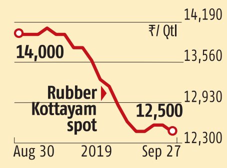
BSE 200: TOP 5 GAINERS OF LAST WEEK

BSE price (in ₹)	Sep 20, '19	Sep 27, '19	% chg
IDBI Bank	28.8	33.6	16.7
Bharat Petroleum	403.7	469.7	16.4
General Insurance Corp of India	190.2	217.5	14.4
Siemens	1,327.5	1,508.8	13.7
Bajaj Finserv	7,697.1	8,546.2	11.0

QUICK TAKE: NEAR-TERM DECLINE IN NATURAL RUBBER PRICES



Natural rubber prices declined by 11% in September as investors fear that growing economic and political risks coud curb its global demand. Analysts say that any easing of the trade war tussle between the US and China could lead to some recovery in the prices over the medium term

"TAX CUT WILL BE A TAILWIND FOR EQUITY PERFORMANCE FOR THE REST OF THE YEAR. INDIA REMAINS THE BEST LONG-TERM STORY IN EM BUT THE ECONOMY HAS CLEARLY SLOWED RECENTLY"

ROSS CAMERON
head, Northcape Capital

Investors can book their seats in IRCTC IPO

A robust growth outlook, attractive valuations, good return ratios are the key positives

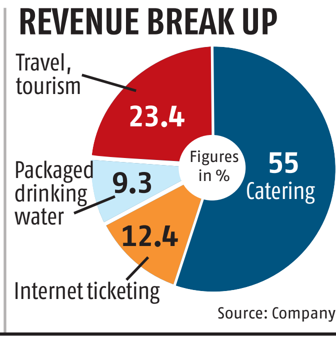
SHREEPAD S AUTE
Mumbai, 29 September

ISSUE DETAILS

Opens on	30 Sep,19
Closes on	3 Oct,19
Size (₹cr)	638*
Price (₹/share)	315-320

Source: Company
*at the upper band

REVENUE BREAK UP



Source: Company

KEY FINANCIALS

	FY19 ₹ crore	CAGR FY17-FY19 (%)
Net revenues	1,867.9	10.9
Ebita	372.2	9.1
Net profit	272.6	9.1
Ebita margin	19.9	130*
RoE (%)	27.3	–

Valuation (x) based on FY19 numbers	
Price to earnings	18-19
EV/Operating profit	10-11

*year-on-year change in basis points
CAGR: cumulative annual growth rate,
EV: enterprise value,
Sources: Company and *BS* Research

Indian Railway Catering and Tourism Corporation's (IRCTC's) initial public offering (IPO) is a good bet for investors. The company, which is under the railway ministry, has a monopoly over e-ticketing, catering in trains and packaged drinking water at railway stations. Reasonable valuation, a robust dividend track record, zero-debt status and a strong outlook for its three core services are the other triggers.

IRCTC has had healthy revenue growth of 27.4 per cent in FY19, while the same over FY17-19 averaged 11 per cent. Good growth at the top also reflects on the bottom line, which has grown by 24 per cent in FY19, even as over the last couple of financial years, growth was around 9 per cent. The withdrawal of service charge on e-ticketing (post demonetisation) had led to a dip in revenues for the company in FY18.

Revenue growth, too, is expected to be steady, driven by multiple factors. According to CRISIL, domestic tourist volumes would see a cumulative annual growth rate of 9-10 per cent over 2018-2023. It also foresees India's e-booking market growing at a 16-17 per cent CAGR over the next five years, with e-booking penetration in railways improving from 70 per cent in FY19 to 81-83 per cent in FY24. Internet usage penetration in India is also expected to be higher.

All these should support growth of the key segments of the company — internet ticketing, catering, and packaged drinking water ie Rail Neer. These three segments accounted for about 77 per cent of IRCTC's FY19 revenue.

In FY19, while the catering and internet ticketing posted 41 per cent and 13 per cent revenue growth, respectively, IRCTC's revenues from Rail Neer rose by 4 per cent. The catering business is expected to grow by 7.5-8.5 per cent over the next five years, according to the CRISIL study. Further, with addition of 10 new plants (six under commissioning and four planned), besides 10 existing plants, should boost IRCTC's market share in drinking water on railway premises and trains, from 45 per cent to 80 per cent in the long term.

According Tejashwini Kumari, analyst at IIFL, levy of convenience fee on ticket bookings and commissioning of six new Rail Neer plants are expected to aid IRCTC's revenue CAGR at 16 per cent over FY19-21. Given the high margin of internet ticketing (67 per cent in FY19) and Rail Neer (17 per cent in FY19), Ebitda margin expansion is likely to be 600 basis points, along with 40 per cent net profit CAGR over the same period, according to Kumari, who has a 'subscribe' recommendation for the IPO.

Notably, the levy of ticket booking charges has been reinstated by the government recently after its removal in 2016. This is a key risk as any change in the government policy would have a substantial impact on the revenues of the company. In fact, the withdrawal of service charges weighed on IRCTC's overall performance in FY18, with around ₹200 crore ticket revenue loss, according to Mahendra Pratap Mall, chairman & managing director of IRCTC. Opening up some of the segments it operates in to private sector is another risk.

Besides, any sharp rise in inflation could dent the company's profitability and earnings if the ministry of railway decides not to pass on the cost pressure to customers and the company also does not hedge market risk in this regard. However, it has a long-term contract for purchase of key raw material for catering services, which is a positive.

Besides above mentioned growth potential of IRCTC, attractive valuations (18-19 times FY19 price to earnings), strong dividend payout history (45 per cent in FY19), and good return on equity (27.3 per cent in FY19) augur well for the IPO. Analysts at ICICI Securities have given 'subscribe' recommendation, citing above mentioned factors.

STREET SIGNS

Positive Nifty bias in October series

Nifty futures rollovers stood at 73 per cent, above the three-month average. The rollover figure hints that longs formed in the end of the last series have been rolled over. Also, overseas investors have doubled their position in index futures during the month. The Nifty is currently trading above 50- and 200-day moving averages. Analysts expect continuation of the recent uptrend. The Nifty index has support at 11,300 levels and resistance at 11,600 levels. Analysts say the index could hover in this 300-point band until traders take cues from the next big trigger, which is Q2FY19 earnings.

ASHLEY COUTINHO

Domestic hedge funds seek relief

A delegation of domestic funds is said to have met with government officials after the latest round of tax cuts. Domestic funds are still said to be smarting at having to pay higher tax surcharge, while foreign portfolio investors have escaped with a rollback. Essentially, homegrown hedge funds have to pay a higher tax on their short-term profits than their foreign counterparts. This is said to be affecting their attractiveness to wealthy individuals after a period of reasonably good growth in the segment. Given the representations, one will have to see if the government pays heed.

SACHIN MAMPATTA

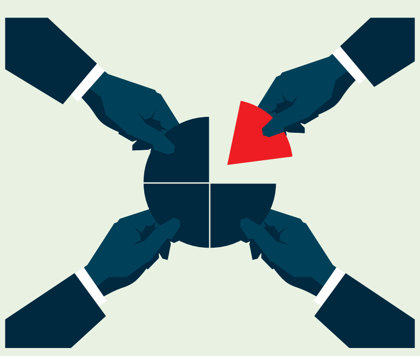
Divergence continues despite tax cuts

Select large-caps have been outperforming the broader markets this year. This trend has continued even after the surprise reduction in corporate tax. Since the announcement on September 19, the Nifty has gained 7.5 per cent, while the Nifty Midcap 100 and the Nifty Smallcap 100 indices have risen 5.4 per cent and 4.7 per cent respectively. An analysis by Motilal Oswal shows that the polarisation in the market has become stark in the past few months. Nifty's year-to-date gains are "largely driven by a group of top 15 Nifty stocks, which are up by 30 per cent over this period. The other 35 stocks are down by 15 per cent. The divergence between these two groups is at 45 per cent, up sharply from 33 per cent in March 2019," the brokerage said.

SAMIE MODAK

India-dedicated funds pull out over $3 bn so far this year

ASHLEY COUTINHO



India-dedicated funds saw outflows to the tune of $375 million in August, taking their year-to-date outflows to $3.2 billion, an EPFR data compiled by Kotak Institutional Equities shows.
Global emerging market (GEM) funds saw outflows to the tune of $868 million, paring the 2019 inflows by these funds to about $181 million. Outflows from India-dedicated, GEM and other categories of funds totalled nearly $1.5 billion in August.

Assets under management (AUM) of India-dedicated funds have slid 22 per cent in the past year to $42.3 billion. In comparison, AUM of GEMs have slid only marginally by 0.5 per cent to $75.7 billion.

EPFR fund-flow data primarily tracks mutual funds, ETFs, closed-end funds, variable annuity funds, and insurance-linked funds. It does not include investments from hedge funds, proprietary desks and sovereign wealth funds, which are tracked by NSDL.

The Indian markets slid 0.4 per cent in August, as FPIs pulled out about $2.2 billion owing to sustained selling seen in the aftermath of the enhanced surcharge introduced in the Union Budget on July 5.

The overall allocation to India by Asia ex-Japan funds increased to 13.3 per cent in August from 13.1 per cent in July, while that by GEM funds increased to 9.7 per cent from 9.5 per cent in the previous month.

The majority of the sectors witnessed selling in August. Financials witnessed heavy selling, with outflows to the tune of $1.2 billion. Utilities, consumer discretionary and telecommunication received marginal inflows.

EBB AND FLOW

India-dedicated funds have reported huge outflows this year

in $ bn	India-dedicated	GEM	Others
August	-0.3	-0.8	-0.3
3-month	-1.7	-1.5	-0.6
6-month	-2.1	-1.7	-1.1
Year-to-date	-3.2	0.1	-1.1

Source: EPFR, Kotak Institutional Equities

Investor flows shift to 'safer' corporate bond funds

JASH KRIPLANI
Mumbai, 28 September

The fears around credit risk funds have prompted mutual fund (MF) investors to shift their allocation towards corporate bond and banking and PSU funds, which tend to invest in relatively less-risky papers.

Both categories have seen steady flows in recent months. In the current financial year (from April to August), banking and PSU funds have garnered over ₹15,000 crore of net investor flows, while corporate bonds funds have received about ₹11,000 crore of flows.

In the same period, credit risk funds have seen outflows to the tune of ₹13,782 crore, showed the data from the Association of Mutual Funds in India.

Industry experts say that this trend is likely to continue. "Corporate bond funds and banking and PSU funds are seen as safer options. After the IL&FS episode last September, there has been a flight towards safety," said Kaustubh Belapurkar, director (mutual fund research), Morningstar.

According to regulatory norms, corporate bonds funds are required to invest 80 per cent of assets in AA-plus and above-rated debt instruments.

Analysts say banking and PSU funds usually invest in A1-plus certificate of deposits of banks and government-owned companies, which are typically AAA-rated.

However, investors still need to be careful. "There can still be credit risks in these categories. For instance, there are no caps on rating profile in banking and PSU funds," said Vidya Bala, an independent MF expert.

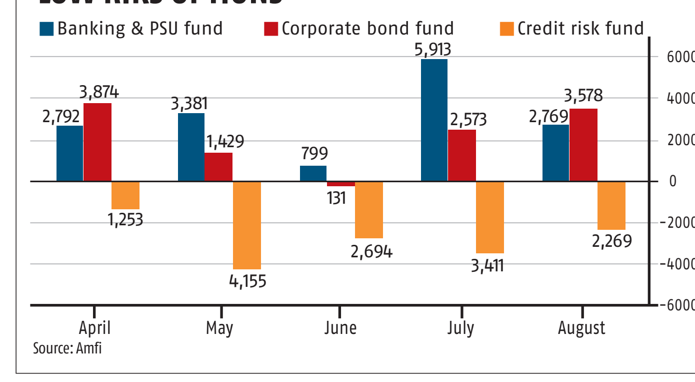
Analysts add that there can be instances where banking and PSU funds have taken exposure to bank bonds, which are not necessarily at the upper end of the rating curve.

Experts say exposure to corporate bond funds can also give investors upside of a duration strategy. "Corporate bond funds offer medium duration play, with high-quality credit exposure," Bala said.

So, fall in yields and a benign interest-rate scenario can contribute to investor returns in such schemes.

In one-year period, corporate bond funds have delivered returns of 6.5 per cent, while banking and PSU funds have given returns of 10.5 per cent. On the other hand, credit risk funds have delivered a little less than 1 percentage point in returns.

LOW RIKS OPTIONS



Source: Amfi

'India is a highly promising macro-restructuring case'

It has been a choppy few sessions for the markets, which saw a runaway rally post the cut in corporation tax rates but later witnessed profit booking at higher levels. Switzerland-based **CHRISTIAN GATTIKER,** chief strategist and global head of research Julius Baer, tells **Puneet Wadhwa** that he has a neutral view on the Indian equity market for now, given the rich valuation. Edited excerpts:

What is your view on global financial markets amid recession fears?
We are constructive on risk assets as a broad global recession will likely be avoided; monetary policies are supportive and fiscal stimuli are likely. We see little potential in long-duration safe haven bonds as they are trading at extremely high valuation levels. Unless there is a major relative repricing, equities are the more attractive asset class over the next 12-24 months.

Should investors stay in cash until there is a clear indication where the global economy is headed?
No. We recommend investors to stay fully invested. There is always a reason to wait and see. However, investors get paid for taking risks. Investing is attractive when risk gets rewarded against cash and safe haven bonds generously, as is now the case.

What's your view on how the US-China trade spat has played out?
The trade tensions were an absolute sentiment killer, especially in the manufacturing space. By no means the financial markets are immune to that, but the desperation has somewhat eased since policy response is in place, ie monetary and fiscal stimuli.

Globally, the money is moving towards which assets?
There has been a panic move into safe haven bonds and other crisis assets, such as gold. Flows into equities has been rather sluggish so far. Yet, the overarching topic remains innovation. Therefore, technology disruptors in all industries and private equity are well bid.

Q&A

CHRISTIAN GATTIKER
Chief strategist and global head of research, Julius Baer

How would emerging markets fare going ahead?
The emerging markets, and in particular equities there, had a hard time as the tightening dollar supply triggered capital flows out of these markets. While the recent rate cuts in the US have brought some relief, we do not see a major turn in the US' monetary policy yet. Our focus is on emerging market bonds, rather than stocks for the time being.

"WE VIEW THE RECENTLY ANNOUNCED CORPORATION TAX REFORM AS A REAL GAME CHANGER FOR INDIA. IF PERSEVERED, THIS WILL GIVE A LOT OF MOMENTUM TO ECONOMIC ACTIVITY. THAT SAID, THE MARKETS HAVE RUN AHEAD OF FUNDAMENTALS, AND THAT IS QUITE USUAL

How have major central banks responded to recent developments?
Central banks have responded adequately but their ability to drive the economy on their own has declined. The statements by central bankers, in particular for Europe, point to increasing importance of fiscal policies to support the economic cycle. Central banks are no longer the 'only game in town'.

What has been your investment strategy thus far in CY19?
We have not gone for major swings in our investment strategy and held the course for most of the year to date. Most recently, we started to increase some of the more cyclically sensitive assets, such as materials, industrials and energy stocks, and upgraded the US small- and mid-cap space. Currently, we do not have strong regional convictions. Rather the regional allocation is a function of the availability of the sector where valuations are attractive or there are stocks available that have an edge.

How does India look as an investment destination now?
India is a highly promising macro-restructuring case. It seems as if the government is repositioning India as a production hub for the global economy. This is quite unique, given the size of the economy and growth potential.

What is your current exposure to India and do you to plan to alter it?
We hold a neutral view for now given the rich valuations in stock markets, but are looking for an entry opportunity. Global investors are best advised to access the market via broad-based investment vehicles.

What is your interpretation of the recent policy announcements?
We view the recently announced corporation tax reform as a real game changer for India. If persevered, this will give a lot of momentum to economic activity. That said, the markets have run ahead of fundamentals, and that is quite usual. Whenever credible policies are put in place, the market gives them the benefit of the doubt.

Can RBI be aggressive with rate cuts?
We do not see a high likelihood of an aggressive rate cut on a standalone basis for India. Yet, if the deflationary environment persists globally, this will give the RBI the means to follow the overall global monetary expansion trajectory. On a positive note, inflation rates at home are quite subdued, which gives policymakers some leeway.

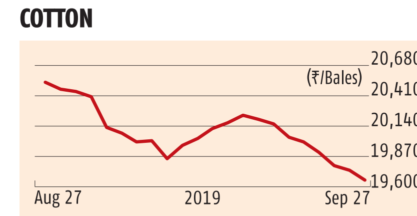
EVENTS THIS WEEK

Date	Particulars
30-Sep	India-BoP CAD figures
	India-fiscal deficit figures
	US-MNI Chicago PMI
	UK-GDP figures
	China-Caixin PMI manufacturing
	AGM-Reliance Communications & Union Bank of India
1-Oct	India-Markit PMI manufacturing
	US-Markit PMI manufacturing
	UK-Markit PMI manufacturing
2-Oct	US-ADP employment change
3-Oct	US-Markit PMI services & composite
	UK-Markit PMI services & composite
4-Oct	India-Markit PMI services & composite
	India-monetary policy
	US-unemployment & underemployment rate
	US-trade balance

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

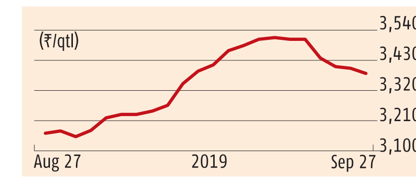
COMMODITY PICKS

COTTON



Cotton benchmark price of good quality S6 in Rajkot is at around ₹19,800 (MCX). The crop is sharply higher compared to the lower base last year. Imports have also been much higher than expected. Export parity remains elusive at current prices. Negative global cues, subdued demand and adverse currency movements will take prices to around 19,000 per bale or lower in the next few weeks.

COTTON SEED OIL CAKE (COC)



CoC prices at the benchmark Akola market are trading at ₹3,400 per quintal. For the week ahead, CoC prices expected to decline by ₹ 80-120 per quintal and head towards ₹3,200 per quintal following commencement of new crop arrivals. Higher crop production estimate following improved monsoon rains further weigh on CoC prices.

Prerana Desai,
Research Head - Edelweiss Agri Services and Credit