QUICKLY

Rupee skids 19 paise versus dollar

Mumbai, November 11

The rupee, on Monday, tumbled by 19 paise to a near one-month low of 71.47 against the US dollar as fresh concerns over US-China trade deal and Hong Kong unrest kept forex market participants edgy. Investors also played their bets cautiously in view of India's rating outlook cut by Moody's Investors Services last week. Opening marginally lower, the Indian currency dropped to a low of 71.54 to the US dollar before settling at 71.47, showing a fall of 19 paise. This is the lowest closing level for the domestic unit since October 15. Forex traders said that rupee loss was somewhat checked by lower crude prices and a weaker dollar against major currencies overseas. The dollar index, which gauges the greenback's strength against a basket of six currencies, fell by 0.14 per cent to 98.21. PTI

Goldman co-head to retire after 21 years

November 11

Goldman Sachs Group Inc's co-head for India business, Vijay Karnani, is retiring from the bank after 21 years with the company. Karnani joined Goldman Sachs in 1998 as an associate in equity capital markets and moved to the equity derivatives team in Hong Kong in 2000. He became head of the bank's securities business in India in 2009 and co-chief executive officer two years later. A spokesman for the bank confirmed the content of the memo. Sonjoy Chatterjee, chairman and co-chief executive of Goldman Sachs in India, will become the sole head of the business in the country. BLOOMBERG

Warburg Pincus-led Avanse Financial eyes ₹10,000-crore AUM by FY23-24

We want to emerge as domain specialist in the education finance space, says CEO

KR SRIVATS

New Delhi, November 11

Avanse Financial Services, an education finance-focussed NBFC, is eyeing ₹10,000 crore in assets under management (AUM) by financial year 2023-24, said its Chief Executive Officer Amit Gainda.

The Warburg Pincus-controlled entity wants to be the "domain specialist" (in education finance), Gainda told *BusinessLine*.

"We are looking at sustainable growth of 15-20 per cent every year for the next three-to-four years and build a balance sheet of ₹9,000 crore to ₹10,000 crore by the end March 2024," he said.

He expects all his three main lines of business — the education student lending business (55 per cent), education digital lending (10 per cent), and education institution lending business (about 30 per cent) — to drive growth in the coming years in the same proportion as now.

"In India and abroad, well run specialised models are far better poised in terms of profit maximisation. Those who have specialised in the sector and domain have done far better. So, we have also chosen to become a domain specialist," he said.

It may be recalled that Warburg Pincus had, in March this year, entered into a share purchase agreement to acquire 80 per cent stake in Avanse.

Amit Gainda, Chief Executive Officer, Avanse Financial Services

Balance sheet size

As on date, Avanse has a balance sheet size of about ₹2,850 crore and expects to close this fiscal with a size of ₹3,100 crore. Nearly 55 per cent (₹1,700 crore) of its overall balance sheet is focussed on student loans.

As much as 80 per cent of Avanse's student loans are for overseas studies.

"Nearly 95 per cent of my student loans are greater than ₹10 lakh. The myth that education loans have not done well is only for sub ₹4 lakh unsecured loans, where we don't do anything at all," he said.

At the industry level, education is a ₹91,000-crore market. The greater than ₹10 lakh loan market is ₹31,000 crore. Loans above ₹10 lakh are sub 1 per cent GNPA for the market. "The industry GNPA with 36 months seasoning is only 1 per cent. My asset quality is superior with sub 20 bps GNPA on a seven year balance sheet," he said.

Avanse Financial Services is now second in the market in terms of assets. " Our entire focus is on sourcing right, servicing right and asset quality," he said.

After Warburg Pincus — the largest private equity player in India in terms of assets and profits took control — both shareholders (Warburg Pincus and IFC (20 per cent stake) together brought in ₹300 crore capital into Avanse.

"Going forward, strategically I want to build this business with a low leverage. My debt-to-equity ratio is sub 2.5," he said, adding that the company has also now got fresh lines of bank credit after the parentage change this year.

Sundaram Fin posts profit of ₹269 cr in Q2

OUR BUREAU

Chennai, November 11

Leading private sector lender Sundaram Finance reported a profit after tax of ₹269 crore for the quarter ended September 30, 2019. The September quarter net profit includes a one-time income of ₹53 crore and the benefit of lower corporate tax.

Hence, on a like-for-like comparison, the net profit for the quarter ended September 30, 2019, stood at ₹192 crore, against ₹154 crore in the same period last year, registering a growth of 25 per cent, according to a statement.

Income from operations for the September 2019 quarter grew 22 per cent to ₹994 crore, when compared with ₹817 crore in the corresponding quarter of the previous year.

For the half-year ended September 30, 2019, the company's profit after tax stood at ₹374 crore (excluding one-time gain of ₹53 crore), when compared with ₹295 crore in the same period last year, posting an increase of 27 per cent. Total revenue from operations was ₹1924 crore, against ₹1580 crore.

Its assets under management stood at ₹30,256 crore as on September 30, 2019, against ₹27,228 crore a year ago, registering a growth of 11 per cent.

Deposits

The company's deposits have seen a 15 per cent growth in the first half of this fiscal.

Deposits stood at ₹3,424 crore as on September 30, 2019, a net accretion of ₹449 crore in the first half of the year.

Sundaram Finance's net-worth stood at ₹5313 crore as on September 30, 2019.

Small banks must raise up to ₹3,900 cr till FY22 to expand: ICRA

OUR BUREAU

Mumbai, November 11

Small Finance Banks (SFBs) will need external capital of ₹2,600 crore to ₹3,900 crore till FY22 to meet growth aspirations, as well as comply with regulatory regulations of mandatory listing after a net worth of ₹500 crore and reduce promoter shareholding, according to credit rating agency ICRA.

The agency assessed that the overall capitalisation levels of SFBs remained comfortable, supported by capital infusion of approximately ₹2,700 crore in FY19 (₹890 crore in FY18).

As on March 2019, eight of the 10 SFBs had crossed net worth of ₹500 crore and only one SFB is listed at present.

Part of the external capital requirement could be met through Initial Public Offerings in line with regulatory requirements, said Supreeta Nijjar, Vice-President and Sector Head, Financial Sector Ratings.

The agency, in a report, said SFBs reported robust annualised growth of 41 per cent in the assets under management (AUM) in FY19 at ₹67,000 crore (against 5 per cent growth in FY18).

Their asset quality indicators also improved, with gross non-performing assets (NPA) at 2.5 per cent as on March 31, 2019 (9.5 per cent as on March 31, 2018), supported by lower slippages on the new book and write-offs related to the legacy demonetisation related slippages.

Good times to continue

Nijjar expects the good times for SFBs to continue and grow by 25-30 per cent over the medium term.

The fact that they have been able to diversify into retail asset classes such as vehicle loans, business loans, loan against property (LAP), and housing finance augurs well from a growth perspective as well as mitigating risks, she added.

Diversification has enabled SFBs to reduce their microfinance portfolio from over 60 per cent as on March 31, 2017, to 41 per cent as on March 31, 2019.

SFBs have also made good progress on deposit mobilisation, with deposits accounting for 63 per cent of the borrowings (including off-balance sheet borrowings) as on March 31, 2019, the agency said.

While the focus continues to be on bulk deposits, the gradual improvement in the retail deposit franchise has helped in the reduction in the share of top 20 depositors in overall deposits to 28 per cent as on March 31, 2019, from 52 per cent as on March 31, 2018. On the liquidity front, ICRA assessed that SFBs have been able to maintain a favourable asset liability maturity profile, supported by shorter-tenor assets, high share of non-callable deposits raised by them, and rise in long-term funding from refinance institutions.

Further, like other scheduled commercial banks, SFBs are eligible for additional liquidity support, including inter-bank limits, and have access to the call money market as well.

While these factors support the near-term liquidity position, ability to develop a strong franchise and, hence, a retail deposit base, is critical from a long-term perspective.

Portfolio yields

Owing to the focus of SFBs on higher-yielding asset classes, portfolio yields and net interest margins continue to be higher than that of SCBs.

Net interest margins (NIMs) have improved, owing to high lending yields and reduction in cost of funds, as the share of deposits in overall borrowings has increased, according to the agency's report.

The setting up and upgradation of existing branches, systems upgradation, and the hiring of manpower have kept the operating expense ratios high. "If we were to exclude one player where impact of demonetisation on credit costs was higher, profitability indicators improved with RoEs (return on equity) improving from 3.9 per cent in FY18 to 12.4 per cent in FY19," the report said.

ICRA expects SFBs (excluding one player) to report RoE of 12-14 per cent in FY20, supported by the reduction in the cost of funds as well as operating expense ratios. It observed that focus on product diversification would further enable the SFBs to deepen their relationship with existing customers and manage concentration risk better.

As NBFC crisis persists, some lenders 'strike' gold

BLOOMBERG

November 11

With the shakeout in India's credit market showing few signs of abating, one group of financiers is benefiting from the turmoil: non-banking financial companies that provide loans in exchange for gold.

In a country deeply attached to the precious metal, whose people stockpile more gold than citizens of any other country, borrowers are increasingly pawning their family jewellery to get cash amid a fund-raising crunch.

Share price doubles

That has helped double the share price in the past year of Manappuram Finance, one such firm, while the stock of Muthoot Finance, the country's largest cash-for-gold lender, has jumped 47 per cent. Those financiers' bonds are also in demand at a time when investors are shunning debt from other shadow banks, which are struggling from lack of funds and credit downgrades.

More than half of the loans from these lenders get repaid in less than six months, providing firms with a steady stream of cash to pay off their own debt and, thus, avoiding a so-called asset-liability mismatch.

The recent rise in gold prices is also a boon. Indian households have almost $1 trillion worth of gold, and the nation is the biggest buyer of the metal after China.

"Shorter tenure of our loans helps to keep a check on asset-liability mismatches while a rise in the gold prices will help in keeping a check on asset quality, too," said VP Nandakumar, the CEO of Manappuram Finance.

Golden opportunity Borrowers are increasingly pawning their family jewellery to get cash amid a fund-raising crunch

"Both equity and credit markets are looking favourably at non-bank lenders with robust business models who have got both these pieces right."

Many NBFCs have been effectively shut out of the nation's credit market as the banking crisis raises investor wariness about the financiers' ability to refinance debt. Lenders, including Dewan Housing Finance Corp and Altico Capital India, which have been using short-term debt to fund long-term loans they extended, have defaulted in 2019, adding to the risk-off sentiment in local markets.

Cash-for-gold lenders face risks of their own. A major one is the price of the metal. While gold has gained this year, if it reverses course and falls steeply that could hurt the companies asset quality and business, according to rating firm ICRA. Bond boom

For now, though, debt investors appear enthusiastic about the sector.

Manappuram raised $194 million via local currency bonds in the 12 months to the end of October, five times higher than issuance a year earlier. Muthoot Finance's $450-million debut dollar bond in October met with strong investor demand, allowing the company to lower its coupon by 25 basis points, compared with the initial guidance.

YES Bank: Worst performing stock is now seeing the world's biggest surge

BLOOMBERG

November 11

YES Bank, the world's worst-performing lender in 2019, has posted the globe's biggest gain over the past month. Its shares have rallied about 50 per cent — the biggest gain among global peers valued at more than $1 billion — after embattled founder Rana Kapoor was forced to sell his holdings in October and a new management team promised fresh capital and lower bad loans. The surge helped pare the annual loss in the Mumbai-based lender's shares to 63 per cent.

The recovery will be a relief for new Chief Executive Officer Ravneet Gill, who has been banking on investors to revive the lender. Indian billionaire investor Rakesh Jhunjhunwala this month bought shares of YES Bank, after the lender announced a binding offer from an unidentified global investor to inject $1.2 billion.

A ray of hope YES Bank's recovery comes as a relief to the new CEO, who has been counting on investors to revive the lender

Gill is rushing to raise funds. Latest results released this month show YES Bank swung to a loss in the September quarter and its bad-loan ratio rose.

"Capital is of utmost importance to the bank and we want the money to be in the bank by December," Gill told reporters after the results. "Once we get the capital, it will run us for 24 months."

At height of $220-b scandal, Danske Bank offered gold to 'hide' clients' cash

BLOOMBERG

November 11

At the height of the Danske Bank's dirty-money scandal, the lender started offering gold bars to wealthy clients to help them keep their fortunes hidden. The bank's Estonian branch, which was already wiring billions of client dollars to offshore accounts, told a select group of customers, mostly from Russia, that they could now also convert their money into gold bars and coins, according to the documents, which date back to the middle of 2012.

Aside from offering a hedge against risk, Danske pitched gold as a way for clients to achieve anonymity, according to the documents. It also said that using gold ensured portability of assets, according to an internal presentation dated June 2012.

In Danske's September 2018 tell-all report on its non-resident unit, the bank listed the services it provided to clients. Aside from payments, these included setting up foreign-exchange lines, as well as bond and securities trading. The bank did not list the sale of gold bars.

Danske Bank, which is being investigated across Europe and in the US after failing to screen about $220 billion that gushed through its non-resident unit in Estonia from 2007 to 2015, has now shuttered the operations at the heart of the scandal. That is after local authorities kicked Danske out, as the scope of the affair became clear.

Jakob Dedenroth Bernhoft, a Copenhagen-based lawyer who specialises in compliance and money laundering issues, said: "It puzzles me that the banks own report on the case did not discover this. This is a service that is completely against all anti money-laundering laws. It is definitely suspicious."

"Gold is a great asset for money laundering as it has a steady value," he said. "You can sell it without losing much value and you get cash and a receipt in hand. If you buy a car or something like that, the value drops immediately."

CH-X