Markets

SATURDAY, FEBRUARY 8, 2020

FRDI BILL

Finance Minister Nirmala Sitharaman

We are working on the FRDI Bill; but not sure when it can get through the House.

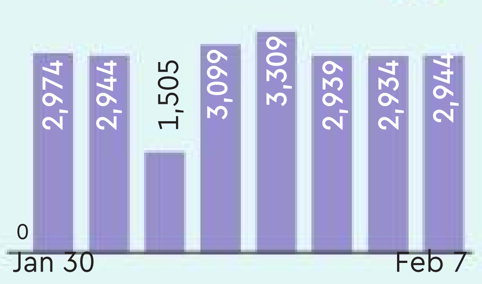
Money Matters

G-SEC

Benchmark yield fell due to buying support 0.006%

LAF

Bank borrowing under RBI's short-term window rose by ₹10 crore 0.34%



₹/$

The rupee depreciated on global cues 0.29%

€/$

The euro fell against the dollar 0.26%

AGRI STRESS

Banks seek relaxed RBI norms to recast farm loans

IBA suggests when a crop loan is given, 60% should be repaid over a period of 3-5 years, only 40% should be paid based on the crop

FE BUREAU
Mumbai, February 7

LENDERS HAVE WRITTEN to the Reserve Bank of India (RBI) seeking relaxation in asset quality classification norms of agriculture sector advances and sought restructuring of farm loan accounts, people aware of the developments said.

In a recent representation to the RBI, the Indian Banking Association (IBA) has suggested that only 40% of agri loans repayments be linked to the crop, while the remaining 60% be paid over a period of three to five years.

The suggested measure will help banks get a handle on their significantly-stressed agriculture loan books.

The IBA has suggested that instead of declaring those accounts which have not received full repayment as non-performing assets (NPA), farmers should be given a wider window for repayments. "What has been suggested to the central bank is that when a crop loan is given, 60% should be an amount which can be repaid over a period of 3-5 years, only 40% should be paid based on the crop. So, the stress in the agriculture book does not go up," one source said.

The suggested change would result in a combined facility of cash credit and term loan. "Farmers are impacted by the vagaries of climate, minimum support price and middlemen. So, IBA has suggested that instead of branding those accounts which have not made the entire repayment as non-performing assets (NPA), farmers should be given a window, where he is incrementally allowed to repay the remaining loan, taking additional loan if required. It is a combined facility of cash-credit and term loan," the source said.

During the December quarter, banks have seen elevated stress in agriculture sector loans. India's largest State Bank of India (SBI) saw fresh slippages worth ₹2,965 crore in agriculture advances during the quarter. State-owned Bank of Baroda's agriculture loan NPAs stood at ₹9,282 crore as on December 2019. Meanwhile, Punjab National Bank's agriculture and allied sector slippages during the December quarter was ₹2,167 crore.

RBI eases repayment for stalled commercial realty projects

FE BUREAU
Mumbai, February 7

Banks are allowed to delay repayments for up to two years

THE RESERVE BANK of India (RBI) on Friday allowed banks to restructure commercial real estate advances and delay repayments for a period of up to two years.

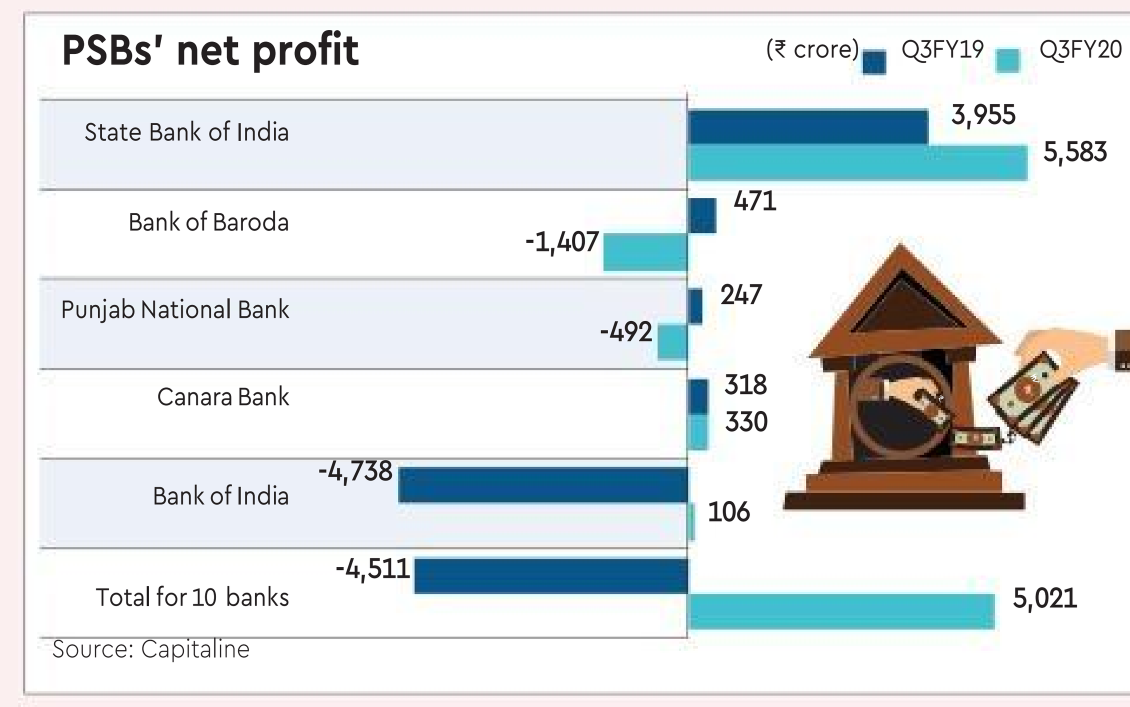
Earlier this week, the RBI had announced that lenders will be allowed to extend the repayment schedules for stressed commercial real estate projects for one year, without downgrading their asset classification.

The date of commencement of commercial operations (DCCO) of projects, to which their repayment schedule is linked, may be shifted "within the period of one year from the original DCCO stipulated at the time of financial closure for commercial real estate projects," the central bank said in a circular. However, in cases where the projects are delayed for reasons beyond the control of promoters, banks may restructure these loans "by way of revision of DCCO up to another one year...and retain the 'standard' asset classification, if the account continues to be serviced as per the revised terms," the circular said. The relaxation can only be availed by those projects which apply for the restructuring within one year of the expiry of the original DCCO.

The repayment schedule may be extended only for a period equal to or shorter than the extension in the DCCO, the RBI said. In 2014, the RBI had permitted the restructuring of non-infrastructure project loans for a period of up to two years. However, commercial real estate projects were kept outside the purview of this relaxation. With this, stressed commercial real estate loans will be treated at par with non-infrastructure loans.

However, the RBI said banks' boards must ensure that the projects are viable before restructuring their loans. Banks may still classify these projects as NPA at any point before the commencement of commercial operations according to the record of recovery, RBI said. Projects for restructuring will be identified according to the central bank's guidelines on classification of commercial real estate exposures.

Ten PSBs' net profit in Q3 less than HDFC Bank's



FE BUREAU
Mumbai, February 7

The low profit figure of ₹5,021.47 cr for the PSB pack was the result of two large banks — BoB and PNB — posting losses for Q3FY20

THE AGGREGATE NET profit of 10 public sector banks (PSBs) that have so far declared their financial results for the December quarter was lower than that of HDFC Bank, showed data from Capitaline.

The low profit figure of ₹5,021.47 crore for the PSB pack was the result of two large banks — Bank of Baroda (BoB) and Punjab National Bank (PNB) — posting losses for Q3FY20. BoB's net loss stood at ₹1,407 crore and PNB's at ₹492 crore as both lenders were forced to set aside additional provisions against bad loans that the Reserve Bank of India (RBI) found they had not recognised in FY19.

While BoB reported elevated slippages of ₹10,387 crore in the December quarter, it sees the number as a one-off and expects the slippage ratio to improve from its quarterly run rate in the coming quarters.

In an interview to *FE*, managing director and chief executive Sanjiv Chadha had said, "Slippages have been around ₹6,000 crore each quarter and they have been a little higher this quarter because of the divergence issue. Based on my understanding, the slippage ratio from this quarter onwards should trend downwards."

Analysts, however, are not so sanguine on the road ahead for BoB. In a recent note, Nomura downgraded the FY21 and FY22 earnings forecast for the bank. "While part of the slippages were due to divergence and known stressed names like Dewan (Housing Finance Corporation), the corporate watchlist still remains meaningful at over ₹10,000 crore and also BoB's NBFC/HFC exposure of 16% of loans remains the key risk," the note said.

Most other PSBs had a relatively good quarter, with three of them turning in a profit against a loss in Q3FY19. Bank of India (BoI), Bank of Maharashtra (BoM) and Andhra Bank were back in the black in the December quarter.

To improve profits in the quarters ahead, PSBs are relying heavily on recoveries in an environment of muted credit growth. Rajnish Kumar, chairman, State Bank of India (SBI), said after the bank's Q3 results that it expects to recover at least ₹7,000 crore in Q4, flowing in from three large accounts, while PNB expects to recover up to ₹3,000 crore from 17-odd accounts.

Lenders are also counting on a recovery in credit growth. Kumar said, "It is on my wish list that we do better as far as the corporate credit growth is concerned, and (also) demand revival in the economy, of course, (from which) the bank will benefit."

Quick View

Forex reserves rise to $471.3 bn as of Jan 31

INDIA'S FOREIGN exchange reserves rose to $471.30 billion as of January 31 from $466.69 billion a week earlier, the Reserve Bank of India (RBI) said on Friday. Changes in foreign currency assets, expressed in dollar terms, include the effect of appreciation or depreciation of other currencies held in its reserves. Foreign exchange reserves include India's reserve tranche position in the International Monetary Fund.

Name, logo of merged entity of UBI, PNB, OBC soon

THE CENTRE will soon announce the new name and logo of the entity to be emerged after the merger of Punjab National Bank (PNB) United Bank of India (UBI) and Oriental Bank of Commerce (OBC), an official said on Friday. The new entity will be the second largest bank in the country after State Bank of India with a total business volume of ₹18 lakh crore, he said. "The government is expected to announce the new name and logo of the merged bank which will become operational from April 1, 2020," an UBI official said.

PNB expects ₹3,000-cr recoveries in March qtr

FE BUREAU
Mumbai, February 7

PUNJAB NATIONAL BANK is looking to raise money from the markets in Q3 FY21, SS Mallikarjuna Rao, MD and CEO, PNB said on Friday, even as the public sector lender is expecting the recoveries worth ₹3,000 crore during January-March 2020.

After a surprising ₹492-crore net loss in the December, 2019 quarter, the bank is expecting around ₹3,000 crore in recoveries in Q4FY20. The resolution of ₹8,000-crore worth of accounts, including Bhushan Power & Steel and Aircel Group entities, is expected to be completed in the March quarter, Rao said.

The bank expects a write-back on around 1,400 accounts in the March quarter. "Aircel resolution is expected to fetch ₹2,300 crore, and Bhushan Power — around ₹3,700 crore... Having said that, we are expecting is only ₹3,000 crore, and we have already provided for around ₹6,000 crore," Mallikarjuna told reporters.

The bank currently has fund-based accounts worth ₹1,200 crore and non fund-based accounts worth ₹2,500 crore on its watch list. Few of these advances, one in the textile sector and another in the roads sector, have already become non-performing, the management said. It has also made higher provisions for accounts in sectors including telecom, aviation and energy.

The third largest public sector bank expects credit growth at 8-10% in FY20, according to the management. Following its merger with Oriental Bank of Commerce and Union Bank of India, PNB will also function as a fully integrated entity from April 1. With the finance ministry signalling that some banks may have to raise additional funding from the capital markets, PNB's management said the bank may approach the market during the third quarter of the next financial year.

"The government holds 83% currently in PNB alone, now, if there are no shares held by the public, how will my (share) price go up? Who will sell?... LIC (which holds about 9%) will not sell. Where is the corpus for sale and purchase? So, it is a very ridiculous situation for us. We want a situation where it is vibrantly traded," Mallikarjuna said, adding that the bank will either approach the market for a Qualified Institutional Placement (QIP) or a Follow-on Public Offer (FPO).

Corporation Bank Q3 net jumps seven fold; shares rise 10%

PRESS TRUST OF INDIA
New Delhi, February 7

PUBLIC SECTOR LENDER Corporation Bank on Friday said its consolidated net profit increased seven fold to ₹420.83 crore in third quarter ended on December 31, 2019, on higher interest income, albeit provisions for bad loans surged. The bank stock jumped nearly 10% following the stellar quarterly numbers.

The bank had posted a net profit of ₹59.94 crore during the corresponding period a year ago. Income increased to ₹6,051.93 crore, from ₹4,112.29 crore, the lender said in a regulatory filing.

On a standalone basis, the net profit increased to ₹420.68 crore in third quarter ended on December 31, 2019, from ₹60.53 crore a year ago.

In absolute terms, the gross NPAs stood at ₹19,557.16 crore in the quarter under review, as against ₹21,921.42 crore a year ago.

Net NPAs were valued at ₹6,321.81 crore, down from ₹13,521.22 crore.

Shares of the bank zoomed nearly 10% after the results. The scrip climbed 9.68% to close at ₹25.50 on BSE. During the day, it jumped 16.12% to ₹27. On the NSE, it advanced 9.89% to close at ₹25.55.

In terms of traded volume, 6.93 lakh shares of the company were traded on the BSE and over 89 lakh on the NSE.

ANALYST CORNER

Maintain 'buy' on Lupin; PT revised to ₹840

MOTILAL OSWAL

LPC IS FOCUSED on building a niche pipeline for the US market and in process to resolve regulatory issues at its manufacturing sites. LPC intends to grow in the branded domestic formulation (DF) segment by introducing new products, and increasing reach. 3QFY20 has been the weakest quarter in terms of margin, impacted by muted US sales and elevated operational expense. We cut our EPS estimate by 7%/11%/5% to factor in delay of potential launches, and realisation of benefits due to cost cutting initiatives. We remain positive on LPC based on its healthy ANDA pipeline and improving growth outlook in the branded DF segment. Maintain 'Buy'.

3QFY20 revenues were down 4.5% to ₹37.7b. DF sales (35% of sales) were up 9% YoY to ₹13b, LATAM sales grew 15% YoY to ₹1.8b, APAC sales were up 26% YoY to ₹1.7b, and EMEA sales were up 4% YoY to ₹2.9b. US sales were down 3% YoY to $186m (37% of sales). API sales declined 12% YoY to ₹3.2b. Gross margin (GM) at 63.9% was down 190bp YoY led by change in the product mix. EBITDA margin at 12.4% was down 480bp YoY. EBITDA margin contracted at a higher rate due to higher employee cost/other expenses (+200bp YoY/+100bp YoY as % of sales). R&D expense was 11.3% of sales. EBITDA came in at ₹4.7b, down 31% YoY. LPC had exceptional loss of ₹3bn on account of impairment related to certain acquired IPs (₹15.8b), which was offset to some extent by profit of ₹12.9b on divestment of stake in Kyowa. Adj. PAT was down 36% YoY to ₹1.8b. 3QFY20 numbers for LPC are stated with the Kyowa Japan business as discontinued operation, and hence, are not comparable with estimates.

R&D expenses would continue to be in the range of 10% of sales.

LPC has guided for 15+ ANDA launches in FY21, excluding any approvals from sites under regulatory issues. MR strength for DF is ~5,500; the company intends to add 300-500 MRs each year. We expect 20% earnings CAGR over FY19-22E, led by limited competition products in US generics and improved operating leverage in domestic formulation segment. We continue to value LPC at 21x 12M forward earnings to arrive at PT of ₹840 (from ₹880 earlier). Maintain 'Buy'.

Maintain 'add' on DLF with revised fair vaue of ₹260

KOTAK INSTITUTIONAL EQUITIES

DLF CONTINUES TO maintain sales momentum with pre-sales of ₹7.3 bn in 3QFY20 comfortable to achieve sales of ₹27 bn for FY2020E. We highlight net sales for FY 2019 were at ₹24.4 bn exceeding the company's target of ₹22.5 bn (+144% yoy) for the year. We note that sales from Rest of Gurugram—₹8.1 bn made good cancellations of ₹1.5 bn in Phase 5. Outstanding completed inventory stands reduced to ₹94 bn (area of 10.14 mn sq ft) as of December 2019 while pending receivable from sold inventory now stands increased to ₹28 bn.

Collections at ₹6 bn (-9% yoy) for 3QFY20 from residential sales were supplemented by rental stream of ₹360 m. Operational cash outflow of ₹6 bn comprised ₹1.8 bn towards construction expenses, ₹1.8 bn towards finance cost and the balance towards taxes and corporate overheads resulting in net cash flow of ₹390 m in 3QFY20 which is the lowest operation cash flow in the last seven quarters, since DLF turned operating cash flow positive.

DLF recognised ₹13 bn of revenues comprising sales of ₹10 bn from development business comprising delivery of 2.38 m sq ft while rental income from DLF's own rental portfolio was at ₹606 m. Net debt for DLF stands at ₹48 bn in 3QFY20 from ₹44 bn in 2QFY20.

We maintain 'Add' rating with a revised fair value of ₹260/share (from ₹215/share) for DLF as we roll-forward to a March 2022 based fair value estimate (from March 2021). We note that our fair value estimate does not include the new proposed development of 7 m sq ft for the development business that could add ₹33 bn of gross cash flows and proposed development of DLF Downtown (5 m sq ft) in Chennai and Gurgaon that will entail a capex of ₹27 bn.

LIC invested ₹2.81 lakh cr in G-sec during Apr-Jan

FE BUREAU
Mumbai, February 7

INVESTMENTS MADE BY the Life Insurance Corporation of India (LIC) in government securities stood at ₹2.81 lakh crore in the period of April-January FY20 higher than the target of ₹2.55 lakh crore. In the last financial year, LIC had invested ₹1.91 lakh crore in government securities. However the life insurance behemoth purchased ₹46,850.33 crore in equities till January this financial year as compared to ₹59,115.67 crore seen in last fiscal.

On Friday, LIC announced its business performance and posted its first year individual new business at ₹45,199 crore in the period of April-January FY20 as against ₹38,474.56 crore for the corresponding period last year, a growth of 17.48%. LIC's total income grew to ₹2,97,017.28 crore for the period ending Q2FY20, up 17.79% from ₹2,52,149.60 crore registered in the corresponding period a year ago.

According to senior officials, LIC has booked profits of over ₹23,000 from equities in this financial year.

Speaking to media with regard to its initial public offer (IPO) in future, MR Kumar, chairman of LIC, said that there are a lot of figures floating around the market capitalisation and size of IPO. "We have not done the maths. Unless we do our internal discussion and maths, I don't think we would be able to answer that today. Valuations has to be reasonably, scientifically, and a lot of work has to be done," he said.

LIC chairman also said that the insurer will be talking to their employees and the proposed IPO will not lead to privatisation of the insurer. "I would say that there are talks of privatisation. The economic affairs secretary has already clarified that this is nothing to do with privatisation and government will divest part of its holding in LIC. There are many PSU banks, and even New India Assurance and GIC Re are listed, but they continue to be government companies," added Kumar. He also said that there is no problem for staff and they will continue to be with the LIC, which is more or less wholly controlled by the government.

Recently around one lakh employees had staged demonstrations across the country against proposed stake sale announced by the finance minister in the Budget.

On the high non-performing assets (NPAs) in the insurance company, LIC chairman said, "If we you look at stress in any of the banks it is quite different from the one which we have in insurance companies. While for banks most of it is corporate debt, for us most of our investments comprise government securities, equity and a small portion of corporate debt. This 6% is part of corporate debt, but if you look overall its hardly 1% and we make provisions for everything." According to the annual report of LIC 2018-19, the gross non-performing assets was 6.15%.

LIC is also planning to reduce its stake in IDBI Bank over the period of time and not wait for 12 year timeline given by The Reserve Bank of India (RBI) to bring down its stake from 51% to 15%.

"We have 51% stake, government has also announced in this year Budget that some disinvestment is going to happen from the government's side. Timeline to bring down the stake has not yet fixed by Irdai to below 15%, however RBI has given the 12-year timeline. We may not want to wait for that long, specially if we are also going to be listed." He also added that once the bank comes out of PCA and start lending, I think profitability will go up substantially.