Margin calls, leverage lower than 2008

Regulatory tightening helps avert mishaps

ASHLEY COUTINHO Mumbai, 15 March

he steep market crash over the past few sessions has triggered margin calls, albeit on a far lower scale than seen during the financial crisis of 2008.

Market participants attribute this to regulatory tightening and standardisation of margin requirements, stringent reporting for brokers, and segregation of client funds. Wealthy investors hold far fewer concentrated and leveraged portfolios like they used to. The lacklustre performance of midcap stocks over the past two years has also reduced leverage in the system.

The recent fall led several brokers to reduce or block leverage products for intraday trading over the past week even though it was not mandated by the regulator. The funding for SBI Cards & Payment Services has also locked up sizeable liquidity, as the amount bid in IPOs stays blocked for seven to nine days.

"Sebi now levies a short margin penalty where brokers can't allow customers to hold positions overnight without the minimum stipulated margin. Back in 2008, there was no



MARGIN ON NIFTY STOCKS

	Price*	Traded value**	Total margin#	
RIL	1,116.95	111,695	22,808	
TCS	1,820	182,000	31,285	
HDFC	2,072.65	207,265	38,572	
Tata Motors	90.5	9,050	2,394	
SBI	244.25	24,425	8,578	
Figures in ₹; *Friday's last traded price, **for quantity of 100, #includes VAR, ELM				Source: NSE

ment as a percentage of the F&O condown overall risk in the system," said

such restriction. The margin require- Nithin Kamath, founder, Zerodha. Leverage is typically employed by tracts has gone up as well, bringing high networth investors. Brokers category because of the steep VAR short-selling to reduce speculative allow clients to leverage 15-20x based

on their collateral and relationship with them.

In 2018, Sebi had asked exchanges to collect initial margin, exposure margin or extreme loss margin, mark-to-market settlements, and calendar spread margin from trading members in the F&O segment. Additional surveillance margin was later introduced in addition to SPAN (standard portfolio analysis of risk) and exposure margins.

Derivatives trades require a mandatory cover for volatility over two days. So, one lot of Nifty futures, which needed about ₹50,000 of SPAN to hold the position overnight, now requires ₹1 lakh in the form of SPAN and exposure margins.

Earlier this year, stock exchanges asked stockbrokers to collect margins from their clients upfront even for intraday trades. The regulator, however, has put the proposal on hold.

'The list of stocks where lending is allowed has been brought down drastically by the regulator. Clients are now required to pay margin based on exchange calculations," said Prasanth Prabhakaran, chief executive officer, YES Securities.

He said brokers had adopted a conservative approach during the have suffered some losses in the current crash and refrained from lending against stocks outside the A margins defined by the exchanges.

For a stock like Reliance Industries (RIL), for instance, a broker would offer 10 times leverage until a few years back. So, for buying ₹1 crore worth of shares, an investor had to pay ₹10 lakh. That has risen to about ₹23 lakh today. Brokers further increased the margin requirement last week to as high as 50 per cent, implying the same investor would have to shell out ₹50 lakh to purchase ₹1 crore worth of RIL shares.

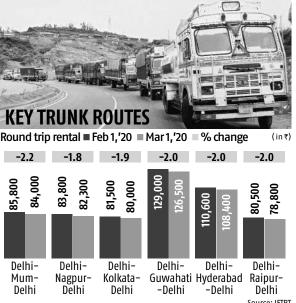
The froth in the market is lower than in 2008. "During the five-year bull run between 2003 and 2008, the Nifty 500 index delivered 48 per cent compound annual growth rate (CAGR) returns. During 2015-2020, the same index delivered 8 per cent CAGR. Similarly, midcaps delivered lower than the broader index returns from 2015-2020, highlighting lack of euphoria," said Vinay Paharia, CIO, Union MF.

He said the Nifty 500 total market cap to nominal GDP ratio had increased to 83 per cent as on March 31, 2008. It is currently around 60 per cent.

To be sure, brokers that lent through their NBFC arms would still recent carnage, said experts. Some want the regulator to impose a ban on activity, akin to China.

Fuel sales tax hike double whammy for transporters

Only hope is bumper rabi crop output



Source: IFTR

SHALLY SETH MOHILE Mumbai, 15 March

hike on fuel sales tax.

COVID-19, and shrinking output in the manufacturing sec-

tor and the capital goods industry, will be hit further with the

Owing to reduced demand

and a drop in global crude oil

prices, freight rates on key

trunk routes came down 2-3 per

cent in February, according to

the Indian Foundation of

Transport Research & Training

(IFTRT), based in New Delhi.

The only reprieve for trans-

porters in the near to medium

term is a bumper rabi crop, the

harvesting of which has begun.

taxes by ₹3 per litre on Saturday

though global crude oil prices

dropped 30 per cent, dashing

hopes of fuel prices falling rap-

happened in the past fortnight

has been more than neu-

ior fellow, IFTRT.

Whatever price reduction

idly over the next few days.

The government raised fuel

transporters to pass on the hike to their customers, owning to weak demand The road transport sector, reel-Bal Malkit Singh of Bal ing from poor demand amid

Roadlines agrees. "Prices of all the other inputs— be it insurance, toll, registration, or tyres — have gone up sharply. Lack of demand is a handicap in passing on the increase. Close to 40 per cent of the trucks in the market are idling. The only silver lining is the procurement of rabi crops, which has started." He said cargo volumes. under pressure due to slow down, would go up by 25-30 per cent in the next 15 days.

Forty per cent of trucks are dependent on agri-produce. Bumper production will help in keeping their head above water, he said. According to the second Advance Estimates of production of major crops for 2019-20, released by the Department of Agriculture, grain production is estimated at a record 291.95 million tonnes, up by 6.74 mt over 285.21 million last year.

tralised. We were expecting A record production of agri prices to come down by ₹10-12 commodities will help opera-(per litre)," said S P Singh, sentors that are in the retail segment and whose vehicles run Transporters are struggling on routes that do not require because everything is in disar- national permits. "Unless ray, he said, adding that the manufacturing and other core sectors pick up and demand government should have been compassionate. What worries starts improving, there's no him more is the inability of respite for our sector," he said

Centre to rework long-term power sale pacts

The ministry is designing policy paper to dwell on alternative for long-term PPAs

SHREYA JAI New Delhi, 15 March

Long-term power purchase agreements (PPAs) between generators and states could soon go away. The power ministry is planning to rework the PPA regime to address issues of states not honouring the pacts and, at times, reneging on the contract.

PPAs are typically of 25-30 years duration. The ministry is designing a policy paper to dwell on the alternative for long-term PPAs. The policy will also address the issue of cost escalation within the contractual clauses laid down by PPAs.

In his submission to the parliamentary standing committee on energy, the power ministry secretary said: "PPAs are a big issue. Generators enter long-term PPAs because no

bank or financial institution will finance the projects if there is no long-term commitment for sale of power. But the issue is that prices get fixed but escalation cost keep happening, and technology gets depreciated.'

He said most of the stateowned power distribution companies (discoms) faced the conundrum of cost revisions due to market forces or technological changes but were tied

within the terms of the PPA. "Discoms can't be held responsible for cost escalation in power. If tariff increases, then it's up to the discom whether it wants to buy that power or not. If cost of power

increases why the discom should suffer?" said the secretary. The move comes at a time

when thermal power sector is tors is also under a cloud. Of



Many states have gone back on their contracts with renewable power companies and have sought reduction in tariff

facing stress due to non-pay- the 40,000 Mw of stressed powment by discoms. At the same er assets in the country, close to time, a lot of states lately have reneged on their contracts with renewable power companies, including seeking reduction in tariff.

except Kerala has issued any new long-term PPA for procuring from private thermal power generators. The existing PPAs of private power genera-

Cong, BJP head for showdown in

MP as Guv directs floor test today

11.000 Mw are the ones with no or inadequate PPA. This has also caused build-up of nonperforming assets for lenders. Senior sector executives

During this decade, no state said policymakers were looking into 'market-based economic dispatch' of power. The approach suggests dispatch of power based in demand available in the market.

The Central Electricity

Regulatory Commission (CERC) has studied several models across the globe to support a market-driven electricity supply model.

States should be willing to take up such an initiative. A market-based approach would lead to overhaul in the tariff design. Coal supply allocation would also need to change accordingly," said the executive.

Given the increasing share of renewable energy in the energy mix and reducing operating ratio of thermal power plants, several experts believe a dynamic market supports a vibrant energy mix.

The average plant load factor (PLF) of thermal power generation units is on the decline in the country. At 57.61 per cent, PLF in January touched a five-year low. PLF during 2019 witnessed doubledigit slump during most months of 2019, Business Standard reported recently.

The PLF decline of thermal

units over corresponds to the increasing share of renewable energy sources in the overall energy mix during the same period. However, the current fall in PLF is also due to a drop in electricity demand in the country.

During January-December 2019, the growth in electricity demand was meagre 0.28 per cent, the lowest since 2014. The standing committee

report stated: "When the committee pointed out the shortages (power demand), the ministry had stated that it has been observed that despite availability of adequate power in the country, there is a marginal mismatch in demand and supply of power in various states/Union Territories. The ministry stated that this demand-supply gap is constraints in sub-transmission and distribution network, commercial reasons, financial constraints of the state utilities (discoms), etc."

4 Guj Cong MLAs J&K statehood to be restored, resign ahead of no demographic changes: Shah Rajya Sabha polls

Four Congress MLAs in

PRESS TRUST OF INDIA Bhopal, 15 March

The political drama in Madhya Pradesh is set to shift to the Assembly after the governor directed Chief Minister Kamal Nath to seek a trust vote on Monday. Speaker N P Prajapati said he would first give a ruling on whether to hold the floor test.

As the rebellion led by Jyotiraditya Scindia threatened survival of its government, the Congress appeared keen on putting off the vote and asserted it was the Speaker's prerogative to decide about the proceedings of the House, but a buoyed BJP maintained that he was bound by the governor's direction.



The Kamal Nath-led Congress government is fighting for ma saw both the Congress and the BJP herding their MLAs to survival after Jvotiraditva Scindia joined the B.IP. and 22 of his MLAs resigned

After the Speaker accepted the resignation of six Congress MLAs on Saturday, the party now has 108 legislators. These include 16 rebel MLAs whose whips to their MLAs.

On Saturday night, Governor resignations are yet to be accepted. The BJP has 107 seats in the Lalji Tandon wrote to the CM to House, which now has an effecseek a trust vote soon after the tive strength of 222, with the governor address on Monday. majority mark being 112. To add He has directed that the vote be to the Congress' woes, it is yet held by division of votes and the uncertain whether it will conprocess be recorded on video by tinue getting the support of four independent persons. The Independents, two BSP MLAs, Speaker on Sunday remained non committal over the trust The week-long political dravote: "This will be known tomorrow...'

There were indications that resorts outside the state due to the Congress might seek to buy time from the Speaker to win fears of poaching. While the Congress MLAs returned on back some of its 16 rebels MLAs. Sunday from Jaipur, the BJP Amid suspense on vote, sources was bringing back its members said both the were mulling legal from Haryana to attend the sesrecourse in case the proceedsion. Both parties have issued ings do not go their way.

Gujarat have tendered their New Delhi, 15 March resignation to Assembly

Speaker Rajendra Trivedi ahead of the election to the four Rajya Sabha seats in the state to be held on March 26, prompting the opposition party to shift at least 24 MLAs to Jaipur on Sunday. While the Congress said

not a single "honest" MLA had resigned, state BJP president Jitu Vaghani said if the four legislators had indeed quit, the saffron party would win three seats in the RS elections.

Speaker Rajendra Trivedi confirmed said he would disclose the names of the four MLAs on Monday.

Assurances of restoration of statehood at "early opportunity", no demographic change and release of all political prisoners in "due course" were the takeaways from Union Home Minister Amit Shah's meeting

with a political delegation of the Jammu and Kashmir Apni Party on Sunday.

"visible changes will be seen on the ground in the next few months, the home minister also assured the delegation that the NDA government under Prime Minister Narendra Modi will take all steps for the overall development of Jammu and no intention of the govern-



Kashmir". The political delegation, which is the first one after the abrogation of special status on August 5 last year by the Centre, had called on the prime minister on Saturday.

Engaging with the delegation on about 40-odd issues raised by them, the home minister emphasised that there is as the region is a border area, the statement said.

even he, himself in his speech in Lok Sabha on August 6, 2019 expressed the same. The home minister said this is also good for India's interest,

▶ FROM PAGE 1

Sebi considers...

"As other countries have announced measures to stem the market fall, there is pressure on Sebi to follow suit. Based on the structure of the domestic market. Sebi could use the tools at its disposal to ensure there is no panic among investors," said an exchange official.

and MLA from the SP.

However, some say such measures could do more harm than good to the market. "A ban on short selling should be used only in extreme situations. It often distorts the process of fair price discovery. Also, it provide only short-term relief and cannot alter the direction of the market," said an industry expert. Instead of a blanket ban on short selling, Sebi might ban naked shorting in the derivatives segment, said experts. This means it will allow investors to go short only to hedge their cash positions. A similar move is in place for overseas investors taking the participatory notes route. A ban on intraday trading and extending the scope of the ASM, which is currently used only on small-cap stocks, are other tools that can be used by the regulator, said people in the know. Also, Sebi has asked the stock exchanges to increase monitoring of algorithmic trading (algo) and high-frequen-

domestic market has increased exponentially. Many believe the 10 per cent from the outbreak could tip countries into drop in the market on Friday was caused by algo and HFT as stock prices fell on very low volumes. The finance ministry has directed Sebi to report regularly all the developments taking place in the financial markets and measures taken to control market volatility. An email sent to Sebi on the issue went unanswered.

Rate cut ...

"There is also coronavirus and the impact it has had on the global economy. We want to improve credit activity at this time and hope that the RBI will also emulate action by central banks elsewhere," said the official.

Officials admit that the latest episode in the financial sector — that of YES Bank - may have eroded trust in the financial sector and that lowering the cost of capital was one of the ways to get that trust back. They hope that a cut in small savings interest rates will prompt banks to cut their rates as well. Central banks of various nations, including the United States Federal Reserve and the Bank Of England, have announced surprise interest rate cuts cy trades (HFT), whose influence in the to deal with the economic impact of coro-

navirus amid concerns that the slowdown recession. The next meeting of the MPC is scheduled during March 31-April 3. The notification of the small savings interest rates for April-June, which is reviewed quarterly, is expected on March 31 as well.

Air India...



Lufthansa is flying to 220 destinations and has 400-plus aircraft. The share price of Delta Air Lines is down from \$58 on January 1 this year to \$38.36 on Friday closing. The US-based airline has a fleet of 909 aircraft and flies to 325 destinations.

Air India, a loss-making airline, has 103 destinations and, along with Air India Express, around 146 aircraft. The airline has not made money since the merger of

Air India and Indian Airlines in 2007. Apart from Air India, the government is also looking to sell Air India subsidiary

Air India Express and 50 per cent in Air India SATS Airport Services. Apart from the Hindujas, the Adani

group, and US-based fund Interups, the Tata group is expected to make a bid. The government has extended the last date for submitting expressions of interest to April 30 after some entities cited the visa ban till April 15 by the Indian government. This, according to them, is preventing their travel to India for valuation. Another prospective bidder said it might opt out of the process because of the crisis.

"We will take a final call in the last week of April on submitting the EoI," it said.

The decline in Air India's valuation is bad news for the government, which is trying its best to sell the airline after it had to pump ₹30,000 crore of taxpayers' money into the airline since 2012.

In order to attract bids, the government has transferred ₹29,500 crore of Air India's debt to a special purpose vehicle -Air India Asset Holding, with real estate assets. With this, Air India is left with ₹23,000 crore of debt. The government is selling its 100 per cent equity in the airline, unlike its offer of 76 per cent in the previous round of sale in May last year.

ED summons...

An email sent to the Reliance Group spokesperson on Saturday went unanswered. Sources said the federal agency had prepared a list of the top five borrowers, which were extended large credit facilities by the bank under Kapoor.

"Most of these borrowers have defaulted and the loans have turned into bad debts. So, each of these accounts is under the radar. Their management and promoters will be examined and questioned in the coming weeks," said the official.

Last week, Reliance Group had said it had no direct or indirect exposure to the Kapoor family or any entities controlled by them. "The entire exposure to YES Bank is fully secured and is transacted in the ordinarv course of business, and we are committed to honour our repayments to YES Bank," the statement said. Some of the other defaulters to whom YES Bank had advanced funds include Vodafone Idea, DHFL, IL&FS, Essel Group, CG Power, and Cox & Kings. IL&FS, DHFL, and CG Power are already facing probe from various agencies for alleged irregularities. The ED is probing Kapoor's role in YES Bank's bad debts of ₹30,000 crore and whether the money was siphoned off and laundered to the 78 entities controlled by the co-founder.

in the region and "all such talks have no basis at all". In a similar assurance as giv-

en by the prime minister to the delegation, Shah said the government will work with all sections of the society to realise the hopes of statehood for Jammu and Kashmir at an early opportunity, an official statement said. He referred to the prime

minister's address to the

nation after the abrogation of

Article 370 and said that and

Expressing confidence that