


Money Matters

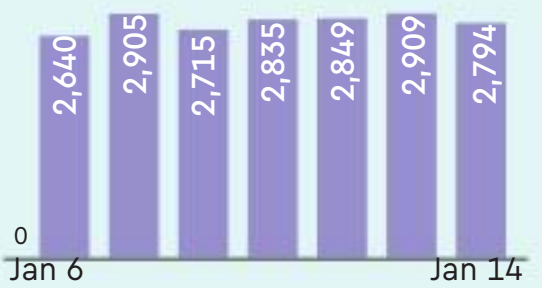
G-SEC

The benchmark yield rose due to selling pressure




LAF

Bank borrowing under RBI short-term window fell by ₹115 crore




₹/\$

The rupee depreciated on global cues



€//\$

The euro fell against the dollar



MIXED BAG

IndusInd Bank Q3 net rises 33%; asset quality worsens

Bank made provisions for ₹1,043.45 cr against ₹606 cr in Q3FY20, registering a 72% spike

FE BUREAU  
Mumbai, January 14

**PRIVATE LENDER** IndusInd Bank on Tuesday reported a 33% increase in its consolidated net profit at ₹1,309 crore for the quarter ended December 31, 2019, due to a healthy growth in retail and treasury income. However, worsening asset quality and a 72% spike in provisioning are a matter of concern.

Sequentially, the net profit dropped 6% from ₹1,383.37 crore reported in Q2FY20. The bank's net interest income (NII) for the quarter jumped to ₹3,074 crore against ₹2,288 crore in the corresponding quarter of the previous year, registering a growth of 34% compared to the corresponding quarter last year. The bank's net interest margin for the quarter was at 4.15% compared with 3.89% in the comparable period last year.


The revenue from retail business rose 31.6% year-on-year to ₹5,026 crore from ₹3,819 crore. Treasury operations also saw a growth of 25% to ₹1,460 crore, while revenue from corporate banking, grew by 9.3% to ₹2,589 crore.

The asset quality of the bank worsened year-on-year as gross non-performing assets (GNPA) more than doubled to ₹4,578 crore from ₹1,968.15 crore in absolute terms. In percentage terms

Report card

Particular (₹ crore)	Q3 FY19	Q3 FY20	Chg ( %)	Q2 FY20	Chg ( %)
Net interest income	2,288.0	3,074.0	34.4	2,909.0	5.7
Other income	1,468.0	1,790.0	—	1,727.0	3.6
NIM (%)	3.83	4.15	—	4.05	—
Provisions	606.0	1,043.0	72.1	737.0	41.5
Net profit	985.0	1,309.0	32.9	1,400.0	—
Gross NPA (%)	1.13	2.2	—	2.19	—
Net NPA (%)	0.59	1.1	—	1.12	—

Source: BSE



GNPAs went up to 2.18% from 1.13% a year ago. The bank's net NPAs increased higher to 1.05% in December 2019 from 0.59% a year ago.

Sequentially, gross NPAs remained almost at same level from 2.19% to 2.18%, while Net NPAs declined from 1.12% to 1.05%. The lender's slippages rose to ₹1,945 crore, up 76.49% quarter-on-quarter from ₹1,102 crore reported in Q2FY20. The bank made provisions for ₹1,043.45 crore, against ₹606 crore provided for in Q3FY20, thus registering 72% growth in provisions.

The other income (non-interest income) rose by 22% to ₹1,790 crore against ₹1,469 crore in the same period last year. The bank's pre-provision operat-

ing profit is also up by 30% at ₹2,758 crore against ₹2,117 crore during the same period last year.

Total advances as on December 31, 2019, stood at ₹2,07,414 crore as compared to ₹173,169 crore on December 31, 2018, recording a growth of 20%. Total deposits rose to ₹2,16,713 crore in December quarter, a growth of 23%.

"The bank witnessed a healthy growth in its topline as well as in operating profits. The bank also reached a milestone as the balance sheet footage crossed ₹3 lakh crore and the advances crossed the ₹2-lakh mark," managing director and CEO Romesh Sobti said.

The provision coverage ratio stood at 53% this quarter, he added.

Bandhan Bank profit zooms 121% on Gruh merger impact, lower provisions

FE BUREAU  
Mumbai, January 14

**PRIVATE SECTOR LENDER** Bandhan Bank on Tuesday reported a net profit of ₹731 crore for the quarter ended December, up 121% from the corresponding figure in the same quarter last year.

The jump comes on the back of a 62% year-on-year (y-o-y) rise in total income to ₹3,075 crore as the benefits of the bank's acquisition of Gruh Finance came into play. The lender also benefited from a 61.5% drop in provisions to ₹295 crore.

The bank's net interest income (NII) rose 36% y-o-y to ₹1,541 crore. Net interest margin (NIM), a key indicator of profitability, fell 29 basis points (bps) to 7.91% from 10.45% at the end of June as the presence of secured and low-margin housing loans in the book played out.

The bank said it has made additional provisions of ₹200 crore on standard advances in its microfinance portfolio after evaluating risks observed in certain areas of a Northeastern state.

MD and CEO Chandra Shekhar Ghosh said the unrest in Assam does not pose an exceptional challenge to the bank. "We have seen such issues before in 2010, 2016 and 2017. Whenever such incidents happen, they continue for a maximum of three months," Ghosh said, adding that while the on-time repayment (OTR) ratio for the

From the books

Particular (₹ crore)	Q3 FY19	Q3 FY20	Chg ( %)	Q2 FY20	Chg ( %)
Total income	1,883.7	3,075.34	61.9	3,050.55	-38.3
Net interest income	1,124.0	1,541	36.0	1,529	-26.5
Other income	234.1	357.71	53.9	360.27	-35.0
NIM (%)	10.5	7.91	259 bps	8.2	29 bps
Provisions	377.7	294.88	-61.5	145.55	159.5
Net profit	331.3	731.03	120.8	971.8	-65.9
Gross NPA (%)	2.41	1.93	48 bps	1.76	20 bps
Net NPA (%)	0.7	0.81	11 bps	0.56	25 bps

Source: BSE

bank's entire microfinance portfolio is 98.1%, the OTR for Assam is 93.6%.

Bandhan's microfinance exposure is ₹6,500 crore, which constitutes 16% of its microfinance portfolio and 10% of its total loan book. Asset quality at the bank deteriorated from the previous quarter, with the gross non-performing asset (NPA) ratio rising to 1.93% from 1.76% at the end of September. The net NPA ratio rose 25 bps sequentially to 0.56%.

Total advances as on September 30, 2019, stood at ₹65,456 crore, up 41.4% from the previous year, while total deposits rose 58.5% y-o-y to ₹54,908 crore. The current account savings account (CASA) ratio dropped to 34.31% from 41.4% at

₹ cuts short 5-day gaining streak; edges down 1 paisa

PRESS TRUST OF INDIA  
Mumbai, January 14

SNAPPING ITS FIVE-DAY winning run, the rupee on Tuesday slipped by 1 paisa to close at 70.87 against the dollar ahead of the signing of the US-China trade deal and weak macroeconomic data on the domestic front.

The domestic currency had opened on a strong note in line with other Asian peers after the US on Monday removed the currency manipulator label it imposed on China last summer. But weak macro data weighed, rising crude oil prices and strengthening of the American currency in the overseas market dragged the domestic unit lower. "Higher than expected retail and wholesale inflation weighed on Indian bond as MPC may pause rate in coming meeting. The benchmark 10-year bond yield jumped 6 bps to 6.65%," said VK Sharma, head of PCG and Capital Markets Strategy, HDFC Securities.

Wholesale inflation surged to an eight-month high of 2.59% in December against 0.58% in November due to sharp rise in prices of food articles.

INTERVIEW: ASHISHKUMAR CHAUHAN, MD & CEO, BSE

‘Volatility will be very high in next 3-4 decades’

As technology progresses at a rapid pace, going forward, there will be a lot of economic earthquakes and volatility will be very high for the next three-four decades, said Ashish Kumar Chauhan, MD & CEO of BSE. In an interview with Urvashi Valecha, he further said the current Securities Transaction Tax (STT) implementation is uneven as it tends to promote speculation because STT is highest on delivery-based derivatives and lowest on options. Edited excerpts:

We recently saw Karvy Stock Broking taking loans by pledging their clients securities. What are the exchanges doing to protect investors from such eventualities? These are issues that surface from time to time and as soon as they are known, steps are taken to rectify them. In the last few months, several regulations have been announced by the regulators. Most of the regulations announced are outcomes of what had happened in several brokerage houses over the last six months where irregularities of massive scale were understood and analysed. Sebi has given some time for the industry to adhere to the new regulations.

What are the measures in terms of surveillance being taken after the Karvy crisis? Surveillance has many aspects, and for me, the most important is price surveillance where we use social media and bots. If the



information is out in the public domain and not on the BSE, we immediately ask questions to the companies, and they do respond. But now, this has improved and become automated. To ensure that the wrong people don't give any news through a third party, checks and balances have been reinstated. Again on the brokers side, we have strong inspections related framework. Some funding-related issues that were not focused on, will now be incorporated in the surveillance.

Do you think Long Term Capital Gains Tax (LTCG) should stay? When LTCG was removed and STT (securities transaction tax) came in, you could take STT as an expense under the income tax Section 88E. But that was also removed later in 2008, creating huge friction in the

trading process and reducing liquidity in the underlying spot markets. It ended up creating a situation where a perception was made that the stock market is getting used for tax evasion which is against the purpose of the stock market.

Whenever you have a new tax or remove a tax, the business gets used to it and creates a situation to avoid or evade taxes where feasible. It is called tax arbitrage. However, if you want a healthy capital market you should create a situation where a lot of people come in the markets for the right reasons, that is, investments and not tax evasion. The background which allowed STT to be introduced has gone away and hence STT needs to be removed.

The government needs to collect money in form of taxes to run its operations in any modern society. Now that LTCG has been imposed should STT not go? Current STT implementation also is uneven. It tends to promote speculation. It is highest on delivery-based derivatives and lowest on options. Based on this uneven implementation of STT, if you look at the numbers today, the options are now trading 90-92% of the market. 6-7% are futures and just 2-3% are equities trading or cash market. From 2008 to 2020, options have taken over because on a notional amount basis they have STT which is one hundredth of futures. So, everyone has gone to the lowest cost activ-

ity. Within the same framework also, which is commodities versus equity derivatives, if there is differential STT (CTT), you will see people move towards that.

Longevity of companies coming into the index has come down, and the churn in the index has gone up substantially. How does it impact investor behaviour? I think volatility will be very high in the next three-four decades. We may come across a situation where many companies will become large and many will disappear. The technology's tectonic plates will move so fast that there will be a lot of economic earthquakes. For retail investors, it will be required then to understand the trends. Many of us think buying in the morning and selling in the afternoon is an investment, but it is not investment. Long-term investments are becoming way too complex because too many areas are seeing too many changes in a short time and many older areas are becoming irrelevant.

So, as a retail investor, you need to tie up with the like-minded people who have different understanding, or take the services of portfolio management service. Investors who don't have time to look at their investments can invest in mutual funds. But if investors want pure market returns, they can also look at exchange traded funds (ETFs) or index funds, which is called passive investing.

● IMPACT OF N-E UNREST  
Chandra Shekhar Ghosh, MD & CEO, Bandhan Bank

The unrest in Assam does not pose an exceptional challenge... We have seen such issues before in 2010, 2016 and 2017. Whenever such incidents happen, they continue for a maximum of 3 months.

Bharat Wire Ropes defaults on ₹220 crore owed to PSBs

FE BUREAU  
Mumbai, January 14

**LISTED FIRM** Bharat Wire Ropes on Tuesday said it was in default of ₹219.70 crore owed to state-owned banks as on December 31.

The company disclosed the default to the stock exchanges following a Securities and Exchange Board of India (Sebi) notification mandating such disclosures.

The default took place on September 30, 2018.

Bank of Baroda (BoB) has the largest exposure of ₹286 crore to Bharat Wire Ropes. The other lenders to the company are Union Bank of India and its UK subsidiary, State Bank of India, Central Bank of

format. Of the default amount, the principal overdue is ₹144.84 crore, while the interest overdue is ₹74.86 crore.

The company's total outstanding borrowings from banks and financial institutions stand at ₹570.71 crore. The facilities on which it has defaulted include term loans, external commercial borrowings (ECBs) and working-capital loans.

The Reserve Bank of India (RBI) is yet to come up with a framework for resolution of stress in companies where the banking system's exposure is less than ₹1,500 crore. The June 7 circular defines the mechanism for resolving larger accounts. In November 2018, CARE Ratings had rated bank loans worth ₹450 crore taken by Bharat Wire Ropes as 'D', default grade, citing non-cooperation on the part of the borrower. "There have been ongoing delays in servicing of term loans on account of weakened liquidity and cash losses during H1FY19," CARE said in the rating rationale.

SBI cuts interest rates on some retail term deposits by 15 bps

PRESS TRUST OF INDIA  
Mumbai, January 14

**STATE BANK OF INDIA (SBI)** has reduced interest rates on retail term deposits by 15 basis points (bps) on certain tenures, effective January 10.

The reduction in interest rates are for long-term fixed deposits below ₹2 crore.

The lender has slashed interest rates on fixed deposits maturing in 1-10 years to 6.10% from 6.25%, as per the information on bank's website.

For fixed deposits maturing in seven days to 45 days and 46 days to 179 days, the bank is offering an interest rate of 4.50% and 5.50%, respectively.

The term deposits maturing in 180 days to less than one-year are fetching an interest rate of 5.80%.

The bank offers 50 bps higher interest

rate to senior citizens. With this reduction, fixed deposits maturing in one-year to 10 years will give interest at the rate of 6.60% to senior citizens.

Last month, the bank cut its external benchmark based rate (EBR) by 25 basis points to 7.80% per annum from 8.05% per annum.

With it, the bank's home loan rate also got reduced to 7.90% from 8.15%.

SBI had introduced floating rate home loans from July 1, 2019.

The lender had adopted repo rate as the external benchmark for all floating rate loans for MSME, housing and retail loans from October 1, 2019, after RBI mandated banks to link certain category of loans to external benchmark based interest rate.

The bank has reduced its marginal cost of funds based lending rate (MCLR) eight times in the 2019-20 financial year so far.

ANALYST CORNER

Telecom sector: Recent rate hikes trigger trend reversal

MOTILAL OSWAL

**AFTER A** prolonged period of pain, the telecom sector has got a fresh lease of life, thanks to the recent unprecedented tariff hike and the government's efforts to revive profitability. We believe the recent tariff hikes is a beginning of a trend reversal with more to come in 2020. The incremental price hike is a function of support for VIL and the needed profitability boost for Rjo and Bharti. This could be a turning point for the industry, wherein incremental capital commitment would decline with players agreeing on better tariffs. We believe the sector offers strong operating, financial and valuation leverage. While VIL would need more steps for its survival, Rjo and Bharti stand to benefit significantly from further relief measures.

To address the risk of the looming adjusted gross revenue (AGR) liability and alleviate the financial stress, telcos have announced a strong ~25% Arpu increase, which should add ₹29,300 crore/₹19,000 crore to the industry's overall revenue/Ebitda in FY21E. But given the second SIM card phenomenon, we estimate there could be ~20-30% leakage (partly factored in), which

could be more pronounced for weaker players due to the risk of customers retracting back to the primary SIM. In this case, Rjo has the highest share of smartphone devices, and therefore, could see the highest gain. On Q2FY20 annualised basis, Bharti's consolidated revenue/Ebitda can rise by ₹11,200 crore/₹8,100 crore, while Rjo's should increase by ₹13,300 crore/₹9,600 crore. VIL is likely to see the highest operating leverage, given its lowest Ebitda margin and subsequently, its revenue/Ebitda should rise by ₹10,200 crore/₹7,400 crore. Telcos have devised price plans in a manner where there is limited risk of downtrading as data volume offerings have reduced by over 90% for the base plan, which is priced ~25% lower. Further, industry Arpu rise was hinged on three key triggers — ballooning leverage, negative FCF, and reducing network/pricing arbitrage.

This had led to slowing subscriber churn and limited growth opportunities, thus compelling telcos to keep Arpu on a growing trajectory. Assuming ₹25,600 crore of annual cash requirement, which includes capex, cash interest cost and deferred spectrum liability, VIL needs Arpu of ₹18,400 to survive.

Lupin: Recommend 'buy' with target price of ₹913

NOMURA A&EJ

**LUPIN ON** Tuesday announced that its Tarapur API facility has been classified as OAI (Official Action Indicated) following the inspection in September 2019. New ANDA approvals linked to the API produced at Tarapur are likely to be withheld. The inspection had led to three Form 483 observations. There was contamination of metal particles in a certain API batch. This contamination could be on account of the usage of certain equipment in the production process or inappropriate cleaning. Lupin failed to expand the investigation to other API batches that may also have been contaminated. These products were eventually distributed in the US market.

Similarly, the impact of damage in equipment on API quality was not thoroughly probed for multiple API batches. There was lack of control on documentation of production process. Certain changes were not properly documented and implemented without involve-

ment of the quality department. One key issue highlighted in the first observation is deeper probe of an incidence that the USFDA now demands. We are negatively surprised by Lupin's inability to address the USFDA issues over the past 2 years. Tarapur is the 5th facility to be classified as OAI. This raises concerns on the systems and process and leadership in quality and manufacturing units.

Tarapur API site was commissioned in 1992 and is a multi-product site which includes a fermentation facility. The clearance of Goa and Indore formulation sites may not be sufficient to gain approval in cases where API is from Tarapur. But Tarapur API is not likely to have a material impact on US sales. But there could be some negative impact of third-party API sales. We think US sales uptick will depend on the ramp-up of Levothyroxine, Solosec, approval of gProAir and market share gains in some of the older products. We have a 'buy' rating and arrive at our TP of ₹913 based on 22x September 2021F EPS of ₹41.5.