Markets

FRIDAY, MARCH 27, 2020

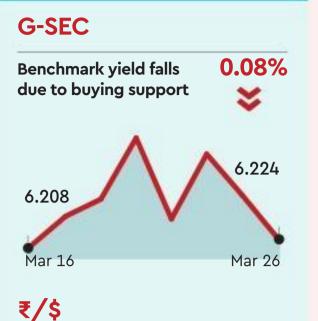


TACKLING CORONAVIRUS

Rajnish Kumar, SBI chairman

Today's package will impart a definite direction to India's fight against the epidemic. Overall, it's a very well-defined package reinforcing govt's intent that no one should be deprived of basic facilities...We are hopeful of more calibrated responses in coming weeks as the impact of pandemic unfolds.

Money Matters



1.25% Rupee appreciates on global cues

75.15 74.27 Mar 26 Mar 16 €/\$

0.55% **Euro rises against** the dollar 1.1183

1.0942

Quick View

ESAF SFB receives Sebi nod for IPO

KERALA-BASED ESAF SMALL Finance Bank has received the nod to float an IPO. Sebi issued the final observations to the proposal on March 20, 2020. The SFB had filed its Draft Red Herring Prospectus (DRHP) on January 6, 2020, with Sebi for a ₹976crore IPO. According to the DRHP, the IPO comprises of a fresh issue worth ₹800 crore and an offer for sale aggregating up to ₹176.2 crore.

10 IPOs in March quarter; median deal size just \$1 m

THE COUNTRY SAW 10 initial public offerings worth \$1.41 billion in the first three months of this year but the median deal size was just \$1 million. SBI Cards and Payments' share sale alone accounted for \$1.4-billion mopup. EY on Thursday said consumer products and retail were the most active sectors with three IPOs launched on SME markets with an approximate size of \$1 million each.

REVIVAL ROAD

Yes Bank board okays fundraising of ₹15,000 crore

Will decide on changes in senior management positions in the coming days

FE BUREAU Mumbai, March 26

IN THE FIRST meeting after its constitution, the Yes Bank board has approved fundraising of ₹15,000 crore through the issuance of securities, the bank said in an exchange filing on Thursday. The bank has specified that it will raise an additional ₹5,000 crore over and above the ₹10,000 crore for which it received the approval from shareholders and the board on January 10 and February 7.

With this move, the private bank's capital raising will add up to ₹25,000 crore in total after the lender's reconstruction. State Bank of India (SBI) and seven other lenders infused ₹10,000 crore in Yes Bank via equity infusion. SBI alone has infused ₹6,050 crore to pick up a 48.2% equity stake in the bank. RBI governor Shaktikanta Das said on March 16 that the regulator was ready to provide liquidity support to the private lender when needed. Yes Bank's eight-member board,

chaired by former Punjab National Bank (PNB) chairman Sunil Mehta, took charge on Thursday. Prashant Kumar, who was the private lender's administrator during reconstruction, assumed charge as managing director and CEO of the bank. RBI had appointed former deputy gov-

ernor R Gandhi and associate professor of SP Jain Institute of Management and Research Ananth Narayan as additional directors in the bank's board. Mahesh Krishnamurthy and Atul Bheda were also

appointed by the government as non-executive director in the board of private lender. SBI had nominated its deputy managing directors J Swaminathan and Partha Pratim Sengupta to the Yes Bank board.

The new board will also take a decision on changes in senior management positions in the coming days. RBI had earlier notified in the reconstruction plan that the bank's employees would continue to work with the same remuneration and on same conditions for at least a year. However, the newly constructed board has the freedom to discontinue services of senior management.

According to sources, Yes Bank will focus on bringing down cost of deposits and may consider reducing savings rate to below 6%. There was a sharp reduction in the bank's total deposits from ₹2.09 lakh crore in September 2019 to ₹1.37 lakh crore till March 5, 2020. The cost to income ratio in the December quarter stood at 100.4%, up from 44% a year ago. The bank is now looking to improve credit growth and wants to focus more on the retail segment. The private lender is also banking on recoveries of ₹8,500-10,000 crore in the next fiscal.

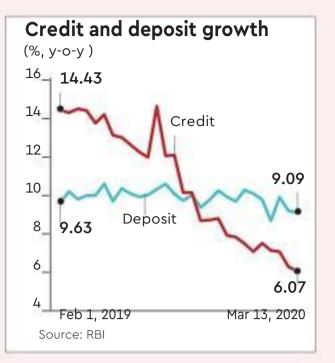
Non-food credit growth lowest since May 2017

HARIPRASAD RADHAKRISHNAN Mumbai, March 26

THE NON-FOOD CREDIT growth in the banking system for the fortnight ended March 13 stood at 6.07% year-on-year (yo-y), the lowest since May 2017. The lower credit growth comes despite a slew of measures announced by the Reserve Bank of India (RBI) to reduce the cost of borrowing for banks and boost credit offtake.

The year-to-date (YTD) credit growth between March 31, 2019, to March 13, 2020, stood at 3.64%, against 10.72% a year ago. Outstanding loans to companies and individuals stood at ₹100.8 lakh crore as on March 13. During the previous fortnight, the non-food credit growth stood at 6.29% y-o-y, against 14.4% a year ago.

The central bank has conducted auctions for long-term repo operations (LTROs) totalling ₹1.25 lakh crore, which has reduced the cost of borrowing for banks.



Further, a number of measures, including cash reserve ratio exemption on incrementallending to the auto, housing and MSME, by the RBI has yet to translate into significant credit growth. The liquidity in the

banking system stood at ₹2.17 lakh crore as on March 20, said CARE Ratings. The deposit growth in the banking sys-

tem continues to be steady at 9.09% y-oy, down 22 bps from the previous fortnight. Total deposits came in at ₹133.39 lakh crore, even as interest rates on deposits continue to fall.

Owing to the Covid-19 pandemic, the credit growth is expected to take a further hit.Rating agency Icra said the y-o-y credit growth is estimated at 5-6% for FY20, which would be a multi-decadal low. "Slower credit growth and steady deposit growth drive liquidity in the banking system, with over ₹3 lakh crore parked under reverse repo with the RBI for the last six months," the agency said.

In a bid to reduce the stress of borrowers due to the pandemic, a number of public sector banks have extended emergency credit lines at softer terms that could help improve the credit growth in the system.

Lockdown set to hit NBFCs hard: Icra

FE BUREAU

Mumbai, March 26

THE 21-DAY LOCKDOWN across the country is set to hit non-banking financial companies (NBFCs) hard as small business owners and low-income households find it hard to service their loans. NBFC loans in the affordable housing, small and medium enterprises (SMEs), loan against property (LAP), real estate and microfinance (MFI) segments are likely to be affected the most, rating agency Icra said on Thursday.

FE had reported on Thursday that repayments have already begun to dry up in customer segments where loans are serviced in cash, such as by owners of some commercial vehicles. NBFCs largely cater to the selfemployed borrower segment in the retail space, where the cash flows are expected to be more volatile in the current situation compared to their salaried counterparts, Icra said. Other non-retail exposures of NBFCs are to SMEs with relatively moderate risk profiles, which accentuates their credit risk in the current scenario. "Further, most of these borrowers have limited funding avenues and typically don't have banking relationships for their credit requirements. Non-banks, which are already facing



increase in delinquencies, are likely to focus more on collections at least in the near term," Icra analysts said in a report.

Stating that the affordable housing loans where the borrowers have limited ability to absorb major financial shocks, the report observed that such loans are more likely to come under pressure. However, a significant impact is likely to be visible only from April 2020, given that collections for March 2020 would have largely happened in the initial ten days of month, when the lockdown was not in place.

As for the already-stressed SMEs, a fall in the income levels for a prolonged period could adversely impact the borrower's debt-servicing capability. Thus, the asset quality issues are expected to aggravate

further in March 2020 and would remain an overhang on the segmental performance in the near to medium term.

In the corporate category, loan to real estate developers could come under stress as new home sales are likely to slow down, with buyers delaying their purchase decisions. "Labour migration and lockdowns will also delay project execution, completion and sales, which would further impact the cash flow of this borrower segment. With tougher refinancing conditions, this segment would face higher delinquencies and loan losses," Icra said.

While MFIs have largely moved to cashless disbursements, collections continue to be made mostly through cash, which would be impacted by the limits imposed because of Covid-19. "Some parts of the country like Assam, parts of Karnataka, Maharashtra etc, are already facing higher delinquencies because of political or adverse weather conditions. The current scenario would compound the effect and others depending on the extent of the restrictions imposed," the report said, adding that the fear of nonavailability of fresh sanctions from MFIs could also slow repayments and prepayments, which would otherwise have been received by the MFIs.

PSBs launch Covid emergency credit lines linked lending rate of 8%. All standard with competitive rate of interest (8% fixed **FE BUREAU**

Mumbai, March 26

rolled out emergency lines of credit with softer terms to borrowers affected by Covid-19, after finance minister Nirmala Sitharaman announced a number of measures to tide over the crisis. For instance, Bank of Baroda, the coun-

SEVERAL PUBLIC SECTOR banks have

try's second largest public sector lender, would be offering up to 10% of the existing fund-based working capital limits, subject to a maximum of ₹200 crore. Corporate borrowers can avail the credit at the 1-year marginal cost of funds-based lending rate (MCLR) of 8.15% without the standard premium, while for MSMEs, the rate of interest would be at BoB repo-

accounts as on March 26, 2020, and till the date of sanction are eligible for loan under this scheme. The loan also has a moratorium of up to six months.

Union Bank of India also launched its additional working capital facility to all standard accounts as on February 1, while accounts turning to SMA1/SMA2 post this date will also be eligible. "Maximum 10% of the existing working capital limit will be provided under the Covid Emergency Line of Credit (CELC), with a repayment period of 36 months, including maximum moratorium of 12 months. This credit facility is available at a nil margin

rate of interest i.e. 1 year MCLR as on date)," the lender said. All MSME and agriculture borrowers would be eligible

for loans up to ₹10 crore, and up to ₹50 crore for others. "We are also working on a scheme to mitigate the Covid effect, especially for small borrowers of micro and small categories," the bank said. Meanwhile, a number of

other banks, including Canara Bank, Indian Overseas Bank, Bank of India, Uco Bank and Indian Bank, have also announced the launch of the emergency lines of credit. Previously, State Bank of India had announced the launch of its

emergency loans.

ANALYST CORNER

Voltas' concerns shift to demand from supply side

MOTILAL OSWAL

management for an update on the ongoing situation due to the Covid-19 lockdown. While the management sounded optimistic, we note that concerns have shifted from supply to demand side going into the summer season. The company does not foresee any risk from the supply side as factories in China have resumed operations and material supplies have started reaching India with a slight delay due to congestion at Chinese ports. Currently, capacity utilisation of factories stands at ~60% in China, which is expected to go up to 80% by the first week of April.

WE HOSTED A concall with Voltas'

Voltas is adequately covered with respect to supplies in RACs till April end. Inventory in channel stands at 55-60 days, which is adequate for the peak summer season. Demand side risks have emerged on account of delayed summer, coupled with Covid-19 lockdowns. Summers are delayed by 7-10 days currently; however, according to IMD forecasts, temperatures are expected to be higher by 0.5-1.5 degree Celsius y-o-y. The company remains optimistic to recoup sales post

expect the entire washout of summer season demand. Mitigation plan if lockdown persists longer: Voltas will adhere to cost-saving measures like cutting ad-spends (can be 3% of sales in peak season). Channel partners are adequately prepared to tide over this phase. In case of loss of entire summer season (too pessimistic view at this point of time), Voltas is ready to increase its A&P spend subsequently to liquidate channel inventory.

lifting of lockdowns and does not

International order book stood at ₹2,100 crore, with Voltas receiving a large order from Qatar in Q3FY20. Execution of the Qatar order has begun with no intimation from the government on shutdown. Domestic projects have shut down with most of the migrant workforce going back to their native places. Key concerns on working capital have emerged in these uncertain times. Since large exposure is toward government projects, there is certain visibility on the payment front, albeit with a delay. The company expects support from the government as some of the projects are due for payments in Q1FY21. The current order book stands at ₹7,000 crore, with OB/Rev at 2.1x.

■ INTERVIEW: A BALASUBRAMANIAN, MD & CEO, Aditya Birla Sun Life AMC

'Corporate bond market should stabilise as we enter the new financial year'

A lack of buying interest has pushed up corporate bond yields in recent times as institutional investors continue to remain on the sidelines following the Covid-19 lockdown. A Balasubramanian, MD and CEO, Aditya Birla Sun Life AMC, told Bhavik Nair in an interview that corporate bond market should stabilise with the beginning of the new financial year. Edited excerpts:

How much credit crunch has the current scenario brought in? Where are corporates turning to for funding needs with corporate bond market so sluggish?

Rise in yields for AAA bonds across maturities is on account of lack of buying interest from institutional investors such as mutual funds, insurance companies and even banks. Banks have been selectively buying securities using the advantage of high liquidity at this point of time. Corporates, too, have been availing the working capital limit when they find market borrowing is costly compared to working capital rates. This should not last for too long given the fact the money with mutual funds would come back as we move into the new financial year.

Do you think the illiquidity faced by the corporate bond market could be solved without any measures from the RBI? How long will the rise in yields continue?

Whenever the inflow into MF debt schemes is normal, corporate bond market generally sees good liquidity and good price discovery. On top of it, FIIs too are active in the bond market apart from local insurers and treasuries of various companies and banks. In times like these, central banks do look at providing support to the financial market to stabilise interest rate and liquid-



sure is over, and the money comes back on rotation, we should see the yield getting stabilised quickly thereafter.

When do you see primary bond market issuances coming back to normal? And how difficult will it be for sub-investment grade bonds to be issued then?

Primary bond market issuance should come back to normal as we get into new fiscal. Bond market generally behaves normal during times of high liquidity and when general participation levels are high. I assume it will come back soon. Sub-investment grade would take some time to come back as MF credit funds have not been growing in size. As the money available for such schemes begin to go up, we will see the appetite for sub-investment grade bonds to come back. Right now, it is very selective purely on the back of strength of the underlying security covenants.

MFs are facing redemption pressures and the only trading activity that funds are involved right now seems to be to manage those redemption requirements. How are you managing the scenario?

MFs' redemption pressures are generally bound to occur each year before fiscal end. Purely on the basis of our experience, our fund managers had created liquidity to meet any such redemption and also look for buying opportunities if the yield spikes. We as a fund house are exactly acting on these principles, having said that redemption payments are also being met out of short-term borrowing within the Sebi-prescribed norms.

The RBI has come out with many liquidity operations but rate cut is yet to come. When do you think it would announce a monetary action and what would be the quantum of the cuts if any?

Given the dent that is estimated on the GDP and also expected general slowdown across all sectors, there is a case for cutting rate by 50 bps. Globally, central banks have cut rates despite their rates already trading in lower single digit. I assume RBI may opt for a rate cut even ahead of the MPC scheduled meeting next month.

How much firepower do you think the RBI has to tackle the current debt market rout?

The RBI has got enough tools with it over and above the monetary policy tool of interest rate. LTRO and OMO are both powerful tools which it has been using very effectively to calm down the market yield spikes and also provide liquidity to the banking system. It can further provide support to the entire banking system via the change in NPA recognition norms, etc, especially in times like today. Historically, RBI has done such things, hence it is only the question of when do they use such tools to provide support to the bond market as well as financial market in general. Probably they may have to take a few steps which are unconventional, the way Fed does all the time, such as buy back of bonds or repo against corporate bonds, etc.

Insurers roll out coronavirus cover

FE BUREAU Mumbai, March 26

FUTURE GENERALI INDIA Insurance Company (FGII) announced on Thursday the launch of a group insurance product for coronavirus. The policy will provide a lump sum benefit in case the insured is diagnosed or quarantined for suspected sign and symptoms or infection.

The product offers cover for everyone from a one-day-old infant to a senior citizen of up to 75 years of age. Shreeraj Deshpande, chief operating officer, Future Generali India Insurance, said, "It is very important for all of us to come together and protect the citizens against this virus infection. We have designed our coronavirus group insurance product in such a way that it will offer maximum help to the affected. If the policyholder is diagnosed with Covid-19 infection and is confirmed by a medical practitioner along with a government/WHO-approved lab then a lump sum benefit of 100% of sum insured would be paid. To provide maximum benefit to our customers, no past medical history or travel record is required while purchasing our product."

A few days ago, Star Health and Allied Insurance had launched 'Star Novel Coronavirus Insurance Policy', a benefit policy to cover all those who test positive for Covid-19 and require hospitalisation. Even, ICICI Lombard had rolled out a focused 'Covid-19 Protection Cover' launched in a group insurance mode.

The Star Novel Coronavirus policy is available under two sum insured options of ₹21,000 and ₹42,000 at premiums of ₹459 plus GST and ₹918 plus GST, respectively. The policy will provide a lump sum payment to any insured between age 18 years to 65 years, who is declared positive by a government accredited test and is hospitalised for the coronavirus.

Revise IHCL target price to ₹139, Lemon Tree's to ₹53

EDELWEISS

THERE SEEMS TO be no respite for the sector as Covid-19 triggered travel ban on foreign tourist arrivals till April 15 and massive lockdowns has exacted a heavy toll on the industry. While demand dip was factored in, critically, solvency of players is now under the cloud given the high debt in the industry. Our analysis of IHCL and Lemon Tree indicates that the former is in a comfortable position given limited refinancing needs and also promoter backing. Lemon Tree, on the other hand, needs further debt funding in addition to refinancing its FY21E repayments, unless is delays its biggest hotel MIAL. Though Lemon Tree's unblemished history & credit rating, APG's backing and temporary nature of the situation lend it funding comfort, the situation needs monitoring. Factoring findings of our checks and recent developments, we further revise down IHCL's ('buy')

New Delhi

FY21E Ebitda 23% with revised TP of ₹139 (₹171 earlier) and Lemon Tree's ('buy') FY21E Ebitda 14%. We are also increasing Lemon Tree's cost of capital with revised TP of ₹53 (₹65 earlier).

While momentum picked up in January for the sector, a continuation from Q3FY20, early signs of Covid-19's impact started emerging in late February. However, post our update (Link), the government banned foreign tourist arrivals till April 15, not to mention the massive lockdowns. Consequently, we estimate March occupancies at around 40-50% for the sector compared to historical 75%plus run rate. Based on the current state of affairs and our interactions with management, we believe this is likely to spillover to Q1FY21. While the impact on Lemon Tree could be relatively lower given higher proportion of domestic guests, the hit will be significant across the sector; we estimate Q1FY21 RevPar to dip ~30%/25% for IHCL/Lemon Tree.





ity. Having said that, once the year-end pres-

