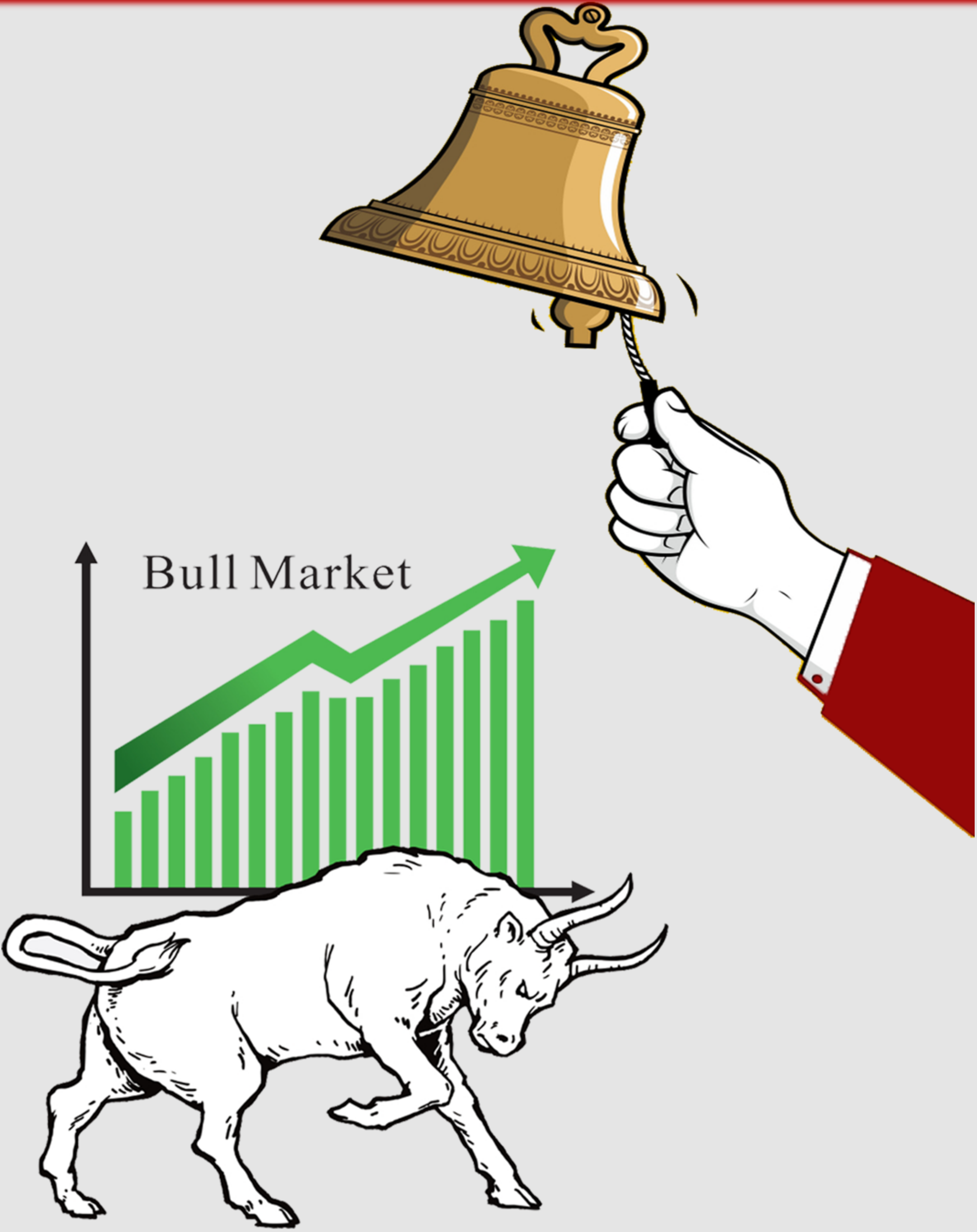
श्री LAKSHMISHREE

Gateway to your Financial Goals

BOUNCE BACK?

This May Impact Your Investments!!



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What Makes October's Fall In Equity Markets Different From September?

It was barely a month ago that the Nifty was flirting with all-time highs of 20,200. Since then, there has been a stark change in sentiment. In fact, since the middle of last week, the Nifty has corrected by almost 1000 points. Even the crucial psychological level of 19,000 could not break its fall.

Of course, the latest downtrend is not the first indicator of negative sentiment. We had seen a downtrend back in September too – specifically, from 15th to 22nd September. Of course, this time around, the sentiment seems significantly more negative. The fall in September was to the tune of 2.6%, but the ongoing correction is already touching 5%. As we shall discuss in this article, while macroeconomic concerns had driven the September downtrend, the latest correction is being led primarily by geopolitical uncertainty.

Equities correcting even as macroeconomic indicators move in India's favor

A couple of macroeconomic headwinds have been plaguing Indian equities for a while - persistently high yields in the US and rising crude prices. As these headwinds are not new and Indian equities had so far been able to hold their ground despite these headwinds, it begs the question as to what triggered the latest downward spiral in Indian equities. To elaborate on this question, let's compare the macroeconomic state of affairs during the two recent downtrends – between 15th and 22nd September, and the latest correction which has been underway since 18th October.

Firstly, let us regard the 2-year US treasury yields – the portion of the US yield curve that's the most sensitive to US Fed policy moves. In the week between 15th and 22nd September, driven by concerns around US policy rates staying high for longer than initially expected, the 2-year US yield jumped by 10 bps to 5.12%. As US yields rise, their spreads against Indian treasuries narrow, thereby reducing the appeal of Indian assets for foreign investors. So, the downtrend which followed, had a reasonable fundamental backdrop. In contrast, the downtrend since last week was triggered despite US yields correcting from the highs of 5.14% down to 5.08%.

Secondly, when it comes to crude prices, we can see a similar trend. Back in September, crude was hanging on above $90/bbl. India being a net importer for more than 85% of its energy needs, this translated into a higher import bill, higher landed inflation, and a wider trade deficit as well as current account deficit. So, as expected, Nifty corrected as crude persisted above $90/bbl. But this time around, Nifty has corrected even though crude has mellowed back to sub-90 levels.

Geopolitical uncertainty is hurting retail investor sentiment

While the correction in Indian equities in September was led by institutional outflows, the latest downturn has been led by a sharp negative turn in retail investor sentiment. FII outflows have been fairly persistent throughout, but DII inflows have acted as a crucial support, except in the week between 15th and 22nd September. During the period, FIIs sold off Indian equities worth almost Rs 9,000 Crore while DIIs pumped in less than Rs 2,000 Crore.

This is a key difference between the latest downtrend and the one seen in September. While the September downtrend was due to insufficient DII support, the latest turn in sentiment has played out despite more than adequate DII inflows. While FIIs have withdrawn Rs 3,500 crore since 19th October, DIIs have pumped in almost Rs 4,700 crore. In other words, Nifty has corrected by 1000 points during the week despite institutional flows amounting to more than Rs 1,200 crore. Thus, we can conclude that it is retail outflows that have led the correction.

What can the future hold?

The negative retail sentiment has most likely been triggered by the geopolitical uncertainty surrounding the Israel-Hamas conflict. When geopolitical concerns come into play, it becomes markedly more difficult to stay ahead of the curve. When it was just macroeconomic concerns dragging the markets down, it was relatively easier to draw rational inferences on where the markets were headed. One could keep tabs on the high-frequency indicators of economic growth and inflation for major economies across the globe. If the inflation-trajectory continued downwards without putting too big a dent on economic growth, the economies could have been said to be moving in the right direction. Any shocks on either the GDP or inflation front would indicate a hurdle on the path to normalcy.

However, geopolitical instability is a wild card, and it is hard to predict which way the tide would turn. It is hard to say whether the Israel-Hamas war would escalate further, or if negotiations would be successful in limiting its spread. In such circumstances, the fate of stock markets, by extension, is hard to predict too. So, in times of such uncertainty, it would be prudent for traders to employ strict risk-management policies including thoughtful position-sizing and disciplined stop-losses. Having said that, long-term SIP investors should continue their investments through such corrections, in order to average down their costs and consequently, improve the returns on their investment. Finally, even for long-term investors who make lumpsum investments, corrections present opportunities to progressively build positions on fundamentally strong businesses at attractive valuations.

SEBI's Guidelines On Material Event Disclosures A Boon For Shareholders

SEBI had made substantial amendments to its SEBI (Listing Obligations and Disclosure Requirements), Regulations (the LODR Regulations). The LODR Regulations can be loosely described as the second phase of regulations after a company is listed, since the first phase is governed by the SEBI ICDR Regulations. The LODR Regulations governs in detail matters like corporate governance, disclosures, etc. In the latest set of rules made by a circular dated 13th July 2023 (the Guidelines), an important area is touched upon -- the disclosure of material events.

There was a time when shareholders/investors came to know of all developments in a company officially, as late as about six months after the yearend through the company's annual report. Even then, the details required to be shared were much less. Over a period, we saw a steady shortening of reporting timelines. Companies were required to report yearly results within two months of the yearend. We have quarterly reporting of financial results. More importantly, now we have a requirement of almost instant disclosure (in a maximum of 24 hours) of material developments.

A shareholder can just keep track of these disclosures to review what is happening in the company almost on a real time. Did the company get a huge new contract? Did the company suffer a setback like a major fire? Did the company issue new shares/securities (or even decide to do so)? Has the company agreed to a merger, acquisition, etc.? And so on. This gives an opportunity to a shareholder seeking to educate herself about the company she holds shares in. Since the information comes, so to say, from the horse's mouth, she can ignore speculative news or even rumours.

The LODR Regulations have two sets of provisions for reporting on such material events. Some events are deemed to be material, irrespective of the amounts involved or the judgment of the company. These are to be reported mandatorily. For the second set of events, the company is required to exercise its discretion. It is particularly for this second set, that now SEBI has gone several steps further. Where judgment is involved, there can be concerns of being arbitrary – or so it could be thought with benefit of hindsight. Here particularly, the Guidelines give specifics to help determine whether the event is material.

While the Regulations have been indeed amended, it is the actual implementation of them that was the subject matter of these detailed guidelines – which run into 25 pages – on each category of items. Quantitative/financial parameters have been specified.

It gives guidance to the company on where the line is and hence reporting should be made when that line is crossed. This is helpful to the company in compliance. For the shareholders, it helps focusing on these disclosures since they are material.

The Circular/Guidelines was issued on 13th July 2023, to come into effect from 15th July 2023. But its impact is now being fully felt as companies start considering each event in light of these Guidelines. Let us consider some of the changes to get a taste of the new regime.

Broadly stated, the Guidelines cover events from four specific angles. What details of material events should be reported? When should they be reported? When does a material event said to have happened? Finally, what are the criteria to determine whether a material event can be said to have occurred? Each of these aspects has been examined in further detail by the Guidelines. Let us consider some aspects.

Take acquisitions, mergers, demergers, sale of undertakings, etc. These, are, to state generally, deemed to be material. Details of what should be disclosed are now given. Of course, earlier too, there were formats given for many events but now, the requirements are given for most material events. Name of parties, projected timeline of completion, consideration (including how much is in shares and how much in cash), etc. are required to be given. A common aspect for most transactions is the focus on involvement of promoters and related parties. Firstly, this fact has to be disclosed. Secondly, if related parties are involved, a disclosure is required whether or not the transaction is 'at arm's length'. In other words, are the terms different than what would be the case if parties were not related?

Specific details of what should be disclosed when there is proposed/actual issue of Issue of securities. ESG ratings and their revisions are also now required to be disclosed.

The regulations require companies and their promoters/shareholders, etc. to come forward and disclose agreements, etc. that affect the control/management of the company. Even agreements with media companies, which are binding and not in the normal course of business, are required to be disclosed, including changes therein.

Disclosure is required of frauds carried out by the company itself or its subsidiary or by its promoters, key managerial personnel, etc. Disclosure is required at the time of unearthing of the fraud. This disclosure is clearly important as such a fraud may impact credibility of the company and even continuation of its business if promoters are involved. While the details required to be given are clear enough, it is not clear when the fraud can be said to have been "unearthed". There has to be a reasonably conclusive finding but no guidance has been given for this. A premature disclosure, which could then get modified as the investigation proceeds may be costly for the company, the persons named and shareholders.

The deadlines for disclosures are now specific and short. A time limit of 12 hours to 24 hours has been given for many disclosures. A detailed item wise table running into several pages has been given. This is of course helpful as earlier the information is disclosed, earlier the shareholders and the public become aware. This may strain the company and its compliance department to meet these close deadlines.

To help the company decide a cut-off benchmark for materiality in terms of amounts that are related to turnover, net worth or profits are given. This again helps the company to decide on whether an event having financial implications is material.

Finally, and on a separate note, one can contrast the new requirement with another set of provisions and these relate to what is considered as price sensitive under the Insider Trading Regulations of SEBI. What is price sensitive information and what is material event may overlap but material events would go much beyond what is considered as price sensitive. At the same time, certain price sensitive information, though material (e.g. financial results), would be disclosed later even if the information represents a material development. Nonetheless, the regulations on insider trading may have a narrower scope as many matters may get disclosed quickly, the price sensitive information no more remains unpublished. But their interplay would be interesting to see as time passes.

To conclude, the new requirements are now given in meticulous detail to help the company in making disclosures and the shareholders to get important facts on. While the Regulations themselves are detailed enough, the even lengthier Guidelines extend them further. Every word and phrase has legal connotation and possibly multiple interpretations. But such niceties apart, the move by SEBI is a leap forward towards a transparent capital market where information is not hoarded but shared freely and quickly.

Look What Our Research Analyst Has To Say...

NIFTY on the weekly charts has breached below Head & Shoulder Pattern with a wide range candle indicating broad based participation on the selloff. Whats even worse is Mid & Small cap indices plunging with high volumes on individual selloff counters. We are bearish on the index for short to medium term and the current correction will be a good opportunity for the smart money waiting on the fence to enter long in the market.

On the levels front breakdown happened at 19,800 and we have has a straight 1000 points fall hence for the week ahead if the current weeks low gets protected or rejected a bounce back rally will start and head to test 19,400 odd levels initially. On the contrary if we sustain below last week low of 18,888 then downside supports are placed at 18,550-18,530 zone which will be out target on downside. Last week low of 18,888 is now make or break level and price action around that will decide further course of action.

Anshul Jain

Sr. Research Analyst

Wealth Bagger Stock Picks For The Week

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Axis Bank

AXIS BANK

About The Company

Axis Bank, founded in 1993 as UTI Bank and later renamed in 2007, is a prominent private -sector bank in India. It was established to offer specialized financial services in investment banking, corporate banking, and retail banking. Founded by entrepreneurs and initially promoted by organizations like UTI, LIC, GIC, and NIC, Axis Bank has grown to become the third largest private sector bank in India. With a vast network of domestic branches and international offices, it serves a diverse range of customer segments and offers a wide array of financial services. SUUTI and LIC are the bank's current promoters as of March 31, 2023.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 3,09,035 Cr	₹ 42.6	₹ 13,224 Cr	8.22%	1,048 / 814

Outlook & Valuation

In the second quarter of fiscal year 2024, Axis Bank (AXSB) reported a 10% YoY growth in its Profit After Tax (PAT) to INR 58.6 billion, thanks to robust Net Interest Income (NII) and controlled provisions. NII grew by 19% YoY, and reported margins improved slightly. Fee income increased significantly, but there was a treasury loss of INR 1 billion. Operating expenses were high due to investments in technology, employee additions, and expenses related to Citibank's integration, causing the Cost-to-Income ratio to increase.

The loan book expanded, with a notable growth in SME loans. Asset quality improved, with lower fresh slippages and a decline in NPA ratios. However, deposit growth was modest, and the CASA ratio decreased. The bank mentioned that a significant portion of its book is linked to floating rates, and they anticipate limited growth in funding costs in the near future. Overall, AXSB's performance in 2QFY24 had strengths in earnings but some challenges in expenses and deposit growth.

Jubilant FoodWorks

About The Company

Jubilant FoodWorks Limited is India's largest foodservice company, established in 1995 and affiliated with the Jubilant Bhartia Group. The company holds exclusive master franchise rights from Domino's Pizza Inc. to manage and expand the Domino's Pizza brand in India, Sri Lanka, Bangladesh, and Nepal.

In India, they have a vast network of 1,838 Domino's restaurants in 394 cities. They also have exclusive rights to operate Dunkin' and Popeyes restaurants in multiple countries. Currently, they operate 21 Dunkin' restaurants in six Indian cities and 17 Popeyes restaurants in four cities. Additionally, they introduced their own restaurant brand, 'Hong's Kitchen,' specializing in Chinese cuisine, with 15 restaurants across three cities as of June 30, 2023.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 33,322 Cr	₹ 3.56	₹ 235 Cr	41.9%	628 / 412

Outlook & Valuation

Jubilant FoodWorks Limited (JUBI) reported a 5% year-on-year (YoY) growth in sales, reaching INR 13.5 billion, with a 1.3% YoY decline in like-for-like sales but an 11% increase in the number of stores. They opened 60 new stores and closed 2, bringing the total count to 1,949 stores. Gross profit increased by 5% YoY to INR 10.3 billion, with improved margins due to better raw material prices. However, EBITDA decreased by 10% YoY to INR 2.8 billion, primarily due to weak like-for-like growth, resulting in a margin contraction. Adjusted Profit After Tax (PAT) saw a 49% YoY decline to INR 721 million, with margins at 5.4%.

Management anticipates long-term growth in Domino's sales and aims to increase EBITDA margins. They plan to open more stores for both Dominos and Popeyes, with the goal of expanding Dominos' store count to 3,000 in the medium term. However, some constraints for Popeyes include lower brand awareness compared to Jubilant and a focus on larger store sizes and supply chain development, leveraging Domino's commissary for Popeyes.

THANK YOU

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