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Retail investors forfeit Rs 1.33 trillion since Budget; m-cap falls 10%

The post-Budget sell-off on Dalal Street has proved to be expensive for domestic retail investors.

The fall in stock prices has shaved off Rs 1.33 trillion from domestic investors' wealth since the Budget was presented in Parliament on July 5. This does not include losses suffered indirectly through investment in mutual funds (MFs) and insurance companies.

Domestic institutional investors have taken a haircut of Rs 3.33 trillion in their equity holding in the past one month.

The direct equity holding of domestic investors, including high-net worth individuals (HNIs), is now about Rs 10.9 trillion, against Rs 12.31 trillion at the end of trading on July 4.

The Budget was presented during market hours on July 5. The sell-off on Dalal Street began soon after.

The combined market capitalisation (m-cap) of listed companies went down 10 per cent in this period, eroding nearly Rs 14.8 trillion of investors' wealth.

At the end of June, domestic retail investors had a 8.32 per cent stake in the top listed companies on average. They are the third-largest, non-promoter group of shareholders after foreign institutional investors or FIIs (23.24 per cent) and domestic institutions (13.19 per cent).

In rupee terms, the biggest haircut has been suffered by promoters, including the government. Promoters' wealth is down Rs 7.34 trillion, or about $106 billion, in the past one month.

In comparison, foreign investors are down by about Rs 3.14 trillion, or $46 billion, during the period.

Domestic investors have also lost indirectly through their investment in MFs and insurance companies that invest in equity markets.

Their equity holding is now worth Rs 28.5 trillion, down from Rs 31.8 trillion on the eve of the Budget day.

This is nearly Rs 4.66 trillion worth of indirect losses to domestic investors in the past one month.

Domestic investors have done worse than other investors in the current sell-off. Their portfolio value is down 10.8 per cent, compared to 9.1 per cent loss suffered by FIIs and 10 per cent decline in the broader market during the period.

Analysts attribute this to domestic investors' greater exposure to mid- and small-cap stocks.

"Retail investors, including HNIs, largely invest in mid- and small-cap stocks that have seen a bigger sell-off in the past one month, compared to large-cap stocks.

In contrast, foreign investor play in large-cap stocks, where losses have been restricted," said G Chokkaligam, founder and managing director, Equinomics Research & Advisory Services.

The analysis is based on the m-cap and shareholding pattern of a constant sample of 1,024 companies that are either part of BSE 500, BSE MidCap or BSE SmallCap index.

The latest market capitalisation is from Monday, while shareholding pattern is as of June 30.

Fund managers bet on pharma sector as pricing pressure in US is stabilising

The pharma and health care sectors have not been market favourites. Over the past five years, the Nifty Pharma Index has given a compound annual return of -3.27 per cent compared to the Nifty 50's 7 per cent. Experts, however, say that the worst is behind the

sector now and investors with a three- to five-year horizon can earn good returns from it.

A major headwind for the sector was US Food and Drug Administration (USFDA) regulations. Plants of many pharma majors failed to pass inspections, and were barred from supplying to the US market. "Indian pharma players are more compliant now," says Vrijesh Kasera, fund manager, Mirae Asset Healthcare Fund.

Indian players also faced pricing pressure in the US due to two factors. One was consolidation among drug purchasers in the US.

The other was the entry of smaller players in the generics space leading to higher competition. "Structural changes like implementation of the Generic Drug User Fee Act (GDUFA), which increased competition, and consolidation of buyers, which kickstarted generic price erosion, led to US revenues stagnating or registering negative growth," says Meeta Shetty, assistant fund Manager, Tata Mutual Fund.

Things are looking up now. "Price decline in generic medicines in the US market is stabilising now. A couple of global generic pharma giants have decided to trim their generics portfolios. Indian pharma players that are backward-integrated and enjoy a low-cost advantage are set to benefit from this. We also expect export growth to revive," says Mahesh Patil, co-chief investment officer, Aditya Birla Sun Life Mutual Fund, which launched the ABSL Pharma & Healthcare Fund last month.

Valuations have turned attractive. "The pharma index is trading at about a 20 per cent discount to its own long-term average," says Patil.

The Indian pharma sector has many attractive opportunities before it, such as the growing adoption of generic drugs in developed markets. Within generics, demand for complex and speciality drugs like injectables and biosmilars has been growing. "Indian pharma players have invested heavily in research and development in these spaces and will benefit from their growth," says Pritam Deuskar, fund manager, Bonanza Portfolio. Players in the contract research and manufacturing (CRAM) space are also likely to do well due to their cost advantage.

Credit Suisse downgrades RIL to underperform, reduces target price

Credit Suisse has downgraded Reliance Industries (RIL) from neutral to underperform, on the back of higher liabilities and slow enterprise roll-out for the telecom business. The brokerage reduced its target price for the company to Rs 995 per share from Rs 1,350 apiece.

"Our target price cut factors in higher liabilities of $10 billion from crude payables, JioPhone financing and East West Pipeline, multiple cuts and lower earnings for refining, and slow enterprise roll-out and weak Jio ARPU in the first quarter," analysts with Credit Suisse said in the August 5 dated report. ARPU is average revenue per user.

The report pointed out that RIL has been free cash flow (FCF) negative for six years. "Given margin pressure in refining and petrochemical (high supply), FCF should be negative for the financial year 2020-21," the report said.On the liabilities side, Credit Suisse said RIL's liabilities increased from $19 billion to $65 billion in four years. The company's crude payables have also increased and are higher compared to global peers such as Valero in the US, Korean refiners, and Indian oil marketing companies, according the report.

"RIL's standalone payable days (mainly crude payables) have increased significantly over the past four years. It used to be in the range of 50-60 days, but was high at 121 days in FY19. Payable days reduced from high of 163 days in FY18 to 121 days in FY19 but are still 2-4 times of peer average.

Most of the peers have crude payable days of 30-60 days," the report said.

On RIL's telecom business, the report said: "Jio's capital employed per user is $105 (excluding capitalised expenses) and the current Ebitda per user is $9 (with no rentals on InvIT and benefit of lower access charges). Return on capital employed (RoCE) currently is low at less than 3 per cent."

"For Jio to make 9 per cent RoCE, Ebitda per user needs to increase to $16, requiring 50 per cent more price increase in only telecom or through a combination of monetisation through merchant point-of-service network." Ebitda is earnings before interest,taxation, depreciation and ammortisation.For the refining business, Credit Suisse said: "We do build upside from IMO 2020 but given high-supply pressure, the duration of benefit may not be long.

We expect large capacity additions over the next four years (especially in 2021 and 2022) and together with lower demand, we are cautious on outlook for the refining segment."

Berger Paints India net profit up 31.7% to Rs 176.41 crore in Q1

Berger Paints India Ltd on Monday reported a 31.76 per cent increase in consolidated net profit to Rs 176.41 crore for the first quarter ended June 2019.

The company had posted a net profit of Rs 133.88 crore in the April-June quarter a year ago, Berger Paints said in a BSE filing.

Its revenue from operations during the quarter rose 15.93 per cent to Rs 1,738.41 crore from Rs 1,499.44 crore in the corresponding quarter of the previous fiscal.

Berger Paints' total expenses rose 13.28 per cent to Rs 1,467.48 crore from Rs 1,295.38 crore in the year-ago period.

Meanwhile, in a separate filing, the company informed that it is "considering investment opportunities in Russia to complement its exisiting operations."

Bharti Airtel replaces Vodafone Idea in second spot by mobile revenues

Focus on data subscribers and weeding out low revenue customers have helped Bharti Airtel, while its peer Vodafone Idea could not implement the strategy.

However, network and content costs are on the rise for Bharti as it witnesses a steady rise in mobile data customers.

Further, Airtel's reported mobile revenues for the April-June quarter (Q1) was Rs 10,866 crore. This makes it the number 2 player after Reliance Jio in terms of mobile services revenues, analysts claimed.

Vodafone Idea, which does not share the break-up of revenues, reported an overall revenue figure of Rs 11,269 crore for Q1.

A Mumbai-based analyst noted that Vodafone Idea draws over Rs 600 crore from enterprise customers as well as broadband (or fixed services). Adjusting for it, the mobile service revenues for Vodafone Idea would be Rs 10,669 crore, making it the third-largest telecom firm by mobile revenue after Jio's figure of Rs 11,679 crore.

Merged Vodafone Idea does not share the break-up of revenues. However, according to analysts, the comparative fixed revenue should be around Rs 600 crore. Vodafone Idea said it reports only consolidated revenues.

Bharti Airtel lost only 1.5 million subscribers in June quarter, against 14 million subscribers lost by Vodafone Idea. What worked for Airtel was that its data traffic growth was 13 per cent sequentially and its average data usage was even higher than Jio's (a 4G-only player) at 11.9 gigabyte per month per user.

However, as its mobile 4G data customers increased by 63.3 per cent to 95.2 million in Q1, compared to 58.3 million in the corresponding quarter last year, the company's content costs also grew.

"In 2018-19 (FY19), content costs (for Airtel) rose 30 per cent year on year (YoY), reflecting the impact of content deals with Zee5 and Netflix," said G V Giri, analyst, IIFL.

Its passive infrastructure charges, too, rose 12 per cent. Earnings before interest, tax, depreciation and amortisation (Ebitda) margin declined on account of network expansion.

Airtel had managed to keep operating expenditure costs under control over the past two years, with only 7.5 per cent growth YoY.

The aggressive spending on content has, however, converted to rapid growth in Airtel's 4G base in the past one year. In Q1 FY19, Airtel and Vodafone Idea had almost equal, roughly 58 million, 4G subscribers.

In Q1 of 2019-20, Airtel raced ahead to 95 million subscribers, 11 million ahead of Vodafone Idea's.While Vodafone Idea gained 4 per cent in terms of average revenue per user (ARPU), even as it lost 14 million subscribers, Airtel registered an industry-best ARPU of Rs 129 for Q1, a 5 per cent growth. In the bargain, it only lost 1.5 million subscribers.

Analysts see this as a positive sign. Airtel was able to retain its top slot in the market in terms of revenue, as its top line was up 2.8 per cent at Rs 15,345 crore. Vodafone Idea posted revenues of Rs 11,269.9 crore in Q1 and Jio's revenues were Rs 11,679 crore. Bharti Airtel's India revenue is an integrated number comprising wireless, landline and broadband services.

In Q1 of the current financial year, Airtel's mobile revenues witnessed YoY growth of 3.7 per cent.

In comparison, Vodafone Idea saw revenue slipping 4 per cent sequentially, as its strategy to implement similar minimum recharge plans to boost revenue did not see the desired offtake.

Analysts at JM Financial said they did not think Airtel was gaining meaningfully at the expense of Vodafone Idea yet.

It is still incurring subscriber losses, albeit modest, and its revenue gains are driven entirely by ARPU — that is, minimum ARPU recharges and 'Airtel Thanks'.

Lack of a counter to JioPhone and smaller 4G coverage, compared to Jio, remain key challenges.

Amazon has competition: Flipkart to start free video streaming service

Walmart-owned e-commerce company Flipkart is launching a slew of technology-led initiatives to tap the next 200 million consumers online. These include introducing the Hindi version of the Flipkart app and 'Flipkart Videos', a curated range of movies, shows and entertainment series. It would also be showcasing specific products to customers based on their needs. These initiatives are expected to help Flipkart in its battle with rival company Amazon and competition from the yet to be launched e-commerce business of Reliance Industries.

"In the past 10 years, our vision and ethos have been to solve for 'Real India', create India specific tech solutions here (in the country). What we are rolling out when it comes to addressing the needs of the next 200 million users in our country, is taking forward those founding principles of access and affordability," said Kalyan Krishnamurthy, CEO, Flipkart Group. "We strongly believe that the next phase of our growth is rooted in loyalty, democratising e-commerce and the country will continue seeing more innovations that stem from our deep understanding of Indian consumers, especially middle India," added Krishnamurthy.

The company is introducing the Flipkart app in Hindi. The plan is to unveil it in other languages as well such as Kannada, Tamil, Telugu and Bengali in future. Flipkart said its approach to solving the language barrier problem people face when they come online is by using technology. The key result of that is, the first in the industry 'audio-visual guided navigation' in Hindi. This enables easy onboarding for new consumers, through a step by step guide making it easier for them to shop.

"As per research, 90 per cent of new Internet users in India are native language speakers and coming from Tier 2 and beyond cities," said Jeyandran Venugopal, head consumer experience and platform at Flipkart.

Flipkart is also providing accessibility to premium content with free-for-all video streaming.