

# Markets

TUESDAY, FEBRUARY 19, 2019



**NPS SUBSCRIBERS AT 2.65 CR**  
Hemant G Contractor, chairman, PFRDA

The number of subscribers has now touched 2.65 crore and we have just crossed the ₹3-lakh crore asset under management. Last fiscal, the corpus grew almost 40-45%. This year also, so far, it has been good.

## Money Matters

### G-SEC

The benchmark yield rose due to selling pressure



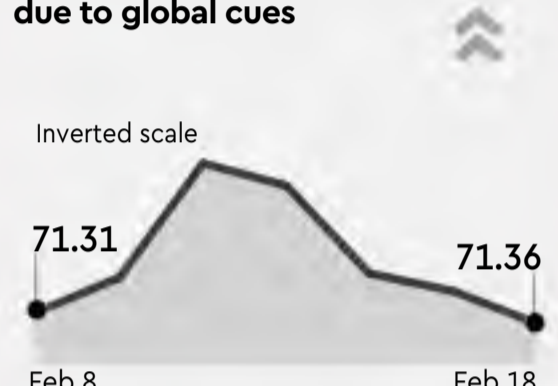
### LAF

Bank borrowing under RBI's short-term window rose by ₹11,406 crore



### ₹/\$

The rupee appreciated due to global cues



### €//\$

The euro rose against the US dollar



## Quick View

### Future Generali India Life ties up with Religare Broking

FUTURE GENERALI India Life Insurance Company (FGIL) on Monday announced a tie-up with Religare Broking to sell its insurance policies. This partnership will ensure a greater reach and penetration for FGIL products to Religare Broking's extensive database of customers extending to more than 400 cities, it added. "The tie-up will enable us to reach out to a wider and diverse section of the population with need-based life insurance solutions," said Munish Sharda, MD and CEO, FGIL.

### NSE pledges support to paramilitary forces

THE NATIONAL Stock Exchange (NSE) will contribute an amount equivalent to one day salary of all its group employees to a government-sponsored fund set up for the purpose of supporting the families of the central para-military forces personnel killed or injured in action, the stock exchange said on Monday. NSE expressed its deepest condolences to the families of the CRPF jawans martyred and injured in the Pulwama terrorist attack last week.

## A year after biggest fraud, PNB on road for annual profit

CHRIS THOMAS & KRISHNA V KURUP  
Bengaluru, February 18

ONE YEAR AFTER being hit by a \$2-billion scam, Punjab National Bank (PNB) is set to return to annual profits and strong loan growth in fiscal 2020 even as investigations continue into India's biggest banking fraud. State-run PNB has already surprised markets with an earlier-than-expected profit for the quarter ended December 31 as it completed setting aside funds to cover for the scam and its bad loan levels eased. While the lender is still likely to post a loss of ₹59.84 billion (\$837.16 million) for this fiscal year ending March 31, analysts expect PNB to return to a full-year profit in the next fiscal, according to Refinitiv data. The bank is expected to clock a net profit of ₹22.66 billion for the year ending March 2020, which would be its highest

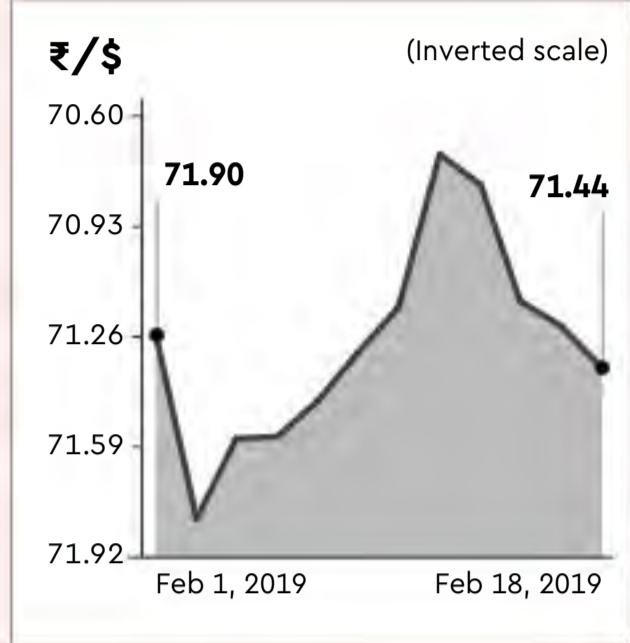
### UNDER STRESS

# Rupee loses 11p to end at 71.34 amid oil scare

Heavy selling in domestic equity markets also weighed on the rupee, say forex traders

PRESS TRUST OF INDIA  
Mumbai, February 18

THE RUPEE WEAKENED by 11 paise to end 71.34 against the US dollar on Monday amid firming crude oil prices and persistent foreign fund outflows. Heavy selling in domestic equity markets also weighed on the rupee, forex traders said. This is the fourth straight session of loss for the domestic currency, during which it has depreciated by 64 paise. At the Interbank Foreign Exchange (forex) market, the domestic unit opened weak at 71.35 and declined further to 71.52. However, it covered some lost ground and finally ended at 71.34, down by 11 paise against its previous close. The rupee had dropped 7 paise against the greenback on Friday at 71.23. Foreign portfolio investors (FPIs) remained sellers in Indian capital markets selling shares worth ₹1,239.79 crore on a



net basis on Monday. FPI had sold shares worth ₹966.43 crore on Friday, provisional data showed. "Rise in crude oil prices along with foreign fund outflows remained cause of concern for rupee. Oil prices today (Monday) touched the highest levels since November 2018. Crude oil has surged more than 20% this year as Saudi Arabia and Russia pledged to expand their output cuts and on concern that US sanctions against Venezuela and Iran will exacerbate a tightening of supply," said VK Sharma, head PCG and Capital Markets Strategy, HDFC Securities.

Brent crude futures, the global oil benchmark, was trading 0.15% higher at \$66.36 per barrel. The dollar index, which gauges the greenback's strength against a basket of six currencies, dipped 0.22% to 96.69. Domestic equity benchmarks wilted under selling pressure for the eighth straight session on Monday as risk appetite remained subdued amid sustained foreign fund outflows and geopolitical concerns. The 30-share BSE Sensex tumbled 310.51 points, or 0.87%, to finish at 35,498.44, while the broader NSE Nifty fell 83.45 points, or 0.78%, to 10,640.95.

## HDFC Bank has no plans to cut down on branch expansion: Aditya Puri

PRESS TRUST OF INDIA  
Mumbai, February 18

INDIA'S LARGEST PRIVATE sector lender HDFC Bank does not intend to cut down on branch expansion, a top official said on Monday. It can be noted that many banks globally are focusing on technology more than the physical presence in recent times. "Absolutely not," HDFC Bank's managing director and chief executive Aditya Puri said, when asked if the lender will be cutting branches in the future. He said the bank will give a choice to the customers, who can transact either through mobile phone or a laptop or visit a branch. India is the fastest growing major economy in the world and banking services are yet to reach all the people, Puri added. The bank is targeting to take its services to 1 lakh villages, Puri said without specifying a timeline or the number of places it reaches as of now. Global lenders' call on cutting down on physical presence has also had an impact in India, with decisions like HSBC's call to halve its branch presence in the country or Standard Chartered cutting down on at least 500 jobs. Puri was speaking on the sidelines of the bank's 5,000th branch opening at suburban Andheri in Mumbai. The bank has also entered the 25th year of its operations in the country. Puri, who has been heading the bank



**HDFC Bank is targeting to take its services to 1 lakh villages, says Puri without specifying a timeline or the number of places it reaches as of now. The bank has opened its 5,000th branch at suburban Andheri in Mumbai. It has also entered the 25th year of operations**

since its formation, said it is a nostalgic and emotional moment and added that it has seen India change in the last quarter century. He said the bank has benefited from India's growth and also contributes for social change with over half its network in rural and semi-urban areas. When asked about the future, Puri said the best is yet to come for the bank.

## Liquidity deficit during past week at 7-week high

FE BUREAU  
Mumbai, February 18

THE AVERAGE LIQUIDITY deficit during the week ended Friday, February 15, was at a seven-week high at ₹86,715 crore, led by fund outflows and a higher credit growth compared to the deposit growth, according to a Care Ratings report. Bank credit growth has been higher year-on-year at 14.5% as of 1 February and has surpassed the deposit growth, recorded at 9.6%. "The lower deposit growth amid higher credit growth has been a factor contributing to the liquidity constraints in the banking system," say experts at Care Ratings. The yield on the benchmark bond maturing in 2028 fell by 190 basis points (bps) since January 1 to close at 7.58% on Monday, and was 1 bps higher than the previous close of 7.57% on Friday. Foreign portfolio investors have pulled out close to \$500 million from the bond markets since January 1. Treasurers believe investors are pulling out fearing fiscal slippages following the largesse to farmers proposed by the government in the Interim Budget 2019-20. The Budget also proposed zero tax to individuals having a taxable income up to ₹5 lakh and also withdrew tax on notional rent on a second self-occupied house. The banking sector continues to be in deficit for the 19th consecutive week, despite the liquidity infusion by the RBI through open market operations (OMOs) worth ₹12,500 crore out of the planned ₹37,500 crore this month.

## Dewan Housing Finance yet to decide on stake sale

REUTERS  
Bengaluru, February 18

DEWAN HOUSING FINANCE (DHFL) is yet to take a decision on bringing in strategic investors, the Indian debt-laden housing finance company said on Monday after a report that it was in talks about selling stake. Earlier this month, the home loan provider said it was keen to sell assets and some of its businesses to improve liquid-

ity, however, it clarified that talks about the matter has not taken place as yet. Shares of DHFL rose as much as 7% in early trade on Monday, before finally closing 4% higher at ₹128.90 on BSE. The stock has been under pressure since investigative media outlet Cobra-2 had alleged last month that loans from Indian state banks were diverted by Dewan Housing to shell companies, including those linked to its controlling shareholders. Dewan has, however, denied lending to shell companies. Dewan's promoters are looking to sell a 10% stake through various ways, including an open offer, according to media report. The company's chief executive Harshil Mehta had resigned last week. Kapil Wadhawan, chairman and managing director, has taken additional charge as CEO and will remain in the position until a strategic partner comes in, according to the report.

## Rupee worst Asian currency as rising oil prices, Kashmir tensions weigh on sentiment



KARTIK GOYAL  
Mumbai, February 18

INDIAN RUPEE HAS gone from being the best-performing Asian currency last quarter to the worst this year as rising crude prices and tensions over Kashmir weigh on sentiment. The currency has slumped 2.4% since the end of December, missing the rally in its regional peers on optimism over US-China trade talks. It slid to 71.515 per dollar Monday, from as strong as 69.23 in early January, and traded at 71.4450 at 3:15 p.m. in Mumbai. The S&P BSE Sensex index of stocks extended its biggest weekly loss in four months. "The risk for the India story, which is

keeping the dollar well bid vis-a-vis rupee, is higher oil, followed by Kashmir tensions and the political uncertainty," said Ashish Vaidya, head of trading at DBS Bank in Mumbai. "If the negative factors are sustained, for instance, if the Kashmir situation worsens, the rupee could soon touch 73." Losses in Indian assets have deepened since Thursday when a suicide bomber rammed his explosive-laden vehicle into a bus ferrying security forces – the worst attack in Kashmir in decades. Crude oil has surged more than 20% this year as Saudi and Russia pledged to restrict their output cuts and on concern US sanctions against Venezuela and Iran will exacerbate supply shortage. -BLOOMBERG

## RBI to infuse ₹12,500-crore liquidity via OMOs on Thursday

THE RESERVE BANK of India (RBI) on Monday said it would inject ₹12,500 crore into the system through purchase of government securities on Thursday to increase liquidity. The purchase will be made through open market operations (OMOs). "Based on an assessment of prevailing liquidity conditions and also of the

durable liquidity needs going forward, the RBI has decided to conduct purchase of... government securities under OMOs for an aggregate amount of ₹125 billion on February 21, 2019," RBI said. The eligible participants should submit their offers in electronic format on the RBI core banking solution system on February 21. -PTI

## ANALYST CORNER

### ‘Buy’ on Yes Bank; nil NPL divergence is a major positive

JEFFERIES

TO OUR eye, YES seems to be a casualty of the RBI defending its decision not to extend Rana Kapoor's term by alluding to lapses and regulatory breaches, despite supplying a clean chit on NPL divergence. YES could face penalties (it remains to be seen what form these might take), but we do not view its disclosure as out of line with peers. In our view, 'nil' divergence is a major positive and ticks an important box in terms of investment rationale. Retain 'Buy'. On April 18, 2017, the RBI asked all banks to: (1) disclose the NPL divergence in a specified table format wherever (a) a provision shortfall accessed was in excess of 15% of net income, or (b) additional NPLs accessed were 15% ahead of gross NPL formation, or both. Any contravention of/non-compliance with the above instructions would attract penalties under the Banking Regulation Act. We understand that the Risk Assessment Report (RAR) is always marked 'confidential'. Over the past

two years, the NPL divergence mentioned in RAR across banks has been one of the most sought after pieces of data by Filis, Dilis, retail investors and market analysts as volatile stock performance post such a report demonstrates. As a result, banks have always provided information on NPL divergence to the investment community, irrespective of whether the divergence was reportable or not, or 'nil' - in varied ways, viz. quarterly earnings releases, press briefings, analyst calls etc. Assuming none of these are/were in breach of confidentiality (at least we haven't heard anything from RBI publicly), we don't think YES's action qualifies either. In the past, we have seldom, if ever, come across instances wherein banks have provided details on lapses/breaches which were part of the RAR when they disclose NPL divergence. We laud YES Bank for having filed a formal exchange release – the information being both price sensitive and material, like it has filed other announcements within the bank, mostly unpleasant ones in the past six months.

### Dr Reddy's Labs: Maintain 'Neutral', PT at ₹2,540

MOTILAL OSWAL

THE USFDA has issued an establishment inspection report (EIR) with voluntary action indicated (VAI) status for Dr Reddy's lab site at Duvvada. This, in our view, comes in as a big positive, given that the site was under warning letter with official action indicated (OAI) status. We, nevertheless, believe that revenue contribution from this site will be limited over the next 12-15 months, as DRRD had filed products from alternative sites to reduce the business risk when resolution of issues at Duvvada was taking time. Separately, the USFDA had recently issued form 483 with 11 observations to its formulation site (FTO-III) at Bachuppally. We expect DRRD to take strong corrective and preventive actions (CAPA), given that the facility accounts for a significant 35-40% of the US base business. We maintain our estimates and

continue valuing DRRD at 18x 12M forward earnings to arrive at PT of ₹2,540. While we find comfort in the improved ANDA approval pace and the issuance of EIR at Duvvada, the resolution of issues at FTO-III is critical to maintain momentum in the base business. We, thus, maintain our rating 'Neutral', on limited upside from current levels. Duvvada was one of the sites being issued a warning letter by the USFDA in Nov'15. The site was again inspected in Mar-17 and issued an EIR in Nov'17. However, the site's status remained as OAI. Subsequently, the site was re-inspected in Oct'18, and based on the corrective actions and responses by DRRD, the classification is now changed to VAI. Consequently, now two (Miryalguda and Duvvada) of the three sites under warning letter have an EIR in place. This would facilitate ANDA approvals from these sites.