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Beating the Benchmark

Update on How Offshore Investors Can Pick Top Indian Stocks

by Tariq Dennison, +852 9476 2868

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About Tariq Dennison, CFP^{CM}

- I manage client accounts on the Interactive Brokers platform
 - US Advisor: GFM Asset Management LLC
 - HK Advisor: GFM Group Limited
- Trading / managing wealth since 1998
 - Commerzbank (NY, London, Frankfurt)
 - Bear Stearns (NY)
 - J.P. Morgan (NY)
 - CIBC (Toronto, London, HK)
 - Societe Generale (HK)
- Masters in Financial Engineering
 - University of California at Berkeley
- Visiting Faculty at ESSEC Singapore
- Focus on US-Asia corridor
- CFP^{CM} professional, STEP Member
- Author “Invest Outside the Box”



Fundamentals

- Key stats on “Why India?”
- Makeup of top India benchmarks and funds
- Opportunities by sector and factor, some names

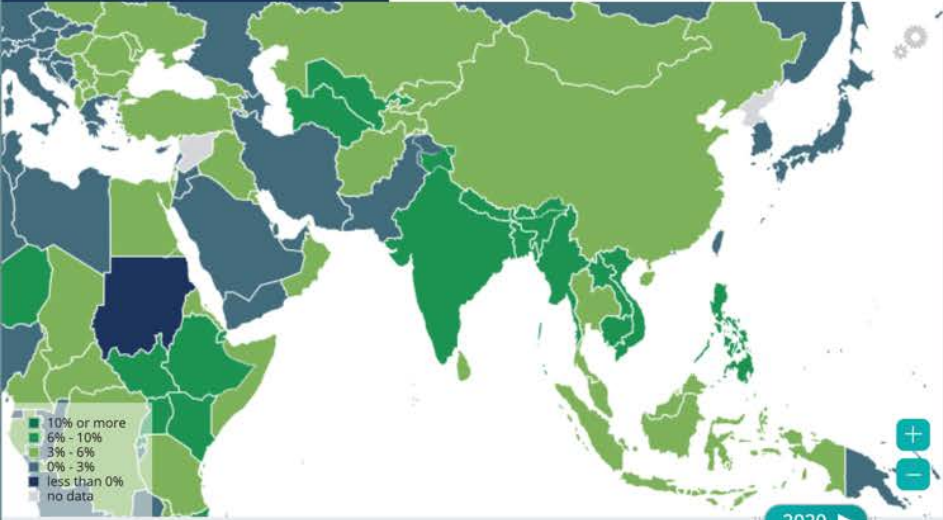
Futures and Strategies

- How Indian SSFs Work
- Vs:
 - Index Futures
 - Offshore Fund
 - Onshore Shares
 - P-note
- Directional and Long/Short Strategies
- Risks

Statistic #1: Growth Surpassing China's



country **region** analytical group



region	value ^
South Asia	6.6
Asia and Pacific	4.9
Southeast Asia	4.7
East Asia	4.6
North Africa	4.4
Africa (Region)	3.8
Caribbean	3.7
Central Asia and the Caucasus	3.5
Central America	3.4
Sub-Saharan Africa (Region)	3.4
Pacific Islands	2.7
Eastern Europe	2.4

2020 ▶



China, People's Republic of	all indicators	country page	5.8
India	all indicators	country page	7
United States	all indicators	country page	2.1

+ ADD AN ITEM TO THE CHART

RESET

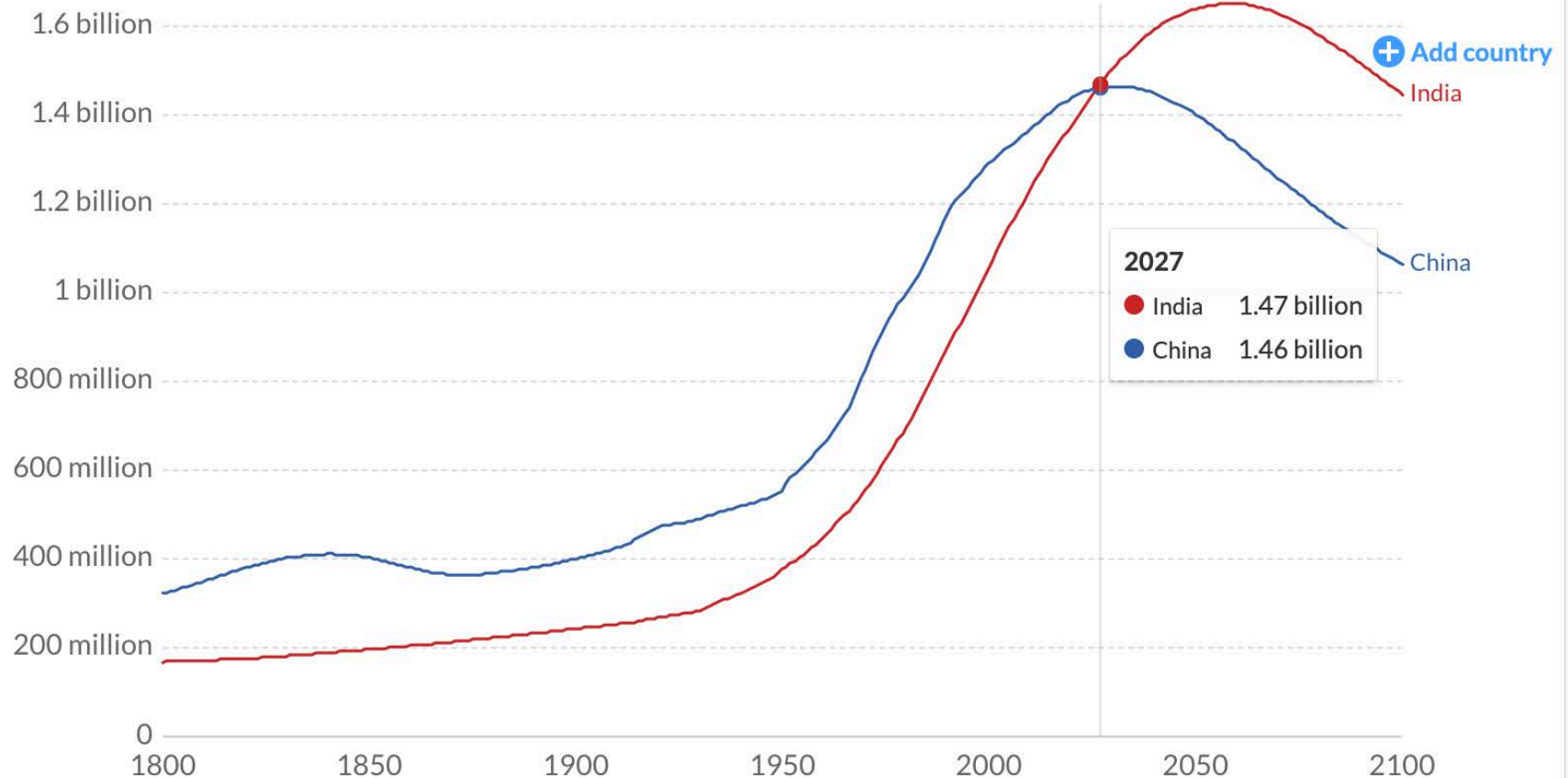
Source: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/CHN/IND/USA

Statistic #2: Highest Population by 2027

Population

Historical estimates of population, combined with the projected population to 2100 based on the UN's medium variant scenario.

Our World
in Data



Source: Gapminder & UN Population Revision (2017) Medium Scenario
Note: Historical country data is shown based on today's geographical borders.

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Source: <https://ourworldindata.org/india-will-soon-overtake-china-to-become-the-most-populous-country-in-the-world>

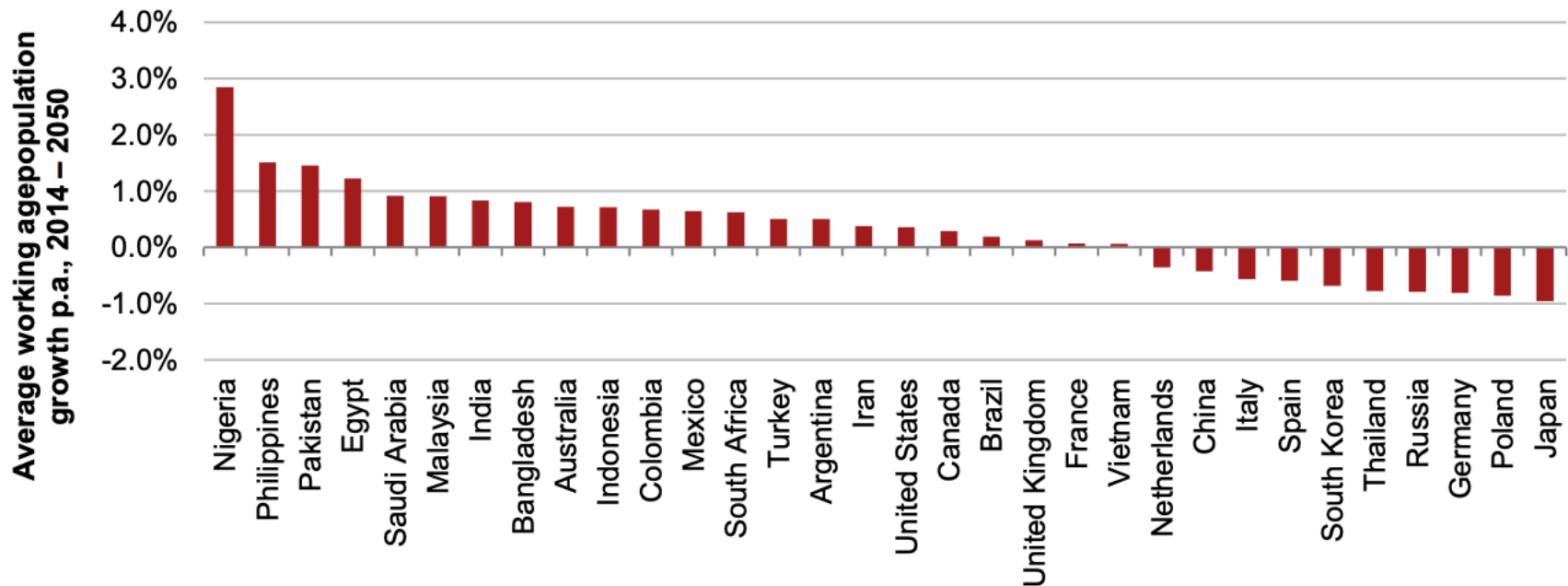
Statistic #3: Indian economy to match US by 2050

PPP rank	2014		2030		2050	
	Country	GDP at PPP (2014 US\$bn)	Country	Projected GDP at PPP (2014 US\$bn)	Country	Projected GDP at PPP (2014 US\$bn)
1	China	17,632	China	36,112	China	61,079
2	United States	17,416	United States	25,451	India	42,205
3	India	7,277	India	17,138	United States	41,384
4	Japan	4,788	Japan	6,006	Indonesia	12,210
5	Germany	3,621	Indonesia	5,486	Brazil	9,164

Source: <https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf>

Statistic #4: ... partly due to healthy demographics...

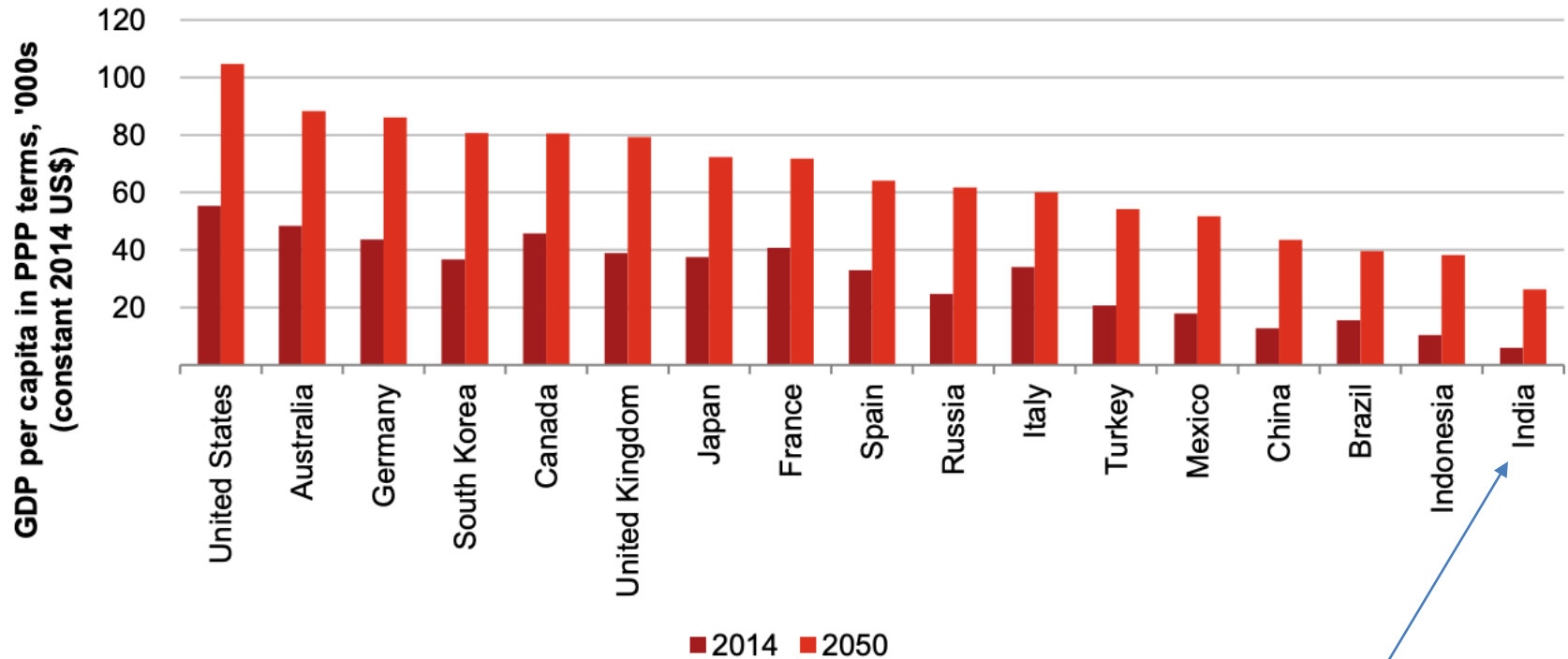
Figure A-1: UN estimates of average working age population growth to 2050 (% p.a.)



Source: <https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf>

Statistic #5: ... partly larger % gains in standards of living

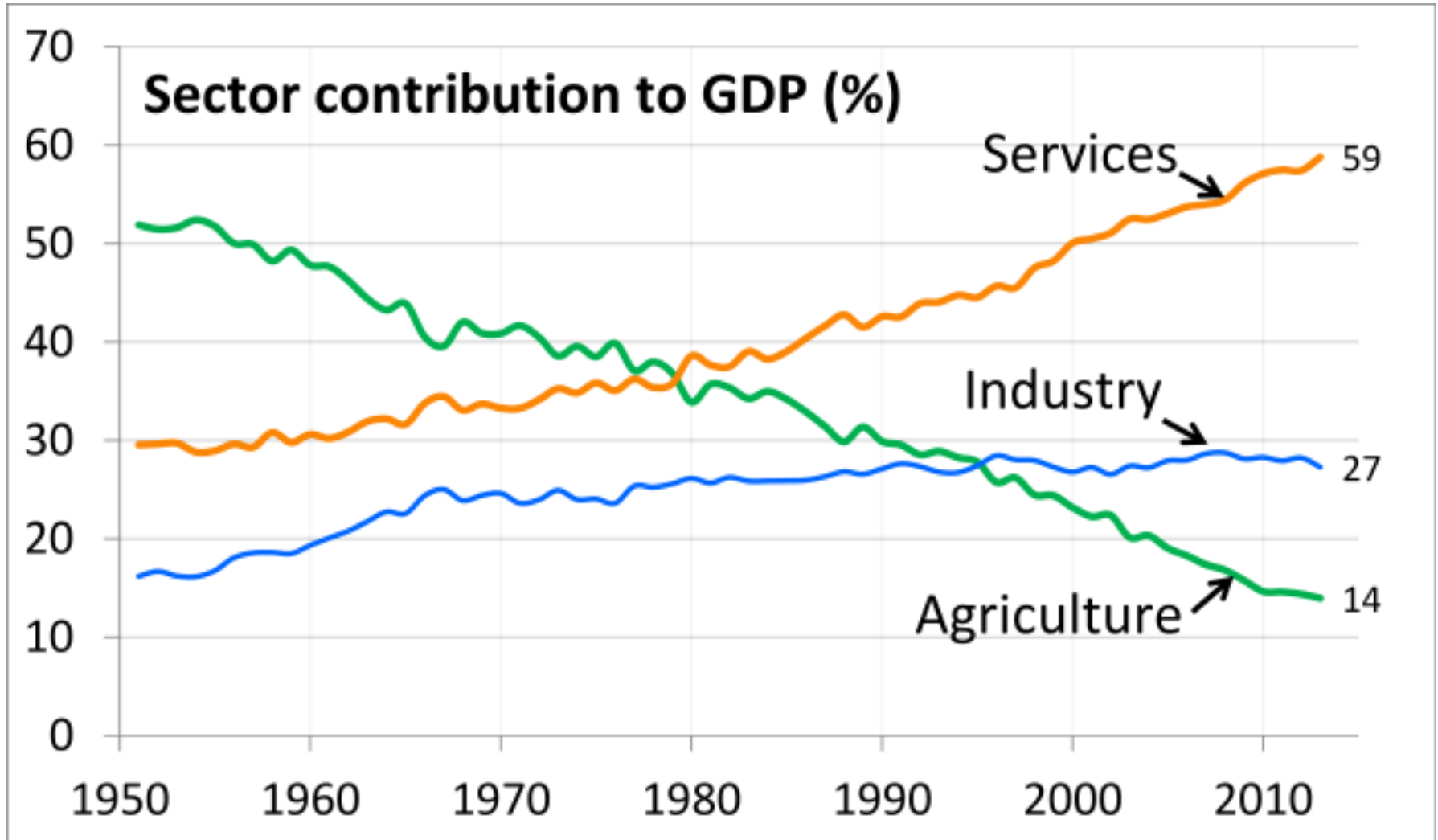
Figure 13: GDP per capita in PPP terms for the G7 and E7 economies



Average Indian US\$2,000/year → US\$22,000/year

Source: <https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf>

Statistic #6: Rise of the services sector(s)

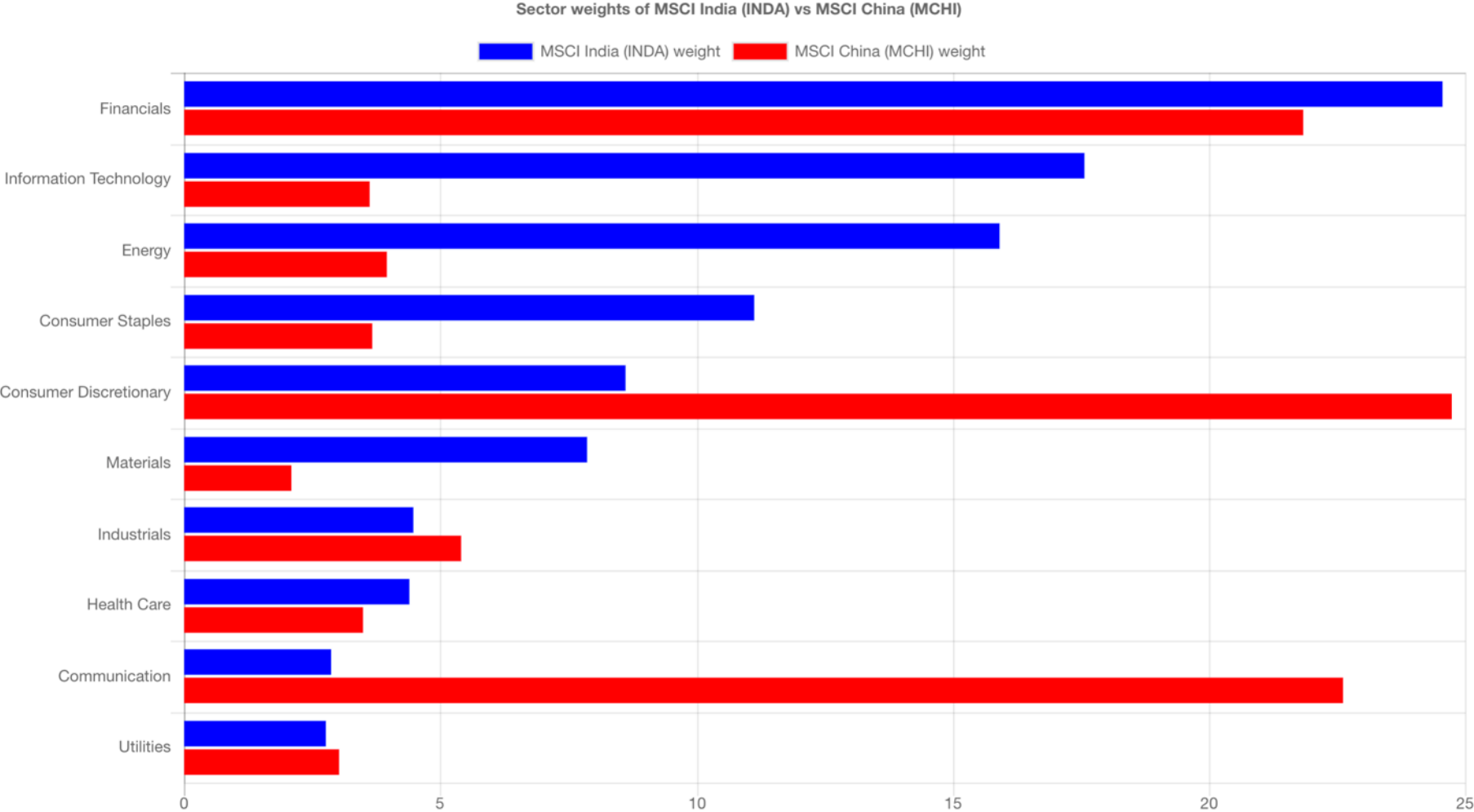


Source: <http://planningcommission.nic.in/data/datatable/0306/table%203.pdf>

https://commons.wikimedia.org/wiki/File:1951_to_2013_Trend_Chart_of_Sector_Share_of_Total_GDP_for_each_year,_India.png

Statistic #7: Index more diversified across sectors

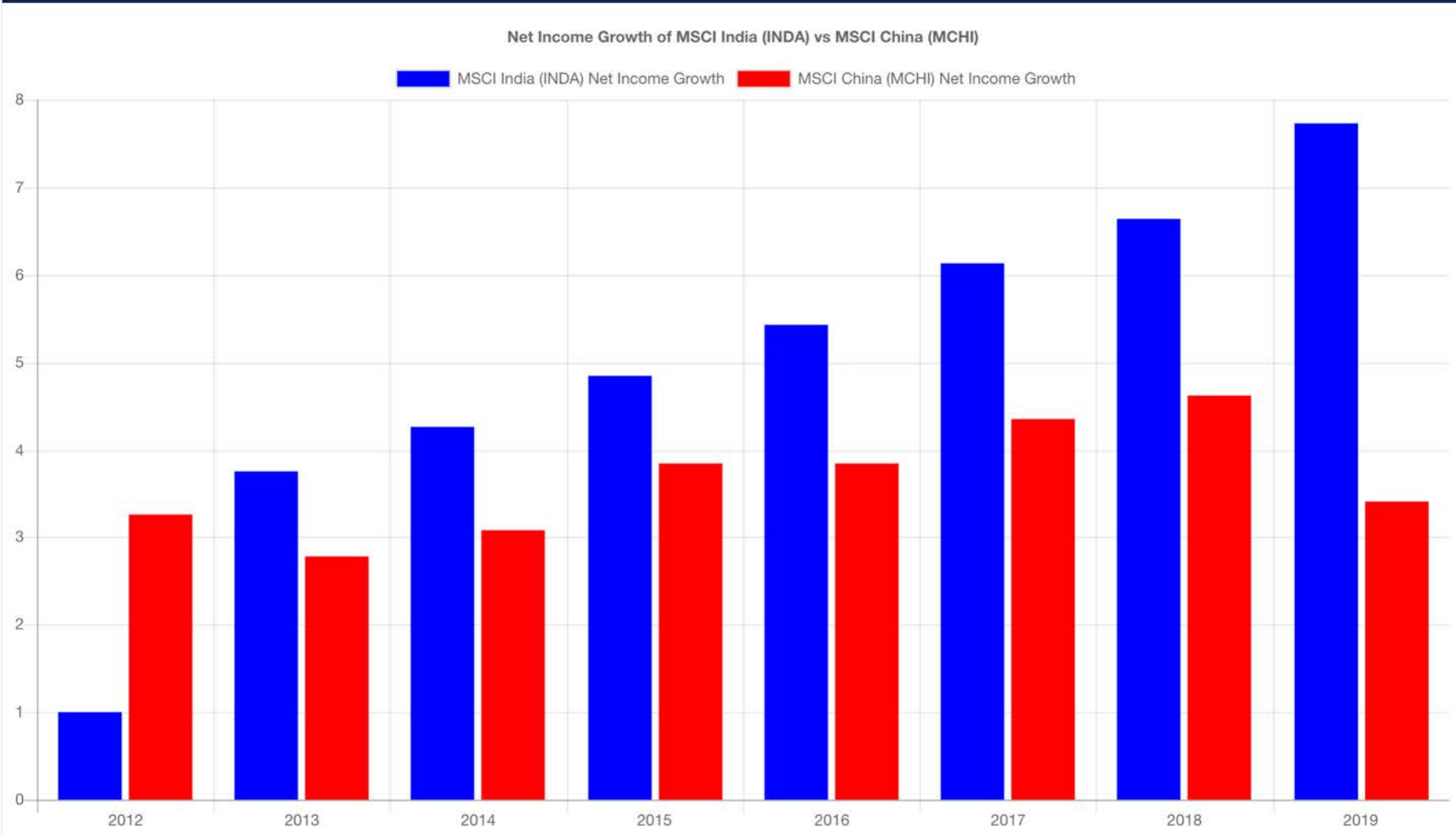
Sector weights of MSCI India (INDA) vs MSCI China (MCHI)



Source: OneWorth.net, iShares.com

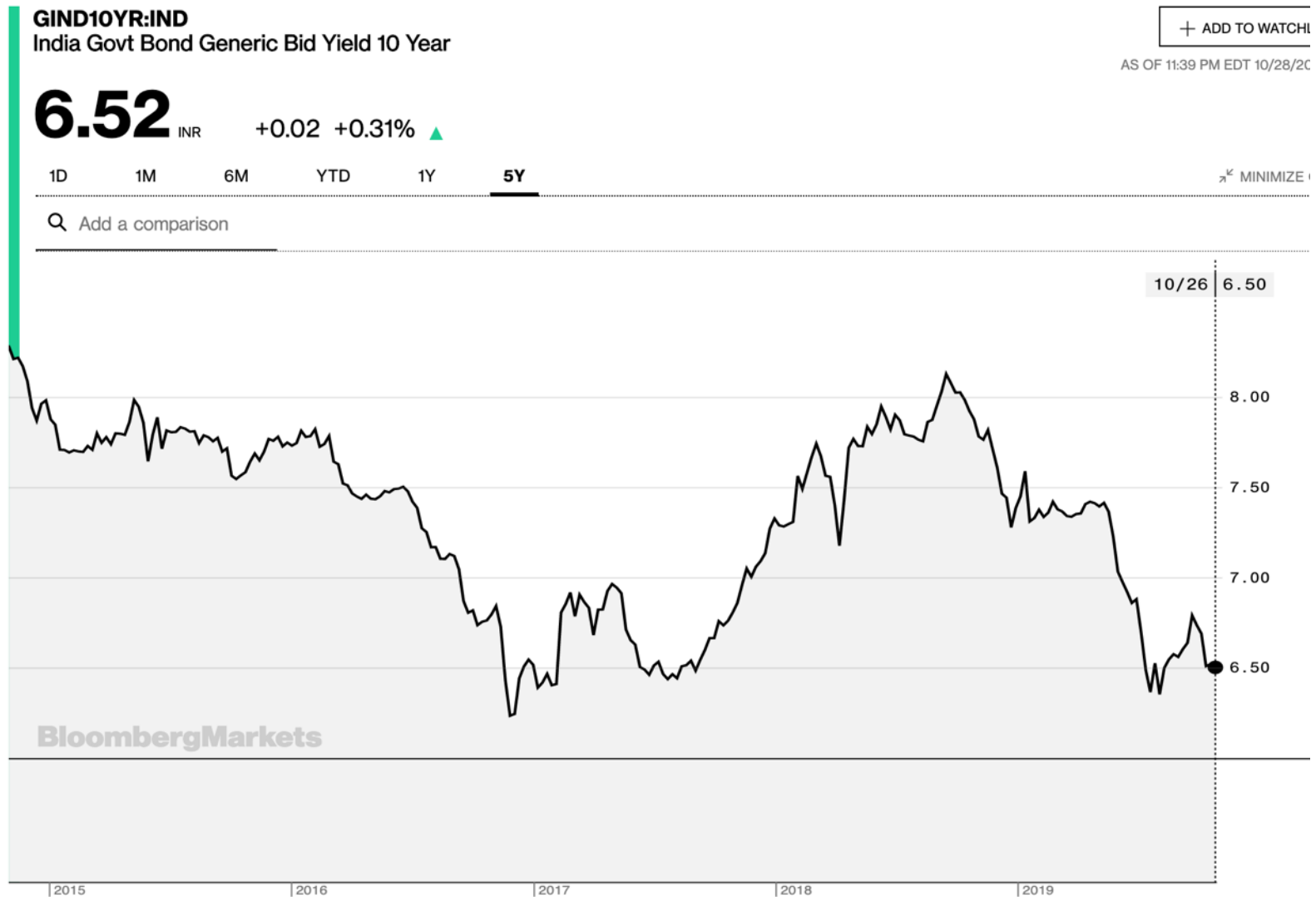
Statistic #8: Indian Corporate Earnings have held up better

Net Income Growth of MSCI India (INDA) vs MSCI China (MCHI)



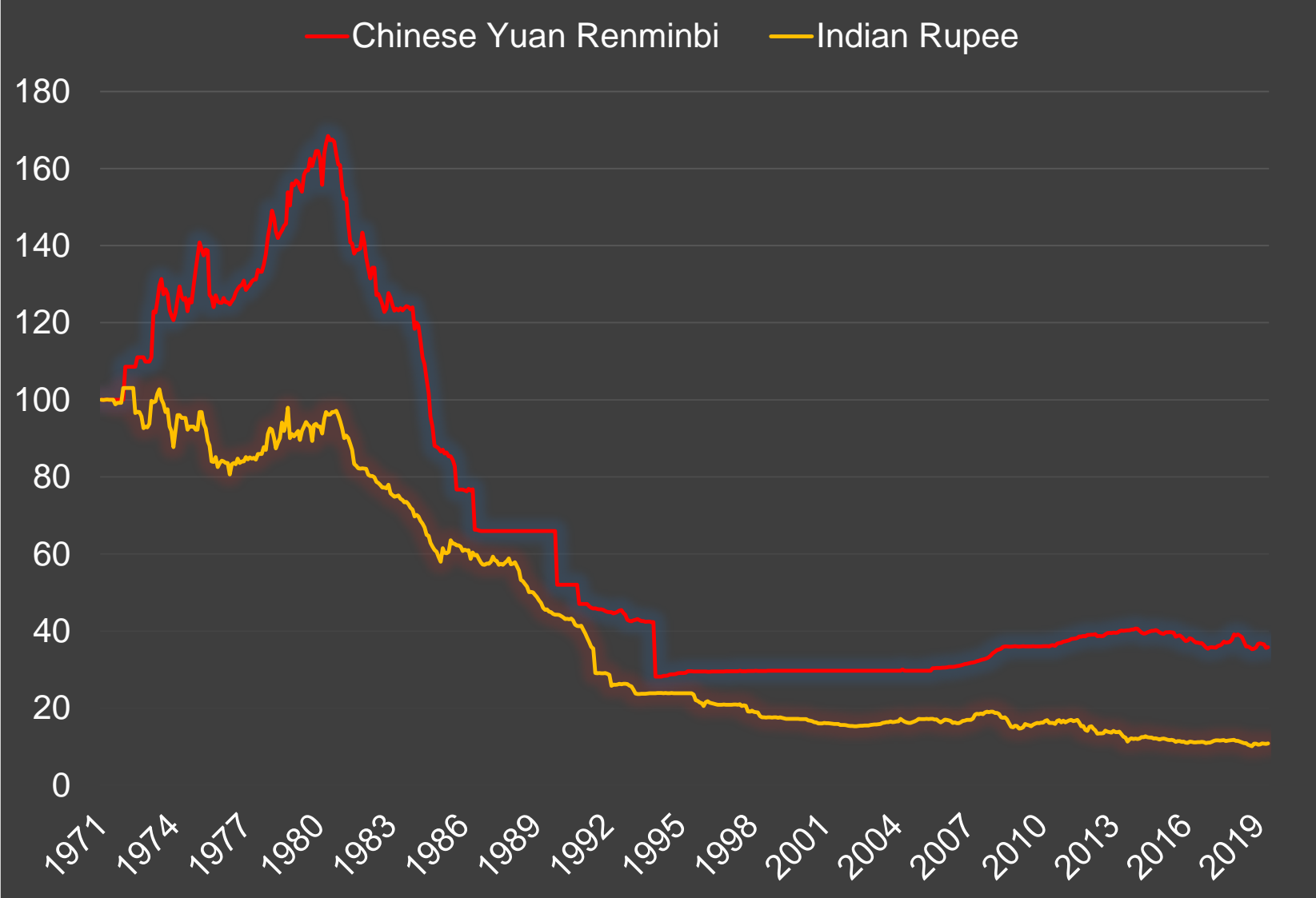
Source: OneWorth.net, iShares.com

Statistic #9: Still High Bond Yields



Source: <https://www.bloomberg.com/quote/GIND10YR:IND>

Statistic #10: The Currency



Source: Bank of International Settlements (BIS)

Indian Single Names: More Diversified Than Most EMs



पावर ग्रिड कॉर्पोरेशन ऑफ इंडिया लिमिटेड
(भारत सरकार का उद्यम)
POWER GRID CORPORATION OF INDIA LIMITED
(A Government of India Enterprise)

Of top 50 Indian Names, only 7 have US ADRs (+2 London GDRs), but almost all have SGX SSFs

Ticker	Name	MSCI India Weight	Sector	SGX SSF?	ADR / GDR
RELIANCE	RELIANCE INDUSTRIES LTD	11.9	Energy	Yes	RIGD (UK)
HDFC	HOUSING DEVELOPMENT FINANCE CORPOR	10.19	Financials	Yes	HDB
INFY	INFOSYS LTD	6.37	Information Technology	Yes	INFY
TCS	TATA CONSULTANCY SERVICES LTD	5.44	Information Technology	Yes	
AXISBANK	AXIS BANK LTD	4.29	Financials	Yes	AXB (UK)
HINDUNILVR	HINDUSTAN UNILEVER LTD	4.02	Consumer Staples	Yes	
ICICIBANK	ICICI BANK LTD	3.15	Financials	Yes	IBN
ITC	ITC LTD	2.48	Consumer Staples	Yes	
MARUTI	MARUTI SUZUKI INDIA LTD	2.27	Consumer Discretionary	Yes	
BHARTIARTL	BHARTI AIRTEL LTD	2.22	Communication	Yes	
		...			
SBIN	STATE BANK OF INDIA	1.36	Financials	Yes	
		...			
POWERGRID	POWER GRID CORPORATION OF INDIA LT	1.09	Utilities	Yes	
SUNPHARMA	SUN PHARMACEUTICAL INDUSTRIES LTD	0.99	Health Care	Yes	
NESTLEIND	NESTLE INDIA LTD	0.99	Consumer Staples	No	
TECHM	TECH MAHINDRA LTD	0.97	Information Technology	Yes	
BPCL	BHARAT PETROLEUM LTD	0.97	Energy	Yes	
DRREDDY	DR REDDYS LABORATORIES LTD	0.94	Health Care	Yes	RDY
		...			
WIPRO	WIPRO LTD	0.83	Information Technology	Yes	WIT
EICHERMOT	EICHER MOTORS LTD	0.82	Consumer Discretionary	Yes	
VEDL	VEDANTA LTD	0.79	Materials	Yes	VEDL

50 Current SGX Indian SSFs

No.	SGX SSF	SGX Ticker	SSF Bloomberg Ticker	Underlying Stock	Sector
1	Adani P & S Eco Zone Futures	ZADS	ZADS=1 SP Equity	Adani P & S Eco Zone	Industrials
2	Ambuja Cements Futures	ZACE	ZACE=1 SP Equity	Ambuja Cements	Materials
3	Asian Paints Futures	ZAPN	ZAPN=1 SP Equity	Asian Paints	Materials
4	Aurobindo Pharma Futures	ZARB	ZARB=1 SP Equity	Aurobindo Pharma	Health Care
5	Axis Bank Futures	ZAXS	ZAXS=1 SP Equity	Axis Bank	Financials
6	Bajaj Auto Futures	ZBJA	ZBJA=1 SP Equity	Bajaj Auto	Consumer Discretionary
7	Bajaj Finance Futures	ZBAF	ZBAF=1 SP Equity	Bajaj Finance	Financials
8	Bharat Petroleum Corp Futures	ZBPC	ZBPC=1 SP Equity	Bharat Petroleum Corp	Energy
9	Bharti Airtel Futures	ZBHA	ZBHA=1 SP Equity	Bharti Airtel	Communication Services
10	Bharti Infratel Futures	ZBHI	ZBHI=1 SP Equity	Bharti Infratel	Communication Services
11	Bosch Futures	ZBOS	ZBOS=1 SP Equity	Bosch	Consumer Discretionary
12	Cipla Ltd India Futures	ZCIP	ZCIP=1 SP Equity	Cipla Ltd India	Health Care
13	Coal India Futures	ZCOA	ZCOA=1 SP Equity	Coal India	Energy
14	Dr Reddy's Laboratories Futures	ZDRR	ZDRR=1 SP Equity	Dr Reddy's Laboratories	Health Care
15	Eicher Motors Futures	ZEIM	ZEIM=1 SP Equity	Eicher Motors	Consumer Discretionary
16	GAIL India Futures	ZGAI	ZGAI=1 SP Equity	GAIL India	Utilities
17	HCL Technologies Futures	ZHCL	ZHCL=1 SP Equity	HCL Technologies	Information Technology
18	HDFC Bank Futures	ZHDB	ZHDB=1 SP Equity	HDFC Bank	Financials
19	Hero MotoCorp Futures	ZHMC	ZHMC=1 SP Equity	Hero MotoCorp	Consumer Discretionary
20	Hindalco Industries Futures	ZHND	ZHND=1 SP Equity	Hindalco Industries	Materials
21	Hindustan Petroleum Corp Futures	ZHPC	ZHPC=1 SP Equity	Hindustan Petroleum Corp	Energy
22	Hindustan Unilever Futures	ZHUV	ZHUV=1 SP Equity	Hindustan Unilever	Consumer Staples
23	Housing Dev Fin Corp (HDFC) Futures	ZHDF	ZHDF=1 SP Equity	Housing Dev Fin Corp (HDFC)	Financials
24	ICICI Bank Futures	ZICI	ZICI=1 SP Equity	ICICI Bank	Financials
25	Indiabulls Housing Fin Futures	ZIHF	ZIHF=1 SP Equity	Indiabulls Housing Fin	Financials

No.	SGX SSF	SGX Ticker	SSF Bloomberg Ticker	Underlying Stock	Sector
26	Indian Oil Corp Futures	ZIOC	ZIOC=1 SP Equity	Indian Oil Corp	Energy
27	IndusInd Bank Futures	ZIIB	ZIIB=1 SP Equity	IndusInd Bank	Financials
28	Infosys Futures	ZINF	ZINF=1 SP Equity	Infosys	Information Technology
29	ITC Futures	ZITC	ZITC=1 SP Equity	ITC	Consumer Staples
30	Kotak Mahindra Bank Futures	ZKMB	ZKMB=1 SP Equity	Kotak Mahindra Bank	Financials
31	Lupin Futures	ZLPC	ZLPC=1 SP Equity	Lupin	Health Care
32	Larsen & Toubro Futures	ZLT	ZLT=1 SP Equity	Larsen & Toubro	Industrials
33	Mahindra & Mahindra Futures	ZMM	ZMM=1 SP Equity	Mahindra & Mahindra	Consumer Discretionary
34	Maruti Suzuki India Futures	ZMSI	ZMSI=1 SP Equity	Maruti Suzuki India	Consumer Discretionary
35	NTPC Futures	ZNTP	ZNTP=1 SP Equity	NTPC	Utilities
36	Oil & Natural Gas Corp Futures Futures	ZONG	ZONG=1 SP Equity	Oil & Natural Gas Corp Futures	Energy
37	Power Grid Corp of India Futures	ZPWG	ZPWG=1 SP Equity	Power Grid Corp of India	Utilities
38	Reliance Industries Futures	ZRIL	ZRIL=1 SP Equity	Reliance Industries	Energy
39	State Bank of India Futures	ZSBI	ZSBI=1 SP Equity	State Bank of India	Financials
40	Sun Pharm Ind Futures	ZSUN	ZSUN=1 SP Equity	Sun Pharm Ind	Health Care
41	Tata Consult Svc Futures	ZTCS	ZTCS=1 SP Equity	Tata Consult Svc	Information Technology
42	Tata Motors Futures	ZTTM	ZTTM=1 SP Equity	Tata Motors	Consumer Discretionary
43	Tata Steel Futures	ZTAT	ZTAT=1 SP Equity	Tata Steel	Materials
44	Tech Mahindra Futures	ZTEC	ZTEC=1 SP Equity	Tech Mahindra	Information Technology
45	UltraTech Cement Futures	ZUTC	ZUTC=1 SP Equity	UltraTech Cement	Materials
46	UPL Futures	ZUPL	ZUPL=1 SP Equity	UPL	Materials
47	Vedanta Futures	ZVED	ZVED=1 SP Equity	Vedanta	Materials
48	Wipro Futures	ZWPR	ZWPR=1 SP Equity	Wipro	Information Technology
49	Yes Bank Futures	ZYES	ZYES=1 SP Equity	Yes Bank	Financials
50	Zee Entertainment Ent Futures	ZZEE	ZZEE=1 SP Equity	Zee Entertainment Ent	Communication Services

On the website...

www2.sgx.com/derivatives/delayed-prices-futures?cc=ZRIL&category=ssf



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Fixed Income

Derivatives

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Research & Education

Data & Cor

Home > Derivatives

Delayed Prices - Futures

Category		Contract		Trading Session			
Equities		ZRIL - Reliance Industries		All		Show Prices	
<input type="checkbox"/> Show TAIC trades		ZONG - Oil & Natural Gas Corp				Customise	
Session	Month	S		Total V...	Open Interest	D...	Prev. D...
T	Oct 2019		ZRIL - Reliance Industries	10	60	-	1,467.10
T	Nov 2019		ZSBI - State Bank of India	0	60	-	1,473.05
T	Dec 2019		ZPWG - Power Grid Corp of India	0	-	-	1,479.30
			ZSUN - Sun Pharm Ind				
			ZTAT - Tata Steel				
			ZTCS - Tata Consult Svc				
			ZTEC - Tech Mahindra				

Source: SGX.com

Reliance Industries Ltd **1,540.50** **-7.15** **(-0.46%)**

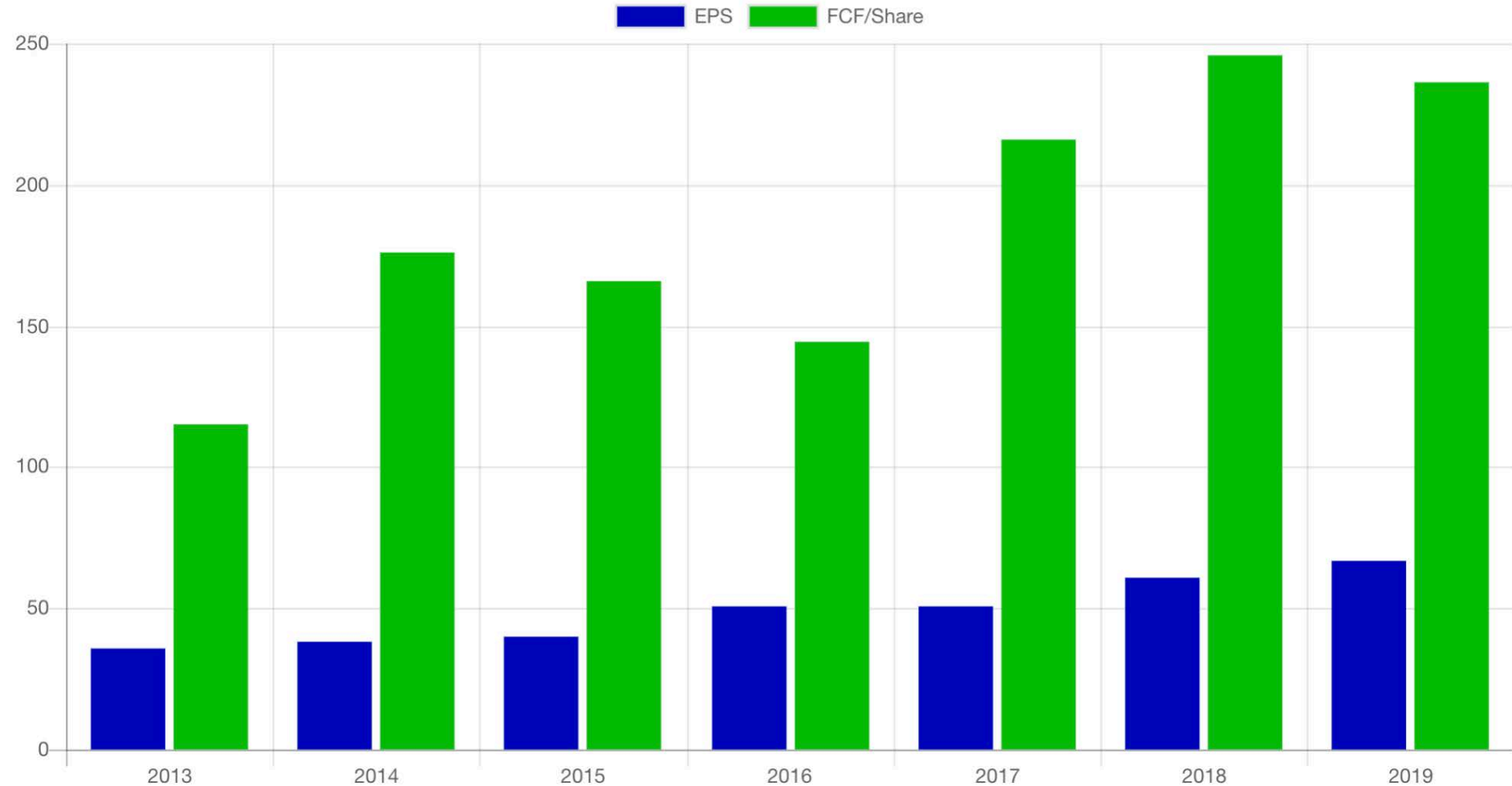


Prev. Close	1,547.65	Day's Range	1,528.55 - 1,556	Revenue	6,154.31B
Open	1,545	52 wk Range	1,055 - 1,572.4	EPS	70.42
Volume	5,059,393	Market Cap	9.75T	Dividend (Yield)	6.50 (0.42%)
Average Vol. (3m)	8,817,309	P/E Ratio	21.98	Beta	1.26
1-Year Change	36.07%	Shares Outstanding	6,339,158,963	Next Earnings Date	Jan 17, 2020

Source: <https://www.investing.com/equities/reliance-industries>

Rise supported by long-term, consistent cash earnings...

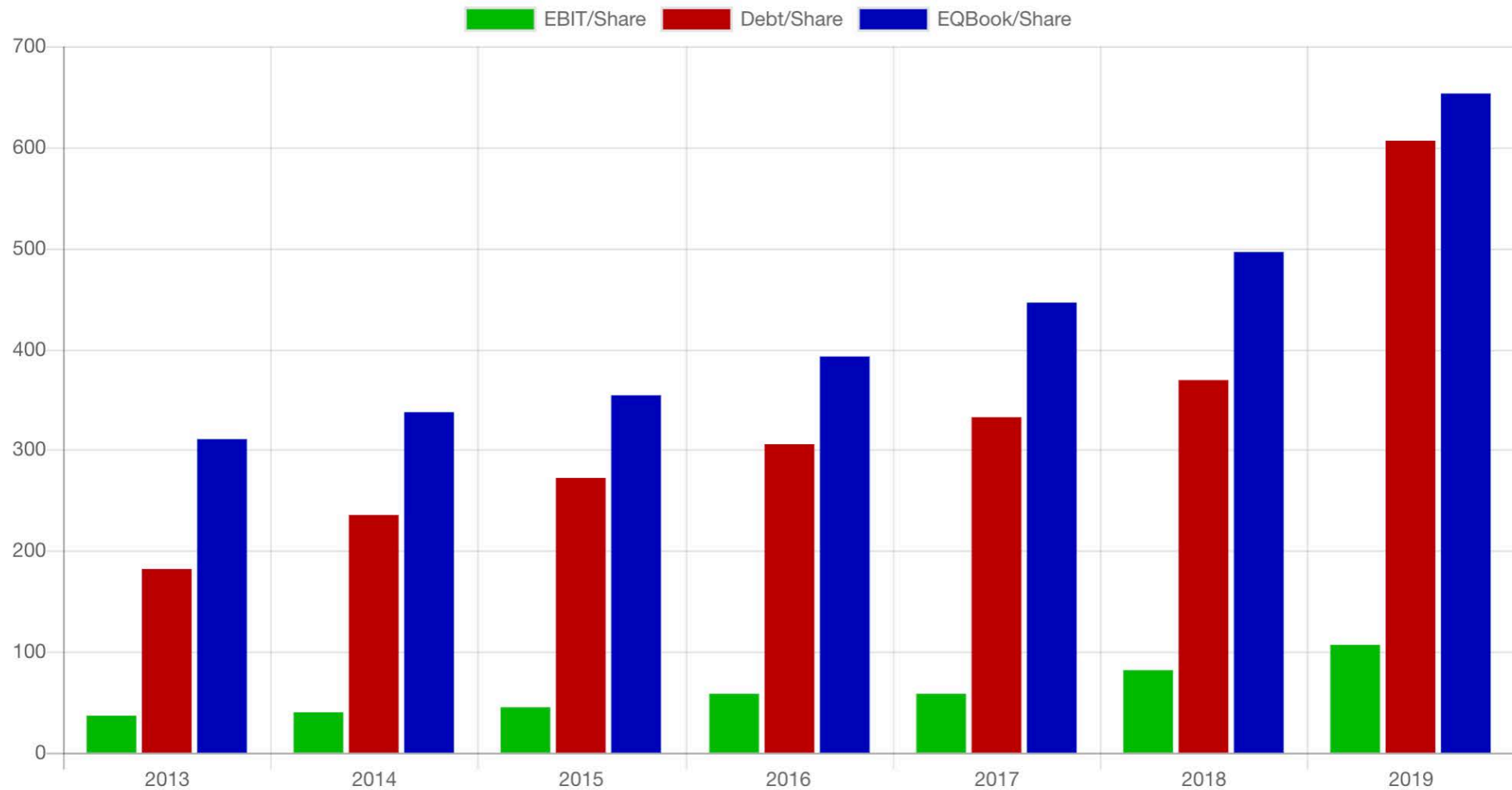
Annual Earnings vs Free Cash Flow per share for Reliance Industries Limited in INR per share (INR 1,232.35)



Source: https://oneworth.net/view-company?ticker_id=INR:RELIANCE

...but also debt levels that might worry some...

Annual EBIT vs debt and equity (book value) for Reliance Industries Limited in INR per share (INR 1,232.35)



Source: https://oneworth.net/view-company?ticker_id=INR:RELIANCE

Finding the contract on IB TWS

RELIANCE NSE Oct31'19 @SGX	c1468.90
RELIANCE NSE Oct31'19 @NSE	c1465.85

RELIANCE NSE @SGX 1 pt = \$20.00 ⓘ X

RELIANCE OCT	Oct31'19	1468.99
RELIANCE NOV	Nov28'19	
RELIANCE DEC	Dec26'19	
RELIANCE ∞ NOV	Continuous (Nov)	

More/Multiple
Futures Spreads

Exchange **SGX** ▼ Multiplier **20** ▼

SGX
NSE

Source: Interactive Brokers

Order Confirmation

RELIANCE INDUSTRIES LIMITED

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Last Yield
RELIANCE NSE Oct3...					◆ c1468.90	

Order Description

BUY 1

Order Type	LMT	Routing	SGX	Time in Force	DAY	Allocation
Limit Price	1466.00	Clearing	IB			

Messages

You are trying to submit an order without having market data for this instrument. IB strongly recommends against this kind of blind trading which may result in erroneous or unexpected trades.

Amount

Amount	29,320 USD
Commission (est.)	5.98 USD
Total	29,325.98 USD

Margin Impact (in USD)

	Current	Change	Post-trade*
Equity with Loan			
Initial Margin			
Maintenance Margin			
Position	0	1	1

*This is a current projection and is subject to change.

Don't display this message again.

Override and Transmit

Cancel

Source: Interactive Brokers

Stock / ADR / P-Note

- Buy with cash
- Borrow to short
- Hold as long as you wish
- INR FX risk
- Dividend / tax issues?
- More liquid

Single Stock Future (SSF)

- Small margin requirement
- Buy and Sell easily
- Must roll monthly/quarterly
- Quanto “hedged” exposure
- Priced in
- Liquidity developing

Strategy #1 SSF vs Index

- Select individual names expected to outperform or underperform
- Currency hedge, custody, dividend etc built into futures contract
- Use index futures or ETF to hedge beta
- Finer version of Nifty vs Nifty banks futures trade

Risks

- Name selection
- SSF liquidity
- INR collapse → stock spike?
- Risk management of shorts
- Margin management
- SGX SSFs are not directly accessible for US customers, unlike other SGX equity index futures products SGX MSCI India NTR USD futures which is CFTC approved



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