# Markets

TUESDAY, APRIL 7, 2020

EXPERT VIEW

The NPA ratio in India is likely to fare similarly to China's (1.9-2%) but the credit costs ratios could be worse, increasing by about 130 basis points

—S&P Global Ratings report titled 'For Asia-Pacific Banks, Covid-19 Crisis Could Add $300 Bn To Credit Costs'

## Kotak Mahindra Bank's deposits rise 20% despite Yes Bank debacle


FE BUREAU
Mumbai, April 6

**KOTAK MAHINDRA BANK** (KMB) on Monday said its total deposits grew 20% year-on-year (y-o-y) to approximately ₹2.58 lakh crore as on March 31, 2020.

The growth is significant for a quarter when the shadow of Yes Bank's collapse led to a slide in some private banks' deposit base. At the same time, KMB's net advances grew just 6.7% y-o-y and 1.3% sequentially at a time of muted credit growth in the industry.

KMB current account (CA) deposits rose 10.5% y-o-y to about ₹43,000 crore, while savings account (SA) deposits grew 31.3% y-o-y to ₹1.05 lakh crore as on March 31, 2020. The bank said the numbers for Q4FY20 are approximate.

The CASA ratio also improved to 56.2% at the end of March 2020 from 52.5% a year ago. Certificates of deposit (CDs) issued by the bank stood at ₹4,400 crore at the end of Q4FY20, down 55% y-o-y.

KMB's deposit growth trajectory in the quarter under review has been different from that of most other mid-sized private banks. IndusInd Bank and RBL Bank have said that their deposits were eroded to the extent of 8-11% in the quarter gone by as some state governments and other institutional depositors pulled out money or chose not to roll over deposits with them.

However, KMB's asset quality has become a matter of concern for investors. Last week, it told analysts that it was concerned about retail unsecured business. It expects higher slippages and significant problems to emerge for loan recovery if the lockdown extends to three months.

## Quick View

### Covid cover: Airtel Payments Bank ties up with Bharti AXA

AIRTEL PAYMENTS Bank on Monday said it has partnered with Bharti AXA General Insurance to offer health insurance plans to provide cover against Covid-19. Under the tie-up, the companies are offering two health insurance plans. With no pre-medical check-up required, both the products are currently available for savings bank account customers of Airtel Payments Bank.

### Canara Bank to reduce repo-linked lending rate

CANARA BANK on Monday said it will reduce its repo linked lending rate (RLLR) by 75 basis points to 7.30% from April 7. The lender has announced to reduce its marginal cost of funds-based lending rates (MCLR) by up to 35 basis points across tenors, effective April 7.

## 'Sebi's extension of regulatory filing period for AIFs, VCFs a great help'

PRESS TRUST OF INDIA
New Delhi, April 6

**IVCA, AN ASSOCIATION** representing India's private equity and venture capital industry, on Monday said Sebi's move to extend the regulatory filing period by two months for AIFs and VCFs is a "great help" for the funds given the temporary dislocation in their operations.

This relaxation has come after sustained efforts by the Indian Private Equity and Venture Capital Association (IVCA), the industry body said. The regulatory filing due dates for AIFs (alternative investment funds) and VCFs (venture capital funds) for the period ending March 31, 2020 and April 30, 2020 has been extended by two months. This was over and above the timelines prescribed under the Sebi (Alternative Investment Funds) Regulations.

"The relaxation by the regulator is one of the great helps for the funds given the temporary dislocation in operations as well as the overall business of portfolio companies," the industry body added.

## OUTFLOW IMPACT

# FPI pullout hits India, Brazil equity benchmarks hard

### In dollar terms, markets in Indonesia, Thailand and the UK are other worst performers after Brazil & India, show Bloomberg data

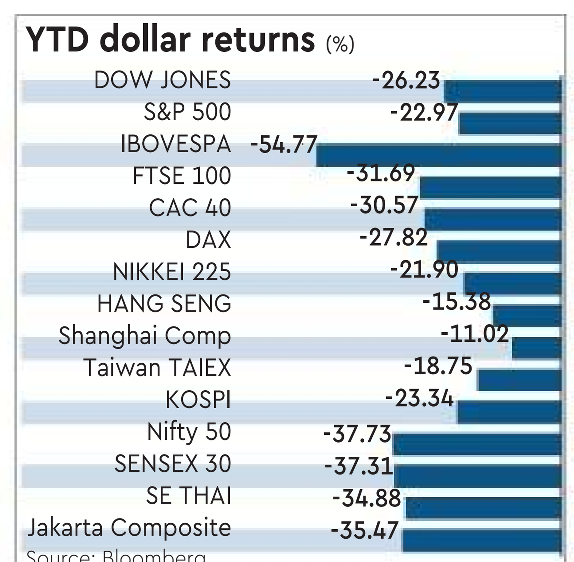
URVASHI VALECHA
Mumbai, April 6

**THE ROUT OF** equities in Brazil and India has been the most in dollar terms compared to other global markets. The benchmark in Brazil has so far this year lost 54.7% in dollar terms, while India's benchmarks – Sensex and Nifty50 – have dropped 37.3% and 37.7%, respectively, in dollar terms year-to-date.

According to market experts, the sharp sell-off by foreign portfolio investors (FPIs) has driven the decline in Indian equities. In rupee terms, Nifty50 has declined by 34.6%. Data from Bloomberg show that, in dollar terms, markets in Indonesia, Thailand and the United Kingdom are the other worst performers after Brazil and India.

So far this year, Jakarta Composite has declined by 35.4% in dollar terms. SE Thai of Thailand and FTSE 100 of the United Kingdom have seen their dollar returns decline by 34.8% and 31.69% year-to-date, Bloomberg data show. Shanghai Composite of China is the best performing market so far this year in the on-going equities rout generating a negative return of 11.02% in terms of the US dollar.

The Indian markets receive strong flows through mutual funds but those are not enough to support pressure on indices caused by the FPI selling. According to Bloomberg data in March, they pulled out $8.3 billion from the equity markets but, year-to-date, the outflow is $6.6 billion. Deepak Jasani, head of retail research, HDFC Securities, explains that to reduce the dependence on foreign portfolio investments, India needs to improve her per capita income and in addition improve its savings and investment rate.




Data from Bloomberg show that developed markets have suffered a less severe correction with Dow Jones and S&P 500 of the US declined by 26.2% and 22.9%, respectively, year-to-date. Major European markets in the UK, France and Germany have seen their dollar returns decline by 31.6%, 30.5% and 27.8% since the start of the year. According to Ambareesh Baliga, an independent market expert, the developed markets possess more depth than Indian markets. "Developed markets have a lot of depth which means that heavy selling gets absorbed well thus the impact cost is low – whereas, in the current situation, the impact cost has risen in the Indian markets," he said.

Emerging markets such as China, Hong Kong, Thailand, South Korea and Thailand have been weighed down in the on-going global equities rout but not as much as the Indian markets. Benchmarks in China and Hong Kong's dollar returns have declined by 11.02% and 15.38%, respectively, since the start of the year.

On the other hand, benchmarks in Taiwan and South Korea are down by 18.7% and 23.3% year-to-date in terms of dollar returns. SE Thai of Thailand and Jakarta composite of Indonesia's dollar returns year-to-date have declined 34.8% and 35.47%, respectively.

Brazil was the only emerging market whose dollar returns have declined more than India, down by 54.7%. "In good times, Indian markets are amongst the most to benefit from FPI flows and so, in bad times, when the trend is reversed, we get hurt the most. Our FPI selling over the past two months is likely to be more than other emerging markets. Indian benchmarks are also overweight on financials that have taken a harsh beating because of the fear of rising NPAs and so, our indices could have fallen more," said Deepak Jasani of HDFC Securities.

The weightage of financial stocks in 50-share Nifty index is 36.51%, it continues to enjoy the maximum weightage as opposed to other sectors. Bloomberg data show that FPI outflows for markets such as Indonesia and Thailand year-to-date have been $771 million and $3.8 billion. Markets such as South Korea and Taiwan have seen an FPI outflow of $15.1 billion and $17.9 billion, so far, this year.

# NBFCs request RBI for further leeway on accessing moratorium

FE BUREAU
Mumbai, April 6

**THE NON-BANKING FINANCIAL** company (NBFC) industry has requested the Reserve Bank of India for some leeway in the terms of the loan moratorium announced last month. The industry is seeking that the cut-off date for non-banks to access the moratorium be extended beyond February 29, and that securitised loan pools also be made eligible for it.

Ramesh Iyer, vice chairman and MD, Mahindra & Mahindra Financial Services (MMFS), told analysts over a conference call on Monday that the industry has asked the banking regulator to issue some sort of directions to banks to support all NBFCs and not leave mid-sized and small firms high and dry.

"In the moratorium dispensation, there has been talk around how the balances for February do not qualify for the moratorium. Most of us who are in the transportation business have been representing to say that March is the month when the government bills get settled, when transporter settlements happen and therefore if they could not transact it is unreasonable to not provide them with that support," Iyer said.

He added that the authorities have responded well to this input and the industry expects directions to be issued around it. Iyer is also the chairman of the Finance Industry Development Council (FIDC), a representative body of lending NBFCs.

The NBFCs have further requested that loan pools that have been sold to banks through securitisation transactions must also qualify for the moratorium, subject to investor approval. As for retail borrowers who are opting for the loan moratorium, Iyer said the company has observed a clear distinction between two sets of borrowers – one comprised of small-time professionals who have the means to repay their loans and the other comprised of borrowers who are suffering a more severe loss of income and therefore need the three-month breather. There are also parts of the country where the impact is relatively lesser than others and the borrowers there are seeking a one-month deferment against a three-month one. "So, we see two kinds of disparity – one is product and customer segment-based, and the other is geographical," Iyer said, adding that MMFS is carrying out a district-wise survey of accounts to ascertain where the negative impact of the lockdown could be higher.

## PNB Housing Finance inks agreement with JICA to raise $100 million

**PNB HOUSING FINANCE** on Monday announced that it has signed an agreement with Japan International Cooperation Agency (JICA) to raise $75 million with co-financing of $25 million by Citibank based on the Facility for Accelerating Financial Inclusion in Asia. The fund is to be used to help affordable housing for low-income households in India.

"This would be JICA's first debt funding in the housing finance sector in India," said Sanjaya Gupta, managing director, PNB Housing Finance. The company said that disbursement of the external commercial borrowing (ECB) facility would be availed soon. **—FE BUREAU**

# Banks to witness spike in credit costs, NPAs: S&P

PRESS TRUST OF INDIA
Mumbai, April 6

**BANKS IN THE** country are likely to witness a spike in their non-performing assets ratio by 1.9% and credit cost ratios by 130 basis point in 2020, following the economic slowdown on account of Covid-19 crisis, says a report.

In its report titled 'For Asia-Pacific Banks, Covid-19 Crisis Could Add $300 Billion To Credit Costs' S&P Global Ratings said, it expects the non-performing assets (NPA) ratio for the Chinese banking sector to increase by about 2% in 2020, and credit losses, to increase by about 100 basis points.

On India, the report said, "the NPA ratio in India is likely to fare similarly to China's (1.9%- 2%) but the credit costs ratios could be worse, increasing by about 130 basis points," the rating agency's credit analyst Gavin Gunning said in the report.

Gunning said there are concerns that the coronavirus will spread faster, further, and for longer. "This will deepen the economic pain we already anticipate for 2020. Financing conditions may likewise sour as investors become more risk averse. This would hit bank credit," he said.

The report noted that an additional $300 billion spike in lenders' credit costs and a $600-billion increase in (NPAs) will occur in 2020 due to the adverse impact of coronavirus pandemic.

While banks are not as exposed as the corporate sector during the initial stage of the pandemic, the strain on lenders could ultimately be profound. Banks face a second-order hit compared with the corporate and household sectors. The report said the economic storm created by Covid-19 will test the ratings resilience of the region's 20 banking sectors.

"The resilience of banks' asset quality in 2020 hinges in part on the success of governments' and regulators' policy responses. These measures are in early stages. Some have started, some are in planning, and we suspect many more may be in the wings," Gunning said.

Asia-Pacific governments, central banks, and supervisory authorities have rolled out diverse measures to address Covid-19. These include liquidity injections, targeted loans to affected industries and regions, and policy rate cuts. It also includes support for banks to provide forbearance to otherwise economically viable households and businesses sideswiped by Covid-19.

"The equation underpinning policy responses is simple in theory but difficult in practice, and always comes at a significant fiscal cost," Gunning noted.

## Bajaj Finance to tighten provisioning for large exposures

FE BUREAU
Mumbai, April 6

**BAJAJ FINANCE ON** Monday said it is looking to tighten provisioning against large exposures on its loan book. The leading consumer financier may also go for accelerated provisioning to account for the impact of the nationwide lockdown.

"The company is assessing adequacy of provisioning for identified large accounts and will consider enhancing provisions for these accounts. The company is also considering one-time accelerated provisioning for Covid-19 to further strengthen its provisioning standards," Bajaj Finance said in a notification to the exchanges.

The lender's assets under management (AUM) grew 27.4% year-on-year (y-o-y) to ₹1.48 lakh crore as on March 31, 2020. The AUM growth in the same quarter a year ago was 40.6%. Bajaj Finance's customer franchise grew 23.5% y-o-y to 42.6 million as on March 31. During Q4, the company acquired 1.9 million new customers. New loans booked during Q4FY20 rose 3.4% y-o-y to 6 million.

The company's capital adequacy ratio (CRAR) stood at approximately 25% as on March 31, 2020. Its consolidated liquidity surplus stood at ₹15,800 crore at the end of March. Its deposit book grew 62% y-o-y to ₹21,400 crore at the end of Q4. The mix of retail and corporate books stood at 72:28.

## ANALYST CORNER

# RBL Bank: Maintain 'buy' with a fair value of ₹300

KOTAK INSTITUTIONAL EQUITIES

THE EARLY headline performance for Q4FY20 includes less-than-expected drawdowns on the deposit side, stable operating performance and lower impairments for Q4FY20 addressing the key near-term business concerns.

We are gradually building the possible negative outcome of the lockdown in our estimates, though we note that these are still early days on this issue. As liability concerns ease, we should see a re-rating on the bank. Maintain 'buy' with a fair value of ₹300 (₹375 earlier).

Key highlights of the business update for Q4FY20: deposit base declined by 8% q-o-q, mainly led by an outflow of bulk deposits by government and corporate entities, while LCR remains healthy at 127%, stable q-o-q operating profit growth in Q4FY20 with higher NIM and lower cost of funds q-o-q, Q4FY20 will see higher slippages in SME and retail while there was 'no material change' stressed book; overall slippages will be lower q-o-q (7.2% in Q3FY20), credit card spends are at ~40% of normal run-rate while collection efforts have been impacted which will lead to higher credit costs in March and April, microfinance operations have come to a halt, although March collections were largely completed, wholesale and business loans: low exposure to impacted sectors including travel, hospitality, aviation etc.

RBL Bank's choice of riskier assets (retail and wholesale) and its higher share of dependence on wholesale liabilities have resulted in discussions moving on either sides of the balance sheet. FY20 saw defaults in the bank's corporate loan portfolio gradually gravitating to the other side of the balance sheet.

The key positive has been its CAR (tier-1 at 15%) which should help navigate the current reported or possible incoming stress (aftermath of the current lockdown).

We are building these in our estimates resulting in a steep earnings revision for FY21-22. The credit card and MFI had a high contribution to earnings, which is likely to see an impact if the current lockdown persists longer. The impairment recognition cycle is likely to be faster given the nature or duration of loans (MFI and credit cards). We are building 280bps of loan-loss provisions for FY20-22 resulting in RoEs remaining subdued at <10% in this period. We shall monitor these as we have better quality of incoming data.

# Lockdown: MFIs are apprehensive about growth, likely to shelve expansion plans

PRESS TRUST OF INDIA
Kolkata, April 6

**THE MICROFINANCE INSTITUTIONS** (MFIs), which are currently feeling the pinch of the coronavirus pandemic with their operations being suspended during the nationwide lockdown, are concerned about the near-term growth of the industry, officials said on Monday.

The MFIs will concentrate more on protecting their existing portfolios, once the lockdown will be lifted, and many of them may shelve their expansion plans for the time being, Microfinance Institutions Network (MFIN) chairperson Manoj Kumar Nambiar said. Speaking on the outlook for the industry, he told *PTI*: "Performance of the MFIs in the current fiscal which has just begun, will depend on when the lockdown will be lifted and how quickly the governments, both the Centre and the states, arrest the pandemic. The first quarter will certainly get affected as collections will fall in April and May because many borrowers will opt for the moratorium package."

Disbursements to existing customers will continue but micro-lenders will be cautious to extend credit to the new ones during this crisis period, Nambiar further said. The short-to-medium-term impact of the coronavirus outbreak and the subsequent measure of the lockdown seems to be more on the urban in-formal sector compared to agriculture-based rural activities, another self-regulatory organisation of the sector, Sa-Dhan executive director P Satish said. "MFIs with more exposure to urban informal sectors will face more difficulties than a lending institution having a large number of rural sector borrowers," he said.

The Association of Microfinance Institutions West Bengal member and Village Financial Services MD Kuldip Maity said it will take at least six months for non-agro portfolios to get into normalcy and the overall industry growth for FY21 may slip to 15%. Ruling out any possibility of retrenchment in the sector amid a threat that the economic growth will be adversely impacted due to Covid-19 crisis, Nambiar said: "The industry will need to retain their staff so that the collection and the recovery activities can start once the lockdown is over."

However, "expansion plan of many institutions will either be put on hold for the time being or required to be tweaked as the MFIs will try to protect their existing portfolio and concentrate more on the steadying the ships," he said. "Certainly, they do not want to expand into new geographies at this point of time."

Despite the disruption in the second half of March due to the coronavirus pandemic, Satish is optimistic that the microfinance industry will clock a growth of about 20% in FY20 over the previous year, but apprehensive about the same in the current fiscal.

"Microfinance is basically a group-based lending approach. Since there are restrictions on movement, neither members of small borrowers' groups, nor loan officers of microfinance institutions are able to meet. Almost everything becomes standstill. Loan disbursement as well as collections from borrowers came to a halt during the lockdown," Satish said.

# BEL: Re-rating depends on working capital management

MOTILAL OSWAL

IN A communication to the stock exchanges, Bharat Electronics (BEL) has mentioned that it ended FY20 with record turnover of over ₹125 bn (+6% y-o-y). The BEL management has further stated that execution could have been higher, if not for the Covid-19 outbreak and the economic slowdown.

Execution/acceptance of some major projects could not be completed due to force majeure. Adjusted for the VVPAT/EVM revenue of ₹26 bn last year, FY20 revenue growth stands at 35% y-o-y. For Q4FY20, the implied execution is likely at ₹57.3 bn (+48% y-o-y) and better than our expectation. Overall, FY20 revenue is ~9% above our estimate for the full year. Key projects executed in FY20 include Command & Control Systems, Thermal Imagers for tanks, Upgrades of communication systems, Land-based EW systems, Weapon Repair Facility, Electronic Fuses, various Radars, Smart City Projects, Delhi CCTV project, Schilka upgrade, Avionics Package for LCA, Classroom Jammers, Real Time Information System for Railways and LRSAM. We believe that LRSAM orders entering execution mode now has supported the strong execution.

The total order inflows for FY20 stood at ₹130 bn. Key new orders include Akash (7 Sqdn), Coastal Surveillance Systems (CSS), Upgrade for EW systems, Radars, AMCs for Radars and Weapon systems, Software Defined Radio (SDR), Sonars, Advanced Communication Systems, etc. FY20 order book stood at ₹518 bn (flat y-o-y). This translates into Ob/Rev ratio of 4x, providing strong revenue visibility over the next 3 years.

BEL has demonstrated strong execution capability over the years and is well placed in the current troublesome time of Covid-19. While we remain confident of BEL's execution capability and believe it is the best play in Indian defence sector, the company's re-rating depends on its working capital management. Working capital has deteriorated from 9.8% in FY17 to ~34% currently, leading to negligible FCF generation over the past 4 years.