श्री LAKSHMISHREE

Gateway to your Financial Goals

Range Expansion

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For

Better Tomorrow !!

From Managing Director's Desk To Readers

Understanding ESG Fund Investing – Meaning, Market, Myths

What does ESG in investing stand for?
ESG stands for Environmental, Social, and Governance.

ESG investing is an up and coming style of sustainable investing in the markets. Sustainable investing means constructing a portfolio of stocks that stand out in terms of environmental, social, and governance factors.

Financial risks and non-financial risks pose a threat to the company's bottom line. ESG investing aims to mitigate the forms of non-financial risk which are significant in the long-term. Companies are going-concern entities, and the companies that acknowledge the long-term impact on their surroundings are more likely to stay equipped for any uncertainty that may arise in the future. Therefore, ESG investing aims to take advantage of superior returns from such selected companies.

Why is ESG investing trending?
With every passing year, the globe has been setting records of causing adverse climate change. Global warming is actively contributing to melting glaciers, and the corporations are directly related to the emission of harmful gases into the environment. Australia had to deal with an adverse eventuality of wildfires that lasted for six months due to extreme heat. Indonesia witnessed the wrath of rising sea levels during the Indonesian floods. The cities closer to the coast are facing the everlasting threat of getting submerged. The cities away from the coast are dealing with drought and extinguishing groundwater levels.

As the emerging economies consume more resources to achieve new levels of growth, ensuring sustainable growth is of utmost priority. ESG investing strives to recognize companies with good practices toward their physical and social environment.

After all, how does one expect a company to last if the ecosystem enabling the company vanishes into thin air?

Practices prevalent in capital markets follow the money. Therefore, the idea of ESG investing is to reward sustainable business decisions. As more institutional investors and sovereign funds focus on stocks with high ESG scores, more companies are likely to welcome the trend.

What are the ESG funds?
ESG funds are mutual funds that fall under the category of thematic funds. ESG funds adhere to the theme of investing in the equity of those companies that showcase:

Environmental-friendly business practices
Positive social impact by the company products or practices
Discipline in corporate governance and company ethics
Investment philosophy for ESG funds may be multi-faceted. One approach may be to directly exclude the 'sin' stocks, for example, stocks of companies marketing tobacco, alcohol, weapons, etc. Another approach is to place importance on impact investing. Impact investing is not only about generating financial returns but also about incentivizing positive environmental or social change. In essence, impact investing means providing capital to address widespread concerns that affect society as a whole.

ESG funds have self-developed methodologies of assigning ESG scores to companies and deciding which company qualifies to be a part of the fund. Typically, ESG funds prioritize technology, financial services, and consumer sectors and avoid energy, mining, and utility sectors. There are no norms for sector exposures governing such funds. However, most ESG funds place importance on a company's carbon footprint, emission norms, resource utilization, and governance.

How is the global market for ESG funds?
The fiscal year 2021 has been groundbreaking for ESG funds globally. According to a report from Morningstar, both the number of funds and assets under management of such funds have doubled in the past three years. As of the second quarter of FY21, the funds guided by sustainable investing are managing approximately $250 billion. The US has followed in the footsteps of Europe and currently represents around 20 percent of the global AUM for ESG funds.

Investors across the globe have exercised caution by adopting the socially responsible way of investing. It is only poetic justice that ESG funds find their break whilst the pandemic grips the globe.

Which are the ESG funds in India?
The ESG fund market for India is still in its nascent stage. Indian market presently offers the following funds based on ESG considerations:

SBI Magnum Equity ESG (Growth-oriented stocks with a large-cap bias)
The fund is the oldest ESG-based fund in India that was established on 01 January 2013. The AUM of the fund is Rs 3518 crores as of 1st April 2021. The expense ratio for the fund is 2.21 percent. Return since inception for the fund is 8.9% per annum.

Quantum India ESG Equity (Blended stocks with a large-cap bias)
The fund was established on 12 July 2019. The AUM of the fund is Rs 37.75 crores as of
1st April 2021. The expense ratio is 1.65 percent. Return since inception for the fund is 22.33 percent, partly because the fund was found in 2019 and 2020 was an super year for equities.

Axis ESG Equity Fund (Growth-oriented stocks with a large-cap bias)
Having launched on 12 February 2020, the fund is the most recently listed ESG-based thematic fund. The AUM for the fund is Rs 1903 crores as of 1st April 2021. The fund demands an expense ratio of 2.12 percent. The fund has yielded a return of 30% per annum since inception.

The Axis ESG Equity Fund has outperformed the other funds, including the benchmark S&P BSE 500. The SBI Magnum ESG fund has been unable to beat the index mainly due to the high expense ratio of the fund. It is important to consider that the performance of the Axis ESG equity fund is recent and lacks a track record.

ICICI Prudential closed the issue of their ESG fund on Oct 05 and is waiting to be listed, which will make it the fourth ESG-based fund in India. Other fund houses such as DSP, Aditya Birla, Kotak, and BNP are awaiting approval from the market regulator on their draft filings for new fund offer.

Another positive development in the arena of sustainable investing is the SEBI regulation in 2019 mandating the top 1000 listed companies to prepare an annual business responsibility report (BRR). Such an extent of the disclosure will make ESG assessment more robust and transparent.

ESG funds in India consider NIFTY 100 ESG TRI as their benchmark. Essentially, actively managed ESG funds make it their objective to outperform NIFTY 100 ESG TRI. The index presently has 88 constituents spread across 16 sectors.

The index gives weightage to stocks based on their ESG scores and free-float market capitalization. As per NSE, for a stock to form a part of the NIFTY 100 ESG index, the following eligibility criteria must be met:

What are the concerns underlying ESG investing?
The data to holistically assess a company's ESG footprint is not easily attainable. There is a cost associated with mining such data. Therefore, to accurately judge a company in terms of ESG parameters, there has to be extensive reporting on the company's part and thorough research on the analyst's part
The method to determine the ESG scores for a company is highly subjective. In the absence of a streamlined framework and established norms, the validity of a stock being an ESG fit will always remain under question.

Busting myths surrounding ESG Investing
'ESG means negative screening'
ESG investing is often confused with ethical investing. Both investing styles are separated by a fine line. Ethical screening employs negative screening, which clearly states the stocks that the fund will not invest in. ESG investing involves positive screening adopting an inclusive approach.

'ESG means values'
ESG investing is more than just values and ethics. ESG investing is a way of risk mitigation for the portfolio. Historically, companies that made the headlines for the biggest scandals were the ones that did not prioritize ESG parameters.

'ESG is just a jargon'
ESG investing is more than just a public relations project. The global ESG funds have witnessed major inflows over the past years that goes to show that investors are putting money where their mouths are.

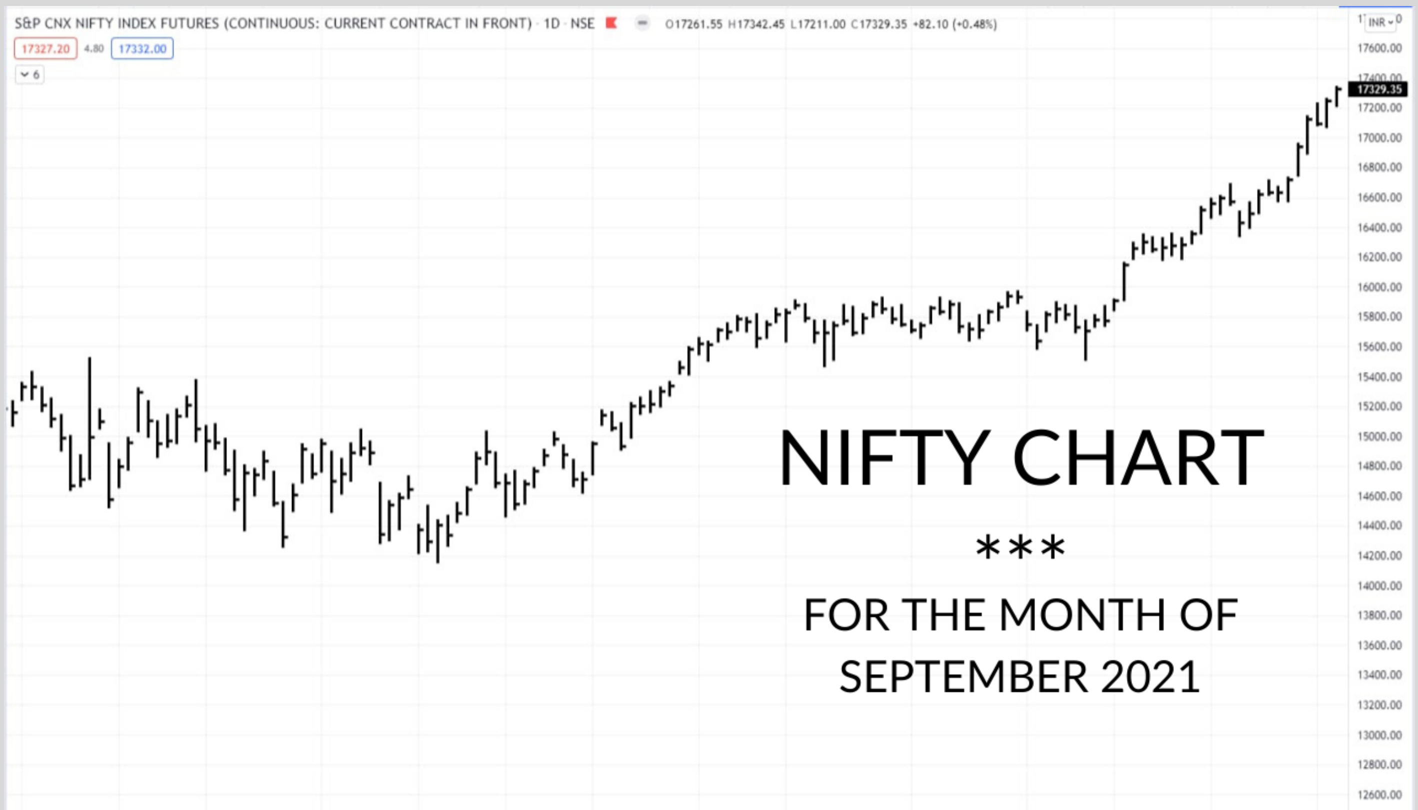
'ESG means foregoing superior returns'
ESG investing is carried out with a long-term view. Critics of ESG investing dismiss the recent outperformance of sustainable funds calling it premature. However, ample research across the globe points to better risk-adjusted returns for ESG strategies.

ESG-oriented funds are well-diversified across sectors and certainly qualify to form a part of an investor's portfolio. Given the evolving nature of ESG investing, a risk-averse investor may decide to wait out the transitionary phase and enter the market when enough alternatives are available. The Indian markets are still looking forward to passively managed ESG-oriented funds, that will lower the risk level and promote sustainable wealth creation.

Salil Shah

Managing Director
Lakshmishree Investments & Securities Pvt Ltd

Look What Our Research Analyst Has To Say...



NIFTY has had fastest 1000 points rally from 16000 to 17000 in the month of August and remained exceptionality strong. Heading into the month of September the initial half should remain strong with momentum carrying NIFTY to 17500 17700 . There after some sideways consolidation should follow before we resume any uptrend.

Anshul Jain

Research Analyst

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Stocks To Watch

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1. Banco Products Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs. 212	Buy in the band of Rs 210-214 and add on dips in Rs 186-190 band	Rs. 240	Rs. 265	2 Quarters

Shree Varahi Scrip Code	BANCOINDIA
BSE Code	500039
NSE Code	BANCOINDIA
Bloomberg	BNCO IN
CMP Aug 31, 2021 (Rs)	211.7
Equity Capital (cr)	14.3
Face Value (Rs)	2
Eq. Share O/S (cr)	7.2
Market Cap (Rs cr)	1514.1
Book Value (Rs)	115.9
Avg.52 Wk Volume	416,500
52 Week High (Rs)	222.3
52 Week Low (Rs)	83.5

Share Holding Pattern % (Jun, 2021)	
Promoters	67.88
Institutions	0.28
Non Institutions	31.84
Total	100.0

Our Take…

Banco Products India Ltd. (BPIL) has established track record and strong position in engine cooling modules catering to multiple end-user industries. It manufactures Engine Cooling Modules such as Radiators, Charged Air Coolers, Fuel Coolers, Oil Coolers, and Condensers. It offers both Copper Brass coolers and Aluminum coolers. Its products are used in Passenger Cars, Light Commercial Vehicles, Medium, and Heavy Commercial Vehicle, Agricultural Tractors, High-Performance Bikes, Harvesters, Construction Machineries, Power Generation Equipment, Traction Rail locomotives, and other similar equipment. Its high level of integration in operations, diversified product portfolio, long-standing association with reputed clientele, established global operations in auto ancillary segment through its foreign subsidiaries and its distribution network in more than 80 countries are the key positives for the company. Revival in the automobile industry should lead to higher demand for engine coolers. Nederlandse Radiateuren Fabriek B.V (NRF), is its wholly-owned subsidiary and is engaged in the business of manufacturing and distribution of heat transfer products like radiators, cooling systems, and a few others. BPIL has taken many initiatives to improve margins in its European subsidiary NRF over the last couple of years which should yield results in the coming years. Banco Gaskets (India) Limited (BGIL), another subsidiary of BPIL, manufactures engine sealing systems (gaskets) and supplies to major auto-OEMs in India. Mr. Mehul K. Patel, the main promoter of BPIL has more than 40 years of experience in the automobile and auto- ancillary industry. A broad split among its end user industries is Automobiles (mainly CV) 50%, Earthmoving and construction equipment 20%, Industrial (25% and other (including Rail and Marine) 5%.

Valuations…

We expect BPIL revenue/EBITDA/PAT to grow at 14/21/26% CAGR over FY21-FY23, driven by revival in the auto industry and operating leverage. The company operates a net debt free cash rich balance sheet with Rs 122cr of cash. We believe investors can buy the stock in the band of Rs 210-214 and add on dips to Rs 186-190 band (7.5x FY23E EPS) for a base case fair value of Rs 240 (9.5x FY23E EPS) and bull case fair value of Rs 265 (10.5x FY23E EPS).

Financial Summary...

(RsCr)	Q1FY22	Q1FY20	YoY (%)	Q4FY21	QoQ-%	FY20	FY21	FY22E	FY23E
Operating Income	500.8	274.3	82.6	444.8	12.6	1,422.1	1,532.6	1,808.4	2,007.4
EBITDA	71.7	27.4	162.2	26.6	169.6	122.2	178.1	238.7	261.0
APAT	45.9	17.6	161.4	18.4	149.6	76.6	113.7	158.4	180.5
Diluted EPS (Rs)	6.4	2.5	161.4	2.6	149.6	10.7	15.9	22.2	25.2
RoE (%)						9.9	14.8	18.0	18.3
P/E (x)						19.8	13.3	9.6	8.4
EV/EBITDA (x)						12.6	7.9	5.8	5.2

Income Statement...

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**1566.7**	**1422.1**	**1532.6**	**1808.4**	**2007.4**
Growth (%)	**17.3**	**-9.2**	**7.8**	**18.0**	**11.0**
Operating Expenses	1391.2	1299.9	1354.5	1569.7	1746.4
EBITDA	**175.6**	**122.2**	**178.1**	**238.7**	**261.0**
Growth (%)	**-1.8**	**-30.4**	**45.8**	**34.0**	**9.3**
EBITDA Margin (%)	**11.2**	**8.6**	**11.6**	**13.2**	**13.0**
Depreciation	29.2	32.8	33.7	34.7	36.0
Other Income	10.4	25.2	9.0	14.5	20.1
EBIT	**156.8**	**114.6**	**153.5**	**218.5**	**245.1**
Interest expenses	4.3	3.1	3.6	3.0	2.8
PBT	**152.5**	**111.5**	**149.8**	**215.5**	**242.3**
Tax	69.2	34.9	36.1	57.1	61.8
PAT	**83.3**	**76.6**	**113.7**	**158.4**	**180.5**
Share of Asso./Minority Int.	0.0	0.0	0.0	0.0	0.0
Adj. PAT	**69.1**	**76.6**	**113.7**	**158.4**	**180.5**
Growth (%)	**-40.8**	**10.8**	**48.5**	**39.3**	**13.9**
EPS	9.7	10.7	15.9	22.2	25.2

Balance Sheet…

As at December (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCES OF FUNDS					
Share Capital	14.3	14.3	14.3	14.3	14.3
Reserves	818.4	695.7	814.1	915.3	1024.3
Shareholders' Funds	**832.7**	**710.0**	**828.4**	**929.6**	**1038.6**
Minority Interest	0.0	0.0	0.0	0.0	0.0
Borrowings	39.5	91.2	13.7	3.4	0.0
Net Deferred Taxes	49.1	47.1	38.4	38.4	38.4
Total Source of Funds	**921.2**	**848.3**	**880.5**	**971.4**	**1077.0**
APPLICATION OF FUNDS					
Net Block & Goodwill	184.3	193.4	189.8	180.1	174.1
CWIP	12.6	2.6	1.0	1.0	1.0
Investments	68.5	9.2	0.8	20.8	50.8
Other Non-Curr. Assets	24.0	25.5	11.3	5.8	8.0
Total Non Current Assets	**289.4**	**230.8**	**202.9**	**207.7**	**233.9**
Inventories	479.4	476.2	563.9	608.1	695.3
Trade Receivables	271.6	293.6	270.3	335.3	380.2
Cash & Equivalents	127.1	70.4	122.6	119.3	104.8
Other Current Assets	27.1	17.6	26.9	28.5	30.6
Total Current Assets	**905.3**	**857.8**	**983.8**	**1091.1**	**1210.9**
Trade Payables	255.7	224.1	284.5	305.3	342.7
Other Current Liab & Provisions	17.8	16.1	21.6	22.1	25.2
Total Current Liabilities	**273.5**	**240.2**	**306.2**	**327.5**	**367.8**
Net Current Assets	631.8	617.6	677.6	763.7	843.0
Total Application of Funds	**921.2**	**848.4**	**880.5**	**971.4**	**1077.0**

2. GHCL Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Time Horizon
Commodity Chemicals	Rs. 352.1	Buy at LTP & add more on dips to Rs 300-304 band	Rs. 499	1 year

Shree Varahi Scrip Code	GHCL
BSE Code	500171
NSE Code	GHCL
Bloomberg	GHCL IN
CMP Aug 27, 2021	352.1
Equity Capital (Rs cr)	95.0
Face Value (Rs)	10.0
Equity Share O/S (cr)	9.5
Market Cap (Rs cr)	3358.0
Book Value (Rs)	261.5
Avg. 52 Wk Volumes	122790
52 Week High	401.8
52 Week Low	141.2

Share Holding Pattern % (June, 2021)	
Promoters	19.2
Institutions	38.1
Non Institutions	42.7
Total	100.0

Our Take…

The company expects this demerger to deliver various operational and strategic benefits to each Business segment such as focused growth, concentrated approach, business synergies and increased operational and customer focus. Besides, it will address independent business opportunities with efficient capital allocation and attract different set of investors, strategic partners, lenders and other stakeholders, thus the demerger is expected to result in enhanced value creation for stakeholders.

GHCL continues to derive strength from its integrated position in the domestic soda-ash industry. It has a healthy operating performance in its soda-ash division, led by strong clientele, cost competencies (mainly on the back of its captive mines of lignite and limestone along with availability of salt), and favorable demand-supply dynamics of domestic soda ash industry in the medium term.

In the Home textiles segment, yarn has witnessed robust domestic demand, especially from low/medium value garments. There has also been growth in profitability on account of reduction in employee costs, third-party work allowing higher plant utilization levels, and yarn prices increasing more than cotton prices, thereby improving the spread. Though the benefit of lower cotton prices will no longer be available in the next quarter, we don't see a big impact on the margins as long as the higher costs are being passed over.

On 10 March, 2021, we had initiated coverage on GHCL Ltd and recommended to buy at LTP of Rs 234 & add on dips to Rs 217-219 band for base case target of Rs 272 and bull case target of Rs 292. Given healthy growth outlook and strong set of numbers in Q1FY22, we have now revised earnings.

Valuations…

GHCL has an established position in the domestic soda ash industry, and has captive source of raw material for lignite, limestone and salt, leading to cost competencies. Further, its soda-ash division meets most of the power requirement through captive sources. Thus, given its consistent ability to generate cash and sustainable demand across sectors, we are positive on the soda ash business. The outlook for Home Textile business has also enhanced substantially, given the stable margin profile, led by firm pricing and cost initiatives.

This restructuring will maximize value for all stakeholders, leading to a better focus on the demerged business. This demerger is intended to deliver various operational and strategic benefits to each business segment such as focused growth, concentrated approach, business synergies, and increased operational and customer focus.

The demerger of the Textiles division could result in value unlocking and give each segment the valuations they deserve. The process of demerger could get over in the next few months. We think once the record date for the demerger is announced, the stock price could begin to perform anticipating value unlocking.

Financial Summary...

Particulars (Rs Cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY20	FY21	FY22E	FY23E
Total Operating Income	854	452	88.9	826	3.4	3305	2900	3295	3714
EBITDA	186	76	143.9	195	-4.8	823	686	804	912
Depreciation	34	33	3.2	33	2.8	131	133	134	142
Other Income	5	4	5.9	7	-37.7	18	27	23	24
Interest Cost	17	28	-41.7	19	-11.8	120	91	63	56
Tax	37	6	505.4	39	-5.7	98	112	135	163
APAT	103	13	692.3	111	-7.7	491	376	495	574
Diluted EPS (Rs)	10.8	1.4	692.3	11.7	-7.7	51.7	39.6	52.1	60.4
RoE-%						24.1	16.2	18.8	19.2
P/E (x)						6.8	8.9	6.8	5.8
EV/EBITDA						5.3	5.7	4.8	4.0

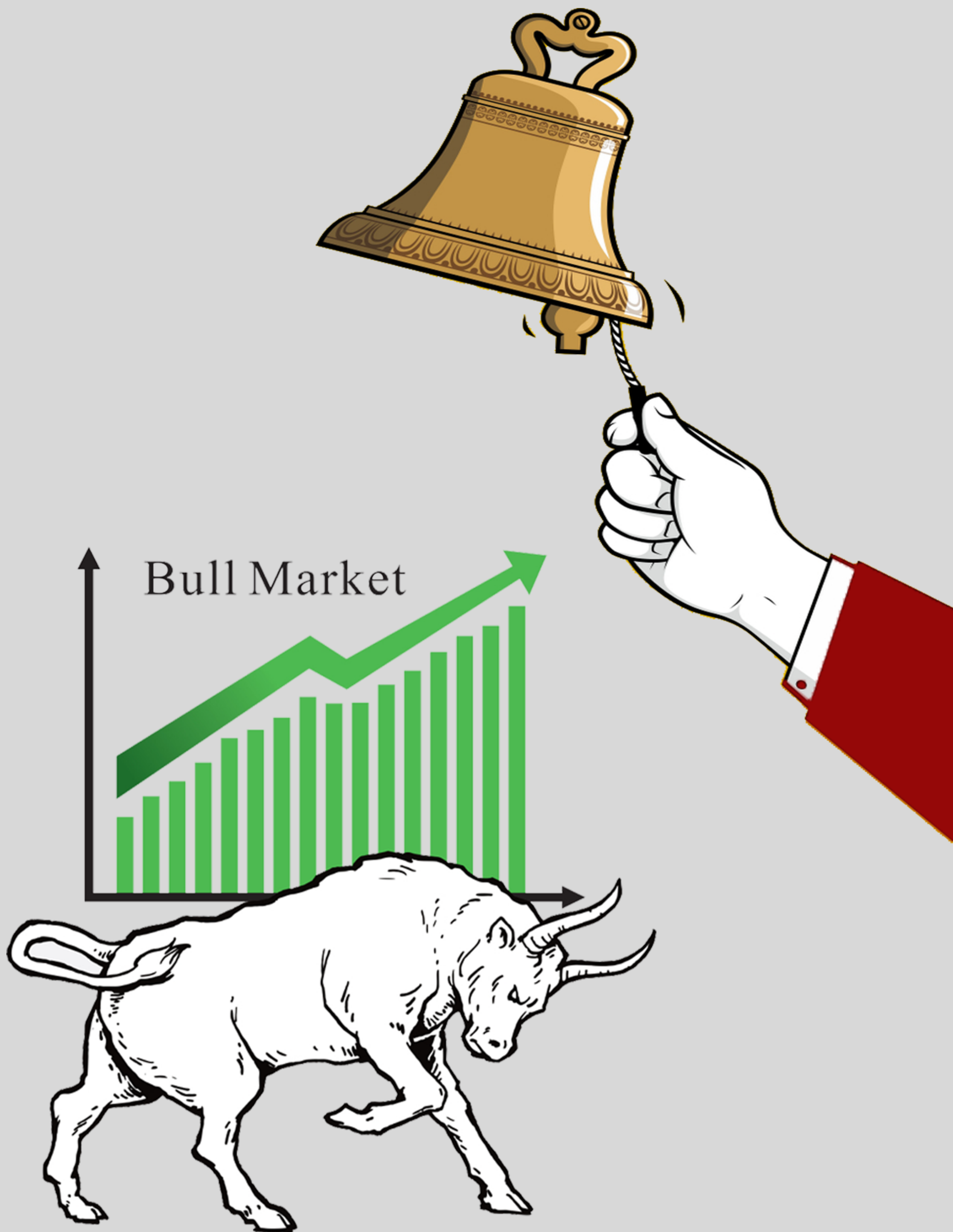
Income Statement...

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**3341**	**3305**	**2900**	**3295**	**3714**
Growth (%)	**14.5**	**-1.1**	**-12.3**	**13.6**	**12.7**
Operating Expenses	2539	2483	2214	2491	2802
EBITDA	**802**	**823**	**686**	**804**	**912**
Growth (%)	**52.5**	**2.6**	**-16.6**	**17.2**	**13.4**
EBITDA Margin (%)	**24.0**	**24.9**	**23.6**	**24.4**	**24.6**
Depreciation	117	131	133	134	142
EBIT	**685**	**691**	**552**	**670**	**769**
Other Income	16	18	27	23	24
Interest expenses	127	120	91	63	56
PBT	**573**	**589**	**488**	**630**	**737**
Tax	180	98	112	135	163
RPAT	**393**	**491**	**376**	**495**	**574**
Minority Interest & Share of JVs	0	0	0	0	0
Exceptional Item	0	0	0	0	0
APAT	**393**	**491**	**376**	**495**	**574**
Growth (%)	42.4	25.0	-23.5	31.7	16.0
EPS	41.4	51.7	39.6	52.1	60.4

Balance Sheet…

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	98	95	95	95	95
Reserves	1827	2054	2389	2677	3100
Shareholders' Funds	**1926**	**2149**	**2484**	**2772**	**3195**
Long Term Debt	702	822	577	502	407
Net Deferred Taxes	253	253	260	273	287
Long Term Provisions & Others	6	7	4	4	4
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**2887**	**3231**	**3325**	**3551**	**3893**
APPLICATION OF FUNDS					
Net Block & Goodwill	2595	2665	2661	2832	2979
CWIP	114	120	105	75	111
Other Non-Current Assets	48	92	107	110	115
Total Non Current Assets	**2756**	**2878**	**2874**	**3018**	**3205**
Current Investments	0	0	0	0	0
Inventories	769	791	764	785	885
Trade Receivables	291	274	228	271	305
Cash & Equivalents	36	116	49	126	219
Other Current Assets	144	111	64	73	84
Total Current Assets	**1239**	**1292**	**1104**	**1255**	**1494**
Short-Term Borrowings	409	270	42	103	143
Trade Payables	409	408	377	406	458
Other Current Liab & Provisions	290	261	234	213	204
Total Current Liabilities	**1108**	**938**	**653**	**722**	**805**
Net Current Assets	131	353	452	533	689
Total Application of Funds	**2887**	**3231**	**3325**	**3551**	**3893**

This Might Impact Your Investments !!



श्री LAKSHMISHREE
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Why India's forex reserves saw a spike, and what to expect in the near future

The Indian economy is in a seemingly better state now than how it was during the 2013 taper tantrum. But, a few more pieces need to fall in place so as to ensure that India is well-prepared for the impending quantitative easing tapering

Ahead of the latest policy meeting of the United States Federal Reserve on July 28, Indian equity markets corrected for three consecutive sessions fearing negative developments around tapering of the US quantitative easing (QE) programme. However, despite inflation in the US touching a 13-year high at 5.4 percent, the meeting concluded without any exceptionally hawkish comments from the Fed.

Consequently, Nifty 50 proceeded to rally and scale one lifetime high after another. Considering what happened in the 2013 taper tantrum (heavy foreign outflows leading to rupee depreciation, costly imports, and shrunk margins for most corporates), such a reaction of the stock market was not irrational.

Here we will discuss the multi-faceted impact of foreign inflows on the Indian economy. We shall extend the logic to build expectations around what the future may hold as we approach the next QE tapering.

In the wake of the pandemic, countries around the world pulled out all the stops of monetary and fiscal support to help boost flailing economies. As a result, economies were flush with liquidity, some of which made it to emerging markets in search of higher yields.

India was one of the recipient economies, which helped shore up its foreign exchange reserves by a whopping 33 percent from the pre-pandemic levels (~$450 billion) to the current levels of $600+ billion. If we were to look closely at this spike in India's forex reserves, we would find that most of the accumulation happened between April 2020 and November 2020.

To turbocharge the economy, focus on FDIs and sustainable

It is important to prioritise investment in productive projects with a greater push among those industries that could recuperate the losses incurred due to the pandemic, and restart the economic growth process.

The economic theory points to foreign direct investment (FDI) as a key driver of economic growth. However, the FDI flows have taken a huge dip, thanks to the COVID-19 pandemic.

According to the UNCTAD World Investment Report 2021, global FDI flows reduced to $1 trillion in 2020, 35 percent lower than the pre-pandemic level. Moreover, greenfield investment announcements plummeted by 44 percent in value, and international finance by 53 percent for developing economies, compared to 16 percent and 28 percent, respectively, for the developed economies.

These figures show that developing economies faced the brunt of the pandemic since greenfield FDI in these economies is mainly aimed at infrastructure development and other productive aspects.

The story in India is no different, where greenfield FDI shrivelled to $24 billion in 2020, 19 percent lower than 2019. Greenfield FDI is further expected to contract in 2021 due to the COVID-19 second wave. Given the severity of the pandemic, which affected global FDI, focus should shift towards reviving the FDI flows amidst rising levels of vaccination.

The pandemic severely affected multinational firms, given their extensive involvement in global value chains. Hence, building resilient supply chains remains at the top of the agenda for firms and policymakers.

From a firm-based perspective, building resilience requires three key components. First, the firm's decision on production-network restructuring, which is a trade-off between reshoring and reducing excessive concentration on a single supplier.

The second is risk management solutions, which focus on strengthening supply chain networks to absorb shocks through better monitoring, creating flexibility in production through redistribution of production load across multiple outlets, holding sufficient inventory level, and moving away from the 'just-in-time' production model. The third is attention towards adopting sustainable business practices, which mitigates supply chains from environmental, social, and governmental (ESG) risks.

Focus On Productive Projects

In order for the economy to recover, it is crucial to prioritise investment in sustainable recovery, which condones a strategy where investment is directed towards improving productive capacity. In this regard, the UNCTAD report highlights a positive correlation between the Productive Capacities Index (PCI) and the FDI stock. Hence, FDIs in productive capacity enhances investment, especially in developing countries, due to the flow of knowledge, technical know-how, and improved access to global networks.

Thus, it becomes important to prioritise investment in productive projects with a greater push among those industries that could recuperate the losses incurred due to the pandemic, and restart the economic growth process.

Moreover, during the past 18 months, policy makers across the globe have provided stimulus packages, with plenty of it directed towards infrastructure projects. This provides a window of opportunity for incorporating the sustainable development goals (SDGs) while undertaking recovery measures.

In addition, the importance of achieving the SDGs is crucial for overall development. Investment and improvement in the SDGs acts as a signalling mechanism about the enabling conditions. Since, the SDGs encompass various aspects including health, education, governance, energy, infrastructure, among others, a focus on them will improve the ease of doing business. This, in turn, leads to an uptick in FDI.

Evidence in the Indian context highlights that a one percent increase in ease of doing business is associated with 6.32 percent increase in FDI. Further, it is observed that the FDI flows are larger in states that perform better on the SDG index. Therefore, FDI is the potential driver of growth, subject to states investing in achieving various SDGs.

Financing Recovery

The importance of investment in SDG projects has resulted in application of sustainability in the finance sector. Sustainable finance has largely transpired through specific funds and indexes with objectives of sustainability. For instance, in 2020, the $3.2 trillion SDG-related investment consisted of 53 percent of sustainable funds, over 30 percent in green bonds, and investments in social bonds and mixed-sustainability bonds.

Sustainability-themed funds have managed to recover quickly within the first half of 2020, with the inflow of funds amounting to $164 billion, and estimated to reach over $300 billion full-year on. The rapid surge of these funds highlights their popularity and of them as a viable investment option. In this regard, leveraging capital markets for sustainable development has become the key.

However, despite their growing importance, sustainability funds are mostly associated with developed economies. It's important for a developing economy such as India to adopt sustainable financing for the growth of the overall market.

Boost MSME sector to achieve the $5 trillion goal

As India enters its 75th year of Independence, COVID-19 has hit our trajectory towards the $5 trillion goal. India's small businesses, in particular, are reeling under the impact of uncertainty and broken supply chains. This article will focus on the critical policy measures needed to strengthen the Micro, Small and Medium Enterprise (MSME) sector against future shocks.

The pandemic has highlighted the weaknesses in India's small businesses. Yet, of the 63.3 million MSMEs in India, only about 10 million have benefited from support schemes such as the Emergency Credit Line Guarantee Scheme, interest rate subvention, etc. Five out of every six MSMEs are not benefitting from such schemes, mainly because they are informal. To boost formalisation, the UDYAM registrations need an aggressive push through a bottom-up national drive, as done for Aadhaar and the Pradan Mantri Jan-Dhan Yojana (PMJDY).

'Liquidity' comes up as one of the top three challenges in every conversation with MSMEs. A significant reason for the clogged liquidity is delayed payments by public sector undertakings (PSUs) and larger firms. The state facilitation councils must be strengthened with more teeth to act against the defaulters. Another key and non-confrontational solution is supporting and promoting the uptake of the TReDS platform, which has demonstrated a market-based solution to the delayed payments problem.

Linked to the challenge of liquidity is the lack of availability of credit. The MSME credit gap has been estimated at a whopping Rs. 20-25 trillion. The two primary reasons for this credit gap are the inability of smaller firms to mortgage assets to back their loan demands, and the inability of financial institutions to assess the credit risk of these smaller firms at affordable costs.

New age FinTechs are proving to be promising channels to bridge this gap using technology with innovative data analytics and models for assessing creditworthiness. While banks and Non-Banking Financial Companies (NBFCs) should work with fintech through data sharing, there should be adequate support from the Reserve Bank of India (RBI) with appropriate regulations for customer protection.

Digital technologies can catapult the MSMEs on the growth turnpike on the dimensions of business development (e-commerce), productivity (cloud-based affordable, pay-as-you-go technology solutions), credit (FinTechs) and delayed payments (TReDS). To drive these digitisation efforts by creating an enabling environment, the MSME ministry must appoint a dedicated Joint Secretary to look after all public digital initiatives and facilitate all private initiatives that propel MSMEs.

One of the biggest hurdles MSMEs face is that of excessive compliances. Governments — central, state and local — should proactively undertake a journey of reducing the burden of compliances for MSMEs, with support from the industry associations and RegTechs. They must periodically publish dashboards of the progress of critical milestones.

MSMEs have a prominent role in enhancing exports as they contribute almost half of India's exports. India's Foreign Trade Policy 2021-26 expected soon will, of course, include specific export promotion measures, but this is the time to raise the implementation-to-intent ratio of policy with an emphasis on MSMEs for capacity building with the help of industry associations, and export promotions through Indian trade commissions in target countries.

To gain the global competitiveness edge, MSMEs must raise productivity through a skilled workforce. So far, government initiatives have revolved around the supply-side through setting up skill institutions or financially supporting them. A change of approach is needed to include demand-driven initiatives like skill vouchers, which can be used for formal training in specific skills from an institute of the employee's choice.

Pilots in Maharashtra and other states have shown encouraging results. Given the new digital framework of Aadhaar and UPI, it is possible to launch 'Digital Skill Vouchers' and 'Individual Training Accounts' that capture an individual's training needs and track progress over time.

Productivity also gets a boost from clusters; however, cluster development and support have been hit by the pandemic over the past year. Government funding must now be front-loaded, with a particular focus on districts with few or no clusters. The aspirational districts listed by the Niti Aayog could be a good beginning.

Finally, at every stage of designing policy, the governments must put a gender lens on their schemes. To take just one example, industrial zones must have dedicated enclaves for women entrepreneurs, including help desks to assist with government support schemes. Multiple enclaves like these need to be set up across India simultaneously to see a visible change.

By taking these recommendations to the implementation stage, the engine of MSMEs that contributes one-third of India's GDP can be fired up, and the national aspirations of a $5-trillion economy will not remain a pipe-dream.

RBI State of the Economy Report: The Maya of Inflation and the Leela of Growth

Exhibit 1: 'This edition of the State of the Economy coincides with the fourth month of the Shalivahana Shaka – the Indian national calendar – when the south west monsoon stretches its embrace across India. It is a time of sacrifice and fasting, and of the celebration of material creations, especially water. It is the season of mists and mellow fruitfulness, its music drowning out the songs of spring.

Exhibit 2: 'Sravana 2021 is also a time of the year when the Reserve Bank connects with the transcendental calm within. Submersed in this inner stillness, it looked beyond the dilemmas and trade-offs in the here and now to contemplate the world of tomorrow.'

Exhibit 3: 'The first impulses of the recovery have arrived, riding on thunder and lightning as the monsoon intensifies'.

We bring you a few FAQs on the RBI's state of the economy report for the month, while trying our best to stick to the spirit of the quotes above:

Q: What is the RBI's current reading of growth and inflation?

A: Let us contemplate the blessings the monsoon showers on us. We at the RBI are singing Raga Megh Malhar with all our might, which, as everyone knows, has the power to bring down the rains. It is this divine music that soothes and calms us, to face yet another round of buying government bonds.

Q: And is it working?

A: We were going fine, even thinking of starting our own little choir, but unfortunately one of the Monetary Policy Committee members, Jayanth Varma, has been singing a different tune these days.

Q: Is it necessary for central bankers to sing?

A: The Raga is for the crops, of course. We are 'Conspiring with him how to load and bless/With fruit the vines that round the thatch-eves run/To bend with apples the moss'd cottage trees/And fill all fruit with ripeness to the core.'

Q: Good one. Shaktikanta Das?

A: John Keats. It is thus that we shall slay the accursed Asura of inflation.

Q: Ah, you think inflation is transitory?

A: As are all things. Here today, gone tomorrow.

Life is but a day;A fragile dew-drop on its perilous way
From a tree's summit.

Q: Michael Patra's? And what about growth?

A: John Keats again. Growth will, of course, depend on our karma.

Q: Yes, but what is the RBI doing about it?

A: Well, we're trying to awaken our kundalini, so that it expands our consciousness and opens up our sacred connection to the Source of All Being. Also, we keep interest rates low.

Q: How exactly does the kundalini work?

A: We can raise kundalini from the Root Chakra to the Crown Chakra, which results in Illumination, the opening of the Third Eye, which will lead to Nirvana or Enlightenment.

Q: Monetary Nirvana?

A: No, that's quantitative easing. But Zen does help us face negative real rates without even raising an eyebrow.

Q: Zen?

A: Zen is from the Chinese Ch'an, which is from the Sanskrit Dhyana. 'Sitting quietly/doing nothing/spring comes/and the grass grows/ by itself.'

Q: Very profound. Will the economy grow by itself?

A: Perhaps. Who knows? The idea is to meditate and connect with your inner self, seek the stillness within. Everything follows from that.

Q: Like what?

A: Everything. Money supply, for instance.

Q: What are your thoughts about the recovery?

A: 'For winter's rains and ruins are over, And all the season of snows and sins; The days dividing lover and lover, The light that loses, the night that wins; And time remembered is grief forgotten, And frosts are slain and flowers begotten, And in green underwood and cover Blossom by blossom the spring begins.'

Q: Nice. Written by an utterly bored Monetary Policy Committee member?

A: No, by Algernon Charles Swinburne.

Q: Do you think the government should give a bigger fiscal stimulus?

A: As the Tibetan Book of the Dead says, 'it is not the size of a gift, it is its quality and the amount of mental attachment you overcome that count. So don't bankrupt yourself on a momentary positive impulse, only to regret it later. Give thought to giving. Give small things, carefully, and observe the mental processes going along with the act of releasing the little thing you liked.' The government has read the Tibetan Book of the Dead and knows what it is doing.

Q: So which is more important for you: inflation or growth?

A: A fine balance has to be struck between the Yin of inflation and the Yang of growth. Perhaps one has to go beyond them, as symbolised by the concept of the Ardhanarishvara, which signifies the totality that lies beyond duality.

Q: Hmmm. Like the finance ministry and the RBI?

A: A bit like that.

Q: And what about stocks? Do you think they are overvalued?

A: Many of them have transcended the bounds of things so mundane as valuations. We forget that man does not live by bread alone. There are also unicorns.

Q: What do you think are the most important trends in the markets at present?

A: Oh, without doubt, Maya and Leela.

Q: Are they foreign portfolio investors?

A: They show that things are not always what they seem.

Q: What do you mean?

A: As Lewis Carroll wrote: 'He thought he saw a Banker's Clerk/Descending from the Bus/He looked again and found it was/A Hippopotamus.' It is a very perceptive comment on monetary policy today.

Net-Zero Emissions | We need diverse strategies to decarbonise India's transport sector

Transport is among the biggest contributors to global warming, presently accounting for around 13 percent of total carbon emissions in India. Going forward, vehicle activity is expected to grow rapidly, increasing 3-3.5 times between 2020 and 2050.

Without significant policy interventions, this would translate into transport-related emissions increasing faster than emissions from other carbon-intensive sectors. Thus, decarbonising the transport sector is crucial for India to move towards net-zero emissions by 2050.

In India, around 65 percent of freight and 90 percent of passenger traffic takes place by road. Thus, decarbonisation efforts have focused on reducing emissions from road transport through technological improvements such as enhanced fuel efficiency and promotion of alternative fuels. Increased fuel efficiency driven by stiff regulatory policies, particularly in passenger cars, have already had positive impacts.

The promotion of electric vehicles (EVs) under The National Electric Mobility Mission Plan (NEMMP) is the recent big move towards pushing for decarbonisation of road transport. There seems to be a widespread recognition of electric mobility as an important tool in decarbonising transport. However, is the present policy focus adequate?

The EVs have already seen encouraging uptake among two-wheelers and three-wheelers as these segments are considered easier-to-penetrate since they involve short-distance trips. However, they may not be a cost-effective solution for all segments.

Prior studies have found that their mass adoption in easier-to-transition segments could lead to 20-30 percent reduction in emissions by 2050. However, the actual benefits will depend on the transition to clean energy sources in the power sector. A recent study by IIT-Bombay found that without green energy sources, the EVs could increase carbon emissions by 7-26 percent in the Mumbai Metropolitan Region by 2050.

Another challenge for the EVs is that most of the emission comes from segments which cannot be easily electrified, such as long-distance buses and heavy-duty trucks (HDVs). The HDVs alone are responsible for around 55 percent of the energy consumption from road transport.

While the recent inclusion of Liquid Natural Gas (LNG) and hydrogen as automotive fuels are encouraging for heavy duty segments, they have their own issues. The LNG is import dependent and not carbon zero, while currently hydrogen's availability is negligible with many uncertainties regarding its future costs and relevant production pathways.

Deep decarbonisation rests on identifying cost-effective solutions for the harder-to-abate road segments. One way to do this is to shift long distance passenger and freight movement to railways. Rail movement is associated with around five and two-fold lower CO_2 emissions for passenger and freight transport, respectively, in comparison to trucks.

With the target of achieving net-zero emissions by 2030, the Indian Railways is also ideally suited to play a key role in sustainable transportation. The National Transport Development Policy Committee had proposed an increase in rail investment from 0.4 percent to 1.2 percent of gross domestic product (GDP) by 2030. Furthermore, the National Rail Plan has laid out an investment roadmap which could significantly boost railway capacity, including construction of dedicated freight corridors and high-speed rail. Moreover, the Railways will also need better marketing policies and more competitive tariffs, especially for its freight business.

The logistics sector is also characterised by obsolete vehicles and fragmented markets, leading to poor fuel economy, wasteful trips, and overloading. Streamlining logistics operations could lead to significant emission reductions. This will require investment in dedicated transport hubs and IT-enabled trip optimisation. In the absence of clear technological frontrunners for trucks, the government incentives should focus on emission reduction without differentiating between technologies.

Deep decarbonisation will also depend on controlling the motorisation rate. This can be achieved by reducing the demand for private vehicles through enhancement in public transport. It would require improvement in the financial positions of our State Transport Undertakings (STUs) for better quality and quantity of on-road buses.

Further, non-motorised transport (NMT) will need to be made a viable way of commuting. The modal share of walking and cycling has been on the decline for want of accessible and safe infrastructure. Setting up city-level agencies with a mandate to plan and co-ordinate investment in NMT would be a significant step forward.

Decarbonisation of the transport sector by mid-century will require a holistic and integrated approach. Leveraging technology to create a cleaner road sector is essential, but it needs to be combined with other interventions that either reduce motorised travel demand, or shift it to more energy-efficient modes.

India's economy is on a bumpy road to recovery

The Q1 GDP estimates for FY22 (Rs 51.23 trillion at current prices) have yielded two opposing views, depending on whether one tends to view a glass as half full or half empty.

One view is that the 20.1 percent growth (as compared to contraction of 24.4 percent in Q1 of FY21) shows strong economic recovery, and the other points out that the GDP value is still below what it was before the pandemic (Q1 of FY20). Both views are correct because the latest quarter coincided with the second wave of the COVID-19 pandemic but the state-wise lockdowns were less severe than the lockdowns imposed in 2020. The result was a slowdown in economic activity compared with Q4 of FY21, but better than during the first wave.

The simple fact is that economic activity has now become strongly correlated with the intensity of the pandemic and consequent government restrictions. The economy is performing as well as the COVID-19 situation permits. However, when we dig beyond the headline GDP number, we can find some pointers for government policy and the road ahead.

Composition Of GDP

There are two ways in which the National Statistics Office compiles the quarterly GDP. One is by adding up the sources of spending, and the other is the sum of value added by various sectors. On the spending front, while there have been concerns raised about slowdown of private consumption, as a share of GDP this item has been steady at a little over 55 percent. The good news is that private investment as a share of GDP has shot up from 24.4 percent (in Q1 of FY21) to 31.6 percent which is close to pre-pandemic levels. Clearly, the stock markets are on to something. Private investments could be picking up in line with rising net profits of large companies and in anticipation of festival demand.

Exports and imports have also increased as a percent of GDP compared to last year. While exports were helped by recovery in destination countries, the rise in imports is a good sign as it suggests restoration of purchasing power among the domestic buyers, including companies and government.

The weakness in the GDP story is very clearly government spending whose share has come down from 16.4 percent to 13 percent. Even though it is still higher than pre-pandemic levels, withdrawal of the kind of support we saw last year (Aatmanirbhar package) has hurt the economy. Had the government continued spending like it did during the first wave (on cash transfers, free food, NREGA), the GDP may have reached the pre-pandemic level, owing to the direct and multiplier effects of revenue spending.

Moving to output composition of the GDP, manufacturing and construction have made strong comebacks clocking 50 percent and 68 percent growth over Q1 of FY21. While the low base argument applies here too, what is heartening is that the rebound is visible across sectors from agriculture to services, including the much-impaired trade, hotels, transport and communication segment that grew by 34.3 percent.

What To Expect

There are some caveats to the above numbers. Many displaced workers have returned to the unorganised sector. The quarterly GDP estimates for the large unorganised sector as well as sectors such as agriculture, forestry, gas, water, kutcha construction, etc. are based on forecasts generated from trends of the past years. This means that the quarterly GDP estimates have significant scope of revision as better data becomes available by the year end. There is a good chance that 2021-22 may see double digit growth making India the fastest growing major economy once again, particularly if the vaccination pace continues, and the next waves are mild.

The uncertainty in economic activity will continue due to reasons such as global supply chain disruptions. There are reports of shortages in many inputs such as semiconductors and building material due to disruption in port activity related to cargo backlogs and intermittent lockdowns in various parts of the world. Then there is the uncertainty related to United States Fed taper and crude oil volatility.

Therefore, while growth is expected to pick up pace, the government must continue measures to stimulate demand through targeted cash transfers and improve business conditions on a continuous basis.

Q1 GDP signals weaker sequential growth momentum

India’s first quarter GDP (Q1, FY22) growth has been lauded by many as it came in at a healthy 20.1 percent (y-o-y) primarily aided by a very weak base of the last year, when the country was subjected to a strict nation-wide lockdown. However, the year-on-year comparison offered by a volatile time-series data is always illusory.

If one closely looks at the absolutes and the quarter-over-quarter variations in real terms (at constant prices), one sees a significant loss of growth momentum across almost all sectors of the economy. Except for agriculture and allied activities, a majority of the industrial sectors and services have fallen below their pre-COVID-19 production levels.

Also Read: Nifty snaps 7-day winning streak; here's why strong Q1 GDP print fails to cheer the market

Q1 GDP: India's economy grew 20.1 percent in April-June quarter; manufacturing sector the bright spot

Q1 GDP strong, but not strong enough to catapult economy to pre-COVID-19 levels

Q1 GDP data | Low base effect helps manufacturing sector growth soar but not reach pre-Covid levels

Even from the expenditure side, the levels of private final consumption expenditure and gross fixed capital formation (investment) are significantly lower in Q1, FY22 versus their pre-pandemic levels in Q1, FY20.

What is more worrisome is the reversal in trend that we have observed in the past three quarters. The economy's gross value added that had steadily improved in the previous three quarters witnessed a sharp dip in the first quarter of FY22, thanks to the localised lockdowns and targeted restrictions imposed by several states amid the deadlier second wave. Obviously, maximum sequential deterioration was seen in the contact-intensive sectors such as construction and 'trade, hotel, transport, communication & broadcasting' services. The only bright spot was 'exports' that reported a sequential expansion in Q1, FY22 thanks to a pick-up in the global trade activity.

It is also clearly seen that against the backdrop of elevated fiscal gap and high public debt, the central government is trying to control its revenue/consumption spending. In sequential terms (Q-o-Q), the 'value added' coming from the public administration, defence and other services, as well as the government's final consumption spending, has declined sizably between Q4, FY21 and Q1, FY22. The fact that the government is trying to control its revenue spending is also reflected in the sharp increase in the cash balances of the central government with the Reserve Bank of India (RBI).

The fact that the second wave had more adverse impact on 'demand' as compared to the first wave is clearly borne out by the national accounts statistics. The private final consumption expenditure that had steadily gone up sequentially in the preceding three quarters dipped by 17.4 percent (Q-o-Q) and the government consumption expenditure that had sequentially increased in the preceding two quarters declined by 7.6 percent (Q-o-Q) in Q1, FY22. Even investment demand (as measured by gross fixed capital formation) declined by 23.6 percent (Q-o-Q) in Q1, FY22 after showing a steady pick-up in the previous three quarters.

The latest quarterly GDP statistics vindicates the MPC's (Monetary Policy Committee) stance on August 6 to stay accommodative until growth impulses are nurtured to ensure a durable economic recovery. India's economic growth process is still quite uneven. Recent gains in economic activity have again taken a break in the latest week. Key high frequency indicators such as power generation and office visits have shown a dip again.

Recent surveys by the CMIE and the RBI reveal that consumer sentiments remain sticky at the low levels they fell to after the lockdown was imposed in March, 2020. Agriculture and rural belts are suffering from three major risks — massive disruption due to the COVID-19's second wave, uneven and patchy monsoon, and the slower pace of vaccination as compared to the urban areas.

There is also a risk of losing the export growth momentum due to the renewed surge in COVID-19 infections in several countries. While the improved pace of vaccination has rekindled hope, a spike in the Delta variant is likely to delay the timing of the recovery.

Against this backdrop, we don't expect policymakers to reduce policy stimulus or tighten the monetary policy in a hurry despite the build-up of cost push inflationary pressures. Unless accompanied by strong domestic demand, cost-push inflation alone will not generate a sustained increase in the overall price level.

We also need to learn relevant lessons from other countries that are learning to live with the virus. They have realised that rolling lockdowns and restrictions are a necessary part of economic recovery. They are encouraging people to change their pandemic mindset and focus on avoiding severe illness and death instead of infections, which are harder to avoid.

Under any circumstances we need to avoid the stringent lockdowns that will only postpone another surge unless the period is effectively used to vaccinate a large number of people.

Chemical stocks trade at high valuations. What should be your strategy for

Most chemical stocks have been enjoying a strong bull run in the last few years. Stocks such as Balaji Amines have surged as much as 343 percent in calendar year 2021 (CY21) so far.

Higher discretionary consumption has led to a steep rise in demand for specialty chemicals in Asian geographies like China and India, say experts.

Besides, the shift of global customers from China to other countries has augured well for the sector.

Focus shifts to India from China

“Post-COVID19, several downstream MNCs that used to import the bulk of their chemical requirement from China are now contemplating to supplement this supply from India and other countries to reduce their dependence on China," said Yogesh Patil, Senior Research Analyst, Reliance Securities.

“Capacity expansion and heavy investment by specialty chemicals on the R&D front and backward integration have boosted the segment," said Patil.

Most players reported better-than-estimated numbers for the June quarter of the current financial year, and managements are sounding optimistic, anticipating a strong domestic demand and export opportunities. Valuation concerns prevail but the sector is poised for gains in the long run.

Stellar gains of the stocks from the sector have given rise to concerns over lofty valuation.

Big wealth creator in last five years

Santosh Meena, Head of Research, Swastika Investmart, pointed out that the chemical sector has created great wealth for investors in the last five years and most stocks have risen manifold.

However, he underscored there is a concern about valuations in many such counters.

“Opportunities will be manifold over the next five years, thanks to an increase in outsourcing and divestment in the developed world due to rising cost pressure, better availability of feedstock, and import substitution," Meena said.

“This will lead to a meaningful increase in India's share in global chemicals but the sector can see some volatility, depending on how the pricing environment moves. Investors should remain selective because most companies will not be able to enjoy the current level of growth and margin," said Meena.

‘Near-term upside will be limited’

According to Likhita Chepa, Senior Research Analyst, CapitalVia Global Research, by 2025, this industry is expected to grow at a CAGR of 12 percent. The primary growth drivers for this sector will be robust domestic demand, rising import substitution, and strong export growth as global MNCs increasingly follow the 'China-plus one' strategy.

She also underscored that many stocks from this sector are trading at very high valuations which might limit near-term upside.

However, the long-term outlook of this sector appears to be stable, Chepa said, as the Asia- Pacific region is expected to dominate the market in the coming years, largely attributable to the huge production base concentrated in India and China.

Indian specialty chemicals space predominantly comprises products that meet the demand of pharmaceutical and agrochemical industries.

"With the consideration of long-term structural tailwinds for the specialty chemical sector in India, we have a positive view on the sector," said Patil.

Brokerage firm Edelweiss Securities is positive about strong growth across specialty chemicals players, driven by a solid sector tailwind and visible structural changes in the long run.

However, it also pointed out that valuations across the sector have been continuously getting expensive.

“As our long-term view on the sector remains positive, we have been continuously raising our valuation framework to capture favourable growth scenarios across the industry. In Q1FY22, post results, we have raised the P/E target multiple to 38-48 times from 38-42 times," said Edelweiss.

Stocks to buy

Meena's top pick from the sector is Deepak Nitrite, despite a sharp run. That’s because growth visibility is there with some comfort in valuations. SRF, Aarti Industries and PI Industries may also continue to do well, Meena said.

Chepa is positive on Deepak Nitrite and Navin Fluorine.

“One can expect a further upside of 12 percent in Deepak Nitrite in 15-18 months while Navin Fluorine can rise about 15 percent in the same period," said Chepa.

Aarti Industries and SRF are strong beneficiaries of capex-driven growth, while Galaxy Surfactant offers sustainable growth at a reasonable valuation, said Edelweiss Securities which has a buy call on all these three stocks.

It has a 'hold' call on PI Industries and Fine Organics.
"Though PI Industries will benefit from the recent acquisition of Ind-Swift Lab, the current stock price factors in large synergy benefits. Fine Organics will continue to face margin pressure over the next 2-3 quarters.

NCLAT ruling on spectrum could make resolution tough if Vodafone Idea files for bankruptcy

The National Company Law Appellate Tribunal (NCLAT)’s April 13 order in the Aircel matter has precipitated various issues which will have implications on financing of assets such as telecom spectrum and restructuring of corporate debtors entitled to use said assets. The case has added relevance at this point of time as Vodafone Idea battles for survival with Rs 1.8 lakh-crore in debt.

In the order, NCLAT has held that the spectrum – which a company can use after being granted a licence by the government — is an intangible asset, and as such can be subject to the Corporate Insolvency Resolution Process (CIRP) under the Insolvency and Bankruptcy Code (IBC). However, spectrum cannot be treated as a security interest capable of being enforced by lenders.

This ruling goes to the root of financing of companies entitled to the use of spectrum-like assets granted through a license from an authority. By holding that the spectrum cannot be treated as security interest of a debtor, this ruling could severely impact the ability of companies in industries such as telecom and infrastructure to raise bank debt.

The NCLAT's order is also contradictory. On one hand, it has classified all payments due to the authorities for using the spectrum as operational dues under the IBC. That means, the government will rank as an operational creditor in the pay out under resolution or liquidation. On the other hand, the NCLAT has said that the corporate debtor's right to use natural resources like spectrum and trading in such assets is subject to payments of requisite dues is contradictory.

NCLAT is of the view that any transfer of the license that may happen if they corporate debtor is acquired by a third party as part of an insolvency proceeding will only be permitted if the dues for such license are cleared. Thus, the spectrum cannot be utilised without payment of dues to the Department of Telecommunications (DoT), and the dues cannot be wiped off on account of the CIRP under the IBC. This condition will make resolution of similarly placed companies such as Reliance Communications and Vodafone Idea (if it has go the IBC route) difficult. Vodafone Idea owes the government Rs 96,270 crore in spectrum payment dues.

In a situation where no resolution is feasible, the corporate debtors will end up in liquidation. This would result in the spectrum vesting back in the authorities; however, the subsequent bidding processes by the DoT of the spectrum will get severely impacted as financers would be wary of such an asset.

The IBC is a framework that enables resolution of a corporate debtor as a going concern. Once a corporate debtor is admitted to the IBC, there is a moratorium that kicks in to ensure there is no adverse action allowed against the corporate debtor while the process of finding a resolution is underway. A resolution plan will need to factor in payment of dues to creditors as of the date of admission of the corporate debtor into the National Company Law Tribunal (NCLT). The resolution applicant offers a price to acquire the corporate debtor factoring in the overall assets of the corporate debtor, including the intangible assets such as the spectrum to discharge the overall liabilities in the manner as the Committee of Creditors (COC) deems fit or as per the waterfall set out under Section 53 of the IBC.

Post-admission of the corporate debtor into the NCLT, all costs incurred to run as a going concern forms part of the insolvency resolution process cost and needs to be paid on priority to the creditors. After the implementation of the resolution plan, all costs for running the corporate debtor will need to be borne by the acquirer. The dues of the authorities prior to admission of the corporate debtor is potentially subject to haircut.

However, by the above-mentioned NCLAT order, such dues need to be paid by the acquirer in full without any hair-cut bringing about a differential treatment.

Payments due to the authority despite being an operational creditor, is sought to be safeguarded, whereas all other operational creditors get monies in accordance with the decision of the COC or the waterfall under Section 53 of the IBC.

Thus, the DoT will receive all its dues and other operational creditors though in the same category as the DoT will take a hair-cut accorded to them as part of the CIRP. Further, the financial creditors who rank higher than operational creditors in the pay-out scheme under the CIRP will end up receiving amounts with hair-cut in most instances, and the authorities will receive all amounts due to it. This in effect prioritises pay out to the authorities over financial creditors, in disregard to a fundamental principle enshrined in the IBC.

This order will potentially have a far-reaching effect on all companies in the CIRP who have been granted a license by an authority (including public private partnership projects) as the authorities will now try to recover their dues which may render the resolution under the CIRP unviable. This, therefore, is now a subject matter before the Supreme Court.

With accredited investors, Sebi opens a new channel for raising finance

At its June 29 Board meeting the Securities and Exchange Board of India (Sebi) took firm though baby steps to introduce and recognise a new category of investors — the Accredited Investors — who are of high net worth/income. This should open up a new and wide channel of raising finance from informed and capable investors, particularly in areas where the present regulations are too restrictive.

Accredited Investors are expected to be sophisticated high net worth investors who do not need hand holding and micro-level protection by the regulator. They can evaluate complex, high risk/high return products/services and negotiate terms flexibly to protect their interests.

The Sebi's regulations generally are models of micro-management. Having seen small investors repeatedly suffering and, perhaps, also considering the reality of Indian markets, the rules in capital markets tend to provide for elaborate controls. Parties cannot, even by mutual agreement, waive such requirements. A portfolio manager, for example, cannot accept a client with less than Rs 50 lakh of investment, even if the client is well-informed/capable. They also cannot invest more than 25 percent of the portfolio in unlisted securities under discretionary management, even if client is agreeable.

There are similar restrictions on Alternative Investment Funds, Investment Advisers, etc. The result is needy issuers are deprived of funds and well-informed investors deprived of avenues with a potential of higher returns.

Sebi had initiated the process in February by issuing a consultation paper proposing a framework for Accredited Investors. While the regulations containing the fine print should be released soon, many of the details are known through the paper and in the summarised decision of Sebi as announced.

A person will be identified as an Accredited Investor on the basis of net worth or income. For example, an individual/family trust can be an Accredited Investor if their annual income is at least Rs 2 crore or net worth is at least Rs 7.50 crore, with at least half of it in financial assets. Or it can be a combination of at least Rs 1 crore annual income and a net worth of Rs 5 crore (with at least half in financial assets).

For other trusts, a net worth of at least Rs 50 crore can qualify them as Accredited Investors, while for corporates, a net worth of Rs 50 crore is necessary. Similar parameters are provided for non-residents. Government departments, developments agencies and Qualified Institutional Buyers, etc. would be Accredited Investors without any such minimum requirement.

Strangely, and unlike in some countries in the West, Sebi has not permitted educated/experienced investors to qualify as Accredited Investors.

Further, merely having a minimum income/net worth is not enough. A formal certification as an Accredited Investor is needed from certain bodies recognised for this purpose. Curiously, the certificate would be valid only for one year at a time, and will have to be renewed annually.

Persons who desire to provide financial products/advice to Accredited Investors will not only need to obtain a copy of these certificates from their clients, but will also need to additionally reconfirm the same. This seems a needless additional hurdle.

The paper proposes that the relaxation for transactions with Accredited Investors can either be with regard to minimum amount of investment or with regard to the terms of investments. For example, a portfolio manager can accept investment from an Accredited Investor for less than Rs 50 lakh but then will need to comply all the rules. To

get relaxation from rules, however, the amount to be invested would have to be higher than the prescribed minimum. This does not make sense as once a person is identified and certified as an Accredited Investor, it ought not matter what amount they invest and at what terms. But perhaps Sebi wants to go slow and learn from experience, and then make further relaxations gradually.

It will be possible to make tailor-made complex products for Accredited Investors with rules being considerably relaxed. This will help parties entering into flexible arrangements whose risks they are aware and find acceptable.

The new concept benefits intermediaries, investors and, indeed, the market. It should also result in availability of far more funds, from many more persons and by many more issuers. Today, many of such investments simply cannot happen because of protective legal requirements.

It is not clear whether issuers themselves would be able to raise investments directly from Accredited Investors. For now, the proposal seems to be to give relaxations only to intermediaries such as portfolio managers, funds and investment advisers. If so, this is a major lacuna.

There are some further concerns. Even if a person is an Accredited Investor, they may not always want to waive the regulatory protection. Care would have to be taken in the paper work/agreements to ensure that there is no inadvertent waiver. It is common, however, that investors end up signing the dotted line without reading lengthy documents containing fine print. This is even more important considering that the benchmark for being an AI is only financial and not of knowledge/qualifications.

The question is also whether Sebi would still be available as arbiter in case of malpractices or for disputes between Accredited Investors and issuers/intermediaries? Or will the parties have to approach civil courts which are expensive and time consuming? One hopes that at least in case of frauds, manipulations and the like, recourse to Sebi would still be available, as it continues to be an expert and generally swift-footed regulator.

With all the shortcomings and half-hearted approach, the decision is still a major reform in capital markets. Let us see whether and how these concerns and questions are addressed in the detailed regulations that Sebi is expected to release soon.

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