MARKET WATCH

FPIs WITHDRAW ₹6.4K CR IN MAY

New Delhi: Foreign portfolio investors (FPIs) have pulled out a net amount of Rs 6,399 crore from Indian capital markets in May so far, on the back of poll-related uncertainty and the US-China trade tensions. Earlier, FPIs were net buyers for three months straight. **PTI**

ACCOUNTS FOR 89% OF ADDITIONAL CREDIT DEMAND BY INDUSTRY IN FY19

Bank credit to infrastructure expands by 18.5%, highest since March 2013

Affordable housing, granted infrastructure status in 2017-18, gives boost to other infra segment

SANDEEP SINGH
NEW DELHI, MAY 19

WHILE THE government has been pushing construction of roads, affordable housing and expansion of railway network among others across the country, data released by the Reserve Bank of India shows that even as additional bank credit at broad industry level has grown at snail's pace over the last year, infrastructure segment within the same has been an outlier.

Data shows that bank credit demand for the infrastructure segment rose by 18.5 per cent or Rs 1.65 lakh crore in financial year 2018-19, thereby accounting for almost 89 per cent of the additional credit demand of Rs 1.86 lakh crore by the overall industrial sector in FY19.

The credit growth for infrastructure segment in FY19 is the highest in at least seven years both in absolute and in per cent terms. It grew by 16.5 per cent in March 2013.

While the total credit for the overall industry rose by 6.9 per cent from Rs 26.99 lakh crore in March 2018 to Rs 28.85 lakh crore in March 2019, that for the infrastructure segment rose by 18.5 per cent from Rs 8.9 lakh crore to Rs 10.55 lakh crore in over the same period.

Within the infrastructure segment, while road and power sector witnessed a credit growth of 12.3 per cent and 9.5 per cent, respectively, in March 2019 over March 2018, telecom and other infrastructure (other than road, power and telecom) emerged as major contributors with credit growth rates of 36.6 per cent and 53.5 per cent, respectively, in the same period.

In fact, of the total growth of Rs 1.65 lakh crore in credit outstanding for infrastructure segment in FY19, other infrastructure accounted for over Rs 64,000 crore or 39 per cent.

CREDIT OUTSTANDING (₹ BILLION)

	March 2019	March 2018	Growth rate (%)
Gross Bank Credit	86,749	77,305	12.2
Industry	28,858	26,993	6.9
Infrastructure	10,559	8,909	18.5
Power	5,690	5,196	9.5
Telecom	1,156	846	36.6
Roads	1,869	1,665	12.3
Other Infra	1,845	1,202	53.5

Source: RBI

EXPLAINED

Power sector accounted for 30 per cent of the additional credit demand by the infrastructure segment in the fiscal.

Economists say that jump in credit growth for infrastructure sector is in line with the pick up activities of road construction, affordable housing and other areas of infrastructure. "Government has been awarding lot of contracts leading to a rise in activity and credit demand," said an economist.

The other infrastructure segment has seen credit outstanding grow significantly from Rs 1.2 lakh crore in March 2018 to Rs 1.84 lakh crore in March 2019. In fact, in each of the seven months between September 2018 and March 2019, the year-on-year credit growth stood over 26 per cent with a high of 53.5 per cent in March 2019.

Market participants say that the other infrastructure segment has witnessed a sharp growth primarily on account of pick up in construction activity of affordable housing that was granted infrastructure status in 2017-18.

The infra status enables such projects to avail the associated benefits such as lower borrowing rates, tax concessions and increased flow of foreign and private capital.

"Affordable housing segment growth has witnessed a rise in credit growth," said the head of a housing finance company.

At a time when the consumption demand is stagnating, some feel that the rise in credit demand from infrastructure segment is a big positive. "Credit growth for infrastructure was earlier missing as banks were making provisions for loans. However, since that is mostly over now and there is visible growth in construction, affordable housing and renewable energy, it is driving credit growth in this segment," said an industry insider.

The credit growth in the infrastructure segment has come back over the last financial year, reversing the declining credit trend seen over the previous two years. The bank credit outstanding for the sector came down from Rs 9.64 lakh crore in March 2016 to Rs 9.06 lakh crore in March 2017. It further went down to Rs 8.90 lakh crore by the end of March 2018.

Easing NBFCs' liquidity woes imperative for upcoming govt

SUNNY VERMA & SANDEEP SINGH
NEW DELHI, MAY 19

AS THE cascading impact of the crisis in the non-banking financial companies (NBFC) threatens to engulf the entire financial sector, the first task for the new government will be to alleviate the stress in this sector. With the liquidity scenario in the industry having worsened over the last couple of months and a number of NBFCs putting a stop to fresh loan disbursements, there is an acknowledgement in the government that these issues need to be addressed with alacrity to prevent the liquidity stress from worsening.

The consensus is that the next government will have to step up capital infusion into public sector banks, two senior officials in the Finance Ministry told *The Indian Express*. "The danger of NBFC stress spilling over to financial sector has risen instead of receding. While it is difficult to distinguish liquidity issues from solvency issues of companies, the government can only address liquidity issues," the official said.

"The recent feedback that we gathered from top banks is that the financial sector needs significant repair in the next six months," another official said. With its fiscal situation stretched, the Centre may have to bank upon the Reserve Bank of India. A committee headed by former Reserve Bank Governor Bimal Jalan, on the issue of determining appropriate capital reserves for the RBI, is likely to submit its report next month.

Two senior officials in the Finance Ministry told *The Indian Express* that the next government will also have to step up capital infusion into PSBs

In a report in April, Bank of America Merrill Lynch had estimated that the Jalan committee is likely to identify an excess buffer of up to Rs 3 lakh crore. This includes the excess capital in contingency reserves and also revaluation reserves, it said, pegging the RBI's excess capital at Rs 1-3 lakh crore. Sources said the Finance Ministry, in its deliberations with the panel, said there is no legal challenge in dipping into the RBI's past reserves built over the years.

After the IL&FS group started defaulting on its aggregate debt of over Rs 90,000 crore since last September, financial sector entities including NBFCs, mutual funds, corporate-focused lenders have faced liquidity challenges. The situation only worsened over the last month as rating agencies started downgrading debt papers issued by NBFCs, thereby weakening their ability to raise funds to do business. This has created further uncertainty in the markets, said a top official with a NBFC.

"The credit rating agencies (CRAs) are causing the next short-circuit in the Indian economy. Impacted by market pressure, regulatory intervention, parliamentary supervision and on how India has a high number AAA rated entities seemed to have spooked the CRAs, forcing them to downgrade companies or put them on credit watch. This has in turn created further panic in the market," said a senior official with a NBFC.

Sources say that the industry players have started seeing accelerated payment notices, thereby causing panic in the markets.

With banks going slow on credit disbursal in the economy over the last two years, NBFCs took the lead, and thus accounting for a significant portion of the additional credit in the market.

According to an RBI report on the NBFC sector, the consolidated balance sheet of NBFCs expanded in 2017-18 and in 2018-19 (up to September), "buoyed by strong credit expansion". The data shows that while the loans and advances by NBFCs stood at Rs 14.85 lakh crore in March 2017, it rose by over 33 per cent to Rs 19.84 lakh crore in September 2018. In the same period, the gross credit growth for scheduled commercial banks expanded from Rs 71.39 lakh crore to Rs 80.25 lakh crore, witnessing a growth of 12.41 per cent in the 18-month period.

BRIEFLY

Essar Steel reports ₹4.2 cr EBITDA

New Delhi: Debt-ridden Essar Steel, in an affidavit filed before the NCLAT, said it has registered an EBITDA (earnings before interest, tax, depreciation and amortization) of Rs 4,229 crore during its Corporate Insolvency Resolution period (over 600 days). **PTI**

Will keep yuan stable: China central bank

Beijing: China's central bank on Saturday said it will maintain basic stability of the yuan exchange rate within a reasonable and balanced range, its website said on Sunday.

Market is in a delicate situation: Falih

Jeddah: Saudi Energy Minister Khalid al-Falih said on Sunday he recommended "gently" driving oil inventories down at a time of plentiful global supplies and that OPEC would not make hasty decisions about output ahead of a June meeting. "Overall, the market is in a delicate situation," Falih said before a ministerial panel meeting of top OPEC and non-member oil producers, including Russia and Saudi Arabia. **REUTERS**

Orix looks to buy out IL&FS wind power assets

ENS ECONOMIC BUREAU
MUMBAI, MAY 19

ORIX CORPORATION of Japan, which holds 49 per cent stake in each of seven operating wind power plants of the IL&FS group, has expressed its intent to buy out the remaining 51 per cent stake held by IL&FS Wind Energy Limited (IWEL).

This intent to buy 51 per cent stake is in exercise of Orix's right under the terms of an existing memorandum of understanding wherein Orix can match the price offered by the highest bidder for purchasing IWEL's stake in the wind special purpose vehicles (SPVs). Orix also owns 23.5 per cent stake in parent firm IL&FS.

Earlier, at the end of the binding bid stage under a publicly conducted sale process, public sector GAIL had emerged the highest bidder for the seven SPVs having a total generation capacity of 874 mega watt. GAIL's offer of Rs 4,800 crore for 100 per cent of enterprise value contemplated no haircut to the debt of the SPVs, aggregating to approximately Rs 3,700 crore.

"This development represents completion of a key step in the resolution process for IL&FS group being undertaken by the new board of IL&FS," IL&FS said.

The completion of sale of SPVs to Orix will be subject to satisfaction of all compliances and approvals required under applicable laws, including approval of Justice D K Jain and National Company Law Tribunal and in accordance with the proposed resolution framework, it added.

The sale proceeds, as and when realised by IWEL, will be held in trust for distribution to relevant stakeholders in accordance with the proposed resolution framework filed with the National Company Appellate Law Tribunal by the centre.

The closure of the sale process is expected by the end of June, subject to legal approvals. The new board, as part of the overall resolution process for the IL&FS group, has initiated sale of a number of group assets, thereby addressing a significant portion of group debt.

IL&FS said the sale process for assets in the areas of education, funds, domestic roads, thermal power, water infrastructure, technology and key international assets is currently underway and binding financial bids are expected for these companies/businesses in stages by July.

'PE INFLOW IN INDIAN RETAIL REAL ESTATE DOUBLES TO $1.2 BN IN 2017, 2018'

Indian retail real estate sector attracted private equity (PE) investment worth $1.2 billion in calendar years 2017 and 2018, double from the previous two years, according to property consultant Anarock

Liberalised FDI policies: Sharp rise in PE inflow was attributed to further liberalisation in foreign direct investment (FDI) policies, such as
- 51 per cent FDI in multi-brand retail
- 100 per cent FDI in single-brand retail under the automatic route

Over $1.2 bn in 2017, 2018: From an investment of $600 million during 2015-2016 calendar years, PE inflows in retail real estate jumped to over $1.2 billion between 2017 and 2018

Over $1 bn in 2015-2018 from US: US-based funds like Blackstone and Goldman Sachs have invested more than $1 billion between 2015-2018

Share of PE inflows: Of the total $1.84 billion inflow

between 2015 and 2018
- Tier II and Tier III cities attracted $880 million
- Tier I cities attracted $960 million

Most favoured Tier II and Tier III cities: Amritsar, Ahmedabad, Bhubaneswar, Chandigarh, Indore, Mohali

39 mn sq ft of retail space: The data stated that around 39 million square feet of organised retail space is expected to enter the market between 2019-2022, of which
- 71 per cent may come up in Tier I cities
- 29 per cent may come up in Tier II and Tier III cities

... Unlike the commercial office sector, retail is to some extent geography-agnostic because its success depends on the spending power of its target audience. As a result, shopping malls in tier II and tier III cities have performed as well as, if not better than, their tier 1 counterparts.

SHOBHIT AGARWAL
MD & CEO, ANAROCK CAPITAL

Exit polls cheer ruling NDA; markets set for a rally today

SWATI BHAT, SAVIO SHETTY & ARNAB PAUL
MUMBAI/BENGALURU, MAY 19

INDIAN EQUITIES, rupee and bonds are set to rally on Monday after almost all exit polls suggested that the Prime Minister Narendra Modi-led National Democratic Alliance (NDA) was likely to secure a clear mandate at the 2019 national elections.

"The market was working with the assumption that the NDA would need to ally with other parties to form the government. To the extent the exit polls are predicting an outright victory for the NDA, we could see a five-ten per cent equity market rally in the coming weeks," said Saurabh Mukherjea, founder of Marcellus Investment Managers.

Votes are set to be counted on May 23 and exit polls suggest a better showing for the NDA than what was expected in recent weeks.

The NDA is projected to win 287 seats in the 545-member Lok Sabha, followed by 128 for the Congress party-led Opposition alliance, the C-Voter exit poll showed.

To rule, a party needs the support of 272 lawmakers.

Investors expect the Nifty to break the resistance seen at 11,800 levels and possibly surge to 12,200 in coming weeks provided the actual results are in-line with the exit polls.

The broader NSE index ended 1.33 per cent higher at 11,407.15 on Friday, while the benchmark BSE index closed up 1.44 per cent at 37,930.77. Both indexes gained over 1 per cent for the week.

'287 SEATS LIKELY FOR NDA'

- **The National Democratic Alliance is projected to win 287 seats in the 545-member Lok Sabha, followed by 128 for the Congress party-led Opposition alliance, the C-Voter exit poll showed**
- **Investors expect the Nifty to break the resistance seen at 11,800 levels and possibly surge to 12,200 in coming weeks provided the actual results are in-line with the exit polls**
- **The rupee is expected to stay between 69-72 per dollar levels in the near-term but could open around 69.70 levels on Monday**

Jagannadham Thunuguntla, senior vice president and head of research at Centrum Wealth Management said the likely "continuation of policies and reforms is an added comfort," for the markets.

Investors expect another two-three per cent rally possible in the stock market over the next three-four days, but said further moves would depend on the actual election outcome and fundamentals.

"If the NDA's numbers cross 300, then the rally will continue beyond May 23," said Mayuresh Joshi, Senior Vice President and fund manager at Angel Broking, adding factors such as the liquidity situation, corporate earnings and global worries, may rein in the upside.

"The underlying backdrop for bonds has been bullish with a soft growth versus inflation trade-off both globally and locally," said Suyash Choudhary, head of fixed income at IDFC Asset Management.

Choudhary said a stable government that helps preserve India's risk perception would help the Reserve Bank of India respond decisively to the underlying macro dynamic.

"We expect this decisiveness to first reflect in a more proactive liquidity stance. This will be more bullish for bonds than merely a rate cut".

On Friday, the benchmark 10-year bond yield closed at 7.36 per cent, down 2 basis points from its Thursday's close. It is expected to open around 7.32 per cent on Monday.

The partially convertible rupee had closed at 70.22 per dollar on Friday versus its previous close of 70.0350.

The rupee is expected to stay between 69-72 per dollar levels in the near-term but could open around 69.70 levels on Monday and hold in a 69.50 to 70.20 range, traders said.

"After the initial move, however, markets will focus on the fundamentals. Sanity would prevail rather than emotions," said Swarup Mohanty, CEO at Mirae Asset Global Investments in India. **REUTERS**

AIRCRAFT MANUFACTURER DID NOT INDICATE WHEN IT FIRST BECAME AWARE OF THE PROBLEM, AND WHETHER IT INFORMED REGULATORS

Boeing acknowledges flaws in its 737 MAX simulator software

PRESS TRUST OF INDIA
NEW YORK, MAY 19

BOEING ACKNOWLEDGED ON Saturday that it had to correct flaws in its 737 MAX flight simulator software used to train pilots, after two deadly crashes involving the aircraft that killed 346 people.

"Boeing has made corrections to the 737 MAX simulator software and has provided additional information to device operators to ensure that the simulator experience is representative across different flight conditions," it said in a statement.

The company did not indicate when it first became aware of the problem, and whether it informed regulators.

Its statement marked the first time Boeing acknowledged there was a design flaw in software linked to the 737 MAX, whose MCAS anti-stall software has been blamed in large part for the Ethiopian Airlines tragedy.

According to Boeing, the flight simulator software was incapable of reproducing certain flight conditions similar to those at the time of the Ethiopian Airlines crash in March or the Lion Air crash in October.

The company said the latest "changes will improve the simulation of force loads on the manual trim wheel," a rarely used manual wheel to control the plane's angle.

"Boeing is working closely with the device manufacturers and regulators on these changes and improvements, and to ensure that customer training is not disrupted," it added.

Southwest Airlines, a major 737 MAX customer with 34 of the aircraft in its fleet, told AFP it expected to receive the first simulator "late this year." American Airlines, which has 24 of the aircraft, said it had ordered a 737 MAX simulator that will be delivered and put into operation in December.

"As a result of the continuing investigation into both aircraft accidents, we are looking at the potential for additional training opportunities in coordination with the FAA (Federal Aviation Administration) and Allied Pilots Association," it added.

A file photo of an Ethiopian Airlines Boeing 737 MAX 8 sits grounded at Bole International Airport, Addis Ababa, Ethiopia. The airline's CEO had said the airline might never fly the 737 MAX again after a deadly crash in March. *AP*

The planes have been grounded around the world, awaiting approval from US and international regulators before they can return to service.

Only Air Canada has a MAX simulator, aviation industry sources told *AFP*.

Currently, there is only one flight simulator specific to the 737 MAX in the United States, and it is owned by Boeing, according to FAA documentation.

US airlines train their pilots flying the MAX on a simulator built for the 737 NG, the version preceding the 737 MAX in the 737 aircraft family.

Southwest said that's because during the certification process for the MAX, Boeing stressed that there were only minor differences with the NG and simple computer and online training could accommodate for the differences.

The FAA, the European Union Aviation Safety Agency and Canadian regulators had approved those recommendations, Boeing stresses.

However, the 737 NG lacks an MCAS, specially designed for the MAX in order to correct an aerodynamic anomaly due to its heavier motor and to prevent the plane from stalling.

Pilot training will likely be at the heart of the meeting of international regulators in Forth Worth, Texas on Thursday when the FAA will try convince its counterparts of the robustness of its certification process for the modified 737 MAX.

The American regulator has maintained that training pilots on a simulator is not essential, a position with which pilots and its Canadian counterpart disagree.

Boeing said Thursday that it completed its software update on the 737 MAX.

The proposed fix, which addresses a problem with a flight handling system thought to be a factor in both crashes, must now win approval from US and international regulators before the planes can return to service.

US airlines have targeted August as the date they expect to resume flying on the 737 MAX.