

# Markets

THURSDAY, MARCH 5, 2020



## BANKS' MERGER

Nirmala Sitharaman, finance minister

Consolidation of 10 public sector banks into four is on course and decisions have already been taken by the respective bank boards



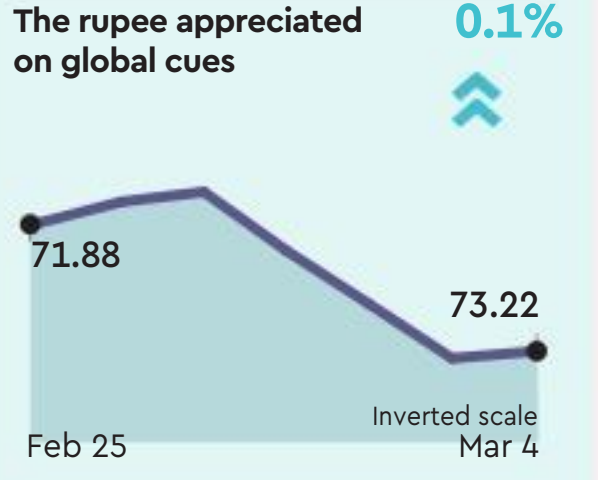
## Money Matters

### G-SEC

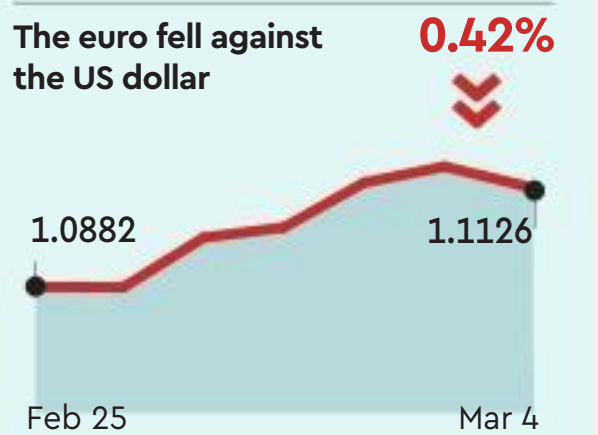
The benchmark yield fell due to buying support



The rupee appreciated on global cues



The euro fell against the US dollar



## ASSET QUALITY CONCERN

# Moody's downgrades BoB's baseline credit assessment

The downgrade to reflect the weakening in asset quality and further downside risk from the deteriorating operating environment in India

FE BUREAU  
Mumbai, March 4

**GLOBAL RATING AGENCY** Moody's Investor Service downgraded Bank of Baroda (BoB) baseline credit assessment (BCA) and adjusted to ba3 from ba2.

In addition, Moody's has also downgraded BoB's and its London branch's long-term and short-term Counterparty Risk Assessments to Baa3(cr)/P-3(cr) and the long term and short term domestic currency counterparty risk ratings (CRR) to Baa3/P-3 from Baa2(cr)/P-2(cr) and Baa2/P-2, respectively.

The downgrade of BoB's BCA to ba3 to reflect the weakening in asset quality and further downside risk from the deteriorating operating environment in India. Further deterioration in asset quality poses risks to BoB's profitability and capital, which would result in the bank's credit metrics converging with other rated Indian public sector banks with a BCA of ba3.

According to the rating rationale, asset quality in BoB's micro, small and medium enterprises and agriculture portfolio – which has deteriorated – will continue to weaken further. "Lower economic growth in India is negative for these sectors and will drive continued weakness in these segments. Further, the current level of



non-performing loan (NPL) formation rates in the SME segment may be understated, because there is regulatory forbearance on NPL recognition in this segment," said Moody's in the rationale.

Even Bank of India's exposure to non-banking financial institutions (NBFIs), which is at 16% of its loan book, is the highest among Moody's-rated banks in India and few of the large NBFIs continue to face headwinds and the high exposure to NBFIs is a source of additional risk for asset quality.

"If the downside risks on asset quality materialise, resulting in higher credit costs and lower internal capital generation, the pace of improvement in profitability and capital will be negatively impacted," said Moody's in its report.

However, funding and liquidity remain key credit strengths similar to other public

sector banks as BoB's funding franchise benefits from government ownership. The government of India owned 71.6% of the bank as of December 2019, and plays a key role in the management of the bank, including appointing senior managers, and setting the bank's strategic direction. Share price of Bank of Baroda on Wednesday ended at ₹73.30, marginally gaining by 0.41% on BSE.

Notwithstanding the downgrade of the BCA, Moody's has affirmed the deposits and senior unsecured ratings with a 'stable' outlook. Moody's affirmed BoB domestic and foreign bank long-term and short-term deposit ratings of Baa3, stable/P-3, and Bank of Baroda (London)'s foreign currency senior unsecured rating of Baa3 'stable'. Moody's has also affirmed the London branch's foreign currency senior unsecured MTN program rating of (P)Baa3.

## Rupee closes flat at 73.19 as virus scare beats rate cut hopes

PRESS TRUST OF INDIA  
Mumbai, March 4

**THE RUPEE SWUNG** wildly before closing flat at 73.19 against the US currency on Wednesday as increasing number of coronavirus cases in India kept investors on edge despite a rate cut by the US Federal Reserve.

The rupee had opened strong and raced to a high of 72.90 in early trade following weakness in the US currency after the rate cut by the US Fed. Investors, however, turned nervous, following an increase in the number of coronavirus cases in India, as the rate cut would not be sufficient to boost markets due to supply constraints and limit the rate of infection. The government on Wednesday said 28 positive cases of coronavirus have been detected so far in India.

The rupee gave up gains as the US dollar, considered as a safe bet in event of a crisis, strengthened, falling to the day's low of 73.64. After swinging 74 paise between the day's high and low, the rupee closed flat at 73.19 to the dollar in line with some recovery in stock markets.

On the stock market front, the BSE Sensex swung over 945 points during the day. The 30-share index settled 214.22 points, or 0.55%, lower at 38,409.48. The broader NSE Nifty closed 52.30 points, or 0.46%, down at 11,251.

Foreign investors remained net sellers in capital markets, offloading securities worth ₹878.38 crore on Wednesday. The



benchmark 10-year 6.45 government bond yield jumped 11 points to 6.22 amid volatile equity markets.

Global crude oil benchmark Brent shot up 1.51% to trade at \$52.38 per barrel amid buzz that oil producing countries might consider production cut in a bid to cushion the impact of the coronavirus epidemic on prices. The dollar index, which gauges the greenback's strength against a basket of six currencies, rose 0.20% to 97.35. "A heavy selling was witnessed in rupee after positive opening. The weakness crossed the 73.50 mark against the dollar as the USD/INR pair traded above 73.50 for first time since November 2018. The panic of corona plays into our domestic market as well as the global front which has forced the funds outflows," said Jateen Trivedi, senior research analyst (commodity & currency) at LKP Securities.

## 'Coronavirus: RBI needs to find room for rate cut'

PRESS TRUST OF INDIA  
New Delhi, March 4

**THE RBI NEEDS** to find room for more rate cuts to deal with the impact of coronavirus on the economy, says IDFC Mutual Fund report.

The report titled 'The Coronavirus and Revealed Preferences' further said that RBI, on its part, has a dominant revealed current

preference for bringing back credit growth. "Again, the revealed preference in MPC (on aggregate, not necessarily for each individual member) seemed to be to look for room to ease as soon as inflation allowed, even before the impact from the coronavirus had taken hold. With new evolving information, the nudge is likely to come sooner than before," the report said.

It is also noteworthy that the central

## Renu Karnad replaces Mistry on search panel to identify new HDFC Bank chief

FE BUREAU  
Mumbai, March 4

**HDFC BANK ON** Wednesday said that Renu Sud Karnad would replace Keki Mistry as Housing Development Finance Corporation's (HDFC) representative on the search committee to identify new managing director for the bank.

Early this year, Mistry had stepped down from the bank's board at the end of an eight-year tenure.

Karnad is the managing director of HDFC. The bank's current chief Aditya Puri will continue to be an advisor to the search panel, HDFC Bank clarified in a communication to the stock exchanges.

"The Search Committee has been reconstituted as above owing to cessation of Mr Keki Mistry's directorship from the board of the bank and Mrs Renu Karnad's appointment as additional non-executive director on the board of the bank," the bank said.

The other five members on the search committee are Shyamala Gopinath, Sanjiv Sachar, MD Ranganath, Sanjeev Parekh and Srikanth Nadhamuni. Succession at the country's largest private lender is being closely watched by investors as Aditya Puri has led it for the last 25 years.

## 'New liquidity norms to incentivise credit growth'

FE BUREAU  
Mumbai, March 4

**RATING AGENCY INDIA** Ratings and Research on Wednesday said the new liquidity framework announced by the Reserve Bank of India (RBI) would incentivise banks to encourage credit flows to retail and MSME segments.

The firm said that the measures are encouraging, especially in the current scenario. "However, the overall success of the measures is hinged on a low interest elasticity of demand," the firm said. Interest elasticity of demand is the responsiveness of demand to the change in interest rates.

Following the announcement of the ITRQ, the central bank has held auctions to infuse ₹75,000 crore. It has also announced another auction of ₹25,000 crore.

The rating agency said that the short-term requirement of funds for banks will further reduce amid a low demand for credit, adding that the P&L impact of CRR

relaxation is expected to be limited at about ₹600 crore per annum for the system for the next five years.

Depending on the asset class, the firm said that banks would earn between 8-9% on the exempted cash reserve ratio (CRR) amount, against nil, currently. Assuming average six-month growth of 7% in retail (home and auto) and MSME segments and the same to be funded by liabilities that in ordinary circumstances would require a CRR of 4% to be kept aside, banks would have to keep a low CRR to the extent of ₹8,000 crore to ₹9,000 crore over one year, which could consequently have a positive impact on the P&L of about ₹600 crore annually for the next five years, the agency said.

The measure would help banks with lending appetite, but constrained by an unfavourable deposit profile. "The only caveat here is that banks should not use the proceeds of this source towards investments in government securities."

## Design policy to cover coronavirus treatment: Irdai to insurers

PRESS TRUST OF INDIA  
New Delhi, March 4

**INSURANCE REGULATOR IRDAI** on Wednesday asked insurers to come out with policies to cover treatment costs for coronavirus infection, which has impacted thousands of people worldwide.

In order to provide need-based health insurance coverage, insurers are introducing products for various specific diseases, including vector borne diseases.

"For the purpose of meeting health insurance requirements of various sections, insurers are advised to design products covering the costs of treatment for coronavirus," the regulator said in a circular. There

are 28 confirmed cases of coronavirus infection in India.

The Insurance Regulatory and Development Authority of India (Irdai) has asked insurers to expeditiously attend to claims for treatment of coronavirus. "Where hospitalisation is covered in a product, insurers shall ensure that the cases related to Corona virus disease (COVID-19) shall be expeditiously handled," it said.

Also, the costs of admissible medical expenses during the course of treatment, including the treatment during quarantine period, should be settled in accordance to the applicable terms and conditions of policy contract and the extant regulatory framework.

## ANALYST CORNER

### 'Add' on AU Small Finance Bank; TP at ₹1,330

ICICI SECURITIES

AU SMALL Finance Bank (AU), in its 11 quarters as small finance bank (SFB), has exhibited excellent execution on most business metrics.

This includes diversification of asset mix with consistent launch of new products; rollout of a robust digital platform with many first-in-industry and best-in-class banking initiatives such as WhatsApp account opening, minimal paperwork with no deposit or withdrawal slips, branch-agnostic account opening, etc; early verticalisation of businesses considering the pace of balance sheet expansion; tight control over operating expenses even during transition phase (FY17-19) and superior asset quality, especially in the current challenging environment without compromising on the growth momentum.

AU's industry-leading AuM growth (37% y-o-y) in Q3FY20 and pristine asset quality, amid macro headwinds, vindicates the management's execution capabilities and the bank's resilient business model. We upgrade to 'add' (earlier 'hold') with a revised TP of ₹1,330 (earlier ₹980) as we

increase our target multiple to 6.5x to reflect management's excellent execution of SFB strategy.

AU has remained on the forefront in timely launch of products with best-in-class productivity. In its last 11 quarters journey as an SFB, AU's key differentiator has been its product innovation. It has added multiple products in retail over the past 2.5 years. It has remained focused on its core strength and philosophy of sticking to 'secured assets' as reflected in the share of secured loans (highest among peers) in its loan book.

While AU has remained the leader in product launches, its productivity also remained best-in-class with retail asset per branch at ₹310 mn vs ₹210 mn for Equitas/Ujjivan. Given AU's meaningful liability customer base of 2,500 per branch vs ~1,325/1,250 for Equitas/Ujjivan and timely rollout of retail asset products, we feel it would be able to increase product per customer in the times to come.

Superior retail liability franchise built by 'simplifying banking' as reflected in ~45bps lower cost of funds vs peers. Launch of 'AU Royale' has further strengthened AU's positioning in metros.

### TechM ahead of Infy, Wipro in growth, margin deviations

JEFFERIES

IN THIS report, we analyse trends in quarterly consensus estimates & actual performance for top-tier IT cos over last five years. On aggregate, q-o-q growth has been within a +/-50bps range on 50% of occasions and margins 60% of time.

TechM has had most instances of large deviations on both growth & margins; Infosys & Wipro rank next, respectively. TCS & Wipro have had the least adverse reaction to large misses while it has been more for Infosys & HCLTech. In IT services sector, where regular data points are relatively fewer, quarterly results act as a key tracker of sector & company performance.

At the beginning of each quarter, analysts routinely churn out quarterly estimates for the previous quarter and there is a lot of focus on performance against these consensus estimates. Two metrics in particular are key: (1) q-o-q growth (US dollar or constant currency) and (2) Ebit margin. In this note, we analyse trends in consensus quarterly estimates and actual performance over the last five years

for the top-tier Indian IT cos. On aggregate, consensus estimates have been within +/-50bps of q-o-q US dollar growth 50% of the time while on Ebit margin it has been within a similar range 60% of the time.

Large deviations of over 100bps are more common in q-o-q growth having occurred 25% of the time and relatively less in margin at only 10% of the time. In fact over the last five years, on aggregate large beats vs. consensus estimate on q-o-q growth (17% of occasions) have been more common than large misses (7%).

Infosys and Tech Mahindra, in particular, have delivered large positive surprises on growth on 26% & 32% of occasions, respectively; for Tech Mahindra, there seems to have been a bias towards under-estimation of growth with beat of >50bps in q-o-q growth more than 50% of the time in last 5 years. Large margin deviations of >50bps have been most common for Tech Mahindra followed by Wipro.

For TCS, large deviations in either growth or margin relative to estimate have been relatively rare though we note a slight bias towards over-estimation of growth by analysts.

## Quick View

### ICICI Prudential AMC, Saraswat Bank tie up for MF business

ICICI PRUDENTIAL AMC and Saraswat Co-operative Bank announced a tie-up for mutual fund distribution. Through this association, Saraswat Co-operative Bank will be offering investment products of ICICI Prudential MF to its customers through its 280 branches, spread across six states. ICICI Prudential MF, through this tie-up, aims to increase its reach and footprint, especially in smaller towns and cities, and leverage the bank's 100-year-plus presence in the country.

### Allcargo Logistics gets Sebi nod for open offer

ALLCARGO LOGISTICS has received approval from the Sebi for its open offer to acquire 26% stake in courier company Gati. The open offer is expected to be launched sometime this month and close in April, the company said. In December last year, Allcargo initiated the process to acquire around 3.17 crore shares of Gati at ₹75 apiece. With the conclusion of the open offer, Allcargo's stake in Gati may go up to 46.83%. "Allcargo has already deposited ₹238 crore – equivalent to 100% of the capital required to fund the open offer – into an escrow account set up as per Sebi norms for the open offer transaction," the company said.

### SBI Life reappoints Nautiyal as MD, CEO

SBI LIFE Insurance on Wednesday said it has reappointed Sanjeev Nautiyal as MD and CEO of the company. The Board of Directors of SBI Life Insurance Company at their meeting held on March 4 has approved the re-appointment of Sanjeev Nautiyal as MD & CEO of the company with effect from March 10, it said in a regulatory filing.

## Mitsui Sumitomo to acquire 22% in Max Financial via share swap

FE BUREAU  
Mumbai, March 4

**THE BOARD OF** Max Financial Services (MFS) has approved a transaction allowing Mitsui Sumitomo Insurance (MSI) to swap 20.57% of its shareholding in Max Life Insurance with a 21.87% stake in MFS. The swap will enable MFS to simplify the shareholding structure in its subsidiary and have more flexibility to attract strategic investments in Max Life in the future, while maintaining its majority ownership.

"The transaction will also provide MFS the option to purchase from MSI its balance shareholding in Max Life for cash at a price of ₹85 per share," MFS told the stock

exchanges in a notification.

The transaction structure will involve MSI subscribing to 75.46 million shares of MFS having a par value of ₹2 each at a price of ₹565.11 per share, aggregating to 21.87% of the paid-up equity share capital of the company on the date of allotment of the fresh shares.

In consideration, MFS will receive 394.77 million shares of ₹10 each from MSI at a price of ₹108.02 per share, or a 20.57% stake in Max Life. As a result, the stake held by MFS in Max Life will increase to 93.10%.

Mohit Talwar, MD, MFS, and vice chairman, Max Group, said: "We value MSI as our long-term partners in the life insur-

ance business and we are confident that they will continue to provide their expertise and counsel to MFS and Max Life through the Board Governance mechanism. This transaction makes the holding structure simpler and helps consolidate our shareholding in Max Life, which is expected to benefit all our shareholders by attracting more investor interest."

The transaction is subject to requisite approvals and is expected to be concluded by June 2020. MFS' shares ended flat at ₹591.65 on the BSE on Wednesday.

In February this year, MFS and Axis Bank had signed a confidentiality and exclusivity arrangement to explore the possibility of the bank entering into a

long-term strategic partnership with Max Life.

MFS holds a 72.5% stake in Max Life, while Mitsui Sumitomo Insurance and Axis Bank hold 25.5% and 2%, respectively.

In November 2019, MFS, its subsidiary Max Life Insurance, and Mitsui Sumitomo Insurance had mutually agreed to terminate a share swap transaction that was announced in August the same year. The plan then was to issue MSI a 21.45% stake in MFS at ₹421.67 per share through a preferential allotment. In exchange, MFS was to acquire a 19.98% stake in Max Life from Mitsui Sumitomo Insurance at ₹80.89 per share.