

MARKET NEWS & EVENTS

- **Sensex ends almost 100 points lower, Nifty below 11K on Day 1 of October series**

At the close of market hours, the Sensex closed down 97 points or 0.2% at 36227.1, and the Nifty down 44.4 points or 0.4% at 10933.1.

- **After weak listing, IRCON International closes 13% below IPO price**

The stock price plunged 13 percent to close at Rs 412.95 on the National Stock Exchange against issue price of Rs 475. After starting off day below IPO price at Rs 412, it hit an intraday high of Rs 465 and low of Rs 409.10.

- **Yes Bank tanks 10% despite company's denial of hiding corporate NPAs; m-cap dips by Rs 4,560 cr**

Yes Bank stock has crashed more than 50 percent in last one month wiping out more than Rs 43,391 crore in market capitalisation. On Friday, it fell as much 9.72 percent to close at Rs 183.45 after hitting a 52-week low of Rs 166.15, losing a market cap by Rs 4,560 crore.

- **Infibeam plunges over 70% on big volumes; management clarifies**

Infibeam Avenues plunged over 70 percent on Friday, continuing its decline for the fourth consecutive session, along with a rise in volumes. The company is set to have its annual general meeting (AGM) over the weekend.

Institutional Activity September 2018 (Daily Cash Market) Rs. Crores		
Date	Flls	Dlls
24.09.2018	-523.94	1527.67
25.09.2018	-1231.70	2284.26
26.09.2018	-809.95	1555.44
27.09.2018	552.44	-186.69
28.09.2018	-1699.94	3256.34
Net Buying/Selling	-3713.09	8,437.02

Nifty Spot In Last Week:-

As we saw the Price Movement in Nifty Spot in last week that In Upside is 11,170.15 and in Downside 10,850.30.



Nifty Spot In Upcoming Week:

There is strong Resistance is 11,360 sell on rise with sl 11,360 tgt will be 10850 to 10,400 possibilities.

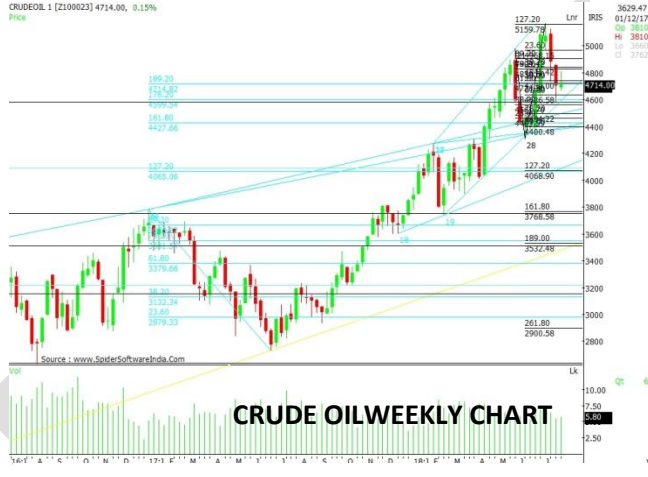
Bank Nifty in Upcoming week:

There is strong Resistance is 26,100 sell on rise with sl 26,100 closing bais for target will be 24,650 to 22,300 possibilities.

Commodity Market



COPPER:- Buy on dips with sl 435 target will be 458 to 470.



CRUDE OIL :- Buy on dips with the stop loss 5,090 target will be 5350 to 5555 possibilities.



SILVER:- Sell on dip around 37,800 to 38,100 level with the Stop loss of 37,300 target will be 39,200 possibilities.



GOLD:- Sell on rise with the Stop loss 30,900 for target will be 30,200 to 29,900 possibilities.



NATURALGAS:- Buy on dips around 210 with the stop loss of 205, target will be 230 possibilities.

Focus on these stocks for upcoming week

Serial No.	Stock Name Cash segment	Above/Below/Add HOLD	CMP as on 29.09.2018	Trail SL	Buy Stop loss	Sell Stop loss	Target
1	INFY(SELL)	BELOW712	730			736	690
2	BANKBARODA(SELL)	HOLD132.65	99.50	112			80
3	RELIANCE(BUY)	HOLD1238	1258	1235			1300
4	HDFCBANK(BUY)	AROUND1986	2007		1955		2050/72
5	BIOCON(BUY)	HOLD695	679.40		657		720

Currency Corner



USDINR: : Investors can buy on dips stop loss of 70.70. On upside target will be 73.00 sell on rise with stop loss of 73.10 target will be 71.79 to 70.70.

GBPINR: : Investors can sell on rise with the stop loss of 96.25 and down side target will be 94.60 to 93.80 .



EURINR: : Investors can sell on rise with the stop loss of 85.80 and down side target will be 83.79 to 82.70.

JPYINR: Investors can sell on rise with the stop loss of 65.05 and down side target will be 64.00 to 63.50.



Currency	DEMAND ZONE LEVEL		CLOSE	SUPPLY ZONE LEVEL	
	D2	D1		S1	S2
USDINR	70.70	71.98	72.76	73.10	73.90
GBPINR	93.80	94.60	95.02	95.60	96.20
EURINR	83.30	83.80	84.45	85.40	85.80
JPYINR	63.50	63.97	64.30	65.00	66.00

Factors affecting Currency Rates:

The most awaited event of US FED rate hike, went off as expected. As the rate was raised by 0.25%, US currency gained further strength against all the major currencies of the world. Compare to previous weeks rupee remained relatively silent. This is because in the later part of the week crude was little subdued as well as the expectation that the Govt and the RBI would take some steps to support the rupee.

However, in the debt market and the stock market, several issues are propping up and FIIs are continuously withdrawing dollars plus the US economy continues to perform well which would maintain the strength of dollar. Hence, in the near future it seems unlikely that rupee will gain much strength.

Premium / Discount (USD/ INR) Based on Forward Rates	
Duration	Premium
One month Forward	0.28
Three month Forward	0.57
Six month	1.31
One year	2.83

RBI reference Rates	
Currency	Rates
USD	72.55
GBP	94.91
Euro	84.44
100 Yen	63.90

Charts Showing trends of Dollar Index v/s USD/INR & USD/EUR



Market Updates

This is going to be a long note and I request you to go through it. I am not going to talk about risk, I have done that in the last 6 months. The time to prepare for the storm was when the skies were clear. We have a full storm now.

As I have shared in the past, I don't invest based on the macro factors such as interest rate changes, currency or inflation rate. I also ignore short term panics and euphoria in the market. The approach is to look at the long term prospects of a company and invest in those cases where we can make above average returns over long periods of time. The idea behind sharing this again is to make the point clear that I have no plans to play the current panic for some quick gains.

This brings us to the events around NBFC space.

An obscure term – Asset Liability Mismatch

This is a rarely discussed term. It is a critical part of managing the operations of a financial institutions but is rarely discussed as it works smoothly most of the times.

What is Asset Liability Mismatch ?

Any financial institution borrows money to lend it to its customers. This borrowing may be done by commercial paper, bank borrowings, mutual funds, bonds etc. These instruments have varying durations between a few days to years.

On the asset side, the lending instruments also have varying durations depending on the nature of the loan and the time left on it. At one end of the spectrum there are gold loans with a duration of 2-3 months and at other end there are long dated loans such as infrastructure loans with a duration of 5-15 years (as in the case of ILFS which is the center of the current storm)

A well managed Asset Liability Mismatch (ALM) operation tries to match the asset liability profile as close as possible. This makes intuitive sense as you want the short-term assets to be funded by the short term borrowings and vice versa.

Funding Issues

As a financial institution has a mix of long term and short-term debt, it has to renew its debt on a regular basis. This means that if the company cannot renew its debt, it has to no way of repaying it via the cash flow from assets, especially if the assets are long dated in nature.

Case of IIFS

The company has short term borrowings of around 25,000 cr. out of the total borrowings of 91,000 cr.. This means that the company has to renew this borrowing on a regular basis. The company does not break out the asset side duration, but if you look at the balance sheet almost 80% of the assets are long dated in the form of infrastructure assets and receivable claims etc.

This kind of balance sheet works till the time the financial institutions can refinance its debt on a regular basis. In the case of ILFS, they have been facing cash flow issues due to various projects being stuck at different stages of completion with claims pending with the government. At the same time, the short-term debt and interest have to be paid when it comes due.

In recent months, the company started facing liquidity issues and has not been able to make payment on the interest obligations as it cannot liquidate its assets quickly to make these payment (the nature of the assets such as roads and bridges which cannot be sold quickly).

As the company defaulted in the last few weeks, the debt held by mutual funds and other lenders had to be marked down. This has led to a cascade effect where these funds have to liquidate other instruments to meet their liquidity requirement.

ILFS may not have a solvency issue (not very sure about it) but has a liquidity issue which is now spilling over to the wider market. These liquidity issues mean that all other financial institutions, especially NBFC's which are funded via a mix of short term and long term debt could face a similar risk if the situation escalates.

Parallel with Lehman brothers

There could be a fear that this is something similar to the Lehman crisis from 2008. There are similarities but it's not identical. In the Lehman crisis the company had leveraged up to 100:1 and had funded the derivative assets with short term funding.

When the housing market collapsed, the company had to write down its assets and as it was so highly leveraged, its net worth vaporized in an instant. As Lehman was bankrupt the counterparties refused to extend credit and the liquidity dried up. The only way to save Lehman was to recapitalize it.

In the case of most financial institutions in India, we don't have an asset side problem and hence they don't have solvency issue. What we are seeing is a liquidity concern and hence if the government steps in and provides liquidity, the situation could normalize.

Portfolio Risk

I have focused on the company level and portfolio risks but we cannot eliminate the second or the third order effects. For example, the recent drop has been due to the problems of ILFS, but as the liquidity concerns spread, it has started impacting the overall market now.

There is a lot of commentary around what will happen. A lot of people feel that market has overreacted and we will be back to normal soon. I am not very sure about the same. The only fact which I am sure about is no one can predict what will happen next. The reality of the situation is that we do have a situation with ILFS which is a SIFI (systematically important financial institution). In simple words it means, that the company is so large that if it goes down, there will be a domino effect which will affect the entire financial sector.

As this is a private company, we have not seen any action from the government on it. However, we are now at a point where the contagion has started spreading and sooner or later there will be bailout (government will have to back the company). If this happens soon, then the fallout will be contained. However, if the government delays in taking action due to political compulsion, then we have a lot of turbulence ahead.

The first order impact would be in the financial services sector, but it will spread to all other stocks as we are seeing now.

Plan of action?

I don't want to give false hopes to anyone. The reality is no one knows how the situation will evolve. If the government steps in quickly, further panic will be avoided. If, however, we do not see affirm action, then we need to be ready for some tough times.

We don't manage the portfolio with an eye of reducing the short-term swings. We are always concerned with the long term intrinsic values of the companies we hold. I will try to evaluate the impact of liquidity squeeze on some of our holdings in the financial space.

It may be shocking to see sudden drop in price of all the stocks we hold. It seemed more shocking as such a panic occurred after almost 2 years. This is similar to demonetization where portfolios dropped by more than 10% in a week. The risk at that time was mainly on the asset side (loans going bad). This time around it's around a liquidity crunch which is more of an issue from the liability side.

Although we have avoided to react on day to day movements in the market, we do have an eye on it, we will update you if there are any changes in our views. For now, be prepared for rough times.

HEAD OFFICE

B/230-231, International Trade Center, Majura Gate, Ring Road, Surat-2.(Guj.) India **Ph: 0261- 40 60 750, 246 27 90**
Fax : 0261-246 27 91 www.markethubonline.com E-Mail : sales@markethubonline.com

BRANCH

Varachha Road, Surat - 6. Ph : 0261-254 49 06 • Mahidharpura, Surat-3. Ph : 0261 - 245 10 39

IA SEBI Registration no.:INA000005333

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