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THE FINNACLE: ISSUE #01

In this issue:

FINCORP

Foreword

Dear readers,

Thank you for taking time out of your busy day to read the first issue of this e-Newsletter!

Welcome to the first issue of Finnacle. I am extremely thrilled to launch this monthly newsletter written by the students of NMIMS, Navi Mumbai. I thank our campus director- Dr. P.N. Mukherjee for his constant support and encouragement. I would also like to thank the students of NMIMS, Navi Mumbai who took time out of their busy schedules to contribute to this newsletter. “Finnacle” endeavors in contributing to the knowledge frontier in the dynamic world of finance with professionally researched articles on contemporary topics.

The Fincorp Team consists of a group of young management students that have a keen interest as well as an expansive knowledge base in finance. The students passionately follow the financial markets not only in India but on a global scale as well. The Fincorp team strives to leverage their knowledge and provide a detailed analysis in a simplistic manner of the latest financial news on a monthly basis via the “Finnacle”.

You will find it filled with educational information, research findings and the latest happenings in the financial markets & economy. I want “Finnacle” to add value for you, so please share your feedback and suggestions to improve, with us.

“Finnacle” will be published on social media every month. However, if you miss an edition, please feel free to write to the Fincorp team to get a copy of the same.

Please share this newsletter with your friends, colleagues, and associates.

Regards

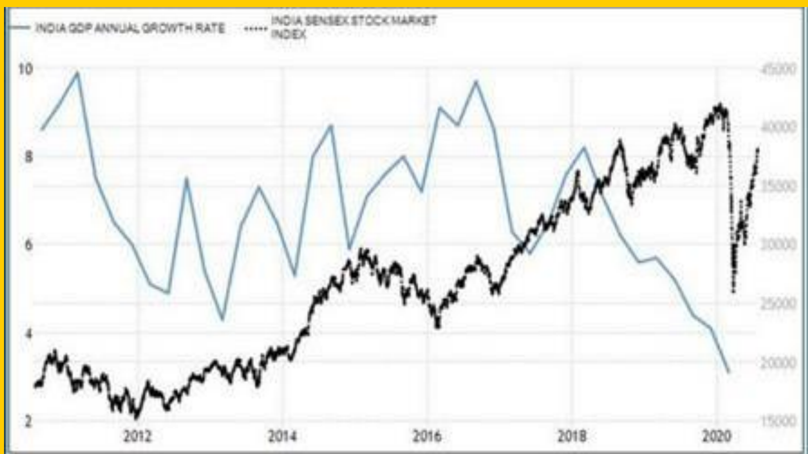
Dr. Nupur Gupta
Assistant Professor- Finance
Faculty In charge- Fincorp Club

Market Outlook:

GDP vs. Sensex

By: Bhavya Dhawan (PGDM 2nd Year)

The Sensex has given fabulous returns in the past 5 months with the returns exceeding 56% from the low of 25,638 on 24th March,2020 to 40,010+ on 31st August,2020. The returns very easily beat the average returns of a bull market rally but are we really in a bull market?
The reason for the sell-off in the month of March which brought the market down from 38,000+ to 25,600 were the increasing Corona virus cases and the resulting stalling of GDP in most countries across the globe. Afterwards, the pandemic has crippled the economy even more but the market has been unidirectionally moving up. The annual GDP estimates have been pegged between -5% to -10% accompanying the PE ratio for Sensex crossing 28, attaining a new lifetime high. This mismatch with the GDP figures, posted results in a bubble.



The US elections and the Fed's policies have only enlarged this bubble because the correlation between the Dow Jones Index and Sensex from 1st of April to 4th of September has been 0.912 which indicates that the Indian markets have been mirroring the US indices. The soar in US indices is due to the Fed's decision to openly buy corporate bonds and support companies making it obvious that no government in its right mind will go to elections with a crashed market even if its own GDP contracted by 9% in the passing quarter.
Another interesting point about this market run is that it has not been a broad-based rally suggesting Green shoots across the economy but has been confined to a few stocks whose weightage has been increasing significantly in the Index. Similar trends have been reported in both the US indices where the tech stocks namely the FAANMG have been soaring high pulling the indices along.
Therefore, our research suggests that a bubble mirroring the 2001 bubble is being formed in the Stock market piggybacking on the Tech giants and a few other major index leaders.
We wouldn't indulge in predicting the future of the markets or the bubble because as John Keynes said ***"The markets can remain irrational longer than you can remain solvent".***

Hottest Stock?!

By: Dimpy Dugar (PGDM 2nd Year)

Ruchi Soya has had a roller coaster of a ride since its foundation in 1986. The company has famous brands like Nutrela, Ruchi Gold, etc. In order to survive the market and the competition, the company took on a huge amount of debt for the expansion. The company saw a tremendous increase in revenue. But alas, the profit side didn't show such a trend. The company was unable to repay the debt amount and soon the amount of debt raised from ₹ 2000 cr in 2008 to ₹ 6000 cr in 2012. Inconsistent profit, losses in future hedging, etc led the firm to bankruptcy. During insolvency, Ramdev Baba's Patanjali came as a saviour with a plan to beat HUL, and bought Ruchi Soya. The company was delisted from the stock market in November 2019 and again relisted in January 2020 at ₹ 16.90 per share. During such hard times of pandemic, the price of the stock rose to ₹ 1510 per share in July making it the hottest stock of the town.

Ace Trades

By: Shikhar Shukla (PGDM 2nd Year)

Prolific trader Mr. Rakesh Jhunjhunwala made close to 5.6 crores per day for a total of 111 trading sessions form his investment in Escorts Ltd. since 23 March, 2020. On March 23 both Sensex and Nifty recorded the biggest single day losses in their history, the Escort share closed at ₹ 551 on BSE. Having accumulated 91 lakh shares since September 2013 Mr. Jhunjhunwala's stake stood at ₹ 501.41 crore. At close on September 2, 2020 the stock had hit its all-time high price of ₹ 1,233 increasing the value of his stake to ₹ 1,122 crores. That amounts to ₹ 620.62 crores in profit during the 111 trading sessions.

This increase in price is due to the best ever sales month in august at 7268 units which rose 80.1% compared to the previous month. This comes after a stagnation in tractor sales where growth slowed from 15.74% in FY'18 to 10.24% in FY'19. However due to the pent-up demand and strong monsoon leading to exceptional price realizations for the farmers a strong bounce back was seen for the tractor industry regardless of the coronavirus pandemic.
The market cap for Escorts has risen to ₹16,480 crores leading to an increase of share price by 139% in the last year.

The LIBOR's Demise

By: Dimpy Dugar (PGDM 2nd Year)

The obsession on interest rates by the investors is a real thing. Whenever there is some inter-bank lending or borrowing, the entire world economy, including the stock market feels the effect. The stock market sees an immediate impact. Generally, the interest rate and stock markets move in opposite directions. However, the actual relationship is fairly unknown.

The 50-year-old LIBOR will soon expire in 2021. This happened because an investigation showed that banks are coming together to manipulate the rate in order to make gains. The banks were reporting false or hypothetical interest rates to manipulate the LIBOR benchmark5. This made the LIBOR highly unstable. The main task for the regulator is to make sure that the new rate is able to maintain the LIBOR's functionality and trustworthiness. The regulators came up with Secured Overnight Financing Rate (SOFR) in April 2018 as a replacement for the LIBOR.

The market will have to overcome challenges while shifting from LIBOR to SOFR. LIBOR included the bank funding risk thus, SOFR should include certain spread to take care of such risks. Also, the challenge lies with debts which expire prior to 2021. The dilemma here is whether to provide a temporary relief from the long calculations required in case of LIBOR or skip all the complicated qualifications if they meet certain criteria. Challenge also lies with the written contracts that extend after 2012. In this case the language of the contract will come into play to quantity the exposure due to expiration of LIBOR.

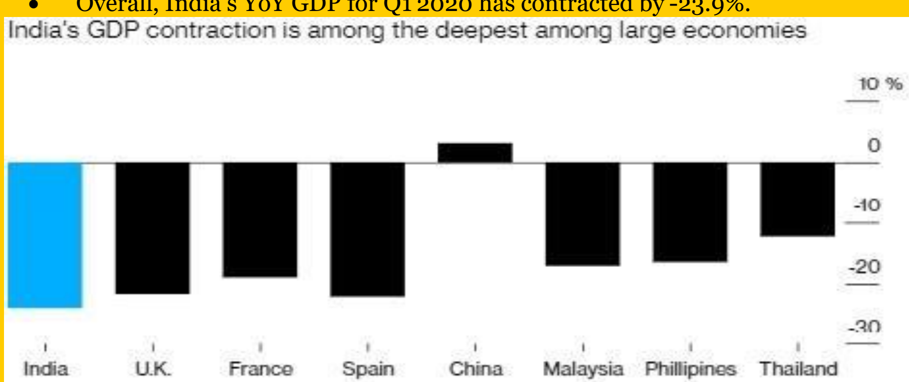
Now the problem is not only for banks but also businesses who buy derivatives on interest rates in order to hedge their risk. The interest rate hedges are affected by a change in the interest reference rate. A hedge becomes ineffective when there is a change in the interest reference rate on the hedged item's underlying. The hedge would then have to be accounted for as a termination, when such an occurrence takes place. ASC Topic 815, Derivatives and Hedging, calls for the termination of the hedge if there is a change in the benchmark interest. Also, for a cash flow hedge to go through, it requires the transaction occurrence to be probable. Therefore, any change in rate (here referring to the LIBOR), that would reduce this probability, could also lead to a discontinuation in hedge accounting. Lastly, the hedge's effectiveness documentation is impacted majorly when the benchmark interest rate has had an insignificant amount of market participation or volume.

With these contractual challenges being the primary focus during transition it would be a sound advice to keep track of its impact on the Dalal Street.

-23.9%: India Paying the Price for Lockdowns for Little to No Reward

By: Ashay Saraiya (PGDM 2nd Year)

- Financial services -- the biggest contributor to India's dominant services sector, shrank 5.3% last quarter from a year ago.
- Trade, transport, hotels and communication declined 47%.
- Manufacturing shrank 39.3%, while construction contracted to a massive 50.3%. Mining output fell 23.3%, and electricity and gas dropped 7%.
- Agriculture was the lone savior which grew at 3.4%.
- Overall, India's YoY GDP for Q1 2020 has contracted by -23.9%.



A Major Sell-Off Coming Soon? Buffet Indicator Says So!

By: Ashay Saraiya (PGDM 2nd Year)

A 23.9% contraction in GDP for the 1st quarter of F.Y 2020-21 has sent the market cap-to- GDP ratio rocketing up to a decadal high of 98%. The ratio, also called the Buffett indicator for the attention paid to it by the investment wizard Warren Buffett, the ratio compares market capitalization of all listed stocks to the gross domestic product (GDP). It emphasizes on the idea that stock market performance is ultimately tied to the country's economic growth. . The world market cap-to- GDP ratio crossed 100% in 2000 and 2007 and they were both market peaks which were followed by severe market crashes infamously known as the "Dot-Com Crash" and the "Subprime Crisis" respectively.

Country	Mcap to GDP Ratio (%) Current	Year Ago	3Y Ago	5Y Ago
US	169	114	109	101
China	67	117	109	133
Japan	114	104	113	114
UK	98	99	115	103
France	89	110	125	110
Germany	59	101	120	105
Canada	129	118	111	88
India	69	92	134	106
Switzerland	264	115	119	109
S. Korea	95	85	125	104
Australia	96	108	112	93
Taiwan	414	104	122	91
Brazil	41	111	119	74

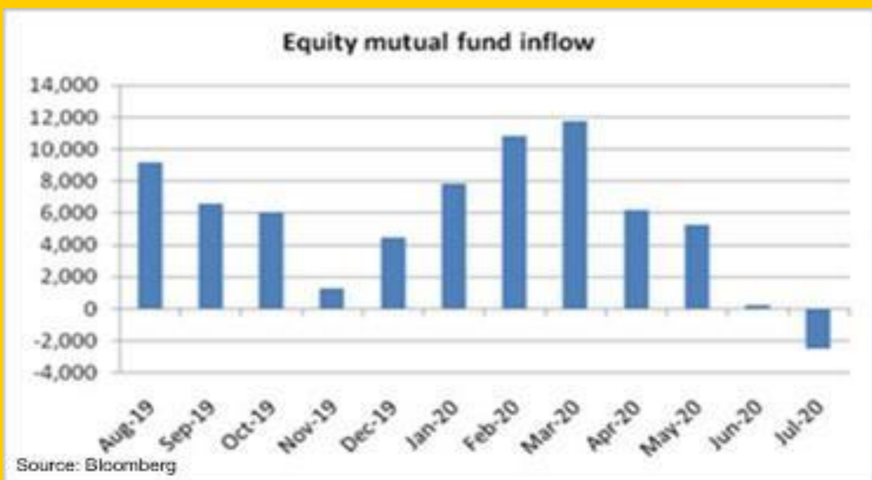
Source: Bloomberg

Mutual Fund Monitor:

Mutual Fund Redemption

By: Bhavya Dhawan (PGDM 2nd Year)

Mutual Fund redemption data can give great insights about the faith of the people in the future of the market rally and if they think it is about to fizzle out or not or if they have achieved the return they expected in the short term. July for the first time in 4 years has been a net outflow month for the equity mutual funds with the net outflow being to the tune of Rs 2,480 crores, the first sell off since March 2016.The debt funds on the other hand have seen a steep rise in the inflows to about Rs 91,391 crores which is substantially higher than the 2,000 odd crores in the month of June and about Rs 61,000 crores deposited in July last year.



Source: Bloomberg

Another interesting fact related to the Debt Mutual Fund inflows is that Reliance Industries has deployed about Rs 35,000 crores ($4.7 billion) out of the Rs 1,60,000 crores it received in its bid to make the company debt free. This is odd coming from a company which has been leading the Indian markets and giving returns exceeding 150% over the last 5 months. This certainly points to the fact that they believe the rally in the stock markets is about to fizz out or they are hedging their positions just to be safe so as a word of caution, we suggest the retailers to keep a close watch on the markets as the Chinese Rat year could easily undo the gains of the past 5 months just like it did back in 2008.

Marquee Mutual Funds:

By: Simrit Bhatia (PGDM 2nd Year)

MUTUAL FUND NAME	CATEGORY	DURATION	RETURN
Aditya Birla Sun Life Digital India Fund	Sectoral/Thematic-Growth	6M	19%
Union Small Cap Fund	Sectoral/Thematic-Growth	1YR	23%
Axis Midcap Fund	Mid Cap	3YR	14%
Mirae Asset Emerging Bluechip Fund	ELSS	5YR	18%

Templeton Shutdown

By: Shikhar Shukla (PGDM 2nd Year)

In the wake of the Coronavirus pandemic Franklin Templeton had to shut down six of their open-ended debt funds with immediate effect on 23 April, 2020. These six schemes in particular followed the high risk, high return credit risk strategy. These funds are:

1. Franklin India Low Duration Fund (FILDF)
2. Franklin India Dynamic Accrual Fund (FIDAF)
3. Franklin India Credit Risk Fund (FICRF)
4. Franklin India Short Term Income Plan (FISTIP)
5. Franklin India Ultra Short Bond Fund (FIUSBF)
6. Franklin India Income Opportunity Fund (FIIOF)

Due to the pandemic, the liquidity in the bond markets have taken a beating leading to the yields of the debt securities rising, adversely affecting the abilities of companies to service their debt. This is due to massive sell offs in the debt markets to improve the liquidity. The unforeseen circumstances have made investors more risk averse fearing more defaults which sees them straying away from lower credit rated companies which formed the bulk of the Franklin Templeton funds.

Now Investors in the funds will have to wait to withdraw their money till the expiration of the schemes Macaulay Period which was 1.2 years for FILDF, and 3.22 years for FIIOF. The payments will be made in instalments as the funds are liquidated. So far, they have managed to recoup Rs. 4,988 crore of the Rs. 26,000 that is stuck in the schemes but face an uphill battle still as the NAV's of FIIOF fell by 6.23%, FISTIP by 5.02%, FIDAF by 3.02% and FICRF by 0.33% due to the default of Rivaaz Trade Ventures.

Mergers & Acquisitions:

The NVIDIA-ARM Deal

By: Priyank Sheth and Rhea Baid (MBA 1st Year)

American graphics chip specialist Nvidia acquired Arm from SoftBank for $40 billion. Arm will be headquartered in UK and will operate as a division of Nvidia.

NVIDIA will pay SoftBank Group Corp $40 billion for the UK-based chip designer, along with $21.5 billion in stock and $12 billion in case. SoftBank may receive an extra $5 billion in cash or stock if ARM's performance meets specified targets and ARM employees will receive an additional $1.5 billion in NVIDIA stock.
ARM's technology is at the heart of most smartphones, among many other devices.Its technology is at the heart of the more than 1 billion smartphones sold annually. Nvidia has promised to keep the business based in the UK, to hire more staff, and to retain ARM's brand. The company will continue to function its open-licensing model while maintaining the global customer neutrality.

Arm's big clienteles are Apple Inc., Qualcomm Inc., Broadcomm Inc. and Samsung Electronics Co., which might complain about the deal as they will question Nvidia's neutrality and the prospect of the company adding its technologies into Arm designs.

When SoftBank bought Arm in 2016, Nvidia was valued about $30 billion. Now Nvidia is valued at $300 billion.

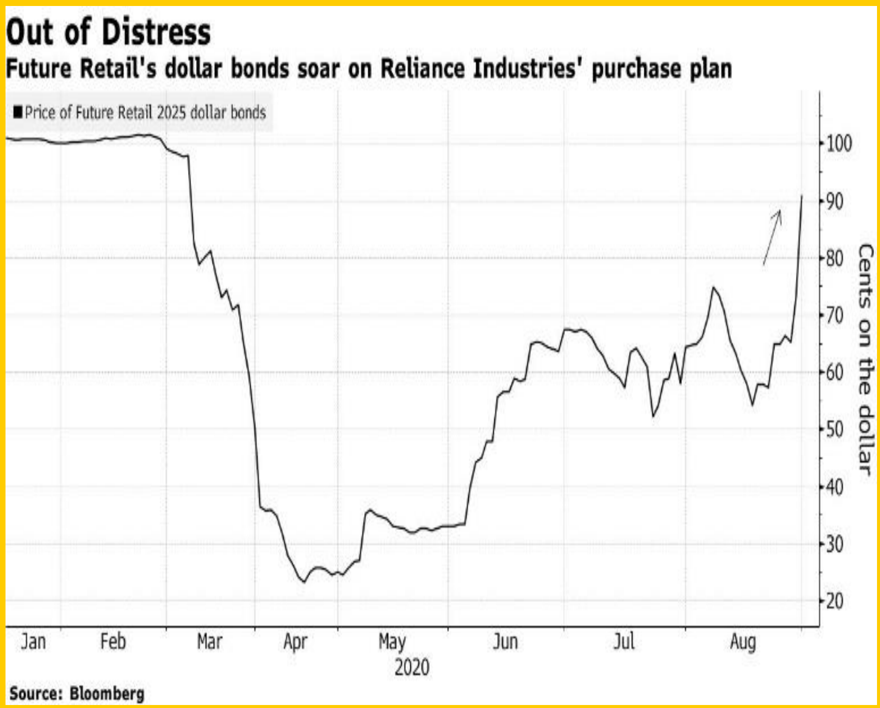
Buying Arm could set the stage for Nvidia's next big act. The first came when it repurposed its graphics processing units (GPUs), designed for video gaming, to handle data-intensive machine-learning tasks. That propelled Nvidia past Intel two months ago to become the world's most valuable chipmaker. With ownership of Arm, it hopes to put its chip technology at the centre of the booming artificial intelligence market, ranging from cloud data centres to the many "smart" devices that are springing up.

Many industry experts are saying that Risc-V (a small chip manufacturer) will now attract a wave of investment from companies seeking an alternative to Nvidia. The largest Arm customers will eventually switch to designing their own chip architectures to ensure control of their technology. But even losing an Apple or a Qualcomm may not matter much if Nvidia is able to use the deal to consolidate its position in a key market — the servers used in data centres — while making itself the technology axis for a booming industry of AI-powered devices.

Reliance - Future Group Deal

By: Utkarsh Keshari (MBA 1st Year)

Reliance Industries Ltd. will be buying assets of rival Future Group for 247.1 billion rupees ($3.4 billion). The deal incorporates Future's retail, wholesale, logistics and warehousing units, Reliance Retail Ventures Ltd. The various sectors led by Mukesh Ambani - telecommunications, retail, oil and petrochemicals conglomerate led by has been the talk of the town for over the last 6 months with Future Group, which is facing cash crisis amid intensifying competition amid the pandemic.



Future Group will integrate some of its remaining businesses into Future Enterprises Ltd. Reliance unit will then also invest 12 billion to acquire about 6.1% stake in Future Enterprises. Further, 4 billion will be invested in equity warrants convertible into 7.05% of Future Enterprises shares.

The recent transaction will extend Reliance Retail's leadership in a sector that's evaluated to be worth $1.3 trillion in the next 5 years from $700 billion in 2019, according to a February study by Boston Consulting Group.

Ambani has also vowed to transform Reliance by building up its digital services businesses, including e-commerce which aims to challenge companies like Amazon, Walmart and Flipkart in the e-commerce sector.

Ambani's success among investors to his Jio Platforms Ltd. business has also boosted his personal wealth, adding to $23 billion to his net worth this year and advancing his rank among the world's richest to No. 8, the deal may also add fuel to the fire and can be called as a game changer for Reliance Industries.

Infosys- GuideVision Deal

By: Ankita Mishra and Krithika S (MBA 1st Year)

IT Service major Infosys on Sept 14th, said it would acquire GuideVision, a Czech Republic based company for up to 30 million euros. As per the regulatory filing, the cost of acquisition is up to 30 million euros including earn-out and bonuses. The acquisition is expected to close during the third quarter of FY2021, subject to customary closing conditions. Infy consulting ltd a step-down subsidiary of Infosys will carry out the acquisition.

"GuideVision's training academy and nearshore capabilities in Czech Republic, Hungary, Poland, and presence in Germany and Finland will make Infosys' ServiceNow capabilities much stronger for its clients in Europe," Infosys said during a statement. Narsimha Rao Mannepalli, EVP and Head (Cloud and Infrastructure at Infosys), stated that, GuideVision's addition is another substantial step towards strengthening Infosys Cobalt offerings portfolio, bringing the combination of services, solutions and platforms that works as a force multiplier for cloud-powered enterprise transformation.

GuideVision's end-to-end offerings which includes SnowMirror (a proprietary smart data replication tool for ServiceNow instances) enabling over 100 enterprise clients to simplify complex business and IT processes.

Norbert Nagy, co-founder of GuideVision, said joining Infosys brings an extended portfolio of services that the company can offer to its customers on their digital transformation journey.

Avanti Feeds Ltd.

By: Swapnil Agarwal, Nimisha Shrivastava, Rivea Ravindran (PGDM 2nd Year)

523.30 ▼ -3.20 (-0.61%)

As on 17th September, 2020

Avanti Feeds Ltd is a Mid Cap company (market cap of Rs. 6711.46 Crores) in the Aquaculture sector, which was founded in 1993 and is based in Hyderabad, India. The company manufactures, processes supplies Shrimp feeds in India, and exports to US and other countries internationally. The company's key product is the Shrimp feed for aqua culture to grow shrimp along with providing technical support services to the farmers.

SWOT Analysis

Strengths:

- Growth in Net profit (QoQ)
- Growth in Operating profit & Operating margins (YoY)
- Company with Low Debt
- Zero Promoter pledge
- FII/FPI are increasing their shareholding in this company

Weaknesses:

- Core business generating poor cashflows (CF from Operations)
- Growing cost for long term projects (YoY)
- RoCE is declining for last 2 years

Opportunities:

- Brokers upgraded their target price (recommendation) in past 3 months

Threats:

- Trend in their Non-core income is increasing

Q1 Highlights (ended 30-06-2020)

Avanti Feeds reported a Consolidated sale of Rs.955.40 Crore which is down by -7.67 % from last quarter (Q4 of FY-20) Sales of Rs.1034.81 Crore and down -12.63 % from last year same quarter sales (Q1-FY20) of Rs.1093.49 Crore. The Company has reported net profit after tax of Rs.115.74 Crore in latest quarter up by 16.9% from previous quarter sales (Q4-FY20) of Rs.98.96 Crores.

Financial Comparison Among Peers

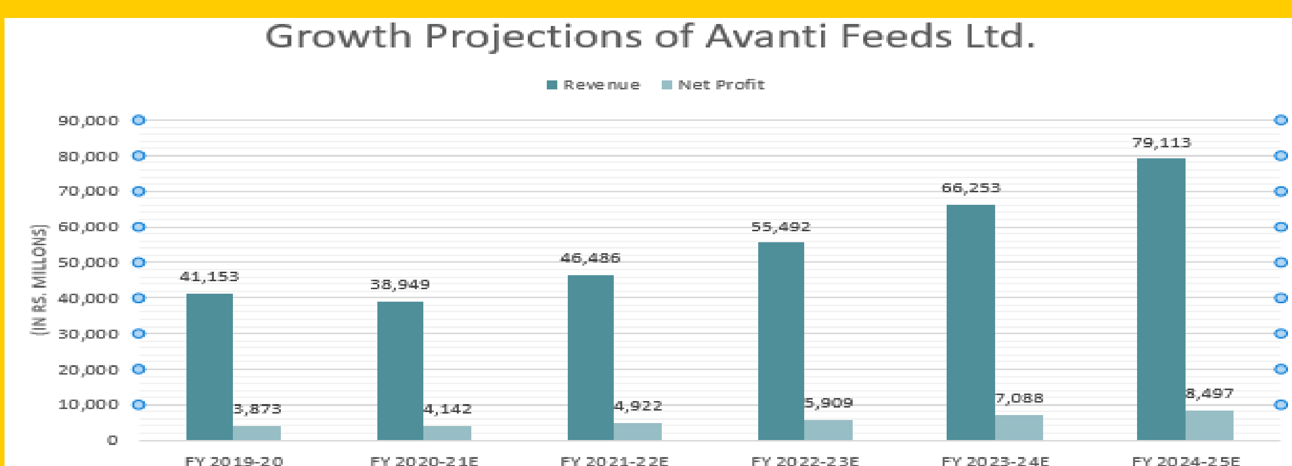
*Some major players are Godrej Agrovet, KSE, Unique Organics

Parameters	Avanti Feeds	Peer Average
Return on Equity	24.68%	19.51%
Return on Assets	28.89%	16.29%
Return on Capital employed	17.19%	15.99%
Gross Profit Margin	10.11%	7.98%
Operating profit margin	11.02%	9.21%
Quick ratio (x)	1.26	2.84
Debt Equity ratio (x)	3.17	5.30

Why Avanti feeds?

The Aquaculture industry is one of the fastest growing industries with a projected growth of 93.6 Mn MT by 2030. Shrimp production is expected to grow 7.2% YoY and Shrimp exports in India is estimated to grow at 9% YOY.

India is the fastest shrimp exporting country, and with other countries eliminating China's export of shrimp, India is becoming the next big hub. This show that the sector has great potential and Avanti Feeds is the best performing in this sector, with a market share of over 50% in this industry.



Company Fundamentals and Technicals:

BIRLA CORPORATION LTD. | (NSE: BIRLACORPN BSE: 500335)

By: Bhavya Dhawan, Shikhar Shukla, Simrit Bhatia, Dimpy Dugar (PGDM 2nd Year)

▼ -7.05 (-1.18%)

₹ 591.80

close(as on 08-09-2020)

372.50 807.60

Market Capitalization: ₹ 4,632.64 cr.

Revenue (FY'20): ₹ 4,746.60 cr.

Dividend Per Share : ₹ 7.5

Earnings Per Share : ₹ 31.38

Fundamental Highlights

Birla Corporation Limited is a holding company. Its segments include Cement, Jute and Others. Its Cement Division manufactures a range of cement, such as Ordinary Portland Cement (OPC), 43 & 53 grades etc. The Company is primarily engaged in the manufacturing of cement as its core business and is a major market player in the industry. We followed top-down approach for the analysis.

Covid impact

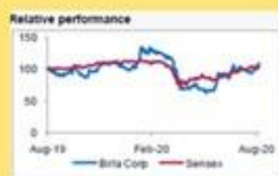
- Delay in production due to district wise lockdown
- Lower pricing growth resulting in lower EBITDA Delay in Capex expansion plans

EV/EBITDA

The stock of Birla Corporation holds EV/EBIDTA value of **8.18x** which is less than 10 and considered to be healthy for a firm as compared to industry average of **11.84x**. EV/EBIDTA compares the value of a company, debt included, to the company's cash earnings less non-cash expenses and gives true value of companies in the same industry.

Volatility of stock

The stock of Birla Corporation has been less volatile and has been relative to the performance of the Sensex in last 4 months as compared to Covid 19 impact on the entire stock market.

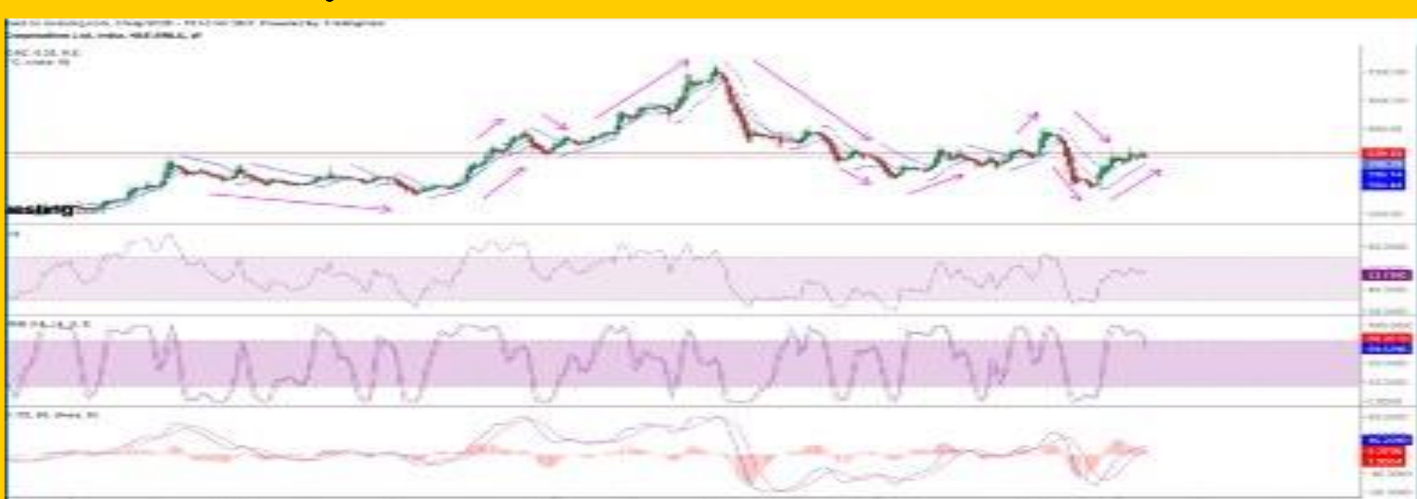


Source: Smartinvesting.com

PEG Ratio

The stock of Birla Corporation holds PEG ratio of 0.70X which is lower than 1 which indicates the stock is undervalued and with strong fundamentals of the company and is trading at a discount to its growth rate and investors purchasing it are paying less per unit of earnings growth. There is a lot of potential for an upside and show a significant rise in terms of share price.

Technical Analysis



A total of 7 compatible indicators with the stock have been used for this analysis. However, a support of at least 4 indicators is needed for buying or selling the stock. Heikin Ashi gives a buy signal when 2 green candles appear continuously and RSI or Stochastic RSI are just below the lower limit or just entering the limit bands from the lower side. MACD is a lagging indicator but in case of investment we prefer being sure of our investment and so the MACD plays a very important role. The blue line is the leading line and it gives a buy call only when it undercuts the red-line (Lagging line) and its value is less than 0n, In this stock, we found an unusual pattern forming on the candlestick chart wherein the stock price tends to form triangles (depicted by pink lines) both above and below a central horizontal line.

Our Recommendation

As the company is undervalued and with strong fundamentals, we would recommend a buy call with an upside of 30% and a target of 938.

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