Investor

MONDAY, DECEMBER 16, 2019

EXPERT VIEW

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—Nomura

● YES BANK RATING: **NEUTRAL**

Risk to status as a going concern has gone up

Given that fund raise plans have got fuzzier, there is a danger of the company breaching regulatory limits; 'Neutral' retained

YES BANK INFORMED the exchanges of the following: the board is favourably considering the $500-mn bid from Citax Group (private). The $1.2-bn bid by Erwin Braich/SGPG group is still under evaluation by the bank's board. There is no further update on the $120-mn bidder's details (a US fund) or finalisation of bids by the other $180-mn investors.

We view this as a negative development, as the $1.2-bn bid is unlikely to go through given the legal cases (including alleged bankruptcy against Erwin Singh Braich), which would put into question the availability of the $500-mn bid as well as the rest of $300-mn bids, as these could have been conditional on raising a large part of the required capital.

The watchlist and the gross NPAs of Yes Bank combined is +₹500 bn. Yes Bank has an existing NPA provision of ₹74 bn, implying a significant amount of capital needed for provisioning which we believe could get front-ended as there has been very little resolution in large stressed exposures of Yes Bank. With a CET-1 ratio of 8.7% in Sep-19, large provisioning without capital infusion could imply Yes Bank breaching regulatory capital limits soon.

Our TP of ₹63 is based on 0.75x Sep-21 BVPS of ₹85. While we had estimated an ₹85/share of FY21F book value, that was contingent upon Yes Bank raising $2-bn of capital and the bank having a loss given default of 50% on its +₹500 bn of stressed loans. Risk to capital raising is a risk to both our estimates of book value and multiples as unavailability of capital raises question on going concern status of the bank.

Sector impact: Yes Bank's loan book is 30-120% of other banks (ex-SBI) loan book, 11% of SBI's loan book. We see fewer merger options excl. SBI

Banks	Loans ₹ trn	loan book* (%)	RWAs ₹ trn	RWAs* (%)
SBIN	21.9	11	20.1	15
HDFCB	8.2	29	9.3	33
ICICIBC	5.9	41	6.9	44
AXSB	4.9	49	5.7	54
BOB	4.7	52	4.1	74
KMB	2.1	117	2.5	122
IIB	1.9	130	2.1	142

*Yes compared to respective loan book and RWAs
Source: Company data, Nomura research

Impact on the sector

Risks to the going concern status of the bank will likely have an implication for the sector. As of FY19, Yes Bank's loan book is 30-130% of loan book of large banks (ex-SBI) and 11% of SBI's current loan book. Given Yes Bank's asset size and quantum of stressed loans, there are likely to be few merger options excluding SBI, in case it cannot raise sufficient capital. We maintain **'Neutral'** on Yes Bank. We continue to prefer private corporate banks, ICICI Bank and Axis Bank.

NOMURA

● HDFC LIFE INSURANCE RATING: **ADD**

Tech-backed initiatives to provide edge

Execution is likely to ensure superior profitability; company remains industry bellwether; 'Add' retained

HDFC LIFE HAS invested in developing technology backed digital systems and processes to diversify its growth engine, increase operational efficiencies and customer satisfaction. The company is a dominant player in the digital ecosystem supported by strong tie-ups with multiple partners, proprietary platforms and applications. Product innovation, strong brand recognition, digitally enabled distribution touch points and strategic partnerships will provide competitive advantages. We retain our positive stance on the company with **Add** rating and fair value of ₹605.

Focus on customer-centric technology backed innovations

HDFC Life has invested in technological platforms and systems to improve customer lifecycle management and improve efficiencies for various stakeholders like distributors, sales team and others. While competition is rapidly increasing, broader presence and strong tie-ups with a multitude of partners provides sustainable advantage.

Strong strategic tie-ups and new digital processes will drive growth

HDFC Life has developed proprietary platforms, activated 150+ bots and tied up with financial and non-financial digital players (250+) for product delivery and servicing. Apart from strategic tie-ups, the company has provided service enablers, surrogate platforms and processes to stimulate growth for these partners. While early mover advantage will drive growth through digital platforms, continued product innovation will provide relative advantage to peers.

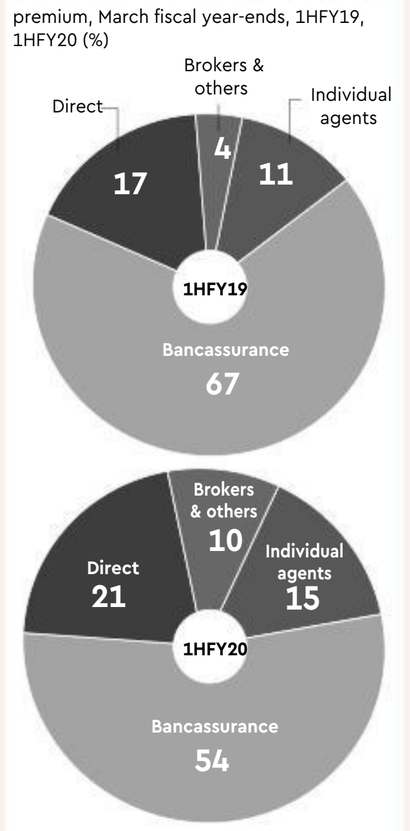
To remain the industry bellwether

We believe that HDFC Life will remain at the edge of innovation and hence a bellwether for the life insurance industry. The company was one of the first players to market online life insurance; other large players have not forayed much into the non-par business (mostly doing annuities), following a deferred annuity policy launched by the company last year and Sachay Plus early this year. Our meetings with the management reassured our faith in HDFC Life's superior business strategy, execution to consistently deliver superior margins and profitability. Our forecasts of stable VNB margins may as such be revised up over subsequent quarters. At our AV-based fair value, the business will trade at 4X EV as compared to 2.7-3X for most other players.

KOTAK INSTITUTIONAL EQUITIES

Share of broker and other channels have increased sharply in 1HFY20

Channel-wise mix of individual new business premium, March fiscal year-ends, 1HFY19, 1HFY20 (%)



Source: Company, Kotak Institutional Equities

● EMBASSY OFFICE PARKS RATING: **ADD**

Growth is speeding up for company

REIT's prospects make for a compelling investment case; rating revised to 'Add'

WE MET WITH the management of Embassy Office Parks REIT (Embassy REIT) to reaffirm our thesis that its focus remains on fast-tracking growth, expanding portfolio through large acquisitions (ROFO proposal under evaluation) and faster execution and planning – ahead of schedule on under-construction portfolio and pipeline projects. Management is evaluating the ROFO proposal for Embassy TechVillage and asserted that it will go ahead with the transaction only if it is DPU/yield accretive.

Under-development projects remain ahead of schedule and it is well capitalised to fund inorganic growth. Its cash yield of 6.5% p.a. with expected growth in distribution of 9.5% p.a. over next 3 years makes for a compelling investment case. Revise to **Add** (Buy previously).

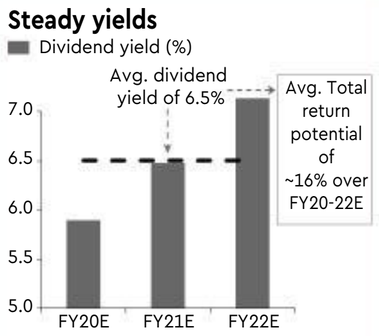
Key highlights

Under-construction portfolio 2 quarters ahead of schedule: Its near-term office development projects in Bangalore and Noida of 1.4 msf are 2 quarters ahead of targeted delivery, with 23%/0.25 msf already pre-let to Metlife, and an additional 0.4 msf pipeline at Embassy Oxygen (Noida). Further, it has already commenced work on M3 Block at Manyata (1 msf) and Hudson Block at Techzone (0.5 msf).

Net operating income (NOI) to post 15% CAGR over FY19-22e: Strong growth visibility driven by contractual escalations (which are certain), mark to market reset of rentals (current in-place rents are significantly lower than market rents) and lease up of vacant area.

AXIS CAPITAL

Steady yields



Source: Axis Capital

Personal Finance

● HEALTH INSURANCE

You can now choose your TPA for your health insurance plan

If an insurer engages the services of only one TPA, then the policyholder will have to stick with the TPA fixed by the insurer

SAIKAT NEOGI

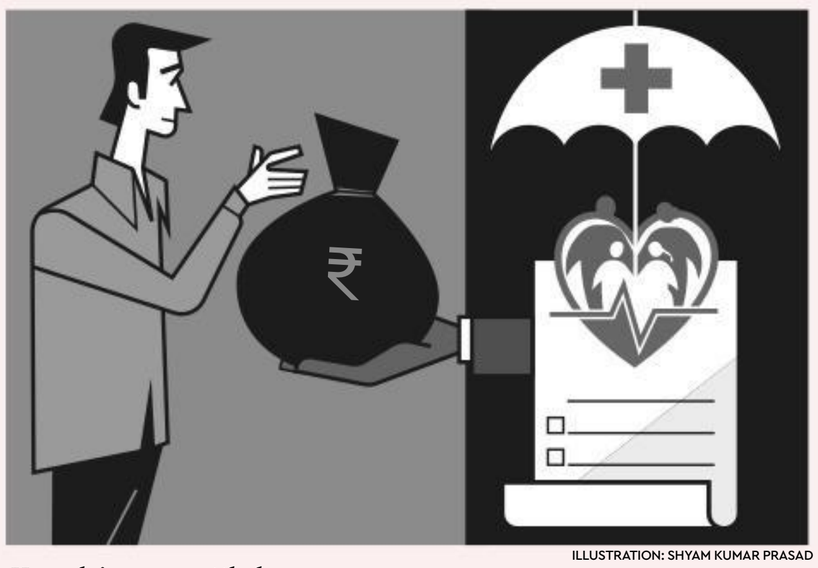


ILLUSTRATION: SHYAM KUMAR PRASAD

IN ORDER TO streamline the claim management processes in health insurance, the insurance regulator has now allowed policyholders to choose the third-party administrator (TPA) from the list of those engaged by the insurance company. In case the service of the TPA is terminated by the insurer, then the policyholder can choose another TPA. The policyholder will be allowed to change the TPA at the time of renewal.

In case a policyholder does not choose a TPA of his choice, then the company will allot him a TPA of its choice. However, where the insurer engages the services of only one TPA, the policyholder will have no option but to stick to that TPA. The regulator has underlined that based on health insurance product and geographical location of the policyholders, the insurer can limit the number of TPAs amongst whom the policyholder may choose.

How claims are settled

In health insurance, a policyholder's claim are settled either by a TPA or the insurer's in-house claims processing department. A policyholder needs to first inform the TPA in case of any claim. A TPA is an intermediary appointed by an insurance company to facilitate the settlement of claim. They will seek all the bills and documents provided by a hospital to process the claim with the insurance company. However, they are not responsible for any claims rejection as that is done by the insurance company.

During 2017-18, there were 27 TPAs registered with Insurance Regulatory and Development Authority of India (Irdai).

General insurance and standalone health insurance companies also have their own in-house department to settle claims. It helps policyholders as they can directly get in touch with the company for claim settlement and the turnaround time is quick. So, the efficiency in processing and settling claims is better if it is done in-house. Private insurers such as Max Bupa Health Insurance, Bajaj Allianz Health Insurance and HDFC Ergo General Insurance have in-house claims processing.

However, TPAs have their own list of network hospitals which make it easier for a policyholder to go for cashless treatment. The regulator's annual report for FY 2017-18 shows that non-life and health insurers have settled 1.45 crore health insurance claims and paid ₹30,244 crore towards settlement of health insurance claims. The average amount paid per claim was ₹20,793. In terms of number of claims settled, 71% of the claims were settled through TPAs and the balance 29% were settled through in-house mechanism. In terms of mode of settlement of claims, 49% of total amount of claims paid were settled through cashless mode and another 44% of the claims were settled through reimbursement mode. Insurers have settled 6% of their claims amount through both cashless and reimbursement mode.

Capital requirement

Irdai has mandated that the net worth of TPA should not fall below ₹1 crore during the period of registration. The TPA must have adequate technological capabilities, data security and human resources in place. Where TPAs maintain files, data and other related information pertaining to the settlement of claims in electronic form, maintenance of the data in physical form is not required.

Before selecting a health insurance policy, one must check the features such as exclusions, waiting period, co-pay, sub-limits, incurred claim ratio. And before choosing a TPA, policyholders should check the claim settlement processes.

Keep 15% of your asset portfolio in gold ETFs

One should invest in gold through exchange traded funds and hold with a long-term investment horizon

● YOUR MONEY

JIMMY A. PATEL

INDIA, THE SECOND-LARGEST consumer of gold in the world, has lately witnessed a dip in demand, reports the World Gold Council (WGC). Despite the full fervour of festivities, the demand for gold in the consumer segment fell due to the elevated pricing for the third quarter. However, in the recent past, gold demand in India spurred due to strong global gold prices, weak rupee, and some buying abetted by above-normal monsoon (nearly two-third of India's gold demand comes from the rural areas, where agriculture is the main source of livelihood).

Plus, amidst the economic slowdown and liquidity crunch, people have approached gold as a store of value; a lender of last resort in times of economic uncertainty. Gold has always been a mark of wealth, carrying immense value across the globe. Hence recognising the risk involved, most of the central banks have been purchasing gold as part of their reserve management.

Further, it is vital to note that the lower and accommodative policy/interest rate environment is proving supportive for the precious yellow metal and turning the spotlights on gold. There has been a surge in global ETF inflows. Holdings in gold-backed ETFs hit an all-time high of 2,855.3 tonnes in Q3, as investments in global products grew by 258.2tonnes – the highest level of quarterly inflows since Q1 2016, reveals the WGC.

Even in India, certain investors have been investing in the Gold ETF as displayed by the increasing trend in folios and Asset Under Management (AUM) over the last few months according to the AMFI data. Smart investors are paying heed to the fact that global uncertainty has increased, there is a synchronised slowdown in global growth, trade war tensions, geopolitical tensions, etc., and are buying gold the smart way—through gold ETFs.

ILLUSTRATION: SHYAM KUMAR PRASAD

The WGC is of the view that the positive catalysts will remain going forward as well—particularly due to the financial market uncertainty.

Will gold move further up in India?

As per the WGC report, there will be two significant factors influencing the Indian gold demand in the long run. One, rising income—which is the most significant factor having a positive effect; and second, higher gold prices—which has a negative effect. However, the WGC report also states that weaker economic growth and the possible impact of higher gold price volatility may result in softer consumer demand this year, especially in emerging markets that make up the lion's share of annual demand.

The physical gold demand in India, the WGC observes, would face increasingly competitive threats from other mainstream investment opportunities. That being said, the heightened global uncertainty and headwinds at play will prevail, and owning gold will help as a store of value during economic uncertainty, as a safe haven, and a shield against inflation in the long run.

Gold will prove to be an effective portfolio diversifier and the spotlight will continue to be on the precious yellow metal. So, consider allocating up to 10-15% of your entire investment portfolio to gold via gold ETFs and hold with a long-term investment horizon. Lastly, avoid a speculative approach while investing in gold.

The writer is MD & CEO, Quantum Mutual Fund