Markets

THURSDAY, FEBRUARY 28, 2019

ICRA RE-RATING

Kapil Wadhawan, chairman & MD, DHFL

This comes barely three weeks after the company was downgraded and kept on watch by all the rating agencies. Since then, no material event has taken place which would have compelled the rating agency to review ratings in less than a month's time.

Money Matters

G-SEC

Benchmark yield rose due to selling pressure 0.06%

LAF

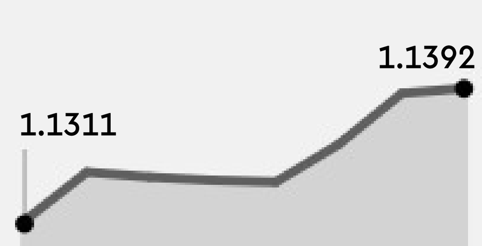
Bank borrowing under RBI's short-term window rose by ₹10,005 crore 299%

₹/$

The rupee depreciated due to global cues 0.2%

€/$

The euro was flat against the dollar



ALL-CASH BASIS

BoB puts NPAs worth ₹6,000 crore on sale

Some banks have taken to selling off bad loans where recoveries through the IBC code have been long drawn

FE BUREAU
Mumbai, February 27

BANK OF BARODA (BoB) has put on sale non-performing assets (NPAs) worth nearly ₹6,000 crore, including its ₹1,838-crore exposure to Reliance Communications (RCom). The accounts are being offered on an all-cash basis.

A notification inviting expressions of interest (EoIs) from asset reconstruction companies (ARCs) for 49 bad-loan accounts worth ₹5,928 crore said the EoIs, with indicative prices, must be filed by March 7.

Some of the other large exposures on the list are GVK Power Goindwal Sahib (₹266 crore), Asian Colour Coated Ispat (₹263 crore) and GMR Chhattisgarh Energy (₹218 crore).

BoB has been trying to sell off some of the accounts on the list for much of the current financial year. For instance, GVK Gautami Power (₹91 crore), GVK Power Goindwal and GMR Chhattisgarh have all appeared on BoB's sale notices earlier.

This follows the lender's bid to sell its exposure to Bhushan Power & Steel (₹1,550.52 crore) in December 2018. During the quarter ended December, BoB recovered ₹1,064 crore by selling three assets. In Q2FY19, it had got ₹1,042 crore from the sale of two accounts, while one account undergoing insolvency proceedings was sold in Q1FY19, yielding ₹388 crore. So far in FY19, BoB has recovered ₹2,494 crore from NPA sales to ARCs.

Some banks have taken to selling off bad loans where recoveries through the Insolvency and Bankruptcy Code (IBC) have been long-drawn.

However, this route has not always yielded satisfactory results. One of the large accounts that remain unresolved is that of Essar Steel for which State Bank of India had announced an auction in January.

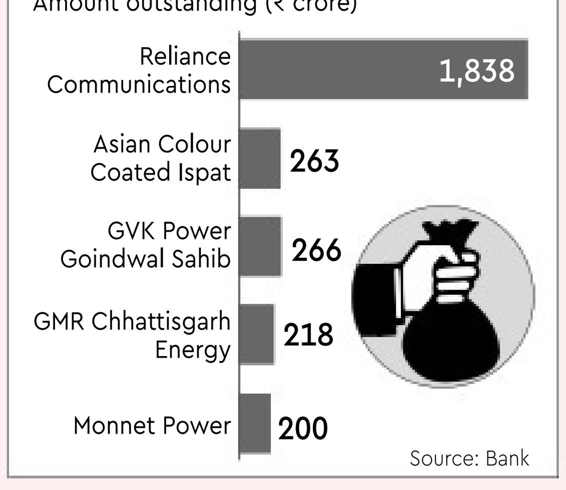
The bank is reported to have shelved the auction subsequently after Bank of America Merrill Lynch emerged as the only bidder for its ₹15,431-crore exposure to the steel producer. BoB has already offloaded its exposure to Essar Steel in 2018.

Bankers say they have found it more feasible to unilaterally sell their exposures to some accounts and make cash recoveries rather than wait for resolution to be achieved.

"We are selling NCLT exposures in some cases where we get cash recoveries," an executive with a mid-sized public-sector bank said. "We are making it clear to buyers that we want the cash in 60 days."

Five largest accounts put on sale by BoB

Amount outstanding (₹ crore)



Allahabad Bank to cut MCLR by 10 bps across tenures

FE BUREAU
Kolkata, February 27

A DAY AFTER the Reserve Bank of India removed it from the list of lenders placed under the Prompt Corrective Action (PCA) framework, Allahabad Bank on Wednesday said it will cut marginal cost of funds-based lending rates (MCLR) by 10 basis points for all the tenures up to three years with effect from March 1.

"The Asset Liability Management Committee (ALCO) of the bank has reviewed the existing marginal cost of funds based lending rates (MCLRs) and decided for a downward revision of MCLR by 10 basis points (bps) for all the tenors," the bank said in a stock exchange filing.

The bank, in a release, said with the MCLR now getting reduced by 10 basis points, home loans, car loans and other retail loans are slated to get cheaper.

For all the tenures: overnight, one month, three months, six months, one year, two years and three years, the bank has cut the MCLR by 0.10% each to 8.15%, 8.25%, 8.45%, 8.50%, 8.65%, 8.85% and 8.95%, according to its stock exchange filing.

Significantly, the RBI had last week asked banks to transmit the repo rate cut benefit to the real economy after a 25 basis points rate cut in early February.

The central bank on Tuesday decided to remove Allahabad Bank, Corporation Bank and Dhanlaxmi Bank from the list of banks placed under its PCA framework. The RBI observed that these banks have shown structural and systemic improvements in their performance. Allahabad Bank will be subject to stipulated monitorable action plan (MAP).

The bank narrowed its net loss to ₹732.81 crore for the third quarter against a net loss of ₹1,263.79 crore for the same period last fiscal, backed by a major decline in provisions. It had reported a net loss of ₹1,822.71 crore for the second quarter of the current fiscal.

During the December quarter of FY19, gross non-performing assets (NPAs) in absolute terms rose 3.6% quarter-on-quarter to ₹28,218.79 crore from ₹27,236.19 crore in the September quarter. Gross NPA as a percentage of total loans rose 28 basis points to 17.81% from 17.53% during the previous quarter. During the period under review, the net NPA ratio, however, decreased 26 bps sequentially at 7.70%.

Rupee slips 17p as Indo-Pak tensions rise

PRESS TRUST OF INDIA
Mumbai, February 27

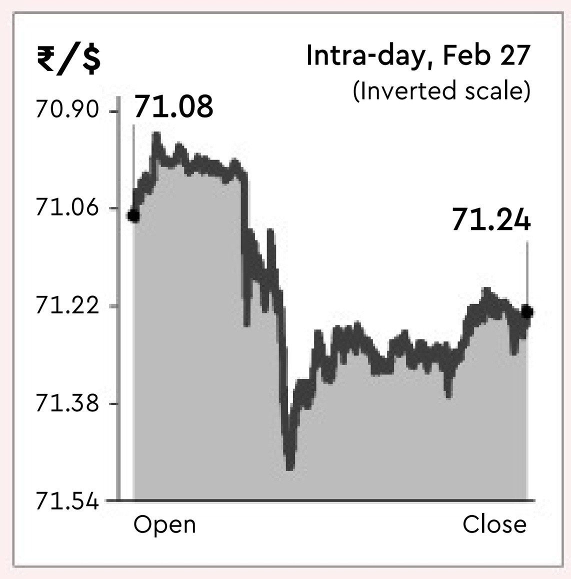
THE RUPEE DIVED 17 paise to close at 71.24 against the US dollar on Wednesday amid a flare-up of tensions between India and Pakistan. Firming crude oil prices, month-end dollar demand from oil importers and a weak sentiment at domestic equity markets weighed on the rupee, analysts said.

At the Interbank Foreign Exchange (forex) market, the domestic unit opened almost flat at 71.08. It then shuttled between a low of 71.49 and a peak of 70.94, before finally ending at 71.24, showing a loss of 17 paise. The domestic currency had ended 10 paise lower at 71.07 to the US dollar on Tuesday.

The rupee marked "second day of loss amid escalation of tension with Pakistan and month-end dollar demands from oil importers," VK Sharma, head – PCG & capital markets strategy at HDFC Securities, said. The currency failed to take advantage of a weaker US dollar, he added.

Meanwhile, foreign investors (FIIs) remained net buyers in capital markets, putting in ₹423 crore on a net basis on Wednesday.

Brent crude futures, the global oil benchmark, climbed 1.17% to $65.97 per barrel.



The dollar index, which gauges the greenback's strength against a basket of six currencies, slipped 0.07% to 95.93 after the US Federal Reserve chief reiterated that policymakers will stay "patient", and they are in "no rush to make a judgment" on future interest-rate moves.

The Sensex surrendered early gains on Wednesday to end in the negative terrain after a 600-point swing amid escalating cross-border tensions between India and Pakistan.

The investor sentiment took a beating after Pakistani fighter jets on Wednesday violated Indian air space in Jammu and Kashmir's Poonch and Nowshera sectors, following which the Indian forces retaliated.

Meanwhile, Financial Benchmark India set the reference rate for the rupee against the dollar at 71.1663 and against the euro at 80.9668. The reference rate for the rupee against the British pound was fixed at 94.2152 while it was at 64.38 against 100 Japanese yen.

Funds infusion in PSBs not enough to support lending growth: Fitch

PRESS TRUST OF INDIA
New Delhi, February 27

FITCH RATINGS ON Wednesday said government's $7 billion (around ₹48,000 crore) fund infusion into public sector banks (PSBs) would not be sufficient to support significantly stronger lending growth.

Fitch estimates that banks will need an additional $23 billion (around ₹1.6 lakh crore) in 2019, after these latest injections, to sufficiently meet minimum capital standards.

Stating that the Indian authorities' approach to the banking sector has clearly shifted towards spurring lending in recent months, Fitch said these steps, along with capital injections, have eased but not removed capital constraints on state-owned banks' growth.

"The Indian government's announcement on February 21 that it will soon inject $7 billion into state-owned banks under its recapitalisation plan is likely to help banks meet minimum regulatory requirements, but is not sufficient to support significantly stronger lending growth," Fitch Ratings said in a report titled 'Indian government's bank recap may not unlock faster growth'.

The finance ministry last week announced infusion of ₹48,239 crore in 12 public sector banks in this fiscal to help them maintain regulatory capital requirements and finance growth plans.

Quick View

RBI to conduct 4 variable rate term repo auctions in Mar

THE RESERVE BANK of India (RBI) on Wednesday announced that it will conduct four variable rate term repo auctions, in addition to regular auctions to provide liquidity support of Rs 1 lakh crore to the banks in March. The central bank said the auction is aimed at addressing the additional demand for liquidity and to provide flexibility in the banking system.

CBI files case of loan fraud in UCO Bank

THE CBI HAS registered a case of fraud in UCO bank, wherein loans worth over ₹21 crore were allegedly granted by a bank official in collusion with private persons on the basis of fake papers, officials said. It is alleged then branch manager of the bank's Jayanagar branch in Bengaluru had sanctioned and disbursed home loan and property loans worth ₹21.86 crore to 23 borrowers between 2013 and 2016.

Sebi imposes ₹31 lakh penalty on nine entities

Markets regulator Sebi on Wednesday imposed a total penalty of ₹31 lakh on nine entities for not disclosing the change in their shareholding in Mindvision Capital. The nine entities facing the action include Dash Pharmaceuticals, Mandvi Dyes & Chemicals, Maxilla Financial Services, among others.

FPIs pull out $650 m from debt mkt so far this month

SHASHANK NAYAR
Mumbai, February 27

FOREIGN PORTFOLIO INVESTORS (FPIs) have pulled out nearly $650 million from the bond markets in February, sending the benchmark yield to a three-week high. Coupled with the outflows in January, FPIs have sold over a billion dollars on a net basis so far this year.

The old benchmark yield —7.17% yielding notes maturing in 2028 — closed nine basis points higher at 7.67% on Wednesday.

According to bond market experts, foreign investors are seeking more clarity on the political front before making any major buying decisions. On the other hand, dealers also indicated that certain value buying opportunities in the emerging markets might have led to some amount of portfolio churn.

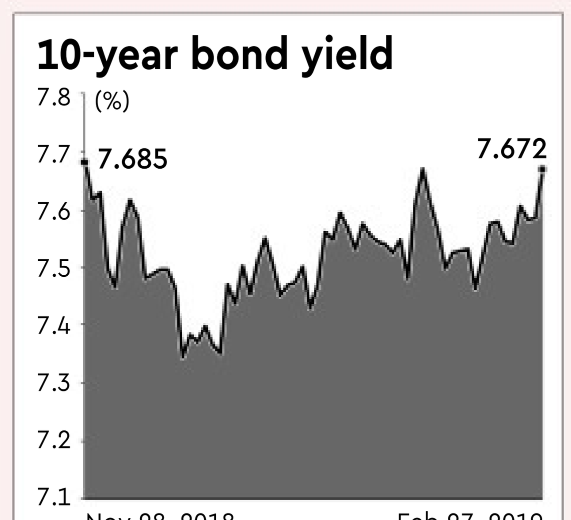
"There are countries like Indonesia where the benchmark yield is hovering close to 8%. We believe that there are some value buying opportunities there and FPIs might be willing to consider it given the current circumstances," said a dealer.

The RBI reduced the repo rate by 25 basis points in its February monetary policy while also reducing its inflation forecast. Although yields cooled off following the announcement, it pared all the gains in a few days.

"Despite the rate cut in the last monetary policy, a reduced inflation forecast, along with benign inflation levels in recent times, the yield has been surging. This has been a cause for concern with FPIs," said a bond market expert.

On February 26, FPIs sold a net $237.70 million of debt — the highest one day net outflow in February — according to data from NSDL.

FPI utilisation of the government securities quota has remained sluggish in recent times. The latest data show that FPIs have utilised only 69.57% of their quota in government securities that currently stand at ₹2.23 lakh crore. As for corporate bonds, foreign investors have used 70.76% of their quota of ₹2.89 lakh crore.



RBI grants Pune's Rupee Cooperative Bank another 3-month extension

FE BUREAU
Pune, February 27

PUNE-BASED RUPEE COOPERATIVE Bank has been granted a further three-month extension by the Reserve Bank of India (RBI) till May 30, 2019.

The bank was put under directions by the Reserve Bank of India (RBI) over its deteriorating financial health in February 2013. When under directions, the bank will continue to undertake banking business with restrictions till its financial position improves.

In a press note issued here, chairman of the bank's administrative board Sudhir Pandit said a period of three months is inadequate for the troubled lender to resolve its issues. The bank has approached the RBI to seek an increase in extension and also a permanent solution.

Rupee Cooperative Bank has approached some banks for a possible merger and the response has been positive, Pandit said.

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

ANALYST CORNER

Maintain 'buy' on Sanofi India, price target ₹7,000

MOTILAL OSWAL

THE REVENUE GROWTH for 4QCY18 was muted (8% YoY to ₹720 crore; our estimate: ₹770 crore) relative to secondary sales (+12% YoY) due to a high base, with some support from Lantus (the largest brand) and the smaller brands (ranked 26-50).

EBITDA margin contracted by 110bp YoY to 18.9% (our est. 19.8%) due to higher employee cost (+60bp YoY to 14.2% of sales), partly offset by a decline in other expenses (-180bp YoY, 23.8%). Consequently, EBITDA improved 2% YoY to ₹130 crore (our estimate: ₹150 crore). The PAT grew 4% YoY to ₹79.3 crore (our estimate: ₹88.5crore).

On a full-year basis, revenue/EBITDA /PAT grew 11%/16%/17% YoY to ₹27.7b/₹6.2b/₹3.8b.

Growth was largely driven by volumes. Growth in Chronic segment (contributed around half of sales) exceeded that in Acute segment.

Secondary sales reflect the strong outperformance in anti-diabetic portfolio and healthy growth in Respiratory portfolio. This implies that revenue blip in 4Q was only due to the high base and that growth in key therapies remains robust. Accordingly, we raise our CY19/20E EPS by ~1%/3%. We also roll to 32x (unchanged) 12M forward earnings to arrive at a price target of INR7,000 (prior: INR6,850). We remain positive on SANL on the back of volume-led better-than-industry growth in the domestic formulation segment. Also, core brands like Lantus, Allegra, Combiflam and Hexaxim continue commanding superior market shares in their respective categories. Maintain 'buy'.

Secondary sales reflect the strong outperformance in Anti-diabetic portfolio and healthy growth in Respiratory portfolio.

This implies that revenue blip in 4Q was only due to the high base and that growth in key therapies remains robust. Accordingly, we raise our CY19/20E EPS by 1%/3%. We also roll to 32x (unchanged) 12M forward earnings to arrive at a price target of ₹7,000 (prior: ₹6,850). We remain positive on SANL on the back of volume-led better-than-industry growth in the domestic formulation segment.

Maintain 'buy' on JSPL, target price ₹200

Edelweiss

ON OUR THIRD visit to Jindal Steel & Power's (JSPL) Angul plant, we spotted a clear difference in the operating environment: 1) the 1.8mtpa DRI plant is expected to commence production by mid-March; 2) 3.2mtpa blast furnace (BF) is expected to achieve 11,000tpd of rated capacity by end-FY19; and 3) cost efficiencies are likely to result in savings of up to INR2,000/t in FY20E.

Despite a challenging price environment, we expect JSPL to fare better than peers on the back of volume growth. Besides, deleveraging efforts – more notably at Jindal Shadeed – are expected to reduce debt by another ₹0.2-0.3bn by Q1FY20E.

Maintain 'buy/SO' with an unchanged TP of ₹200/share, implying an exit multiple of 6.2x June-2020 EBITDA.

We note good progress on Angul achieving 5mtpa production through: 1) commencement of production from 1.8mtpa DRI plant by mid-March; and 2) BF slated to achieve 11,000tpd in capacity by FY19E.

In over view, BF has stabilised with current production rate of ~8,500tpd and is on track to achieve the rated capacity. In case of the DRI plant, operations at the coal gasification plant (CGP) has resumed; the DRI plant would take 10 days to get started. The 1.2mtpa plate mill has been operating at utilisation of 85% over the past two months. Besides, the plates being produced are high-tensile and a premium variant that typically fetches better margins.

We also saw the bar rod mill operating at rated capacity. Further, a spurt in logistics is evident vis-a-vis our previous two visits, indicating robust sales. We expect the ramping up of downstream capacity to improve margins. The semis produced too are value-added-rounds and blanks.

Bond veteran sees good days for India debt in second half

KARTIK GOYAL
Mumbai, February 27

A RALLY IN Indian sovereign bonds may come in the second half of the year as the Reserve Bank of India (RBI) is likely to cut policy rates twice more, according to a two-decade veteran of the debt market.

"Given that we have a governor whose take is that the Reserve Bank of India should work toward bringing back growth," rate cuts are possible as early as April, said Neeraj Gambhir, former head of fixed income at the local unit of Nomura Holdings. He expects the yield on the most-traded 2028 bonds to drop as low as 7% by year-end, a level last seen in November 2017.

Pain before gain

2028 bonds may extend losses next quarter before recovering

Source: Bloomberg

For now, concerns about India's planned record debt sale, uncertainty about upcoming elections and higher oil prices have set bonds on course for a second monthly decline. Yields may climb as high as 7.75% in the next quarter before falling as some of these worries start to fade, said Gambhir, who in June correctly predicted the RBI would buy bonds to halt a year-long sell-off.

New RBI governor Shaktikanta Das has flagged growth concerns and kept the door open for more rate cuts after a surprise reduction this month, minutes from the latest policy meeting showed. Das pointed to a slowdown in consumer inflation to 2.05% in January – well below the medium-term target of 4% – to justify the decision.

"You are looking at a situation where growth is weakening at the margin" and inflation is likely to remain below the RBI's target next year, Gambhir, who's been tracking the debt market for 24 years and now runs an advisory firm, said in an interview.

Five-year debt "looks the most exciting" as the bulk of the central bank's purchases are in the shorter-end of the yield curve, he said. The yield for these securities may drop to 6.75% by end-December, from 7.06% at present, he said.

The yield on 2028 debt has climbed 22 basis points so far this year, as foreigners pulled $738 million from rupee debt, the most among Asian markets tracked by Bloomberg. **BLOOMBERG**