Arkets



GROWTH ASPIRATIONS

Vikas Seth, MD, Bharti AXA Life Insurance

We are exploring multiple bancassurance options to achieve our long-term growth aspirations and increase India's insurance penetration.

Money Matters

G-SEC

TUESDAY, DECEMBER 24, 2019

The benchmark yield fell 0.03% due to buying support Dec 23 Dec 12

LAF Bank borrowing under 49.47% **RBI's short-term window** fell by ₹4,924 crore

The rupee depreciated

on global cues

0.1%

71.193 Inverted scale Dec 12 Dec 23 £/\$ 0.009% The euro fell against the dollar

NEW BENCHMARK

RBI purchases bond via OMOs at better than market rates

The central bank sold ₹6,825 cr worth of shortdated securities against the ₹10,000 cr amount that was notified

FE BUREAU Mumbai, December 23

THE RESERVE BANK of India (RBI) has completed the purchase of the benchmark bonds worth ₹10,000 crore through open market operations (OMOs) at better than market rates, which implies its strong intent of bringing down the term premia, experts said.

The yield on the benchmark bonds had traded at an intraday low of 6.553% on Monday before closing the day's session at 6.568%. However, the cut-off yield at which the OMO purchase took place stood at 6.546%. At the same time, the central bank only sold ₹6,825 crore worth of short-dated securities against the ₹10,000 crore amount that was notified.

Ananth Narayan, professor-finance at

SPJIMR said the "operation twist" OMO cut-off announced by the RBI was positive for government bonds on multiple counts.

"For one, the RBI purchased ₹10,000 crore of the 10-year bonds at a cut-off of 6.546%, a lower yield than seen in the secondary market during the day. Second, it sold only ₹6,825 crore of 1-year bonds, indicating that it did not want short-term bond yields to go up significantly. In effect, it ended up net buying ₹3,125 crore of bonds. All this will signal its strong intent to bring down term premium in government bonds, while at the same time ensuring that short-end bond yields do not move up," he said.

A dealer also pointed out to the fact that the central bank's intention to buy the long-tenor bonds was successfully executed and that too at better than market levels."From that perspective, it is a very good cut-off that has come. The sale of short-dated securities did not happen fully but I believe that the market may not be perturbed by this. The RBI may not want the short-tend yields to shoot up beyond a certain level," the dealer said.

The RBI on Thursday had announced the Indian version of "Operation Twist" conducted by the US Federal Reserve by deciding to buy the long-tenor 10-year benchmark bonds worth ₹10,000 crore and selling four short-dated securities worth the same amount under open market operations (OMO).

The announcement resulted in a rally in long-tenor bonds along with a bit of hardening in short-tenor yields on Friday. The yield on the 30-year government securities fell by 20.5 basis points to 7.12% on Friday while yield on the twoyear paper rose six basis points to 5.88%. The benchmark yield had fallen 15 basis points after the announcement.

RBI caps lending on P2P platforms at ₹50 lakh

PRESS TRUST OF INDIA Mumbai, December 23

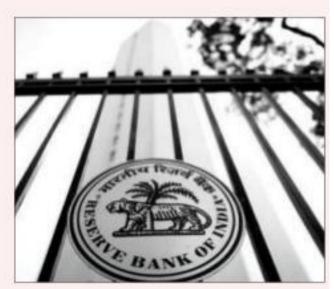
TO PROTECT CONSUMERS interest, the Reserve Bank on Monday said that on a peer-to-peer lending (P2P) platform the permissible exposure of a lender to all borrowers should not exceed ₹50 lakh at any given point of time.

"On a review, it has been decided that the aggregate exposure of a lender to all borrowers at any point of time, across all P2P platforms, shall be subject to a cap of ₹50,00,000 provided that such investments of the lenders on P2P platforms are consistent with their net-worth," the RBI said in a notification.

The lender investing more than ₹10 lakh across P2P platforms will produce a certificate to P2P platforms from a practising chartered accountant certifying minimum net-worth of ₹50 lakh.

"Further, all the lenders shall submit declaration to P2P platforms that they have understood all the risks associated with lending transactions and that P2P platform does not assure return of principal/payment of interest," the RBI said in a notification.

On fund transfer mechanism, it said: "Escrow accounts to be operated by bank promoted trustee for transfer of funds need not be mandatorily maintained with the bank which has promoted the trustee".



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As per the guidelines, the transfer of funds under P2P lending happens through an escrow account mechanism, which is operated by a bank promoted trustee. It requires at least two escrow accounts

one for funds received from lenders and pending disbursal, and the other for collections from borrowers, be maintained.

It also mandates that all the transactions through bank accounts, and cash transaction are strictly prohibited.

Federal Bank, Magicbricks tie up for disposal of repossessed properties

FE BUREAU

Mumbai, December 23

FEDERAL BANK ON Monday announced its partnership with property portal Magicbricks for listing and e-auctioning of immovable properties repossessed by the lender through recovery proceedings.

The pan-India arrangement between Magicbricks and Federal Bank aims to recover dues in 30 major accounts amounting to ₹50 crore in Q4FY20, a statement said. "The arrangement is to leverage the reach of Magicbricks portal across demographics and consumer categories, removing any geographical restricThe pan-India partnership aims to recover dues in 30 major accounts amounting to ₹50 crore in Q4FY20

tions for the buyers," it added.

Ashutosh Khajuria, executive director and chief financial officer, Federal Bank, said: "Federal Bank has always been focusing on maintaining and improving the quality of its loan book through systematic and disciplined recovery efforts and this partnership is a positive step in this direction."

Sudhir Pai, CEO, Magicbricks, said, "Over the last two years, Magicbricks' e-auction platform has evolved as a cost-effective way for banks to liquidate their repossessed assets and lessen their financial burden. Our e-auction platform offers a transparent and a level playing field to property seekers."

As of September, retail slippages of the lender totalled ₹145 crore, of which about ₹100 crore is from Kerala and ₹40 crore is from the rest of the country, said Edelweiss in a report. Gross non-performing assets (NPA) of the bank in Q2FY20 had increased to ₹3,612.11 crore from ₹3,394.7 crore in the previous quarter. As a percentage of gross advances, the gross NPA rose by 18 basis points to 3.07%. The net NPA ratio stood at 1.59%, or ₹1,843.64 crore in absolute terms, during the period.

Rupee falls 6 paise to 71.18

PRESS TRUST OF INDIA Mumbai, December 23

THE RUPEE DEPRECIATED by 6 paise to close at 71.18 against the US dollar on Monday amid muted activity in domestic equities and steady rise in crude oil prices.

Forex traders said the rupee is trading in a narrow range amid lack of cues from the global market. At the interbank foreign exchange

market, the domestic currency opened weak at 71.15 and later fluctuated between a high of 71.11 and a low of 71.24.

ANALYST CORNER

MOTILAL OSWAL

The domestic unit finally settled at 71.18, showing a fall of 6 paise over its previous close of 71.12 on Friday.

"Rupee failed to witness any trend and continued to quote in a narrow range of 71.05 to 71.25 (spot) due to lack of cues from domestic as well as global front," said Gaurang Somaiyaa, forex & bullion analyst, Motilal Oswal Financial Services.

Somaiyaa further said volatility would be low for the currency as no economic data is expected in this week. Moreover, this week is a relatively shorter week as market participants remain on the sidelines following Christmas holidays.

• INTERVIEW: SHAKTIKANTA DAS, GOVERNOR, RBI

'We've to wait for one or two quarters to see if signs of green shoots are sustained'

It will take a few more quarters to see if signs of growth revival visible now are sustainable, Reserve Bank of India (RBI) governor Shaktikanta Das tells Shritama Bose and Malini Bhupta. The central bank is awaiting the report of a forensic audit into Punjab & Maharashtra Co-operative (PMC) Bank and will have greater clarity on repaying depositors within a few weeks, he added. Edited excerpts:

Why don't the banks want to lend? What's the point of having ₹2 lakh crore surplus liquidity if it's not going to be lent? Yes, banks are lending. Yes, compared

to earlier years or compared to last year, the growth in bank credit is less. The credit growth is a little less than 8%, as per the latest data. There it's a mixed picture. The lending to retail sector has remained strong. Retail-sector lending has grown by 17% and within that the lending to the housing sector has grown by 19%. With regard to retail growth, it has picked up. It's only with regard to the business loans or project-related loans where there is a slowdown for various reasons. One is the offtake, demand for offtake. The other one is certain problems related to the real estate sector, and number three, you already have a gap in capacity utilisation. Therefore, there is enough capacity and that is also contributing to lower offtake. We did some analysis and we found that the economy is going through a process where the large corporates are deleveraging their balance sheets. They are cleaning up their balance sheets. You have banks also cleaning up their balance sheets in terms of reducing the GNPA. You also have the NBFCs which are cleaning up their balance sheets and which are deleveraging. This is a kind of transitory phase. Going forward, the possibilities of a demand pick-up are there.

Do you have any visibility on when that could be?

I would not like to give a timeline, but we are seeing some green shoots. There are some positive signs, but we have to wait for one or two quarters to see whether these positive signs are sustained, and they are not one-off phenomena.

Why has it become so difficult to predict growth? Earlier it used to be tough to predict inflation, but now we even see repeated

cuts made to the growth estimate by RBI. The margin of error with regard to inflation projections has become considerably less. It is about 10-20 basis points. The inflation surprise has come from food prices, which are subject to a lot of seasonal



vagaries. This time, for example, the spike in vegetable prices was due to unseasonal rains in end October and November. In onions, about 26% of the crop is reportedly damaged.When 26% of the supply is taken out of the market, it will obviously have an impact on prices. Other vegetable prices also spiked. There was an increase in the price of pulses and certain cereals. Vegetable prices have always been very difficult to predict. It is the food prices which are difficult to estimate. Having said that, with regard to inflation projections, the margin of error has been considerably reduced.

The challenge, as you have rightly said, is about the growth numbers. This year has been an unusual year. Nobody had really expected the sudden slide that has happened. We projected 6.1% in the October policy and two months later, we said it would be 5%. When we had said 6.1%, we had a range. Internally, there was one body of opinion within RBI that it could be lower. The broader consensus was that 6.1% was more likely and so we went with that. We are looking into the various aspects of improving our growth-forecasting mechanisms.

Has the NPA cycle bottomed out or should we expect more pain ahead, given the divergences?

Ithink overall the NPAs have been identified. Now if suddenly a large borrower slips, and that's a big if, naturally, it will come to be classified as a non-standard asset. But other than that, I think banks do have a sense of the NPA numbers. The divergence which you are pointing out is due to certain regulatory guidelines not having been fully or properly followed by the banks while classifying them as NPAs. That does happen. For example, in a restructured account how to apply the regulatory norm, sometimes the banks due to gap in understanding, arrive at a particular number. When our supervisory team goes, they point out the particular regulatory norm that has not been properly applied. For restructured assets or the realisable value of

security or those which are under resolution, RBI guidelines are there. RBI supervisors then point out that these are the regulatory guidelines and the realisable value of security should be different. That also leads to divergence. These are not surprise cases, but due to incomplete application and adoption of the RBI guidelines which happen sometimes due to gaps in understanding.

The ICA mechanism has not really thrown up any positive surprises. If things stand where they are, a bunch of cases will be headed for the NCLTs after January 7. Are you planning to offer relief on provisioning for those cases?

This question has been put to me earlier as well. What we said in our June 7 circular is that from the date of first default, which may be on June 7 or June 30 or July 15 or any other date, in the case of a particular loan, from that day the clock starts ticking. So, from the date of the first default, 30 days is given as a review period within which the banks will review that particular case and the borrower has the opportunity to make payments to regularise the account. If the payments do not come in 30 days, the lenders have another 180 days (so, total 210 days). What is critical is the date of first default. As regards cases which were in default prior to June 7, the clock started ticking only from June 7. So, the banks got extra time for earlier cases. One the aspect of June 7 circular you also have to keep in mind. It also provides that you make a provision and if you are able to resolve it subsequent to 210 days or if you are going to NCLT and once the case is admitted, the provisions get reversed. So, the June 7 circular has a system of incentives and disincentives. If an account crosses 210 days, lenders have to make provisions as per the guidelines. They have the option of reversing the provisions subsequently, depending on fulfilment of certain conditions.

For cases that do hit that deadline in January, are you contemplating a relief in provisioning?

No, we don't see any need for any modification of the June 7 circular. The package is known right from day one. The banks can even then restructure and reverse the provisions at a later date.

some banks have not signed them in cases where they are creditors to defaulters. Have you received any complaints against such banks or taken action against them?

This is a regulatory stipulation which

Itwas mandatory for banks to sign ICAs, but

all banks are expected to follow. If a bank does not abide by a regulatory stipulation, naturally our supervision will point out and consequential regulatory/supervisory/enforcement action will be taken against such bank(s).

How long will PMC Bank account holders be denied access to their money? Does it worry you that a lot of ordinary people are losing faith in the financial system?

See, PMC bank issue is a case of fraud. Without going into details of what happened, I want to say that it is a case of sophisticated fraud, where bogus and fictitious accounts were produced before the RBI supervision team. Also, I would like to state that RBI is a supervisory body. When its team visits a bank or a non-bank and seek information, the records which are certified by the bank's competent persons, those records are produced before the RBI supervisors and they look at that. In this case, bogus records were produced by the competent persons. Going forward, we are focussing on improving our supervisory systems and processes. There is a forensic audit (by an external agency) which is getting completed. The report is expected by the end of this month. Several assets have been identified by the Economic Offences Wing of Mumbai Police and by the Enforcement Directorate. There are certain assets which are already hypothecated, securitised with the PMC Bank. One, forensic audit report will be available by the end of this month. Two, the realisable value of the assets securitised with the PMC Bank is being assessed. Third, for assets identified by the EOW and ED, their value is also being determined. When we get a sense of these three things, which we expect should happen within the next two-three weeks, then we will have a much better picture to see how the bank can monetise those assets. Already a coordination mechanism has been established between the administrator of the PMC Bank, the EOW, the Enforcement Directorate and the RBI to take steps for quick monetisation of all those assets after obtaining permission of the Courts.

Is the RBI working on a framework for resolution of assets under ₹1,500 crore?

On that, once we decide, you will know. We are definitely working on that.

We were supposed to migrate to a zero-MDR regime by November 1. Banks and non-banks tell us that they have received no communication from the government or the NPCI so far. It is a Budget announcement which the government made. Consequential action is work in progress.

TATA CHEMICALS (TTCH) has acquired the remaining 25% stake in TATA Chemicals Soda Ash Partners Holdings (TCSAP) from the Andover Group for \$195 m (thus, valuing 100% stake at \$780 m) through its wholly-owned subsidiary Valley Holdings. With this

Maintain 'buy' on Tata

Chemicals with TP of ₹811

acquisition, TTCH has increased its ownership in TCSAP to 100%, which is a move to simplify enterprise architecture. For FY19, TCSAP had a turnover of \$466 m and EBITDA of \$101m. Thus, the deal is valued at 7.7x FY19 EV/EBITDA. Back in January 2008, TTCH had acquired 75% stake in TCSAP for \$1 b (₹40.4 b), which was funded by utilising \$155 m of internal accruals, ECBs of \$475 m and US

the acquired company. TTCH currently operates a capacity of 2.5MMT of natural soda ash in North America. The world's largest deposits of trona —used for manufacturing natural soda ash — are found in the Green River Basin of Wyoming, North America. Production cost of natural soda ash is 25-30% lower compared to that of soda ash

borrowings of \$350 m secured by way

of non-recourse debt on the assets of

manufactured through Hou or Solvay process. TTCH acquired the balance 25% stake in TCSAP for \$195 million; of this, \$175 m will be funded through debt and balance will be funded internally. We estimate a 5% increase in PAT

for FY21 after factoring in 5.5% interest cost and the reduced minority interest pertaining to the North American operations. In 2016, the company sold off its fertilizer business. In 2019, it carved out a plan to demerge its consumer business with a clear strategy to focus on basic and the specialty chemicals business.

Additionally, TTCH is incurring capex of ₹24 billion at its Mithapur plant for various categories, which is expected to come on stream by FY22 (in a phased manner).

The cash-cow business (soda ash and sodium bicarbonate) of TTCH is expected to remain steady due to potential balanced demand-supply scenario; the cash generated from the same would be partially deployed toward its specialty chemicals segment, which is high margin and return accretive. Our SOTP-based target price of ₹811 implies an upside of 25%. Maintain 'buy'.

'Buy' on IndiaMART InterMesh; PT of ₹2,500

JEFFERIES

WE INITIATE ON Indiamart with a 'buy' rating and price target of ₹2,500. It is the dominant B2B classified platform in India with strong moats to defend it against competition. We expect 20% revenue CAGR over FY20-22E despite macro headwinds related to economic slowdown; this in turn should drive sharp margin expansion to 28% by FY22E vs. 16% in FY19 given strong economies of scale.

Indiamart has 137k subscribers which is 2.4% of its listing base, who pay ₹45k per annum on average.

We see multiple growth drivers for Indiamart which should help drive 20% revenue CAGR over FY20-22E, continued rise in number of paid suppliers with increased shift towards digital advertising, greater penetration outside of top tier cities, shift to category & location specific pricing should drive ARPU growth.

However, we factor in some

deceleration near term (22% in 2H &15% in FY21E) to reflect overall economic slowdown. Large upfront collection leads to good revenue visibility for the company. High customer churn rate is a risk.

Indiamart's EBITDA margin has expanded sharply over the last few quarters from 11% in Jun-18 to 24% in 1HFY20, helped by significant economies of scale given low variable costs. We expect margins to expand to 28% by FY22E vs. 16% in FY19 and stabilize at 33% in the medium to long run. The business is in a negative working capital cycle owing to large proportion of upfront collections. This has led to positive FCF & significant cash generation with ₹780 crore (₹270/share) of cash & investments as of 1HFY20, which is likely to expand to ₹17.3bn (₹600/share) by FY22E end. We initiate on Indiamart with a Buy rating & price target of ₹2,500, which implies 25% upside to CMP. Our DCFbased valuation implies 28x FY22E P/E

HYDERABAD