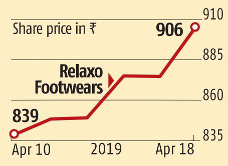
**BSE 200: TOP 5 GAINERS OF LAST WEEK**

| BSE price in ₹ | Apr 12, '19 | Apr 18, '19 | % chg |
|---|---|---|---|
| Tata Motors | 215.9 | 235.9 | 9.3 |
| InterGlobe Aviation | 1,432.2 | 1,554.7 | 8.6 |
| Vodafone Idea | 16.1 | 17.3 | 7.5 |
| Tata Consultancy Services | 2,013.8 | 2,145.5 | 6.5 |
| Motilal Oswal Financial | 686.4 | 728.0 | 6.1 |

**QUICK TAKE: RELAXO FOOTWEARS' RALLY TO CONTINUE**




Shares of Relaxo Footwears have surged 19% over the last one month. In the economic segment, benefits of a sharp cut in goods and services tax would help improve volumes. Though some margin pressure is expected in the March 2019 quarter, long-term earnings potential remains intact

**"WE HAVE A RISK OF A MELT UP, NOT A MELTDOWN. HUGE POOL OF MONEY IS SITTING ON THE SIDELINES AS INVESTORS HAVEN'T RUSHED BACK INTO EQUITIES EVEN AS THE STOCK MARKET HAS BOUNCED BACK THIS YEAR"**

**LARRY FINK**, chief executive officer, BlackRock Inc

# Small private banks in spotlight after LVB-Indiabulls merger

The huge valuation premium given to Lakshmi Vilas Bank and merger potential of other banks are driving up investor sentiment

SHREEPAD S AUTE
Mumbai, 21 April

The Street is keenly awaiting the Reserve Bank of India's (RBI's) decision on the merger of Lakshmi Vilas Bank (LVB) and Indiabulls Housing Finance, which was announced earlier this month.

While some may be extrapolating from the market buzz and the RBI's clarification that came after the merger was internally approved of by the two lenders, the move, if the regulator approves, is likely to bring stocks of other old small private lenders in focus. The old small private sector banks include Karur Vysya Bank, Karnataka Bank, South Indian Bank and Dhanlaxmi Bank.

Stocks of many of the above-mentioned banks had fallen by 14-30 per cent in the last one year as against a 20 per cent surge in the Nifty Bank index. This fall was mainly due to asset quality concerns. Yet, what leads the Street to focus on these small old private lenders is the fact that despite LVB being a loss-making entity, Indiabulls Housing has offered 36 per cent premium to the former's valuation based on the share swap ratio and FY19 estimated book value.

"If the merger gets through the RBI, intuitively it may renew interest in smaller banks' stocks. Quite a few of the old small & regional private banks may be inclined to explore merger/acquisition possibilities if they get good valuations," says Lalitabh Srivastava, AVP at Sharekhan..

In fact, LVB's adjusted book value (net worth minus net non-performing assets) was negative as of December 2018. Under the proposed merger, the valuation of LVB, which has a strong presence in south India with 569 branches, is also two-three times higher than that of the above-mentioned banks, which also have relatively better performance matrix. This clearly spells potential valuation premium for these banks, although some market experts believe that strategic value creation expected from the LVB-Indiabulls Housing deal justifies the valuation for LVB.

**HOW THEY STAND**

| Figures for Apr-Dec '18 In ₹ crore | Advances Amount | Advances Chg (%) | Net profit /(loss) | Net NPAs (%) | Price to book value (x)* |
|---|---|---|---|---|---|
| Dhanlaxmi Bank | 6,265 | -2.2 | -16 | 2.9 | 0.7 |
| Lakshmi Vilas Bank | 24,123 | -4.4 | -630 | 7.6 | 1.9** |
| Karur Vysya Bank | 47,666 | 6.3 | 151 | 5.0 | 1.0 |
| Karnataka Bank | 51,961 | 17.2 | 416 | 3.0 | 0.8 |
| South Indian Bank | 60,064 | 14.5 | 177 | 3.5 | 0.6 |

*Based on FY19 estimated book value; for Dhanlaxmi book value is trailing 12 months **As per share swap ratio; change is year-on-year, NPAs: non-performing assets. Source: Capitaline & Edelweiss Securities

Asutosh Misra, head of research-institutional equity at Ashika Stock Broking, says there would be more instances of non-banking financial companies (NBFCs) looking for merging with old private banks if the RBI approves the LVB-Indiabulls Housing deal.

The recent IDFC Bank-Capital First deal shows that merging with or acquiring a bank is a way for NBFCs to quickly get a banking license and mobilise public deposits. Not long back, IndusInd Bank, too, acquired Bharat Financial Inclusion. This trend is expected to continue. In the present scenario, for instance, Dhanlaxmi Bank could be another acquisition target of an NBFC, say experts.

At the same time, acquisition/merger by other strong banks for inorganic growth cannot be ignored given the strong presence of these old private banks in their respective regions.

According to G Chokkalingam, founder of Equinomics Research and Advisory, after demonetisation and with direct transfer of subsidies, banking penetration mainly in the urban pockets has almost peaked out. Also, new scheduled commercial banks, which emerged from micro-finance/ cooperative banks, could eventually target old private sector banks to expand their business.

There is a history of large private lenders acquiring old private banks. For instance, ICICI Bank had acquired Bank of Madura in 2001 and Sangli Bank merged into ICICI Bank in 2007. Further, Centurion Bank of Punjab was amalgamated into HDFC Bank in 2008. These had helped the large peers to expand their geographic reach, customer base, etc.

Apart from this, very small promoters' stake in many of these old private banks is only adding to the possibilities of these banks getting merged into or acquired by other banks or NBFCs. While promoters' stake of Karur Vysya was two per cent as of December 2018, it stood at zero for Karnataka Bank and South Indian Bank as of March 2019. Experts believe even the regulator would be interested in letting such banks move in hands of other reputed players.

Overall, the RBI's word is likely to be a deciding point even for old private banks' stocks besides LVB and Indiabulls Housing Finance.

# Delivery-based volumes jump

SUNDAR SETHURAMAN
Mumbai, 21 April

The market could be on a strong footing if delivery-based trading data is anything to go by. In March, when the benchmark indices rallied nearly eight per cent, the proportion of delivery-based trades in total trading volume was the highest in 15 months. The delivery-based volumes on the BSE stood at 50 per cent, while that on the National Stock Exchange (NSE) was 37 per cent. The previous 12-month average in comparison was 45 per cent on the BSE and 33 per cent on the NSE. Increase in delivery percentage indicates that a higher portion of long-term money could be entering the market. On the other hand, a lower reading indicates mounting of speculative bets.

Market players said the sharp rebound in the market from the 2019 lows and participation of broader market stocks provided comfort to investors to commit long-term money.

"March onwards, there was stability in the markets. When you have stability, investors are comfortable putting in more money. That is when you see delivery-based volumes going up," said Kamlesh Rao, chief executive officer (CEO), Kotak Securities.

**TRADING VERSUS INVESTING**

| | Delivery (%) BSE | Delivery (%) NSE | Returns* (%) |
|---|---|---|---|
| May-18 | 48 | 32 | 0.0 |
| Jun-18 | 48 | 34 | -0.2 |
| Jul-18 | 46 | 32 | 6.0 |
| Aug-18 | 44 | 31 | 2.9 |
| Sep-18 | 41 | 32 | -6.4 |
| Oct-18 | 38 | 31 | -5.0 |
| Nov-18 | 43 | 33 | 4.7 |
| Dec-18 | 44 | 33 | -0.1 |
| Jan-19 | 44 | 32 | -0.3 |
| Feb-19 | 42 | 32 | -0.4 |
| **Mar-19** | **50** | **37** | **7.7** |
| **Apr-19**** | **68** | **34** | **1.1** |

*Monthly Nifty returns; ** As on April 18
Source: Capitaline

Experts say the surge in foreign flows is a key reason for an uptick in delivery volumes. In March, foreign portfolio investors (FPIs) invested ₹42,700 crore, one of the highest monthly investment tallies. Overseas investors have pumped in another ₹5,000 crore into domestic equities so far in April.

"Since end-February, the markets have seen robust FPI flows. These inflows have come in the cash segment with overseas investors taking delivery of stocks. Moreover, general bullishness is back after a lacklustre market during the start of the second half of 2018-19. If the FPI flows continue, we will continue to see buoyancy is the delivery percentage," said Sandeep Nayak, CEO, Centrum Broking.

So far this month, the average delivery percentage on the BSE is 68 per cent, while it has dipped slightly on the NSE at 34 per cent. The markets have extended last month's rally by gaining over one per cent in April.

Delivery-based volumes had witnessed a drop amid a sharp slide in the markets between September and October last year. Experts say, delivery volumes have been lower than usual in the past 12 months due to weakness in the broader markets.

Last year, the mid-cap and small-cap indices had seen a sharp correction, even slipping into the bear market territory briefly.

Experts say, higher delivery percentage coupled with a sharp up move in the market is a bullish signal, but investors should look for a sustained trend.

# STOCKS IN FOCUS THIS DIVIDEND SEASON

SAMIE MODAK

**Corporate India has started announcing results and final dividend for the financial year ended 2018-19. During this period, the focus usually shifts to high-dividend yielding stocks. There are about three dozen stocks in the top-500 universe that offer dividend yields of over 3 per cent as compared to the Nifty's dividend yield of 1.3 per cent. Among the top 15 stocks in terms of dividend yield, only three are from the private sector. State-owned companies National Aluminum Company (Nalco), SJVN and Indian Oil have dividend yields of more than seven per cent – a threshold considered superior as it rivals fixed-income returns. At the top of the list is Vedanta with a dividend yield of 11.7 per cent – the mining company has paid hefty dividends in FY18 as well as two interim dividends in FY19. Dividend yield is dividend per share divided by the current share price of a company. Investing in high-dividend yield stocks could be a good strategy, particularly during a range-bound or a bear market. However, investors need to be mindful of a few things. "Just because a company has paid high dividends in the past doesn't mean it will continue to do so in future. Investors should keenly watch the earnings growth trajectory. A company can sustain high dividends only if growth rates are high," says an analyst.**

**TOP-DIVIDEND PAYERS**

| | P/E (x) | Dividend yield (%) | Returns YTD(%) |
|---|---|---|---|
| **PUBLIC SECTOR** | | | |
| Nalco | 6.1 | 10.3 | -17.5 |
| SJVN | 8.8 | 8.9 | -4.5 |
| Indian Oil* | 8.8 | 7.3 | 4 |
| Coal India | 11.7 | 6.9 | 14 |
| NLC | 6.4 | 6.7 | -1.7 |
| **PRIVATE SECTOR** | | | |
| Vedanta | 9.2 | 11.7 | -11.7 |
| BSE | 14.8 | 5.8 | 4.2 |
| Balmer Lawrie | 10.9 | 5.6 | -1.35 |
| PTC India | 7.9 | 5.5 | -6.4 |
| Indiabulls Housing | 8.8 | 4.8 | 18.6 |

Source: Exchange

# 'Mid- and small-caps appear relatively attractive'

Election outcome-related uncertainty has failed to dent market sentiment, with the S&P BSE Sensex and the Nifty50 hitting new highs last week. **MANISHI RAYCHAUDHURI**, Asia Pacific Equity Strategist at BNP Paribas, tells **Puneet Wadhwa** that in the medium term, monetary policy stances of global central banks are bigger variables governing flows into emerging markets (EMs) than domestic political news. Edited excerpts:

Q&A

MANISHI RAYCHAUDHURI
Asia Pacific Equity Strategist, BNP Paribas

**What is your near-term outlook for the markets?**

Indian equities look good from a medium-term perspective. In the near-term, however, the markets could take a breather after the recent sharp rally. In case of significant volatility around the election, investors should add to their India positions, unless of course, we end up with the "worst-case" scenario of a hung Parliament and a government formed by a disorderly coalition of parties having divergent views. The probability of this eventuality is quite low.

**Would you revise your December target for the S&P BSE Sensex in case the election springs a surprise?**

We upgraded our 2019 S&P BSE Sensex target to 42,000 as well as upgraded Indian equities to 'overweight' in our Asia ex-Japan model portfolio. The upgrade is based on likely fundamental improvements — primarily, improvement in private capex and decline in cost of capital. Election outcomes usually have a temporary impact on Indian markets, unless we are faced with the "worst case" scenario.

**What factors can trigger a correction?**

A correction could be triggered if risks to global growth, particularly in the Eurozone and in the US, play out more meaningfully than anticipated. Further, the expected resolution to the US-China trade conflict gets significantly delayed. An adverse election outcome and the continuation of depressed consumer sentiment are bigger risks.

**Your view on mid- and small-caps?**

After their sharp underperformance in 2018, mid- and small-caps appear relatively attractive than a year ago. That said, it's difficult to paint all small- and mid-caps with the same broad brush given the divergence in their business models and growth opportunities, even in the same sector. Mid-caps with strong growth opportunities and attractive business models are concentrated in financials, healthcare and industrials–notably, manufacturers of machinery and auto ancillaries. On the other hand, information technology (IT) services, materials and automobiles don't throw up too many attractive mid- and small-cap ideas.

**What's the road ahead for foreign flows into Indian equities?**

In the medium term, monetary policy stances of global central banks are bigger variables governing flows into the emerging markets than domestic political news. Their stance is likely to stay benign for now. Our global economics team believes the US Fed shall not make any changes to the Fed funds rate till 2020. Election outcomes do influence flows into India but in the short term. In the past, positive election outcomes did result in higher flows into India, but over a 1.5–2-month span.

**What are your expectations from the March 2019 quarter earnings season?**

For FY20, we expect early to mid-teens earnings growth from companies comprising the broader Indian indices. The current Bloomberg consensus growth estimate of 18–19 per cent appears aggressive. In the March 2019 quarter and beyond, financials could surprise positively while results from IT, materials and automobiles could be lacklustre.

**How should investors play the banking and finance theme?**

More consolidation in the finance space could be on the cards. There are many banks that need capital to grow or to take care of their asset quality issues and there are NBFCs for whom a banking license would come handy for diversification. Banks are looking at inorganic growth. We like private banks – a combination of retail lenders and corporate lenders. Among NBFCs, we like those engaged in consumer finance.

**Is it a good time to buy auto stocks from a 12–24-month perspective?**

From a 12–24 month investment outlook, exposure to select auto companies is justified, particularly to those that have dominant market shares and superior distribution reach or are leaders in their niche segments. In the near term, depressed consumption sentiment and upcoming cost increases due to safety and enhanced emission norms could continue to affect the performance.

**Do you see more rate cuts by the RBI?**

The market is not concerned about a deficient monsoon and its potential impact on inflation. The dominant opinion on monetary policy seems to be another rate cut by the RBI in June or in August. The correlation between monsoon precipitation and agricultural production and agricultural product prices have also declined over the past few years. That said, in the prevalent climate of rural distress, significant disruption in the spatial and temporal distribution of monsoons could generate additional headwind to consumption sentiment.

**"FOR FY20, WE EXPECT EARLY TO MID-TEENS EARNINGS GROWTH FROM COMPANIES COMPRISING THE BROADER INDIAN INDICES. THE CURRENT BLOOMBERG CONSENSUS GROWTH ESTIMATE OF 18–19 PER CENT APPEARS AGGRESSIVE"**

## STREET SIGNS

**New rules may allay FPI concerns**

A circular on accessing data of foreign portfolio investors (FPIs) from the KRA (KYC Registration Agency) database last month asked KYC Registration Agencies to lock personal information with regard to beneficial ownership. Though it will delay the account opening process as the intermediary will have to wait for approval from the FPI or the global custodian to allow the download, experts believe this is a step in the right direction. "This will not allow the unscrupulous usage of KYC of FPIs and protect sensitive data if implemented properly," said a person dealing with foreign investors.

ASHLEY COUTINHO

**Piggybacking Damani not healthy**

Ace investor Radhakishan Damani recently bought ₹14 crore worth of shares of the micro-cap company — Foods & Inns — through his investment vehicle Derive Investments. The stock ran up 42 per cent as the bulk deal purchase by Damani attracted followers to this little-known company. However, late entrants in the counter have been caught on the wrong foot as the stock fell 19 per cent, giving up a large part of the gains. Brokers say that the stock could see a further run-up if there is more visibility on its earnings potential. The Mumbai-based company manufactures and exports processed food items such as fruit pulps, purees and vegetables.

JASH KRIPLANI

**Neogen commands 10% premium**

Shares of Neogen Chemicals are changing hands at a 10 per cent premium in the grey market. The speciality chemicals company's ₹140-crore initial public offer (IPO) opens on Wednesday. A spate of good, new listings including Polycab India and Metropolis Healthcare has boosted grey market activity. "Small IPOs rarely see any traction in the grey market. However, the back-to-back good listings have buoyed activity. Investors are once again looking at IPOs as a way to make a quick buck," said a market observer.

SAMIE MODAK

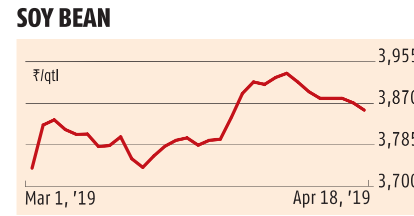
## EVENTS THIS WEEK

| Date | Particulars |
|---|---|
| 22-Apr | US – Chicago Fed national activity Index figures |
| | US – existing home sales data |
| 23-Apr | US – FHFA house price Index figures |
| | US-new home sales figures |
| | Results: Coromandel International, Tata Global Beverages & ACC |
| 24-Apr | UK – public finances |
| | Results: UltraTech Cement, Mahindra & Mahindra Financial, Bharti Infratel, Shriram City Union Finance & Indiabulls Housing Finance |
| 25-Apr | US – initial jobless claims |
| | Results: SBI Life Insurance, Biocon, Maruti Suzuki & Tata Steel |
| 26-Apr | US – GDP & GDP price index |
| | Results: Hero MotoCorp, HDFC Life Insurance, Yes Bank & Piramal Enterprises |
| 27-Apr | Results: Cholamandalam Investment |
| 28-Apr | UK – nationwide house price index |
| | Results: L&T Finance Holdings |

*Source: exchange/websites/Bloomberg*
*Compiled by BS Research Bureau*

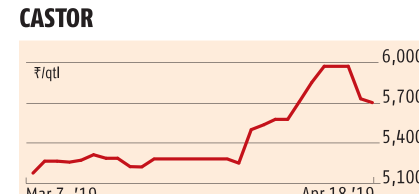
## COMMODITY PICKS

**SOY BEAN**




Soy bean is trading at ₹3,855 per quintal at the benchmark Indore market. Prices are expected to head towards ₹3,800 per quintal during the week. Weak demand from processors and huge stocks with farmers and traders to keep the undertone weak for soy beans in near term.

**CASTOR**




Castor is trading at ₹5,700 per quintal at the benchmark Patan market. In the coming days, castor prices are expected to fall and head towards ₹5,440 to ₹5,420 per quintal amid improved arrivals. Arrivals are picking up in line with seasonality. Surge in prices is also encouraging farmers to liquidate immediately after harvesting.

***Prerana Desai,***
*Research Head - Edelweiss Agri Services and Credit*