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NEW DELHI / GURGAON, WEDNESDAY, 13 MARCH 2019

SMART INVESTING

Bank Nifty Hits All-time High; Key Index Constituents may Take Markets Higher

Buoyancy in global markets, easing poll concerns at home improve sentiment; FIIs continue to buy heavily

Indices Surge to 6-Month Highs

Our Bureau

Mumbai: Indian stock indices ended at a six-month high on Tuesday, tracking gains in Asian markets, as renewed foreign portfolio inflows and heightening hopes that the Bharatiya Janata Party would win the upcoming general elections kept the mood buoyant.

Extending gains to the second straight day, the Sensex surged 481.5 points, or 1.3%, to close at 37,535.6 and the NSE Nifty gained 133.1 points, or 1.2%, to close above the 11,300-mark at 11,301.2. Both indices closed at their highest levels since September 18 last year. The Bank Nifty hit a record high of 28,488.1 before ending up 1.7% at 28443.7. Meanwhile, Asian shares gained 0.6-1.8% after an overnight rally on Wall Street led by gains in technology shares.

The broader market underperformed the benchmarks on Tuesday, with the BSE MidCap and Small-Cap indices ending 0.7% higher.

"There is confidence in the market about the opinion polls. Secondly, Indian markets have underperformed compared to other emerging markets in the first two months of the year," said Sanjeev Prasad, co-head, Kotak Institutional Equities.

"Positions of FPIs had become fairly neutral compared to active overweight position earlier. A combination of these factors are making investors excited about India now," said Prasad.

Foreign portfolio investors bought local shares worth ₹2,478 crore on Tuesday as per provisional data after pumping in ₹3,450 crore the previous day, taking their total inflow into Indian equities this month to ₹10,200 crore. Domestic institutional investors sold shares worth ₹990 crore on Tuesday. They have net sold ₹4,500 crore so far in March.

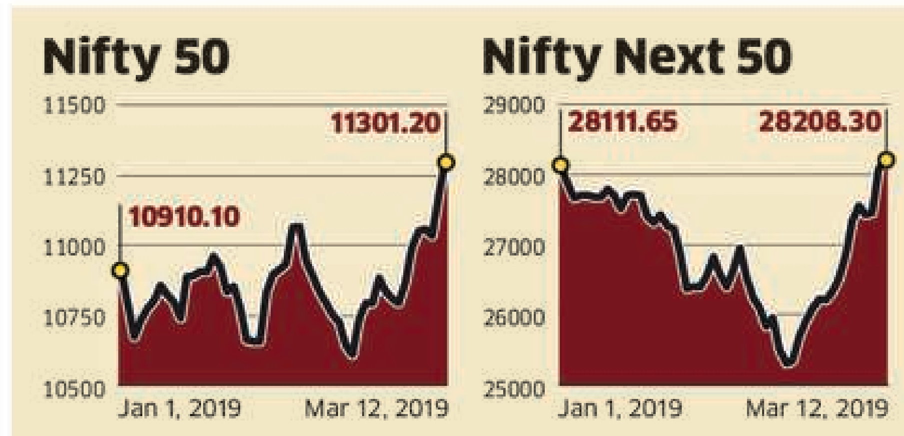
"Given the ground level changes, it looks like the central government may come back to power again which would mean consistency and stability in the political arena. Also, money is flowing into emerging markets after the US Federal reserve spoke about more pause in interest rate hikes," said Jinesh Gopani, head of equities at Axis Mutual Fund.

Money managers believe most of the foreign fund inflows is coming from ETFs. They see more room for gains in the Indian equity market but believe that the momentum in the rally may come down a bit.

"The market has room to go up but the next 3-4% gains may happen gradually. The rally may slow down," said Piyush Garg, chief investment officer at ICICI Securities. Another 4% gains would lead to indices hitting record highs. While the BSE MidCap and Small-Cap indices are 17-26% away from their record high levels, the Sensex and Nifty are 3.7% and 3.9% away from their record highs.

Sanjeev Prasad of Kotak believes that political continuity has been partially priced in but there are still pockets which are undervalued.

Jinesh Gopani of Axis Mutual Fund believes that a big downside is unlikely in midcaps. "Momentum in midcaps is strong but it is difficult to say how much it will continue. A big downside is unlikely," said Gopani.



Market Trends

STOCK INDICES		% CHANGE
Nifty 50	11301.2	1.19
Sensex	37535.66	1.3
MSCI India	872.44	1.28
MSCI EM	2358.4	0.91
MSCI BRIC	629.36	1.04
MSCI World	8612.65	0.18
SX 40	21839.8	1.11
Nikkei	21503.69	1.79
Hang Seng	28920.87	1.46
Strait Times	3212.25	0.65

Values in US $, Gross — At 7 pm IST

OIL ($)	BOND
DUBAI CRUDE 67.52 1.12	10-YR YIELD 7.36 0.01
Absolute Change	Figures in %

GOLD RATE

Prices per Troy Ounce ($)

	US	India
OPEN	1293.6	1426.94
LAST*	1297.3	1426.72

*At 10.30pm, After adjusting for import duty, Indian spot gold lower by $ 0.31 to US Comex gold price on Tuesday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
69.75	69.71

Market on Twitter@ETMarkets

Rupee Surges to over 2-Month High

The rupee on Tuesday gained 18 paise to close at more than two-month high of 69.71 against the dollar propelled by foreign capital inflows and a weaker dollar in overseas markets. Dollar selling by exporters and banks also supported the domestic currency. The unit end up by 18 paise at 69.71, the highest closing since January 1.

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F&O EXPERTS RECOMMEND CALL RATIO SPREAD STRATEGY

Options Data Indicate Nifty Could Conquer New Highs Next Month

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Mumbai: A section of market participants who expect the Nifty to surpass its record high of 11,760.2 of August 28 last year are recommending a call ratio spread on index options expiring on April 25. They expect the market to make a fresh high before the general elections' outcome on May 23. The strategy is risky if the market rises above the trader's upper breakeven point (UBEP).

You buy an out of the money or at the money call and sell two deeper OTM calls, in this strategy. The sale reduces the debit paid for the purchased call.

For e.g., Rajesh Baheti, director of Crosseas Capital, advises buying one 11300 Nifty call and selling two 11600 calls expiring on April 25. Abhishek Bansal of Abans Group prefers the same strategy but with different strikes – buy one 11700 and sell two 12000 calls expiring April 25.

Assume you buy an 11300 call at Tuesday's last trading price of ₹246 a share (75 shares make a lot) and sell two 11600 calls for a combined ₹206, you incur a debit of Rs 40. That's the lower breakeven point (LBEP) and the maximum you lose if the Nifty expires April 25 below 11300. The maximum you earn is ₹260 (11600-11340) and happens at 11600. Beyond that level through 11860, the profit drops.

The UBEP is 11860, beyond which the trader could face unlimited losses as he has sold an extra call. At 11860, the 11300 call is 560 in the money (ITM) and the two 11600 sold calls are ₹520 ITM.

But, the trader had incurred a debit of ₹40 to purchase the 11300 call, theoretically leaving him with no profit no loss (actually he loses on brokerage and STT and foregone interest as selling options involves putting up a margin equal to buying a Nifty futures contract).

Assume the Nifty expires at 12200, on April 25. The 11300 option is ₹860 ITM (ex the ₹40) and the two 11600 sold calls are ₹1200 ITM, leaving the trader with a loss of ₹340.

According to Viral Berawala, CIO, Essel Mutual Fund, the markets look "poised" for an upside move with FPIs buying "hand over fist" and more broad based participation.

Govt Weighs CPSE ETF Public Offer This Month

The government is considering launching a public offer of the CPSE ETF in March itself to mobilise ₹3,500 crore with a green shoe option of up to ₹10,000 crore. This will be the fifth issue of CPSE ETF. The previous offer in November 2018 raised ₹17,000 crore. Reliance Nippon Asset Management is the fund manager to the CPSE ETF. The top three stocks in the CPSE ETF are ONGC, NTPC and Coal India. A spokesperson for Reliance Nippon Asset Management refused to comment. – Our Bureau

L&T Likely to Meet Order Guidance Despite Fall in Biz from Central Govt

Credit Suisse says order inflows this year may exceed guidance by a fair margin

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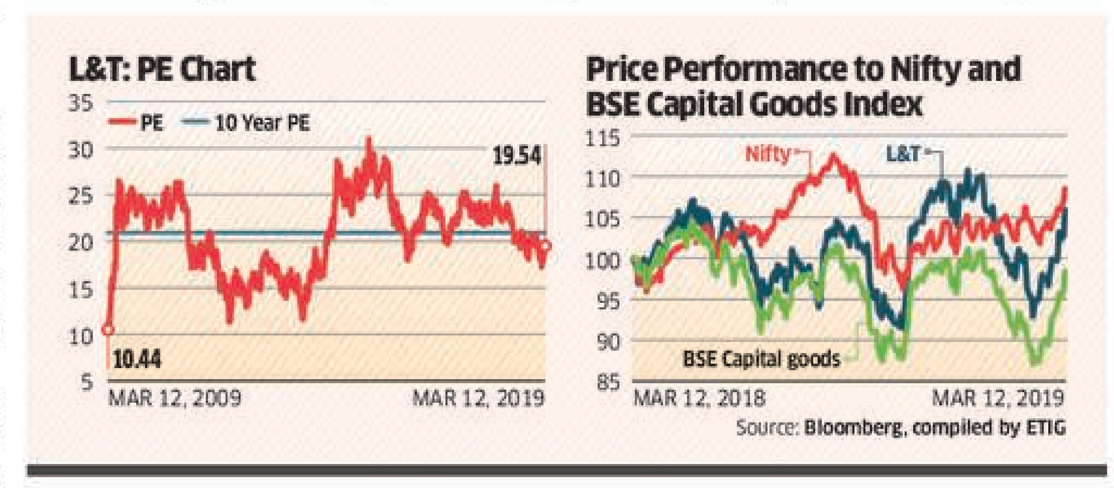

Source: Bloomberg, compiled by ETIG

ET Intelligence Group: Despite the usual sluggishness in infrastructure orders from the central government before the general elections, Larsen and Toubro (L&T) is expected to meet its annual order intake guidance considering the momentum of the past two months. The optimism reflects in the stock's performance, which has gained 11% in a month.

The country's largest infrastructure company has guided for 10-12% growth in order inflow for the current fiscal on the previous fiscal's order intake of ₹1.5 lakh crore. Given the order inflow of ₹1.2 lakh crore in the first nine months of FY19, the company needs to book another ₹48,000 crore of orders in the March 2019 quarter to meet the guidance.

According to JP Morgan, the declared order of the company is ₹42,500 crore so far in the March quarter and including unreported and services revenues treated as inflows, the total order inflows for March quarter are likely to be ₹56,800 crore, a growth of 13% year-on-year. If that happens, the company's full-year order book will be worth ₹1.8 lakh crore, implying a 16% growth.

Credit Suisse, in a note released on February 26, said order inflows this year may exceed the guidance by a fair margin and may be larger as the cycle builds up and some sedate segments start to contribute.

L&T has stopped disclosing the size of order received from the beginning of the March quarter. Instead, it provides a classification such as significant order range of ₹1,000-2,500 crore, large orders of ₹2,500-5,000 crore, major orders of ₹5,000-7,000 crore and mega orders above ₹7,000 crore. Brokerages covering the order inflows compute the order estimates by assuming the midpoint of the classification range.

D-Street Rally Conceals Pain Points in Smaller Companies

Off The Kerb

NISHANTH VASUDEVAN

Mid- and small-cap shares are seeing their best phase in the last one year or so. In the last one month, the best performing mid-caps have gained around 13%-33%. The smaller companies have done even better, with the top performing 25 stocks in this space jumping 40% to 112%.

Die-hard optimists believe the rebound in these shares would sustain after over a year of pain but there are reasons to believe that the rally lacks the impetus to take them back to the glory years of 2016-2017.

Cynics say the bounce in mid- and small-cap shares is only a part of the broader market optimism before the general elections in April-May. Expectations are high that a Narendra Modi-led BJP — Dalal Street's favourite in the upcoming elections — would return to power. Cheaper valuations of these shares compared with 2017 after the recent rout have also given traders comfort to buy them over blue-chips. But, once the election euphoria settles down and numbers start mattering again, a scrutiny will show that the current optimism in many of these smaller companies is rather overdone.

The reason investors need to temper their expectations from these shares is the absence of a revival in earnings. The trailing P/E or Price to Earnings Ratio — a popular valuation measure — of the small-cap index is negative. This shows companies on the small-cap indices are broadly posting losses. The five-year average trailing P/E ratio of the small-cap index is 90 times. The mid-cap index's current P/E ratio is 36 times, above the five-year average of 31 times. The Sensex's P/E is around 28 times. Historically, the P/E ratio of mid- and small-cap indices has been below that of the Sensex; but since 2014, it has been at a premium. The mid-cap index's P/E premium over that of Sensex has shrunk but that has also got as much to do with the rally in some blue-chips as with the fall in mid-cap shares since January 2018.

Brokerage Spark Capital, in a report titled 'Not Out Of The Woods Yet; Stay Defensive', said companies are in a phase of continuing margin pressures, earnings downgrades, deteriorating cash-flows and higher cost of capital. This could compress valuation multiples. The heady mix of all these factors has a bigger impact on mid- and small-cap companies than on blue-chips. Earnings consensus on Bloomberg shows small-cap companies have seen 52 downgrades and 36 upgrades in the last four weeks. Analysts are more optimistic about mid-caps with earnings of 13 companies getting downgrades and 34 getting upgraded in this period.

After the five-year rally in smaller shares ended in January 2018 with valuations of many companies touching levels never seen before, the past one year has been painful. The mid-cap index dropped 15% and the small-cap index declined 22% from their highs in January 2018. But, analysts felt the fall was not sharp enough to conclude that these shares have hit their nadir.

Broker ICICI Securities said the low risk tolerance behaviour among stock investors did not hit the bottom in the recent sell-off. Risk tolerance tends to decline when shares tumble. Its biggest impact is usually on mid- and small-cap shares — which are essentially products of a bull run. Mid- and small-cap shares rally when risk appetite is high and tumble when investors are not in a mood for risks. ICICI Securities study showed that instances of high risk aversion in the past have resulted in the trailing earnings yield spread between small- and large-cap stocks widening much more than suggested by current prices.

From their peaks in January 2018, many shares have tumbled as much as 50-60%, much more than the indices. While the sell-off made their valuations cheaper compared to their peaks in 2017, the lower share prices also highlighted the lack of earnings revival, which has eluded investors in the last five years.

A fund manager said a euphoric stock market driven by liquidity has the influence to conceal a lot of shortcomings. The ongoing rally -- if it continues -- will help investors overlook the uncertainty in mid- and small-cap companies but that would be short-lived the moment this renewed rush of liquidity dries up.