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SMART INVESTING

Investors may do Well to Keep an Eye on Maruti

YELLOW METAL TO TAKE CUES FROM US-CHINA TRADE ROW AND RUPEE ; SOME SEE ₹43,000-44,000 LEVELS BY OCTOBER

Gold Crosses ₹40,000 for the First Time

Hits high of ₹40,170 per 10 gram during the day; analysts say a short-term correction possible

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Mumbai: Prices of gold, India's traditional store of value, breached the record of ₹40,000 per 10 gram for the first time locally due to mounting concerns of stagnating global growth and a protracted slide in the rupee – factors likely making bullion even costlier in the wedding and festive season.

During the workday, gold hit a fresh high of ₹40,170 per 10 gram, inclusive of 3% GST. Shankar Sen, CMD of Kolkata-based Senco Gold, said the yellow metal "could hit ₹43,000-44000 per 10 gm by October, when Indian demand tends to revive after a slack season."

Prices of silver, also a store of value in parts of India, climbed to three-year highs.

To be sure, some jewellers and analysts don't entirely rule out a short-term correction in gold prices that have rallied overseas by a fifth in the past three months. A resolution of the trade issues between the US and China could revive demand for risk assets, likely limiting further demand for a safe-haven asset such as gold, said Sen.

Globally, gold hit a fresh six-year high of $1,555 an ounce before cooling off to trade at $1,530 intraday Monday on the possible resumption of trade talks between the US and China.

Gold prices in India are influenced by the metal's overseas rates and the rupee. India is the second-largest consumer of the metal after Greater China, with consumer demand at 760.4 tonnes in 2018.

Almost the entire demand is met through imports. India net imported 755.7 tonnes last year, according to World Gold Council (WGC). The rupee has weakened about 3% in the past three months, accounting for the higher rate of climb — at 22.2% — for domestic spot prices of gold.

On Comex, the largest derivatives marketplace for precious metals, option traders have created the largest open sell positions at the $1,500 strike expiring 90 days from now. Option traders are pegging a three-month range of $1,407-1,593.

Nitin Kedia, business head of Kedia Commodity, said the medium to long-term trend for gold continued to remain positive due to the global economic uncertainty.

Sovereign Support

Official Gold Holdings

	Country	Tonnes	% of reserves		Country	Tonnes	% of reserves
1	US	8,133	0.76	6	Russia	2,207	0.19
2	Germany	3,367	0.72	7	China	1,927	0.03
3	IMF	2,814	–	8	Switzerland	1,040	0.06
4	Italy	2,452	0.67	9	Japan	765	0.03
5	France	2,436	0.62	10	India	618	0.07

As at June 2019; Source: WGC

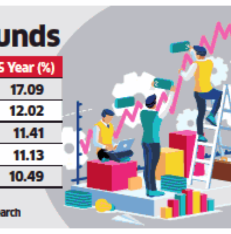
MANY SMALL-CAP STOCKS DOWN 50-70% FROM PEAKS

Planning to Invest in Small-Cap Funds? Spread Your Risk via SIPs

Top Small Cap Funds

Fund	3 Year (%)	5 Year (%)
SBI Small Cap Fund	10.45	17.09
Axis Small Cap	8.9	12.02
L&T Emerging	6.41	11.41
Reliance Small Cap	6.03	11.13
HDFC Small Cap	7.08	10.49

Returns Annualised. As on August 23, 2019
SOURCE: Value Research



Valuations have become cheaper, but investors should have 5-7 year horizon, say wealth advisors

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Mumbai: Wealth managers are advising investors keen on looking at battered small-cap shares to start systemic investment plans (SIP) in schemes that bet on these shares. Many of the small-cap stocks have tumbled 50-70% since January 2018, resulting in their valuations becoming cheaper; but analysts rule out an immediate broad-base revival with earnings growth showing no signs of recovery. SIPs in small-cap mutual fund schemes would help investors spread their risk over a period of time.

"The sharp drawdown in small-cap funds, is a good opportunity to add small cap funds. They can accumulate with a 5-7 years horizon," says Deepak Challani, head – third party products at Prabhudas Lilladher.

Small-cap funds have disappointed investors in the recent past. In the past one year, the category has lost 18.76%, as per data from Value Research. The category has gained 2.2% in the last three years and risen 12.96% in 10 years. The Sensex has lost 2% in the last one year and gained 10.43% in three years. With the S&P BSE Small Cap Index losing 39% from its peak of January 2018, fund managers say there is scope to pick potential winners.

"The selling pressure provides an opportunity for bottom-up stock picking, as this reflects a correction in the valuation multiples rather than any significant reduction in earnings profile for quality companies," said Navneet Munot, ED, SBI MF. "For retail investors, taking exposure via the SIP route is the ideal way to approach the current scenario as it cushions them against any knee jerk reaction in the market."

A research note by SBI Mutual showed that 83% of the stocks forming part of the S&P BSE Small-Cap index are now down more than 30% from their peak prices in the last 18 months. The note said that whenever the small-cap index corrects more than 30%, it bounces back strongly and has delivered 20% on a compounded basis over the next three years.

However, distributors believe given that corporate earnings are slow to come back, investors should be in no hurry to invest, and should build their portfolio slowly over a period of time.

Some financial planners said investors should wait for the economic cycle to recover before investing in small-caps. "Once you see a consistent recovery through better monthly data for at least two months in segments like auto, cement and flight bookings, you could opt for investments in such funds," says Jignesh Shah, founder, Capital Advisors.

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	11057.85	2.11
Sensex	37494.12	2.16
MSCI India	817.51	1.16
MSCI EM	2201.75	1.16
MSCI BRIC	584.64	0.92
MSCI World	8780.67	0.20
SX 40	21369.68	0.00
Nikkei	20261.04	2.17
Hang Seng	25680.33	1.91
Strait Times	3065.33	1.45

Values in US $, Gross — At 7 pm IST

OIL ($) — DUBAI CRUDE: 58.75, 0.01 (Absolute Change)

BOND — 10-YR YIELD: 6.48, 0.09 (Figures in %)

GOLD RATE

Prices per Troy Ounce ($)

	US	India
OPEN	1545.40	1689.81
LAST*	1540.80	1682.26

*At 10.30pm. After adjusting for import duty, Indian spot gold lower by $12.62 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*
71.98	72.02

Market on Twitter@ETMarkets

The loss is more than India's market value in April 2007; ● ONGC alone lost more than ₹1 lakh crore, Maruti Suzuki and Tata Motors other big losers

₹18,00,000 Crore Loss in M-Cap Since Jan 2018

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Mumbai: Indian companies, excluding the top 15 performers, have lost ₹35 lakh crore, or 29%, of market capitalisation since January 2018. The loss, on account of slowing economic growth and lack of revival in corporate earnings, is more than India's market value in April 2007.

The overall market capitalisation of all companies declined ₹18.56 lakh crore since January 2018. But for the resilience shown by the top 15 performing stocks, which have added ₹13.34 lakh crore in market value during the period, the losses would have been sharper.

TCS alone added ₹2.6 lakh crore in market value. RIL and Hindustan Unilever added over ₹1.8 lakh crore, ₹1.11 lakh crore and ₹1.10 lakh crore, respectively

Three stocks — ONGC, Maruti Suzuki, Tata Motors — have lost between ₹88,000 crore and ₹1.10 lakh crore in market-cap since January 2018. Other big companies such as Vedanta, Indian Oil and Yes Bank have seen erosion of market-cap between ₹66,000 crore and ₹77,000 crore during the same period.

Foreign institutional selling has been one of the major reasons for the underperformance of a large number of stocks. Foreign Portfolio Investors (FPIs), who sold nearly ₹36,000 crore worth of Indian equities in 2018, have pulled over ₹20,000 crore out of stocks since this year's budget on July 5.

"Divergent performance across sectors and companies within each sector have been high in the past few quarters as only few companies have reported good earnings growth during this period," said Pankaj Pandey, head of research at ICICI Securities. "This is expected to continue till we see a broad-based earnings recovery."

Among the top 15 performers, Tata Consultancy Services alone added ₹2.6 lakh crore in market value. Reliance Industries and Hindustan Unilever added over ₹1.8 lakh crore, ₹1.11 lakh crore and ₹1.10 lakh crore, respectively, in market capitalisation since January 2018.

The Fall of Dalal Street

	M-cap as on 24-08-19	M-cap as on 23-01-18	Change	% Change
All BSE Market Cap (₹ Cr)	13,656,900	15,512,523	-1,855,623	-11.96
Top 15 Performers (₹ Cr)	4,873,238	3,538,914	1,334,324	37.70
Major IPO Contribution since 23 Jan 2018 (₹ Cr)	256,381	-	256,381	--
Other Stock Mkt Cap (₹ Cr)	8,527,281	11,973,609	-3,446,328	-28.78

Foreign institutional selling has been one of the major reasons for the underperformance of a large number section of stocks and have sold nearly ₹36,000 crore worth of Indian equities in 2018

Major Mcap Losers since Jan 23, 2018

Stock	Mcap (₹ Cr)
ONGC	-110,285
Maruti Suzuki (I)	-94,957
Tata Motors	-88,800
Vedanta	-77,281
IOC	-70,844
Yes Bank	-66,422
Coal India	-65,586
Motherson Sumi	-50,196
Vakrangee	-49,534
ITC	-39,042

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Major M-cap Gainers Since Jan 23, 2018

Stock	Mcap (₹ Cr)
TCS	259,682
RIL	180,664
HDFC Bank	111,427
HUL	109,991
Bajaj Finance	94,313
Infosys	87,205
Kotak Bank	84,355
HDFC	70,041
Nestle India	46,275
Asian Paints	41,265

Source: ETIG Database

Wall Street Rises on Trade Talk Hopes

Wall Street's main indexes rose 1% on Monday as U.S. President Donald Trump eased his stance on trade with China, calming investor nerves after an intense feud between the world's top two economies last week sent stocks tumbling.

▸▸ On Smart Investing

YIELDS FALL FURTHER

Rupee Crashes Below 72 a Dollar on Currency Rout

PTI

Mumbai: The rupee on Monday declined by 36 paise to close below the 72 level against the US currency for the first time in nine months, hit by a 'flash crash' in global currencies due to uncertainty over the trade front. The rupee settled down by 36 paise at 72.02 to the US dollar, the lowest closing level since November 14, 2018, even as equities spurted more than 700 points at close on stimulus measures. The local currency had retreated to a low of 72.25 in day trade following a flash crash in currencies such as Turkish lira, Chinese yuan, and Australian dollar against the US dollar.

The global currencies faced a meltdown in the overnight trade due to the escalation between the US and China over the weekend. The dollar index, which gauges the greenback's strength against a basket of six currencies, rose 0.31 per cent to 97.94 after the euro and the pound dropped. The 10-year Indian government bond yield was down at 6.49 per cent. Foreign investors remained offloading stocks worth ₹752.9 crore on a net basis on Monday.

UNDER PRESSURE

NBFCs Fail to Reflect Fall in G-Sec Yield as Sector Worries Continue

Yields are currently at 7.80% versus 8.90% at the start of September last year

Saloni Shukla & Saikat Das

Mumbai: Risk aversion among investors for 'AAA' rated NBFC paper remained high given the rising defaults. Spreads on five-year AAA rated NBFC paper is at least 80 basis points higher than what it was since the IL&FS crisis in September last year, indicating that the pace of normalisation for non-bank lenders was a long haul and aversion continued towards trusted market instruments despite RBI reducing rates by 110 basis points in the past year.

A basis point is 0.01 percentage point.

Bond spreads or the yield differential between five-year AAA-rated NBFC and similar maturity government papers continued to remain high in this calendar year. While the spreads were at 0.86 basis points at the start of September last year, they still hovered over 70 basis points higher at 152 basis points at the end of last week. On the other hand, absolute bond yields for the same paper have cooled off amid softer interest rate regime. The yields are currently at 7.80% versus 8.90% at the start of September last year although the pace of fall is seen sluggish.

"Rate cut transmission has been dead slow in corporate bonds specially in the NBFC yields amid general sector concerns," said Ajay Manglunia, managing director and head of institutional fixed income at JM Financial Products. "With no clear resolution in sight for two or three stressed companies, a fear of cascading effect is weighing on investors mind very high."

The NBFC sector, safe for a handful of well-managed companies, has been under pressure since the IL&FS default. Repayment worries over Dewan Housing Finance, ADAG group and the Essel Group have pushed funding costs at NBFCs to multi-year highs. Data shows while spreads hovered around 60 basis points over bond yields in May last year, they zoomed to 1.46 basis points in January 2019 and hit their peak in March at 1.68 basis points.

"Some widening of spread at lower levels of yields is natural," said Suyash Choudhary, head-fixed income at IDFC AMC.

Continued on ▸▸ Smart Investing

BANK'S EXPOSURE to VG Siddhartha entities was made public after its shares crashed 12% on July 30

Insiders Went Short on RBL After CCD Chief's News

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Mumbai: Hours after VG Sidhartha's suicide note hit the social media on July 30, several officials of RBL Bank sold shares of the private lender which had exposure to some of the companies controlled and linked to the founder of Café Coffee Day (CCD).

On that day, RBL shares dipped 12% — a fall that stunned many investors. Their fears came true in the evening where the bank informed the stock exchange about its exposure to certain operating entities of the Coffee Day Group in the logistics, coffee and real estate businesses.

"We would like to state that this specific clarification is being made given the unusual circumstances and in the general interest of investors", the bank had said in an exchange filing.

Coffee Day Enterprises founder and chairman VG Sidhartha had gone missing on the evening of July 29.

According to the 'insider trading data' released by BSE recently, about two dozen senior officials of RBL Bank sold shares before the bank's disclosure to the stock exchange.

VG Sidhartha went mysteriously missing on the evening of July 29. Around 3.5 lakh RBL shares were offloaded by the officials of the bank.

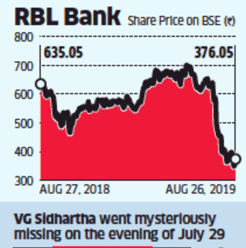
VG Siddhartha's body was found on the banks of Netravati River near Mangaluru on July 31.

Till the evening of July 30, the information about RBL Bank's exposure to Siddhartha's companies was not in public domain.

When contacted, the spokesperson to the bank said that the transactions executed by the employees are strictly done within the purview of the RBL Trading Code. When asked about the timing of the trades by RBL officials, a spokesman for the bank said, "The bank has a board approved RBL Trading Code pursuant to the provisions of SEBI Prohibition of Insider Trading Regulations 2015. The said code lays down processes and procedures to be followed by the employees while trading in the securities of the bank."

According to banking circles, a few RBL officials who had borrowed to participate in the bank's stock options found their stock sold as RBL shares came under pressure when market got a whiff of the bank's exposure to CCD companies.

"Stock shares had fallen even before July 30, and several employees who converted ESOPs into equity with borrowed money were under tremendous pressure to arrange fund," said a banker. "On July 30, stock fell nearly 12% and some of the lenders invoked shares after the employees failed to meet margin requirement with extra fund or collateral," he said.



VG Sidhartha went mysteriously missing on the evening of July 29

Around 3.5 lakh RBL shares were offloaded by the officials of the bank

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