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SMART INVESTING
Accrual Funds Best Option for Retail Investors Post Rate Cut

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	11069.4	0.06
Sensex	36971.09	0.01
MSCI India	835	0.34
MSCI EM	2340.86	0.36
MSCI BRIC	610.07	0.02
MSCI World	8435.83	0.25
SX 40	21745.26	0.05
Nikkei	20751.28	0.59
Strait Times	3200.64	0.50

Values in US $, Gross — At 7 pm IST

OIL ($) DUBAI CRUDE 62.46 0.48 Absolute Change

BOND 10-YR YIELD 7.32 0.04 Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1310.9	1448.67
LAST*	1310.4	1442.14

*At 10.30pm. After adjusting for import duty, Indian spot gold lower by $ 0.70 to US Comex gold price on Thursday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
71.67	71.46

Market on Twitter@ETMarkets

Views on RBI Policy

RAJNISH KUMAR
CHAIRMAN, SBI

There are several innovative announcements in policy apart from the rate cut that could potentially trigger a new paradigm for financial markets. The decision to rationalise the risk weights for lending to rated NBFCs will enable better price discovery, lower capital requirement and facilitate credit flow from the banks

ZARIN DARUWALA
CEO, STANCHART

The RBI has been supplying liquidity through sustained Open Market Operations (OMOs) of government securities, and with this rate cut, we should see a moderation in borrowing rates. Providing banks with increased flexibility on bulk deposits is a welcome move and will assist them in better managing their asset liability mismatches

POTENTIAL HOME & CAR buyers could hope for lower interest rates only by April; Bankers say deposit rates have to be adjusted first; Guv Das to meet bankers

Rate Cut Today may not Mean Cheaper Loans Tomorrow

Our Bureau

Mumbai: Potential home and car buyers could hope for lower interest rates by April as the banks may lower their lending rates following RBI's decision to reduce its benchmark repo rate for the first time since August 2017. Transmission of policy rates would be the topic of discussion when governor Shaktikanta Das meets bankers later this month.

The RBI cut its repo rate by 25 basis points to 6.25% and changed its policy stance to 'neutral' from 'calibrated tightening' citing benign inflation outlook. One basis point is 0.1 percentage point.

Bankers, however, said the transmission to lower rates cannot happen immediately as deposit rates have to first be adjusted. "Under the marginal cost of deposit-based lending rate (MCLR), deposit rates have to be adjusted first, which is not possible till end of March as bank asset liability committees will meet at the end of the quarter," said Ashutosh Khajuria, executive director at Federal Bank. "We also have to take into account the fact that deposit growth at 10% is lower than the 15% credit growth reported, which leaves banks little room to cut rates."

In a report on Wednesday, rating agency Crisil said banks would face a challenge in their deposit mobilisation in the next couple of years as credit grows at 14% on average between fiscals 2019 and 2020. "To meet this credit growth, banks will have to raise about ₹25 lakh crore over the two fiscals. While ₹5-6 lakh crore is expected to become available through the release of statutory liquidity ratio (SLR) funds, around ₹20 lakh crore would need to be raised through fresh deposits," Crisil said.

Higher demand for deposits would also put upward pressure on the interest rates bank offer for funds from the public, which in turn will make cutting lending rates more difficult for banks.

Governor Das also said he will meet with bankers in the next few days to get their feedback and nudge them to reduce rates. It remains to be seen if bankers reduce their lending rates after the meeting.

Rate View

ADJUSTMENT IN deposit rates not possible till end of March as bank asset liability committees will meet at the end of the quarter

HIGHER DEMAND for deposits would also put upward pressure on the interest rates bank offer for funds

ANIRBAN BORA

RBI MONETARY POLICY
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Rupee Gains 11 Paise to 71.45

The rupee Thursday appreciated by 11 paise to close at 71.45 against the dollar after the RBI cut the repo rate and changed its policy stance to 'neutral'. Moreover, easing crude prices and fresh foreign fund inflows also propped up the local unit. This is the third consecutive session of appreciation for the rupee. – PTI

MOVE TO FREE UP EQUITY CAPITAL FOR BANKS AGAINST NBFC EXPOSURES

Lower Risk Weight to Help NBFCs Raise Funds at Competitive Rates

Our Bureau

Mumbai: The Reserve Bank of India Thursday revised the risk weight requirement for high-street lenders funding non-banking finance companies (NBFC), paving the way for a cut in borrowing costs and increased financing to many of the country's last-mile financiers.

RBI has reduced the risk weight for rated exposure from the existing 100% to weights linked to their respective external ratings, in a manner similar to that for corporates. This will enable stronger and well-rated NBFCs to raise more funds at competitive rates.

"With a view to facilitating the flow of credit to well-rated NBFCs, it has now been decided that rated exposures of banks to all NBFCs, excluding Core Investment Companies (CICs), would be risk-weighted as per the ratings assigned by the accredited rating agencies," RBI said in a statement on development and regulatory policies. "Exposures to CICs will continue to be risk-weighted at 100%."

The central bank guidelines will be published by end-February.

Banks' exposure to NBFCs is estimated at ₹5.7 lakh crore, of which exposure to AFCs, IFCs and IDFs is already risk weighted based on their ratings.

"The reduction in risk weights for NBFCs is expected to free up the equity capital for banks against their exposures to NBFCs, which the banks can use for incremental credit growth or improvement in their capital ratios," said Karthik Srinivasan, senior VP, Icra. "While this can also result in reduced borrowing rates and incremental credit supply for NBFCs, this will depend on the willingness of banks to do so."

Assuming half of banks' total exposure to NBFCs is to the category not covered by differential risk weights, the capital requirements of banks against these exposures can come down by ₹12,500 crore. This amount, in turn, can be used for incremental lending or improving the capital ratios at the lenders. This is equivalent to a 0.125% improvement in capital adequacy ratios at high-street banks, said Srinivasan.

RBI has decided to harmonise major categories of NBFCs engaged in credit intermediation

RBI has decided to harmonise major categories of NBFCs engaged in credit intermediation, asset finance companies, loan companies and investment companies into a single category.

"This is hugely positive for highly rated loan companies such as Muthoot Finance, Muthoot Capital, Manappuram, Shriram City Union and Bajaj Finance," said Digant Haria, an analyst at Antique Broking. "Given the low capital adequacy of PSU Banks, they were keen to lend to highly rated HFCs and AFCs due to the benefit of lower risk weights. On the other hand, PSU Banks were not too keen to lend to even highly rated loan companies due to 100% risk weights."

ET ANALYSIS

LITTLE CLARITY on how volumes will increase in China; Brexit is another big threat for JLR

Continued Weak Demand could Lead to Further Impairment at Tata Motors

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ET Intelligence Group: A record quarterly loss at Tata Motors is pointing to a rather bumpy road ahead, and investors in the JLR owner may have to wait for a few more quarters before earnings become stable at India's most globalised carmaker.

JLR earnings dropped as the company took an impairment charge of £3.1 billion (the equivalent of ₹28,700 crore), which reduced its net worth by 37.5%. That could affect debt covenants and put pressure on JLR's rating. According to the company, it wrote off the value of its assets due to significant headwinds.

If demand remains subdued and technology disruption continues, the possibility of a further impairment also becomes a reality. The JLR product portfolio has been primarily concentrated on the diesel engine, and governments in Europe are looking at putting heftier taxes on such vehicles.

The sharp underperformance in China, a market with one of the highest margins for JLR historically, has roiled investors. JLR's China volume fell 47%, compared with a drop of 15% for the industry. Operating profit margin at JLR China dropped to 4.8% in the first nine months of FY19 compared with 19.7% in the same period the previous fiscal. There is little clarity on how volumes would increase in China, where growth dropped to the lowest since 2004.

Of the 13 models at JLR, only four witnessed growth in the December quarter. The wholesale volumes declined 11%. The Street has pencilled in volume drop of 7% for FY19 and a gain of 5% in FY20. Given the uncertainty in China, there are fair chances of further downward revisions.

Brexit remains the biggest threat for JLR. The company is working with the base case scenario of a negotiated deal where trade would be unhindered. However, a 'no deal' Brexit could hurt volumes and profitability significantly. JLR sells about a fifth of its total volumes to Europe (excluding the UK) and sources more than a third of its components from the continent.

JLR Guidance

	FY19	FY20-22	Beyond
Retail Sales growth	Negative	>premium segment	>premium segment
EBIT margin	Marginally negative	3-6%	7-9%
PBT	Negative	Positive	Positive
Investment spending	upto 4 bn pounds	upto 4 bn pounds	11-13% of revenue
Free cash flow	Negative	Negative in FY20, positive thereafter	Positive

Source: JLR presentation