Markets

SATURDAY, JANUARY 26, 2019

1.25L INDIA POST BANKS

Manoj Sinha, Union communications minister

DoP has opened India Post Payments Bank for unbanked and underbanked people. There are lump sum 1.25 lakh branches. Shortly, it will have 1.5 lakh branches.

Money Matters

G-SEC

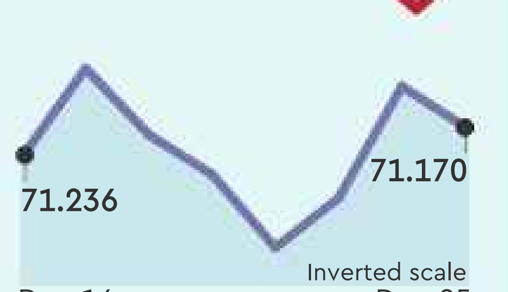
The benchmark yield fell due to buying support 0.145%

LAF

Bank borrowing under RBI's short-term window fell by ₹285 crore 8.282%

₹/$

The rupee fell due to global cues 0.128%



€/$

The euro rose against the US dollar 0.389%

UNDER STRESS

Indian Bank Q3 net falls 50% on IL&FS exposure

Bank MD says a ₹664-cr IL&FS loan portion is facing some issues because it is under consideration of the government and RBI

FE BUREAU
Chennai, January 25

PROVISIONING FOR IL&FS loans and other sticky assets has hit the bottom line of Chennai-based Indian Bank with the public sector lender on Friday registering a 49.8% decline in its net profit at ₹152 crore for the third quarter of FY 19 compared to ₹303 crore in the same quarter previous fiscal.

"The only factor affecting the profit was the additional NPA that have been recorded in this quarter. The main reason for this NPA is the IL&FS exposure. The other sectors have shown a better performance, but it has been almost overtaken and masked by this exposure," Padmaja Chunduru, MD and CEO of Indian Bank, told reporters.

Detailing about the IL&FS exposure, she said a ₹664-crore IL&FS loan portion – though not entirely non performing – facing some issues because it is under consideration of the government and the RBI. Due to an NCLT order, all the cash flows of these companies are frozen in the escrow accounts and a decision has to be taken. "These assets would take some time for resolution. That has impacted almost all the ratios. In the previous quarter, IL&FS was not much on the agenda," she said.

The standard assets are earning assets and we have escrow accounts where the funds are being deposited. "We will have to wait and see. I hope given the developments that are happening we are expecting some resolution will be reached on IL&FS exposure," she said.

Report card

Indian Bank earnings (₹ crore)

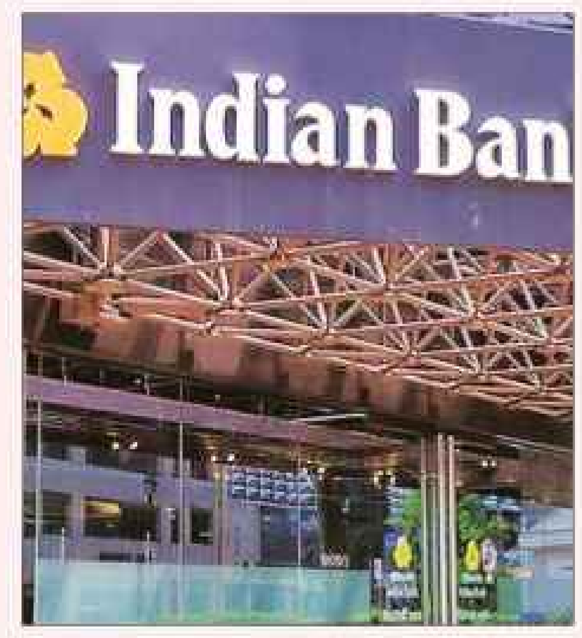
	Q3 FY18	Q3 FY19	Change (%, yoy)
Total income	4,903	5269.1	7.46
Net profit	303	152	-49.8
Net interest income	1623	1717	5.8
Net interest margin	2.85%	2.88%	3bps
Provisions	918.1	923.6	NA
Gross NPA%	6.27%	7.46%	1.19 bps
Net NPA	3.30%	4.42%	1.12 bps

Source: Indian Bank

The bank, which had seen a 67% drop in net profit in Q2 as well, reported that its asset quality worsened, with gross non-performing assets (NPAs) rising to 7.46% by the end of December 31, 2018 compared to 6.27% by end of December 2017. Net NPAs increased to 4.42% from 3.30%, during the quarter.

In absolute terms, the gross NPAs were at ₹13,198.40 crore during the quarter against ₹9,595.15 crore in the corresponding period of the previous fiscal while net NPAs were at ₹7,571.07 crore, against ₹4,898.60 crore. Provision coverage ratio was at 60.91%.

Interest income grew 10.8%, up from ₹4,354 crore, to ₹4,824 crore. Net interest income grew by 5.8% from ₹1,623 crore to ₹1,717 crore. The bank's net interest margin improved by 3 bps from 2.85% to 2.88%. She said bank's CASA increased by 6.85% y-o-y from ₹73,835 crore to ₹7,8890 crore.



RAM sector has grown by ₹17,185 crore with retail clocking 17% growth, agriculture 26.3% and MSME 18.7%.

"Currently, RAM sector forms 58.7% of the total domestic advances of the bank while corporate advances constitute around 40%," Chunduru said. The capital adequacy ratio (CAR) as per Basel-III guidelines was at 12.67% of which total tier-1 was at 11.24% and tier-II was at 1.43%. The net-worth increased by 5.15% to ₹16,470 crore.

She said that digital channels have grown significantly with mobile banking transactions growing by 247%. Internet banking transactions touched 6.74 Mio growing by 11.6% from 6.04 Mio. Volume of POS transactions grew by 47.55% from 23.51 lakh to 34.69 lakh.

The global business have crossed the milestone figure of ₹4 lakh crore to reach ₹4,02,711 crore with a growth of 11.97%. The gross deposits grew by 9.35% to touch ₹2,25,847 crore from ₹2,06,533 crore, while global advances registered a growth of 15.51% to reach ₹1,76,864 crore from ₹1,53,120 crore.

IOB pares net loss by 64% at ₹346 crore

FE BUREAU
Chennai, January 25

PUBLIC SECTOR LENDER Indian Overseas Bank (IOB) on Friday reported a net loss of ₹346.02 crore for the third quarter of FY19 compared to ₹971.17 crore loss logged in the same quarter of the last fiscal, reducing the loss by 64.37%.

Total income of the Chennai-based bank registered an increase of 12.39% at ₹5,689 crore against ₹5,062 crore for the quarter ended December 31, 2017, said a press release issued by the bank.

On the asset quality front, gross NPA stood at ₹35,787 crore with ratio of 23.76% against ₹33,267 crore with ratio of 21.95%. The net NPA was at ₹17,988 crore with ratio of 13.56% against ₹1,7761 crore. The bank said the provision coverage ratio has improved to 64.23% from 57.83%.

Total recovery registered an increase of 23.24% to ₹3,723 crore for the quarter against the recovery of ₹3,021 crore while the total fresh slippage stood at ₹1,790 crore. Recovery achieved is substantially higher than slippages during the quarter mainly due to focused priority action on arresting slippages and improving recovery in NPA/OTS accounts.

Bank has recovered ₹121 cr in NCLT accounts during Q3. It expects recovery of ₹988 crore in the current quarter in 8 NCLT accounts

The bank has recovered ₹121 crore in NCLT accounts during the quarter. Further, the bank expects recovery aggregating to ₹988 crore in the current quarter in 8 NCLT accounts where resolution is at an advanced stage, which will reduce GNPA by around ₹2,624 crore, it said.

The interest income of the bank improved by 6.75% at ₹4,542 crore against ₹4,255 crore. Non-interest income, registering a growth of 41.83%, increased to ₹1,146 crore against ₹808 crore. Increase in share of digital products and para banking contributed to the growth, the bank said. Total expenditure has decreased by 3.56% from ₹4,378 crore to ₹4,222 crore.

CASA of the bank improved to 37.26% against 35.33% with year-on-year growth of 193 bps. Total CASA has increased from ₹76,526 crore to ₹82,081 crore while savings bank registered a 9.13% y-o-y growth. Total business stood at ₹3,70,901 crore as on December 31, 2018 against ₹3,68,128 crore as on December 31, 2017.

Rupee Cooperative Bank seeks partial merger with TJSB

FE BUREAU
Pune, January 25

THE RUPEE COOPERATIVE Bank is looking at partial merger of its assets and liabilities with the Thane Janata Sahakari Bank (TJSB). A proposal in this regard has been sent to the RBI by Satish Soni, the cooperative commissioner of the state.

The cooperative commissioner held a meeting on January 16 in Mumbai with Sunil Sathe, CEO of TJSB; Sudhir Pandit, chairman of the board of administrators of Rupee Cooperative Bank; and the registrar of cooperatives where Soni gave an assurance to send a letter to the RBI.

The Pune-based Rupee Cooperative Bank has been under special directions of the RBI since 2013. The RBI had suspended the then board of directors of the bank and put it under directions, which put sanctions on the functioning of the bank. Pandit said the current proposal would allow for partial takeover of the assets and liabilities of the Rupee Bank by the TJSB.

"Such partial merger has been allowed between cooperative banks and public sector banks, but has not been allowed between cooperative banks so far," he said.

M&M Financial Q3 net falls 19.6% to ₹319 crore

Report card

₹Crore	Q3FY18	Q3FY19	%CHNG	Q2FY19	%CHNG
Total Income	1,831.1	2246.2	▲22.7	2,148.3	▲4.6
Net Interest Income (NII)	100.2	120.4	▲20.2	116.6	▲3.2
Net Interest Margin (NIM)	7.4	8.1	▼70 bps	8.2	▼10 bps
Provisions	122.8	224.7	83.0	231.1	▼2.8
Net Profit	396.3	318.7	▼19.6	381.3	▼16.4
Gross NPA (%)	12.3	7.7	▼460 bps	9.0	▼130 bps
Net NPA (%)	8.2	5.8	▼240 bps	6.0	▼20 bps

Source: Mahindra & Mahindra Finance — All figures in Rs crore (except percentages)

FE BUREAU
Mumbai, January 23

MAHINDRA & MAHINDRA FINANCIAL Services on Friday reported a net profit of ₹318.7 crore for the December 2018 quarter, a 19.6% fall year-on-year. The profits fell on account of an 83% y-o-y increase in provisions to ₹224.7 crore.

Total income came in at ₹2,246.2 crore, up 22.7% y-o-y, pushed up by a higher net interest income, which rose by 20.2% to ₹120.4 crore. The lender's net interest margin (NIM) stood at 8.1%, 10 bps lower than Q2FY19.

The lender's asset quality improved q-o-q with gross non-performing assets (NPA) of 7.7%, down 130 basis points over Q2FY19. The Stage-3 provisioning coverage ratio stood at 26.9%. During the quarter, the lender disbursed loans worth ₹34,485 crore, marking an increase of 33% y-o-y. The net NPA at 5.8% was 20 bps lower over the previous quarter.

The lender's expenses were up sharply during the quarter with other expenses growing at 42.5% y-o-y, and provisions rising by 83%. However, the the cost to income ratio fell to 39.7% from 42.9% in Q3FY18.

India to soon enter third and final wave of a bear market, says Nomura

BHARADWAJ SHARMA
Mumbai, January 25

AFTER A ROLLER-COASTER ride of the Indian markets in 2018, which was predominantly powered by a handful of stocks, Nomura expects India and Asia markets in the second half of CY2019 to enter the third and final wave of a bear market. An economic recovery in H2 2019 will be Emerging Asia's time to shine, said Nomura in a report.

"We expect recovery in H2 2019 if the Fed pauses after its March 2019 hike and game-changing China policy stimulus in Q2 and if oil prices could stay low," said Robert Subbaraman, head of global markets research at Nomura. Relative to consensus forecasts, Nomura expects much weaker growth in H1, lower inflation and a policy rate cut in Q3. Additionally, it is more downbeat on China, India and Malaysia.

Sonal Verma, chief India economist at Nomura, explains that the economic fallout from the shadow banking crisis will be most acute in Q1, and uncertainty in the lead-up to the April/May elections could delay private investment at a time when the scope for fiscal stimulus is severely limited.

For the elections in India in Q2 2019, Nomura expects Modi to win a second term. It is possible that, in coming years, some of the larger and historically, more high-inflation prone EM economies – China, India, Indonesia and Brazil – could experience CPI deflation, which could be driven by the digital tech wave.

With regard to policy rate, it foresees a interest rate cuts by RBI in Q3. Nomura's analysis of the factors driving growth suggests that cyclical sectors are most at risk of a significant demand slowdown in coming quarters.

"A pullback in lending by NBFCs is likely to hurt consumer discretionary demand and real estate investment," said Saion Mukherjee, head of equity research at Nomura. The Central government revenues are under strain from lower-than-budgeted GST collections, lower direct tax receipts and a potential shortfall in disinvestment proceeds. "We estimate that overall revenue collections will undershoot budgeted targets by 0.5% of GDP. With the Central government's fiscal deficit already at 103.9% of the full-year target in the first seven months (April-October), we believe meeting the budgeted fiscal deficit target (of 3.3% of GDP in FY19), to which the government has reiterated its commitment, will entail a significant contraction of spending in the remaining months of FY19," said Aurodeep Nandi, India economist at Nomura.

This is where Mobius would put money now: India's a favourite

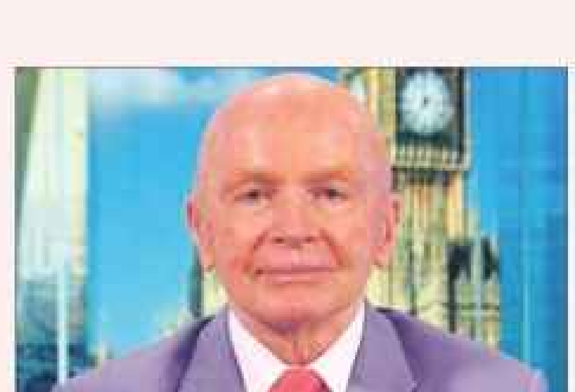
BLOOMBERG
Singapore, January 25

MARK MOBIUS, A veteran investor in developing nations, said now is the time to buy their equities and favours India, Brazil and Turkey. "We're particularly interested in India at this stage," Mobius said in a Bloomberg TV interview in Singapore on Friday. "I just came back from a two-week trip to India and I was just amazed at the changes taking place."

Mobius cited "terrific recovery" in many of developing economies as reasons for investors to buy after all assets – stocks, currencies and bonds – suffered a losing year in 2018 amid concerns over the US-China trade war and the Federal Reserve's tighter monetary policy.

"It's quite incredible, and of course you're looking at 7% growth for a country that size, it's very impressive," he told David Ingles and Rishaad Salamat, referring to India.

Mobius, who set up Mobius Capital Partners last year after three decades at Franklin Templeton Investments, said this is where he would put his money: 30% in India; 30% in Latin America, which includes Brazil, Argentina, Chile, and Mexico; 30% in Eastern Europe like Poland, Romania and Turkey and the rest in China and other parts of Asia.



Mobius's other market views

Valuations for developing-market equities are very attractive and much lower than in developed countries, he said, citing price-to-earnings ratio and price-to-book value. Trade issues between China and the US won't be a "big downer"; other countries are exporting to the US and Chinese companies have factories in other parts of the world, so they'll just ship products from other countries.

Despite the election risk in India, Mobius said he doesn't see a reversal of reforms, especially on the goods and services tax. "There is no way that they are going to reverse it because everybody has got a vested interest. The states are benefiting from this and they have a say. One of the reasons why the country is growing is because the barriers between states are coming down."

ANALYST CORNER

'Buy' on Essel Propack with a TP of ₹134

EDELWEISS

ESSEL PROPACK (EPL) reported a stable Q3FY19 driven by a strong 17% y-o-y revenue surge (eight quarter high, non-oral driven). However, margin miss led to Ebitda coming in line. Key highlights: (1) India turned around with 9% y-o-y revenue growth post a flat H1FY19; (2) EAP sustained stellar performance driven by non-oral. 9mFY19 jumped 19% y-o-y; and (3) Europe posted multi-quarter high growth, but margin improvement was still below expectation.

We believe, given growth revival (after many quarters) and strong management guidance, the stock should again trade close to its long-term average. Hence, we revise up our target multiple to 8x (7x earlier) EV/Ebitda, leading to revised TP of ₹134 (₹111 earlier).

Maintain 'Buy'. That said, valuation is dependent on sustained performance in ensuing quarters.

India operations grew 9% y-o-y (Q2FY19: -5% y-o-y) as issues related to pharma industry subsided and off take from a key customer improved. However, relatively lower pharma segment's share impacted India margin—fell 200bps y-o-y. Egypt sustained strong performance, growing 55% y-o-y in Q3FY19. EAP continued its strong trend – up 23% y-o-y (9mFY19: 19% y-o-y), driven by non-oral category. EAP reported 200bps y-o-y margin improvement driven by better product mix and operational efficiencies.

Europe finally reported strong growth – jumped 21% y-o-y with constant currency (CC) growth of 13% y-o-y aided by growth in oral care and non-oral care categories. However, despite the CC growth, margin improvement was still muted, rising only 220bps y-o-y to 1.1% (versus 5.0% plus margin trend).

Americas (CC) revenues grew 6.5% primarily on account of non-oral care. Margin (down 270bps y-o-y) was impacted by volume mix, price pass through, higher operating expenses and depreciation.

Telecom sector: Outlook negative for FY20

INDIA RATINGS AND RESEARCH

INDIA RATINGS and Research (Ind-Ra) has maintained a negative outlook on the telecommunications services sector for FY20. Ind-Ra believes the pricing recovery in FY20 is unlikely to be sufficient to compensate for the revenue loss witnessed in the preceding two years.

The Ebitda for the top two private telcos will improve but not to the extent that it would lead to any meaningful recovery in their standalone credit profiles.

Ind-Ra expects Reliance Jio Infocomm's (RJio) dominance to increase as it would continue to seize market share in terms of both subscribers and revenue from Bharti Airtel (Bharti) and VodafoneIdea (Voda-Idea) in FY20 and could eventually emerge as the largest telecom player in the industry.

Given the continued capex commitments, refinancing requirements would remain high for all the players. As a result, free cash flows would remain negative in FY20. The aggregate net debt of Bharti, Voda-Idea and RJio at endFY19 is estimated to be around ₹3 trillion, implying net leverage of over 6x for the sector. Telcos will continue to require equity infusion and asset monetisation to deleverage. The focus of operators will eventually shift to average revenue per user (ARPU) from subscriber market share, in Ind-Ra's opinion.

The share of 4G subscribers, who offer higher ARPU, will be a critical profitability indicator and RMS will evolve accordingly. Revenue growth would be uneven across telcos and RJio is positioned to outperform peers with its superior offerings.

Overall subscriber growth will remain muted in FY20, or it could even witness a decline, as India is a dual-sim market, which could consolidate with ARPUs trudging upwards. The ARPU is likely to improve over H2FY19-FY20 as the minimum recharge plans launched by Bharti and Voda-Idea will weed out low ARPU customers. As highlighted continually by Ind-Ra, network quality will be a key success factor for retaining customers.

Quick View

BSE to suspend trading in Bharti Def, Todays Writing

TRADING IN the equity shares of two companies – Bharati Defence and Infrastructure and Todays Writing Instruments – will be suspended from February 1, following the commencement of liquidation proceedings, BSE said. The decision has been taken in order to avoid market complications, BSE said in a circular.

QCCP status for GIFT IFSC clearing corps

MARKETS REGULATOR Sebi on Friday said it has granted qualifying central counterparty (QCCP) status to two clearing corporations operating in Gujarat International Finance Tec-City, an International Financial Services Centre (GIFT IFSC). The two entities are India International Clearing Corporation (IFSC) and NSE IFSC Clearing Corporation.

Sebi imposes ₹30-lakh fine on four entities

SEBI HAS slapped a total penalty of ₹30 lakh on four entities for executing "non-genuine" trades in illiquid stock options segment of the BSE. In four separate orders, the regulator imposed a fine of ₹15 lakh on Umesh Hemnani, ₹5 lakh each on Pumarth Infrastructure, Jaya Sarda and Kishan Kumar Jajodia.

PNB appoints AK Azad as executive director

PNB HAS announced the appointment of Agyey Kumar Azad as executive director w.e.f. January 22. Azad joins the bank with an experience of over 3 decades in the banking industry and will be leading credit, MSME and retail portfolio.

Chalet Hotels to raise ₹950 crore through IPO

CHALET HOTELS, an owner, developer and asset manager of high-end hotels in key metro cities, proposes to open its IPO on January 29. The IPO consists of equity shares of face value of ₹10 each, aggregating up to ₹950 crore (fresh issue) and an OFS of up to 2.46 crore equity shares.