Markets

TUESDAY, FEBRUARY 11, 2020

STRONG NUMBERS

NS Venkatesh, CEO, Amfi

MF industry's AAUMs stood at an all-time high of ₹28.18 lakh crore in January, driven by positive flows in all categories of open-ended schemes and growing retail monthly SIPs.

Money Matters

G-SEC

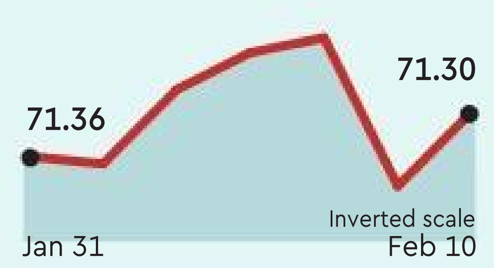
Benchmark yield rose due to selling pressure .002%

LAF

Bank borrowing under RBI's short-term window rose by ₹136 crore 4.62%

₹/$

The rupee appreciated on global cues 0.15%



€/$

The euro rose against the dollar .045%

Quick View

Sundaram Finance Q3 net rises 6.4%

SUNDARAM FINANCE HAS reported a 6.4% rise in its net profit for the quarter ended December 31 to ₹166.54 crore, compared with ₹156.52 crore in the year-ago period. Net income went up 14% to ₹976.24 crore from ₹857.37 crore in the same period last year.

Punjab & Sind Bank posts ₹255-cr loss in Dec qtr

PUNJAB & SIND BANK reported a net loss of ₹255.49 crore for the quarter ended December due to a spike in bad loans. The state-owned lender had reported a net profit of ₹22.34 crore during the same quarter a year ago. Total income declined to ₹2,077.01 crore from ₹2,337.13 crore.

FITCH VIEW

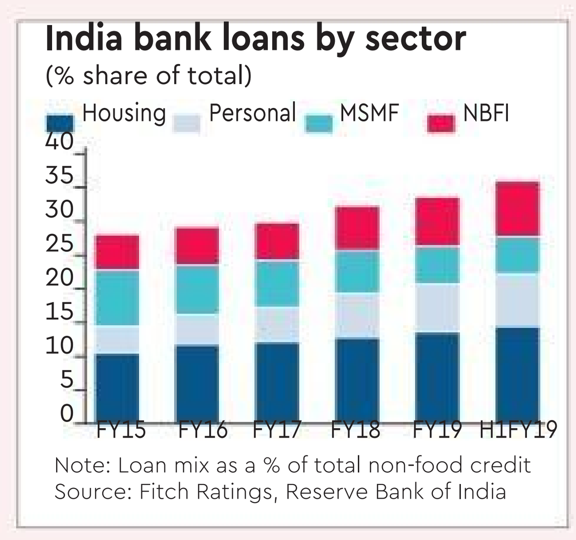
Forbearance to stressed sectors likely to defer asset quality pressures

FE BUREAU
Mumbai, February 10

THE RESERVE BANK of India's announcement on February 6 to show forbearance towards stressed sectors, including micro, small and medium-sized enterprises (MSMEs) and real estate, signifies a gradual shift from the regulator's earlier effort to enhance the quality and transparency of asset classification in the Indian banking system, said Fitch Ratings on Monday. The move is likely to defer asset quality pressures unless there is sustained improvement in macroeconomic conditions, the ratings agency said.

Allowing a one-time restructuring of loans to MSMEs and the announced relaxation in asset classification for certain real estate projects mark a further dilution of the RBI's drive to enhance loan recognition. Such regulatory forbearance carries the risk of perpetuating moral hazard, as it follows aggressive lending growth and risk-taking in certain sectors in the five years to FY19, it said.

The ratings agency said Indian banks had a "poor record" with restructuring, given that the RBI's asset quality reviews in FY16 and FY18 had found that a dominant share of loans restructured after FY12 had degraded into non-performing assets. "It is unclear whether the latest announcement marks a substantial shift in the RBI's policy approach. Nevertheless, it is not surprising in the current weak operating environment and is in line with a recent trend to weaken asset recognition standards," it added.



The probability of the RBI extending the forbearance to non-banking financial institutions as well is high, considering the impact that the liquidity squeeze in the sector and a slowing economy, the agency said.

The ratings agency said the RBI's move to allow banks to knock off the equivalent of additional loans disbursed to auto, housing and MSME sector between end-January and end-July 2020 from their net demand and time liabilities for the purpose of calculating their cash reserve ratio would improve monetary transmission, and support credit to fields that have multiplier effects within the wider economy.

"However, most of these sectors have had above-average lending growth in the last few years, either directly or indirectly via non-banks, and could be at risk were the economy to slow. Moreover, these measures are unlikely to support sustainable credit growth until capitalisation improves meaningfully across banks, in particular among state-owned banks, which account for nearly two-thirds of the sector's assets," the agency said.

RBI offers 5-year CRR exemption to banks for new retail, MSME loans

FE BUREAU
Mumbai, February 10

THE RESERVE BANK of India (RBI) said on Monday that banks need not maintain the cash reserve ratio (CRR) on new loans given between January 31 and July 30 for autos, homes and MSMEs for a period of five years. The RBI also sought to lower the loan rate for MSMEs by asking banks to link interest rates to the MSME segment to an external benchmark.

It has also sought to free up capital for lenders by extending the forbearance on asset classification on their MSME portfolios till December 2020.

The RBI had said last Friday that banks need not downgrade the classification of commercial real estate assets where the project has been delayed for reasons beyond the promoter's control for another year.

"An amount equivalent to the incremental credit outstanding from the fortnight beginning January 31, 2020 and up to the fortnight ending July 31, 2020 will be eligible for deduction from net demand and time liabilities (NDTL) for the purpose of computing the CRR for a period of five years from the date of origination of the loan or the tenure of the loan, whichever is earlier," the RBI said in a release.

Interestingly, the final notification gives a five-year leeway to banks on the CRR front, which is way more than expectation of six months as per announcement in the credit policy last Thursday. The RBI had earlier announced in the credit policy to do away with mandatory requirement for banks to set aside cash of 4% for every new loan extended to retail loans for automobiles, residential housing and loans to micro, small and medium enterprises (MSMEs).

The RBI said in its notification on Monday that banks are advised that they can claim the first such deduction from the net demand and time liabilities (NDTL) of February 14, 2020.

"Reserve Bank is actively engaged in revitalising the flow of bank credit to productive sectors having multiplier effects to support growth impulses," said the central bank. The step from the RBI was widely regarded as a rate cut, without official tinkering of the key policy rate, repo.

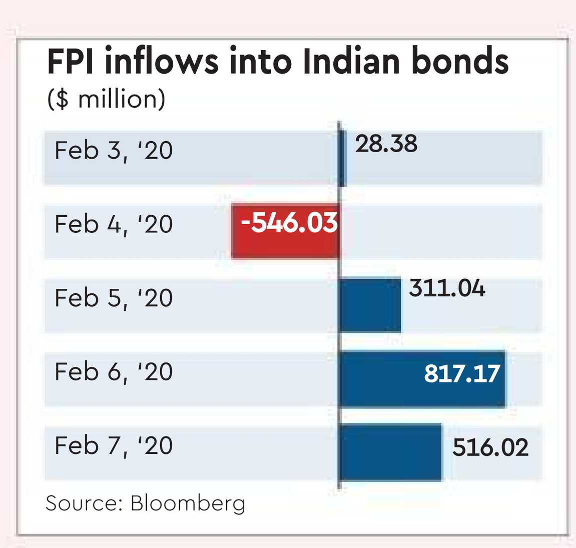
FPIs pour over $1.6 bn into bonds in just 3 days

BHAVIK NAIR
Mumbai, February 10

AS BOND YIELDS continue to fall after the monetary policy, foreign portfolio investors (FPIs) have turned bullish on Indian debt having pumped over $1.6 billion into bonds in the last three days of the previous week, the latest Bloomberg data show.

It is noteworthy that till early February, FPIs remained net sellers of Indian debt at over $2 billion on a net basis. Even with the recent buying spree, FPIs still remain net sellers of Indian debt, but the figure has come down to $958 million on a net basis.

Jayesh Mehta, India country treasurer at Bank of America, believes that yields have been down across the globe, but the effect was not seen in the Indian bond markets as investors were keenly awaiting the Budget and the monetary policy. "Concerns over the coronavirus has hurt the global growth figures at least for the January-March quarter. That has contributed to further yield chasing by foreign investors. Back home, the borrowing figures for FY21 announced in the Budget as well as the recent monetary policy, particularly the long-term repos, were extremely conducive for the bond market. The offshore overnight indexed swaps (OIS) have been significantly down in recent times," Mehta said.



From the highs seen in January, the 10-year US Treasury yield has come down by almost 30 basis points to 1.56%. At the same time, the five-year non-deliverable OIS has come down by over 50 basis points to 5.02.

Manish Wadhawan, founder and managing partner at Serenity Macro Partners, pointed out that a dovish monetary policy as well as fears of a slowdown at a global level seem to have worked in favour of incremental FPI inflows into Indian bonds. "Growth figures are being revised downwards globally because of the China factor and that could have led to increased allocations to emerging markets and to India. The US yields are also down and so are oil prices," Wadhawan said.

Ajay Manglunia, MD and head of institutional fixed income at JM Financial, said the Budget provided clarity to FPIs by extending the lower withholding tax being till 2023. "Foreign investors were waiting for these major events like Budget and the monetary policy to get over to take a decision. The RBI's introduction of the long-term repo operations as well as falling oil prices have pushed bond yields down," Manglunia said.

According to CCIL data, general category FPIs have so far utilised 75.89% of their available investment limit of ₹2.46 lakh crore in central government securities while long-term FPIs have utilised 25.57% of their quota of ₹1.15 lakh crore.

SBI inks MoU with Realme for e-DFS

STATE BANK OF India (SBI) on Monday announced its partnership with smartphone brand Realme for providing inventory finance for its distributors and dealers through the lender's electronic dealer financing scheme (e-DFS).

Following the MoU, dealers and distributors of Realme may avail of credit facilities at low interest rates, nil margin and minimum collateral requirements. "SBI and Realme will also have the comfort of ensured end-use of funds and real-time MIS reporting of transactions pertaining to purchase and sale of inventory," the lender said in a release.

PK Gupta, MD (retail and digital banking), SBI, said, "We believe the bank's trendsetting product, e-DFS, would add the extra edge to the dealer/distributor network of Realme in timely inventory funding through paperless flow of credit facility making use of SBI's trusted internet banking platform."

FE BUREAU

Union Bank profit soars 275%

FE BUREAU
Mumbai, February 10

UNION BANK OF India on Monday reported a 275% year-on-year increase in its profit to ₹575 crore for the December quarter because of recoveries worth ₹2,255 crore from three large non-performing accounts. The accounts were: Essar Steel, Ruchi Soya and Prayagraj Power.

The bank reported a total income of ₹10,741 crore, up 12% y-o-y. Net interest income (NII) stood at ₹3,134 crore, up 26% y-o-y. The domestic net interest margin (NIM) rose 11 basis points (bps) sequentially to 2.55% in Q3FY20.

The bank turned in a mixed show in terms of the asset quality. Gross non-performing assets (NPAs) as a percentage of total advances fell 38 bps on a sequential basis to 14.86% and the net NPA ratio marginally rose to 6.99%. In absolute terms, GNPAs stood at ₹49,924 crore while net NPAs stood at ₹21,510 crore in Q3FY20.

The value of slippages during the December quarter stood at ₹5,112 crore, up from ₹4,219 crore for the quarter ended September.

Rajkiran Rai G, MD & CEO, said one large housing finance company, understood to be Dewan Housing Finance Corporation (DHFL), accounted for much of the fresh bad loans.

"Actually, our total recoveries for the nine months has been ₹4,910 crore (recoveries and upgrades). We are expecting another ₹3,000 crore of recoveries in this quarter, both from NCLT (National Company Law Tribunal) and non-NCLT (accounts)," he said.

IOB loss shoots up on higher provisioning

FE BUREAU
Chennai, February 10

INDIAN OVERSEAS BANK (IOB) on Monday reported a net loss of ₹6,075 crore for the quarter ended December 31, 2019, compared with the ₹346.02-crore loss reported in the same quarter last fiscal, due to provision of ₹6,664 crore made during the quarter under review for NPAs and investments.

The gross NPA for Q3 fell 2.88% to ₹23,734 crore with the ratio of 17.12%, against ₹28,673 crore with the ratio of 20% for the year-ago period. The net NPA declined 4.03% to ₹7,087 crore (5.81%), compared with ₹17,988 crore (13.56%) in the year-ago period. The provision coverage ratio improved to 86.20% from 64.23% as on December 31, 2018.

ANALYST CORNER

'Sell' on Metropolis Health, revised fair value ₹1,130

KOTAK INSTITUTIONAL EQUITIES

METROPOLIS' 3QFY20 REVENUES grew at a healthy pace of 17%, largely in line with our estimates. Successful execution at newly set-up collection centres remains critical to drive 16-17% revenue growth amid rising competition in focus cities. Valuations at 45X and 39X FY2021/22E EPS remain rich deeming risk reward unfavorable.

Metropolis posted a revenue growth of 17% y-o-y in 3QFY20, largely in line with our estimates. Revenue growth was primarily driven by a 14% y-o-y growth in patient volumes along with 2.5% yoy increase in realisations. Management attributed increase in realizations partly to a 1.3% price hike in October along with higher contribution of wellness (7.9% or revenues, +60% yoy). Focus cities registered a 11% y-o-y growth with the B2C segment of focus cities growing 15% yoy, though B2B segment in focus cities remained muted at 6% yoy growth.

Gross margin at 76% declined 100 bps q-o-q, led by geographical mix. Employee and other expenses increased 9% and 13% y-o-y, respectively (largely in line with our estimates).

3QFY20 EBITDA grew by 16% (in line vs KIE) with EBITDA margins (pre-IndAS) at 26.6% (+40 bps qoq). Higher depreciation was offset by a lower tax rate (20% in 3QFY20) with PAT exceeding our estimates by 4%.

While increased focus on B2C has resulted in robust revenue growth in the segment (+18% in 9MFY20), core B2B growth (ex-NACO) has slowed down to 8-9%, with slowdown prominent in focus cities' B2B business where growth rates have declined to low single digits (partially due to cannibalisation of its own B2C network points). Given limited visibility of NACO business post FY2021, successful ramp-up of newly created network touch points remains crucial to drive 16-17% revenue growth over the medium term, where we see risk of high churn. Our earnings estimates remain largely unchanged post an in-line 3QFY20. Metropolis trades at 39X FY2022E EPS, implying 16% revenue CAGR over FY2020-35E.

We maintain 'SELL' with revised fair value of ₹1,130.

Maintain 'neutral' on Tata Steel, target price ₹450

MOTILAL OSWAL

TATA STEEL'S (TATA) third quarter result reflects the challenges faced by the industry, with consol EBITDA/tonne of ₹3,614 dropping to the lowest level in the past 15 quarters due to a sharp decline in steel prices. TATA thus reported a consol PBT loss for the first time in 16 quarters. Given the challenges in the European business, we cut our FY20/21 EBITDA estimates marginally and maintain 'neutral' with a target price of ₹450 (based on SOTP).

Consol EBITDA declined 5% Q-o-Q (-46% Y-o-Y) to ₹3,620 crore (our estimate: ₹3,820 crore) in 3QFY20 due to weak steel spreads and higher exports from India. Consol PBT loss stood at ₹560 crore, including ₹330-crore extraordinary expense.

EBITDA, however, increased 9% Q-o-Q to ₹3,770 crore, driven by strong 15% QoQ growth in volumes (largely exports). We expect EBITDA/t to improve substantially in Q4 as price hikes have materialised in the past three months.

TSE reported its worst-ever quarterly performance with an EBITDA loss of ₹9.6 b, implying EBITDA/t loss of $57 (v/s profit of $10 in 2QFY20 and $56 in 3QFY19). While EBITDA is likely to recover in 4Q given better steel spreads, the purchase of carbon credits would put a lid on profits. Volumes rose 21% Q-o-Q to 1,260 kt, led by exports.

EBITDA declined 46% Q-o-Q to ₹240 crore (implying a 55% Q-o-Q decline in EBITDA/t to ₹2,252) due to lower realisation and a weaker mix (higher exports).

Gross debt reduced by ₹33.7 billion in the quarter, supported by the release of working capital. Net debt also declined to $15 billion. FY20 consol capex guidance has been raised to ₹9,000 crore (from ₹8,300 crore) on account of completion of committed capex.

INTERVIEW: HEMANT KANORIA, CHAIRMAN, SREI INFRASTRUCTURE FIN

'Partial credit guarantee won't fully solve liquidity problem'

Although the government has clear vision for infrastructure investment in the medium to long term, there remains certain hurdles for private sector investment in infrastructure in the short term, says **Hemant Kanoria**, *chairman, Srei Infrastructure Finance. In an interview with* **Mithun Dasgupta**, *Kanoria says the Budget proposal to extend the partial credit guarantee scheme will not fully solve the liquidity problem for NBFCs. Excerpts...*

The government has said it is clear about its commitment towards infrastructure investment. But, do you think that the Budget has failed to encourage private sector investment in infrastructure?

The government has a clear vision for infrastructure investments in the medium to long term. However, in the short term, there are certain hurdles which the government is aware of and is consciously trying to address. We need to find a solution to the current liquidity conundrum and revive the credit flow to the economy. We are hoping that the government will soon make announcements to address these issues. That will encourage private sector investment in the infrastructure sector. Infrastructure financing and investments entail a long-term perspective with absolute clarity on viability, liquidity, dispute redressal and appropriate exit timing. The confidence of investors and financial institutions/banks get reinforced if all the above are functioning in sync. However, at this juncture, there are some gaps.

Did the Budget address some of the concerns of the NBFC sector, especially the expansion of the partial credit guarantee scheme?

While the Budget captures the government's medium- to long-term vision, we hope that more measures to address the liquidity issue in the short term will be announced soon. In my opinion, the partial credit guarantee scheme will not fully solve the liquidity problem. Loan portfolios as on March 31, 2019 are only eligible for the partial credit guarantee scheme. That deadline needs to be extended further and new loans should be brought under the coverage of this scheme.

What is your opinion on the move to include more NBFCs into the net of the SARFAESI Act?

As per the Budget of 2015-16, only NBFCs registered with the Reserve Bank of India (RBI) and with a minimum asset size ₹500 crore were eligible to take the SARFAESI route for asset recovery, provided the loan size was a minimum ₹1 crore. Such conditions had excluded many NBFCs from taking this route. In this year's Budget, the minimum asset size condition has been brought down to ₹100 crore and the minimum loan size has been brought down to ₹50 lakh from ₹1 crore. This effectively allows more number of NBFCs to avail the SARFAESI route. The move is a welcome step as it is expected to improve recovery of loans.

Do you expect the credit flow to revive in the near term? If not, why?

We need to encourage banks to restart lending. At this juncture, bankers are apprehensive in lending due to stringent guidelines and fear of an account going bad. When the going gets tough for borrowers, lenders must offer support through pragmatic resolution plans. If the customer is errant, the lender must initiate appropriate legal actions; but such instances are rare and probably account for only 1-2%. Hence, we need to change our mindset; majority in the system do not commit fraud and we have to build a relationship of trust. As lenders, when we support borrowers during the down cycle, then our money is safe, as the borrower is able to come out of the adverse situation. The regulator should consider reviewing the existing NPL norms in view of the present economic situation.

Coming to Srei, which will be your focus area for growth?

For last few years, our focus has been to grow our equipment finance portfolio. We are seeing a silent recovery in demand for equipment, which had fallen by 25-30% in the last couple of years, especially since the IL&FS episode. The government is seized of the slowdown in infrastructure investments and the economy. So, we are sure that the demand will pick up soon with awarding of new EPC contracts.

Also, Srei's board, in 2014-15, had taken a decision that it will gradually reduce the infrastructure project financing portfolio over the years due to increased risks in the sector. We are the veterans in infrastructure financing sector, and it will be sad if we do not make a comeback at an appropriate time.