Markets

WEDNESDAY, JANUARY 29, 2020

ONE-TIME LOAN RECAST

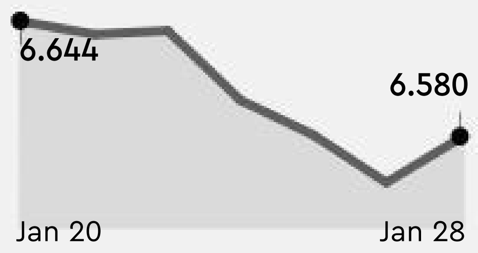
Deepak Parekh, HDFC chairman

We have requested the NHB (National Housing Bank, sector regulator) and others to take a relook at the provisioning and the NPA issue on projects that are stuck and need the last mile funding. We are talking to the regulators, we have spoken to the finance ministry, one time restructuring is absolutely necessary.

Money Matters

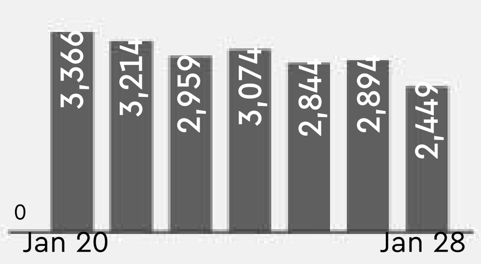
G-SEC

Benchmark yield rises due to selling pressure 0.024%



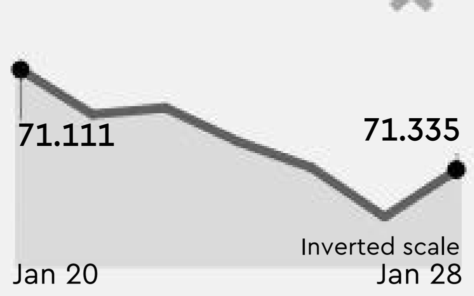
LAF

Banks' borrowing under RBI's short-term window falls ₹445 crore from the previous close 15.37%



₹/$

Rupee appreciates on global cues 0.15%



€/$

Euro falls against the American greenback 0.14%

GLOBAL SELLOFF

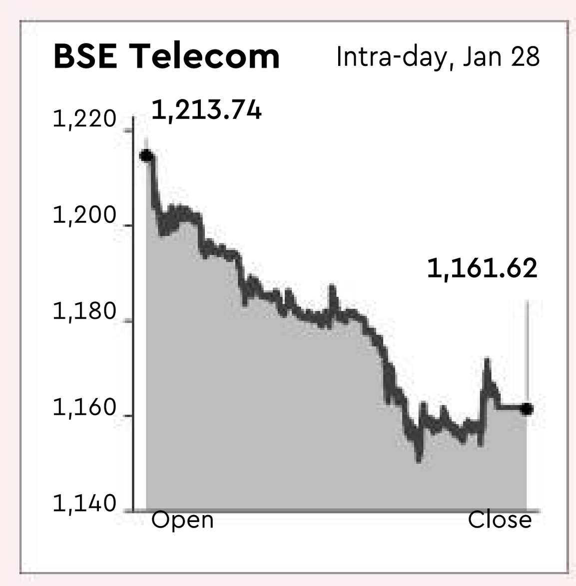
Markets slump for second day on coronavirus scare

BSE Telecom was the day's biggest loser, plunging 4.1%, BSE Metal fell 2.6%

URVASHI VALECHA & YOOSEF KP
Mumbai, January 28

INDIAN EQUITIES SLID for the second day in a row on Tuesday, as investors continued to weigh the financial impact of the outbreak of the Coronavirus in China. The sell-off in the equity market came at a time when the broader markets joined the rally since the beginning of January. Markets also remained jittery ahead of the US Federal Reserve meeting on Wednesday. BSE Telecom fell the most on Tuesday, followed by BSE Metal, down by 2.6%. The BSE Telecom index plunged as much as 4.1% after Bharti Airtel's Africa unit posted a 21% y-o-y fall in Q3 earnings. The negative sentiment rubbed off on most sectoral indices.

The Nifty Midcap and Smallcap have gained 6.6% and 8.6%, respectively, since January 1. In contrast, over the last two years through 2019, the Nifty Smallcap had lost 35.8% whereas the Nifty Midcap came off 19.1%. Interestingly, the last year's best performers — Bank Nifty and Nifty Financial Services — have declined the most in January after Nifty Metal Index. While the Bank Nifty declined 4.4%, the gauge for financial services has slid nearly 2%. Banking stocks have been under selling pressure with the onset of earnings season, the reason being tepid performance, higher slippages and elevated provisions reported by some banks. For instance, HDFC Bank reported a 33% y-o-y earnings growth but also saw an increase in slippages. The stock of the largest banker by market capitalisation has given up close to 4% so far in 2020.



While the Sensex lost 188.26 points to close the session at 40,966.86 points, down 0.46%, the broader Nifty50 settled at 12,055.80 points, down 0.52% from the previous close. UR Bhat, director, Dalton Capital Advisors India, observes, "The implications of coronavirus could be serious enough to affect the market in a big way with pronounced economic dimensions. Given that a lot of people keep travelling to and from China and the fact that the spread of the virus does not seem to have been contained, trade and commerce would be certain casualties."

Bhat also added there are some reports suggesting that it was a part of biological warfare experiment gone wrong. Moreover, the information flow from China is somewhat limited and no one knows if the problem is far more serious than what has been reported. The buying in the broader market picked up of late after two years of bearish mode. The number of companies with a market capitalisation of ₹1,000 crore or more has risen to 709 on Tuesday from a low of 684 at the end of December 2019.

Meanwhile, the foreign portfolio investors (FPIs) continued to buy Indian stocks, mopped up shares worth $719.3 million in the last five sessions. So far in January, the overseas investors have bought shares worth $2.2 billion after pumping in $14.23 billion in 2019. Neelesh Surana, chief investment officer at Mirae AMC, is of the view that "there is anxiety because of coronavirus. This is an event, no one knows when it will peak out and till then there will be some kind of volatility".

In Asia, Korea's Kospi fell as much as 3.1% on Tuesday. While Chinese, Taiwan and Hang Seng markets remained shut for the Lunar New Year, Indonesia's Jakarta Composite closed 0.4% lower.

Manappuram Fin Q3 net rises 63% y-o-y

NBFC MANAPPURAM FINANCE on Tuesday reported a 63% y-o-y rise in net profit at ₹397.84 crore in Q3FY20 against a net profit of ₹244.11 crore a year ago. Net profit of the standalone entity is at ₹332.42 crore against ₹210.82 crore a year ago. Manappuram group recorded a consolidated net profit of ₹1,000 crore so far this fiscal.

Gold loan AUM rose 29.69% to ₹16,242.95 crore, from ₹12,524.91 crore a year ago. The gold loan business also added 3.25 lakh new customers and disbursed loans worth ₹40,304.26 crore. The number of live gold loan customers stood at 26.4 lakh. Gold pledged at Q3 end was at 73.52 tonne against 66.32 tonne. In aggregate, the non-gold loan business contributed 33% to its total consolidated AUM. Consolidated operating income stood at ₹1,399.02 crore against ₹1,081.20 crore a year ago. Consolidated AUM grew 35.52% to ₹4,099.95 crore, from ₹17,783.10 crore a year ago.

VP Nandakumar, MD & CEO, said, "Our performance...is in line with our guidance. All our arms and business verticals have made worthwhile contributions to the overall performance. We now look forward to a strong finish in Q4." — FE BUREAU

Central Bank posts ₹155-cr profit

FE BUREAU
Mumbai, January 28

CENTRAL BANK OF India reported a net profit of ₹155.32 crore on a standalone basis for the December quarter, compared to a ₹718.23-crore loss a year ago. The Q3 profit was aided by a 129% y-o-y rise in non-interest income (NII) to ₹1,249.41 crore due to better recoveries.

Total income grew 15% y-o-y to ₹7,278.29 crore. However, advances in Q3 fell 2.8% to ₹1.66 lakh crore. Sequentially, there was a degrowth in the loan book by around ₹2,000 crore. "In agriculture, MSME and corporate (segments) there is a negative growth.... the disbursement trend is improving month-on-month, but what we are seeing is the repayment is more than disbursements," said Pallav Mohapatra, MD and CEO, Central Bank of India. The bank has seen a consistent growth in the retail segment, primarily in housing loans, Mohapatra added.

NII was up 11.34% y-o-y to ₹2,022 crore. Net interest margin was 10 basis points (bps) higher than the last quarter at 2.92%. NII was boosted by a ₹383-crore write-back on account of Ruchi Soya and a ₹160-crore write-back for the Essar Steel account, the bank's management said. Recoveries in written-off accounts grew nearly 20 times from a year ago to ₹520 crore. Mohapatra said the bank is expecting additional recoveries in some other accounts, including Religare Finvest and Flexituff, in the fourth quarter.

Total deposits for the quarter grew 4.4% y-o-y to ₹3.08 lakh crore. Current accounts fell 5.3% y-o-y to ₹13,918 crore, while savings accounts grew 7.8% to ₹1.26 lakh crore. Term deposits grew 3.3% y-o-y to ₹1.68 lakh crore. CASA as a share of total deposits improved 85 bps y-o-y to 45.49%. Provisions in Q3 fell 31% y-o-y to ₹1,249 crore. Total expenses reduced marginally to ₹5,582 crore aided by lower employee costs.

Report card

(₹ crore)	Q3FY19	Q3FY20	(%) Change	Q2FY20	(%) Change
Total income	6,329.17	7,278.29	15.00	6,703.71	8.57
Net interest income	1,816	2,022	11.34	1,891	6.93
Other income	544.34	1,249.41	129.53	813.63	53.56
Net interest margin (%)	2.74	2.92	18	2.82	10
Provisions	1,433	1,541	7.54	892	72.76
Net profit (standalone)	-718	155	-	134	15.67
Gross NPA (%)	20.64	19.99	-65	19.89	10
Net NPA (%)	10.32	9.26	-106	7.9	136

Source: Company data

Mahindra Fin Q3 net up 15% y-o-y

MAHINDRA FINANCE ON Tuesday reported a 15% y-o-y rise in its standalone net profit at ₹365 crore for Q3FY20, on the back of a 13% growth in net interest income (NII). At the consolidated level, the net profit rose 16% to ₹475 crore.

In what has been a challenging environment for NBFCs, Mahindra Finance saw its customer base cross 6.6 millionin Q3. The standalone assets under management (AUM) grew 16% to ₹75,884 crore.

"The overall sentiment from the business continues to remain a little subdued. It starts with the auto space transitioning to BS VI from BS IV. The whole focus is on reducing the inventory levels and not really looking at large numbers. The buying sentiments are not picking up yet," said Ramesh Iyer, vice-chairman and MD, Mahindra Finance, during the earnings call.

NII came in at ₹1,371.8 crore in Q3FY20, against ₹1,209.9 crore a year ago. Gross NPAs (stage-3) rose to ₹5,773.3 crore, or 8.5% of the business assets, against ₹5,203.8 crore (7.9%) in Q2. Net NPA stood stood at ₹4,451.9 crore, or 6.7% of the business assets. — FE BUREAU

Quick View

Yes Bank sells shares worth ₹5.7 crore in Reliance Power

YES BANK ON Tuesday offloaded shares worth over ₹5.7 crore in Reliance Power through an open market transaction. According to NSE data, a total of 3,02,59,855 shares, representing 1.07% of the total shares of Reliance Power, were sold by the private lender. The lender sold the shares at an average price of ₹1.91 apiece, which took the total deal value to over ₹5.77 crore.

IIFL Finance Q3 net jumps 78% to ₹193 cr

INDIA INFOLINE FINANCE reported a 78% increase in consolidated net profit at ₹193 crore for Q3FY20. It had registered a net profit of ₹108.4 crore a year ago. Income was down 2% to ₹582.60 crore against ₹593.40 crore a year ago. Loan AUM was at ₹36,015 crore with home loans constituting 34%, business 23%, gold 21% and microfinance 8% of the total AUM.

HDFC plans to invest ₹100 cr per year in tech start-ups

PRESS TRUST OF INDIA
Mumbai, January 28

MORTGAGE FINANCE MAJOR HDFC is mulling to invest up to ₹100 crore per year in technology start-ups, its chairman Deepak Parekh said on Tuesday. The largest mortgage lender will install a dedicated team understanding the startup ecosystem to do the investments, he said.

The announcement comes at a time when there is a lot of focus on the policy front to encourage startups with an objective of encouraging innovation and creating employment opportunities.

Many corporate entities and also the largest lender SBI have been creating in-house funds to invest in start-ups.

"At the last board meet, I took an idea of investing ₹100 crore per year in start-ups," Parekh said, speaking at the annual Tiecon event here.

He said just like the idea to branch out into universal banking, the board had reluctance with the idea of investing in startups as well, but underlined that he believes there is a need to invest in ideas of the future in the technology space.

The company will be creating a an in-house team at the headquarters to take charge of investments and exuded confidence that they will start operating in two months. Parekh urged the youngsters not to get "consumed" by the ongoing economic slowdown and exuded confidence that the tide will change soon.

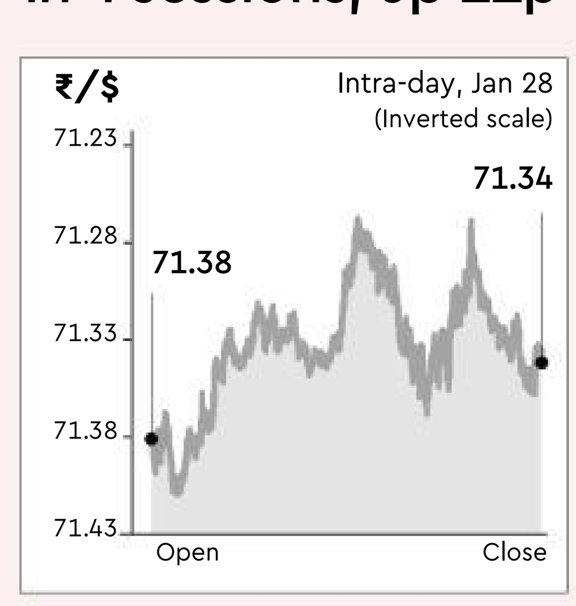
HDFC pitches for one-time recast for realty loans

AHEAD OF THE Budget 2020-21, HDFC on Tuesday pitched for a one-time loan recast for realty projects.

Its chairman Deepak Parekh said lenders are not able to write new loans for projects because a new borrowing by an entity which is already a non-performing asset, becomes an NPA on day one. The comments come amid difficult times faced by the realty sector, which has forced the government to announce a ₹25,000-crore fund to push stuck projects.

It can be noted that the RBI has discontinued the practice of loan recast for the last few years, but has created an exception for small businesses after governor Shaktikanta Das took over. — PTI

Rupee logs first gain in 4 sessions, up 12p



THE RUPEE CLOCKED its first gain after three days of losses on Tuesday, recovering by 12 paise to close at 71.31 against the US dollar, even as concerns remained over fast-spreading coronavirus from China to other regions. The domestic unit's rise was restricted by a host of factors like subdued equities, stronger dollar against key currencies and sustained foreign fund outflows, according to analysts.

At the interbank forex market, the local currency opened at 71.37. During the day, the local unit saw a high of 71.26 and a low of 71.41. The domestic unit finally settled at 71.31, up 12 paise from its previous close. The unit had settled at 71.43 against the dollar on Monday. — PTI

ANALYST CORNER

Maintain 'neutral' on DRL with target price of ₹3,000

MOTILAL OSWAL

THE RENEWED STRATEGY in the US, the enhanced focus on branded generics in emerging markets and the cost-control initiatives are promising steps that bolster DRL's earnings prospects. We raise our EPS estimate by 7.3%/8.2%/-9.2% for FY20/21/22 to factor in the better outlook in India/Russia, the higher gross margin and the scope of enhancing operating leverage. However, we maintain our 'neutral' rating as we await a better entry point.

Revenue increased ~14% y-o-y to ₹4,380 crore (our estimate: ₹4,240 crore) in Q3FY20, driven by all business segments (except the US which grew moderately by 8% y-o-y to ₹1,600 crore — 36% of sales). Pharmaceutical Services and Active Ingredients (PSAI) segment (16% of sales) grew at 16% y-o-y to ₹690 crore. India business (17% of sales) was up 13% y-o-y at ₹760 crore, while Europe business (7% of sales) grew 52% y-o-y. Emerging markets (21% of sales) was up 19% y-o-y to ₹920 crore, led by CIS (+26% y-o-y) and Russia (+20% y-o-y). Gross margin expanded 20bp y-o-y (+260bp q-o-q) to 54.1% on an improved product mix. Controlled cost (SGA expense/R&D spend down 130bp y-o-y/50bp y-o-y) led to ~200bp y-o-y expansion in the Ebitda margin to 23.2%. Ebitda was up ~25% y-o-y at ₹1,020 crore (our estimate: ₹900 crore). DRL reported a loss of ₹570 crore due to impairment of ₹1,320 crore on account of g-Nuvaring (₹1,100 crore) and other intangibles (₹200 crore). Adjusting for the same, PAT came in at ₹590 crore (our estimate: ₹450 crore), up 23% y-o-y.

With 22 ANDA launches in 9MFY20, DRL maintained target of 30 for FY20. USFDA has initiated an inspection at the Srikakulam API site. While Revlimid is an interesting opportunity, it would not fructify in the next few months. Net working capital days reduced by three on a sequential basis. Growth in Russia was partly led by winning of Rituximab tender business. PDUFA date for oral Celecoxib is in May 2020.

We expect 12% earnings CAGR over FY19-22 led by superior execution in the US/India/China and other key geographies. We continue valuing DRL at 20x 12M forward earnings to arrive at a TP of ₹3,000 (prior: ₹2,650). While the outlook remains robust, we maintain 'neutral' as we await a better entry point.

'Reduce' on Aavas Financiers with target price of ₹1,700

ICICI SECURITIES

AAVAS FINANCIERS (AAVAS) reported Q3FY20 disbursements of ₹753 crore, up 6% y-o-y. Important to note here that, incrementally, the number of loan application logins have been about 20%-25% higher y-o-y. Even with this strong demand, the disbursements were low primarily because of the conservatism that the company adopted in a weak macro-economic environment. We expect the disbursements to normalise on the back of higher productivity and the branch/-capacity additions in the quarter. With seasoning, the LAP book reported some asset quality deterioration but the headline GNPA (0.57%) and 1+ dpd (3.4%) remained impressive. Our unchanged target multiple of 4.8x December 2021E P/BV leads to a target price of ₹1,700. Maintain 'reduce' given low margin of safety in valuations.

As of December 2019, Aavas had >97,000 active loan accounts, up 41% y-o-y. In light of the lower disbursements in Q3FY20, we now model a 19% disbursement growth in FY20. But Aavas is positioned to deliver healthy AUM growth supported by lower run-off in the portfolio. Balance-Transfer-OUT (BT-OUT by value) was down ~20% y-o-y in 9MFY20. Aavas will be looking to penetrate deeper in its nine core states of presence for the next three years. Given its distribution network and the under-penetration in Tier-3 and Tier-4 cities, Aavas appears set to achieve an AUM CAGR of ~33% over FY19-FY22E.

Credit costs (as % of AUM) stood at 8bps in Q3FY20. Except for some seasoning in LAP loan-book, GNPA up 20bps y-o-y, headline GNPA at 0.57% (down 5bps/1bps q-o-q/y-o-y) and 1+dpd at 3.4% (down 50bps y-o-y) once again vindicated the strong underwriting and collections franchise of Aavas. We now model NII/PPoP/PAT CAGR of 27%/32%/38% over FY19-FY22E. The company is currently trading at 6.2x FY21E P/BV.

INTERVIEW: SANJIV CHADHA, MD & CEO, Bank of Baroda

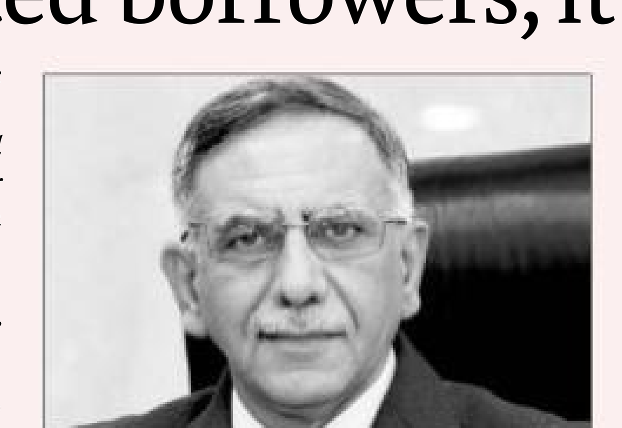
'For better-rated borrowers, it's a very competitive market'

Better-rated borrowers are able to access finance at very fine rates, **Sanjiv Chadha**, *MD and CEO, Bank of Baroda, told* **Shritama Bose**. *The environment for recovery of loans is now much better than two years ago, he added. Edited excerpts:*

Is it correct that you have pared your growth estimate for the year?

When the guidance was given earlier, we were looking at a certain growth rate for broader economy and the banking industry. What we see today is a slower economy and a slower industry growth rate. To that extent, it could certainly impact our growth rate.

Having said that, if you see the three-quarter figure, it shows that it has been pretty much a flat kind of year. On the other hand, if you look at figures within that broader figure, there has been significant growth in certain segments. Retail loan growth has been 15% and in that, car loans have grown north of 40%. Unsecured personal loans have grown about 29%. Wherever there were opportunities, the bank has been able to grow. In certain areas, like corporate loans, for instance, the opportunities have been relatively limited.



It's difficult to say where we would be by the end of the year, but what seems to certain is that the bank is fairly well-poised to grow in the coming year. Whatever happens, some of it may get reflected in the figures up to March and some after. If we take a longer timeframe, say, the next six to 12 months, there are some positive factors playing out which promise to work well for the bank.

What are these factors?

One, when the bank started its merger process, it decided to have its entire corporate book on one platform. Whatever opportunities are going to be there now, merger is not going to come in the way of growth. Secondly, a number of banks have decided to focus on retail and not really rely on corporate for growth. For BoB, it will focus on both segments equally. Therefore, when players in one market shrink, the opportunity for remaining players would expand. So over the coming 12 months, there should be many opportunities for the bank to grow, even if the overall economic growth takes some more time to rebound.

Finally, with NBFCs in the process of repositioning themselves, opportunities would open up for banks. One is to buy pooled assets. More importantly, there are opportunities to work with NBFCs constructively because over a period of time, they have demonstrated some capabilities which are very valuable.

Are interest rates at their absolute bottom right now?

For a large number of corporates, the interest rates today are very competitive. The challenge may be that the full impact of repo rate cuts are not being felt in the market and that is, to some extent, a function of some rigidities that are there in the financial system. We also have to consider what impact a cut may have on the savings bank rate or to our existing term depositors. Having said that, for the better-rated borrowers, it is a very, very competitive market. Therefore, I don't think there is at all a case that you can charge more from customers simply because the availability of finance is not there. For the best-rated clients, banks still have to struggle to get the business. Very often, for the best borrowers, if you ask them if they want to borrow in dollars, what they say is that if you take the rupee rates, they are far more competitive than dollar rates, if you take into account the hedging cost.

How well has the inter-creditor agreement framework worked for banks?

A lot of these things have first-order and second-order impacts. The first order, of course, is that if you have a case in NCLT, it gets resolved much quicker compared to what has been the experience in the past. It also has a salutary impact even on those cases which have not been referred to the NCLT because both the parties are cognisant that the possibility is always there. We are able to actually have a resolution even before the case can go to NCLT. So, we are in a far better position than where we were two years ago.