Markets

FRIDAY, OCTOBER 11, 2019

EXPERT VIEW

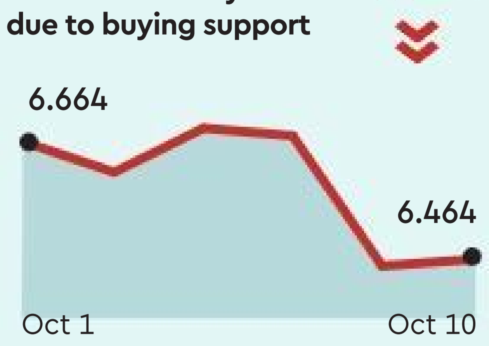
The RBI has been quite vocal about the fact that they would continue to support growth and they have left the door open for more policy cuts.
—Sakshi Gupta, senior India economist, HDFC Bank

Money Matters

G-SEC

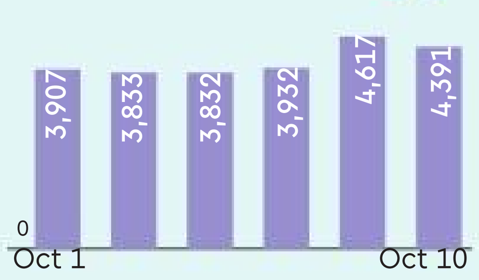
The benchmark yield fell **0.01%**

due to buying support



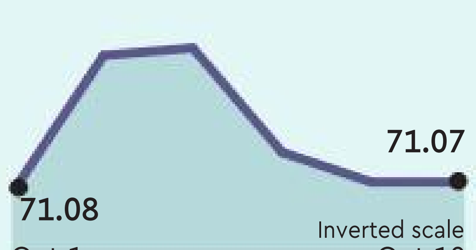
LAF

Bank borrowing under RBI's short-term window rose by ₹226 crore **4.89%**



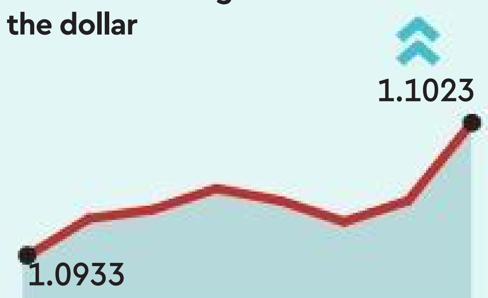
₹/$

The rupee appreciated on global cues **.008%**



€/$

The euro rose against the dollar **0.47%**



PROVISIONS RISE

IndusInd Bank net jumps 52% as NII soars 32%

Following the release of the second quarter numbers, the scrip falls 6.15%

FE BUREAU
Mumbai, October 10

PRIVATE SECTOR LENDER IndusInd Bank on Thursday reported a 52% year-on-year increase in its net profit to ₹1,401 crore for the quarter ended September, led by a 32% rise in its net interest income.

The bank's net profit at ₹1,401 crore was, however, marginally lower than the ₹1,416-crore consensus estimate of analysts tracked by Bloomberg. The earnings are not comparable to those in the previous year as they include results of Bharat Financial.

Following the release of the Q2FY20 results, the IndusInd Bank stock price fell by 6.15%, closing at ₹1,228.95.

For the September quarter, the bank's net interest income (NII) — the difference between interest earned and interest expended — saw an increase of 32% year-on-year to ₹2,909 crore. The loan growth came in at a reasonably good 21% y-o-y. The net interest margin (NIM) stood at 4.1% — higher by 5 basis points compared to the June quarter.

The deposit growth clocked a healthy 23% y-o-y rise during the quarter although the CASA (current accounts savings accounts) ratio declined marginally to 41.43% from 43.62% in the comparable quarter last year.

The provision coverage ratio of the bank increased to 50% from 43% in the June quarter. CEO and managing director Romesh Sobti said accelerated provisions were made to strengthen the balance sheet for future requirements. "The benefits of the tax cuts have been moved to boost up not the profits but the provision coverage ratio," he said, adding that the provisions would be improved to 60% in coming quarters.

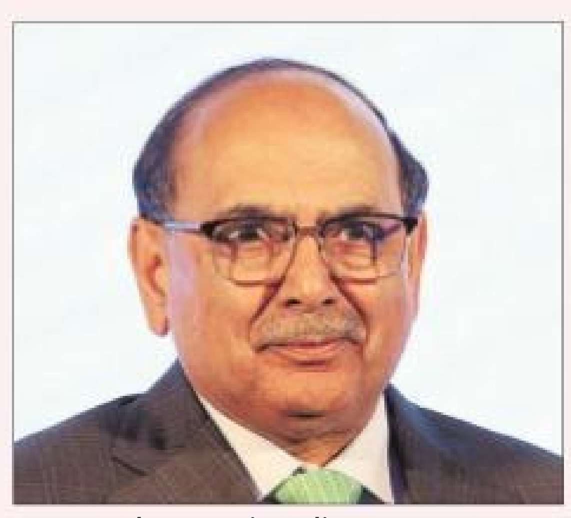
Meanwhile, gross non-performing assets (NPA) of the bank expanded by 4 basis points to 2.19%, while net NPA fell by 11 basis points sequentially to 1.12%. The bank's capital adequacy ratio (CAR) stood at 15.77%, which increased compared to the Q1CAR of 14.28%.

The bank has expanded its network to 1,753 branches and 2,662 ATMs in the quarter, compared with 1,466 branches and 2,372 ATMs in the previous quarter.

Report card

Particular (₹ crore)	Q2 FY19	Q2 FY20	Chg (%)	Q1 FY20	Chg (%)
Total income	6,755.4	8,877.5	31.4	8,624.6	2.9
Net interest income	2,203	2,909.0	32.0	2,844.0	2.3
NIM (%)	3.84	4.1	26 bps	4.05	5 bps
Provisions	590.3	737.7	25.0	430.6	71.3
Net profit	920.3	1,400.0	52.1	1,432.5	-2.3
Gross NPA (%)	1.09	2.19	110 bps	2.15	4 bps
Net NPA (%)	0.48	1.12	64 bps	1.23	11 bps
Source: Bank					

Source: Bank



CEO and managing director Romesh Sobti

Denied approval for merger, LVB shifts focus to raise capital

FE BUREAU
Chennai, October 10

A DAY AFTER the Reserve Bank of India (RBI) turned down its move to merge with Indiabulls Housing Finance and Indiabulls Commercial Credit, Lakshmi Vilas Bank (LVB) on Thursday put up a brave front, saying it will continue to work towards raising capital as per permitted modes in compliance with all applicable Acts and regulations. The merger proposal came at a time when LVB was saddled with high non-performing assets and unable to raise capital to stay afloat.

LVB, in a disclosure to the stock exchanges on Wednesday evening, said the RBI had informed that the bank's application for voluntary amalgamation of Indiabulls Housing Finance and Indiabulls Commercial Credit with it can not be approved. The RBI did not cite any reason for its disapproval, according to the disclosure.

The RBI move came close on the heels of its decision on September 28 to initiate the Prompt Corrective Action (PCA) against LVB, placing it under the corrective watch to improve performance.

Just a couple of days ago before the PCA decision, the Economic Offences Wing Delhi had registered an FIR against the board members of LVB on a complaint filed by Religare Finvest (RFL) pertaining to adjustment of its deposits towards dues of RHC Holding and Ranchem.

In a press release on Thursday, LVB said it is assuring the best of services to its clients, while committing towards growth and creating value for its stakeholders.

LVB with legacy of more than nine decades, a strong/loyal client base and a deposit book of close to ₹26,000 crore has served three generations of clients.

The RBI has initiated the PCA against LVB taking into account its high net NPA, insufficient CRAR (capital to risk weighted asset ratio) and CET 1 (common equity Tier 1), negative RoA for two consecutive years and high leverage based on the on-site inspection under the risk-based supervision carried out for the previous fiscal.

The PCA was initiated when the lender had been in the process of securing approvals from the authorities for merger with Indiabulls Housing Finance.

The proposed plan was to merge Indiabulls Housing Finance and its wholly owned subsidiary Indiabulls Commercial Credit with LVB. IBHFL was to hold around 90.5% of the post-merger enhanced equity capital of the merged entity, while shareholders of LVB were to hold around 9.5%.

Parthasarathi Mukherjee had resigned from his post of MD & CEO of LVB in August this year amid merger talks.

The net loss of LVB widened to ₹237.25 crore during the quarter ended June 30, 2019, compared with a net loss of ₹123.86 crore during the same quarter last year. The total income declined 14% during the period to ₹677.17 crore, against ₹787.5 crore in the year-ago period.

Gross NPAs as a percentage of gross advances stood at 17.30% (₹3,556.57 crore) in Q1, compared with 10.73% (₹2,804.71 crore) in the same period of the previous year. Net NPA grew to 8.30% (₹1,539.40 crore), compared to 5.96% (₹1,478.09 crore) in the same period last year.

Sebi releases detailed framework for issuance of depository receipts

PRESS TRUST OF INDIA
New Delhi, October 10

MARKETS REGULATOR SEBI on Thursday came out with a detailed framework for issuance of depository receipts (DRs), a move that will provide Indian companies increased access to foreign funds. The new framework would come into force with immediate effect, Sebi said in a circular.

The framework comes after finance minister Nirmala Sitharaman in August said the markets regulator would soon implement the Depository Receipt Scheme 2014. "This will give Indian companies increased access to foreign funds through American Depository Receipt (ADR)/ Global Depository Receipt (GDR)," she had said.

A depository receipt is a foreign currency denominated instrument listed on an international exchange and issued by a foreign depository to a domestic custodian. This includes global depository receipts (GDRs).

As per the circular, Sebi has issued a detailed procedure that needs to be followed for issuance of DRs, besides eligibility criteria for listed companies and obligations of Indian as well as foreign depositories and domestic custodians.

The regulator said only a listed company is allowed to issue permissible securities or their holders may transfer such securities for the issuance of DRs. However, this is subject to certain requirements.

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Listing out eligibility for issuance of DRs, Sebi said that listed firms are allowed to issue such securities provided their promoters, directors and selling shareholders are not barred from the capital markets. Besides, they should not be wilful defaulters or economic offenders.

In addition, existing holders will be eligible to transfer permissible securities for the purpose of issuance of DRs.

Sebi said these restrictions would not apply to persons or entities who were debarred in the past by it and the period of debarment is already over as on the date of filing of the document.

Rupee flat as US-China trade talks keep investors edgy

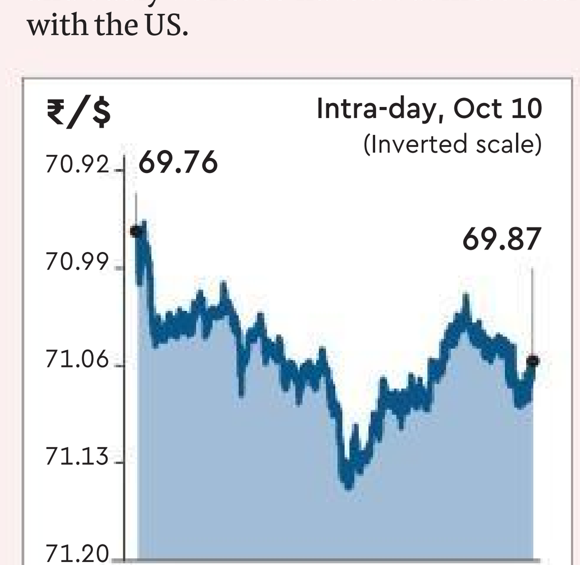
PRESS TRUST OF INDIA
Mumbai, October 10

THE RUPEE CLOSED flat at 71.07 against the US dollar on Thursday as the anxiety over US-China trade talks kept investors on the edge.

At the interbank foreign exchange market, the rupee opened at 70.96 against the US dollar. During the day, it fluctuated between a high of 70.87 and a low of 71.15. The rupee finally settled at 71.07, unchanged from its previous close.

"Ahead of today's scheduled meeting between the world's largest economies, we did not see much participation in USD/INR, the pair traded in a very tight range," Emkay Global Financial Services head of currency Rahul Gupta said.

Meanwhile, US President Donald Trump said China is facing its hardest time in decades in maintaining the economy and badly wants to have a business deal with the US.



Quick View

Paytm Payments Bank cuts savings account rate to 3.5%

PAYTM PAYMENTS BANK (PPB) on Thursday reduced the interest rate on savings account deposits by 50 basis points to 3.5% with effect from November 9. The payments bank also announced a fixed deposit scheme, on which its customers can earn an interest of up to 7.5% on their deposits though PPB's partner bank. PPB said it will also launch on-demand FD in early November that will enable the savings account customers to create a fixed deposit with their partner bank.

Bank of Maharashtra cuts MCLR by 0.10%

BANK OF MAHARASHTRA on Thursday announced a cut in its marginal cost of funds-based lending rates (MCLR) by 0.10% across tenures. The benchmark one-year MCLR will now be priced at 8.40% with effect from October 8, the bank said in a regulatory filing. The other tenures -- from overnight to six-months -- have been slashed by equal measure in the range of 8.05-8.30%. The lender has also cut the repo-linked lending rate (RLLR) by 0.25% to 8.20% from 8.45%.

IOB to revise interest rates from November 1

INDIAN OVERSEAS BANK would reduce the lending rates for retail and micro, small and medium enterprises by 25 basis points with effect from November 1, the lender said on Thursday. IOB would reduce the interest rate applicable for retail segment - housing, vehicle, education, micro small and medium enterprises by 25 basis points and the revised repo-linked lending rate would be 8% from existing 8.25% with effect from November 1, it said in a statement.

Mastercard India elevates Varma to COO

PAYMENT TECHNOLOGY MAJOR Mastercard India on Thursday said it has elevated Vikas Varma to the position of chief operating officer. In his new role, Vikas will lead initiatives related to new partnerships and development of digital payments solutions in the country, a statement issued by the company said.

Muthoot Finance to raise up to $2 billion from foreign markets to fund biz growth

FE BUREAU & PTI
New Delhi/Kochi, October 10

GOLD LOAN FINANCIER Muthoot Finance on Thursday said it proposes to raise $2 billion (around ₹14,200 crore) from foreign markets to fund its business growth.

The board of the company approved establishment of a global medium-term note programme for raising up to $2 billion through issuance of foreign currency bonds or rupee-denominated bonds overseas on public/private basis in international markets subject to market conditions and regulatory approvals, Muthoot Finance said in a statement.

The establishment of the global medium-term programme is only an enabling step, and at present, no instruments are being issued by the company.

Appropriate intimations will be made to the stock exchanges as and when the company issues any instruments under the said programme, it said.

In another development, the company said it has been assigned long term rating of 'BB+' with a 'stable' outlook by Fitch Ratings.

Besides, S&P Global Ratings has assigned a long term rating of 'BB' with 'stable' outlook. Moody's Investor Service has assigned 'Ba2' Corporate Family Rating with 'stable' outlook, it said in a release.

> Obtaining credit rating from three international agencies is another achievement by Muthoot Finance and it is a recognition of its leading and long track record in the gold loan business
>
> — GEORGE ALEXANDER MUTHOOT, MD

These ratings will enable Muthoot Finance to access international debt markets.

"The ratings take into account Muthoot Finance's well-established franchise in the niche segment of gold-backed financing, its low credit losses and satisfactory leverage," Fitch Ratings stated.

S&P Global Ratings said, "The ratings on Muthoot Finance are driven by the company's very strong capital and earnings, with the risk-adjusted capital ratio at above 45%.

Moody's Investor Service said the rating takes into account the company's leading franchise and well-established track record in lending against the gold jewellery segment in India, and strong solvency metrics, including asset quality, capital and profitability.

George Alexander Muthoot, managing director, said, "This is another achievement by Muthoot Finance and it is a recognition of its leading and long track record in gold loan business. With this rating, we are expecting to access international debt markets, which will enable us to further expand our business and also diversify our borrowing mix."

ANALYST CORNER

Upgrade Oberoi Realty to 'buy', target price ₹577

ICICI SECURITIES

AFTER A LULL in launch activity in H1FY20, Oberoi Realty (OBER) has a number of launches lined up to coincide with the festive season in Q3FY20. OBER has recently launched its Maxima tower at the JVLR, Andheri project (180 units priced between ₹3.5-4 crore) in the first week of October 2019 and is on track to launch its Goregaon Phase 3 and Thane projects in Q3FY20.

Although the overall market sentiment for residential property in Mumbai remains weak, launches by established developers with a strong execution track record continue to see buyer interest and remain the exception rather than the rule. We retain our target price of ₹577/share and upgrade our rating to 'buy' from 'add' post 15% correction in the stock price over the last three months.

Maxima tower launched at JVLR, Andheri project: OBER has recently launched its Maxima residential tower at its JVLR, Andheri project (same project where Splendour and Splendour Grande is located) in the first week of October 2019. The tower has ~180 units of which ~150 units have been launched for sale and consists of large 3BHK units having carpet area of 1,300-1,350 sq ft with a base unit price of ₹3.5 crore. At an overall level, OBER can generate over ₹700 crore of sales bookings from this project.

Goregaon and Thane projects to provide further impetus: OBER has timed its launch plans for Goregaon Phase 3 and Thane projects in Q3Y20 (Goregaon launch may coincide with Diwali by the end of October 2019 with Thane launch being expected later during the quarter). These launches, along with the completion of the Worli project in Q3FY20, will enable OBER to shore up volumes in H2FY20E.

Rental asset focus to benefit OBER in the medium term: OBER's upcoming projects spread across 15msf will consist of only 50% residential component with office (25%) and hospitality (15%) set to become a larger portion of OBER's cashflows over the medium term. This would reduce OBER's dependence on the residential segment and build up a strong rental portfolio in next 4-5 years.

Jubilant Foodworks to gain from corporate tax rate cut

MOTILAL OSWAL

IN OUR VIEW, the government's decision to cut the corporate tax rate bodes well for Jubilant Foodworks as it was under the highest tax slab of 34%. The company's medium term same-store-sales (SSS) growth prospects might fortify further if it passes on the benefit of the tax cut, as it will not only gain on an absolute basis but also score significantly over Westlife Development, Yum Brands and Burger King, which are either barely profitable or incurring losses.

Importantly, the 'advantage Jubilant' is likely to last long – at least for the next few years – because of the company's delivery based model and significantly higher scale compared to others. In fact, sales and PBT margins will continue to be much higher, fortifying its competitive positioning year after year.

Valuations are in line with peers at 39.4x FY21E EPS. However, on the EV/EBITDA front, the stock trades at a huge discount — not only compared to consumer peers but also at 1SD below its own historical average. The only reason warranting caution is a further deterioration in the operating environment, particularly impacting dine-in, which forms half of its countrywide sales. The government's moves have led to improved corporate profitability but not yet translated into better demand.

A key beneficiary of corporate tax rate cut: Jubilant was expected to pay taxes at a rate of around 34% for FY20 and FY21 before the announcement of the corporate tax cut. However, we now believe Jubilant will be among the key beneficiaries of the cut in corporate tax to 25.2%, as it adds around 13% to its PAT. Profitability is significantly higher than other QSR players. As mentioned in our note released after the corporate tax cut announcement, we need to assess the second-order effects of this measure.