

Economy

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● SEPT QUARTER RESULTS

NPAs and provisions spike for private banks in Q2

This even as banks performed well operationally for the quarter, with pre-provisioning profit growth averaging at 15%

HARIPRASAD RADHAKRISHNAN & SHASHANK NAYAR
Mumbai, October 27

PRIVATE BANKS HAVE been the darlings of the Dalal Street for long, but the slowdown has not spared them either. Eleven listed private-sector banks that reported their results for the September quarter saw a spike in their stressed asset pool and increase in provisions.

Even as banks performed well operationally for the quarter ended September, with pre-provisioning profit growth averaging at 15%, analysts observe that the incremental stress pool, recognition and provisioning would be factors that the market should look out for going ahead.

“Slow recovery and lack of any major resolution during the quarter implies gross non performing assets (GNPAs) could spike during the quarter. What could make GNPL number look relatively low would be aggressive write-offs,” said Edelweiss Securities in a note. The aggregate GNPAs for the quarter ended September 2019 for these 11 banks stood



REPORT CARD

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■ On a year-on-year basis, provisions for the same set of banks rose 26.8% to ₹9,224 crore on the back of heightened exposures to certain stressed accounts

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at ₹65,244 crore, higher by nearly ₹2,000 crore sequentially, reveals data from Capitaline. On a year-on-year (y-o-y) basis, provisions for the same set of banks rose 26.8% to ₹9,224 crore on the back of heightened exposures to certain stressed accounts. Sequentially, provisions improved 2.2% to ₹9224 crore largely because of lower

provisions by IDFC First Bank in the second quarter.

HDFC Bank, the country's largest private-sector bank, saw its provisions shoot up by 48.4% y-o-y to ₹2,701 crore, while slippages in Q2FY20 was elevated at ₹3,714 crore. Given the sharp slowdown in the auto sector and weakening economic growth, stress has been showing in the commer-

cial vehicle loan segment.

“Anyone going through capacity utilisation issues will bounce back and repay, given the time we will go through the NPA cycle,” said Srinivasan Vaidyanathan, CFO, HDFC Bank. “The bank had stepped up provisioning to cover personal loans, too, in the last quarter,” he added.

RBL Bank saw the steepest jump in GNPAs to 2.6% from 1.4% a year ago. Provisions and contingencies also surged almost three-fold to 281% y-o-y to ₹33.30 crore during the quarter. The management said it faced challenges in a few corporate accounts.

“As a matter of prudence, the bank has taken higher than required provisions on these accounts, which have impacted bank's bottom-line,” it said. Since the announcement of the results on October 22, the bank's stock has fell by 9.3%.

Even as the GNPAs increased, private lenders saw their loan books grow in double-digits, while there was moderate systemic growth. According to data from the Reserve Bank of India, the system-wide credit growth for the fortnight ended October 11 was at 8.72%, the lowest growth in the past two-years.

HDFC Bank posted a 16.1% y-o-y growth in its loan book, while IndusInd Bank posted growth of 21% y-o-y rise in its advances. Axis Bank's loan book grew 19%, while Kotak Mahindra Bank and Federal Bank posted growth of 15.3% and 14.8%, respectively.

Cos set up plants to tap \$1-bn biz in recycling Li-ion batteries

VIKAS SRIVASTAVA
Mumbai, October 27

Companies across sectors — in electric vehicles (EVs), solar power, and chemical space — could be looking at a \$1-billion opportunity in the recycling of lithium-ion batteries between 2022 and 2030, as existing batteries reach their end of life by 2022.

Going by the battery manufacturing targets set by NITI Aayog, under its energy storage mission, by 2030, the cumulative lithium-ion battery recycling market is estimated to be about 1.60 GWh. However, this target is considered as highly aggressive and difficult to achieve, given current adoption of EV vehicles and inadequate storage facilities at solar projects.

JMK Research, a Delhi-based power consultancy and advisory firm, estimates the recycling market in India to pick up from 2022 when lithium-ion batteries, presently in use, would reach their end of life. In 2030, the annual recycling market is expected to be around 22-23 GWh, which is a \$1,000-million (\$1-billion) opportunity. The cumulative recycling battery market in India is estimated to increase from 0.4 GWh in 2020 to more than 80 GWh by 2030.

The assumptions are based on growth in EVs and drop in battery prices in the last two years. According to Bloomberg data, the price of Lithium-ion batteries has fallen to an average of \$200/kWh in the last two years from \$1200/kWh in 2010, and is expected to fall to \$94/kWh in 2025 and to \$62/kWh by 2030. Decline in the current prices was expected over four years. Also, the EV vehicles count across the two-wheeler, three-wheeler and the four-wheeler segments have



JMK Research, a Delhi-based power consultancy and advisory firm, estimates the recycling market in India to pick up from 2022 when lithium-ion batteries, presently in use, would reach their end of life

grown to 7.5 lakh units in 2019 from 3 lakh units in 2017, witnessing growth of 148%.

Tata Chemicals launched its pilot lithium-ion battery recycling operations in Mumbai in August, and plans to scale it up to recycle 500 tonne of spent lithium-ion batteries in near future. Similarly, Raasi Solar has announced plans to set up a 300-MW plant, focusing on lithium battery recycling, battery assembling and cell manufacturing. Mahindra Electric, the EV arm of M&M, has revealed plans to enable EV battery recycling, in a method similar to the recycling of cell phone batteries, with the help of supply partner.

There are other players such as Exigo Recycling, Attero, EMM and Fortum, among others, who are already in the market recycling lithium-ion batteries from electronic wastes generated from mobile phones, laptops, power banks and telecom towers. Raman Sharma, co-founder and director of Exigo Recycling, told FE, “Considering the kind of opportunity coming up in India,

● CONG ON RCEP

Randeep Surjewala, Congree leader

The Congress feels that RCEP is not in the best interest of our nation. Today, when strengthening the country's economy should be our goal, it is neither fair nor rational to sign a free trade agreement. It needs to be reconsidered.

Online food & grocery retail may touch \$10.5 billion by 2023

SAJAN C KUMAR
Chennai, October 27

INDIA'S ONLINE FOOD and grocery retail is likely to touch \$10.5 billion by 2023, growing at a whopping 55% from the current 0.2% share of the overall retail to 1.2%. This results from a big push on the digital engagement.

Increased comfort and trust of customers in e-tailing, especially electronics and fashion, coupled with strong value proposition of e-grocery players, varied assortment and good delivery options will drive this growth, said an online food and grocery report by RedSeer Consulting and Bigbasket.

Bigbasket and Grofers are the major firms ruling the industry in India. The online food and grocery retail, which stood at approximately \$1 billion in 2018, has been witnessing its acceleration phase since then. The initial growth phase from 2014 to 2018 has seen the vertical clocking a CAGR of 110% from close to \$0.05 billion mark.

Haril Menon, co-founder and CEO of Bigbasket said, “The online grocery segment has been one of the fastest-growing e-commerce verticals in India and will continue to flourish in both metro and non-metro cities in the years to come.” India's online grocery space has gone through a significant evolution in last few years from explosive growth and funding in CY15 to growth challenges and funding winter in CY16, and then kickstart and accelerated growth phase 2018 onwards.

From the Front Page

Equity market: Negative returns from 1/3 of schemes in 2 yrs

MARKET PARTICIPANTS SAY that valuations of mid- and small-cap stocks had run up in 2017 and in the last two years there has been sharp correction, which has led to fall in the category. Kaustubh Belapurkar, director — manager research at Morningstar Investment Advisers India, says, “In 2017 the small- and mid-cap category had seen significant run up and valuations had run to exuberant levels. So investors who had entered in 2017 in mid- and small-cap schemes, most of rally was behind them and after that there has been correction.” He also added that mid- and small-caps are sometimes volatile in the short-run, but make money over longer time frame.

In the last two years, Nifty 50 TRI has given returns of 8.35%, but it was driven by handful of stocks. HDFC Bank, Reliance Industries, Kotak Mahindra Bank, ICICI Bank and HDFC have contributed most in the indices. Even the broader markets have been in a bearish mode for close to two years now; the number of companies with a market capitalisation of Rs 1,000 crore or more has fallen to 676 as on October 22, from the peak of 853 in Q3FY18 and 767 at the beginning of 2019.

Neelash Surana, CIO at at Mirae Asset Global Investments (India), says, “In the last 18-24 months there has been polarisation in the markets where top few names have continued to do well. But with slowing economy and lower transmission of interest rate, which has led to impact the mid- and small-cap stocks.” He also added that going forward rally should be more broad-based and we are of an opinion that the polarisation should reduce.

Market participants say that performance of large-cap schemes improved post

announcement of corporate tax cut on September 20. Since the announcement of cut in corporate tax, the Sensex has moved up by around 8%. In the last one year, all the large-cap funds have given positive returns, with around 72 equity schemes out of 88 schemes giving returns in excess of 10%. In the last one year, Nifty TRI have given returns of 13.13%. Axis Bluechip Fund and BNP Paribas Large Cap funds have given returns of 24.49% and 20.98%, respectively, in the last one year.

ULB bonds get traction, 29 cities to hit market in 2 yrs

THE SOURCES ADDED that the housing and urban affairs ministry wrote to ULBs last week, asking them to seize the opportunity to introduce the much-needed governance reforms in municipalities by tapping the market.

“Municipalities which have ‘A-’ or ‘A+’ ratings are improving their processes, accounting systems and undertaking other reforms to upgrade the ratings to ‘AA’ to attract investors as well as keep interest costs low,” a ministry official told FE. A rating of ‘A’ refers to ‘adequate safety’ while ‘AA’ denotes ‘high safety’ from the point of view of investors. Urban infrastructure services were estimated to need investments of mammoth Rs 40 lakh crore between FY16 and FY31. The NITI Aayog have long pitched for ULBs raising the taxes that have not been subsumed in the goods and services tax (GST) and the GST Council earmarking a certain part of the GST proceeds for these organisations, the third administrative layer, but the most proximate to the city dwellers.

These urban bodies are also being nudged to take steps to increase their own revenue by tapping other sources like trade licences, taxes on entertainment, mobile towers, solid waste user charges, water charges

and parking fees etc, without fail.

Efficient water-metering systems for residences (which will reduce pilferage that is above 50% in majority of Indian cities/towns) is seen to be a revenue stream that holds great potential.

Currently, roughly 60% of the revenue of municipal bodies in the country — about 8,000 in number — comes from devolution by the Centre and states.

In FY15, the latest year for which data is available, the combined annual ‘own revenue’ of urban bodies in the country was ₹1.2 lakh crore, or 1% of the country's gross domestic product.

The corresponding figures for comparable countries were much higher — 6% in both Brazil and South Africa.

The NITI Aayog as well as recent Finance Commissions have been of the view that the municipal bodies should tap debt market to finance projects and the user charges collected from the projects should be used to service the debt.

Rupee remains stable in 2019, down just 1.7%

AS MS GOPIKRISHNAN, independent market expert, pointed out, FPI outflows from equities post the Budget were compensated by jump in FDI flows. “Rupee tends to depreciate by an average of 3-3.5% per year over longer periods. I expect the currency to close between 72-72.50 level by December-end,” he said.

Oil prices were also a major cause of concern last year with Brent crude prices rising \$20 per barrel through the year to over \$86/bbl by October 2018. In 2019, Brent crude prices did not go above the \$76/bbl level.

Going further, experts believe that there could be some depreciation in the currency in the coming months.

Manish Wadhawan, independent fixed income and forex expert expects some

slowdown of FPI flows over the next two months.

“One can expect some normalisation on interest rates in the developed world in the coming months in the wake of the debate on the efficacy of the negative rates and the impact they can have on growth. If that happens, we can expect some amount of emerging market currencies to weaken eventually, leading to some sort of pressure on the rupee. We can expect the currency to depreciate by about 1% by the end of the year,” he said.

Domestic holiday season air ticket sales may see tepid growth

“TICKET SALES FOR the festive season are ongoing so it is still early to tell definitively, but one can safely predict that the sales this season will not be too good. Initial estimates point out that sales should be at least 6-7% down from last year,” said aviation consultant Mark Martin. Industry experts said domestic sectoral issues have contributed to the tepid volume growth.

“The aviation sector has seen a slowdown since earlier this year due to a combination of factors — the sector is very closely correlated with the economy, so I think, a slowdown in volume growth, could be because of the overall slowdown in the economy. There's also the fact that Jet Airways is out, from which the domestic sector is yet to recover fully,” said Dhiraj Mathur, aviation expert and former partner, PwC India. Jet Airways was grounded on April 17.

According to the latest data by the Directorate General of Civil Aviation (DGCA), domestic air traffic in September grew a meagre 1.18%.

Bookings for international travel have seen encouraging growth, with MakeMyTrip registering 40% growth in international bookings between October and December.

“As the festive season approaches, we are expecting an uptick in the number of out-

bound travellers — and this can also be attributed to airfares that are 5% lower this year — encouraging many to travel to destinations including Dubai, Bangkok, Phuket, Istanbul, Toronto, Athens, Hanoi and Ho Chi Minh city,” the spokesperson said.

Auto MSMEs show early signs of delinquency

SOME CLUSTERS SHOW higher deterioration than others. Auto MSMEs in Ludhiana, Rajkot, Kolkata, Tiruvallur, Kanchipuram, Vadodara and Surat are in the least deteriorated Group A, while those in Pune, Mumbai, Ahmedabad, Indore, Chennai, Nashik and Hyderabad shall be classified in the next group and the MSMEs in Faridabad, Delhi, Bangalore, Jaipur, Gurgaon, Raipur, Nagpur, Jalandhar and Aurangabad in the most deteriorated Group C. MSMEs in Group A have negligible increase in CMR downgrades. From early signs it is evident that the asset quality is deteriorating among auto ancillaries.

Auto ancillaries have been facing the heat from a historic slowdown in the auto industry, with vehicle sales having plummeted to multi-decade lows. Several auto dealerships, too, have failed to get fresh credit from banks. Those that managed to raise money did so at the cost of high collateral. Analysts expect the situation to worsen for the auto industry. In a recent note, analysts at Nomura wrote that prevailing risks to gross domestic product (GDP) growth mean that recovery in autos will take longer. “The Indian auto sector's growth is highly correlated with the GDP growth. A sharp economic slowdown and rising cost of vehicles have affected vehicle affordability,” the note said, adding, “The cost of vehicles should rise further due to upcoming BS-VI norms.”

The MSME segment as a whole may have a fair amount of hidden stress.

A big chunk of loans to MSMEs — worth some ₹15,000 crore — could slip

over the next eight months. These loans would have turned NPAs a long time ago had the Reserve Bank of India (RBI) not given banks a breather. A June 6, 2018 notification had allowed banks and NBFCs to temporarily classify their exposure to all MSMEs, including those not registered under the goods and services tax (GST), as a standard asset as long as it was smaller than ₹25 crore and standard as on August 31, 2017. MSME loans worth Rs 7,995 crore had been retained by banks as standard under this central bank notification.

Again, a January 1 circular of the RBI had permitted banks to do a one-time restructuring of existing loans to MSMEs and classify them as ‘standard’ without a downgrade in the asset classification. Consequently, PSBs had restructured 1.53 lakh accounts with an outstanding of Rs 5,194 crore.

Let CIT (appeals) orders be final: Official

THE AMENDMENT TO law would free up as much as 90% of this manpower, he added.

“If the provision authorizing the CIT to file appeal against the order of CIT (Appeals) is omitted from the Income Tax Act, the pendency of cases could come down to less than 20% of the cases, in which the taxpayers file appeals, as approximately in 80% or more cases, it is the department which files appeal against the order of CIT (Appeals),” Prasad wrote.

He further said that the success rate of the departmental appeals at ITAT, high court and Supreme Court was as low as 10%, even though data on the same wasn't readily available. “Once the case has been decided by the CIT (appeals), who is a senior officer of the department, there is no valid reason for filing further appeal by the revenue,” Prasad said.

Explaining why the department filed against CIT (appeals decision), Prasad wrote that most officers feel safe in filing appeals due to complex legal positions on various issues and to avoid the perception about

the officer's decision in not filing appeals “favours” the taxpayers even though the tribunal has traditionally upheld 90% of CIT (appeals) rulings.

Prasad also termed the process of departmental appeals as ‘paradoxical’ to not only the department but also to the taxpayers. He wrote that CIT (appeals) decisions are scrutinised by junior officials and eventually appeals are filed against it, even though other decisions of senior officials are generally accepted by the department readily.

On the other hand, a taxpayer may see a matter decided in different ways by the same department. For instance, an assessee can receive an adversarial assessment from the department by an assessing officer, which can then be overturned in his favour by the department (CIT appeals) and can further appeal against by the same department (CIT). Prasad termed this as ‘paradoxical’ as well.

In his article, which appeared in the first volume and first issue of Taxalogue, Prasad said that over 86,500 cases are pending at different levels, involving a disputed revenue amount of Rs 5.68 lakh crore. He also presented success rate of indirect tax cases in tribunal to compare it with direct tax in absence of readily available data. This varied between 10% in FY09 to about 20% in FY12.

He also quoted findings of the Comptroller and Auditor General (CAG) on litigation management of the department during 2006-09 which said: “Records to monitor filing of appeals and implementation of appellate orders were not maintained properly in the assessment units. Inadequate controls led to time barring of appeals and delays in implementation of appellate orders. AO's work on appeals is not subjected to internal audit, denying the process of independent appraisal.”

Land acquisition issues delay highway projects

A PROVISIONAL COD is given by the NHAI when a project is

substantially complete and commercially operable. In case of road projects, companies have to begin servicing of debt within a specified duration of receiving provisional COD.

The NHAI had earlier recommended that PCOD be given to the Bhavnagar project on completion of 33.98 km of the project. The Bhavnagar project stretches across 48 km. Ability of the company “to apply for PCOD by October 30, 2019, remains a key monitorable,” Crisil said.

Following land acquisition delays, Sadbhav had also applied for the de-linking of a 14.1 km stretch of the Bhavnagar project. This approval has also been given by the NHAI, the official quoted above said. Nitin Patel, executive director and CFO, Sadbhav Engineering, said the downgrades were “of no concern at all.”

Crisil downgraded the Rudrapur project, which stretches 44 km, due to the company's inability to achieve PCOD by September.

The debt disbursement to the project had slowed down and did not normalise till September, the ratings agency said. Construction has resumed, 30 km of the project has now been completed.

“PCOD is now expected by October 2019. As per the current debt schedule, repayment is expected to start from October 2019, while the first annuity is expected only six months from PCOD, thereby project would have face a shortfall in meeting debt service obligations in the near term. Sadbhav Infrastructure Project is expected to support the project for its debt servicing,” Crisil said.

On Friday, Sadbhav Infrastructure Project also stated that toll revenues received from 10 operational road special purpose vehicles remained flat at ₹267.88 crore in the second quarter of FY20, compared with ₹268.55 crore in the corresponding period last year.

The group, which is focused on infrastructure projects, had on October 19 announced the merger of Sadbhav Engineering with its subsidiary Sadbhav Infrastructure Project, subject to requisite approvals.