Narrow rally, high expense ratio hurting actively managed funds

Fund managers suggest allocating money to mid- and small-caps to generate superior returns

SAMIE MODAK
Mumbai, 2 December

India has been one of the few markets in which actively managed equity schemes did overwhelmingly better than their benchmarks. However, this trend has been challenged in the past two years, with over three of four active schemes failing to generate the so-called alpha.

Prashant Jain, executive director and chief investment officer, HDFC Mutual Fund, underscored some key reasons why active funds have been struggling.

"The last two years have been particularly challenging for active fund managers, as the top five stocks have given the bulk of the returns. By definition, MFs have to invest in 25-30 stocks. That's one thing that has hurt," said the fund manager during a panel discussion organised by Axis Bank to mark the launch of its new private banking platform 'Burgundy Private'.

The underperformance of the broader market and move to total return index, too, have weighed on active scheme performance.

"Small- and mid-caps, where the reasonable part of alpha came from, have fared poorly. That's the second thing that has hurt us. The third thing is the move to the total return index. The cost of managing funds has become a genuine disadvantage. An expense of up to 2 per cent in an environment of low returns becomes significant," said Jain.

Chandresh Nigam, MD & CEO, Axis MF said for the industry to stay relevant, fund managers will have to generate alpha and provide value to their customers. He highlighted that a lot of wealthy investors were showing a preference for alternative investment funds (AIFs), given their exotic nature and increasing opportunities in the unlisted space.

According to a recent study by S&P Indices Versus Active (SPIVA) India, equity large-cap schemes had underperformed the BSE100 index over one-year, three-year, five-year and 10-year timeframes.

Investment experts said the key to generating superior returns was "asset allocation" and taking money off the table from themes that have performed well and parking it into themes that are available at a discount. "Most of your money can come from asset allocation," said S Naren, ED & CIO, ICICI Prudential MF. "Today, if small-caps have done badly, more money has to go into them. Today, if value has done badly, more money has to go into it."

However, Naren, known for his contra investment style, concurred that this is easier said than done.

"Asset alloction is the easiest way to make money, but the reality is that at any point in time, it is very difficult to take out money from the best-performing fund asset class. In 2017, taking money out of mid- and small-caps was difficult. Today taking money out of quality is difficult," he said. Naren also said there was a case for investors to increasingly look at global markets as a tool for diversification.

Nilesh Shah, MD, Kotak Mahindra MF, said the markets will keep going up and down, but investors need to build their portfolios and remain disciplined by staying the course.

No matter where the markets are, there is an opportunity for everybody depending on their risk profile, he said.

A Balasubramanian, MD and CEO of Aditya Birla Sun Life AMC, said the crisis on the debt side has been the worst ever but the industry has managed well to contain it.

"This is the worst crisis we have seen. It is worse than (the one) in 2009," he said. "(The industry) has been managing these issues successfully on a ₹15-trillion portfolio. Low-quality portfolios will be in the range of ₹1 trillion for the industry. Assets under dispute are about ₹8,000 crore and investments that will have to be completely written off will be around ₹2,500 crore. It is only a small fraction of the total assets. That's something investors have understood but still panic," he said.

Fund managers during a panel discussion organised by Axis Bank at the launch of its private banking platform 'Burgundy Private'

Use a Codicil to make small changes to your Will

But in case you need to make major changes to the Will, write a new one

SARBAJEET K SEN

Have you written a 'Will' outlining the distribution of your assets after your death and now wish to make some changes amid the altered circumstances? Writing a new Will, video-recording it, destroying the old one and keeping the new Will at a safe place is a long process and most would want to avoid it. Isn't there an easier way out? Writing a Codicil could be.

A Codicil is a document created by the testator (creator of the Will) to make changes to an existing Will. "Codicil is not a substitution to a Will. It is an amendment and so it has to always be read along with the Will. It has to be signed by the testator and at least two witnesses. The witnesses cannot be beneficiaries of the Will or the Codicil," says Neha Pathak, senior group vice-president and head (trust and estate planning), Motilal Oswal Private Wealth Management. If a court declares a Will as void, the Codicils attached to it also become void.

A Codicil is typically used to make small changes. "If there is a change in the 'object matter' (asset to be bequeathed) or the 'subject matter' (change in recipient), then the testator can amend the original Will through a Codicil," says Rajat Dutta, founder and initiator, Inheritanceneeds.com.

Procedure for drafting

The procedure for writing a Codicil is akin to the one for writing a Will. It should be signed by two witnesses. Video recording of the process would be ideal, though the law does not mandate it. Video recording helps prove that the Will and the Codicil were written by the testator of his own free will. Mention the intention behind writing it. The Codicil should clearly mention all the changes. In the first paragraph itself, it should state which Will it refers to. It should also mention the clause, paragraph or the object of the Will it intends to modify or delete. It should also clearly specify what it wants to add and where. Ambiguity must be avoided at all costs.

Dutta mentions that it is imperative that a Codicil has the following as the closure Clause: "In the event that any statement in this Codicil signed on __ day of ________ contradicts the terms of my last Will and testament dated ___________(date of the Will replaced), the terms of this Codicil shall supersede. In all other respects, I reaffirm and republish my last Will and testament dated ___________(date of the Will replaced)."

Like a Will, a Codicil also need not be registered. But if you have registered your Will, register your Codicil as well. "This will give greater authenticity to the Codicil and help avoid litigation. The entire purpose of registering a Will would stand defeated if the Will (part or full) is replaced by a Codicil that is unregistered," says Dutta.

When to draft a new will

Codicils are best used to make small tweaks. If you are going to change your bequest altogether, consider writing a new Will — for example, if in the original Will, you decided to bequeath all your money to your sons and now want to give it to charity. This is a major change and needs a fresh Will.

Sometimes the beneficiaries remain the same but the testator wants to make drastic changes to their shares. In such a case, too, it makes sense to write a new Will.

If you have written many Codicils in the past or your estate has changed significantly, make a fresh Will. Too many Codicils can obstruct the smooth implementation of a Will, as the executor may find it cumbersome to put together all the wishes. "Multiple Codicils may lead to confusion among the beneficiaries and cause unnecessary disputes. If there are multiple Codicils, it is more meaningful to revoke the earlier Will and Codicils and create a fresh Will that includes all the amendments," says Pathak. He adds that the earlier Will and Codicil should be destroyed.

WHEN TO CODICIL

- **If there is a birth in the family** and you want to apportion a share of your estate to the newborn
- **If a family member dies** and you want to allocate his share to someone else
- **If you have acquired a new asset,** such as a piece of land
- **To clarify any ambiguity in a Will.** For instance, if the testator bequeathed his land to his sons but did not mention which piece should go to which son

Ujjivan SFB IPO subscribed 1.7 times on Day One

SUNDAR SETHURAMAN
Mumbai, 2 December

The initial public offering (IPO) of Ujjivan Small Finance Bank was subscribed 1.7 times on Monday, the first day of the IPO, buoyed by strong participation from retail investors.

The retail investor portion was subscribed nearly 9 times. However, only 10 per cent of the shares on offer were reserved for retail investors, against the usual 35 per cent.

The institutional investor portion was subscribed 0.24 times, and the high-net worth individuals portion was subscribed 0.44 times.

On Friday the company allotted shares worth ₹303 crore to anchor investors. The allotment was made at ₹37 per share.

The Government of Singapore, Monetary Authority of Singapore, CX Partners Fund, Aberdeen, HDFC Life Insurance Company, Bajaj Allianz Life Insurance Company, Sundaram Mutual Fund, Goldman Sachs India, and ICICI Prudential participated in the anchor investor bidding.

The IPO closes on Wednesday. The price band for the issue is ₹36 to ₹37 per share. At the top-end, the Ujjivan Small Finance Bank will be valued at ₹6,390 crore. The company is valued at nearly twice its estimated book value of 2019-20.

Microfinance lender Ujjivan Financial Services is the holding company of Ujjivan Small Finance Bank.

RBL Bank looks to raise ₹1,600 cr via QIPs; sets ₹352.57 as floor price

SUBRATA KUMAR PANDA
Mumbai, 2 December

RBL Bank on Monday informed the exchanges that it will raise funds by issuing equity shares through the qualified institutional placement (QIP) route. The private lender said its board approved ₹352.57 per share as floor price for the share sale.

Sources said RBL Bank could raise up to ₹1,600 crore via the QIP route. This follows the bank's plan to raise ₹825.79 crore in equity capital by issuing shares by way of preferential allotment to five investors, namely Bajaj Finance, East Bridge Capital Master Fund I, FEG Mauritius FPI, Ward Ferry Management-managed hedge fund WF Asian Reconnaissance Fund, and Asia-focused stock hedge fund Ishana Capital.

The bank's board agreed to allot 24.24 million shares at ₹340.70 apiece on a private placement basis in accordance with the provisions of the Companies Act, 2013, and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018

On July 9, RBL Bank had informed its shareholders at its annual general meeting that it would raise equity capital not exceeding ₹3,500 crore. As of September 30, the bank's capital adequacy ratio had slipped from 13.7 per cent a year ago to 12.3 per cent.

In Q2FY20, the asset quality of the bank also worsened as its gross non-performing loans spiked 95 per cent to ₹1,539 crore from ₹789.21 crore in the same period a year ago. The bank's gross bad loan ratio nearly doubled to 2.6 per cent from 1.38 per cent and its profit slipped by 73 per cent to ₹54 crore.

Karvy Fintech gets new name and chairman

In a bid to disassociate itself from the controversy surrounding its former parent company, General Atlantic-backed Karvy Fintech has renamed itself KFin Technologies.

General Atlantic, an equity major, has been the controlling shareholder of KFin Tech for over a year. The newly renamed company also appointed MV Nair its non-executive chairman with immediate effect. Nair is also chairman of TransUnion CIBIL and advisor to private equity and venture capital-funded firms. Last week, C Parthasarathy, chairman and MD of Karvy Group, had resigned from KFin Tech, which acts as a registrar and transfer agent for the MF industry. BS REPORTER

COMMODITIES

PRICE CARD

As on Dec 2	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,785.5	4.0	1,883.9	-4.6
Copper	5,854.0	4.3	6,223.8	0.1
Zinc	2,312.5	3.3	2,623.5	2.9
Gold ($/ounce)	1,457.8*	-4.7	1,641.8	-2.0
Silver ($/ounce)	16.9*	-8.6	19.2	-6.0
ENERGY				
Crude Oil ($/bbl)	61.7*	4.8	64.0	10.1
Natural Gas ($/mmBtu)	2.3*	2.2	2.4	1.3
AGRI COMMODITIES ($/tonne)				
Wheat	185.9	18.7	297.9	3.2
Maize	182.7*	3.0	308.0	0.9
Sugar	345.8*	13.4	483.7	-1.6
Palm oil	657.5	22.3	1,038.2	18.8
Cotton	1,419.8	9.1	1,567.9	-3.0

* As on Dec 02, 19 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.7 & 1 Ounce = 31.1032316 grams.

Notes:
1) International metals, Indian basket crude, Malaysia Palm oil, Wheat LIFFE and Coffee Karnataka robusta pertains to previous days price.
2) International metal are LME Spot prices and domestic metal are Mumbai local spot prices except for Steel.
3) International Crude oil is Brent crude and Domestic Crude oil is Indian basket.
4) International Natural gas is Nymex near month future & domestic natural gas is MCX near month futures.
5) International Wheat, White sugar & Coffee Robusta are LIFF E future prices of near month contract.
6) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
7) Domestic Wheat & Maize are NCDEX future prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
8) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
9) International cotton is Cotton no. 2-NYBOT near month future & domestic cotton is MCX Future prices near month futures.

Source: Bloomberg Compiled by BS Research Bureau

Domestic steelmakers raise prices for 2 months in a row

ADITI DIVEKAR
Mumbai, 2 December

In a bid to address margin compression and in anticipation of demand pick-up, domestic primary steel producers have raised product prices by 2.5-3 per cent for December.

"Since margins have become unsustainable, cost pressures versus the steel product price is not helping producers meet ends. This is the primary reason for the product price hike this month (December)," Jayant Acharya, director (commercial & marketing) at JSW Steel told *Business Standard*.

The December price hike is happening for the second consecutive month. In November, producers raised steel product prices between ₹500 a tonne and ₹1,000 a tonne, after a gap of about six months.

While steel producers expect the market to embrace price hike, industry officials are of the view that the consumer is not ready and continuous hikes of this kind may not be sustainable.

"There is absolutely no demand from the infrastructure segment. Also, the auto demand was good only in the festive month of October. Overall, there are no strong demand indicators as of now for steel. Continuous price hikes in such a scenario may be difficult to sustain," a Mumbai-based trader said.

The index of eight core infrastructure industries contracted 5.8 per cent for October 2019, which was its lowest level since the construction of the index with 2011-12 as the base year. Among the eight segments, the steel industry witnessed a 1.6 per cent fall in October, worse than a 1.5 per cent drop in September. In October last year, the steel industry had witnessed 2.4 per cent growth.

Meanwhile, steel producers have sealed half-yearly contracts for the auto segment factoring in the recent fall in steel prices. "There is a reduction from H1 (the first half of the year) to H2 (the second half). However, the numbers (quantum) are different from customer to customer, so I wouldn't like to give a single (price reduction) number," said Acharya.

While some players had said the price cut was by ₹6,000 a tonne, others were of the view that the overall domestic steel price drop was sharper, close to ₹8,000 a tonne, in the last three to four months, and hence contracts could have closed at much lower price levels.

Among top domestic steel producers, Sajjan Jindal-led JSW Steel, Essar Steel, and Tata Steel are into flat products used in the auto sector, while state-owned Steel Authority of India (SAIL) and Jindal Steel & Power cater for the construction and infrastructure segment that uses long steel products.

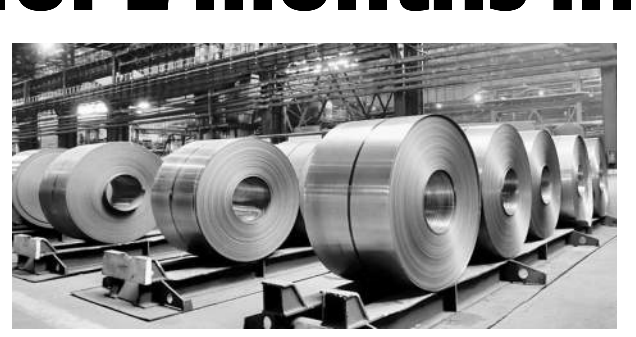
On the inventory front, too, the view of the producers differed from that of industry officials.

At one end, Acharya of JSW Steel said: "Inventory-wise, the industry is in a comfortable position as the producers have lowered their production which helped inventory dilution. Even the channel inventories have come down. Exports have also helped bring down inventories."

According to the Joint Plant Committee data, India's steel exports during April-September this year rose 22 per cent year-on-year to almost 4 million tonnes.

"Steel producers are lowering production by advancing capital repairs but stockists and traders continue to have slightly higher inventory. Even the SME (small-and-medium enterprise) sector, which usually keeps no inventories, is having stockpiles this time," said Sushim Banerjee, director general at Institute for Steel Development & Growth (INSDAG).

Capital repair, which is the maintenance of the blast furnace of the steel plant, usually takes place in April. However, companies have advanced this activity to November this financial year citing weak demand scenario, according to industry officials.



BALANCE SHEET In ₹ crore

		Jindal Steel	JSW Steel	SAIL	Tata Steel
Net sales	Sep '18	6,848.8	19,126.0	16,718.0	17,579.8
	Jun '19	7,084.8	17,344.0	14,820.0	15,812.8
	Sep '19	6,572.9	15,218.0	14,127.4	14,486.6
Total expenditure	Sep '18	5,396.7	14,915.0	14,387.2	11,934.1
	Jun '19	5,476.8	13,866.0	13,238.1	12,175.2
	Sep '19	5,317.9	12,724.0	12,967.7	11,395.5
PBIDT	Sep '18	1,707.5	4,990.0	2,445.2	6,743.0
	Jun '19	1,608.0	3,991.0	1,764.8	4,094.0
	Sep '19	1,255.1	2,984.0	1,318.5	3,579.1

Source: Capital Line Compiled by : BS Research

3 SEZs get extension for importing plastic waste

DILIP KUMAR JHA
Mumbai, 2 December

The government has granted a six-month extension to listed recycling units in three special economic zones (SEZs) for importing plastic scrap. Domestic recycling units in the country are facing a ban on importing plastic wastes over environmental concerns.

The Board of Approval for SEZs has extended letters of agreement (LoAs) to the three SEZ units for six months until May 31, 2020. The LoAs were earlier scheduled to expire on November 30, 2019. The decision was taken around two weeks ago during a meeting between members from leading departments involved in the monitoring of imports, under the chairmanship of Anup Wadhawan, secretary, Department of Commerce.

The SEZs where recycling units are allowed to import plastic scrap are Kandla Special Economic Zone (KASEZ), Falta SEZ, Kolkata, and Noida Special Economic Zone (NSEZ), Noida.

"The board after deliberations decided to grant an extension of validity of LoA for a period of six months beyond November 30, 2019, i.e. to May 31, 2020, to the listed plastic recycling units in KASEZ, Falta SEZ and NSEZ. The board directed to call a meeting with the committee on policy for plastic recycling to discuss the matter and while the policy provisions are deliberated, the physical exports of the units shall be assessed on annual basis," said the minutes of the meeting of the Board of Approval, which is under the ministry of commerce.

The ministry of environment and forest (MoEF) vide its notification dated March 1, 2019, had prohibited import of solid plastic waste by SEZs and export-oriented units (EoUs). But, a few dozen plastic recycling units were exempted.

Before the ban, India imported thousands of tonnes of plastic wastes from across the world which often were mixed with hazardous materials. Thus, the processing of hazardous materials proved environment unfriendly. Hence, the government banned their import amid voluntary commitment to protect the environment.

"The government banned issuing new licenses for plastic units about two decades ago but granted new licenses to new units in SEZs and EOUs to boost plastic exports and foreign exchange," said a senior official of a plastic recycling unit.

The government has banned single-use plastics of poor grade which are manufactured primarily from wastes as a raw material. Meanwhile, the renewal of LoAs will allow the import of cheap raw materials and discourage scrap collection from local sources, the official added.