a two-year low of ₹ 6,158 crore in January.

While volatility and the relentless dip in indices may be unnerving for the ordinary investor, stopping the systematic investment plan (SIP) in a knee-jerk reaction isn't the best idea.

Stopping SIPs: "Volatility is an inherent feature of the equity market, but as an asset class, it beats others and inflation by a wide margin over the long term. Those with existing SIPs should continue with them as that would average their investment cost and help them reap higher returns over the long term," says Naveen Kukreja, CEO & Co-founder, Paisabazaar.com.

In fact, equity mutual fund investors should exploit such opportunities by topping up their existing SIPs with fresh lumpsum investments in a staggered manner. "Historically, equity fund investments made during bear markets have registered disproportionately higher returns than those made during bull markets. Hence, investors should make the most out of the bear market phases by raising investments," says Kukreja.

Kaustubh Belapurkar, director, fund research, Morningstar agrees. "Market downturns are always a good opportunity for investors to top up their investments, especially if they are under-allocated to long-term investment classes like equities and equity mutual funds. Investors should use these opportunities quite actively as this will pay off handsomely in the long run," he said.

Getting flustered by short-term movements: If you are one of those equity mutual fund investors who gets unnerved by short-term volatility, you are committing a mistake. To make the most of your equity mutual fund investments, you should have the patience and strength to ride out short-term volatility. "Focusing on short-term performance, rather than looking at longer-term returns is a common mistake investors commit during bear phases of the market. It is also not wise to redeem the equity investments, which are meant for the long term," says Belapurkar.

Timing the market: The equity market is full of uncertainty and risk. Even the most seasoned investors would find it tough to catch the bottom or predict the top. If you are trying to time the market for entry or exit, the chances are that you would more often than not be caught on the wrong foot. "Investors should not try and time the market. You could be caught on the wrong foot," says Vijay Kuppa, co-founder, Orowealth. Thus, if you pull out money and the market suddenly picks momentum, you would lose the opportunity to make gains. Hence a systematic approach towards investing is the best way to create wealth.

Messing with asset allocation: Investment experts say investors should avoid the mistake of panicking in situations where the fund portfolio value continues to shrink on account of sliding stock market and shift their investment into safe instruments with low returns. "Market downturns are always a good time for investors to relook at their portfolios and rebalance the portfolios to match their desired asset allocation as per their risk-return objectives. However, one should not move all investment into risk-free assets in a hurry. There is no need to get excessively defensive or aggressive at such time. Keep your ideal asset allocation in mind and stick by it," Belapurkar says.

Kuppa advises review and rebalance of the portfolio. "Rebalancing is important. It is important to get the asset allocation right. Many investors would have allocated exposure to mid- and small-cap funds based on the recent performance of these categories and without taking into account the risk profile. The rebalancing can be done based on one's overall investment objective and time horizon," says Kuppa.

HOW SIPs WORK

An investor does an SIP of ₹10,000 each month for seven months in an equity fund. Due to rupee-cost averaging, the investor after seven months would have accumulated 706 units (investment = ₹70,000). A person investing a lumpsum of ₹70,000 in February would get 700 units.

No. of SIPs	Month	Fund NAV	No. of units (amount invested/NAV)
1	August	100	100
2	September	105	95.23
3	October	90	111.11
4	November	110	90.9
5	December	98	102
6	January	93	107.52
7	February	100	100
	Total	**696**	**706.76**

Source: Industry

COMMODITIES

PRICE CARD

As on Feb 19	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,822.5	-5.0	2,088.0	-6.5
Copper	6,269.5	0.2	6,600.3	-1.3
Zinc	2,632.0	-2.2	3,012.9	-4.5
Gold ($/ounce)	1,329.7*	8.6	1,462.5	9.0
Silver ($/ounce)	15.8*	9.7	17.5	9.6
ENERGY				
Crude Oil ($/bbl)	65.9*	-0.7	66.7	1.2
Natural Gas ($/mmBtu)	2.6*	-44.3	2.6	-44.2
AGRI COMMODITIES ($/tonne)				
Wheat	213.9	-0.8	297.8	3.3
Sugar	356.9*	3.8	473.1	3.8
Palm oil	557.5	19.9	894.3	4.9
Rubber	1,733.2*	46.8	1,751.7	4.6
Cotton	1,561.5	-6.7	1,656.9	-8.4

* As on Feb 19, 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.4& 1 Ounce = 31.1032316 grams.

Notes:
1) International metals, Indian basket crude, Malaysia Palm oil, Wheat LIFFE and Coffee Karnataka robusta pertains to previous days price.
2) International metal are LME Spot prices and domestic metal are Mumbai local spot prices except for Steel.
3) International Crude oil is Brent crude and Domestic Crude oil is Indian basket.
4) International Natural gas is Nymex near month future & domestic natural gas is MCX near month futures.
5) International Wheat, White sugar & Coffee Robusta are LIFF E future prices of near month contract.
6) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
7) Domestic Wheat & Maize are NCDEX future prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
8) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
9) International cotton is Cotton no.2-NYBOT near month future & domestic cotton is MCX Future prices near month futures.
Source: Bloomberg Compiled by BS Research Bureau

Iron ore output may hit record 225 mt in FY20

JAYAJIT DASH
Bhubaneswar, 19 February

Iron ore production in the country is projected to touch a record high of 225 million tonnes (mt) in 2019-20 as merchant miners look to ramp up the output at their mines headed for expiry by March 31, 2020. The output is estimated at 210 mt this financial year ending in March.

ICRA expects in the largest ore producing state, Odisha, the output could rise by 10 per cent as 17 mines' lease held by merchant producers would lapse by March 2020. Together, these mines have an approved capacity to mine 66 mt of iron ore. Major mines in the state, lease validity of which ends by then, are under Rungta Mines, KJS Ahluwalia, Serajuddin & Company, Kaypee Enterprises, Kalinga Mining Corporation, Mid East Integrated Steel Ltd, KN Ram, RB Das, Tarini Prasad Mohanty, KC Pradhan, and Lal Traders.

"Our assessment is that iron ore production will reach 225 million tonnes in FY20. The spike in production will come majorly from Odisha where the output is estimated at 112 million tonnes in FY19, climbing to around 125 million tonnes in FY20. Production in Odisha will rise significantly, with merchant miners looking to maximise output as their leases are nearing the March 2020 deadline," said Jayanta Roy, senior vice-president and group head, corporate sector ratings, ICRA Ltd.

Iron ore production has been on an upswing since 2015-16, touching 155 mt, recovering from the multi-year low of 126 mt in 2014-15 as regulatory issues and court (banning illegal mines) orders slowed production. The ore output rose to 191 mt in FY17, and was in upwards of 200 mt in FY18 with Odisha contributing 100 mt to the pan-India output.

"Rising production trend can be gauged from the performance of merchant miners in Odisha. Such mines are now operating at 85-90 per cent of the capacity approved under environment clearance (EC). Some of the leading merchant miners have applied for a hike in EC limits to scale up production," said an industry source.

Other key producing states like Karnataka are unlikely to add up to the iron ore production numbers. Industry analysts assume NMDC's Donimalai mines may remain suspended in FY20 as well, knocking off 6 mt from the state's annual output. The largest iron ore miner is sparring with the Karnataka government on some commercial terms.

Production, though, is expected to be offset by the expected start in operations of JSW's captive mines in the next financial year. On Goa, analysts are not betting on revival after the Supreme Court, in a sweeping order in March 2018, scrapped operations in 88 mining leases. But the enhanced production in Odisha will more than recompense Goa's loss. On Karnataka, Roy said, "We foresee a production of 33 mt this fiscal as compared to the Supreme Court ceiling of 35 mt. FY20 output in Karnataka would see a shrinkage in production by almost 4 mt if that NMDC's Donimalai mines remain shut.

More on business-standard.com

TOTAL PRODUCTION IN INDIA

(in mn tonnes)

Year	Units
FY11	205.0
FY12	168.6
FY13	136.6
FY14	152.2
FY15	129.3
FY16	155.9
FY17	194.6
FY18	201.0
FY19E	210.0
FY20E	225.0

E=Estimated, Source: IBM, ICRA Research.

Wholesale sugar price 4% over MSP, stocks rally

VIRENDRA SINGH RAWAT
Lucknow, 19 February

The stocks of domestic sugar companies rallied on Tuesday in anticipation of improved margins and easing arrears amid reports that the ₹2 per kg hike in the minimum selling price (MSP) would add 3-4 per cent to the firms' operating margins.

The price of sugar in the wholesale market in Mumbai, too, jumped to ₹3,229 per quintal on Tuesday from ₹3,215 per quintal a day earlier, and was quoted at 4 per cent premium to the MSP. Such a high premium was never seen before since the announcement of an MSP for sugar in June last year. Trade sources credited the ongoing wedding season and a rise in demand from ice-cream and cola makers ahead of the summer for the jump in sugar price.

The rally in sugar stocks came less than a week after the Centre announced a 7 per cent hike in the MSP of sugar from ₹29 per kg to ₹31 per kg last Thursday. The improved realisation sugar sale is projected to cut losses of mills accumulated over excess supply and tepid exports.

Among top sugar stock gainers on the bourses were Dhampur Sugar (+9.3 per cent on the BSE), Bajaj Hindusthan (+5.2 per cent), Dalmia Bharat (+3.4 per cent), and Balrampur Chini (+3.8 per cent). The benchmark Sensex and the Nifty closed 0.4 per cent and 0.34 per cent lower, respectively.

According to CRISIL Ratings, operating margins of millers could improve by 300-400 basis points (bps) in the current sugar season (October 2018 to September 2019) following the increase in the MSP, which might lead to incremental domestic sales realisation of ₹3,300 crore; higher export prices would generate another ₹200 crore. All these would help mills pare their accumulated cane arrears, which stand stoutly at more than ₹20,000 crore, by almost 18 per cent to ₹16,500 crore. UP mills alone account for half of the outstanding.

The price of sugar in the wholesale market in Mumbai jumped to ₹3,229 per quintal on Tuesday from ₹3,215 per quintal a day earlier

The report mentioned that the raw material cost as a proportion of sugar sales had increased to nearly 90 per cent in the current season following an uptick in the sugarcane fair and remunerative price (FRP) and low sugar prices due to oversupply, both locally and globally.

With inputs from Dilip Kumar Jha

80,000 farmers, tribals to march to Mumbai

DILIP KUMAR JHA
Mumbai, 19 February

As many as 80,000 tribals and farmers in Maharashtra are set to take out an eight-day march from Nashik to Mumbai on Wednesday to press for their demands, including regular work under the MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) and compensation for crop damage due to drought.

The farmers and tribals will begin their rally from Mumbai Naka in central Nashik and are slated to reach Mumbai on February 27. According to police in Nashik, so far 25,000 farmers from across the state have gathered for the rally.

A similar protest march was organised in March last year and it had ended with the state government promising 50 per cent higher returns on farm commodities than the cost of production and a loan waiver.

"Half of Maharashtra is facing drought this year. To resolve farmer issues, we have listed five immediate demands: Regular work under the MGNREGA, cattle camps to look after animals, compensation of crop damaged in the drought, payment of school and tuition fees of the children of aggrieved farmer and provision of adequate drinking water," said Ashok Dhawale, president, All India Kisan Sabha (AIKS), which is organising the march.

The farmers are also demanding regularisation of their landholding.