Markets

FRIDAY, FEBRUARY 14, 2020

HAILING IBC

Arijit Basu, MD, SBI

In a major way, the Insolvency and Bankruptcy Code has really helped us see that the ecosystem gets cleaned up. The legacy accounts, which were there, most of them have been addressed.

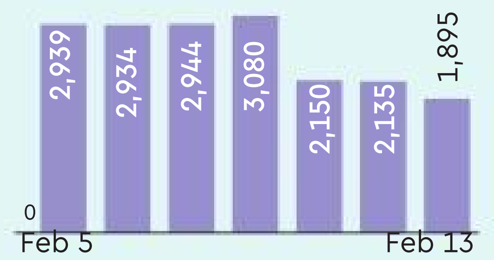
Money Matters

G-SEC

The benchmark yield fell due to buying support **0.05%**

LAF

Bank borrowing under RBI's short-term window fell by ₹240 crore **11.2%**



₹/$

The rupee appreciated on global cues **0.01%**

€/$

The euro fell against the dollar **0.13%**

Quick View

IFCI posts ₹335-cr net profit in Q3

THE COUNTRY'S OLDEST public sector financial institution, IFCI, on Thursday reported a consolidated net profit of ₹335.38 crore in the quarter ended December. It had posted a net loss of ₹31.66 crore in the year-ago period. Income during the quarter under review fell to ₹687.36 crore from ₹762 crore in the year-ago period.

Sebi's online system to detect misuse of clients' securities by brokers

FE BUREAU
Mumbai, February 13

SEBI ON THURSDAY said it has developed an online system for detecting misuse of clients' securities by brokers. The system is likely to timely detect misuse of clients' securities collected by brokers as collateral or received in pay-out of securities.

Sebi in a press release said, "Sebi collects the details of the clients' securities submitted in weekly report filed by brokers with the exchanges and updates the same with clients. Reconciliation conducted in the accounts of said clients using the data available with Sebi in DWBIS as well as data provided by exchanges, clearing corporations and depositories pertaining to auction trades, corporate actions, SLBM transfers, off market trades etc.

"The securities holding balance computed is matched with actual clients' securities holding in the demat account and submission made by the broker for the next day."

If there is any mismatch in data, it is flagged as an alert for exchanges.

According to the regulator, it has been observed that some brokers have misused clients' securities received as collateral to meet their own settlement obligation or obligations of other clients. Some brokers have also misused clients' securities by pledging them with banks and NBFCs to raise funds for their own use.

Earlier, the markets regulator has taken a number of policy measures like laying down the early warning mechanism to detect diversion of clients' funds and securities, restricting broker to pledge clients' securities even with the consent of the clients to prevent the misuse of clients' securities by brokers.

NIP MAY COME TO RESCUE

Low bank lending worsens fund woes of construction sector

India Ratings has changed its outlook for the sector to 'negative' for 2020-21 from 'stable'

FE BUREAU
Mumbai, February 13

FUNDING WOES OF the construction sector are likely to worsen as risk-averse lenders are reluctant to extend credit to players despite a growth in their order books. The increase in order book of construction companies is not backed by a corresponding increase in credit limits, said India Ratings. The ratings agency has changed its outlook for the sector to 'negative' for 2020-21 from 'stable'.

Bank credit remains one of the biggest issues plaguing the sector. Lower-rated and highly-leveraged entities consequently have even more trouble in accessing funds. "The ratio of these (fund and non-fund) limits in relation to order books for higher-rated entities continued to decline. Sector participants at the lower end of the rating spectrum or those with highly-levered balance sheets might face difficulties in obtaining enhancements in their working capital limits. This could hamper their ability to execute their order books in a timely manner, or bid for new orders over FY21," the ratings agency said. The disparity is particularly visible in BBB-rated companies.

The perceived risk of the construction sector is relatively high, and banks, especially those under the central bank's Prompt Corrective Action (PCA) framework, have to cut their exposure to higher-risk lending. This has resulted in slow bank credit growth in the construction sector, one analyst said. Meanwhile, the utilisation of existing limits as a percentage of sanctioned limits was static in FY19, compared with the previous financial year.

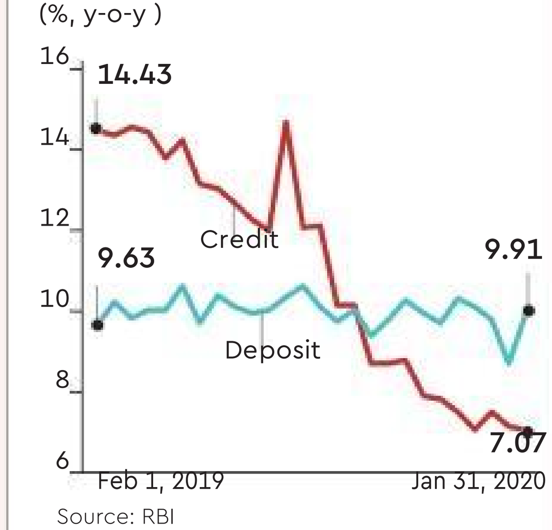
As a result of these constraints, the government is now contemplating allowing insurance companies to provide insurance cover for construction projects. The move is likely to reduce risks associated with completion of construction projects, the analyst said.

The government recently announced a ₹102 lakh-crore National Infrastructure Pipeline (NIP), which is expected to boost order inflows in the medium term, Ind-Ra said. Order inflows in the next financial year will be driven by government expenditure.

The gross budgetary support for the transportation sector for FY21 is up 8% year-on-year at ₹1.7 lakh crore. The agency expects an uptick in order inflows for the roads segment as well in the next fiscal as the government has allocated 20% of its outlay under the NIP for the sector. In the current financial year, order inflows from the National Highways Authority of India and the state governments have been muted. Additionally, orders for projects worth around ₹6,100 crore were cancelled in Andhra Pradesh.

Non-food credit crosses ₹100 lakh-cr mark, but growth at 3-year low

FE BUREAU
Mumbai, February 13


Credit and deposit growth

Source: RBI

EVEN AS CREDIT owed to the banking system crossed the ₹100 lakh-crore mark, the non-food credit growth slipped to an over three-year low of 7.08% year-on-year (y-o-y) during the fortnight ended January 31, 2020, from 7.14% in the previous fortnight. Data from the Reserve Bank of India (RBI) showed that during the comparable fortnight a year ago, non-food credit growth stood at 14.43%.

According to provisional data released by the central bank on Thursday, outstanding loans to companies and individuals stood at ₹100.24 lakh crore on January 31, up from ₹99.23 lakh crore at the end of the previous fortnight.

The deposit growth in the banking system marginally recovered during the fortnight. Deposits with banks grew 9.91% y-o-y to ₹133.24 lakh crore during the fortnight ended January 31, up from 8.69% in the previous fortnight. During the comparable fortnight of 2019, deposits with banks had grown by 9.63%. The credit deposit (CD) ratio for the fortnight stood at 75.23%, slightly lower than 75.6% at the end of the previous fortnight.

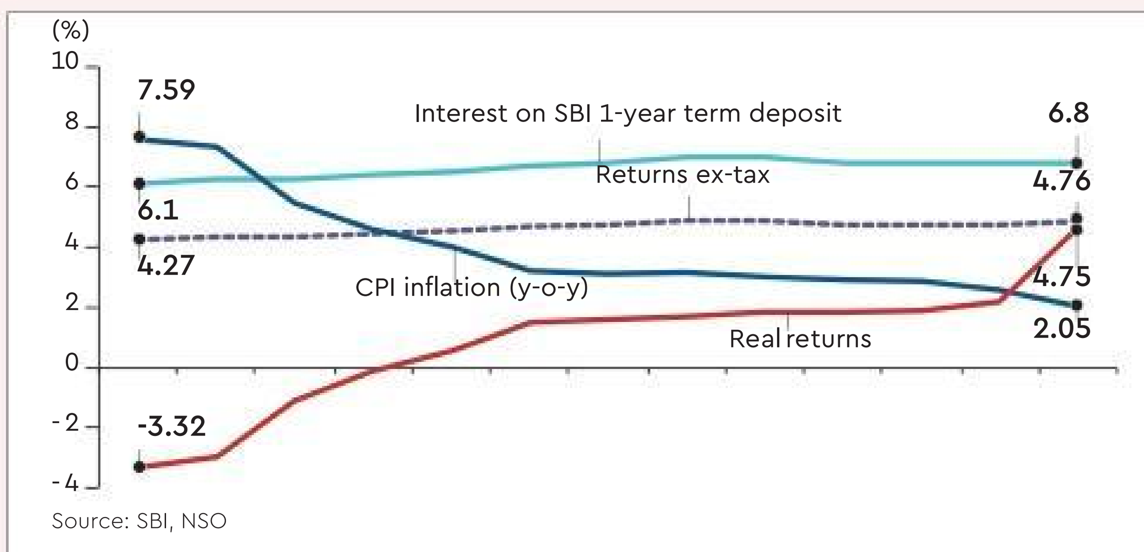
It is noteworthy that credit growth has been trending down even as lending rates of banks fell through 2019 following rate cuts by the RBI. In its latest monetary policy meeting, the rate-setting committee held rates while the central bank resorted to more unconventional means of lowering the cost of credit.

In recent years, banks have come to rely heavily on the retail segment to buttress their growth numbers in the absence of demand from corporates. The scenario is unlikely to change anytime soon, say analysts. In a note dated Thursday, Kotak Institutional Equities said there was little scope for borrowing by corporates for greenfield projects. "Expected disbursements in FY2020, based on sanctions up to FY2019, are quite low at around 1% of loans. Corporates are focusing on reducing leverage levels and/or prefer buying out capacities through IBC," the broking firm said.

Bankers, too, have begun to moderate their growth expectations for the year. Late last month, State Bank of India (SBI) said it was unlikely to achieve its earlier-stated full-year credit growth target of 10%. Chairman Rajnish Kumar said on a post-results call that this was despite the sanctions pipeline being good. "When disbursements happen, our sanctioned working capital limit utilisation will improve. And in March, corporate activity also sees a rise typically, (but) to reach 10% growth at the moment looks difficult," he said.

Real FD returns hit 6-year low in January as inflation soars, rates fall

SHRITAMA BOSE
Mumbai, February 13



Source: SBI, NSO

WITH INFLATION OVERSHOOTING the monetary policy committee's (MPC) target band for the second straight month and banks steadily cutting deposit rates, real returns from fixed deposits (FDs) hit an over six-year low in January. Last month was also the fourth in a row to fetch negative real returns for deposit holders, showed representative data on deposit rates and inflation.

Interestingly, real returns from fixed deposits (FDs) were hovering around a seven-year high of 4.75% just a year ago, in January 2019.

At (-)3.32%, the real return on a one-year retail term deposit with State Bank of India (SBI) adjusted for tax and inflation was the lowest last month since November 2013, when the return had stood at (-)5.21%. A one-year deposit with SBI in January earned interest at the rate of 6.1%, which works out to a 4.27% effective yield, assuming a tax rate of 30%. A headline consumer inflation rate of 7.59% resulted in a negative return for the depositor.

Indian depositors last earned positive real returns from term deposits in September 2019 when consumer price index (CPI) inflation stood at 3.99% year-on-year (y-o-y). Thereafter, rising food prices and falling deposit rates in an environment of weak credit offtake have been eating into savers' returns.

The future trajectory of returns from deposits will depend on a play-off between inflation, MPC's rate actions and the credit growth.

Analysts at Nomura on Thursday said inflation has peaked in January and will fall sharply in coming months, allowing the MPC room to lower rates. "Given our view that inflation has peaked while growth is likely to disappoint, we continue to believe the next policy move is still a cut; we expect a 25-bps repo rate cut in Q2 of 2020, which could get delivered as early as April," Nomura said in a note.

Meanwhile, deposit rates could trend even lower, bankers say. Rajkiran Rai G, managing director and chief executive at Union Bank of India, said that new deposits now are coming at a lower rate. "In the last six months, we have been consistently cutting deposit rates. As we go forward, the reduction in cost of deposits will be substantial," Rai said, adding, "The rates could come down by (another) 20-25 bps on one-year time deposits as we go forward. It will not happen overnight, but maybe over three-four months."

Allahabad Bank cuts MCLR by 5 bps

Allahabad Bank has cut the marginal cost of funds-based lending rate (MCLR) by 0.05 percentage points across tenors, effective February 14. The benchmark one-year MCLR will now be 8.25%, compared with the existing rate of 8.30%.

The overnight, three and six-month MCLRs have been cut by 5 bps each in the range of 7.75-8.10%. There has been no change in one-month MCLR of 7.85%. **PTI**

ANALYST CORNER

ABB likely to have scope to grow its market share

KOTAK INSTITUTIONAL EQUITIES

CY2020 WOULD BE a year that would test the ability of an agile ABB to grow share in a market providing select pockets of growth. Challenge to grow bottom line would come from keen competition, constrained order backlog having some portion of low-margin legacy projects and some potential disruption of supply chain due to demerger of power business.

We build in the miss in 4QCY19 results and cut estimates by 14% and lower fair value by 8% to ₹900 on roll-forward to March 2022E.

CY2019 was a good year for ABB with a 9/16% y-o-y growth in revenues/EBITDA. EBITDA margin improvement was driven by a reduction in unallocable expenses and would have been more if not for marked reduction in margin for industrial automation segment in 2H. Static depreciation added to the growth in EBITDA to yield a 29% y-o-y growth in PBT. Base order inflows were up a healthy 9% though limited quantum of large orders booked led to a modest yoy decline in order backlog.

4QCY19 performance was much below our and consensus estimates as it did not take into account (1) change in policy related to booked actuarial gains in employee expense (now evenly over all quarters from CY2019), (2) change in revenue recognition policy (now spread more evenly across quarters from CY2019) and (3) up-fronting of anticipated cost overruns in select legacy projects in the industrial automation segment. Overall, ABB considers the domestic market to be large enough to provide opportunities to grow market share with select pockets where such market share gain can be significant.

It also shared optimism on account of increasing capacity utilisation in cement and O&G sectors growth momentum seen in other select segments of infrastructure (housing, railways, renewables, airports, metros). It also shared optimism on its digitisation offering gaining relevance based on meaningful benefits that its customers are deriving from the same. On exports, the management does not envisage acceleration in growth over the near term, and would follow aims of stability, profitability and then growth.

RBI's new asset recognition norms for realty sector credit negative for banks: Moody's

Under new guideline, banks can extend the principal repayment period by 1 year if the project is delayed for reasons beyond the control of real estate developers

FE BUREAU
Mumbai, February 13

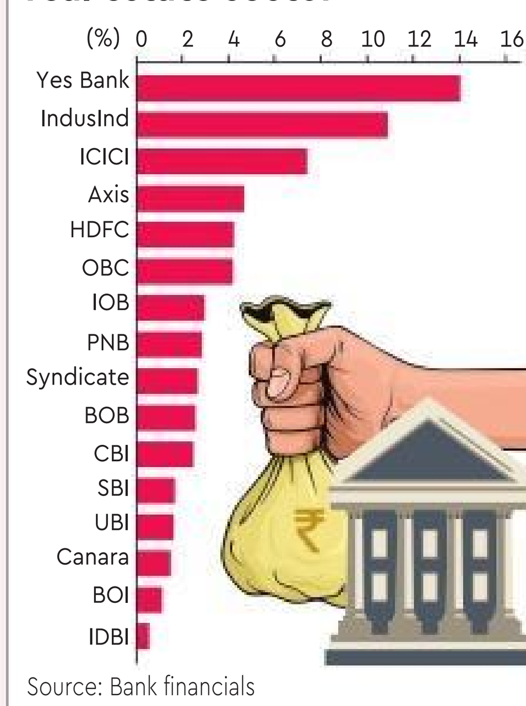
RATINGS AGENCY MOODY'S on Thursday said the Reserve Bank of India's move to revise asset recognition norms for bank loans to the real estate sector is credit negative for lenders as it would defer the recognition of such loans.

The RBI on February 7 allowed banks to not classify real estate loans as restructured for one year if the project is delayed for reasons beyond the control of real estate developers. "While this will alleviate near-term asset quality risk to the banks from the real estate sector, it will not address the credit issues facing real estate developers," the ratings firm said.

The real estate sector has been facing challenges as NBFCs (non-banking finance companies), the key lenders to the sector, are also under stress. Further, stagnating property sales have resulted in a large stock of unsold inventory. "Tight funding conditions are straining developers' ability to complete projects and, by extension, their solvency," Moody's said.

Under the new guideline, banks can extend the principal repayment period by one year if the project is delayed because of reasons beyond the developer's control. Typically, the principal repayment on loans to property developers starts two-three years after the disbursement. In the interim period, developers are only required to pay the interest on the loan.

Moody's-rated banks' exposure to the commercial real estate sector



Source: Bank financials

DMart's OFS to open today

FE BUREAU
Mumbai, February 13

RADHAKISHAN DAMANI-PROMOTED AVENUE Supermarts is aiming to raise around ₹3,000 crore through the offer for sale (OFS) route. The OFS will commence on Friday and will remain open till Monday. The promoters will be offloading 2.28% of their equity stake through the OFS route in order to achieve the minimum public shareholding norms of the Securities and Exchange Board of India.

Avenue Supermarts, which owns and operates DMart, will issue 1,48,00,000 equity shares through the OFS. The floor price per equity share is set at ₹2,049. The first day of the issuance will be reserved for non-retail investors. Retail investors can bid for equity shares worth ₹2 lakh on February 17. From the total shares being issued through the OFS route 10% of the shares will be allocated to the retail investors.

Kotak Securities, Axis Capital, DSP Meryll Lynch and HSBC Securities and Capital Markets are brokers for the issue.

Avenue Supermarts tapped the capital markets earlier this week to raise ₹4,038 crore through the qualified institutional placement (QIP) of shares, which it plans to use for DMart's store expansion.

After the stake sale undertaken through the QIP, Radhakishan Damani, the promoter of Avenue Supermarts, became the sixth richest person in India. The promoter shareholding in the company after the QIP and OFS will come down to 75%.

Cost rationalisation leads to Ebitda growth for FLFL

MOTILAL OSWAL

FLFL'S REVENUE GROWTH remained muted due to the weak macroeconomic environment, but its gross/EBITDA margin expanded on the back of cost containment measures.

We marginally tweak our revenue/EBITDA estimate for FY20, but cut revenue/EBITDA estimates by ~10% for FY21, considering weak SSSG and slower pace of store addition. Consol. revenue increased 3.2% YoY to ₹17.5b (8% miss). Gross margin improved 110bp YoY (150bp beat) led by lower RM cost. Pre-Ind-AS 116 EBITDA was up 10.4% YoY at ₹1.8b (5% beat) due to a better gross margin and lower SG&A expense (-10.4% YoY), partially offset by higher rental cost (+23% YoY).

EBITDA margin thus expanded 70bp YoY to 10.5% (130bp beat). PBT declined 11% Y-o-Y to ₹891 m (5% beat) on account of higher depreciation (+45% Y-o-Y) and finance expense (+9% Y-o-Y). PAT was down 13% Y-o-Y to ₹594m (in-line).

FLFL's SSSG came in at 2% in 9MFY20 v/s 8.8% in the year-ago period. In 3QFY20, Central reported mid-single-digit SSSG (our estimate: 5%), while its revenue was up 8.7% Y-o-Y at ₹8.6b. Brand Factory's revenue was flat Y-o-Y at ₹7.3b, and thus we estimate its SSSG to have declined. Revenue from own brands and EBOs too declined 4.6% Y-o-Y to ₹646m. FLFL added 0.18m sq ft in 3QFY20 to take the total to 7.5m sq ft.

Revenue contribution of Central/Brand Factory/other brands stood at 49%/42%/9% for 3QFY20. The increased share of Central helped improve profitability. Revenue growth has been muted, primarily due to weakness at Brand Factory. While the macroeconomic environment remains weak, the impact is far more pronounced compared to Trent, ABFRL and even Shoppers Stop.