# MONTHLY OUTLOOK

# JUNE 2020

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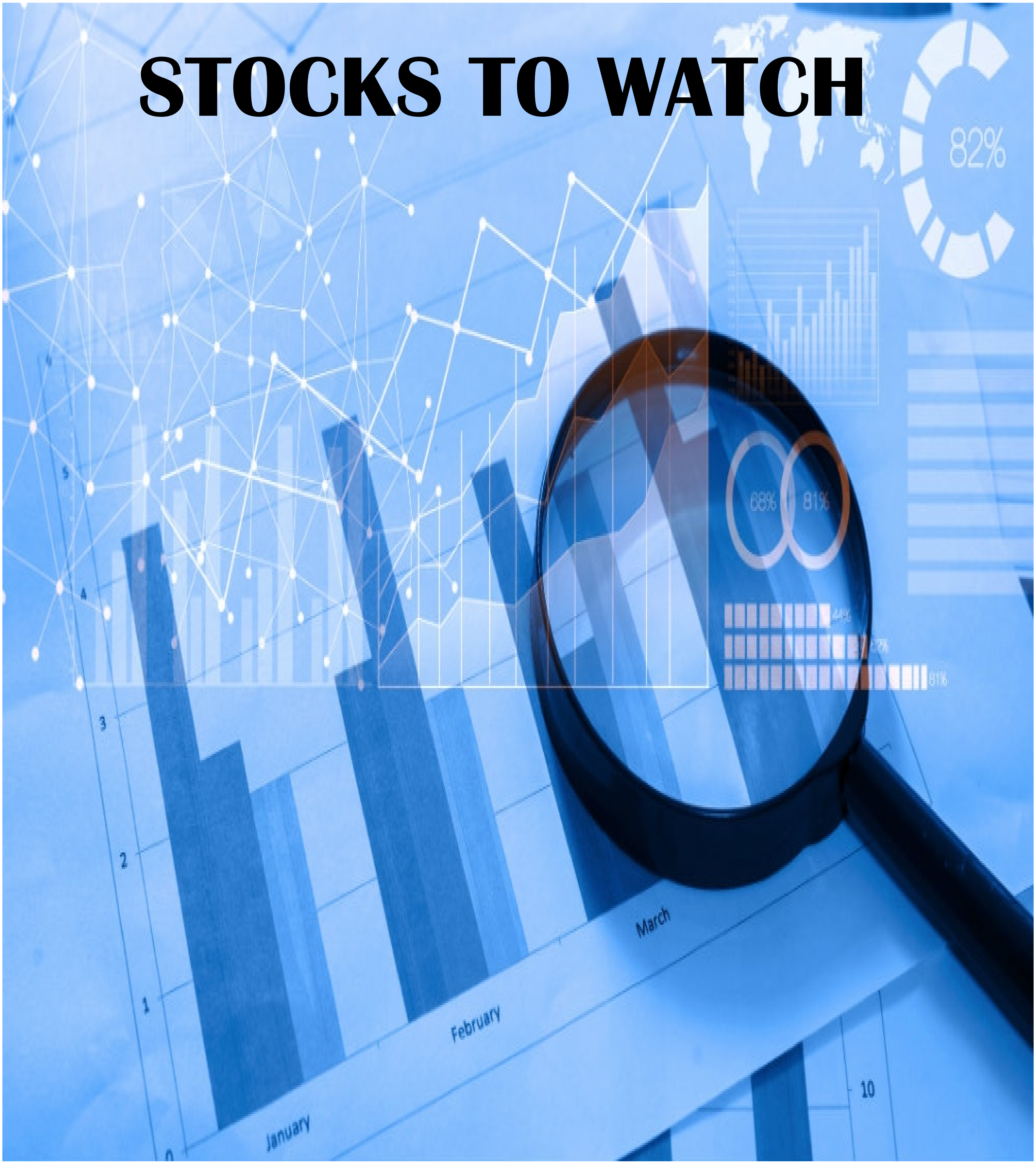
The long term charts are severely damaged and there is a high chance that the complete effect of corona Impact is not priced in hence a breach of swing low 7500 is possible. The current rally hasent picked up any volumes and very little open interest is build on rally in few counters. All other counters including index has shed Open interest which is long unwinding of people who entered at lower levels and the stuck longs getting a chance of break even. For the month ahead 10500-10600 zone will be a heavy supply zone and the current short covering rally should terminate at those levels. Incase of a close above 10600 there will be a review of current price action. On the expected line if there is any rejection of 10400-10600 zone with Increase in Volume and fresh funds committed on the downside the index will immediately challenge 9500 levels. Broadly 10400-10600 will a supply zone and 9900-9800 will be a demand zone for the month of June. Since it's a highly volatile market we wil closely watch the price action on a day to day basis.

श्री LAKSHMISHREE
Gateway to your Financial Goals

JUNE 2020

# STOCKS TO WATCH



# Amara Raja Batteries

| Current Market Price (Rs) | Target Price (Rs) | 52 week H/L (Rs) | Mkt Cap ( Rs cr) |
|---|---|---|---|
| 665 | 765 | 813.85/348.55 | 11,252.27 |

**Investment Rationale:** Amara Raja continues to be a formidable second player behind Exide Industries. Excellent franchise model and operational efficiency have enabled Amara Raja to deliver a strong performance, and the brokerage expects the momentum to persist. The FY21E EPS has been reduced by 8 per cent to Rs 33.6, due to reduction in revenue estimates, while FY22E EPS has been increased by 17 per cent to Rs 48.8, due to higher revenue and margin assumptions.

**Company Profile :** Amara Raja Batteries Limited (ARBL), the flagship company of the Amara Raja Group, is the technology leader and is one of the largest manufacturers of lead-acid batteries for both industrial and automotive applications in the Indian storage battery industry.

**Risk & Concerns:** Shift toward EVs remains a structural risk, penetration of electrical vehicles (EVs) could be gradual. Other risks are lower-than-expected growth in OEM/replacement demand in the auto segment, continuation of weak demand for telecom batteries, higher competitive intensity, and adverse currency/commodity prices.

**Financial Summary:**

| (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenue | 67,931 | 68,395 | 65,548 | 81,133 | 91,055 |
| EBITDA | 9,518 | 10,986 | 10,167 | 13,558 | 15,261 |
| EBITDA Margin (%) | 14.0 | 16.1 | 15.5 | 16.7 | 16.8 |
| APAT | 4,835 | 6,608 | 5,740 | 8,331 | 9,601 |
| EPS (Rs) | 28.3 | 38.7 | 33.6 | 48.8 | 56.2 |
| EPS (% chg) | 2.6 | 36.7 | (13.1) | 45.1 | 15.2 |
| ROE (%) | 15.4 | 18.9 | 15.0 | 19.4 | 19.7 |
| P/E (x) | 23.1 | 16.9 | 19.4 | 13.4 | 11.6 |
| EV/EBITDA (x) | 11.7 | 10.0 | 10.5 | 7.6 | 6.5 |
| P/BV (x) | 3.3 | 3.1 | 2.8 | 2.4 | 2.2 |

# Amber Enterprises India

| Current Market Price (Rs) | Target Price (Rs) | 52 week H/L (Rs) | Mkt Cap ( Rs cr) |
|---|---|---|---|
| 1437 | 1652 | 1695.00/750.80 | 4,668.71 |

## Investment Rationale

Amber Enterprises (Amber) reported strong performance in Q4FY20,though marginally lower than our estimate. Consolidated revenue grew 10% YoY while earnings dropped 6% YoY, given weaker operating performance due to lost sales to nationwide lockdown and forex loss. The consolidated performance during FY20 was aided by improved contribution from its subsidiaries. With a wide client base, Amber caters to 22% of the Room AC market in India.The company has started seeing initial success in its export strategy,which we believe not only de-risks the business model but also presents a much larger opportunity, as a part of the global supply chain

## Company Profile

Amber was incorporated in 1990 as "Amber Enterprises India Private Limited" in Punjab.Promoted by Mr. Jasbir Singh and Mr. Daljit Singh, the company is a complete solutions provider for most major brands in the (Room AC) RAC industry in India. Not only does Amber act as an OEM/ODM for RACs, which include Window AC (WACs), In-door Unit (IDUs), Out Door Units (ODUs) of Split AC (SACs), it also designs and manufactures Inverter RACs, RAC Components, which include heat exchangers, motors, inverter and non-inverter printed circuit boards (PCB) and multi-flow condensers, and non AC components for consumer durables and the automobile sector.

**Risk & Concerns:** Exposed to the fluctuations in FX and commodity prices.

Aggressive marketing and promotional Startegy by the competition.

Decrease in customs hikes on imports

## Financial Summary:

| | New Estimates (Rs Mn) | | | Old Estimates (Rs Mn) | | | Change in Estimates (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY20 | FY21 | FY22 | FY20 | FY21 | FY22 | FY20 | FY21 | FY22 |
| Sales | 39,628 | 35,482 | 48,178 | 40,893 | 48,441 | 57,224 | (3) | (27) | (16) |
| EBITDA | 3,093 | 2,856 | 4,481 | 3,382 | 4,069 | 4,807 | (9) | (30) | (7) |
| Margins (%) | 7.8 | 8.1 | 9.3 | 8.3 | 8.4 | 8.4 | | | |
| Net Profit | 1,641 | 1,162 | 2,467 | 1,551 | 2,012 | 2,776 | 6 | (42) | (11) |

JUNE 2020

# CHANGES TO WITNESS

# The IMF on what pushes portfolio flows to emerging markets

Do foreign fund flows to emerging markets depend on financial conditions in their parent countries, or on growth prospects in emerging markets? Are there different rules for debt and equity flows? Do different rules apply during periods of stress? Do volatile fund flows affect financial stability? These are some of the questions considered by the International Monetary Fund's recent Global Financial Stability Report.The IMF first puts the portfolio flows in the context of a prolonged period of very low interest rates in the advanced economies, which has resulted in strong portfolio inflows into risk assets, including emerging and frontier b bmarkets. This has contributed to stretched valuations.Let's consider flows into the debt markets first. What changes the risk-adjusted returns of debt flows in favour of emerging markets? A lower Vix, which indicates lower volatility, lower US Treasury yields and a weaker US dollar. But there are differences in the way these individual factors operate. Higher yields and a stronger USD don't necessarily mean high outflows, but lower yields and a weaker USD are far more likely to result in strong inflows into emerging markets. In contrast, says the report, the level of risk aversion among global investors — measured by the VIX — affects the outlook for strong and weak flows more or less equally. Incidentally, the spike in the Vix in March this year, on account of the COVID-19 crisis, led to a huge outflow from emerging markets, while a lower Vix has now led to some flows coming back, both in the equity and debt markets. Of course, during times of stress or euphoria, global conditions are far more important than during more normal times.Stronger domestic fundamentals reduce the chances of outflows from the debt markets, but do not necessarily lead to strong inflows. Higher external vulnerabilities, such as large current account deficits during the Taper Tantrum in 2013, or a high level of short-term foreign currency debt relative to international reserves, are linked to a larger likelihood of negative or weak debt inflows.And finally, deeper domestic financial markets improve the outlook for debt flows.The factors that push equity portfolio flows are different. For one, they are less sensitive to global factors than debt flows. A stronger USD does weaken inflows into equities over the short-term, but the effect is far less than for debt flows. Next, higher growth in the domestic market increases the likelihood of strong equity market inflows to a much greater extent that for debt inflows, for obvious reasons — corporate earnings go up when the economy does well.How will COVID-19 affect fund flows to emerging markets? The report says the COVID-19 shock has considerably weakened the outlook for debt inflows. It says lower growth is likely to lead to weak or negative flows, while tightened global financial conditions reduce the likelihood of large inflows, at least in the near term.For equity flows, it predicts, 'In the context of the COVID-19 crisis, weakened growth prospects for emerging markets will worsen the outlook for equity portfolio flows more than for debt portfolio flows.'But then, global central banks have ensured that financial conditions remain very loose. The big question for equity investors is: will the excess liquidity in global markets more than offset the fall in growth in emerging markets? The IMF report says, 'Decisive monetary and fiscal policy actions, aimed at containing the fallout from the pandemic, have stabilised investor sentiment.' The Vix is back to levels it was at in late February this year, the US Dollar index is now lower than where it was last September and US bond yields are very low. All this is supporting risk-on sentiment, some of which is spilling over into emerging markets. But with hardly any fiscal stimulus, the hope rally in the Indian markets has no backing from the fundamentals.

# Why risk on sentiment is back in the markets?

It's time to revisit our periodic look at the correlation between the liquidity unleashed by central banks and stock prices. The last time we looked at it was over a month ago.


Note: QE1 (11/25/08) = Fed starts buying $1.24tn in mortgage securities. QE1 expanded (3/16/2009) = Fed starts buying $300bn in Treasuries. QE2 (11/3/10) = Fed starts buying $600bn in Treasuries. QE3 (9/13/12) = Fed starts buying $40bn/month in mortgage securities (open ended). QE3 expanded (12/12/12) = Fed starts buying $45bn/month in Treasuries. Fed terminated QE net purchases (10/1/14). Fed reduced holdings (10/1/17-9/30/2019). Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

Now that the S&P 500 is higher from a year ago, while the Nasdaq is higher year to date, this could be an appropriate time to revisit the correlation.The chart shows that the total assets of the US Federal Reserve, the European Central Bank and the Bank of Japan have seen a massive rise as these central banks threw everything including the kitchen sink at the covid-19 crisis. As the chart indicates, the S&P 500 has followed this huge spike in liquidity very closely. Note that, unlike in the financial crisis of 2008-09, the bounce in the markets off the lows has been very swift, because the

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# Should we celebrate the rise in the number of Demat accounts opened during the Lockdown?

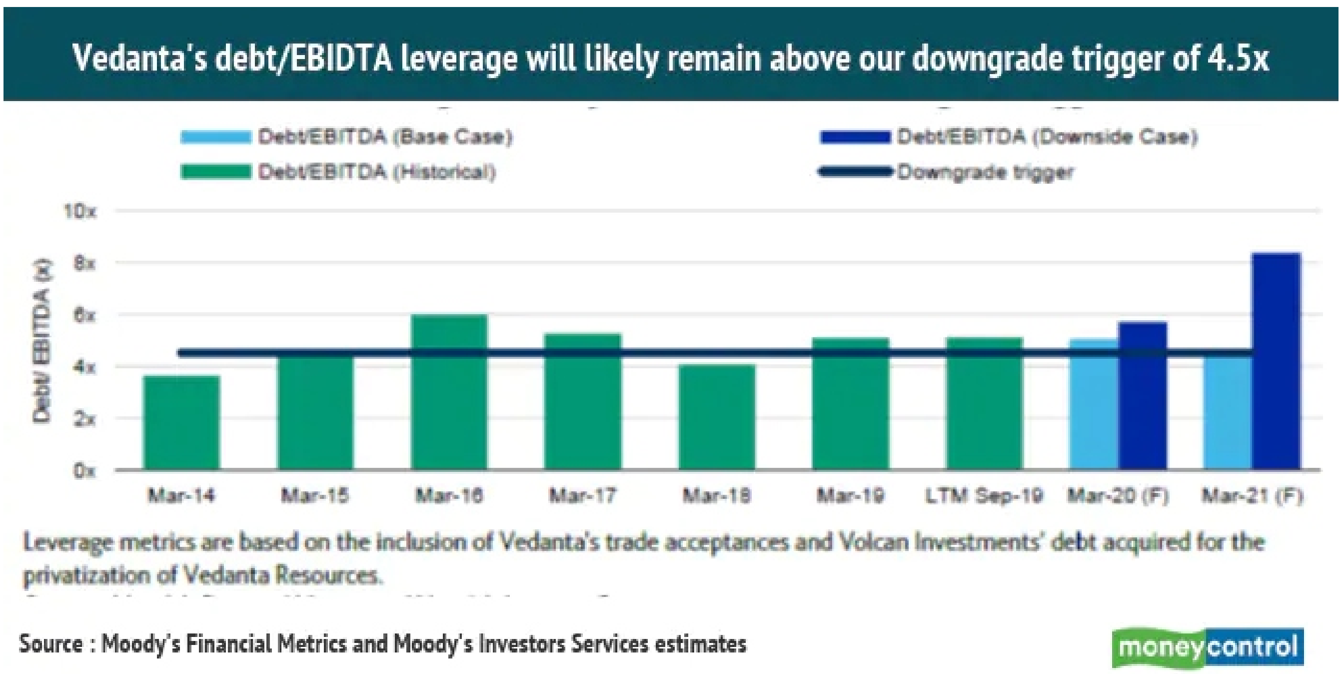
Very few sectors in India and across the globe have benefited from the lockdown. But two sectors that are showing noticeable growth are telecom and broking. Growth in the telecom sector was expected on account of increased usage of the internet for entertainment. But growth in broking accounts was a surprise, especially since the market had seen the worst fall in a decade before the lockdown hit us.Reports quoting data from the Central Depository Services (India) Ltd (CDSL) say that about 1.2 million new accounts were opened in March and April 2020. This is higher than the 900,000 accounts opened in the first two months of the year.The top broker in the country – Zerodha-- has seen monthly account openings double since February. Other brokers too have seen a similar rush in account opening. To the brokers' credit, they used technology efficiently and adopted a completely online method of opening accounts, thus avoiding any face-to-face interaction with prospective clients.While the broking industry has seen a sharp rise in account opening, new folio addition in the mutual fund industry has also gone up to 7 lakh in a month. Why this addition has not made headlines is because the addition is in line with the averages seen over the past few months.So does the slower addition of mutual funds folio as compared to new broking accounts suggest people are willing to try their hand in the market rather than trust a fund manager? Given the performance of all equity-based funds and portfolio management schemes (PMS) over the last few months, one cannot be blamed for some disenchantment with mutual funds.Thus fence-sitters who always wanted to invest in the market used the work-from-home opportunity to open an account. The media report says that most of the first-time accounts were opened by those under the age of 30 years. Only time will tell whether these are the sacrificial lambs rushing to the market or future fund managers. But history suggests the route leads to the slaughter houses.With nothing but time in hand and limited avenues to spend money, markets provide the thrill as well as an avenue to earn money. With no entry barriers and a plug-and-play opportunity, trading or investing becomes the easiest choice for many, especially since it is possible with a few clicks on a keyboard or on the mobile.Though the entry barrier in the markets is very low, staying on one's feet, let alone succeeding, is a completely different ball-game. Opening a demat account is inconsequential in the scheme of things.Dr Alexander Elder, trader, psychiatrist and author, calls trading as the most dangerous human endeavour, short of war. The fact that less than five percent of traders survive over a long time and less than one percent are really successful indicates that the new traders are in for a rough journey ahead.New traders and investors are joining the market at a time when the smartest investor – Warren Buffett-- has been selling his shares. That could be a recipe for disaster. There is uncertainty across the globe with companies and governments unable to tell when economic activity will recover.Companies have shied away from giving guidance and are generally not talking of investments going forward.But here we have a record number of newbies coming to the market with the hope of making a fast buck. Trading is a zero-sum game. The money will move from those who are testing the waters to those who rule these waters.There is nothing to celebrate the record opening of new broking accounts. Especially worrying is the fact that people who have lost their jobs are turning to the markets to earn sustenance money.In earlier market cycles new account additions picked up near the top of the cycle. The current one is closer to the lows. It's also possible that the recovery over the past two months pulled in new traders in the hope of catching the bottom and riding the rebound. But unless the new account holders learn the art and science of trading and investing they are fodder for the professionals. Only those who have the tenacity, the willingness to learn and the money to be in the game for the long-term will survive.

# Indian companies can learn from their Chinese counterparts in raising capital from the US

In the name of a stimulus package, one of the announcements the finance minister Nirmala Sitharaman made was allowing Indian companies to list in the overseas market. Indian companies will be allowed to raise money by directly listing their shares abroad.This announcement is not something that the finance minister thought of during the lockdown but one that was gathering dust since December 2018. After years of deliberation, a Securities and Exchange Board of India (SEBI) panel in December 2018 suggested that listing Indian companies who want to raise money from other exchanges would require simultaneous easing of provisions of taxation and Foreign Exchange Management Act (FEMA), among others.Many laws would need to be amended before Indian companies begin to look at other shores to raise capital. Sitharaman said that direct listing of securities by Indian public companies would be allowed in permissible jurisdictions.The SEBI panel had suggested 10 overseas jurisdictions, including the US, the UK, China, Japan, South Korea, and Hong Kong as these jurisdictions are part of the Financial Action Task Force, the global anti-money laundering group, and International Organisation of Securities Commissions (IOSCO). While the Indian government is still contemplating how to ease restrictions, China has been using global capital to fuel its growth for nearly a decade. There are over 150 Chinese companies listed on the US exchanges with a market capitalisation of $1.5 trillion. At its peak, Chinese IPOs constituted 20 percent of all new issues in the US. The largest IPO in US history till 2014 was from a Chinese company – Alibaba when it raised $20 billion.What is it that attracts Chinese companies to the US rather than other markets? Alibaba, for instance, raised $11.2 billion through a secondary listing in Hong Kong, five years after it raised money in the US markets. The point is that the US is the first port of calling for Chinese companies. Apart from the status of being a US-listed company, Chinese entrepreneurs find a lot of value and reason to list on the Nasdaq and NYSE.Indian companies need to look at how Chinese companies have leveraged the US market to raise money but operate in their own country.One reason for listing in the US that is common in both China and India is that the government and market regulator are fixated with protecting the retail investors. In the process of doing so, they have created so many entry barriers that it makes sense to raise funds from where it is easily available without the compliance headache. The US is the best place that meets the criteria.Both India and China allow only those companies to be listed on the main exchanges that are profitable over the past few years, have a minimum balance sheet size and have an established track record. Most of the new generation capital-starved companies such as those in the internet, e-commerce, technology, biotech and start-ups space prefer the US market which has more relaxed rules.Take a company like Baidu, which would have to wait for years before turning profitable and become eligible to get listed on the Chinese market. It's because of the money it could raise in the US market that the company could reach the levels it has now.Apart from the entry barrier, the listing process in China and again in India is cumbersome and time-consuming. Both the markets are over-regulated with restrictions for shares a large investor can hold.Freedom of operation has been another reason why Chinese companies preferred raising money from the US market rather than go to private equity players who come with their own set of rules that restricts their operational freedom. Further, if there are private equity players invested in a Chinese company, they prefer an exit -- full or partial in the US or any other international market rather than the Chinese market.However, the current tension between the US and the Chinese government has caused Chinese companies to look at the UK, Hong Kong among other countries. The US regulator has already imposed certain restrictions to discourage Chinese companies from raising money.For Indian companies, especially the new generation ones, the reasons to list abroad are similar to those their counterparts faced in China. It's probably because an Alibaba and Baidu could raise big capital from the US market that they have reached the levels where they are, while no Indian company is even close to their size.Though the Indian government has allowed companies to raise capital from abroad it will be sometime before legislations are put in place. The opportunity to raise a good amount of capital exists but a word of caution is in order.Indian companies, in the listed space, have exploited this freedom in the past when they raised money indiscriminately. Some of them have brought a bad name to the country when they raised money at an obscene valuation using the Foreign Currency Convertible Bond (FCCB) and then defaulted on repayments. Similar misadventures will close the window of opportunity that is opening up.

# Vedanta's de listing bid is all about the money

On the day that Vedanta announced its promoter's intention to delist the company, its own subsidiary Hindustan Zinc announced an interim dividend of Rs 16.50 a share paying out Rs 6,972 crore to shareholders. While these are unrelated developments, they are linked in some ways too.Vedanta Resources said that the delisting is an effort to simplify the group's structure. But in 2018, when Vedanta Resources was taken private by its holding company Volcan, the logic then too was to simplify the group structure. Among reasons given then were that India's capital market was deep enough now and investors could invest in India-listed Vedanta directly if they wanted to.Barely three years later Vedanta's promoters want the flagship delisted in another attempt at simplification. What will this simplification achieve? Volcan owns 100percent of Vedanta Resources which will now own 100percent of Vedanta (if delisting succeeds) compared to its current 50.1percent. That gives the Anil Agarwal-owned group full ownership of all its holding companies. But this does not still simplify matters as it is still left with three holding companies. What it may do is free Vedanta from its obligations as a listed company, however.What it does do is give Vedanta Resources all of the money paid out to shareholders, such as dividends and buyback proceeds, for instance. It also does not have to answer to anyone else on how it manages Vedanta's financial affairs. A few things may have coincided to precipitate matters. Debt at the group level has become a big problem and the COVID-19 pandemic's impact has made it bigger. Moody's had recently put Vedanta Resources's corporate family ratings under review for a possible downgrade. A final decision, however, has not been announced yet. But in a credit opinion issued after this review announcement, Moody's had sketched out a scenario where a sharp fall in oil and base metal prices can affect Vedanta Resources's financial metrics till fiscal 2021 at least. It talks about $1.9 billion of debt maturing by September 2021, to which it has added Volcan's $625 million privatisation debt and then the annual interest expense of $500 million and regular dividend payments are also to be met.The chart alongside shows how an anticipated drop in its Ebitda can adversely affect Vedanta Resources' metrics in a downside scenario. How does a delisting proposal fit into this?




Essentially, it appears that Vedanta Resources has to raise enough money to service its debt. A deteriorating business environment may affect the ability of Vedanta to get dividends from its subsidiaries. In turn, this will affect its ability to pay dividends to shareholders, including Vedanta Resources. Since Moody's anticipates such a scenario playing out, that means Vedanta Resources needs to raise cash.One option is to sell some equity in Vedanta Resources but the promoters may not want to do that, having just recently taken the company private. Another option is to pledge some of its holdings in Vedanta and raise cash.

But this is not easy. Pledging has proved to be a red flag for investors and it can affects valuations of Vedanta. Secondly, the deteriorating business environment has seen Vedanta's valuations decline significantly, which means raising money might entail pledging more shares than it may be comfortable with. After all, listed Vedanta is the flagship and it will not want its shareholding to fall below 50percent in the event of pledged shares being invoked, however slim that risk may be. Vedanta can lend the money to the parent company but this will upset shareholders, as it has in the past. They want Vedanta's cash to be used for its own business purposes only and any such moves can affect its valuations further.Vedanta's market capitalisation is at Rs 33,530 crore, having fallen by 40percent over its level six months ago, whereas its consolidated balance sheet boasts a net worth of Rs 82,477 crore as of 30 September and fixed assets amount to Rs 118,499 crore. Of course, it had borrowings of Rs 45,561 crore as well.Some of its assets are not generating income, such as its copper smelter at Tuticorin and its Goa iron ore mines. In a deteriorating economic environment with commodity prices falling, shares of resources' companies are hit hard. But even then, consider this. Vedanta's 65 percent stake in Hindustan Zinc alone is valued at Rs 50,600 crore. There's also a holding company discount factor at play affecting Vedanta's valuations.Therefore, the fall in valuations is an opportunity for the promoters as well, because in the long run the value of these assets remains intact. If it gets full control, it can also leverage Vedanta's balance sheet to raise more money and use it to meet its own financial commitments. Why, it may even contemplate merging Vedanta and Vedanta Resources in some form, since the underlying operating assets are in Vedanta's books.Still, the question remains of how will Vedanta Resources, already weighed down by debt, fund the delisting? At current levels, it has to pay about Rs17000crore to acquire the balance stake in Vedanta. It will probably arrange for some short term funding which should not be difficult, considering that it will get full control over valuable assets, if the delisting succeeds. Its cash inflows too will improve, improving its ability to service debt.Take the Hindustan Zinc dividend payout, for example. As of now, of the Rs 6,972 crore dividend payment, 65 percent or Rs 4,531 crore will go to Vedanta, which in turn will pay 50percent of this to Vedanta Resources. Instead of the 33 percent of HZL's dividend that Vedanta Resources gets now, it can get 65 percent. Secondly, it can pledge its stake in Vedanta to raise cash or even borrow from it directly, without fearing a backlash from investors. Thirdly, this structure should give more comfort to rating agencies as its share of dividends increase and its ability to monetise its investments will improve too. If the two entities merge, then it will be a true simplification of the structure as well.But delisting at the current price may seem unfair to investors as they are being offered an exit price in a recessionary environment. Yet again, this could play differently. When forced to put a value on Vedanta, as happens during a voluntary delisting process, investors may mark up its shares significantly to bring it closer to what they perceive is its fair value.In turn, that could reset valuations as Vedanta's market price should then trade above its current levels and closer to the discovered price. At that time, Vedanta Resources has the option to walk away from the delisting process. It can also pledge a smaller slice of its shares to raise money for the parent. By then, the current situation may have improved and commodity prices may look better. That would then mean that cash flows from the operating businesses would be healthier than expected and Vedanta Resources' debt servicing capability should improve. The rating agency concerns on the financial profile will also abate.Of course, there's a possibility that the situation may continue to remain uncertain and commodity prices may suffer for longer. In that case, the delisting offer may well go through. Will that mean the end of the Anil Agarwal group's listed journey? No. HIndustan Zinc remains as a listed jewel and the government may at some decide to sell its stake to them as well. That may mark the start of a new journey then.

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