Markets

WEDNESDAY, MARCH 4, 2020

BANK FRAUD CASES

Nirmala Sitharaman, finance minister

With regard to the details of FIRs registered against fraudsters and bank officials, as per inputs received from the CBI, during the period from FY17 to FY20 (till January 31), 626 cases were registered with CBI by banks, in which accused persons numbering 2,111 have been charge-sheeted.

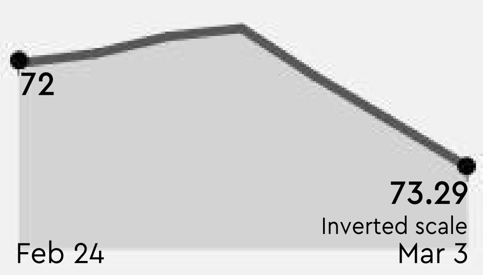
Money Matters

G-SEC

The benchmark yield fell due to buying support 0.006%

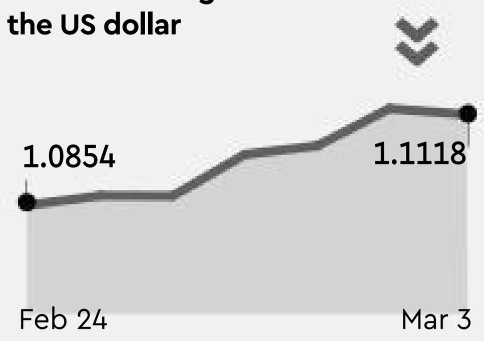
₹/$

The rupee depreciated on global cues 0.78%



€/$

The euro fell against the US dollar 0.14%



ENDS AT 73.297

FPI sell-off, NDF action pull rupee down to 16-mth low

BHAVIK NAIR
Mumbai, March 3

THE RUPEE ON Tuesday fell 57 paise to a 16-month low of 73.297 against the US dollar even as foreign portfolio investors (FPIs) continued to pull out funds from the Indian capital markets, eventually leading to a sharp decline in the rupee non-deliverable forwards (NDF) that accentuated the fall of the currency in the spot market. In last three sessions itself, the currency has depreciated by 173 paise. On Tuesday, most Asian currencies were trading lower against the US dollar.

Foreign investors have pulled out $3.5 billion from Indian equities and bonds on a net basis in the last six consecutive sessions. Indeed, the pull-out has led to some weakening in the currency. But what increased the pace of the fall recently is the action in the rupee non-deliverable forwards (NDF) market where the currency was getting hammered, mostly led by speculators, experts say.

Abhishek Goenka, CEO at IFA Global, pointed out that over the last three days, the spread between the rupee NDF and the onshore forwards have increased.

"What used to be a three to five paise spread, has gone up above 20 paise. Historically, in 2008, 2013 and 2018, whenever these situations occur, it is an indication of a short runaway. RBI has not been active in the markets lately but may come in when things typically look too brutal since they will risk heavy outflows in debt, in case rupee depreciates a lot," Goenka said.

NDF markets enable trading of the non-convertible currency, like a rupee, outside the influence of the domestic authorities. For instance, trading in rupee

NDF takes place in Singapore, Hong Kong, Dubai, London and New York markets. These contracts are settled in a convertible currency, usually US dollars. The one-month rupee NDF has fallen 181 paise over last four consecutive sessions.

Some experts also pointed out that although the RBI has issued a statement, it does not seem to be too worried about the fall in the currency. MV Srinivasan, vice-president at Mecklai Financial Services, said although fund flows have had an impact on the currency, the fundamentals at present are not against the rupee.

"It is true that FPIs have pulled funds out of equities and bonds but there is no fundamental reason that is leading to such sharp downfall in the rupee in recent sessions. The dollar is weak against some of the major currencies. Oil prices are also lower and you have huge Chinese imports that are going to be delayed. So, most of the macros are not against the currency. What I suspect is that the NDF market is triggering the downfall currently with speculators entering the scene after the recent fall in the currency. At present, it does not seem that the RBI is trying to break the fall in the currency. However, as soon as they do, we may see a sharp reversal," Srinivasan said.

On Tuesday, the RBI issued a statement indicating that it is monitoring global and domestic developments closely and continuously and stands ready to take appropriate actions to ensure orderly functioning of financial markets, maintain market confidence and preserve financial stability.

Ananth Narayan, professor-finance at SPJIMR, believes that with the central bank sitting on record levels of currency reserves, it will likely step in to control excessive volatility in the short run, particularly in light of the comments offered. "To that extent, I would not expect a runaway rupee depreciation. However, in the medium run, with RBI continuing to accumulate reserves, with global uncertainties and an overvalued rupee, a depreciation of the rupee over time could be both likely and desirable," Narayan said.

Nabard pumps ₹1.46L cr into rural banking system

FE BUREAU
Mumbai, March 3

THE NATIONAL BANK for Agriculture and Rural Development (Nabard) on Tuesday said that it had infused ₹1.46 lakh crore in the rural banking system so far in FY20, which helps augment credit flow into agriculture and other economic activities in the rural areas.

The development bank said that it had extended ₹87,069 crore to cooperative banks and regional rural banks in short-term refinance as on February 28, while long-term refinance of ₹59,502 crore had been provided to the banks and financial institutions.

Short-term refinance, which is essentially production credit, is provided to banks to help farmers meet their operational costs. On the other hand, long-term refinance is aimed at supporting sectors such as dairy, poultry, fishery, farm mechanisation, irrigation and non-farm sectors.

"In FY20 so far, Nabard has extended ₹66,397 crore in short-term credit and ₹6,704 crore long-term credit to rural cooperative banks. Similarly, regional rural banks have availed ₹14,141 crore in short-term credit and ₹8,417 crore in long-term credit," Nabard said in a release.

In addition, other banks including small finance banks have obtained long-term refinance of ₹37,895 crore. The development bank has so far extended ₹4,638 crore to the non-banking finance companies (NBFCs) and microfinance institutions (MFIs) in FY20, in a bid to reach out to a wider network of people in rural areas.

SBI Cards IPO subscribed 87% on second day of bidding

PRESS TRUST OF INDIA
New Delhi, March 3

THE INITIAL PUBLIC offering (IPO) of SBI Cards and Payment Services was subscribed 87% on the second day of bidding on Tuesday. The public offer received bids for 8,75,37,636 shares against the total issue size of 10,02,79,411 shares, as per data available with the NSE.

The portion for qualified institutional buyers (QIBs) was subscribed 21%, for non-institutional investors 47%, and that for retail individual investors 1.21 times, according to merchant banking sources.

SBI Cards expects to raise ₹10,355 crore through the IPO. The company has raised ₹2,769 crore from 74 anchor investors. The issue will close on Wednesday for QIB bidders, while for all other bidders it will close on Thursday. Kotak Mahindra Capital Company, Axis Capital, DSP Merrill Lynch, HSBC Securities and Capital Markets (India), Nomura Financial Advisory and Securities (India) and SBI Capital Markets are managing the issue. The State Bank of India holds 76% stake in SBI Cards, while the rest of the stake is held by Carlyle Group.

Quick View

Bank of Maharashtra to raise up to ₹600 cr via bonds

STATE-RUN BANK of Maharashtra on Tuesday said it will raise up to ₹600 crore by issuing bonds on a private placement basis. "The bank is proposing to raise capital by issue of Basel-III compliant unsecured, redeemable non-convertible Tier-II bonds of base issue of ₹200 crore with green shoe option of ₹400 crore, aggregating to ₹600 crore on private placement basis," the lender said in a regulatory filing. To comply with Basel-III Capital Regulations, banks need to improve and strengthen their capital planning processes. These norms are being implemented to mitigate concerns on potential stresses on asset quality and consequential impact on performance and profitability of banks. Stock of Bank of Maharashtra was trading at ₹10.54 on BSE, down 0.57% from its previous close.

Indian Railway Finance Corp gets Sebi nod for IPO

INDIAN RAILWAY Finance Corporation (IRFC) has got markets regulator Sebi's approval for its initial public offer (IPO). The IPO comprises fresh issue of 93.8 crore equity shares and an offer for sale of 46.9 crore equity shares by the Government of India. The observation letter was issued on February 25, 2020, according to an update on the regulator's website. The Securities and Exchange Board of India's (Sebi) observations are necessary for any company to launch public issues such as IPO, follow-on public offer and rights issue. The net proceeds are proposed to be utilised towards augmenting the company's equity capital base to meet future capital requirements arising out of growth in business and general corporate purposes, according to draft red herring prospectus. IDFC Securities, HSBC Securities and Capital Markets, ICICI Securities and SBI Capital Markets are managing the offer.

Equitas Small Fin Bank gets Sebi nod for IPO

EQUITAS SMALL Finance Bank has received market regulator Sebi's nod for its initial public offering (IPO). The IPO consists of a fresh equity worth ₹550 crore and an offer for sale of 8 crore equity shares, according to the draft red herring prospectus. The observation letter (indicating a go-ahead to the IPO) was issued on February 28, according to an update on the regulator's website. The bank proposes to utilise the net proceeds from the offer towards augmenting its Tier-I capital base to meet future capital requirements, as per the prospectus. The equity shares are proposed to be listed on BSE and NSE.

PNB Housing gets board nod to raise ₹1,700 crore via QIP

FE BUREAU
Mumbai, March 3

THE BOARD OF PNB Housing Finance on Tuesday approved raising up to ₹1,700 crore through the qualified institutional placement (QIP) route and discussed a preferential allotment to an investment vehicle of the Carlyle Group, Quality Investment Holdings (QIH), the company informed the stock exchanges.

"The board also considered it advisable, subsequent to the successful closure of the QIP, to offer Quality Investment Holdings (QIH) and/or its affiliates/nominees a preferential allotment of equity shares and/or permissible securities," the release said.

The preferential allotment to QIH is subject to conditions, including the terms of the preferential issue being no less favourable than those offered to QIP investors. The company also clarified that QIH is not obligated to subscribe to the preferential issue at this stage. "Should it choose to participate, QIH can subscribe to at least such number of agreed securities in the preferential issue as required to maintain its pre-QIP shareholding in the company," PNB Housing Finance said.

Earlier, on February 21, ratings agency Crisil downgraded PNB Housing Finance's non-convertible debentures (NCDs) worth ₹5,700 crore and bank loan facilities worth ₹4,000 crore to "CRISIL

AA/Stable" from "AA+/negative". The ratings agency had also downgraded the ₹20,000-crore fixed deposit programme of the housing financier to FAA+/stable from FAAA/negative.

Punjab National Bank (PNB) held 32.65% stake in the company while QIH had a shareholding of 32.22% as on December 31, 2019. PNB Housing Finance's consolidated net profit dropped 21.8% year-on-year (y-o-y) to ₹237 crore.

Interestingly, Crisil also noted that PNB Housing's fund raising ability had remained intact over the last six-nine months and it continues to maintain high on-balance liquidity.

Earlier, the mortgage lender's parent PNB has specified that it intends to hold a minimum of 26% stake in the company. PNB Housing Finance's shares ended at ₹341.70 on Tuesday on the BSE, up 1.02% from the previous day's close.

Sebi revises investment manager eligibility norms for InvITs

PRESS TRUST OF INDIA
New Delhi, March 3

CAPITAL MARKETS REGULATOR Sebi has revised its investment manager eligibility norms for Infrastructure Investment Trusts (InvITs) and also permitted fast-track rights issue by REITs and InvITs without filing draft offer document with the regulator. The investment manager needs to have an experience of at least five years in fund management or advisory services or development in the infrastructure sector, Sebi said.

Alternatively, Sebi has also allowed a combined relevant experience of at least 30 years of directors, partners and employees of the investment manager, even if it is a newly created entity. "For computing the combined experience, only the experience of the directors/partners/employees with more than 5 years of experience in fund management or advisory services or development in the infrastructure sector shall be considered," the regulator added.

Currently, InvIT regulations require the investment manager to have at least 5 years of experience in fund management or advisory services or development in the infrastructure sector.

ANALYST CORNER

Emami: Maintain 'buy' with a TP of ₹310

MOTILAL OSWAL

WE RECENTLY met Emami's (HMN) management to get an update on its overall business. Key takeaways: demand is yet to pick up after weakening in the December quarter for both the company and the sector. Terms of trade to distributors have worsened with credit to general trade now at 10-12 days. This can be attributed to delayed summer offtake (due to extended winter) and trade liquidity concerns.

However, we find comfort in favourable material costs, demand prospects from Rabi harvest, and strong product pipeline ready for launch when sentiment improves. Valuations and view: After coming in at an admirable ~20%/ 34%/35% in the first five years of the decade, sales/Ebitda/PAT CAGR has slowed down significantly to ~5%/ 7%/3% for the five years ending FY20.

Sales growth in many of HMN's key categories has been impacted in recent years due to rural slowdown (52% rural dependency), liquidity crunch (~40% wholesale contribution) and category growth issue (majorly problem-solving portfolio and not everyday use products with the former getting affected more in a weak demand situation). However, none of these are structural issues and thus HMN will be a key beneficiary when the tide turns. Valuations of 20x trailing EPS and 16.4x FY22 EPS (~20x after taking into account amortization) also offer some comfort.

Moreover, valuations are at ~60% discount to peer average and ~50%/40% discount to its own 5/10-year average. Maintain 'buy' with a TP of ₹310 (targeting 20x FY22E adj. EPS).

Demand environment remains bleak, similar to the December quarter when things had worsened sequentially and y-o-y for both the company and the sector. Management appeared hopeful in the third-quarter post results call that up-stocking will happen in products like Navratna oil ahead of the summer season (usually begins in mid-Feb).

However, even toward February-end, sales have not picked up owing to extended winter in several parts of the country. The problem solving nature of HMN's products – and not everyday use – has also affected offtake in a weak demand environment.

Retail banking a 'nice oasis' for foreign banks

REUTERS
Mumbai/Hong Kong, March 3

OUTSIZED RETURNS IN India, besting local lenders for the first time in a decade, are emboldening banks such as Citigroup, Deutsche Bank and HSBC to invest more in a market that has long held promise but tended to under-deliver.

Easing regulations and a surge in online banking are driving the change, with several overseas lenders increasing investment plans for the country to win affluent clients away from domestic rivals, senior bankers told *Reuters*. Improved performance in India and its basis in the take-up of digital retail banking services could also offer hope for other large markets with potential far greater than the profit so far delivered, such as China. "With transaction banking going very strong and retail banking picking up pace, a lot of foreign banks globally are now focusing on India and registering better performance," said Sanjoy Datta, Deloitte India financial services practice head.

"It may pose some challenges as banks plan to expand more into the Tier-II towns but overall, foreign banks in India will continue to grow as there are no imminent (industry-specific) challenges," he said, pointing to technology as a key enabler.

Aiding the latest growth spurt is regulatory easing in support of technological financial services. For instance, the central bank in August allowed banks – under a

"regulatory sandbox" framework – to launch products and services such as digital customer background checks and money transfer. Moreover, services such as digital payment have been growing rapidly led by a government push to bring more cash-loving merchants and consumers into the formal economy.

Taking advantages of such developments, foreign banks' annualised return on equity (ROE) in India rose to 9.9% in the six months to September-end, from 6.9% a year earlier, the central bank data showed.

At the same time, local private and state-backed banks are increasingly constrained by souring loans, low-levels of capital and governance issues at the biggest players – all in a slowing economy. "In the next five years, foreign banks along with private lenders will have an opportunity to grow as state-owned banks are losing market share due to capital constraints and shift in focus to consolidation," said Ashvin Parekh, an independent financial services consultant.

The rapid adoption of technology – for processing payments, acquiring customers and selling products – is the real driver of foreign lenders' success, bankers and analysts said. "It's become a little bit more of a level-playing field and it's up to your digital strategies and your digital capabilities," said Ramakrishnan S, HSBC's India retail banking and wealth management head. "Frankly speaking, there's no reason why we shouldn't grow as much as anybody else."

The Asia-focused lender, which intends to double spending on technology and marketing in the coming three years, aims to double profit again over the next three to five years, Ramakrishnan said. All this even after it cut its number of bricks-and-mortar branches to focus on its digital presence – and in the face of a new regulation giving foreign lenders greater freedom to expand branch networks if they convert them into local subsidiaries.

US rival Citi launched a wealth management app in January 2019, which allows clients to open investment accounts instantly and without having to visit a branch. Last year, it saw double-digit growth in affluent clients, its target market.

Even Deutsche Bank is enjoying a boom in India, home to its only retail business outside Europe. Two years ago, the bank considered selling the unit but now sees it as a "nice oasis", said Kaushik Shaparia, head of the German lender's India operations.

Gail India: Recent correction offers opportunity to 'buy'

KOTAK INSTITUTIONAL EQUITIES

OUR INTERACTION with Gail management provided comfort on progress on East India gas grid, placement of high-priced contracted LNG volumes and plausible regulatory overhaul of gas pipeline tariffs.

Near-term clarity on AGR liability, which is untenable in Gail's opinion, will be crucial for the stock. Sustained lower crude prices may pose downside risk to estimates; however, inexpensive valuations reflect all concerns. Recent sharp correction offers opportunity to 'buy'.

Our visit to a few construction sites around Durgapur region, organized by Gail, suggests that the physical progress of Jagdishpur-Haldia pipeline remains on track to complete in phases by December 2020. The section connecting Matix fertilizer plant will be commissioned in a month. Gail management indicated that work on Bokaro-Dhamra and Barauni-Guwahati sections is also progressing well and is expected to complete by December 2020 and 2021, respectively, which will mark the full commissioning of Pradhan Mantri Urja Ganga project.

The work on Northeast network under Indradhanush Gas Grid, a JV between Gail, IoCL, ONGC and NRL, is expected to start soon post-recent government approval of 60% viability gap funding. Gail management allayed recurring concerns on placement of high-priced contracted LNG volumes amid lower spot LNG prices. The company has already placed 90%+ of long-term LNG volumes for CY2020 and 70%+ for CY2021 through adequately priced or hedged contracts.

Further, the company has tied up medium-term contracts to supply ~2 mtpa of LNG volumes to four fertilizer plants, which are somewhat indifferent to LNG pricing as it is a pass-through under urea subsidy scheme – Matix fertilizer plant will get connected in a month and can off-take up to 2.5 mcm/d (1.5 mcm/d contracted) of LNG volumes and three urea plants in Barauni, Gorakhpur and Sindri are expected to commission over the next 12-15 months along East India gas grid and will off-take 6-7 mcm/d of LNG volumes under medium-term contracts.