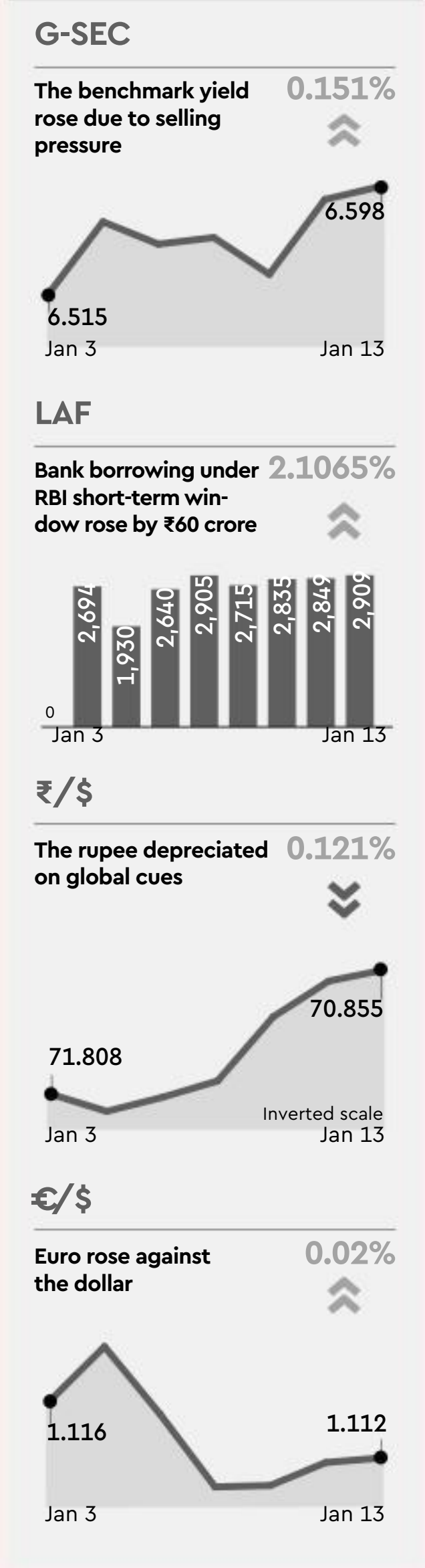


Money Matters



AHEAD OF INFLATION DATA

At 6.6%, benchmark yield closes at three-week high

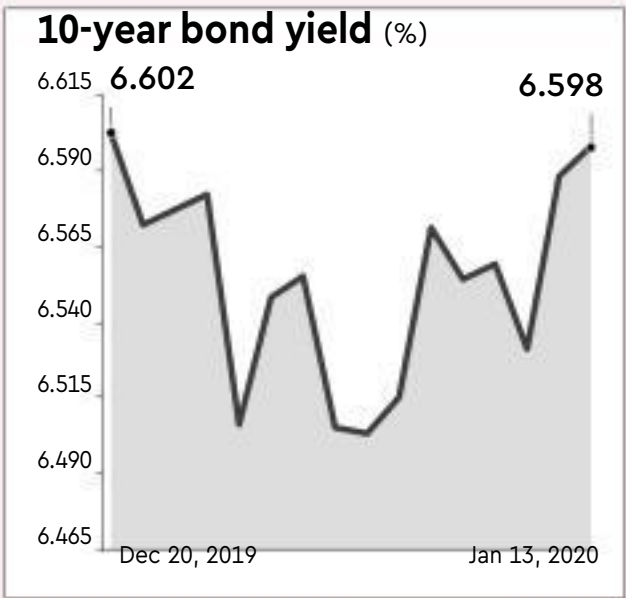
BHAVIK NAIR
Mumbai, January 13

THE BENCHMARK YIELD closed at a three-week high of 6.598% on Monday ahead of the release of the consumer price index (CPI) inflation data.

Dealers pointed out that higher CPI inflation expectations, coupled with a lack of OMO announcements, are driving the yields higher.

The December CPI inflation, which was released after bond market closing hours, shot up to 7.35% — the highest in almost five-and-a-half years. In November, the CPI inflation had stood at 5.54%. Though the market was expecting a higher CPI number in December, the broader consensus that stood at 6.8% was way below the number announced on Monday.

Independent market expert Gopikrishnan MS said the bond market cannot expect anything positive going ahead. “I think now that the December CPI has come out, forget rate cuts, there may even be talks of potential rate hikes. The only solace is that core inflation is still under control. But yields will definitely shoot up. We are running into the February Budget and the fear would be whether the fiscal deficit would be under control and how much of extra supply of



The December CPI inflation, which was released after bond market closing hours, shot up to 7.35% — the highest in over five years

government securities will hit the market. The benchmark yield will go up to 7% in some time,” he said.

Bank of America’s India country treasurer Jayesh Mehta told a television channel that the CPI number is quite shocking. “We are definitely seeing some hardening of yields. People were expecting (the CPI number) at 6.50–6.75%. People would think that

if the yields come higher tomorrow (on Tuesday), that would be a buying opportunity. But with 7.35% print, I don’t think anybody will look to buy. So, we would be seeing some dramatic uptick in yields. Now, we have the budget before the policy, we don’t know the fiscal number side, how is the RBI going to support the bond market, that is going to be a big question mark,” he said.

At the same time, dealers are pointing out that the lack of announcements regarding the OMOs has also dampened the spirits that has contributed to some bit of hardening in the yields.

The Reserve Bank of India announced three OMOs as part of Operation Twist so far since mid-December, where it simultaneously purchased and sold government securities. The central bank has purchased ₹30,000 crore of government securities so far as part of the OMOs. However, last week, RBI did not announce any OMOs.

PNB Gilts senior executive vice-president Vijay Sharma said the rate cuts may be over for now. “What is hurting the yields is a combination of high CPI expectations and the fact that no Operation Twist has been announced over the last few days. The only solace for traders would be if the central bank announces the OMOs, at least on a fortnightly basis if not on a weekly basis,” he said.

Rupee rises for fifth day, firms up 8 paise to 70.86 against dollar

PRESS TRUST OF INDIA
Mumbai, January 13

THE RUPEE ROSE 8 paise to close at 70.86 against the dollar on Monday as the upcoming US-China trade deal signing kept global market sentiment upbeat.

This was the fifth straight session of gains for the domestic currency, during which it has appreciated by 106 paise.

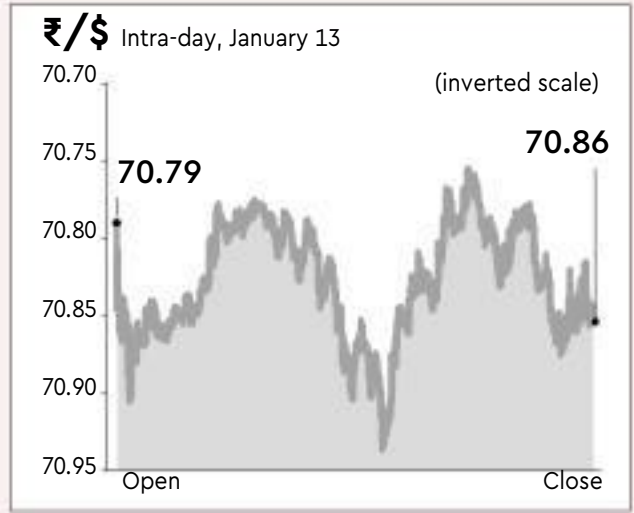
At the interbank foreign exchange market, the local unit opened on a strong note at 70.82, and shuttled between a high of

70.75 and a low of 70.93 during the day. It finally ended at 70.86, higher by 8 paise over its previous close.

The rupee had settled at 70.94 against the dollar on Friday.

Emerging market currencies appreciated as investors looked forward to the signing of the first phase of the much-anticipated US-China trade deal later this week.

The phase one of the trade deal with China includes the country buying \$200 billion worth of additional American products, US Treasury secretary Steven Mnuchin



said on Sunday.

A positive trend at the domestic equity markets and easing crude oil prices further supported the local unit, forex traders said.

“Rupee continued to trend higher against the US dollar following extended gains in domestic equities and on back of de-escalation of geopolitical tension between US and Iran,” said Gaurang Somaiyaa, forex & bullion analyst, Motilal Oswal Financial Services.

Somaiyaa further noted that market participants will be keeping an eye on the

inflation number and an uptick could keep gains capped for the currency.

The dollar index, which gauges the greenback’s strength against a basket of six currencies, rose 0.13% to 97.48.

Foreign institutional investors (FIIs) remained net buyers in the capital markets, purchasing shares worth ₹68.24 crore on Monday, according to provisional exchange data.

Brent crude futures, the global oil benchmark, fell 0.18% to trade at \$64.86 per barrel.

Quick View

RBI remains net buyer of dollars in November

THE RESERVE Bank of India (RBI) remained a net purchaser of the dollar in November, buying \$6.928 billion from the spot market on a net basis, central bank data showed. The RBI had bought \$7.458 billion of the greenback and sold \$530 million in the spot market in the reporting month.

Former RBI ED Joshi joins Sa-Dhan governing body

SA-DHAN, the largest micro-finance industry body, on Monday announced the joining of development economist and former executive director (ED) Deepali Pant Joshi as an independent member of the governing body of the association.

StanChart appoints Khosla wealth management head

STANDARD CHARTERED Bank, India on Monday announced the appointment of Samrat Khosla as its new head of wealth management (WM). Samrat comes with a wide experience in segments such as distribution, products and WM, it said.

Banks’ third-quarter results may look up, supported by recoveries, treasury gains

FE BUREAU
Mumbai, January 13

THE BANKING SECTOR’S profits are likely to grow 15–20% year-on-year (y-o-y) in the December quarter on the back of recoveries from chunky bad-loan accounts and gains in treasury income, analysts have said.

At the same time, slippages may remain high for the quarter, with non-banking finance companies (NBFCs) such as Dewan Housing Finance Corporation (DHFL) and Reliance Home Finance turning sour.

In a recent report, analysts at Jefferies wrote that Q3FY20 will see lumpy settlements — either through the insolvency route or otherwise — of around ₹76,500 crore from just four exposures, namely Essar Steel, Ruchi Soya, Prayagraj Power and RattanIndia Amravati.

Barring RattanIndia, recovery in the other three accounts as a share of book



value ranges between 0.2% and 11% for different banks, with State Bank of India recovering 6.6% and ICICI Bank recovering 2.1%.

In an environment of muted credit growth and falling interest rates, banks are expected to see their margins shrink. “Yields could soften as MCLR cuts over the recent quarter get transmitted. Overall decline in the loan-to-deposit ratio and slower growth in high yielding retail loans

could weigh on margins. The offset could come from deposit rate cuts that have been taken over the previous quarters,” Jefferies said.

Analysts say margins could be better for corporate banks. Emkay Global Financial Services, “Corporate banks are likely to report stable better margins and lower NPAs (non-performing assets), mainly due to lumpy NPA resolution including Essar Steel. Most private banks have migrated to the new low tax rate regime with DTA (deferred tax asset) impact largely factored in Q3 due to lower tax provisions.”

Emkay also said that yields on government securities (g-secs) continue to trend down, with support from Operation Twist, which should help public-sector banks (PSBs) report healthy treasury gains. “However, weakening economic trends and rising risk around inflation post flare-up in crude prices, may pose a risk to g-sec yields,” the broking firm said.

MoneyGram, EbixCash sign strategic pact to expand India presence

PRESS TRUST OF INDIA
New Delhi, January 13

EBIXCASH AND MONEYGRAM International have entered into a strategic partnership for money transfer services, the companies announced on Monday.

Under the partnership, MoneyGram will be able to reach additional consumers through Ebix’s 320,000 distribution outlets spread across 768 districts, 4,000 cities, and more than 75,000 villages — significantly increasing coverage in rural areas, a joint statement said.

EbixCash is a wholly-owned subsidiary of Ebix, Inc, a leading international supplier of on-demand software and e-commerce services to the insurance, financial, healthcare and e-learning industries.

MoneyGram International is a global provider of innovative money transfer services.

‘IFRS to enable greater disclosure by insurance firms’

FE BUREAU
Pune, January 13

INSURANCE COMPANIES in the country will have to make greater disclosures under the new International Financial Reporting Standards (IFRS), Pravin H Kutumbe, member, finance & investment, Irdai, has said.

He added that the insurance industry players will not just disclose numbers but also the logic and reasoning behind these numbers.

Kutumbe was speaking at the CD Deshmukh Memorial seminar organised by the National Insurance Academy here.

Kutumbe urged the academy to conduct more training programmes in corporate governance, enterprise risk management and risk-based supervision programmes.

In the last two decades, 24 insurance companies have come up in the country and most of them are poised for listing, and it is difficult to find how the value is created and under the new disclosure standards the value creation will be known, he pointed out.

Three companies have got listed so far and they are trading at high valuations and there are long-term valuation gains seen, he said. Understanding value creation in the insurance industry was a complex area and needed work on, he added.

“An area we are worried about is the stress coming into the industry and how to address that. This cannot be overlooked, considering what has happened in the financial services sector,” Kutumbe said.

REVIVING PMC BANK

Sharad Pawar, NCP chief @PawarSpeaks
Had a meeting with the Union Minister of State for Finance, Shri Anurag Singh Thakur (@ianuragthakur) in New Delhi to raise the issue of revival of PMC Bank. We had a constructive exchange of views on the topic.



Chanda Kochhar

The bank further stated that Kochhar flagrantly violated the ICICI Group Code of Business Conduct and Ethics.

“The petitioner (Kochhar) deliberately committed violation with a mala fide intent to obtain illegal benefits,” it stated.

The affidavit further said that Kochhar’s petition challenging her sacking by the bank claiming violation of RBI rules is an “mala fide attempt” to secure valuable stock options of the bank.

A division bench of Justices RV More and SP Tavade on Monday directed Kochhar’s advocate Sujoy Kantawala to go through the affidavit. It posted the matter for further hearing on January 20.

Kochhar moved the HC on November 30, 2019, challenging “termination” of her employment by ICICI Bank, which also denied her remuneration for her alleged role in granting “out of turn loans worth ₹3,250 crore to Videocon Group which benefited her husband Deepak Kochhar”.

ANALYST CORNER

KNR Construction: Maintain ‘buy’ with higher TP of ₹374

MOTILAL OSWAL

KNR CONSTRUCTION HAS entered into a share purchase agreement with Cube Highways to sell its 100% stake in the Walayar road project. Total enterprise value of the deal stands at ₹530 crore. As of September 2019, debt on the project was at ₹140 crore. Thus, the equity value of the deal is estimated at ~₹390 crore or P/Inv of ~1x. This is in line with our valuation of the project. There are further NHAI claims and other governmental instrumentalities, which are a pass-through to KNR as and when realised. Taking this into account, the deal value may surpass our valuation of the project.

The transaction is likely to close in another two-three months. We factor in proceeds of ₹390 crore billion by March end 2020. KNR has already monetised three of its HAM projects. We expect the balance sheet to strengthen further with net cash position of >₹200 crore/500 crore by FY21/22. The company has the best balance sheet position among mid-cap road EPC companies. This should support premium valuations for KNR, in our view.

Dabur: Likely to perform well in medium term

ICICI SECURITIES

AMID THE CURRENT demand slowdown, we reiterate Dabur as our preferred pick in Staples, given its strong bottom-up thesis. We believe it is likely to outperform in the medium term led by focus on execution under new CEO Mohit Malhotra. Dabur’s power brand strategy appears significantly different from HUL (in the early 2000s) as it emphasises greater focus on core brands rather than defocusing on the non-core. Cluster-based approach through RISE programme provides another leg to growth. Strong positioning in Ayurveda and a faltering Patanjali bodes well for Dabur to capture the growth in the fast-growing naturals segment. We do note that weak performance in juices could be a drag in near term. Dabur remains our top pick in Staples along with Godrej Consumer.

Dabur has channelled its ad spend in driving higher growth in its eight power brands — media spends grew 20% for power brands vs 6% for overall domestic business. We like Dabur’s growth focus through increasing usage occasions for Chyawanprash, highlighting health benefits of Honey (innovate and increase food usage), launching different versions of Hajmola (Chat Cola) and Pudin Hara (Powder Fizz) and targeting new consumers (launch of products like Dabur Amla Kids Shampoo).

Regional focus through RISE helps Dabur embark on initiatives like using the Dabur Red Paste (over-indexed in South) as carrier pack to distribute other brands. Other examples include initiatives in North-East and South India.

Dabur was earlier losing market share in light hair oil to competitors, primarily Marico. Over the past year though, we see strong signals from Dabur to defend its market share through aggressive price actions in its coconut oil brand and strong marketing campaign targeting Marico. We believe the increasing focus on health and wellness is the likely cause for the weak growth.