

CENTRAL BANK could link remuneration to balance-sheet size, loan delinquency, profits and governance record

RBI to Frame Rules for Bank CEOs' Pay

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Mumbai: The Reserve Bank of India (RBI) is working on a set of rules that would link remuneration of banks CEOs to parameters like balance-sheet size of a bank, loan delinquency, profits and governance record.

The proposed framework is expected to provide a broad template to the board of directors of banks while approving increase in salary, performance bonus and stock options to the senior most executive.

The regulatory guidance that exists today is a general directive on the remuneration of senior officials in broad functions like 'business', 'control' and 'risk'. What is being considered is one that specifically relates to CEO compensation.

"Even today RBI clears the remuneration of a bank CEO and has the

powers to claw back a slice of it in case of non-performance or governance lapses. However, a framework would ensure that the board does not have to shoot in the dark while approving the package for the CEO and referring it to RBI for its clearance," a person aware of the plan told ET.

Though such a framework would be significant for private banks, it would also hold relevance for PSU banks which are considering incentives and ESOPs for employees.

Central bank officials have shared the idea with senior bankers in the course of conversation. "As we understand the proposal was broadly agreed upon towards the end of Urjit Patel's exit. We tend to believe that RBI would pursue this under the new Governor. Probably, it is also believed that given the turmoil in the banking sector, even a draft guideline on CEO pay giving out the



ANIRBAN BORAH

broad contours, would send the right signal," said a senior banker.

GREATER MONITORING BY RBI

In the wake of instances of large non-performing assets, sharp practices like inadequate provisioning of sticky loans, air-brushing financials to prop up profitability, and evi-

dence of fiduciary negligence by board of directors, the regulator is bringing about finer changes in its supervision style - some of which are aimed at assessing the performance of bank boards.

"For instance, RBI inspectors are beginning to ask banks whether any of the independent directors have

given a dissent on certain proposals which a board and the management may have eventually passed; whether such dissent notes have been properly recorded...," said another banker.

Also, in some RBI has insisted that the non-executive chairman and the head of bank audit committee are present in the meeting that follows the completion of the annual inspection of a bank by the regulator. "RBI wants to know whether these external directors have been kept in the loop on certain decisions and what they think about these decisions. More than ever, the regulator is keen to know about the quality of debate within bank boards, and the involvement of independent directors. In other words, a non-executive chairman or other outside directors cannot get away easily," said the banker.

BROKERAGES LARGELY RETAIN THEIR BULLISH VIEWS

Infy's Strong Q3, Buyback Likely to Trip Short Sellers

Company ADRs gained more than 5% on NYSE on Friday; Analysts see ₹702 as the breakout level

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Mumbai: Short sellers in Infosys are likely to be squeezed on Monday morning if the cheerful reaction of its American Depository Receipts to the company's results are anything to go by. The technology bellwether's third-quarter revenue beat analysts' estimates and the company unexpectedly announced a buyback, catching those who were betting on a fall in the stock after the results by surprise. Bearish traders were expecting the company to cut margins, which would weigh down the stock.

Following the result announcement post Indian market hours on Friday, the ADR of Infosys ended up 5.4% on the NYSE later in the night.

"Sentiment was negative for both Infosys and TCS before their results as there were expectations of a seasonally weak quarter. Shorts are there in Infosys for two series now. Those who have shorted near ₹700 and if the stock goes above that level and they have not booked profits, they will get stuck," said Amit Gupta, head of derivatives at ICICI Direct.

Shares of Infosys ended up 0.6% at ₹683.70 on the BSE on Friday.

Short sellers who had anticipated a seasonally weak quarter and had been carrying forward short positions for the last two series, may be forced to cover their positions if the stock sustains above the ₹700-720 level, said derivative analysts.

Gupta said if the stock goes above ₹720, short covering is likely to get triggered, which may take the stock to ₹780.

"₹702 is the breakout level for the stock. In October and November, stock fell sharply from ₹750 to ₹630 wherein

Brokers' Call

Brokerage	Rating before result	Rating after result	Target Price before result (₹)	Target Price after result (₹)
Centrum	Buy	Buy	805	805
HDFC Securities	Buy	Buy	800	800
Jefferies	Buy	Buy	820	820
Motilal Oswal	Buy	Buy	800	800
Phillip Capital	Buy	Buy	750	800
Kotak Institutional Equ	Add	Add	780	760
Morgan Stanley	Equal-weight	Equal-weight	759	759
Emkay Global	Reduce	Reduce	640	640
Nomura	Reduce	Reduce	670	670

SOURCE: Brokerage reports

major shorts were created in the ₹690 to ₹600 range," said Jay Purohit, technical and derivative analyst at Centrum Broking. "The stock has not been sustaining above ₹700 since then; but if it sustains above ₹700 in the coming days then short sellers will run to exit their positions," said Purohit.

Some traders had already covered short positions with open interest in the stock down 7% so far in January futures and options series along with 4% gain in the stock.

A SHORT SQUEEZE?

Short sellers had anticipated a seasonally weak quarter and had been carrying forward short positions

Brokerages have largely maintained bullish view and target prices on Infosys following its result. Motilal Oswal, HDFC Securities, Phillip Capital, Jefferies and Centrum have maintained 'buy' ratings, while Nomura and Emkay have retained 'reduce' rating.

"The momentum in revenue is more attributed to the way Infosys has ex-

cuted on large deals on the back of their investments in the last year or so. Margins are under pressure thanks to necessary investments, secular concerns across the industry. Pricing has been stable," said Ashish Chopra, analyst-technology, staffing and exchanges at Motilal Oswal.

"The revenue growth catch-up with leading peers such as TCS will weigh favourably. Buyback through open market route than tender route was a surprise, and it will mean slightly lesser net dilution on EPS," said Chopra.

Kotak Institutional Equities said Infosys has impressed with strong revenue growth, large deal signings and stable client metrics but the revenue outlook improvement has come at a cost. The brokerage reduced margin estimates by 50-90 basis points and it sees fair value for Infosys at ₹760 against ₹780 earlier.

Sanjiv Bhasin, executive VP-markets and corporate affairs at IIFL, believes while Infosys could see a slight gap-up at market open on Monday, it will see selling at higher levels.

"The best of the tech story is over as the rupee which was a tailwind has now become a headwind. Lower margins are clearly indicative of higher costs which may continue," said Bhasin.

LOANS TO GROUP companies may dry up; Lenders could face difficulty in recovering their dues

IL&FS Moratorium Hits Group Companies

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Mumbai: The blanket moratorium granted to Infrastructure Leasing & Financial Services (IL&FS) on repayment of loans is choking the operations of even those companies of the group that are generating sufficient cash flows to pay off their dues, said two people in the know of the development.

This runs the risk of lenders shutting the tap for those companies as well and limiting the ability of lenders to recover the loans.

Banks' exposure in the total debt of the IL&FS group is at 60%, ₹50,000 crore out of ₹91,000 crore.

The National Company Law Appellate Tribunal (NCLAT) has extended a moratorium after giving initial relief until the final hearing. The Ministry of Corporate Affairs filed an application with the NCLAT after the National Company Law Tribunal rejected the application for a moratorium in October.

NCLAT will hear on January 28 a plea by the Ministry of Corporate Affairs (MCA) to impose a 90-day moratorium on repayments by IL&FS and its subsidiaries as the government-chosen board, which took over on October 1, seeks to revive the group. The court has asked IL&FS to submit details of its 348 subsidiaries. IL&FS declined to comment for this story.

"IL&FS group companies are not paying lenders even if the cash flow of the subsidiary is good," said a source close to the development.

The legal view given to the board is that



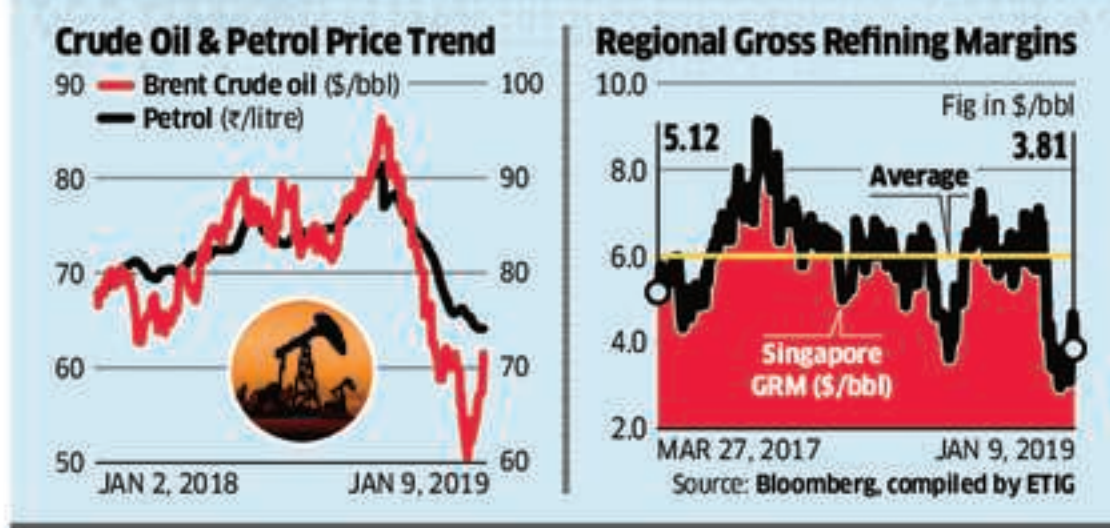
the companies should take directions from the court on structuring of payments taking a holistic view and refrain from paying until then. On the other hand, lenders have expressed concerns over making extra provisions for loans classified as non-performing on account of their IL&FS exposure by the last quarter, dragging earnings down.

The view taken by the company is that the moratorium is for the entire ₹91,000 crore, and it can exercise the option of not paying to any lender. The board will seek clarity from the courts on how to structure the payments schedule so that there's no discrepancy or legal recourse, said a person familiar with the matter.

The newly-constituted board of IL&FS has ordered cost-optimisation measures and stake sales in subsidiaries to generate liquidity, and cash flow assessment for the next 12 months at each of the group's entities.

SURGE IN GROSS MARKETING MARGINS

OMCs Signal Worry on Pricing Freedom in Run-up to Polls



IOC, BPCL and HPCL use crude price fall to build a buffer with record margins

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ET Intelligence Group: State-run oil marketing companies IOC, BPCL and HPCL are building a buffer to cushion uncertainty on pricing freedom of retail fuel in the run-up to the general elections.

This is evident from the record gross marketing margins — the difference between retail selling prices and refinery transfer prices after deducting dealer commission and taxes — on petrol and diesel hitting ₹8.2 by end-December 2018, Kotak Institutional Equities said.

Typically, gross marketing margins are in the range of ₹1.5-2.5 on the normalised level and marketing divisions of OMC's account for 60-70% of total operating profit.

Interestingly, OMCs have removed refinery transfer price from price build-up of petrol and diesel, disabling them from determining the gross marketing margins on a regular basis.

The record marketing margins of the companies show that drop in crude prices has been absorbed, though only partial benefit of this has been passed on to the consumer. Indian crude basket dropped 28% from the October 4 high of \$85.1 per barrel, while the fuel prices were slashed by 18% in the same time period.

Consequently, the gross marketing margin inched to ₹8.2 per litre from nearly ₹11 litre at the beginning of October 2018.

OMC stocks also suffered after the government asked the companies to absorb approximately ₹1 per litre hike in prices by lowering their marketing margins.

OMC stocks were downgraded by brokerages after the cut in

marketing margins, seen as price intervention. However, the surge in gross marketing margins boosted investor confidence and average price to book of OMCs improved to 1.65 times from 1.87 times before marketing margin cut.

Historically, prices of retail fuel remain unchanged before key state elections. Oil marketing companies are ramping up inventory to cushion static prices in case crude oil prices turn volatile.

Iran's crude import waiver will expire in May 2019 and the largest Opec exporter Saudi Arabia has reduced its export by 8 lakh barrels.

BREAK EVEN IN SIGHT

Cuts on 'Right Track' to Balance Oil Mkt: S Arabia

Bloomberg

Saudi Arabia's energy minister has no quarrels with US shale and even sees output cuts by Opec (The Organization of the Petroleum Exporting Countries) and its allies as directly aiding American drillers.

"The action we have taken, quickly in December and that we're seeing implemented as we speak, is a lifeline to US shale producers," Khalid Al-Falih said at a conference in Abu Dhabi.

The Organization of Petroleum Exporting Countries, led by Saudi Arabia, agreed to cut oil output

this year to support prices. The group and its allies, known collectively as OPEC+, said they would start to trim 1.2 million barrels of daily production this month to stabilise the market. They already reduced output by 600,000 barrels a day in December, Al-Falih said last week.

Crude producers in the US are pumping a record 11.7 million barrels a day, according to the Energy Information Administration. Shale explorers need almost \$54 a barrel for their oil to eke out a profit because of rising costs for equipment, crews and raw materials needed to pump crude, according to JPMorgan Chase & Co.

With oil prices rising, thanks in part to the Saudi-led cuts, that break-even level is in sight.



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