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SMART INVESTING
Buys not Enough, Aurobindo Needs to Show M&A Benefits

SENSEX UP 379 POINTS, NIFTY NEARS 11,000 Street expects small- and mid-cap space to outperform large-caps

Mid & Small Caps Make Strong Gains, Analysts Say 'Tide is About to Turn'

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Mumbai: Small and midcap stocks rebounded Tuesday with several technical indicators suggesting likely troughs for both the beaten-down market segments, which may be poised for a likely pullback rally ahead of the general elections.

The BSE Smallcap index and Midcap index rose 3.11% and 2.01%, respectively, as against the 1% rise in the Sensex, with buying emerging in the deeply-oversold midcap and smallcap stocks.

"Buying seems to be emerging in the beaten-down midcap and smallcap stocks that are currently available at reasonable valuations," said Gopal Agarwal, senior fund manager, DSP Mutual Fund. "This indicates the possibility of a bounce-back rally in the smallcap and midcap space for the short term."

With most of the global powers supporting India in the recent military standoff, New Delhi has gained the goodwill and confidence of global investors. As risk aversion fades, investors are back to buying mid and small cap stocks, said fund managers.

Between January 2018 and February 2019, midcap and smallcap indices have seen deeper corrections compared with the large-cap index despite registering higher profit growth. The BSE Smallcap index, which fell 32% between January 15, 2018 and February 18, 2019, has recovered 10% since then. Similarly, the BSE Midcap index gained 7.32% since February 2 after sliding 25% between January 9, 2018, and February 18, 2019.

Technical analysts, too, confirm the pullback rally in mid- and smallcap space which can take both the indices up 10-20%

"We believe the tide is about to turn and expect the small and mid-cap space to outperform," said Vinay Khattar, head of research, Edelweiss Securities. "Our conviction is anchored in attractive valuations, improving macro data and improving sectoral trends."

While Nifty has returned 4% over the past one year despite clocking 7% overall PAT growth, mid-cap and small-cap indices have corrected 15% and 24% despite clocking 50% and 27% PAT growth, respectively.

The correction this time in Smallcap index is similar to 2008-09. BSE Smallcap index declined 72% in 13 months between January 2008 and February 2009 and recovered 131% in the next six months.

Technical analysts, too, confirm the pullback rally in mid and smallcap space, taking both the indices 10-20% higher.

"At the end of February, the index has formed a Hammer Candle pattern on monthly charts, which is a strong bearish reversal formation and the pattern got validated on Tuesday by moving above its high of 14,065, accompanied with strong positive divergence in RSI oscillator on weekly charts," said Gajendra Prabu, technical analyst, HDFC Securities.

Continued on ►► Smart Investing

Northbound

STOCK	CMP (₹)	% UPSIDE EXPECTED*	% FALL BETWEEN 52W H & 2019 L	% RECOVERY FROM 2019 LOW	RETURN ON EQUITY (%)
Mahindra Holidays	211.75	44.98	-51.13	13.45	20.23
Indiabulls Housing	739.95	34.24	-57.92	23.73	30.12
ICICI Securities	220.85	34.03	-63.40	16.05	84.26
KEI Industries	376.05	33.28	-35.72	21.31	27.16
Bodal Chemicals	111.80	30.59	-47.40	23.40	23.13
Tata Elxsi	926.05	20.96	-41.58	8.16	37.04
KNR Constructions	219.55	19.72	-40.46	12.27	26.16

* As per Bloomberg Consensus Estimates
Abov companies are with more than 15% CAGR in Sales and EBITDA for 5 Years and over 15% ROE.

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10987.45	1.14
Sensex	36442.54	1.05
MSCI India	840.10	1.70
MSCI EM	2367.84	0.26
MSCI BRIC	628.50	0.80
MSCI World	8647.26	0.45
SX 40	21503.91	1.06
Nikkei	21726.28	0.44
Hang Seng	28961.60	0.01
Strait Times	3234.07	0.52

Values in US $, Gross — At 7 pm IST

OIL ($)	BOND
DUBAI CRUDE 64.93 0.56	10-YR YIELD 7.38 0.00
Absolute Change	Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1287.80	1429.88
LAST*	1286.80	1417.13

*At 10.30pm, After adjusting for import duty, Indian spot gold higher by $1.65 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*
70.95	70.49

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GAINING MOMENTUM IN MARCH SERIES

Finance, Reliance Group Stock Futures Witness Surge in Interest

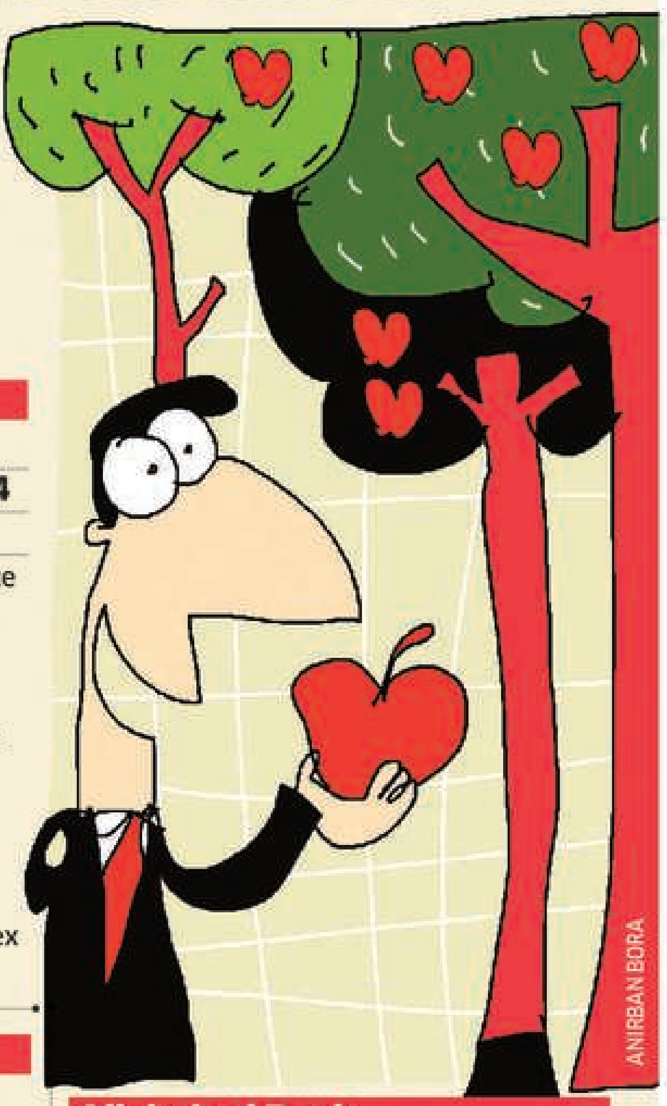
Mid-cap stocks are in momentum in the March series as they have seen significant addition in open interests. While shares of Anil Ambani's Reliance Group companies trading in stock futures have risen 6-19% so far in the March series, shares of finance companies are also witnessing high open interests. The BSE MidCap index has gained 6.7% in the last two weeks, while the Sensex has gained 3% during the same period. **ET** takes a look at five stocks which are gaining momentum in the new derivatives series and their outlook for the near term: **– Sanam Mirchandani**

Muthoot Finance
CMP: ₹569.6
Stock price change in March series (%): 7.9
OI change in March series (%): 20

Gains in the broader market and high gold prices have helped the stock gain momentum in the March series. "Gold prices are at lifetime high. High gold prices tend to improve business momentum for Muthoot," said Digant Haria, AVP-Research at Antique Stock Broking. Muthoot has shown low margin compression or liquidity pressures and strongly withstood the NBFC crisis, said Haria. Nagaraj Shetti, technical analyst at HDFC Securities said one can buy the stock at current levels or on a decline to ₹545, for a target of ₹600-610 in the near term, with a stop loss of ₹520.

Oriental Bank of Commerce
CMP: ₹94.8
Stock price change in March series (%): 14.4
OI change in March series (%): 23.3

The stock has gained as PSU banking space has bottomed out recently and the stock has negated its negative price pattern, said Chandan Taparia, derivative analyst at Motilal Oswal. "It is also turning from its deep oversold territory, so some short covering also could take it on higher zones," said Taparia. He expects the stock to rise to ₹100-104 level in the near term. Oriental Bank of Commerce shares have fallen 3.5% in the last one year, underperforming the Nifty PSU Bank index which has fallen 1.4% in the same period.



Reliance Power
CMP: ₹12.8
Stock price change in March series (%): 18.6
OI change in March series (%): 67.9

The rally in broad markets has lifted shares of Reliance Power, which had slumped 60% in the February derivatives series. Reliance group companies controlled by Anil Ambani had witnessed severe selling pressure in February after Reliance Communication's statement on February 1 that it would file for bankruptcy. Technical analysts said the recent gains in the stock should be viewed as a trading bounce and investors should avoid the the counter.

Escorts
CMP: ₹712.9
Stock price change in March series (%): 8.4
OI change in March series (%): 9

Escorts has also gained momentum in the March series after Escorts Agri Machinery reported a 12% increase in tractor sales at 7,240 units in February. Domestic tractor sales in February increased 9.9% from a year ago. The stock has bottomed out on a short-term basis, analysts said. "₹680 is the support. The upside can extend more towards ₹740 levels," said Taparia of Motilal Oswal. Taparia said one can buy the stock at current levels.

Allahabad Bank
CMP: ₹52.3
Stock price change in March series (%): 9
OI change in March series (%): 7.2

The Reserve Bank of India has recently removed Allahabad Bank out of the Prompt Corrective Action framework recently. This has boosted sentiment for the stock, which has gained just over 3% in the last one year. "Buying can be considered at current market price or on dip to ₹48, for a target of ₹58-₹60 in one month," said Shetti of HDFC Securities.

The Importance of Saying No

Off The Kerb

NISHANTH VASUDEVAN

Until April 2018, mutual fund schemes that invested in low-rated or risky debt securities were aggressively sold under catchy names such as credit opportunities, corporate opportunities or income opportunities. After the capital markets regulator Sebi asked the industry to club schemes as per their investment strategies and profiles, these products had to be rebranded as 'Credit Risk' funds. That was probably the first time investors were reminded of the risks associated with such products.

Until then, these schemes were marketed as high-yielding debt products. Risks associated with low-rated papers did not occur to anyone when times were better. After all, these funds were fetching 9-10% returns annually, almost 200 basis points or 2% above liquid schemes. The superior returns from this category allowed mutual funds to charge higher expense ratio — the fee asset managers charge investors every year to run a scheme. Distributors selling these funds were paid extra fees, ultimately borne by the investors.

A senior fund manager described Credit Risk funds as the small-cap schemes of fixed income. He meant that this product, just like small-caps, offer high returns but come with risks (often not understood) and are best suited for good times. While there is nothing wrong with the Credit Risk schemes, mutual fund industry officials say the issues lie with the way they have been sold and the portfolio construct of some of these schemes.

A big problem that debt fund managers are facing today is the dearth of quality securities. Companies that are financially sound are not tapping the bond market. Many firms raising money had top ratings but many mutual funds internally rated them on a much lower scale. Yet, many funds put money into them due to lack of options. A mutual fund industry official said a herd mentality within the industry drives many such investments even if one fund house does not believe that a debt security is not good enough. It is the fear of losing out that prompts fund houses to take a collective plunge. The CEO of a mid-sized fund blamed debt fund managers for forgetting the basics of fixed-income investing, with many of them analysing companies in the manner an equity money manager would. Such an assessment is not incorrect given that mutual funds lent liberally to promoter entities with no cash flows. The collateral against such loans are shares. Fixed-income investors are trained to look at the grimmest scenario for a company because of the risk of losing the entire invested capital.

In the fixed-income market, investors chasing higher returns and fund managers pursuing assets were blinded by greed. Investors got used to steady returns from debt schemes and rarely questioned the practices of funds, while the money managers never stopped the flows into their schemes despite being aware of the paucity of quality paper. Although debt funds have been forced to shape up after the IL&FS crisis caused a ripple effect, a lot of pain could have been avoided if funds were more conservative.

MANAGING THE RISK

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In the past, a handful of fund houses have shown the wisdom of partially restricting flows into their small-cap equity schemes because the money flows far exceeded the stock ideas. If fund houses had replicated this in debt too, it could have been a soft landing for the industry.

CLOSES AT 70.49

Rupee Spurts 43 Paise Against Dollar

PTI

Mumbai: The rupee rebounded by 43 paise to close at 70.49 against the US dollar Tuesday largely driven by positive macro data and easing crude prices. Forex traders said heavy buying in domestic equities and sustained foreign fund inflows also propped up the local unit.

The domestic unit opened slightly down at 70.95. During the day, the local unit, however, gathered momentum and rose to an intraday high of 70.43 before finally ending at 70.49, showing a gain of 43 paise. The local unit had weakened by 20 paise to close at 70.92 against the US dollar Friday.

The domestic forex market and equity market were closed Monday on account of Mahashivratri.

Brent crude futures, the global oil benchmark, slipped 0.17 per cent to USD 65.63 per barrel lending support to the local unit.

UTI Asset to Also Manage EPFO Corpus

UTI to manage corpus managed by SBI which is closing its portfolio management business

Our Bureau

Mumbai: The Central Board of Employees Provident Fund Organisation (EPFO) has entrusted UTI Asset Management to manage the entire corpus that was being managed by State Bank of India (SBI). The move comes in the wake of the state-owned lender's decision to close down its portfolio management business from March 31, 2019.

A spokesperson for UTI AMC declined to comment on the same.

State Bank of India will cease to be a fund manager of retirement fund body Employees' Provident Fund Organisation's (EPFO) by March-end, as a bank cannot function as an asset management company under the RBI norms.

In addition to UTI, the other fund managers managing retirement money are Reliance Capital, ICICI Securities Primary Dealership and HSBC AMC.

EPFO manages close to ₹10 lakh crore, and UTI will manage approximately half of this corpus after SBI's exit. UTI AMC, which is currently headless after the exit of Leo Puri and is being managed by the acting CEO Imtaiyazur Rahman, had assets worth ₹157,585 crore on December 31. EPF is the main scheme under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. The scheme is managed under the aegis of Employees' Provident Fund Organisation (EPFO).

Wall Street Dips as Investors Monitor Progress on US-China Trade Talks

New York: U.S. stocks dipped on Tuesday, extending a selloff from the prior session, as investors waited for developments on the U.S.-China trade talks, but a clutch of upbeat quarterly reports from retailers helped limit losses. At 2100 IST, the Dow Jones Industrial Average was down 8.17 points, or 0.03 percent, at 25,811.48, the S&P 500 was down 2.57 points, or 0.09 percent, at 2,790.24 and the Nasdaq Composite was down 7.31 points, or 0.10 percent, at 7,570.25. – Reuters

CANADIAN PENSION FUND to own at least 13% in ECL Finance after conversion of debt holding into equity over next 5 years

CDPQ to Invest $250 m in NBFC Arm of Edelweiss

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Mumbai: Canadian fund CDPQ has agreed to invest $250 million (Rs 1,767 crore) in the convertible debentures of the Edelweiss Group's non-banking finance company, ECL Finance. Converting this debt holding into equity over the next five years would result in the fund owning an at least 13% stake in the NBFC.

The deal values the lending arm of Edelweiss a minimum of about ₹9,500 crore. If the conversion is at a higher price because of better-than-agreed upon financial metrics, the value could go beyond ₹13,000 crore, said people familiar with the matter.

Investment by CDPQ (Caisse de dépôt et placement du Québec CDPQ) would be in three tranches and the first investment of $150 million would be converted into equity shares after two years. The remaining $100 million would be invested in two equal tranches at the end of the first and second years of the initial investment.

"These are compulsorily convertible debenture; by nature, it is an equity investment but it will come in as debt. These will get converted anytime between two and five years," said Deepak Mittal, managing director of ECL Finance.

The investment comes at an opportune time for the group, which was also pummelled by the market in the recent liquidity crisis in the NBFC sector. With many mutual funds holding back from lending to NBFCs after Infrastructure Leasing & Financial Services defaulted on payments, the entire industry was deprived of funds.

Many of the NBFCs were also caught with mismatches in their assets and liabilities. Costs soared as many of them were forced to lengthen the duration of their funding from the short-term and less-expensive commercial papers.

The Edelweiss Group has a credit book of around Rs 30,000 crore, spread across wholesale and retail finance segments.

"The agreement with CDPQ will enable ECL Finance to capitalise on opportunities in the credit market and confirm the capability of the group to capture opportunities in the NBFC space," Edelweiss said in a statement. "It provides thrust to the business for technology and digital investments. This investment also ensures that ECL Finance has the requisite resources to maintain strong organic growth, as well as take advantage of any market consolidation opportunities."