श्री LAKSHMISHREE
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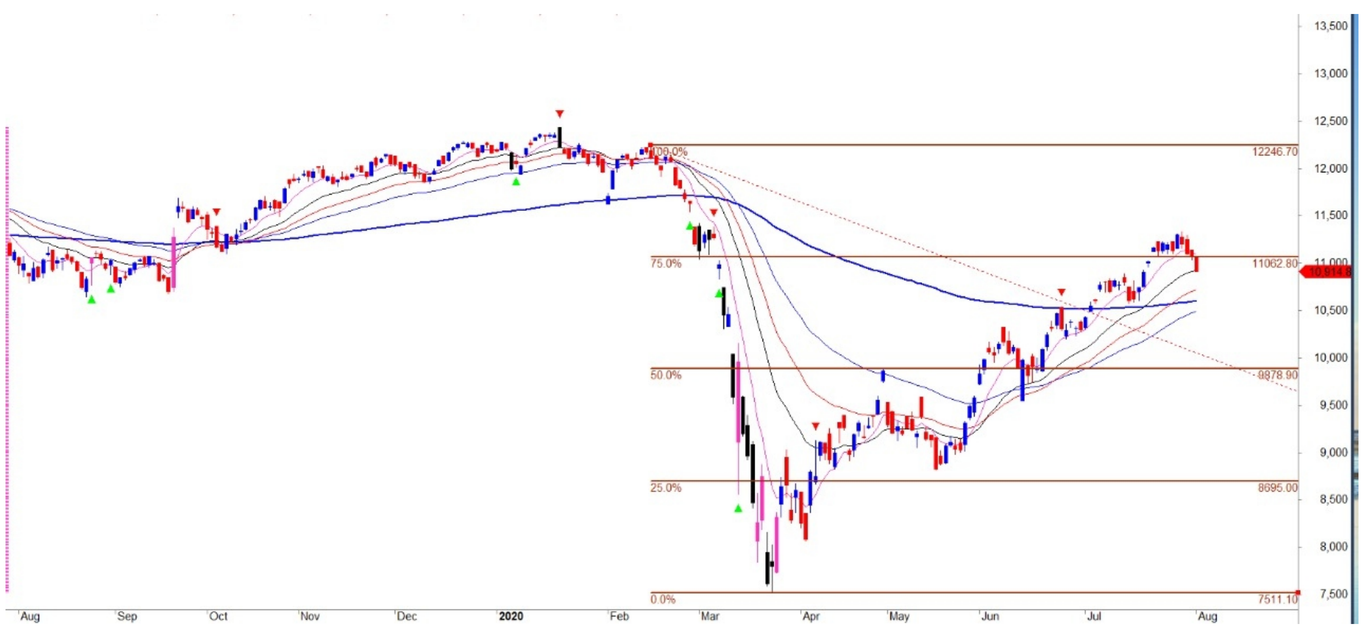
MONTHLY OUTLOOK
August 2020

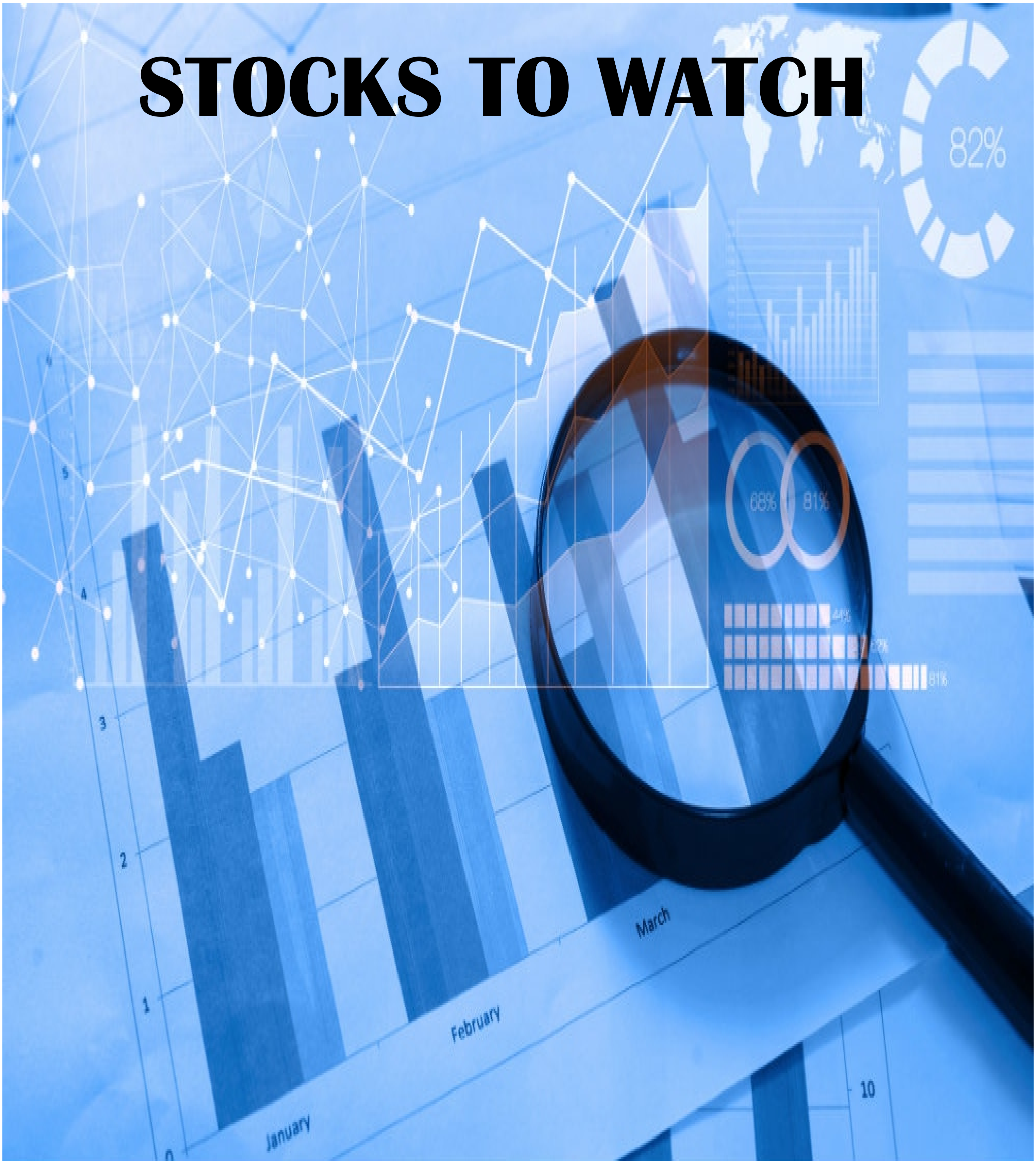
MONTHLY OUTLOOK FOR AUGUST 2020

The index after a sharp sell off in March has sustained above the swing lows and has done 75% retracement of entire fall . after a brief consolidation the index is below 75% retracement levels of 11062. For the current month 21800 remains a key levels and if index breaches and sustains below 21800 the index will head to test 200smaaround 10550 level.On the upper end 11060 to 11400 will be the key for bulls and for any upside momentum to sustain the index has to breach and sustain above 11400.On the rallies if there is any failure then downside can extend to 10550-10600 zone. Hence we have a sideways to neutral bias until unless it trades outside the support and resistance band.



AUGUST 2020

STOCKS TO WATCH



Bandhan Bank Ltd.

Current Market Price (Rs)	Target Price (Rs)	52 week H/L (Rs)	Mkt Cap (Rs cr)
306.90	**353.90**	**650.00/152.20**	**49,419.79**

Investment Rationale:

Bandhan has delivered a 40% CAGR in retail deposit growth over 1QFY18-1QFY21.

Bandhan has been a big beneficiary of a shift in market share from SOE banks to private banks in the last few years

Bandhan's strong performance, particularly in the current environment,has arguably changed the thesis from a microfinance-focused bank to a strong liability franchise

Company Profile

Bandhan Bank Ltd. is an Indian banking and financial services company headquartered in Kolkata, West Bengal.Bandhan Bank is present in 34 out of 37 states and Union Territories of India. Presently Bandhan Bank has 4,559 banking outlets pan-India serving more than 2.03 crore customers.

Financial Summary:

Annual	MAR 2020	MAR 2019	MAR 2018	MAR 2017	MAR 2016
Interest Earned	10,885.49	6,643.37	4,802.30	3,908.71	1,581.36
Other Income	1,549.20	1,063.05	706.18	411.41	149.89
Total Income	12,434.70	7,706.41	5,508.47	4,320.12	1,731.26
Total Expenditure	6,988.13	3,958.22	3,078.37	2,527.21	1,264.45
Operating Profit	5,446.57	3,748.19	2,430.10	1,792.91	466.81
Provisions & Contigencies	1,393.15	735.13	374.21	88.44	53.30
PBT	4,053.42	3,013.06	2,055.89	1,704.47	413.51
Tax	1,029.68	1,061.55	710.34	592.52	138.26
Net Profit	3,023.74	1,951.51	1,345.55	1,111.95	275.25

IDFC Bank Ltd.

Current Market Price (Rs)	Target Price (Rs)	52 week H/L (Rs)	Mkt Cap (Rs cr)
26.80	30.80	47.95 /17.65	15,173.52

Investment Rationale:

Loans under moratorium reduced to 28% from 35% earlier but still remained elevated when compared to other private banks,especially with a high proportion in the wholesale segment

Credit costs were higher than GSe as the bank made further COVID-related provisions of Rs3.8bn, which implied cover on loans under moratorium was c.2.5%.

Weak loan growth (-5% yoy) as disbursements(especially retail) were significantly impacted for the majority of the quarter.

Company Profile -

IDFC First Bank (formerly IDFC Bank[4]) is an Indian banking company with headquarters in Mumbai that forms part of IDFC, an integrated infrastructure finance company. The bank started operations on 1 October 2015. IDFC FIRST received a universal banking licence from the Reserve Bank of India (RBI) in July 2015.On 6 November 2015, IDFC Bank was listed on BSE and NSE

Financial Summary:

Annual	MAR 2020	MAR 2019	MAR 2018	MAR 2017
Interest Earned	16,240.32	12,204.02	9,098.47	8,578.28
Other Income	1,722.41	938.64	1,119.87	1,019.10
Total Income	17,962.72	13,142.66	10,218.34	9,597.37
Total Expenditure	15,993.07	14,833.87	8,922.86	7,847.58
Operating Profit	1,969.65	-1,691.21	1,295.48	1,749.79
Provisions & Contigencies	4,315.56	1,518.35	160.31	236.06
PBT	-2,345.91	-3,209.56	1,135.17	1,513.73
Tax	497.49	-1,329.55	179.69	450.99
Net Profit	-2,843.40	-1,880.01	955.48	1,062.74

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CHANGES TO WITNESS

Indian Investors should expand their horizons and explore other markets

The Covid-19 led lockdown has not only helped Indian brokers add more clients but the phenomenon is true worldwide. People locked down in their homes seem to have discovered stock market trading. What's more, many Indian traders are now investing in the US markets. With the government easing rules for investing in international markets a few years back, these traders found an avenue to do so.The law of the land allows an individual to remit up to $250,000 overseas, which includes for investment purposes. However, the facility has not been adequately utilised over the years.Media reports say that established Indian brokers are now offering the services which allow an individual to trade in the international market. This brings us to the question: should Indian investors look at the overseas market?A report says that most of the Indians who are trading in international markets are millennials who are mainly investing in the information sector, one which they understand better and can gauge the potential of the opportunity.There is no point in denying these investors a chance to earn money. In any case, these millennials know that Indian listed companies are nowhere close to the top US companies, both in terms of size and technology.Our companies are the back-room boys for most of the top technology players listed in the US. For someone who understands technology, it is better to invest in the final product than in Indian players who are still largely doing back-room work and work on thin margins. For example, tech stocks in the US have been making new highs despite the pandemic.The same logic goes for other sectors. If an investor wants to participate in a consumer company that has presence across the globe, he has no such opportunity to choose from in India. There are barely any Indian companies in the Fortune 500 list apart from those in the energy sector.In a digitalised world where money and ideas are no longer bound by physical boundaries, it does not make sense to restrict an investor or trader.Then there's the diversification argument. While Indian companies have traditionally had far higher valuations because of their growth prospects, that may change due to the pandemic, simply because the monetary and fiscal stimulus given to the economy and to companies has been far higher in many other countries. Even if that doesn't happen, the point is that Indian investors could benefit from the opportunities offered for diversification of their portfolios.In fact, there are Indian traders who have migrated to test their skills in the international markets where the cost of trading is low and leverage is high. This is one of the reasons why traders increasingly prefer to trade Nifty in the round-the-clock Singapore market than in India.Moreover, international markets have many more financial products, thus offering more opportunities.The fear that Indian investors are not smart enough to start buying shares in the US market or for that market any market is of course unfounded.A trader or an investor knows the risks involved in participating. If he can analyse company financials or take trades based on technical analysis, there is no reason why he should not be in the markets offering best returns. The tools of the trade remain the same in any market. Matured markets like those in the developed world are more liquid and less costly to transact. Further, their governments find financial markets to be an integral part of the economy, unlike ours where traders and investors are considered as taxable assets.While Indian investment abroad is just picking up there are mutual funds in India which for a long time that have schemes which offer investors an opportunity to invest in other countries. No prizes for guessing their performance, but the point is access to the international market is available. Indeed, some mutual funds have benefited from their foreign investments, especially in the tech sector.Finally, if NRIs can invest in India while staying abroad, their country cousins should also take the opportunity to trade in other markets.

Should India use forex reserves to recapitalise banks or fund infrastructure

With India's foreign exchange reserves crossing $500 billion, the question has again resurfaced on whether the country is holding excessive reserves, which can then be put to alternative uses such as recapitalising banks, for instance. While the idea is not without merit, from an emerging market's point of view, are reserves ever enough?Adequacy is measured as a function of whether reserves are enough to cover for imports and repay the country's external debt if it can't be refinanced. At the end of March, India has enough forex reserves to cover short-term debt maturing in the next year twice, show RBI data. Similarly, reserves currently are enough to cover almost 15 months of imports because oil prices have fallen, points out Bank of America Merrill Lynch.At least on a quantitative basis, reserves seem to be quite adequate. There is also a cost of holding these assets. Mostly these are held in the form of government securities of developed nations or deposits in foreign central banks which yield negligible returns.This has clearly spurred calls for using RBI's reserves (forex reserves are a part of this) to recapitalise banks at a time when governor Shaktikanta Das wants banks to have capital over and above minimum buffers prescribed by law. This was an idea first floated by former chief economic advisor Arvind Subramanian but was shot down by then RBI governor Raghuram Rajan. Another popular idea is to consider spending these reserves to boost infrastructure.But two things need to be considered here.One, foreign exchange reserves also hold a symbolic value. They go much more than providing import cover and debt repayment cover. They build confidence around the country and its resilience to external shocks which in turn leads to more foreign capital inflows, thus setting off a virtuous cycle.

Moreover, during the times of crisis they provide RBI an arsenal to defend the currency and keep the exchange rate stable.In the past decade, the rupee has come under attack thrice – in 2011, 2013 and 2018. It can be argued that the Reserve Bank of India's alacrity in building reserves since India was dubbed one of the Fragile Five currencies in 2013 has contributed to the rupee's relative resilience. RBI has been focused on building India's reserves position to current level of over $500 billion after the 2013 attack. India's forex reserves have increased by 80 percent since June 2013, outperforming all other Fragile Five peers except for South Africa (93 percent).Thus, since that episode in the summer of 2013, the rupee has outperformed its Fragile Five cohorts (South African rand, Turkish lira, Indonesian rupiah and Brazilian real) comfortably. The rupee has depreciated by a bout 24 percent compared to the 46 percent for the rupiah or 257 percent for the lira. Second, the quality of reserves and how they were built also matters in addition to their quantity. The good news here is that foreign direct investment has contributed in a large measure over the past several years. But then almost a third of reserve accretion in the last financial year was from external financial borrowings, which have the risk of refinancing.One key reason why we were able to add reserves (apart from falling oil and import curbs) is global liquidity that has been sloshing around ever since the taps were opened to combat the great financial crisis of 2008. But a lot of it is fickle money which will turn tail at the slightest sign of trouble. That will happen irrespective of faith in India's economic potential as a market of 1.3 billion people.It is here that reserves matter in giving confidence to investors. Also, it would be instructive to remember what happened to China in 2015 when it had to run down its reserves by $512.66 billion to stabilise the currency after a surprise devaluation roiled markets. At a time when the pandemic still represents a huge unknown for the markets, India should save its reserves for a rainy day and not put it to alternative uses.

Why $40 Brent is an important barrier for oil prices

Oil markets are interestingly poised at the $40 a barrel mark and have been hovering around the area for nearly two months now.The price attempted to break out of the level after the oil cartel OPEC decided to reduce production cut from August 2020 onwards. Bullish data from the Energy Information Administration (EIA) which showed U.S. crude oil inventories dropping by 7.5 million barrels in the week to July 10 failed to take oil prices higher. At current levels, crude oil inventory in the US is still 17 percent above the five-year average.These high levels of inventory continue, even though only 253 oil rigs are operational in the US as compared to 954 rigs last year. The reason US oil inventory remains high is because of low demand within the nation and higher than average imports.Further, cases of COVID-19 have risen rapidly in the US. Reports say that the 14 states with the highest concentrations of cases in the US consume about 45 per cent of the nation's oil. Oil prices show that despite the supply-side cuts, demand continues to be under pressure. In fact, country-specific data show that demand is likely to be hit further, which can cause prices to fall before they start rising.China has been one of the biggest contributors to the demand side pull. China imported a record amount of crude in May but the speed slowed down in June. Analysts say that China used low oil prices to fill up its tanks in April and May. Crude exports by ship to China fell by 22 percent between May and June. Traders from sourcing centres across the globe have said that crude purchases are stuttering, causing prices to respond cautiously to bullish news flow.Another reason for the drop in Chinese buying is that crude prices have crossed the $40 a barrel mark. Reports say that the drop in imports is more pronounced with smaller independent refineries operating in China. Further, the Chinese government has an incentive cap on import prices. Reports say that the Chinese governments will provide guarantees for fuels that refineries make if the crude oil purchased are below the $40 a barrel mark. When Brent prices are below $40, retail gasoline and diesel prices will not be cut lower by the authorities, even if oil prices drop further. This is one big reason for a drop in oil purchases by China from across the globe, according to a Bloomberg report.China's import of Russian benchmark Urals oil has seen a sharp decline as oil prices started to rise. Its buying frenzy took the premium of Urals to its Northwest European benchmark to $1.80 a barrel as compared to a discount of $4.60 in late March. China bought 19.1 million barrels of Urals crude cargoes for April loading but only about 5.1 million barrels in May and 2.2 million barrels in June.A similar trend is also visible in China's imports from the US. When China was buying in April the premium of West Texas Intermediate crude for loading in Houston was $4 a barrel which has now come down to around $1.25 a barrel above Nymex oil futures contracts. Reports of similar drops from other producing areas are being reported.Oil markets are poised at a critical level. The $40 a barrel is critical as it is where the Chinese are comfortable buying oil. OPEC will be walking on a tight rope to see that its roll-back of cuts do not result in prices crashing again. Thus despite the headline reduction in cuts announced by OPEC from 9.7 million barrels to 7.7 million barrels announced, there were in addition pledges by laggard nations to keep some supply off the market to compensate for past under-compliance. So, the effective production cuts may only decline to 8.1 to 8.3 million barrels a day instead of the announced 7.7 million barrels.Add to that worries of a second wave of the coronavirus and chances of oil prices going lower increase. A Reuters report says that new lockdowns could result in oil demand dropping by 11 million barrels per day this year and increase inventories.OPEC estimates that in this scenario the overall stock build will reach an unprecedented high of 1.218 billion barrels in 2020. OPEC does not expect oil demand to reach pre-Covid-19 levels even in 2021. If oil consumption is not likely to recover in the next 18 months, it means it's unlikely that economies too will recover. In such a scenario whether equity markets sustain without support from underlying fundamentals is an open question.

Disinvestment - Stop wishlisting in the dark

Now that the lockdown is being lifted in bits and pieces through unlock phases, the government is reportedly planning to get active with its public sector disinvestment programme. A draft note on identifying strategic and non-strategic sectors is being circulated among ministries.This is because the government's stated policy is that there should be at least one public sector enterprise in every strategic sector. The public sector units in the rest of the sectors will be privatised, finance minister Nirmala Sitharaman announced in May.Once what is strategic and what is not is decided, a big list of public sector units which can and should be privatised will emerge, setting a somewhat massive disinvestment agenda before the government. This is needed as the government has set for itself a huge target of raising Rs 2.1 lakh crore through disinvestment in the current financial year (2020-21).At a more theoretical level, the government is seeking to identify sectors where the government's presence through state owned enterprises has introduced market distortions. The idea seems to be that in the absence of these state units there will be effective competition in these sectors (no special dispensation for one set of players which should theoretically improve market efficiencies. That in turn, according to text books, should give a boost to the economy which has been seriously hobbled by the coronavirus induced three month lockdown.But the most important point right now is: forget theory, determine if this is the right time to go to the market so that public offers for sale are well received and strategic investors are ready to come forward so that the government makes some headway in meeting its disinvestment target.Raghuram Rajan has a point here. “You said the stock market is buoyant, why aren't we selling public sector firms at this point? Are we waiting for the stock market to come down to start selling more?" Aside of rhetorical points, the more serious issue he has raised is, "Why haven't we spent these 4-5 months preparing the entities to be privatised and to sell them, so that we can have more resources to spend on repairing the economy.Undoubtedly the markets are in a relatively sweet spot right now as they have recovered a lot of the losses which they had incurred on account of the pandemic. The Sensex, after reaching a peak of almost 42,000 in mid-January had plunged to below 26,000 in late March (when the lockdown came) but has now recovered to over 36,000.But the markets have also been very volatile and seeing a public sector disinvestment through is a relatively long drawn out process involving going on road shows, often across the world, and coming out with an offer document. A lot can change during this period.The fact is that a lot of the homework is yet to be done. Two units on which work has gone forward somewhat are Shipping Corporation of India on which virtual road shows are planned for August and the "expression of interest" for Concor is sought to be released in September.But what is somewhat intriguing is the thought process in the government on disinvestment in public sector banks. The government is laying great store by its plan for a stake sale in IDBI Bank. It is buoyed by the fact that the bank made a profit in the last quarter (March 2020) after posting losses for 13 quarters in a row. The government is hopeful that the bank will exit RBI's "prompt corrective action" regime because it has improved on many parameters in the March quarter. But it seems unwise to build an optimistic scenario on the basis of a single quarter's results.Even more outlandish seems to be the plan to privatise some of the banks like Punjab & Sind Bank, Indian Overseas Bank and Bank of Maharashtra which have not been part of the amalgamation process. The lockdown has been seriously debilitating for the entire financial sector for which RBI has allowed a moratorium on repayments. Once loan repayments begin borrowers across the board will face a tough situation as their cash flows are mostly yet to recover despite the government being able to identify green shoots of recovery!The path ahead seems littered with more NPAs and even a rise in bankruptcies. At such a juncture laying store by disinvestment in state owned banks, despite the better credentials of some of them, seems to be highly optimistic, to say the least.To put the situation in a global context, China is currently rife with rumours of bank collapse. Since last month there has been a run on three banks. The economic fallout of the coronavirus outbreak has added to the woes of a sector which was already in trouble last year when several bailouts and one “seizure”, the first in more than two decades, had to be organized, according to Bloomberg.The bottomline is, India's public sector units as a whole are underperforming and there is little reason to quarrel with the strategy to go in for substantial disinvestment over time. But that does not mean this is the right time to pursue an ambitious disinvestment target which was set before the coronavirus epidemic hit public consciousness and the lockdown made the economy tank. The need of the hour is to be realistic and not keep whistling in the dark.

Corporate needs to take advantage of buoyant markets to fortify their balance sheets.

Its raining money in India. Around $20 billion has come in India through the Foreign Direct Investment (FDI) route. While most of the money has gone to Jio Platforms, Flipkart has attracted $1.2 billion from Walmart and companies like Foxconn, Thomson and WeWork Global have all decided to increase their bets on India.Most of this FDI is strategic in nature and invested by companies who are looking not only at capital gains but also to take a bite of the growing opportunity in the country.It is not only foreign companies that are betting on India but foreign and domestic investors too are investing generously. Apart from direct investment in the market, investors are not shying away from the primary market, even when there are concerns about the economy and strength of corporate India to withstand the virus.Investor confidence was first demonstrated in the Reliance Industries rights issue. The biggest rights issue in the country was oversubscribed 1.59 times and the company received Rs 84,000 crore worth of investment as compared to the required Rs 53,124 crore.Investor interest is not only restricted to frontline stocks. The recent IPO of Rossari Biotech which intended to raise Rs 496 crore from the market was over-subscribed 79.37 times. A strong company coming from the pharmaceutical sector was easily lapped up by the market.These examples do not mean that market is flushed with so much liquidity that it is digesting anything thrown at it. The Yes Bank FPO is struggling to find non-institutional investors. While the qualified institutional buyers (QIB) book has been fully subscribed, the bank is finding it difficult to raise money from the other segments.At the end of the second day of the FPO retail investor portion was subscribed by only 19.3 percent while the employee portion, which is at a discount, was only subscribed 10.6 percent of the allotted quota.Though Yes Bank may not be a representative case, if the issue is not fully subscribed, not only other banks but even RBI may get a little worried.Most banks are going to tap the markets in the near future to raise money to fill the gaping hole left by Covid-19 on their balance sheets.Reports say that Indian banks have lined up plans to raise Rs 1 lakh crore in equity to strengthen their balance sheets. RBI governor Shaktikanta Das asked lenders to identify vulnerabilities and raise capital in time.Both public and private sector banks are tapping the market to raise additional tier-1 capital, with Kotak Bank and IDFC Bank already completing the exercise. Yes Bank is currently planning to raise Rs 15,000 crore through its FPO.Apart from banks, NBFCs like HDFC, Shriram Transport, JM Financial among others have announced their fundraising plans. For public sector banks the situation is a bit different as they will need the government to also invest in their fund-raising programme in order to maintain its stake.While investors have been rewarding companies with strong fundamentals, the same cannot be said about the financial sector. Yes Bank is not a test case, but if the issue gets subscribed, most other private sector players and some of the public sector ones will not have a problem in raising money.The bigger issue is if the lockdown gets extended or the slowdown is prolonged. Banks will have to continue to provide for increasing bad loans. In such a situation the financial sector will need a new round of funding.As Fitch Ratings pointed out, Indian banks may require around $15 billion in fresh capital to meet a 10 percent weighted-average common equity Tier-1 ratio under a moderate stress scenario. But they would need $58 billion in a high-stress situation.The lending sector would need money to continue to rain on India for a long time to survive the pandemic crisis, leave alone an extended one.

What Indian public sector units must do to remain meaningful?

Finance Minister Niramala Sitharaman recently held a meeting with the chief executives of central public sector enterprises and their administrative ministries as part of a series of interactions with different stakeholders in the economy. It should bolster public sector morale at a time when the government is considering privatisation and reducing the space, hitherto reserved for public sector units (PSUs).The most important point made by the minister is that PSUs should specially focus on capital expenditure. She asked them to meet budgetary targets and ensure that such expenditure is not bunched up at the end of the financial year. The habit of bureaucrats is to do little as the year progresses and then drum up expenditure at the end of the financial year so that unspent funds do not lapse.Maintaining the pace of capital expenditure is critical at a time when the economy is set to contract this financial year thanks to COVID-19. When private sector units are cutting output and expenditure in the absence of demand, there is a desperate need to raise spending in order to create buying power in the economy. This is where the public sector can play a very useful role as its survival does not depend on generating a day-to-day cash surplus.The Japanese have enshrined the practice of upping capital expenditure at a time of recession through coordination between the government and the keiretsu (large private sector groups) which abide by the tradition of following the evolved consensus. The idea is to install new machines when demand is low and factories work at below capacity. This will increase productivity so that when the recession is over, industry is able to offer new and better products to cater to emerging demand.Large Japanese private firms could take this line as they were not subject to the tyranny of quarterly results and the need to keep a constant watch on the company's share price. Institutional investors, which control large blocks of shareholding in Japan, could wait as they were also a part of the consensus evolved and handed down by the all-powerful Japanese finance ministry.The pluses and minuses of this Japanese way of doing things has been well-researched and documented. Consensus does not leave space for individual innovation-led creation of wealth exemplified by a maverick businessman like Elon Musk who combines technological foresight and an ability to take risk. Such players emerge in societies which are comfortable with out-of-the-box thinking.The state of Indian public sector firms will not improve by just implementing capital expenditure plans. To take business plans forward, capable senior managers must have the space to do their own job and follow the diktats of their thinking and not have to constantly look behind their shoulders to ensure that the bureaucrats and politicians at the ministry are well-disposed. Achieving that is a tall order and must await the arrival of a political revolution but for her part the minister has asked the units and nodal ministries to promptly bring to the notice of her ministry and that of public enterprises any issues that need higher intervention for immediate action.Large central public sector units represent a huge sunk investment which historically happened when private sector business houses had neither the resources nor the inclination to look at areas which did not promise a quick return. But times have changed. Private business houses seem ready to take a shot at running passenger trains even though they have no experience of doing so and the government seems ready to go along.The future of the public sector essentially lies in continuing to discover areas where private capital is not forthcoming or seeks returns which are unaffordable for the rest of the economy.The coronavirus pandemic has highlighted a huge in healthcare where it should be possible for private capital to come in, do a reasonably efficient job and earn a decent return. For this to happen, private capital should find a supportive regulatory regime in place. Functional autonomy can work within publicly set norms. The public sector can join in a co-financing role.The way in which Britain's National Health Service runs can offer ideas. It is state funded, but at the lowest level the GP, or general practitioner, who is the first to face the citizen is a private agent. Entities in the sector improve performance on the basis of feedback from users.The COVID epidemic has also highlighted the need to leave the habitats of animals undisturbed so that they are not displaced and end up passing their viruses on to humans. Denuding forests to exploit fossil fuels must be an absolute no-no. Hence, there is a huge need to boost output of renewal energy like solar and wind power. Subsidies and co-financing in the public private partnership mode can be the preferred route.The public sector remains a major tool in the hands of government to propel the economy forward. But for this, the government needs to evolve a vision for a viable future. The vision must be to reinvent and reimagine the sector knowing that it can afford to look beyond immediate profitability.

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