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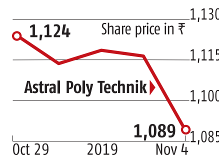
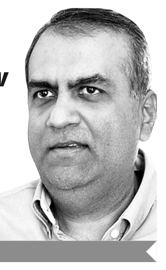
QUICK TAKE: GROWTH ON TRACK DESPITE Q2 DIP FOR ASTRAL



The stock of Astral Poly Technik was down about 4% over the last few trading sessions on lower-than-expected Q2 revenue growth from the adhesive segment and high valuations. Analysts however believe that the prospects are sound given the leadership position in the CPVC pipes space and proven execution capabilities

"Can someone educate me on why Jet Airways is still listed and trading and how it goes up 5% daily when the airline has closed down?"



MANISH CHOKHANI,
Director, Enam Holdings

Half of BSE 500 below 200-DMA

AVDHUT BAGKAR & SUNDAR SETHURAMAN
Mumbai, 4 November

More than half the BSE 500 stocks are trading below their 200-daily moving average (DMA), even as the benchmark Sensex hit a record high of 40,302 on Monday. According to the data compiled by *Business Standard*, 262 of the BSE 500 stocks and a third of Sensex components are trading below their 200-DMA, underscoring the trend that the market up-move has been supported only by a few influential stocks.

Among the Sensex stocks, Tata Steel, Vedanta, and YES Bank continue to trade below their 200 DMA. Among the BSE 500 stocks, several stocks are over 50 per cent below their 200-DMA.

Market experts said until the broader market did not participate in the rally, the sustainability will always remain a question.

Analysts said many stocks in the BSE 500 universe have broken their crucial support levels and it is difficult for them to bounce back in the near term.

LOPSIDED GROWTH (in ₹)
A tenth of BSE 500 stocks are over 50% below their 200-DMA

	Current price	200-DMA	Difference (%)
Coffee Day Enterprises	33.85	196.10	-82.74
Dewan Housing Finance Corp	19.20	97.99	-80.41
Reliance Capital	21.25	105.59	-79.87
Reliance Communications	0.68	3.36	-79.75
Lakshmi Vilas Bank	17.00	58.77	-71.07

Source: Bloomberg

"Many stocks, which have been dipped below their monthly swing lows, are still struggling and not able to recover fast. Once you break the swing lows, there is little buying interest, and the stock plummets. Until they are trading below 200 DMA, they will not move further," said Rohit Singre, senior technical analyst, LKP Securities.

The 200-DMA is a key technical indicator followed by many analysts. The 200-DMA is loosely the rolling one-year price for a security. If a stock trades above its 200-DMA, it is considered to be in the bullish zone. Experts say the bulk of institutional money is getting channelised into few stocks.

"Of the BSE 500, 77 per cent of all domestic institutional investments and 63 per cent of foreign investments between July 2018 and June 2019 have gone into the top 50 companies. This is compared to 36 per cent and 35 per cent, respectively, between July 2016 and June 2017," said Deepak Jasani, head of retail research, HDFC Securities.

Stock prices of Coffee Day Enterprises, DHFL, Reliance Capital, Reliance Communications, and Lakshmi Vilas Bank are currently more than 70 per cent below their 200-DMA. "A lot of the small and midcap companies may not revisit their recent highs in many months to come due to disrupted business, heightened competition, the slowdown in the economy, liquidity issues and governance lapses," said Jasani.

At 40,302, Sensex climbs new peak

The benchmark Sensex on Monday closed at a new all-time high after seven straight days of gains. The index rose 137 points, or 0.34 per cent, to end at 40,302, surpassing its previous record of 40,268 made on June 3. The benchmark Nifty rose 51 points, or 0.43 per cent, to end at 11,941 — 148 points below its previous best of 12,089 on June 3. The latest gaining streak for the Sensex is the best since March 2019, when it had advanced for eight days in a row.

The upmove in the market has been supported by positive global markets, strong buying by overseas investors, and better-than-expected corporate earnings. In the past five sessions, foreign portfolio investors have pumped in nearly ₹12,000 crore into domestic stocks. According to *Bloomberg* data, 18 out of 28 Nifty firms that have reported quarterly earnings have surpassed or matched the average analysts estimates. **BS REPORTER**

MFs may turn to Sebi over FEMA tweaks

ASHLEY COUTINHO
Mumbai, 4 November

Foreign-owned or -controlled mutual funds plan to approach market regulator Securities and Exchange Board of India (Sebi) after being stumped by the tweak in the Foreign Exchange Management Act (FEMA) guidelines, notified a few days ago.

The Association of Mutual Funds in India (Amfi), an industry body, is likely to take up the issue with Sebi on behalf of these fund houses, said people in the know. The fund houses are likely to make separate representations to the Department of Economic Affairs and the Reserve Bank of India, after consultations with Sebi.

"We will have to knock on every door," said a senior fund official. "We have reached out to like-minded fund houses and will seek Sebi's assistance. Eventually, the finance ministry would have to take a call." In the meantime, individual fund houses are consulting legal advisors to get a handle on the issue and assess the extent of the impact. "Everybody is still trying to understand what the issue is. If this is the law of the land, what needs to be done to ensure we are compliant?" said another senior fund official.

MFs IN FOREIGN HANDS
- HDFC MF
- ICICI Pru MF
- Nippon India
- Franklin Templeton
- Mirae Asset

Market watchers believe that the change in guidelines fly in the face of some of the recent initiatives taken by the government, such as easing norms for foreign portfolio investors (FPIs). "When regulations for foreign investors are being made easier, the government is introducing constraints on investments by mutual funds that cater predominantly to domestic investors. What is the point of introducing caps just because the manager is foreign?" said the second official.

"Technically, the FDI regime does not apply to broad-based portfolio investments, even to those coming from outside India. It is applied to investments such as those made for a joint venture or for buying a company. For investments from domestic broad-based mutual funds to get classified as FDI is a misstep that needs to be resolved quickly," added the first official.

On October 17, the Centre notified new rules with regard to foreign investment in non-debt instruments, classifying mutual funds that invest more than 50 per cent in equity as 'investment vehicles'.

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Jhunjhunwala picks up 0.5% stake in YES Bank

Investor Rakesh Jhunjhunwala bought a 0.5 per cent stake in the troubled private sector lender YES Bank for ₹86 crore on Monday. The data on exchanges showed that Jhunjhunwala bought 12.9 million shares of YES Bank at price of ₹67 per share in a bulk deal on BSE. The bank has seen recovery in its share price after it informed exchanges that it had a binding offer from a global investor for $1.2 billion. An infusion of capital would come as a much-needed relief for the bank, with its capital adequacy ratio just barely above the regulatory requirements. "It would give the bank the growth capital to compete in the current environment and look at regaining its lost market share," said a fund manager, requesting anonymity. The common equity tier-1 capital of the bank, as of June 2019, was eight per cent, close to regulatory requirement of 7.37 per cent till March 2019. **JASH KRIPLANI**

No place for CRA heads in rating panels

Sebi tightens governance and accountability guidelines for rating agencies

SAMIE MODAK
Mumbai, 4 November

The Securities and Exchange Board of India (Sebi) on Monday tightened the governance and accountability norms for credit-rating agencies (CRAs).

Under the new norms, the managing director and chief executive officer (MD and CEO) of a CRA will be barred from being a member of the rating committee. Further, Sebi has said the rating committees of a CRA will report to the chief ratings officer (CRO) and not the MD and CEO.

The latest steps are to reduce conflict of interest situations at CRAs. Experts said the new norms will help create a Chinese wall between individuals who are responsible to generate business and the members of rating committees who are tasked with finalising the rating.

The issue assumes significance after the IL&FS crisis, which had put a question mark on the practices followed by rating agencies.

Sebi has said independent directors will comprise a third of the board of a CRA if the board is chaired by a non-executive director. In case the board of the CRA is chaired by an executive director, independent directors will comprise half the board.

The regulator has also directed CRAs to set up ratings sub-committees and also nomination and remuneration committees. The CRO will directly report to the ratings sub-committee of the board of the CRA.

During the rating process, CRAs have been directed to record minutes of the meeting with issuer management and incorporate it into the rating committee note.

THE COMPASS

Acquisitions will boost JSW Energy's prospects

The takeover of 1.7GW projects seen as earnings accretive

UJJVAL JAUHARI

Shares of JSW Energy have attracted investor attention over the last month, and were up 4.8 per cent on Monday, too. The company's improving prospects led by inorganic growth and its plans to double the power generation capacity over the next 3-5 years are keeping the Street bullish.

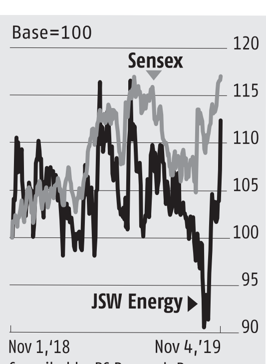
Among the latest developments is the acquisition of two power plants based in Odisha. JSW Energy is under discussions for acquiring GMR Kamalanga (1,050MW), and has received the Committee of Creditors' approval to acquire Ind-Barath Utkal's under-construction thermal power plant (700MW). Since fuel supply agreements and power purchase agreements (PPA) are in place for both plants, the acquisitions are being looked at in positive light.

Of JSW's existing 4.4GW capacities, more than 80 per cent is already under long-term PPAs and hence will generate predictable cash flows, while another 7 per cent could soon get tied up under the group's captive needs, further de-risking cash flow, say analysts at Motilal Financial Services. These acquisitions will boost JSW's growth.

Analysts say that while Utkal may have execution risks (refurbishment of Unit-1 and construction of Unit-2), implying that cash flows will start only from FY22, they expect these acquisitions to be return on equity (RoE) accretive. The GMR plant is operational and Rupesh Sankhe at Elara Capital expects it to generate 15-16 per cent RoE, which is along the guidance provided by JSW's management.

Meanwhile, Utkal plant had a PPA with Tamil Nadu at a levelised tariff of about ₹4.9 per kWh, which JSW plans to revive. Though there could be a downward revision in tariffs, analysts at JM Financial say that even assuming a lower tariff of ₹3.5 per kWh, the Utkal acquisition appears value accretive as it can deliver RoE of about 40 per cent, given the deep debt haircut (more than 60 per cent) being taken by lenders to the project. Even if the PPA is not revived, assuming merchant sales at ₹3.2 per kWh and coal purchases from e-auctions, the acquisition can still deliver 14-15 per cent RoE, they add. Not surprising, the Street sentiment is improving.

JSW's Q2 performance was aided by higher hydropower generation (lifting overall output), while lower fuel costs boosted the operating performance. Hydro power's net unit generation was up 9.3 per cent with plant load factor (or capacity utilisation) coming in at 102.7 per cent. Lower fuel costs, down 26 per cent year-on-year at a consolidated level in line with the declining international coal prices, meant that operating profit margins improved 910 basis points year-on-year in the September quarter.



Compiled by BS Research Bureau

Sustaining post-festival sales growth key for Escorts

Margins in Q2 were affected by lower volumes and inferior product mix

RAM PRASAD SAHU

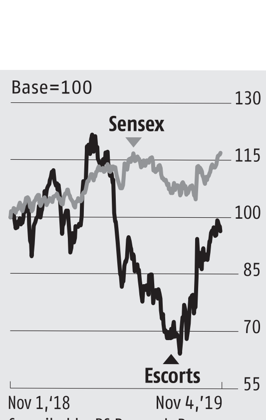
Improvement in tractor demand in the second half of the current financial year is expected to help reverse the declining trend of sector sales. The Escorts management in an earnings call highlighted that volumes have seen an uptick in the festive season which could sustain in the near term. For October, the company reported a 2 per cent increase in tractor sales, driven by the domestic segment, which reported volumes of 13,000 units.

While sector volumes for the first half of FY20 were 15 per cent lower, the company indicated that for FY20 sales fall would be restricted to single digits. Adequate rainfall, an expectation of good rabi crop, higher minimum support prices are expected to keep the sales momentum strong. After higher levels of discounting in the June quarter, an uptick in sales has helped stabilise prices of tractors.

Growth in volumes should help the company improve its profitability, which was impacted in the September quarter. Margins fell 170 basis points to 9.6 per cent, both on account of lower operating leverage, as well as inferior product mix. The company sold a higher share of less profitable tractors (lower horsepower units) as compared to the year-ago quarter. While the company gained market share in the quarter to 11.2 per cent, sustaining it would require it to improve its position in regions such as South India where its share is much lower. The company is banking on new product launches and expansion of its distribution network to improve volumes and share.

For October, the company reported a 2 per cent increase in tractor sales

While the key trigger for the stock would be led by the tractor segment, which accounts for three-quarters of revenues, sales growth for the construction equipment and railway products division would have an impact on overall revenues and margins. While volumes and revenues in the construction segment fell 21 per cent and 19 per cent, respectively, margins at 2.7 per cent were higher on lower commodity costs and better product mix. The company expects growth and margins to be in high single digits. In the railway segment, while revenues were higher by about 20 per cent, margins came in lower at 19.1 per cent, given the higher mix of lower-margin new orders. Given the order book of ₹500 crore and prospects in the segment, the company expects revenue growth of 15-20 per cent. Investors should await a meaningful recovery in volumes before considering the stock.



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