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# The Smart Investor

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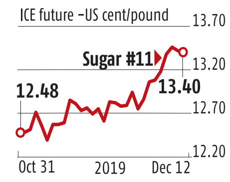
**QUICK TAKE: HIGHER STOCKS TO WEIGH ON SUGAR PRICES**




Global sugar prices have risen 6.5 per cent in the last one month, due to forecast of widening deficit in global markets, following diversion of cane for fuel in Brazil. India, with its massive carry-over stocks, is expected to export sugar and help bridge the global deficit, thereby leading to lower prices

*"Smart guys make money, dumb ones give reasons for not making it"*

BASANT MAHESHWARI
Portfolio manager

# Karvy: Lenders' dispute spills over to commodities

## Clients of commodity arm knock on bourses' door over delay in payment

SHRIMI CHOUDHARY
New Delhi, 12 December

The Karvy Stock Broking fiasco has spilled over to the commodities space, with clients of sister concern Karvy Comtrade facing payment-related issues.

People in the know said banks, which had lent money against pledged shares to Karvy Stock Broking, have stopped 'withdrawal' by Karvy Comtrade clients, resulting in delay of payouts.

They added that majority of the clients, who actively trade through Karvy Comtrade, have approached the Multi Commodity Exchange (MCX), National Commodity & Derivatives Exchange (NCDEX), and Indian Commodity Exchange (ICEX), seeking intervention.

The exchanges are said to be working with the markets regulator to ensure investors' interest are safeguarded.

Karvy Group's commodity broking arm, too, is facing a liquidity crisis because of some issues related to NCDEX, said people in the know.

Lenders are in a dispute with Karvy pertaining to loans availed of by the latter by fraudulently pledging client securities. The banks have been caught off-guard after the Securities and Exchange Board of India's (Sebi's) move to transfer pledged securities of 83,000 clients from Karvy's account to their respective clients' accounts. Lenders, who had given loans against these securities, have challenged the move.

Although banks seem to have frozen the accounts of Karvy Comtrade, it is not clear if they have put on hold credit facilities against the broking or commodity businesses.

Industry players say the move is an extreme step, given both businesses are separate entities.

"If the action taken by lenders is on account of liabilities of Karvy Comtrade, then the move could be justified. However, they can't go after commodity clients for wrongdoings of the stock broking arm," said a legal expert.

Karvy Comtrade has been facing cash flow-related issues since October. The commodity firm attributed the same to long castor futures, which had defaulted in margin obligations, leading to a crash in prices by over 20 per cent.

However, the clearing corporation has recovered money from some defaulting members. The firm is said to be in the process of recovering further dues from clients who had failed in mark-to-market obligations. It serves 200-300 clients. Initially, close to 30 were affected, but now the numbers are increasing, said one of the people cited above. People in the know also said banks were reviewing all such pledges, especially those with stockbroking entities. They are looking at the concept of bank guarantee facility available with stockbrokers.

Brokers basically use bank guarantees to initiate positions or take additional exposure on behalf of their clients. To protect the bank's credit exposure to the highly volatile commodities space, the Reserve Bank of India had directed banks to obtain from brokers a minimum margin, 50 per cent of which would be in cash, while issuing guarantees on behalf of them to exchanges such as NCDEX, MCX, and National Multi Commodity Exchange. Experts say this review of the business model by lenders has come in the wake of the Karvy fiasco, in which banks doubt that securities pledged with them are clients' securities, in contravention of Sebi's June 20 circular.

The cancellation of pledge or collateral by the regulator will have a significant consequence, which could bring the whole system of 'loans against shares' to a standstill, say industry players.


### TROUBLE MOUNTS

- Karvy Comtrade, a subsidiary of Karvy Group, runs as a separate entity
- Active on MCX, NCDEX, and ICEX with 6,000–8,000 customers a year
- Sebi's November 22 order is against Karvy Stock Broking, with no impact on commodity biz
- Regulator keeping close watch on all business associated with Karvy Group
- Lenders' move comes amid Sebi's transfer of securities to 83,000 investors

# Axis Bank plea: Tribunal reserves order till Dec 17

JASH KRIPLANI
Mumbai, 12 December


The Securities and Appellate Tribunal (SAT) has reserved its order on Axis Bank's plea in the Karvy Stock Broking case. The tribunal will issue its directions on December 17.

The lender had sought the SAT's intervention following National Securities Depository's (NSDL) move to freeze the shares pledged by Karvy. The brokerage had pledged shares to the lender against an overdraft facility of ₹100 crore.

In its November 22 interim order, the Securities and Exchange Board of India (Sebi) had restrained the transfer of securities from Karvy's account with immediate effect, except to beneficial owners or clients who had cleared all payments pertaining to the securities.

Axis Bank submitted that Karvy owed ₹80 crore to the bank.

However, as a result of the freeze, the bank was not able to invoke the pledge. The bank also added Sebi, Central Depository Services (India), and the NSE as parties to the case.

In earlier pleas, even though the tribunal had heard arguments made by the lenders, it had decided against giving immediate relief. The SAT had directed Sebi to give the final order in the matter.

The Bench had also rapped appellants for approaching the tribunal on December 2, even though the Sebi order was passed on November 22.

It also observed that "a lot of water has flowed under the bridge" during this time.

# *Bharat Bond ETF anchor book sees 1.7x subscription, receives bids of ₹3,000 cr*

## Subscription to NFO opened on Thursday; banks, insurers among participants

JASH KRIPLANI
Mumbai, 12 December

Subscription to the new fund offer (NFO) of the Bharat Bond exchange-traded fund (ETF) opened for anchor investors on Thursday.

It saw subscription of 1.7x, receiving bids worth ₹3,000 crore. Life Insurance Corporation of India also participated, said people in the know. The people added that banks and insurers, both private and public, participated in the anchor book. Foreign portfolio investors were others to participate in the anchor book.

In a circular issued on Wednesday, the Insurance Regulatory and Development Authority of India allowed insurance providers to invest in debt ETFs, where the underlying debt securities are of public sector units (PSUs).

Through a gazetted notification, units of debt ETF meant for investment in PSUs were included in the list of 'debt investments' for non-government provident funds, gratuity, and superannuation funds.

From December 13-20, the NFO will be open to other investors. Anchor investors are required to invest ₹10 crore, and in multiples of ₹1,000 thereafter. Minimum investment amount for retail individual investors is ₹1,000, and in multiples of ₹1,000 thereafter.

The maximum investment for these investors is capped at ₹2 lakh.

Investors who do not have a demat account can also participate in the NFO through fund of fund (FoF) products. Both ETF series will be available through the mutual fund route as FoF products.

The ETF, which will invest in AAA-rated bonds of PSUs, will have two maturities.

In the three-year maturity series (April 2023 maturity), the ETF proposes to raise an initial amount of ₹3,000 crore, with a greenshoe option of ₹2,000 crore. In the 10-year maturity (April 2030 maturity) series, the ETF proposes to raise ₹4,000 crore, with a greenshoe option of ₹6,000 crore.

Speaking at the launch, Radhika Gupta, chief executive officer of Edelweiss Asset Management (AMC), said: "Globally, bond ETFs have grown at a healthy pace in the last decade, primarily due to lower costs, compared to traditional bond funds. The bond ETF asset base is around $1 trillion worldwide."

Edelweiss AMC is managing the ETF. The expense ratio of the fund has been pegged at a measly 0.0005 per cent. This means that if a retail investor puts ₹2 lakh in the ETF, the management fee will come up to just ₹1.

Gupta said that initially the ETF will look at AAA-rated bonds to make sure retail investors' confidence remains intact. However, if there is demand and opportunity, the ETF could look at instruments rated below the top grade, she said.

The yield of Nifty Bharat Bond Index (April 2023) is 6.69 per cent and Nifty Bharat Bond Index (April 2030) is 7.58 per cent, as on December 5.


**Radhika Gupta, CEO, Edelweiss MF, flanked by Nitin Jain, CEO, Edelweiss Global Investment Advisors, and Hemant Daga, CEO, Global Asset Management, in Mumbai** PHOTO: KAMLESH PEDNEKAR

### OFFER DETAILS

- NFO opened for anchor investors on Thursday
- Other investors can participate between December 13 and 20
- Investor categories capped at 25% of max amount raised
- Management fee pegged at 0.0005% of expense ratio

# Street cheers for Ujjivan SFB as stock soars 50% on debut

SUNDAR SETHURAMAN
Mumbai, 12 December

Continuing with the recent trend of stellar listings, Ujjivan Small Finance Bank (SFB) saw its stock soar close to 70 per cent in its debut, on Thursday. The stock had attracted huge demand in its initial public offering (IPO) last week. It closed its first day at ₹55.3, which was ₹18.3, or 50 per cent higher than its issue price of ₹37.

The Ujjivan SFB stock touched a high of ₹62.8 and low of ₹53 on the National Stock Exchange, where over ₹1,400-crore worth of shares changed hands. Ujjivan SFB's ₹750-crore IPO garnered nearly 170x subscription, with huge demand from both retail and institutional investors.

Analysts said a reasonable valuation, stable asset quality, and the brisk pace of business growth were factors that attracted investors.

"The experience of Ujjivan Financial Services as an erstwhile microfinance institution, coupled with the ability to address mass market customers, will further help it become a leading player in the SFB space. With strong asset quality and attractive valuation, we have a positive view on a long-term perspective," said Vinod Nair, head (research), Geojit Financial Services.

Ujjivan SFB raised ₹750 crore through its IPO to augment its capital base. The primary reason for listing was to meet the central bank's guidelines on SFBs. Ujjivan SFB is a wholly-owned subsidiary of Ujjivan Financial Services. The central bank has mandated all SFBs to be listed as standalone entities within three years of commencing business.

Following the IPO, Ujjivan Financial Services' stake in the bank has declined from 100 per cent to 84 per cent.

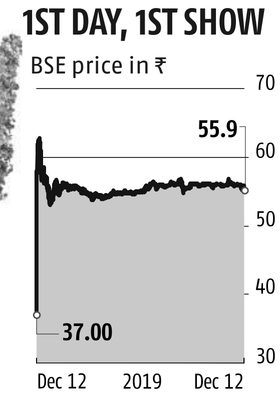
Interestingly, even as Ujjivan SFB's shares soared 50 per cent, the stock of parent company Ujjivan Financial Services ended 3.3 per cent lower at ₹329.

At present, Ujjivan SFB has a market cap of ₹9,661 crore.

Ujjivan Financial's market cap is only ₹3,993 crore, even as its stake in the SFB is valued at ₹8,115 crore.

Some market players called this an "unusually high holding company discount".

### 1ST DAY, 1ST SHOW




Compiled by BS Research Bureau

### Despite stellar gains, HNIs book losses

High networth individuals (HNIs), who had borrowed money to apply for shares of Ujjivan SFB, had to book losses despite stellar gains. According to market players, the break-even cost for investors who had taken loans and applied in the so-called non-institutional investor (commonly referred to as HNI segment) was around ₹66 per share. The stock of Ujjivan SFB after touching a high of ₹63, ended at ₹55.3.

"After good listing day performance of Affle India, IRCTC, and RBL Bank, HNIs were enthused by Ujjivan SFB's prospects. This led to an unusually high demand.

Had demand been less, investors would have made money as they did in some of the earlier IPOs," said an investment banker.

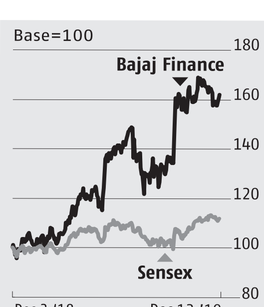
The HNI segment had seen oversubscription of 486x, meaning someone had to borrow ₹486 crore to get allotment for just ₹1 crore worth of shares.

SAMIE MODAK

**THE COMPASS**

# Bajaj Finance: Risk of slowing consumer demand not priced in

## Growth rate seen moderating further, given little sign of revival




Compiled by BS Research Bureau

HAMSINI KARTHIK

A recent report by CRISIL stated that retail loan growth, at 12 per cent for the first half of the current financial year, was the slowest in five years for the industry.

This has had little impact on Bajaj Finance, considered a barometer of consumer demand, which has nearly doubled year-to-date. It has managed to rake in the gains, despite its management turning cautious on the underlying demand nearly two quarters ago. Clearly, the Street is throwing caution to the wind.

Some of these gains may be attributed to the financier's ability to successfully raise capital. This, analysts at Emkay Global Financial Services say, needs to be appreciated, considering the current market conditions. It also reflects the strength of its parentage.

However, the question remains — how much of these gains are sustainable. "The business case of Bajaj Finance remains strong. The risk-reward, though, is turning unfavourable for investors," says Rajiv Mehta of YES Securities.

What this means is that, at forward valuations of 5.5x its 2020-21 book, it doesn't justify the likely growth rate ahead. The first signs of slowdown were visible when the addition of new loans rose 28 per cent in the September quarter (second quarter, or Q2), lower than the historic 33-35 per cent trajectory. Analysts expect the growth rate to moderate further, as there is little evidence of consumer demand turning favourable. Further, the management commentary during the festive season wasn't very encouraging.

However, it appears that the current valuations have not factored in this risk.

What could further derail the show is a rise in non-performing assets, which have been steadily inching upwards — from 1.48 per cent a year ago to 1.61 per cent in Q2.

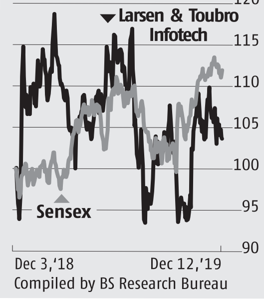
Stress was apparent in pockets such as digital products, lifestyle, and vehicle loans, even in Q2. If loan growth moderates, it needs to be seen how well it supports asset quality ratios.

Whether the December quarter results reflect the provisioning cost that Bajaj Finance may need to make for its Karvy exposure also remains to be seen. It is said to be ₹200-300 crore.

Barring the comfort of parentage and Bajaj Finance's well-capitalised position, uncertainty around its near-term growth is slowly mounting.

# L&T Infotech showing promise, but Street cautious

## December quarter results are likely to provide clarity on growth prospects

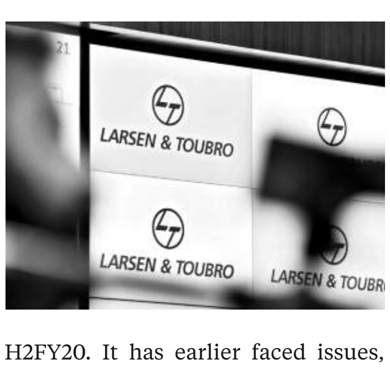



Compiled by BS Research Bureau

SHREEPAD S AUTE

The Larsen & Toubro Infotech (LTI) management's expectations of better growth in the second half (H2) of the current financial year (2019-20, or FY20) comes as a shot in the arm, given the challenges that the global tech industry is facing. However, the going may not be smooth. This is why the stock, after gaining close to 2 per cent in intra-day trade on Thursday, closed the session marginally lower at ₹1,631.25.

The company, during its analyst meet on Wednesday, had indicated that year-on-year (YoY) revenue growth during H2FY20 would be around 14 per cent in constant currency terms, higher than the 12 per cent growth recorded during H1FY20. With client-specific issues now behind, faster growth of its digital business, as well as a healthy deal pipeline (42 per cent YoY rise in overall deals and 20-22 per cent rise in large deals), among others, should drive LTI's top line in H2FY20. It has earlier faced issues, mainly in the banking and financial services (BFS) segment.




Granular details of the deal pipeline, in fact, provide some comfort to LTI's objective of being a market leader in terms of revenue growth during 2020-21 (FY21).

For instance, 67 per cent of its deals have already crossed the proposal stage, and 60 per cent of those are from new clients, which reduces concentration risk. However, given the overall challenging macro environment and scepticism over deal conversion in the sector, achieving the desired results may not be easy. Analysts at JM Financial have a 'hold' rating on the stock, mainly on account of the continued macro challenges in two of the company's core verticals — BFS and energy (40 per cent of revenues) — even as the brokerage believes in LTI's structural growth story.

Some analysts believe the company's aggressive hunt for new clients, mining of existing customers, and strategic alliance should help it achieve the growth target. However, investors should wait for the December quarter results for clarity on the company's growth track.

While the current valuation of 16x its FY21 estimated earnings is more than 20 per cent lower than its peak one-year forward valuation, it is still higher than that of many other mid-cap infotech players (up to 14x).