Markets

TUESDAY, MARCH 3, 2020

EXPERT VIEW

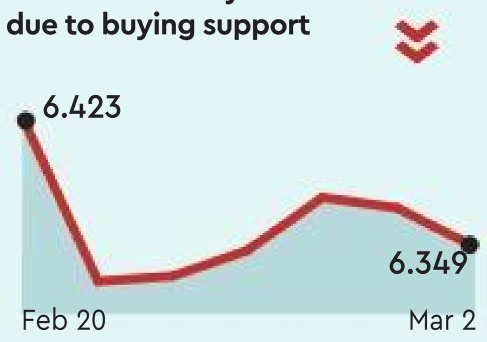
Rupee witnessed a highly volatile trading session, it was the only losing currency among Asia. Spot dollar/rupee is expected to remain under pressure amid weaker economic data and foreign fund flows.

—VK Sharma, head, PCG & capital markets strategy, HDFC Securities

Money Matters

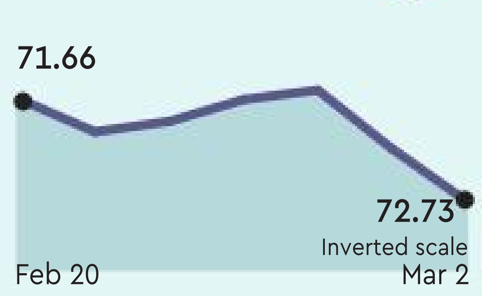
G-SEC

The benchmark yield fell due to buying support .022%



₹/$

The rupee depreciated on global cues 0.77%



€/$

The euro rose against the dollar 0.85%

Quick View

BSE Star MF records ₹15,542-crore transactions in Feb

THE BSE SAID its mutual fund distribution platform has done 57.33 lakh transactions worth ₹15,542 crore in February 2020. In the preceding month, the platform had done 54.43 lakh transactions, BSE said in a release. Besides, the platform registered 3.13 lakh new systematic investment plans (SIPs) amounting to ₹90.10 crore in February.

BoB may raise up to ₹600 cr via additional Tier-I bonds

FE BUREAU
Mumbai, March 2

BANK OF BARODA on Monday said it is planning to raise up to ₹600 crore via additional Tier-I bonds. The bank, in an exchange filing, said it capital-raising committee has approved the issuance of "Basel III-compliant additional Tier-I bonds for aggregate total issue size not exceeding ₹600 crore in single or multiple tranches".

As of Q3FY20, the capital adequacy ratio (CAR) of the bank stood at 13.48%, while the common equity Tier-I (CET-I) stood at 9.85%. During the September quarter, the CAR stood at 12.98%, and CET-I came in at 9.85%.

The bank reported a net loss of ₹1,407 crore for the December quarter because of higher provisioning and elevated slippages as large corporate accounts turned non-performing accounts (NPAs) as well as divergence in reporting of NPAs.

AT 15-MONTH LOW

Rupee dives 52p as fresh cases of coronavirus spook investors

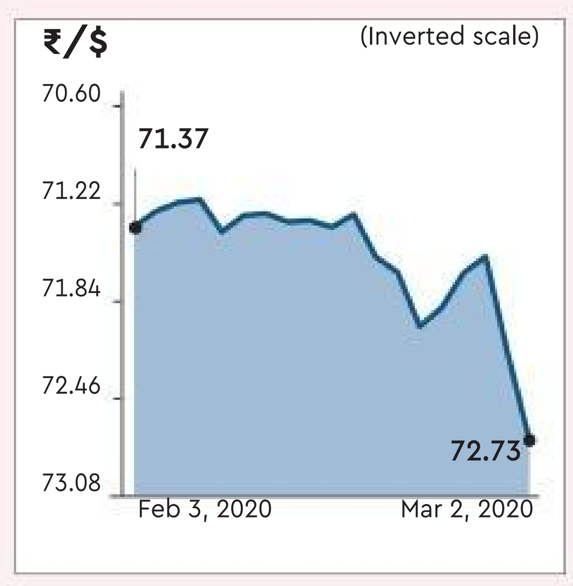
AGENCIES
Mumbai, March 2

THE RUPEE REVERSED its initial gains to settle down by 52 paise at 72.76 against the US dollar on Monday, mirroring a crash in local equities and forex outflows as detection of two fresh cases of novel coronavirus in India unnerved investors.

The rupee had started the day on a positive note and was trading with gains until a Union health ministry statement reporting two new cases of COVID-19 infection in the country triggered a sell-off in the stock markets.

In line with weak stock markets, the rupee plunged to a day's low of 72.78 before closing at 72.76 – showing a loss of 52 paise over the last close. The local unit had settled at 72.24 against the greenback on Friday.

"Rupee witnessed a highly volatile trading session, it was the only losing currency among Asia, after the government agency said the nation has found two new cases of coronavirus patients," said VK Sharma, head of PCG and capital markets strategy, HDFC Securities. Sharma also said that spot dollar/rupee is expected to remain under pressure amid weaker economic data and foreign fund flows.



This is the second consecutive session of fall for the domestic currency during which it depreciated 113 paise

Foreign institutional investors remained net sellers in the Indian capital markets, offloading equities worth a net ₹1,354.72 crore on Monday, according to provisional exchange data.

"Rupee continued to remain under pressure as domestic equities were weighed down after a couple of coronavirus cases were reported in India," said Gaurang Somaiyaa, forex and bullion analyst, Motilal Oswal Financial Services.

"Last week, GDP number released was also disappointing that disturbed the overall market sentiment. In the next couple of sessions, we expect the rupee (spot) to quote with a negative bias and in the range of 72.50 and 73.20."

Meanwhile, global crude oil benchmark, Brent futures, rose 1.15% to trade at $50.24 per barrel. The dollar index, which gauges the greenback's strength against a basket of six currencies, slipped 0.38% to 97.75. The 10-year government bond yield was at 6.35%.

Financial Benchmark India set the reference rate for the rupee/dollar at 72.1895 and for rupee/euro at 79.4421. The reference rate for rupee/British pound was fixed at 93.0104 and for rupee/100 Japanese yen at 66.30.

RBI receives ₹1.71 lakh crore in LTRO

PRESS TRUST OF INDIA
Mumbai, March 2

THE RESERVE BANK of India on Monday said it has received ₹1.71 lakh crore in the third long-term repo operation (LTRO) conducted for an amount of ₹25,000 crore.

The central bank received 66 bids in the three-year LTRO, which has reversal date on March 1, 2023.

"The total bids that were received amounted to ₹1,71,965 crore, implying a bid to cover ratio (i e. the amount of bids received relative to the notified amount) of 6.9," the RBI said in a release. As against this, the RBI allotted an amount of ₹25,028 crore, with a pro-rata allotment percentage to 14.54%.

The RBI will conduct another LTRO for three-year tenure worth ₹25,000 crore on March 9.

It has already conducted two LTROs for ₹25,000 crore each on February 17 and February 24.

In the February 17 LTRO for three-year tenure, it received bids amounting to ₹1.944 lakh crore. In the second LTRO for one-year tenure conducted on February 24, the RBI got 52 bids amounting to ₹1.23 lakh crore.

In last month's bi-monthly policy review, the RBI had announced term repurchase agreements (repos) of one-year and three-year tenures for a total amount of ₹1 lakh crore at the policy repo rate, from the fortnight beginning February 15.

LTROs are aimed at helping banks to reduce their lending rates, thereby quickening the monetary policy transmission.

'Around ₹10.52-lakh-cr corporate debt at risk of default on slowdown'

PRESS TRUST OF INDIA
Mumbai, March 2

AS THE ECONOMY grapples with a prolonged slowdown, close to ₹10.52 lakh crore of the corporate debt is at the risk of default over the next three years, says a report.

The GDP growth slowed down to a nearly seven-year low of 4.7% in October-December 2019, according to the data released by the National Statistical Office (NSO). The NSO has pegged the economic growth at 5% for FY20 in its second advance estimates released last week.

India Ratings and Research in a report said credit profiles of corporates are likely to remain under pressure as the economy grapples with a synchronised and prolonged economic slowdown. "At least ₹10.52 lakh crore of the corporate debt, which is 16% of system-level corporate debt, is vulnerable to default over the next three years," the rating agency said in a report on Monday.

The report has analysed in detail the degree of vulnerability of the top 500 debt-heavy private sector issuers after assessing the mix between productive and non-productive assets (i.e. asset quality) held by each issuer along with their refinancing risk.

The rating agency said about 25% of the vulnerable debt is likely to turn delinquent, resulting in additional Rs 2.54 lakh crore of delinquent debt. This is likely to result in incremental delinquencies to the extent of 4% of the system-level corporate debt by FY2022, it said.

"In case the real gross domestic product growth slowdown intensifies (4.5% over FY21-FY22), incremental delinquencies could be higher by an additional 159 basis points to 5.59% of the system debt," the report said. However, if there is a sharp recovery in gross domestic product (growth to 7% over FY21-FY22), delinquencies could be lower by 87 basis points to 3.13% of the system debt.

The report said lenders to at least half of the companies which are already stressed (recognised as defaulters by banks and credit rating agencies) are likely to be required to take deep haircuts, given the inherently-weak asset quality of these issuers. The majority of the exposure to these accounts, however, has already been provided for by lenders.

Crop insurance premium may change in PMFBY 2.0

PRESS TRUST OF INDIA
Kolkata, March 2

THE PREMIUM OF crop insurance is likely to be revised after the Union Cabinet approved the changes in the existing Pradhan Mantri Fasal Bima Yojana, an official said. Under the new farm insurance scheme which is also considered as PMFBY 2.0, the government made major changes, making it optional for farmers.

Launched in February 2016 by Prime Minister Narendra Modi, it is mandatory for loanee farmers to take insurance cover under the PMFBY. Currently, 58% of the total farmers are loanees.

"We are waiting for the detailed guidelines. Yes, I think we will have to revisit our products and premium of crop insurance, taking into account the new developments," chairman and managing director of Agriculture Insurance Company of India Malay Kumar Poddar said.

The official, however, did not disclose whether the premium would be increased or not, but experts said that it may head north for a particular risk coverage.

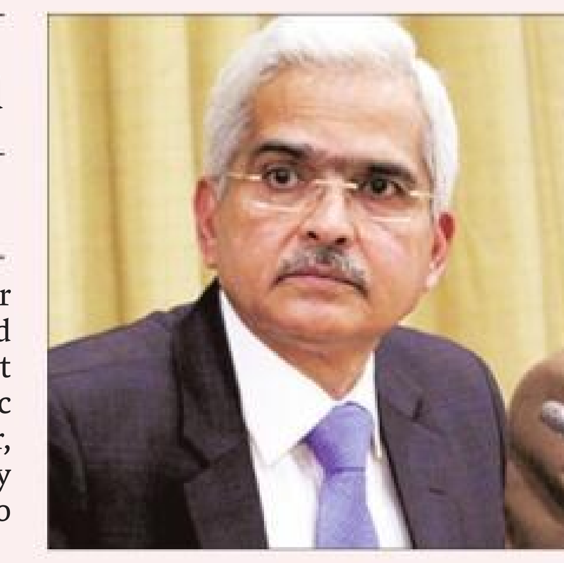
"Now, with crop insurance being made optional for both agriculture loanee and non-loanee, the number of farmers under the coverage may come down, which could lead to an increase of the underwriting cost," an insurance company official said.

RBI quizzes PSB chiefs on stalling credit growth

Growth differential with private banks also discussed

SHRITAMA BOSE
Mumbai, March 2

RESERVE BANK OF India (RBI) governor Shaktikanta Das on Monday questioned public sector banks (PSBs) on why credit growth is not taking off despite specific actions taken by the central bank. Further, heads of these banks were also asked why growth at PSBs is slower as compared to their private peers.



RBI governor Shaktikanta Das

Data released by the RBI last week showed that outstanding non-food credit from banks slid to 6.3% year-on-year (Y-o-Y) during the fortnight ended February 14. Credit markets in India have had a bad year in FY20, with the non-food credit between April 2019 and mid-February growing at just 2.5% Y-o-Y.

In a closed-door meeting with the bankers, the RBI also discussed a few other issues, such as the resolution of stressed assets and long-term repo operations (LTRO).

"The RBI asked why despite the measures taken by the regulator should the credit growth remain muted?" said a source aware of the developments.

PSB growth vis a vis private banks' growth was also discussed as was the progress of the digitisation programme. "Also under discussion was what institutional facilitators are required to take credit offtake to a desired level and whether NBFC (non-banking financial company) growth is happening or not," another source said.

Bankers are understood to have explained the reasons behind the difference between growth rates seen by PSBs and private banks. They also sought clarifications on how to distinguish between cases of willful default and diversion of funds. "That has long been an ask of banks – that rules be framed around this and that got repeated today," one of the two people quoted above said.

Even as the rising consumer inflation has meant that the monetary policy committee (MPC) was unable to cut the repo rate in its February policy review, the RBI on its part took other measures to bring the cost of funds down in the money markets and for consumers.

It has already lent banks over ₹75,000 crore at relatively cheaper rates through the LTRO. At the same time, it allowed banks to exclude from cash reserve ratio (CRR) calculations an amount equivalent to the incremental loans given between February 14 and July 31 in the housing, auto and small-enterprise categories.

Last week, finance minister Nirmala Sitharaman also exhorted PSBs to go back to branch banking and push the credit flow to small and medium enterprises in a purported bid to revive the economic growth.

IIT Mandi inks pact with Nabard for 3 FPOs in HP

IIT MANDI AND the Enabling Women of Kamand (EWOK) Society have signed a tripartite pact with the National Bank For Agriculture And Rural Development (Nabard) for setting up three FPOs in Himachal Pradesh's Mandi district.

Nabard has sanctioned ₹35 lakhs to IIT Mandi and EWOK Society for three farmer producer organisation (FPOs) to be established in the next three years. PTI

ANALYST CORNER

Maintain 'buy' on Ultratech Cement, target price ₹5,480

ICICI SECURITIES

WE BELIEVE THE turnaround of the acquired Century Cement's assets itself could add 4-5% to UltraTech Cement's (UTCEM) EBITDA in FY21. Coupled with increased cost efficiencies and industry average 6-7% volume growth, we model 13% EBITDA CAGR for UTCEM over FY20-22E on a high base of >30% EBITDA growth in FY20E.

Given minimal organic capex plans, UTCEM is likely to generate FCF of >₹12,000 crore over FY21-22E, bringing net debt down to around ₹6,500 crore by FY22E.

The stock trades at an attractive valuation of 10x FY22 EV/E. We maintain 'BUY' with an unchanged target price of ₹5,480/share based on 14x Sep'21E EV/E. UTCEM remains one of our preferred picks in the sector.

Turnaround of Century Cement (CENT) assets itself could add 4-5% EBITDA in FY21. CENT assets operated at 79% utilisation in December 2019 compared to sub-50% utilisation from Jun-Nov 2019.

The management expects to further ramp-up utilisation to ~85% during H1CY20 and guided that ~84% of the production would be transitioned to UTCEM brand (vs 55% in Dec'19). Also, costs would be in-line with the existing UTCEM assets (excluding ₹70/te royalty cost) by Q2FY21. Accordingly, CENT's assets are likely to report ₹400-500/te YoY improvement in EBITDA/te and contribute 4-5% to the overall EBITDA in FY21.

UTCEM remains focused on improving cost structure by increasing blending ratio, setting up another 38MW of WHRS by FY21 taking the total WHRS capacity to 141MW, sufficient for 12% of power requirements (vs ~7% currently), increasing the use of alternative fuels from ~3% currently, reduction of lead distance, better operating leverage and improving cost structure of acquired entities.

UTCEM is likely to generate FCF of >₹12,000 crore over FY21-22E given minimal organic capex plans of ₹4,500 crore over FY21-22E. Hence, net debt is likely to come down to around ₹6,500 crore by FY22E. We factor-in consolidated volume CAGR of 7% over FY20E-FY22E and expect consolidated EBITDA/te to increase from ₹889/te in FY19 (₹1,137/te in 9MFY20) to ₹1,294/te by FY22E.

Ujjivan Fin plans forays into new segments; TP ₹350

HSBC GLOBAL RESEARCH

WE RECENTLY MET with the Head of Investor Relations at Ujjivan Financial Services. In the last year, the bank has seen a change in MD & CEO (May'19) and the listing of Ujjivan Small Finance Bank – the key subsidiary operating entity (Oct'19). The bank is focussed on emerging as mass-market bank beyond its roots as a microfinance lender. Key trends on assets (growth and diversification), liabilities and asset quality have shown improvement in recent quarters.

After a period of weak growth (average AUM growth of 10% YoY in FY18), AUM growth has averaged 51% YoY in 9MFY20. Its share of microbanking has moderated to 78% as at end-Dec'19 (vs 87% at end-Dec'18). While secured MSE and affordable housing form the bulk of non-microbanking AUMs, the bank has also planned forays in unsecured MSE, micro-LAP and two/three-wheeler financing. In three years since the bank launch, deposits now form 77% of total liabilities. Retail deposits form 43% of deposits (vs 36% last year). The bank expects cost-to-income to moderate from 70% in FY20E to 55% by end-FY23E.

The impact of the Assam portfolio on the asset quality has been fairly limited. PAR (>0dpd) is at 2.1% at end-3Q20 (vs 1.6% at end-2Q20 and 2.4% at end-3Q19).

After the IPO of Ujjivan SFB, the holding of Ujjivan Financial Services (promoter of SFB) in SFB has fallen to 83.3%. However, the regulations require the promoter's shareholding to further reduce to 40% in five years.

Our estimates are unchanged. We expect 33% AUM CAGR (FY19-22e) with average RoA/RoE of 1.8%/18%. We use an excess return model to value Ujjivan and apply an unchanged 20% holding company discount on the value obtained to arrive at our target price of ₹350 (₹352 earlier).

ALLAHABAD BANK-INDIAN BANK MERGER

Merged entity likely to have ₹10-lakh-cr biz in 3 years

FE BUREAU
Kolkata, March 2

HARMONISATION OF BANKING products, policies and processes for the merger of Allahabad Bank with Indian Bank is going on 'smoothly', and the two lenders are working to meet the April 1 deadline as the probable effective date for the mega consolidation of 10 state-owned banks.

The two banks have also chalked out plans to clock ₹10-lakh-crore business for the amalgamated entity in the next two-three years.

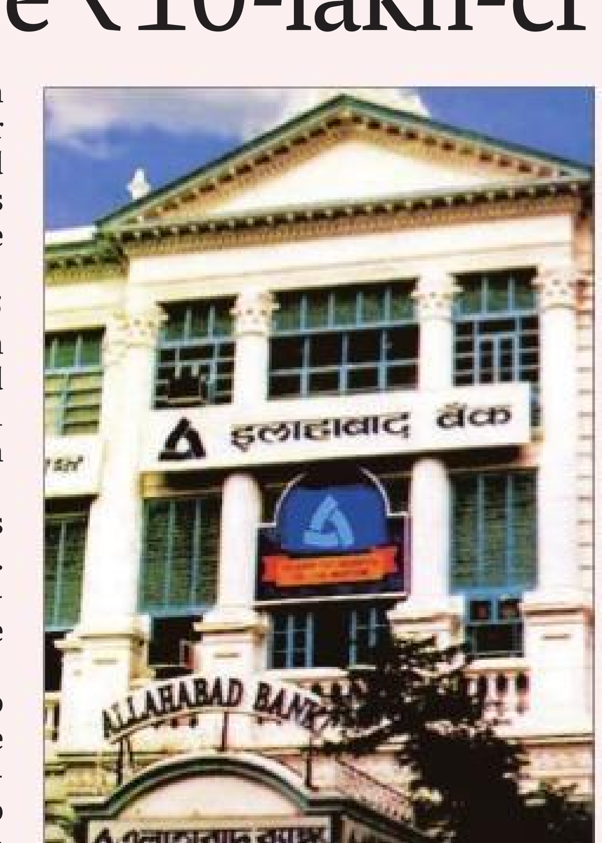
"We have a plan to expand total branches for the merged entity to 10,000 and register ₹10 lakh-crore business in another two-three years. We are very very positive on that," said an Allahabad Bank source familiar with the matter.

The proposed merger of Kolkata-headquartered Allahabad Bank and Chennai-based Indian Bank will make the new entity the seventh-largest bank in India. Indian Bank is the anchor bank in this merger process. Notably, at the end of the third quarter this fiscal, the combined business of the two banks stood at ₹8.44 lakh crore with a total of 6,062 branches.

Indian Bank's business stood at ₹4.5 lakh crore with 2,887 branches as on December 31, 2019, while Allahabad Bank's total business as on December 31 last year stood at ₹3.94 lakh crore with 3,175 branches.

"In our case, the greatest advantage is none of the branches is going to be closed. Only those branches which are just adjacent to each other will be combined," the source cited above informed.

He said the two banks are prepared to meet the April 1, 2020 deadline as the probable effective date for the consolidation. The government is, however, yet to issue a notification in relation with the amalgamation scheme. "The notification on merger from the government is expected to come very soon. I don't see any ambiguity in the way the finance ministry is working...We (banks) are working as if the merger will happen from April 1," the source said.



Finance minister Nirmala Sitharaman recently reiterated that there was no uncertainty about merger of banks and the process is on "as per the schedule".

According to the Allahabad Bank source, harmonisation of HR policies of the two banks was going on 'smoothly'. "It is basically a horizontal merger. It does not take a lot of time. But complete integration will take some time. It will not happen overnight, it will at least take 12-18 months for us for completing integration of all the processes."

"From Day 1, very limited processes will be merged. Complete integration of core banking system (CBS) will not happen from Day 1 of the merger," he said.