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Decoding ASM: A blessing in disguise for conviction ideas?
BY ETMARKETS.COM | UPDATED: AUG 08, 2018, 12.30 PM IST

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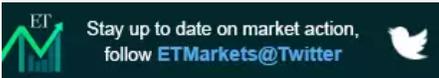
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Sebi's recent bazooka in the form of advanced surveillance measure (ASM) to check wild swings in stock prices has wreaked havoc on [Dalal Street](#), with every stock coming under its ambit taking a big hit in all market conditions.

In recent times, stocks like Venky's India and Dilip Buildcon, [8K Miles](#), Amtek Auto, Butterfly Gandhimathi, Graphite and others have come under the mechanism and faced the music.

As many as 79 companies were on the ASM list on NSE as of August 6, while many have since come out of the [ASM framework](#) and soared. For instance, Venky's India jumped nearly 50 per cent while and Dilip Buildcon advanced 13 per cent in five sessions since they got excluded from the ASM mechanism.

According to NSE, shortlisting of securities under the ASM framework is done purely for the purpose of market surveillance, and it should not be construed as an adverse action against a company.

While a lot of scaremongering tends to happen the moment a stock is placed under the ASM framework, market veterans say it could also be an opportunity to accumulate shares in one's conviction stocks.

The ASM framework is not linked with the fundamentals of a business, market veterans point out.

As long as one has the conviction on the quality of a business, one should stay invested in it even after it has been brought under the ASM framework.

These measures are technical-based and a company can come under it even if nothing has been changed in the business, says Sumit Bilgaiyan, Co-Founder, and Director, Equity99, an equity research firm.

"When fundamentals are intact, investors should not shy away from holding such stocks. Indeed, stocks prices come under pressure due to ASM, but investors need to have patience and hold it through this phase as long as one is sure about the quality of the business," Bilgaiyan said.

The shortlisting of securities for placing under ASM is done based on certain parameters such as variation in high-low price levels, client concentration, number of price band hits, close-to-close price variation, PE ratio, and market capitalisation.

When can your stock go under ASM?

Stock exchanges use certain transparent criteria to put a stock under ASM:

- If the high-low price variation (based on corporate action adjusted prices) is 200 per cent or more within a period three months and if the concentration of top 25 clients in last three months has been 30 per cent or more.
- If the high-low price variation (based on corporate action-adjusted prices) is 200 per cent or more in last three months and the number of price band hits (upper or lower) in last three months is 30 per cent or more.
- If close-to-close price variation (based on corporate-action adjusted prices) in last 30 trading days has been 100 per cent or more, the PE is negative or more than 30 and the concentration of top 25 clients in last one month has been 30 per cent or more.
- If close-to-close price variation (based on corporate action adjusted prices) in last 365 days has been greater than 100 per cent, if the high-low variation in last 365 days has been more than 200 per cent, the market-cap has been above Rs 500 crore and the high-low variation in last 90 trading days has been greater than 50 per cent.
- If close-to-close price variation (based on corporate action adjusted prices) has been greater than or equal to 50 per cent in last three months, concentration of top 25 clients in a quarter has been greater than or equal to 50 per cent and five or more clients out of the top 25 clients had 50 per cent or more of their trading activity in a scrip and the market-cap is above Rs 500 crore.
- Public sector enterprises and banks, securities already under graded surveillance measure, securities on which derivative products are available or securities already under trade for trade segment are excluded from the process of shortlisting of securities under ASM.

What happens under ASM?

Stocks which are shortlisted for action under ASM framework shall be disclosed in advance (T-day). In this regard, the imposition of a 5 per cent price band becomes effective from the next trading day (T+1 day) and 100 per cent margin is imposed effective from T+5 trading day.

For e.g. if a security was shortlisted under ASM on July 23, 2018 (T day) after market hours, its inclusion under the ASM and imposition of 5 per cent price band shall be applicable with effect from July 24, 2018 (T+1 day) and the 100 per cent margin shall become effective from July 30, 2018 (T+5 days).

Scrips having PE ratios greater than 100 are placed in the trade-to-trade segment one month after inclusion under ASM.

The inclusion of securities under ASM framework has often resulted in heavy selling on the counters. For example, shares of Morepen Laboratories declined 5 per cent on Tuesday, and another 2.23 per cent in Wednesday's trade, after it came under the additional surveillance framework. Gujarat Ambuja Exports and [Adani Green Energy](#) too declined 5 per cent on Tuesday and extended their slide to Wednesday's session after their addition to the ASM list.

Review of securities

Securities under the ASM framework are reviewed after a month on a daily rolling basis for applicability of ASM Framework.

According to NSE, the review is done on the following lines:

Scrips having PE ratios of less than 10 (PE ratio is between 0 to 10) are moved out of ASM framework and the close price becomes the base price for subsequent reviews.

Scrips having PE ratios less than the PE ratio of the Nifty500 index are moved out of the ASM framework in case such scrips do not meet the entry criteria stated above.

Scrips having PE ratios less than 2 times the PE ratio of Nifty 500 index continue to remain under ASM. However, such scrips get moved out of the trade-to-trade segment, provided they were transferred to trade-to-trade segment on account of ASM.

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