Reliance Industries, Infosys propel LIC portfolio by 33%

The insurer's holdings in listed firms stood at ₹4.32 trillion at the end of the March quarter

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Life Insurance Corporation's (LIC's) equity portfolio has seen a ₹1.4-trillion jump since April, driven by the sharp rebound in markets from their March lows.

The insurer's holdings in listed firms stood at ₹4.32 trillion at the end of the March quarter, which is now valued at ₹5.76 trillion. This translates to a rise of ₹1.4 trillion, or 33 per cent. In the current financial year so far, the Sensex and Nifty have rallied 28 per cent and 29 per cent, respectively.

This study is based on data of 351 companies from Capitaline Plus, where LIC held an over 1 percentage point stake in the June quarter. These entities accounted for 72 per cent of the total market capitalisation of BSE-listed firms.

A large portion of the rise is attributed to the over-150 per cent jump in RIL shares since their March 2020 lows. The stock accounted for over a quarter — or ₹38,972 crore — of LIC's gain during the period. The life insurer holds 5.79 per cent stake in the Mukesh Ambani-led firm.

BETTING BIG

Company	Stake (%)	Value in (₹ cr)	Change (₹ cr)
RIL	5.79	80,366	38,971
Infosys	7.19	29,456	11,403
IDBI Bank	51.00	21,467	11,250
TCS	4.22	36,071	7,340
HDFC Bank	2.83	16,321	4,647
M&M	10.95	8,138	4,312
Maruti Suzuki	6.65	12,587	4,310
ITC	16.25	38,633	4,276
HDFC	5.39	16,932	3,744
Sun Pharma	6.56	8,026	2,643

LIC stake as on Jun 30,'20; value as on Jul 30,'20; change over Mar 31,'20
Source: BSE/CapitalinePlus

Infosys, in which LIC has 7.19 per cent stake, added ₹11,403 crore to its kitty. Besides, IDBI Bank — in which LIC is a promoter and holds 51 per cent — contributed ₹11,250 crore to the gains. TCS added ₹7,340 crore, while HDFC Bank, ITC, Mahindra & Mahindra (M&M), Housing Development Finance Corporation (HDFC), and Maruti Suzuki India contributed between ₹3,700 crore and ₹4,700 crore.

The sharp rally has made experts cautious. For all the positive momentum, one needs to remember that the pandemic is far from over, according to Jyotivardhan Jaipuria, founder and MD of Valentis Advisors.

"Following the sharp rise in the Nifty from its March lows, we are entering a correction and consolidation phase. From a medium-term outlook, we are positive. If we look at our three key market-driver models, (a) we are still at a low point of the earnings cycle, which will remain the primary driver for markets; (b) valuations are at fair-value levels, though no longer cheap; (c) trailing returns in equities are still poor and hence reversion is likely," he said.

With the moratorium in place, the actual asset quality trend for the financial sector will emerge only after Q3FY21, say analysts. The banking sector (including NBFCs and HFCs), they add, is likely to face near-term obstacles on the growth, asset quality, and profitability fronts.

Among the Nifty firms, LIC has increased its stake in 28 of them by up to 1 percentage point (ppt). It, however, trimmed its holding in seven entities, including Britannia, Nestlé India, Dr Reddy's, Cipla, and Bajaj Auto by close to 1 ppt each.

As a portfolio strategy, investors could still stock up on defensives given the uncertainty around the pandemic, despite the run-up seen since the March lows, according to G Chokkalingam, founder and CIO of Equinomics Research.

India's gold demand plunges to 11-year low

DILIP KUMAR JHA
Mumbai, 30 July

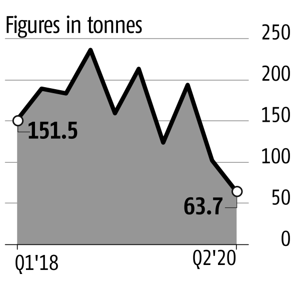
India's gold demand declined by a staggering 70 per cent in the quarter ended June 30 of calendar year 2020 (Q2CY20), the lowest quarterly figure in 11 years. However, at 44 tonnes, gold jewellery demand fell to its lowest on record.

This was because of the closure of retail shops and factories after the nationwide lockdown was imposed to prevent spread of Covid-19, and a sharp increase in the metal's price.

Meanwhile, China's jewellery demand, which fell 52 per cent in the March quarter, improved in the June quarter and was down 33 per cent at 90.9 tonnes. India and China contributed the most to the global fall in demand, which halved to an unprecedented 251 tonnes.

TAKING A HIT

Figures in tonnes



COMPILED BY BS RESEARCH BUREAU
SOURCE: WORLD GOLD COUNCIL

Data compiled by the apex industry body, the World Gold Council, showed that demand stood at 63.7 tonnes in Q2. This figure was better only than the 40 tonnes demand seen in the March quarter of 2009, in the aftermath of the Lehman crisis.

As a result, gold imports stood at just 11.6 tonnes, a fall of 95 per cent, because of logistical issues and poor demand. Dore imports plummeted to 3.5 tonnes as against 75.5 tonnes in the corresponding period last year. While jewellery demand declined by 74 per cent in Q2, investment demand fell by 56 per cent in volume terms to 19.8 tonnes.

"The nationwide lockdown and high prices acted in combination to keep India's gold demand to a record low at 63.7 tonnes during Q1. Barring a couple of days, retail jewellery stores remained shut for most of the period. Thus, the quarter was a washout for gold demand," said Somasundaram PR, managing director, India, World Gold Council, while releasing the Gold Demand Trends report for the quarter.

Online trade played a significant part during the lockdown, as gold exchange-traded funds (ETFs) grew after being dormant for many years. Digital gold, too, saw significant activity, though volumes remain negligible in the overall demand scenario.

Digitisation shift makes IT a sound long-term bet

After the recent rally, direct investors need to be cautious about valuations

SANJAY KUMAR SINGH

Information technology (IT) sector funds have witnessed a category average return of 17.6 per cent over the past month and 31.2 per cent over the past three months. The S&P BSE IT Index, too, is up 23.45 per cent and 36.46 per cent over these periods.

Several factors have contributed to this rally. IT companies had begun to turn optimistic in their commentary from April. They expected the impact on first-quarter (Q1) earnings to be harsh, but were confident that things would stabilise thereafter.

"In Q1 results, while the revenue figures were in line with or slightly better than expected, there were positive surprises on the margin front. That provided a fillip to the rally," says Meeta Shetty, fund manager, Tata Digital India Fund.

The rupee has been stable against the dollar but has depreciated against the euro and the pound. Indian IT companies derive 20-30 per cent of their revenue from Europe and the UK. "This cross-currency tailwind provided a boost to margins," says Jyoti Roy, deputy vice-president, equity strategy, Angel Broking.

The sector has also benefited from a shift in allocation. "Prior to the Covid-19 crisis, allocation to the IT sector was low. Since then, a lot of money has moved from sectors like banking, financial services and insurance (BFSI) and consumer discretionary to IT," adds Roy.

The sector's medium- to long-term prospects remain positive. Indian IT companies are expected to benefit from the migration to Cloud computing. This segment allows headroom for growth for another five to seven years at least. "The Covid crisis has lent further impetus to the adoption of Cloud computing," says Shetty. Well-entrenched Indian IT companies also stand to gain from the trend towards vendor consolidation.

The improvement in margins is expected to sustain. Earlier, clients demanded on-site employees from their service providers. But the Covid crisis has demonstrated that many tasks can be handled offshore or remotely. This trend is expected to result in sustained cost savings for IT companies.

Investors, however, need to be prepared for a few risks.

One is the possibility of a second wave of Covid infections during winter in both US and Europe. Two, developed economies are being propped up by massive doses of liquidity infusion. Some could falter once this tapers off, which could affect consumer spending and hence, the retail sector's IT spend. Spending cuts by the BFSI sector, the largest spender on IT, can also not be ruled out if the global economy falters.

YOUR MONEY

Investors with a five-year horizon may invest up to 5 per cent of their equity portfolio in an IT sector fund using the systematic investment plan route. "When selecting a fund, make sure it is well-diversified across market capitalisations, and across businesses like engineering and R&D, IT services, and product companies," says Shetty.

After the recent rally, direct investors especially need to be careful about valuations. "You cannot buy at any valuation and expect to make money, so be careful about your entry price," says E A Sundaram, chief investment officer, o3 Capital.

After the recent rally, reasonable valuations are more likely to be found among mid- and smaller-sized IT companies.

According to Sundaram, the IT companies you bet on should have a diversified client base and not be overly dependent on one sector or company.

Direct equity investors should also pay heed to the percentage of revenue coming from digital technologies — the higher the better. They should also avoid IT companies with high exposure to verticals like travel and tourism, hospitality, and retail, which are expected to take more time to recover.

STRONG PERFORMANCE

Category returns (%)

Technology sector funds	Absolute			Compound annualised			
	1 mnth	3 mnths	6 mnths	1 yr	3 yrs	5 yrs	10 yrs
Maximum	21.5	37.7	13.6	26.4	20.1	12.5	15.5
Average	17.6	31.2	8.4	18.1	18.7	11.1	13.6
Minimum	14.2	24.8	5.9	14.5	18.1	10	12.3

Less than one-year returns are absolute, greater than or equal to 1-year returns are compound annualised returns
Source: mutualfundindia.com