

# Beyond Market

it's simplified...



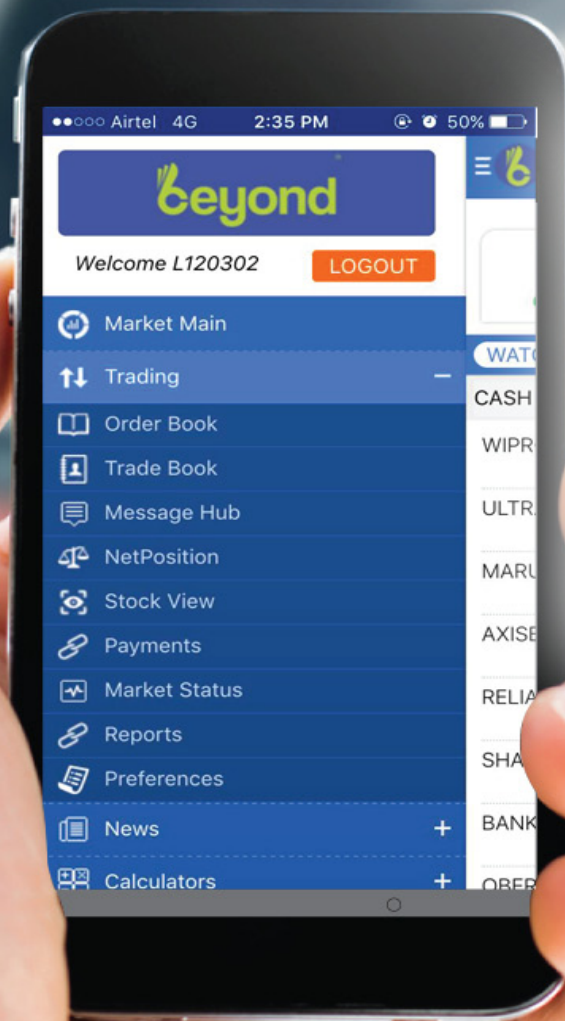
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# CAUTION ADVISED

Revival in corporate earnings  
is crucial for valuations to sustain  
and remains the most indispensable  
condition of markets outlook for the New Year

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## STAYING WATCHFUL



**Tushita Nigam**  
Editor

**T**he Indian stock markets have been soaring high since a while now. While the global markets are adding to the up move, various internal factors are keeping the bourses propped up. Be it mavens or novices, the new market highs are expected to stay. However, a few factors could play spoilsport. In our cover story in this issue, we have tried to decipher what the New Year holds for the Indian stock markets. Read on to understand better what factors should be watched out for while making your investment decisions.

The other articles covered in this issue include the current state of the Indian economy and its future, the reforms measures that were recently introduced by markets regulator Securities and Exchange Board of India (SEBI), the high number of initial public offerings (IPOs) that are likely to hit the stock markets this year, details on the water transfer project through interlinking of the Indian rivers initiated by the BJP government, and the future of the retail industry in the country following the government's decision to allow 100% Foreign Direct Investment (FDI) in single-brand retail via the automatic route.

You will also find articles on startups that are now picking up steam after a low of almost two years as well as the state of sugar and cement industry in India. Do not miss an article on the book called 'A Zebra in Lion Country' by Ralph Wanger wherein the author presents a contrarian view on investing in small-cap stocks.

The Beyond Basics section in this issue carries two interesting articles. While one talks about the need to rebalance an investment portfolio looking at the current state of the markets, the other sheds light on insurance companies now offering insurance policies that prompt you to stay fit. Do read an interesting article on disciplined investing, auto saving and the need to follow a timely approach to making payments! Happy reading to you all!



“

**The Indian stock markets look good in the coming fortnight.**

”

**E**arnings results for Q3 FY18 of companies in India have been pouring in since the previous fortnight. The earnings results that have come in so far have been positive and ahead of expectations. Also, the ongoing earnings results for the December quarter of US corporates have seen a similar trend.

Foreign Institutional Investors (FIIs) who were net sellers till some time back have turned positive about the India Inc story and are now seen pumping in money into the stock markets.

Crude oil prices have been strengthening of late. Inflation numbers for the Indian economy too seem to be higher at the moment.

The Indian stock markets look good in the coming fortnight. The Nifty has support at the 10,940 and 10,865 levels. The upper side target is around the 11,600 level.

Market participants are advised to look out for Union Budget 2018-19, which is likely to be populist given the fact that the country goes to polls in the year 2019. In addition to this, they need to keep an eye on the remaining earnings results and the monetary policy meet of the RBI to be held in the beginning of February. These events will certainly determine the course of the markets in the coming timeS.

*Dilip Bang*

Sensex: 36,161.64  
Nifty: 11,086  
(As on 24th Jan '18)

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# CAUTION

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# ADVISED



lobally, stock markets have witnessed a rally with the Indian bourses too moving in tandem. In fact, stock markets in India have had a stellar 2017.

For the next year, most market analysts have called for higher targets, albeit with caution. This is because a key vulnerable area, in an otherwise strong environment, has been weak earnings growth of Indian corporates. Any outlook for 2018 is highly contingent on reported profitability of Indian companies.

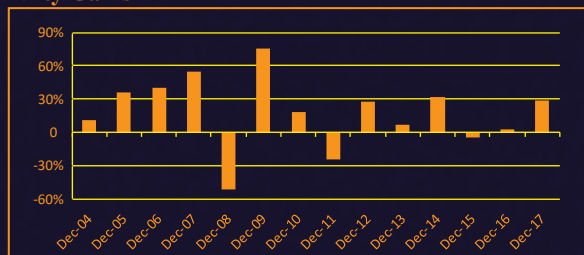
A general euphoria in the global markets and buoyant domestic flows helped benchmark indices to give returns in excess of 25% in 2017, while small and mid-cap companies are up by 45% and 56%, respectively.

But in the absence of any meaningful revival in corporate earnings, the Indian markets today are deemed more expensive. India today is trading at a price-to-earnings (PE) ratio of over 18 one-year forward earnings, assuming

over 20% growth in earnings. The valuations have been the highest in the last 7 to 8 years.

Simply put, for every one rupee of profit made by the company, investors are willing to pay ₹18 for the stock. Thus, if corporate earnings do not catch-up with those expectations, higher valuations will not be justified and returns in 2018 will disappoint.

### Nifty Gains



Source: Nirmal Bang Research

Revival of corporate earnings is the sine qua non for valuations to sustain. It remains the most indispensable condition of markets outlook for the New Year.

### A REPEAT OF 2003-2007 BULL RUN?

For beginners, corporate earnings have suffered in recent years due to weak global demand, drop in global commodity prices, lower capacity utilization, technological changes and one-time disruptions in the form of demonetization and implementation issues of Goods and Services Tax (GST).

On an average Nifty companies have delivered single digit earnings growth over the past four years.

This is in contrast with the period 2003 to 2007 - one of the best phases in the history of the Indian markets which delivered 38%, 28%, 9%, 36% and 20% earnings growth in FY04, FY05, FY06, FY07 and FY08, respectively.

In recent years, after a strong performing year, markets have typically lost steam the very next year as the earnings growth was weak, whereas the bull run of 2003 - 2007 was supported by earnings growth.

### 2003-2007 Bull Run V/s 2017 Onwards

2003-2007 Bull Run	2017 Onwards
Global Rally	Global Rally
Supported By Earnings Growth	Not Supported By Earnings Growth
Supported By FII Liquidity	Supported By Domestic Liquidity
Private Investment Driving	Private Investment Missing
Stable Macro Environment	Stable Macro Environment

Source: Nirmal Bang Research

Although there is a stark resemblance between 2004 and 2018 in terms of supportive global environment and improving domestic fundamentals, a vital missing link today is the robust growth in corporate earnings. For any sustainable rally from hereon, earnings recovery has to play out in India.

## GREEN SHOOTS

### But Will Earnings Recovery Play Out In 2018?

There are few initial signals of a recovery in 2018. Capacity utilization is seen inching up. Early trends in December quarter corporate earnings for FY18 indicate a revival in business growth.

Exports are witnessing a recovery on the back of global demand. Only recently, the International Monetary Fund (IMF) upped the world's growth outlook for the year 2018 to 3.7%.

Most importantly, unlike in India, the US corporate earnings growth is visible. Recently, the US Federal Reserve upped the US's GDP expectation for CY18 to 2.5% from 2.1%. The performance of the US market (S&P 500 up 20% in 2017) seems sustainable.

Revival in global demand is positive for export- oriented Indian corporates.

Back home, the government has undertaken several reforms measures over the past few years including increasing their spending on housing and infrastructure. Revival of rural demand is key focus area of the government. A stable interest rate regime in 2018 will also help corporates.

In addition to this, corporates have been deleveraging for the last few years. The resolution of non-performing assets or NPAs will also be largely complete in 2018. This will make the balance sheets of banks look healthy.

Further, with the impact of one-off events like demonetization and GST largely over, the favourable base will make earnings look good.

Government's massive bank recapitalization plan will have positive impact on PSU banks too. Of late, bank's credit off-take is picking steam.

Thus, a recovery is due and year 2018 can witness some uptick in corporate earnings.

## LIQUIDITY

On the back of strong economic growth, developed economies have started tightening their loose monetary policies. US Federal Reserve, European Central Bank (ECB) and Bank of Japan (BoJ) will continue to reverse their quantitative easing in 2018.

Withdrawal of liquidity by advanced economies poses a threat to emerging economies like India in terms of capital flows. India might be exposed to bouts of volatility in 2018. Any geo-political issues or any massive correction in the international markets will rub off on India too.

Positively, flows from domestic mutual funds (DMFs) have risen in the past one year. DMF's inflows into equity and equity-related schemes of MF averaged ₹6,000 crore per month in 2017. DMFs have not only managed to offset volatile foreign flows, but also prevented the markets from sliding lower.

Lower inflation and poor returns from other asset classes like gold and real estate will help shift financial savings towards DMFs in 2018, thereby supporting the markets.

## KEY RISKS

### Crude Oil

Being a net importer of crude oil, the Indian economy is subject to all the vagaries of volatile crude prices. Oil prices have shown some upward bias in 2017. Any material rise in oil prices can exert upward pressure on inflation and the current account deficit (CAD), resulting in deterioration of India's macroeconomic fundamentals.

### Domestic Inflation And Interest Rates

The more troubling questions for India centre around

domestic inflation, which has raised its ugly head in the latter part of the CY2017. Retail inflation for the month of December '17 stood at 5.21%, up from 4.88% in November. This is above RBI's comfort level of 4%. Sustained high inflation can prompt the RBI to increase rates, thereby negatively impacting the stock markets.

### Fiscal Deficit

Fiscal slippage remains a key risk for India in 2018. In the run up to the budget for FY19, the markets, especially the bond markets have already factored in some fiscal slippage from the targeted 3.2% for FY18.

Being the last Budget of the Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA)

government before the next general election, which will be held in the year 2019, the markets will keep a hawk's eye on fiscal deficit number. The stock markets may not mind some divergence in order to boost economic growth, but would certainly react negatively if the slippage is for any populist measure.

### NEAR-TERM OUTLOOK

Even with all the challenges, India is better positioned as compared to other emerging economies. The near-term outlook for the Indian markets is positive. Global factors will be supportive in 2018. Liquidity flow will continue. For a rally to continue in 2018, domestic earnings need to improve significantly.

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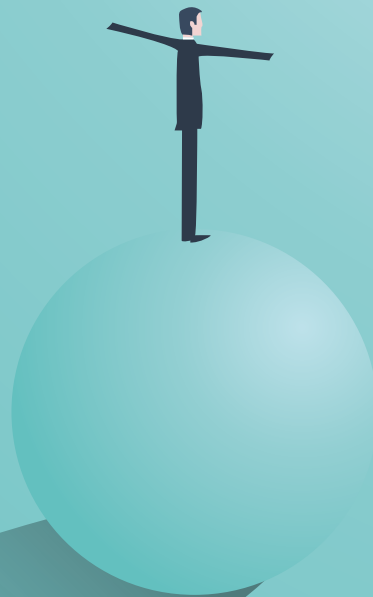
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# STABLE YET WORRISOME

Year 2018 will be a stable one for the Indian economy with the possibility of recovery in some sectors, but its troubles are far from over



**T**he year 2017 was a turbulent one for the Indian economy. It started out on a sombre note, with the economy still reeling under the aftershocks of demonetisation.

In November '16, the Indian government had announced the move to demonetise high value currency notes of ₹500 and ₹1,000, which sucked out almost 86% of the cash in circulation at that time.

While demonetisation was intended at reducing black money in the economy, it was not without its negative repercussions. The year started with a cash crunch. Three of the largest employment generators - agriculture, manufacturing and real estate - that deal primarily in cash suffered heavy losses.

Micro, small and medium businesses that are cash-based have still not recovered from the negative consequence of demonetisation. Rough estimates suggest that 80% of micro, small and medium enterprises in India were affected severely by the note ban.

It was inevitable that demonetisation will have a negative impact on GDP growth. The impact first showed in the March '17 quarter with GDP growth declining to 6.1% and to 5.6% in the June '17 quarter. The June quarter growth was in fact the lowest ever in three years.

In the September quarter, growth picked up to 6.3% but the level of economic activity had slowed down. A section of experts chose to ignore the declining growth numbers in the belief that demonetisation will extinguish black money. In reality this did not happen.

In August '17, India's central bank, the Reserve Bank of India, revealed

that 99% of the extinguished currency had returned to the system, implying that demonetisation was a failure.

Decline in growth led to an unexpected fall in inflation leading to cries for a cut in interest rate. The RBI, however, did not give in till about August, when it slashed interest rates by 25 basis points.

There were no further cuts by the RBI during the year. In the year 2018, inflation may rise if the government decides to increase spending to revive the rural economy.

Demonetisation destroyed the rural economy, which runs mostly on cash. The move came at a time when the rural economy was already under distress because of a fall in commodity prices and successive droughts. Rural income is at an all-time low and rural wages have been declining since 2013.

Demonetisation could not have come at a worse time considering that it was announced just after the harvesting season. With money locked up in bank accounts, farmers struggled to sell their produce. Crop prices plunged overnight. Farmers suffered huge losses due to the price crash.

For the rabi season produce in early 2017, farmers got 30% to 40% lower prices because of a cash crunch in *mandis*. The trickle effect is clearly visible now.

Rural consumer sentiment has taken a big hit, which is evident from the fall in demand for two-wheelers and cars. There is very little hope for a recovery in rural demand unless the government intervenes.

In the middle of the year, the government passed the GST bill to bring in uniform taxation across the country. GST implementation has left

a lot to be desired, leading to chaos and confusion. There were technical glitches in filing GST returns and huge delays in refund of input tax credit for exporters.

Small enterprises have been hit by GST because of the need to keep detailed accounts of every transaction, frequent filing of returns. Complying with GST has added to the cost of small and medium enterprises, which were already facing losses because of demonetisation.

There were other problems facing the economy as well such as high non-performing assets (NPAs) of banks. NPAs held by Indian banks are a whopping ₹10 lakh crore. Bad loans have negatively impacted banks' appetite to lend to crucial sectors, which forced the government to act.

In the year 2017, the government amended the Banking Regulation Act to allow the RBI to crack down on loan defaulters.

The government also invoked the Insolvency and Bankruptcy Code (IBC) to solve the problem of sick companies especially in the real estate sector. So far, 4,300 cases have been filed for insolvency.

The Indian government also announced infusion of a sum of ₹2.11 lakh crore into state-owned banks to increase investment in the economy.

India did not do well on the export front either. The country's export performance was below its peers - China, Bangladesh, Vietnam, Taiwan and South Korea. Economists have blamed India's poor performance in exports on the twin shock of demonetisation and GST.

However, the year was not without positives. In 2017, India climbed to the 100th position in the World

Bank's Ease of Doing Business rankings, jumping 30 notches from last year and highest ever since 2014.

Global ratings agency, Moody's Investors Service upgraded India's sovereign ratings to Baa2 from its lowest investment grade (Baa3), after a gap of around 13 years, giving a thumbs up to the government's reforms measures.

The year 2018 will be a tough year for the Indian economy considering that private sector investment is low and economic growth is solely led by government spending. In 2017, the government spent more than it usually does.

The non-government part of the GDP, which forms 90% of the economy, grew by a meagre 4.3%. Industry grew by 1.6%, with manufacturing and construction growing by 1.2% and 2%, respectively.

The government will have to focus on the rural economy to kick-start growth. According to the World Bank, the Indian economy will grow 7.2% in fiscal 2017-18.

The World Bank believes that reform measures such as demonetisation and GST will formalise the Indian economy in the long term.

A report released by the World Bank said, GST will lead to higher tax collection, greater digital financial inclusion and will make India's fundamentals stronger.

"India remains the fastest growing economy in the world and it will get a big boost from its approach to GST, which will reduce the cost of doing business for firms, reduce logistics costs of moving goods across states, while ensuring no loss in equity," informed Junaid Ahmad, World Bank India Director.

The World Bank sees the negative impact of demonetisation and GST as temporary. It has predicted that the Indian economy will grow at 7.7% in 2019-20, led by strong fundamentals, reforms momentum and improving investment scenario.

Economists and experts believe that the year 2018 will be better than last year. Dust would have settled down on the two reforms of demonetisation and GST.

The year 2017 will be remembered as a year of transition for the Indian economy. Change as always is painful, which is reflected in the weak economic growth seen in 2017.

The subsequent years are, however,

expected to be better for India. There are some fundamental problems that the government needs to tackle on a war footing such as jobless growth.

India needs to create 12 million jobs every year to absorb the young and growing workforce.

Demonetisation and GST wiped out jobs in small and medium enterprises, agriculture, construction and the real estate sector.

The government faces a big challenge in job creation and in 2018 we could see the government taking some steps to generate employment opportunities. Sops are expected for employment-generating industries such as agriculture and construction.

We could also see the government announcing measures to revive the ailing rural economy.

With Lok Sabha elections scheduled for the year 2019, it will be interesting to see if the BJP-led NDA government continues to announce reforms measures or whether it takes a cautious stand.

Overall, the year 2018 will be a stable one for the Indian economy, with the possibility of recovery in some of the key sectors.

## Beyond Words

### Generational Accounting

Generational accounting is a way of analyzing fiscal policy by identifying the financial costs and benefits of government policies to people of different ages, now living or yet to be born. Fiscal policy can distribute resources between different generations, sometimes deliberately and often inadvertently. At any moment in time, one generation may be in work and paying taxes that support other generations (those at school or retired) that are not working. Over its lifetime, one generation's mix of taxes paid and benefits received may differ sharply from that of another generation. Politicians are often tempted to ignore the needs of future generations (who, clearly, cannot vote at the time) in order to win the support of current generations, for instance by borrowing heavily to fund current spending. More fundamentally, because it incorporates all the tax and spending, current and future, to which a government is committed, generational accounting is a much better guide to whether fiscal policy is sustainable than measures such as the budget deficit, which looks only at taxes and spending in the current year.

**M**arkets regulator, Securities and Exchange Board of India (SEBI) has made some noteworthy announcements post its board meeting of 28th December. The decisions include easier entry norms for foreign portfolio investors, allowing

exchanges to offer stocks and commodity derivatives contracts by October '18 and putting a cap on cross-shareholding in mutual funds and credit ratings agencies.

SEBI has also allowed two extra routes - qualified institutions placements (QIPs) and sale of shares

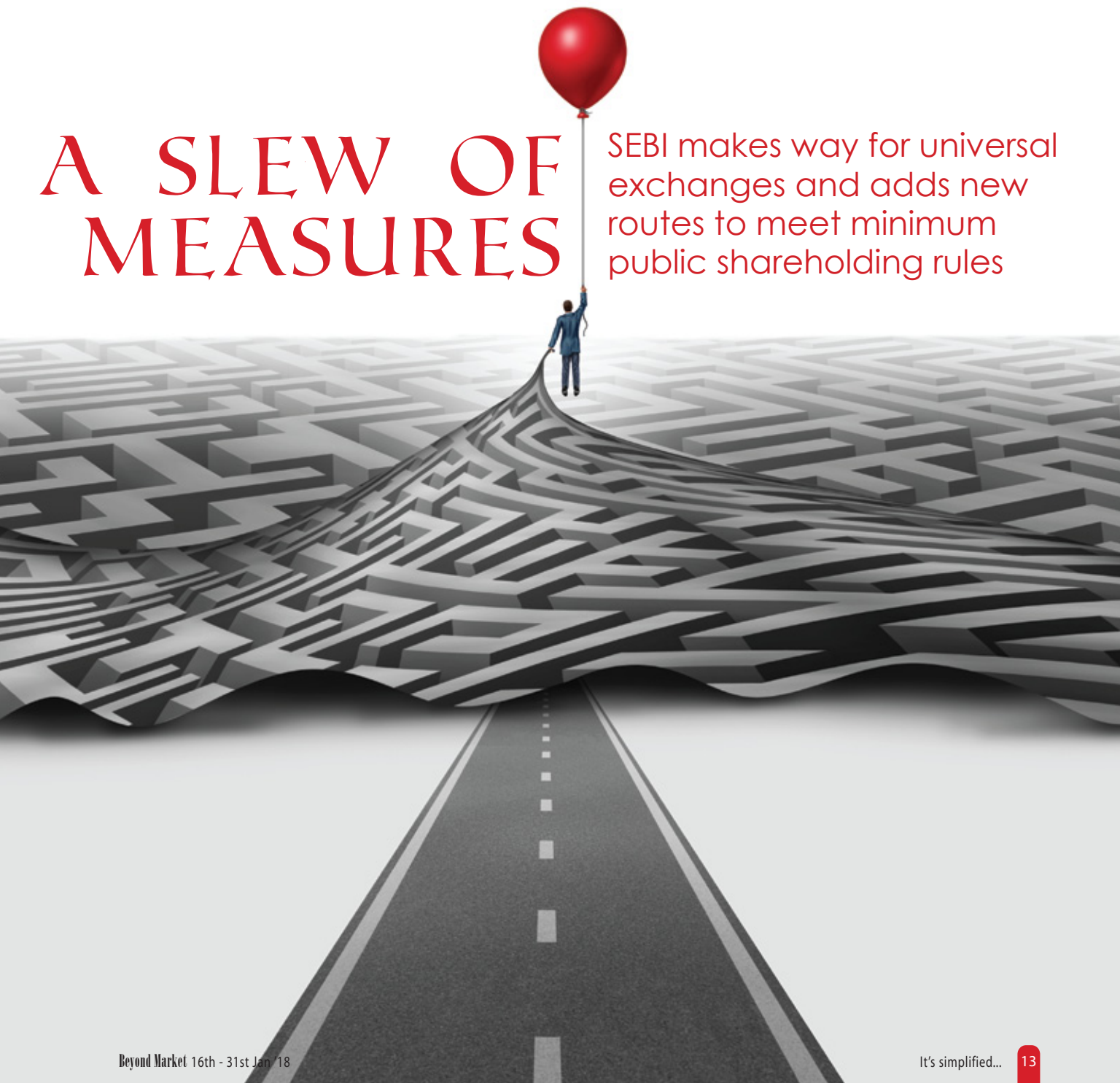
for listed companies to meet minimum public shareholding norms of 25%.

Following are few of the important decisions taken by SEBI at its recently held board meet.

#### CONVERGENCE: STOCK AND

# A SLEW OF MEASURES

SEBI makes way for universal exchanges and adds new routes to meet minimum public shareholding rules



## COMMODITIES EXCHANGE

SEBI has approved the convergence of stock and commodity trading platforms by October '18. So far exchanges offered either equity or commodity products. But now they will be allowed to offer equity as well as commodities products.

Simply put, now a single exchange will operate various segments such as equity, equity derivatives, commodity derivatives, currency derivatives, interest rate futures and debt.

**Analysis:** It was announced in the Union Budget for FY17-18 that the commodities and securities derivatives markets will be further integrated by consolidating participants, brokers as well as operational frameworks.

SEBI has made many announcements in this regard. Forward Markets Commission, the commodity regulator, has already been merged with SEBI. And SEBI has already allowed single licence for stock and commodity brokers. Now, it has approved a single trading platform.

With this, the three major exchanges in India, viz. Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and Multi Commodity Exchange (MCX) will become universal exchanges offering all kinds of products to trade.

## ADDITIONAL AVENUES FOR MINIMUM PUBLIC SHAREHOLDING (MPS)

The country's market regulator SEBI has allowed two additional avenues for listed entities to achieve minimum 25% public shareholding (MPS) requirements: qualified institutions placements (QIPs) and sale of shares up to 2% held by promoters or promoter group in the open market.

For beginners, the MPS rule requires all listed companies in India to ensure that at least 25% of their equity shares are held by non-promoters.

**Analysis:** The existing ways of diluting promoter stake are issuance of shares to public through prospectus; offer for sale to public through prospectus; sale of shares held by promoters through the secondary market, institutional placement programme; rights issue to public shareholders; and bonus shares to public shareholders. Additionally companies can use these two routes to meet the MPS norms.

Just to highlight, listed companies have recently been asked to comply with the 25% MPS rule by August '18. Many of the state-run companies are yet to abide by the rule. Thus, the two methods will aid these companies to meet the MPS norms.

QIP offers a quick solution to the listed entities, enabling them to meet MPS requirements apart from meeting their funding requirements. Also, sale of a certain small percentage of shares through the open market will facilitate quicker and cheaper compliance for listed entities where promoters hold shares marginally above the threshold limit.

Higher public float improves liquidity and reduces the scope for price manipulation apart from enhancing corporate governance standards.

## EASIER ENTRY NORMS FOR FPIs

SEBI has also simplified compliance and other rules for the entry of foreign portfolio investors (FPIs) in the Indian markets. Among other things SEBI has rationalized fit and proper criteria for FPIs.

**Analysis:** All these relaxations for

FPIs will make the Indian markets easily accessible to them. This will lead to high FPI flows into the Indian stock markets.

## SECURITY TRADABLE

SEBI has allowed security receipts (SRs) issued by asset reconstruction companies (ARCs) to be listed and traded on the stock exchanges. In market parlance, SRs are receipts issued by ARCs for buying non-performing assets (NPAs) of banks. With SRs, ARCs raise the initial sum for buying the NPAs from banks. SRs are mostly bought by institutional players and often by the same bank that sells the NPA.

**Analysis:** So far, SRs were not tradable. This locked up the money of institutional investors. SRs were illiquid. Thus, trading of SRs was mooted in the Union Budget of 2017-18 to enhance capital flows into the securitization industry and to aid the resolution of bank's non-performing assets.

Trading in SRs gives an opportunity for banks which holds the majority of the security receipts to sell it in the capital markets.

## CAP ON CROSS-HOLDING IN CREDIT RATING AGENCIES

SEBI has introduced a cap on cross-holding among credit ratings agencies (CRAs). No ratings agency will be allowed to hold 10% or more stake or voting rights in a rival CRA. Further, no CRA can have any representation on the boards of other credit ratings agency.

Besides, the minimum net worth requirement of a CRA has been raised to ₹25 crore from ₹5 crore earlier. The promoter of a ratings agency will have to maintain a 26% shareholding

for at least three years from the time it is registered.

**Analysis:** The move has been taken to augment governance and mitigate issues of conflict of interest. This will also ensure fair competition among CRAs. Higher net-worth requirement will ensure only serious players prevail in the market.

### **CAP ON CROSS-SHAREHOLDING IN MFs**

Along with CRAs, SEBI has also put a 10% cross-holding cap on mutual funds. A sponsor of a mutual fund and its asset management company (AMC) will not be allowed to have more than 10% stake in other mutual funds or a board seat in another AMC.

The sponsor is the promoter of the mutual fund. The sponsor brings in capital and creates a mutual fund trust and sets up the AMC.

Sponsors of a mutual fund holding more than 10% stake in another mutual fund will be given a year's time to reduce their shareholding in line with the new norms.

**Analysis:** Cap on cross holding will clear the way for the listing of UTI Asset Management Co Ltd, which has four public sector financial institutions holding an 18.24% stake each. These four entities: Life Insurance Corp. of India, State Bank of India, Bank of Baroda and Punjab National Bank already have their own fund houses. One can expect an IPO

of UTI AMC in FY19.

### **ADVISORS & DISTRIBUTORS**

SEBI has also come out with a consultation paper seeking comments from the public on whether distributors and advisors of financial products can do both the activities at the same time. SEBI feels that there should be clear segregation between the two activities of the entities.

**Analysis:** There is a need to prevent mis-selling of financial products. Currently there is a conflict of interest between advising for investing in financial products and selling of financial products. It remains to be seen whether such segregation can be practical at the ground level.



Choosing the right product should be as simple as adjusting the volume. That is how sound investment advice at Nirmal Bang is — loud and clear.



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**EQUITIES | DERIVATIVES | COMMODITIES\* | CURRENCY | MUTUAL FUNDS# | PMS# | INSURANCE# | DP**

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India's Initial Public Offering (IPO) market has been active like never before. In the year 2017, Indian companies raised a record sum of ₹67,147 crore through the initial public offerings (IPOs) route as 36 companies entered the capital markets.

According to IPO database company Prime Database, this fundraising is 89% more than the previous record of ₹37,534 crore reported in 2010.

Experts point out that the money parked post demonetisation has found a way into new companies that entered the capital markets. Apart from this, 2017 saw an interesting line-up of companies hitting the capital markets. A case in point is Avenue Supermart, which runs grocery chain D-Mart.

Given this, a natural question that arises is how would 2018 fare for India's IPO market? Here is a look at

some prominent IPOs that are likely to hit the capital markets:

### LEMON TREE HOTEL

**Issue Details:** Offer for sale of up to 19,57,97,000 equity shares.

Lemon Tree Hotel is India's largest hotel chain in the mid-priced hotel sector, and the 3rd largest overall, on the basis of controlling interest in owned and leased rooms and the 9th

# IPOs GALORE

*It's raining IPOs on the capital markets with a slew of Indian companies raising a record amount in 2017*



largest hotel chain in India in terms of owned, leased and managed rooms, as of 30th Jun '17, according to the Horwath Report.

The company operates in the mid-priced hotel sector, consisting of the upper-midscale, midscale and economy hotel segments. It operates 4,289 rooms in 40 hotels (including managed hotels) across 24 cities in India as of 31st Jul '17.

### ACME SOLAR HOLDINGS

**Issue Details:** Initial public issue of equity shares aggregating up to ₹2,200 crore. The company is considering a pre-IPO placement of 52,22,079 equity shares for an amount not exceeding ₹500 crore.

Acme Solar Holdings Ltd is one of the largest solar Independent Power Producers (IPPs) in India. Its portfolio of solar power projects comprises operational and under-construction solar power projects - with an aggregate capacity of 1814 MW.

The company is present across 12 Indian states, namely, Uttarakhand, Gujarat, Chhattisgarh, Telangana, Karnataka, Punjab, Bihar, Uttar Pradesh, Odisha, Madhya Pradesh, Rajasthan and Andhra Pradesh with a portfolio of 33 operational projects and 14 under-construction projects. Of these, 50.2% (in terms of capacity) are with central government entities.

### HG INFRA ENGINEERING

**Issue Details:** Fresh issue of equity shares aggregating up to ₹300 crore and offer for sale of up to 60,00,000 equity shares

HG Infra Engineering is an infrastructure construction, development and management company with extensive experience

in their focus area of road projects, including highways, bridges and flyovers. The company's business can be divided into two major segments.

One is providing engineering, procurement and construction (EPC) services on a fixed-sum turnkey basis and the other is undertaking civil construction and related infrastructure projects on item rate and lump sum basis, primarily in roads and highways sector.

The company has also forayed into water pipeline execution projects. It is currently undertaking two water supply projects in Rajasthan on turnkey basis, which includes designing, construction, operation and maintenance of the project.

The company has already executed or is executing projects across various states in India covering Rajasthan, Uttar Pradesh, Haryana, Uttarakhand, Maharashtra and Arunachal Pradesh.

### AMBER ENTERPRISES INDIA

**Issue Details:** Fresh issue of equity shares aggregating up to ₹450 crore and offer for sale of equity shares aggregating up to ₹105 crore

Amber Enterprises India is the market leader in Room Air Conditioner (RAC) industry in India with a market share of 55.4% in terms of volume in FY17 (Source: Frost & Sullivan (F&S) Report).

Amber Enterprises India is a one-stop solutions provider for major brands in the Room Air Conditioner industry in India. The AC manufacturing company is currently serving eight out of the 10 top RAC brands in the country (Source: F&S Report).

The company's key customers include leading RAC brands such as Daikin, Hitachi, LG, Panasonic,

Voltas and Whirlpool.

### CMS INFO SYSTEMS

**Issue Details:** Offer for sale of 4,44,00,000 equity shares

CMS Info Systems Ltd is India's largest cash management company based on the number of ATM points and the number of retail pick-up points as of 31st Mar '17 (Source: Frost & Sullivan).

CMS Info Systems Ltd is also the 5th largest ATM cash management company worldwide based on the number of ATM points the company has as of 31st Dec '16. (Source: Frost & Sullivan).

For FY17, the company's total currency throughput, or the total value of the currency passing through all their ATM and retail cash management businesses, amounted to ₹7,290 billion. The company provides a wide range of services across each stage of the cash cycle in India.

The cash management company operates its business in three segments. First, cash management services which include ATM services, cash delivery and pick-up and network cash management services (together known as "retail cash management services").

Second, managed services, which include sale of ATMs and ATM sites and related products and maintenance services. Third, other segments, which include trading in card and card personalization services.

The company has a pan-India fleet of over 3,603 cash vans and their network of 282 branches and offices, as of 31st Mar '17 cover all the states of India, 98.28% Indian districts and over 11,090 postal codes, including difficult-to-reach and remote rural

and semi-urban areas across the length and breadth of the country.

## RELIANCE GENERAL INSURANCE

**Issue Details:** Fresh issue of 1,67,69,995 equity shares and offer for sale of 5,03,09,984 equity shares

Promoted by Reliance Capital Ltd, Reliance General Insurance Co Ltd is one of the leading private sector general insurance companies in India.

Based on the Gross Direct Premium Income for the quarter ended 30th Jun '17, Reliance General Insurance is among the five largest private sector general insurance companies in India, according to the ICRA report.

The company offers a comprehensive and well-diversified range of insurance products in the Motor, Weather and Crop, Health, Fire and Engineering, and Marine Insurance sectors, as well as in other miscellaneous insurance business lines, which they provide through multiple distribution channels.

## BANDHAN BANK

**Issue Details:** Fresh issue of up to 9,76,63,910 equity shares and offer for sale of up to 2,16,16,584 equity shares by Bandhan Bank.

Bandhan Bank is a commercial bank focused on serving the underbanked and the underpenetrated markets in India. They have a banking license that permits them to provide banking services pan-India across the available customer segments.

This private sector lender currently offers a variety of asset and liability products and services that have been designed for micro banking and general banking, as well as other banking products and services to

generate non-interest income.

Their strength lies in microfinance, including a network of 2,022 doorstep service centres (DSCs) and 6.77 million micro loan customers that BFSI transferred to them, which they have grown to 2,546 DSCs and 9.47 million micro loan customers as of 30th Sept '17.

## INDIAN RENEWABLE ENERGY DEVELOPMENT AGENCY

**Issue Details:** Initial public issue of up to 13,90,00,000 equity shares

State-run Indian Renewable Energy Development Agency (IREDA) is a domestic financial institution with more than 30 years of experience in the Indian renewable energy sector.

IREDA is currently a 100% Government of India-owned enterprise under the administrative control of the Ministry of New and Renewable Energy (the MNRE).

The company provides financial assistance to renewable energy projects, companies and manufacturers in India for power generation, equipment supply and fuel source projects including wind power, solar power, hydro power, biomass, cogeneration and waste to energy as well as energy efficiency and conservation.

## ICICI SECURITIES

**Issue Details:** Offer for sale of up to 6,44,28,280 equity shares

ICICI Securities is a part of the ICICI Group, one of the largest financial conglomerates in the country and promoted by ICICI Bank, India's largest private sector bank in terms of consolidated total assets with an asset base of around ₹10.2 trillion as on 30th Sept '17.

I-Sec is a leading technology-based securities firm in India that offers a wide range of financial services including brokerage, financial product distribution and investment banking and focuses on both retail and institutional clients.

The company has been the largest equity broker in India since fiscal 2014 by brokerage revenue and active customers in equities on the National Stock Exchange (Source: CRISIL), powered by their significant retail brokerage business in the country, which accounted for 90.5% of the revenue from the brokerage business (excluding income earned on their funds used in the brokerage business) in fiscal year 2017.

As of 30th Sept '17, ICICIdirect, their proprietary electronic brokerage platform, had approximately 3.8 million operational accounts of whom 0.7 million had traded on NSE in the preceding 12 months. Since inception, they have acquired a total of 4.4 million customers through this platform as of 30th Sept '17.

## SREI EQUIPMENT FINANCE

**Issue Details:** Fresh issue of equity shares aggregating up to ₹1,100 crore and offer for sale of up to 43,86,765 equity shares

Srei Equipment Finance is a leading financier in the construction, mining and allied equipment sector in India, with approximately 32.7% market share in fiscal 2017 (Source: Feedback Report).

This sector primarily consists of equipment used for earthmoving and mining, concreting, road building, material handling, material processing and allied activities.

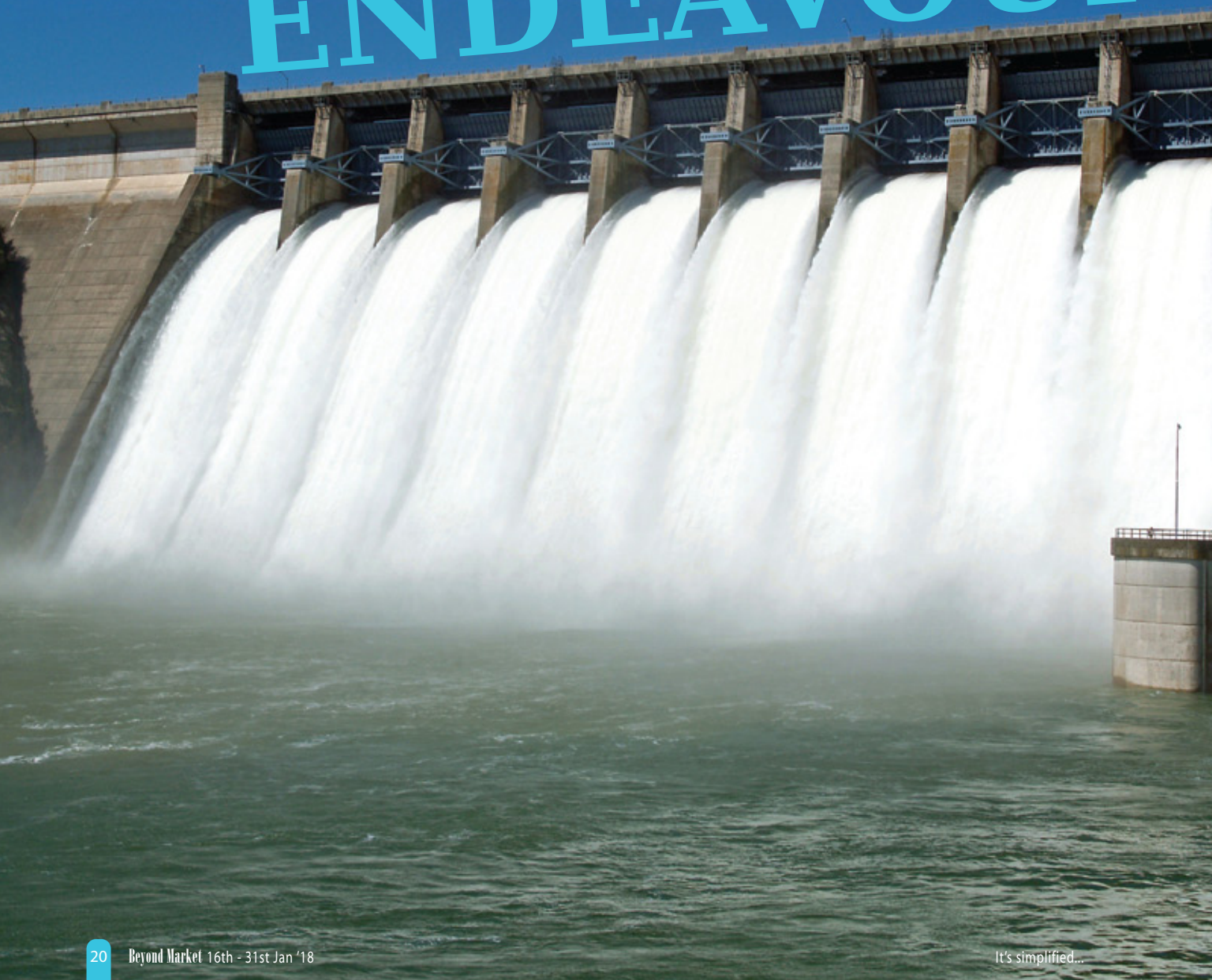
The product offerings include loans for new and used equipment, and

₹17,952 crore and a net profit of ₹2,625 crore for the year ended last March. The government will divest 10% stake in the company through the offering.

Gurugram-based ReNew Power Ventures is an Independent Power Producer (IPP) of clean energy with more than 3000 MW of commissioned and under-construction clean energy assets. Of this, more than 2GW assets have already been commissioned. India's largest clean energy producer plans to enter the market via a ₹4,500 crore share sale this year.

Although ambitious, the BJP government's water transfer project through interlinking of rivers could resolve the country's water issues and boost infrastructure after its implementation

# GRAND ENDEAVOUR



**I**ndia has seen two successful revolutionary movements which have had far-reaching social and economic effects. These movements changed the way businesses were conducted in sectors that produced essential items.

In the 1960s, there was Green Revolution, which changed the way agriculture was done in India by improving agricultural productivity multi-fold. Then came, White Revolution, which brought about seminal change in the way dairy business was conducted in India.

With the BJP government's focus on improving infrastructure - one of the key factors in facilitating employment generation and improvement in business environment - the National River Linking Project or NRLP - is turning out to be one such revolutionary movement. Here is a low-down on why it is so:

## A SEA OF OPPORTUNITIES

The inter-linking of rivers or National River Linking Project (NRLP) is quite an old project. It dates back to the early 19th century when British engineer Arthur Cotton had proposed the idea of interlinking of rivers to facilitate water transport.

As it turned out, higher authorities deemed railways as far more essential and urgent mode of transportation, which needed to be developed on a priority basis. Then came various committees that were formed to study interlinking of rivers within the country, its benefits and its impact in terms of business and environment.

In 1980, the Ministry of Irrigation prepared a National Perspective Plan (NPP) for Water Resource Development, which provided the basic framework for interlinking of

rivers project.

The Indian peninsula has as many as 111 rivers. In the Himalayan region, India has primary rivers such as Indus, Brahmaputra, the Ganges and Yamuna. In the Peninsular region, there are rivers such as Narmada, Tapi, Godavari, Krishna, Mahanadi and Cauvery. The Central Water Commission (CWC) has divided the entire country into 22 river basins. Of these, the Ganges is the largest.

The National River Linking Project (NRLP) has a vision of connecting 37 rivers through 30 links comprising a network of over 50 dams and more than 15,000 km of canals, which would form a gigantic South Asian Water grid. The NRLP has divided development of rivers into two parts:

### a) Himalayan Rivers

This envisages construction of storages on the principal tributaries of Ganga and Brahmaputra rivers in India, Nepal, and Bhutan. It also proposes inter-linking canal systems to transfer the surplus flow of the eastern tributaries of the Ganga to west India, and linking the three major rivers (Brahmaputra, Ganga, and Mahanadi) and their tributaries.

### b) Peninsular Rivers

This envisages construction of an inter-linking canal system, backed by adequate storage to meet the water requirements on the west side of India and to drought-affected areas in eastern India. It proposes to link the rivers Mahanadi-Krishna-Pennar-Cauvery, Ken-Chambal, and the west-flowing rivers in Maharashtra.

It has been observed that NRLP is still at a nascent stage. Experts point out that Detailed Project Report (DPR) of most links of interconnecting rivers has not yet been finalized. The

Central Water Commission estimates the total cost of the 30 links to be ₹5.6 trillion in 2002-03 prices, which would be close to ₹11.4 trillion according to prices in 2015.

The government is expected to provide additional financial support for executing this project to participating states. Analysts point out that the government may consider funding from foreign sources such as the World Bank or the Asian Development Bank, which in the past have shown inclination towards funding such kinds of projects.

It is estimated the river-interlinking project may be executed over the next 10 to 15 years, which would result in an annual investment of ₹1 trillion. Experts say that since irrigation is a state subject a large part of the irrigation expenditure is expected to be borne by beneficiary states.

Statistics reveal that for FY18 the top 15 states in India spent ₹79,000 crore in FY17 on irrigation and they plan to spend ₹98,000 crore in FY18. Given such scale of investments by states, experts expect that these states may continue with such levels of investments, which means that they can play a crucial role in NRLP.

## BENEFITS

Along with massive investments, NRLP entails benefits which have far-reaching social and economic effects. Here are the crucial benefits of the project:

- Relief from recurring floods and droughts,
- Expected to add 35 mn ha of irrigated land
- Expected to boost business activities in sectors such as construction, cement, and iron and steel industries for the next ten years
- Potential to increase agriculture

production by 100% over the next five years – leading to the annual average income of farmers increasing to over US \$500 per acre, from the current US \$40 per acre

- Expected to generate 34 GW of hydropower, which would lead to lower dependence on fossil fuels like coal and LNG
- Expected to provide employment to one million people over the next 10 years
- Expected to create 15,000 km of canal systems, which will facilitate inland water navigation

It is estimated that road transport costs ₹2.58 per tonne per km as compared to ₹1.4 for railways and only ₹1.06 for waterways.

This clearly shows that water transport is much more cost-effective and efficient than roadways and railways. It is also environment-friendly and reduces the load on our railways and highways network. This shows the advantage and the importance of NRLP.

## IN ESSENCE

NRLP is one of the most highly ambitious projects, which if implemented well, could provide

enduring changes to the business ecosystem in the country.

The BJP government at the centre has taken some steps towards the implementation of NRLP. The government formed a special committee for Inter-linking of Rivers.

After five meetings, the Ministry of Water Resources constituted a ‘task force’ on inter-linking of rivers, comprising of experts and senior officials. Chaired by BN Navawala, the task force was to expedite the work on the inter-linking of rivers. Here are a few crucial responsibilities that the government plans to achieve:

- To consider alternative plans in place of infeasible links in the present plan and examine existing links
- To facilitate inter-linking of intra-state and intra-basin rivers along with inter-state and inter-basin links
- To recommend the schedule for completion of feasibility studies and Detailed Project Reports of all links, implementation schedule of all links, and suggest means of funding
- To provide guidance on appraisal norms for individual projects in terms of economic viability, socio-economic and environmental impact, and resettlement plans

•To device suitable mechanisms for bringing about speedy consensus amongst states and proposing suitable organizational structures for implementing the inter-linking of rivers project

While these responsibilities are large in number, what is crucial is the government’s clear intentions in sincerely implementing the NRPL project. The project requires massive political will and financial capital. These can only be achieved through solid co-operation between states and the centre.

Experts point out that these problems are not so complex considering the massive budgets state governments have allocated towards irrigation.

Besides, experts also point out that the project directly benefits the highly electorally important rural population, which means that the government may show proactive approach in implementing it.

At present, the BJP government rules in as many as 18 out of the 29 states in the country, which means that the ruling party is reasonably powered to give pace to the implementation of the project.

## Beyond Words

### Big Mac Index

The Big Mac index was devised by Pam Woodall of ‘The Economist’ in the year 1986, as a light-hearted guide to whether currencies are at their “correct” level. It is based on one of the oldest concepts in international economics, Purchasing Power Parity (PPP), the notion that a dollar, say, should buy the same amount in all countries. In the long run, argue PPP fans, currencies should move towards the exchange rate, which equalises the prices of an identical basket of goods and services in each country.

In this case, the basket is a McDonalds’ Big Mac, which is produced in more than 100 countries. The Big Mac PPP is the exchange rate that would leave hamburgers costing the same in the United States as elsewhere. Comparing actual exchange rates with PPP signals whether a currency is undervalued or overvalued.

Some studies have found that the Big Mac index is often a better predictor of currency movements than more theoretically rigorous models.

# RETAIL FILLIP

By allowing 100% FDI in single-brand retail via the automatic route, the government has opened up India as a global retail market



**T**he retail sector is likely to witness a strong growth in 2018, driven by several measures announced by the government in the recent past.

With Foreign Direct Investment (FDI) and Goods and Services Tax (GST) remaining in the forefront of retail reforms, the announcement of allowing 100% FDI in single brand retailing through automatic route has further simplified the operational requirements that global retail players have to comply with and will

eventually boost growth of the sector.

The government finally approved the long-standing demand for 100% Foreign Direct Investment in single-brand retail via automatic route. Single brand retail, for the uninitiated, refers to businesses that sell goods to individual customers and not to other businesses. Such goods are all sold under the same brand name.

On the other hand, multi-brand retail basically signifies businesses that

carry several different brands and sell goods to individual customers.

Currently, foreign direct investment of up to 49% is allowed under the automatic route but any investment beyond the limit requires government approval. The opening up of the Indian market will be significant in allowing growth in overall commerce of the country.

Kishore Biyani, Chief Executive Officer of Future Group, said, "This will further open Indian markets.

Specialty retail has seen a boom and is growing. Consumers are willing to experiment with newer products and services, even if they are priced more. Hypermarkets and home stores are showing growth.”

The retail sector has been a major growth determinant for the Indian economy, and the government is quite supportive to the sector in relaxing norms and introducing favourable norms and policies.

Pankaj Renjhen, Managing Director, Retail, Jones Lang Lasalle India, said, “The government’s decision to grant 100% Foreign Direct Investment for single brand retail is a major step in providing quantum growth to the retail sector. The timing for this announcement is significant as the retail sector is poised to receive significant real estate supply in the near future.”

After a prolonged period of slowdown in the retail sector over the last few years, the sector is once again witnessing a strong comeback with developers and investors betting high on the sector.

Retail saw significant increase in private equity investments in 2016-17, indicating a significant growth in retail real estate in the coming years. The announcement in favour of 100% FDI through direct route will open up India as a global retail market.

The Cabinet, in addition to allowing 100% Foreign Direct Investment in single brand retail under the automatic route, also eased sourcing norms by allowing foreign retailers to meet the 30% local sourcing criteria even through exports in the first five years of operations.

Earlier, the 30% local sourcing was meant to contribute towards sales in

the domestic market only.

Janne Einola, Country Manager, H&M India, said, “We are happy to hear about the India sourcing requirement being offset towards global sourcing from India, while it is in the right direction, we look forward to the same relaxation for the period beyond the initial five years as well, which works towards ease of doing business in India.”

Experts said easing sourcing norms by allowing foreign retailers to meet the 30% local sourcing criteria even through exports in the first five years of operations will allow global retailers to come in with international merchandise without concerns of loss of quality and brand equity.

Further, retailers will be able to start operations and will have five years to find Indian partners and vendors that qualify in terms of quality and price.

With most economic agencies including World Bank, S&P and Moody’s continuing to indicate a strong economic growth of GDP over 7% for the next three years (2018 - 2020), the possibility of growth for global retailers in India is strong.

As per industry estimates, the Indian retail sector is pegged at ₹1 trillion by 2020 at an estimated compound annual growth rate (CAGR) of 15%.

This move of opening up of Foreign Direct Investment for single brands will be a strong catalyst for the sector to reach and exceed its potential in India, Renjhen of Jones Lang Lasalle stated recently.

Industry experts believe that the more liberal regime being adopted by the Indian government will attract many foreign brands as globally most of them are not performing well in their major respective markets.

Rajat Wahi, Partner, Deloitte India, said, “Many brands who have been waiting to enter the country for a long time are likely to speed up the process as India is one of the few markets witnessing growth. Also, the existing players present in the country through joint ventures and franchisee arrangements now have an option to open shop on their own.”

He, however, said that it wasn’t necessary that this will happen in a large number of cases as direct entry will also require a lot of investment.

While others agree generally on the attractiveness of the Indian market and the ease of entry facilitated by the latest move, some segments might see more action than others.

Sreedhar Prasad, Partner – Consumer Markets, KPMG India, said, “We will see more fashion, beauty and personal care and baby product brands coming to India as well as existing brands strengthening their position. This new development would strengthen their business case for India entry.”

Echoing a similar view, Kumar Rajagopalan, Chief Executive Officer, Retailers Association of India argued that this will also benefit consumers. “Today’s reform would bring in wide product choices for consumers and help boost employment. We believe that the current decision to allow 100% foreign direct investment through the automatic route will ease the process for foreign as well as Indian brands interested in being part of the great Indian retail story.

“It is known that global companies take time to develop good suppliers as partners and, hence, the relaxed time frame for sourcing is conducive without compromising India’s need to be a good sourcing hub for global brands,” said Rajagopalan.

In the long run, today's reform in retail would help boost employment, bring in wide product choices for consumers and help grow not just the economy, but the nation as a whole, Rajagopalan added.

The move has even enthused those in the retail development business. Anshuman Magazine, Chairman, India and South East Asia, CBRE said, "This is great news for the retail industry in particular and India's economy as a whole. The recent policy reforms and regulations have revived India's profile as an investment destination.

"India's retail market has been performing well over the past two years, attracting significant investment from private equity firms. We have already seen more than \$1 billion worth of investments from private equity firms in this sector in the past two years." He is optimistic that this trend will get a leg up with the new norms.

Experts are excited about more foreign brands entering the country and investing in the sector.

Dhanraj Bhagat, Partner, Grant Thornton India LLP, too said, "This is another positive step from the government towards ease of doing business in India. By allowing 100% FDI in single brand retail under the automatic route, foreign entrants will find it easier to set up operations in

the country.

"Further, sourcing requirements in the first five years of opening of the first store in India have been tweaked to make it more viable for the foreign brands comply with the regulations."

In 2017, the government allowed 100% foreign direct investment through an automatic route for single brands under the market place model that attracted strong inflows of foreign capital.

So it is not surprising that in recent times many Indian startups have gone the single brand retail route to bolster their businesses and increase their revenue margins.

For instance, in May '17, Bengaluru-based online lingerie retailer Zivame applied to the government for a license to function as a single brand retailer in the country.

Later in August, Urban Ladder reportedly received a single brand retail trade (SBRT) licence from the Department of Industrial Policy and Promotion (DIPP). Urban Ladder had applied for the single brand licence in September '16 when it announced a shift in its business model from online retail to becoming a furniture brand.

However, while foreign brands and experts applauded the move, the domestic retailer and a few industry bodies didn't seem so happy about the

step taken by the government to introduce 100% foreign direct investment in the sector as they felt this would impact smaller businessmen in India.

While consumers will have an array of options to select from the foreign brands, competition is likely to get steep in the domestic market with both foreign and domestic players vying for their existence.

The Confederation of all India Traders (CAIT) strongly condemned the decision taken by the government and said that the step will impact smaller businesses by paving the way for the foreign brands to dominate the country's retail trade.

"The CIAT strongly opposes the move to allow 100% FDI in single brand retail through automatic route as it will facilitate easy entry of multinational corporations in retail trade of India," the trader's body said in a statement.

The statement from the confederation further stated, "It's a serious matter for small businesses. It's a pity that instead of formulating policies for the welfare, upgradation and modernization of existing retail trade, the government is more interested in paving the way for the multinational companies to dominate and control retail trade in India, and said that this step will result in a large number of people becoming jobless."

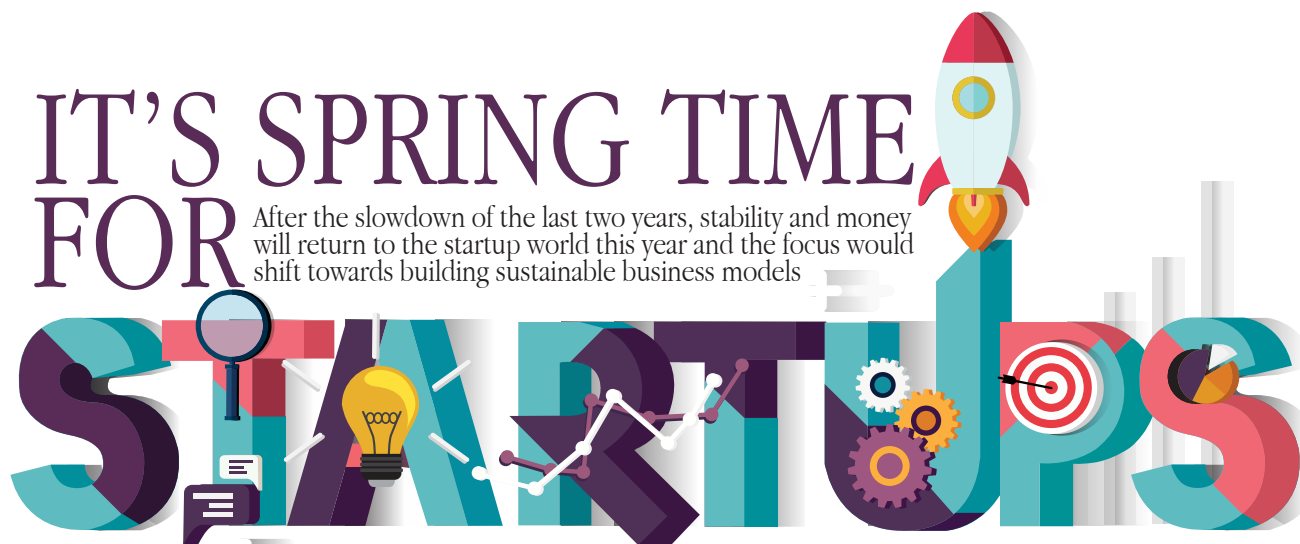
## Beyond Words

### Generational Accounting

Generational accounting is a way of analyzing fiscal policy by identifying the financial costs and benefits of government policies to people of different ages, now living or yet to be born. Fiscal policy can distribute resources between different generations, sometimes deliberately and often inadvertently. At any moment in time, one generation may be in work and paying taxes that support other generations (those at school or retired) that are not working. Over its lifetime, one generation's mix of taxes paid and benefits received may differ sharply from that of another generation. Politicians are often tempted to ignore the needs of future generations (who, clearly, cannot vote at the time) in order to win the support of current generations, for instance by borrowing heavily to fund current spending.

# IT'S SPRING TIME FOR

After the slowdown of the last two years, stability and money will return to the startup world this year and the focus would shift towards building sustainable business models



**T**he last two years have been bad for the Indian startup world as job losses, shutdowns and distress acquisitions became a norm. The pace of addition of companies slowed with seed funding coming to a standstill. The slowdown coincided with demonetisation and the implementation of the goods and services tax, which dealt a double whammy to the fledgling firms.

So how does the New Year look for the new-age companies?

## MONEY MAY RETURN

This year a lot of Series-A and -B funds will chase fewer startups given that seed funding and new startup formations stopped for 2016-17. PE investors will pour money into older startups, given many would be nearing an IPO.

PE funds will announce big fund raises and catch up with venture capitalists (VCs). The new VCs top slots will include more Chinese VCs, and strategic and India-based VCs would take a backseat.

Gone are the days when one could start off with just an idea, with

investors ready to pour in money bags. Ahead, just an IIT degree or consulting experience will not suffice even to raise seeding stage money, and core domain knowledge and much more would be needed.

On the other hand, with many Venture Capital funds sitting on a large pool of capital after having taken a cautious approach in 2017, there would be a lot more action in startup funding in the year 2018.

## STRATEGY

Investors are now first shortlisting potential deals, setting a timeline of a few quarters for startups to show results on monetisation and only then investing in their projects. This is leading entrepreneurs to also chase metrics such as customers, clients as well as monetisation.

As the focus turns to product-market fit and monetisation, six-month to one-year revenue goals are being tossed off. Startups are setting targets for 3-4 year time frame to build a sustainable and successful business.

For consumer-facing transactional businesses, a successful 2018 will be determined to strike a steady balance

between the repeat rate of customers, margins that a business can make and the cost of acquiring a customer.

## SUSTAINABLE BUSINESS MODEL

Mature founders, cautious investors and qualitative competition would mean 2018 could be the year of sustainable businesses being built across different markets in India. The focus would also be on better monetisation in Tier-II and -III markets. Offline consumer models would gain more traction on the customer front.

## EMPLOYEE STOCK OPTIONS (ESOPs)

The slowdown of the last two years has made employees wary of ESOPs, which were most sought after earlier as ESOPs of many firms like Snapdeal became worthless - though those of Flipkart gave stellar payouts. With sweat equity losing shine, firms would find it difficult to get talent at realistic pay, especially for the roles of technology development.

## NEW KIND OF STARTUPS

New kinds of startups are coming to

the market with a focus on solutions for small and medium enterprises - financing or making software for them. This has resulted in pure-play consumer and e-commerce ventures falling behind.

Experts say the number of B2B companies may increase this year and the growth of B2C firms may not keep pace. Among other trends, grocery/food delivery/ hyperlocal businesses will make a comeback, while hardware will be a big theme with drones and IoT, though it may not attract big money.

Startup formation will pick up but in new sectors, with agri-tech being one of the promising ones.

Some vernacular content-theme investments will happen while blockchain will gain some traction.

## TECHNOLOGY WILL MATTER

With artificial intelligence, blockchain and machine learning set to gain ground this year, startups are now looking at technology seriously. This year it would also be about the intellectual product or property rather than just gaining market share, according to experts.

Interestingly, startups are also looking at investors who can bring much more than money on the table - skill sets or technology, network and connections. Many companies that operate offline will shed their forced technology spends as offline businesses will be seen delivering.

## HR TRENDS

This year, startups would focus on hiring quality staff rather than quantity and look beyond IITs to top engineering colleges in Tier-II cities and also leverage meet-ups like hackathons for recruitment.

Financial services and technology startups will continue to be one of the largest job creators, with cities such as Hyderabad, Chennai, Bangalore, Delhi and Ahmedabad leading the hiring spree.

Digitisation across the organization would be key and firms would hire digital leadership not just for technology expertise but for organizational structure as well.

Demand for data analysts, machine learning and artificial intelligence experts, UX/UI designers and similar niche profiles are set to remain in demand this year too as organizations scale the digital wall.

Pool tables, multimedia entertainment rooms and nap pods, among other entertainment activities would dominate the workspace as employees remain central to success. Employers are set to value the contributions of an employee and not the hours he puts in as integration of life and work gains importance.

With over 90% of employees and employers in startups being millennials who prefer office spaces that are appealing to the eyes, the trend of attractive office spaces is likely to continue.

The 360-degree knowledge sharing sessions where a newer employee learns about product and process requirements from experienced staff, they can get new technology from the new employees.

Overall, the year looks positive in terms of startup job opportunities, according to experts.

## THE POTENTIAL UNICORNS

While not a single unicorn, or a company valued above \$1 billion, was created in 2017, there are quite a

few firms, which can achieve the status this year.

**Oyo:** The budget hotel marketplace has cumulatively received around \$473 million from investors and could well become another SoftBank-backed Unicorn from India.

In July last year, the company had said it achieved a gross booking value run rate of \$400 million and 15 million booked room nights annually. Its value rose to around \$850 million when it last raised funds in September last year.

**BigBasket:** The hyperlocal grocery delivery company has stood out among peers over the years and has reported a two-fold rise in revenue and kept its losses in check for financial year 2016-17.

BigBasket is likely to announce the next round of funding, which will see a significant investment from Alibaba Group. Various media reports see it raising \$200-\$300 million, giving it a valuation of \$850 million.

**Byju's:** Education-technology startup Byju's was valued at around \$776 million in its most recent funding round when it raised around \$35 million from Tencent Holdings. The company's gross revenue doubled to ₹247 crore for the year through March '17. The ed-tech company is close to entering the unicorn club and clocking a profit, according to its founder Byju Raveendran.

**Swiggy:** Food delivery platform Swiggy has raised about \$155.5 million so far. Swiggy and rival Zomato together control about 80% of the Indian online food delivery industry. In just three years, Swiggy has created a strong brand presence and customer loyalty.

According to media reports, SoftBank

is in discussions to invest around \$200-\$250 million in Swiggy, which may come at a pre-money valuation of \$600-\$650 million.

**Practo:** Online healthcare platform Practo Technologies was valued upwards of \$600 million when it raised \$55 million in a Series D round led by Tencent in early 2017. It has upped the ante in the enterprise space, too, acquiring five companies in the last nine years.

**Delhivery:** China's Fosun, private equity firm Carlyle and US venture capital investor Tiger Global together put in around \$130 million in Delhivery in a Series E round between March and May last year, valuing the venture at \$575 million.

In 2015-16, its revenue had more than doubled to ₹524.4 crore while losses quadrupled to ₹318 crore. If it keeps growing at this rate, its next round could make it a Unicorn.

**Rivigo:** The online freight aggregator Rivigo could be another Unicorn to

emerge from SoftBank's India portfolio as the logistics services provider is reportedly in initial talks with the Japanese investment firm for a fresh round of funding at a valuation of over \$1 billion. According to media reports, it is likely to raise about \$100-\$400 million from SoftBank.

**BlackBuck:** Freight marketplace BlackBuck has been growing at a tremendous pace. It clocked ₹567 crore revenue in the second year of operation and emerged a dominant player in the segment. It reported a loss of ₹87 crore for the financial year ended March '17. BlackBuck has raised around \$105 million from Flipkart, Tiger Global, Accel Partners, Apoletto Fund and IFC.

**Freshworks:** The company is poised to become the first software-as-a-service startup to enter the Unicorn club. The company was valued at \$750 million during its last funding round (Series F) when it raised \$55 million led by Sequoia Capital India and existing investor Accel Partners. According to a media

report, Freshworks planned to raise its next round of funding at a valuation of over \$1 billion.

## IN A NUTSHELL

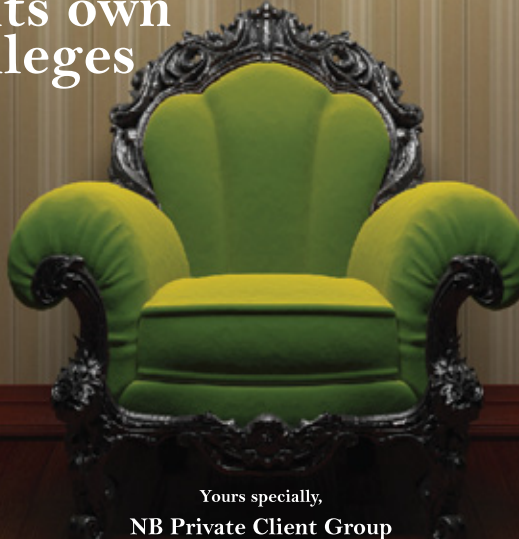
This year more sane behaviour would be expected from all stakeholders and only serious entrepreneurs will be seen setting up startups.

Several events of the recent past, such as demonetisation, the rapid expansion of 4G networks, the spread of digital payments, have spawned new opportunities like never before for entrepreneurs.

A lot of changes are still happening in the economy, such as increasing smartphone usage, digital payments, Aadhaar-related opportunities and the unified payments interface as a payment platform.

The government is also now looking to buy the products and services it requires from online platforms and e-auctions. All this is expected to give a big fillip to the startup world.

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The last one year has been good for cyclical performance especially companies from the commodity space as improvement in international commodity prices helped most of them report better earnings. One sector that has done extremely well is sugar.

Overall, the sugar industry has given close to 25% returns and many have turned out to be multibaggers. The

biggest contributor has been growth in earnings as a result of spurt in sugar prices in the past. Domestic sugar prices were trading at around ₹2,300 per quintal in early 2016, which crossed ₹4,000 per quintal few months back leading to strong improvement in realizations.

Most sugar companies in India reported 4 to 6 times jump in earnings in FY17. Companies like Balrampur Chini reported close to ₹600 crore in

profit in FY17 as against ₹100 crore net profit in FY16 and a net loss in FY15.

Sugar, being a global commodity, is cyclical in nature. It is affected by twin factors - sugarcane supply and sugar demand. In India, sugar follows a 3-5 year cycle. Sugarcane production is seasonal and cane is crushed from November to April. Higher production of sugarcane leads to increased availability of sugar,

# SWEETNESS OVERLOAD

Higher production and falling sugar prices could be a major worry for the sector in the coming months



thereby pulling down prices of sugar. This results in lower earnings of sugar mills and delayed payments to sugarcane farmers. Therefore, farmers switch to other crops, leading to lower area under cultivation and so lower sugarcane production.

This again starts a new cycle. Owing to reduction in quantity of sugarcane, availability of sugar too drops. As a result, sugar prices surge leading to better profits for sugar mills and lower arrears to farmers. And the cycle continues.

## IN THE DOWN CYCLE

Today, sugar is in the news for the downturn. Sugar prices have corrected both in the international and the domestic market. Domestic sugar prices are currently trading at around ₹3,200 per tonne as against over ₹4,000 per tonne a few months back.

The ex-mill sugar realizations for the sugar companies have dropped to about ₹32 per kg as against ₹36 per kg to ₹38 per kg a few months back. The industry association body, the Indian Sugar Mills Association (ISMA) expects sugar production to be robust at 25.1 million tonne (MT) for sugar season (SS) 2017-18 versus 20.3MT in SS2016-17, which is a whopping 24% year-on-year increase.

This is already visible with sugar production totalling to 10.3 MT in October-December, showing a growth of 26%. The jump in production was mainly due to increase in the number of sugar mills producing sugar. During sugar season of 2017-18, about 469 mills produced sugar as against 449 mills last year.

Second, there was a spurt in sugar production, particularly in states like Maharashtra (up 51% y-o-y to 3.8MT) and Uttar Pradesh (up 45% y-o-y to 3.9MT) because of higher

sugar prices. The Indian government increased the Fair Remunerative Price (FRP) of sugarcane for the SS2017-18 by 11% on a year-on-year basis to ₹255 per quintal, thus providing more reasons for farmers to grow sugarcane.

However, this also comes at the cost of industry because any increase in FRP would mean pressure on the margins of the sugar companies.

## PRICING PRESSURE

Higher production and falling sugar prices could be major worry for the sector in the coming months. Higher production will put pressure on sugar prices, which have already softened. Second, high sugarcane prices, accounting for about 70% of the overall cost and a key input cost will erode margins.

Sugar mills are selling sugar at 8% to 10% lower than its production cost due to excess availability of cane. On the positive side, in December '17, the government scrapped the stockholding limit on sugar traders, which is currently pegged at about 500 tonnes of sugar.

The removal of limit is in view of robust sugar production and will help increase buying by traders. This should consequently improve market sentiment and help stall the decline in sugar prices. Besides the government also provided some support in terms of restrictions on imports.

## INTERNATIONAL MARKETS PLAY SPOIL SPORT

Brazil is the largest sugar-producing country in the world, and is followed by India. As per the US government's estimates, world sugar production is expected to reach 185 million tonnes in SS2017-18 with consumption rising to 174 million tonnes.

The record higher production was due to a good harvest in Brazil, which is pegged at 40.2 million tonnes, and India too produced 25 million tonnes. Global raw sugar prices have corrected from \$600 per tonne in December '16 to \$300 per tonne to \$320 per tonne currently.

Moreover, India being the largest consumer of sugar in the world, gives a strong signal to international sugar prices if there are any changes in its import policy. International sugar prices have corrected at a higher pace compared to domestic sugar prices, leading more concerns for the sugar industry in India.

Typically, government adjusts import duty when there is a shortfall in sugar production to fill in the domestic gap. Similarly when there is excess sugar production, it hikes import duty and subsidizes exports to help farmers and millers. In July '17, the government increased the import duty on sugar from 40% to 50% to restrict inward shipments and support domestic prices of sugar.

Globally, sugar prices have fallen and the import of sugar would have adversely affected the ability of millers to pay cane farmers. In fact, industry developments suggest that the government might increase the duty to 75% to support prices to protect farmers, which is again good news given that while issues pertaining to increasing domestic supply persist, prices may not correct drastically from current levels of about 3,200 per quintal.

## TIME TO BE CAUTIOUS

Meanwhile, investors need to be cautious as days of bumper profits are over. Companies have a higher base of earnings of last year. If sugar prices remain under pressure, their ability to post strong earnings growth in the

coming months would be limited.

Lower sugar prices translate to lower earnings for sugar companies as most of these companies are very sensitive to sugar prices. For most players, a 1% change in sugar prices leads to a 2% to 5% change in earnings.

Typically, a sugar industry cycle is around 6 years to 7 years with a boom seen in the first 2-3 years. Plummeting sugar prices, rising inventories and excess productions, all hit a company's profitability. The industry's reported operating profit margins come close to 17% to 18% which is highly unsustainable in case

the sugar cycle reverses.

Leading ratings agency CRISIL in its recent report voiced concerns over hike in case prices eroding operating margins by 200 basis points to 250 basis points.

Moreover companies which are sitting on debt will find it most difficult to service debt and, thus could be the first one to erode value. Recently, Sharad Pawar, former agriculture minister, warned that sugar mills would have to prepare contingency plans to deal with the looming possible crisis next year as a result of bumper production.

Moreover, investors have already started panicking as stocks continue to witness a downward spiral.

However, it would still be too early to hunt for bargains particularly in the light of higher earnings base and structural issues that will cause pressure on sugar prices and margins of sugar companies.

Moreover, even after the recent correction in prices, the sugar industry is trading at about 2 times its book value and 8-9 times its enterprise value to operating profits, which is on the higher side from the historical perspective.

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# A CRUMBLING STRUCTURE



**CEMENT STOCKS ARE LIKELY TO GET  
EXPENSIVE IN THE COMING QUARTERS OWING TO  
A HOST OF ISSUES HURTING THE SECTOR**

**I**ndia's cement sector has been facing tremendous headwinds, including weak demand since the past three to five years and the recent ban on pet coke in select states of the country.

Given these issues, let us see whether the ban on pet coke results in a cut in earnings' estimates for key large-sized companies and whether this would increase the cost of cement production, thereby limiting the possibility of a hike in prices for cement companies.

## BAN BANE

In its October '17 order, the Supreme Court of India banned the use of pet coke and furnace oil in and around Delhi and in states of Uttar Pradesh, Haryana and Rajasthan to curb air pollution. It further asked all states and union territories of India to consider banning pet coke and furnace oil. These two fuels are considered to be the highest cause of pollution in the country.

Now, cement companies have approached the Supreme Court urging it to exclude cement companies from the ban on the use of pet coke.

Taking into account these facts, one can understand the business situation in the sector by considering four situations. In understanding these four situations, one can understand the impact these situations would have on cement companies.

### Situation 1

The Supreme Court grants exemption on the usage of pet coke in the production of cement. Companies have been using pet coke as one of the key raw materials in the production of cement. The perception may gain credence that the fuel is not as it is perceived. Media reports suggest that

the Ministry of Environment, Forest and Climate Change (MoEF) supports this stance, and it is also looking to present the same view to the apex court on the issue. Exemption on the ban on the usage of pet coke would help key cement players in the north who have higher pet coke usage than their peers.

### Situation 2

The second situation is status quo, meaning the apex court maintains the ban on the usage of pet coke. This will prove to be detrimental to the players from north India such as Shree Cement, JK Lakshmi and JK Cement that have high dependence on pet coke as well as heavy concentration in Rajasthan that would be directly impacted by the ban.

Cement companies have switched to imported coal, which is 25% to 35% more expensive than pet coke. The cement companies that are expected to be impacted are Shree Cement, JK Cement, JK Lakshmi Cement and Mangalam Cement due to higher proportion of pet coke usage by them. These cement companies would have to pass this additional burden by increasing cement prices in the range of ₹15/bag to ₹20/bag. This seems unlikely to sustain.

### Situation 3

In this situation, the ban is extended to other states. The Supreme Court in its 17th Nov '17 order had recommended other states to adopt a similar restrictive policy on the use of pet coke. A ban on pet coke across states would incrementally impact players in south India as well as pan-India players.

However, if the cement industry is excluded from such a ban, it would greatly benefit through lower pet coke prices prevailing at the moment.

### Situation 4

Even though the Supreme Court has lifted the ban on the use of petroleum coke or pet coke in cement production, a key issue that looms large on India's cement industry is the high possibility of a ban on the import of pet coke due to growing environmental concerns.

If the government imposes a ban on the import of pet coke, which seems a possibility as studies by experts point out that pet coke emits 11% more greenhouse gases than coal, industry analysts may cut FY19's Earnings Per Share (EPS) estimates of large-sized cement companies, which could be as high as 10%.

## THE IMPACT

At present, large-sized cement companies consume pet coke as raw material for producing cement in the range of 60% to 100% in the composition of fuel. If the ban on the import of pet coke is imposed, it would exacerbate business situation for cement manufacturers.

It must be noted that 25% of the cost of cement production is related to power and fuel costs. To put it simply, it is estimated that power and fuel costs form ₹750 - ₹900 in producing a tonne of cement.

If the ban on the import is imposed, it means it would further hurt earnings' growth for cement companies, which are already grappling with weak demand and lack of availability of sand, which is used as raw material in the production of cement.

Besides, the ban would come at a time when pet coke prices are trading at high levels. Pet coke prices (US) were trading at a two-year high of \$105 per tonne in November '18. Also of the total 23.3 MT of pet coke

consumption in India, close to 14 MT was produced domestically while 40% of pet coke was imported.

Moreover, the price of imported coal has been rising steadily, which does not leave much scope for selecting a cheaper alternative fuel for cement manufacturers. Therefore, if a ban on the import is actually imposed, it may further drive pet coke prices up, which would add to production costs, thereby capping earnings' growth for cement companies.

Valuation of cement manufacturers is also a key concern. Considering FY19's estimated earnings, the average EV/EBIDTA range of most large-sized cement companies such as Ultratech, ACC, Ambuja Cements, and Shree Cement is 13-15, which is high when compared with the past 10-year average of 7-10.

Given these factors, investors must hold on to their existing investments and enhance exposure in cement stocks only on dips.

A pool of dealers' estimates point out

that all-India cement prices have not witnessed any material improvement both on quarter-on-quarter and year-on-year basis in the December quarter of 2017.

It is estimated that all-India cement prices fell by 2% to ₹326 per 50 kg bag in the December quarter on a quarter-on-quarter comparison. Even on a year-on-year comparison, cement prices have not moved up materially. In comparison with last year's December quarter, cement prices have moved up by a meagre 5% to ₹326 per 50 kg bag in the present fiscal's December quarter.

There are a few reasons for subdued growth in cement prices despite the fact that the December quarter is one of the best quarters in terms of construction activities. A key reason is lack of availability of sand. According to industry estimates, the cost of sand has gone up 4-5 times which is hurting cement companies.

Also, construction activities in real estate segment have come down due to tepid interest by buyers in

purchasing real estate. Moreover, demonetisation and the implementation of Real Estate Regulatory Authority (RERA) Bill have impacted cement demand due to slow construction activities.

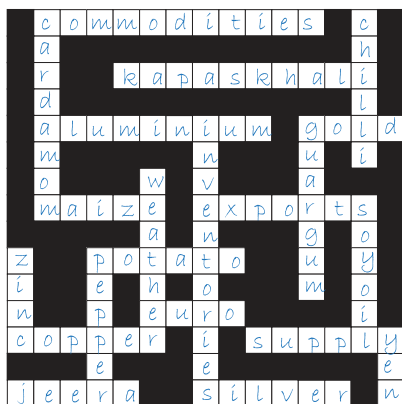
It must be noted that the real estate segment accounts for 60% to 65% of total cement consumption.

This shows that cement companies would be unable to record any meaningful improvement in realizations due to focus on volumes in the second half of FY18. In the first half of FY18, the cement industry recorded volume growth of 5%.

Analysts point out that the expectation of industry volumes touching 7% to 8% for FY18 seems a tall order as in the second half of FY18 the industry would have to clock 9% growth.

Given this, Earnings Per Share (EPS) of cement companies in India is expected to be trimmed for FY18, which will result in cement stocks turning expensive.

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**W**hen a person thinks about investing, common prudence dictates individuals to gauge rewards versus risks.

Hence, the investor often neglects small-cap stocks and sticks to large-cap stocks, a safer albeit

low-return option.

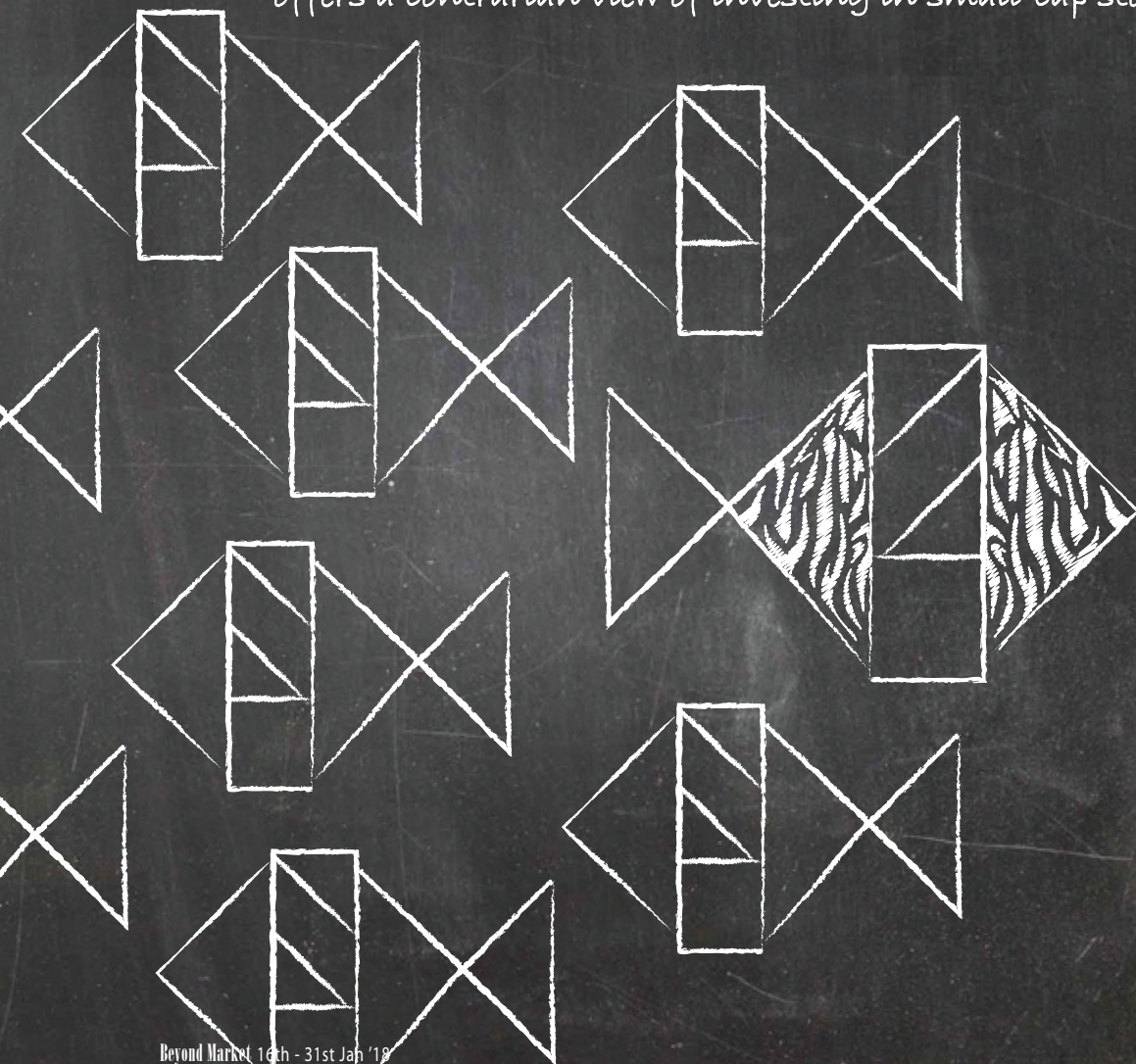
However, Ralph Wanger, the lead Fund Manager of Columbia Acorn Fund and author of the book 'A Zebra In Lion Country' talks about a very interesting and a rather contrarian investment philosophy - investing in small-cap stocks.

He has been an ardent supporter of small-cap investing and this strategy has worked for him in upturns as well as in downturns.

In fact, Ralph Wanger's fund - the Columbia Acorn Fund - he managed for the first 23 years, since its inception in 1970, was one of the best

# AGAINST THE CROWD

*In his book 'A Zebra In Lion Country', Ralph Wanger offers a contrarian view of investing in small-cap stocks*



performing funds. The Columbia Acorn Fund outperformed the S&P, having delivered a 16.5% CAGR over a 20-year period ending March '04, vis-à-vis 12.5% returns by S&P.

He later founded Wanger Asset Management, which is again a largely small-cap focused firm. Wanger is well-known not only for his successful investing but also for his wit and metaphors.

### **THE ART OF SMALL-CAP INVESTING**

In his book, 'A Zebra In Lion Country', Wanger has likened the behaviour or dilemmas of portfolio managers with those of Zebras. He uses the Zebra metaphor to drive the idea of small-cap investing.

According to Wanger, both, the portfolio manager and Zebras dislike risks but set high goals for themselves. The portfolio manager looks for above-average returns while the Zebra wants fresh grass.

The portfolio manager is at the risk of being fired while the Zebra is at the risk of being eaten by a lion. Secondly, both move in herds.

The Zebras always move in a herd. They look alike and think alike too. The key decision for a Zebra is where to stand in a herd.

The centre of the herd is the safest in case a lion attacks but then the grass is not fresh and green there. On the other hand, the outside of the herd has the best grass but the Zebra risks being attacked by a lion.

Similarly, for a portfolio manager especially one who manages insurance or pension funds, a low-risk strategy is to keep on investing in popular stocks (low returns) so that he does not go wrong. i.e. he has to stay

in the centre of the herd. But then he cannot hope for extraordinary returns. If he wants above - normal gains he has to look at unfamiliar stocks, leaving him susceptible to losses and investor criticism, that is, he has to be an outside Zebra.

### **LARGE VS SMALL**

According to Wanger, investing in small-cap stocks is advantageous as small companies are better placed to sustain higher growth rates.

Further, smaller companies have higher chances of mergers, acquisitions, etc, and, hence, see more opportunities of stock price rise.

Moreover, smaller companies with one or two lines of businesses are easier to understand than larger companies that have multiple business lines.

However, while selecting a smaller company, it is important to focus on its growth potential, financial strength and fundamental value.

On the other hand, large companies are weighed down by their large size and limited ability to grow fast. Secondly, the success of Wanger's investment strategy lies in identifying a long-term trend (preferably for approximately 5 years).

Once a trend is identified, the investment is to be made not in that industry but in the indirect beneficiaries. For example, if one identifies a major trend in say e-commerce, it warrants investment in logistics companies and not directly in e-commerce players.

### **HOW WOULD WANGER DO IT**

Wanger has a distinct investment philosophy, which is largely pillared on the following tenet:

- i) Focus on small-cap companies with robust fundamentals
- ii) Buy companies that are downstream beneficiaries to a major trend in the industry

### **A GREAT COMPANY NEED NOT ALWAYS BE A GREAT STOCK**

A great company, which has reached its optimum size or growth rate, however, might not be able to provide investors with a high rate of return.

This is because great companies are almost always backed by good research coverage and, hence, most of the information is already publicly known and, hence, has factored in the stock price.

On the other hand, small companies aren't always supported by research coverage. So one can discover a lot of new things, which are hitherto not known to the market.

### **THERE IS NO NEED TO TIME THE MARKET**

According to Wanger, while the stock market is a reliable indicator of a country's economy, the converse does not hold true.

That is, it is no use trying to time the market, based on social, economic or political events, as markets tend to overreact to news, whether good or bad. Hence, looking at long-term trends and focusing on individual opportunities could be far more rewarding to investors.

Wanger would rather spend time talking to the owners of companies and figuring out future growth of their business. He would spend more time looking for stock price drivers like earnings growth, expansion strategies, new product launches, etc.

According to Wanger, the key lies in

picking out fundamentally sound companies, which will benefit from strong social, economic or technological trends. And these trends should last 4 years or more.

Hence, there is no need to look at short-term trends and timing the markets. If the company is right, then it will keep on performing irrespective of the market trend.

### **TO STAND OUT FROM THE PACK, STAND OUTSIDE THE PACK**

Most investors vie for above average returns but are reluctant to invest in lesser popular stocks.

According to Wanger, one has to be willing to identify a new trend, bet on it and then appropriately select the beneficiaries of such a trend, only then can we attain high returns.

More often than not it is the risk of criticism or losses, which prevents us from investing in lesser known areas and stick to the known or safer bets that are available.

According to Wanger, the best company in a marginal industry is worth more than the third-best company in a major industry.

Similarly, investing in companies,

which are downstream or are indirect beneficiaries of a larger trend is the smart strategy.

If we limit ourselves to where the herds gather, we would be losing out on a large universe of hidden stocks.

### **A PORTFOLIO OF WELL-RESEARCHED SMALL COMPANIES ARE NO RISKIER THAN LARGE WELL-KNOWN COMPANIES**

The fundamental principle of any investment decision is to back it with proper research.

Wanger goes a step ahead and believes a portfolio of well-researched small-cap companies is no more riskier than a similar portfolio of large-cap companies as long as it has been thoroughly researched.

According to him, a small-cap company, which is financially robust or has a market dominant position and whose stock can be bought at a reasonable price, should make for a good investment.

Wanger's premise is simple. According to him, even a large-cap company with numerous business lines or whose future business prospects are not clear should make for a risky investment.

### **DON'T BE EXCITED IF THE COMPANY'S EARNINGS FORECAST BEAT ANALYST ESTIMATES IN THE SHORT-TERM; LOOK AT THE LONG-TERM TREND**

Investors often make the mistake of relying too much on Street estimates. Companies are not forced to meet expectations and businesses go through cycles.

According to Wanger, unless and until one looks at the company with fresh perspectives, he/she cannot find value stocks. While earnings, future growth rate, etc all are obvious parameters to look at while picking a stock, a crucial aspect is to visualize the bigger picture.

Does the company operate in an industry which will benefit from a long-term trend? Or does it have a niche product or market position?

These considerations are much more important than buying and selling stocks based on quarterly estimates.

In his book, Ralph Wanger has said that one cannot make five or ten or twenty times his/her money if you do not hold on to a stock. Most people are delighted when a stock doubles and tend to quickly sell off the stock to lock in their gain.

## **Beyond Words**

### **Bretton Woods**

Bretton Woods refers to a conference held at Bretton Woods, New Hampshire, in 1944, which designed the structure of the international monetary system after the second world war and set up the International Monetary Fund (IMF) and the world bank. It was agreed that the exchange rates of IMF members would be pegged to the dollar, with a maximum variation of 1% either side of the agreed rate. Rates could be adjusted more sharply only if a country's balance of payments was in fundamental disequilibrium.

In August '71 economic troubles and the cost of financing the Vietnam war led American President Richard Nixon to devalue the dollar. This shattered confidence in the fixed exchange rate system and by 1973 all of the main currencies were floating freely, at rates set mostly by market forces rather than government fiat.

# A TIME TO RELOOK

An investor should consider rebalancing the portfolio when returns have shot up or even when performance is not in line with market returns



%

**I**t was a phenomenal year for the equity markets in the year 2017. Not only did benchmark indices reach new highs, but equity mutual funds also saw record inflows coming in.

Inflows were particularly higher for balanced category and mid- and small-cap schemes. Traction towards these schemes was such that many mutual fund houses stopped taking fresh inflows for their small- and mid-cap schemes.

However, investors need to do asset allocation and adopt a rebalancing strategy to minimize risks in present times. Rebalancing a portfolio means investors sell some of their winners and move that money where the category or financial products have not done well. For example, mid- and small-cap funds have seen huge participation from investors.

But is it wise to continue to pour money into such schemes? Or is it better to shift some money to other categories to reduce risks?

Rebalancing is a pillar of portfolio management if there ever was one and follows the old adage of buy low, sell high. But what happens when almost every sector sees strong returns in a given year? Where does the money for rebalancing go?

A portfolio's asset allocation is the key outcome of a portfolio's risk and return character. Yet, over time, asset classes produce different returns, thus bringing about changes in the portfolio's asset allocation.

It is very important to understand why investors need to rebalance their investment portfolios. Many times, several categories of mutual funds do better than others over a given period of time. For example, over the last one year, assume that investors' mid

and small-cap funds performed extremely well but their international funds or even income funds performed poorly.

Had an investor decided that his allocation to large-, mid- and small-cap, and debt funds would be in the percentage of 40-40-20, then the appreciation on both large-, mid- and small-cap would have breached those limits. Investors are now out of balance and this new, more aggressive allocation may expose them to unwanted risks.

Conversely, if say international funds do well and in the coming year compared to domestic funds, investors may take a lower level of risk. They may miss out on gains in the stock market. Therefore, to recapture the portfolio's original risk and return characteristics, the portfolio should be rebalanced.

### **REBALANCE THE SMALL- AND MID-CAP PORTFOLIO**

As discussed earlier, mid- and small-cap funds' strong performance streak continued in 2017 (average returns were around 47% to 48%). But now what should investors do?

They should continue doing their systematic investment plans (SIPs) in mid- and small-cap schemes, but refrain from putting in fresh money as valuations of many stocks have just shot up.

Investors can also look at mutual fund schemes that have higher bias towards cyclical sectors like metals, metal ancillaries, chemicals or even some pharma and IT - which have begun looking rather attractive.

While valuations of mid- and small-cap indices have risen highly, fund managers have a universe of over 800 stocks to 1,000 stocks,

which are below the ₹25,000 crore market cap to choose from.

Typically, fund managers don't invest in stocks that have a market capitalization of less than ₹500 to ₹700 crore.

Officials also say that if earnings growth revives in 2018, many economy-related stocks will perform. Investors should ensure that their allocation to mid- and small-cap funds does not exceed 30% to 35% of their equity portfolio.

### **CONTINUE WITH YOUR SIPs**

Many investors have turned to systematic investment plans (SIPs) of mutual funds in the last two to three years. SIP inflows have increased rapidly - investors pump in close to ₹5,000 crore to ₹5,500 crore every month through this option.

The average ticket size of an SIP has also jumped from ₹1,500-₹2,000 to ₹3,200 per month currently. At the same time, many investors are feeling concerned about investing more at a time when markets are close to the all-time high.

SIPs help an investor to average out his/her cost over a period of time, fetching more units when prices are low and fewer units when prices are seemingly high.

For example, in the current scenario, the SIP investor will accumulate units at higher prices, which will push up his average cost of purchase. Therefore, some investors want to sit out instead and wait for the stock markets to correct.

But SIPs help to create long-term wealth only if investors continue to invest through the ups and downs of the stock market, by averaging the cost of purchase.

Funds which bet on a large portion of their money in government securities are affected by the rise in yield. Thus, the casualties were seen by medium and long-term gilt funds. The rate rally seems to be nearly over. Hence, it would be wise to have around 60% of your debt fund portfolio in short-duration funds.

While the remaining percentage should be in the mix of accruals, dynamic and liquid funds, only a small portion of your debt fund portfolio should go into riskier classes of funds like longer-duration funds (income and dynamic bonds funds), if you have a horizon of three years or more. Similarly, only a small portion should be allocated to credit opportunity funds.

In the last quarter of the year, the 10-year G-Sec yield started firming up and trading in the range of 7.2% to 7.5%. Funds that had a very high average duration got caught on the wrong foot and their returns came down. Rising yields have resulted in lower returns for debt funds.

Investors should understand that one of the key advantages of maintaining a portfolio's risk-and-return characteristics is that a rebalanced portfolio more closely aligns with the characteristics of the target asset allocation than with a never-rebalanced investment portfolio.

Having said that, and investor should not rebalance the portfolio every quarter or six months. But he/she can certainly look at rebalancing his/her portfolio when returns have shot-up, or even when performance is not in line with market returns. Analyzing an individual's own investment portfolio is also an important part of his/her financial investments.

**40 Beyond Market** 16th - 31st Jan '18

**M**edical insurance, also known as mediclaim, still offers policyholders basic covers, wherein the benefits can only be reaped once the policyholder falls ill or is hospitalized.

However, some insurance companies have started offering products that prompt policyholders to stay fit. If you can do so, there are benefits in terms of lower premiums. Through wellness programmes, policyholders

can get discounts ranging from 8% to 30% if they remain healthy.

In the past we have seen insurance companies like, Bajaj Allianz General Insurance launching a wellness platform, Pro-fit, where a policyholder can monitor and improve his health.

Such rewards help inculcate a healthy lifestyle among policyholders and create a portfolio of healthy policyholders, which could

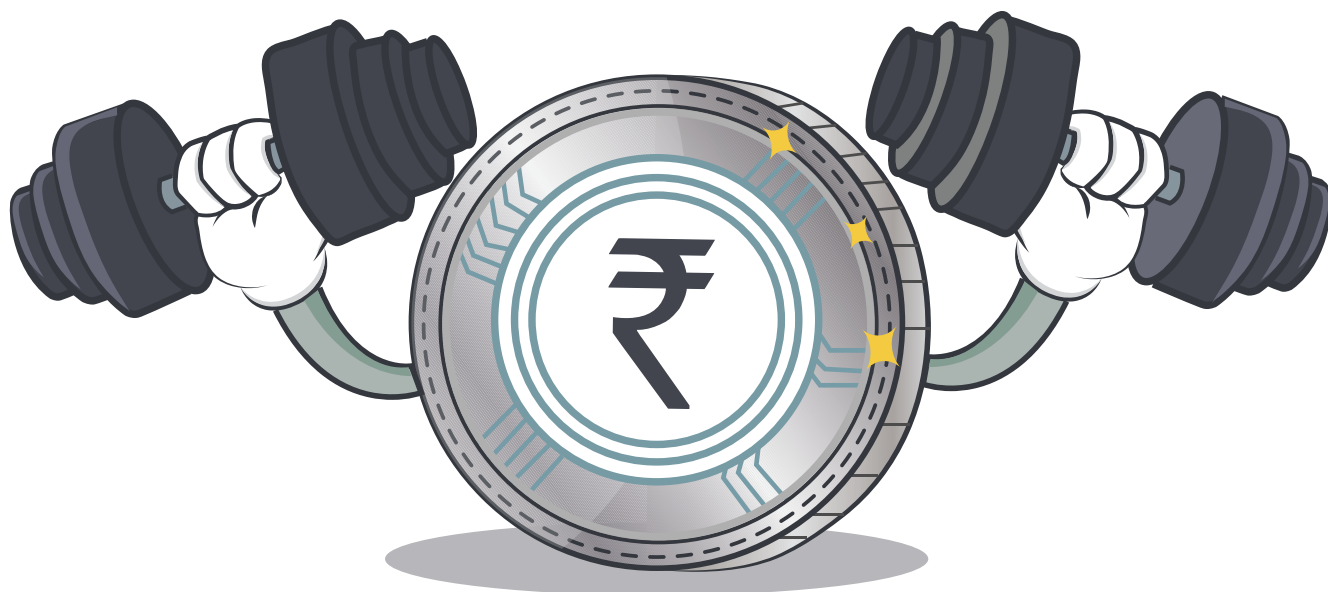
eventually reduce incoming claims for insurance companies.

These new benefits provided by various insurance companies include pre-hospitalization expenses such as outpatient department (OPD) where even day care procedures are covered.

Not only that, increasingly insurers have also started including a worldwide emergency cover, disease-specific covers such as diabetes, dengue and cancer, among

# FITNESS FIRST

Some insurance companies have started offering products that prompt you to stay fit



others; value-added services in the form of discounts, health maintenance benefits, alternative treatments such as ayurveda, yoga, unani, siddha and homoeopathy also known as (AYUSH).

Today in India, it is estimated that around 50% to 60% of expenses incurred in the overall medical spends in the country is towards outpatient department (OPD) expenses such as doctor visits, medicines and other diagnostic tests.

For insurers, the idea behind launching feature-rich policies is to bridge the gap between the total cost of healthcare incurred and the amount covered by health insurance.

Even recently, the insurance regulator constituted a working group to examine innovations in the insurance sector that involve wearable or portable devices. Regulators and health insurance regulations recognize the role of 'wellness' in risk assessment and product design.

In the context of both health insurance and life insurance, wearable devices could be used to measure personal fitness for a healthy lifestyle. In this article we explain about wellness features provided by insurance companies and how it can help a policyholder reduce premium rates by being fit.

### **WHAT DOES A WELLNESS PLAN OFFER AND HOW DOES IT WORK?**

'Pro-fit' launched by Bajaj Allianz General Insurance has 10 features where policyholders can store health records, track their fitness level and get reminders for vaccinations or medications. Policyholders can also do a live chat with a doctor who can address their general medical queries at zero cost.

In another policy, Aditya Birla Active Health Plan, offers a health returns benefit. If a policyholder remains healthy and active, the insurer gives him returns of 2.5% per month, which can go up to 30% per year. They have created a couple of products that incentivize wellness.

According to industry officials, this is good for the policyholder and the insurance company as they can attract younger and healthier policyholders in the longer run where claims will be lower than its competitors.

Under the Aditya Birla Active Health Plan, a policyholder needs to download the active health app, fill an online questionnaire to check their health relative to their current age and find the healthy heart score.

Later, if the policyholder improves his health by exercising or goes for a fitness assessment test every six months, depending on his health returns, he can use this for buying medicines or use it to pay the following year's policy premium.

Apart from that, normal plans do not offer any such benefits. So, if a policyholder leads a healthy life they can get up to 30% of benefits and in case they get any of the four chronic diseases covered by the policy, there are benefits of ₹8,000 to ₹15,000 for an OPD, which is there for the entire life of the policy, with the premium remaining the same.

Even Cigna TTK has its own Get ProActiv app, which can be integrated with wearable devices. The company is incentivizing policyholders to be active by providing discounts at the time of renewal of the policy.

Similarly, Apollo Munich Health Insurance offers an Optima Restore plan, wherein policyholders can get

many benefits, such as customized diet and exercise plan and online health assessment.

### **PREMIUM RATES AND IS IT BENEFICIAL FOR POLICYHOLDERS?**

With all the additional services provided by the insurance companies, will the overall cost or premiums go up for policyholders? No. Even the premium rates offered for such wellness products are competitive.

For example, if we take the Aditya Birla Health Insurance Enhance Plan, for a 30-year-old male in a metro and having a sum insured of ₹5 lakh, the premium would come to around ₹7,700 inclusive of taxes.

This plan offers asthma, blood pressure, cholesterol and diabetes cover from day one and covers medical consultation, required diagnostics tests, pharmacy expenses, health returns and wellness coaches. But, if we look at other non-wellness plans, premiums would be in the range of ₹7,500 to ₹8,500 for a 30-year-old male in a metro with a sum insured of ₹5 lakh.

According to estimates, a well-designed employee wellness and employee benefit programmes can lead to as much as a 20% to 25% reduction in health plan costs. Even, many insurers have already started recognizing yoga as an eligible preventive healthcare tool by making it a part of their comprehensive health insurance policy where customers can claim discounts on reimbursement of expenses on yoga sessions enrolled in by the customer.

The focus on wellness and maintaining good health will in the end be a win-win situation for both customers and insurers. It is, therefore, important that customers

look beyond insurance premiums and look for comprehensive insurance plans with added features and minimum capping.

While these benefits will have an implication on the premium charged, they will be instrumental in reducing your out-of-pocket expenditure towards healthcare and wellness.

Going forward, insurers can look at putting in place procedures for offering discounts on premiums on renewals based on the fitness and wellness criteria.

This aspect may be a game changer in the health insurance industry, which has typically relied on just providing incentives in the form of no claim bonus to its healthy policyholders who have not claimed for every claim-free year.

Such incentives would push more people to follow a healthy lifestyle, which would be helpful for insurance companies as well in the long run as the number of claims may reduce over time.

### REGULATOR ALSO PUSHES FOR WELLNESS

The Insurance Regulatory and Development Authority of India (IRDAI) has formed a working group to study innovations in insurance involving wearable or portable devices. The regulator said, “In the

context of both health insurance and life insurance, wearable devices could be used to measure personal fitness, (and) incorporate a healthy lifestyle.”

In the past the regulator had already recognized the role of wellness aspects in risk assessment and product design in its health insurance regulations issued in 2016.

According to these, general and health insurers can devise mechanisms or incentives to reward policyholders for preventive and wellness habits.

While insurers cannot offer discounts on any third-party products, they can offer discounts in premium or benefits on diagnostics, pharma or consultation services from their network providers. Such discounts in premiums or allied services are not currently allowed in life insurance.

But IRDAI’s recent working group, which includes life insurance representatives, is expected to examine the impact of new technologies like wearables on pricing of insurance.

Recently, a committee constituted by IRDAI has also suggested a host of changes on the health insurance side.

The product regulations review committee report, which was submitted to the insurance regulator on 7th Dec ’17, has a few other

important recommendations as well, such as creating a level-playing field for life insurers in the health insurance business.

The committee has also called for liberalizing the regulations that restrict the kind of health covers that life insurance companies can sell. It has recommended that life insurance companies should also be allowed to sell indemnity products and provide wellness benefits.

Currently, only general insurance companies and standalone health insurance companies offer them. Life insurers can only offer fixed-benefit products to customers.

### IN A NUTSHELL

So, what exactly should policyholders do? With no major difference in premiums for non-wellness products or wellness products, it is useful to look at such policies. Under wellness programmes, insurance companies offer an OPD component, which can be used for doctor consultation and medicines. Diagnostic tests are also part of the programme.

Insurers also do annual health check-ups and there can be a discount on the premium if you stay fit. A policyholder should certainly look at these products. However, before buying such policies, one must go through the features on offer and choose the final policy carefully.

## Beyond Words

### Death By A Thousand Cuts

It is a failure that occurs as a result of many smaller problems. Death by a thousand cuts could refer to the termination of a proposed deal as a result of several small issues rather than one major cause. This term can also apply to a product or idea that is destroyed by too many minor changes or the failure of a plan as a result of a cumulative chain of events.

This term is derived from the idea that a small cut will not kill you but, if you get enough of them, you could bleed to death. The term is derived from an ancient form of torture, in which the condemned person was subjected to a number of less devastating wounds over time until the accumulation of damage eventually became fatal.

# BUCKFAST

## Buckfast Recommendations

Finance is a maze of umpteen possibilities and choices. And it is easy for individuals to lose their way in this tangle. In such a scenario, an expert comes handy. For, he alone can wade through the enigmatic world of finance and simplify choices for investors.

Buckfast Research, the research arm of Buckfast Financial Advisory Services Pvt Ltd, recommends mutual fund schemes that can be considered by investors.

## About Buckfast Research

Buckfast Research, the research arm of Buckfast Financial Advisory Services Pvt Ltd is guided by Mr Vijai Mantri and a team of professionals with more than 50 years of cumulative experience with leading Indian and Global Mutual Fund companies.

A number of parameters have been taken into consideration while making the recommendations. Some of the guidelines are track record of the scheme and consistency, risks associated with the scheme, fund house pedigree and credentials of the fund manager.

However, there is no specific time frame for the investment as such. It depends entirely on an investor's objectives, investment timeline, risk tolerance and type of scheme he/she wishes to invest in. By and large, equity schemes are suggested with a long-term investment horizon.

### Disclaimer

Mutual Fund Investments are subject to market risks. Please read the offer document carefully before investing.

Source: ACE MF, NAV as on 16th Jan '18.

SIP returns as on 31st Dec '17. M=Months, Y=Year, D=Days

Past performance is no guarantee of future performance.

Returns are of Growth option of Regular plans

Returns which are below 1 year period are Annualized Returns

## Diversified Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
IDFC Focused Equity Fund	40.87	50.28	13.73	15.33	11.29	8.80	1144
Invesco India Contra Fund	48.30	40.86	16.62	22.18	16.88	13.38	804
Principal Growth Fund	154.89	44.87	17.51	21.62	16.64	7.41	593
Edelweiss Eco Resurgence Fund	14.79	41.86	-	-	-	-	34
SIP							
IDFC Focused Equity Fund	40.87	43.60	24.25	19.40	16.24	13.83	1144
Invesco India Contra Fund	48.30	43.17	24.36	25.55	22.54	19.91	804
Principal Growth Fund	154.89	39.76	25.63	24.28	22.16	18.07	593
Edelweiss Eco Resurgence Fund	14.79	39.66	-	-	-	-	34

## Large Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
Invesco India Growth Fund	33.02	35.00	13.61	18.78	14.37	9.48	244
Mirae Asset India Opportunities Fund	48.97	34.95	15.30	20.74	17.15	-	6123
Edelweiss Equity Opp Fund	31.32	35.73	11.69	17.03	12.90	7.95	272
Axis Equity Fund	25.42	34.43	8.86	15.65	12.84	-	1875
SIP							
Invesco India Growth Fund	33.02	33.80	19.68	20.08	18.54	16.55	244
Mirae Asset India Opportunities Fund	48.97	30.87	21.41	22.46	20.92	-	6123
Edelweiss Equity Opp Fund	31.32	31.65	17.50	18.13	16.62	15.06	272
Axis Equity Fund	25.42	29.41	15.72	15.74	15.65	-	1875

## Mid and Small Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
HDFC Small Cap Fund	47.24	57.11	21.65	24.25	17.74	-	2152
L&T Emerging Businesses Fund	29.37	60.20	26.89	-	-	-	3587
BNP Paribas Mid Cap Fund	37.75	41.19	17.53	24.76	21.85	9.83	894
SIP							
HDFC Small Cap Fund	47.24	58.78	32.21	28.52	24.51	-	2152
L&T Emerging Businesses Fund	29.37	54.04	36.82	-	-	-	3587
Mirae Asset Emerging Bluechip	53.47	38.66	29.31	33.45	30.69	-	5364
BNP Paribas Mid Cap Fund	37.75	39.74	23.53	26.93	25.82	22.86	894

## ELSS Schemes (Tax Saving u/s 80-C)

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
IDFC Tax Advt(ELSS) Fund	60.93	49.27	17.37	21.84	17.51	-	897
MOST Focused Long Term Fund	18.22	38.85	-	-	-	-	802
BNP Paribas LT Equity Fund	39.76	36.37	11.48	18.18	16.41	6.57	621
Mirae Asset Tax Saver Fund	17.28	43.46	-	-	-	-	790
SIP							
IDFC Tax Advt(ELSS) Fund	60.93	43.69	24.46	23.95	21.95	-	897
MOST Focused Long Term Fund	18.22	32.78	-	-	-	-	802
BNP Paribas LT Equity Fund	39.76	32.23	16.78	19.23	18.83	16.88	621
Mirae Asset Tax Saver Fund	17.28	38.89	-	-	-	-	790

## Dynamic Equity Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
ICICI Pru Dynamic Plan	266.39	24.82	12.16	17.20	13.95	11.30	10060
Tata Equity P/E Fund	141.92	35.46	16.99	22.43	16.65	12.36	2492
SIP							
ICICI Pru Dynamic Plan	266.39	24.00	18.44	18.24	17.21	16.40	10060
Tata Equity P/E Fund	141.92	29.30	24.80	26.17	22.79	19.90	2492

## Balanced Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
HDFC Balanced Fund	152.56	24.51	12.48	18.67	15.91	13.97	19169
Principal Balanced Fund	77.71	33.75	15.51	17.63	14.23	9.49	871
Reliance Reg Savings Fund-Balanced Option	56.26	27.62	12.84	16.72	14.02	12.87	11334
Mirae Asset Prudence Fund	13.96	25.28	-	-	-	-	1023
SIP							
HDFC Balanced Fund	152.56	22.15	17.17	19.50	18.38	18.03	19169
Principal Balanced Fund	77.71	30.85	21.69	20.00	18.23	15.54	871
Reliance Reg Savings Fund-Balanced Option	56.26	22.55	16.74	18.35	17.31	16.56	11334
Mirae Asset Prudence Fund	13.96	21.92	-	-	-	-	1023

## Equity Savings (Arbitrage MIP) Funds

SCHEME NAME	NAV	Historic Return (%)				AUM (Cr)
		6 month	1 Year	3 Years	5 Years	
HDFC Equity Savings Fund	35.34	8.65	14.00	10.72	10.89	5862
Reliance Equity Savings Fund	12.74	9.63	16.55	-	-	1974
Edelweiss Equity Savings Advantage Fund	13.09	10.89	14.35	7.76	-	132
Principal Equity Savings Fund	34.74	6.96	12.77	7.40	7.36	46
Aditya Birla SL Equity Savings Fund	13.19	5.51	13.81	8.76	-	1314

## Monthly Income Plans

SCHEME NAME	NAV	Historic Return (%)				AUM (Cr)
		3 month	1 Year	3 Years	5 Years	
HDFC MIP-LTP	44.14	2.46	8.07	8.34	10.64	3753
ICICI Pru MIP 25	39.41	5.64	11.15	9.37	11.33	1460
Indiabulls MIP	12.76	23.76	15.62	-	-	26
Aditya Birla SL MIP II-Wealth 25	38.83	4.52	11.76	10.31	13.07	2527

## Income & Dynamic Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 month	6 month	1 Year	3 Years	5 Years	
ICICI Pru Long Term Plan	21.24	-3.08	-0.12	3.97	8.44	11.06	3573
SBI Dynamic Bond	21.14	-5.34	-1.78	3.13	7.51	7.74	3891
UTI Dynamic Bond Fund	19.65	-6.11	-1.60	3.05	8.00	9.25	1884
Axis Regular Savings Fund	16.66	2.94	5.46	6.79	8.06	8.86	1144
IIFL Dynamic Bond Fund	13.73	2.98	4.53	7.03	6.77		108
SBI Regular Savings Fund	29.74	1.32	3.67	6.80	8.89	9.52	1563

## Accrual Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 month	6 month	1 Year	3 Years	5 Years	
Baroda Pioneer Credit Opp Fund-A	13.26	3.65	5.63	7.65	-	-	915
BOI AXA Corporate Credit Spectrum Fund	13.10	6.18	6.97	8.82	-	-	1421
Franklin India Dynamic Accrual Fund	60.31	3.95	6.20	7.95	9.31	8.99	3008
Franklin India Income Opportunities Fund	20.27	4.32	6.49	8.09	8.48	9.20	3287
Aditya Birla SL Corp Bond Fund	12.70	2.80	4.67	7.45	-	-	5005

## Short Term Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 month	3 month	6 month	1 Year	3 Years	
Baroda Pioneer ST Bond Fund	18.17	3.32	4.17	5.66	7.11	8.42	377
Franklin India Low Duration Fund	19.61	4.46	5.13	6.55	7.95	9.14	5586
Franklin India ST Income Plan	3600.82	3.33	3.51	6.20	8.07	8.40	9280
HDFC Banking and PSU Debt Fund	13.84	-1.38	2.08	4.54	5.49	8.84	4233
Reliance Medium Term	35.85	3.80	4.10	5.56	6.27	8.07	10486

## Ultra Short Term Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 month	3 month	6 month	1 Year	3 Years	
Kotak Low Duration Fund	2088.79	4.73	5.27	6.06	6.85	8.29	5584
Aditya Birla SL Savings Fund	336.36	4.55	5.09	6.05	6.79	8.37	20121
Franklin India Ultra Short Bond Fund-Super Inst	23.65	5.54	6.21	7.06	8.04	9.15	12177
ICICI Pru Flexible Income Plan	327.81	3.94	4.71	5.85	6.73	8.24	22015
L&T FRF	16.91	5.82	6.08	6.64	7.29	8.30	641

## Liquid Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 month	3 month	6 month	1 Year	3 Years	
Axis Liquid Fund	1892.84	6.54	6.44	6.51	6.70	7.53	23237
Kotak Floater-ST	2803.63	6.46	6.39	6.47	6.68	7.57	10806
L&T Liquid Fund	2341.97	6.54	6.43	6.50	6.69	7.52	10629
Aditya Birla SL FRF-Short Term Plan	227.71	6.53	6.41	6.51	6.72	7.58	8270
Franklin India TMA-Super Inst	2554.44	6.55	6.44	6.48	6.71	7.60	3942

## Arbitrage Funds

SCHEME NAME	NAV	Historic Return (%)				AUM (Cr)
		3 month	1 Year	3 Years	5 Years	
DHFL Pramerica Arbitrage Fund	12.50	5.78	6.16	6.63	-	1490
Edelweiss Arbitrage Fund	12.77	6.06	6.11	6.77	-	5740
Indiabulls Arbitrage Fund	12.32	6.22	5.99	6.92	-	510
Invesco India Arbitrage Fund	21.05	5.99	5.88	6.51	7.12	453
Kotak Equity Arbitrage Scheme	24.54	6.09	6.13	6.63	7.57	12256
L&T Arbitrage Opp Fund	12.65	6.24	6.10	6.63	-	628

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# TECHNICAL OUTLOOK

**T**he Indian equity markets made an all-time high of 11,110 on 24th Jan '18. The Nifty managed to take support of 10,970-10,900 range, indicating a positive sign.

Looking at the momentum, we feel there is a high probability of the Nifty testing the 11,200-11,400 levels in the upcoming trading sessions, provided it manages to sustain above the 11,070-11,120 range.

Technically, the Nifty is trading in an upward sloping channel, demonstrating a positive view. The channel shows that the Nifty has strong support at the 10,800 level. As long as it sustains above the 10,800-mark, the uptrend will remain intact.

The Union Budget is likely to have a bearing on the Indian markets. It is also important to note that the Nifty is trading near the all-time high. Hence, some profit-booking at higher levels

may be witnessed.

Technically, the overall view is positive as the Nifty is experiencing a strong momentum. The Nifty has resistance at the 11,200 level, whereas it has support at the 10,800 level.

Market participants should be stock-specific, and follow the trend with a trail stop loss level till it reverses from trading perspectives.

On the Nifty Options front for the January series, the highest Open Interest (OI) build up is being witnessed near the 10,500 and 10,800 Put strikes, whereas on the Call side, it is observed at the 10,800 and 11,200 strikes.

With two days left for January expiry, the indices have witnessed average rollovers in Nifty (30%) and in Bank Nifty (37%) with a positive cost of carry, indicating mixed bias. IT, Pharma and Banking are witnessing

long creation compared to the corresponding period of the previous expiry. Select stocks from IT, Pharma and Banking sectors are expected to outperform while certain stocks from Metals sector are likely to underperform in this expiry.

India VIX, which measures the immediate 30-day volatility in the market, remained in the range of 12-15 for most part of January and has moved up in the last two days to 17, which indicates a possible shift in trend. Going forward, VIX is likely to remain high.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been in the range of 1.4-1.8 in the month of January. Going forward, it is expected to remain at elevated levels, implying a positive undertone in the market.

The markets may remain range-bound in February with stiff selling pressure coming near resistance.



# THE DISCIPLINED INVESTOR

By following a disciplined approach to investing, an individual can create wealth quite efficiently



**A**s we start the New Year, the most commonly asked question is “what is your new year resolution?” Certainly, most of us have a list of things to do or not do.

Some of them include settling down in life, buying a house, finding a new job, performing better at work, starting to save for wealth creation and mending some relationships, among others.

Well, we are already a few days into the New Year. Have you initiated any action that will benefit you or will it remain an aspiration which will be forgotten in the months to come? Or maybe you already have!

Let us touch upon the aspect of “wealth creation” and it is for you to decide where you want to see yourself at the end of the year.

In any aspect of life, nowhere is discipline more important than the area of wealth creation.

Many amongst us have the intention, but find it difficult to work towards creating wealth because of procrastination. Also, we think that age is on our side and that we have enough time to save.

When you start early, you can start small and it won’t pinch you. The later you start, the higher the amount you will have to put aside to maintain your lifestyle.

What is the best way to do it? There will be a category of people that will think whatever is left at the end of the month in the account will be left for investment purposes.

Others may decide to invest a pre-decided sum on a particular date.

Still others may think of pushing it to the end of the year.

Let us analyze each of these situations to understand them better:

## RESIDUAL IN THE ACCOUNT GOES TOWARDS SAVINGS

This kind of an investor is not serious about building wealth. If it comes by, well and good. We are all prone to additional spending – being impulsive when there is money in the account.

If you fall in this category, more often than not you will find you have nothing to invest in at the end of the month. So, savings will constantly get postponed to a later date.

Even if you do have residual savings, there will be so much variation that at times you may not end up investing thinking that it is not material enough

so let us have enough money next month. There are two fallacies to this approach to saving –

1. By not setting aside a fixed amount for saving, you are giving yourself the flexibility to spend more. So, curtailing your spending when it is not necessary will not come naturally to you

2. However small the amount is, don't let it stay in your account and allow it to flow into the next month. Invest it. It's better to start small than to start late. When you postpone the investment, you are giving yourself the chance to spend that money since it is available to you.

## **LUMP SUM INVESTMENT**

If one were to tell you to invest ₹5,000 every month or put aside ₹60,000 at the end of the year, which one would you prefer? ₹60,000 at the end of the year may suddenly sound lofty to you.

Doesn't it make sense to invest ₹5,000 every month, because in the end it amounts to the same - ₹60,000 - rather than putting pressure on yourself at the end of the year?

It is quite possible that you may use up the excess liquidity in areas not really required during the course of the year. It would hold you in good stead to invest regularly rather than investing at one go. This will also provide you with benefits such as rupee cost averaging.

## **INVEST ON A PARTICULAR DATE**

This category of investor is serious about creating a corpus but may falter along the way. Imagine a situation where you decide to save ₹5,000 on the 5th of every month for a period of 5 years in a particular instrument.

Diligence is the key here. While the intention is noble, sometimes you may be so caught with your work that it may slip out of your mind. At other times, you could be travelling, and, therefore, may forget to invest on the said date.

Also, you may be unwell and not be able to fulfill the commitment of investing on the particular date. Thus, your inability to invest on the pre-decided date will force your investment to be literally put on the back burner.

Once you miss one investment date, there is every possibility of it getting carried forward to the next month - it is human tendency. And five years is 60 months! It is not easy to be consistent with your investments for sixty straight months.

## **IS THERE A WAY OUT?**

The simplest way to bring discipline to investing is by opting for an auto-debit facility (mutual funds) or recurring deposit facility (fixed deposits) and timing it appropriately.

## **WHAT DOES AN AUTO-DEBIT FACILITY MEAN?**

A standing instruction is given to the entity (mutual fund house or bank) to debit a predefined amount from your bank account every month, quarter or year as pre-decided.

Once the instruction is given, the account is automatically debited on the selected date for a predefined amount, thus eliminating the need for the investor to remember to invest.

## **BENEFITS OF AUTO DEBIT FACILITY**

### **■ Discipline To Invest**

Investing systematically is the key

to successful investing. If the investor opts for the auto-debit facility, the investment will happen on the specified date irrespective of where, how and what the investor is occupied with.

• Depending on which asset class the investor selects, he/she will benefit in the following manner

### **■ Rupee-Cost Averaging**

If an investor invests in a mutual fund scheme using Systematic Investment Plans (SIPs), the auto debit facility will be used and it will bring in the benefits of rupee-cost averaging- i.e. buy more mutual fund units when the markets are correcting and vice versa.

Thus, by opting for an SIP through the auto debt route, the investor will get the advantage of cyclicity of the stock markets.

### **■ Power Of Compounding**

The recurring deposit facility, which is tantamount to auto debit will provide you with the benefit of compounding. Automatic investment in fixed deposits every month will make sure you invest regularly.

It will also give you the benefit of earning interest over interest. The benefit of compounding is so enormous that even if you start with a small amount when you are younger, you will end up with a bigger corpus as compared to somebody who has started investing much later even though with a larger corpus.

### **■ Convenience**

The auto debit facility only requires sufficient funds to be present in the bank account. It releases the investor of the responsibility of ensuring that the investment is done in a time-bound manner.

## WHY IS TIMING IMPORTANT?

If you have an auto debit facility or recurring deposit facility at the end of the month, physiologically it may put pressure on you through the month as you have to ensure enough funds are available for it to go through.

Why not opt for the facility perhaps at the beginning of the month when your salary is just credited.

Once the investment installment is released by the bank, you will be at ease as whatever balance is left in the account can be spent. It will also enable you to live within your means while simultaneously creating sufficient wealth for yourself.

## IN A NUTSHELL

Most of us have EMIs that are used to pay off a housing loan or even a


consumer durable loan. We use the auto debit facility to make sure payments go out in time so that our credit history is not tarnished and we are not penalized.

Why not adopt the same principle for wealth creation? It's the perfect time of the year to get wiser - start small, start now and create wealth for yourself. Let procrastination not get the better of you in the new year.

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# IMPORTANT JARGON FOR THE FORTNIGHT

## FLIP-FLOP ON GOVERNMENT BORROWING PLAN

Recent weeks saw turbulence in the Indian bond market. The government announced an additional borrowing of ₹50,000 crore to fund its fiscal deficit, but within weeks said it would need to borrow only an extra ₹20,000 crore than what was budgeted.

These puzzling announcements led to wild gyrations in government bond prices.

### What Was The First Announcement?

On 27th December, the government said that it would need to borrow an extra ₹50,000 crore to fund its fiscal deficit. This amount is over and above the budgeted gross borrowing amount of ₹5,80,000 crore for fiscal year 17-18. Benchmark bond yields jumped by 18 basis points the next day.

Bond yields move in the opposite direction to bond prices. If yields rise, the bond holder tends to make losses.

### What Was The Subsequent Announcement?

Just few weeks later, the government on 17th January said it would need to borrow only an extra ₹20,000 crore as against an extra ₹50,000 crore that was announced earlier. Bond yields eased by more than 15 basis points post this announcement by the government.

### What Was The Reason Behind Lower Additional Borrowing?

The government has given no specific reason for the same. It just said that the move was based on an assessment made by the government of the trends of revenue receipts and expenditure pattern and ₹20,000 crore of government

securities would be adequate to meet financing needs.

### What Is Government Borrowing?

If expenditure is more than receipts, the government runs a fiscal deficit. The government fills the fiscal deficit gap by borrowing from the market.

The government, along with the RBI, which acts as a banker to the government, comes out with a borrowing calendar. The government borrows by issuing long-dated government securities (G-sec) or short-dated treasury bills (T-bills).

### So What Was Budgeted For FY18?

In Union Budget FY17-18, the government's gross and net market borrowings were budgeted at ₹5,80,000 crore and ₹4,23,226 crore, respectively with ₹3,48,226 crore being raised (net) from dated government securities and ₹2,002 crore from T-bills.

### What Will Be The Updated Government Borrowings Figures?

Gross and net market borrowings in FY18 till 26th Dec '17 are ₹5,21,000 crore and ₹3,81,281 crore, respectively. With the latest government update, gross borrowings will stand at ₹6 lakh crore.

However, the government will trim down the T-Bills from present collections of ₹86,203 crore to ₹25,006 crore by March-end '18. Note that the government has already collected huge money via T-bills.

### How Have Markets Reacted To The Event?

The bond markets have been quite volatile. Equity markets in India have already factored in the risk of the government

missing the fiscal deficit target. The last time the government resorted to extra borrowing of roughly ₹90,000 crore was in FY12 when the fiscal deficit numbers were revised from the budgeted level of 4.6% of GDP to 5.9% of GDP.

### **What Can Be The Impact Of Such Flip-Flops In Government Borrowings On Banks?**

Volatile bond prices put pressure on banks that hold large bond portfolios. Trading gains or losses by banks treasury books can be expected in the coming quarters.

### **What Are The Other Implications Of Higher Government Borrowings?**

Higher government borrowings, which ultimately lead to higher fiscal deficits, add to the inflationary pressures in the economy. Private players get crowded out.

The Reserve Bank of India can keep the rates on hold or increase if inflation persists. Under current circumstances, a slippage probably indicates that the government is not cutting capital expenditure just to stick to a number on fiscal target.

### **So, Are Fiscal Slippage Fears Coming True?**

The government has projected a fiscal deficit of 3.2% for FY18. While the government has not said in as many words, it is likely that it will miss the fiscal deficit target slightly. The additional borrowing of ₹20,000 crore is a signal that the government's receipts are slower as compared to its expenses.

Fiscal deficit has reached 112% of the full year budget estimates in the April-November period.

### **What Are The Reasons For The Government Exhausting Its Fiscal Deficit Limits So Soon?**

There are quite a few reasons: one, the government has front-loaded most of its expenditures in the first half of FY18, while revenue to the government accrues only in the second half.

Secondly, collections from the newly implemented Goods and Services Tax (GST) have been uncertain and lower than what was anticipated.

Thirdly, lower economic growth has led to slippages in direct tax mop up. Fourthly, the government will realize poorer non-tax revenues due to lower dividend transfer

from the RBI to the government.

### **How Can The Government Remain Fiscally Prudent?**

One, to stick to the fiscal deficit target, the government can cut expenditure in the last quarter of the fiscal. This can be negative as it can dampen growth.

Two, since tax revenue is lagging, the government can focus on non-tax revenue-generating avenues like disinvestments. The government has exceeded its disinvestment target in FY18. It can be more aggressive before the fiscal year ends.

### **So, What Happens To The Glide Path For Fiscal Deficit As Promised By The Government?**

The government has projected a fiscal deficit of 3% from next year onwards. But now a revision of the glide path is a possibility.

### **Can We Expect Selling Pressure In The Markets?**

Although the markets have factored in some breach in the fiscal deficit target, all eyes will be on quality of expenditure that the government has undertaken. If extra spending is on some populist measures rather than capital formation, the markets would not like it.

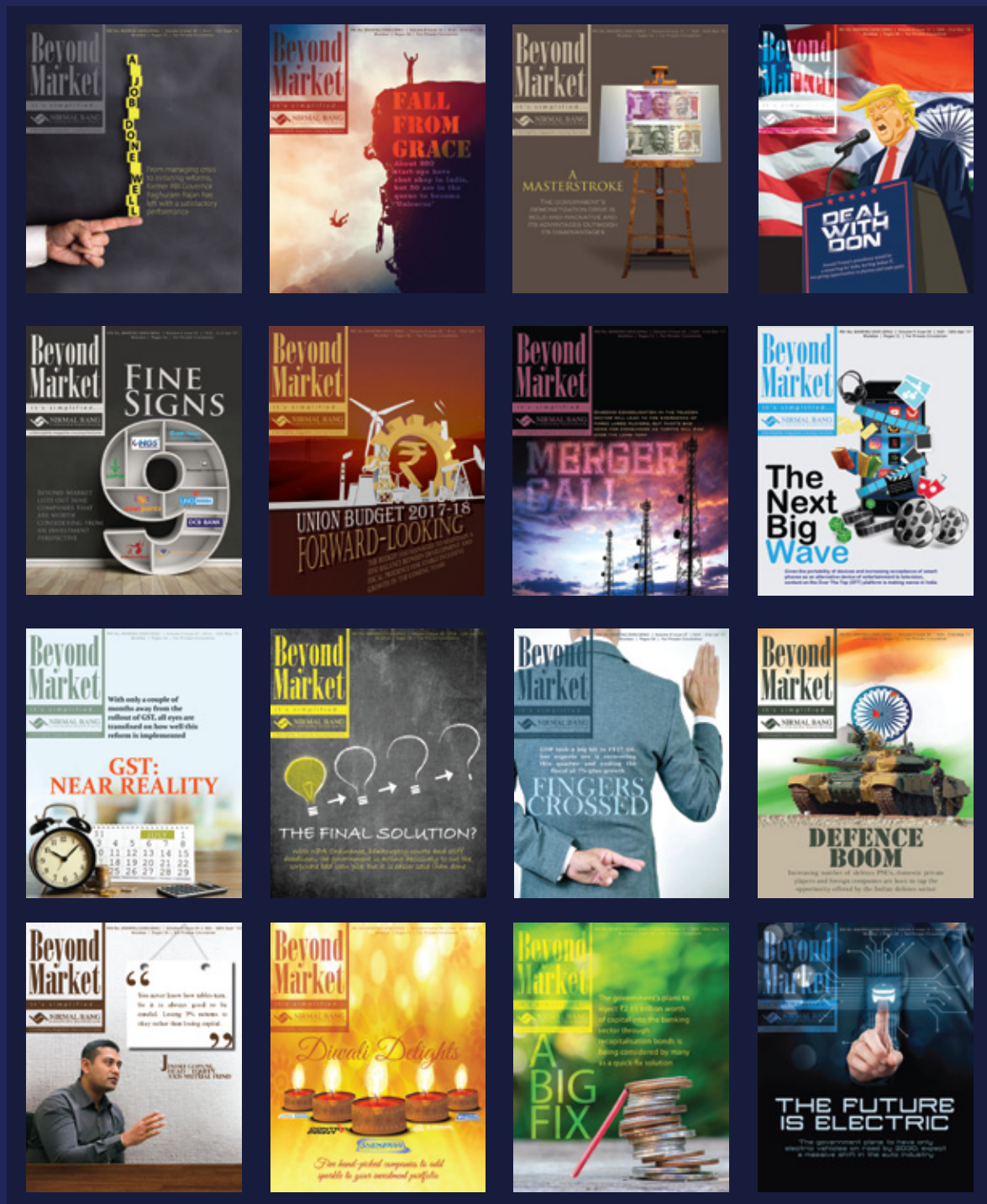
It is important to note that the NK Singh-led Fiscal Responsibility and Budget Management (FRBM) Review Committee in January '17 had recommended an "escape clause" for fiscal deviation of maximum of 0.5% of the GDP on account of structural reform with unanticipated fiscal implications.

GST was one such structural reform undertaken by the government in the year. The government can seek some solace in explaining minor deviation in the fiscal deficit target that was set.

### **Will Deviation From Fiscal Path Irk Credit Ratings Change?**

The event is not significant for any ratings action by the agencies as the additional borrowing numbers are not significant. FY19 Budget on 1st February will be keenly watched for fiscal prudence of the government.

The government could allow fiscal deficit to exceed the target of 3%, given it's the last budget before the general election due in 2019. Most budgets before a general election tend to be populist.



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