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The Smart Investor

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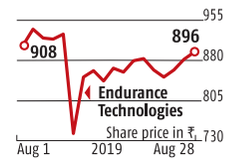
QUICK TAKE: NEW PRODUCTS TO HELP ENDURANCE



The stock of Endurance Technologies is up 20% since its June quarter results. New business wins in the domestic two-wheeler space and European business growth helped the firm post robust results. Change in its stance regarding foray into tyres, increase in content per vehicle, and fair valuations may cap the downside

"How to add value: 2008: Break up Philip Morris into Philip Morris International and Altria 2019: Merge Philip Morris International with Altria"

SAMIR ARORA,
Co-founder and fund manager, Helios Capital

Low dollar returns add to FPI woes

Dollex shows more pain for foreign funds amid depreciating currency

SACHIN P MAMPATTA
Mumbai, 28 August

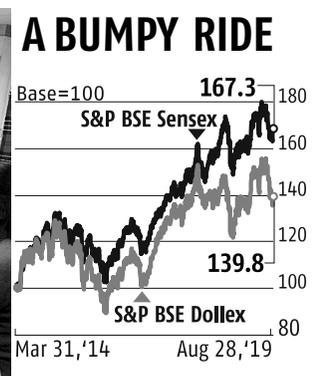
The Sensex has risen 67.3 per cent since March 2014. The Dollex — which measures Sensex returns in dollar terms — has risen just 39.8 per cent.

The fall in the rupee, from 59.89 in March 2014 to its current levels of 71.77, has taken away much of the gains that foreign investors would have otherwise made. In fact, dollar returns over the longer term are even more abysmal.

The Dollex is currently trading at 1.8 per cent lower than its pre-2008 crisis high. The rupee was then trading at under forty against the dollar.

Experts feel strong structural reforms may well be required to help bring in FPIs, even as global risk aversion is a major headwind.

FPIs typically make allowances for 5-6 per cent yearly depreciation in the currency, according to U R Bhat, director at Dalton Capital Advisors (India). They require rupee returns upwards of 10 per cent for India to look attractive, relative to other investment options.



Source: Exchange, *Business Standard* calculations

Emerging markets see limited interest overall during periods of risk-off trades. The current environment doesn't bode well for risk-taking in light of geo-political factors, such as trade wars and issues surrounding Iran. However, substantial reforms may help India's relative appeal, says Bhat.

"People are looking for structural changes that can take the market dramatically higher," he said.

Some factors are in India's favour. Crude oil prices, for example, have been benign, noted Amnish Aggarwal, head (research) at Prabhudas Lilladher. India relies on imports for most of its crude oil requirement. Any fall in crude prices reduces pressure on the rupee.

Brent crude prices have been hovering around the $60-per-barrel mark, on the back of weak global economic outlook. Any fall in the currency would, however, be negative for foreign investors. "It reduces their return further," Bhat said.

The Sensex has dropped 5.2 per cent since the Budget on July 5. The Dollex is down 9.5 per cent. A depreciation in the rupee, even as foreign investors exit, has resulted in the sharply lower dollar returns.

Introduction of the surcharge on FPIs took the effective tax rate to 42.7 per cent, at its highest. This was later reversed last week in an announcement by the Finance Minister, among a series of steps to revive the economy.

Jefferies, in its August 25 strategy note, stated that it was encouraging to see the Centre engage on issues related to the slowdown. However, it remained cautious on the market.

"...fiscal constraints preclude any meaningful stimulus, prompting us to stay cautious amid soft earnings and extended valuations," said the report authored by equity analysts Somshankar Sinha, Piyush Nahar, and Pratik Chaudhuri.

Jefferies had cut its earnings forecasts for FY20 by 7 per cent, following weak numbers in the June quarter. It had also cut earnings forecasts for the next financial year by around 4 per cent.

FPIs have been net sellers by close to $3 billion, since the budget in July.

'Beating benchmark indices has been a challenging task'

The spike in volatility isn't really concerning but generating alpha has become more challenging than in the past, says **VETRI SUBRAMANIAM**, head of equity at UTI AMC. In an interview with **Samie Modak**, Subramaniam shares his views on economic slowdown, valuations and the best investment category. Edited excerpts:

How are you keeping your calm in these volatile times?

The volatility that we are seeing isn't exceptional. We have seen even worse before. Nothing can beat what happened post the 2008 global financial crisis. Hopefully, it was a once-in-a-lifetime event. This time around, the extent of damage is similar to the selloff in 2010 to 2013. However, some parts of it have been different. For instance, outperforming the benchmark in the last 18 months has been proved to be much more challenging than in 2013.

Why is it so? Does it have to do with how polarised the markets have been?

Partly that. This time, the extent of polarisation has been a lot more than we have seen in the past. If you look at the BSE 500, it is extreme. Then you telescope into Nifty 50 index and again it is extreme. Even if you look at specific sectors, you will see extreme outcomes. This level of divergence is different to what we have seen in the past.

How much worse can it get from here?

If you look at the economy, the fourth quarter of last fiscal was very weak. Our sense is the first two quarters for the ongoing fiscal will also be weak. The reality is 6-6.5 per cent GDP growth for the full year. So, clearly there is a cyclical slowdown. It is feeling much worse this time around because of two things. One is that this is the third setback in two and a half years. In 2016, you had demonetisation, 2017 you had GST (goods and services tax) implementation and September 2018 onwards you have had problems in the credit market. The flow of credit has been constrained. So, the cumulative impact of these three knocks and constrained credit, in particular, have accentuated things.

Do you expect valuations reverting or slipping below the mean?

There has been a correction in valuations and it is in fair-value territory though above the long-term average. The massive premium over long-term averages, as it was in 2017 or early this year, has significantly eroded. We haven't got as cheap as early-2016 or mid-2013. Whether we will hit a trough in valuations is unknown.

What is your reading of the global situation?

You can't divorce yourself to what is happening around the world. We are dependent on global capital markets as our desire to invest is higher than our domestic savings pool. So, we will always run a current account deficit and take in external savings. We are not as affected by global trade as some other economies. But for India to sustain growth at our aspirational levels — which is above 8 per cent — we need the global economy to be supportive.

How are equity flows shaping up?

The flows have held up under the SIP (systematic investment plan) route. Outside that, it is a mixed picture as we are seeing irregular flows. It is only the SIP flows of about ₹8,000 crore a month, which are giving us the visibility.

Are you beginning to see any hiccups on the SIP front given the latest downfall?

Not yet. There is data indicating that levels of cancellation have increased but the aggregate number is still rising. I won't be surprised if we went through a period of cancellations if the market stays challenging. On our part, we have been educating investors that you have to continue with the SIPs if you want it to work in your favour.

How does an investor approach the market?

My standard answer to all investors is the best product to invest is a widely-diversified fund. In the Indian context, it is the multi-cap fund category. You get a flavour of everything as the portfolio is truly diversified. Sectors and themes go in and out of fashion but if you want to stay invested through an SIP over a long period of time, multi- cap fund is the ideal way to go. If you are investing in a sectoral fund, you should be conversant with when you should be getting in and when you should be getting out. With a multicap fund you can take that out of the equation.

What are your sectoral preferences at this juncture?

From a valuation point of view, if you look at sectors that have gone through de-rating, pharma is one sector that stands out. There has been significant de-rating and the valuations give us comfort. Automobile, which has been an extremely hot sector till the middle of 2018, has seen a dramatic selloff. Incrementally, that is another area we are inclined to look at for opportunities as we have seen some degree of valuation corrections. Real estate and NBFC sectors have witnessed elements of supply shock and we think a few companies in these areas will emerge much stronger as weak ones are getting culled.

Nestlé in, Indiabulls Housing out of Nifty

SAMIE MODAK
Mumbai, 28 August

Nestlé India will be included in the Nifty a month from now. The multinational company is set to replace troubled NBFC Indiabulls Housing Finance in the broader index.

Analysts believe the change, effective from September 27, will trigger buying worth over ₹900 crore in Nestlé India by exchange-traded funds (ETFs).

Indiabulls Housing could see ETF selling of above ₹300 crore, further weighing on its stock price that has already fallen nearly 50 per cent this year.

Further, the other 49 Nifty components could see some reduction in their weight to accommodate Nestlé India, whose free-float market capitalisation is nearly thrice that of Indiabulls Housing.

In other words, Nestlé India will have a much higher weight than Indiabulls Housing.

PREPARING THE GROUND

- Nestlé to replace troubled NBFC Indiabulls Housing
- May trigger buying of more than ₹900 crore in Nestlé India by ETFs
- Nestlé India not a part of Nifty even as m-cap exceeds over half of Nifty components
- Will join FMCG peers HUL, ITC and Britannia; sector weight could surpass 9%-mark

So far, Nestlé India wasn't part of the Nifty even as its total market cap exceeds over half of Nifty components, given it is not listed on the NSE.

The bourse recently tweaked its index inclusion criteria to allow firms not listed on its platform to be part of Nifty indices.

Nestlé India is exclusively on the BSE. However, it is traded on the NSE under the 'permitted to trade' segment. The change in criteria made Nestlé India eligible to be part of Nifty indices.

It joins FMCG peers HUL, ITC and Britannia in the Nifty, in which the sector's weight could surpass the 9-per-cent- mark.

Shares of Nestlé India have rallied 5 per cent in the past one week, after the exchange revised the index inclusion criteria.

Sensex snaps 3-day winning run as recession fears loom

The Sensex snapped its three-session rising streak to close 189 points lower on Wednesday, led by losses in metals, energy, banking and auto counters, as global markets wobbled amid recession fears.

Profit-booking following the recent rally and a depreciating rupee also weighed on bourses, according to traders.

Additionally, India Ratings lowered the country's growth forecast to a 6-year low of 6.7 per cent for the current fiscal year, from its earlier estimate of 7.3 per cent on account of slowdown in consumption and moderation in industrial growth, among other factors.

After a choppy session, the Sensex settled 189 points, or 0.5 per cent, lower at 37,451.

Similarly, the Nifty fell 59.25 points, or 0.53 per cent, to 11,046.

Global equities were held back by fears of an impending recession following the latest inversion of yield curves of US Treasury bonds — seen as a predictor of economic contraction.

YES Bank was the biggest loser among the Sensex pack, plunging 7.47 per cent after Moody's Investors Service downgraded the private lender's long-term foreign-currency issuer rating, terming the bank's outlook as negative.

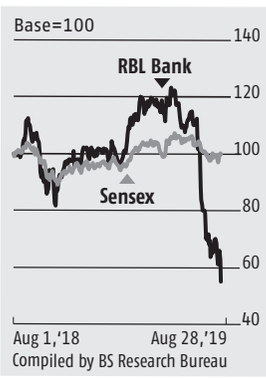
Vedanta, Tata Steel, Tata Motors, ONGC, M&M, Maruti, NTPC and HUL, too, fell up to 4.06 per cent.

HCL Tech, Infosys, Tech Mahindra, HDFC, TCS and Asian Paints rose up to 2.61 per cent. **PTI**

THE COMPASS

Asset quality, growth woes keep Street cautious on RBL Bank

Stock has fallen 50% since July 12, further downside not ruled out



Compiled by BS Research Bureau

HAMSINI KARTHIK

The RBL Bank stock fell over 12 per cent to end Wednesday's trade as a top loser among frontline stocks in the BSE, also its third fall in over a month. At ₹313.65 apiece, the stock is marginally over its listing day closing price of about ₹300.

A combination of factors —incremental worries on the asset quality front from new names, sale of employee stock options (ESOPs), and YES Bank's rating downgrade — sparked a fear of contagion in the system to weigh on the stock.

The bank, however, has clarified that ESOP selling was a routine activity. "No management committee member, including key managerial personnel, have sold any shares on July 30, 2019, and thereafter," the bank clarified.

Doubts over the bank's asset quality resurfaced following its Q1 results announcement. The bank accepted that gross non-performing assets (NPA) ratio could be 2.0–2.5 per cent in FY20 (well above its historical levels), which investors have not taken kindly to.

What has soured sentiment is fresh asset quality trouble, which, analysts say, could cause the bank to miss out on its asset quality guidance. Analysts have pegged the same at ₹300-500 crore, though the quantum hasn't been confirmed by the bank.

With asset quality issues at the centre of attention, growth guidance has been reduced to 20-25 per cent, from the earlier 30-35 per cent.

Much of the lowering (of guidance) is on account of the decision to go slow on wholesale or corporate loan book — the run rate of which may reduce from 28 per cent in Q1 to 10 per cent for till the end of FY20.

The bank, though, maintains its optimism on retail loans. "The bank's incremental focus will be on re-orienting its portfolio towards retail, and managing asset quality instead of growth, given the recent stress in its wholesale portfolio," say analysts at Emkay Global Financial Services.

With the bank facing challenges on two critical parameters — asset quality and growth — for the first time since listing in 2016, it needs to be seen how much capital the bank can raise in the next 12-18 months, and at what pace.

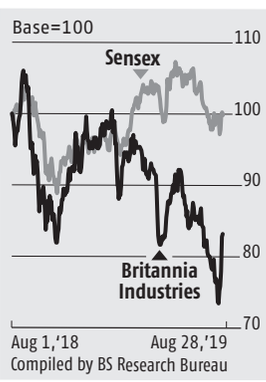
"In a situation of uncertainty in the system, we are in no hurry to raise capital, and at 12.4 per cent capital, we are comfortably placed for the next 3-4 quarters," explains Rajeev Ahuja, executive director of RBL Bank. The bank has received an approval to raise over ₹3,000 crore of capital.

With RBL Bank facing near-term pressure and the stock melting over 50 per cent since July 12 — when trouble first started hitting the bank — analysts don't rule out further downside risk.

While the Street hasn't turned all negative yet, being cautious on the counter may be a prudent approach.

Britannia Industries turns crispy for investors again

Rising demand, intact structural growth, fair valuation augur well for the stock



Compiled by BS Research Bureau

SHREEPAD S AUTE

The Britannia Industries stock has gained close to 7 per cent in the last two sessions, sharply outperforming the Nifty FMCG index that inched up 0.4 per cent during the same period.

After going through a sharp correction in the last three months, investor sentiment seems to be reviving, on the back of certain factors supporting the stock.

The recent trigger came in the form of reports that hinted at improving demand for cookies, at a time the biscuit industry is facing slower growth. This augurs well for companies such as Britannia, which has 25-30 per cent revenue share from this segment, on an estimated basis.

"The slowdown is mainly in rural areas, which is affecting the offtake of lower-end biscuits. However, premium products such as cookies are receiving good response. This should help Britannia," says Nitin Gupta, analyst at SBICAP Securities.

In fact, the 65 per cent revenue share of premium products for Britannia indicates volume and margin support, with good customer demand likely in the festive season.

Apart from the festive season, good progress in monsoon and increase in spending by the central government, too, are expected to get the consumption demand on track in the second half of FY20, say analysts.

In addition, the aim to become a complete food company — supported by a strong pipeline of new premium products — has kept the structural growth story intact for Britannia, which saw a sharp correction in its stock (12 per cent decline in last three months, against 4.5 per cent fall in the Nifty FMCG), making valuations relatively attractive.

Britannia currently trades at 43 times its FY21 estimated earnings. This is not only 22 per cent lower than its peak level of 55 times in August last year, but also a 9 per cent discount to larger peer HUL.

The latter had also faced some earnings downgrades like Britannia, albeit lower, on the back of a slowdown in the consumption sector.

However, issues related to group exposure in terms of inter-corporate deposits and input cost inflation (wheat, sugar and milk) have made the situation a bit more difficult for Britannia.

Though higher input costs may lead to some gross margin pressure in the near term, inventory management, cost savings, rising dependence on in-house manufacturing, and select price hikes will provide margin support.

Overall, the risk-reward equation for long-term investors in Britannia looks favourable at present.

S R K INDUSTRIES LIMITED
(*CIN: L17121MH1991PLC257750*)
Registered Office: 310, V Star Plaza, "A" Wing, Chandavarkar Road, Borivali (W), Mumbai-400 092
Tel No.: + 91 22 4023 5742; **E-Mail ID:** info.investors@srkindltd.co.in; **Website:** www.srkindltd.co.in

Recommendations of the Committee of Independent Directors **("IDC")** on the Open Offer to the Public Shareholders of **S R K Industries Limited ("SRK"/"Target Company")** under Regulation 26(7) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and subsequent Amendments thereto **["SEBI (SAST) Regulations, 2011"/"Regulations"]**

1)	Date	August 28, 2019
2)	Name of the Target Company **("TC")**	S R K Industries Limited
3)	Details of the Offer pertaining to TC	The Offer is being made by the Acquirer in terms of Regulation 3(1) and 4 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 for acquisition up to 3,92,26,700 Equity Share of ₹5.00 each fully paid-up representing 50.00% of the Equity Share Capital/Voting Capital of the Target Company at a price of ₹0.67 (Paise Sixty Seven only) **("Offer Price")**, payable in cash.
4)	Name of the Acquirer	Mr. Ratanchand Deshmal Jain
5)	Name of the Manager to the Offer	Mark Corporate Advisors Private Limited
6)	Members of the Committee of Independent Directors	1) Mr. Hajarilal P Choursia : Chairman 2) Mr. Shailesh L Ojha : Member 3) Ms. Asha K Jogi : Member
7)	IDC Member's relationship with the TC (Director, Equity shares owned, any other contract / relationship), if any	IDC members are Independent Directors on the Board of the Target Company. They do not have any Equity Holding in the Target Company. None of them have entered into any other contract or have other relationship with the Target Company.
8)	Trading in the Equity shares/other securities of the TC by IDC Members	No trading in the Equity Shares of the Target Company has been done by any of the IDC Members.
9)	IDC Member's relationship with the Acquirer (Director, Equity shares owned, any other contract / relationship), if any	None of the IDC Members are Directors in companies where nominees of the Acquirer are acting as Director(s) nor have any relationship with the Acquirer in their personal capacities.
10)	Trading in the Equity Shares/other securities of the Acquirer by IDC Members	Nil
11)	Recommendation on the Open offer, as to whether the offer is fair and reasonable	IDC is of the view that Open Offer is fair and reasonable.
12)	Summary of reasons for recommendation	IDC has taken into consideration the following for making the recommendation: IDC has reviewed (a) The Public Announcement **("PA")** dated June 10, 2019 in connection with the Offer issued on behalf of the Acquirer (b) The Detailed Public Statement **("DPS")** which was published on June 17, 2019 and (c) The Letter of Offer **("LoF")** dated August 20, 2019 Based on the review of PA, DPS and LoF, the IDC is of the opinion that the Offer Price of ₹0.67 (Paise Sixty Seven only) per Equity Share offered by the Acquirer (more than the highest price amongst the selective criteria mentioned under Justification of Offer Price) is in line with the regulation prescribed by SEBI under the Regulations and prima facie appears to be justified.
13)	Details of Independent Advisors, if any	None
14)	Any other matter(s) to be highlighted	None

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this statement is, in all material respect, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by the Target Company under the SEBI (SAST) Regulations, 2011.

For **S R K Industries Limited**
Sd/-
Hajarilal P Choursia
Chairman-IDC

Place : Mumbai
Date : August 28, 2019