

Markets

FRIDAY, APRIL 3, 2020



GREEN ROUTE

Rajnish Kumar, SBI chairman

It (SBI listing green bonds of \$100 million on India INX) is an extremely important transaction for the country especially in this critical situation. We believe this issuance will reassure confidence in the country's strength in the international bond market.

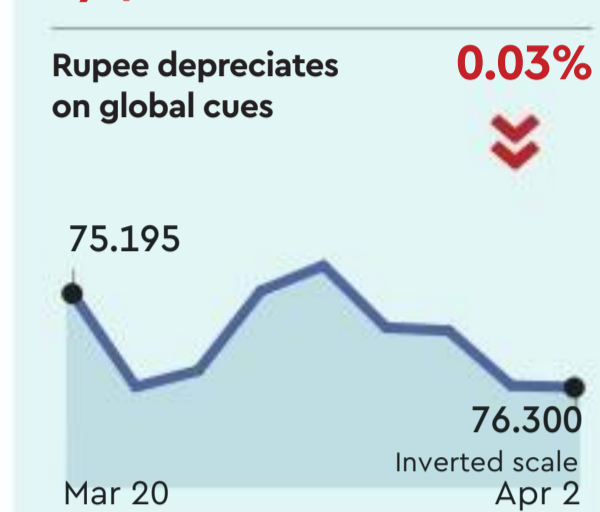
Money Matters

G-SEC

Benchmark yield remains unchanged as markets were shut **0.0%**



Rupee depreciates on global cues **0.03%**



Euro falls against the dollar **0.68%**



Quick View

IBA: Banks to transfer ₹500 to women PMJD a/c holders from today

WOMEN BANK ACCOUNT holders under Pradhan Mantri Jan Dhan Yojana (PMJDY) will start getting a sum of ₹500 per month from Friday in line with the announcement made by finance minister Nirmala Sitharaman last week, IBA said. This is the first of the 3-month instalments under the Pradhan Mantri Garib Kalyan Yojana announced last week, the Indian Banks' Association (IBA) said in a statement. In order to maintain social distancing and to ensure orderly withdrawal of money by the beneficiaries, IBA has designed a schedule to be followed by all banks for the month of April. The transfer has been staggered over 5 days to avoid rush at the bank branches.

Indian Bank's 4 new loans for agri, poultry sectors

INDIAN BANK HAS launched four new loan schemes to help the poultry and agriculture sectors tide over the Covid-19 outbreak impact. Under these schemes, agro processing units can avail 10% of the working capital limit while poultry borrowers can avail 20%. The farmers cultivating crops/rearing animals and having the KCC facility can avail 10% of the limit as soft loan. The loans are repayable in easy instalments with a 6-month moratorium period. Besides, under a special credit package, women members of SHGs can avail a loan of ₹5,000, said a release by Indian Bank.

Covid-19: Sundaram Fin Group contributes ₹20 cr

CHENNAI-BASED SUNDARAM FINANCE Group on Thursday said along with its associate companies it has contributed ₹20 crore to the PM CARES Fund and to Tamil Nadu chief minister Public Relief Fund. The Sundaram Finance group comprises Sundaram Finance, Home Finance, Royal Sundaram and Sundaram Mutual. Its associate companies (of the TVS Group) include Brakes India, Wheels India, Turbo Energy, Axles India and Impal and have contributed ₹20 crore towards Covid-19 relief.

Cash reserve sufficient for 6 months: Banks to Goa govt

BANKS HAVE ASSURED the Goa government that there is enough cash reserve in the state for the next six months, a senior official said on Thursday. The state finance department on Wednesday convened a meeting with bankers to discuss the position of liquid cash in the state amid the Covid-19 lockdown, he said. As per the minutes of the meeting, a copy of which is with PTI, the Reserve Bank of India and other bankers clarified that there is sufficient cash reserve for the next six months.

BORROWING

Increased supply of SDLs may put pressure on states' costs

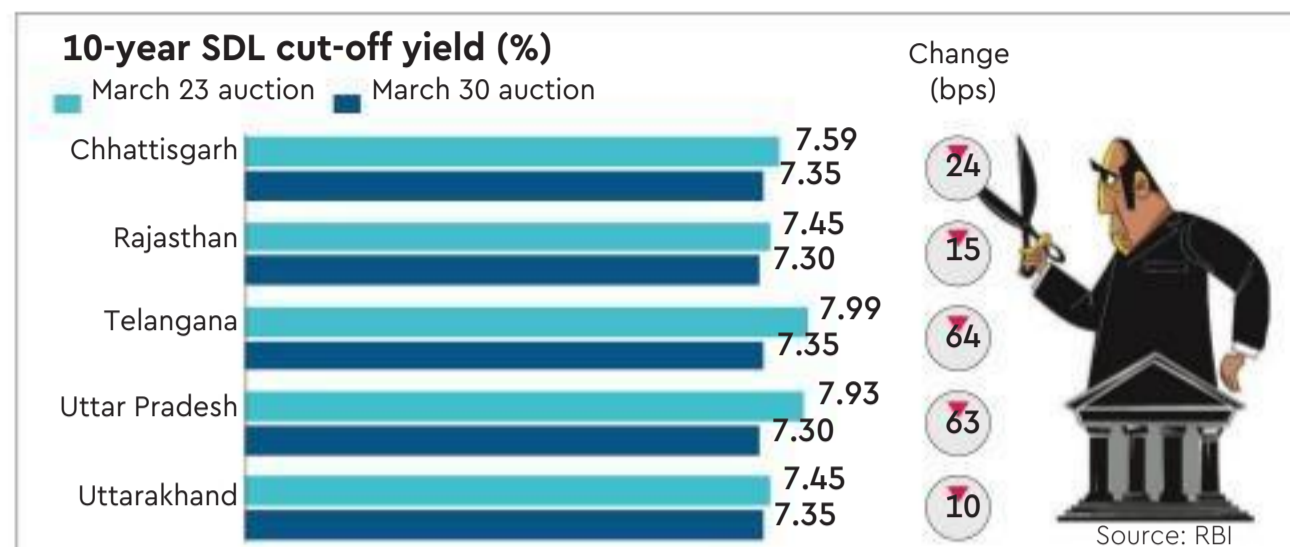
BHAVIK NAIR
Mumbai, April 2

EVEN AS THE market is anticipating additional borrowing by the Centre in FY21 in the backdrop of the Covid-19 crisis, a rise in the supply of state development loans (SDLs) is likely to put pressure on the cost of state government borrowing costs, experts say.

As per the indicative calendar for the Q1FY21, state governments are likely to borrow ₹1.27 lakh crore from the markets. In Q1FY20, they were expected to borrow ₹1.10 lakh crore from the markets as per the indicative calendar while they ended up borrowing ₹81,523 crore till June 28, 2019, on a gross basis, according to the RBI.

Siddharth Shah, head of treasury, STCI Primary Dealer, believes that the states' borrowing is on the higher side as per the indicative calendar for Q1FY21 and this is going to put some pressure on the yields. "We also have to consider the lockdown conditions at present and the fact that there are a couple of scheduled holidays as well. The G-sec borrowing is also anticipated to be higher this year. Whether the RBI will step in or not is something that we will have to watch out for. While the rate cut has given some short-term relief, the huge supply of SDLs may lead to some hardening of yields," Shah said.

With the RBI reducing the policy repo rate by 75 basis points to 4.40% last Friday, SDL yields did see some softening with yields on the 10-year paper falling to about



7.30-7.35% levels. Experts point out that although SDLs have some advantage like the preference shown by long-term investors due to the relatively higher yields and safety compared to other instruments that provide such higher returns, over-supply and persisting risk-off sentiment can hurt the yields in coming times.

Ananth Narayan, professor-finance, SPIIMR, said the borrowing numbers this year will be far higher than FY20. "I wouldn't go by the borrowing calendar, both for the Centre and states. Borrowing for all entities, be it the Centre, state governments or public sector enterprises, are going to go up. There is no other choice under the current circumstances. Nobody can peg the figures at the moment. They would have to make some changes to the FRBM that limits the states' fiscal deficit from going beyond a certain point. Also, at some stage, the RBI

will have to come in and start doing OMO purchases to fund the rising deficit. We have very little choice here," Narayan said.

Another question that market participants raise is about the investment appetite of banks for SDLs. Manish Wadhawan, managing partner at Serenity Macro Partners, said the risk appetite of the banking system is very low at the moment as they fear that their deposits are taking a hit in recent times while they are also holding excess SLR instruments.

"The markets fear that the fiscal deficit might be far higher than budgeted and the supply of G-secs and SDLs will also be huge this time. FPIs have sold a significant amount of bonds in the month of March while the absorption capacity of domestic markets is not so strong. The lockdown is also hurting the markets. SDL yields will remain high in coming times," he said.

SBI lists \$100 m green bonds on India INX

PRESS TRUST OF INDIA
Panaji, April 2

BSE'S INDIA INTERNATIONAL Exchange (India INX) on Thursday said state-owned SBI has listed green bonds of \$100 million (about ₹750 crore) on its debt listing platform.

The bank has listed green bonds of \$100 million under its \$10-billion global medium term note programme on India INX's Global Securities Market Green Platform (GSM), the exchange said in a statement.

"The issuance has been done in very challenging market conditions. We welcome SBI's green bond issuance on our GSM platform," India INX MD and CEO V Balasubramanian said.

State Bank of India (SBI) has earlier also listed its maiden green bond issuance on India INX of \$650 million, he added. SBI chairman Rajnish Kumar said, "It is an extremely important transaction for the country especially in this critical situation. We believe this issuance will reassure confidence in the country's strength in the international bond market."

"We at SBI have adopted the green bond framework with an objective to create a positive impact on the environment and this transaction is yet another step as part of our sustainability journey," he added.

Generally, funds raised through green bonds are used to finance green projects that do not emit toxic elements.

Axis Bank takes 'opt-in' route for moratorium on loan repayments

FE BUREAU
Mumbai, April 2

IN LINE WITH other lenders, Axis Bank on Thursday announced its policy to implement the moratorium on repayments announced by the Reserve Bank of India (RBI) last week. The bank has announced an 'opt-in' mechanism for some categories of loans, while applying a blanket moratorium on some others. Axis Bank will allow customers to avail a three-month deferral on the payment of certain loans and credit facilities. Customers can "opt for a moratorium on payment of equated monthly instalments (EMIs) or instalments and interest for various term loans or credit card dues", the bank said on social media.

Customers also have the option to defer interest payments for working capital facilities falling due between March 1 and May 31. In a set of guidelines on its website, the bank clarified that the moratorium, if availed, will only be a deferral of payments and not a waiver. Consequently, interest would continue to accrue for the period and repayment would resume from June 2020.

The bank has applied a moratorium by default on certain loans and credit facilities, including gold loans, Kisan Credit Card loans and farmer loans, microfinance loans, commercial vehicle and tractor



loans, and unsecured overdraft and term loans. "Borrowers having above facilities, whose cash flows are not impacted and do not wish to avail the moratorium, may choose to opt out from the moratorium by sending an email or by reaching out to any of our branches," the bank said. For all other loans, or credit cards and facilities, customers would have to opt in to avail the moratorium and defer payments falling due between March 1 and May 31.

The outbreak coronavirus has led to a state-imposed lockdown in India, bringing economic activity to a halt. Earlier this week, lenders, including State Bank of India (SBI), HDFC Bank, ICICI Bank and Kotak Mahindra Bank (KMB), notified their respective policies for executing the repayment moratorium. ICICI Bank also offered the opt-in route for some categories of loans and opt-out for others.

'Repayment moratorium to postpone asset quality stress recognition by 1-2 quarters'

FE BUREAU
Mumbai, April 2

RATING AGENCY ICRA on Thursday said that the three-month moratorium on repayments provided by the Reserve Bank of India (RBI) would postpone recognition of asset quality stress by 1-2 quarters.

The agency said lenders with higher share of asset classes such as microfinance, commercial vehicles and MSMEs will be more vulnerable, while those with exposure towards asset classes like gold loans and salaried housing will be impacted less. "Even in a scenario where the banks and non-banks are able to absorb such an increase in credit provisions through their P&Ls and prevent the capital erosion, the level of stressed assets in relation to the core equity is expected to increase, thereby

weakening their solvency profile," said Karthik Srinivasan, group head, financial sector ratings, IcrA. The rating agency expected the GDP growth to slow down to 2% during FY21, with the growth in Q1FY21 coming in at -4.5%.

Following the recent cut in policy rates by the RBI and small savings rates by the government, IcrA said banks are expected to cut their one-year deposit rates by about 50-70 basis points (bps) during FY21. Some private banks and NBFCs will continue to face elevated funding costs amid higher risk aversion from the investors, it noted.

For the NBFCs, high reliance on debt market borrowings may pose challenges



as a moratorium may not be available on these borrowings. The ability to have diversified funding sources, including access to debt capital markets, will remain as a key differentiator for non-banks, IcrA said.

"Amid funding challenges, higher on-balance sheet liquidity and uncertainty on asset quality, private lenders are likely to remain cautious on fresh disbursements, whereas the public sector lenders may be constrained by their capital position and merger-induced bottlenecks," IcrA said, adding that with low credit growth, likely rise in credit costs and excess liquidity, the profitability of financial entities to be adversely affected by 50-90 bps during FY21.

Need bold steps to revive MSMEs: RBI director Marathe

PRESS TRUST OF INDIA
New Delhi, April 2

THE GOVERNMENT AND the Reserve Bank of India (RBI) need to come out with a bold and comprehensive package to help small and medium enterprises tide over the unprecedented crisis created by Covid-19, said veteran co-operator and RBI central board director Satish Marathe.

Piecemeal initiatives will not help the industry as "this is an exceptional crisis and warrants exceptional response," Marathe told PTI.



The coronavirus crisis is likely to end in the next three to six months, but the industry, which bore the brunt of the lockdown during 2019, will take much longer to recover, he said.

Referring to the recent measures announced by the government and the RBI to mitigate the impact of the pandemic, he said, these are only for short term and may not yield the desired results as the problem is severe and has been further aggravated by the lockdown.

There is a need for a bold and comprehensive package to ensure that the industry, especially unorganised sector and MSMEs, comes back on track as quickly as possible once coronavirus is contained and the lockdown is lifted, said Marathe, who is also the founder member of Sahakar Bharati.

NBFC blanket moratorium only to worst-hit; HFCs stick to opt-in option

FE BUREAU
Mumbai, April 2

NON-BANKING FINANCIAL COMPANIES (NBFCs) will extend the three-month loan moratorium to only the worst-hit segments of their borrower base, such as fleet operators and microfinance borrowers. In loan categories where the salaried class constitutes the bulk of borrowers, non-banks are sticking to the 'opt-in' option. This is imperative, given that there is no breather for NBFCs on working capital and market borrowings they have made.

Bajaj Finance is following a request-based channel to offer the moratorium to willing borrowers. At the same time, it has stated upfront that those who choose to avail the moratorium will have to bear the cost of a higher interest outgo. It is also restricting the benefit to loans sanctioned before March 1, 2020, and customers who do not have more than two EMIs due historically in any of their loans.

PNB Housing Finance, too, has an opt-in policy. The company has used an example to demonstrate how a borrower's interest outgo rises as a result of the three-month payment holiday. A borrower with a home loan of ₹50 lakh at 8.5% interest for 10 years would have an EMI of ₹62,000. Once they avail the moratorium, their interest payable will go up by ₹1 lakh. "It is, therefore, advisable to restrict the selection of moratorium option only in the scenario of cash flow issues," the mortgage firm said in a set of FAQs for its borrowers.

L&T Finance is sticking to opt-in for its home loan and rural finance borrowers. The only set of borrowers being given a blanket breather by the company are its microfinance customers. A company spokesperson said that it is conveying the moratorium policy to micro loans customers through its field team, which has regular interactions with borrowers. "We are informing them that interest charges will continue during the moratorium period," she said.

Shriram Transport Finance, which counts fleet operators among the majority of its customers, is extending the moratorium to all its term loan borrowers. It is also allowing a deferral of interest on revolving working capital loans and recalculation of drawing power on such facilities. Umesh Revankar, MD and CEO, Shriram Transport Finance, said the terms of



NBFCs will extend the three-month loan moratorium to only the worst-hit segments of their borrower base, such as fleet operators and microfinance borrowers

the moratorium are being communicated to customers by relationship managers. "We are sending SMSes to customers and, additionally, we have relationship executives for every 100-150 customers who are in touch with their clients," he said.

Analysts say that microfinance customers are the most affected group of NBFC borrowers, while the salaried borrower servicing a home loan is likely to be the least affected. "The overall impact of the RBI deferment would be more visible to AFCs (asset finance companies) over HFCs (housing finance companies) since recoveries are better among large-ticket secured loans," Emkay said in a recent report.

On the liabilities side, NBFCs face a greater challenge as banks have decided to not offer them any interest relief on working capital loans and they must service market borrowings as well. Mutual funds, the largest set of subscribers to NBFC paper, are facing heavy redemptions and are unlikely to roll over their investments.

Ajit Velonie, director, Crisil Ratings, said, "While the moratorium provides some relief on the assets side, it is on the liabilities side that challenges could emerge for NBFCs with high share of capital market borrowings. That's because no moratorium has been announced so far for capital market borrowings (such as bonds and commercial paper) and repayments on these will have to be made on time, during a period when collections would be impacted significantly."

ANALYST CORNER

Maintain 'neutral' on Hero MotoCorp; TP at ₹2,000

MOTILAL OSWAL INSTITUTIONAL EQUITIES

BS IV INVENTORY LIQUIDATION plan in place: We attended Hero MotoCorp's (HMCL) conference call on its strategy on handling inventory post the March 27 Supreme Court judgment and business continuity. Key takeaways: Unsold BS IV inventory, HMCL had ~150k as of the lockdown date. According to the SC order, vehicles sold till March 31 can be registered till April 30 (vs March 31 earlier). Of the unsold BS IV inventory as of March 31, only 10% can be sold beyond the deadline.

Dealers are now selling online based on the earlier inquiries or purchasing on their firm's name to resell in the secondhand market later. The company is providing incentive of ₹10,000 per motorcycle and ₹15,000 per scooter to support dealers for online sales (ex-Delhi-NCR). It will take back the Delhi-NCR stock of ~12,000 units as it has decided not to sell online as well. The company will ascertain how much can be exported and the remaining will be converted in parts. Business continuity plan (BCP): HMCL setup a BCP task force earlier in January 2020 (when Covid-19 was identified as a threat in China). Task force is meeting every day since February. Earlier, the focus was on supply chain continuity, which then shifted to lockdown preparation and now it is on restart plans. First priority is to safeguard health of all employees and business partners. Currently, it is not thinking of growth and profits, but health of its ecosystem is important including liquidity within its ecosystem.

All eight manufacturing facilities (including Bangladesh and Columbia) and two R&D centres (India and Germany) have been on work from home/shutdown much before the lockdown was announced. Salaries and vendor payments: It has paid all its contractual workers well in advance without retrenching any people. It is prioritising payment to its vendors, with full and advance payment to SME/-MSME vendors. Vendor notice was precautionary to prioritise resources. It would pay in a graded manner to all vendors. It has earmarked ₹100 crore for relief efforts, of which ₹50 crore will be toward the PM CARES fund and the balance ₹50 crore will be directly spent

by the group. It has fixed monthly operating cost of ₹200 crore. It has over ₹4,000 crore in liquid funds to sustain expenses, payment obligations, etc. It is not going slow on new product development. Investment in R&D will continue (in premium motorcycle and scooter). It would prioritise capex as the business normalises.

Readiness when lockdown is lifted: HMCL is well prepared for restart as and when it happens, as dealers have around one month of BS6 inventory. Pent-up demand will be there and be realised at some point in time, which is difficult to predict as of now. Risk of downgrading not necessarily a threat to the executive segment but could be across segments. It is too early to comment on that. Buyback of shares: The focus is to conserve liquidity and ensure business continuity from shareholder value creation perspective.

However, promoters have increased some stake through the open market (2,76,000 shares equivalent to 0.14% of capital of the company). The promoter's shareholding in the company has increased from 34.63% to 34.77%. The company is working on e-chargeur technology. Though FI systems have better efficiency, e-chargeur is cheaper. The company might introduce them in lower cc segment in future.

The near-term outlook is challenging amid economic stress across sectors due to the lockdown, which has added pain to the already weak demand environment and anomalies due to the BS VI transition. This is largely discounted in the price with the recent fall in the stock price. We believe that clarity on the demand scenario will emerge post the lockdown is lifted as there will be pent-up retail demand and refilling of inventory with BS VI models. Barring near-term volatility, we see limited downside risk from current levels (due to cheap valuations). Also, valuations at 10.4x/9.8x FY21/22E EPS and ~5.6% dividend yield provide protection from any material downside. We have lowered our target multiple to factor in the risk of demand shock due to the impact from coronavirus. Maintain 'neutral' with a TP of ~₹2,000 (~12x December 2021 EPS + ~₹98/share of Hero FinCorp) due to no significant catalyst in the foreseeable future.