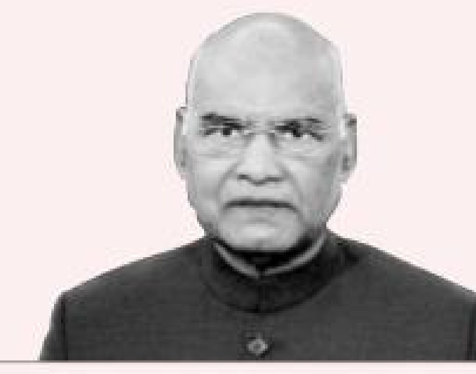
Markets

THURSDAY, FEBRUARY 13, 2020



RBI ROLE

Ram Nath Kovind, President

I have learnt that recently the role of Reserve Bank of India as regulator has been enhanced. We trust that this will deter malpractices and make our financial systems more credible.

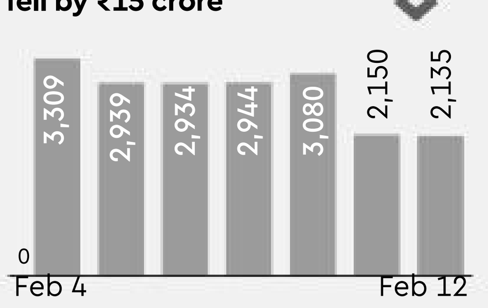
Money Matters

G-SEC

Benchmark yield rose due to selling pressure .009%

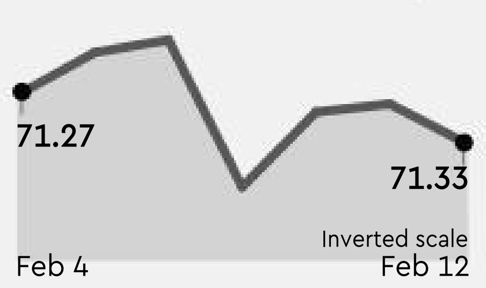
LAF

Bank borrowing under RBI's short-term window fell by ₹15 crore 0.7%



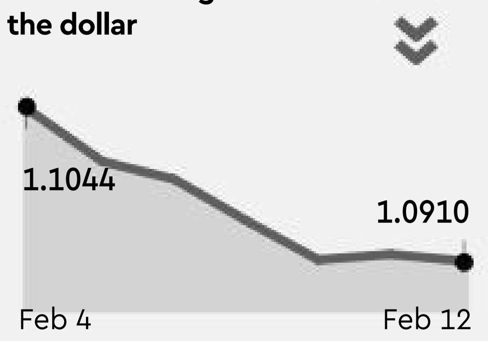
₹/$

The rupee depreciated on global cues 0.07%



€/$

The euro fell against the dollar 0.06%



UNCONVENTIONAL

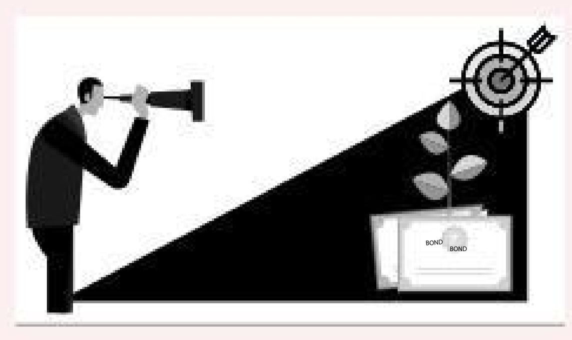
Govt using yield curve control as rate cuts fail to spur lending

ANIRBAN NAG & SUBHADIP SIRCAR
Mumbai, February 12

THE RESERVE BANK of India (RBI) is actively managing bond yields to keep borrowing costs in check, analysts say, after five interest rate cuts last year failed to spur lending in the economy. The RBI's recent shift to targeted cash injections and credit easing contrasts with the central bank's insistence that it only looks to smoothen liquidity and facilitate the government's market borrowing without targeting bond prices.

The steps, which began in December, will be ratcheted up next week, and is being seen as an attempt to curb yield steepening, which is a phenomenon where long-term yields rise more than shorter-tenor ones.

"India's fiscal overhang, characterised by large public sector deficit and debt, creates a tendency for the yield curve to steepen. At a time when growth is well below potential, that is not desirable," said Taimur Baig, chief economist at DBS Bank in Singapore. "Through the recently announced bond market operation measures, akin to LTRO and Operation Twist, the RBI is trying to more actively offset curve steepening."



Despite the RBI being Asia's most aggressive rate cutter last year with 135 basis points of easing in the key rate, banks saddled with mounting bad debt have been hesitant to pass on those reductions to their customers.

Last week, the RBI it announced longer-term repos for one and three years at the policy rate in a bid to lower short-term yields. In mid-December, it adopted a US Federal Reserve-like Operation Twist — buying long-term bonds and simultaneously selling shorter-tenor debt.

In 2019, the RBI had done two forex swaps to inject rupee liquidity, against its usual tool of open market operations

The measures of the RBI will now exert a stronger influence over a large part of the yield curve and help lower borrowing costs, said Siddhartha Sanyal, chief economist at Bandhan Bank.

"An unintended benefit of the LTRO's is to also pull down yields on short-tenure sovereign and corporate bonds. The RBI's supply of funds for one- three-year maturities is now likely to serve as a benchmark for short-tenure bonds. Additionally, we think the RBI is likely to continue its operation twist to accommodate additional conversion of securities by the government in fiscal 2021," said Abhishek Gupta, India economist at Bloomberg.

Operation Twist wasn't targeted at bond yields, RBI governor Shaktikanta Das told reporters last week. "It's basically to facilitate monetary transmission to the corporate bond segment, not really to, sort of, do yield management for the government or supporting the government's borrowing program," Das said.

"But as the debt manager of the government, the RBI always will have to ensure that the government borrowing programme goes through in a very non-disruptive manner," Das said. **BLOOMBERG**

RBI hopes for investment cycle turnaround as FY20 planned capex increases

FE BUREAU
Mumbai, February 12

WITH A 42% rise in the planned capital expenditure for 2019-20 by the private corporate sector, the beginning of a turnaround in the investment cycle is likely, said an article published by the Reserve Bank of India (RBI). The planned capex is estimated to rise to ₹1.2 lakh crore in 2019-20, up 42% from ₹84,602 crore in the previous year.

"The planned or envisaged capex from all sources based on the pipeline projects sanctioned in all preceding years points to a noticeable improvement in 2019-20. The investment cycle appears to be poised to gain momentum in the short to medium term, but its sustainability needs to be watched closely," the article said. The aggregate envisaged capex for 2019-20 will also depend on the level of corporate investment, including fresh projects sanctioned during the year.

To gauge investment intentions, the study primarily sourced data from financiers of capex projects, including banking sector and financial institutions; external commercial borrowings; foreign currency convertible bonds; rupee-denominated bonds; initial public offerings; follow-on public offerings and rights issues for a year.

Projects not financed through these channels or of a size lower than ₹10 crore were not covered in the study.

During H1FY20, the number of projects came down while the amount sanctioned went up compared to the year-ago period. A total of 423 projects were sanctioned ₹1.87 lakh crore through various channels.

The share of ECBs in financing saw an increase to ₹61,833 crore, compared with ₹39,833 crore in the year-ago period. In H1FY19, the number of projects was 485 while the sanctioned cost stood at ₹1.27 lakh crore.

The total cost of projects sanctioned through various channels of financing increased to ₹2.53 lakh crore in 2018-19, against ₹2.07 lakh crore in 2017-18.

Ind-Ra downgrades Yes Bank to 'A-'

FE BUREAU
Mumbai, February 11

INDIA RATINGS ON Wednesday downgraded Yes Bank to 'A-' from 'A' while maintaining it on rating watch negative (RWN) citing the continued delay in the bank's fund-raising programme.

In its rationale for the downgrade, the rating agency said, "The downgrade reflects the continued delay and inconclusive quantum of the anticipated equity infusion in Yes Bank. Ind-Ra believes this could adversely impact the bank's franchise and potentially create challenges on asset and liability side."

The agency observed that the bank has sizeable foreign currency liabilities and institutional deposits, and the required capital infusion is critical for providing sufficient cushion to the possible credit cost impact from the stressed asset pool on regulatory capital requirements in the short and medium term, as well as for the bank's ability to continue to serve its customers adequately.

"Although the liquidity position of the bank seemed adequate at end-September 2019 (liquidity coverage ratio of 114%), Ind-Ra believes that in the absence of any swift capital raise, the bank's ability to manage its asset and liability maturities could get tested further," the agency said in the rationale.

Slower resolution in the lender's stressed book was another factor behind the downgrade. Some of the bank's corporate exposure spread over multiple sectors has witnessed rapid credit migration over the last few quarters, India Ratings said. In the agency's opinion, attempts made by some of these borrowers towards resolutions could take longer than expected to yield results, and a large part of the credit overhang will persist.

"Ind-Ra continues to factor in the bank's largely unseasoned loan book on account of high loan growth during FY17-FY18; repayments on some of its corporate exposures are contingent on liquidity events. GNPAs and loan accounts rated 'BB' and below are about 20% (end-September 2019) of its total book," the agency said, adding that some of the exposures are on the bank's investment book and could attract mark-downs. Some such exposures are marked down by over 20% and might be covered as provisions on investments.

City Union Bank Q3 net up 8%

FE BUREAU
Chennai, February 12

PRIVATE SECTOR LENDER City Union Bank on Wednesday reported an 8% rise in its net profit at ₹192.44 crore for the third quarter of FY20, compared with ₹178.10 crore in the corresponding quarter last fiscal. Total income stood at ₹1203.24 crore, against ₹1086.45 crore, registering a growth of 11%.

Addressing a press conference here, N Kamakodi, MD & CEO, said considering the current economic situation, the overall performance of the bank has been satisfactory. Marginally impacting the asset quality slightly, the gross NPA increased to 3.50% in Q3, against 2.91% in the year-ago period and 3.41% in Q2. The net NPA level stood at 1.95% in Q3, compared with 1.74% in the corresponding quarter last fiscal and 1.90% in Q2. The provision coverage was at 65%. "The fresh slippage in Q3 was to the tune of ₹230 crore and the recovery was about ₹127 crore plus ₹52 crore towards written-off accounts."

Quick View

JM Financial to raise ₹300 crore in debt

NON-BANKING LENDER JM Financial will hit the debt market with a ₹100-crore NCD issue on Thursday. This is the third tranche of its planned fully-secured NCD (non-convertible debentures) sale this fiscal year and the issue has a greenshoe option of an additional ₹200 crore, taking the overall issue to ₹300 crore. The issue will be sold by JM Financial Products, an arm of JM Financial, and will give the investors an annual yield of up to 10%.

PFC Q3 net profit falls 12% to ₹3,386 cr

STATE-RUN POWER FINANCE Corporation reported a 12% dip in its consolidated net profit to ₹3,386.72 crore in the December quarter, mainly on account of higher tax outgo and non-receipt of dividend from REC. Its net profit stood at ₹3,876.17 crore in the year-ago quarter, a BSE filing said. During April-December, consolidated net profit was at ₹8,783.55 crore, against ₹9,249.01 crore a year ago.

Kotak MF's conversational voice assistant launched

KOTAK MAHINDRA ASSET Management Company on Wednesday launched a conversational voice assistant to address queries related to systematic investment plans (SIPs). The service was launched to increase awareness about mutual fund investments and mitigate market volatility risks, especially for the millennials. The self-learning, voice assistant, Mr SIP, will constantly upgrade itself based on the queries it receives. This will enable it to provide optimal answers to investors.

President urges lenders to 'deeply involve' underprivileged sections

FE BUREAU
Pune, February 12

PRESIDENT RAM NATH Kovind on Wednesday urged lenders to reach out to the unbanked population. "As India aims to become a $5-trillion economy, the banking sector has to start preparing for the next big leap. This mainly involves "banking with the unbanked" and "securing the unsecured", Kovind said. He said greater engagement and a change in attitude on the part of the banks are required towards the underprivileged population.

India's economic future will be helped if banks have a greater reach and become more efficient, Kovind said, adding that financial inclusion is the best way to gain market depth and de-risk operations. He was speaking at the golden jubilee celebrations of National Institute or Bank Management in Pune.

"The challenge before us is now to deeply involve those included. I would urge all of you to think of financial products which meet needs of those at the bottom of the ladder," Kovind said. He noted that nearly 35 lakh accounts have so far been opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY).

Kovind said the recent Budget proposal to increase deposit insurance coverage to ₹5 lakh will assure savers, and highlighted the fact that banks have a fiduciary duty as custodians of public money. "I will exhort all bankers to judge their actions by this touchstone given to us... They have to take all possible prudential measures to ensure that trust is not betrayed in any manner.

President Ram Nath Kovind receiving a memento from RBI governor Shaktikanta Das in Pune on Wednesday PTI

Recent proposal to enhance deposit insurance coverage from ₹1 lakh to ₹5 lakh is a positive step in the direction of assuring savers," he said.

Kovind urged the lenders not to turn away promising entrepreneurs. "Schemes such as Mudra and Stand-Up India are channelling funds to aspirational entrepreneurs. I will request all bankers to keep a keen eye and not let a good idea die for lack of funding."

On digital banking, the President said, "I trust the Reserve Bank of India is also providing necessary guidance as well as addressing the issue of proper safeguards in adoption of technology."

RBI governor Shaktikanta Das, who was present at the event, said the central bank is taking all necessary steps to strengthen the banking and financial sector.

IOB chief Sekar expects bank to turn profitable in March quarter

FE BUREAU
Pune, February 12

INDIAN OVERSEAS BANK (IOB) hopes to turn profitable in the March quarter after posting losses for over four years, said Karnam Sekar, managing director and CEO. "In the January-March 2020, we will be in profit. Our slippages are almost over. March 2020 corporate slippages are almost negligible. The RAM (retail, agriculture and MSME) sector slippages are under control," Sekar said.

IOB's management hopes that the bank will be out of the central bank's Prompt Corrective Action (PCA) framework during the next financial year. "Net NPA is 5.81% as on December, so it is less than 6%. That is one of the requirements for coming out of PCA, which we have achieved in December. In March, we will be in profit also. And those two are the main criteria. We are sure (of coming out of PCA in FY21)," Sekar told reporters.

The stressed state-owned bank may see repayments worth ₹1,000 crore during the March quarter from the resolution of several corporate accounts, including Bhushan Power & Steel, Sekar said. "IOB's main problems are from the corporate sector. That is more or less addressed now, and for many more quarters to come, we don't see any corporate account which is likely to slip," Sekar said.

The bank, which posted a loss of over ₹6,000 crore in the December quarter, expects to grow at 5-10% in the coming financial year. The bank's loss during the quarter was amplified by provisions for bad assets more than doubling to ₹6,633.9 crore. Stressed DHFL was recognised as a non-performing asset by the bank during the December quarter, Sekar said.

ANALYST CORNER

Maintain 'buy' on Phoenix Mills, target price ₹1,015

MOTILAL OSWAL

PHNX'S THIRD-QUARTER RESULT highlights consistency in its operational performance amid a subdued macro environment. The traction in its key retail assets is particularly impressive. We find comfort in the company's strong track record of execution/operations, scalability and robust cash generation. This, along with the affirmative guidance around consumption, reinforces our positive stance on the company. Maintain 'Buy' with a target price of ₹1,015.

Revenue increased 16% Y-o-Y to ₹5,118 m (our estimate: ₹4,968 m) in 3QFY20. EBITDA was up 17% Y-o-Y at ₹2,593 m (our estimate: ₹2,590 m), with the margin coming in flat at 50.7% (our estimate: 52.1%).

Adj. PAT increased 30% Y-o-Y to ₹919 m (our estimate: ₹769m). Retail revenue was up 11% Y-o-Y at ₹3,218m, while residential revenue surged 142% Y-o-Y to ₹481 m, largely driven by revenue recognition at One Bangalore West and Kessaku.

The commercial segment grew 2% Y-o-Y to ₹334 m, while hospitality revenue increased 11% Y-o-Y to ₹1,085 m.

Retail consumption grew 10% Y-o-Y, largely driven by key assets like PMC, Bangalore (+14% YoY), PMC Pune (+10%) and PMC Mumbai (+10%). Category wise, the growth was strong in entertainment (+19%), beauty & cosmetics (+8%), electronics (+13%), jewellery (+15%) and F&B (+7%).

In January, the Maharashtra Cabinet cleared the proposal to keep Mumbai open 24x7. This development is likely to positively impact consumption across PHNX's retail assets in Mumbai over the long term. Consumption growth so far in 4QFY20 is strong at 8-10% across its key retail assets.

PHNX is on track to complete its under construction leasing assets (five retail malls and two commercial assets). The pre-leasing trend, both in terms of occupancy ramp-up and rent for these assets, has been healthy.

We believe that PHNX provides a unique way to play India's retail growth story due to its strong track record of execution and operations, scalability and robust cash generation.

Maintain 'buy' on Hexaware Tech, valuation reasonable

ICICI Securities

HEXAWARE REPORTED A softer-than-expected quarter on all key parameters of revenue growth, margins and deal intake. Margin execution and guide was especially disappointing. The EBITDA margin pre-ESOP costs declined by 160 bps Q-o-Q with EBITDA margin guidance (post-ESOP cost) for CY20 of 15-16% being underwhelming given the benefit expected from shift to IndAS-116 (even if modest).

Though the organic revenue growth in the range of 10-12% is in line with our expectation, growth is expected to pick up from Q2CY20 given the usual weak seasonality of the March quarter. Given persistent revenue disappointments in CY19 and modest NN deal execution in Q4, confidence in guidance will be understandably low right now.

We maintain 'BUY' rating though as Hexaware remains a prime play on the theme of cloud native application development with valuation also being reasonable at 15.3x Mar'21E EPS.

Revenue in Q4CY19 increased by 1.3% Q-o-Q in CC and 1.8% in dollar terms to $214.3 m, modestly shy of our estimate of $215.3 m. Key headwinds were furloughs and lower number of working days being a drag of 3.4% Q-o-Q this time vs being a drag of only 1.6% in Q4CY18, and sharper than expected decline at the secondary mortgage client facing spend challenges.

Revenues in CY20 are expected to increase in the range of 15-17% on a reported basis in dollar terms and 10-12% on an organic basis by our estimates.

EBITDA margin pre-ESOP cost declined by 160 bps Q-o-Q to 14.9% in Q4CY19 with extended furloughs and lower number of working days being a drag of 90bps QoQ and wage hikes being a drag of 60bps.

Rupee down 5 p to 71.33 on higher crude, strong dollar

PRESS TRUST OF INDIA
Mumbai, February 12

THE RUPEE ENDED 5 paise lower at 71.33 against the US dollar on Wednesday as forex market turned cautious ahead of key macro data release. Besides, higher crude oil prices and strengthening of the dollar against key currencies also put pressure on the domestic unit.

Global crude oil benchmark Brent Futures rose 2.17% to trade at $55.18 per barrel.

The dollar index, which gauges the greenback's strength against a basket of six currencies, rose 0.03% to 98.74.

"Rupee started the day strongly as it escalated till 71.20 from yesterday's 71.30 levels on back of weaker crude oil prices. But crude prices are taking some support which is directly affecting the rupee in weak zone as USD/INR pair bounced from 71.20 to 71.30 plus...," Jateen Trivedi, senior research analyst (commodity and currency) at LKP Securities, said.

The 10-year government bond yield was at 6.48%.