Engine woes cloud IndiGo outlook

Expensive maintenance activity has led to a spike in costs, unlikely to ease till FY22

RAM PRASAD SAHU
Mumbai, 5 December

FLEET COUNT

Type of aircraft	No. of aircraft	Average age (years)
A320 *	126	10
A320 neo**	91	2
A321 neo**	7	0
ATR	23	1
Total	247	6

*Higher maintenance costs, ** Engine-related issues
Source: Spark Capital

DESCENDING

Compiled by BS Research Bureau

The InterGlobe Aviation (IndiGo) stock shed over 6 per cent in trade on Thursday after the company cut its capacity guidance for the current financial year. The company has guided for capacity growth of 22-23 per cent for FY20, compared to the 25 per cent target it had indicated after the July-September quarter results. The company has also guided for a capacity increase of 15-20 per cent for the March quarter.

The lower capacity growth guidance is on account of engine issues with the Airbus 320neo aircraft. Over the past two months, the Director General of Civil Aviation (DGCA) has asked the company to operate aircraft that have at least one modified engine, replace all unmodified engines by January 31, 2020, and also ground aircraft with unmodified engines for every A320neo added with modified engines.

The company indicated it is working with the suppliers for modified and spare engines. The DGCA directive would mean that IndiGo will have to replace 46 out of the 98 A320neo aircraft before January 2020.

Analysts at Spark Capital have cut the capacity addition growth for the FY19-23 period for IndiGo to 16 per cent, from the earlier expectation of 21 per cent growth. A majority of the incremental A320neo capacity addition will be used to replace retiring A320ceo aircraft from 2021-22 (FY22). A320ceo aircraft accounted for 53 per cent of the company's capacities as of September quarter.

The company has also guided for December quarter profit before tax to be similar to the one it had reported in the year-ago quarter at ₹191 crore. The profit number in the current quarter is expected to be maintained despite mark-to-market hit on capitalised lease liabilities. Analysts had estimated FY20 net profit upwards of ₹1,300 crore but given the muted Q3 guidance, the number may have to be revised downwards. Revenue per unit and cost per unit are expected to be higher in the range of 4 per cent and 5 per cent.

One of the main reasons for the higher costs is expensive maintenance. This metric as a proportion of unit cost jumped 52 per cent in the September quarter. Heavy maintenance and overhaul cost of the older A320ceo engines forced the company to reassess the estimates and provide for an additional ₹320 crore for the older engines. While the cost on account of older engines are expected to come down as A320neos join the fleet, given the timeframe needed, the company has guided that maintenance costs will remain at elevated levels till FY22.

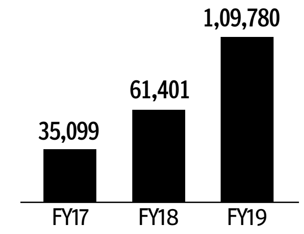
The other cost head which has seen an uptick are employee costs. Hike in pay, hiring of 600 additional pilots, and higher ground handling costs led to a 25 per cent hike in these costs in the September quarter. This, coupled with lower utilisation of aircraft, led to the cost spike in the previous quarter.

Even as costs have spiked, severe price competition even in the ongoing quarter, which is seasonally the strongest for the aviation sector, is impacting revenues. Analysts say capacities have gone back to the pre-Jet Airways collapse levels, which, coupled with cut-throat pricing, is impacting revenues and yields.

Sebi proposes tighter norms to govern AIFs

JASH KRIPLANI
Mumbai, 5 December

GAINING GROUND
Total investments made by AIFs have grown significantly
■ AIF investments (₹ crore)



Source: Sebi

After suggesting wide-ranging changes for portfolio management services (PMS), the Securities and Exchange Board of India (Sebi) on Thursday proposed a set of new norms to in a bid to firm up disclosure and performance reporting standards for alternative investment funds (AIFs).

In its consultation paper, the market watchdog proposed setting up of a benchmarking agency to show comparable returns of various AIFs and standardising private placement memorandum (or offering document), which informs investors about various aspects of an AIF, such as fees, conditions or limits on redemption, investment strategy, conflict of interest, and manner of winding up the AIF.

To facilitate the benchmarking process, AIFs registered with Sebi for at least three years would have to report their audited scheme-wise performance data to single or multiple benchmarking agencies.

The benchmarking report would have to be provided along wherever the performance of the AIF is disclosed. Also, the report would be shared with all investors.

Even at the time of seeking Sebi registration, both domestic and foreign AIFs would be required to provide data on their investments in Indian companies to the benchmarking agencies.

Further, the consultation paper lays down 12 points that entail data points AIFs need to provide to the benchmarking agency and how the latter needs to process and present these data points.

To ensure that an AIF doesn't divert from the terms of the offering document, Sebi has proposed annual audit in this connection. In case of adverse findings, corrective steps would be submitted.

Larger-sized AIFs can also propose one or more benchmarking agencies.

"Any association of Sebi-registered AIFs, which in terms of membership represent at least 50 per cent of registered AIFs, may propose one or more benchmarking agencies, which shall enter into an agreement with AIFs for carrying out benchmarking process," the consultation paper said.

The regulator has sought public comments on these proposals by December 25 and a final regulation will be put in place after taking into account suggestions of all the stakeholders. In August, the regulator put out a consultation paper for the PMS industry, proposing minimum disclosure and performance reporting standards.

Banking funds have gained from global flows

But beware that NBFCs with high exposure to real estate are not out of the woods yet

SANJAY KUMAR SINGH

RETURN SLAB

Long-term investors have been rewarded well

	Category average returns (%)				
	1 year	3 years	5 years	7 years	10 years
Minimum	12.45	6.99	8.35	11.73	11.3
Average	19.41	16.81	11.05	13.72	13.51
Maximum	25.33	21.62	13.99	17.71	16.37

Returns are of banking and financial sector funds
Source: mutualfundindia.com

YOUR MONEY

Banking and financial sector funds have witnessed a sharp run-up in recent times. They are up 19.41 per cent over the last year. Of this, 16.24 per cent returns have come in just the last three months.

Several factors have contributed to this rise. "Flows to emerging markets have been strong in the past few weeks amid optimism about a trade deal between the US and China. A view is also developing that emerging markets (EMs) may have a better time in 2020 than in 2019," says Vinay Sharma, fund manager, Nippon India Mutual Fund.

India has been a large recipient of the flows into EMs. And within India, since financials constitute a large part of the total market cap, they have received a substantial portion of the flows.

According to Roshan Chutkey, fund manager, ICICI Prudential AMC: "Besides global liquidity, the recent positive measures announced by the central government to address the economic slowdown have also aided the performance of banking funds."

The government has cut the corporate tax rate, come up with an aid package for real estate, and embarked on recapitalisation and consolidation of public-sector enterprises.

Risk appetite is returning to the financial sector. "The market is of the view that India will avoid another large default in the financial services space, like those by IL&FS and DHFL," says Amit Ganatra, fund manager, Invesco Mutual Fund. The recent Supreme Court judgment that affirmed the primacy of financial creditors in the Insolvency and Bankruptcy Code (IBC) procedures also boosted sentiment.

Experts say that the burden of non-performing loans (NPL), which banks have been facing for the last few years, is in its last legs. Banks' profitability has been depressed for the last four-five years due to this issue. It is expected to revert to normal soon.

Continuance of an accommodative stance by central banks and further reforms by the government will help sustain this rally. Its continuance will also depend on the pace of economic revival, which would lead to an improvement in credit growth.

"Valuations within the sector are still attractive from a longer-term perspective. It will also benefit from trends like rising penetration of credit, market share shift from public- to private-sector banks, and financialisation of savings," says Ganatra.

Since financials constitute a large part of the total market cap in India, they have received a substantial portion of the flows

While India's household savings rate is high, most of it is parked in non-financial avenues. The penetration of financial products and services — loans, insurance, mutual funds or demat accounts — is low, and hence, the scope for growth is humongous.

Lending is a balance sheet driven business that inevitably witnesses interest-rate volatility and asset-quality issues.

Earlier, the asset-quality risks emanated from infrastructure and commodities. More recently, they have arisen from real estate. NBFCs that have lent heavily to the real estate sector are still not out of the woods.

Their health will only improve when sales pick up within the real estate sector. NBFCs' issues could have a ripple effect on banks. "The slowdown in the economy could also give rise to fresh NPLs in small and medium enterprises (SME)," adds Sharma. Remember also that a sector fund is more volatile than a diversified fund.

When selecting a banking fund, go with one that has performed well across market cycles. The diversified equity funds in your core portfolio would already have exposure to banking and financial services. Hence, invest only a limited amount in these funds.

Financial advisors say that an investor's total exposure to sector funds should not exceed 10 per cent of his equity portfolio. After the recent runup, buy on dips or in a staggered manner via the systematic investment route.

HDFC MF shares drop 4% after Standard Life divests stake

Shares of HDFC Asset Management Company dropped over 4 per cent after promoter Standard Life divested 3.1 per cent stake in the asset manager. The share sale done through the offer for sale (OFS) route was to comply with the minimum public shareholding norms. A total of 6.58 million shares were put on the block, with the OFS seeing bids for 7.92 million shares. Most of the bids came from institutional investors, while shares meant for retail investors were undersubscribed. The floor price for the share sale was set at ₹3,170 and most of the bids came in at ₹3,175 per share. Shares of HDFC AMC fell 4.06 per cent to close at ₹3,206 in the secondary market. Shares have more than doubled this year. Currently, the total promoter shareholding in HDFC AMC is 82.71 per cent, with HDFC holding 52.77 per cent and UK's Standard Life holding 29.84 per cent. With latest share sale, the promoter holding will decline to 79.61 per cent. HDFC AMC has time until August 2021 to bring down promoter holding to 75 per cent.

BS REPORTER

ECONOMY

HC junks PMC Bank depositors' plea for lifting withdrawal cap

PRESS TRUST OF INDIA
Mumbai, 5 December

In their plea, the petitioners alleged that the RBI's decision (to put restrictions on cash withdrawals) was irrational, arbitrary, and violative of the fundamental rights of the public

The Bombay High Court on Thursday dismissed pleas of depositors of the crisis-hit Punjab and Maharashtra Cooperative (PMC) Bank, seeking lifting of restrictions imposed by the Reserve Bank of India (RBI) on cash withdrawals.

The petitions were filed by persons claiming to be the depositors and account-holders of PMC Bank.

In their pleas, the petitioners alleged that the RBI's decision (to put restrictions on cash withdrawal) was irrational, arbitrary, and violative of the fundamental rights of common public.

The Division Bench of Justice S C Dharmadhikari and Justice R I Chagla dismissed the pleas, saying the allegations made against the RBI were "vague".

"In dismissing them, we hold that RBI was rightly satisfied and acted reasonably to ensure that there is no prejudice caused and to ensure timely withdrawal of funds," the court observed.

Earlier, the RBI had told the court, in response to the petitions, that such measures were necessary to safeguard the interest of the bank and its depositors.

The apex bank had also stated that a large-scale wrongdoing was found in the PMC Bank.

RBI counsel Venkatesh Dhond had told the court that depositors facing hardships can approach the RBI-appointed administrator and seek withdrawal up to ₹1 lakh.

On September 23, the RBI had imposed regulatory restrictions on the PMC Bank for six months over alleged financial irregularities.

The withdrawal limit for account holders was initially ₹1,000 per each customer for six months, which was later raised to ₹10,000 and is now presently at ₹50,000.

The crisis at the bank is attributed to the loans allocated to realty firm — Housing Development Infrastructure (HDIL) — without scrutiny. These loans later turned into non-performing assets (NPAs).

The Mumbai police's Economic Offences Wing (EOW), which is probing the alleged ₹4,355-crore PMC Bank scam, have arrested 12 persons, including four top bank officials and two promoters of HDIL — Rakesh and Sarang Wadhawan — apart from auditors.

The EOW suspects a nexus between some of the accused and the realty group HDIL, whose mammoth loan defaults are said to have caused a liquidity crisis at the bank, leading to appointment of an administrator by the RBI and restrictions on withdrawal of funds.

State govt calls for merger with MSC

PRESS TRUST OF INDIA
Mumbai, 5 December

The Maharashtra government has suggested merger of the scam-hit Punjab & Maharashtra Cooperative (PMC) Bank with the MSC Bank in a bid a provide relief to depositors of the troubled lender, state minister Jayant Patil said on Thursday.

If the need be, the state government will speak to the Reserve Bank of India (RBI) on the issue of merger of the Maharashtra State Cooperative (MSC) and PMC banks, he said.

If needed, the state government will speak to the RBI on the merger of the Maharashtra State Cooperative and PMC

"I spoke to the MSC Bank chairman the day before yesterday. We have suggested MSC Bank to try to merge PMC Bank with it so that the poorest of its depositors get relief," Patil said.

PMC Bank has been put under restrictions by the RBI, after an alleged ₹4,355 crore scam came to light following which the deposit withdrawal was initially capped at ₹1,000, causing panic and distress among depositors. The withdrawal limit has been raised in staggered manner to ₹50,000.

At least eight depositors, who had high quantum of money stuck with the bank, died in the last couple of months, including one who committed suicide.

"We want to assure PMC Bank depositors that the government stands with them. The merger of the two banks will definitely help small depositors," the minister said.

Patil, who has earlier been finance minister of the state, said the MSC Bank's health is good and there should be no problem in case PMC Bank is merged in it.

The Maharashtra NCP chief also said that the process may take around one-and-a-half months to complete.

PMC Bank, which has around 16 lakh depositors, was placed under an RBI administrator on September 23 for six months due to massive under-reporting of dud loans.

FROM PAGE 1

'Not in favour of scrapping consumer survey report'

Q&A
BIMAL KUMAR ROY
Chairman, National Statistical Commission

Can you throw light on some of the issues?

For instance, when you conduct the household consumer expenditure survey, certain expenses do not factor in the social security benefits received through government schemes. If consumers get more social security support, their expenditure on those items on which they have received the benefits will be low. If a below poverty line person gets rice at highly subsidised prices, naturally her expenditure will look low. Though this is not exactly a data quality issue, all these factors need to be explored.

There are a lot of government programmes related to health run by states. The survey shows that health expenditure has probably gone down. Though this looks bad on the face of it, we are trying to find explanations for such causes. Then, other surveys are now being conducted through CAPI (computer-assisted personal interviewing) and one has to be careful as to how investigators are coping up with this technology.

Further, there is an issue related to the use of contract workers to do fieldwork for surveys. Once the contract tenure comes to an end after the survey, it is hard to reach out to such surveyors in case errors are detected. We are trying to examine the impact of all these factors on all the surveys. It's an eye-opener for us and we are looking at the previous surveys, too. One important factor is to see how the coefficient of variation differs over time. If it is high, then the estimates are not dependable.

How do you plan to address some of these issues?

We can take the help of technology. For instance, if households report that they have brought a certain amount of flour for consumption, instead of asking at what price they purchased it, we can take the price data from other sources, such as *mandi* (local market). If we can do that, it will be redundant to ask for the price. The present questionnaire is too long and respondents become impatient in 10-15 minutes. So, the question arises whether we can borrow certain sets of data on expenses from other sources, instead of asking these to the respondents.

But it may still be feasible for food items. Can this be possible for non-food expenses?

We are exploring all options. The average time taken by investigators to complete the schedule (or questionnaire) in a single household is 45 minutes. We want to reduce it by half or to at least bring it down to less than 30 minutes by clubbing a few questions. We will do a pilot survey and see how people are responding to it.

One argument is that if one tinkers too much with the schedule or the set of questions, the data may not be comparable with the past surveys. How do you see that?

In the pilot survey, we will ask half the households questions based on the shorter schedule and the other half based on the longer format. If there is not much difference in the output, it will be comparable. Before July, when the next set of surveys is commissioned, we want to be prepared with a set of recommendations based on the field tests.