

NEWSLETTER

June 2021 #2



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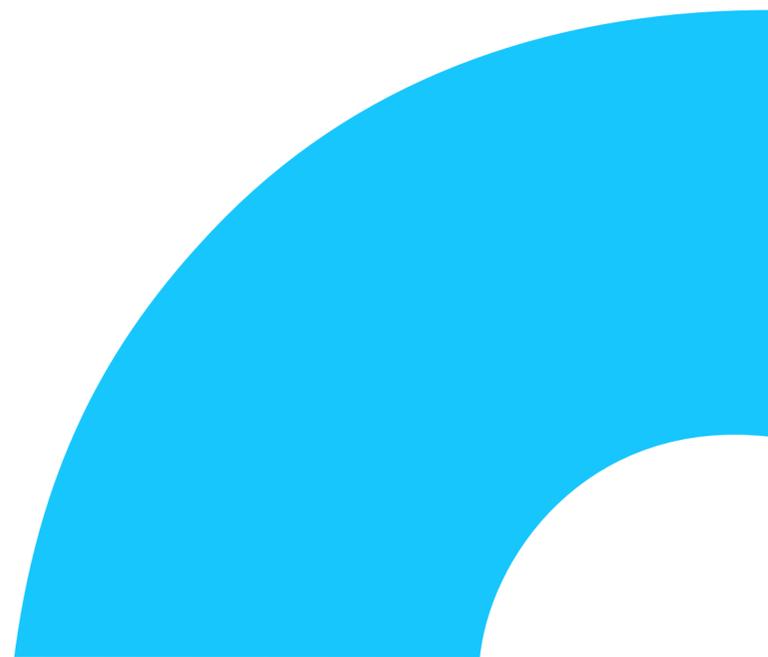
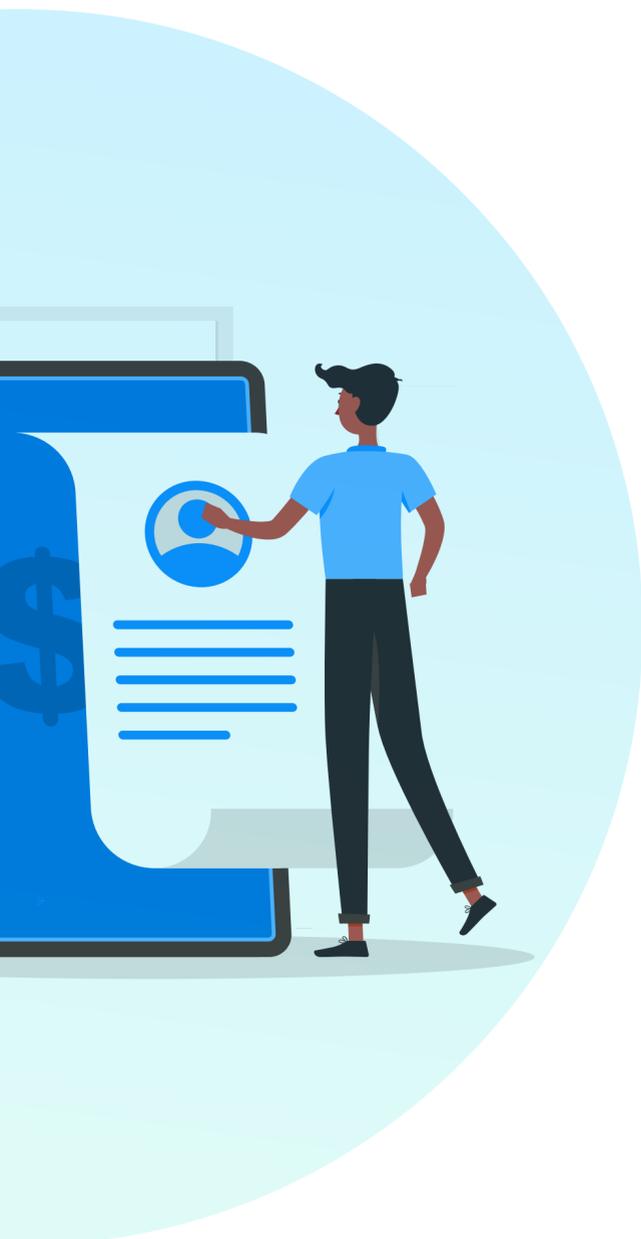
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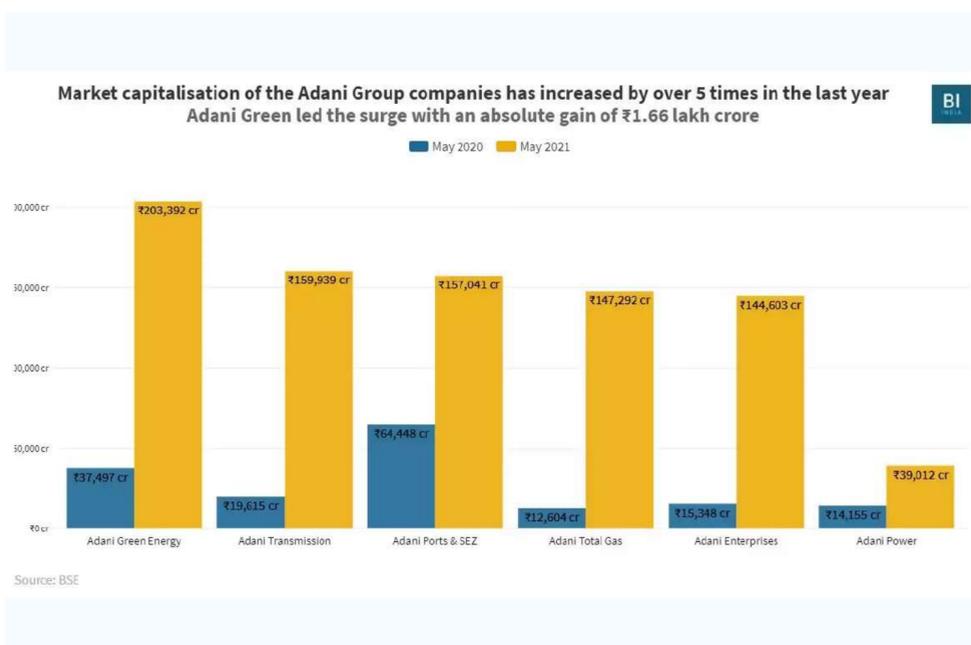
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Special Takes

01 The Adani Move

Asia's second-richest man, Gautam Adani, saw a meteoric rise during the COVID-19 pandemic as shares of listed Adani firms surged last year. Since May 2020, Adani Enterprises shares are up 800%, Adani Transmission shares are up 700%, Adani Total Gas Limited shares are up 1100%, Adani Green Energy Limited shares are up 400%, while Adani Ports and SEZ (APSEZ) shares doubled and Adani Power shares saw three-fold growth. The rise of Adani comes when India is struggling through the COVID-19 crisis where the economy is struggling to keep up. It was all going to be a fairy tale for the Adani Group until some questions started to cook among the investors. Going to the backdrop of this upsurge of Adani group, the participants behind this rise have been under the eye of investors. The overseas funds hold a large chunk of shares, effectively reducing the public float and leaving the stocks prone to volatility. Elara India Opportunities Fund, APMS Investment Fund, Cresta Fund, Albula Investment Fund, Lts Investment and Asia Investment Corp. have put more than 95% of their assets in Adani group firms, according to data compiled by Bloomberg Intelligence.



Shares of Adani group companies recorded their biggest weekly losses ever. The six stocks cumulatively lost nearly 2 trillion Indian rupees (\$26.98 billion) of value in four days. This fall came as an outcome of a report that aired in the market. The NSDL website showed accounts held by the three funds frozen as of May 31, among thousands of others, without citing a reason, according to Reuters. A major flag of concern among the investors was the three foreign funds - Albula Investment Fund, Cresta Fund and APMS Investment

Fund - are all registered at the same address. Data by Trendlyne indicated that the five funds deployed 94.4%-97.9% of their total capital in Adani companies' shares creating rumours of insider trading and price rigging in the group stocks. Along with the reports, a tweet by renowned journalist Ms Sucheta Dalal added fuel to the fire. The reporter who broke the Harshad Mehta Scam of 1992 mentioned a 'scandal' and 'relentlessly rigging of prices of one group'. Though the name of the group was not mentioned, the tweet created a panic among the Adani group investors. Following the news, the Adani Group stocks touched a lower circuit the next day. The Adani Group immediately issued a statement calling the story "blatantly erroneous". It was vindicated after NSDL issued a statement that the funds were in fact not frozen. This fiasco did not impact the ratings by the brokerages and rating agencies on Adani, but the episode has brought renewed attention to a quirk of Indian corporate ownership's increasing dependency on foreign investors.

02 Videocon to Vedanta for nothing?

Videocon Industries Ltd (VIL), saddled with a debt of Rs 35,000 crore, took a sigh of relief this month. The National Company Law Tribunal (NCLT) has approved the resolution plan of Twin Star Technologies, a promoter entity of the Vedanta Resources group for the acquisition of Videocon Group. Though this news seems to be a cheer for everyone, in reality, the shareholders and the creditors have nothing in hand. But why is this an unfair deal? "Out of total claim amount of Rs 71,433.75 crore, claims admitted are for Rs 64,838.63 crore and the plan is approved for a paltry sum of Rs 2,962.02 crore, which is only 4.15 per cent of the total outstanding claim amount and the total haircut to all the creditors is 95.85 per cent", NCLT said in its order. This heavy haircut means the creditors will get no resort. This also involves a heavy loss to the MSMEs as they are allocated only 0.72 per cent of their admitted claim which could even render them insolvent. Since the creditors won't be getting much, the shareholders have no chance for any relief. The equity shares of Videocon will stand delisted from the BSE and the NSE in accordance with the order of the NCLT. The liquidation values of VIL and VAIL (Value Industries Ltd) are not sufficient to cover the debt of the financial creditors of VIL and VAIL respectively in full. Hence the shareholders are under no umbrella of benefit

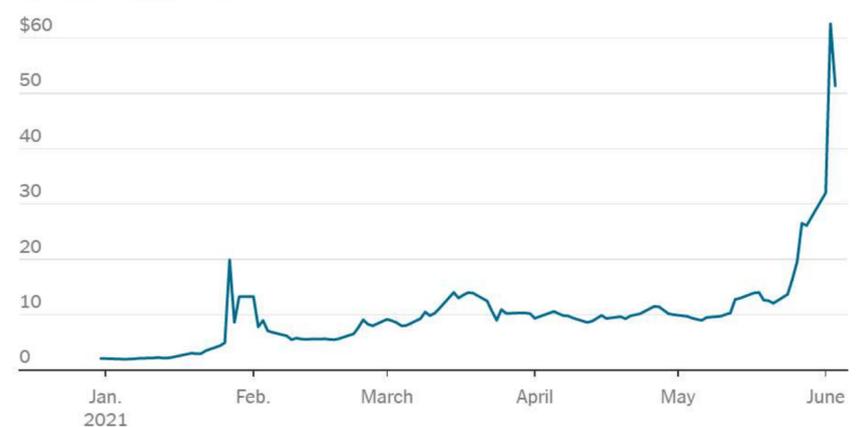
from the resolution plan. In brief, shareholders lose everything, and banks will have to face a 42,000 crore haircut. The real benefit lies for the Vedanta Group promoter Twin Star Technologies, who is paying close to nothing as the amount offered is only 4.15 per cent of the total outstanding claim. However, it has been advised by the bench to both, the committee of creditors (CoC) and the successful resolution applicant to increase the payout amount. Above all the deal even involves an added angle of possible breach of the confidentiality clause. The bench has expressed surprise that the registered valuers, who valued the assets of the group, spread over 13 companies with varied business interests, products, and segments, and the resolution applicant, who also valued the assets of the group, arrived at "almost the same value". This raises the question: has the deal been made within the provisions of the law or is this a case of corporate influence and misconduct?

03 Return of Reddit Saga

AMC Entertainment's skyrocketing stock, which hit an all-time high on Wednesday, would be easy to dismiss as some meme-trade madness, that social media-fueled investor frenzy has launched and sent the likes of GameStop and BlackBerry into speculative territory. The rally in meme stocks took the centre stage on Wall Street for the second time in 2021 when AMC Entertainment's share price soared 103% in one day. What has been the reason behind the stupendous rise of the meme-based stock? AMC's rise, as always, has been attributed to the Reddit players. Moreover, the technical reason behind the rise has been financial jargon namely 'Gamma Squeeze'. This term traces its roots to the option derivatives market. Market makers who sell options may ultimately have to deliver the underlying stock, so they risk heavy losses if they have to pay more than they bargained for. To hedge their exposure, they often buy shares of the underlying stock. In the case of AMC, a horde of call option buyers left market makers with a massive short gamma position that grew as the share price inched closer to the high strike prices held by bullish investors. As a result, market makers bought AMC shares to offset their exposure, adding more fuel to the rally, analysts said. That is a gamma squeeze. Another possibility apart from a blindfolded Reddit bet 2.0 can be the trust of the retail investors who were the anchors of this rise in the revival of the movie and entertainment business with the ease of lockdown restrictions. While the price action has more to do with technical factors, the movie theatre chain is seeing recovery as customers return. But the sustainability of the meteoric rise in the stock price looks doubtful.

According to regulatory filings, 10 AMC executives and board members have sold nearly 239,000 shares for roughly \$9.5 million in a month. Former controlling shareholder Dalian Wanda Group nearly closed out its AMC stake at the end of last month. It sold about \$430 million in shares over a one-week period, nine years after taking control of the company in a \$2.6 billion deal. The big fish losing interest in the firm indicates the fact that there has been no reason for the growth of the shares; mere speculation by a retail army abounds. The AMC action has nothing to do with the company. Above all, the company, which has around \$5 billion in debt and \$450 million in deferred lease repayments, has seen revenue slashed significantly due to the coronavirus pandemic. Even in the rosier scenario, the surge cannot be logically explained. Investors need to be extremely cautious before planning to ride the volatility.

AMC Entertainment share price

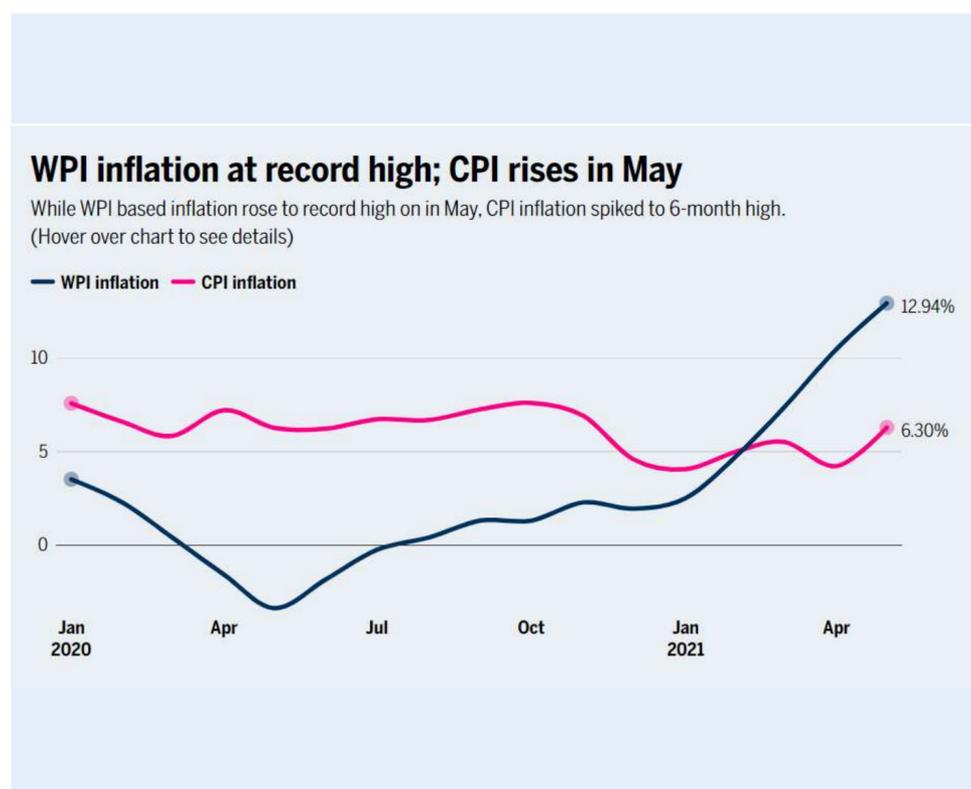


Source: FactSet - By The New York Times

Finance

01 Soaring CPI & WPI Levels

The Consumer Price Index and the Wholesale Price Index data for the month of May raised some red flags. The May-month CPI rose to levels of 6.3% from the April-month levels of 4.2%. This spike has been mainly attributed to the rise in food prices. Prices in the fuel and light category were elevated at 11.58% in the month of May. While the CPI levels are at a six month high, the WPI levels have breached an all-time high of 12.94% in May. Along with the rising prices of commodities like crude, mineral oils and iron ore among others, the low base effect is the major reason. The low level of WPI in May 2020 that stood at (-)3.37% is the main reason for the jump in the wholesale inflation levels.



02 Jet Financials rejected but a come-back likely

The 28th Annual General Meeting (AGM) resulted in a rejection of its audited standalone financial statements for the financial years ended March 31, 2019 and March 31, 2020. Jet Airways was not able to prepare its financial results on time as the directors, CEO, CFO and other top management personnel had resigned before the resolution process began in June 2019. The grounded airline has received an NCLT clearance for a resolution plan by Kalrock Capital and Murari Lal Jalan.

Source- Business Standard

03 PNB Housing - Carlyle Group Deal Halted

An Rs. 4,000 crore deal has been stayed by the market regulators. Proxy advisory firm Stakeholders Empowerment Services (SES), had flagged and raised concerns over the deal being "unfair and abusive" to minority shareholders of PNB Housing. SES has also highlighted that PNB was giving away control of PNB Housing to the Carlyle Group without deriving 'control premium'. On further enquiry, SEBI has barred the shareholders' approval of a Rs 4,000 crore stake sale to Carlyle group. The regulator said the resolution regarding the deal, which was to be put for shareholders' vote on June 22, was "ultra-vires" of the company's Articles of Association (AoA).

04 Carlyle's arm offloads 5.1% in SBI Cards

Carlyle Asia Partners sold a 5.1% stake, i.e., 48 million shares in SBI Cards and Payment Services worth Rs`4,811 crore through a block deal. The stock was sold in a lower price band of Rs. 1,002.33 apiece. Morgan Stanley and Goldman Sachs were the bankers of the deal. Morgan Stanley Asia, the only buyer disclosed in the NSE bulk deal data, bought 5.4 million shares worth Rs. 542 crore. Earlier too, Carlyle sold a 4.2% stake in SBI Life Insurance Company for Rs.`4,061 crores.

Source: ET

05 Divestment of banks

In the process of meeting the ambitious divestment target of Rs 1.75 lakh crore for FY22, the government is planning a stake sale for a couple of public sector banks. The Centre has shortlisted the Central Bank of India (CBI) and Indian Overseas Bank (IOB) for divestment. It has been anticipated that there will be a 51 per cent sale in the first phase of divestment. For the completion of the process, Banking Regulation Act and some other laws will need amendments from the government. Divestment in Air India, BPCL and SCI is also on the cards.

06 Airtel-Tata join hands for 5G

Telecom major Bharti Airtel has entered into a strategic partnership with Tata Group for implementing 5G networks solutions for India. TCS has developed a 'state of the art' O-RAN based Radio & NSA/SA Core and has integrated a totally indigenous telecom stack, leveraging the Group's capabilities and that of its partners. The telco said that it will deploy this indigenous solution developed as part of its 5G rollout plans in India and begin the pilot program in January 2022.

07 Reliance Industries AGM concludes

The much-awaited annual general meeting of India's largest corporate, Reliance Industries, was headed by Chairman, Mukesh Ambani, along with the board of directors on the 24th of June. The meeting concluded with the announcement of Saudi Aramco Chairman Yasir Al-Rumayyan joining RIL's board, the Google-Jio smartphone - JioPhone Next, Google Cloud joining hands with Reliance Jio for its 5G initiative and the launch of RIL's new energy business and the creation of Dhirubhai Ambani Green Energy Giga Complex.

Global Financial News

01 FED Speaks of Rates

The Federal Reserve Open Market Committee had its two-day meeting on June 15-16, concluding with a mixed note for the financial markets. The FED kept its benchmark interest rate close to zero, central bank officials signalled on their so-called "dot-plot" that there could be two rate hikes in 2023. This commentary of the FED indicating a sooner rate increase than what they had anticipated earlier caused a wave of worry across global markets. Their median projection showed they see lifting their benchmark rate to 0.6% from near zero by the end of 2023. This comes after the economy battles the jitters of the pandemic and inflation levels show heat. However, Chairman Powell mentioned this being a no certainty and will wait for actual inflation, thereby bringing relief to the markets.

02 India bound SPAC raised \$170M

Special Purpose Acquisition Companies (SPACs) or blank cheque companies have become extremely popular among investment firms and startups over the past two years. They launch IPOs with a promise to invest in or acquire a company within a set timeline. Widely popular in the western countries, it was in the month of June when India also had a hand in any SPAC for the first time in history. Global Consumer Acquisition Corp (GCAC) is a blank cheque company backed by private equity veteran Rohan Ajila, and Gautham Pai, chairman of The Manipal Group. The Indian backed SPAC successfully raised \$170 million from an IPO in the US exchange. The company, which is listed on NASDAQ under the symbol 'GACQU' is a special purpose vehicle for acquiring entities in the consumer sector with a focus on Asia and India.

03 IKEA fined \$1.3 million for spying

Global furniture giant IKEA has been fined €1 M for snooping on staff. IKEA France was accused of using private detectives and police officers to collect staff's private data. It was discovered by the court that IKEA's French subsidiary used espionage to sift out trouble-makers in the employee ranks and to profile squabbling customers. Two former Ikea France executives were convicted and fined over the scheme and given suspended prison sentences. In a statement, the company said it had "implemented a major action plan to prevent this from happening again".

Public Affairs and International Relations

01 Record 8M jabs a day

With the launch of the implementation of New Vaccine Policy that provides free vaccines to all the adults of the nation, India has set a new world record of vaccinating 85.96 lakh citizens on the first day. Government plans to make 216 crores doses available by the end of this year. This total will be achieved by a combination of 8 vaccines including both indigenous as well as foreign developed doses.

02 China-Australia tensions

After Canberra challenged Beijing's crippling tariffs on Australian wine exports, China said that it had filed a lawsuit at the World Trade Organization, challenging Australia's anti-dumping measures on a range of goods. This has escalated tensions between the two countries following the anti-China campaign which has emerged after the COVID pandemic. China said that the lawsuit aims to "safeguard the legitimate rights and interests of Chinese companies."

03 Hungary confronted over LGBTQ+ rights

EU leaders have signed a letter vowing to fight discrimination against the LGBTQ+ community, indirectly targeting the Hungarian bill. Last week, Hungary's parliament passed a bill prohibiting LGBT+ persons from being depicted in instructional materials, prime-time television, or children's shows and films. The government says that the law is designed to protect children, but human rights groups and the Council of Europe's human rights commissioner called those statements "misleading and incorrect."

Source: *The Guardian*

Startups and IPOs

01 Paytm's path to IPO

Digital payments startup Paytm will ask for shareholders' permission to sell about \$1.6 billion in new stock as part of what's set to be India's largest-ever initial public offering. Paytm, formally known as One97 Communications, is joining a global share sale frenzy with a plan to offer as much as \$3 billion of shares in the IPO. The company wants to sell shares worth Rs. 120 billion (\$1.61 billion) plus a potential 1% for over-allotment. The startup has hired four banks including JPMorgan Chase & Co. and Goldman Sachs Group Inc. for the IPO.

Source: Bloomberg

02 Mindtickle- the Latest Unicorn

Pune and San Francisco-based Mindtickle, founded in 2011 raised \$100 million led by SoftBank in November last year and was valued at \$500 million. This time once again SoftBank is in talks for an additional \$100 million investment in Mindtickle that would value the startup at \$1.1 Billion. Following this deal, it will be the latest firm to join the elite unicorn club in a record-breaking year for unicorns.

03 Rs 1,800 crore for PMC Merger

A joint venture floated by Centrum Group and digital payments startup BharatPe for launching a small finance bank will infuse Rs 1,800 crore capital into troubled Punjab & Maharashtra Cooperative Bank (PMC) on its merger with the proposed bank. This successful merger will pave the way for the depositors' money, summing up to Rs 10,723 crore, to be released, two years after PMC failed.

04 Pharmeasy acquires 66% in Thyrocare

PharmEasy is acquiring a majority stake in diagnostics chain Thyrocare Technologies Ltd., in what the online pharmacy claimed was the first-ever acquisition of a listed company by an Indian startup unicorn. API Holdings Ltd., the holding company of the newly converted unicorn, has signed a definitive agreement to acquire a 66.1% stake in Thyrocare for Rs 4546 crore. This deal comes after the acquisition of Medlife by Pharmeasy ahead of the planned IPO.

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