

Refined soy oil prices are up 5% in November on fears of lower supply of soybean following crop damage in flood-hit areas. Analysts say prices are likely to remain firm in the medium term on rising prices of other edible oilseeds and oils due to rising domestic demand

"Global Volatility is at a yearly low. Global Markets are at all time highs. Complacency has built in. In the short run of 1-3 weeks, downside risk is greater than upside potential"

SANDIP SABHARWAL
Investment advisor



Sebi puts Karvy-HNIs nexus under scanner

SAMIE MODAK

Mumbai, 28 November

The Securities and Exchange Board of India (Sebi) and exchanges are probing alleged connivance between Karvy Stock Broking (KSBL) and some of its wealthy clients. Sources say the possibility of high net-worth individuals (HNIs) giving consent to the Hyderabad-based brokerage to pledge their shares to earn additional income on their idle portfolio can't be ruled out.

While there is a formal system, known as securities lending and borrowing (SLB) mechanism, to loan shares to other market participants — typically short-sellers — it is yet to gain traction in a big way, prompting some investors to enter into informal arrangements with their brokers. A week ago, Sebi issued strictures against KSBL for misusing client securities.

The brokerage is alleged to have raised ₹600 crore by pledging client securities worth over ₹2,000 crore with banks and non-banking financial companies (NBFCs). "Whenever securities move from one depository participant (DP) account to other, alerts are set out by the system. Some clients could have been in the dark because of issues such as contact details not being updated. However, it is highly unlikely an investor sitting on a large portfolio could have been completely unaware of securities moving in and out of the account," said a regulatory source.

Following the Sebi order, the National Stock Exchange (NSE) has appointed EY to conduct a forensic audit to examine the exact misuse of client funds and securities by KSBL. Sources say the findings of the audit are



THE PLOT THICKENS

- Karvy pledged client securities with banks, NBFCs
- Over ₹2,000 cr could have been pledged to raise ₹600 cr
- Karvy transferred funds to its own account
- EY is conducting a forensic audit on the brokerage
- Side arrangements between Karvy, HNI clients are being probed

whose funds and securities are stuck with the brokerage are returned safely.

"While investors protection is our main objective, it needs to be probed if some clients had any arrangement with the brokerage for pledging of shares for a fee," said the source.

Industry players say side deals between clients and brokerages are common in the industry. "It is often seen that a client gives complete access to the broker to trade on their behalf. However, when a trade or the arrangement incurs a loss, the investor typically cries foul," said a broking official asking not to be named.

In the past few years, Sebi and exchanges have made several regulatory changes to avoid such instances. Some of these include maintaining an electronic or paper trail of instructions given by the client to execute a trade. Also, through a circular in June, Sebi had reiterated that one client's securities shouldn't be used for proprietary trades or to meet the shortfall of other clients.

Last week's Sebi order against Karvy talks about how the brokerage indulged in this practice.

"The securities lying in the DP account of KSBL, actually belong to the clients who are legitimate owners of the pledged securities. Therefore, KSBL did not have any legal right to create a pledge on these securities and generate funds. Even if, the client securities were pledged, it should be only for meeting the obligation of the respective clients only, which was not observed in this case," the order states.

The order also mentions how Karvy transferred the funds raised by pledging client securities to six of its bank accounts instead of a broker-client pooled account.

Barings Asia looks to exit investment

DEV CHATTERJEE

Mumbai, 28 November

A month after the Securities and Exchange Board of India (Sebi) and Bengaluru police began their probe into the alleged misuse of client securities by Karvy Stock Broking (KSBL) in June, Ashish Agarwal, the lone representative of Barings Private Equity Asia on the board of KSBL, resigned from it.

Barings Asia had invested in KSBL in 2007 and held a minority stake in the company. When contacted, a Barings Asia spokesperson said: "Baring Private Equity Asia has been exiting its stake in Karvy in an orderly manner and Agrawal's resignation was part of that process. Neither Baring nor Agrawal knew about the Sebi investigation at the time of his resignation."

Barings had acquired the stake in November 2007, along with IICI Venture. They held a 30.95 per cent stake in KSBL. The two private equity firms had bought the entire 20 per

cent equity held by Pacific Century Group and bought an additional 10.95 per cent stake by investing in the fresh equity of KSBL. In FY17, KCL, the promoter company, acquired the stake of IICI Venture, even as the financials of the firm started to deteriorate.

On June 19 this year, media reports from Bengaluru said several investors complained to police about a default in payment of dues from Karvy Wealth.

Police had booked all the directors of KSBL, including Agarwal, and directors of its subsidiary Karvy Realty and Karvy Capital. The complainants told police that there are several other investors who were duped by the company and that they did not receive any returns since 2017. The instruments offered to the complainants promised 18-20 per cent returns.

Karvy denied the charges and said the complainants had invested in high yield-high risk investments and it did not mislead any customer.

expected soon.

According to preliminary findings, KSBL is alleged to have transferred ₹1,096 crore to its group firm Karvy Realty

between April 2016 and October 2019.

Regulatory sources say their prime objective is to ensure that innocent clients



RIL FIRST TO ENTER ₹10-TRN M-CAP CLUB

Mukesh Ambani-led Reliance Industries' (RIL's) market value on Thursday passed the ₹10-trillion mark, making it by far the most-valued listed firm in the country and 64th globally. Shares of the diversified conglomerate have been on fire in the past two years, underpinned by strong momentum in its telecom and retail verticals. RIL can also boast of highest net sales and profits among India Inc. It alone now accounts for 6.5 per cent of India's total market cap. Also, the gap between the company and TCS, the second-most valued company, has now widened to nearly 30 per cent. In dollar terms, RIL is valued at \$140 billion, slightly below global oil and gas peers France's Total and China's Petrochina.

SAMIE MODAK

Waiting to break into global league

The company could soon break into the top five most-valued oil & gas stocks

Rank	Company	M-cap (\$ bn)
1	Exxon Mobil Corp	291
2	Royal Dutch	228
3	Chevron Corp	223
4	Total SA	141
5	Petrochina	140
6	RIL	140
7	BP Plc	128
8	Gazprom	94
9	Petrobras	93
10	Sinopec Corp	83

Journey to the top

- Dec 9, 2005 Bombay High Court approves RIL demerger scheme*
- Sept 22, 2007 RIL finds oil in KG-D6
- Nov 26, 2009 Shareholders get one-for-one bonus shares
- Jan 20, 2012 Announces ₹10,440 crore share buyback
- Jul 1, 2016 Announces setting up of payments bank
- Sept 6 Launches Jio introductory offer
- Jul 21, 2017 Mukesh Ambani says consumer business profitability will be similar to energy and materials business in a decade
- Jun 15 Announces ₹40,000 crore

- investment in KG block with BP
- Sept 7 Shareholders get one-for-one bonus shares
- Jul 26, 2019 Jio becomes India's largest telecom company
- Aug 6 BP, RIL decide to form joint venture for fuel retailing
- Aug 12 Announces plan to sell partial stake in oil to chemicals division to Saudi Aramco
- Oct 18 Sept quarter results show consumer businesses account for 33% of RIL's Ebitda
- Oct 25 RIL announces plan to make Jio debt-free which the markets say is a step towards its listing

*Marks split of Reliance Group between Ambani brothers, Mukesh and Anil; Ebitda: Earnings before interest, tax, depreciation and amortisation Source: Company, news reports

Road to ₹10 trillion

RIL isn't just India's most valued, but it also has the highest net sales and profits

Milestone (₹ trn)	No. of trading sessions	Date	Net sales (₹ cr)	Net profit (₹ cr)	P/E (x)
1	-	Aug 02,'05	69,555	8,445	12
2	423	Apr 16,'07	110,221	11,784	17
3	109	Sep 19,'07	115,223	12,867	24
4	27	Oct 29,'07	117,210	13,704	30
5	2,405	Jul 17,'17	323,863	31,866	16
6	73	Nov 01,'17	339,183	32,796	18
7	180	Jul 20,'18	436,962	36,426	20
8	22	Aug 23,'18	436,962	36,426	22
9	284	Oct 24,'19	600,558	41,979	22
10	24	Nov 28,'19	600,558	41,979	24

Note: Net sales, profit and price to earnings (P/E) are for the trailing 12-month for the corresponding date Compiled by BS Research Bureau Source: Capitaline/Bloomberg/exchange

Way ahead in India

India rank	World rank	Company	M-cap (₹ cr)
1	64	Reliance Ind	1,001,555
2	100	TCS	779,505
3	111	HDFC Bank	692,615
4	196	HUL	451,480
5	224	HDFC	398,992
6	299	ICICI Bank	335,686
7	322	SBI	311,424
8	324	Kotak Bank	308,612
9	334	ITC	303,054
10	351	Infosys	298,795

Compiled by BS Research Bureau Source: Bloomberg/exchange

Trailblazer for India Inc



THE COMPASS

DLF's inventory sales key to further gains

On track to breach its FY20 sales guidance

RAM PRASAD SAHU

DLF has been on an uptrend over the past two months (up by 51 per cent since October), on expectations that monetisation of its inventory, steady gains from the rental business, and new projects will lead to higher cash flows and improve growth visibility. Strong September quarter results and the inclusion in the MSCI India Domestic Index also helped boost its stock returns.

Among key triggers has been the improvement in operational performance. On a sequential basis, sales in the residential segment were up 3 per cent, while rental income was up by 12 per cent. Brokerages believe the company is on track to beat its FY20 sales guidance of ₹2,700 crore (residential) and rent income of ₹3,800 crore.

Sales momentum should help the company double its quarterly cash flows from the residential business over the next two quarters, as compared to the run rate it was achieving in the past. Analysts at Morgan Stanley say the focus will shift to monetisation of ₹10,000 crore of unsold, uncompleted inventory, leading to positive cash flow generation (about ₹600 crore per annum) and further deleveraging.

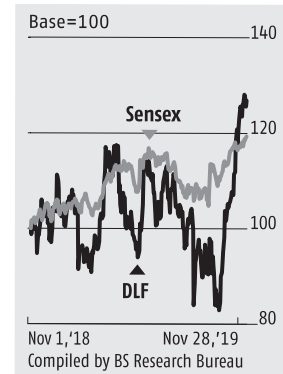
Revenue visibility in the medium term is expected to come from the 12-13 million square feet of new projects, which include projects in Phase V and Central Delhi projects with sales potential of over ₹32,000 crore.

Analysts at JP Morgan believe that two recent transactions over the last three months indicates a

turnaround for New Gurgaon, which is an encouraging development from a medium-term valuation perspective, given DLF's large embedded land holding of 100 million square feet in this area.

In the rental business, analysts expect a mid-teen growth. The company is planning to add rent yielding assets to the tune of 9.1 million square feet, which should generate income of ₹900 crore. Given the current income and growth rates, analysts believe valuation of the rental business could re-rate. The listing of the maiden real estate investment trust has set a benchmark that could help improve the valuation of the company's rental assets.

While there are growth triggers, given the sharp uptick, investors should await a correction before checking in to the stock.



NBCC's rise depends on project execution

Analysts cut firm's FY20 earnings estimates

UJVAL JAUHARI

The NBCC stock has corrected almost 44 per cent since its March highs and by 72 per cent since its peaks in November 2017. While the company has a strong order book, slow progress on execution has hit profit growth and disappointed investors. The company's order book, largely from project consultancy management (PMC) of the government, is pegged at ₹80,000 crore, which is more than 8x its FY19 revenues. In addition to this, it expects orders worth ₹5,000 crore each in December and March quarters.

Given the execution issues, the company's September quarter revenues declined about 30.6 per cent year-on-year (YoY), while profit before tax slid 24.3 per cent. PMC seg-

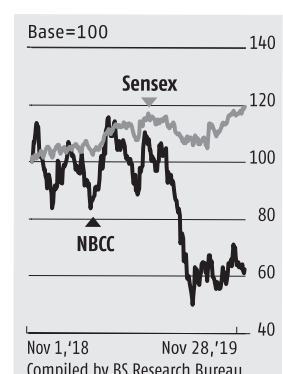
ment revenues fell 25 per cent YoY due to weak execution, led by approval delays and seasonal factors. The segment contributes 95 per cent to overall revenues. Other segments such as real estate and engineering procurement construction (EPC) disappointed as well. Analysts say key projects and poor pace of realty monetisation has kept the overall execution trajectory lacklustre. In Delhi redevelopment projects, while NBCC has sold about ₹4,000 crore worth of commercial space in Nauroji Nagar project to date, the total amount of funds to be generated in this redevelopment project is ₹32,000 crore.

Thus, improvement in financials is dependent on pace of realty monetisation. In the AIIMS redevelopment project, the company is still

awaiting the tree cutting clearances to be given by the Delhi government.

With redevelopment projects suffering, it is not surprising that the company's profitability is dented. Post a steep decline in revenue and worsening operating profitability, analysts at Anand Rathi say that FY20 guidance (15-20 per cent revenue growth) is unlikely to be attained. They estimate revenues to decline by over 30 per cent, with profits declining by more than half, as compared to FY19.

Analysts at Edelweiss Research factored in weak performance and have revised the firm's FY20 earnings estimates lower by 35 per cent. Clearances for large projects and monetisation of the real estate inventory would be key triggers, they feel.



ABFL becomes first NBFC to list commercial paper on bourses

Non-banking lender Aditya Birla Finance (ABFL) on Thursday became the first company to list its commercial papers borrowing of ₹100 crore on the bourses.

The Kumarmangalam Birla-led company listed its CPs on the NSE with a value date of November 28, 2019, and maturity date on February 7, 2020, on the

Sensex and the Nifty, both bourses said in separate statements.

"Trust in the system can only be restored with complete transparency. Through this pioneering move, we aim to set standards for commercial paper issuance which will bring in liquidity, transparency and thereby create trust in the minds of investors," ABFL

Managing Director and CEO, Rakesh Singh, said in a statement.

In October, the capital markets regulator, the Securities and Exchange Board of India, asked exchanges to put in place a necessary framework for systems and procedures for listing of commercial papers.

PTI