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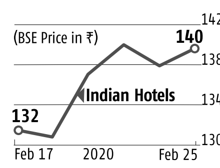
QUICK TAKE: ROOM FOR GROWTH IN INDIAN HOTELS



Shares of Indian Hotels closed 1.3% higher on Tuesday despite weakness in markets. The company indicated that it was on track to achieve its key targets by building an asset-light business model and scaling up its basket of food-related brands.

"Radhakishan Damani is playing small caps? Retail: So we must invest in small caps Hello Hello! He has more than ₹75,000 cr in Dmart! He owns a large chunk in a company called VST Industries! What he is investing in smaller companies is loose change for him!"

ADITYA SHAH,
chief investment officer,
Hercules Advisors

SBI Cards IPO price set at ₹750-755 per share

At issue size of ₹10,355 cr, the offering will be Asia's biggest this year and fifth-largest domestically

SUNDAR SETHURAMAN & SAMIE MODAK
Mumbai, 25 February

SBI Cards and Payment Services (SBI Cards), a subsidiary of State Bank of India (SBI), has set a price band of ₹750-755 per share for its initial public offering (IPO). At the top end, the issue size works out to ₹10,355 crore ($1.4 billion), making it the largest Asian IPO in 2020 and fifth-biggest domestic share sale ever.

The IPO will comprise ₹500 crore worth of fresh equity issuance, which will be used to strengthen the country's second-largest credit card company's capital base. The bulk of the IPO will be a secondary share sale by parent SBI and private equity (PE) major Carlyle.

The IPO will comprise ₹500 crore worth of fresh equity issuance, and the bulk of it will be a secondary share sale by parent SBI and PE major Carlyle

The largest public sector bank is offloading a 4 per cent stake in the IPO, while Carlyle will sell a 10 per cent stake.

After the issue, SBI's stake will drop from 74 per cent at present to 70 per cent, while Carlyle will see its holding come down from 26 per cent to 16 per cent. The PE had bought the stake in 2017 from the lending arm of General Electric for about ₹2,000 crore. The value of the stake has jumped to ₹18,400 crore.

The public shareholding in SBI Cards will be 14 per cent post listing which will have to be enhanced to 25 per cent within three years.

SBI Cards will be the first credit card company to list in the domestic markets. The company will command a market capitalisation of nearly ₹71,000 crore, making it India's 38th most valuable firm.

SBI Cards' valuation could even exceed the ₹1 trillion-mark going by the grey market premium. According to market operators, the stock is changing hands at a premium of 45 per cent (₹1,100 per share) in the unofficial market.

Market players said investors were enthused by the company's unique business model, financial track record, high return ratios, and growth potential.

Currently, credit card penetration in India is about 3 per cent. Hardayal Prasad, managing director (MD) and chief executive officer (CEO), SBI Cards, said the low penetration offers the company potential for growth. However, SBI Card would not compromise quality for growth, he added.

Many are looking at the SBI Cards IPO to get a signal into investor appetite for a new paper, which has been battered by the coronavirus outbreak. So far this year, the Asian share sale has painted a dull picture, with not even a signal IPO worth over $500 million getting launched.

Experts said the coronavirus scare in the major Asian financial hubs of Singapore and Hong Kong had made deal-making challenging.

Investment bankers handling the SBI Cards share sale said they don't expect the coronavirus scare to impact the IPO. They had conducted their roadshows much in advance.

"We have seen the market volatility spike because of the coronavirus, and this could persist. However, we don't see any material impact as far as this IPO is concerned. Some adjustments were made, and we did some calls instead of meetings, but all the roadshows have been satisfactory," said S Ramesh, MD and CEO, Kotak Investment Banking.

Investment bankers said they had arrived at the pricing for SBI Cards IPO after conducting nearly 200 investor meetings. The SBI Cards IPO would also end the lull in the domestic IPO market. The last IPO to hit the market was that of Prince Pipes in December. Earlier this month, state-owned ITI had to withdraw its follow-on share sale because of poor demand.

Bankers said if SBI Cards' issue does well, it would encourage other companies to launch their share sales. "SBI Cards' IPO has the potential to open up the moribund IPO markets," said Hitendra Dave, head of global banking and markets at HSBC India.

THE BIG 5 India's largest IPOs

	Year	Issue size (₹ cr)
Coal India	2010	15,199
Reliance Power	2008	11,700
GIC Re	2017	11,373
SBI Cards*	2020	10,355
The New India Assurance	2017	9,600

Compiled by BS Research Bureau; Note: *Yet to conclude; issue size at top end of the price band

SWIPE RIGHT FOR SBI CARDS

SECONDARY SALE: ₹9,855 cr;
Fresh issue: ₹500 cr **Total size:** ₹10,355 cr
Issue price: ₹750 to ₹755 per share
Date: Opens on March 2; closes on March 5

Current shareholding: SBI: 74% Carlyle: 26%
Post IPO shareholding: SBI: 70%; Carlyle: 16%; Public: 14%

SBI to mop up ₹4,000 cr; Carlyle: ₹5,900 cr
Post issue m-cap: ₹70,900 cr, 38th biggest at IPO price

Valuation may cross ₹1 trillion
₹1,100/share in the grey market

IRCTC joins top 100 market cap league

DEEPAK KORGAONKAR
Mumbai, 25 February

Led by a strong rally in the past month, Indian Railway Catering and Tourism Corporation (IRCTC) has entered the list of top 100 companies in terms of market capitalisation (m-cap).

Shares of the online ticketing, tourism, and catering arm of the Indian Railways closed at a new high of ₹1,952 on Tuesday on BSE, up 1.5 per cent. In the past month, the stock has zoomed 95 per cent, as against a 3 per cent decline in the S&P BSE Sensex.

With m-cap of ₹31,239 crore, IRCTC stood at the 97th position in the overall market capitalisation ranking, the BSE data showed. On its listing day, October 14, 2019, the company's m-cap stood at ₹11,658 crore, and was ranked 194th.

Currently, IRCTC's m-cap is more than two of the Nifty 50 companies — Zee Entertainment Enterprises (₹24,195 crore) and YES Bank (₹8,965 crore). The company has also surpassed 27 companies on the S&P BSE 100 index, including MRF, Lupin, Aurobindo Pharma, Page Industries, Apollo Hospitals Enterprise, ACC, Ashok Leyland, Bharat Forge, and TVS Motor during the period.

With Tuesday's rally, IRCTC has zoomed 510 per cent, as against its issue price of ₹320 per share on BSE. The company had declared an interim dividend at the rate of ₹10 per share, which is 100 per cent of paid-up share capital. The stock had turned ex-date for dividend on Monday.

Monopoly business

IRCTC is the only entity authorised by the Indian Railways to provide catering services to the Railways, online tickets, and packaged drinking water at railway stations and trains in India. For the October-December quarter, the company posted a strong profit growth on the back of a healthy performance in e-ticketing services. Its profit before tax (PBT) from e-ticketing services jumped over five times to ₹193 crore during this period, as compared to ₹36 crore in the same quarter of the previous year.

Overall, IRCTC posted a net profit of ₹206 crore in the December quarter, as against ₹74 crore in the year-ago quarter. The total revenue of the subsidiary of the Indian Railways rose to ₹716 crore from ₹435 crore in the year-ago quarter. The revenue from IRCTC e-ticket services jumped four times to ₹227 crore in Q3FY20, as against ₹55 crore a year ago.

The Railways has approved the new tariff for the catering for premium and non-premium trains and the static unit. The revised rate will be applicable from March 28 on prepaid trains. The Railways, too, plans to add pantry cars in long-running trains.

"Given the reintroduction of service charge (₹15/ ₹30 per ticket for non-AC/AC, respectively) from September 2019, capacity expansion in Rail Neer (aim is to increase the number of plants to 20 by FY21E), and average increase in mobile/static catering tariff's by around 70 per cent / 61 per cent, we expect sales/PAT to grow at a compound annual rate (CAGR) of 24.5 per cent/54.7 per cent over FY19-22E," wrote analysts at Prabhudas Lilladher in a recent report.

Meanwhile, the Railways is planning to add 150 trains on a private basis and IRCTC is likely to participate in the projects; it has already appointed a consultant. "IRCTC has added two Rail Neer plants during Q3FY20. It would add two more plants in the current quarter," analysts at Narnolia Financial Advisors said in a note.

THE COMPASS

AMCs: Surprise winners among financial stocks

Nippon Life, HDFC AMC have more than doubled in a year despite weak inflows

HAMSINI KARTHIK

While the Nifty Financial Services sector, which largely comprises banks and non-banking firms, has generated returns of 25 per cent over the past year, two stocks outside the index have done much better. The two are asset management companies HDFC AMC and Nippon Life India AMC (formerly Reliance Nippon Life), which have seen gains of over 100 per cent.

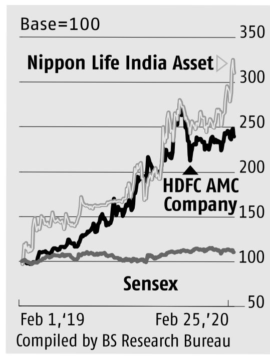
Despite the year gone by being rough, given the markdown that funds had to take on certain debt exposure and inflows turning choppy between May and October last year, HDFC AMC's stock has zoomed 144 per cent, and Nippon Life has jumped 109 per cent.

What's driving these stocks despite the headwinds is their ability to keep their financials lean. Even as their revenue streams are guided by management fees, other streams — such as dividend and interest incomes — make up for the numbers. However, the biggest risk is that of regulatory actions. Though Sebi's directive to cap the total expenses ratio in 2018 is now well-captured in the AMCs' financials, the sector remains vulnerable to these unpredictable changes.

Among the two, HDFC AMC at 42 times its FY21 earnings estimates trades at a 21 per cent premium to Nippon Life (34 times on FY21 earnings). HDFC AMC's leadership position in the industry and size of its assets under management or AUM (₹368,900 crore in December quarter or Q3) places it well-ahead of Nippon Life (₹204,400 crore). With its erstwhile parent company (Reliance Capital led by Anil Ambani) running into trouble for most of 2019, Nippon Life's market share suffered and dipped to 7.6 per cent in Q3 from 10.2 per cent a year ago.

As the fall in the market share was more pronounced in the debt mutual funds segment (down 450 basis points year-on-year to 7.1 per cent in Q3), Nippon has indicated that it was seeing trend reversals with 170 institutional investors having restarted investment relationship with the company post its rebranding in October 2019.

As a result, analysts at Prabhudas Lilladher Research expect the valuation gap between the two AMCs to narrow, though HDFC AMC could retain its top position. "With Reliance Capital-related exposure fully written off, de-risking of Nippon's balance sheet and Nippon Life being the sole promoter, renewed credibility will help recover the lost inflows," they add. As for HDFC AMC, the brokerage believes its valuation is stretched, even if the sector presents a convincing story.



Compiled by BS Research Bureau

HOW THEY COMPARE

(%)	HDFC AMC	Nippon AMC
Asset class break-up		
Equity	46.4	44
Debt	30.1	27
Liquid	21.5	16
ETF	2.0	13
Investor class break-up		
Retail	19	26
Non-retail	81	74

% total Assets under management as on Dec 31, 2019, ETF: Exchange traded fund
Source: Prabhudas Lilladher Research

API shortage from China an opportunity for Divi's

Niche capabilities and no regulatory overhang among key positives

UJJVAL JAUHARI

Divi's Laboratories has been consistently gaining, and is up more than 39 per cent since August lows. Trading near its 52-week high now, the company's stock has not only outperformed the healthcare index, but also the leading indices.

The reason: In the pharmaceuticals space, while Divi's remains better placed compared to many peers because of good growth and absence of regulatory overhang, it will also benefit from the expected shortfall in supply of APIs (active pharmaceutical ingredients) from China on the back of the coronavirus outbreak, as it is among the leading manufacturers of this raw material.

The API segment makes up about half of the overall sales of the company. The sharp rise in API prices recently (as much as 80 per cent according to analysts) is bound to benefit players such as Divi's.

However, the company is expected to log gains not only in the short term, but also in the longer term. In order to avoid disruptions, companies globally are evaluating alternative sources for the procurement of APIs, and this is likely to be a key positive for Divi's, say analysts.

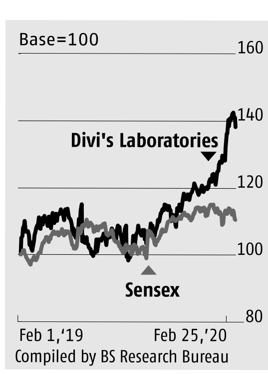
Analysts also see the company benefitting on account of its backward integration, aggressive capex plan (incurred and continuing), and outsourcing opportunities in CRAMS (contract research and manufacturing services).

The company remains committed to only a few research-driven niche opportunities for which it has US Food and Drug Administration approvals. This also ensures good margins. Recently, Divi's has been increasing its presence in another niche product segment, Carotenoids (nutraceuticals) which are high-margin products too.

Among API players, Divi's seems to be a winner as it recently commissioned a ₹225-crore intermediate facility. Further, it will commence a significant portion of the ongoing capex of ₹1,200 crore in the March quarter. The full impact of the same is likely to be reflected in FY21, say analysts at Sharekhan, who also expect further expansion in its margins.

Divi's, thus, should be relatively better off in case of a disruption in the supply of intermediate, and benefit from higher API prices, say analysts at Emkay Global.

The government is also in the process of charting a road map to boost API production, which should benefit players such as Divi's. In this backdrop, the analysts at Sharekhan expect 24 per cent annual growth in Divi's earnings during FY20-22.



Compiled by BS Research Bureau

REGULATORY MOVES

Sebi to allow new FPIs via Mauritius

ASHLEY COUTINHO
Mumbai 25 February

The Securities and Exchange Board of India (Sebi) on Tuesday said foreign portfolio investors (FPIs) from Mauritius will remain eligible for registration, but with increased monitoring.

Sebi's clarification came after the Financial Action Task Force (FATF) — an inter-governmental body that sets anti-money laundering standards — placed Mauritius on the "grey list", creating uncertainty among market players. One of the large foreign custodians had put a halt on trades from Mauritius on Monday, raising concerns that others would follow suit and all fresh registrations and purchases routed through Mauritius would be stopped.

Another custodian put out a note saying FPIs currently registered from Mauritius would not be allowed to make fresh purchases of equity, debt, and hybrid securities, or undertake new derivative positions from February 28. Custodians would block the accounts for purchases for such FPIs and permit only sell trades.

Custodians had reached Sebi seeking clarification and they would likely reconsider the ban after the circular.

When a jurisdiction is placed on the "grey list", it implies the country has committed to resolving the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring. "The FATF does not call for the application of enhanced due diligence to be applied to these jurisdictions but encourages its members to take into account this information in their risk analysis. The intermediaries should take note of the same," said a note put out by Sebi on Tuesday.

The current Sebi guidelines state that investors resident in a country identified by the FATF as having strategic anti-money laundering or terror financing deficiencies to which counter measures apply are ineligible to register as FPIs. The FPIs should not come from a jurisdiction that has failed to make sufficient progress or not committed to an action plan to address the deficiencies.

"While the FATF has put Mauritius on an increased monitoring list, it does not prescribe a countermeasure, such as a sanction or financial embargo. To that extent, the immediate regulatory impact could be limited," said Divaspati Singh, partner, Khaitan & Co. He, however, noted that being on the grey list would create a huge perception issue, especially among large investors, such as pension, endowment, and sovereign wealth funds, investment charters which may prohibit investment through Mauritius. Mauritius has been doing its bit to showcase its compliance with international tax norms in the past year. It includes measures, such as stepping up scrutiny of offshore fund structures.

"Since the completion of its MER (mutual evaluation report) in 2018, Mauritius has made progress on a number of its MER recommended actions to improve technical compliance and effectiveness, including amending the legal framework to require legal persons and legal arrangements to disclose of beneficial ownership information and improving the processes of identifying and confiscating proceeds of crimes," observed the FATF. About 80 per cent of FPIs from Mauritius are already classified as Category-II by Sebi. The grey list tag dashes any hopes of these funds moving to Category I.

DIFFERENCE BETWEEN GREY LIST AND BLACK LIST

GREY LIST

- Jurisdiction placed under increased monitoring
- The country commits to identify and resolve deficiencies
- FATF doesn't call upon other members for enhanced due diligence
- However, it encourages them to factor in the information in their risk analysis

BLACK LIST

- Those countries that have significant deficiencies in their regime
- Those that fail to prevent money laundering, terrorist financing
- FATF urges members to apply enhanced due diligence
- In more serious cases, the country is called upon to apply countermeasures

Debenture trustees may get a bigger role

JASH KRIPLANI
Mumbai, 25 February

The Securities and Exchange Board of India (Sebi) on Tuesday proposed new norms for debenture trustees (DTs) to give them a bigger role in protecting interests of debenture holders in case of defaults from a bond-issuing firm.

The market regulator said only in 10 per cent of defaulting secured issues, DTs were able to enforce the security. Further, Sebi pointed out DTs found it easier to enforce securities in the case of manufacturing firms as there was a fixed charge, but "the same was not true in the case of NBFCs due to floating charge and the absence of identified security".

It pointed out various issues pertaining to recovery of dues, and also cited the case of DHFL to highlight the concerns. It said DTs were unable to get clarity on the maintenance of adequate security cover because of floating charges.

With NBFCs, the regulator said that there was also concern that attractive loan portfolios would get monetised to pay for existing loans, leaving DTs with lower-quality assets for enforcing security.

Among the dozen proposals, Sebi mulled the creation of identified charge by the NBFCs. This would require NBFCs to create charge on the identified assets for every issue. This may include identified receivables, investment and cash, instead of floating charge on the entire books of an NBFC. "A debenture issued by an NBFC shall be treated as secured only on the creation of identified charge. A transition period of three-five years shall be provided to shift from floating pari passu to identified charge," the consultation paper said.

The regulator also considered putting in place a framework to allow DTs to monitor the quality of underlying assets in an efficient manner.

Transfer of client securities to accounts of brokers barred

PRESS TRUST OF INDIA
New Delhi, 25 February

The Securities and Exchange Board of India (Sebi) on Tuesday banned transfer of client securities to demat accounts of trading and clearing members.

Against the backdrop of the Karvy Stock Broking (KSBL) incident, the watchdog has now put in place stringent norms to prevent misuse of clients' securities that are available with trading and clearing members, and depository participants.

"With effect from June 01, 2020, TM (trading member)/CM (clearing member) shall, inter alia, accept collateral from clients in the form of securities, only by way of 'margin pledge', created in the depository system...," the circular said.

In November, Sebi had barred KSBL from taking new clients over alleged misuse of client securities.