

FEBRUARY 2019

INDIAN

STOCK MARKET JOURNAL

EMPOWERING TRADERS AND INVESTORS

**INDIA-
PAKISTAN
TENSION
RISES**

**FOREIGN INVESTORS
REMAIN CAUTIOUS**

NSEL SCAM

**ALL YOU
NEED TO KNOW**

GST SLASHED

**HOW REAL ESTATE
WILL PERFORM**



equitypandit
FINANCIAL

CONTENTS



20
Indian-Pakistan Tension Rises: Foreign Investors Remain Cautious

Page 2

A Message from the CEO

Page 3

NSEL Scam : All You Need To Know About It

Page 12

GST On Real Estate Slashed: Which Stocks To Look Out For

Page 20

India-Pakistan Tension Rises: Foreign Investors Remain Cautious

Page 26

Major Highlights Of Interim Budget 2019

Page 29

The 5 Worst Mistakes Traders Make: Avoid Them



EQUITYPANDIT FINANCIAL
SERVICES PVT. LTD.
305, TRINITY BUSINESS
CENTRE, L. P. SAVANI
ROAD,
SURAT GUJARAT - 395009



WWW.EQUITYPANDIT.COM

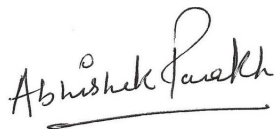
A MESSAGE FROM THE CEO

Dear Readers,

Currently, India is on the verge of probable crisis both politically and economically. On the one hand, our brave soldiers are guiding our pride and security by laying their lives; on the other hand, the agencies within the country are fighting to safeguard the citizens from a number of financial frauds. Both battles are equally important for us to win.

Awareness is something that will help us sail through. To give our readers an edge above the others, we have compiled enlightening articles about the crisis our country is facing. This edition of ISMJ covers sensitive topics such as the NSEL Scam—the most controversial scam of the commodity market and the Indo-Pak Tension along with other useful readings. Hope these articles help you analyze the market better.

We would like to thank you for appreciating our previous edition with your kind words. We would love to have your continuous feedback so that we improve on our work. Please feel free to write to us at feedback@equitypandit.com.



Abhishek Parakh

CEO & Managing Director
EquityPandit Financial Services (P) Limited



NSEL SCAM: ALL YOU NEED TO KNOW ABOUT IT

One of the star controversies of the commodity market, NSEL fraud is back in limelight after some top players in the industry fail the fitness test conducted by SEBI.

Here is what you need to know about the NSEL Case.



Securities and Exchange Board of India (SEBI) has recently declared Geofin Comtrade and Anand Rathi Commodities as not 'fit and proper' to act as commodity derivatives brokers in for their suspected involvement in the Rs 5,600-crore National Spot Exchange (NSEL) scam. Both commodities brokers have been directed to "cease to act, directly or indirectly" as commodity derivatives brokers, as per the two orders passed on February 25, 2019.

Besides these two commodity brokers, the regulator is also probing some industry giants like Motilal Oswal and IIFL. Earlier, SEBI had listed out around 300 broking firms for their alleged role in the settlement scam on the spot exchange way back in 2013.

SEBI has recently declared some top players in the industry as not 'fit and proper' to act as commodity derivatives brokers

It all started when (Serious Fraud Investigation Office) SFIO, an organization dedicated to detecting white collar crimes, approached SEBI to put a number of commodity brokerage house through its 'Fit and Proper' test. The test examines the capabilities of broker companies and their promoters or directors as a broker.

Besides these two commodity brokers, the regulator is also probing some industry giants like Motilal Oswal and IIFL. Earlier, SEBI had listed out around 300 broking firms for their alleged role in the settlement scam on the spot exchange way back in 2013.

SEBI had listed out around 300 broking firms for their alleged role in the settlement scam on the spot exchange way back in 2013.

One of the star controversies of the commodity market, NSEL fraud is back in limelight after some top players in the industry fail the fitness test conducted by SEBI. Here is what you need to know about the NSEL Case.

WHAT EXACTLY HAPPENED?

NSEL (National Spot Exchange Limited) was conceptualized in the year 2004, pursuant to the then Prime Minister's vision to create a single market across the country for both manufactured and agricultural produce. There was a dire need to set up a national-level, integrated market for agricultural products, to reap the benefit of a spot market.



In order to boost volume, the three exchanges NSEL, NSPOT, and National AFMC were allowed to conduct forward trading in one-day contracts. The NSEL became the country's first ever electronic commodity exchange for 'spot delivery' of contracts, including agricultural products. The exchange is blamed to take as long as 25 to 35 days to settle some contracts. The permitted time period to do so was up to 11 days.

Against the regulations, short-selling, too, was allowed in many cases. The then regulator Forward Market Commission (FMC), then intervened and asked NSEL to wind down existing contracts. This ended in payment default.

Forward Market Commission (FMC), then intervened and asked NSEL to wind down existing contracts. This ended in payment default



The crisis came to light when the physical commodities were short of the record. Warehouse Receipts were not backed by any physical commodity. When investors claimed commodities worth their money, the borrowers could not provide them, as goods were way short in warehouses. This is how the most controversial scam of the commodities market was born.

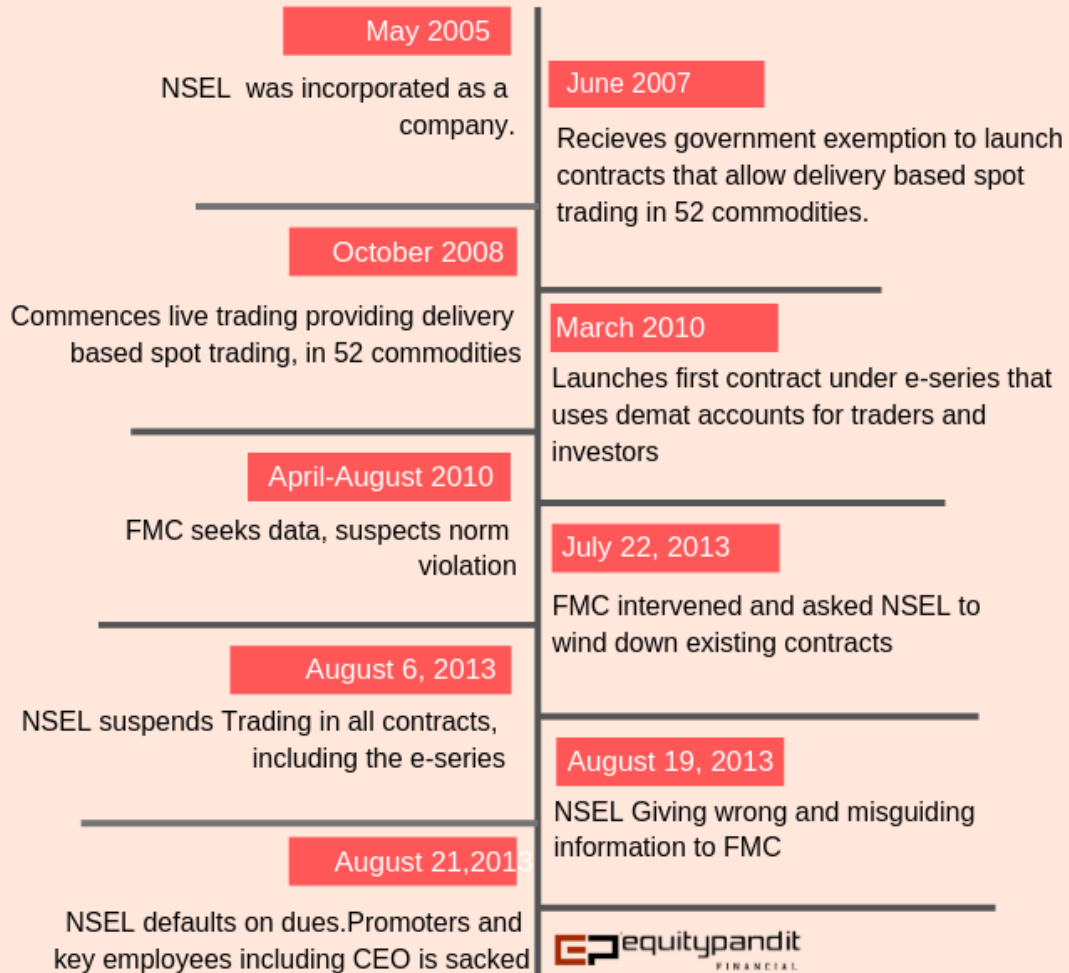
The scam first seemed like a fraud conducted by the promoters and key employees. However as the investigation paced, large brokers and financial players came under the radar. They were allegedly involved in deliberately introducing their clients to this trading circle.

The brokers failed in their duty by marketing fake schemes and lure the investors into trading in the commodity segment. In the majority of the cases, they are allegedly found to have traded on behalf of the ignorant investors.

The investigations continue since then. A number of brokers, defaulters, investors and key decision makers are under the radar.

as the investigation paced, large brokers and financial players came under the radar

NSEL SCAM (TIMELINE)



equitypandit
FINANCIAL

WHAT ROLES HAVE BROKERS PLAYED?

The primary allegation against the brokers was that they had made false promises to the clients in order to attract their investment in commodities. The assurance was given to the extent of risk-free returns to the clients. They promoted arbitrage opportunity in the spot market by way of pair contracts. The clients were made to believe that pair trades are backed by collaterals in the form of stocks.



SEBI also doubts that the brokers had manipulated client code modifications. Though it is not established yet.

Also, SEBI in its order against the brokers had said that these brokers did trades in clients' name without their permission. These brokers allegedly allowed clients to execute trades despite debit balance in their accounts. These brokers did not segregate funds between clients account and the organization's account.

The alleged brokers made statements that goods in the warehouse are backed by insurance cover; which are in violation of provisions of various circulars, rules, and bye-laws of NSEL and sections 21(g) of the FCRA.

alleged brokers made statements that goods in the warehouse are backed by insurance cover; which are in violation of provisions



as the investigation paced, large brokers and financial players came under the radar

Also, these brokers had failed to report suspicious transactions to the Financial Intelligence Unit under PMLA thereby violated a provision of NSEL Circulars. The accused brokers did not segregate funds between clients account and the organization's account.

WHAT LIES AHEAD FOR THESE BROKERS?

The designated team of three adjudicating officers of SEBI has already submitted their report on April 11, 2017. They believe that the conduct of the brokers was questionable and their general reputation, the record of fairness, honesty, and integrity had eroded.

They have suggested to ban them from commodities derivatives trading and also initiate prosecution for the irregularities.

Normally, designated authorities recommend civil proceedings in accordance with the intermediaries regulation. But the NSEL case, they have also suggested prosecution.

However, the lawyers involved in this case believe that prosecution should be involved in exception criminal cases only and that it should be an extreme solution in this case.

DIFFICULT ROAD AHEAD

SEBI decides to initiate criminal proceedings, based on recommendation by designated authorities

The designated authority found the conduct of the brokers questionable

Lawyers believe that prosecution should be used in exceptional criminal activities



GST ON REAL ESTATE SLASHED: WHICH STOCKS TO LOOK OUT FOR?

The Goods and Services Tax (GST) Council has slashed the levy on under-construction houses and affordable homes

Find out how this might affect the real estate sectors and which stocks to focus on



In a much-awaited move, the Goods and Services Tax (GST) Council has slashed the levy on under-construction houses to 5% along with a rate of 1% introduced for affordable homes. In either case, builders will not be able to claim the input tax credit (ITC) on inputs such as steel cement and paint. The government claims that builders were swiping in the gains arising therefrom. The new rates will be effective from April 1, 2019.

At present, GST is applicable at an effective rate (standard rate minus deductions) of 12 percent on general housing and effective rate (concessional rate minus deductions) of 8 percent on affordable housing on the purchase of under-construction property or ready-to-move-in flats where completion certificate has not been issued at the time of sale.

GST Council has slashed the levy on under-construction houses to 5% along with a rate of 1% introduced for affordable homes



The Council's decision ahead of the Lok Sabha elections is expected to boost demand for housing in the otherwise suffering sector. The increase sales of under-construction properties along with a simplified tax structure and compliance for builders could be seen as a strategy to fulfill the incumbent government's vision to provide a roof to everyone before its targeted year 2022.

The move may also be seen as the government's attempt to keep an eye on a sector driven by huge cash transactions and black money.

HOW HAVE THE RATES BEEN LOWERED?

The Goods and Services (GST) Council has accepted the proposal to cut the GST rate for general residential housing to 5% and for affordable housing to 1%. It has also decided to let go of input tax credit (ITC). The new rates will be effective from April 1, 2019.

The Council's decision ahead of the Lok Sabha elections is expected to boost demand for housing in the otherwise suffering sector

Currently, the GST is levied on the sale of under-construction building/civil structure or ready-to-move-in flats. These flats are those to which the completion certificate has not been issued at the time of sale.

In case completion certificate is not issued to a ready-to-move-in or the completed property, GST is not applicable on sale of such properties. GST is levied at an effective rate of 12 percent (standard rate of 18 percent less a deduction of 6 percent as land value) on normal housing and effective rate of 8 percent (concessional rate of 12 percent less a deduction of 4 percent as land value) on affordable housing.

the Council has brought in the dual definition of affordable housing-one on the basis of carpet area and second on the basis of cost

Also, the Council has brought in the dual definition of affordable housing-one on the basis of carpet area and second on the basis of cost. A residential flat with a carpet area of up to 90 square meters in non-metropolitan cities is considered affordable. These apartments have to be up to 60 square meters in metro cities in order to fall in the category of affordable houses.

The value of these flats cannot be more than Rs 45 lakh, to be considered as affordable housing. Delhi-NCR, Bangalore, Chennai, Hyderabad, Mumbai-MMR, Kolkata will be considered as metro-cities.

WHAT WAS THE NEED TO LOWER THE GST ?

Though a little disagreement arose between the states and the central government over procedural implications of the proposed rate cut, the two were equally concerned about the slowdown in the sector and demand-supply



mismatch that has led to a high inventory of ready-to-move apartments. The majority of members of the Council approved the cut in GST in the real estate sector, as they agreed that the real estate sector needs a boost.

The input tax credit (ITC) was availed to the builders on a number of inputs like cement, steel etc so that the benefit is passed on the ultimate buyer in the form of low prices of the house. It is, however, seen that the builders were not passing on this benefit to the home-buyers. Constructors and developers were including the cost of this input and calculating the tax on the total amount. Only the balance amount after deducting the ITC components was supposed to be taxed. The ITC has therefore been eliminated. This might decrease the profitability of the builders and developers but will boost the demand significantly.

WILL THIS MOVE BE BENEFICIAL IN THE LONG RUN?

This move comes as a huge boost for the demand for housing from the middle-class consumer, especially in the urban areas. It may be taken as a deliberate step to stimulate demand in the beleaguered real estate sector.

This might decrease the profitability of the builders and developers but will boost the demand significantly.



Builders and developers are struggling with a huge inventory of unsold ready-to-move-in houses. The cut in GST for low-cost housing of small-sized houses will be a sentiment booster in the short term, despite the problem posed by the unsold inventory in the regular-sized properties.

On the supply side, it is not very pleasant news for the builders and developers as it may eat away a part of their profitability because of the elimination of the input tax credit (ITC), earlier allowed on a list of inputs used in the construction of the building. The increase in sales of otherwise unsold units is estimated to override the resulting decline in developers' profit margins.

The cut in GST for low-cost housing of small-sized houses will be a sentiment booster in the short term

However, this may not be seen as a long-term revival for the sector. The real estate sector now demands a sustainable solution to the problems faced by the industry for a long time now. One of the many issues faced by the sector is the liquidity crisis in the non-banking financial sectors. Until a solution is found even a piece of small positive news may prove to be a sentimental boost. At present this move may only add positively to the balance sheet of the realtors and developers.

HOW WILL NIFTY REALTY PERFORM?



EP equitypandit
FINANCIAL

Above chart is the monthly chart of Nifty Realty Index. As seen from the chart the index is consolidating in the range of 215-220 on lower side to 245-250 on upper side since last 4 months.

215-220 is very crucial support zone for the index as it is the 61.80% retracement of entire upmove from the levels of 125 to 375. If the index closes below the levels of 215 for couple of days then it can further drift to the levels of 180-185 where 76.40% retracement level is lying.

245-250 is very strong resistance zone for the index as it is the 50.00% retracement of entire upmove from the levels of 125 to 375. 245-250 will also act as strong resistance zone for the index as the index has broken down from the double bottom pattern. If the index strongly closes above the levels of 250 then it can further move to the levels of 275-280.

So at present it seems from the monthly chart of the index that the index is buy on dips.

WHICH REALTY STOCKS TO WATCH OUT FOR?

The developers who have a good stream of annuity assets plus strong residential business are the ideal plays in the real estate. Real Estate giants who have a large residential play and low debts on the balance sheet are ideal to invest in. The following stocks can be bought on dips for better risk reward:

- Godrej Properties
- Oberoi Realty
- Prestige Estate
- DLF.



Disclaimer:

The recommendations made herein do not constitute an offer to sell or a solicitation to buy any of the securities mentioned. No representations can be made that the recommendations contained herein will be profitable or that they will not result in losses. Readers using the information contained herein are solely responsible for their actions. Information is obtained from sources deemed to be reliable but is not guaranteed as to accuracy and completeness.



INDIA-PAKISTAN TENSION RISES: FOREIGN INVESTORS REMAIN CAUTIOUS

If the tension between India-Pakistan rises, we may witness an outflow of capital from the Indian equity market.

Find out how the geopolitical factors affecting the flow of capital in the financial market.

When the country entered the year 2019, much volatility in the market was anticipated due to the presentation of the interim budget, followed by general election during the summers. However, the recent turn of events has created a much bigger turmoil than it was expected.

On 14 February 2019, a Jaish-e-Mohammed (JeM) suicide bomber attacked a convoy of vehicles carrying security personnel of Central Reserve Police Force (CRPF). The attack resulted in the deaths of more than 40 jawans, making it one of the deadliest attack on security personals in Kashmir's history.

*suicide
bomber
attacked a
convoy of
vehicles
carrying
security
personnel of
Central
Reserve
Police Force*

According to several reports, the attack was carried out by JeM operative Adil Ahmed Dar when he rammed an SUV loaded with more than 350 kg of explosive into the buses carrying CRPF paramilitary troopers. The attack's responsibility was immediately claimed by Jaish-e-Mohammed, an Islamist terrorist group based in Pakistan.

The incident tip the already heated Indo-Pak relation to the point of boiling, which resulted in numerous cross country diplomatic actions. In the aftermath of the attack, India withdrew Pakistan from the Most Favoured Nation (MFN) status and hiked the customs duty on imported goods from the rival to 200%.

On February 22 the Financial Action Task Force (FATF), on the request of the government of India to put Pakistan on the blacklist, gave Pakistan the deadline of October 2019 (while keeping it on the greylist) to comply with the 27 conditions laid in June 2018. The FATF asked Pakistan to move quickly to meet the deadline, failing to which will attract blacklisting of the nation.



Other voices from India also reacted on the Pulwama attack, including farmers refusing to export their goods to Pakistan, film industry implementing a ban on the Pakistani artist to some even going forward suggesting to cut all diplomatic ties with Pakistan.

The market closely reacted as the information regarding the Pulwama attack unfolded. During the first three days of the Pulwama attack, the Foreign institutional investors (FIIs) withdrew Rs. 3019.98 crores from the cash segment whereas the Domestic institutional investors (DIIs) injected Rs. 4353.84 crores in the market during the same period. However, after the initial sandstorm, FIIs returned to the market and has infused Rs 6,194.33 crores as of now, into the market.

The market closely reacted as the information regarding the Pulwama attack unfolded

On the other hand, DIIs took some money out of the system and as of now has invested Rs. 3761.69 crores in the market.

FIIIs in the equity segment from February 14 to February 18 were net sellers as the cash outflow stood at Rs. 4900.07 crores. However, as of February 22, the FIIIs have infused more than they took out as the cash inflow stands at Rs. 8117.3 crores (Rs 12,132.10 crores infused on Feb. 22). The FIIIs, in the debt segment, as of February 22 has pulled out around Rs. 3042 crores from the market.

On 26 February 2019, the spokesperson of Pakistan Armed Forces alleged that the Indian Air Force violated the Line of Control (LOC) by entering Pakistani air space to drop payload near Balakot.

The Foreign Secretary of India, Vijay Keshav Gokhale, in a press briefing confirmed the air strike carried out by the Indian Air Force aimed to eliminate the training camp run by Jaish-e-Mohammed (JeM).

Gokhale said that the intelligence input was received that JeM was running multiple training camps in Pakistan and in Pakistan occupied J&K, which was scared time to time with Pakistan, however, no action was taken by the nation. He added "Credible intelligence was received that the Jaish-e-Mohammed was planning other suicide terror attacks in various parts of the country and the fidayeen jihadis were being trained for this purpose. In the face of imminent danger, a preemptive strike became absolutely necessary." Gokhale also said that India struck the biggest training camp of JeM in Balakot eliminating "a very large number of JeM terrorists, trainers, senior commanders and groups of jihadis."

The FIIIs, in the debt segment, as of February 22 has pulled out around Rs. 3042 crores from the market.



Now all eyes are on the Pakistani Prime Minister who called a meeting after the Indian Air Force strike, quoting “Pakistan reserve the right to reply.”

It is expected that the stock market can witness a high level of volatility and huge correction, depending on the nature of the retaliation from Pakistan. The Indian equity market is currently considered as ‘High Beta’ amongst the global equity market. According to numerous studies, there is a correlation between a higher level of geopolitical risk and the flow of capital from the economy under stress to the developed economy which are often considered as ‘safe haven’.

Thus if the tension between India-Pakistan rises, we may witness an outflow of capital from the Indian equity market. FIIs have already positioned themselves in the selling mode and an increase in tension will lead to more capital outflow.

*if the tension
between
India-
Pakistan
rises, we may
witness an
outflow of
capital from
the Indian
equity market*

MAJOR HIGHLIGHTS OF INTERIM BUDGET 2019

FOR FARMERS

Modi Government announced that all farmers affected by natural disasters will receive 2% interest subvention upfront for entire loan period, and farmers with up to 2 hectare of land will come under PM Kisan scheme where farmers will receive get Rs. 6,000 per year under PM Kisan scheme which will be cash transferred directly to farmers bank account. PM Kisan scheme will start the transfer of cash with effect from December 2018.

FOR INCOME TAX PAYERS

Modi government announced tax benefit for salaried professionals and pensioners. Salary earners up to Rs. 5,00,000 annual income will receive full tax rebate. Salaried professionals of up to ₹6,50,000 income will not be required to pay tax if they make tax related investments. The government increased standard deduction from Rs. 40,000 to Rs. 50,000.

No TDS on post office savings up to Rs. 40,000 and on rental income up to Rs. 2,40,000 per year. Capital gains tax exemption under Section 54 raised to Rs. 2 crore.

FOR PENSIONERS

Government launches mega pension scheme for social security coverage of unorganised labour where the government will contribute equally in pension accounts under mega pension scheme.

Unorganised labour will receive Rs. 3,000 per month after age of 60 under mega pension scheme. Government announced that the Mega pension scheme is for people with income up to Rs. 15,000 per month and will benefit 10 crore people. Government will contribute 14% under New Pension Scheme.

FOR STARTUP

India is set to become the second biggest hub for start-ups, A National Programme for Artificial Intelligence covering 9 areas has been announced.

BUDGET ALLOCATION

Defence Budget crosses ₹3 lakh crore mark in FY20 Budget, Budgetary support for railways for FY20 is ₹64,587 crore, Railways' operating ratio seen at 96.2% in FY19, 95% in FY20, North-east states to get 21% higher budget allocation at ₹58,166 crore in FY20, Railways FY20 capex seen at ₹1.58 lakh crore.

FORECAST

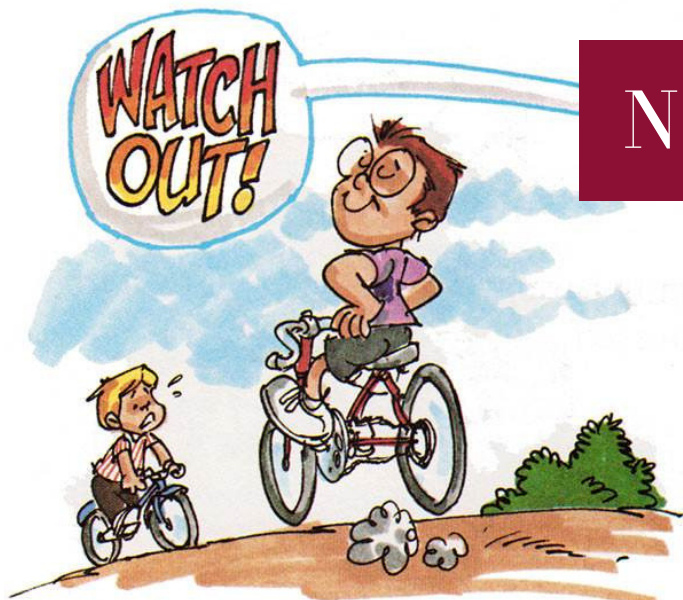
Government lays out 10-year roadmap to improve ease of living, Making India a pollution-free India in 10-year roadmap, To lead world in transport and energy storage devices, To bring down dependent on imports for energy needs, Roadmap envisions people traveling in electric cars, Tenth dimension of government's India 2030 vision is a healthy governance, Fifth dimension of government's India 2030 vision is clean rivers, Government to scale up Sagarmala programme, Seventh dimension of India 2030 is to lead in space programmes, Eighth dimension of India 2030 is to grow food in environment friendly manner, Ninth dimension of India 2030 is a healthy India, Tenth dimension of India 2030 programme is a comprehensive wellness system

BUDGET IN NUMBERS

- ₹1.3 lakh crore undisclosed income brought under tax net
- Current account deficit for 2018/19 seen at 2.5% of GDP
- Fiscal deficit for 2018/19 seen at 3.4% of GDP
- Recovered ₹3 lakh crore via bankruptcy code
- Average GST collection ₹97,100 crore
- Direct tax collections estimated at ₹12 lakh crore in FY19
- Poised to become a \$5 trillion economy in 5 years
- Aspire to become a \$10 trillion economy in 8 years
- Fiscal deficit pegged at 3.4% of GDP for FY20
- FY20 total expenditure seen at ₹27.84 trillion rupees
- FY20 capital expenditure seen at ₹3,36,292 crore, Central schemes to get ₹3,27,679 crore FY20
- National education mission to get ₹38,572 crore FY20
- Integrated child development scheme to get ₹27,584 crore
- FY20, SC, ST welfare to get ₹76,800 crore FY20
- Poor farmers to get cash in three equal installments under PM Kisan scheme
- PM Kisan scheme for poor farmers to cost government ₹75,000 crore FY20
- PM Kisan scheme to transfer cash directly to farmers' accounts
- Government announces Rashriya Gokul Mission to support poor owning cows, Rashriya Gokul Mission cow scheme to get ₹750 crore in the current year
- Central government to alone support PM Kisan scheme
- All farmers affected by natural disasters to get 2-5% interest subvention

THE 5 WORST MISTAKES TRADERS MAKE

EquityPandit Lists 5 Worst Mistakes Made by Traders That You Must Avoid.



NO TRADING PLAN

Some traders may not have a trading plan in place before they commence trading. Even if they have a plan, they abandon it if things are not going their way Or they may take a reverse course altogether only to end up making losses.

TRADING TOO FREQUENTLY

Overtrading can turn a good profits into significant losses. While seasoned traders learn it the hard way new traders may have yet to learn this lesson.



NO STOPLOSS

Losses have the tendency to multiply at a faster rate. It is very crucial that you take measures to stop it. Stop the trade if your losses reach a certain threshold.

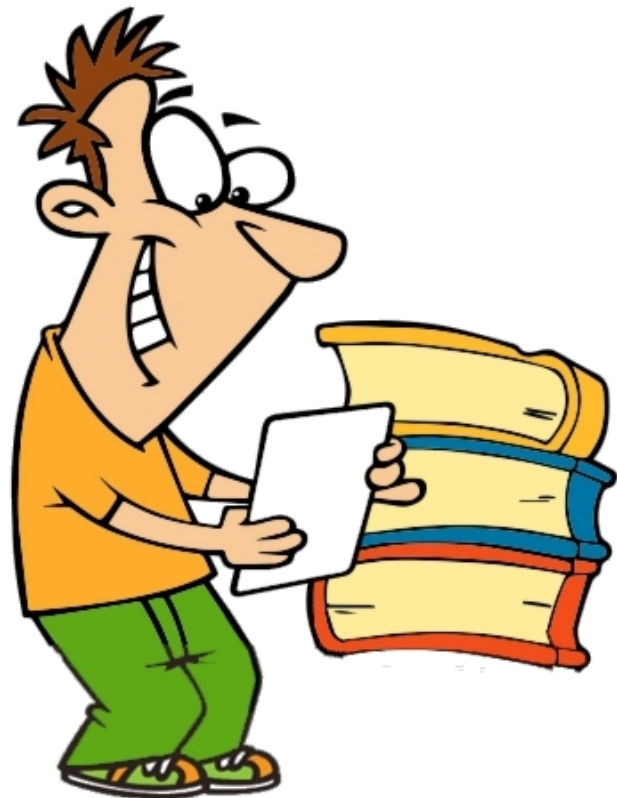


FOLLOW CROWD

Some traders blindly follow the crowd, and as a result they may either end up paying too much for hot stocks or may initiate short positions in securities that have already plunged and may be on the verge of turning around.

SKIP HOMEWORK

Some traders are found guilty of not doing their homework. The urgency to put on a trade often overwhelms the need for undertaking some research, but this may ultimately result in an expensive lesson.





About EquityPandit

EquityPandit is a leading research and advisory firm in India. The firm is one of the biggest players with a dominant position in both institutional and retail. The company specializes in the business of analysis, information, and intelligence.

The business is supported by an efficient powerful research and back office team. EquityPandit's set of diligent advisors helps its customers plan and get more out of one's money. We offer a diversified range of products according to the difference in the Needs of an investor, trader or a broker.

The firm's philosophy is entirely client centric, with a clear focus on providing long-term value addition to clients, while maintaining the highest standards of excellence, ethics, and professionalism. The entire firm activities are divided across distinct client groups, individuals, private clients, corporates and institutions all of which are supported by powerful research teams.

We thank our contributors Mr Darpan Shah & Mr Jagrut Shah for Research and Analysis; and our editorial team Ms Surabhi Deo & Mr Divyjayot Sethi, for putting together the magazine.

Disclaimer

The recommendations made herein do not constitute an offer to sell or a solicitation to buy any of the securities mentioned. No representations can be made that the recommendations contained herein will be profitable or that they will not result in losses. Readers using the information contained herein are solely responsible for their actions. Information is obtained from sources deemed to be reliable but is not guaranteed as to accuracy and completeness.

Copyright © 2018 EquityPandit Financial Services Pvt. Ltd.
All rights reserved.

SEBI Registered Investment Advisor
SEBI Registration Number : INA000006688

Investment/Trading in markets is subject to market risk.