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The Smart Investor

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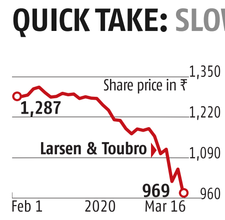
QUICK TAKE: SLOWER INFRA CAPEX A CONCERN FOR L&T



Larsen & Toubro (L&T) shares are down 25 per cent in one month due to the markets fall, and may remain weak given the firm's high dependency on infra expenditure and working capital pressure. Emkay Global says government-led infra spending is likely to slow down on worsening fiscal stress

"Cutting rates in middle of global pandemic won't be effective. Banks have stopped giving credit as they are seeing default risk. India saving the ammunition to use when this dust settles"

SIDDHARTH BHAMRE
Independent Analyst

Oil skids nearly 12%; silver at 11-yr low

Gold gives up gains, falls 5 per cent; massive sell-off witnessed on MCX

DILIP KUMAR JHA
Mumbai, 16 March

Gold, silver and crude oil prices hit their respective lower circuits on the Multi Commodity Exchange of India (MCX) as the global equity sell-off amid the coronavirus pandemic created extreme margin pressure on other asset classes, including bullion, metals, and energy. In the international market, silver was down its lowest level after May 2009, while crude oil and metals were around their worst since 2016. Brent crude was down 11.79 per cent and trading at $29.86 per barrel (at 11.53 pm IST).

Silver recorded one of its steepest single-day declines by falling over 13 per cent. Base metals and globally referential agricultural commodities, too, sharply as sellers rushed to liquidate their stocks.

Gold was in green initially but fell in late trading. In the London market, Spot gold dropped as much as 5.1 per cent to $1,451.55 an ounce, reversing earlier gains. The metal lost 8.6 per cent last week, the most since 1983.

"Funds and investment houses had bought a large quantity of silver in the last few months as safe haven asset class. Now, they are coming in to liquidate it, leading to a sharp decline in silver prices globally. The same trend percolated to India as well," said Gnanasekar Thiagarajan, director, Commtrendz.

ALL IN THE RED

	Mar 16,'20	% change*	Prev low date
LME Copper	5,241.0	**-4.0**	Nov 8, 2016
LME Zinc	1,953.5	**-1.6**	Mar 12, 2020
LME Nickle	11,855.0	**-3.8**	Mar 12, 2020
LME Aluminum	1,657.0	**-1.4**	Mar 12, 2020
LME Lead	1,706.5	**-2.2**	Jun 27, 2016
Gold ($/Oz)	1,471.8	**-3.7**	Dec 12, 2019
Gold (₹/10g)	39,835.0	**-4.8**	Jan 17, 2020
Silver ($/Oz)	12.6	**-13.9**	May 1, 2009
Silver (₹/kg)	36,640.0	**-15.0**	Jun 11, 2019

*% change over the previous close
LME price is for three-month forward ($/tonnes)
Source: Bloomberg; compiled by *BS* Research Bureau

The price of silver slumped to trade below $12 an oz in the international market, its lowest level since May 2009. In the Mumbai spot market, traders were reluctant to sell at a low price.

According to the existing guidelines, trading in many commodities were halted after hitting the lower circuits and restarted only after the cooling period.

On the benchmark MCX, the price of silver for delivery in May declined nearly 16 per cent to ₹34,139 a kg. Similarly, the gold contract for delivery in April fell 4.18 per cent to ₹38,683 per 10 grams. Copper slumped 3.85 per cent to trade at ₹405 a kg.

Among agri commodities, castor seed contract for delivery in March plunged 3.91 per cent to ₹3,680 a quintal on the National Commodity and Derivatives Exchange (NCDEX).

BRENT CRUDE
$29.86/bbl
-$3.99
(-11.79%)
Until 11.53 pm

"Commodities, including bullion, energy, metals and agri products, are facing global selling pressure. The global equity markets have posted a massive sell-off amid fears of a devastating impact of the coronavirus pandemic on the global economy," said Kishore Narne, associate director, Motilal Oswal Financial Services.

Global commodities, including gold and silver, opened high in early trade on Monday following the US Fed's decision to cut interest rate to nearly "zero" to help the economy withstand the impact of the pandemic. The 1 per cent decline brought the effective interest to 0-0.25 per cent now. Analysts estimate the rate cut to generate $700 billion in revenues for the US economy.

People being checked for symptoms of COVID-19 infection before entering the BSE building PHOTO: KAMLESH PEDNEKAR

PRIVATE BANK SPACE POLARISED

A sharp correction in banking stocks has opened a large valuation gap between top-tier private sector banks and their smaller peers. While private sector banks have seen a 23.4 per cent decline market capitalisation (m-cap) on average since February 20, when the markets began to correct, many smaller banks lost nearly a third of their m-cap during the period.

RBL Bank, for example, is down 47.2 per cent during the period. Its m-cap is down from ₹15,700 crore on February 20 to ₹8,283 crore at the close of trading on March 16. IndusInd Bank is down 44 per cent during the period. Its m-cap is now down to ₹46,000 crore, from ₹82,000 crore around three weeks ago. Other banks that lost 30 per cent or more during the period include Bandhan Bank, Axis Bank, IDFC First Bank, Karur Vysya Bank, and Karnataka Bank. In contrast, HDFC Bank, Kotak Mahindra Bank, City Union Bank, and DCB Bank outperformed their peers and are down 18-19 per cent.

Analysts said this would polarise the industry between top tier banks and the others. Sharp decline share prices would make it tough for many of these smaller banks to raise fresh capital, forcing them to forego market share in favour of their larger peers. The YES Bank fiasco has already made it tough for banks to raise additional tier-1 capital. Surprisingly, YES Bank is the top performer with a 5 per cent increase in the market capitalisation during the period. **KRISHNA KANT**

Bank	Current m-cap (₹ cr)	Change in m-cap (%)*	Price to BV ratio
HDFC Bank	547,666.2	**-17.9**	3.5
Kotak Mahindra Bank	264,677.6	**-17.9**	5.8
ICICI Bank	260,755.8	**-26.3**	2.4
Axis Bank	143,640.4	**-31.5**	1.7
IndusInd Bank	46,001.5	**-43.9**	1.4
Bandhan Bank	44,264.9	**-33.9**	3.2
City Union Bank	13,288.8	**-18.8**	2.6
IDFC First Bank	12,794.3	**-33.7**	0.8
Federal Bank	12,594.1	**-27.8**	0.9
RBL Bank	8,282.9	**-47.2**	1.1
All pvt sector banks	1,409,909.8	**-23.4**	2.6

*Change in market capitalisation since February 20, 2020, when the market correction started. Note: Price to book value based on market capitalisation as on March 16 and banks' net worth at the end of September 30, 2019
Source: Capitaline, compiled by *BS* Research Bureau

SBI Cards drops 10% on debut, HNIs lose ₹200 per share

SAMIE MODAK
Mumbai, 16 March

Shares of SBI Cards and Payment Services closed 10 per cent below their issue price, with the secondary market crash taking a toll on investor sentiment. Shares of the country's biggest pure-play credit card company ended at ₹678, down ₹77, or 10.2 per cent, over the IPO price of ₹755.

The weak trading debut contrasted the stellar demand seen during SBI Cards' ₹10,300-crore IPO earlier this month. The share sale was subscribed 26 times, generating bids worth a record ₹2 trillion, underpinned by the expectations of a surge on the listing day.

The coronavirus scare was prevalent at the time of SBI Cards' IPO. However, the situation worsened in the past week. Since March 5, the closing date of the SBI Cards issue, the benchmark Sensex has come off 18 per cent.

At the time of the IPO, many investors were expecting SBI Cards to list at a premium of more than 30 per cent. The weak listing has hurt several high net-worth individuals (HNIs), who had borrowed money to subscribe to its shares.

POOR OPENING SHOW
(BSE price in ₹)

Investment bankers say HNIs have suffered a loss of ₹200 per share as their acquisition cost after factoring in the interest shares worked out to ₹870. They had placed cumulative bids worth ₹80,000 crore in the IPO.

The stock touched a high of ₹755 and a low of ₹656 on the National Stock Exchange (NSE), with shares worth ₹4,320 crore changing hands. Another ₹300 crore worth of shares were traded on the BSE.

The weak debut notwithstanding, many analysts are bullish on the prospects of YES Bank. Macquarie, for stance, has initiated an 'outperform' on the stock with a target price of ₹1,025.

"SBI Cards is a pure play on quintessential India opportunities -- discretionary, consumption, retail credit penetration, and digital payments. We believe SBI Cards strong parentage, market leadership, brand, and smart strategies will enable it to capture a rising share of India's fast-growing credit card industry...we believe being India's only notable standalone credit card company and having growth visibility should ensure premium valuations can be sustained," the brokerage said in a note.

In the past few years, SBI Cards has clocked strong growth.

"The company has maintained a strong earnings trajectory, with revenue rising at a CAGR of 44.6 per cent to ₹6,999 crore in 2017, and a net profit trajectory of 52.1 per cent CAGR to ₹862.7 crore in 2019, with sustainable RoA above 4 per cent and RoE at more than 28 per cent," says a note by ICICI DIRECT.

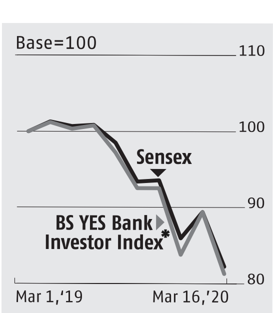
Antony Waste withdraws IPO

Antony Waste Handling Cell on Monday called off its initial public offering (IPO) after it failed to garner adequate subscription owing to weak market conditions. The waste management firm's ₹ 200-crore IPO was subscribed only 49 per cent despite lowering of issue price and extension of the closing date by more than a week. Other companies, including Burger King India and Rossari Biotech, have put off their IPO plans amid a sharp selloff in the market. **BS REPORTER**

THE COMPASS

Private lenders' bailout of YES irks investors

Banks should've conserved capital before bailing it out, say experts



* 8 Banks which have invested in YES Bank
Compiled by BS Research Bureau

HOW THE INVESTMENTS STACK UP

(₹ crore)	Net worth	Capital infusion	% of net worth
SBI	2,26,075	6,050	**2.7**
Federal Bank	13,754	300	**2.2**
Bandhan Bank	14,016	300	**2.1**
IDFC First Bank	16,866	250	**1.5**
HDFC Limited	81,706	1,000	**1.2**
Kotak Mahindra Bank	45,912	500	**1.1**
ICICI Bank	1,10,606	1,000	**0.9**
Axis Bank	83,875	600	**0.7**

Net worth as on September 30, 2019
Source: Capitaline; compiled by *BS* Reseach Bureau

HAMSINI KARTHIK

It was yet another day banking and financial stocks would like to forget in a hurry. Over the weekend seven private lenders collectively pooled in ₹3,950 crore to bail out the beleaguered YES Bank. The seven private banks are HDFC, ICICI Bank, Kotak Mahindra Bank, Axis Bank, Bandhan Bank, Federal Bank, and IDFC First Bank.

Given that the investment was made at ₹10 a share, the same as what State Bank of India (SBI) paid, Monday's 45 per cent appreciation in the YES Bank stock to ₹37.10 could prompt many to think that these lenders have indeed made a good investment. However, part of the reason for Monday's surge was technical, with the NSE advancing the exclusion of YES Bank's stock from Nifty indices by about a week to this Thursday. The compulsory lock-in of 75 per cent holding of existing investors (owning over 100 shares), which reduced supply in the counter, also helped.

So, the rally's sustainability from hereon will depend on YES Bank's financial capabilities. That said, the participation of banks and HDFC does throw up two critical questions. One, whether the banking sector is on the verge of witnessing very selective participation from investors, and two, whether the timing of investment was right. "We have seen no private interest so far in the bank (YES) and given the deterioration in the business, banks/the RBI will have to continue to provide both liquidity and capital to the bank," say analysts at Nomura.

The larger debate is whether it was appropriate for peers to bail it out. "The intention is also to prevent a contagion (run on deposits with private banks)," says Ajay Bodke, CEO and chief portfolio manager, Prabhudas Lilladher. "But still, this is a large cheque to write for these lenders, especially when business is turning tough even for these lenders and capital for the system is getting expensive," he adds.

In this context, Lalitabh Shrivastawa of Sharekhan feels if these sums were retained by the banks, it would have certainly made a positive difference to their financials. Concerns expressed by analysts largely stem from the fact that growth has been on a slow-mode and barring ICICI Bank, asset quality pressures haven't quite eased for these lenders.

In addition, Shriram Subramanian, MD, InGovern, says the decision to invest in YES Bank by its peers could have been done consultatively, engaging shareholders as well. "None of the investee banks had an opportunity to do due diligence on YES Bank and I don't think some of these banks would have participated in the capital-raising process if left to themselves," he explains.

Experts say such decisions are detrimental to shareholders' interest and at a time when banking stocks are at the forefront of the market correction, they could further weaken sentiments. Stocks of these lenders were down between 5.9 per cent and 11 per cent on Monday.

YES Bank out of NSE indices this week

JASH KRIPLANI
Mumbai, 16 March

The National Stock Exchange (NSE) has decided to advance YES Bank's exclusion from NSE indices to this Thursday, in light of the recent reconstruction scheme for the private lender. There are also certain restrictions on trading its shares. On Monday, YES Bank's shares saw a spike, closing 45.2 per cent higher.

Lack of supply post lock-in and short-covering led to the rally. "As much as 75 per cent of equity is locked-in, so there is less supply of shares. Around 600 million shares are available in the market; futures were trading at discount. We saw some short covering as settlement of future contract would happen in May," said Yogesh Radke, head of alternative and quantitative research at Edelweiss Securities.

According to market participants, the open interest in derivative market was for 25 crore shares.

Further, market participants say excluding the stock earlier than the slated date will help to prevent fresh flows from the Nifty and Nifty Bank-linked mutual funds. Earlier, the exclusion was to be effective from March 27.

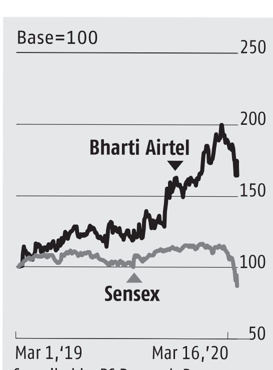
The government in a notification on Friday said the existing shareholders (on date of scheme commencement) or allottees under the scheme will not be able to sell more than 25 per cent of holdings in YES Bank for a period of three years.

The 75 per cent three-year lock-in on YES Bank has prompted MFs to seek direction from the Securities and Exchange Board of India (Sebi), as exclusion of YES Bank from indices will force them to exit the YES Bank.

However, the lock-in will prevent selling the shares. As many as 50 index- and exchange-traded funds (ETFs) are exposed to YES Bank as of February 29.

AGR proposal a boost for Bharti Airtel

Cash flows to absorb Africa impact amid weak crude oil prices and rupee



Compiled by BS Research Bureau

RAM PRASAD SAHU

The move by the Department of Telecommunications seeking a staggered 20-year payment of dues related to adjusted gross revenues (AGR) is positive for listed telecom players, such as Bharti Airtel and Vodafone Idea. The move would require Airtel and Voda Idea to pay ₹1,700 crore and ₹4,100 crore, respectively, every year (including interest cost of 8 per cent) over the moratorium period.

Analysts at Motilal Oswal Financial Services say Airtel with an annual free cash flow for FY21 estimated at ₹12,600 crore, along with a net debt to operating profit at 2.6 times (post AGR liability), should help it make the payments. The same will be difficult for Voda Idea, given the high debt and lower cash flows.

The other trigger for Airtel could be the second round of tariff hikes, proposals to have a minimum tariff floor, and the government's intent to have a three-player market. Analysts believe that there could a tariff hike upwards of 30 per cent which would push the average revenue per user (ARPU) to levels over ₹200. This should boost Airtel's operating profit by a third.

There are, however, certain headwinds. The major one is the crude oil price crash, followed by a depreciating rupee. Airtel's Africa operations in countries — such as Nigeria, Congo and Chad — could see some impact as these are oil exporting economies. What will add to the woes is that 28 per cent of its debt is dollar-denominated.

Analysts at Emkay Global believe Airtel's Africa business is in a strong position to absorb any near term impact with a healthy operating profit and lower debt. Africa net debt has halved over the last three years and the company is able to fund its capex from internal cash flows.

The brokerage, thus, has a positive view on the firm, given its strong India business and expected market share gain in India which could absorb any adverse Africa impact. While the stock is down about 18 per cent over the last month, analysts believe there are multiple positives, especially on the Indian telecom front, which should offer long-term value to investors.