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HDFC, Kotak & IndusInd: Will the private bank triumvirate regain their power?

TABLES TURNED. These stocks are facing competition from attractively valued Public Sector Banks that have improved their financials

Nishanth Gopalakrishnan
bl research bureau

What if you had invested in the stocks of India's best banks, but a few years later realised that their PIDs would have given better returns instead?

Or, whatever extra returns the stocks gave weren't worth the volatility and the risk?

That's the tale of investors who had five years back bet on stocks like Kotak Mahindra Bank, HDFC Bank and IndusInd all of which were prized for their low NPA ratios and high ROEs (return on equity).

Their stellar 5-year stock returns CAGR (as of November 2019) amidst the turmoil in the broader banking industry gave investors more confidence that the outperformance was set to last. But the reality turned out to be different.

The average stock price

Past their prime or priming up?

Bank	Stock returns CAGR in %		NPA ratio in %		Consolidated RoE in %		P/B (times)				
	Nov 26, 14 to Nov 24, 2019	Nov 24, 2019 to Nov 25, 24	FY24	FY19	FY24	FY19	As at	Current			
HDFC	21.46	7.22	1.00	1.36	1.24	21.64	16.97	17.18	4.75	4.31	2.84
ICICI	10.23	19.90	2.03	6.70	2.16	15.21	3.78	18.81	2.50	2.86	3.24
Axis	9.30	8.57	1.22	5.26	1.43	17.42	7.63	18.40	2.72	2.49	2.03
Kotak	21.85	1.73	1.55	2.14	1.39	14.35	13.25	15.03	4.51	4.93	2.37
IndusInd	15.88	-8.72	1.12	2.10	1.92	15.89	13.06	15.19	4.00	3.24	1.18

Source: Company Filings, Bloomberg calculations

CAGR of the cleanest three banks (read, low NPAs) in the last 5 years (Nov 28, 2019-Nov 28, 2024) is just 0.1 per cent.

This is also reflected in the Nifty Private Bank index CAGR at just 7.4 per cent compared to a robust 20.3 per cent CAGR of the Nifty PSU Bank Index. Why so and what lies ahead?

VALUATION MATTERS

While the three banks did maintain their solid performance going by core metrics like NPA and RoE, the tables turned due to two reasons — peers fixing the

weak points in their businesses and investors warming up to PSBs.

PSBs such as SBI and Bank of Baroda are

trades at a P/B multiple of 1.3 times, a premium to its 10-year average of 0.97 times.

ICICI and Axis, too, saw improvement in the RoE. However, the same cannot be said about HDFC Bank, IndusInd Bank and Kotak Mahindra Bank.

The fact that these stocks are now facing competition from attractively valued PSB banks in terms of com-

paratively credit cards and microfinance. While HDFC Bank's asset quality has remained pristine as always, it is facing post-merger difficulties — lower Net Interest Margin due to HDFC Ltd's high-cost borrowings and constraints on loan growth due to a high credit deposit ratio.

ICICI Bank, however, is better placed with no such woes and thus has bucked the trend.

INVESTMENT FOCUS

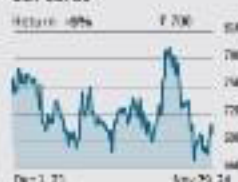
SBI Cards and Payment Services: Sell

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The stock of SBI Cards and Payment Services has been underperforming for a long while now — a classic case of richly valued companies getting punished for weak financial performance.

Asset quality has worsened and gross NPA ratio is at its weakest in twelve quarters and credit costs too have shot

SBI Cards



alised, a serious deterioration from 20 per cent plus levels seen in FY22 and FY23. The GNPA ratio currently is at 3.3 per cent, up from 2.2-2.4 per cent levels in FY22 and

Cyclone Fengal slows on home stretch; economic loss seen at ₹150 cr

Vinson Kurian
Thiruvananthapuram

The pace of Cyclone Fengal over south-west Bay of Bengal has slowed to 7 km/hour heading towards the home stretch on the Chennai-Mahabalipuram-Puducherry belt.

The Cyclone generated wind speeds of 70-80 km/hr gusting to 90 km/hr as it approached land, an India Meteorological Department (IMD) update said in the evening.

This was after the weather forecaster delayed the landfall from the afternoon, as previ-

ously announced. Heavy rain and high winds were reported along the coast on both sides of the landfall timeline.

Initial estimates suggest Cyclone Fengal may cause total economic loss of ₹150 crore from wind and rainfall-induced flooding, says Pushpendra Johari, Senior Vice-President, Sustainability, at RMSI, a Delhi-based global consultancy.

The cyclone could have impacted at least 15,000 buildings; 1,000 essential facilities; five railway stations; one airport; and approximately 4,000 km of electricity network.

RAISED THREAT
Vishwas Chitale, Senior Programme Lead, Council on Energy, Environment and Water (CEEW), a Delhi-based think tank, said the east coast hosts hotspots of compounding hazards such as floods, cyclones, and droughts.

Tamil Nadu is vulnerable to all three extreme events, according to a CEEW analysis.

The State has witnessed a two-fold increase in the number of cyclones in the past decade.

At least 11 out of 32 districts in the State are highly exposed to cyclones.

FENGAL FURY



CHENNAI WADING. Heavy rain brought on by Cyclone Fengal left many Saturday. Here, the arterial IT Corridor, outside the World Trade Centre at Perungudi, looks like a river. Unemployed Chennai Corporation authorities said 22,000 personnel including engineers, officials and sanitary workers had been deployed to clear inundation and uprooted trees at over a hundred places across the city.

Cyclone Fengal slows on home stretch; economic loss seen at ₹150 cr

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Thematic MF schemes bear the brunt of market meltdown

Suresh P. Iyengar
Mumbai

Most thematic and sectoral funds launched in the last one year have fallen below the issue price of ₹10, raising serious concern among investors, on rising turbulence in the equity market. Of the 163 thematic funds launched, the net asset value of 57 funds was below ₹10 as of October-end.

Among the schemes of large funds that are trading below ₹10 include Motilal Oswal Nifty India Defence Index Fund, Aditya Birla SL Quant Fund, SBI Automotive Opportunities, ICICI Pru Energy Opportunities and SBI Innovative Opportunities.

Thematic mutual funds focus on stocks linked to a specific theme, like infrastruc-

Steep corrections

Fund Name	NAV in ₹	AUM in ₹ cr.	Age in Yrs
Tata Gold ETF	7.54	254	0.87
Motilal Oswal Nifty India Defence Index Fund	8.74	2127	0.4
Kotak BSE PSU Index Fund	8.78	71	0.37
Tata Silver ETF	8.79	117	0.87
Tata Nifty200 Alpha 30 Index Fund	9.01	174	0.22
Mirae Asset Nifty Metal ETF	9.03	29	0.16
ICICI Pru Nifty Metal ETF	9.03	74	0.29
Baroda BNP Paribas Nifty200 Momentum 30 Index Fund	9.13	27	0.13
UTI-Nifty200 Quality 30 Index Fund	9.18	294	0.19
Tata Gold ETF	7.54	254	0.87
Motilal Oswal Nifty India Defence Index Fund	8.74	2127	0.4
Kotak BSE PSU Index Fund	8.78	71	0.37

ture, investing in sectors such as cement, power, and steel. Lacking diversification, they are high-risk, with returns tied

to sector performance. Due to concentration risk, they suit investors with an aggressive risk profile.

With most active funds failing to beat their benchmark indices, mutual funds have taken the passive route to tap opportunities in thematic investment.

GOING PASSIVE
These funds typically replicate the performance of an index and are managed passively by fund managers. They are typically more popular among investors because they are more cost-effective and easy to understand. NSE Indices, the subsidiary of National Stock Exchange, launched five sectoral or thematic indices this year; it had launched just one such fund in 2023.

Over the recent market run-up, investors have thronged to high-risk funds based on prospects around continued growth in the domestic mar-

ket, coupled with a strong expectation for instant gratification.

Kavitha Narayan, Vice-President and Head Research and New Initiatives, Capricorn Mindframe, said investing in thematic NFOs comes with the added risk of being a late entrant into a sector that could have run-up. Huge demand coming in for certain sectors and themes has also led to a lot of asset management companies launching funds with the aim to consolidate additional assets under their umbrella, she said. CA Jashan Arora, Wholetime Director and Promoter, Master Trust Group, said given the current market scenario, adding a thematic fund might offer some opportunities, but it comes with risks, especially when considering new NFOs.

multiple has 5.1 times 2.5 times at 0.

is still high, the worst behind and variation with private higher RoE outlook on earnings hence offer ward.

he above recommend all the stock.

EME recommended to PFO Amnesty encourage entities disclose on compliance and without or legal reprieve declaration will be sufficient benefits. limited window compliance, the trend social secure employ with employment formalization

REP ent decision is approved an EPF Scheme, rest computation existing provision settled till the end of the. Now, the included to the member of settlement.

this will result in financial benefit to the members and reduce the grievances.