Markets

WEDNESDAY, FEBRUARY 5, 2020

PUSHING RFQ PLATFORMS

Vikram Limaye, MD & CEO, NSE

"Electronic trading has been on the rise globally in recent years and investors have found value in working through an RFQ platform. RFQ platforms are playing an important role in changing the market structure in bond markets globally."

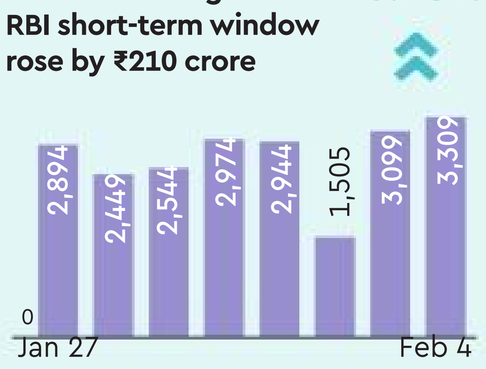
Money Matters

G-SEC

The benchmark yield remained unchanged 0.0%

LAF

Bank borrowing under RBI short-term window rose by ₹210 crore 6.78%



₹/$

The rupee appreciated on global cues 0.14%

€/$

The euro fell against the dollar 0.12%

CRISIL REPORT

NBFCs, HFCs may report 30-150 bps rise in bad loans

Home loan NPAs in Jan-March quarter are expected to increase by 30 bps to 1.2% against 0.9% a year ago

FE BUREAU
Mumbai, February 4

BAD ASSETS (NPAS) of non-banking financial companies (NBFCs) and housing finance companies (HFCs) may rise 30-150 basis points (bps) by March owing to the economic slowdown, a Crisil report said on Tuesday.

According to the report, more stress is likely to come from the loan book which is currently under moratorium. The two troubled NBFCs — Dewan Housing Finance (DHFL) and Infrastructure Leasing & Financial Services (IL&FS) — are undergoing resolution, due to which some loans are under moratorium. The report says slowdown hasn't spared retail loans either, in which asset quality remains monitorable.

"Of the 40% of loan book under moratorium, around half is expected to come out of moratorium by March 2021, which will result in incremental slippages," Crisil Ratings senior director Krishnan Sitaraman said. However, the report mentions that it is not the traditional segments where the material concerns lie. Instead significant slippages are expected to manifest in the wholesale loan book.

The report expects home loan segment NPAs in the March 2020 quarter to rise 30 bps to 1.2%, compared with 0.9% a year ago in the same period. Similarly, the vehicle finance segment is likely to witness a 100 bps increase in the NPAs to 5.8% in the March 2020 quarter year-on-year (y-o-y).

According to Crisil, the NPAs in the loan accounts, which are not under moratorium, stood at 10.2% till September 2019, which is significantly higher than the actual NPAs of 3.3%, which were reported till that period.

Sitaraman said refinance has also slowed down in the current environment. He also said the ₹25,000-crore support fund for the real estate sector announced by the government could provide a breather for stuck projects, though the timeliness of it remains critical.

In November, finance minister Nirmala Sitharaman announced setting up of a stress fund of ₹25,000 crore to provide last-mile funding to all stalled projects at any stage of construction excluding those in liquidation process by the National Company Law Tribunal (NCLT).

The reported NPAs in the real estate segment is estimated to have increased to 3.5% as on September 2019, from 1.8% in March 2019. About 40% of the book, including lease rental discounting, was still under moratorium as on September 30, 2019.

The report also states that housing loan segment has witnessed a 20-bps uptick between April and September 2019.

PNB posts ₹492-cr loss as provisions swell

FE BUREAU
Mumbai, February 4

PUNJAB NATIONAL BANK (PNB), the country's third-largest public-sector lender, on Tuesday posted a surprise net loss of ₹492.28 crore for the December quarter, as provisions for bad assets rose 73.3% year-on-year.

The bank had reported a net profit of ₹246.51 crore in the comparable quarter last year. The quarterly loss was significantly below Bloomberg consensus estimates of 14 analysts, which had pegged the bank's net profit at ₹779.2 crore during the quarter. The provisions on account of non-performing assets (NPA) for the December quarter stood at ₹4,445.36 crore, compared with ₹2,565.77 crore a year ago.

Provisions were high on account of divergence in asset classification and harmonisation among banks. "The reason for provision of ₹4,445 crore is the divergence declared by RBI of ₹2,200 crore, (for which) we have done the provision. Related to the harmonisation of provisioning among three banks, we have done the provision of around ₹1,500 crore," MD and CEO CH SS Mallikarjuna Rao told a television channel.

FE had in December reported that the central bank was looking to harmonise provisioning done by banks.

Net interest income of the bank rose marginally by 1.5% y-o-y to ₹4,355.05 crore in the December quarter. Domestic net interest margin (NIM) fell by 28 basis points (bps) sequentially to 2.36%. Non-interest income increased 32.2% y-o-y at ₹2,404.8 crore. The bank recovered ₹1,194 crore in written-off accounts during the quarter.

Total deposits for the December quarter grew 8.9% y-o-y to ₹7.08 lakh crore, of which domestic deposits stood at ₹6.89 lakh crore. Current-account-savings-account (Casa) deposits, which accounts for 43.74% of domestic deposits, grew 10.2% y-o-y to ₹3.01 lakh crore. Savings accounts for grew 9.3% annually to ₹2.52 lakh crore, while current accounts grew 15.1% y-o-y to ₹49,175 crore.

Total advances for the quarter fell 1% y-o-y to ₹4.71 lakh crore. Domestic advances fell marginally to ₹4.55 lakh crore. Advances to micro, small and medium enterprises (MSME) segment fell 10.6% to ₹79,329 crore, while loans advanced for agriculture and allied activities grew marginally by 2.7% to ₹79,969 crore. Retail loans grew 13.6% to ₹97,400 crore. In the retail segment, housing loans reported a robust annual growth of 20.4% to ₹58,201 crore, while vehicle loans fell marginally to ₹5,796 crore.

The management said the bank's advances would grow less than 2-3% by March 2020.

Fresh slippages for the December quarter stood at ₹6,783 crore. For the coming two quarters, the management expects fresh slippage of around ₹3,000 crore, from the agriculture segment.

Additionally, the management expects resolution of bad assets to the extent of ₹8,800 crore. "Of this, the recovery expected is around ₹3,000 crore. Provision has been done to the extent of 92%. As a result, ₹1,400 crore will be the write-back which is expected to be there," Rao said.

From the books

Particular (₹ crore)	Q3 FY19	Q3 FY20	Chg (%)	Q2 FY20	Chg (%)
Total income	14,854.24	15,967.49	7.49	15,556.61	2.64
Net interest income	4,290.05	4,355.05	1.52	4,263.84	2.14
Other Income	1,819.16	2,404.8	32.19	2,264.59	6.19
Domestic net interest margin (%)	2.64	2.36	28	2.39	3
Provisions	2,566	4,445	73	3,055	39.28
Net profit/loss	246.51	-492.28	-	507.05	-
Gross NPA (%)	16.33	16.3	3	16.76	46
Net NPA (%)	8.22	7.18	104	7.65	47

Source: Company data

Dhanlaxmi Bank Q3 net up 26% at ₹21 cr as NPAs fall

PRESS TRUST OF INDIA
New Delhi, February 4

DHANLAXMI BANK on Tuesday reported a 26% rise in net profit at ₹21.28 crore for the third quarter ended December on healthy core income and fall in bad loan ratio.

The private-sector lender had registered a net profit of ₹16.90 crore during the corresponding period in previous fiscal.

Total income rose to ₹285.85 crore from ₹272.16 crore in October-December 2018-19, Dhanlaxmi Bank said in a regulatory filing.

The bank's interest income rose to ₹280.88 crore during the reported quarter from ₹245.08 crore a year ago. Income from other sources also increased to ₹34.97 crore against ₹27.08 crore in the year-ago period.

Gross non-performing assets (NPAs) came down to 7.13% of gross advances at the end of December 2019 from 8.11% a year ago. Net NPAs stood at 1.62%, down from 2.93%.

In absolute terms, gross NPAs stood at ₹490.47 crore at the end of third quarter, lower than ₹507.95 crore a year ago.

Net NPAs also came down to ₹105.21 crore from ₹173.58 crore.

Provisions for bad loans and contingencies rose to ₹24.35 crore during the quarter from ₹20.17 crore a year ago.

Provision coverage ratio as on December 31, 2019, stood at 89.31%, the bank said.

Quick View

Nearly 6,900 cases of online banking frauds registered in 2017-18

NEARLY 6,900 cases of online banking frauds were registered in the country in 2017-18, the Lok Sabha was informed on Tuesday. Union minister of state for home G Kishan Reddy said with the rapid increase in use of cyberspace, the number of cybercrimes is also increasing. "As per data maintained by the National Crime Records Bureau, 3,466 and 3,353 cases of online frauds were registered in 2017 and 2018, respectively," he said replying to a written question. Reddy said in order to prevent online frauds and protect users, the home ministry has taken several steps, including formation of an inter-ministerial committee on phone fraud.

Ujjivan Small Fin Bank uses all of ₹746 cr raised via IPO

UJJIVAN SMALL Finance Bank (USFB) on Tuesday said it has used the entire ₹746 crore equity capital that it raised through an IPO in December. "Entire amount has been utilised to meet the future capital requirement of the Bank. There is no amount unspent," USFB said in a regulatory filing. The lender had raised ₹745.95 through an initial public offer (IPO) in December 2019. The company said the funds were raised to "augment to tier-1 capital base to meet future capital requirement of the bank", it said.

Collection efficiency in DHFL loans rises 9%: Admin to CoC

SHRITAMA BOSE
Mumbai, February 4

EVEN AS INVESTIGATING agencies have alleged that Dewan Housing Finance (DHFL) issued retail loans worth ₹12,773 crore to fictitious entities, Reserve Bank of India (RBI)-appointed administrator R Subramaniakumar, in charge of the company, has told its creditors that collection efficiency has risen by 9% across loan buckets after he took over in December.

At the last meeting of the DHFL's committee of creditors (CoC) on January 16, the administrator said collection efficiency in the non-performing asset (NPA) bucket improved to 5.7% in December from 4.6% in November, despite no one-time settlements (OTS) being made.

The company's entire sales and underwriting teams have been redeployed on collection of specific NPA cases, Subramaniakumar said at the meeting, according to sources.

The administrator also said fresh site visits and valuation exercises have been completed for all accounts with exposures of over ₹1 crore. The loans have been found to be backed by "sufficient collateral security," he told the CoC.

According to a presentation made by Subramaniakumar before the creditors, the number of slippages (or fresh bad loans) fell to 1,002 in December from 1,282 in the previous month. Simultaneously, the number of accounts in which recoveries were made increased to 1,619 accounts in December from 1,147 in November.

Creditors are baffled by these recovery statistics, which seem to be at odds with the Enforcement Directorate's (ED) revelations about the mortgage lender. "How can we reconcile these two totally contradictory statements? One lakh or so fraud accounts cannot possibly be paying EMIs on account," a perplexed member of the CoC said.

The ED said last week that till 2015, DHFL had recorded loans worth about ₹12,773 crore in its books, which were allegedly advanced to about one lakh fictitious retail customers. These loans had actually been given to 79 companies allegedly associated with DHFL's promoters, the ED had said.

Thereafter, State Bank of India (SBI) said it would re-examine the pooled retail loans it had bought from DHFL in light of the ongoing probe by agencies. SBI chairman Rajnish Kumar said on Friday, "We do a thorough due diligence at the time of purchase of loan pools. But, we will have a look again in the light of what the ED has said. So, that exercise will be carried (out). We will have a relook."

MCA notification on third-party assets of NBFCs under insolvency to aid securitisation: Icra

FE BUREAU
Mumbai, February 4

THE GOVERNMENT NOTIFICATION stating that third-party assets, or loan pools sold by non-banking financial companies (NBFCs), must be serviced even when the company is under insolvency proceedings will give a boost to securitisation transactions, rating agency Icra said on Tuesday.

The notification was issued after defaults on securitisation transactions originated by troubled mortgage lender Dewan Housing Finance (DHFL) following a court-ordered moratorium on repayments to creditors.

On January 30, the corporate affairs ministry had said the administrator of financial service providers (FSPs) undergoing insolvency proceedings should continue to discharge contractual obligations under securitisation transactions or lending arrangements in which the FSP acts as a servicing or collection agent on behalf of third parties. The administrator is also required to ensure that the receivables collected are deposited in a separate account and transfer the same in accordance with the terms of such contracts.

The notification was issued after defaults on securitisation transactions originated by troubled mortgage lender DHFL following a court-ordered moratorium on repayments to creditors

"The notification by the government is a welcome move, as this clarifies the operational role of the administrator while dealing with third-party receivables and would ensure that payments to the investors are met in a timely manner as long as the collections remain adequate," Icra said.

Abhishek Dafria, Icra head – structured finance and V-P, said securitisation transactions are considered bankruptcy-remote due to transaction terms and the legally binding structure. "On default or insolvency proceedings of any FSP, its securitisation transactions are expected to continue to be serviced as the FSP in its role as a servicer is expected to continue to collect from the securitisation pool and transfer the same to the investors. This is because these receivables legally belong to the trust(s) for the benefits of the investors and do not belong to the FSP," he said. Without naming DHFL, Dafria pointed to the example of the one servicer currently undergoing insolvency and which temporarily failed to transfer funds to its investors despite strong collections.

ANALYST CORNER

ITC: Maintain 'buy' with target price of ₹270

ICICI DIRECT RESEARCH

ITC'S NET revenue (net of excise duty) increased 5.1% year-on-year to ₹12,013 crore, which was in line with our estimates. Cigarette, FMCG, agri business, paperboard & hotels businesses witnessed a growth of 4.7%, 3.5%, 8.8%, 0.8% & 22.2%, respectively. Ebitda grew 6.6% to ₹4,612.7 crore supported by cigarette, FMCG & paperboard segments. FMCG Ebitda increased from ₹173.4 crore to ₹255.8 crore, driven by strong growth in the branded packaged foods business, scale benefits and cost rationalisation initiatives despite increased investments in brand building. Led by a cut in corporate tax rates, net profit grew 29.1% y-o-y to ₹4,141.9 crore. Adjusted for one-offs, PAT increased 32.5% y-o-y.

Cigarette volumes continued to see muted volume growth of 2-3% growth vs ~10% volume growth of VST Industries. ITC is losing market share as contribution of smaller-sized cigarettes is increasing and VST Industries & Godfrey are gaining volumes at the expense of ITC. FMCG revenues have grown at a slower pace at 6.1% (excluding lifestyle retailing business), largely impacted by rural growth, which was impacted by trade channel liquidity crunch. The company has expanded its operating margins by 230 bps to 7.7% in FMCG. With ITC's strong and wide distribution network at 6 million outlets, we believe the FMCG sector would stand to gain as it enters newer categories. Hotels witnessed strong revenue & Ebit growth of 22.2% & 40.1%, respectively, on the back of stronger occupancy, high room rates & robust F&B sales.

In Budget 2020-2021, national calamity contingency duty (NCCD) on cigarettes has increased by ₹0.40-₹0.50 per stick. We believe the increase in tax would warrant a price hike of 4-8%. Such a price hike may push back volume revival. The firm has significantly improved its FMCG Ebitda margins. We expect the FMCG segment to reach double digits by FY21E end and value it at 4xFY22E numbers. With other businesses and investments in the books, the cigarette business is available at a relatively cheap valuation of 8-10x EV/Ebitda. ITC is trading at a P/E of 15xFY22E earnings — a significant discount to its peers. Hence, we continue to maintain our 'buy' rating on the stock with a target price of ₹270 per share.

Dr Lal PathLabs: Retain 'sell' with fair value of ₹1,080

KOTAK INSTITUTIONAL EQUITIES

A SHARP DECLINE in Dr Lal PathLabs' core Delhi-NCR growth to 2% year-on-year resulted in revenue growth decelerating to 12% y-o-y despite continued 19% y-o-y growth in the rest of India. The harsh winter season was attributed as only one of the reasons for the lower growth, with competitive pressures clearly hurting growth. Even assuming Delhi-NCR growth rate rebounds to 8-9%, sustainability of ~20% growth in the rest of India is key to achieving mid-teen revenue growth amid high competition. At 41XFY2022E P/E, shares are more than adequately pricing in the strong growth narrative. 'Sell'.

Q3FY20 revenues of ₹320 crore grew by 12%, missing our estimates by 2.5%. The miss was driven by lower volume growth with patient growth falling to 11.3% (vs KIE estimates of ~15%) and sample growth falling to 14.6% y-o-y. Pricing was stable with realisation per patient at ₹688 in line with estimates. Geographically, growth was heavily skewed by non-core markets, which grew 19% y-o-y as Delhi-NCR volume sharply decelerated to ~2%. The management also highlighted continued competitive intensity from hospitals and painted a cautious picture on FY20 growth guidance. Gross margins fell 50 bps q-o-q to 77.3%. Ebitda missed our estimates by 4.6%, PBT and PAT by 7% and 8%, respectively.

DLPL's continued focus on volumes in non-core geographies, particularly through bundled packages, has displayed promising results. But it needs to sustain 18-19% volume growth in these areas to maintain 14-15% revenue growth. Lack of a strong brand name there is a key barrier. In this sense, acquisitions in newer cities are critical, though, the pace will likely be slow. Our earnings estimates for FY20-22E stand reduced by ~2.5% each. DLPL now trades at stretched valuations of 41XFY2022E EPS. Retain 'sell' with revised DCF-based fair value of ₹1,080 (vs ₹1,060 earlier).

Sebi brings in common application for FPI registration

PRESS TRUST OF INDIA
New Delhi, February 4

SEBI ON TUESDAY came out with a common application form for registration of foreign portfolio investors (FPIs) in order to enhance operational flexibility and ease of access to the Indian capital market.

Depository participants have been asked to continue to accept in-transit FPI registration applications, for a period of 60 days, Securities and Exchange Board of India (Sebi) said in a circular.

The regulator has come out with a Common Application Form (CAF) for registration of FPIs, allotment of Permanent Account Number (PAN) and carrying out of Know Your Customer (KYC) for opening of bank and demat accounts.

The applicants seeking FPI registration need to fill the common form prescribed by the regulator, declaration providing supporting documents and applicable fees for registration and issuance of PAN.

"The other intermediaries dealing with FPIs may rely on the information in CAF for the purpose of KYC," it added.

With regard to additional information, Sebi said that Category I FPIs (most well-regulated ones) have to apply for separate registration for the purposes of hedging the offshore derivative instruments (ODIs) with derivatives as underlying in India as well as details of eligible Category I entity.

Besides, information regarding 'Ultimate Beneficial Owner' for each fund that invests in India needs to be disclosed and entities required to declare that they are not a bank or a subsidiary of a bank.

Earlier in September, the regulator had broad-based the classification for foreign portfolio investors and simplified their registration process.

Under the new framework, FPIs have been classified into two categories instead of three. Earlier, Sebi had classified FPIs into three categories with the easier compliance norms for Category-I FPIs and the strictest for Category-III FPIs. The most well-regulated FPIs come under Category-I.

Sebi: Share issuance on conversion of restricted stock options allowed

The issuance of shares following conversion of restricted stock options (RSUs) will be allowed under the buyback regulation, markets regulator Sebi has said. Expressing its views on clarification sought by IT giant Infosys, Sebi said buyback regulation restricts further issue of capital for a period of one year from the expiry of the share repurchase programme period, except in discharge of its subsisting obligations.