

# Markets

FRIDAY, JANUARY 17, 2020



**FRESH BORROWING**  
David Rasquinha, managing director, Exim Bank  
As a going concern, not only I have to refinance my borrowing but I also need to have fresh borrowings... for any typical year, our gross borrowing requirement is \$1.5-3 billion. In the next fiscal also, it is expected to be up to \$3 billion.

## Money Matters

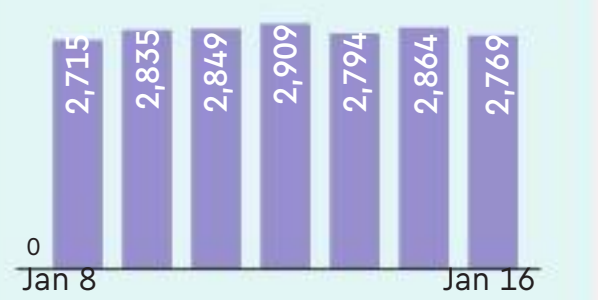
### G-SEC

The benchmark yield fell 0.362% due to buying support

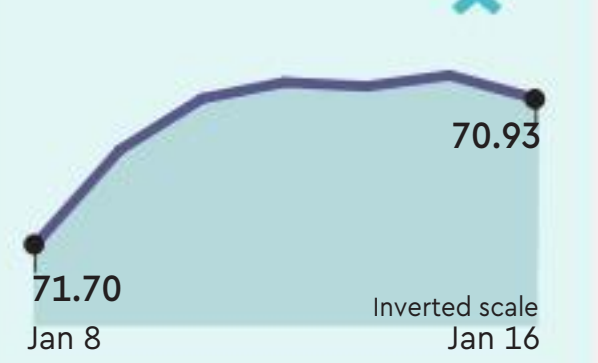


### LAF

Bank borrowing under RBI's short term window fell by ₹94 crore



The rupee appreciated on global cues 0.16%



### €//\$

The euro rose against the dollar 0.152%



## Quick View

### Yes Bank buys 10.25% stake in Coffee Day's Sical Logistics

YES BANK has acquired a 10.25% stake in Sical Logistics, a Coffee Day Group company, by invoking pledged shares. "Yes Bank Ltd has, pursuant to invocation of pledge of shares, acquired 60,00,000 equity shares having nominal value of ₹10 per share, constituting around 10.25% of the post-issue paid-up share capital of a listed company, namely, Sical Logistics Ltd," the lender said in a regulatory filing. Sical Logistics is engaged in providing dredging and retail supply chain logistics solutions.

### Sundaram Fin divests entire stake in Equifax

CHENNAI-BASED Sundaram Finance (SFL) on Thursday said it has executed an agreement for sale of its entire equity stake of 10% in credit information company Equifax Credit Information Services (Equifax). The company will be selling around 1.35 crore shares aggregating to 10%, for a price of ₹67.43 per equity share. "Sundaram Finance Ltd (SFL) has executed a share purchase agreement for sale of its entire equity stake of 10% in Equifax Credit Information Services Pvt Ltd," the company said in a regulatory filing to the exchanges.

### Exim Bank to raise up to \$3 bn from overseas borrowings

THE EXPORT-Import Bank of India (Exim Bank) is looking to raise up to \$3 billion (about ₹21,000 crore) from overseas borrowing in next financial year (2020-21), a top official said. The bank has raised \$1.7 billion (about ₹11,900 crore) of overseas borrowing through bond issuances and foreign loans in the current financial year.

### Federal Bank elevates Shalini Warriar as ED

KOCHI-BASED private sector lender Federal Bank on Thursday announced elevation of Shalini Warriar as an executive director. The bank received approval of RBI in this regard, the lender said in a statement. Warriar has been the chief operating officer of the bank since November 2015, and also holding the additional responsibility of business head of retail banking since May 2019.

## TRADE DEAL BOOST

# Sensex surges past 42k-mark

YOUSEF KP  
Mumbai, January 16

THE BENCHMARK INDICES continued to rise on Thursday, with the Sensex crossing the 42,000-mark in intra-day trades following the initial trade deal between China and the US.

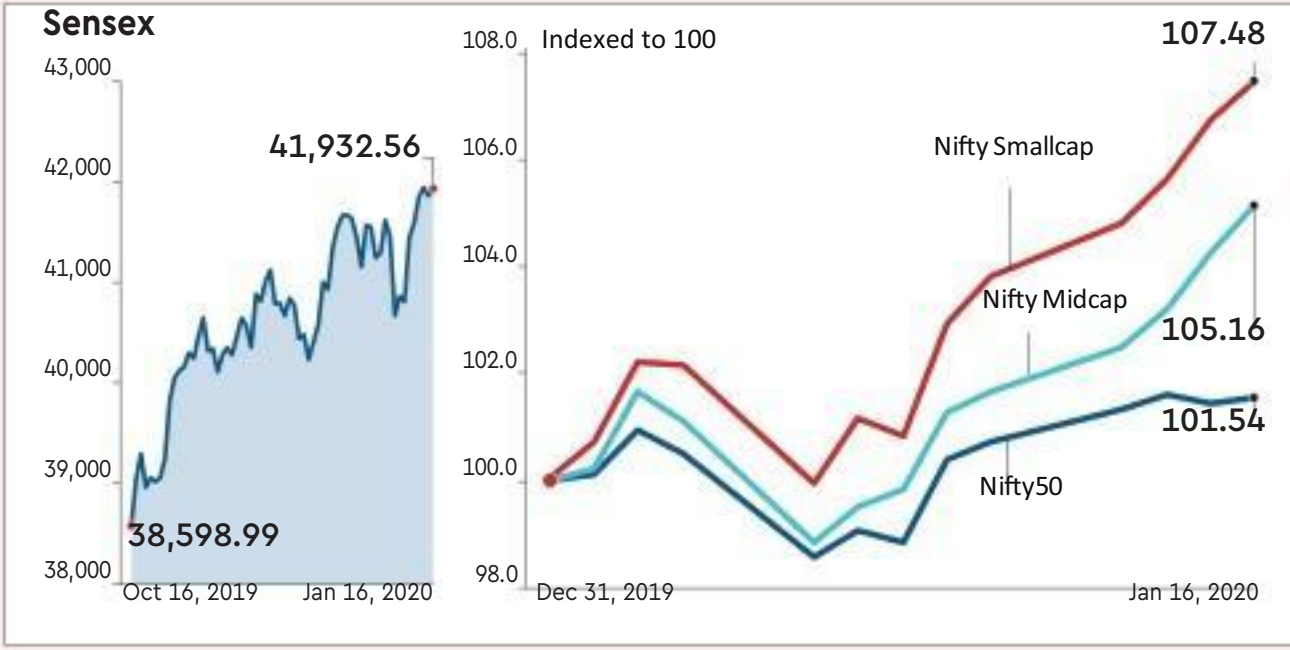
The broader market has joined the rally on Dalal Street, with both Nifty Midcap and Smallcap indices outperforming the benchmarks in 2020. While the Nifty Midcap surged 5.2% since January 1, Nifty SmallCap has gained 7.5% during the same period. In the same period, the benchmark Nifty gained just 1.5%.

All of the 19 sectoral indices compiled by BSE gained on Thursday, barring BSE Metal, BSE Oil & Gas and BSE Basic Materials.

Markets have shed fears over rising geopolitical tensions and oil prices and are pinning hope on some triggers that the government could announce in the Union Budget. The market is also focusing on third-quarter earnings as some of the heavyweights are due to announce their numbers for the quarter this week.

According to Siddhartha Khemka, head - retail research, Motilal Oswal Financial Services: "We are witnessing sector-specific and stock-specific action as the third quarter earnings season progresses and as expectations to the run up to the Budget build-up for certain sectors."

Investors are looking forward to some form of a fiscal stimulus to boost growth and



some policy thrust to revive investments after economic growth fell to multi-year lows. Nomura expects a gradual recovery through 2020 with a lagged positive impact of monetary stimulus and policy thrust driving investment cycle. This recovery thesis is based on benign oil prices and supportive external environment.

High expectations from the Union Budget has further given legs to the rally this year. According to Gaurav Dua, senior V-P, Sharekhan, BNP Paribas, there is a growing demand for announcement of fiscal stimulus in the Union Budget.

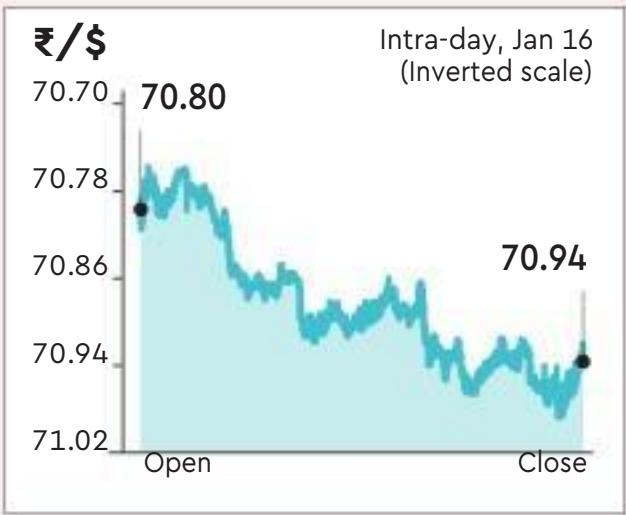
"With RBI doing its bit by keeping the monetary stance accommodative and cutting interest rates sharply in 2019, the onus is also on the central government to provide fiscal support to the economy," he said.

## Rupee drops by 11 paise to 70.93 on dollar demand

PRESS TRUST OF INDIA  
Mumbai, January 16

THE RUPEE FELL by 11 paise to close at 70.93 against the dollar on Thursday due to strengthening crude oil prices and dollar demand from importers.

At the interbank foreign exchange market, the domestic currency opened on a strong note at 70.80 a dollar after the US and China signed an initial trade deal. But during the day, the rupee lost momentum and touched a low of 70.98 against the



Both foreign and domestic institutional investors (DIIs) sold shares on Thursday. While foreign portfolio investors (FPIs) offloaded shares worth \$56 million, local investors sold equities worth \$26 million, provisional data on exchanges showed. However, so far in January 2020, the overseas investors have bought equities worth \$ 286.6 million against DIIs selling of \$139 million worth of shares.

At 41,932.56, the Sensex trades at a price-earnings multiple of 19.6 times one-year estimated forward earnings. This compares with 12 times for Kospi and 14.7 for Jakarta Composite. Russian and Turkish equities were the cheapest in the emerging market with a forward price-to-earnings ratio about seven times, Bloomberg data showed.

American currency. The rupee finally settled the day at 70.93, showing a fall of 11 paise over its previous close.

"The rupee erased early morning gains and last quoted at 70.93 with loss of 11 paise as dollar buying seen by banks on behalf of the importers," said VK Sharma, head PCG and capital markets strategy, HDFC Securities.

Forex traders said forex outflows and rising crude oil prices also weighed on the domestic currency. Brent futures rose 0.36% to \$64.23 per barrel.

## Moody's puts Yes Bank ratings under review; lowers credit assessment

FE BUREAU  
New Delhi, January 16

MOODY'S INVESTORS SERVICE on Thursday placed Yes Bank's long-term foreign currency issuer rating of B2 under review, with the direction uncertain.

The ratings agency also placed the bank's long-term foreign and local currency bank deposit ratings of B2, and its foreign currency senior unsecured MTN program rating of (P)B2, under review, with the direction uncertain.

Moody's also downgraded Yes Bank's baseline credit assessment (BCA) and adjusted BCA to CAA2 from B3.

The placing of Yes Bank's deposit rating of B2 under review reflects Moody's expectation that the bank's standalone viability is getting increasingly challenged by its slowness in raising new capital. Moody's points out that the potential credit risk to the bank's senior creditors is uncertain, because there are a number of diverse scenarios that could affect the rating in either positive or negative directions. Moody's said because the viability of the bank absent a large capital injection is in question, Moody's has downgraded the bank's standalone credit profile or its BCA to CAA2 from B3.

"Yes Bank is in discussions with a number of investors to raise new equity capital, which would be credit positive if executed successfully. If the bank successfully recapitalises and repairs and cleans its balance sheet, its ratings could stabilise or face upward pressure", Moody's said.

If a private sector solution is unsuccessful, and a regulatory led resolution is implemented, Moody's expects that the Indian authorities will strive to maintain systemic stability and avoid losses to depositors and senior creditors.

## Karnataka Bank Q3 profit drops 12%

KARNATAKA BANK on Thursday reported a 12% decline in its net profit at ₹123.14 crore for the third quarter ending December 31, 2019, on account of rise in bad loans.

The Mangalore-headquartered bank had reported a net profit of ₹140.41 crore in the year-ago period, the bank said in regulatory filing. However, the total income of the bank rose to ₹2,023.68 crore from ₹1,815.79 crore in the same quarter a year ago. The gross non-performing asset (NPA) of the bank rose to 4.99% of assets from 4.45% in the year-ago period. Similarly, the net NPA, too, increased to 3.75% from 3% during September-December 2018. —PTI

## Bond yields fall ahead of OMO announcement

BHAVIK NAIR  
Mumbai, January 16

THE BOND MARKET seems to have figured out how to erase unpleasant memories from the recent past. This is evident from the paring of recent losses made after the announcement of the huge spike in December CPI inflation at 7.35%. Though bond yields had closed 7 basis points higher on Tuesday, the market has now pared most of the losses in anticipation of the much-awaited OMO announcement under Operation Twist.

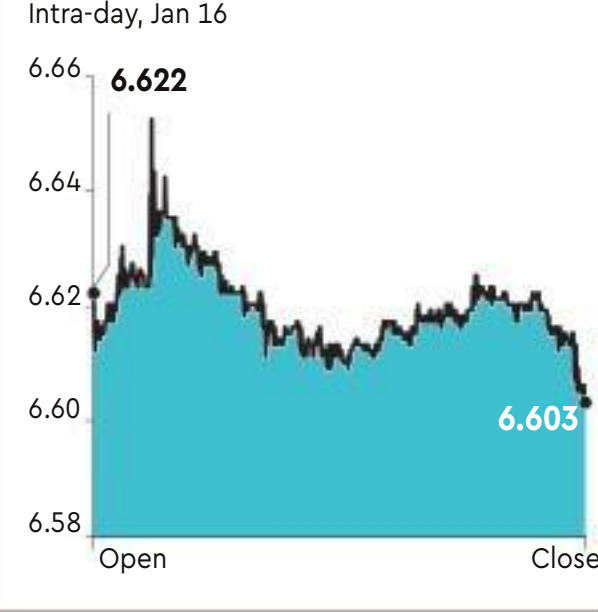
The benchmark yield fell seven bps over the last two days to close at 6.60% on Thursday, thereby erasing all the losses made after the announcement of the December inflation print.

As was anticipated by the market, the Reserve Bank of India (RBI) on Thursday evening announced the fourth OMO in the series where it will be looking to simultaneously buy and sell government securities worth ₹10,000 crore each. This time the central bank will be purchasing securities maturing in 2024 and 2029 while it will be selling securities maturing in 2021. Siddharth Shah, head of treasury at STCI Primary Dealer, confirmed that the market was looking forward to the OMO announcement and this reflected in the yields.

"The market continues to expect anywhere between five and eight OMO announcements under Operation Twist and we still probably have space for one or two more announcements before the Budget. Indeed, the high CPI does remain on the back of the mind of the market but one has to see that the effect was mainly driven by food inflation. It will probably be ignored by the markets in the near term," Shah said.

The bond market is now keenly awaiting the borrowing programme for the next fiscal which will be one of the key triggers along with the CPI inflation print for coming months. Some experts are of the view that though the surge in December CPI inflation was led by food prices, inflation is likely to remain sticky in the coming months. The one thing that the market seems to have come to terms with is the fact that a rate cut looks highly unlikely in the upcoming monetary policy in February.

### 10-year bond yield (%)



The benchmark yield fell 7 bps over the last two days to close at 6.60%, thereby erasing all the losses made after the announcement of the December inflation print

Ananth Narayan, professor-finance at SPJIMR, said RBI is making its intent very clear by bringing in the fourth OMO under Operation Twist — it is working to bring down term premia.

"At least in the short run, it is very difficult for the Indian debt markets to go against a determined RBI, and hence we might see some relief support to bonds. However, the challenges are quite severe in the medium term. While most analysts expect food inflation and hence overall inflation to eventually stabilise at lower levels, I fear that 2020 could be the year where inflation continues to surprise on the upside.

"Secondly, the extent and quality of our fiscal balance is far worse than is acknowledged. GDP growth and credit growth will hopefully recover over the course of 2020. Given all these pressures, interest rates could eventually head higher," Narayan said.

Foreign portfolio investors (FPIs) have been net sellers of Indian debt so far in 2020. According to Bloomberg data, FPIs have sold \$1.16 billion worth of bonds on a net basis this year.

## ANALYST CORNER

### L&T Infotech: Reiterate 'buy' on client rebound, deal wins

MOTILAL OSWAL

TOP CLIENT rebound and encouraging deal wins are key positives for L&T Infotech. Continue expecting industry leading growth; robust growth in the top account alleviates concerns around client-specific issues. Besides, strong/broad-based client addition across buckets and encouraging deal wins will likely translate into industry leading growth. We see further scope for margin expansion driven by better utilisation. We upgrade our EPS estimate by ~6% for FY20-22, given the large deal win momentum and the decent outlook in the top client. Reiterate 'buy'.

Revenue increased 14.2% y-o-y (our estimate: +10.2%), Ebit margin came in at 16.2% (our estimate: 15.7%), while PAT growth was stagnant (our estimate: -3%). Organic revenue exclusive pass-through increased 6.4% q-o-q CC. Growth was broad-based across most verticals and service lines. The uptick in spends at the top client, combined with a few large deal ramp-ups among the top 10 clients, is the key growth driver. Growth in Europe (+1.8% q-o-q) was surprisingly soft. Ebit margin expanded ~70bp q-o-q.

### Bajaj Auto: Lower battery costs likely to woo e-scooter buyers

KOTAK INSTITUTIONAL EQUITIES

BAJAJ AUTO has launched its first electric scooter Chetak priced at ₹1 lakh-₹1.2 lakh, a price similar to that of Ather S450. The e-scooter will be available in two variants, Urbane and Premium. The running cost for e-scooter is far lower than a gasoline one, but we believe higher upfront costs due to higher battery prices and additional cost of battery replacement after five years due to degradation will delay the transition towards e-scooters in India. It will be first launched in Bengaluru and Pune and sold via the existing KTM distribution network. The company has set up 13 dealerships in Bengaluru and 4 in Pune. The e-Chetak is equipped with a 3 kW-hr lithium ion battery with real-world range of 95 km in Eco mode and 85 km in Sport mode. The time required to charge the e-scooter is 5 hours for 100% and 1 hour for 25%.

Bajaj e-scooter's premium variant is priced at ₹1.2 lakh (ex-showroom)

largely driven by operating leverage, higher utilisation and currency benefit. Key margin headwind was lower margins associated with pass-through revenue. In line with the industry trend, attrition moderated by 70 bp to 17.7%.

Strong growth in the top account was led by a new project. In the ongoing consolidation, the management indicated LTI is on the positive side. It is optimistic on continued growth momentum. The firm is seeing a rise in spending in discretionary areas of BFSI. Concerns about US presidential polls have so far not come up in conversation with clients. LTI will continue to be a growth company with focus on S&M investments. It sees some more headroom for operating leverage with growth. Industry leading growth will defend rich multiples. Moderating attrition also comes in as a positive. Recent large deal wins hint at strong growth over the next 12 months. Besides, LTI's recent client addition across buckets was the strongest and broad-based v/s comparable prior periods. Industry leading growth + prudent capital allocation should defend rich multiples. We arrive at a fair valuation of 19x one-year forward P/E, at a 15% discount to TCS. Maintain 'buy'.

whereas Ather S450 is priced at ₹1.1 lakh (ex-showroom). Ather S450 has 3 riding modes — Eco offering 75 km range, Ride and Sport with range of 65 km and 55 km, respectively. It has a DC fast-charging facility, which can charge at a rate of 1 km/minute; Bajaj e-Chetak doesn't support fast charging. The e-scooter's battery comes with a warranty of 3 years/50,000 km. After 50,000 km, there will be battery degrade due to which the range of e-scooters will come down and the customer will incur additional costs. Our current cost of analysis for e-scooter vs Honda Activa FI implies breakeven of ~5 years at the current landing cost of \$250 per kW-hr for batteries. Since breakeven for a customer is >3 years, economics for e-scooters is not favourable vs gasoline ones currently. But if battery prices drop to \$150 per kW-hr, breakeven for e-scooters will come down to ~2.5 years, at which point consumers may shift to e-scooters. Lower battery prices remain a key for success of e-scooters in India.