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NEW DELHI / GURGAON, WEDNESDAY, 20 FEBRUARY 2019

MONEY MATTERS
Healthy Balance Sheet of Corp India will Outweigh Poll Results
Q&A with Kenneth Andrade

CO AIMS TO RAISE ₹4,000-5,000 CR from stake sale; money could be used retire part of ₹20,000-cr net debt

GIC, Mitsubishi in Talks with GMR Infra to Buy Minority Stake in Airport Hold Co

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Mumbai: Singapore's GIC and Japanese diversified conglomerate Mitsubishi Corp are in talks with GMR Infra for a minority stake in its airport holding company as the Indian airport developer steps up attempts to reduce its debt and get more investors.

Three people aware of the development said that GMR, with interests in airports, roads and energy, aims to raise ₹4,000-5,000 crore by selling stake in airport business. The money will primarily be used to retire part of ₹20,000 crore of its net debt.

A spokesman for the conglomerate said a "number of investors have shown interest" in the airport platform and that it continues "to engage with them constructively." He didn't elaborate.

GMR recently announced plans to demerge the airports holding company with the aim of eventually listing it, one of the people cited above said. However, he added that the listing wouldn't require a public offer.

"Taking into account the feedback from various stakeholders, the board has appointed a committee to evaluate the merits of a demerger which we will be doing in consultation with advisors in the coming months," said the spokesperson.

A Mitsubishi spokesperson said the company wouldn't comment. An email sent to GIC remained unanswered till writing of this report.

India's infrastructure companies have stepped up efforts in recent months to sell shares and retire a large portion of their considerable debt.

Spanish conglomerate Ferrovial, Canadian pension fund PSP and the UAE-based sovereign fund Abu Dhabi Investment Authority earlier this month submitted final bids for a minority stake in the airport business of GVK Power and Infra, GMR's rival. A robust growth in traffic has, however, ensured the airport businesses are profitable.

GMR's airports business posted a profit before tax of ₹365 crore for the October-December quarter, compared to a profit of ₹394 crore a year earlier. GVK's airport company posted a net profit of ₹274 crore in 2017-18 (the latest available figures for the segment) compared to a loss of ₹260 crore a year earlier.

GMR has for the last couple of years made efforts to divest its airport company, including via an IPO.

Continued on ▸▸ SMART INVESTING

Flight Mode

	DELHI	HYDERABAD	GOA	MACTAN-CEBU	CRETE, GOA
Shareholding	64%	63%	100%	40%	21.6%
Passenger handling capacity	66 m	12 m	7.7 m	12.5 m	15 m
Rated capacity	119 m	80 m	33 m	28 m	15 m

Goa and Crete islands are greenfield pilot projects

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10604.35	0.34
Sensex	35352.61	0.41
MSCI India	791.1	0.76
MSCI EM	2315.34	0.36
MSCI BRIC	602.65	0.36
MSCI World	8557.79	0.15
SX 40	20799.89	0.42
Nikkei	21302.65	0.10
Hang Seng	28228.13	0.42
Strait Times	3259.8	0.19

Values in US $, Gross — At 7 pm IST

OIL ($)
DUBAI CRUDE
65.78
0.06
Absolute Change — Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1325.0	1466.61
LAST*	1331.9	1470.09

*At 10.30pm, After adjusting for import duty, Indian spot gold lower by $ 5.00 to US Comex gold price on Tuesday. The premium on local gold is due to tight supply following import curbs.

Market on Twitter@ETMarkets

Aggregate Results So Far

Based on 4014 Cos' Earnings	Dec-18 (₹Cr)	QoQ %Chg	YoY %Chg
Net Sales	2348292	3.6	17.73
Op Profit	365983	0.16	-1.04
Interest	287834	3.76	16.03
Net Profit	95396	-15.34	-23.44

SOURCE: ETIG DATABASE

FALL IN CORE INFLATION IN EMs

Rate Hikes to be Rare this Year, say Brokerages

The trend of low inflation, which was so far limited largely to developed countries, is now visible in emerging markets (EMs). Core inflation in these regions after excluding energy prices dropped to a 15-year low of 2.8%, according to Morgan Stanley. The inflation difference between EMs and the developed markets dropped to 120 basis points (bps) in 2018 from 400 bps in 2015. The easing inflationary pressure is also reflected in the Citi's Inflation Surprise Index, which has dropped to the lowest in three years.

Inflation in several countries is significantly lower than the comfortable level of their central banks. Over 80% of the central banks in EMs covered by Morgan Stanley have inflation below the forecast since January 2017. This is the prime reason for central banks to turn dovish, a term used to represent a tendency to keep interest rates lower. JP Morgan has shifted forecast for 10 developing nations' central banks towards dovish monetary policy. According to Bank of America, central banks sound the most dovish since 2009.

The shift in central banks' stance is in contrast to the Street's perception about two months ago when Nomura Holding had said it wasn't 'banana' to talk about deflation in developing economies.

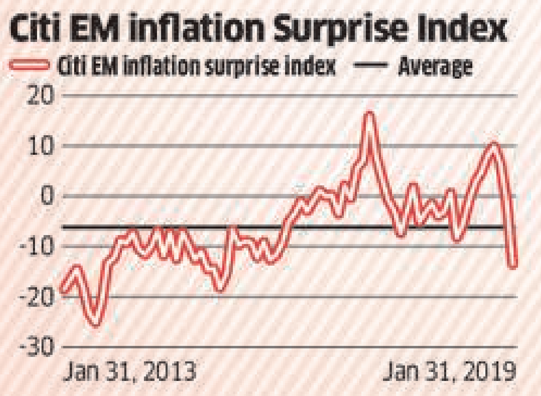
There are a couple of reasons why 'low' inflation is seeping into EMs. One, the central banks have become more systematic and follow rigorous rule-based policy structure. Today 19 central banks follow a rule-based policy structure to target inflation compared with just 3 in 1998. Due to aggressive inflation targeting, central banks had raised rates last year; therefore, they have ample room to reduce it now. Second, the wage growth has been lower than the GDP growth since 2014 thereby reducing inflationary expectation. In addition, higher agricultural production and better food supply chain have contributed to lower food inflation.

Inflation is likely to remain benign in the current year. According to Morgan Stanley, inflation in 83% of EMs will be at or below their central banks' target range by the end of the last quarter of 2019.

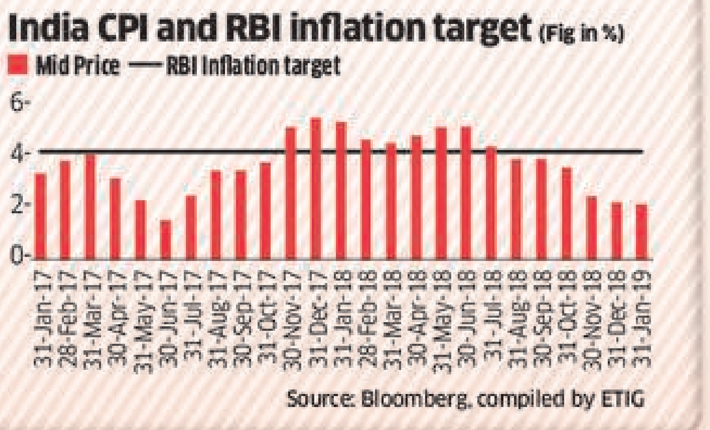
— Ashutosh R Shyam/ ETIG

Consumer price index of EMs (YoY Change)

Citi EM inflation Surprise Index



India CPI and RBI inflation target (Fig in %)



Source: Bloomberg, compiled by ETIG

DRAFT NORMS FOR STANDARD HEALTH PRODUCTS

Health Insurance may Cover Ayurveda, Unani

Our Bureau

Mumbai: The insurance regulator has issued draft norms for standard health insurance products with basic sum assured of ₹50,000 to ₹10 lakh defining the benefit structure for individual insurance buyers with no upper age limit. While the minimum entry age is kept at 18 years for principal insured, the maximum age at entry is 65 along with lifelong renewability. There shall be no maximum exit age.

The basic standard policy will also cover expenses incurred on treatment under Ayurveda, Unani, Sidha and Homeopathy systems of medicines subject to fixed and standard sub-limits based on the sum insured.

The standard product will be offered on indemnity basis, as a standalone product and it cannot be combined with critical illness covers or benefit based covers.

In a draft circular Irdai said that products differ significantly with each other in terms of benefits offered. "It is considered essential that the potential customers seeking health insurance shall have an access to the basic health insurance covers so as to enable them to choose the coverage based on the need," the regulator said.

The standard health product will cover hospitalisation expenses including room, nursing expenses, Intensive Care Unit, Intensive Cardiac Care Unit expenses, dental treatment, necessitated due to an injury, plastic surgery, necessitated due to disease or injury and domiciliary hospitalisation. However, 5% of copay or the insured pays, is part of the product feature.

Deteriorating corporate credit quality and surging emerging market debt a big worry

Global Debt Levels may Soon Explode with China Leading the Way

Business Insider

Global debt is at elevated levels, but isn't high enough to draw comparisons with the 2008 financial crisis just yet.

Risky corporate debt, particularly in the form of leveraged loans, has been on the rise for a number of years, with analysts suggesting the recent build up could be a significant risk to global GDP growth.

Since 2015, world private sector debt has risen by around 15% of world GDP - a level higher than it was prior to the global financial crisis, according to Oxford Economics.

Emerging markets have been the main driver of this trend with debt levels in major growing economies such as China increasing rapidly in the past decade.

Growing global debt is a major concern for the world economy because recent evidence has indicated that credit booms often end in busts of seismic proportions. A recent study found that of 175 such credit booms a staggering 70% have ended in busts, a worrying sign for the current debt buildup.

In a sample of large economies, up to 60% of GDP is in economies with "risky" corporate debt and up to 30% of GDP is in economies with risky household debt, according to the Oxford Economics note.

The boom in emerging market debt is coupled with a rise in increasingly risky debt in Europe and the US. Leveraged loan quality is now at its lowest ever level having reached a peak of new deals in the past few years.

Oxford Economics' research also suggests that the countries at the highest risk are Hong Kong, China, France, Canada, and Chile. China's debt problem is already at a critical stage and a failure to address it could have major implications for the world economy.

THE BIG CHILL

OCTAV BANCILA *The Defector*

FUND SAYS MARKET IS NARROW AND IT IS ACTIVELY LOOKING FOR OPPORTUNITIES TO DEPLOY CASH

High Cash Balances, Profit Booking Help Axis Equity Funds Outperform

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Mumbai: Holding high cash balances and booking profit in slowing sectors like auto have helped Axis Mutual Fund's equity schemes turn the table toppers in the past one year.

At a time when most mutual fund scheme returns are negative, as stocks corrected sharply, equity schemes of Axis Mutual Fund have given positive returns, outperforming their benchmarks and peers.

Over the last one year, as per data from mutual fund tracking firm Value Research, Axis Bluechip Fund with assets of ₹4,000 crore returned 9.07%, when the large-cap category lost 1.07%. For Axis Multicap Fund with assets of ₹3,000 crore, the net asset value gained 9.7% even as the category recorded a 5.61% loss. Axis Midcap Fund with assets of ₹1,800 crore returned 4%, vis-à-vis a 12.32% fall in the segment.

Increasing the cash in its key equity mutual fund schemes, instead of deploying that, has been one of the reasons for the funds' stellar performance, financial planners said. "At a time when the markets fell and other schemes lost out due to the fall, Axis managed to outperform its peers," said S Shankar, a certified financial planner at Credo Capital.

Over the past one year, Axis Bluechip has increased cash in its portfolio to 19.2% from 9.8% and Axis Midcap to 18.1% from 5%. For Axis Multicap, this has reduced to 18.6% from 20%.

"We have reduced exposure to sectors which have slowed down over the last one year. The market is narrow and we are actively looking for opportunities to deploy cash," said Shreyash Devalkar, fund manager, Axis Mutual Fund. Due to the good performance, its schemes are believed to be getting higher inflows compared with rivals. This is adding to the cash levels. Anticipating a slowdown in the auto sector, the fund manager exited stocks like Motherson Sumi, Mahindra & Mahindra, Ashok Leyland and MRF.

It also sold shares in commodity players like Hindalco and Tata Steel. Among other stocks it exited are HDFC AMC, Page Industries and Jubilant FoodWorks, where valuations were high.

Devalkar added stocks like ICICI Bank, Bata, Wipro, Nestle, Infosys and TCS in the past few months.

"The fund manager sticks to quality stocks. Since these have become expensive, he prefers to hold cash in the portfolio," said Shankar, the financial planner.

However, many wealth managers do not like holding cash in their portfolios, as they believe it is difficult to time the market and if it goes wrong, they could end up underperforming or delivering volatile performance. "A fund manager should be fully invested. Asset allocation or holding cash in the overall portfolio is best decided by the investor and his adviser," said Amol Joshi, founder of investment services provider Plan Rupee.

Fund Facts

Scheme	Top 3 holdings	Cash (%)	1 year return (%)
Axis Bluechip	HDFC Bank, Bajaj Finance, Infosys	19.2	9.07
Axis Multicap	HDFC bank, Bajaj Finance, Kotak bank	18.6	9.7
Axis Midcap	City Union Bank, Infoedge, Torrent Pharma	18.1	4

Portfolios as on January 31, 2019.
Return as of February 18, 2019
Source: Accord Fintech

Five Stocks to Have Physical Settlement Two Months in Advance

Our Bureau

Mumbai: Five Nifty stocks – Dr Reddy's Laboratories, Indiabulls Housing Finance, Tata Motors, Yes Bank, and Zee Entertainment Enterprises – will move into physical settlement two months in advance, according to a NSE circular.

These stocks were scheduled to come under physical settlement from July expiry but the exchange has revised start of physical settlement in these stocks from May expiry onwards.

"...all new expiry month contracts issued in the above securities after expiry of February contracts (i.e. May expiry onwards) shall be physical settled. However, the existing unexpired contracts of expiry months February 2019, March 2019 and April 2019 and new strikes introduced in such contracts would continue to be available for trading till their respective expiry under the cash settlement mode," said NSE.

Motilal Bets More on Maruti, Axis in Model Portfolio

Motilal Oswal has increased weightage on Maruti Suzuki India, Axis Bank, LIC Housing Finance and introduced Brigade Enterprises in its model portfolio. The brokerage continues to be bullish on corporate banks, consumer, IT and auto (four-wheelers).

▸▸ SMART INVESTING

GOVT LIKELY TO INJECT MORE CAPITAL even as lenders expect better loan recovery through the insolvency resolution mechanism

RBI may Lift PCA Curbs on Dena, Central & Allahabad Banks

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Kolkata: Allahabad Bank, Central Bank of India and Dena Bank may be next in line to be taken out of the Reserve Bank of India's prompt corrective action (PCA) framework, with the government likely to inject more capital into these lenders and hopes of better loan recovery through the insolvency resolution mechanism.

"The government is encouraging banks under PCA to adjust the fresh capital from it against bad loans. The fresh equity is largely being used for reduction in net non-performing asset ratio below the 6% level," said the chief executive officer of a state-owned lender that's under the corrective mechanism. "Three to four banks are likely to get out of the stringent rule after March even as their gross NPA remained elevated beyond 16-17%."

The government is expected to provide another ₹12,500 crore of capital in the current quarter to banks that have capital ratios below the mandatory level.

The RBI removed Bank of Maharashtra, Bank of India and Oriental Bank of Commerce from the PCA on January 31. Both BoM and BoI have net NPA ratios below 6%, but their return on assets remained negative. In the case of OBC, though its net NPA was at 7.15%, the government's capital infusion helped the lender to improve that ratio to less than 6%. "Hence, it has been decided to remove the restrictions placed on OBC under PCA framework subject to certain conditions and close monitoring," the central bank had said.

Among the eight state-owned lenders still under business restrictions, Allahabad Bank has the lowest net NPA ratio of 7.7%, which is within striking distance of the 6% risk threshold. The bank expects another dose of capital, which may help its common equity tier (CET) 1 ratio surpass the minimum 7.75% requirement to get out of PCA from the current 7.06%.

"RBI has given leeway in terms of ROA. We expect to bring down net NPA below 6% by March if the large accounts admitted under NCLT are resolved," Allahabad Bank chief executive SS Mallikarjuna Rao said.

Central Bank of India's net NPA stood at 10.32%, while its CET 1 ratio was at 7.39% on December 31, 2018. Dena Bank's net NPA was at 10.44% and CET 1 ratio was at 7.62%.

Corporation Bank, which made a profit in the past two successive quarters, is another contender for the relaxed norms. Its CET 1 ratio has improved to 8.84%, while its net NPA at 11.47% remained within the second risk threshold.

The government has more room to infuse fresh capital into Allahabad Bank and Dena Bank as its stake-holding in them is at 83% and 81%, respectively.

The Report Card

	GNPA	NNPA	Q3 Net loss (₹ Cr)	ROA	CAR	CET1
Allahabad Bank	17.81	7.7	733	-1.24	10.4	7.06
Central Bank	20.64	10.32	718	-0.86	9.34	7.39
Dena Bank	19.77	10.44	179	-0.63	10.21	7.62
Corporation Bank	17.36	11.47	61 (Profit)	0.12	11.12	8.84
IDBI Bank	29.67	14.01	4,186	5.19	12.51	9.32
Indian Overseas	23.76	13.56	346	0.5	8.86	6.7
Uco Bank	27.39	12.48	999	-1.76	9.33	7.14
UBI	21.27	12.08	1,139	-3.17	9.99	7.1
Bank of Maha	17.31	5.91	3,764	-9.62	11.05	8.93
Bank of India	16.31	5.87	4,738	-2.85	12.47	9.1
Oriental Bank	15.82	7.15	145	0.23	12.62	9.37

As on december 2018 (in %) — Source: BSE. Banks in bold are out of PCA