Markets

WEDNESDAY, FEBRUARY 12, 2020

RETAIL GAIN

Vikram Limaye, MD & CEO, NSE

The milestone achieved (3 cr registered investors on NSE in Jan) is a culmination of efforts by all stakeholders with simplified client onboarding processes by Sebi and untiring efforts by NSE

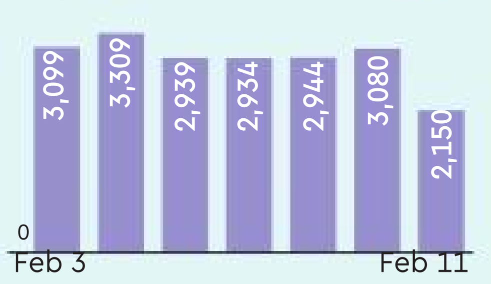
Money Matters

G-SEC

The benchmark yield rose due to selling pressure 0.027%

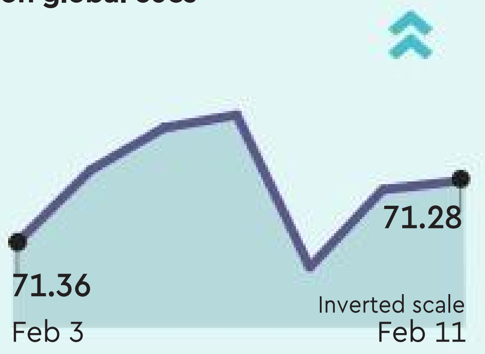
LAF

Bank borrowing under RBI's short-term window fell by ₹930 crore from the previous close 30.2%



₹/$

The rupee appreciated on global cues 0.016%



€/$

The euro fell against the dollar 0.1%

Quick View

Rupee unchanged at 71.28 against dollar

THE RUPEE SETTLED unchanged at 71.28 against the US dollar on Tuesday ahead of the release of key domestic macroeconomic data. Forex traders said the rupee continued to consolidate in a narrow range ahead of inflation and industrial production figures scheduled to be released on Wednesday.

Sundaram Finance Q3 PAT rises 4% to ₹253 cr

NON-BANKING FINANCE COMPANY Sundaram Finance on Tuesday reported a 3.8% rise in consolidated profit after tax (PAT) at ₹252.90 crore for the quarter ended December 31, 2019. It had posted a consolidated PAT of ₹243.64 crore in the year-ago period, Sundaram Finance said in a regulatory filing.

UPI handles on Paytm Bank crosses 100 million

PAYTM PAYMENTS BANK on Tuesday said that the total number of UPI handles on its platform has crossed the 100-million mark. This has added further impetus to its efforts towards offering business solutions to the merchant partners based on UPI's strengths.

EMERGING TREND

India Inc increasingly turning to ECB for capex needs: RBI

Total loans taken for capex through the ECB channel increased 55% y-o-y to ₹61,833 crore in the first half of 2019-20

FE BUREAU
Mumbai, February 11

INDIA INC HAS significantly increased raising capital through External Commercial Borrowings (ECB) in 2019-20. Total loans taken for capital expenditure (capex) through the ECB channel increased 55% y-o-y to ₹61,833 crore in the first half of financial year 2019-20, said a Reserve Bank of India (RBI) article.

This trend of corporates borrowing through ECBs was visible during FY19 as well, when banks and financial institutions sanctioned 414 proposals of private companies, with a total cost of ₹1.76 lakh crore, but a larger number of companies accessed funds through ECBs.

"There are 535 companies, which did not avail of any financing from the banks or financial institutions, but contracted loan amount of ₹76,515 crore through ECBs or Foreign Currency Convertible Bonds (FCCBs)," the article, authored by members of the department of statistics and information management at the central bank, said.

During FY19, corporates raised capex worth ₹1.96 lakh crore, an increase of 24% over the previous fiscal year.

"This improvement can be mainly attributed to ECB channel of capex financing," the article said. Additionally, already-sanctioned projects, that are in the pipeline, are expected to be high in FY20 at around ₹1.2 lakh crore, compared with ₹84,602 crore in FY19.

Ports and airport projects funded by banks and financial institutions in FY19 saw a surge in aggregate cost of projects, the article said. Cost of cement projects also rose sharply, with its share in aggregate cost rising 510 basis points (bps) to 5.7%.

"Total project cost (and number of projects) in 'cement' industry rose markedly from ₹1,068 crore in 2017-18 to ₹10,138 crore in 2018-19 (from three to eleven projects respectively)," the article said.

However, sectors like construction and metal products showed lacklustre momentum in FY19, with aggregate project cost reducing significantly.

"Their significant reduction in aggregate project cost as well as number of projects and this slippage is likely to impact the growth for some time," the article said. The share of metal and metal products in the aggregate cost of projects came down by 700 bps y-o-y to 2.7% in FY19, the article stated.

Projects funded through banks/FIs/ECBs/FCCBs/RDBs/IPOs*

(₹ crore)	H1 2019-20 No. of projects	H1 2019-20 Amount sanctioned/ contracted	H1 2018-19 No. of projects	H1 2018-19 Amount sanctioned/ contracted
Banks/FIs	142	1,25,305	193	86,607
ECBs/FCCBs/RDBs	272	61,833	262	39,833
IPOs	9	78	30	481
Total	**423**	**1,87,216**	**485**	**1,26,921**

*Provisional data

Source: Prime Database and Government of India.

Moody's downgrades IndusInd Bank's outlook to 'negative'

FE BUREAU
Mumbai, February 11

RATINGS AGENCY MOODY'S on Tuesday downgraded private lender IndusInd Bank's outlook to negative from stable to account for the risk of further asset quality deterioration. The firm noted that the bank has seen its asset quality worsen over the past few quarters, especially in the corporate sector.

Moody's has also affirmed the bank's domestic and foreign currency bank deposit ratings of Baa3/P-3, foreign currency senior unsecured rating of Baa3, foreign currency senior unsecured MTN (medium-term note) programme rating of (P)Baa3, and Baseline Credit Assessment (BCA) and adjusted BCA of Ba1.

The ratings firm said that the bank has a relatively higher exposure to the stressed real estate sector, compared to other banks, at around 8% of its loan book as on 31 December 2019.

"While there have been no NPLs in this segment so far, this exposure to the property market remains a source of risk, given the broader stress in the real estate sector," it said, adding that the bank could also be negatively impacted by the ongoing stress in the telecom sector.

As of Q3FY20, the bank's gross non-performing assets (GNPA) stood at ₹4,578 crore, compared to ₹4,370 crore in the September quarter. Compared to the year-ago period, the gross NPA more than doubled from ₹1,968 crore. The share of gross NPA stood at 2.18%, as against 2.19% in the September quarter. The GNPA in the corporate segment rose to ₹3,050 crore from ₹2,932 crore in Q2FY20.

"Tight refinancing conditions for borrowers were a key trigger for the crystallisation of non-performing loans," the ratings agency said.

The ratings agency said it was unlikely to upgrade the bank's ratings over the next 12-18 months. If the bank maintains its NPA ratios at current levels over the next 12-18 months, while demonstrating a decrease in credit costs to the levels seen before FY19, the ratings may be upgraded, the agency added.

Meanwhile, there could be a downgrade in the baseline credit assessment (BCA) and adjusted BCA if there is a deterioration in asset quality, such that either NPA ratios or credit costs increase significantly from current levels, or if there is a material reduction in profitability at the pre-provision income level.

Shares of IndusInd Bank traded at ₹1292.20, up 1.31% from the previous close on the BSE.

IDBI Bank's Q3 net loss widens on shift to new tax regime

FE BUREAU
Mumbai, February 11

IDBI BANK ON Tuesday posted a thirteenth consecutive quarter of losses with its net loss widening to ₹5,763 crore for the December quarter from ₹4,186 crore a year ago as a result of the bank's migration to a lower corporate tax regime. As a result of adopting the new tax regime, the bank had to reverse deferred tax assets (DTA), which resulted in a one-time hit of ₹6,273 crore on its balance sheet. Were it not for this reversal, IDBI would have posted a net profit of ₹418 crore in Q3FY20.

Rakesh Sharma, managing director and chief executive officer, IDBI Bank, said, "We have made accelerated provisions to the tune of ₹1,679 crore and it is for the first time that the provisions have been made out of recoveries and not out of the capital base." He added that Q3FY20 was the first time in 13 quarters that the bank turned in a profit on a pre-tax basis.

The private lender's pre-provisioning operating profit rose 76% y-o-y to ₹1,278 crore, led by a rise in net interest income (NII). NII, the difference between interest earned and interest expended, increased 13% y-o-y to ₹1,532 crore. Net interest margin (NIM) stood at 2.27%, down six basis points sequentially.

The lender's provisions fell 92% y-o-y to ₹522 crore in Q3FY20. Asset quality showed an improvement as the gross non-performing asset (NPA) ratio improved to 28.72% in Q3FY20 against 29.43% in the previous quarter. Net NPA ratio improved to 5.25% in the December quarter, as compared to 5.97% in the September quarter. The provision coverage ratio (PCR) improved to 92.41% as on December 31, 2019 from 75.21% as on December 31, 2018.

Slippages amounted to ₹2,113 crore, up from ₹2,059 crore in Q2FY20. There were two large accounts worth an aggregate ₹1,295 crore in the list of fresh bad loans, understood to be Dewan Housing Finance Corporation (DHFL) and Jain Irrigation. Recoveries and upgrades were to the tune of ₹3,430 crore, up from ₹1,759 crore in the September quarter.

The bank's total deposits fell 5% y-o-y to ₹2.18 lakh crore at the end of December 2019. The value of current account savings account (CASA) with the bank increased 18% y-o-y to ₹1.04 lakh crore. The share of CASA in total deposits improved to 47.65% as on December 31, 2019 as against 38.36% as on December 31, 2018.

Gross advances fell 8% y-o-y to ₹1.72 lakh crore in December 2019. Retail loans accounted for 55% of the total loan book, with the rest being comprising of corporate loans. Return on assets stood at -7.63% for Q3FY20, down from -4.54% in the previous quarter.

Shares of IDBI Bank ended at ₹37 on the BSE on Tuesday, up 2.07% from their previous close. The results were declared after the close of trade.

IDBI Q3 FY20 results

Particular (₹ crore)	Q3 FY19	Q3 FY20	Chg (%)	Q2 FY20	Chg (%)
Total income	6,191.00	6,216.00	0.40	6,231.00	-0.24
Net interest income	1,357	1,532.00	12.90	1,632.00	-6.13
Other income	698.00	1,278.00	83.09	1,033.00	23.72
NIM (%)	1.88	2.27	39 bps	2.33	6 bps
Provisions	6,531.00	522.00	-92.01	5,641.00	-90.75
Net profit	-4,185.00	-5,763.00		-3,459.00	
Gross NPA (%)	29.67	28.72	95 bps	29.43	71 bps
Net NPA (%)	14.01	5.25	876 bps	5.97	72 bps
Gross NPA (%)	15.66	14.86	80 bps	15.24	38 bps

Source: BSE

Allahabad Bank Q3 loss widens over two-fold

FE BUREAU
Kolkata, February 11

STATE-RUN ALLAHABAD BANK on Tuesday reported a widening of its net loss to ₹1,986.26 crore for the third quarter ended December 31, 2019 as its provisioning for bad loans rose 1.5 times year-on-year. The lender had reported a net loss of ₹732.81 crore in the same period a year ago.

The Kolkata-based bank, which is set to merge with Indian Bank, had reported a net loss of ₹2,114.06 crore for the second quarter in the current fiscal.

The bank's operating profit during the December quarter this fiscal witnessed a 16.74% y-o-y rise to ₹897.68 crore from ₹768.97 crore in the corresponding quarter of the last fiscal. While net interest income (NII) fell by 4.37% y-o-y at ₹1,337.6 crore for the period under review, non-interest income jumped 20% y-o-y to ₹634.67 crore, according to a stock exchange filing. Net Interest Margin (NIM) stood at 2.56% as on December 31, 2019.

Total income saw a 2.17% y-o-y increase at ₹4,860.35 crore compared with ₹4756.88 crore for the year ago period. Retail credit grew by 10% y-o-y as on December 31, 2019 to ₹21,634 crore, up from ₹19,595 crore as on December 31, 2018, the bank said in a release.

On q-o-q basis, the public sector bank's asset quality deteriorated during the October-December period last year with gross non-performing assets (NPAs) in absolute terms rose 2.17% q-o-q at ₹32,149.92 crore compared with ₹31,467.53 crore in the July-September period.

Life insurers report 18% premium collection growth in January

FE BUREAU
Mumbai, February 11

THE DOMESTIC LIFE insurance industry registered a strong growth in January, led by strong performance in both individual as well as group categories. The industry achieved first-year premium collections worth ₹20,623.01 crore in January compared to ₹17,419.76 crore in the same month in the previous financial year, a growth of 18.39%, data from Insurance Regulatory Development Authority of India (Irdai) showed.

Total annualised premium equivalent (APE) for the industry stood at ₹10,285.3 crore in January, a year-on-year increase of 41%, according to data from Kotak Institutional Equities. The growth in January was led by Life Insurance Corporation of India (LIC) which saw its APE at ₹5,826.1 crore, a y-o-y growth of 79%, while private players saw their APE at ₹4,459.2 crore, a surge of 11% y-o-y.

"LIC gained significant market share with 99% y-o-y growth in individual APE as compared to muted (10% y-o-y) growth reported by the private sector in January 2020. Strong agency push to sell select products, prior to repricing in February, was the likely reason," said Kotak Institutional Equities in its report. APE is the sum of annualised first year premiums on regular premium policies, and 10% of single premiums, written by insurance companies during any period from both retail and group policyholders.

ANALYST CORNER

Maintain 'buy' on KEC International, TP ₹412

NOMURA

KEC IS ON track to record ~16% topline growth in FY20F; order inflows will be the key catalyst to 1HFY21F; easing working capital level and reduction in net debt levels vs 2QFY20 are positives. Maintain buy with TP raised to ₹412, implying 18% upside in KEC's 3QFY20 sales at ₹30.7bn (+16% y-o-y), marginally (~2%) below our estimates but in line with consensus. Other key parameters like Ebitda margins, interest to sales and PBT/PAT margins were also in line with our estimates.

The key positive, in our view, has been acceleration in order inflows (3QFY20 at ₹60.5bn vs ₹36.0bn in 3QFY19) and the improvement in working capital and debt levels.

The rise in working capital levels in 1HFY20 due to a decline in the payable levels in the rail segment had been a cause of investor concern. However, improved WC levels in 3QFY20 and receipt of ₹6.8bn of Saudi receivables over 9MFY20 are key positives. This has led to net debt + trade acceptance levels dropping by ~₹1.4bn from 1HFY20 levels and we expect a further fall of ₹1.0bn in Q4 on higher collections.

We expect continued order inflows in rail and acceleration of awards in metro. Further, with the revival in Middle East tendering and Indian orders likely to be of higher value packages, we are optimistic on the outlook. We estimate that ₹135-140bn of order inflows may be achievable in FY20F.

Management has stated that newly-secured metro orders are not significantly margin-dilutive (management expects-high-single digit Ebitda margin). Further, we expect Ebitda margin improvement in the cables segment to continue into FY21-22F.

We marginally change our revenue and EPS estimates for FY20-22F. We value KEC at 12.0x FY22F EPS of ₹34.4 (based on reverse DCF analysis with sustainable ROE of 22%, 12% medium term and 6% terminal growth) to arrive at a higher TP of ₹412, implying ~18% upside. Key downside risks are further slowdown in T&D ordering internationally and worsening working capital levels.

GAIL excellent investment opportunity; maintain 'buy'

MOTILAL OSWAL

DURING 9MFY20, GAIL'S performance was hampered by poor gas trading, petrochemicals and LPG business. However, the transmission business fared well owing to increase in implied transmission tariffs. The management has guided for incremental volumes of ~2mmscmd from Ramagundam, ~2.5mmscd from Matix, and ~4mmscmd from Kochi-Mangalore pipeline from 1QFY21, and 8-9mmscmd in Jagdishpur-Haldia pipeline in FY22, which reiterates our thesis from our earlier note. This company guides that with the start of all fertiliser plants, no US HH contract would be sold outside India. Trading at ~40% discount to long-term 1-year forward P/E of 14.0x, GAIL offers an excellent investment opportunity.

GAIL reported Ebitda miss of 18% at ₹20.7b (-22% y-o-y), led by poor LPG and liquid hydrocarbon performance, while petchem saw some marginal improvement after reporting a huge loss in 1QFY20. Depreciation was higher by 35% y-o-y, which was offset by higher other income (+42% y-o-y). PBT was at ₹18.7b and the company paid tax at rate of 33.2% during the quarter. GAIL is still in the process of evaluating the new tax rate option. PAT came in 20% below estimate at ₹12.5b (-26% y-o-y). The company took tax write-back of ₹173m, adjusting for which, PAT stood at ₹12.7b. For 9MFY20, reported Ebitda and adjusted PAT was lower by ~25% y-o-y at ₹58.9b/₹35.8b. Higher depreciation was offset by higher other income.

Capex for 9MFY20 stood at ₹40b (3QFY20 was at ₹16b), with full-year capex guidance at ₹60-65b. So far, a total capex of ₹88b (out of ₹132b) has been done for Jagdishpur-Haldia-Bokaro-Dhamra pipeline and a grant of ~₹32b has been received from the government.

We value GAIL at 8x FY21E EPS (adjusted for other income) and then add the value of investments. With a target price of ₹150, we reiterate 'buy'.

RBI issues draft framework for setting up NPCI competitor

FE BUREAU
Mumbai, February 11

THE RESERVE BANK of India (RBI) issued a draft framework late Monday evening for authorisation of a pan-India new umbrella entity (NUE) for retail payment systems. At present, only the National Payments Corporation of India (NPCI), a not-for-profit company, performs this role. The NUE could choose to be a for-profit entity or a not-for-profit as defined under Section 8 of the Companies Act.

The NUE will be a company authorised by the central bank under Section 4 of the Payment and Settlement Systems (PSS) Act, 2007.

"It shall be governed by the provisions of the PSS Act and other relevant statutes and directives, prudential regulations and other guidelines/instructions," the central bank stated in a release.

The entity eligible to apply as promoter or promoter group for the NUE shall be 'owned and controlled by residents' with three years' experience in the payments ecosystem as Payment System Operator (PSO)/Payment Service Provider (PSP)/Technology Service Provider (TSP). The shareholding pattern shall be diversified. Any entity holding more than 25% of the paid-up capital of the NUE shall be deemed to be a promoter.

The NUE shall have a minimum paid-up capital of ₹500 crore to support the need of capital for activities that will include managing risks and investing in technological infrastructure as well as for business operations. No single promoter or promoter group shall have more than 40% investment in the capital of the NUE.

The promoters shall upfront demonstrate capital contribution of not less than 10%, or ₹50 crore, at the time of making an application for setting up of the NUE. The promoter shareholding shall be diluted to a minimum of 25% after five years of commencement of business. A minimum net-worth of ₹300 crore shall be maintained at all times.

The NUE will be responsible for setting up, managing and operating new payment systems, especially in the retail space. They will also be authorised to develop new payment methods, standards and technologies, monitor related issues in the country and internationally and take care of developmental objectives, such as enhancement of awareness about the payment systems.

Further, the NUE will operate clearing and settlement systems, identify and manage relevant risks such as settlement, credit, liquidity and operational and preserve the integrity of the systems as well as monitor retail payment system developments and related issues in the country and internationally to avoid shocks, frauds and contagions that may adversely affect the systems or the economy in general. The call for new entities to set up an NUE is in line with a January 2019 policy paper by the RBI, which had made a case for greater competition in the retail payments ecosystem.

"Payment Systems in India have grown in a manner which is characterised by a few operators while there is a wide array of payment systems. This has given rise to certain questions which range largely around concerns of concentration, need for competition and the resultant impact on economic efficiency and financial stability," the paper stated.