Outlook rosy for paint companies

Supportive macros, pricing power will help firms such as Asian Paints and Berger Paints clock volume-led growth

SHREEPAD S AUTE
Mumbai, 4 December

A consistently strong performance has helped paint companies attract investor support for many months now, akin to fast-moving consumer goods (FMCG) players. While part of the investor demand can be attributed to stress in other key sectors, such as automobile and non-banking financial companies, paint companies are still doing well.

As a result, the stocks of paint majors — Asian Paints and Berger Paints — have surged 21-54 per cent in the past six months; Kansai Nerolac Paints is up 15 per cent. The Nifty FMCG Index is up only 1.7 per cent during this period.

Paint companies' relatively good performance in recent quarters, with double-digit volume growth and strong margins, is a key driving factor. Importantly, the trend of volume-led profitable growth is here to stay for paint companies, especially decorative paint companies.

According to Vishal Gutka, vice-president, PhillipCapital, "Paint companies are expected to continue growing strongly, while maintaining their margin profile The near-term growth, however, may moderate due to a high base."

There are strong growth levers for paint companies — rising share of paintable (concrete) houses, low penetration of paints in India, and shortened repainting cycle (over 80 per cent of decorative paint demand comes from repainting), among other factors.

The growth outlook is strong for organised paint players as lower goods and services tax (GST) helps them gain market share from unorganised ones, mainly in the economy segment (products like putty, distemper, etc). A Kotak Institutional Equities (KIE) report says: "The reduction in GST rate to 18 per cent, from 28 per cent in June 2018, and higher compliance under GST has reduced the price gap between unorganised and organised players' products."

This is also evident from the double-digit volume growth for listed decorative paint majors in June 2019 and September 2019 quarters, even as other consumption pockets witnessed growth moderation. The volume growth was driven by economy products, following price cuts by paint companies.

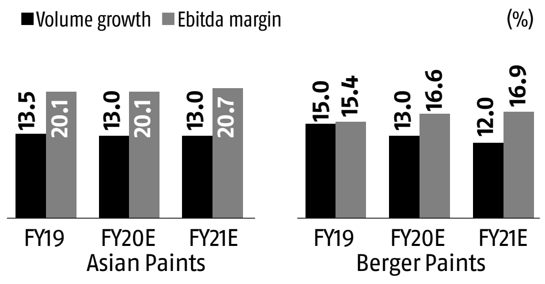
Unorganised paint companies are likely to lose 15-17 per cent market share in volume terms over the next 10 years, according to the KIE report.

Though the premium segment has grown at a relatively slow pace and had restricted gross margin gains in recent quarters, the way forward for high-margin premium products looks encouraging. Analysts believe that the overall price gap between premium and economy products is narrowing, with higher labour cost; the premium segment should fare better.

This, along with better pricing power of top players, is keeping the medium- to long-term margin outlook buoyant for paint firms, even if crude oil prices see some volatility.

"Margins could come under pressure if crude oil prices rise sharply. However, paint firms have historically controlled margin erosions through successful increase in product prices," says Abhijeet Kundu, analyst at Antique Stock Broking. Experts, however, believe a sharp upswing in crude oil prices is unlikely. Among the few caveats are paint companies' pricey valuations, which could limit upsides in their stocks. Therefore, investors should await some correction in share prices for a better entry point.

BROAD STROKES



E: Estimates; Ebitda: Earnings before interest, tax, depreciation, and amortisation
Sources: Brokerage reports, Bloomberg

ICICI Bank scrip surges on new initiatives

SHREEPAD S AUTE
Mumbai, 4 December

The stock of ICICI Bank hit an all-time high of ₹531.35 in intra-day trading on Wednesday, before ending the day with 4 per cent gains over the previous close of ₹529.35. This was a day after the lender presented its business perspective to analysts.

Among the key highlights of the analysts' day event were ICICI Bank's digital and technical initiatives, which should help it accelerate growth across all business verticals. The bank said it would focus on opportunities in the entire ecosystem, besides calibrating risk to propel operating profit through its approach of 'One Bank One RoE'. A profitability indicator, RoE stands for return on equity.

Analysts expect these efforts to provide the bank's earnings a strong support and help increase its RoE, estimated to be under 10 per cent for 2019-20, to more than 15 per cent in two years. For example, the use of technology to garner new quality business will help the bank not only in reducing its overall operating cost but also its credit cost (bad loan provisioning as a proportion of average loan book).

Even as technology and digitisation have always been a focus area for it, the bank has been grappling with asset-quality and management issues for over a year. "With asset-quality issues getting sorted, ICICI Bank appears firmly positioned to deliver healthy sustainable growth, led by continued investments in technology and further expansion in digital offerings," analysts at Motilal Oswal said in a report.

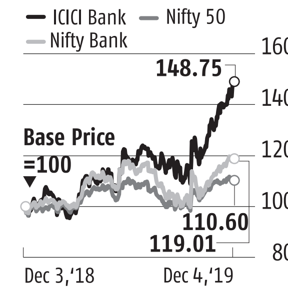
Further, a holistic approach to corporate lending — for instance, giving loans mostly to corporate borrowers with an 'A-' or better credit rating (indicating high credit quality), and focusing on capital return rather than pricing, are likely to improve the bank's wholesales business performance.

Overall, analysts see ICICI Bank's efforts as being in the right direction. Many of them now expect a further rerating potential for the bank's stock, despite rise of 12.5 per cent in the past month, vis-à-vis Nifty Bank's around 5 per cent rise.

"We perceive a further rerating potential as the market gains confidence in the earnings sustainability," said analysts at Edelweiss Securities.

After Tuesday's event, many analysts have also raised their target price for the ICICI Bank stock by as much as 19 per cent to ₹567, shows the *Bloomberg* data.

CONFIDENCE BOOST



Source: Exchange

Street cheers for Ujjivan SFB, IPO sees 170x subscription

SUNDAR SETHURAMAN
Mumbai, 4 December

The initial public offering (IPO) of Ujjivan Small Finance Bank (SFB), on Wednesday, saw 170x demand over the number of shares on offer. The institutional investor portion saw 114x oversubscription, high-net worth individual (HNI) segment saw 486x oversubscription and the retail portion was subscribed nearly 50x.

Market players said the encouraging listing day performance of new listings such as IRCTC and CSB Bank, coupled with Ujjivan SFB's high growth potential, attracted investors towards the maiden offering.

The ₹442-crore IPO generated bids worth nearly ₹76,000 crore. Ujjivan SFB's total issue size was around ₹750 crore. However, it had allotted a little over ₹300 crore to anchor investors ahead of its IPO.

Ujjivan SFB will raise the IPO proceeds to augment its capital base. However, the primary reason for listing was to meet the RBI guidelines on small finance banks.

Ujjivan SFB is a wholly owned subsidiary of Ujjivan Financial Services. The central bank has mandated all small finance banks to be listed as standalone entities within three years of commencing business.

Following the IPO, Ujjivan Financial Services' stake in the bank declined from 100 per cent to 84 per cent. Shares of Ujjivan Financial Services rose 4 per cent on Wednesday.

According to investment bankers, the issue was of over 16 million applications, making it one of the most-subscribed IPOs. Bankers said given the high demand, only 1 out of 36 retail investors will get an allotment.

The price band for the issue was ₹36-₹37 per share. The IPO was entirely a fresh fund raise by the bank. At the IPO price, Ujjivan SFB will be valued at around ₹6,300 crore on a post-issue basis. The issue was priced at over two times its estimated 2020-21 book value.

Most analysts recommended investors to subscribe to Ujjivan SFB's IPO. "At the IPO price, Ujjivan SFB is valued at 2.3x book value (at the end of September 2020 quarter), which we believe is attractive, considering similar businesses are trading at higher valuations. We recommend a subscribe to the issue," Angel Broking had said in a note.

HIGH DEMAND

Source: Exchange

SBI to divest 8.25% in UTI AMC share sale

SAMIE MODAK
Mumbai, 4 December

State Bank of India (SBI) on Wednesday said it will divest 8.25 per cent in the proposed initial public offering (IPO) of UTI Asset Management Company (AMC). The lender currently holds 18.25 per cent stake in the mutual fund (MF) house. Three other public sector undertakings (PSU) Life Insurance Corporation (LIC) of India, Bank of Baroda (BoB), and Punjab National Bank (PNB) also hold 18.25 per cent each, while US-based T Rowe Price owns 26 per cent.

Sources say LIC, BoB, and PNB too are expected to divest 8.25 per cent each in the UTI AMC IPO.

The total dilution in the IPO could be 33 per cent. If the issue has fresh component, it could lead to further dilution.

SBI's proposed 8.25 per cent disinvestment is the exact quantum required to comply with market regulator Securities and Exchange Board of India's (Sebi's) cross-shareholding norms. Sebi rules don't permit an entity to hold more than 10 per cent in single fund house. Currently, SBI, LIC, and BoB operate their separate fund houses along with their stake in UTI AMC.

LIC, Bank of Baroda, and PNB are all expected to divest 8.25% each in the UTI AMC share sale, say people in the know

"Pursuant to the applicable provision on the Sebi regulation, we advise that the executive committee of the central board of directors (ECCB) of the bank at its meeting held today (December 4) has accorded final approval, for divestment of SBI stake in UTI AMC up to 8.25 per cent through IPO by way....," SBI said in an exchange notification.

The country's seventh-biggest MF house is expected to file its offer document with market regulator Sebi before the end of December.

UTI AMC could seek valuations between ₹10,000 crore and ₹13,000 crore in the IPO.

The issue will be underpinned by a rally in shares of asset managers this year.

Shares of HDFC MF and Nippon India MF (formerly Reliance MF) have rallied 122 per cent and 120 per cent, respectively, so far this year.

At the end of the July-September quarter, UTI MF had assets under management of ₹1.54 trillion, while HDFC MF and Nippon MF manage ₹3.8 trillion and ₹2 trillion respectively, the data provided by industry body Association of Mutual Funds in India showed.

COMMODITIES

PRICE CARD

As on Dec 4	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,802.0	3.9	1,887.3	-3.5
Copper	5,812.0	2.6	6,207.2	1.7
Zinc	2,221.5	-2.1	2,572.3	0.8
Gold ($/ounce)	1,476.8*	-4.9	1,660.3	-1.4
Silver ($/ounce)	17.2*	-12.5	19.4	-9.8
ENERGY				
Crude Oil ($/bbl)	61.8*	1.9	61.9	6.9
Natural Gas ($/mmBtu)	2.4*	-2.4	2.4	-0.7
AGRI COMMODITIES ($/tonne)				
Wheat	186.9	15.1	298.8	5.9
Maize	183.6*	3.2	314.4	7.1
Sugar	346.3*	14.2	483.3	-1.3
Palm oil	660.0	23.4	1,041.5	21.2
Cotton	1,391.1	7.4	1,564.1	-1.3

* As on Dec 04, 19 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.5 & 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

Iran may topple Russia as India's top tea importer

Exports to Gulf nation hit record high of 43.76 mkg this year by September

AVISHEK RAKSHIT
Kolkata, 4 December

Iran is set to overtake Russia this year as the largest inporter of Indian tea, despite the US sanctions on trade that it is facing.

Exports to Iran hit a record high of 43.76 million kg (mkg) this year till September, earning India a forex of $172.84 million.

Sources said owing to the US sanctions on Iran, other exporting countries like Sri Lanka have found it hard to sustain their shipments. After the sanctions were imposed, there was some uncertainty over how payments would be made, given that Iran did not have adequate foreign exchange. However, under the trade agreement between India and Iran, the West Asian country can pay India in rupees for its imports against oil exports to India, which New Delhi pays for in Iranian rial.

"This trade agreement has not only helped India sustain the market but expand it as well. While exports from other countries faced uncertainty, Indian exporters were able to eat into the competition and gain market share," a planter, who directly exports bulk tea to Iran, told *Business Standard*.

Between January and October, with India maintaining focus on Iran and increasing its exports to that country, Ceylonese tea shipments to Iran dipped by 9.52 per cent to 18.27 mkg.

Data sourced from the Tea Board showed that between January and September, export of tea to Iran rose by 115.67 per cent to touch 43.76 mkg, while the forex income soared by 133.38 per cent at $172.84 million.

In comparison, exports to Russia and other CIS countries were down 11.46 per cent, to 41.72 mkg and forex inflow shrank by 12.99 per cent, to $97.81 million.

Historically, Russia has been the largest importer of India tea, and exports to Russia and CIS taken together, usually account for 25-30 per cent of total Indian tea exports. Till September this year, however, exports to Russia and CIS made up 22.85 per cent while Iranian imports accounted for 23.97 per cent of the total 182.52 mkg dispatched.

Earnings from Iran far outpace the contribution from Russia and CIS. Iran accounted for 29.19 per cent of the Indian tea trade in terms of value while Russia accounted for 16.52 per cent in terms of trade value. Analysing the current trade scenario, exporters are of the view that Iran will top the chart this year emerging as the top tea exporting destination for India and Russia will finish second in the run.

"What is interesting to note here is the fact that export prices have also risen", A K Ray, deputy chairman at the Tea Board told this newspaper. According to Ray, improvement in quality has resulted in better prices.

The Tea Board made garden closure compulsory last year, in order to improve quality. It issued similar orders this yearl. Moreover, it is continuously monitoring tea quality and weeding out bad teas.

TEA POINT

	Iran	CIS
Export volume from Jan-Sep (mkg)	43.76	41.72
Total forex earning ($ million)	172.84	97.81
Unit price ($ per kilo)	3.95	2.34

CIS: Commonwealth of Independent States
Source: Tea Board of India

Replacement demand spurs profits of wire cable manufacturers

REPORT CARD

(₹ crore) Firm	Net sales H1FY19	Net sales H1FY20	Net sales % chg	Net profit H1FY19	Net profit H1FY20	Net profit % chg
Dynamic Cables	240.2	206.9	**-13.9**	6.0	15.0	**150.0**
Polycab India	3,497.1	4,193.3	**19.9**	166.0	326.3	**96.6**
KEI Industries	1,884.5	2,315.1	**22.9**	73.7	121.8	**65.3**
Paramount Comm	260.6	306.8	**17.7**	10.7	13.9	**30.2**
Cords Cable	190.8	210.3	**10.2**	3.1	3.8	**22.4**
Finolex Cables	1,505.2	1,523.5	**1.2**	189.1	223.8	**18.4**
Universal Cables	639.2	801.6	**25.4**	56.9	62.1	**9.0**

Source: Capitaline Compiled by *BS* Research Bureau

DILIP KUMAR JHA
Mumbai, 4 December

Wire and cable manufacturers have reported strong growth in their profit during the first half (H1) of the financial year ended September 30, 2019.

This is mainly because of a strategic change in their product mix and a focus shift towards the replacement market.

Polycab India, which recently listed its shares on stock exchanges after a successful initial public offering (IPO), reported 97 per cent jump in net profit to ₹326.34 crore in H1, compared to ₹166 crore in the same period last year.

Similarly, Finolex Cables reported 18 per cent jump in net profit to ₹223.79 crore in H1 against ₹189 crore reported in the comparable period last year.

The sharp increase in the profitability of wire and cable makers has surprised many experts. They had earlier forecast that margins will remain under pressure owing to lack of launches in construction and infrastructure sectors.

During the last few quarters, electrical goods companies, including wires and cables manufacturers, have changed their business strategies. They have started focusing on institutional sales and replacement markets.

"The new construction is certainly not happening. But the existing inventory is still selling. That means secondary sales of inventory is happening but not the primary creation. Also, changing lifestyle requires replacing existing electrical equipment every five years now with new products. Hence, we see a huge opportunity in secondary sales and the replacement market," said Manoj Verma, chief operating officer, Polycab India.

To lure customers, however, companies in the sector have started focusing on customised services. Also, newly designed and styled innovations in electrical boards, wires and cables have yielded higher margins. "The wire and cable industry has grown by 23 per cent compound annual growth rate (CAGR) over FY14-FY18 in production terms and 11 per cent in value terms from ₹35,000 crore to ₹52,500 crore. The growth was largely driven by increase in spend in infrastructure by the government such as smart cities mission, mass transit systems, rural electrification, renewable energy, etc. The industry is expected to grow at CAGR of 12.6 per cent in volume terms and 14.5 per cent in value terms over FY18-FY23," said a report from SMC Global Securities.

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