

## IPOs hit a results roadblock

Temporary pause in new issuances as companies rush to update their quarterly numbers

SAMIE MODAK  
Mumbai, 30 August

**T**he initial public offering (IPO) market has come to a temporary standstill despite improvement in market liquidity and buoyancy in equities. Investment banking sources said a rule pertaining to disclosure of quarterly numbers has put several IPOs on hold. According to the regulatory framework, a company cannot launch an IPO if the quarterly results disclosed in the offer document are more than two quarters old.

Sources said most companies that are sitting on regulatory approvals had filed their offer document with the Securities and Exchange Board of India (Sebi) based on their December 2017 numbers. Companies that were unable to hit the market by August 10, will have to wait for at least six to eight weeks before they can tap the market, said an investment banker. The last maiden offering to hit the domestic market was by microfinance firm CreditAccess Grameen almost three weeks ago.

Industry players say the



move has caught them on the wrong foot, as the market conditions are currently suited for the primary markets.

"It is an awkward situation, when the market is doing so well, we are witnessing good investor appetite but there are no issuers ready to hit the markets," said an investment banker, asking not to be named.

In the past one month, the BSE500 index, which tracks the performance of top 500 listed stocks, has rallied more than 5 per cent amid supportive institutional flows.

Mutual funds (MFs) have pumped in nearly ₹40 billion this month, while foreign institutional investments (FIIs), too,

have been marginally positive. Bankers say the process of updating audited quarterly numbers takes at least four weeks.

Lodha Developers, Rail Vikas Nigam, GR Infra Projects and Reliance General Insurance are some of the large IPOs waiting to hit the market. Besides, there are two dozen more companies that have been sitting on Sebi approvals for IPOs.

On a cumulative basis, these companies can raise as much as ₹370 billion, as the data provided by Prime Database shows. To be sure, not all these companies will be able to come to the market for reasons such as valuations mismatch or substantial

changes to the offer structure.

Investment bankers say they can see a bunch of IPOs after the second week of September if market conditions remain stable. Unlike last year, volatile market conditions have posed a challenge to bankers and issuers in 2018. A record ₹671 billion was raised by 36 companies through IPOs in 2017. In comparison, only ₹273 billion has been mopped up by 20 IPOs this year.

"Last year, we witnessed a secular bull market and investors who were very hungry for transactions; this year, investors are far more sceptical," said Anuj Kapoor, head of investment banking, UBS India, in a recent interview.

In 2017, the benchmark indices had seen almost a one-way rally with participation of broader markets. The markets have been choppy this year, with select stocks leading the charge.

"What doesn't help IPO markets is uncertainty or extreme volatility. That's the environment we have lived through this year, making deal closures challenging. Therefore, the performance has been a mixed

### IPOs THIS FISCAL YEAR

Amt raised (₹bn)	Issuers
Apr Nil	Nil
May 18.44	IndoStar
Jun 35.4	Varrco, Fine Organic, Rites
Jul 39.25	HDFC AMC, TCNS Clothing
Aug 11.31	CreditAccess Gramin
Total 104.4	7 issues

LARGE IPOS IN THE PIPELINE	Issue size (₹ bn)
Renew Power	60
Lodha Developers	55
Rail Vikas Nigam	30
GR Infra Projects	18
Reliance GIC	16

Source: Prime Database

bag," Sunil Khaitan, India head, global capital markets, Bank of America Merrill Lynch, said recently.

Industry players say companies sitting on approvals will look to hit the markets before the state elections in December, which could be another source of volatility.

## THE COMPASS

### Asian Paints regaining its mojo

Rural demand revival, new capacities should drive volumes

SHREEPAD S AUTE

There is little doubt that consumer firms are in a sweet spot, with improving demand. But with reviving rural demand, some companies will perform even better. Asian Paints, for instance, which has underperformed its smaller peer Berger Paints in the past due to subdued rural environment, is one of those expected to regain its charm. While Asian Paints' stock has risen 19 per cent in the last two years, Berger Paints is up 29 per cent, narrowing the valuation gap with the paints' leader. Berger Paints is currently trading at 44 times and Asian Paints at 48 times its FY20 estimated earnings.

There was a reason for this. "Berger Paints' volumes rose faster as compared to Asian Paints in the past few years when rural economy lagged. This also helped Berger Paints gain market share," says Sachin Bobade, analyst at Dolat Capital.

However, things are now getting better even in the hinterland, led by normal monsoon, upward revision in minimum support price for kharif crops, and improvement in rural infrastructure. Many consumer firms have said recently that rural volume growth was faster than urban.

This should play in favour of Asian Paints, as it is relatively more rural-focused (40-50 per cent of revenues), with strong distribution network in the hinterland.

The recent 10 per cent cut in GST rate to 18 per cent should help the organised paints sector take away market share from unorganised players. Given unorganised players' higher dominance in rural areas, Asian Paints

stands to benefit. New capacities at its Mysuru and Vizag plants, to be commissioned between September and January, should aid volumes.

"Both companies will grow in tandem. But with progress in rural economy, Asian Paints' volume will grow faster. Thus, it will get premium over peers," Bobade added.

Not that Berger Paints will falter. In fact, it will continue to deliver robust performance, but stock valuation could cap upside.

"Berger Paints is expected to deliver industry-beating volume growth, with overall consumption improvement and increasing distribution network. However, a slight fall in market share or less-than-expected volume growth will impact the stock, given current valuations," says Dhaval Dama, analyst at Equirus.

Inflationary pressure, amid high input prices and weak rupee, is a concern for the paints' industry. So, how companies manage their profitability will be a differentiating factor.

## RInfra's power biz sale seen positive but analysts advise discretion

PUNEET WADHWA  
New Delhi, 30 August

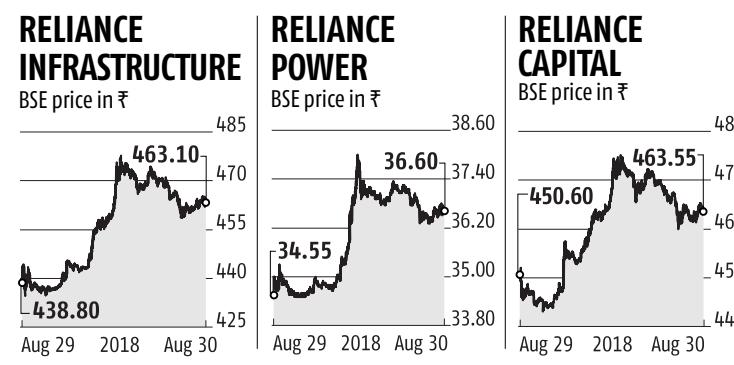
Completion of its Mumbai power business sale to Adani Transmission, and the plan to cut debt sharply from ₹220 billion to ₹75 billion and become a debt-free company by next year, pushed the Reliance Infra (RInfra) stock higher by over 7 per cent to ₹477 levels on the BSE in intra-day trade on Thursday. The stock closed 5.54 per cent higher at ₹463.10.

The rub-off effect was visible on the other Anil Ambani-controlled firms, with Reliance Power and Reliance Capital rallying over 7 per cent and 4 per cent, respectively, in intra-day trade on Thursday, ending with 3-6 per cent gains. However, Reliance Communications closed little changed and Adani Transmission slipped nearly 1.3 per cent to ₹231 levels.

Though analysts see the development as a positive for RInfra, they do recommend ascertaining how profitable the other business segments of the remaining entity are before taking an investment call.

"The development is a positive for sure. From a debt of ₹220 billion earlier, RInfra now aims to become debt-free by next year. That said, the rally in stocks on Thursday was a knee-jerk reaction to the development, and I expect the euphoria to settle over the next few sessions. Investors now need to ascertain how profitable the other businesses of RInfra are, and then invest," said G Chokalingam, founder and managing director of Equinomics Research.

According to reports, RInfra dis-



tributes electricity to over 25 million consumers across Mumbai and Delhi, directly or through subsidiaries. It also generates 941 Mw of electricity from its power stations located in Maharashtra, Andhra Pradesh, Kerala, Karnataka and Goa.

The other key business segment for the company is infrastructure, where it has a portfolio of 11 road projects totalling length of 970 km at project outlay of about ₹15 billion.

"One needs to assess whether the deal resolved all the balance-sheet problems from a long-term perspective and does RInfra have enough asset base to create value for a long-term investor," says Gaurang Shah, head investment strategist at Geojit Financial Services.

Adding: "Given the overall debt on the Anil Dhirubhai Ambani (ADAG) companies, investors need to be cautious. The ADAG group companies, of late, have not created any value for the shareholders. If anything, the wealth has been eroded. There are better

plays in the infra space in case one needs to take an exposure in the sector."

Except Adani Transmission, which has gained around 5 per cent thus far in calendar year 2018 (CY18), all power-sector stocks have underperformed the markets during this period, ACE Equity data show. RInfra has slipped nearly 14 per cent year-to-date basis. This is as compared to around 12 per cent fall in the S&P BSE Power Index and around 14 per cent rise in the S&P BSE Sensex during this period.

Going ahead, analysts expect the power sector to see consolidation where stressed assets/firms are bought by larger, profitable players. In such a scenario, the valuation at which a stressed asset/firm is bought will determine the road ahead for the stocks. Nonetheless, NTPC and JSW Energy are better placed to ride out the storm, if any, said analysts, who also believe that select road construction players could be looked at, given the rising focus on the sector.

### Markets edge lower on rupee woes, derivatives expiry

PRESS TRUST OF INDIA  
Mumbai, 30 August

Benchmark indices Sensex and Nifty fell for the second consecutive session on Thursday, as investors fretted over a plunging rupee and rising crude oil prices, while August futures and options (F&O) expiry further added to market volatility.

The Sensex slipped 33 points, or 0.08 per cent, to 38,690. The Nifty declined 15 points, or 0.13 per cent, to 11,677.

Investors offloaded their long bets in the F&O segment, instead of carrying them forward to the next series for September, adding to volatility.

The Indian rupee plunged to a new life-time low of 70.85 against the dollar (intra-day) on Thursday.

Further, global oil prices going past \$77 a barrel on a fall in US crude inventories, and expected disruptions to supply from Iran and Venezuela, dented investor sentiments on domestic bourses.

However, investors will be keenly awaiting the June-quarter GDP data to be announced on Friday, which will be one of the factors to decide the course for the markets.

"Profit booking extended as a weaker rupee, rise in oil prices and F&O expiry put pressure on domestic markets. The rupee hit a fresh low of 70.8 the dollar was gaining strength against EM currencies. Weak global markets also added pain to domestic market sentiments. Q1 GDP is the key data to be watchful tomorrow, consensus expects GDP to grow by 7.6 per cent which may bring some respite to markets," said Vinod Nair, Head of Research, Geojit Financial Services.

It is not about cash but how you manage that fund. One thing we have told investors is that before trying to generate 15-20 per cent returns, our fund will try protecting capital first.

It doesn't matter how the markets do.

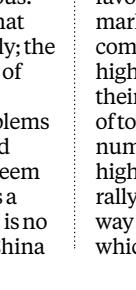
At times when risks are high or there are several moving parts, we go to cash to protect capital. Currently, we are about 60 per cent cash. In January too, we were 60 per cent cash. After the markets fell in February and March, we put some money to use and our cash levels dropped to around 20 per cent.

**How much return will benchmarks deliver in the next two years?**

Earnings momentum is picking up. We expect earnings growth (for Nifty firms) to be 15 per cent in 2018-19, and accelerate in 2019-20. Our view is that the market returns will be in line with earnings growth.

**What explains growth in alternative investment funds (AIF) industry?**

AIFs have given wealthy investors a new asset class to invest in. We only had debt and equity. So, you either take a lot of risk or no risk. What the hedge fund industry has done is to take you along the curve. If your risk appetite is lower than equity, you have something like an Avendus Enhanced Return Fund, which targets high alpha and low beta. If debt returns are going to be 6 per cent, this fund tries to deliver up to 4 percentage points higher.



**Lot of ETF money is coming. Is there a risk of markets seeing a sharper fall if these flows reverse?**

ETFs in India are still quite small. Globally, it may be a big problem and will have a cascading effect elsewhere. ETFs don't buy only five stocks, they have to buy an index. However, given the way markets have gone up, the weightage of some stocks has increased. So, we are seeing concentration in buying some of these stocks. Therefore, if there is a sell-off, the fall could be exacerbated.

**In the past, you have aggressively moved towards cash. Can you share your investment approach?**



and long-term views of the market. Depending on whether it is bullish, bearish or neutral, we decide how much deployment has to be made.

**MF inflows have been strong. Do you think aggressive MF buying is creating valuation imbalances?**

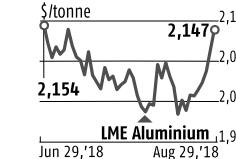
I haven't done any analysis. You had those imbalances working against you when MFs were doing recalibration of different funds. Now, when they are coming back, they want to buy the best stocks, which aren't getting any cheaper.

**What correction are you waiting for to deploy cash?**

As markets fall, we can deploy cash. Our investment committee meets regularly to take short-, medium-,

QUICK TAKE:

ALUMINIUM ON A ROLL



Aluminium prices hit the highest in almost two months on Thursday on the London Metal Exchange. Analysts say the uptrend is likely to continue in the medium term on strong buying, amid growing demand and falling inventory levels

TSI P13

ANALYSTS  
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### PUBLIC NOTICE

Notice of 29th Annual General Meeting, Book closure & Remote E-voting

NOTICE IS HEREBY GIVEN THAT:

1. The 29th Annual General Meeting

