Markets

FRIDAY, JANUARY 31, 2020

LENDING TO DEVELOPERS

Siddartha Mohanty, CEO & MD, LIC Housing Finance

In the current year, we have been very selective in lending to developers. In fact, there has been a degrowth in disbursements of 57% to developers. However, we are encouraging developers working in the affordable housing segment

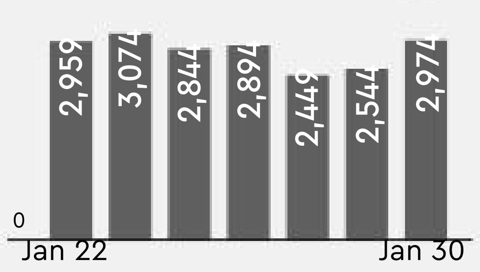
Money Matters

G-SEC

The benchmark yield fell due to buying support 0.015%

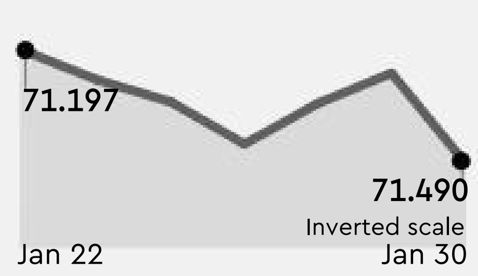
LAF

Bank borrowing under RBI short-term window rose ₹430 cr from previous close 16.9%



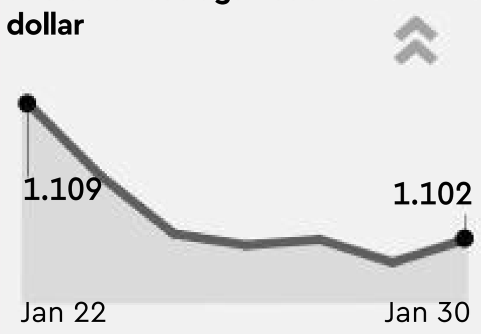
₹/$

The rupee depreciated on global cues 0.33%



€/$

The euro rose against the dollar 0.11%



Quick View

Axis Bank to raise up to ₹4,175 cr via NCDs

PRIVATE SECTOR LENDER Axis Bank on Thursday said it plans to raise up to ₹4,175 crore through the issuance of non-convertible debentures (NCDs) on a private placement basis. "The committee of whole-time directors of the Bank, today (Thursday) approved the allotment of 41,750 senior unsecured redeemable non-convertible debentures of the face value of ₹10 lakh each, for cash, at par aggregating to ₹4,175 crore," Axis Bank said.

MSE 1st to get nod to start weekly IRF contracts

THE METROPOLITAN STOCK Exchange of India (MSE) on Thursday said it has received Sebi approval to launch the country's first weekly derivatives contracts on interest rate futures. This is the second fete for MSE as it was also the first exchange to clear the country's first trade under the interoperability framework for exchanges and clearing corporations. IRF contracts complete the entire span of the IRF market, creating additional avenues to mitigate short-term risks by hedging and taking more informed speculative positions.

Yes Bank sells over 15 lakh shares of SICAL Logistics

YES BANK ON Thursday said it had sold more than 15 lakh shares, constituting 2.68% of equity stake, of SICAL Logistics in various tranches. The shareholding of Yes Bank in SICAL Logistics has come down to 5.49% post sale of the 15.66 lakh shares, according to a regulatory filing. The lender on January 15 had announced buyout of 60,00,000 equity shares constituting around 10.25% of paid-up share capital of SICAL Logistics through invocation of pledged shares. The bank on January 23 had sold more than 12 lakh shares of SICAL, bringing its stake to around 8%.

Amfi signs Sachin, Dhoni for mutual fund campaign

THE ASSOCIATION OF Mutual Funds in India (Amfi) on Wednesday announced that it had signed cricketing icons, Sachin Tendulkar and MS Dhoni for their 'Mutual Funds Sahi Hai' campaign, to help create awareness about mutual funds, as the preferred investment option.

INDIA RATINGS REPORT

Consumption slump to weigh on banks' retail loan growth in FY21

Banks may also see additional slippages in retail, agri, SME segments

FE BUREAU
Mumbai, January 30

IN A SLOWING growth environment, retail lending by banks could take a hit in the financial year 2020-21, analysts at India Ratings & Research said. Banks have increasingly focused on growing their retail loan books. However, with FY20 GDP growth pegged at 5%, lenders could face a slowdown in retail lending. Banks may also see additional slippages in the retail, agriculture and small and medium enterprises (SME) segments.

Over the past few years, while the retail lending has grown around 15%, the wage and employment growth has been lagging, analysts at India Ratings & Research said. "Retail loan growth is slowing down. We are at 16.4% on a year-on-year basis in November 2019, and this includes pool purchases by banks. If you remove pool purchases, it would mean retail loans slowed down further, where FY19 we had closed at 16.4%. Unless there is a dramatic improvement in the economy, this trend should continue," said Karan Gupta, associate director, India Ratings. For instance, the annual growth in domestic retail lending of India's largest private sector bank, HDFC Bank, slowed sequentially by 60 basis points in the December quarter to 14.1%. The bank also saw incremental stress build up in its retail loan book, primarily on account of commercial vehicles and some other commercial products.

The impact of the GDP growth slowdown could also result in additional slippages in banks' retail, agriculture and SME segments in FY21. If growth and demand do not pick up, analysts expect further uptick in stressed assets. Retail NPAs have been rising across segments. Between FY15 and the second quarter of FY20, gross NPAs in the housing and mortgage segment have gone up from 1.1% to 1.6%, data from India Ratings showed. "On the auto side it has gone up from 1.2% to 1.38%. The biggest, in fact, is on the education side, which has gone up from 6.38% to 10.8%," an analyst said.

The rise of unsecured loans in the retail segment, which is as high as 35%, is another cause for concern, analysts said. Some banks have increased provisioning in the unsecured loans segment as a precautionary measure. "The share of unsecured loans in the retail lending segment has gone up to 35% now (from 29% in FY16). About 47% of growth (FY15-November 2019) in the retail side is from the unsecured side. This could be a source of worry in the mid-term," the agency said. Gross NPAs in personal and unsecured loans moved up from 0.9% during FY15 to around 1.3% in the September quarter of FY20. Earlier this month, Uday Kotak, managing director, Kotak Mahindra Bank, told analysts that the bank has seen a "clear increase in the NPAs" in its unsecured book.

The consolidation of and capital infusion into state-owned lenders resulted in adequate capital for banks to provide for existing stress or moderate slippages in FY21. Further slippages in corporate accounts could result from lenders' aversion to take on additional risk, the agency said. Meanwhile, credit costs are expected to taper in FY21, improving the bottom lines of state-owned banks.

Rating agency maintains negative outlook in NBFC sector amid headwinds

FE BUREAU
Mumbai, January 30

AMID MULTIPLE HEADWINDS in terms of slower balance sheet growth and elevated slippages in the NBFC sector, India Ratings and Research has maintained a negative outlook for the non-banking financial companies (NBFC) sector in FY21. The ratings agency said that parentage-backed NBFCs would have stronger AUM (assets under management) compared to standalone shadow banks.

"NBFCs would grow their portfolio by 8-10% in FY21 driven by retail-focused NBFCs with a long track record and established franchise," the agency said.

In the developer segment, challenges for real estate lenders is expected to continue in FY21 as well, given the stagnation of AUM of wholesale real estate NBFCs due to factors including funding challenges and asset-side risks, said Jinay Gala, senior analyst, India Ratings and Research. "Housing disbursements have also come down. When comparing the disbursements of the top 5-6 players in Q2FY20 with Q2FY19, there is approximately 30% reduction, which impacts the cash flows of builders," he added.

Further, having a large part of the book under moratorium could lead to a build-up of credit costs. "Real estate developers are facing a funding crunch and the offtake is still anaemic, which could pressure lenders whose large part of books are moving out of moratorium," the firm said.

With the elongation of the project cycle over the past few years due to factors such as GST implementation, the analysts were of the view that real estate lending would be challenging through the NBFC route. "Either you need to have banks that are supporting because they have a longer tenor liability on their side or through the AIF (alternate investment fund) structure, where you have your funding through equity or debt," they said. Delinquencies in the LAP (loans against property) segment could go up, given the cash flow challenges in the SME segment," said Gala.

Since FY18 retail loans have been driving the growth of the sector. Retail loans grew at a rate of 12% CAGR from FY18 to H1FY20 for the top 18 NBFCs, compared to 17% from FY13 to FY18. Meanwhile, the wholesale loan growth had fallen to just 6% CAGR from FY18 to H1FY20, as against 24% CAGR from FY13 to FY17.

The agency said that the overall liquidity in the system had eased considerably post-September 2018, but access remains asymmetrical. "While the funding cost has dipped sharply for the large and sponsor-supported NBFCs, the situation remains challenging for the rest," the agency said.

Incremental funding for the NBFCs via commercial papers and cash credit saw a decline between September 2018 to September 2019, while they tapped bank loans, external commercial borrowings, fixed deposits, non-convertible debentures (NCDs). The borrowing costs have come down but still remain elevated, as seen in the decrease in spread of NCDs of AAA-rated issuers over government securities since the IL&FS crisis.

LIC Housing Fin profit flat at ₹597 cr; provisions rise

Report card

(₹ crore)	Q3 FY19	Q3 FY20	Chg (%)	Q2 FY20	Chg (%)
Total income	4,439.4	4,996.5	12.5	4,979.1	0.4
Net interest income	1043	1,228.0	17.7	1,213.0	1.2
NIM (%)	2.33	2.42	⇑ 9 bps	2.42	Unchanged
Provisions	1,555.3	2,584.7	66.2	2,194.0	17.8
Net profit	596.3	597.5	0.2	772.2	-22.6
Gross NPA (%)	1.26	2.73	⇑ 147 bps	2.38	⇑ 35 bps

Source: Company

FE BUREAU
Mumbai, January 30

LIC HOUSING FINANCE (LICHFL) on Thursday reported a flat growth in its net profit for the December quarter, hit by a 66.2% rise in provisions. The housing financier reported a 0.2% year-on-year (y-o-y) growth in net profit on a standalone basis to ₹567.53 crore. Total disbursements reported a tepid y-o-y growth of 3.12% during the quarter to ₹13,177 crore.

Provisions for expected credit loss soared to ₹2,584.72 crore during the December quarter, compared with ₹1,555.63 crore a year ago. Exposure to Stage 3 assets, or loans overdue for more than 90 days, increased 35 bps sequentially to 2.73%. Finance cost of the company rose by 11.5% y-o-y to ₹3,713.8 crore.

Chief executive officer and managing director Siddartha Mohanty told *FE* said that the non-performing assets (NPAs) in the developer loans segment had reduced compared to Q2. Fresh slippages in Q3 stood at around ₹600 crore, he added.

"In the current year, we have been very selective in lending to developers. In fact, there has been a degrowth in disbursements of 57% to developers. However, we are encouraging developers working in the affordable housing segment," he said.

Mohanty said that among various appraisal parameters for developers, LICHFL was also focusing on the sales velocity of the units to assess their ability to repay.

The company's net interest income grew 18% y-o-y during the December quarter to ₹1,228 crore, while net interest margin grew nine basis points (bps) y-o-y to 2.42%.

LIC Housing Finance's loan portfolio grew 13.3% to ₹2.06 lakh crore. Disbursal of individual home loans grew 16.2% y-o-y to ₹10,655 crore, while project loan disbursals shrunk 24.8% annually to ₹931 crore. Total income of the company was up 12.5% at ₹4,996.45 crore.

He said that various government initiatives, along with its LIC 2020 Home Loan offer would drive growth in the upcoming quarters. The scheme allows a principal repayment holiday of 48 months for under-construction properties, while for ready-to-move houses, six EMI waivers are given, he added. On a consolidated basis, the LIC Housing's net profit fell marginally to ₹602.10 crore.

Equitas Small Finance Bank Q3 net profit jumps 51% to ₹94 crore

PRESS TRUST OF INDIA
Mumbai, January 30

EQUITAS SMALL FINANCE Bank on Thursday reported a 51% jump in net profit at ₹94 crore for the third quarter ended December, helped by higher loan growth, stable bad loans and reduction in costs.

The small finance lender had reported a net profit of ₹62 crore in the year-ago period.

"The rise in profit was contributed by growth in advances, stable NPAs and improvement in cost to income ratio," the bank's managing director and CEO PN Vasudevan told *PTI*.

The bank's disbursement grew 34% to ₹3,050 crore in the quarter under review from ₹2,200 crore in the year-ago quarter.

Cost to income improved 280 basis points to 66.24% in the third quarter from 69.06% in September quarter.

Net interest income grew 23% year-on-year to ₹384 crore, while net interest margin stood at 9.17%.

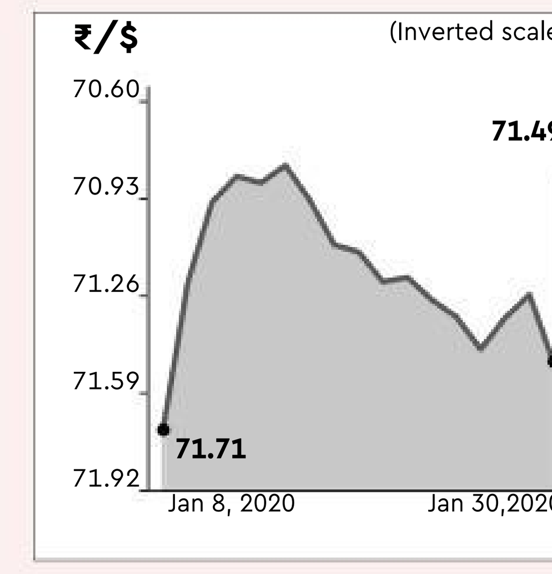
Gross non-performing assets stood at 2.86 per cent as compared with 3.14 per cent a year ago.

The bank's net NPA improved to 1.73 per cent from 1.77 per cent in the same period a year ago, while advances grew 37% to ₹14,615 crore.

Micro finance stands at 24 per cent of total advances of the bank. Its micro finance book grew 19% to ₹3,504 crore in the quarter.

Rupee slides 22 paise to 3-week low on equity rout

PRESS TRUST OF INDIA
Mumbai, January 30



THE RUPEE LOST 22 paise to close at a three-week low of 71.49 against the US dollar on Thursday tracking heavy sell-off in domestic equities amid rising concerns over the outbreak of coronavirus.

Forex traders said most Asian currencies declined after the US Federal Reserve kept its key policy rates steady.

Moreover, market participants are also assessing the economic implications of the coronavirus outbreak and awaiting cues from the Union Budget.

At the interbank foreign exchange market, the domestic currency opened weak at 71.39 a dollar. It finally settled for the day lower by 22 paise at 71.49, a level not seen since January 8. On Wednesday, the local unit had closed at 71.27 against the greenback.

Meanwhile, a positive case of novel coronavirus has been reported in Kerala, the health ministry said on Thursday. The patient is a student of Wuhan University.

"Rupee fell for the second successive session following rising concerns over the outbreak of corona virus in China. On the domestic front, market participants have been a little cautious ahead of the important GDP number that will be released tomorrow and Union Budget that is scheduled this weekend," said Gaurang Somaiyaa, Forex & Bullion analyst, Motilal Oswal Financial Services.

Somaiyaa further said "the dollar retraced from its highest level in seven weeks after the Federal Reserve, in line with expectation, held rates unchanged. In the next couple of session the USDINR (Spot) to quote in the range of 71.20 and 71.80".

Meanwhile, the global crude benchmark Brent Futures fell 2.47% to trade at $58.33 per barrel.

Crude prices have seen some moderation in the past few sessions over demand slump amid rising coronavirus cases in China and other regions.

The dollar index, which gauges the greenback's strength against a basket of six currencies, rose by 0.01% to 97.99.

The 10-year Indian government bond yield was at 6.56%.

On the domestic equity market front, the 30-share BSE Sensex settled 284.84 points, or 0.69%, lower at 40,913.82. It hit an intra-day low of 40,829.91 and a high of 41,380.14. Likewise, the broader NSE Nifty closed 93.70 points, or 0.77%, down at 12,035.80.

Foreign institutional investors sold equities worth ₹962.28 crore on a net basis on Thursday, according to provisional exchange data.

The Financial Benchmark India Private Ltd (FBIL) set the reference rate for the rupee/dollar at 71.1875 and for rupee/euro at 78.4221. The reference rate for rupee/British pound was fixed at 92.7174 and for rupee/100 Japanese yen at 65.24.

ANALYST CORNER

Maintain 'neutral' on Tata Power; TP at ₹66

MOTILAL OSWAL

TATA POWER'S (TPWR) Q3FY20 results reflect benefits of the Mundra-Coal JV hedge, resulting in PAT improving to ₹1.6 bn (v/s adj. loss of ₹1.1 bn). While divestment-related measures could aid cash inflow and subsequent debt repayment, current valuations bake in these benefits. Maintain 'Neutral' with TP of ₹66; successful renegotiation of Mundra PPA provides an upside risk.

Consol. adj. PAT came in at ₹1.6 bn (v/s adj. loss of ₹1.1 bn and below est. ₹2.4 bn) on better working of the Mundra-Coal JV hedge. This was led by higher-than-expected interest costs and slightly lower-than-expected performance at standalone and Delhi distribution. Mundra (Ebitda) and coal JVs (PAT) rose to ₹4.8 bn (v/s ₹1.5 bn in Q3FY19), due to no impact of DMO (₹0.9-bn impact of previous year) and benefit of the favourable timing effect of lower coal prices. Delhi distribution Ebitda came in at ₹0.9bn (v/s ₹1.2 bn in Q3FY19) as the previous year included a ₹0.3-bn benefit from a tariff order. RE (ex-standalone) Ebitda was up 5% y-o-y to ₹4.3 bn. Maithon Ebitda was flat y-o-y at ₹2 bn.

TPWR's management has noted the sale approval of its Cennergi business by the Competition Commission of India, proceeds are expected in Q4FY20. Additionally, the defense business sale has got NCLT's approval and positive discussions are ongoing for renegotiation for its ITPC PPA. It is also set to receive $5 m of proceeds per month from Arutmin's sale. Amendment for Mundra PPA may take place in the next few months. According to the firm, in a recent meeting, HPC has asked states to get nod in place by end-March 2020. Net debt remains elevated at ₹475bn on account of continuing capex and stretched receivables for renewable portfolio. Receivables for renewables stand at ₹11 bn (v/s ₹6 bn in FY19). Besides, upcoming new regulations for Indonesian coal mines (concerning tax and royalty) could be an overhang. The amendment of Mundra PPA, on the other hand, still awaits state approval; we have not built in any benefit from this. Successful renegotiation of this PPA — based on HPC recommendations — would provide an upside to our estimates. Maintain Neutral with SOTP-based target price of ₹66.

Maintain 'buy' on Escorts with inexpensive valuations

KOTAK INSTITUTIONAL EQUITIES

ESCORTS LTD REPORTED Ebitda of ₹2.1 bn, which was 24% above our estimates due to cost-cutting initiatives and lower commodity prices. We believe the tractor industry will revive in FY2021E led by a normal monsoon and increase in MSP of Rabi crops leading to improvement in rural income. Lower penetration level in the tractor segment makes it a good long-term bet. We maintain our buy rating on inexpensive valuations and revise our FV to ₹1,080 (₹1,030 earlier).

Escorts reported Q3FY20 Ebitda of ₹2.1 bn (+6% y-o-y), which was 24% above our estimates mostly led by cost-cutting initiatives. Net revenues declined by 1% y-o-y to ₹16.3 bn, which was 1% above our estimates led by higher net realisations in Q3FY20 due to a better product mix (>40 hp mix improved from 47% in Q3FY19 to 54% in Q3FY20). Revenue decline was due to 19% y-o-y decline in construction revenues, which was offset by 29% y-o-y growth in railway segment revenues in Q3FY20. Tractor volumes declined by 3% on a y-o-y basis (domestic tractor industry was down 6-7% y-o-y in Q3FY20) while net ASP in tractor business grew 2% y-o-y in Q3FY20. Ebitda margins came in 13% (+90 bps y-o-y and +340 q-o-q), which was 240 bps above our estimates due to lower-than-expected other expenses and slightly better-than-expected gross margins.

Gross margins came in at 33.2% (+270 bps y-o-y and -20 bps q-o-q), which was 20 bps above our expectations due to benefit of lower commodity prices. Escorts posted net profit of ₹1.5 bn (+9% y-o-y), 28% above our estimates due to a beat at Ebitda level in Q3FY20. Tractor Ebit margin came in at 14.5% (up 20 bps y-o-y), a 250 bps above our estimates. Construction equipment Ebit margin came in at 4.8% (up 130 bps y-o-y) in Q3FY20 led by (1) lower commodity cost, (2) cost optimisation and (3) price increases taken during the quarter. The railway segment continued to show strong growth aided by a strong order book. However, railway Ebit margin dipped by 150 bps y-o-y to 18.4% in Q3FY20 due to a weaker revenue mix.

We have fine-tuned our FY2021-22E EPS estimates. We have increased our FY2020E EPS estimates by 3% led by 40 bps higher Ebitda margin assumptions. We believe tractor industry growth will revive going into FY2021E led by benefits from a normal monsoon, higher reservoir levels and improving MSPs for Rabi crop. We believe Escorts is well placed to benefit from the structural tractor demand potential in India. Strong growth in railway business will also support the company's margins. We have increased our fair value to ₹1,080 (from ₹1,030) as we value the stock at 15X December 2021E EPS. Maintain 'BUY' on attractive valuations.