Business Standard
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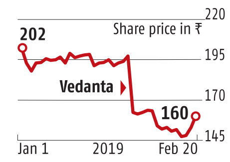
The Smart Investor

**QUICK TAKE:** RESPITE FOR VEDANTA




Vedanta was the largest gainer among the Sensex stocks on Wednesday, as CRISIL reaffirmed its ratings. Going ahead, however, Vedanta's prospects and stock performance will hinge on the outcome of the trade war, which is keeping base metal prices volatile

TSI P11
VARUN BEVERAGES RISES 3%, SECTORAL INDEX FALLS 1.41%

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# IPOs show no indication of capex revival

## Fresh issue component in total fund below 20% for second year in a row

SUNDAR SETHURAMAN
Mumbai, 20 February

A turn in the capex cycle may not be around the corner if primary market activity is any indication.

Fresh capital through initial public offerings (IPOs), typically used to fund expansion and capex, continues to remain sluggish.

For the second financial year in a row, fresh equity issuances have accounted for less than a fifth of the total IPOs.

While the fresh issue portion of IPOs has been going down over the years, this financial year has been abysmally low at only ₹2,663 crore, 82 per cent lower compared to the last financial year.

In fact, new companies have spent more on IPO-related expense this year than they have on actual capital expenditure.

In addition, a bulk of the fresh proceeds have gone towards repayment of debt. The situation has deteriorated compared to the last year, when companies had spent a decent amount on new projects and financial companies towards augmenting their capital base.

Investment bankers said emergence of private equity (PE)-backed companies is one of the reasons for less fresh capital. Most of the companies that got listed in the past few years are not from capital-intensive sectors, they said.

"Except banking, financial services and insurance (BFSI) companies most of the IPOs that happened in the last few years are not from the capital-intensive sectors. There were decidedly fewer companies from infrastructure, power and industrials sectors. Most of the IPOs are happening in PE-investment companies where the investors want to exit. They have invested in four-five years, and capital markets are their exit route," said Ajay Saraf, executive director of ICICI Securities.

Bankers said the capex trend may not adequately reflect through IPOs, given that they are no longer the first resort for companies that seek more funds.

Companies are increasingly looking at PE and venture capital funds for these needs, they added.

This has led to a steep decrease in fresh capital through IPOs. Seven-eight years back, much of the funds raised through IPOs were on account of fresh issuance and have since come down gradually, according to bankers.


Illustration: AJAY MOHANTY

Industry experts said that considerations for listing were no longer capital raising.

"If a business does not need fresh capital and the existing shareholders — whether it is promoters or PE shareholders — need monetization, they may prefer to list the company through offer for sale without any primary issuances. In the past couple of years there have been many instances where companies have been listed without any fresh equity being raised," said Nipun Goel, president, investment banking, IIFL Holdings.

Experts said once existing capacities are put to use, only then will there be impetus for further capex.

"Many companies have built capacities over a period of time because of which the balance sheets are reflecting debt-equity mismatch. Ideally, the money should come from equity but because the equity markets were not available at that point of time they used debt. The current fund raising is to correct the imbalance.

"Secondly, because companies are building capacity at a slower pace, they are making secondary sales to allow investors to exit. This trend may continue for some time till the capex cycle picks up," said Munish Aggarwal, director, capital markets, Equirus.

While the initial public offering pipeline for next financial year looks healthy, the fresh issue component may continue to be lower.

The markets are still one or two years away from fund raising for the propose of capex, according to the market experts.

### NO GREEN SHOOTS
(in ₹crore)
Fresh components in IPOs have been consistently coming down

| | Capital raised through IPOs | | |
|---|---|---|---|
| | Total | Fresh | Fresh as % of total |
| 2015–16 | 14,500 | 6,805 | 47 |
| 2016–17 | 28,225 | 10,187 | 36 |
| 2017–18 | 81,553 | 15,010 | 18 |
| 2018–19* | 14,032 | 2,663 | 19 |

### PUTTING MONEY TO USE
Hardly any money has been spent on capex this fiscal

| | 2015–16 | 2016–17 | 2017–18 | 2018–19 |
|---|---|---|---|---|
| Acquisition | 25 | 172 | 372 | – |
| New projects | 601 | – | 2,866 | – |
| Expansion | 181 | 218 | 74 | – |
| Plant & machinery | 146 | 85 | 264 | – |
| Building & civil work | 489 | 28 | 165 | – |
| Office equipment | 67 | 367 | 11 | – |
| Capital expenditure | 35 | – | 171 | 10 |
| Marketing | 111 | – | 132 | – |
| R&D | 42 | – | 45 | – |
| Investments | 610 | 2 | 450 | – |
| Debt repayment | 3,013 | 2,783 | 2,724 | 720 |
| Augment capital base | – | 4,376 | 6,817 | 1,614 |
| Working capital | 335 | 625 | 851 | 6 |
| General corporate purposes | 737 | 1,093 | 1,459 | 200 |
| Issue expenses | 658 | 898 | 1,487 | 359 |

Source: Prime Database; *Till January

# Axis chief targets threefold growth in AUM

NIKHAT HETAVKAR & ABHIJIT LELE
Mumbai, 20 February

Axis Bank's new Chief Executive Officer Amitabh Chaudhry wants a three-fold growth in the assets under management (AUM) of the mutual fund arm in the near future. Axis Asset Management, which had an average AUM worth ₹81,622 crore as of December 2018, wants to scale it up to ₹2.5 trillion, he said. The bank has set a timeline of three to four years for this growth.

"The bank's MF business, in terms of AUM, is ranked ninth. In this business you won't make much money unless you are in the top five, especially after the changes introduced by Sebi (Securities and Exchange Board of India)," he said. Chaudhry wants the growth to happen in a sustainable manner.

Industry leaders HDFC Mutual Fund and ICICI Prudential Mutual Fund had AUMs worth ₹3.35 trillion and ₹3.08 trillion, respectively.

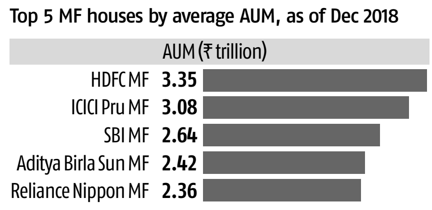
In September, Sebi had lowered the ceiling on total expense ratio charged by a fund house. This would result in lower income for fund companies.

Chaudhry joined Axis Bank last month. He has plans of growing Axis Asset Management as well as its broking arm, Axis Direct.

Axis AMC will expand its product range and leverage the parent bank's distribution channel to improve sales and target better customer segments. Chaudhry said every subsidiary of the bank had its own three-year operating plan.

Axis AMC is a joint venture between the bank and the Schroders group. Axis Bank has the major stake of 74.99 per cent, while Schroders' stake is 25 per cent. It posted net profit of ₹43.01 crore on a total revenue of ₹752.51 crore in 2017-18. In the previous year (2016-17), its net profit was ₹56.95 crore on a total revenue of ₹530.97 crore.

### HOW THEY STACK UP
Top 5 MF houses by average AUM, as of Dec 2018



Source: AMFI quarterly newsletter

*"Unless you are in the top three or four, the kind of profit you get is limited since you get a slightly lower quality of customers."*
AMITABH CHAUDHRY, CEO of Axis Bank

"The performance of the funds is very good, but profitability needs to improve," said Chaudhry.

He said the AMC was focused on the performance of the funds, and was now becoming more focused on being aggressive.

The AMC will provide a full suite of products, by expanding its equity offerings, and plans to set up an alternative investment fund. It is also working on a strategy to add debt products by leveraging the bank's wholesale banking relations. While the company might not be able to catch up with the top players, it plans to be in the top five or six, at least on an incremental basis.

"Unless you are in the top three or four, the kind of profit you get is limited since you get a slightly lower quality of customers. They will put a slightly lower volume of transactions through you, so your profitability suffers," said Chaudhry.

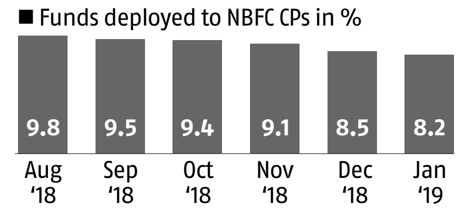
# NBFCs feel the pinch as fund houses curb risks

Even as more than a third of mutual funds' (MFs) debt assets under management (AUM) are exposed to non-banking financial companies (NBFCs), fund managers are curbing fresh flows to commercial papers (CPs) of NBFCs to avoid taking undue risks amid tight liquidity. According to Sebi data, the share of funds deployed to CPs of NBFCs slipped to 8.2 per cent in January. From close to 10 per cent in August — before the IL&FS crisis — the drop has been meaningful. The January number is the lowest for the past six months. Analysts say MFs' funding towards NBFCs is likely to remain muted.

"With new pressure points like loans against shares and corporate governance questions on some housing finance companies (HFCs), risk-aversion by MFs in funding NBFCs/HFCs should continue," said Nomura analysts in a note. The analysts pointed out that MFs' exposure to NBFCs and HFCs declined from the peak of 42 per cent of the debt AUM in September last year to 35 per cent in January this year.

JASH KRIPLANI

### PLAYING IT SAFE
■ Funds deployed to NBFC CPs in %



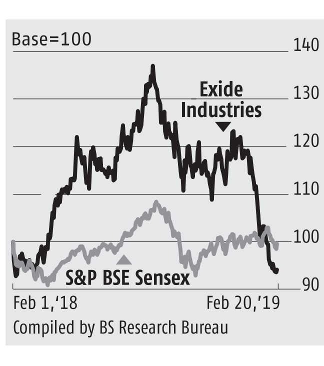
Source: Securities and Exchange Board of India

## THE COMPASS

# Auto slowdown, margin woes cloud Exide outlook

## Analysts estimate industry growth will fall to 6% in FY21 from 10% in FY20

RAM PRASAD SAHU



Compiled by BS Research Bureau

The Exide Industries stock is down 16 per cent over the last month on weaker-than-expected December quarter results, competitive pressure, and a weak auto outlook. One of the Street's concerns is the ability of the company to improve its operating profit margins, which came in at 12.5 per cent for the December quarter. While this was higher than the 12.4 per cent recorded in the year-ago period, it was lower than the 13.3 per cent estimated by analysts.

Despite lower lead costs and cost-cutting efforts that helped the firm achieve its highest gross margins in the last six quarters, the same did not trickle down to the operating profit margin. The reason for the same is the slowdown in sales of auto makers, which led to falling operating leverage and, as a result, lower margins for Exide.

Given the slight increase in lead prices over the last month, the ability of the company to maintain margins will depend on the extent of hikes it takes.

Among other reasons for the pressure on the stock is growth of the automotive replacement battery segment. While growth in the business is steady, the weak volume trends across various auto segments could rub off on Exide's replacement business.

Analysts at Nomura expect industry growth to slow down from 10 per cent in FY20 to 6 per cent in FY21. They, however, believe the company will grow at 8-10 per cent over the next two years, given market share gains from the unorganised segment.

The company is also expected to face competitive pressures from rival Amara Raja, which is increasing its four-wheeler capacity by 35 per cent over the next two years.

In the industrial segment, too, there are challenges, especially the back-up segment that accounts for half of the segment's revenues.

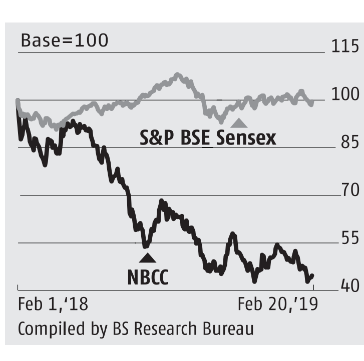
Given that the power situation continues to improve and the government is looking at uninterrupted supply with penalties for distributors, this segment could see a structural downtrend for Exide.

There are, however, opportunities in the solar battery and e-rickshaw segment that could offset some of the volume pressures in the power back-up business.

# Muted profitability a major concern for NBCC stock

## While markets have factored in the company's struggles, valuation is not expensive

UJJVAL JAUHARI



Compiled by BS Research Bureau

The 29-per-cent revenue growth by NBCC during the December quarter has not impressed the Street, given the stock continues to trade near its 52-week lows. Revenue growth in the quarter was led by its largest project management and consultancy (PMC) services segment, which reported a strong growth of 33.5 per cent. However, operating performance disappointed.

Margins for PMC segments continue to be impacted by the Ind-AS 115 accounting change. Fees pertaining to design and preparatory work for PMC projects are accounted for during the execution of projects, and not upfront, as was case earlier. Its subsidiaries further pulled down operating profits, which declined 16 per cent year-on-year, and margins slid 160 basis points to 2.9 per cent.

The declining margin trajectory of the firm is one reason for caution. However, the company's order backlog of more than ₹850 crore is impressive and more than 10 times its FY19 estimated earnings. The issue, however, is on the execution front.

Analysts at Edelweiss say the order book is strong, but its execution is contingent on the pace of real estate monetisation in the 'self-revenue generation' or redevelopment projects (50 per cent of the order book), which has been lacklustre and, in their view, unlikely to pick up in the near term.

It is the market-wide liquidity concerns that bode ill for the large self-funded colony redevelopment projects, involving real-estate monetization, which has led the company to lose more than half its market cap in the last one year.

Analysts at Antique Stock Broking, too, raised similar concerns on redevelopment projects, and said that almost none of them were contributing to revenue. With the extension of the Chairman and Managing Director's tenure hitting a new road block, and fate of the cash-guzzling inorganic expansion like that of Jaypee Infratech unclear (potential bid by NBCC for Jaypee Infratech), NBCC could pass through a renewed phase of uncertainty, according to Antique Stock Broking.

A positive for the company is that two of its three colony redevelopment projects have been cleared by the court and work is expected to commence shortly, while the third is due for hearing in courts.

Further, after consolidating its 100 per cent stake in Hospital Services Consultancy, among other entities, the management hopes synergies will materialise in the coming quarters. Analysts said the valuations are not expensive and seem to largely factor in the concerns.