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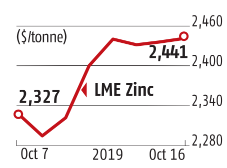
QUICK TAKE: ZINC TO STAY FIRM ON SUPPLY WORRIES



Zinc prices have risen 5 per cent in the last one week as global miners have cut production to control supplies. With demand projected to remain robust, and given the increasing use of galvanised steel in infrastructure, analysts expect zinc prices to remain firm in the medium term

"From 2014-17, investors were giving *gyan* on small/mid-cap investing and how it was easy to make 20-30% a year. Now, investors give *gyan* on corporate governance and why we should only invest in 20 companies, etc, and how everyone else will shut down"

SAMIR ARORA,
founder and fund manager, Helios Capital

Brexit deal pumps up indices; banks, NBFCs lead the rally

SUNDAR SETHURAMAN & BLOOMBERG
Mumbai, 17 October

The benchmark indices rose by more than a per cent on Thursday, capping their longest gaining streak in seven months, after the European Union (EU) and the UK reached a historic Brexit deal.

Most European markets and the US equity index futures rose and the pound hit a five-month high intraday, after negotiators from the UK reached an agreement with officials in Brussels that could pave the way for Britain's departure from the EU.

The Sensex gained 1.2 per cent, or 453 points, to end at 39,052, while the Nifty added 122 points, or 1.1 per cent, to close at 11,586. Both indices have gained over 3 per cent, having risen for five consecutive trading sessions. The last time they had gained for five straight sessions was in March.

Shares of companies with ties to the UK gained the most. Tata Motors rose more than 10 per cent, the second-most in the Sensex pack, while Motherson Sumi Systems added 12 per cent and Mastek gained above 4 per cent.

Market players said the Brexit deal would help end the uncertainty for these companies.

"Most India stocks had declined a lot, and the Brexit deal has had some sentimental impact to boost investors' confidence. Firms with exposure to Europe will benefit from the Brexit deal on the valuation front," said G Chokkalingam, founder and managing director at Equinomics Research & Advisory.

The Indian markets have been making positive strides thanks to positive buying by foreign portfolio investors (FPIs). In the past four sessions, they have pumped in over ₹10,000 crore. On Thursday, they bought shares worth ₹1,159 crore, while their domestic counterparts were net sellers to the tune of ₹512 crore.

Market players said that sentiment of overseas investors has improved, as some of the global headwinds have receded.

"Two major concerns for the global economy have been the trade skirmishes between the US and China, and a 'no deal Brexit'. Early indications were of a Brexit deal being finalised. This augurs well for the global economy. A US- China trade deal will also be very good news as the markets were oversold," said V K Vijaykumar, chief investment strategist at Geojit Financial Services.

October had begun on a weak footing as investors were pulling out of equities, concerned over the health of the financial sector. Several stocks in the banking and NBFC sectors had seen huge correction.

Some of these rebounded on Thursday as investors judged recent losses as excessive.

YES Bank rose 15.2 per cent, IndusInd Bank 5 per cent and State Bank of India nearly 4 per cent. Several mid-cap and small-cap stocks have gained, too, in the past few sessions. Market experts said investors' risk appetite has improved.

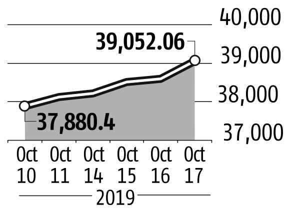
"The risk-taking ability is improving, amid optimism over recovery in the economy. This is led by stimulus, festive demand, good monsoon, and a lower interest rate," said Vinod Nair, head of research at Geojit Financial Services.

STOCKS GAIN MOJO

The markets have witnessed strong buying interest in the past one week

On a higher gear

Sensex has climbed 1,172 points in the last five sessions



Top Sensex gainers*

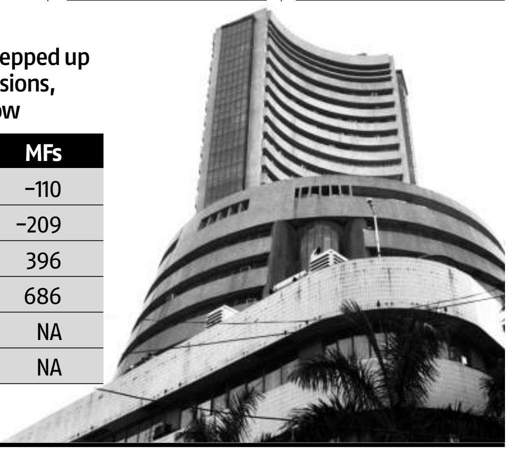
	Change (%)
Tata Motors	19
YES Bank	18
ONGC	15
IndusInd	13
Tata Steel	9

Top BSE500 gainers*

	Change (%)
ITDC	47
New India	39
GIC	26
Adani Green	20
Edelweiss	20

Overseas investors have stepped up buying in the past few sessions, even as MFs have gone slow

(in ₹cr)	FIIs	MFs
10/10/2019	-80	-110
10/11/2019	-568	-209
10/14/2019	6,153	396
10/15/2019	2,169	686
10/16/2019	686.33	NA
10/17/2019	1,158.63	NA



Note: *Since October 10 close
Source: Bloomberg

Investors lose interest in stocks outside A group

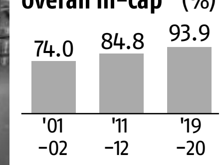
A-LISTERS CLUB

Market cap share of A-group companies has been consistently rising

Market cap (₹ trillion)

Year*	A	B	Others	Total
2001-2002	4.5	1.4	0.2	6.1
2011-2012	52.7	8.8	0.6	62.1
2019-2020	137.3	7.2	1.7	146.3

Share of A group in overall m-cap (%)



How they fare

No. of companies**	
A	479
B	1,044
Others	2,656
Total	**4,636**

Note: *Average m-cap for each year; **Current figures
Source: BSE

SUNDAR SETHURAMAN
Mumbai, 17 October

Regulatory tightening and concerns over governance have put companies that fall outside the so-called 'A group' in a tough spot. Stocks in the A group now account for nearly 93 per cent of the country's total market capitalisation (m-cap). Those in the B group account for less than 5 per cent, while all the remaining categories represent just 1 per cent.

The dominance of A group stocks has been consistently rising since two decades. In 2001, they accounted for 74 per cent of the total m-cap, while in 2011 the same increased to 85 per cent.

The BSE puts stocks in various buckets depending on their size, trading activity, and compliance scorecard. Stocks in the A group are those that are regularly traded, have sufficient public float, and meet other norms prescribed by the exchanges.

This category has 479 stocks at present, considered highly liquid. Other categories include T, X, and XT, depending on the curbs imposed. Stocks that don't fall in either A or other categories, are tagged as B group stocks. These are typically small-cap companies.

Market players say investor interest in non-A group scrips has waned, on account of consistent regulatory tightening.

"There is a general lack of interest in non-A group stocks due to governance issues and trading curbs. For example, once a stock is put in the trade-to-trade mechanism, an investor cannot exit even if there is significant fluctuation in the price before delivery. Further, the margin required to deal in these stocks is often high," said Kamlesh Shroff, chairman of Anmi, a broker's association.

Stocks in the A group are those that are regularly traded, have sufficient public float, and meet other norms prescribed by the stock exchanges

Exchanges and market regulators have introduced the concept of graded surveillance measures (GSM) for stocks that see lot of speculative activity. Experts say stocks put under GSM see little interest from genuine investors.

The rationale behind the GSM is to ensure market integrity and safety of investors. Experts say regulators should device a new way to address this issue, given these curbs have made dealing in many securities costly.

"We are making the Indian markets as the most expensive, as far as the cost of transaction is concerned," said Deven Choksey, managing director of KR Choksey Securities. "The method under which the regulator is managing risk is inappropriate. Asking brokers to get into clearance and custodial activity of clients is becoming counter-productive. Instead of levying hefty margins and imposing a surveillance mechanism, the ideal way to go forward would be the custodial way of settlement," he added.

Market players said challenges to the price discovery process, too, could be driving investors away from stocks not in the A group. This is making the stock market a hostile ground for smaller firms.

"Earlier, large investors used to find hidden gems in the broader market. However, misuse of the stock exchange platform has given a bad name to companies that don't belong to the A group. In the long run, therefore, it could impact the stock market ecosystem as there will be concentration in only a few hundred stocks," said a broker.

Kotak, Axis AMCs move HC over DHFL dues

JASH KRIPLANI
Mumbai, 17 October

Kotak Mutual Fund (MF) and Axis MF have joined the list of fund houses that have approached the Bombay High Court (HC) to recover dues from Dewan Housing Financial Corporation (DHFL).

"At Kotak MF, we are committed to take all actions that are necessary to protect our unitholders' interests. Since the matter is sub-judice, we can't talk about the merit of our action. We have full faith in our judiciary that they will protect the interests of retail investors," said Rohit Rao, chief communication officer, Kotak Mahindra Group.

However, it couldn't be ascertained at the time of going to press, whether pleas of both the fund houses were admitted by the court.

An email query sent to Axis MF didn't elicit any response at the time of going to press.

Among other fund houses, Nippon India MF and Edelweiss MF have recently moved the HC pertaining to their dues related to DHFL debentures. According to industry sources, the legal route is the only option left for the fund houses as the norms laid down by Sebi allow fund houses to participate in a debt resolution plan if the stressed asset is already side-pocketed.

Sources add that banks are keen that MFs also join the inter-creditor agreement (ICA) framework for debt resolution of DHFL, but MF officials say they can't join the resolution plan without an exemption from Sebi.

Since most fund houses were still in the process of meeting the criteria required for creating a side-pocket at the time of DHFL's downgrade to below-investment grade (credit event) on June 5, it prevented them from participating in the ICA framework introduced by the Reserve Bank of India.

In its last hearing, the court allowed Edelweiss MF's plea seeking disclosure of assets and liabilities of DHFL. The court also extended the injunction on DHFL from making repayments to either secured or unsecured lenders, until further orders. The court gave four weeks' time to DHFL to file its reply. On Thursday, DHFL said that in light of the interim order granted by the HC, the firm has been unable to remit the funds collected to the assignee/buyer of the securitised/assigned pool, resulting in non-payment on the due date.

LEGAL TUSSLE

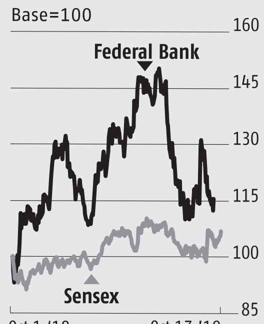
- DHFL has seen a flurry of legal suits, filed by MFs
- Banks are seeking debt resolution plans under RBI framework
- With Sebi norms preventing ICA entry, MFs take legal route
- Earlier, Nippon India MF and Edelweiss MF had moved court

DHFL REPORTS Q2 NET LOSS OF ₹242 CR PAGE 20

THE COMPASS

Federal Bank Q2: Retail loans take centre stage

Higher slippages a concern but Street not negative yet



Compiled by BS Research Bureau

HAMSINI KARTHIK

The Federal Bank stock recovered on Thursday, after falling over 5 per cent a day earlier in what was a hasty reaction to the results.

It bounced back by 3 per cent, after the dust settled on its September quarter (Q2) numbers. However, beyond the headline numbers and being the second after IndusInd Bank to publish its results, Federal Bank's Q2 numbers highlight some important lessons.

First, with a 24 per cent year-on-year (YoY) increase in retail loans, this segment will remain the cash cow for Federal Bank, and possibly for the banking system as a whole. Growth was led by newer sub-segments such as personal and auto loans, which rose 131 per cent and 60 per cent YoY, respectively, backed by housing loans that grew 24 per cent.

Despite turning cautious on unsecured personal loans, Federal Bank may have placed its bets on this segment, given its competitors have, of late, had to go slow on this space on account of the scale they have gathered in recent years.

Federal Bank's inroads into the auto loans space also indicates there is space for late entrants, notwithstanding the slowdown.

However, growth may have come at the cost of profitability or net interest margin (NIM), which fell from 3.15 per cent a year-ago to 3.01 per cent in Q2FY20.

Yield on advances, which declined by 22 basis point (bps) YoY to 9.33 per cent, shows the bank's inability to pass on the higher cost to its customers.

This is the second lesson for the banking industry — pricing power in retail loans may be put to test in the bid to maintain growth.

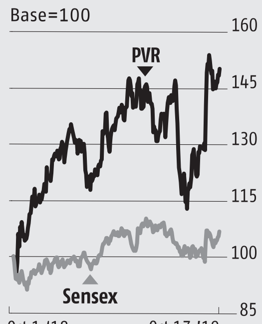
Third, stress from corporate accounts may continue to rise. Elevated slippages (loans turning bad) from corporate accounts was the Achilles heel for IndusInd Bank, and it is no different with Federal Bank, with slippages from this segment increasing by 61 per cent YoY to ₹199 crore.

Analysts at Edelweiss say that in light of the challenging macro-environment, they will monitor the identified pool of stressed and below-investment grade assets, which could add to volatility in asset quality.

Nonetheless, the Street hasn't turned pessimistic on Federal Bank. Despite the 13 per cent price correction over the past six months, majority of analysts polled on Bloomberg remain positive on the stock. Affordable valuations at 1.3x its FY21 book work in its favour.

PVR bucks slowdown trend with blockbuster show

Highest-ever footfall leads to 35-37% growth in top line, net profit



Compiled by BS Research Bureau

SHREEPAD S AUTE

PVR's strong September quarter (Q2) results indicate that multiplexes remain outliers amid the slowing consumption, a trend likely to continue in the near term.

Improved footfall and occupancy — which points towards customers' willingness to spend on entertainment — provided a strong impetus to PVR's top line. Consolidated top line grew 37.3 per cent year-on-year (YoY) to ₹973.2 crore, significantly beating the Bloomberg consensus of ₹894 crore.

In Q2, while customer footfall increased by 25 per cent YoY, occupancy rate rose to 37.8 per cent from 34.6 per cent last year. Strong content (films such as *Super 30*, *Mission Mangal*, *Chhichhore*) and higher appetite of individuals to watch movies in multiplexes augured well.

In fact, PVR witnessed its highest ever footfall in Q2, said the management. As a result, revenue from its two key segments — box office and food & beverages (F&B) — surged 32-38 per cent YoY. F&B revenue was also supported by a 12 per cent YoY increase in spends per head. Both segments account for over 80 per cent of PVR's standalone revenue.

It clocked 16 per cent rise in advertising revenues, despite the feeble economic conditions. Long-term partnerships (25-30 per cent of ad revenue) and screen presence (800 in 69 cities) were other advantages.

Favourable operating leverage and cost efficiency led to a decline in operating expenses as a percentage of sales. This, along with the new lease accounting rule, pushed up Ebitda margin by 1,518 bps YoY to 32.7 per cent, while net profit rose 35 per cent YoY to ₹47.9 crore, against expectations of ₹36.5 crore. Excluding the IND-AS 116 impact, Ebitda margin was up 248 bps to 20 per cent.

Good content will continue driving the PVR show. According to Nitin Sood, chief financial officer of PVR: "October started on a good note in terms of content and advertising revenue. We are confident that advertising revenue will continue to grow in the next two quarters."

Bhupendra Tiwary, analyst at ICICI Securities, says: "The content pipeline appears strong for the next couple of quarters. We estimate close to 20 per cent revenue growth and 18 per cent Ebitda growth, excluding IND-AS impact, for FY20."

However, a sharp 17 per cent rally in share prices over the last month could limit the upside.