Markets

TUESDAY, JANUARY 21, 2020

DREAMING BIG

Nitin Chugh, MD, Ujjivan SFB

We can be a large bank within small borrowers. This is where we want to dominate, this is where we want to work systematically. The space is very large for everyone, we just need people to be taking a long-term view.

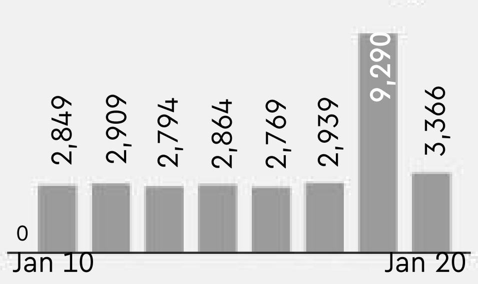
Money Matters

G-SEC

Benchmark yield rose due to selling pressure 0.01%

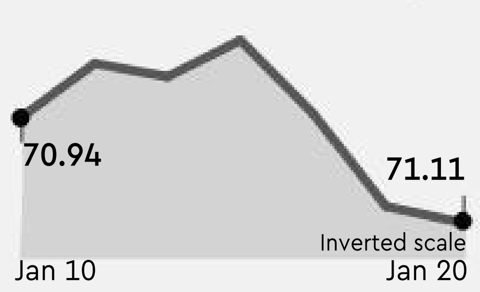
LAF

Bank borrowing under RBI's short-term window fell by ₹5,294 crore 63.7%



₹/$

The rupee depreciated on global cues 0.03%



€/$

The euro fell against the dollar 0.05%

GOOD SHOW

KMB net rises 24% on lower tax outgo, higher income

FE BUREAU
Mumbai, January 20

PRIVATE SECTOR LENDER Kotak Mahindra Bank on Monday reported a 24% year-on-year (y-o-y) rise in its net profit to ₹1,596 crore for the quarter ended December, on the back of lower tax expense and a rise in non-interest income. The bank incurred a non-recurring expense of about ₹200 crore towards employee pension obligation during the quarter.

The net interest income (NII) — the difference between the interest earned and interest expended — saw an increase of 17.2% y-o-y to ₹3,430 crore. The net interest margin (NIM) for the quarter stood at 4.69%, up 8 basis points from the year-ago period.

Non-interest income grew 37% y-o-y to ₹1,341 crore. Gross NPAs rose to ₹5,413 crore from ₹5,033 crore in the September quarter. As a percentage of gross advances, gross NPA rose 14 bps to 2.46%. The net NPA came in at ₹1,925 crore, or 0.89% of gross advances. The net NPA ratio was up 4 bps sequentially. Slippages, or fresh bad loans, came in at ₹1,062 crore in the December quarter.

Provisions stood at ₹444 crore in Q3FY20, compared to a net write-back of provisions worth ₹32.3 crore in the previous quarter. The provision coverage ratio stood at 64.4%.

The loan growth decelerated to 10% y-o-y, while gross advances stood at ₹2.17 lakh crore. "In the wholesale segment, the number of lendable entities has shrunk," said Dipak Gupta, joint managing director, adding, "The choice really is how much more you lend to them. On the retail side, growth is really good." The corporate loan book grew by just 3% y-o-y during the latest quarter.

Gupta said one needs to look at trends in the wholesale and the SME (small and medium enterprises) side over the past two-three years. "Every quarter, you see new bullets, and every one of these bullets is in the realm of what I call the 'unknown unknown'. You don't expect the bullet to get shot but it does and it is not a sectoral problem. These are newer entities, and these entity-related issues are creating the problem."

Special mention accounts (SMA2) — the portfolio of loans overdue by between 61 and 90 days — stood at ₹274 crore, or 0.13% of net advances. "SMAs (special mention accounts) have come down. There's good and bad news in that. No fresh SMAs have been created, so the future looks significantly better. But some of the SMAs have moved into the NPAs," Gupta said.

The bank's capital adequacy ratio stood at 18.21%. At the end of the December quarter, the share of current account savings account (CASA) deposits stood at 53.7%.

Following the announcement of the results, shares of Kotak Mahindra Bank fell 4.7% to ₹1,618.05 on the BSE.

Q3 numbers

Particular (₹ crore)	Q3 FY19	Q3 FY20	Chg (%)	Q2 FY20	Chg (%)
Total income	7214.2	8,077.0	12.0	7,986.0	1.1
Net interest income	2,926.26	3,429.5	17.2	3,349.6	2.4
NIM (%)	4.31	4.69	38 bps	4.61	8 bps
Provisions	-32.3	444.0	NA	407.9	8.8
Net profit	1,290.9	1,595.9	23.6	1,724.5	-7.5
Gross NPA (%)	2.07	2.46	39 bps	2.32	14 bps
Net NPA (%)	0 .71	0.89	18 bps	0.85	4 bps

Source: Bank

BoM posts ₹135-cr net profit in Q3

FE BUREAU
Pune, January 20

BANK OF MAHARASHTRA on Monday reported a net profit of ₹135 crore for the third quarter of the current fiscal, compared with a loss of ₹3,764 crore in Q3FY19.

The bank reported one of its highest operating profits in the last three years with a 95% rise to ₹842 crore during the quarter, AS Rajeev, MD & CEO, said. The bank is hoping for some capital infusion from the government. Last time, the bank did not get the capital, so chances are there that it will get this time, he said.

Rajeev said the rise in profits was on account of a 36% increase in net interest income to ₹1,186 crore and increase in recovery of written-off loans. Net interest margin improved to 2.86% from 2.41%, he said. The bank's cost to income ratio improved to 48% in Q3FY20 from 66% in Q3FY19. Total interest income increased 14% to ₹3,016 crore. The gross NPA as well as net NPA decreased to 16.77% and 5.46%, respectively.

Losses in Q3FY19 were on account of cleaning up of the balance sheet and higher provisioning, but now there are a lot of headwinds in the market, the BoM MD said. The bank will grow advances by 8-10% by end of the year, he said. "We do have risk appetite and good liquidity to grow the business", Rajeev said.

The bank does not expect any slippages in the last quarter of FY20.

AC Rout, ED of BoM, said the bad patch at the bank was over and it has strengthened its balances sheet. The bank had increased the share of retail, agriculture and MSME loans, which now account for 57% of total advances. Corporate loans have remained flat during the quarter. The share of CASA deposits to total deposits increased to 48.07% as on December 31, compared with 46.88% as on December 31, 2018, Rout said.

Gross NPA was down to 16.77% from 17.31% in the year-ago period, while the net NPA stood at 5.46% as against 5.91%. The bank has a provision coverage ratio of 82.63% as on December 31.

Gross advances stood at ₹93,882 crore while total deposits increased to ₹1,41,986 crore, showing a growth of 4.4%.

DHFL may resume lending operations from next week

ANKUR MISHRA
Mumbai, January 20

BELEAGUERED MORTGAGE LENDER Dewan Housing Finance Corp (DHFL) is planning to commence lending operations from next week, a source close to the development told *FE*.

To begin with, the lender will look at disbursing ₹500 crore every month from internal accruals. The administrator, R Subramaniakumar, told the meeting of the committee of creditors (CoC) on January 16 that DHFL is preparing to start lending operations.

FE has learned that the administrator held a town hall interaction with employees of the DHFL a week back. During the interaction, he asked the employees to be prepared for advancing home loans with a target of ₹500 crore a month by February. "DHFL administrator will now move the NCLT Mumbai for taking permission to start the lending operations," the source said. DHFL has not disbursed loans since May 2019 after the trouble started due to liquidity crunch.

On January 16, the CoC approved proposals on cost that would be incurred by the company during the resolution process. This includes ₹75 lakh per month for advisor to administrator – EY India. The CoC also approved fees to legal advisor AZB Partners, which amounted to ₹11,500 per hour on a blended basis. The administrator informed the CoC that DHFL's assets under management stood at ₹1,19,952 crore.

FE had earlier reported that the CoC was considering a proposal to invite bids for the company in three parts. The administrator proposed to invite separate bids for retail, non-retail and slum rehabilitation (SRA) project loans in the last CoC meeting.

The troubled mortgage financier has so far received claims of ₹92,404 crore from creditors, which included financial creditors, operational creditors, deposit holders along with employees and workmen. DHFL has received ₹45,550.07 crore from bondholders and ₹41,342 crore from lenders.

ICICI Securities Q3 profit jumps 36%

PRESS TRUST OF INDIA
New Delhi, January 20

ICICI SECURITIES, THE investment services arm of ICICI group, on Monday reported a 36% rise in its consolidated profit to ₹137 crore for the third quarter of 2019-20. In comparison, the company's profit stood at ₹101.1 crore in the year-ago period, ICICI Securities said in a filing.

The total income rose to ₹422.12 crore, compared with ₹404.7 crore in the third quarter of the previous fiscal.

The rise in the profit was on account of growth in revenue, reduction in expenses, and changes in statutory tax rates, it said.

During the quarter, revenues from retail equities and allied business grew 5% to ₹228 crore from ₹216 crore in the year-ago period.

"We continued to focus on executing our strategy of offering appropriate products and solutions to varied clientele across a spectrum of needs. We are continuously working towards building for the future with client interest at the centre and a keen focus on using digitization to contain cost, enhance productivity and efficiency. During the quarter, we saw an uptick in retail participation due to large, mid, and small caps participating in the rally..." MD and CEO Vijay Chandok said.

Large volumes caused app issues: HDFC Bank

FE BUREAU
Mumbai, January 20

THE MANAGEMENT OF HDFC Bank has blamed unanticipated volumes for malfunctioning of its online and mobile platforms in December. Customers of India's largest private sector bank raised an alarm on December 2 after being unable to access their accounts via mobile apps or online. The bank's management categorically denied any cyber attack.

The issue persisted for around three days and coincided with pay day. It prompted the central bank to send a team to the bank for identifying the reasons behind malfunctions. A similar incident had also occurred in December 2018. "We realised as a company, we have been victims of our own success. What one would have envisaged is that from a base level you normally size up for four-five times the capacity. We realise the volumes have gone even beyond the five times capacity that we had originally sized up. So, it is more of a capacity issue," Sashidhar Jagdishan, executive director, HDFC Bank, recently told analysts on a conference call.

The bank is monitoring the situation "practically every minute" and has taken several measures to increase capacity and manage volumes better, Jagdishan said. "Post the second incident (December 2019), we have been able to segregate the paths and have de-risked the paths. We have been adding capacity, we hope to add more capacity, and we will be rationalising volumes. We have realised that sometimes it does not make sense to acquire some of the marginal volumes... We are in a good state at this juncture, we are far more comfortable. We have diverted a lot more traffic into multiple other channels and we hope to be even more comfortable in the next three-five months," Jagdishan said.

On queries regarding whether it was a cyber attack, Jagdishan said, "I can categorically say and we have said it to the regulator as well that there was no cyber attack or incidence on December 2."

Federal Bank profit surges 32%, boosted by higher income & lower provisions

Report card

Particular (₹ crore)	Q3 FY19	Q3 FY20	Chg (%)	Q2 FY20	Chg (%)
Total income	3,300.0	3,738.22	13.3	3,675.2	1.7
Net interest income	1,077.0	1,155	7.2	1,124.0	2.8
Other income	345.6	407.86	18.0	420.9	-3.1
NIM (%)	3.17	3	17 bps	3.01	1 bps
Provisions	190.1	160.86	-15.4	251.8	-36.1
Net profit	333.6	440.64	32.1	416.7	5.7
Gross NPA (%)	3.14	2.99	15 bps	3.07	8 bps
Net NPA (%)	1.72	1.63	9 bps	1.59	4 bps

Source: BSE, Bank

FE BUREAU
Mumbai, January 20

FEDERAL BANK ON Monday reported a 32% year-on-year (y-o-y) rise in its net profit for the quarter ended December to ₹441 crore, on the back of a 13.3% rise in total income to ₹3,738 crore and a 15% fall in provisions to ₹161 crore. The net interest income (NII) rose 7.2% y-o-y to ₹1,155 crore. The NII is the difference between interest earned and interest paid by a bank.

The net interest margin (NIM), a key measure of profitability, fell marginally to 3% from 3.01% at the end of September.

Shyam Srinivasan, managing director and chief executive officer, guided for a NIM of close to 3.08% for the full year. "This quarter we saw the impact of the two accounts which slipped and the revenue reversal was close to ₹17-18 crore. As credit volume picks up on all these businesses, the NIM will certainly be north of 3.06% and the full-year number will be close to 3.08%," he said.

The bank's gross NPA ratio fell 8 bps from the end of September to 2.99% of the loan book. The net NPA rose 4 bps sequentially to 1.63%. Fresh slippages rose 10% sequentially to ₹593 crore, of which ₹321 crore came from the corporate book. Two large housing finance companies that slipped during the quarter accounted for ₹283 crore.

The retail book saw slippages worth ₹101 crore, down from ₹124 crore in the September quarter, while those in the agri book fell to ₹50 crore from ₹72 crore in the previous quarter. Slippages in the business banking segment fell to ₹66 crore from ₹95 crore in Q2FY20.

Its standard restructured book shrunk to ₹463 crore from ₹612 crore at the end of the September quarter. A full repayment of ₹200 crore by Air India led to the shrinking of the restructured book. Net advances grew 13% y-o-y to ₹1.19 lakh crore by the end of December. Retail loans grew 23%, corporate loans grew 5.86% and SME advances rose 17%. Srinivasan attributed the loan growth to gains in market share in some specific geographies.

Bad loans swell at Altico

BAD LOANS PROBABLY ballooned last quarter at Altico Capital India, according to people familiar with the matter, a lender that is seen as a barometer in India's evolving shadow bank crisis.

Soured debt was provisionally estimated at close to 40% of total credit end-December, up from 23.8% in September, sources said, asking not to be identified as the details are private. **BLOOMBERG**

ANALYST CORNER

Retain 'sell' on ICICI Lombard with FV of ₹825

KOTAK INSTITUTIONAL EQUITIES

ICICI LOMBARD'S 3QFY20 performance was mixed with improvement in profitability in the health segment, while the motor OD business continued to be a drag. Moderate growth in net earned premium surprised positively over muted gross premium though reduction in investment yield pulled down earnings. We cut estimates, roll over fair value to ₹825 (from ₹800); retain 'sell'.

ICICI Lombard has reported reduction in loss ratio in most segments due to a combination of industry tailwinds and improvement in business mix; the company increased the share of the profitable private car business (56% from 50% y-o-y) in the motor segment and increased focus on retail health. We highlight a couple of monitorables over the next few quarters that will determine its medium-term profitability trajectory. Loss ratio in the motor OD segment continues to drag its earnings although the recent q-o-q reduction may be an early sign of improvement. ICICI Lombard's expenses remain high (expense and commission ratio up 300 bps yoy to 27%) — this is dragging its combined ratio even as its loss ratio has been improving.

The company had guided for investment leverage of 4.5X over the next two years (4.2X in 3QFY20 from 4X in 3QFY19); it has now highlighted that leverage may take longer to improve from here due to provisions of the recent Motor Vehicle Act that cap claim period to six months. The company reported a sharp reduction in calculated investment yield to 7.2% from 7.9-9.4% over the preceding four quarters; this is due to shorter duration and liquid investments.

We expect ICICI Lombard to maintain about 100% combined ratio over the medium term; this will translate to 22-23% RoE. While pricing dynamics in the motor business post the new Motor Vehicle Act are yet to evolve, a shorter claim period of six months may partially offset the leverage benefits of the long-tenure motor policies introduced last year. We remain perplexed with ICICI Lombard's rich valuations, which are likely tracking the positive trends and narratives, ignoring risks from stringent competition and regulatory linkages.

Maintain 'buy' on HDFC Bank with PT of ₹1,500

MOTILAL OSWAL

HDFC BANK REPORTED core PPoP growth of 19% Y-o-Y while elevated provisions resulted in PBT growth of 16% Y-o-Y. PAT growth of 33% Y-o-Y was aided by lower tax rate. Slippages were elevated though the operating performance remained strong with stable margins, robust fee growth and improving C/I ratio. We fine-tune our estimates factoring in strong other income and higher provisions as the bank has created certain specific provisions. Maintain 'buy' with a PT of ₹1,500 (3.7x Sep'21E ABV).

NII grew 13% Y-o-Y to ₹14,170 crore with margins stable at 4.2%. Core fee income grew 24% Y-o-Y to ₹4,530 crore, driving 19% Y-o-Y growth in total revenues.

The loan book increased 20% Y-o-Y, led by the corporate segment (+27% YoY) while retail loan growth was soft at 14.1% Y-o-Y. Within retail, credit cards and personal loans grew 11%/7% Q-o-Q. Deposits grew 25% Y-o-Y while CASA mix increased 20 bps Q-o-Q to 39.5%. Slippages stood at ₹5,340 crore, resulting in ~7% Q-o-Q increase in GNPA. NNPA increased 18% Q-o-Q. GNPA/NNPA ratios increased by 4bp/6bp QoQ. Coverage ratio declined ~300bp QoQ to 66.7%.

Subsidiaries: HDB Financial – For 3QFY20, loan growth stood at 15% YoY and PAT at ₹340 crore (+16% YoY). HDFC Securities – Net revenue stood at ₹210 crore (+17% YoY) and PAT at ₹94.3 crore (+35% YoY) for 3QFY20.

HDFC Bank's operating performance remains strong in a tough environment. While corporate loan growth is strong and driving overall loan growth, retail loan growth remains skewed in favour of unsecured products. Asset quality has deteriorated as the bank reported higher slippages from lumpy accounts and the agri segment.

However, provisioning buffers should enable a steady earnings trajectory.

Quick View

South Indian Bank to raise ₹500 cr via bonds

SOUTH INDIAN BANK on Monday said it is planning to raise ₹500 crore from bonds to fund business expansion. An amount of ₹300 crore will be raised through Basel III-compliant Tier I bonds with a ₹200-crore green-shoe option.

IRFC files IPO draft papers with Sebi

Indian Railway Finance Corporation (IRFC) has filed draft papers with markets regulator Sebi for its initial public offering (IPO). The public issue is of up to 140,70,69,000 equity shares, of which up to 93,80,46,000 equity shares are fresh issue, and up to 46,90,23,000 shares are offer for sale, according to the draft red herring prospectus.

RBI central board meet minutes on website

THE RBI ON Monday said it will place minutes of the meetings of the central board on its website "in terms of the provisions of Section 4 of the Right to Information Act, 2005". However, the minutes will be published after redacting information that is permitted under the Act.

Ujjivan eyes small biz amid retreat by NBFCs

GANESH NAGARAJAN
Chennai, January 20

UJJIVAN SMALL FINANCE Bank which surged 51% on its trading debut last month, is focusing on increased lending to small businesses to expand its footprint and boost profitability.

Shadow banks, strung by a liquidity crisis, aren't in a position to lend to small shopkeepers, clinics, local government and salaried workers, and Ujjivan has identified seven such segments for lending where demand is high, managing director Nitin Chugh said in an interview in Bengaluru. Ujjivan is also conducting a pilot on two-wheeler and three-wheeler financing, he added.

"We can be a large bank within small borrowers," Chugh said. "This is where we want to dominate, this is where we want to work systematically." **BLOOMBERG**