

# Markets

TUESDAY, MARCH 24, 2020



## VIRUS STIMULUS

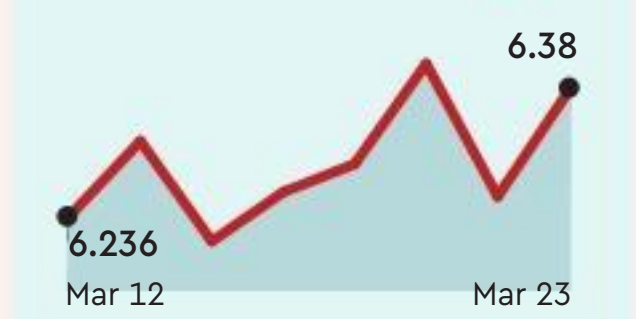
Bimal Jalan, former RBI governor

We should not worry about a fiscal deficit target being higher than what has been announced. Because this is much more important. If there is a security matter or something, then you spend money more... this is an extremely important matter... if the fiscal deficit is 0.5% higher, then I think we should accept.

## Money Matters

### G-SEC

The benchmark yield rose due to selling pressure



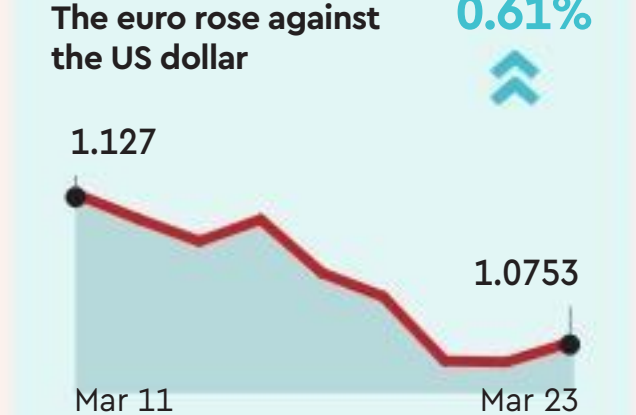
### ₹/\$

The rupee depreciated on global cues



### €/₹

The euro rose against the US dollar



## Quick View

### Securities Appellate Tribunal to remain closed till March 31

THE SECURITIES Appellate Tribunal (SAT) on Monday said it will remain closed till March 31, 2020 as the government has strictly enforced the lockdown, a move aimed at preventing the spread of COVID-19 infection. "Since the government has strictly enforced the lockdown and in view of the closure of the public transport, the Tribunal shall remain closed till 31st March 2020," SAT said in a notification. It further said that the tribunal will function from April 1 between 11 am and 3 pm, until further orders. Besides, office of registry shall also function from April 1 between 11 am and 4 pm, it added.

### EPFO directs field offices to timely credit pension

RETIREMENT FUND body EPFO on Monday said it has issued directions for timely credit of monthly pension to over 65 lakh employees' pension scheme (EPS) beneficiaries amid the coronavirus outbreak. "In order to ensure that no inconvenience is caused to the pensioners on account of the prevalent situation, the Central Provident Fund Commissioner has directed field offices of the EPFO to generate and reconcile pensioners' details and pension amount statements for the current month by 25th March, 2020," a statement by the labour ministry said.

### Ujjivan Small Finance Bank's director resigns

UJJIVAN SMALL Finance Bank (SFB) on Monday said its independent director Luis Miranda has resigned from its board to abide by conflict of interest norms. The bank said that it has received a letter from Luis Miranda tendering his resignation as an independent director of the bank with effect from March 22.

## Yes Bank board may discuss ₹15k-cr fund raising on Mar 26

ANKUR MISHRA  
Mumbai, March 23

THE SECOND ROUND of funding, senior management change and business continuity will be on top of the agenda when new Yes Bank board assumes charge on March 26, sources close to development told FE. Yes Bank's new board has eight members, chaired by former Punjab National Bank (PNB) chairman Sunil Mehta.

The current administrator Prashant Kumar will assume charge as managing director and CEO. The new board will finalise quantum and options for further fund raising," the source added. FE has learned that the quantum of second round of fund raising may be between ₹15,000 to ₹20,000 crore.

## RECESSION FEARS

# Rupee sinks to lifetime low of 76.20 on lockdown effect

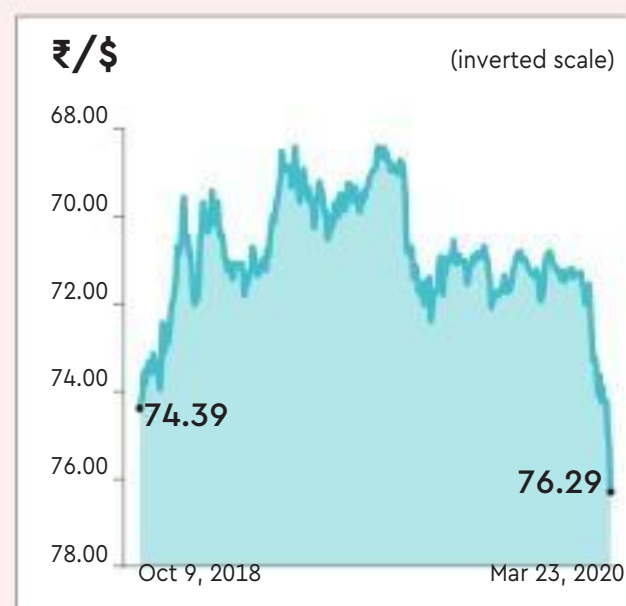
PRESS TRUST OF INDIA  
Mumbai, March 23

THE RUPEE ON Monday crashed by 100 paise to settle at its lifetime low of 76.20 against the US currency due to heavy dollar demand and meltdown in equities as lockdowns to contain coronavirus spread fanned recession fears.

The domestic currency suffered its biggest single-day loss in more than seven months as FPIs remained net sellers in capital markets.

"Pandemic is causing widespread lockdowns, causing the economy to grind to halt. In such a situation, emerging market currencies are vulnerable due to their dependence on dollar debt. A scramble for dollars would continue as long as the panic lasts," said Anindya Banerjee, DVP, currency derivatives & interest rate derivatives at Kotak Securities.

Market participants are concerned that the sharp rise in coronavirus cases, which has crossed over 400 in the country, could weigh on the economy, traders said. The rupee, which opened on a weak note at 75.90 at the interbank forex market, sank to an all-time trading low of



76.30 mirroring deep losses in stock markets. The unit finally settled at 76.20 against the US dollar, registering a decline of 100 paise over its last close.

According to the Union health ministry, Covid-19 cases in India increased to 415, forcing lockdowns in various states.

"The currency has been weighed down in the last few sessions also due to broad strength in the dollar against its major crosses. On the domestic front, FPIs continued to remain net sellers in the equity and debt segment and selling has been to

## IndusInd Bank MD & CEO Romesh Sobti retires

PRIVATE SECTOR LENDER IndusInd Bank on Monday said Sumant Kathpalia, who has been designated as managing director and chief executive, will take over the reins from veteran Romesh Sobti, who has retired after completing his mandated tenure.

"The board of directors has today noted that Romesh Sobti's tenure as managing director and CEO of the bank would con-

clude as at the close of today, and that Sumant Kathpalia would take charge from tomorrow as additional director, designated as MD and CEO of the bank for a period of three years, with effect from March 24, 2020," IndusInd Bank said in a filing.

"In accordance with SEBI instructions of June 14, 2018 to the stock exchanges, we

affirm that Sumant Kathpalia is not debarred from holding office of the managing director & CEO by virtue of any order of SEBI or of any other Authority," IndusInd Bank said.

The bank's long term MD and CEO Sobti retired on Monday as he turned 70. The RBI norm does not allow the position to be held by anyone beyond 70 years.

—PTI

## Corporate bond market calls for dedicated RBI measures as illiquidity rises

BHAVIK NAIR  
Mumbai, March 23

AS ILLIQUIDITY IN the corporate bond market has been driving up yields in recent times, corporate bond market participants are calling for dedicated liquidity measures from the Reserve Bank of India (RBI) that has announced such operations for the government securities market over the past few days.

With most offices remaining shut and mutual funds facing redemption pressures following the turmoil in the market, experts said there is a dearth of buyers in the corporate bond market. In such an environment, dealers told FE that there is an anticipation that the RBI will bring in liquidity measures soon.

A Balasubramanian, MD and CEO, Aditya Birla Sun Life AMC, told FE that any steps announced by the RBI will calm the market, which will bring back more participants. "The rise in corporate bond yields in recent times is purely driven by demand-supply mismatch. With many offices getting closed, we are seeing a lack of buyers in the corporate bond market and that is leading to illiquidity. We need measures to calm down the market so that the fear factor is reduced and normal participation comes back. The RBI is expected to take some steps in terms of providing liquidity via corporate bond repos. That will ease up the pressure on the yields. Even if they announce ₹50,000-60,000 crore of corporate bond repos, it will help boost the sentiment which may bring down the yields," Balasubramanian said.

Indeed, it is the illiquidity that is having an impact on the corporate bond yields as government securities have remained range-bound in recent times - in the range of 6.06 to 6.41% in March. In contrast, corporate bond yields have risen by at least 80-120 basis points this month.



As Ashish Jalan, assistant vice-president at SPA Securities, pointed out that a lack of direct intervention by the RBI is adding to the fire in the corporate bond market where yields are rising due to illiquidity. "The yield on three to five-year paper has gone up by 120-130 basis points. Three-year Nabard bonds were trading at around 6.40% levels while it has now gone up to 7.60%. Similarly, yield on the 10-year paper has gone up by over 80 basis points. NHAI 10-year bonds were trading at 7% around March 9 while it has been trading at close to 7.85% in recent times," Jalan said.

An RBI spokesperson did not respond to the question whether the central bank would be announcing dedicated measures for the corporate bond market.

RBI has been actively taking liquidity measures by announcing to purchase government securities via OMOs. On Monday, it advanced the second tranche of its OMO purchases worth ₹15,000 crore out of a total of ₹30,000 crore. So far, it has already conducted ₹10,000 crore of OMO purchases. Apart from this, it has announced ₹1 lakh crore of long-term repo operations (LTROs) as well as ₹1 lakh crore of variable-term repo operations. Market participants indicate that it is the corporate bond market that now needs the central bank's attention.

## NBFC body seeks three-month moratorium on EMI payments

FE BUREAU  
Mumbai, March 23

AFTER BANKS WROTE to the regulator asking for moratorium on corporate repayments, their non-banking counterparts have sought a three-month moratorium on equated monthly instalment (EMI) payments by their customers as much of the country goes into lockdown mode. NBFCs are also asking for a one-time restructuring of standard accounts, which may get affected by the lockdowns and forbearance on asset recognition.

On Monday, Finance Industry Development Council (FIDC), an association of NBFCs, said that it has represented to the Reserve Bank of India (RBI) and the ministry of finance to allow these relaxations in the interest of consumers. Among the measures sought are a moratorium on payment of EMIs for at least a three-month period by deferring at least three EMIs. This would ensure that unintended defaults do not affect the credit track record and bureau scores of customers.

The industry has sought a one-time restructuring without the 5% provisioning requirement for all regular accounts which may become delinquent in future. Further, it has asked the authorities to extend the period for recognition of non-performing assets (NPAs) from the current three months to six months for accounts that were non-delinquent as on March 1, 2020. Any provision made on loans that are already bad should not be allowed to be written back to ensure maintenance of the sanctity of recognition of prior NPAs, the FIDC said.

The industry body said that many of its member organisations have received requests from their customers, who are facing a severe strain on their cash flows, for a deferral of EMIs. The strain is the result of a slowdown in capacity utilisation of trucks, machinery and other equipment.

liquidity support to the private

lender. RBI governor Shaktikanta Das said on March 16 that regulator is ready to provide liquidity support to the private lender when it is needed.

RBI had appointed former deputy governor R Gandhi and associate professor of SP Jain Institute of Management and Research Ananth Narayan as additional directors on the board of Yes Bank. Mahesh Krishnamurthy and Atul Bheda were also appointed by the government as non-executive directors. SBI had nominated its deputy managing directors J Swaminathan and Partha Pratim Sengupta on the Yes Bank board. The new eight member board will assume charge on March 26.

The new board will also take a call on changes in senior management positions. RBI had earlier notified in the reconstruc-

tion plan that employees of the bank shall continue service in the bank with same remuneration and on same conditions for a period of at least one year. However, newly constructed board has freedom to discontinue services of senior management.

FE had earlier reported that new board of Yes Bank will focus on bringing down cost of deposits and may consider reducing savings rate to below 6%. According to sources, there was limited withdrawal of deposits from Yes Bank due to Covid-19 issue, after restrictions were lifted on March 18. RBI had put restriction on the troubled lender on March 5 under which customers of the bank were allowed to withdraw up to ₹50,000. There was a sharp reduction in total deposits of the bank from ₹2.09 lakh crore in September last year to ₹1.37 lakh crore till March 5.

## RBI advances second tranche of OMO purchases to Thursday

BHAVIK NAIR  
Mumbai, March 23

DESPITE THE RESERVE Bank of India (RBI) advancing the second tranche of its open market operation (OMO) purchases worth ₹15,000 crore to Thursday this week, the benchmark yield ended 12 basis points higher to close the session at 6.38%. The central bank notified its intent to purchase securities maturing between 2022 and 2028 in the auction for the second tranche of OMO.

An OMO purchase is an operation where RBI purchases bonds from the market and infuses rupee liquidity. Under the current circumstances, such an operation helps absorb the additional supply hitting the market due to the FPI selling in bonds, thereby easing the pressure on the yields.

Earlier, the RBI had announced it will conduct OMO purchases worth ₹30,000 crore in two tranches of which the second tranche was initially scheduled for Monday next week.

A bond market expert told FE that the negative reaction in the yields could be attributed to the fact that the market is expecting more from the central bank in current times. "The market was expecting further OMO purchases to be conducted while we only saw an advancement of the already announced OMO. Also, the central bank has not announced any rate cut so far

while other central banks around the world have been conducting monetary actions. That is the reason which could have disappointed the market. One also has to consider that a lot of traders are working from home and volumes in the market are low," said the expert.

RBI has already conducted an OMO purchase worth ₹10,000 crore recently for which it received bids worth ₹45,049 crore. On Monday, the RBI also announced 16-day variable term repos worth ₹1 lakh crore of which ₹50,000 crore worth of repo auction was conducted on Monday itself while the rest would be conducted on Tuesday. During Monday's auction, RBI received bids worth ₹31,585 crore against a notified amount of ₹50,000 crore.

"The announcement came in during the day. The auction may not have seen active participation by standalone primary dealers as one needed to have free collateral to be submitted to the RBI to avail the repo. Some of them could have already pledged their available collateral in the repo market or the TREPS market. Banks, of course, could have gone for the same," said a dealer not wanting to be named.

RBI also announced the results of its US Dollar sell/buy swaps on Monday where it received bids worth \$1.53 billion against a notified amount of \$2 billion. The central bank accepted only \$0.65 billion of the total bids received, a statement said.

## RBI extends priority sector tag for bank loans to NBFCs

RBI ON MONDAY extended the priority sector classification of bank loans to NBFCs for on-lending for FY21, which could help improve credit to sectors such as agriculture, micro, small and medium enterprises, and housing. The extension comes after a review of the priority sector

classification window that was set to expire on March 31.

The central bank said that existing loans disbursed under the on-lending model will continue to be classified under priority sector till the date of repayment or maturity.

—FE BUREAU

## ANALYST CORNER

### ITC: Maintain 'buy' with a DCF-based TP of ₹220

ICICI SECURITIES

THE NEW dividend policy has hiked the guided payout ratio to 80-85% from c.70% currently. We model ₹20 dividend in May 2020 (including ₹10 special dividend). We note similar hikes in 2004 and 2010, which resulted in significant stock rerating. With this payout increase, ITC addresses an important investor concern of capital allocation - particularly Hotels capex (which has mostly been EVA negative).

Some investors also expect a share buyback - we assign low probability for this. We reckon consensus may now potentially anticipate corporate actions as further upside triggers (like FMCG demerger, etc). We expect ITC stock to rerate (yield + growth) - note that cigarettes business now trades at 9x 1-year forward P/E, even cheaper than global tobacco. 'Buy'

ITC's revised dividend distribution policy guides to an increase in dividend payout to 80-85% from 65-70% currently and is applicable from FY20 onwards. We note that, in previous two occasions of dividend payout step jump (in 2004 and 2010), ITC witnessed significant stock rerating. The higher dividend distribution also addresses investor

concerns of capital allocation - particularly to hotels.

We also note the low capital requirement in the medium-term - recently commissioned three new hotels and has added manufacturing lines for its FMCG business. The corporate tax rate cut (in Sep'19) also further increases the cash available for disbursement. A share buyback, in our opinion, is a low probability event. We believe that the price hike, impact is more manageable in the current environment given the higher inflation (5% in YTD FY20).

ITC's lower share of DSFT (40%) versus peers (c.70%) means it is better equipped to benefit from mix improvement to RSFT segment. Contrary to consensus belief, in our view, product price changes impacting coinage does not affect volumes as the consumer purchases more than one cigarette in a single transaction. Our earnings estimates are broadly unchanged - we only adjust for higher dividend payment; modelling revenue/ Ebitda/ PAT CAGR of 9/8/5% respectively over FY20-22E. Maintain 'buy' with a DCF-based target price unchanged at ₹220. At our target price, the stock will trade at 15x P/E multiple Mar'22E.

### Escorts: Maintain 'buy'; target price at ₹1,080

KOTAK INSTITUTIONAL EQUITIES

KUBOTA JAPAN has announced it will buy a 10% stake in Escorts (post dilution) through a preferential allotment at a price of ₹850/share. Kubota will also nominate two non-executive directors on the board of Escorts. We believe partnership with Kubota can open up significant potential for exports for Escorts.

We maintain our 'buy' rating with an unchanged target price of ₹1,080. ₹10.4 bn will be infused in Escorts post stake sale. It will lead to a dilution of 13.7% (excluding treasury shares) as we don't include treasury shares while valuing the company.

Escort has announced that it will cancel equivalent amount of treasury shares, which have been allotted to Kubota so that paid up share capital is unchanged. Promoter stake will remain unchanged. Kubota will also nominate two non-executive directors on the board of Escorts.

Escorts has also decided to buy out

40% stake in Kubota India (marketing company) from Sumitomo Japan for ₹900 million. 60% of the stake in Kubota India will be held by Kubota Japan and 40% by Escorts. Escorts and Kubota had also formed a 60:40 manufacturing JV earlier to produce 50,000 tractors with an investment of ₹3 bn. Transaction is likely to be completed by H1FY21 post shareholder approval and regulatory approvals. We have not made changes to our model as we wait for approvals before changing our model.

Escorts does not need money for capacity expansion in the medium term. The investment of ₹10.4 billion by Kubota will be used for developing new products for both Indian and export markets, localize new engine plant in India and also manufacture agricultural implements in India. Kubota has a very strong distribution network globally and it wants to use India for producing low HP tractors (<120 HP) and also reduce costs by procuring components from India.