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Beating Volatility

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MONEY MATTERS

Funds Lap Up Select PSU Stocks on Valuation Comfort

CHEAPLY-VALUED MID- & SMALL-CAP STOCKS COULD BE BIGGEST GAINERS

History may Repeat in Another Pre-poll Rally

Indian equities are poised for further gains in the pre-election period if historical performance of the benchmark Sensex prior to general elections are anything to go by.

The Sensex had gained 7-37% in the two months prior to the election outcome date during general election years of 1999, 2009 and 2014. The 30-stock benchmark had gained nearly 11% in the two months prior to election outcome in May 2014 when the Narendra Modi-led Bharatiya Janata Party came to power.

However, the index's performance post elections has been mixed. The Sensex fell 3-8% in two months after the 1999 and 2004 general elections.

However, in the aftermath of 2009 elections, when the Congress-led coalition came to power for the second time, the Sensex had gained 17% in the two months after the outcome. The BSE benchmark index had gained 4.6% in the two months after the Modi government came to power in May 2014.

Market experts foresee more gains in Indian equities this time around before the elections as hopes of continuity in the current BJP-led government have become stronger after the recent skirmishes between India and Pakistan.

The broader market is seen gaining further as the mid- and small-cap stocks have been out of favour for over a year and are trading at cheap valuations. **– Sanam Mirchandani**

Election Dates	Sensex % Change 1*	Sensex% Change 2*	Result Date Sensex level	Election outcome date	Sensex % Change 1#	Sensex % Change 2#
5th Sep 1999 to 3 Oct 1999	3.97	6.98	4963.10	07-10-99	-6.30	-2.56
20th April to 10th May, 2004	-8.55	-5.28	5399.47	13-05-04	-12.10	-8.43
16 Apr 2009 to 13 May 2009	11.20	37.34	12173.42	16-05-09	22.20	17.08
7 Apr 2014 to 12 May 2014	8.28	10.60	24121.74	16-05-14	4.43	4.59

*Month before election outcomes, # Month after election outcomes. Compiled by: ETIG Database

ANDREW HOLLAND
CEO, Avendus Capital-Alternate Strategies

Following the border skirmishes, the market believes it will help the BJP add more seats, and it may cross 273 mark. India has not benefited from the rise in Asian markets this year, so it may have more catch up to do. India is attractive on a relative basis given the weak global scenario and expectation of continuity in the government.

MAHESH PATIL
Co-CIO, Aditya Birla Sun Life Mutual Fund

Market has started to factor in that the government would have a good chance of coming back. The market has not fully priced this in, especially the broader market. As the market gets more clarity, beaten-down stocks could rise more. While the Nifty may not gain much, broader market can rise further.

PRATIK GUPTA
MD, Deutsche Equities India

Apart from the political outlook, a big driver for Indian equities is the relative underperformance this year versus other Asian markets, especially China. This, coupled with prospects of a stable government – instead of a weak coalition as being feared earlier – suggests more upside for Indian equities.

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	11168.05	1.20
Sensex	37054.1	1.04
MSCI India	861.54	1.90
MSCI EM	2324.38	0.53
MSCI BRIC	617.51	0.97
MSCI World	8510.48	0.13
SX 40	21599.79	0.00
Nikkei	21125.09	0.47
Hang Seng	28503.3	0.97
Strait Times	3191.42	0.14

Values in US $, Gross. At 7 pm IST

OIL ($)
DUBAI CRUDE
66.4
0.7
Absolute Change

BOND
10-YR YIELD
7.35
0.02
Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1298.2	1429.55
LAST*	1295.0	1425.76

*At 10.30pm, After adjusting for import duty, Indian spot gold lower by $ 1.26 to US Comex gold price on Monday. The premium on local gold is due to tight supply following import curbs.

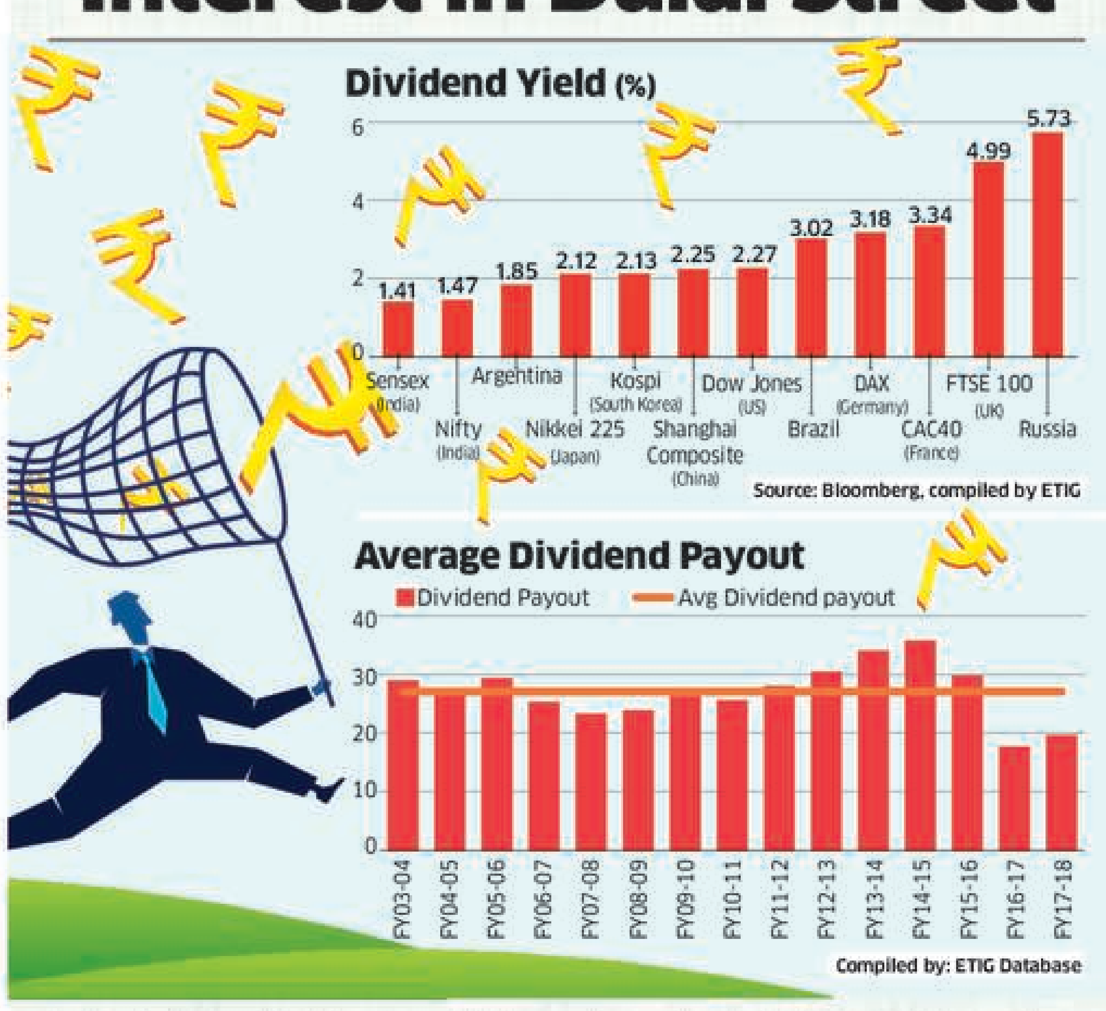
FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
70.01	69.89

Market on Twitter@ETMarkets

AT 1.5%, DIVIDEND YIELD OF BSE 500 COS THE LOWEST AMONG MAJOR DEVELOPED AND DEVELOPING NATIONS

Falling Dividend Yields may Dampen FPIs' Interest in Dalal Street



India Inc's dividend yield has been shrinking gradually over the past 10 years following lower dividend payouts by companies relative to their profits. This poses risk of lower participation from long-term foreign investors in Indian equity market amid hardening interest rates globally.

The current dividend yield – the ratio of annual dividend to the current market price – of the BSE 500 companies is 1.5%, the lowest among major developed and developing nations, according to Bloomberg data. Russia has the highest dividend yield of 5.7%. The average dividend yield of the top 10 global markets by market capitalisation was 2.9%.

Dividend payout of the Indian companies has been declining over the past four years given the lower dividend growth compared with the profit growth. In the past 15 years, net profit of the BSE 500 companies grew 10% annually, while the aggregate dividend growth was 7%. Consequently, the dividend payout ratio – dividend as a percentage of net profit -- of the BSE 500 companies dropped to 19.6% in FY18, 27% lower than the 15-year average of 27.1%.

The lower dividend payout reduced the numerator of the dividend yield calculation, while better equity performance compared with other global equity indices increased the denominator thereby resulting in a lower ratio. In the past five years, the BSE 500 gained 85% while barring Brazil, all major markets trailed Indian market's performance.

The dividend payout of the BSE 500 companies peaked out at 34% in FY14, and since then it has been moderating gradually.

Low dividend yield may impact the foreign portfolio investment amid the rising interest rate regime adopted by some of the global central banks. In times of a hardening interest rate regime, FPIs may not find it attractive to retain their stake in the stocks with expensive price-earnings, particularly in consumer discretionary and staples given the depressed dividend yield.

–Ashutosh R Shyam/ ET Intelligence Group

Morgan Stanley Raises EMs' Target by 8%, India in Most Preferred List

Global investment bank says Indian equities beginning to get optimistic on polls

Our Bureau

Mumbai: Morgan Stanley has raised its December 2019 target for MSCI Emerging Markets Index by 8%, citing aggressive China stimulus, a longer pause by the US Federal Reserve, positive signs for US-China trade negotiations and inclusion of China A shares in the index.

The global investment bank hinted that funds could shift to emerging markets in coming days from developed markets.

Brazil, China, India, Indonesia and Singapore are the most preferred markets for Morgan Stanley while the bank is underweight on Australia, Mexico and the Philippines.

Emerging market indices have been strong so far this year, generating a total return of 8.3% but underperformed the MSCI Developed Markets, which gained 9.8% during this period.

"Looking forward, we see the potential for ongoing investor flows towards EM equities incrementally boosted by MSCI inclusion factor increases and the set up for a further rally as the impact of China stimulus broadens across the region," Morgan Stanley said in a note.

LIGHTING UP

EDVARD MUNCH *Starry Night*

Elections in various emerging markets are closely monitored as they will also influence the performance of the markets, said Morgan Stanley.

"Elections also loom large as a catalyst for second quarter of 2019, and while pre-election fiscal spending is helping support domestic demand (particularly in India and Indonesia), they will bear close monitoring, particularly in a tight contest in Thailand, and with polls pointing to a potential change of government in Australia," according to the note.

In a separate report, the global investment bank said Indian equities are beginning to get optimistic on polls.

"The market could start pricing in a stronger election outcome in the coming weeks, causing the Nifty to break its four-month range to the upside. The broad market will likely outperform a rising Nifty," the report said.

Standard Life to Sell 4.93% Stake in HDFC Life

Standard Life, the joint venture partner in HDFC Life Insurance, will sell close to 5% stake in the company to meet public shareholding norm. The share sale will fetch around ₹3,570 crore to Standard Life. The floor price for the offer is set at ₹357.5 and the share sale will be conducted over the next two days.

NGT Order Could Fire Up Gujarat Gas Earnings

▸▸SMART INVESTING

LETTER TO SHAREHOLDERS IN INDIA

Modi's Return could Ensure Strong Economic Growth: Prem Watsa

Our Bureau

Mumbai: India would have a long runway of "strong economic growth" if Prime Minister Narendra Modi were to return to power, Prem Watsa told his shareholders in India, where the billionaire investor's firm holds sizeable stakes in financial majors such as IIFL Holdings and Catholic Syrian Bank.

In 2018, Watsa's company Fairfax India Holdings Corp reported a 4.1% decline in its book value per share at $13.86, reflecting largely the 9.4% retreat in the rupee in a year the 'Buffett of Canada' described as "difficult… throughout Asian emerging markets."

At Catholic Syrian Bank, the return on $60 million of investments made in October was 27.3%, with former HDFC Bank executive Paresh Sukthankar roped in as an advisor to help the lender achieve key growth metrics, said the letter.

IIFL Holdings, of which Fairfax owns 26.5%, is in the midst of a "transition", Watsa wrote, referring to the three separate listings scheduled this year for the businesses of loans and mortgages, wealth and asset management, and broking and investment banking.

IIFL Holdings accounted for about $1.33 a share drop in the book value at Fairfax, mirroring the decline in the stock's rupee value that Watsa attributed to "a liquidity scare in the Indian financial markets." The fall in the rupee caused book value per share to drop about $1.47 as financial stocks in India ceded ground early autumn.

ARINDAM

"Early in September 2018, the market learned that a large, heavily indebted, quasi-government infrastructure and lending institution had defaulted on some short-term debts," Watsa said in his letter. "A few days later, another non-bank financial company (NBFC) came under distress when a major mutual fund sold some of its debt at a big discount, causing a panic sell-off of shares in all NBFCs, banks and other financial institutions. IIFL did not escape this sell-off."

Separately, Watsa's letter, which came just before the announcement on the national balloting schedule, said Prime Minister Modi's policies should underpin growth in Asia's third-biggest economy that it described as "the shining star among the ruins" in a year in which returns in China were a negative 29%.

"The sleeping giant has been waking up with the pro-business policies of Prime Minister Modi," wrote Watsa.

His other holdings in India include Bangalore International Airport Ltd., Sanmar Chemicals, and the National stock Exchange.

Fairfax acquired an additional 6% of Bangalore International Airport from Siemens Project Ventures GmbH (Siemens) for $67 million, taking its ownership to 54%, with Siemens retaining 20% equity.

S Gopalakrishnan, formerly the head of investments at ICICI Lombard, has moved to the Hamblin Watsa Toronto team as a managing director. Gopal will be a member of the team working on Indian Investments.