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The Smart Investor

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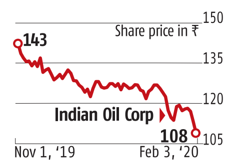
QUICK TAKE: MULTIPLE WOES FOR INDIAN OIL



Indian Oil shares are down 28% from October highs. Marketing margins are supportive, but analysts have cut their earnings estimate to factor in soft refining and petrochemicals margins and expected plant shutdowns for BS-VI upgradation

Two commandments: If thou are a richly valued individual, thou shall be taxed. If thou are a richly valued stock, thou shall be bought

SAMIR ARORA
Fund Manager, Helios Capital

Cash-rich stocks feel DDT pinch

Nearly 60% high dividend yielding shares end in the red

SUNDAR SETHURAMAN
Mumbai, 3 February

Stocks that offer high dividend yields or with high cash levels failed to make positive strides despite the government abolishing 20 per cent dividend distribution tax (DDT).

Business Standard analysed companies with high dividend yields, dividend payouts, and cash levels (of those which could be potential dividend payers).

About 60 per cent of these stocks closed the day with losses on Monday, even as the benchmark indices ended in the green. The average fall in the 30 stocks (excluding ITC) was 1.2 per cent, as against a 0.34 per cent gain in the Sensex.

The Street was hoping that investors will lap up shares of high-dividend companies on optimism that their payouts will increase further, thanks to the 20 per cent tax saving.

However, the trade failed to materialise as wealthy investors stayed away fearing high tax outgo, and experts raised doubts on whether companies would actually increase cash dole outs.

The high-dividend yield stocks list is dominated by public sector undertakings (PSUs). Majority of them ended with losses. Even stocks, such as REC, NLC India and PTC India, which offer more than 5 per cent dividend yield, were in the red.

"PSU stocks despite being high dividend payers underperformed because of the stiff divestment target set by the government. It could result in a continuous supply of paper of PSUs stocks," said Deepak Jasani, head of retail research, HDFC Securities.

The Centre has set an ambitious disinvestment target of ₹2.1 trillion for 2020-21.

Also, analysts said most PSUs have managed to pay high dividends by increasing their payouts, even as their profitability eroded.

While the Centre abolished DDT, dividends will now be taxed in the hands of recipients at their applicable rate — which can be as high as 43 per cent for the ultra-rich. This, market players said, discouraged wealthy investors from taking a position in high-dividend stocks.

U R Bhat, director, Dalton Capital India, said under the DDT regime, the tax was collected by companies and now the burden has shifted to investors. "In that case, there's really no significant change," he said.

MISSING THE TARGET

	Cash (₹ cr)	Dividend paid (₹ cr)	Dividend yield (%)	Price chg (%)
Top dividend yield stocks				
P&G Health	1,243	730	14.27	0.4
Graphite India	2,507	1,075	12.31	-0.7
Nalco	3,577	1,073	10.38	-0.8
Stocks with highest cash and equivalents				
Reliance Industries	148,056	3,852	0.45	0.2
TCS	41,630	11,257	1.5	-2.9
Vedanta	36,543	7,005	10.26	-0.7
Stocks with highest dividend payout				
TCS	41,630	11,257	1.5	-2.9
Infosys	27,234	9,366	2.89	-1.7
ONGC	12,893	8,806	4.39	-0.9

Note: Data for FY19; price change over previous close. Source: Capitaline

'Make in India' push boosts consumer durables' shares

VIVEAT SUSAN PINTO
Mumbai, 3 February

The stocks of consumer durable companies and contract manufacturers, such as Orient Electric, Amber Enterprises and Dixon Technologies, inched up on Monday after the government said it would raise Customs duty on certain products and launch a scheme to encourage domestic manufacturing of electronic goods.

Orient Electric closed trade on the Sensex up nearly 1.5 per cent at ₹244.60 per share, while Amber and Dixon saw their stock prices jump 6.3 per cent and 7 per cent, respectively. Their closing price stood at ₹1,535.25 and ₹4,754.80 per share, respectively.

Orient Electric manufactures fans and other home appliances. Amber and Dixon are contract manufacturers for some of the country's top consumer durable companies.

On Saturday, Finance Minister Nirmala Sitharaman had said that a policy to promote manufacturing of mobile phones, semiconductors, and electronic equipment was in the works. Industry sources said that the policy could be out in one month and offer attractive incentives through tax benefits and easy availability of amenities like electricity and land to players. It would also be aligned with the revised corporation tax rate of 15 per cent for new manufacturers.

The government, said industry sources, had been paving the way for a new electronics policy for over a year, hiking Customs duty on key components and parts. Sitharaman in her Budget speech proposed an increase in Customs duty on items, such as compressors for air conditioners and refrigerators (12.5 per cent from 10 per cent), PCBAs (20 per cent from 10 per cent), as well as display assembly and touch panels for mobile phones.

The finance minister also announced a hike in customs duty on imported wall fans, tableware, and kitchenware, besides footwear, furniture and toys.

Imported wall fans, in particular, would see a steep hike in price with Customs duty now at 20 per cent versus 7.5 per cent earlier.

ON THE UP (In ₹)

Name	Feb 1,'20	Feb 3,'20	% chg
Dixon Technologies	4,460.90	4,754.80	6.59
Amber Enterprises	1,450.25	1,532.25	5.65
Orient Electric	241.05	244.60	1.47

Source: Markets

Brokerages see more economic pain

Most foreign and domestic brokerages have given a thumbs down to the Budget 2020-21 proposals. Auguring that the proposals will not be able to lift economic sentiment as measured by gross domestic product (GDP), they see more pain for the economy, at least in the short to medium term.

— PUNEET WADHWA

Morgan Stanley

The Budget provides a more transparent set of fiscal accounts, focuses on improving the quality of expenditure with capex-driven spending, and raising resources through asset sales. It may have missed the opportunity to lift the availability of risk capital by not removing LTCG tax. We continue to prefer domestic cyclical mid-cap value stocks.

Goldman Sachs

The Budget doesn't envisage stimulus through the budgeted fiscal deficit figures. With budgeted nominal GDP growth of 10% YoY and gross tax revenue growth of 12% YoY, the implied tax buoyancy stands at 1.2, which appears ambitious versus the 0.5 tax buoyancy achieved in FY20. It's likely that the Centre will have to cut spending.

Nomura

We see a potential revenue disappointment of around 0.5% of GDP, which will likely result in lower spending and a partial fiscal slip. We expect a fiscal deficit of 3.7% of GDP in FY21. We expect GDP growth to slow further to 4.3% in Q4 2019 from 4.5% in Q3, and see a below-trend growth of 5.7% in FY21, from 4.7 per cent in FY20.

BofA Securities

The market's hopes of a growth push through either major tax cuts, or real estate stimulus did not come. The tax relief to individuals is limited in size and comes at a cost. GDP growth should improve on base effects, monetary stimulus and auto sales recovery. Investors now have to revert to focusing on top-down US Fed-driven global liquidity/risk appetite trends.

Edelweiss Securities

From a business cycle standpoint, the aggregate fiscal push is missing. We think, given weak demand, consolidation could have waited. Thus, the economy, at best, will see a modest bounce aided by liquidity easing, normalisation in farm cash flows amid rising food inflation, and stabilisation in exports.

Motilal Oswal

There were no major boosts to consumption as we had hoped. Another concern is that investments by the government and CPSEs are budgeted to remain stagnant in FY21. With the fiscal policy accepting its limits and the inefficacy of monetary easing, a meaningful economic revival may not pan out next year.

EaseMyTrip, Puranik Builders get IPO nod

As many as four companies, including online travel firm EaseMyTrip and realty firm Puranik Builders, have received Sebi's go-ahead to float IPOs. Montecarlo and Chemcon Speciality Chemicals are the other firms that obtained clearance. **PTI**

Sebi plans 10% interest on open offer delay

JASH KRIPLANI
Mumbai, 3 February

The Securities and Exchange Board of India (Sebi) has proposed that in case of delay of an open offer, the revised offer price may be calculated after adding 10 per cent interest rate.

According to market participants, the regulator has made the proposal in light of minority shareholders, along with Sebi, moving the Supreme Court, seeking implementation of an open offer by IHH for Fortis Healthcare's takeover.

In its discussion paper, the regulator observed that there are instances where an open offer can get delayed on account of valuation disputes, inter-party disputes, investor complaints, and delay in making payment by acquirer upon tendering of shares.

However, the market watchdog acknowledged that existing takeover regulations do not envisage delay in open offers other than on account of statutory approvals.

While in some cases, the acquirer voluntarily agrees to compensate shareholders by paying interest for delay, minority shareholders are not likely to get compensated for all delays as the interest rate is not explicitly stated in regulations.

The regulator also proposed tightening of regulations as currently there is no explicit requirement to deposit 100 per cent of the open offer consideration in an escrow account for indirect acquisition.

With the view of having no difference between direct and indirect acquisition, the regulator has proposed making the escrow deposit mandatory.

Sebi also proposed making relevant amendments to the regulations to clarify that bulk and block deals can be used to complete acquisition of shares in the target company.

The regulator observed that the bulk and block deal route can be used as it is well-regulated and relatively transparent than off-market transactions. Using this route will help the acquirer directly take a significant stake in the target company through stock exchanges, instead of negotiating through the off-market route. Also, instead of placing small orders for a longer period, the acquirer will be able to complete the takeover at a faster pace.

THE COMPASS

Iron ore mine wins, Budget positive for JSW Steel

Weak Q3, expansion delay at Dolvi, losses at foreign arms led to price correction

UJJVAL JAUHARI

JSW Steel remains in the news, now for good reasons, with the company winning two iron ore mines in Odisha. Besides, the Street's expects that the government's continued focus on infrastructure will bode well for steelmakers.

JSW Steel's stock, thus, gained 2.9 per cent on Monday after having corrected about 11 per cent since mid-January 2020. And, there could be more gains.

The company's efforts on securing basic raw materials, such as iron ore for steelmaking through fresh bidding of mines in states like Odisha, are a positive, and yielding results.

JSW had secured some mines in Karnataka earlier but was only able to meet 8-10 per cent of its requirements. In fact, a rise in iron ore prices to around $95 a tonne in January, after plunging to sub-$80 levels in November last year, has raised concerns about the company's profitability, given that JSW procures most of its raw material from external sources.

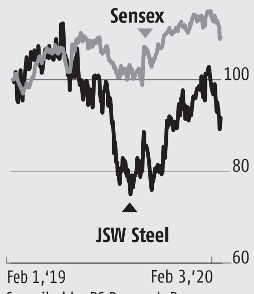
Thus, securing two iron ore mines is a positive and partly addresses the concerns. Now, the Street is eagerly looking forward to the outcome of other bids that JSW has made.

Among other positives for steel companies from the Budget, according to analysts at Emkay Global, could be monitoring of steel imports from countries with which India has free-trade agreements (FTAs). The aim is to detect diversions, if any, from other countries, routing their exports to India through FTA countries to avoid paying import duties. Cheap imports have been a matter of concern for most domestic steel players.

The other reason for JSW's stock price correction since mid-January is some disappointment with the Q3 results. The company had reported a multi-quarter low profit of ₹5,998 per tonne, down 50 per cent year-on-year and 7 per cent sequentially, because of the falling steel realisations.

While losses in foreign subsidiaries had pulled down consolidated numbers, there was a disappointment on account of the six-month delay in the 5-MT capacity expansion at Dolvi plant, which was earlier to start by FY20 end. Because of this delay, analysts had cut their FY21 estimates, albeit slightly.

Yet, given the improving product mix, higher captive iron ore production (thereby, putting a check on costs and supporting margins over time), along with recently improved steel prices, analysts as those at Motilal Oswal Financial Services have maintained a positive outlook on JSW Steel.



Compiled by BS Research Bureau

Escorts gains on tractor sales uptick, Budget proposals

Analysts expect tractors to benefit the most from rural revival

RAM PRASAD SAHU

After a strong showing in the December quarter of FY20, Escorts has reported steady sales volume in January, which should keep its stock prices high.

The stock gained about 9 per cent on Monday on the back of recent tractor sales and Budget proposals to boost rural infrastructure and income.

The proposals in the Budget are expected to boost irrigation infrastructure, higher allocation to farm credit and farm realisations.

On the demand front, the company expects a recovery in tractor sales in the domestic market. Tractor industry volumes, which were down 6 per cent year on year in the quarter ended December 31, are expected to register single-digit growth in the March quarter.

While the company's sales in the first 10 months of financial year 2019-20 are down 8 per cent, for January, it reported domestic sales volume of 5,845 units, up 1.4 per cent YoY. Signs of recovery are also visible in overall tractor registrations for January, which grew by 1 per cent to 52,418 units.

Analysts at ICICI Securities said the sales are a reflection of better rural sentiment, as compared to urban demand.

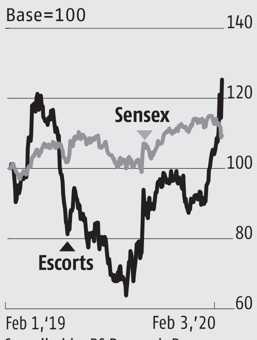
Given its outperformance on the volumes front, Escorts market share grew 50 basis points in the December quarter to 11.9 per cent. One basis point is one hundredth of a percentage point.

The company believes that after a volume fall in FY20, the sector should see a single-digit growth in FY21. The strong sowing trends of the Rabi crops and subsidies for the tractor industry are expected to drive tractor sales up.

Analysts at Kotak Institutional Equities expect the FY21 tractor industry volumes to revive on the back of normal monsoons, higher reservoir levels and improving farm prices for Rabi crops. Also, as compared to other auto segments, tractors do not face the headwind related to compliance with BS-VI emission norms.

The positive trend in the stock is also driven by strong December quarter results. The company's operating profit at ₹212 crore was 20 per cent higher than analyst estimates, led by cost-cutting initiatives and lower commodity prices.

Brokerages have increased their net profit estimates for FY21 by over 3 per cent due to higher operating profit margins. In addition to the tractor margins, incremental profitability is expected to come from strong railway segment performance.



Compiled by BS Research Bureau

જૂનાગઢ : સુવિધા આપ્યા વગર મનપા વેરો વધારે તે અયોગ્ય : વિપક્ષની રજૂઆત

દ્વારકા જિલ્લાના ૪ શિક્ષકોને કાયમી છૂટા કરવાની નોટિસ

ત્રણ-ત્રણ વખત કારણદર્શક નોટિસ છતાં જવાબ નહીં આપતા કડક પગલું

જામનગરના ડીડીઓની નવસારી બદલી

ગોંડલમાં ફૂટપાથ ઉપર સામાનના ખડકલા

જામનગરમાં આણદાબાવા સંસ્થા દ્વારા ૧૦૮ યુગલના સમૂહલગ્ન યોજાશે

કાલે ઓસમાણ મીરનો લોકડાયરો: પ્રથમ સંતાન દીકરી અવતરે તો પાંચ હજાર અપાશે

રાજ્યની ખાદી સંસ્થાઓ અને પાટીદાર સમાજ દ્વારા

જૂનાગઢમાં દૃષ્ટીએ મો.લા. પટેલને ગૌરવ એવોર્ડ, નીતિનભાઈનું અભિવાદન

મોરબીના મુખ્યમંત્રી આવાસમાં બિનઅધિકૃત વ્યક્તિઓની કનડગતથી રહેવાસીઓ પરેશાન

નવસારીનાં ખંભલાવમાં મેડિકલ કોલેજ બનશે

કેન્દ્રે ૩૫૦ કરોડ અને રાજ્યે જમીન ફાળવી

જામનગરમાં એલઆરડી ભરતીના પરિપત્ર સામે ધરણા

સરકારને જગાડવા ઓડદર ગામેથી કોંગ્રેસ દ્વારા ગાંધી સંદેશ સાઈકલયાત્રાનો પ્રારંભ

જુદા-જુદા ગામડાઓમાં લોકજાગૃતિ ફેલાવાશે

ધારી ગીર પૂર્વમાં સિંહણનો મૃતદેહ મળી આવ્યો

લાખાબાવળ પાસે લાકડાના કારખાનામાં આગ

સરા ગામે પશુના મૃતદેહ રઝળે છે