SECTOR WATCH

JSPL AIMS TO REDUCE NET DEBT

New Delhi: Jindal Steel & Power (JSPL) on Sunday said it has set a target of reducing its net debt by over Rs 10,000 crore to below Rs 30,000 crore in two years. "JSPL has set a target to reduce its net debt ... to below Rs 30,000 crore," a company statement said. **PTI**

FPIs PULLED OUT ABOUT ₹17,000 CR IN AUGUST

After outflows in last two months, FPIs invest a net ₹7,850 cr in stocks in Sept

ENS ECONOMIC BUREAU
MUMBAI, SEPTEMBER 29

AFTER PULLING out Rs 30,000 crore in the past two months, foreign portfolio investors (FPIs) invested a net Rs 7,850 crore into the stock market in September, following a slew of economic reforms by the government.

FPIs withdrew Rs 12,419 crore in July and Rs 17,592 crore from the stock market in August amid the slowdown in the economy. The government last week slashed corporate tax rate by around 10 percentage points and also clarified that the enhanced tax surcharge will not apply on capital gains arising from sale of any security, including derivatives, in the hands of FPIs. Sebi also simplified KYC requirements for FPIs and granted them permission to carry out off-market transfer of securities. As per the latest NSDL data, FPIs invested Rs 7,850 crore crore in equities and withdrew a net Rs 136 crore from the debt segment between September 3 and September 27, thus leading to total inflows of Rs 7,734 crore in September. Net outflows from both equity and debt amounted to Rs 3,003 crore in July and Rs 5,871 crore in August. The Sensex also made huge gain of 2,997 points in two days after the cut in corporate tax by the government.

India Ratings and Research said the reduction in the US Federal Reserve's policy rate by 25 bps and the ECB's decision to resume asset purchases is likely to augur well for short-term FPI flows to economies such as India – which continue to provide a relatively high real interest rate differential. However, risks related to the geopolitical tension in the Middle East, coupled with imminent downsides risks to domestic economic growth, in the absence of a pick-up in household demand, could continue to impinge on sentiment in the near term.

Despite the roll-back of excess surcharge and a relatively accommodative monetary policy stance, FPI flows will continue to be undermined by a weak global and domestic consumption demand outlook. "In the long term, a shrinking current account surplus in key exporting economies including China coupled with the muted household consumption will continue to weigh on FPI flows," India Ratings said.

The second rate cut by the Fed since January comes against the backdrop of a weakening global demand outlook and slowing US exports. "This rate cut is unlikely to stimulate long-term FPI flows, amid the system-wide risk aversion build-up globally. Relatively neutral communication or non-committal approach from the Fed about the future course of action might keep the US dollar exchange rate firm," it said.

EXPLAINED E.

Weak domestic demand outlook to weigh on inflows

FPI FLOWS have resumed after the government stepped in with several steps to revive the economy. Despite the roll-back of excess surcharge and a relatively accommodative monetary policy stance, FPI flows will continue to be undermined by a weak global and domestic consumption demand outlook.

A shrinking current account surplus in key exporting economies including China, coupled with the muted household consumption, will continue to weigh on FPI flows.

INTERVIEW WITH GROUP HEAD, INVESTMENT BANKING, HDFC BANK

'If equity shareholders do not make money, you will not get equity capital'

AS PRIVATE investment continues to suffer and equity returns have stayed low, RAKESH SINGH, group head–investment banking, private banking and capital markets at HDFC Bank told SANDEEP SINGH that return on risk capital must be ensured so that people make money. He further said that moderate levels of inflation is required in the economy for better wage growth, stability in asset prices and rise in consumption. Edited excerpts:

Rakesh Singh

Do you see a revival in private investments in the economy after the announcement in corporate tax rate cut?

In sectors where there is excess supply already, a company may not undertake capital expenditure. We must incentivise and get companies to set up base for manufacturing and even exporting electronics, metro rakes, solar panels and other stuff that we are importing presently. Our issue is on demand generation side. One way to generate further demand is by way of personal income tax cuts to encourage consumption. The recent announcement on reduction in corporate tax is an excellent step by the government and will incentivise corporates, particularly MNCs, to set up manufacturing base for local consumption and even exports. In my view, the second half of the year should be better with farm growth due to bountiful rains and the festive season.

Besides, the Centre may take sector specific measures. For the auto sector we may need a scrappage policy. Reintroduction of tax benefits for second house purchase, reduced or temporary waiver of stamp duty etc to help liquidate the home inventory is an option. I think that the government is best placed to incentivise and take the trade off between tax cuts and higher tax collections driven by consumption. The cyclical part of the slowdown is temporary as efficiency gains due to measures taken by this government and change in consumption patterns may need to (be) rebalanced by policy measures and some sector specific tax cuts to boost consumption. Also, as far as fiscal deficit is concerned, I don't see it as a big issue. The whole world is fearing slowdown and in such an environment such measures are required.

What do you think needs to be done?

When we protect basic level of investment in the industry and investors make adequate returns, incremental investments will flow in. We must recognise that equity is the riskiest form of capital and if equity shareholders do not make money, we will not get equity capital. So, we have to ensure that there is return on risk capital. Once risk capital generates return, it becomes a pool and gets redeployed in the industry and the country.

What do you think needs to be done for demand push?

The thing to give further impetus to demand is to ensure that you have lower prices that encourages consumption. Wages must go up, particularly in the private sector. Low inflation is leading to low wage growth and I think the biggest elephant in the room is low inflation. I think we should have moderate levels of inflation in the economy.

How is low inflation hurting the sentiment?

In absence of inflation, we are seeing correction in asset prices. Also the value of assets owned by individuals have gone down in low inflationary environment and that hurts.

Everyone wants growth. What moderate levels of inflation do is they bring better wage growth, stability and growth in asset prices and leave some money in the hand of semi-urban and rural for consumption. Inflation targeting such that there is moderate levels of inflation may be a good idea. Instead of 3 per cent, we should have CPI of 4-5 per cent.

Do you see the steps taken by government are meaningful?

The steps are in the right direction. What the government is doing is unprecedented. We may need increase in farm prices for the farmer which will lead to higher surplus in the hands of rural and semi-urban population. That will lead to rise in rural consumption and the rub off effect of this move will come to the industries too. Some amount of inflation should be encouraged, however, it should be calibrated so that it doesn't run away.

Are large investors putting money into equity?

People are not committing incremental money into equities as the earnings outlook is still evolving. While return on equity must improve, India's corporate capital pool and profit pool must increase. Recent tax cuts will help but we also need higher consumption. If the reward for risk is higher, you are more likely to see people keen to take more risk and commit capital to newer projects. We saw this happen in road projects, transmission and solar in the recent past.

Which companies do you think will do well in the current times?

I believe large cap companies will do well as they have access to capital, people and technology. We are in a consolidation phase in the economy where large caps are bound to do well because they will take market share from smaller players who are not well capitalised, who don't have access to the same quality of technology and people. While large caps will continue to show growth, mid and small companies that are sectoral leaders and have technology strengths will grow. But if they don't have access to them then irrespective of their valuations, they will suffer.

It is a very good time for well established companies that have been run properly. The problem is where people were trying to run a company with not so strong fundamentals.

Do you think the government should provide protection to certain sectors?

There are two sets of industries, the ones that are affected by international competition and others that are not. While both have witnessed impact on demand, it's the ones that are impacted by international supply side competition that are more affected. If there is supply side excess in the world and companies worldwide dump their stock at a certain price in India, our domestic companies are unable to compete and we may need to find a way to address this, protect industry and jobs in the same way other nations do.

BRIEFLY

In a first, RP to chair RCom AGM today

Mumbai: In what is probably the first for any major corporate, a resolution professional (RP) will chair and address the shareholders of the Anil Ambani-run bankrupt Reliance Communications (RCom) at the annual general meeting (AGM) with shareholders on Monday. Companies in the diversified group will be holding their AGMs in the financial capital. **PTI**

'Millennials using cabs would mean more cars'

Gaydon: Millennials depending more on ride-hailing service providers for commuting would mean more demand for cars rather than affecting sales in mega cities, including those in India, according to JLR chief executive Ralf Speth. Finance Minister Nirmala Sitharaman had recently said one reason for the downturn in the auto industry was millennials using more of ride-hailing services instead of buying cars. **PTI**

Lara project's first unit to start on Oct 1: NTPC

New Delhi: NTPC Sunday said its 800 MW Unit-I of Lara Super Thermal Power Station in Chhattisgarh will be commercially operational on Monday midnight. Last week, it said the unit would be commercially operational from Sunday midnight. **PTI**

RBI may cut rates again on Oct 4

ENS ECONOMIC BUREAU
MUMBAI, SEPTEMBER 29

AFTER SLASHING repo rate four times in a row this year to revive growth and investments, the Monetary Policy Committee (MPC) of the Reserve Bank is likely to go for another cut — fifth in calendar year 2019 — on October 4 to give a big boost to the growth.

With inflation under control and growth rate declining, the RBI reduced the repo rate four times by 110 basis points (bps) to 5.40 per cent in 2019, with the last cut being an unconventional 35-bp reduction on August 7. On September 19, RBI Governor Shaktikanta Das hinted there could be more reduction in the rate in the near future.

However, there's a possibility the MPC may not go for aggressive rate cut as the RBI has to take into account higher government borrowings and the fiscal position, especially after the Centre announced sops to revive the sagging economy. That said, the global and local context is weak enough to argue yet for some (though not substantial) incremental role for monetary easing. This is especially true because Das does not appear to be as large a fiscal hawk currently. He welcomed the bold steps — like corporate tax cut — from the government, after observing one day prior that fiscal space seemed limited.

There's a chance the MPC may not go for aggressive rate cut as the RBI has to take into account higher government borrowings and the fiscal position

"We would hence look for monetary 'teasing' incrementally, as opposed to 'easing' that we were expecting before and would expect the repo rate to bottom out in the 5 to 5.25 per cent area. The one caveat to this view is of further global growth deterioration which would then open up room for further easing," said Suyash Choudhary, head–fixed income, IDFC AMC. The RBI is pushing for for transmission of rate cut benefits to the customers, with its latest directive to link certain loans and deposits to a benchmark rate like the repo rate.

"We grow more confident of our call that lending rates will come off by 50 bps by March as the RBI and MoF continue with measures to bring relief to retail and small industries from 2018's liquidity crunch. We continue to expect the RBI committee to cut by 35 bps on October 4. But we do not rule out the possibility of a 50-bp cut," said a BofAML Global Research report.

Merrill Lynch said its base case has the MPC cutting 35 bps on October 4 and 15 bps in December, pausing as inflation rises on base effects, and if global growth slows, cutting a further 40 bps to a 4.5 per cent repo rate by September 2020. "However, we think there is a rising possibility for a 50-bp cut on October 4, with our BofAML India Activity still pointing to a slowdown for another quarter. Our US economists are expecting another 50-bp Fed cut by December," it said.

Das' September 19 comments came at a time when the first quarter GDP growth slowed to a six-year low of 5 per cent and August's exports showed degrowth for the first time. Many sectors, including auto, have seen a demand slowdown, prompting the Centre to step in with measures to tackle the slowdown.

'Ex-MD of PMC writes to RBI, admits HDIL exposure is 73% of entire assets'

PRESS TRUST OF INDIA
MUMBAI, SEPTEMBER 29

THE NOW-SUSPENDED managing director of the crisis-hit Punjab and Maharashtra Cooperative Bank (PMC), Joy Thomas, has reportedly admitted to the RBI that the bank's actual exposure to the bankrupt HDIL is over Rs 6,500 crore — four times the regulatory cap or a whopping 73 per cent of its entire assets of Rs 8,880 crore.

The admission came in after a board member leaked the actual balancesheet details to the RBI, a source in know of the details said.

HDIL is in the bankruptcy court now after being hit by a severe cash crunch following the failure of some of its key projects in the city.

While HDIL did not reply to a detailed e-mail sent by *PTI* on the issue, the bank, its chairman Waryam Singh and Joy Thomas could not be reached for comments immediately.

'Hope telcos' IUC discussion will be reasonable'

Cellular Operators' Association of India (COAI) said it hopes that telecom players will engage in "reasonable and rational discussions" on IUC

Different players, different positions: As per the industry body, different telecom players may take varied position based on their operational, strategic and commercial interests

Zero termination charge unacceptable: Historically, the industry's majority view on interconnect usage charges (IUC) has been that zero termination charge is not acceptable in a calling party pays regime

6p per minute: Currently, an operator is required to pay 6 paise per minute as mobile call termination charge, or IUC

Nil IUC proposal: The IUC was originally proposed to be made nil from January 1, 2020; however, Telecom Regulatory Authority of India (Trai) is now reviewing the timeline

Telcos locking horns: With Trai, last week, inviting public comments to review mobile call termination rate deadline, the old and new telcos have once again locked horns over the issue

'HDFC keen to contribute to govt's ₹20k-cr fund'

PRESS TRUST OF INDIA
NEW DELHI, SEPTEMBER 29

MAKING A strong case for supporting developers to help them come out of crisis, eminent banker Deepak Parekh said the government incentives have helped the affordable housing sector gain traction but homebuyers now clearly want "right developers, right price, right size and right financier".

Parekh, chairman of housing finance major HDFC Ltd, also said the government's proposed Rs 20,000 crore fund will help the realty sector in a big way to get their pending projects completed and his company is very keen to contribute to this fund.

Asked whether he would also like to join the board to help manage this fund as a reputed industry voice, Parekh, however, said it was too early to comment on that. "This fund, in which the government will put in Rs 10,000 crore and a similar amount will come in from public and private sector institutions, is a path-breaking move.

"The government is doing its best in supporting this industry and we have to get over the past sins of buying land at high prices and building luxury apartments," Parekh said.

China urges 'calm and rational' resolution to Sino-US trade war

RYAN WOO & KEVIN YAO
BEIJING, SEPTEMBER 29

CHINA HOPES Beijing and Washington will resolve their trade dispute "with a calm and rational attitude", Vice Commerce Minister Wang Shouwen said on Sunday, ahead of talks in two weeks between the two sides.

Chinese Vice Commerce Minister Wang Shouwen at a news conference in Beijing on Sunday. *Reuters*

The United States and China have been locked in an escalating trade war for over a year. They have levied punitive duties on hundreds of billions of dollars of each other's goods, roiling financial markets and threatening global growth.

A new round of high-level talks between the world's two largest economies is expected in Washington on October 10-11, led from the Chinese side by President Xi Jinping's top economic adviser, Vice Premier Liu He.

Wang, who has been part of China's negotiating team with the United States, told a news conference that Liu would go to Washington for the talks the week after China's National Day holiday, which ends on October 7.

He said he hoped both sides would find ways to resolve their differences. "We believe this will benefit both countries' people and the world," he added.

The Trump administration is considering radical new financial pressure tactics on Beijing, including the possibility of delisting Chinese companies from US stock exchanges.

Sources told *Reuters* on Friday that the move would be part of a broader effort to limit US investments into Chinese companies, in part because of growing security concerns about their activities. **REUTERS**

China to send negotiator to US for talks

Beijing: China's Vice Commerce Minister Wang Shouwen said on Sunday that Vice Premier Liu He would travel to Washington for the trade talks sometime after China's National Day holiday. **AFP**

FE BEST BANKS AWARDS

India's leading lenders, fintechs to be honoured today

ENS ECONOMIC BUREAU
MUMBAI, SEPTEMBER 29

INDIA'S MOST prestigious financial sector awards — FE Best Banks awards — will be presented in the country's financial capital on Monday. It will be celebration time for banks, non-banking financial companies (NBFCs), small finance banks and fintechs.

Romesh Sobti, CEO and MD, IndusInd Bank, will carry home the Lifetime Achievement Award, while Sanjiv Bajaj, MD and CEO, Bajaj Finserv, will walk away with the Banker of the Year award for 2017-18.

The winners have been chosen by a high-powered jury chaired by S Ramadorai, former chairman, Tata Consultancy Services (TCS), and a team comprising R Shankar Raman, director & CFO, Larsen & Toubro; Leo Puri, former managing director, UTI Asset Management; Biswamohan Mahapatra, former executive director, Reserve Bank of India; and Sharad Sharma, founder, iSPIRT. Helping with some detailed research and number work was a team from EY.

A jury's task is never easy because even in the midst of their troubles, lenders have managed to spot niches where they could move in and innovate to come up with dozens of new products, especially digital offerings. Numbers don't always tell the whole story but at a time when demand for credit may have been somewhat sluggish, lenders have been cashing in on technological advancements to run their businesses. Thanks to these initiatives, they have sustained loan growth and profitability. The winners in the category of banks are HDFC Bank, Indian Bank and HSBC. NBFCs, too, have done well for themselves with Bajaj Finance stealing the show. With every lender launching a plethora of products, it is never easy to assess which ones are the best. But the number of new customers can be a good indication. State Bank of India will walk away with the award for the best home loan product — long tenors. The lowest rate and other facilities ensured it outclassed the products of other lenders. Kotak Mahindra Bank won the award for the best savings bank product for the second straight year. With an interest rate of 6 per cent, the bank's savings deposits have grown at a compounded 38-40 per cent over the last seven years.

Axis Bank, which has two fintech subsidiaries, was declared the best digital bank for the second year in a row. A substantial chunk of the lender's MSME and personal loans are sourced online and the lender aims to completely digitalise such loans in 18 months.

The year 2017-18 was annus mirabilis for NPCI, with the launch of BHIM and the on-boarding of Google Pay and Paytm. Later in August, UPI 2.0 was launched. For the stunning success of UPI, NPCI — the jury felt — merited an award. Assessing the business models and the sustainability of hundreds of fintechs can be very challenging, especially in the absence of reliable information and data. What looks like a promising idea today may no longer be a viable business tomorrow, given there's no dearth of competition and also because technological advancements are so rapid and game-changing.

Among the fintechs, RazorPay, CreditVidya, LoanFrame and Acko General Insurance were chosen for the initiatives they have taken in their respective areas and for the promise they hold out. **FE**