Markets

SATURDAY, MARCH 16, 2019

STAKE DILUTION

SS Mallikarjuna Rao, MD & CEO, Allahabad Bank

"We are looking at a value maximization from stake dilution in Universal Sompo and let us see how much we can leverage. We are looking at anything around ₹200-300 crore from this dilution."

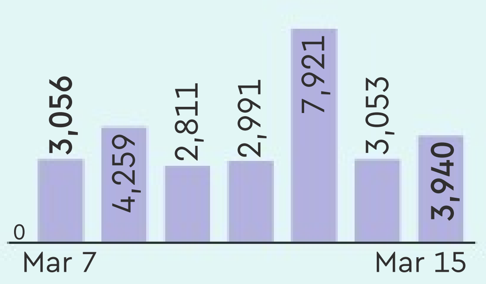
Money Matters

G-SEC

The benchmark yield fell due to selling pressure 0.05%

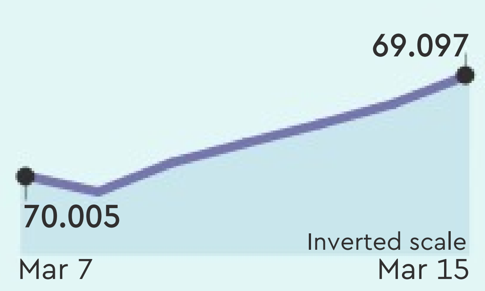
LAF

Bank borrowing under RBI's short-term window rose by ₹887 crore 29.1%



₹/$

The rupee appreciated due to global cues 0.4%



€/$

The euro rose against the US dollar 0.2%

Quick View

Bandhan Bank gets RBI nod for acquiring Gruh Fin

BANDHAN BANK on Friday said it has received no objection from the RBI for the proposed acquisition of Gruh Finance. "The RBI has, by its letter dated March 14, 2019, conveyed its no objection for the voluntary amalgamation of Gruh Finance into and with Bandhan Bank, subject to compliance with the terms and conditions therein," the bank said in a regulatory filing. Gruh Finance, the affordable housing finance arm of HDFC, was taken over in January by Kolkata-based Bandhan Bank in a share-swap deal. As part of the deal, Bandhan Bank has to transfer 14.9% stake to HDFC for merging Gruh with itself. The deal will allow Bandhan Bank's promoter Bandhan Financial Holdings to come down to about 61% from about 82%, and HDFC to hold around 15 % in the merged entity from about 57% in Gruh.

Muthoottu Mini gets new CEO, COO

MUTHOOTTU MINI Financiers on Friday announced that Kurian P Abraham has taken charge as CEO and PE Mathai, former general manager of SIB, has joined the company as COO. Prior to joining Muthoottu Mini, Abraham held the position of general manager in Corporation Bank. He has over 36 years of experience in the banking industry. Company sources added that it plans to issue an NCD issue, which is likely to open in mid-March. The size of the issue is ₹100 crore with an option to retain over-subscription of up to ₹200 crore.

Bhargava's term ends at the helm of IDBI Bank

IDBI BANK ON Friday said Hemant Bhargava has ceased to be its non-executive chairman as he no longer heads the parent company LIC. "This is to inform that Hemant Bhargava has ceased to be non-executive chairman of IDBI Bank consequent to his ceasing to be chairman-in-charge of LIC with effect from March 14, 2019," IDBI Bank said in a regulatory filing. The Centre on March 13 appointed MR Kumar as LIC chairman for a period of five years.

LIMITED PLAYERS

Sensex reclaiming 38k level fails to enthuse investors

RIL, TCS together contributed about 78% of market cap gains in the past nine months

YOOSEF KP
Mumbai, March 15

EVEN AS THE Sensex has reclaimed the psychological 38,000 level after a gap of six months, the latest rally in the benchmark index has not translated into significant returns for most equity investors. This is because, gains in the market capitalisation of BSE-listed companies were largely driven by two bellwether stocks.

Since June 2018, the market capitalisation of BSE-listed companies surged by ₹3.6 lakh crore to ₹148.62 lakh crore. Of which, Reliance Industries (RIL) and Tata Consultancy Services (TCS) together contributed about 78% of the market cap gains in the past nine months.

In fact, RIL, which commands the highest weightage after HDFC Bank on the Nifty basket of stocks, has contributed nearly two-thirds of the market cap gains since June 2018. While the market value of the country's largest company swelled by ₹2.2 lakh crore, TCS has seen an increase of ₹58,347 crore in its market valuation.

The broader market continues to do badly with just six stocks – RIL, HDFC Bank, ICICI Bank, HDFC, Axis Bank and Infosys – having among them contributed over 60% of the Nifty's gains of 1,397 points from its October lows. The index has gained close to 14% from its October low of 10,030 points. While shares of Axis Bank advanced 36.7% since October 26, the stock of RIL and ICICI Bank surged by 26.5% and 25.2%, respectively.

Interestingly, close to 70% of all stocks with a market capitalisation of at least ₹1,000 crore are down in the last one year. Moreover, over a third of these 735 stocks have lost more than 20% of their value.

On Friday, the Nifty50 gained for the fifth day to close the session at 11,426.85 points, up 83.60 points, or 0.74%, whereas the Sensex closed 269.43 points, or 0.71%, higher at 38,024.32 points.

The rally this year has been driven by purchases of overseas investors that have bought stocks worth nearly $5.4 billion, a big swing from last year's outflows of $4.2 billion. On the other hand, between January and now, the domestic institutional investors (DIIs) sold shares worth $124 million, Bloomberg data showed.

With the strong inflow of foreign funds and benign oil prices, the rupee has gained nearly 5% against the US dollar in the last six months. The local currency rose to over seven-month high of 69.10 on Friday.

India remains among the most expensive markets in the world. At 38,024.32, the benchmark Sensex trades at a price-earnings (PE) multiple of 18.5 times to the estimated one-year forward earnings, a premium of 11.4% to the long-term average PE of 16.6 times.

This compares with 10.6 times for the Kospi and 15.2 for the Jakarta Composite. Brazil's Bovespa and the Shanghai Composite are trading at a price-earnings multiple of 12.02 and 10.7, respectively, data from Bloomberg show.

Sensex weekly gainers & losers

GAINERS

COMPANY	PRICE (₹)	% CHANGE
IndusInd Bank	1,700.75	▲12.01
Bharti Airtel	337	▲9.15
Kotak Mahindra	1,325.3	▲7.06
ICICI Bank	395.7	▲6.9
SBI	297.7	▲5.85
HDFC Bank	2,251.5	▲5.82

LOSERS

COMPANY	PRICE (₹)	% CHANGE
Tata Motors	180.2	▼0.8
ITC	290.95	▼0.38
Hero Motocorp	2,739.05	▼0.34
HUL	1,698.65	▼0.14

Source: Bloomberg

Rupee rallies 24p to 69.10 on robust inflows

PRESS TRUST OF INDIA
Mumbai, March 15

RISING FOR THE fifth straight session, the rupee on Friday jumped 24 paise to close at 69.10 against the US dollar on sustained foreign fund inflows and heavy buying in domestic equities.

Forex traders said the dollar's weakness against its key rivals overseas and easing crude prices strengthened the market sentiment domestically. At the Interbank Foreign Exchange, the domestic unit opened at 69.28 and advanced to a high of 69.03 during the day. It finally settled at 69.10, a rise of 24 paise against the dollar over its previous close. The rupee on Thursday had strengthened by 20 paise to close at 69.34 against the US dollar.

On a weekly basis, the domestic currency has added 104 paise. This is also the fifth consecutive week of gain for the local unit. "The rupee continues to remain on appreciating mode due to FIIs inflow in the debt and equity market. Crude oil prices are stable hence inflation is expected to remain benign in coming months," said Rushabh Maru, research analyst, Anand Rathi Shares and Stock Brokers. Maru further said that the US Fed's patient approach to raise interest rates have also improved sentiments.

Forex traders said, the rally in the Indian markets was led by strong FII buying on account of reduction in geopolitical risks and opinion polls suggesting a likely return of the NDA government in the general election 2019. "Market is expecting NDA government to return to the power after the election. Hence all these factors are supporting the rupee," Maru said.

Brent crude, the global oil benchmark, was trading at $66.96 per barrel, lower by 0.40%. The dollar index, which gauges the greenback's strength against a basket of six currencies, fell 0.15% to 96.64.

Meanwhile, foreign portfolio investors (FPIs) purchased shares worth ₹4,323.49 crore, while domestic institutional investors (DIIs) offloaded equities to the tune of ₹2,130.36 crore on Friday, provisional data showed. "FII inflows totalled $1.6 billion for the past five days, while DII outflows stood at $839 million for the same period," said Sanjeev Zarbade, vice president, PCG Research, Kotak Securities. Extending its winning run to the fifth session, BSE benchmark Sensex settled 269.43 points, or 0.71%, higher at 38,024.32.

King of India bond sales warns of worst crisis since Lehman

DIVYA PATIL & SUBHADIP SIRCAR
Mumbai, March 15

SHASHIKANT RATHI, WHO has dominated India's local bond underwriting business for over a decade at Axis Bank, says the industry now faces its biggest challenge since the global financial crisis.

Shock defaults since last year by shadow bank IL&FS group and a new electronic bidding platform have disrupted the $108-billion market where underwriters like Rathi help companies raise money by selling debt securities. Sales of rupee corporate bonds that tend to pay the highest fees have fallen this quarter to a 2016 low.

"The market is in complete chaos," Rathi, the 41-year-old executive vice president and head of treasury and markets at Axis Bank in Mumbai, said in an interview. "I haven't seen such a crisis since the 2008 Lehman bankruptcy." A surprise rate cut by the central bank last month and expectations of further easing as early as April haven't lowered funding costs much, with spreads on top-rated 10-year corporate paper near the highest levels since 2009. It may take until after elections in May for the market to settle down and issuance to pick up, says Rathi.

The bumps have slowed India's drive to make the local corporate bond market bigger. Rathi is trying to weather it by doing what he's always done, using long-standing relationships to arrange more deals.

India's company debt market remains puny compared with the funding needs of the $2.6-trillion economy, and big issuers are still for the most part limited to quasi-state enterprises. Policy makers are trying to change that. Starting April, large companies will be required to meet 25% of their annual funding requirements from the bond market. This rule will help volume grow by 20-25% each year going forward, Rathi said.

Overall rupee bond sales have risen more than 13% so far this year, but that's mainly driven by issuance by state firms that don't tend to pay underwriting fees. Deals that bankers rely on to earn commissions involving notes without AAA ratings have dropped about 49% this quarter from the last three months of 2018, according to data compiled by Bloomberg.

Complicating matters for arrangers is the introduction of an electronic bidding platform, which enables investors to put in buy orders for any issuer without going through a broker. New rules last year that required investors to make some of their bids on the e-platform, which can be viewed by the public, caused rupee bond sales to slump.

Rathi said there remains a big role for arrangers in India's primary market, which isn't fully developed. "Issuers still need arrangers as we are the bankers who can give them a firm commitment, advise on the right borrowing level and help market-making," he said. The credit market slump is a threat to one of the world's fastest growing economies, affecting everyone from electronics shop owners to home buyers. That's because such business owners and consumers depend on shadow banks, and those lenders themselves are now having trouble getting financing. Such non-bank financing firms have provided 30% of all new loans in the economy over the past three years, according to Nomura Holdings research.

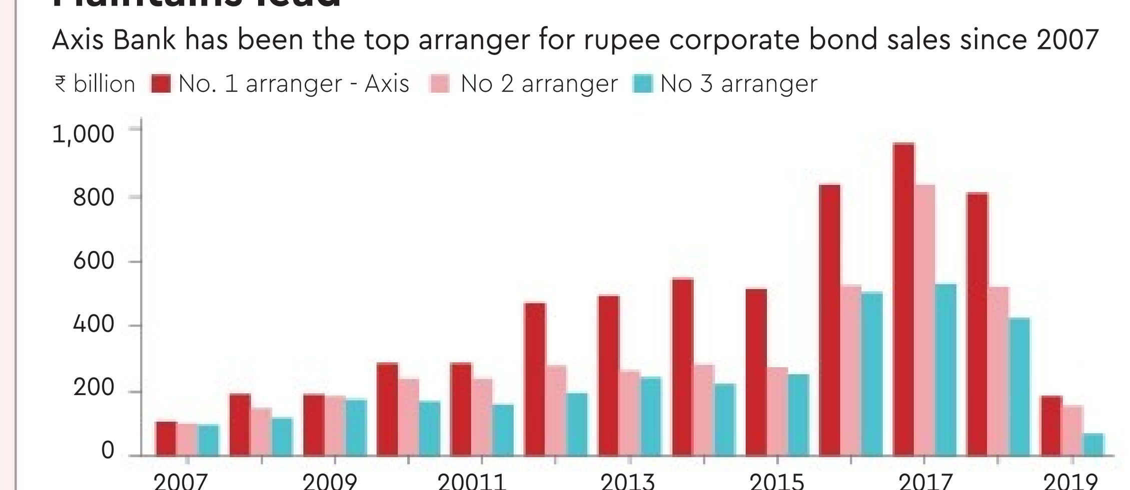
Companies also have been coughing up more for money. The spread of top-rated 10-year corporate paper over similar government bonds has climbed to around 121 basis points, not far from levels last seen in 2009. In spite of the market's weakness, Rathi is still making big deals. He helped raise ₹70 billion ($1 billion) as the lead underwriter this month for RIL.

Rathi's next aim is to place his bank among the top three arrangers for Indian corporate issuers selling foreign currency bonds – something which he hopes to achieve with his database of more than a thousand Indian companies. Axis Bank is already among the leaders in arranging so-called Masala bonds.

– BLOOMBERG

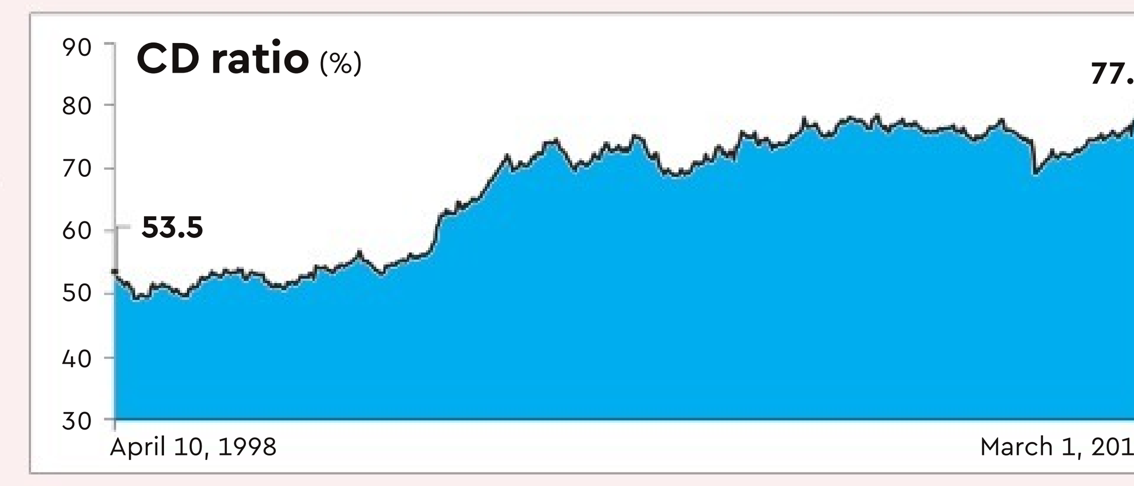
Maintains lead

Axis Bank has been the top arranger for rupee corporate bond sales since 2007



Source: Bloomberg league Tables/Bloomberg

CD ratio of banks at 77.91%, highest since December



ADITYA RAO
Mumbai, March 15

THE CREDIT TO deposit ratio (CD ratio) of the scheduled commercial banks at 77.91% in the fortnight ended March 1 was highest in three months.

The CD ratio during the fortnight ended December 21, 2018 was at 78.60%, which was highest at least in past 2 decades, showed the Reserve Bank of India (RBI) data.

The CD ratio grew on the back of slower deposit growth compared to a higher credit growth. "Lower deposit growth has meant a steady rise in the CD ratio on a stock basis, which is expected to touch 78% by the end of FY19, compared with 74% in FY18 and 73% at the end of FY17. Banks will need to raise at least ₹19-20 lakh crore of fresh deposits until March 2020 to keep the CD ratio near 80%, which in itself would be highest in a decade," said Krishnan Sitaraman, senior director at CRISIL Ratings.

The incremental CD ratio, which was at 74.60% in the fortnight to March 1, remained under 100% since May 11, 2018. In the fortnight ended on April 27, 2018, the incremental CD ratio stood at 110.4%, according to the RBI data.

Growth in the bank deposits at 9.8% year-on-year (y-o-y) in the fortnight ended on March 1, 2019 slowed down compared to the growth of 10.2% y-o-y, which was highest in one-and-a-half years, in the fortnight to February 15, showed the RBI data.

"The liquidity crunch seen during October 2018 has eased, but the situation is far from normal. The CD ratio remains at a multi-year high and corporate bond spreads are elevated despite the BoP (balance of payments) drain of 2018 subsiding and the RBI undertaking outsized OMOs," said analysts at Edelweiss. PSBs have yielded 770 basis points (bps) market share in deposits since FY11, with the loss gradually picking pace in the past few years. PSBs lost 250 bps market share in FY18 alone. However, the loss in branch share is far less at nearly 450 bps since FY11 and 200 bps in FY18, said the analysts at KIE.

Over the first nine months of FY19, banks have already raised deposit rates by an average of 40-60 basis points. "We expect banks to sharpen focus on deposit mobilisation over the medium term through attractive rate offerings across tenors in both bulk and retail segments," said Rama Patel, director at CRISIL Ratings.

Forex reserves rise $259 m to $402 bn

FE BUREAU
Mumbai, March 15

INDIA'S FOREIGN EXCHANGE reserves increased by $258.8 million to $402.035 billion as on March 8, data from the RBI show. In the previous week, the reserves had increased by $2.59 billion to $401.776 billion. Foreign currency assets (FCA), which form a key component of reserves, rose by $167.1.2 million to $374.227 billion. FCAs are maintained in major currencies like US dollar, euro, and pound sterling. The increase in foreign reserves could partly be attributed to the rising investments by foreign investors in Indian capital markets.

ANALYST CORNER

'Buy' on NATCO; current stock price undervalues US pipeline

JEFFERIES

NATCO has corrected 30% in 6m led by lower Copaxone profits and concerns on near-term earnings. At the current price, it is trading at 22x FY20e EPS ex US and no value to US pipeline ex Revlimid.

US – while there are a lack of key launches in near term, Copaxone could remain a steady profit source and scale up from FY21 should be significant with 19% earnings CAGR over 3years. India and RoW revenues will also grow at 20% CAGR post FY20e with improving margins. 'Buy'.

NATCO has been diversifying outside the US and investing ahead of peers in India and RoW for the past 3 years. We expect the benefits of these will accrue over the next 3 years driving a 20% revenue CAGR in these businesses with improving margins.

NATCO is following its strategy of patent challenges/first time launches in India in the cardio and diabetes portfolio. While the initial two launches have been injuncted, we expect these to be lifted/settled in FY20 and along with other launches drive growth. The company is targeting tier-I/II cities, especially hospitals where it has strong connect.

Brazil and Canada – It has filed multiple products in these two geographies which should see approval over FY20/21, driving growth. Both are now Ebitda break-even and new product approval including Copaxone would drive strong growth and margin improvement.

We expect revenues to grow 2x over FY19-21. The key concern near term is the muted US pipeline over the next 2 years and disappointment in Copaxone. We though believe the current stock price undervalues the US pipeline. NATCO has now crossed 30% market share in Copaxone and this will be a long tail product in our view.

Additionally, post H1F21, we expect the launch pace to pick up driving FY22 EPS to 1.7x FY19. The key triggers for the stock near term are (1) Revlimid approval (CY19), (2) DRRD Revlimid settlement/case ruling (late CY19/early CY20), (3) Brazil Copaxone approval (CY19), and (4) India C&D ramp-up. Of these, any settlement by DRRD on Revlimid would be a key positive for NATCO.

Jindal Stainless: Maintain 'Buy' with a revised TP of ₹65

EDELWEISS

After a precipitous decline of 75% over 11 months through January 2019, the Jindal Stainless (JSL) stock has bounced back 55%. In the past one year, the stock has exhibited greater volatility than both peers and LME nickel (Ni) owing to concerns around: (1) pledging of promoters' shares; and (2) delay in exit from the CDR mechanism.

We believe that concerns around pledging are overdone and the CDR exit is around the corner. In addition, LME Ni prices have started rising owing to a foreseeable deficit over the medium term. Hence, we are raising FY20/21E LME Ni and stainless steel prices by 22% and 12%, respectively.

Consequently, our FY20E/FY21E Ebitda too has risen 14%/11%. Maintain 'Buy' with a revised TP of ₹65 (versus ₹40 earlier) on an unchanged exit multiple of 5x September 2020E Ebitda. That said, we believe about 50% upside potential is fraught with volatility until the aforesaid concerns fade away. We are raising our forecasts for LME Ni in light of persistent – although narrowing – deficit over CY19–21E. Demand from the stainless sector remains robust and the share of nickel-intensive cathode materials has been growing concomitantly.

On the supply side, despite an uptick in nickel pig iron (NPI) from Indonesia and China, we see constraints over the medium term. Hence, we are raising LME Ni price/t estimate by 22%/21% for FY20/FY21 to $13,362/13,345 (spot price: $13,171). We believe a further trigger in the stock from a possible CDR exit, for which management is making efforts such as meeting all the financial covenants. Currently, 98% of the promoters' shares are pledged; however, we do not view it as a huge concern as these are secondary securities against the debt raised for the plant.