

Markets

WEDNESDAY, FEBRUARY 27, 2019



● NBFC CRISIS

Niles Shah, CEO, Kotak Mahindra AMC

"We believe NBFC growth will disappoint and there is a marked slowdown for most, which is now starting to reflect in their valuations."



Money Matters

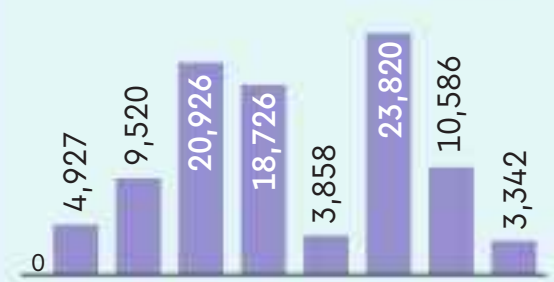
G-SEC

Benchmark yield rose due to selling pressure **0.3%**



LAF

Bank borrowing under RBI's short-term window fell by ₹7,244 cr **68.43%**



₹/\$

The rupee depreciated due to global cues **0.13%**



₹/\$

The euro rose against the dollar **0.05%**



● DISCUSSION PAPER

RBI proposes 50% of private bank chiefs' pay as variable

Also recommends variable pay be capped at 200% of fixed pay, employee stock option plans must be a component

FE BUREAU
Mumbai, February 26

THE RESERVE BANK of India (RBI) has mooted new rules for heads of private banks including foreign lenders, proposing at least 50% of their compensations should be part of variable pay.

In a discussion paper posted on its website late Monday evening, the RBI has proposed significant changes in the rules, stating that at least 50% of the compensation of a whole-time director (WTD) and a chief executive officer (CEO) should be variable and that employee stock option plans (ESOPs) must be included as a component of variable pay.

The paper recommends that variable pay be capped at 200% of fixed pay, as against the present cap of 70% of fixed pay, which does not include ESOPs.

A minimum 50% of variable pay should be in the form of non-cash components. A compulsory deferral mechanism



for variable pay has also been proposed, regardless of the quantum of variable pay.

The central bank also plans to mandate the imposition of financial penalties in case of divergence in recognition of non-performing assets (NPAs) or provisioning

beyond RBI-prescribed thresholds for public disclosure. The paper prescribes quantitative and qualitative criteria to identify material risk takers, to whom the guidelines shall also apply.

In its statement, the RBI invoked international codes and standards — the FSB principles for sound compensation — practices implementation standards and the Basel committee's range of methodologies for risk and performance alignment of remuneration among them — to explain the need for new remuneration norms.

"The compensation practices, especially of large financial institutions, were one of the important factors which contributed to the global financial crisis in 2008. Employees were too often rewarded for increasing the short-term profit without adequate recognition of the risks and long-term consequences that their activities posed to the organisations. These perverse incentives amplified the excessive risk taking that severely threatened the global financial system. The compensation issue has, therefore, been at the centre stage of the regulatory reforms," the RBI noted.

The discussion paper is open for comments till March 31.

In 2018, the central bank had asked the board of Axis Bank to reconsider a fresh term for then CEO Shikha Sharma and denied an extension to Rana Kapoor of Yes Bank.

BoI issues new shares for capital infusion

FE BUREAU
Mumbai, February 26

BANK OF INDIA board on Tuesday approved issuance of fresh preferential shares against ₹4,638 crore received from the government, part of which the state-owned lender expects to use as the capital for growth. The lender's capital as of December 31, 2018 was at ₹1,743.72 crore as compared to ₹1,185.29 crore as of December 31, 2017. The bank reported a capital adequacy ratio as per Basel-III norms at 12.47% in Q3FY19, as against 12.05% in Q3FY18.

"The bank will use proceeds from the share application money from the government partly towards regulatory capital requirements and partly for the growth of the bank," said AK Das, executive director at Bank of India.

The Bank of India board approved the issuance of fresh shares to the government at ₹89.60/share through preferential issue in respect of share application money, which was received after the required approvals, the bank said in a regulatory filing.

On December 26, the government had informed the lender about its decision to infuse ₹10,086 crore in the shares of Bank of India by the way of preferential allotment, the bank said in a regulatory filing. However, "the bank was not expecting any more capital infusion from the government," Das told FE.



In January, Bank of India came out of the prompt corrective action (PCA) framework of Reserve Bank of India (RBI) after meeting the regulatory norms including capital conservation buffer (CCB) and net NPAs (non-performing assets) of less than 6% in Q3FY19 results.

On December 20, the government had approved ₹48,239 crore recapitalisation for 12 public sector banks (PSBs), as a part of its ₹1 lakh crore recapitalisation in FY19, to equip two better performing PSBs to be above regulatory PCA triggers.

Earlier in 2018, the government had announced an infusion of ₹65,000 crore in the PSBs in FY19 in order to pull the state-run banks out of the PCA framework of RBI and strengthen their lending capacity.

Foreign shareholding in Kotak Mahindra Bank capped at 45%

PRESS TRUST OF INDIA
New Delhi, February 26

KOTAK MAHINDRA BANK on Tuesday said its board has approved a proposal to increase foreign shareholding limit to 45% from the existing 43%.

"The board of directors of the bank has today approved increase in ceiling limit on the total shareholding of Foreign Institutional Investors/Foreign Portfolio Investors from the current limit of 43% to 45% with immediate effect," the bank said

RBI had asked the lender to pare promoter Uday Kotak's shareholding down gradually to 15% by March 31, 2020

in a regulatory filing. RBI had earlier asked the lender to pare promoter Uday Kotak's shareholding down gradually to 15% by March 31, 2020. The bank was asked to cut Kotak's holding to 20% of the paid up capital by December

2018 and further to 15% by March 31, 2020. As on December 31, 2018, Kotak held 29.72% stake in the bank.

Uday Kotak, vice-chairman and managing director of Kotak Mahindra Bank, earlier held 30.03% stake. To bring his shareholding down, the bank in August 2018 had proposed to issue perpetual non-cumulative preference shares (PNPCS) to meet the said deadline, which was rejected by RBI.

Kotak Mahindra Bank then moved the Bombay High Court challenging the RBI's decision.

RBI to infuse ₹12,500 cr through OMO

THE RESERVE BANK of India (RBI) on Tuesday said it would infuse ₹12,500 crore into the system through open market operations.

The RBI said it has decided to conduct purchase of certain government securities under open market operations (OMOs) for an aggregate amount of ₹12,500 crore on February 28 through multi-security auction using the multiple price method.

The decision on OMO is based on an assessment of prevailing liquidity conditions and also of the durable liquidity

needs going forward, it added. "There is an overall aggregate ceiling of ₹125 billion for all the securities in the basket put together. There is no security-wise notified amount," RBI said.

It further said the eligible participants should submit their offers in electronic format on the RBI Core Banking Solution (E-Kuber) system between before noon on Thursday. The result of the auction will be announced on Thursday and payment to successful participants will be made during banking hours on the following day. —PTI

Quick View

RBI to issue new ₹100 notes soon

THE RESERVE BANK of India (RBI) on Tuesday said it would shortly put into circulation new-series ₹100 denomination bank notes bearing the signature of its governor Shaktikanta Das. The RBI will shortly issue ₹100 denomination bank notes in Mahatma Gandhi (new) series bearing the signature of Das, the central bank said in a release.

'Steps on anvil to tackle frivolous bids under IBC'

THE GOVERNMENT WILL soon come out with "effective steps" to deal with instances where entities back out after making frivolous bids under the insolvency law, according to a senior official. The Insolvency and Bankruptcy Code (IBC) mainly seeks to address the issue of stressed assets in a time-bound manner. However, there have been instances where entities have failed to implement the approved resolution plans. Against this backdrop, corporate affairs secretary Injeti Srinivas on Tuesday said the government is looking at taking some steps to discourage people from making frivolous bids under the Code.

Radford Global fined ₹30L for violating listing norms

MARKETS REGULATOR SEBI on Tuesday slapped a fine of ₹30 lakh on Radford Global for violating listing norms and failing to provide information sought by the regulator. Sebi fined the firm ₹10 lakh for failing to provide information and ₹20 lakh for violating listing agreement norms, totalling ₹30 lakh.

Federal Bank awarded best tech bank of 2017-18

FEDERAL BANK WAS awarded the title of the 'Best Technology Bank of the Year 2017-18' at the IBA Banking Technology Conference, Expo and Awards, sources said. The bank has been adjudged runner up under the category of the 'Most Customer Centric Bank' using technology among small banks. The awards are given in recognition to the bank's digital initiatives, adoption of green technologies and consistent customer experience, sources added.

RBI extends eKYC deadline for wallet firms till Aug 28

FE BUREAU
Mumbai, February 26

EVEN AS THE Reserve Bank of India (RBI) on Monday extended the timeline for issuers of wallets and other prepaid payment instruments (PPIs) for completing the know-your-customer (KYC) registration by six months, industry players said the inability to carry out the eKYC remotely will continue to be a pain point.

"It is good that the direction has come because otherwise there would have been a lot of hardship caused to a lot of wallet users," said Pramod Saxena, founder and chairman, Oxigen Services India, adding, "What we needed really is a KYC regime that allows a faster process. The eKYC process should be such that people do not have to take the trouble of physically going and presenting documents."

Vinay Kalantri, founder and managing director, tmw Fintech, said the industry is hoping for the regulator to come out with an alternative to resolve the vexed issue of KYC. "A possible alternative may lie in setting up of a central KYC registry or a common pool of information which will be open to private business," he observed.

Banks and fintech companies have been waiting for the RBI to respond to their request for guidelines governing the eKYC process for their customers ever since the Supreme Court's September 2018 judgment restricted the use of compulsory Aadhaar-based authentication for the purpose of accessing government subsidies.

As per the Master Direction on Issuance and Operation of Prepaid Payment Instruments (PPIs), issued by the central bank on October 11, 2017, PPI issuers were required to complete the KYC process by February 28, 2019. The new



deadline will now be August 28, 2019.

"Based on requests received from various stakeholders to extend the above timeline on account of difficulties in undertaking Aadhaar-e-KYC and time necessary to put in place alternative systems for completing the KYC process, it has been decided to allow PPI issuers additional time of six months for completion of the KYC process," the RBI said in a late night notification on Monday.

The extension of the timeline does bring some relief to PPI issuers as it means they do not have to immediately eliminate the accounts of the large number of wallet users who remain outside KYC coverage. Industry participants believe such users constitute anywhere between 70% and 75% of the total pie of wallet users.

Nonetheless, payment firms said the move was a welcome one. Upasana Taku, co-founder and director, MobiKwik, said, "This is a welcome announcement as it gives us more time for completing the full KYC process for our users. We also urge RBI to allow alternative KYC tools to PPI issuers as this will further boost the growth of digital payments in the country."

Data released earlier this month by the RBI shows that PPIs recorded 441.77 million transactions in December 2018, up 38% year-on-year (y-o-y).

Crisil revises ratings on different bonds of United Bank of India

FE BUREAU
Kolkata, February 26

STATE-RUN UNITED BANK of India on Tuesday said rating agency Crisil has revised the ratings on its different bonds, under Basel II and III, considering profitability, asset quality and provision coverage ratio (PCR) of the lender.

"CRISIL has downgraded its ratings from CRISIL A to CRISIL A-/Stable for ₹300 crore Tier I Perpetual Bonds (under BASEL II), from CRISIL AA- to CRISIL A+/Stable for ₹200 crore Lower Tier II Bonds (under BASEL II) and from CRISIL AA- to CRISIL A-/Stable for ₹1,490 crore Tier II Bonds (under BASEL III)," the bank said in a stock exchange filing.

"The ratings have been downgraded considering profitability, asset quality and PCR of the bank as on December 31, 2018," the bank said.

The Kolkata-based bank reported a ₹1139.25 crore net loss for the December quarter this fiscal against a net loss of ₹637.53 crore for the same period last fiscal with provisions to cover bad loans soaring nearly two-fold. The bank, which is under the prompt corrective action (PCA) of the Reserve Bank of India, had reported a net loss of ₹883.17 crore for the second quarter this fiscal.

During the December quarter this fiscal, gross non-performing assets (NPAs) in absolute terms fell 2.81% quarter-on-quarter to ₹14,737.61 crore from ₹15,163.28 crore from the September quarter. Gross NPA as a percentage of total loans also fell 142 basis points (bps) to 21.27% from 22.69% during the previous quarter. During the period under review net NPA ratio decreased 228 bps sequentially at 12.08%.

Rupee logs 1st loss in 3 sessions; slips 10 p

PRESS TRUST OF INDIA
Mumbai, February 26

THE RUPEE ON Tuesday snapped its gains of previous two sessions and closed 10 paise lower at 71.07 to the US dollar amid fears of escalation in geopolitical tensions following Indian fighter jets' air strikes on Pakistan-based terror camps.

Besides, weakening investor sentiments in domestic equity market and rising global crude oil prices impacted the rupee movement.

Reacting to rising tensions between India and Pakistan, the domestic currency opened 30 paise lower at 71.27 in the early trade and further weakened to 71.35 as the day progressed. However, it recovered from early plunge to settle at 71.07, a loss of 10 paise against the dollar.



Similarly, growing geo-political tensions also hit investor sentiments in domestic equity markets, with benchmark Sensex diving 240 points to close at 35,974.

ANALYST CORNER

ADSEZ would benefit from synergistic benefits

KOTAK INSTITUTIONAL EQUITIES

ADSEZ'S PROPOSED ACQUISITION of the group's agri logistics business appears expensive (15X FY2020E adjusted EV/EBITDA), without considering the benefits of synergy and new growth opportunities. Being a small investment (less than 2% of ADSEZ's EV and EBITDA), the deal is unlikely to impact ADSEZ's fair value and its success would be difficult to track from future financials. We would wait more financial details before fine-tuning estimates; expect the payout and near-term capex to sap up 30% of combined FCF over FY2019-20.

Adani Logistics Limited (ALL), a wholly owned subsidiary of ADSEZ, has approved acquisition of Adani Agri Logistics, a wholly owned entity of Adani Enterprises. The transaction values the agri logistics business at 15X FY2020 EV/EBITDA, adjusting for value paid for land. It values the agri logistics business at 9X net worth for business doing a sub-optimal 15% pre-tax return on fixed assets.

The above valuations are devoid of the synergy benefits on EBITDA and capex that start accruing from FY2021.

Maintain 'buy' on Infosys; price target at ₹865

MOTILAL OSWAL

EVEN AS INFO'S revenue growth improves — its FY19 EBIT margin exit at 22-22.5% followed by wage hikes in 1QFY20, pose a risk to consensus EBIT estimate of 23.4% for FY20. This is a key concern weighing on the stock's attractiveness. INFO'S recent revival under Salil Parekh in revenue growth came with an EBIT margin decline of 120bp, despite INR/USD depreciating 11% during the same period.

The trend is remarkably similar to the period under Vishal Sikka, when INFO'S revenues increased from 6.3% CC in 2QFY15 to 15% YoY CC in 4QFY16 and 12% in 1QFY17. In both instances, however, we see revenue growth gaining priority over margins. In the earlier period, INFO saw its stock price gain 33%, while in the recent period, the uptick in the stock price was a robust 59%. A big difference between the two periods under different leaders is the realisation rate.

There was a significant drop of 7.7% during the earlier period under Vishal Sikka, in the CC offshore realisation. However, the same has remained within a tight range in the last seven quarters under Salil Parekh, and yet the similarity of margin performance. Margins were impacted at the gross level in both instances and sub-contracted costs also expanded almost equally on both occasions. A potential explanation is the elevated delivery costs this time around, for sustained price points.

Traditionally, revenue growth has been a key lever for margin expansion in the industry. This was due to disproportionately higher fresher additions to fuel growth, which brought down the overall cost of delivery.

We estimate margin pressure for INFO to bottom out in FY20 between 22.5-23%. Our price target of ₹865 discounts forward earnings by 19x, a 10% discount to TCS' 1-year forward multiple. Maintain 'Buy'.