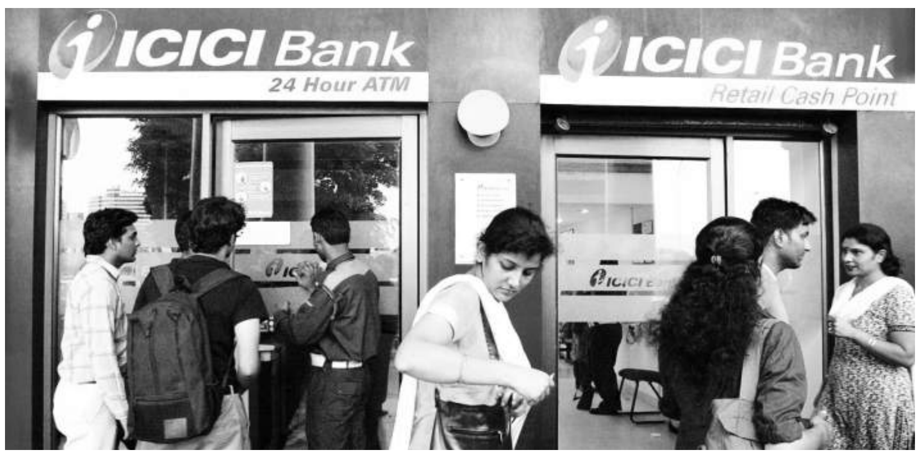
Investors bet big on ICICI Bank

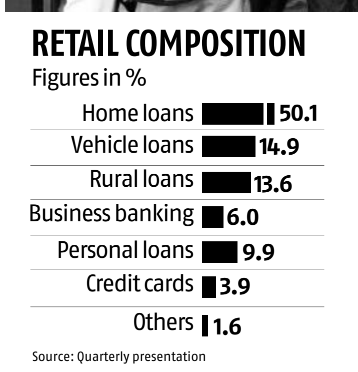
NPA ratio at 1.7% in Q2 was close to the level seen in its pre-asset quality review days

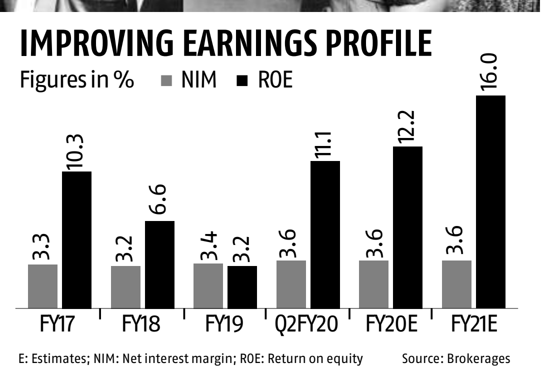
HAMSINI KARTHIK
Mumbai, 26 November

After its September-quarter (Q2) results, ICICI Bank had indicated that normalcy was certainly on course for its stock after four painstaking years. The Street may have picked that earlier, if the stock's sharp outperformance in the past three months is anything to go by.

Among the key takeaways was the bank's net non-performing asset (NPA) ratio. At 1.7 per cent in Q2, it was close to the level seen in its pre-asset quality review (AQR) days. Also, its annualised credit cost or losses because of credit risk fell to 170 basis points (bps) from 300 bps last year. At the peak of the AQR clean-up, the bank's credit cost had touched 627 bps. With monies estimated to flow in from the three big cases lined up for resolution — of those, Essar Steel has already turned in bankers' favour — credit cost is estimated to decline further to 120-130 bps in 2019-20.







Besides, slippages or loans turning bad were restricted to 2.6 per cent of the loan book — about a fifth of the 11.4 per cent seen at the peak of the AQR clean-up phase. The watch list, or the pool of stressed assets, however, remained sticky at ₹16,074 crore, because of an addition of ₹2,072 crore during the September quarter. Much of the increase came from loans with a low rating quality, indicating these loans might remain a trouble spot for the bank in the near term. "We will be actively monitoring the watch list," says Suresh Ganapathy of Macquarie Capital.

The breather though comes in the form of an improving corporate loan quality. Nearly 66 per cent of the book belongs to borrowers with healthy credit ratings (A- and above); this has increased from 56 per cent two years ago. As a result, the share of loans with low credit profile (BBB+ and below) reduced from 37.9 per cent in 2016-17 to 31.8 per cent in Q2 of this financial year. That said, Q2 did witness a jump in loan additions to the 'BB and below' loan book, prompting Elara Capital to say this was indeed a cause for concern.

On the whole, though, the overall picture gives evidence that the bank's asset quality has improved many notches.

Another promising aspect is the changing asset landscape. From a 56 per cent share of retail assets in 2017-18, the bank has used the corporate lending crisis to boost its retail presence — the 62 per cent retail share for the bank in Q2 was the highest among private banks. A reassuring factor for ICICI Bank is that it has a relatively diversified retail book and more of it is an organically cultivated book.

Home, rural and vehicle loans make for the bulk of its retail portfolio. The gross NPA for retail loans, however, increased from 1.73 per cent a year ago to 1.96 per cent in Q2, indicating even as ICICI Bank's portfolio was lighter on unsecured loans, the risk in retail assets was catching up, as was the case with the system.

An improvement in the loan mix and easing of the bad-loan issue helped profitability and return ratios swing positively. This also explains why analysts have now become more positive on the stock than earlier. With 56 'buy' recommendations and literally no sell ratings, bets on ICICI Bank are at a lifetime high.

Another factor which could provide some technical support is that the proportion of foreign holding in ICICI Bank has declined from 65 per cent in September 2016 to 54.6 per cent in September 2019. Lately, ICICI Bank's weight on the MSCI India has increased to 5.42 per cent from 3.12 per cent, highlighting a growing interest among foreign investors. "In the next two-three quarters, we expect ICICI Bank to stop taking NPA coverage and its return on equity to snap up. That's what makes ICICI Bank an attractive stock to own, against a weak macro backdrop," say analysts at Morgan Stanley.

With such high bets, it is critical that the bank continues to deliver on its promise to sustain the momentum.

Mid-cap shares may be in line for a comeback

BLOOMBERG
26 November

Smaller companies have earned another look after suffering through some two years of underperformance relative to their larger peers.

The divergence between the two groups is "significant" compared with longer-term historical correlations, according to Citigroup. The MSCI India Mid-Cap Index has lost 17 per cent in the past two years, while the benchmark S&P BSE Sensex has gained more than 20 per cent.

"With better risk-reward post underperformance, we would selectively look to add mid-caps," Citi analyst Surendra Goyal wrote in a note this week.

"Valuation discount of mid caps versus large caps is close to 10-year highs, highlighting the improved risk-reward and low expectations. In two years, mid-cap sentiment seems to have gone from extreme optimism to huge pessimism."

Companies across India — big and small — are grappling with a slowing economy amid waning consumption. Prime Minister Narendra Modi has announced a series of reforms to arrest the slide and attract investment, including an overhaul of controversial labour laws, aggressive cuts to corporate taxes, relaxation of foreign investor rules and the biggest privatisation drive in more than a decade.

The MSCI India Mid-Cap Index has lost 17% in the past two years, while the benchmark S&P BSE Sensex has gained more than 20%

India's economy is forecast to slow further to 6 per cent growth this year, following a deceleration in 2018, according to economists surveyed by *Bloomberg*.

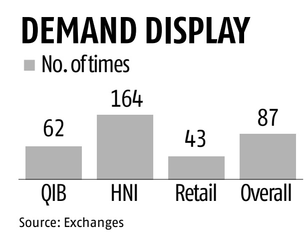
"One of the reasons to buy mid and small caps is the high return potential" if investors can pick a winner, Goyal said. Of course, this is easier said than done. The analyst notes that only 2 per cent of small caps have become large caps over the past 10 years, while 20 per cent either have ceased to exist or are no longer listed.

The odds are a bit better for mid caps, with 15 per cent able to elevate to large-cap territory, but on the other hand almost two-thirds were downgraded to small caps. Top mid-cap picks from Citi include cement maker ACC, biotech Biocon and L&T Finance Holdings.

CSB Bank IPO subscribed 87 times

SUNDAR SETHURAMAN
Mumbai, 26 November

Fairfax-backed CSB Bank's ₹410-crore initial public offering (IPO) was subscribed 87 times on Tuesday, underpinned by a rally in the secondary market and encouraging performance of new listings.



The share sale saw good demand from all categories of investors. The institutional investor portion was subscribed 62 times; high net worth individuals (HNIs) category saw 164 times demand and the retail segment saw 43 times demand the shares on offer. Analysts said investors were attracted to CSB Bank's strong network and brand presence in South India. "Significant capital base, established SME business model, gold loan portfolio and prudent risk management controls," were some of the strengths of CSB Bank highlighted in a report by Reliance Securities.

Given the huge oversubscription, the IPO is likely to be priced at the upper end of its price band of ₹193-195 per share. At ₹195 per share, CSB Bank will have post-IPO market cap of ₹3,382 crore.

Link FASTag to a prepaid card

Avoid linking it to your savings or current account as a precautionary measure

BINDISHA SARANG

America has it, China has it, Australia has it, and even Thailand has it. And, from December 1, India, too, will join the list of 40-plus countries that have an electronic toll-collection system.

The toll-collection system based on Radio Frequency Identification (RFID) card technology is named FASTag.

Shailendra Singh, head, digital banking, Axis Bank, said, "It is a reloadable electronic toll-collection card that you have to paste on your car's windscreen. You then don't need to stop for toll payment, so it eases movement of vehicles."

The government is so serious about FASTag that individuals not using it will be charged double the toll. Here are a few essential things you need to know about it.

YOUR MONEY

Buying a FASTag is akin to buying a prepaid SIM. Go to the point of sale, submit Know Your Customer (KYC) documents and your vehicle's registration certificate (RC), fill the registration form, and then activate the tag. Unlike a SIM that you place in your mobile, paste the FASTag on your car. Every time you pass a toll plaza, the toll charge will be deducted from the balance automatically.

As in a SIM, you will have to recharge it if it's linked to a prepaid account. If it is linked to your savings or current account, the charge will get deducted from the balance in your account.

Sudipta Roy, head, unsecured assets, ICICI Bank, said: "The customer will receive text alerts on their registered mobile numbers for all the transactions done in their tag account. Money can be reloaded on FASTag instantly using a bank's digital channels such as UPI, credit and debit cards, internet, and mobile banking."

Several banks are currently linked with FASTag — State Bank of India, ICICI Bank, Bank of Baroda, Axis Bank, HDFC Bank, IndusInd Bank, Paytm Payments Bank, and Equitas Small Finance Bank. They are also available at over 28,500 point-of-sale locations set up by various banks, and by the Indian Highways Management Company (IHMCL) or the National Highways Authority of India (NHAI), like RTOs and petrol pumps.

Singh said, "FASTag is account and bank agnostic."

This means you don't need to go to a bank with which you have a pre-existing relationship to get the tag. A one-time tag deposit amount is charged, which starts at ₹200 (for cars, jeeps, and vans), and the minimum recharge is for ₹100. The tag has a validity of five years. Car, jeep, and van owners will have to maintain a minimum balance of ₹160.

WHAT IF...

I want FASTag for two-wheelers?	No, you can't get one
I want to sell my car?	Remove tag and delink account
I have two cars?	Get separate FASTag for each one
I have a dispute/incorrect amount deduction?	Contact bank's call centre
I live within 10 kms of the toll plaza?	Buy FASTag, submit address documents at that particular toll plaza, and get concession there
My FASTag has balance but does not work at a toll plaza?	Pay cash and inform the bank

Since FASTag is mandatory, it's better to understand its risks.

Ritesh Bhatia, a Mumbai based cybersecurity expert, said, "To obtain a FASTag, one has to provide or upload personal information such as KYC documents, photograph, and mobile number. Such information needs to be protected strongly by all the stakeholders in the ecosystem. A data breach could result in identity thefts. Moreover, it seems that the toll booths will take photographs of the cars and drivers passing by. This information, too, needs to be strongly protected. The entire technology is like an Aadhaar for vehicles. Hence, data privacy should be the top concern for all involved."

The above point, of course, needs to be kept in mind by the institutions that are part of the ecosystem. What can you do? Remember, you can link your FASTag to your existing savings or current account, or to a prepaid account. No technology is 100 per cent secure, hence it is better to be safe than sorry. A prepaid card will be a better choice than linking your FASTag to a bank savings or current account to the. You can load up to ₹1 lakh in a prepaid card with full KYC.

COMMODITIES

PRICE CARD

AS ON NOV 26	INTERNATIONAL		DOMESTIC	
	Price	%Chg#	Price	%Chg#
METALS ($/tonne)				
Aluminium	1,753.0	0.4	1,860.1	-5.0
Copper	5,872.5	3.5	6,153.8	0.0
Nickel	14,570.0	-7.5	15,174.8	-4.6
Zinc	2,335.0	3.3	2,643.4	4.0
Gold ($/ounce)	1,456.9*	-4.6	1,644.4	-1.3
Silver ($/ounce)	16.9*	-4.2	19.2	-1.4
ENERGY				
Crude Oil ($/bbl)	63.4*	8.7	64.2	7.9
Natural Gas ($/mmBtu)	2.5*	10.8	2.5	14.7
AGRI COMMODITIES ($/tonne)				
Wheat	184.1	12.9	299.3	3.5
Palm oil	652.5	18.1	1,030.1	17.8
Rubber	1,551.8*	6.4	1,832.2	-5.4
Coffee Robusta	1,407.0*	10.0	1,881.1	-13.4
Cotton	1,426.6	12.2	1,568.9	-8.3

* As on Nov 26, 19 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.5 & 1 Ounce = 31.1032316 grams.

Notes
1) International metals, Indian basket crude, Malaysia Palm oil, Wheat LIFFE and Coffee Karnataka robusta pertains to previous days price.
2) International metal are LME Spot prices and domestic metal are Mumbai local spot prices except for Steel.
3) International Crude oil is Brent crude and Domestic Crude oil is Indian basket.
4) International Natural gas is Nymex near month future & domestic natural gas is MCX near month futures.
5) International Wheat, White sugar & Coffee Robusta are LIFF E future prices of near month contract.
6) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
7) Domestic Wheat & Maize are NCDEX future prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
8) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
9) International cotton is Cotton no. 2-NYBOT near month future & domestic cotton is MCX Future prices near month futures.

Source: Bloomberg — Compiled by BS Research Bureau

Nepal bullion tariff rise to curb smuggling into India

RAJESH BHAYANI
Mumbai, 26 November

Last week's decision by the Government of Nepal to increase the import duties on gold and silver is expected to help both countries.

10.5-11.5% import duty in Nepal after the increase

12.5% import duty in India

100 tonnes gold smuggled into India last year; a sizable part from Nepal and Sri Lanka

120 tonnes of gold import from Nepal since July because of a sharp jump in prices

The Customs duty there, in Nepalese rupees (NPR), is 7,500/10g from the earlier NPR 6,200/10g, on import of gold bars up to 50g. On bars above 50g and up to 100g, it is now NPR 8,500/10g, up from NPR 7,200/10g. Above 100 g, it is NPR 10,000/10g.

Kathmandu also raised the tariff on silver, from NPR 56 per 10g to NPR 75 per 10g.

Nepal imports gold through an apex association of jewellers. The permissible quota is up to 20 kg a day, which may be raised on permission during periods of increased demand by a further 5 kg a day. However, jewellers there require a daily 40-50 kg to meet local demand. And, of the official import, some part was finding ways to India through the unofficial route, further squeezing Nepalese jewellers.

Chirag Sheth, senior consultant at consultancy Metal Focus, says the primary motive of the Nepal government seems to be to curb the increase in unofficial flows to India since the duty differential widened after July, when the Indian government raised the tariff on import of precious metals to 12.5 per cent. Nepal's currency is pegged to the Indian rupee, he explains, and their authorities were concerned about the negative impact on the country's current account, as gold imports had risen, partly to meet Indian demand.

A huge amount of gold is imported into Nepal unofficially from China and part of that was also finding way to India. Officially, Nepal jewellers are getting only half of the gold they require.

India has also seen a sharp jump in smuggling of gold, especially after the import duty was raised to 12.5 per cent in July. Last year, gold smuggling into India was estimated at over 100 tonnes.

From July onward, due to a sharp jump in prices, gold import into Nepal has been around 120 tonnes, of which 30-35 per cent is estimated to be for domestic consumption.

Southern tea output down 10%

T E NARASIMHAN
Chennai, 26 November

South Indian tea production this year is estimated to drop around 10 per cent from the normal amount to 225 million kg.

The United Planters' Association of Southern India (Upasi), an apex body of tea, coffee, rubber, cardamom and pepper growers attributes this to climate issues, rather than the area sown. For example, the Nilgiris, one of the largest producing tea hubs, received rain for 20 days last month but sunshine was less than four hours a day on average.

The Upasi data shows South India contributes 17 per cent in total Indian tea production. In export, however, their share is 40 per cent.

Upasi also complains of higher cost, with wages (more than half the cost in plantation commodities) being higher than in other growing regions.

R M Nagappan, president, says the majority of estates are making losses and struggling to make timely wage payments. With an improvement in prices not likely in the near future, they'd like government help. Allocations to the commodity boards are curtailed regularly, is one complaint, one result being stuck payments to planters — UPASI claims ₹55 crore is stuck in tea. It has requested the Government of India to sanction additional money for this purpose, without delay.

"We are not having the conducive climatic conditions which augur for crop production. April and May being peak production season and now lost, recouping the crop is difficult," he said.

Sales revenue drops for non-ferrous metal firms

JAYAJIT DASH
Bhubaneswar, 25 November

Non-ferrous metal companies in the country saw sales revenue fall by 4.7 per cent in the September quarter.

Among these, aluminium firms had a 21 per cent fall. A study by CARE Ratings says average prices of aluminium in the quarter declined by 14 per cent from the year-ago period. Those of zinc and copper fell 7.5 per cent and five per cent, respectively.

HOW THEY PERFORMED

18 Number of non-ferrous metal companies surveyed

₹27,726 cr Net sales in Q2 FY19

₹27,099 cr Net sales in Q2 FY20

(-) 4.7% Net sales in Q2 FY20

Source: CARE Ratings estimation

For the metals sector, the contraction was broad-based, with overall sales revenue down 13 per cent. In the same period a year before, sales revenue had grown by 18.8 per cent.

Besides price contraction, aluminium producers had to grapple with slowing demand. On a year-to-date basis, domestic demand grew by only 0.1 per cent.

On the London Metal Exchange, the price of aluminium at $1.762 a tonne was down 14 per cent from a year before. Of late, Indian aluminium demand is aligning with the global one, the growth is expected to be a negative 0.4 per cent in calendar 2019, lowest since the global financial crisis of 2008.

For the metals sector, the contraction was broad-based, with overall sales revenue down 13%

International aluminium markets are projected to witness a demand deficit of 1.2 million tonnes in 2019, from the previous year.

"The waning demand is vexing for domestic aluminium makers. Degrowth has also been noticed in the case of flat-rolled products because of subdued demand in the transportation and construction sectors. Slowdown in manufacturing, fragile consumer demand and subdued investment activities has dragged down consumption," said an industry source.

Likewise, the moderation in zinc prices impacted key producers. The Vedanta group's Hindustan Zinc operating earnings in the quarter were down eight per cent to ₹2,120 crore, on weak demand and muted zinc prices.

Revenue from operations was down six per cent year-on-year at ₹4,511 crore, with an average six per cent decline in price on the benchmark LME, and lower lead and silver volumes.