

Markets

SATURDAY, FEBRUARY 15, 2020

EXPERT VIEW

The combination of attractive real rates and ongoing monetary easing in EMs makes local currency bonds attractive.

—Alexander Wolf, head, investment strategy for Asia, JPMorgan Private Bank

Money Matters

G-SEC

The benchmark yield fell due to buying support **0.054%**



LAF

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



₹/\$

The rupee depreciated on global cues **0.06%**



€//\$

The euro rose against the dollar **0.02%**



Bond yield hits 6-month low ahead of RBI's LTRO on Mon

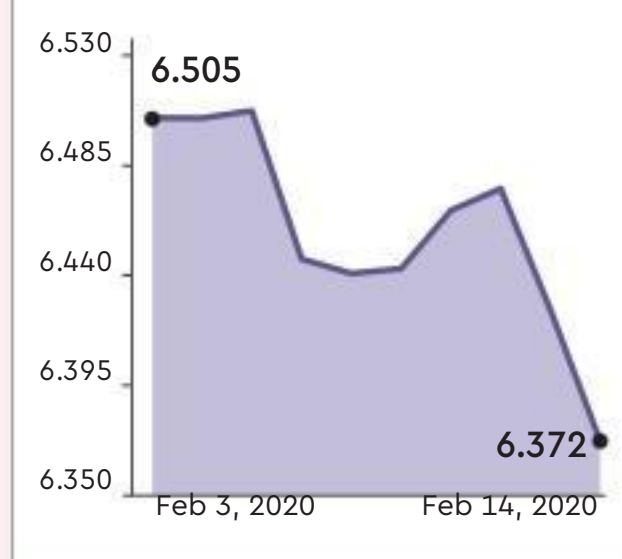
FE BUREAU
Mumbai, February 14

BONDS RALLIED ON Friday as foreign portfolio investors (FPIs) went on a buying spree and also because of the optimism ahead of the first tranche of long-term repo operations (LTRO) that will be conducted on Monday. The benchmark yield closed 5 basis points down to hit over a 6-month low of 6.37%.

Indeed, FPIs have been on a buying spree having bought more than \$2.3 billion since February 5. Except one session, FPIs were net buyers of Indian bonds since February 5.

MS Gopikrishnan, an independent market expert, pointed out that the central bank's upcoming LTRO is having its effect on the yields. "We are getting closer to the LTRO that would be conducted soon. The downward pressure on yields is in anticipation of the operation. Heavy FPI

10-year bond yield (%)



buying is also contributing to the rally," he said.

During the monetary policy, the Reserve Bank of India (RBI) had said it will conduct term repos of one-year and three-year tenors of appropriate sizes for up to a

total amount of ₹1 lakh crore at the policy repo rate. This means banks would be able to borrow one-year and three-year tenor money at just the policy repo rate that currently stands at 5.15%.

The central bank announced that it will conduct ₹50,000 crore worth of LTRO that would be equally split between the one-year and three-year tenors. The 3-year LTRO will be conducted on Monday while the one-year LTRO will be done on February 24. Going forward, it would be noteworthy to watch whether the RBI will do further LTRO in addition to the already-announced ₹1 lakh crore.

Post the announcement, the yields have been on a downtrend even ignoring the high consumer price index (CPI) inflation print of 7.59% for January. Other factors like depressed oil prices and fall in US treasury yields are also acting in favour of Indian bond yields.

Identified 14 projects for completion under AIF, says LIC Housing Fin chief

FE BUREAU
Mumbai, February 14

LIC HOUSING FINANCE has identified 14 projects which could be eligible for resolution under the government's ₹25,000-crore alternate investment fund (AIF) for reviving stalled residential projects. The mortgage lender's exposure to these projects is about ₹1,100 crore, said managing director and chief executive officer Siddhartha Mohanty on Friday.

"We have some 14 projects (eligible) for the alternate investment fund created last year. We have advised those developers to be in touch with SBI Caps (SBI Capital Markets) and the process has started," Mohanty said on the sidelines of an event to launch LIC HF's mobile app.

He noted that while these projects are eligible for resolution under the AIF scheme, the process will be time consum-



Siddhartha Mohanty

ing because project completion is not an overnight job. "It takes time for a lender to appraise as well and it is construction-linked. These projects need last-mile funding," Mohanty said.

He added that the real estate sector has started to recover from a downturn and

the asset quality in the segment should improve from here on.

The recent Reserve Bank of India relaxation for banks to allow commercial real estate projects an additional year beyond the date of commencement of commercial operations without a downgrade in the asset quality does not apply to non-bank lenders, Mohanty said. "Incidentally, that will help the sector as a whole if you allow one-year moratorium and stalled projects can be completed without downgrading the asset. Banks will have funds and they can lend more, helping the sector," he observed.

Meanwhile, the housing finance company launched its mobile app and mascot Homy. The app has been developed in collaboration with Google Cloud. The app is aimed at minimising paper-based loan applications as also to improve the company's interface with the consumer.

Will speak to telcos on AGR dues: SBI chief

FE BUREAU
Mumbai, February 14

AFTER THE SUPREME Court pulled up telecom companies and the government over non-payment of adjusted gross revenue (AGR) dues, State Bank of India (SBI) chairman Rajnish Kumar on Friday said banks will speak to telecom companies about their exposure and hope they have some plans for it.

Speaking on the sidelines of an event organised by the Nasscom in Mumbai, Kumar said, "Telecom companies have to talk to the government. We will talk to them and I am sure they will be having plans." SBI has around ₹14,000-crore non-fund-based exposure to telecom companies, which is mostly in the form of bank guarantees provided to these firms.

SBI's total exposure to the telecom sector stands at ₹37,793 crore, Forit, the bank already made provision of around ₹9,000 crore till the December quarter. "It is now for the telecom companies to decide on how will they find the money or what course of action will they take," Kumar added. SBI has exposure of around ₹20,000 to private telecom companies as on December 31, 2019.

Banks are fearing about their exposure to telecom turning non-performing assets



Rajnish Kumar

after the Supreme Court on Friday asked telecom operators to explain why they shouldn't be held in contempt for violating its order regarding the AGR and non-payment of dues despite breaching the deadline. The court pulled up Bharti Airtel and Vodafone Idea for not paying their AGR dues to the Department of Telecommunications (DoT).

The apex court also ordered the managing directors and top officials of the companies and the DoT to be present in the court on the day when the case would be heard again.

Only Reliance Jio has cleared its AGR dues of ₹60 crore. Vodafone Idea owes over ₹50,000 crore to DoT, while Bharti Airtel has to pay ₹35,586 crore. Tata Teleservices has dues of ₹14,000 crore.

Need to attract more risk capital for 7-8% growth: Uday Kotak

PRESS TRUST OF INDIA
Mumbai, February 14

IF THE COUNTRY wants to achieve a growth rate of 7-8%, it needs to attract more risk capital by building trust among lenders, savers and investors, veteran banker Uday Kotak said on Friday.

This trust, he said, can be built through strengthening of corporate governance by companies. "If we aspire for 7-8% or 9% growth, changing the mindset on risk capital and building that trust bridge are core to our future," Kotak, who is managing director and CEO of Kotak Mahindra Bank,

said at a CII corporate governance summit.

Kotak cautioned that lack of trust towards corporates may be leading to the risk aversion. He said the country is scarce on risk capital and access to such capital will not come easily unless lenders, savers and investors trust companies where they are putting in their money.

"The most important aspect of corporate governance we need to focus on is building trust in the mind of any lender, saver, investor that his or her money is safe, and will produce returns which are justifiable and not be taken away by poor governance at the company level," he said.

ANALYST CORNER

Maintain 'neutral' on Page Industries, TP ₹22,250

MOTILAL OSWAL

PAGE REPORTED A disappointing set of numbers on both volumes and earnings, with EBITDA declining 16% YoY in 3QFY20. Reported operating margin was the lowest in 30 quarters, and adjusted for the Ind-AS 116 impact, the margin was among the lowest ever. While the long-term growth potential is high and the past track record impressive, valuations of 55.7x/47.6x FY21/22E EPS are expensive.

Management commentary also did not assuage concerns about the lack of earnings recovery in the near term.

Overall volumes declined 2.8% Y-o-Y (our estimate: 0% YoY). EBITDA came in 16% Y-o-Y lower at ₹140 crore (our estimate: ₹160 crore), PBT was down 28.1% Y-o-Y at ₹120 crore (our estimate: ₹150 crore) and adj. PAT declined 14.6% Y-o-Y to ₹87 crore (our estimate: ₹110 crore). Gross margin shrank 390 bps Y-o-Y to 53.2%. EBITDA margin contracted 490bp YoY to 17.5% due to higher employee costs (+110bp YoY), partly offset by lower other expenses (-20bp YoY).

For 9MFY20, revenue/EBITDA/PAT

growth was at 7.1%/-4.6%/-2.1% Y-o-Y.

Investments in technology implementation and staff recruitment (mainly on tech and kids businesses) have also impacted the EBITDA margin. Inventory days have come down to ~75 from 85 as of March 2019. Kidsweat has shown an encouraging demand trend. A 120+ member team is now headed by a separate division head.

PAG has an immensely impressive track record on earnings growth, recent efforts on balance sheet improvement are commendable, and management's efforts to improve channel efficiency and revitalise growth are likely to eventually bear fruit.

Category slowdown, weak channel liquidity and competitive tailwinds present significant near-term challenges. Our channel checks across various cities in the country also do not indicate green-shoots of recovery. Changes to the model have resulted in 9.3%/7.7% cut to our FY20/21 EPS forecasts. Expensive valuations leave no room for upside, in our view. We derive a TP of ₹22,250 set at 45x Mar'22E EPS of ₹495. Maintain 'neutral'.

Retail 'sell' on GSPL with revised fair value of ₹225

KOTAK INSTITUTIONAL EQUITIES

GSPL'S 3QFY20 RESULTS were below estimates due to sequential moderation in volumes and realised tariffs and higher operating costs. Gujarat Gas reported q-o-q flat EBITDA reflecting steady volumes and unit margins. We cut GSPL's FY2020-22E consolidated EPS by 1-3% to factor in lower contribution from standalone and higher contribution from Gujarat Gas. Retain 'SELL' with a revised SoTP-based fair value of ₹225 (₹200 earlier), amid lack of positive triggers and full valuations.

GSPL's EBITDA moderated 13% q-o-q to ₹380 crore in 3QFY20, 6% below our estimate, amid 2% q-o-q moderation in net realised tariffs (revenues, net of gas transmission expenses) to ₹1.31/scm, 5.7% q-o-q decline in volumes to 36.9 mcm/d amid decline in refinery/petchem and industrial volumes and sharp 37% q-o-q rise in other expenditure.

Adjusted net income declined 29% q-o-q to ₹220 crore (EPS of ₹3.9), amid sharp moderation in other income in the absence of dividends from Gujarat Gas, which was partly offset by lower interest charges. 9MFY20 EBITDA remained steady yoy to ₹122 crore, despite an 8% rise in volumes to 38.1mcm/d, reflecting 5% decline in realised tariffs to ₹1.32/scm and 36% jump in other expenditure. Adjusted net income increased 16% y-o-y to ₹740 crore (EPS of ₹13.2), led by higher other income, lower interest and reduction in tax rate.

Adjusted net income declined 9.5% q-o-q to ₹197 crore (EPS of ₹2.9) in the third quarter, led by normalisation of tax rate to 25.3%; previous quarter included tax write-back pertaining to 1QFY20. In 9MFY20, GUJGAS has delivered a robust 65% growth in EBITDA to ₹1,208 crore and a 133% jump in adjusted net income to ₹64.8 crore (adjusted EPS of ₹9.4), driven by 42% growth in volumes to 9.3 mcm/d.

Quick View

JM Financial gets nod to raise up to ₹850 cr

JM FINANCIAL ON Friday said it has received shareholders' approval to raise up to ₹850 crore through issuance of securities. In a regulatory filing, the company said at its AGM held on Wednesday, 99.94% shareholders gave approval to raise ₹850 crore. Shareholders have also approved the resolution to "increase investment limits by foreign portfolio investors (FPIs) from 24% to 40% of the paid-up equity share capital of the company", the filing said.

Forex reserves soar to record \$473 billion

FOREIGN EXCHANGE RESERVES rose by \$1.701 billion to a lifetime high of \$473 billion for the week ended February 7 on account of increase in foreign currency assets, according to RBI data. In the previous week, foreign exchange reserves had swollen by \$4.607 billion to \$471.3 billion. In the reporting week, foreign currency assets, a major component of the overall reserves, rose by \$1.938 billion to \$439.186 billion. Expressed in dollar terms, foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves.

IOB focuses on MSME, to lend more

LAYING MORE FOCUS on MSME segment, Indian Overseas Bank (IOB) would increase its lending to the sector from the present ₹31,000 crore to ₹50,000 crore in a couple of years from now, a top official of the bank said on Friday.

American Express rolls out special benefit

AMERICAN EXPRESS CENTURION and Platinum Charge card members can now make their travel experience more luxurious as the company has rolled out a special benefit in partnership with Hype, a luxury mobility solutions provider. At a special credit of ₹12,500 per month per user, members can avail of exclusive benefits for self-drive or chauffeur-driven categories, along with complimentary Platinum Tier of Hype membership.

Whistleblower policy critical for internal control in companies: Keki Mistry

PRESS TRUST OF INDIA
Mumbai, February 14

WHISTLEBLOWER POLICY IS a critical element of internal control in companies, and there is a need to place a mechanism to penalise dishonest complainants, HDFC vice-chairman and CEO Keki Mistry said on Friday.

Malicious accusation lead to unnecessary time wastage in investigating the claims, affects shareholder perception and tarnish the image of organisations, he added. "I do think that genuine whistleblowers need to be encouraged by the regulators. However, there needs to be a mechanism put in place that penalises complaints by dishonest people," Mistry said in his address at a corporate governance summit organised by the CII.

While there are individuals who are motivated by a sense of moral conscience and act for the organisation, there are those who act of greed and to take revenge, he said. Mistry said certain instances in the past showed that whistleblowers are either seeking ill of a company or looking for media attention.

"It is equally important to ensure that



there are sufficient checks and balances in the system so that malafide intentions are discouraged," he noted.

Shareholder activism in the country is bound to become more pronounced as investors are exerting influence in governance, both directly and through their proxy advisors, he said.

As India becomes more developed economy, there is a need to ensure that the corporate governance norms do not become so stringent and restricted that they inhibit a company's ability to take risks and contribute to economic growth, Mistry said. "The safeguards and control structures should be done in a manner that allows organisations to flourish and focus on business."

LVB cuts loss to ₹334 cr in Q3

FE BUREAU
Chennai, February 14

LAKSHMI VILAS BANK (LVB) on Friday reported a net loss of ₹334.47 crore for the third quarter of FY20, compared with a net loss of ₹373.48 crore in the corresponding quarter of last fiscal, reducing the loss by 39%. Total income fell 23.17% to ₹585.76 crore, against ₹762.47 crore, LVB said in a regulatory filing to the stock exchanges.

Showing further cracks in its asset quality, the bank reported a jump in its gross NPA to 23.27% from 13.95%. Likewise, net NPA increased to 9.81% from 7.64% while the provision coverage ratio stood at 68.70%. The bank could bring down the loss in Q3 due to lower provisioning — it had provisioned ₹315 crore towards NPAs in Q3 as compared to ₹431 crore in the year-ago period.

The capital-stressed LVB had hit the headlines recently when reports of some foreign funds evincing interest in the bank to pump in funds as strategic investors broke out. Responding to some reports,

LVB earlier clarified that Tilden Park Capital Management, a US-based entity had requested for certain regulatory clarifications pertaining to investment in bank's shares and the bank facilitated a meeting directly with the Reserve Bank of India.

The board of directors in the meeting held on Friday authorised the MD and CEO of the bank and KR Pradeep, a promoter head & non-executive director, along with a team, to hold talks with potential investors. The authority has been provided to save time on discussions and to expedite the capital-raising exercise, LVB said in the filing.

The bank had been put under the Prompt Corrective Action framework by the RBI in September 2019 due to severe financial problems including capital inadequacy and asset quality deterioration.

Certain actions have been prescribed, such as bringing in additional capital, restricting further lending to corporates, reducing NPAs and improving the provision coverage ratio to 70%.

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