Markets

WEDNESDAY, MARCH 25, 2020

'EXPECT MORE VOLATILITY'

Mark Mobius, founder, Mobius Capital Partners

As the economic impact of the shutdowns around the world begin to work their way through the economics, we can expect more volatility. Our research indicates that the average length of a bear market is a little less than two years.

Money Matters

G-SEC

The benchmark yield fell due to buying support **0.076%**

₹/$

The rupee appreciated on global cues **0.25%**

€/$

The euro fell against the US dollar **0.71%**

GREEN SHOOTS

Sensex, Nifty end in green on global cues, stimulus package

FE BUREAU
Mumbai, March 24

MARKETS TOOK A breather on Tuesday to end the day in the green. Sentiment in the market was buoyed by the likely announcement of a stimulus package by the government and the positive signals coming from global markets.

The 30-share index Sensex gained as much as 1,481.6 points intraday but was unable to hold on to its gains and ended the day at 26,674.03, up by 692.79 points, or 2.67%. The broader Nifty50 was up by 2.51%, or 190.8 points, to close at 7,801.05. The markets remained choppy despite the trend reversal as India VIX (volatility index) soared to 83.61% on Tuesday to hit its highest level since November 17, 2008.

Indian markets have corrected by nearly 40% and have been trading in the red so far because of the relentless selling by foreign portfolio investors (FPIs) who have taken out $7 billion from the Indian equity markets till March 23. FPIs have sold Indian shares worth $8.5 billion between February 24 and March 20.

According to Vinay Pandit, head of institutional equities at IndiaNivesh Shares & Securities, between 6,800 and 7,500 points, Nifty could see a bottom.

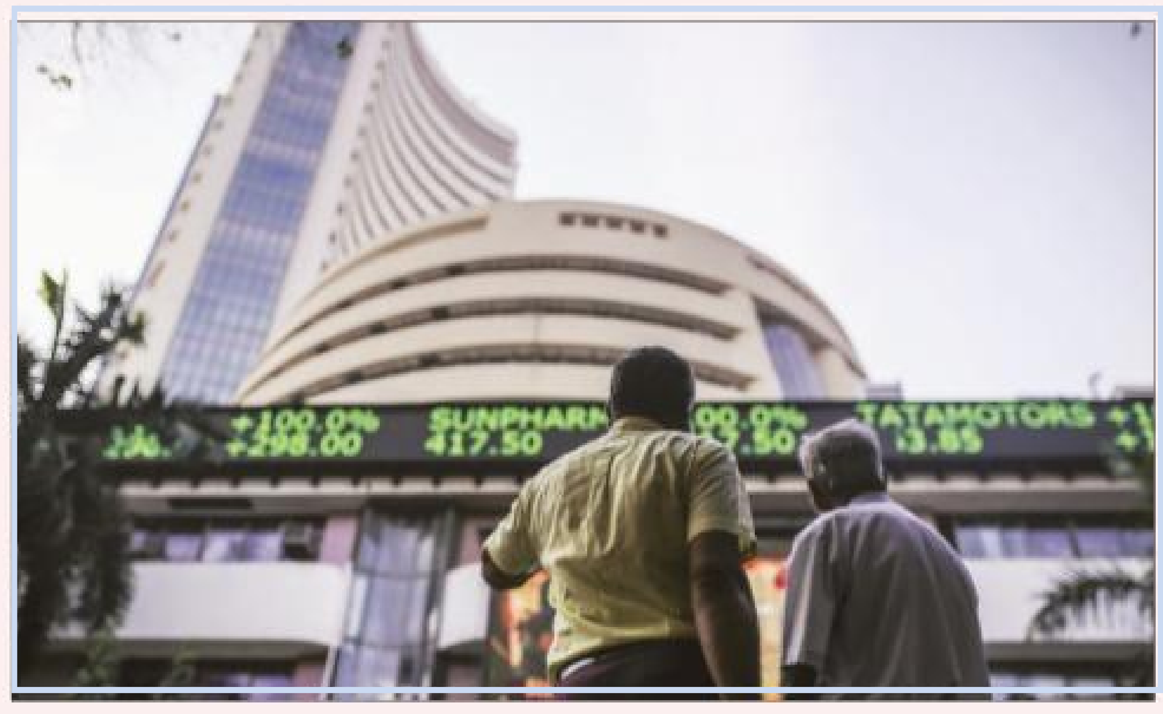
"Today's rally could be interpreted as a small dead cat bounce and a small part of it could be buying in the anticipation of a fiscal package. Market participants will look forward to solid cash based buying by institutional investors to catch the first signals of value-based buying," he said.

Globally, South Korea's Kospi was up by 8.6%. On the other hand, bourses in Shanghai, Hong Kong and Taiwan were up between 2.36% and 4.46%. European markets were also trading higher. Market experts suggested that the up move in markets globally was because of the fiscal stimulus package announced by the US Federal Reserve. Brent crude surged 4.3% on Tuesday, and was hovering at $28.18 per barrel.

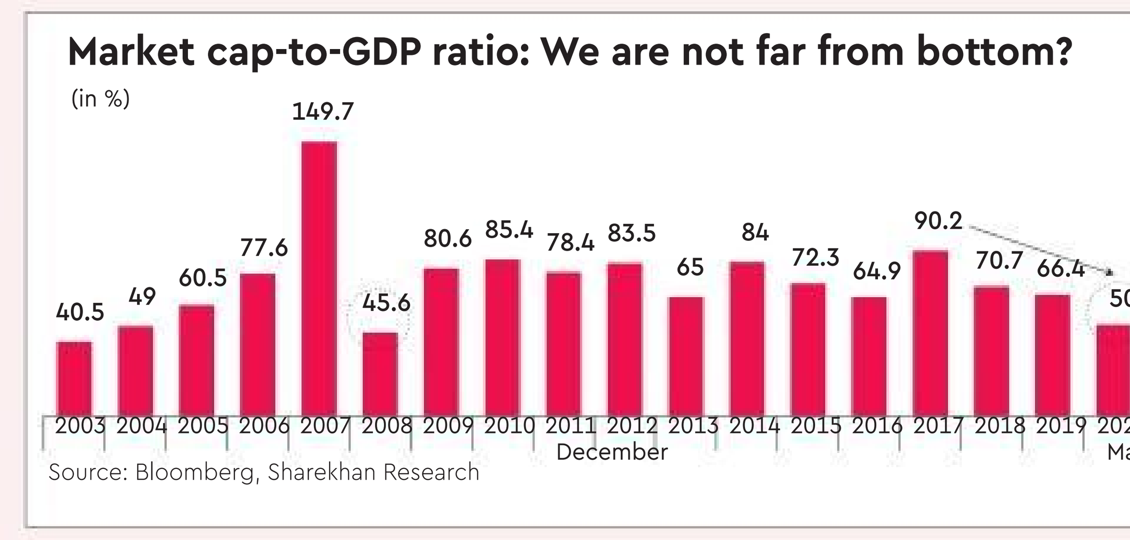
Additionally, the rupee gained 23 paise against the US dollar after hitting a record low of 76.29 in the previous session. Vinod Nair, head of research, Geojit Financial Services, said that the market movement was in tandem with global markets.

"The market came off its highs after no significant announcements by the FM and the fact that the economic package was still in development. The European and US manufacturing activity data due later, which may indicate the impact of Covid-19 on economies, could influence markets on Wednesday," he said.

The biggest gainers on Nifty were Infosys, Adani Ports & SEZ, Britannia, Bajaj Finance and Maruti. Shares of Infosys rose by 13.97% to close at ₹600 a piece. The shares made their single-biggest one day gain in seven years after the US SEC gave it clearance on the whistleblower complaint. Shares of Adani Ports, Britannia, Bajaj Finance and Maruti Suzuki India were up by 13.81%, 11.79%, 10.80% and 7.69%, respectively. On the other hand, biggest losers on the Nifty were Mahindra & Mahindra, Grasim, IndusInd Bank, Powergrid and Bharti Infratel. Shares of M&M were down by 7.98% and Grasim's were down by 7.67%. IndusInd Bank shares were down by 6.79%. Powergrid and Bharti Infratel were down by 2.75% and 2.37%, respectively.



Market capitalisation falls to half of GDP



YOOSEF KP
Mumbai, March 24

WITH THE INDIAN equity market witnessing its fastest pace of foreign outflows in at least two decades, the market capitalisation of the country's listed firms has plunged to just half of the nation's gross domestic product (GDP).

The ratio stood at 66.4% at the end of December 2019. In contrast, the ratio was 150% at the end of December 2007 and 90.2% in December 2017.

The market cap-to-GDP ratio – a valuation metric mostly used in developed countries to determine whether the market is over or under valued – has fallen to 50% as on March 20 against its long-term average of 80% and edging towards the level of 2008 global financial crisis. The market valuation had tanked to 45.6% of GDP during 2008. It is noteworthy that when the ratio was at peak in 2007, there were only 3,260 companies traded on the bourses against the current tally of 4,462.

UR Bhat, director, Dalton Capital Advisors (India), said: "The mcap to GDP ratio is possibly somewhat meaningful in the developed markets because most economic activity is captured in the listed market. In sharp contrast, in India, most economic activity happens through SMEs and MSMEs that are not listed on the bourses. The economic impact of the ongoing lockdown, which is more severe on the smaller unlisted companies, is, therefore, unlikely to be captured by the market cap to GDP ratio, though trends in the ratio may have some information value."

With foreign portfolio investors (FPIs) offloading Indian equities amid global risk-off moves following the rapid spread of Covid-19 across the globe, the Sensex has given up 35.3% in 2020 and thereby a colossal market cap loss of ₹57lakh crore since January highs. FPIs continued to remain net sellers of Indian equities, having offloaded shares worth $9.2 billion since February 24.

Most economists are now anticipating a larger spillover of the virus on the economy due to the ongoing lockdown. Tanvee Gupta Jain, economist at UBS Securities, said: "For the full year, we now expect India's real GDP growth to slow further to 4% y-o-y in FY21 (previously 5.1%) compared to 4.8% y-o-y (estimated) in FY20. The challenge for India vs its peers is starker if infections spread rapidly considering the higher density of population per capita & weaker health infrastructure."

According to UBS Securities, consumption will likely remain weaker for longer and possible job losses mean the recovery will be delayed. The capex rebound will also be pushed back further. It expects the credit impulse will remain weak on deteriorating business sentiment and the muted growth outlook.

IBA to RBI: Defer 20% additional provisioning for unresolved cases by 6 months

ANKUR MISHRA
Mumbai, March 24

THE INDIAN BANKS' Association (IBA) has requested Reserve Bank of India for six months' deferment of 20% additional provisioning needed in the March quarter for unresolved cases as per June 7 circular of the regulator, sources told *FE*.

The banks are facing provisioning pressure of at least ₹25,000-30,000 crore in the March quarter as most of the cases where inter-creditor agreement (ICA) were signed remain unresolved, sources said. As per the June 7, 2019 circular of RBI, banks will have to make additional 20% provisioning for the cases where resolution could not be reached in 210 days' period after signing the inter-creditor agreement. "This is the time to take extraordinary measures, hopeful that RBI will defer 20% additional provisioning to be done in the March quarter for unresolved cases," said Ashok Kumar Pradhan, MD & CEO, United Bank of India.

The provisioning pressure for banks will also come from the cases where resolution process has started. In big ticket size cases like DHFL, which is already undergoing resolution at NCLT, banks had made provisioning of around 15% of total exposure in the December quarter. Financial creditors have around ₹41,000-crore exposure to DHFL. Experts believe that banks will have to continue making 15% more provision in the March quarter for the mortgage lender as per the master circular of RBI on prudential norms on income recognition, asset classification and provisioning pertaining to advances.

IBA has also urged the regulator to reduce cash reserve ratio (CRR) by 1% from the current rate of 4%. CRR is the amount of funds that banks have to maintain with RBI at all times.

Brokerages struggle to execute trades due to shortage of hands

URVASHI VALECHA & MALINI BHUPTA
Mumbai, March 24

IN THE MIDST of the mayhem in the market, brokerages are struggling to execute trades for retail clients as most firms are working with less than 30% staff strength. Broking firms like Kotak Securities have disconnected several telephone lines and asked clients to use online chats or emails to execute trades. With Mumbai under a lockdown, brokerages are finding it hard to run their call centres, dealing rooms and other channels of support.

While the regulator has relaxed norms and allowed brokerages to facilitate work-from-home, most brokerages claim that they are finding it hard to facilitate the same at such notice and also that the vendors and technology support teams are not able to configure the same. While some brokerages have been asking for exchanges to be shut for a limited time frame – after giving sufficient advance notice – the exchanges have resisted the idea as financial markets are bound to provide liquidity to all categories of investors and, hence, closure is not an option.

The Association of National Exchanges Members of India – ANMI – has written to Sebi on Tuesday, requesting it to issue an advisory to the state governments such that "stock broking and depository services" are treated as essential services. The association has urged the regulator that in case states do not declare stock broking as an essential service, then markets will be shut after giving prior notice of a few days.

In its letter, ANMI has said that "to the best of our knowledge, Sebi has not issued any advisory/ circular in this matter".

Barring Maharashtra, Gujarat and Rajasthan, other states have not declared stock broking and depository services as essential services.

While some of the large brokers are in favour of a temporary closure of markets, not all are of the same view. Nithin Kamath, founder & CEO, Zerodha, believes that closing financial markets is a short-sighted approach at this juncture.

"Today, almost all brokers can operate fully online. There might still be a few brokers who aren't fully digital facing issues supporting customers. But I think in a few days everyone will be ready. That said, there might be a drop in customer experience, so important to keep clients informed. Markets are an integral part of the economy and reflect the economic realities," he said.

'Declare broking as essential service'

THE COMMODITY Market Participants Association has written to the PMO, the department of economic affairs and Sebi to get the broking classified as 'essential service' on a par with Maharashtra. Narinder Wadhwa, president of the association, thanked Sebi for taking measures in wake of Covid-19. "On Tuesday, the staff of broking entities could barely manage to run operations as they could reach the office with great difficulty," he said. Only three states have declared stock broking as essential services and other states have even not declared stock markets operations at par with essential services, he said.

— FE BUREAU

RBI's US treasury holdings touch an all-time high at $164.3 billion

PRESS TRUST OF INDIA
Mumbai, March 24

THE RESERVE BANK of India, which has been snapping up greenbacks in the past two years, has also been lapping up US treasury bills and the holdings touched a record high in January. The holdings rose by more than $2 billion between December 2019 and January 2020.

At $164.3 billion, RBI's US treasury holdings is at an all-time high, show the latest data from the US Treasury Department.

The love for dollars and other US government assets began with the collapse of the gold standard or the Bretton Woods principles in the late 1970s and central banks moved to the fractional reserves system. Since then, the US dollar/T-bills have been the safest asset class for any central bank, despite getting one of the lowest returns.

While during the 2008 global credit crisis, the return had been close to zero, the coronavirus pandemic has also yanked down the interest rates in the US to 0-0.25% now and so will be the return on investments.

But for central banks, return is not the priority but safety and liquidity of their investments.

Retail investors rush to open new trading accounts as markets fall

URVASHI VALECHA & MALINI BHUPTA
Mumbai, March 24

AHEAD OF A big ticket IPO (initial public offer), typically there's always a rush of new account openings that broking firms witness. So was this March expected to see new account openings, ahead of the SBI Cards public issue, but what has come as a big surprise is the rush of retail clients in the midst of the market carnage.

Retail brokerages are seeing anywhere between 50-70% jump in new accounts as retail investors are looking at investing in the market after a nearly 40% fall.

So far in March, India's largest discount broker Zerodha said that it had added 1,30,000 accounts against 70,000 accounts it adds every month. "This is an abnormal phenomenon which I cannot explain," said Nithin Kamath, founder & CEO, Zerodha. The number of new account openings has shown an uptick in March 2020 compared with the previous month. "We can say that the interest in having a new investment account with us has seen an increase of about 50% till the lockdown began."

In Tier-III cities and beyond, even the lockdown has not dampened the mood of some retail investors, who are absolutely new to equities. For instance, 5paisa.com, which has 80% of its client base from Tier-III and beyond cities, is continuing to see a spike in new account openings despite its skeletal support staff. In March, so far, 5paisa.com has added 60,000 new accounts.

Prakarsh Gagdani, CEO of 5paisa.com, said: "This is a great trend as 80% of these new clients are new to equities. This is a great trend as retail investors enter the markets at the peak. We are seeing people not only opening accounts but they are also investing." Even as seasoned investors are busy buying gold, new-to-equities are braving the market's fall.

While most of the interest that discount and smaller brokerages is seeing is from new-to-equities, those who are underinvested in equities are also coming out to increase exposure to equities.

Sandeep Nayak, ED & CEO of Centrum Broking, said: "Those who are underinvested are using the current opportunity with discounted valuations to selectively enter the market. There are also new accounts from a segment that has not invested in equities earlier, and these individuals are completely new to the market."

Most of these brokerages are offering these new-to-equities segment training and information online to inform them better on markets.

ANALYST CORNER

Tata Power: Maintain 'buy' with a fair value of ₹60

KOTAK INSTITUTIONAL EQUITIES

TATA POWER hosted an earnings call to update investors on the ever continuing negotiations on the loss making Mundra power plant – as new legal advisory has suggested that the company need not have a buy-in from all five procurers to amend the power purchase agreement, and the company remains optimistic as three procurers accounting for 80% of the capacity are aligned to accept a modified PPA as per the recommendations of the high-powered committee.

In the continuing dialogue between Tata Power and the five procuring states to resolve the under-recovery for Mundra – a new legal opinion that allows for each procuring state to individually amend their PPAs may help end the imbroglio.

Tata Power management on a call stated that three states accounting for 3.2 GW (80%) viz. Gujarat, Maharashtra and Punjab are already in favour of signing an amended PPA, while two other states Rajasthan and Haryana will come back in due course. Given the low fuel cost of Mundra, extant states are likely willing to procure the balance 800 MW that may be released by Rajasthan and Haryana for which the latter will be compensated with 20% of capacity charges (₹0.2/kwh).

We note that lowered fuel cost makes the current timing most suited to sign-off on amended PPAs, a process that will likely have to wait for the current lock-down situation (due to Covid- 19) to be behind us.

We note that Mundra had average fuel cost under-recovery of ₹0.5/kwh in 9MFY20 that would likely yield a compensation of ₹0.15/kwh (adjusting for base loss of ₹0.35/kwh to be borne by lenders and project owners) and help reduce losses by ₹3.7 bn (₹1.38/share) for FY20E.

Tata Power is targeting asset monetisation of ₹50 bn in FY21E itself – on the back of continued payments for sale of Arutmin (₹5 bn), potential sale of smaller coal mines in Indonesia, shipping business (₹28 bn), wind assets in South Africa (₹8 bn) and hydro plants in Zambia. We maintain 'buy' rating with a revised fair value of ₹60/share (from ₹72/share).

Sovereign bond market sees significant drop in volumes

BHAVIK NAIR
Mumbai, March 24

VOLUMES IN THE government securities market dropped significantly on Tuesday even as market participants are taking a cautious approach in the wake of dwindling strength of their staff members following lockdowns across cities. Dealers told *FE* that the volumes seen on Tuesday were the lowest they had encountered in many years.

For instance, the total volume in the central government securities market on Tuesday stood at slightly over ₹7,200 crore according to the NDS-OM website. This is less than a third of the volumes seen in the benchmark bond itself in normal times. The benchmark bond saw only 108 trades worth ₹1,325 crore on Tuesday as against the average daily figure of about ₹26,600 crore seen in the month of March.

The head of treasury at a primary dealership confirmed with *FE* that there was barely any trade for the first half an hour which is quite unusual for the bond market. "Systems and teams across organisations are disrupted. Under current circumstances where teams have been dwindled down to bare minimum, organisations would tend to minimise their activity. That is getting reflected in the volumes. The contingency plans for us are to keep lower trading exposures for the time being," the expert said.

On Tuesday, RBI said it is temporarily enhancing the liquidity available to standalone primary dealers (SPDs) under the RBI's standing liquidity facility (SLF) from ₹2,800 crore to ₹10,000 crore with immediate effect, in order to facilitate year-end liquidity management. This enhanced facility will be available till April 17, it said.

A bond market expert told *FE* that this liquidity measure for PDs is definitely helpful in current times.

"At least through this, the central bank is looking at the year-end needs of primary dealers who are an important part of the G-sec market. This is important because last few days the call money market rates have been higher and some sort of liquidity pressure was noted. PDs depend on the call money and the repo market for their funding needs. If they also start facing liquidity crunch, the resulting selling pressure could reflect in the yields," said the expert who did not wish to be named.

The benchmark yield closed 8 basis points down at 6.30% on Tuesday when market participants put in significant bids for the OMO purchase auction conducted by the RBI. Against a notified amount of ₹15,000 crore, the RBI received bids worth ₹51,439 crore. Dealers said that although the direction of the yields may not matter too much in a thinly traded market, one of the reasons for the fall in yields could be due to the OMO auction.

At the same time, the central bank has also advanced a 12-day variable rate term repo auction worth ₹25,000 crore to March 26. It was earlier scheduled for March 30. As a special case, the RBI had also allowed SPDs to be part of this auction with other eligible participants.