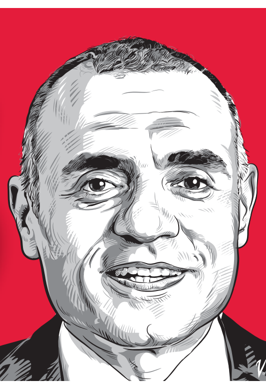
ET Markets

Beating Volatility WWW.ETMARKETS.COM NEW DELHI, FRIDAY, 15 JULY 2016

MONEY MATTERS

Credit Costs to Remain High, Weigh on Banks

Q&A with ICRA's Naresh Takkar



Market Trends

STOCK INDICES		% CHANGE
Nifty 50	8565	0.52
Sensex	27942.11	0.48
MSCI India	694.84	0.79
MSCI EM	1815.17	1.23
MSCI BRIC	435.3	1.07
MSCI World	6609.31	0.53
SX 40	16764.85	0.37
Nikkei	16385.89	1.8
Hang Seng	21561.06	1.58
Strait Times	2906.92	0.18

Values in US $, Gross At 7 pm IST

OIL ($)
DUBAI CRUDE 42.49 0.74
Absolute Change

BOND
10-YR YIELD 7.29 0.05
Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1344.50	1447.78
LAST*	1326.40	1433.37

*At 10.30pm, After adjusting for import duty, Indian spot gold lower by $ 25.67 to US Comex gold price on Thursday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
67.01	66.91

Market on Twitter@ETMarkets

Earnings Watch

Results Scheduled Today...

■ Sales In ₹Crore ■ PAT

Bloomberg Consensus Est	June-16 Estimate	YoY% Change
Reliance Industries	67739.60	-12.17
	6508.15	4.60
Infosys	17032.52	18.66
	3431.68	13.26
Mastek	127.90	-3.68
	6.10	37.70

Aggregate Results So Far

Based on 20 Cos' Earnings	June-16 (₹Cr)	QoQ %Chg	YoY %Chg
Net Sales	7099	-9.51	1.36
Op Profit	1692	-6.34	27.26
Interest	3065	4.91	7.75
Net Profit	853	-6.96	23.59

SOURCE: ETIG DATABASE

Bank of England Keeps Rates on Hold, Signals Cut in August

London: The Bank of England kept its interest rate at 0.50% on Thursday, but signalled a possible August cut in response to Britain's vote to exit the EU. At its first monetary policy meeting since the June 23 referendum vote on Brexit, the BoE also maintained the amount of cash stimulus pumping around the economy at £375 billion. The central bank added that the majority of its nine policymakers supported looser monetary policy in its next decision due August 4. "The precise size and nature of any stimulatory measures will be determined" next month, the statement said. **BoE governor Mark Carney** has warned that Britain could fall into recession as businesses delay new projects because of the shock referendum result. At July's meeting on Wednesday, only one member of the Monetary Policy Committee (MPC) voted for a cut in the interest rate to a record-low 0.25%.—AFP

GLOBAL CAPITAL Mortgage lender lowers borrowing cost by 5 bps compared to domestic borrowing; nearly 40 investors took the bet

HDFC Raises the Bar with Masala Bonds

Saikat.Das1@timesgroup.com

Mumbai: In a first, India's largest mortgage lender HDFC has successfully sold rupee-denominated masala bonds to offshore investors at five basis points cheaper than its similar domestic borrowings.

With over three-year maturity, HDFC masala bonds have yielded 8.33% annually, against 8.38% it had paid to raise ₹1,000 crore from the domestic market on Tuesday, sources with direct knowledge of matter told ET. The bond sales received about four-times bids than the actual offer.

The final yield is significantly lower than its initial guidance, which was 8.45%, something that could have benefited the borrower.

In a late evening press release, HDFC confirmed the matter.

"This is a milestone transaction for HDFC. We have successfully achieved our objective of attracting a global pool of capital to further diversify our borrowing profile," said Deepak Parekh, chairman of HDFC.

"The positive investor response towards this issuance reinforces the blue-chip positioning of HDFC, and establishes a significant benchmark for Indian companies."

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>
> **DEEPAK PAREKH**
> Chairman, HDFC

With this sale, masala bonds, a non-starter for about a year, have kick-started their journey.

"HDFC has always been a pioneer in the Indian financial market and we have successfully launched a new financial product in the overseas markets," said Keki Mistry, vice-chairman of HDFC.

The bonds will be listed on the London Stock Exchange, and the issue proceeds will be used for the housing finance business of the company as well as for general corporate purposes, HDFC said.

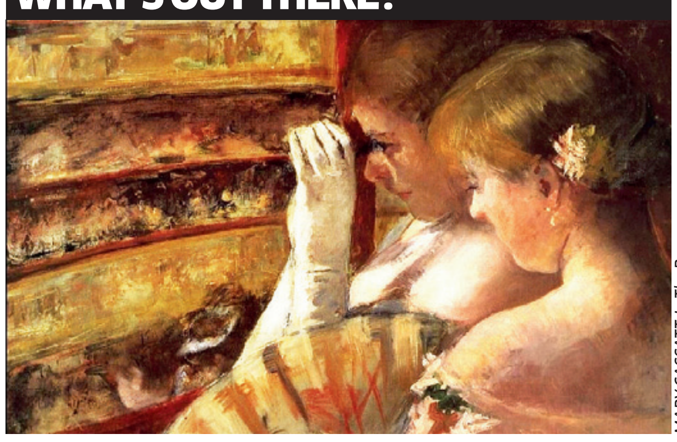
Axis Bank, Nomura and Credit Suisse were investment bankers to the bond sale. Bankers are believed to have underwritten the bond issue partially or fully, which means, they are supposed to take them on their books in case investors did not subscribe to them.

"Investors across geographies have participated in the sale as global liquidity also helped generating investor appetite," said Shashikant Rathi, head–treasury and capital markets, Axis Bank. "Pricing was quite tight with investors keeping the faith in HDFC's strong credentials."

₹2,000-cr Order Book ▶▶ 11

TCS RESULTS Key Takeways

WHAT'S OUT THERE?



MARY CASSATT, In The Box

Jochelle.Mendonca@timesgroup.com

Mumbai: Here are ten takeaways from the first-quarter results of Mumbai-headquartered Tata Consultancy Services:

Brexit Concerns: With over 27% of its revenue coming from Europe, and 16% just from the UK, Brexit was on everyone's mind. TCS CEO N Chandrasekaran said the company would have to wait and watch and that he had 'no specific caution' to issue.

Revenue and profit: TCS Q1 revenue rose 3.7% to $4.36 billion, meeting analysts' estimates. Its net profit declined 0.4% to ₹6,317 crore, less than expected as it managed to mitigate its margin contraction.

Margin Contracts: Despite the fact that TCS' margin contracted less than expected, it was a bad performance on that metric for the company. It has often stated it targets a 26-28% margin band, but its first-quarter margin was 25.1%. The contraction was due to wage hikes, but TCS has been able to offset those in the past. More worrying is the possibility that the company might have to relook at its margin band should Brexit really begin to hurt.

BFSI Worries: BFSI revenue rose just 1.7% sequentially in constant currency terms, far less than the company growth rate and nearly half the growth posted in the same period last year. CEO Chandrasekaran attributed the slowdown to macro problems and said a lack of clarity around Brexit might make it worse.

Client Additions: TCS said six more clients now contributed more than $20 million in revenue and four more clients contributed more than $50 million. It added no new customers to the $100 million band, for the first time in seven quarters.

Digital Revenue: Digital business now accounts for 15.9% of TCS' revenue, up from 15.5% in the fourth quarter. Though the company does not break out exactly what it counts as digital or how many employees service those 'digital' contracts, it did say that more deals included a digital component.

India Growth: India revenue rose 8.5% sequentially, helped by stronger IT spending by corporates. Last quarter, TCS said India revenue had crossed $1 billion, about three-quarters of which is spending by private enterprises.

CALCULUS ON SMART INVESTING

Headcount and Attrition: TCS said its attrition rate fell to 13.6%, the lowest in several quarters as it took steps to control the loss of employees. TCS ended the quarter with 362,079 employees and a gross addition of 17,792. Gross addition fell from the fourth quarter.

Geographies: Company's North America business grew 2.5% sequentially, the UK grew 3.8% and continental Europe grew 4.6%

Verticals: Though even retail grew at 2.7%, less than the company's average, other verticals helped offset the disappointing growth in TCS' two largest verticals. Manufacturing grew 3.1%, Communication and Media grew 7% and Life Sciences grew 3.9%, Energy and Utilities, which had posted muted growth because of the slumping oil price, grew 7.4%

TOP PICKS

10 Midcaps with Strong Earnings Prospects

As the first-quarter earnings season sets in, the mood on the street is a bit cautious. Stock market indices have already run up over 20% since March 1, with several mid- and small-cap stocks gaining up to 50% in the last three months. This leaves very little room for disappointments from companies on the earnings front. Though expectations of companies delivering strong earnings are not high, sharp declines in profits could spark sell-offs in these stocks. **ET** has compiled a list of 10 midcap companies, which according to analysts, have stronger earnings prospects during the quarter.

– Rajesh Mascarenhas

SUPRAJIT ENGINEERING
Standalone revenues of are expected to grow by 40% Y-o-Y, led by industry growth and market share gains. According to Kotak, consolidated revenues will grow at a higher rate due to merger of Phoenix Lamps.

PNC INFRATECH
IDFC Securities expects 27.2% Y-o-Y growth in construction revenues led by good progress in the Agra-Lucknow project. While consolidated revenues may grow 34.9% yoy, EBITDA margin to improve by 400 bps yoy at 20.5%.

CAPITAL FIRST
The NBFC is expected to report robust performance with likely PAT growth of over 50% Y-o-Y as its businesses continue to scale up in consumer durable financing and two-wheelers, according to Prabhudas Lilldher.

MINDA CORP
Consolidated revenues expected to grow by 36% Y-o-Y, led by strong growth in standalone business and impact of consolidation of Minda Stoneridge, VAST and Panalfa financials, according to Kotak Securities.

MONSANTO INDIA
Monsanto's corn seed sales are expected to witness 20% Y-o-Y growth, while glyphosate business will witness 5% Y-o-Y growth according to IDFC Securities. With normal monsoon expected in FY17 and the increase in prices of corn seen recently.

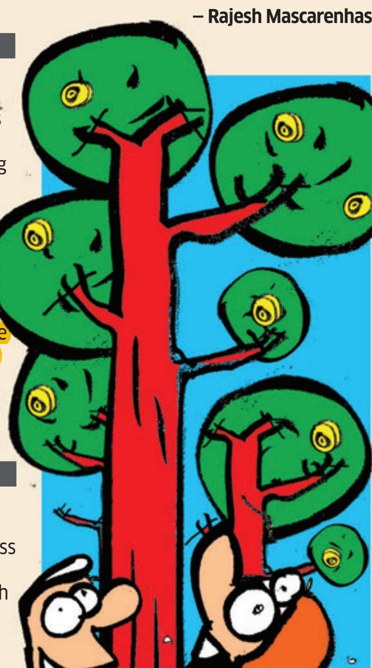
NAVIN FLUORINE
Strong revenues are expected from the newly-commissioned CRAMS facility at Dewas, MP; while refrigerants to benefit from excessive heat in summer, according to HDFC Securities.

PI INDUSTRIES
Both domestic agri-inputs and CSM segments of the company are expected to grow at 20% Y-o-Y though margins may remain flat, said HDFC Securities.

WABCO INDIA
India's largest auto brakes maker is likely to continue with its healthy growth trend in the quarter on the back of M&HCV sales growth and increase content per vehicle sold, according to Prabhudas Lilldher. They expect an EBITDA margin expectation of 16.9% with a profit growth of 18.5% Y-o-Y.

KNR CONSTRUCTION
An infrastructure development company is expected to report strong sales Y-o-Y growth on robust order book execution whereas its EBITDA margins to remain in the 13-15% range, according to Philip Capital.

LIC HOUSING
LIC Housing to continue its healthy PAT growth of 23% Y-o-Y on the back of robust net interest income growth of 26% Y-o-Y as Prabhudas Lilladher expect spreads to remain stable on lowering cost of funds, but offset from yields pressure in LAP book which has been growing strong.



ANIRBAN BORA

Stock	Estimated Growth YoY (%) Revenue	PAT	CMP (₹)	3M Return (%)	Target Price (₹)	PE
Suprajit Engineering	86.9	110.7	189.75	38.91	190.22	31.94
PNC Infratech	34.5	79.0	574.95	7.59	696.55	13.65
Capital First	64.1	51.9	611.55	37.18	610.43	33.26
Minda Corp	36.3	45.3	136.35	15.31	120.50	26.63
Monsanto India	21.2	36.5	2502.70	51.50	2533.67	42.66
Navin Fluorine	26.9	29.9	2199.05	30.08	2236.67	25.75
PI Industries	20.0	23.0	731.00	12.71	726.22	31.71
Wabco India	24.6	18.5	5752.15	-2.07	6008.00	53.32
KNR Construction	32.0	18.0	555.65	2.34	700.11	12.36
LIC Housing Finance	24.3	18.0	506.75	5.41	549.20	15.33

SOURCE: Brokerages/Bloomberg

INTERVIEWS ON JULY 15

Eight Shortlisted for the Post of Sebi Full-Time Board Member

Reena Zachariah@timesgroup.com

Mumbai: A committee headed by the cabinet secretary has shortlisted eight candidates for the post of the full-time member on the board of the Securities and Exchange Board of India (Sebi).

Three Sebi executive directors, J Ranganayakulu, head of legal services and enforcement department, Ananta Barua, who handles foreign portfolio investors, mutual funds and collective investment schemes and PK Nagpal, in charge of the corporate finance division, are among those who have been shortlisted.

Other candidates include Mathi Sekaran, former member FMC, KS Uma, former economic adviser of FMC and MS Ray, former Sebi executive director and now with the Income Tax department. A senior banker and a RBI official are also in the race, sources said.

These candidates have been called for interviews at the cabinet secretariat on July 15.

> **According to sources, J Ranganayakulu is seen as the front-runner for the whole-time member's post as he has handled several high-profile cases of Sebi**

Last month, Prashant Saran retired after completing seven years as whole time member of Sebi.

According to sources, Ranganayakulu is seen as the front-runner for the whole-time member's post as he has handled several high-profile cases of Sebi such as Sahara and Bank of Rajasthan. Besides, the financial sector legislative reforms commission (FSLRC) has recommended that one of the board members should be from a legal background.

Earlier this year, the finance ministry started the selection process and had invited applications by March 11. The government said the final appointment will be made based on the recommendation of the financial sector regulatory appointments search committee. The panel is also free to identify and recommend any other person also, on the basis of merits, who has not applied for the post. Following this advertisement, the government received several applications from interested candidates.

The appointment will be for a maximum period of five years, or till the attainment of the age of 65 years, whichever is earlier, the government notification had said.

The search panel, which is a standing committee, is headed by the cabinet secretary PK Sinha.

EARNINGS GROWTH MAY FALL 5-10% Q-o-Q Company likely to report net profit of ₹6,508 crore on revenue of ₹67,739 crore

Falling Global Refining Margins may Dent RIL Q1 Earnings

Quarter Preview

Ashutosh.Shyam@timesgroup.com

ET Intelligence Group: The earnings growth of Reliance Industries, India's largest private sector company by revenue, may dip 5-10% on sequential basis in the June 2016 quarter, on the back of falling global refining margins.

Gross refining margin (GRM) is the difference between the value of petroleum products sold and the cost of processing crude. Lower demand for petrol, naphtha and fuel oil have pulled down margins across markets.

According to Bloomberg consensus estimates, RIL's net profit and operating profit (considering consolidated operations) in the quarter are expected to be ₹6,508 crore and ₹11,030 crore, respectively. This would mean first sequential decline in the company's profit growth in the past five quarters.

The refining segment for RIL contributes more than two-thirds of its revenue and operating profit. Hence, any change in the refining margins translate into change in profits. The Singapore gross refining margins (GRM) — a benchmark of Asian refineries — has fallen 34% sequentially in the June quarter to $5.1 per barrel.

Consensus Result Expectation

	Jun-16	Mar-16	Jun-15
Revenue (₹cr)	67,739	60,252	77,130
EBITDA (₹cr)	11,030	12,008	10,177
EBITDA Margin (%)	16.28	19.93	13.19
Net Profit (₹cr)	6,508	7,390	6,220

SOURCE: Bloomberg

Higher the GRM, larger is the profit for refineries. The GRM for RIL in the June quarter is expected to be $9.5 per barrel against $10.8 in the previous quarter -- a drop of 12% on Q-o-Q basis. This means RIL's GRMs is at a premium of $4.4 per barrel to Singapore refining margins. In the June quarter, RIL's GRM is expected to outperform the benchmark margin by a wide margin on two counts. One, Singapore GRMs are computed by considering the prices of fuel oil. Due to falling fuel prices and higher supply, refineries would record lesser profits.

But unlike its Asian peers, RIL would be less impacted as its refinery does not produce fuel oil. Hence, it will record lesser decline in its GRMs. Secondly, profit earned by refineries from sale of diesel has improved (against other petroleum products). Since diesel sales volumes contribute more than 40% of RIL's refineries of total product basket, its profits will be better sequentially. RIL's refineries had maintenance shutdown in May, which could impact refinery throughput.

GRM Figure ▶▶ 11