Markets

SATURDAY, FEBRUARY 22, 2020

BONDING WITH INDICES

Shaktikanta Das, RBI governor

We have had our discussions with some institutions which maintain these global index...not possible to spell out a timeline, but it is a work in progress. Our effort will be to see that it is taken forward as quickly as possible. I don't want to give a timeline.

Money Matters

G-SEC

The benchmark yield remained unchanged as markets were closed on Friday

₹/$

The rupee remained unchanged as markets were closed on Friday

€/$

The euro rose against the US dollar 0.23%

PROFIT FALL

India Inc's RoE plunges to 16-year low in FY19

FE BUREAU
Mumbai, February 21

INDIA INC'S RETURN on equity (RoE) fell to 9.5% in FY19 – its lowest in 16 years – on the back of declining profitability and asset returns of companies. The ratio has more-than halved from the high of 22.9% seen in FY07, said Motilal Oswal, in a report.

RoE shows how good a company is at generating returns from its investment. In India, sectors such as public sector banks (PSBs), metals, oil and gas as well as utilities contribute the most to the RoE of listed companies.

"In the recent past, RoE has been largely impacted by high NPA provisioning/write offs made by PSBs, intensifying competition in the telecom sector and shrinking margins in the auto sector. However, excluding PSBs, telecom and auto, the ratio has shown signs of a recovery in recent years," said Motilal Oswal.

For FY19, sectors such as telecom, infrastructure and PSBs clocked negative RoE. Indian companies have been cyclical or have seen major ups and downs with respect to their RoE because of its dependency on companies which belong to the sectors that witness cyclical growth.

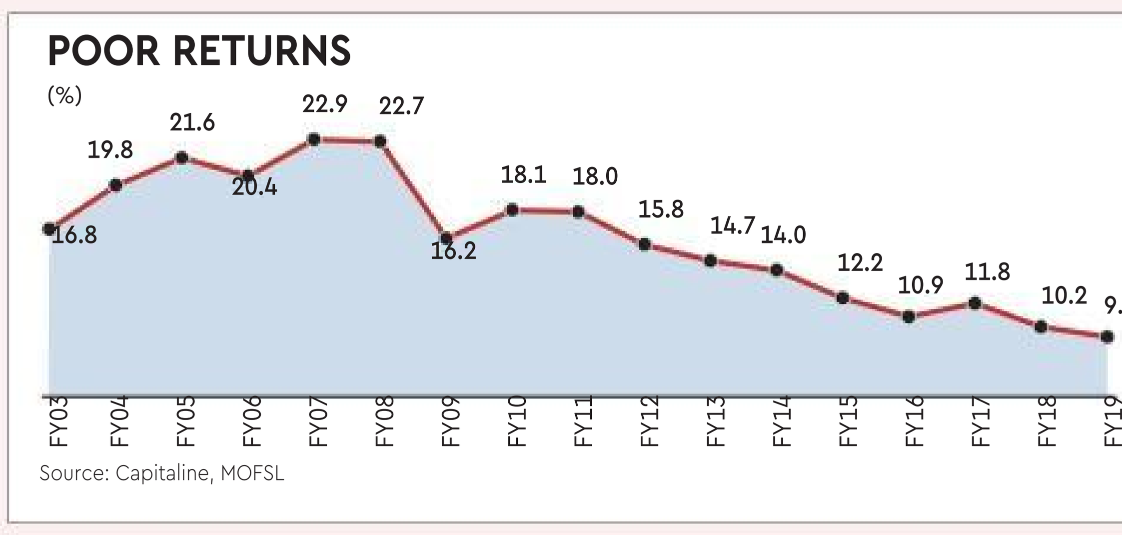
Additionally, RoE is also an effective method for investors to analyse how effective the capital allocation in a company is. The report suggested that cash rich companies can improve their RoE by increasing earnings payout, which, in turn, would uplift valuation multiple. After analysing BSE 200 companies, the brokerage concluded that a change in the market capitalization is directly impacted by the RoE of companies.

"Companies delivering RoE improvement (at end v/s start of the respective period) have significantly outperformed those witnessing a decline in RoE. Companies with improving RoE have delivered aggregate market," said the report.

The RoE of public sector units and private sector companies is on a par. But, while comparing RoE's by market capitalization of companies, the brokerage arrived at a conclusion that in spite of low RoEs, midcaps have outperformed large-cap companies in three different market cycles. It said: "Midcaps have lower RoEs than largecaps in all the three tested cycles. This is on account of higher earnings growth and thus, higher variability in RoEs of midcap."

The brokerage further said that companies in the high-dividend-paying sectors such as consumer and technology were adversely impacted by the implementation of Ind-AS. The structural reform of demonetisation in FY17 and the rollout of GST in FY18 also led to some temporary hiccups in corporate earnings growth and RoE.

POOR RETURNS



Source: Capitaline, MOFSL

RBI in discussion with institutions to include G-secs in global indices

PRESS TRUST OF INDIA
New Delhi, February 21

RESERVE BANK OF India (RBI) governor Shaktikanta Das has said the central bank has already initiated discussions with some institutions and efforts are on for inclusion of government bonds in global indices as quickly as possible.

The development would attract higher foreign flows as many overseas funds are mandated to track global indices. It will help bring in large passive investments from overseas, as a result more domestic capital would be available for industry as crowding out to that extent would be reduced.

"That is work in progress. We have had our discussions with some institutions which maintain these global index...not possible to spell out a timeline, but it is a work in progress. Our effort will be to see that it is taken forward as quickly as possible. I don't want to give a timeline," he told PTI in an interview. This was a long-pending suggestion of foreign investors that was addressed in the Budget this year.

"Certain specified categories of government securities would be opened fully for non-resident investors, apart from being available to domestic investors as well," finance minister Nirmala Sitharaman had said in the Budget 2020-21. The specified securities, which will be listed on the indices, will not have a lock-in requirement.

Globally, there are some large institutional investors that track these indices, such as Bloomberg Barclays Emerging Market Bond index, for positional decisions on sovereign papers.

With regard to the health of the shadow banking sector, Das said RBI has been monitoring the top 50 NBFCs very closely, in fact much more closely than anybody can imagine from outside. "Similarly, the health of the other financial sector entities including the banks are also being very closely monitored by the Reserve Bank of India. The Reserve Bank remains committed to maintain financial sector stability," he said.

As far as the NBFCs are concerned, he said, "our close monitoring over the last one year, we have a reasonably good idea about where exactly the stress lies. We are constantly engaged with the individual NBFCs and only very few of the NBFCs have some liquidity issues."

"We are constantly engaging with their management, with their promoters and encouraging them to resolve their problems through market based solutions in terms of getting additional liquidity. The engagement with the NBFCs management is constantly on," he added.

Sounding sanguine about the future, Das said the overall flow of credit to the NBFC sector has improved quite steadily over the last few months. "There are a good number of NBFCs which are able to access funds from the market at reasonably competent rates, even comparable to or perhaps a bit lower than the pre-IL&FS rates. So, therefore, NBFC sector is slowly improving, and it has steadily improved over the years and we will continue to monitor that sector," he said.

The NBFC sector, including some large housing finance companies, came under stress following a series of defaults by Infrastructure Leasing & Financial Services (IL&FS) group companies, beginning September 2018.

Quick View

Forex reserves swell to new lifetime high of $476.092 billion

INDIA'S FOREIGN exchange reserves swelled by $3.091 billion to a lifetime high of $476.092 billion in the week to February 14, mainly due to a rise in foreign currency assets, according to the RBI data. In the previous week, the foreign exchange reserves had increased by $1.701 billion to $473 billion. Foreign currency assets, a major component of the overall reserves, rose by $2.763 billion to $441.949 billion in the reporting week. Expressed in dollar terms, the 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. Gold reserves rose by $344 million to $29.123 billion. The special drawing rights with the IMF were down by $6 million to $1.430 billion. The country's reserve position with the IMF also declined by $9 million to $3.590 billion, the data showed.

Tea Board should fund auction system: CTTA

CALCUTTA TEA Traders' Association (CTTA) on Friday said that Tea Board should continue to fund the auctioning system in six centres in the country till an alternative mechanism is put in place. Nearly 600 million kg of tea is being handled annually in the six auction centres at present, CTTA secrtary J Kalyansundaram said. "These centres use the NSE.IT platform which is completely funded by Tea Board. If the board decides to stop funding the auctioning system, there will be a sudden vacuum which the tea industry cannot afford to have," Kalyansundaram said. CTTA oversees the auctioning system in the Kolkata centre. Recently, Tea Board chairman PK Bezbaruah said that the government should stop funding the auctions and private parties should be encouraged to come forward.

Muthoot Finance prices $550-m bond issue at 4.400%

FE BUREAU
Kochi, February 21

NBFC MUTHOOT FINANCE on Friday said it has successfully priced a $550-million bond for a 3.5-year tenor at 4.400%. The largest gold loan company had successfully placed $450 million for a 3-year tenor at 6.125% in October 2019.

The proceeds of the issue will be used for permitted purposes, including onward lending, in accordance with RBI's ECB guidelines and other applicable laws, the company said in a communication.

MG George Muthoot, chairman of Muthoot Finance, said: "The response from international bond investors in our second issue is quite overwhelming. We are glad to know that global investors have understood our unique credit story, acknowledging our long track record in gold loan business. This fund raise will enable us in further diversifying and strengthening our sources of funding."

The transaction was officially launched on February 18, 2020, following which the company engaged several investors during a series of fixed income investor calls in Hong Kong, Singapore, London and US.

On the back of high quality feedback, the transaction was launched with an initial pricing guidance of 4.750% area on February 20. Following a strong order book momentum, supported by high quality real money investors, the company was able to tighten pricing by 35bps to 4.400%.

DHFL administrator reviews alleged fake account entries

FE BUREAU
Mumbai, February 21

APART FROM TRANSACTION audit being ordered to check fraud and ongoing investigations by investigative agencies, the current management of beleaguered mortgage financier Dewan Housing Finance Corporation (DHFL), under RBI-appointed administrator R Subramaniakumar, is separately reviewing allegedly fake customer account entries during the erstwhile management of the company, sources close to development told *FE*.

The Reserve Bank of India (RBI) superseded DHFL board on November 20 and appointed Subramaniakumar as administrator. Multiple accounting entries were initially recorded in certain customer accounts for receipts for which the cheques had not been deposited in the banks and these have been subsequently reversed, the source added.

Such instances have now been constantly reviewed by the current management and plans to introduce the confirmation from operation to that effect forward, source further said.

A draft forensic report by KPMG had found the lender had disbursed loans and advances to inter-connected entities, which were likely linked to the promoters. Moreover, loans and advances totalling ₹24,594 crore had been disbursed with inadequate loan documentation to 65 entities that had minimal operations.

FE reported earlier that DHFL had ordered three transaction audit reports by Grant Thornton to examine the alleged related-party and fraudulent transactions.

The banks led by SBI had red-flagged the exposure to DHFL as fraud account.

DHFL posted a profit of ₹934 crore in the third quarter, aided by switch to new tax regime and exemptions in provisions as it is under moratorium. DHFL is undergoing a resolution process after the Mumbai bench of the NCLT admitted the case on December 2.

DHFL chairman gets bail in Mirchi case

A MUMBAI special court on Friday granted bail to Kapil Wadhawan, CMD of DHFL who is accused of having dealings with dead gangster Iqbal Mirchi in the past. The ED moved Bombay High Court seeking a stay on the special court's order but withdrew the petition when told that Wadhawan has already been released from jail. Kapil Wadhawan (46) was arrested on January 27 by the Enforcement Directorate under the Prevention of Money Laundering Act (PMLA). While granting bail, the court directed Wadhawan to be at the ED office whenever he is summoned. He shall not tamper with prosecution evidence and shall not directly or indirectly make any inducement, threat or promise to any person acquainted with the facts of the case, the court said. **–PTI**

ANALYST CORNER

'Hold' on BPCL; keep faith in refining turnaround

JEFFERIES

BPCL'S Q3FY20 net of ₹12.6 bn was well below JEFe hurt by weak operational performance yet again. Core Ebitda missed by 36%, e.g., with refining and marketing margins weak with share losses in diesel too although debt did ease q/q. Looking ahead, we still hope for that elusive refining turnaround with upside risk to auto fuel marketing margins too but its richer-than-peer valuations that already bake in some of the divestment upside predicates our 'hold' rating.

BPCL's Q3FY20 ₹12.06 bn standalone net came 41% below JEFe despite inline inventory gains (₹5.4bn) and forex losses (₹0.9 bn). Lower other income (-32% q/q) hurts as did higher-than-expected interest costs although debt did ease ₹17 bn q/q helped by lower w-capital and ~₹9 bn in subsidy payments late in December.

Much like in most recent quarters, though, it is BPCL's core performance that was more disappointing, with core Ebitda (₹19 bn, -22% q/q, -43% y/y) some 36% below JEFe as both refining and marketing missed handily led by lower margins. In marketing, e.g., auto fuel margins eased 6% q/q but were still well above normal but were offset yet again by soft realised industrial margins despite our trackers suggesting an uptick.

Volume performance was mixed too, with share in LPG & ATF up and petrol steady but diesel down ~60bps q/q that management indicated has since reversed in Jan as discounts by competitors have ebbed. Like before, though, refining frustrated us more. Crude runs rose after a soft Q2FY20 but sadly not margins.

Yields did ease a tad q/q and diesel exports would have hurt too but $2.2 in blended core margins and an even lower $2 at Kochi still sounds unconscionable especially after BPCL spent ₹165 billion to expand and upgrade it. Some of this rests on the adverse macro, though, but LH differentials may not worsen, Mid-East OSPs may now ease and freight costs have fallen too.

We keep our faith in a refining turnaround, therefore, also noting likely uplift from the elusive IMO as FO inventories normalise with upside from BS-VI premiums possible too.

Retirement funds AUM jumps 24.5% to ₹10,425 cr in Apr-Jan

MORE AND MORE retail investors are parking their funds in retirement solution-oriented mutual funds, taking the category AUM to ₹10,425.3 crore as of the end of January – a 24.5% growth over ₹8,376.2 crore in April 2019.

Industry body Amfi attributes this rising inflows into such schemes to the robust SIP segment, which has reached an all-time high of ₹8,532 crore by retail investors alone, and also overall mutual fund AUMs hitting an all-time high of ₹28.18 lakh crore in January.

"Within the total mutual fund AUMs, assets under management of retirement solution-oriented schemes has grown 24.46% to ₹10,425.28 crore as of end January 2020 against ₹8,376.19 crore as of April-end 2019," said Amfi.

Amfi chief executive NS Venkatesh said the growth is led by retail investors who are flocking to mutual funds in general and retirement-led schemes in particular as their awareness levels on the need for long-term investment rises. **–PTI**

SEA asks govt to stop issuing import licences for refined palmolein

FE BUREAU
Pune, February 21

CRITICIZING THE CENTRE'S decision to permit licences for import of palmolien, the Solvent Extractors Association of India (SEA) has said that this move has the potential of destroying the palm refining oil in the country.

In a statement, Atul Chaturvedi, president, SEA, said that in the last one-and-a-half month, edible oil prices in international market as well as domestic market are showing downward trend and there is no shortage of refined palmolein or edible oils in the country.

"It is most surprising that just one month back, to check the excessive import of RBD palmolein in the country, the government moved import of RBD palmolein from 'freely allowed' to 'restricted item'," he said. With a massive mustard crop ready for harvesting, the import will have a great dampening effect on prices of domestic oil seeds. This may result in mustard selling below MSP, he said. "Currently, in Indonesia, RBD palmolein is cheaper than CPO and with higher levy on CPO at $50 and lower duty on RBD palmolein at $30. Indonesia has great advantage to push the export of RBD palmoelin into India," he said. The association has appealed to the commerce ministry to stop issuing further licences.

Ambuja Cement: Govt's infra plan to boost demand outlook

NOMURA AEJ

ACEM'S STANDALONE Q4 revenue of ₹31.4 bn (+10% y-y, +19% q-q) was in line with our forecast as higher cement volume growth (+7% y-y, our estimate of +5%) offset lower blended realisation (-4.5% q-q, our estimate -3%). Standalone Ebitda at ₹5.5 bn (+36% y-y, +24% q-q) was 8% below our estimate but 5% above consensus, driven by higher inventory cost.

Reported PBT came in 13% below our estimate. However, due to the company adopting a lower corporate tax rate, reported PAT of ₹4.5 bn (-15% y-y, +94% q-q) was 32%/48% ahead of our/consensus forecasts.

Adjusted for reversal of deferred tax liability, standalone PAT at ₹3.5 bn (+41% y-y, +50% q-q) came in 2% above our estimate and 15% above consensus. For CY19, standalone adjusted PAT at ₹14.3 bn (+19% y-y) was 2.8% above our estimate. Consolidated reported EPS of ₹10.55 (-4% y-y) came in 2.4% above our estimate. Compared with a 4-6% y-y growth for ACC/SRCM and a 4% y-y decline for UT, ACEM's volumes at 6.54 mt (vs our estimate of 6.44 mt) was +7% y-y, with premium products' growth higher at 14% y-y. Compared with 3-5% declines for SRCM/UT/ACC, ACEM's blended realisation at ₹240/bag (our estimate ₹243/bag) was -4.5% y-y. Cement realisation at ₹232/bag declined 5% y-y.

With higher volumes offset by lower realisation, net revenue at ₹31.4bn was in line with our estimate but 2% above consensus. For CY19, ACEM's volume at 24 mt decline by 1% y-y (compared to 5% y-y growth in CY18 and 2% y-y growth in CY19 for subsidiary ACC). For CY19, ACEM's blended realisations and cement realisations were both +4% y-y. Per unit power and fuel costs at ₹1,023/t fell 11% q-q, driven by lower coal/petcoke prices and higher operating leverage. Per unit freight costs at ₹1,281/t declined 1% q-q due to operational efficiencies and optimisation in supply chain.

The government's recent $1.5-tonne (₹102 tn) spending plan for the National Infrastructure Pipeline over the next five years and the recent Budget announcement to grant full tax exemption to sovereign wealth funds for investments in infrastructure projects boost the demand outlook, in our view.

CIL's coal supply to power sector declines 7%

PRESS TRUST OF INDIA
New Delhi, February 21

STATE-OWNED COAL India's coal supply to the power sector registered a decline of 6.8% to 377.86 million tonne (mt) in the the April-January period of the current fiscal. The commodity despatch by Coal India (CIL) to the power sector in the year-ago period was 405.61 mt, according to official data.

However, the coal despatch by CIL to the power sector in January registered an increase of 2.9% to 43.20 mt, over 42 mt in the corresponding month of the previous fiscal, it said. The supply of dry-fuel by Singareni Collieries Company, a state-owned coal miner, in the April-January period also registered a decline of 2.6% to 44.03 mt, over 45.22 mt in the year-ago period.

Stating rain as the 'enemy of the coal sector', a government official had earlier blamed extended monsoon for the loss of coal output for a few months (from July) in the current fiscal. CIL saw its production decline by 3.9% to 451.52 mt in the April-January period, over 469.65 mt in the year-ago period. The state-owned firm had earlier said that it will produce 750 mt of coal in the next financial year. The firm will further produce 1 billion tonne of coal by FY24, coal minister Pralhad Joshi had said.

The PSU has been given a target of producing 660 mt of coal amounting to 82% of the country's coal output. Joshi had said that with the demand for power rising steeply, there is enough opportunity for both government and private sectors to produce coal without adversely impacting each other.

Allocation for spot e-auction falls 8.19%

COAL INDIA allocated 24.87 million tonne of fuel for the spot e-auction during April-January, down by 8.19% over the same period of last year. CIL had allocated 27.09 mt of coal in the year-ago period, according to the government data. For January 2020, the allocation for e-auction declined to 3.62 mt from 4.83 mt in the same month of 2019. **–PTI**