Markets

FRIDAY, APRIL 10, 2020

MF INFLOWS

NS Venkatesh, CEO, Amfi

"I believe sentiment is strong in equity schemes, which is witnessing robust flow... Outflow from debt was a quarterly phenomenon as banks and corporates take out money to pay advance taxes. In April, this will change into inflow."

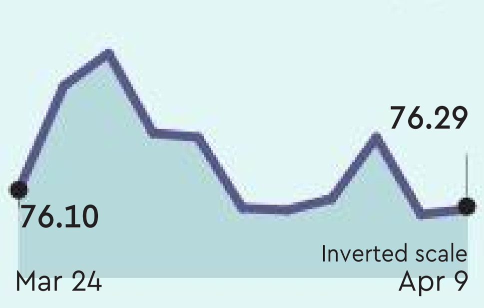
Money Matters

G-SEC

The benchmark yield rose due to selling pressure 0.049%

₹/$

The rupee appreciated on global cues 0.06%



€/$

The euro rose against the dollar 0.68%

MEASURES WORKED

RBI says monetary policy transmission has improved

FE BUREAU
Mumbai, April 9

THE TRANSMISSION OF rates to term deposits and lending rates has improved, particularly after October 2019, the Reserve Bank of India (RBI) said in its monetary policy report released on Thursday.

RBI has cited introduction of external benchmark rates for new loans and lagged impact of the previous rate cuts as the reason for improvement in monetary policy transmission.

Taking into account the 13 months period from February 2019, RBI said major pass-through of the policy rate cut occurred between October 2019 and February 2020. Of the total 46-basis point (bps) reduction in weighted average domestic term deposit rate (WADTDR), 39 bps reduction happened between October 2019 and February 2020. Similarly, weighted average lending rate (WALR) on outstanding rupee loans declined by 18 bps since October 2019 in contrast to a rise of 2 bps during February-September 2019. The WALR on 'fresh' rupee loans declined by 71 bps in 13 months from February 2019. Of this, a decline of 31 bps occurred during October 2019-February 2020.

RBI also observed that foreign banks have reduced lending rates more in comparison with public sector and private sector banks. The weighted average lending rate of foreign banks came down by 121 bps between February 2019 and February 2020. However, the weighted average lending rate of PSBs came down by 83 bps and that of private banks by 42 bps during the same period, according to RBI. Overall, the weighted average lending rate of the banks came down by 71 bps from February 2019 to February 2020.

The central bank further said major pass-through of the policy rate cut occurred between October 2019 and February 2020

In its monthly bulletin released in March, RBI had said there were early indications of an improvement in transmission to bank loans sanctioned in the retail and small and medium enterprises (SME) segments, where new floating rate loans have been linked to external benchmarks.

'Credit growth will remain subdued'

FE BUREAU
Mumbai, April 9

AMID MAJOR DISRUPTIONS because of the Covid-19 pandemic, credit growth in India is expected to "remain modest, reflecting weak demand and risk aversion", the Reserve Bank of India (RBI) said in its latest policy report on Thursday.

Credit growth in the banking system has been slow despite a slew of steps taken by the central bank to boost credit offtake. The year-to-date (YTD) credit growth between March 31, 2019, and March 13, 2020, stood at 3.64%, against 10.72% period a year ago.

Credit offtake in FY20 has remained muted, with non-food credit growth for the fortnight ended March 13 at 6.07% year-on-year (y-o-y), the lowest since May 2017.

The central bank attributed the low credit growth to "low momentum" and an unfavourable base effect. "The offtake during the fourth quarter (up to March 13) has been subdued as compared with the corresponding quarters of previous two years," the report said. It added that the slowdown in credit growth has been spread across all bank groups, especially private sector banks. "Credit growth of public sector and foreign banks remained modest, even as there has been some uptick in credit by public sector banks in the recent period," RBI said.

The year-to-date credit growth between March 31, 2019, and March 13, 2020, stood at 3.64%, against 10.72% period a year ago

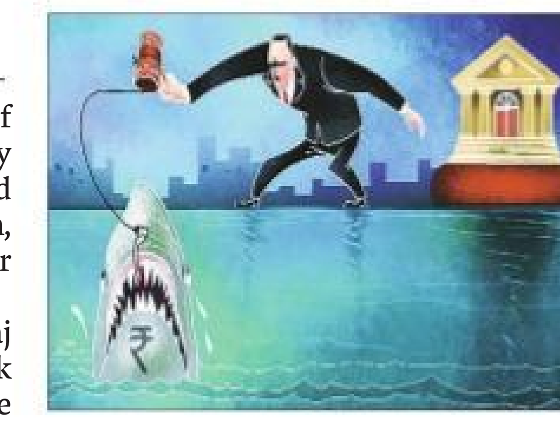
Around 63% of the incremental credit extended by lenders between March 15, 2019, and March 13, 2020, was provided by private sector banks.

Meanwhile, credit growth to both agriculture and industry has moderated over the past five months. "Better transmission of monetary policy impulses to the credit market would remain a priority," RBI said.

Many countries, including India, have put in place a lockdown to limit the spread of the novel coronavirus. This has resulted in an economic slump, globally. RBI noted that there will be a global recession in 2020. Like its global peers, RBI announced measures to mitigate the economic impact. Last month, it announced a 75-basis point repo rate cut. Several banks have since cut their MCLR. Despite this, credit growth is expected to be subdued due to limited economic activities as India grapples with the pandemic.

Banks unclear on classification of ₹1 lakh crore as NPA in Q4

ANKUR MISHRA
Mumbai, April 9



THE FATE OF bad loans to the tune of ₹1 lakh crore hangs in balance as bankers say they can't give relief to cases that have turned into non-performing assets (NPAs) in March, despite the Delhi High Court interim order in the Anant Raj Industries case.

The Delhi HC on April 6 said Anant Raj cannot be classified as an NPA by Yes Bank during the moratorium period of three months from March 1 announced by the Reserve Bank of India (RBI).

The HC directive is widely considered as a relief for banks who wanted the moratorium to be applicable for companies that had defaulted from January 1, 2020, like Anant Raj. However, banks are awaiting a formal direction from the regulator on the same.

Banks follow stepwise mechanism to classify loans as NPAs if a borrower does not pay within 90 days. Missing a payment after 30 days leads to a loan being classified as special mention account-1 (SMA-1). Failing to make payments for two consecutive months leads to an account being classified as SMA-2. A loan is finally classified as NPA after missing payment more than 90 days.

Anant Raj had taken a loan of ₹1,570 crore from Yes Bank. It had repaid ₹1,056 crore but defaulted on the instalment due on January 1, 2020. The account was classified as SMA-2 by Yes Bank till February, since the payment was overdue for more than 60 days, and the lender sent a notice to Anant Raj to be classified as NPA if the payment was not done till March 31, 2020.

The Indian Banks' Association (IBA) had made a separate representation to RBI, requesting it to grant relief to companies that had defaulted on payments from January 1, 2020. However, the regulator had refused to grant the relief through a letter to IBA. RBI, in its letter to IBA, has stated that a borrower who has been in default even before March 1, 2020, cannot be given benefit of exclusion relief due to pandemic Covid-19. RBI specified to bankers that the benefit of moratorium could be extended only in respect of payment falling due during the period of March 1, 2020 to May 31, 2020.

"We can only react when a direction comes from the regulator, otherwise the direction remains limited to one account," a source told *FE*. "Since the regulator has already denied our request earlier, it is up to RBI to come and clarify on classification of NPAs as per the Delhi HC order. The window for other companies also remains open to take legal remedy," the source added.

Uday Kotak to take ₹1 salary in FY21

PRESS TRUST OF INDIA
New Delhi, April 9

BILLIONAIRE BANKER Uday Kotak has decided to take a notional salary of only ₹1 for financial year 2020-21, amid the Covid-19 pandemic, which is likely to have huge economic implications.

The leadership team of private sector lender Kotak Mahindra Bank has also decided to opt for a 15% cut in salary for the fiscal, an official statement from the bank said.

India's already struggling economic growth is set to fall further to only 1.5% for the just begun FY21, and experts opine that it will have a direct impact on the banking sector. Uday Kotak had reportedly earned a basic salary of ₹2.27 lakh in FY19.

Udak Kotak

Uday Kotak and the bank have already donated ₹60 crore towards the relief efforts by the Centre and the Maharashtra government, where the bank is headquartered.

Quick View

Banks mull extending moratorium benefits to NBFCs

BANKS, UNDER the aegis of Indian Banks' Association (IBA), are mulling providing a three month-moratorium on loans given to non-banking financial companies (NBFCs) to help them tide through the current stress caused by the coronavirus crisis. NBFCs have been demanding this moratorium, saying that they, too, are borrowers.

RBI urges customers to adopt digi payment modes

RBI ON Thursday urged bank customers to adopt digital modes of payment that are convenient and safe. The usage of digital modes to make transactions has become all the more important as the ongoing 21-day nationwide lockdown, imposed to maintain social distancing to contain the spread of the coronavirus, has restricted the movement of people.

RV Verma appointed chairman of AU SFB

AU SMALL Finance Bank on Thursday said RBI has approved the appointment of Raj Vikash Verma as part-time chairman of the bank for one year. Verma was inducted as an independent director with the SFB in January 2018, it said.

Bank of Baroda cuts MCLR across tenors by 15 bps

FE BUREAU
Mumbai, April 9

STATE-OWNED Bank of Baroda (BoB) on Thursday cut the marginal cost-based lending rate (MCLR) across tenors by 15 basis points (bps). The revised rates, ranging from 7.4% to 8%, will come into effect from April 12.

The one-year MCLR has been revised to 8% from 8.15%.

This is the third time the public lender has revised its interest rates this year.

The interest rate reduction will make loans, including home and auto loans, cheaper for new borrowers. BoB's overnight and one-month MCLR has been revised to 7.40%, while the three-month MCLR was revised to 7.55%. Six-month MCLR has been revised to 7.85%, the bank said.

BoB's rate revision comes after the Reserve Bank of India (RBI) announced a 75-bps repo rate cut last month, along with other measures to mitigate the impact of the disruptions caused by the Covid-19 outbreak.

Earlier this week, State Bank of India (SBI) and HDFC Bank also brought down their MCLR.

RBI puts key additions to HDFC Bank board on hold till new CEO takes over

FE BUREAU
Mumbai, April 9

THE RESERVE BANK of India (RBI) has put on hold the appointment of two key members on the board of HDFC Bank until a new CEO takes charge later this year.

In November 2019, the bank's board had selected Shashidhar Jagdishan as an additional director and Bhavesh Zaveri as a whole-time director, pending the central bank's approval.

HDFC Bank said it will comply with the central bank's instructions. "We are now in receipt of a communication dated April 7, 2020, from Reserve Bank of India stating that since these are important positions in the Bank, the Bank is advised to examine and submit the proposal after a new managing director and CEO assumes charge later this year," the bank said.

In the meantime, Jagdishan and Zaveri will continue as additional directors on the board "till the ensuing annual general meeting", the bank added.

The tenure of Aditya Puri, the CEO and managing director of the bank, ends in October. The bank's management had earlier said it expects to have a shortlist of candidates for the new CEO by August. "July-August, that's the time that we see we would have finalised the shortlist for RBI's approval. I think we are on track," Jagdishan told analysts on a conference call earlier this year.

HDFC Bank CEO and MD Aditya Puri's tenure ends in October

Jagdishan joined the bank in 1996 and became the business head for finance in 1999. He was appointed the chief financial officer in 2008.

Zaveri joined HDFC Bank in 1998 and became a wholesale banking head in 2000. He was made group head of operations in 2009. He assumed additional responsibilities of the information technology function in 2015.

RBI gets bids worth ₹1.13 lakh crore in targeted LTRO

PRESS TRUST OF INDIA
Mumbai, April 9

THE RESERVE BANK of India on Thursday said it has received ₹1.13 lakh crore worth of bids in the targeted long term repo operation (TLTRO) conducted for an amount of ₹25,000 crore with a three-year tenor.

RBI received 18 bids in the auction.

"The total bids that were received amounted to ₹1.13 lakh crore, implying a bid to cover ratio — the amount of bids received relative to the notified amount — of 4.5," RBI said in a release. It allocated an amount of ₹25,016 crore on a pro-rata allotment percentage of 22.04%.

Last month, RBI had announced to conduct auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to ₹1,00,000 crore to help banks meet any funding mismatches.

The central bank said liquidity availed under TLTRO by banks has to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020.

Banks have to acquire up to 50% of their incremental holdings of eligible instruments from primary market issuances and the remaining 50% from the secondary market, RBI had said.

ANALYST CORNER

Marico: Lockdown hits business in India & abroad

MOTILAL OSWAL

MARICO HAS released its pre-quarterly update for Q4FY20. In view of the nationwide lockdown, all offices have been shut down an production at units that manufacture essential food and grocery products continues at a much reduced scale. The distribution network has also been significantly impacted. Marico is currently focusing on movement of essential food and grocery items subject to necessary approvals from the local authorities.

In the India business, early signs of improvement across categories seen until early Mar'20 were more than offset by disruptions due to the lockdown. During the impacted period, it managed to register sales largely in the edible oils and foods portfolio. Overall, the India business posted a low single-digit volume decline, with skewed high growth in the Saffola portfolio. But overall secondary growth was in low single digits, as primary movement of goods was relatively more impacted.

With Covid-19 being declared a pandemic, Marico's international businesses were also affected. With many of the territories experiencing partial/complete lockdown in Mar'20, international business recorded mid single-digit drop on constant currency basis. Margin likely to be impacted, revenue decline (both in India/international) coupled with an unfavourable mix in the India business, should translate into a modest Ebitda fall this quarter.

Marico has started an aggressive cost management exercise to mitigate the impact of reduced sales. It will continue to drive sustained profitable volume-led growth over the medium term through its focus on strengthening the franchise in its core categories and driving the new growth engines.

Two factors underpinning our investment case on Marico are FY21/FY22E valuations of 37.1x FY21 EPS and 32.4x FY22E lower than 3- year/5-year/10-year average of 44.8x/42.9x/35.4x, and benign raw material costs year-on-year. Our forecasts are conservative as we have assumed copra price inflation in H2FY21E; due to this, Ebitda margin would be lower in FY21E. If copra inflation does not come through, upside risk to our forecasts is significant. Given the uncertain environment, we are attributing a target multiple of 35x, close to its 10-year average.

IDFC First Bank says retail deposits grew 16% q-o-q in Q4, withholds total deposit data

FE BUREAU
Mumbai, April 9

IDFC FIRST BANK on Thursday said its retail deposits grew 16% sequentially during the quarter ended March to ₹33,898 crore. The growth in retail deposits on a year-on-year (y-o-y) basis was 157%. The bank did not share the value of its institutional deposit base.

Over the past two weeks, several private banks have made disclosures about changes in their deposit base amid concerns of them losing institutional deposits in the wake of Yes Bank's collapse in Q4FY20.

A closer look at the numbers shows that IDFC First Bank's total deposit base declined sequentially during the March quarter. The bank said its retail deposit ratio improved to 52.3% as on March 31, 2020, from 43.45% as on December 31, 2019. This puts the total size of its deposit base at ₹64,814 crore at the end of March 2020, down 3.8% from ₹67,358 crore at the end of December 2019.

During Q4FY20, the bank's current account savings account (CASA) deposits grew 28% sequentially to ₹20,758 crore, as on March 31. On a y-o-y basis, the growth in CASA deposits was 163%. The CASA ratio improved to 32.03% as on March 31, 2020 from 24.06% as on December 31, 2019, and 11.4% as on March 31, 2019.

Certificates of deposit (CDs) outstanding fell 75% y-o-y to ₹7,111 crore as on March 31, 2020.

"As part of the stated strategy of the bank, the bank continued to reduce large wholesale loans and increase the retail loan book as per trend of the earlier quarters," the lender said in a statement to the exchanges.

Its retail assets grew 32.4% y-o-y to ₹54,027 crore as on March 31, 2020. Wholesale funded assets, including stressed equity and security receipts, fell 29% y-o-y to ₹40,415 crore at March end.

The priority-sector limit (PSL) buyouts fell to ₹5,312 crore, excluding rural infrastructure development fund (RIDF) of ₹2,735 crore from the year-ago figure of ₹9,468 crore, excluding RIDF of ₹3,456 crore. The underlying assets of these PSL buyouts are retail loans, the bank said.

Retail loans as a proportion of total funded assets improved to 60% as on March 31, 2020, from 47% a year ago, on including these PSL buyouts in the retail funded assets. The liquidity coverage ratio (LCR) of IDFC First Bank increased to 140% as on March 31, 2020, from 114% a quarter ago. "The Bank continues to remain well-capitalized with common equity ratio (CET1) estimated to be around 13% at 31st March, 2020," it said in the notification.

GMR Infra: Fair value lowered by 13% to ₹26

KOTAK INSTITUTIONAL EQUITIES

OUR REVISED passenger volumes for GMR Infrastructure reflect three-four years of growth lost. The impact of this on fair value is limited, given the hybrid till model of airports and finite capacity of Delhi airport DIAL. Our reduction of 13% in fair value to ₹26 (from ₹30) is driven more by AERA's revised stance towards aero/non-aero split of revenue streams at Hyderabad airport (HIAL). This is not likely to impact the Groupe ADP deal, which is progressing well.

We have cut our overall passenger volumes (Delhi+Hyderabad) by 5/15/13% for FY20/21/22 to account for three years of lost growth. The cut is more for international travel volumes where in the key DIAL, leisure travel accounts for the major share. The impact on fair value is limited. Fair value of HIAL gets protected by the hybrid till model that compensates traffic loss by a higher aero tariff. Fair value of DIAL gets protected from it having a finite capacity.

In its recent tariff for FY17-21 for HIAL, AERA has classified select business streams in cargo, ground handling and fuel farm as part of aero revenues. After such deductions, the remaining non-aeronautical base comprises business streams that monetise passengers. Such a regulatory change would not impact DIAL's fair value as the airport already operates at base airport charge.

The Groupe ADP deal is unlikely to be impacted by the regulatory change at HIAL. Prospects of GMR earning earn-outs remain unchanged as key milestones relate to DIAL. The deal is otherwise progressing well with Groupe ADP recently raising €2.5 billion of bond issuances on attractive terms.

We cut the FY22E Ebitda by 18%, incorporating the 13% cut in passenger volumes and the change in aero/non-aero split for HIAL. Revise fair value by 13% to ₹26 (from ₹30), driven by the fall in passenger volumes (6%) and the regulatory change at HIAL (7%).