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SMART INVESTING
A Titan Stumbles, and the Street Adds to its Pain

BANKERS' TAKE

RAJNISH KUMAR
CHAIRMAN, SBI

The RBI has unveiled a host of bazooka measures to arrest recent growth pangs even as it has marginally lowered its growth forecast. Reduction in risk weightage for consumer credit will free up capital

KAKU NAKHATE
COUNTRY HEAD, BANK OF AMERICA

This well-calibrated approach will add to the existing liquidity, helping banks transmit benefits to the MSME and consumer sectors ahead of the busy industrial season. We expect two more cuts by June 2020, in-line with the dovish stance of other central banks, including the US Fed

MRUTUNJAY MAHAPATRA
CEO, SYNDICATE BANK

Combined with positive push to NBFC lending, consumer lending and the reduction in risk weight is expected to push the economy into a growth trajectory. The RBI had worked in the same way as major central banks in developed and emerging market economies have dealt with policy rates

MORE REPORTS ON RBI MONETARY POLICY
▸▸ ON MONEY MATTERS

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10855.5	0.85
Sensex	36690.5	0.77
MSCI India	811.39	0.94
MSCI EM	2221.59	0.02
MSCI BRIC	586.47	0.10
MSCI World	8855.03	0.13
SX 40	21598.95	0.00
Nikkei	20516.56	0.33
Hang Seng	25997.03	0.08
Strait Times	3184.69	0.45

Values in US $, Gross — At 7 pm IST

OIL ($)	BOND
DUBAI CRUDE	10-YR YIELD
57.49	6.37
1.24	0.03
Absolute Change	Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1486.7	1659.66
LAST*	1510.2	1668.48

*At 10.30pm. After adjusting for import duty, Indian spot gold lower by $ 7.26 to US Comex gold price on Wednesday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
70.98	70.89

Market on Twitter@ETMarkets

RBI MONETARY POLICY

Reserve Bank of India Governor Shaktikanta Das didn't stop with an interest rate cut. He walked an extra mile by tinkering with prudential guidelines that would make a significant difference to the economy in terms of lending boost

RBI Eases Risk, Exposure Rules, Banks can Lend More to NBFCs

RBI Governor Shaktikanta Das with his deputies before the central bank's bi-monthly policy review meeting on Wednesday in Mumbai

Our Bureau

Mumbai: Reserve Bank of India Governor Shaktikanta Das gave a big push to retail lending by lowering risk weights for consumer lending and raising the bank exposure limits for non-banking finance companies which could directly boost borrowing capacities for top firms.

Housing Development Finance Corp., Mahindra Financial and Chola are among the firms that could benefit from the RBI's change of rule in regard to banks' lending to NBFCs.

Permission to classify bank lending to some NBFCs that lend to priority sectors as such would reduce the time taken for transmission which otherwise had to wait for securitisation.

"This will reduce our capital requirements for these loans and increase our risk adjusted returns," said PK Gupta, managing director at State Bank of India. "Some of these benefits can be passed on to the customer. It could have some impact on rates though we are yet to calculate it. The main reason this was done was because despite an expansion in these loans, delinquencies have not gone up."

RBI's raft of measures to support NBFCs come at a time when many mutual funds are averse to lending to the segment after defaults by Infrastructure Leasing & Financial Services and a few by Anil Ambani Group units. With many of the top NBFCs reaching their limits with banks, they were borrowing from markets which was turning out to be more expensive.

RBI has decided to raise a bank's exposure to a single NBFC to 20% of Tier-I capital of the bank from 15% earlier and it would be in sync with the rules for other industries.

The total Tier 1 capital of the banking system is at ₹10 lakh crore. "A 5% increase in single counterparty exposure will allow Banks to undertake additional exposure of ₹50,000 crore and hence an overall exposure of ₹2 lakh crore to a single NBFC," said Icra, the local unit of Moody's.

There was more for smaller companies and agriculture.

"To augment the flow of credit to priority sectors that contribute significantly to exports and employment, it has been decided to allow bank lending to registered NBFCs, other than MFIs, for on-lending to agriculture," said Governor Das.

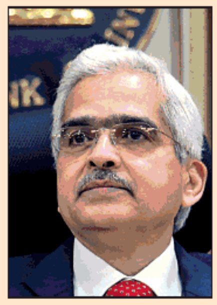
This could reduce the time taken for transmission of lower rates.

Continued on ▸▸ Money Matters

RBI will Ensure No Big NBFC Fails, but No Bailout Package

Monitoring 50-odd large systemically important NBFCs, including HFCs: Das

Our Bureau



Mumbai: Even as the central bank keeps its stand that it would not create a bespoke bailout package for the embattled NBFC sector, governor Shaktikanta Das said that the regulator would not allow any big non-bank lender to collapse.

"We are monitoring 50-odd large NBFCs, including HFCs," said RBI governor Shaktikanta Das. "It is our endeavour to ensure that there is no collapse of any large, systemically important NBFC."

RBI has increased monitoring of NBFCs after the IL&FS crisis. It has eased lending norms and exposure limits to alleviate stress in the sector and has intensified monitoring based on the size and payment behaviour of NBFCs.

The union budget had eased liquidity flows for NBFCs with a one-time, six-month credit guarantee for the purchase of assets of high-rated NBFCs up to ₹1 lakh crore for first loss of up to 10%.

The Centre also talked about strengthening the RBI's oversight on NBFCs. Under the Finance Act, RBI can supersede NBFC boards to help pre-empt sectoral or specific crises. The government has allowed RBI to split NBFCs into different units or institutions based on viability to help ensure the continuity of business streams that remain commercially feasible.

"RBI is closely monitoring NBFCs and HFCs and they are going to act not necessarily through bailout but by taking control so that there is no contagion effect," said Raman Aggarwal, chairman Finance Industry Development Council, the umbrella body of NBFCs. "It sends the right message."

After the budget announcement, RBI had allowed liquidity backstop to banks against their excess G-sec holdings to enable them in supporting NBFCs.

A V-SHAPED RECOVERY depends on policy action, says brokerage; Maintains a base case of 45,000 on the Sensex by June 2020

MS says Indian Markets Approaching a Bottom, Risk-Reward in Favour

Our Bureau

Mumbai: Morgan Stanley believes Indian shares are getting to a bottom as per valuation and sentiment indicators, following a recent fall that has led to indices falling 9% from their record high levels.

The brokerage, however, believes that risks remain, particularly related to the real economy and the slowing global economy.

The risk-reward favours buying equities now, but a V-shaped recovery in stocks depends on actions of policy makers, said Morgan Stanley.

The Sensex has fallen 9% from its record level of 40,312.07 hit in early June as lack of stimulus for immediate revival of economy, consumption slowdown and higher tax on the super-rich, including FPIs, have dampened sentiment.

Brokerage, however, believes that risks remain, particularly related to the real economy and the slowing of the global economy

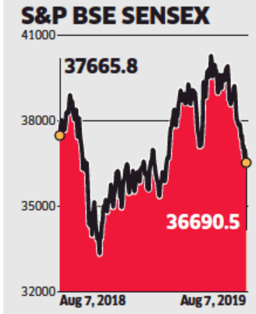
Morgan Stanley has a base case of 45,000 on the Sensex by June 2020, and a bull case of 50,000. Its bear case possibility sees the Sensex at 35,000 by June 2020.

"Indian equities look attractive in a relative context amid subdued oil prices, global trade tensions and better relative valuations in what is a low-return world," said Morgan Stanley. The financial services company is positive on financials, consumer, discretionary and industrials, both large- and mid-caps.

"Policy action is still needed to protect India's relative performance, which has sunk since the union budget," said Morgan Stanley.

Policy makers could undertake measures such as moratorium on higher taxation for FPI trusts, immediate recapitalisation of PSU banks and broad-based funding for NBFCs, said Morgan Stanley

S&P BSE SENSEX



Nifty Slips 92 Pts After RBI Cuts Growth Forecast

MUMBAI: In a bid to strike a balance between the "inadequate" 25 basis points (bps) and "excessive" 50 bps, the RBI on Wednesday slashed key policy rates by an unconventional 35 bps, but markets slid as it revised down the economy's growth forecast. Metal, PSU banks, auto and realty stocks contributed most to Sensex's 286 points fall after the Monetary Policy Committee (MPC) lowered the economy's projection of real GDP growth from 7 to 6.9 per cent for 2019-20. The Sensex closed 286.35 points or 0.77 per cent lower at 36,690.50, while the broader Nifty slipped by 92.75 points to 10,855.50. India Bulls Housing Finance was the biggest loser of day, as it shed over 13 per cent followed by Tata Steel, Tata Motors and M&M. – PTI

EXPECT HIGHER TRANSMISSION of monetary policy actions and stance by banks in the weeks and months ahead, says Das; SBI takes the lead, cuts rate by 15 bps

Guv Asks Banks to Pass on Rate Cuts, Home, Car Loans may Cost Less Soon

Our Bureau

Mumbai: Minutes after central bank governor Shaktikanta Das reminded high-street banks about their poor recent record in policy rate transmissions, the nation's largest financier State Bank of India reduced its lending rate by 15 basis points (bps) across all tenors.

After delivering a 35-bps rate cut in the policy, governor Das said that he expects banks to follow the lead of the financial markets, where there was full transmission of policy rates that were reduced in the current cycle of easing.

The weighted average call money rate declined 78 bps, market repo rate is down 73 bps, 10-year benchmark yield lower by 102 bps, but banks have only transmitted 29 bps between February and June on fresh rupee loans, the governor said.

"Our interactions with various stakeholders, including both public sector and private sector banks, indicate that steps are being taken by them on an ongoing basis to progressively lower their interest rates so that the benefits of the policy rate reductions are passed on to the economy," Das said. "We expect higher transmission of monetary policy actions and stance by the banks in the weeks and months ahead."

SBI's fourth consecutive MCLR reduction this fiscal year makes its homes loans cheaper by 35 bps since April. Its lending rate on overdraft and cash credit facilities is now at 7.65%. With the latest RBI nudge, other banks are also expected to pass on rate-cut benefits to customers.

"With improvement in liquidity position and reduction in deposit rates offered by banks, further reduction in lending rate is expected," said Sunil Mehta, MD, Punjab National Bank. "Since inflation is still benign and is in the expected trajectory of the RBI, more focus is given to propel growth and private investment, which are lagging for a long period of time."

The RBI has so far cut policy rates by 110 basis points and changed its stance on financing costs to accommodative. But banks have claimed that their cost of funds has remained high due to higher deposit rates. Indeed, credit-deposit ratios have been high over the last two years. Indian banks are coming out of multi-year high levels of non-performing assets and low capital, which affected credit flow to the real economy.

"It is for banks to decide who they lend to. RBI is creating an enabling environment for banks to improve credit flow, (and) I expect credit flow to pick up soon," Das added.

"Please understand that banks are coming out of a continuous NPA cycle. They have faced losses for consecutive quarters; so credit will pick up in the coming weeks and months."

Earlier this week, the finance ministry had said that banks had agreed to take steps to review lending rates as they have not commensurately transmitted the reduction of low rates to borrowers.

NO IMMEDIATE SIGNS OF REVIVAL, SAYS CO

Tata Steel Q1 Net Profit Drops 63%

The Heat is On

Tata Steel's June quarter's Consolidated Performance (in ₹cr)

	Q1 FY20	YoY Growth	QoQ Growth
Revenues	35947	1.3%	-15.3%
Adjusted EBIDTA	5530	-21.7%	-29.2%
Net Profit	702	-63.7%	-69.4%
EBIDTA margin	15.40%	-300 bps	-440 bps
EBIDTA/tonne (₹/tn))	8725	10394.0	11740.0
Delivery volume (mn tns)	6.34	7.52	6.02

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ET Intelligence Group: Tata Steel's debt seems even more daunting as earnings are crimped at India's oldest manufacturer of the primary infrastructure alloy.

In the June quarter, earnings halved at Tata Steel, paced by its European business. Debt to annualised EBIDTA, a ratio widely used to check the ability to meet debt obligations, has shot up to 4.7 times. It was near 3.2 times for FY19. Anything above 4 is considered risky.

For the June quarter, consolidated net profit dropped 63% to ₹702 crore. Adjusted EBIDTA fell 22% to ₹5,530 crore. EBIDTA margins stood at 15.4% against 19.8% last year. Sales deliveries grew 5% to 6.34 million tonnes; however, revenues grew by a mere 1% due to lower realisations. These numbers were below analyst expectations.

The company also announced the termination of its joint venture with HBIS for its Southeast Asian subsidiary. Its JV with Thyssenkrupp for the European business was also called off, keeping the balance sheet highly levered.

Management commentary on the current economic situation too lacked optimism, indicating no immediate signs of revival in the business. Tata Steel also said it will trim capex plans.

Continued on ▸▸ Smart Investing

IMPROVING CONSUMER CONFIDENCE IN THE DIGITAL CHANNEL

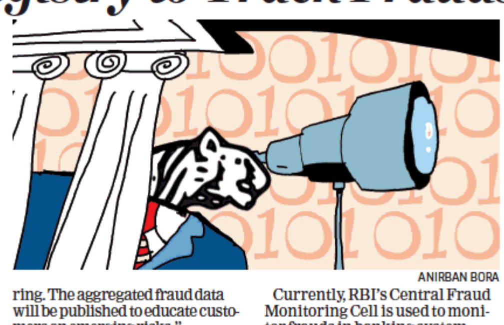
Central Registry to Track Frauds in Payment Systems

Our Bureau

Mumbai: The Reserve Bank of India (RBI) will create a central registry to monitor digital-payments related frauds on a real-time basis to improve consumer confidence in the digital channel, helping achieve New Delhi's objective of building a less-cash economy.

The proposed registry, apart from improving monitoring standards and analysis of the frauds, would also help the central bank collate periodic data for customer awareness, RBI governor Shaktikanta Das said.

"In order to carry forward these efforts and ensure quick and systemic responses, it is proposed to facilitate the creation of a Central Payment Fraud Registry that will track these frauds," Das said. "Payment system participants will be provided access to this registry for near-real time fraud monitoring. The aggregated fraud data will be published to educate customers on emerging risks."



ANIRBAN BORA

A detailed framework on the proposed registry would be released by the regulators in October, the governor said. ET on July 16 had reported that the top regulators are considering the creation of such a common registry to curb digital payments and debit card-related frauds.

Currently, RBI's Central Fraud Monitoring Cell is used to monitor frauds in banking system. The proposed registry will extend the platform to all payments operators. A detailed framework on the functioning of the registry would be released in October.

"With the digital payment ecosystem making substantial progress in terms of growth of payment infrastructure as well as volume and value of digital payment transactions, fraud risk monitoring and management by the stakeholders have assumed importance," Das said.

Payments players and fraud management experts have welcomed the announcement saying a real-time platform to share fraud data was the need of the hour as fraudsters typically tend of take advantage of the gaps in communication networks of the industry stakeholders.

"Past behaviour can be used to predict future behaviour patterns as well," said Kaushik Roy, VP, South Asia, ACI Worldwide, a payments solution company. "Right now, there is no industry wide fraud reporting system. Inputs from banks and federal agencies can go a long way in understanding how these frauds are structured and more importantly, how they originate."

Continued on ▸▸ Money Matters

NEFT to be Available 24x7

RBI will soon make National Electronic Fund Transfer available round the clock on all days for bank customers. Currently, the channel can only be used between 8am and 7pm on working days. "RBI will make available the NEFT system on a 24x7 basis from December this year. This is expected to revolutionise the retail payments system of the country," governor Shaktikanta Das said during the Monetary Policy press conference. RBI in the last policy had announced transactions routed through NEFT would no longer attract RBI fees. – Our Bureau