

# Markets

THURSDAY, APRIL 9, 2020



## MOBILE ATMS

S Sampathkumar, group head-liability products, HDFC Bank

During this difficult time, we want to do our part to help everyone #Stay Home and #Stay Safe. Our Mobile ATM facilities will help our customers and the general public get access to easy cash withdrawal and other facilities as we stand together to curb the spread of Covid-19.

## Money Matters

### G-SEC

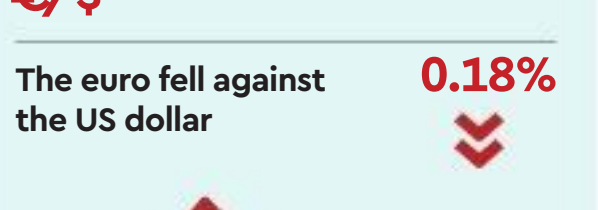
The benchmark yield rose due to selling pressure



The rupee depreciated on global cues



The euro fell against the US dollar



The euro fell against the US dollar



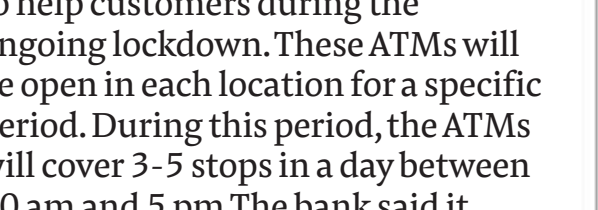
The euro fell against the US dollar



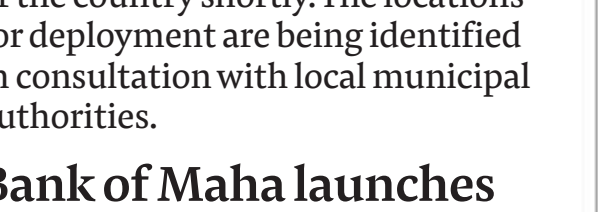
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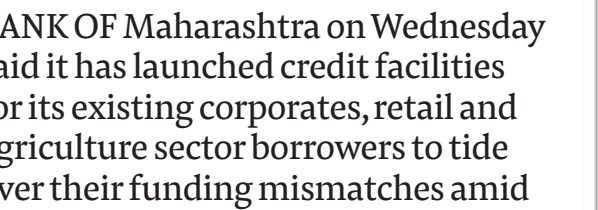
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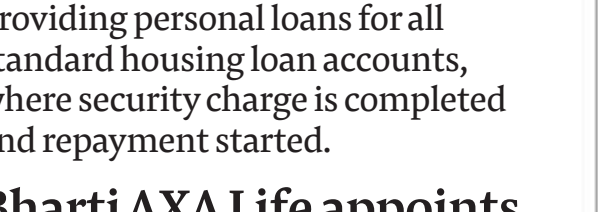
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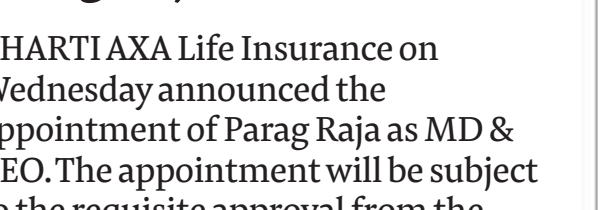
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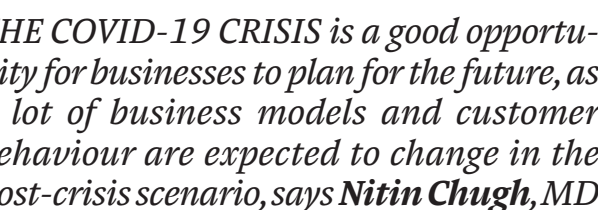
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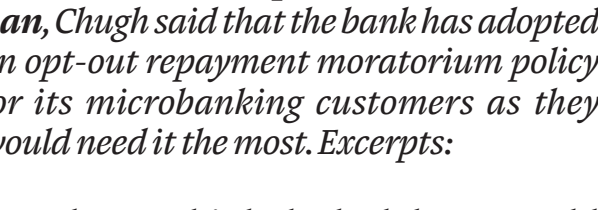
The euro fell against the US dollar



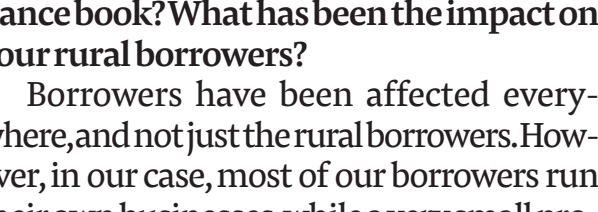
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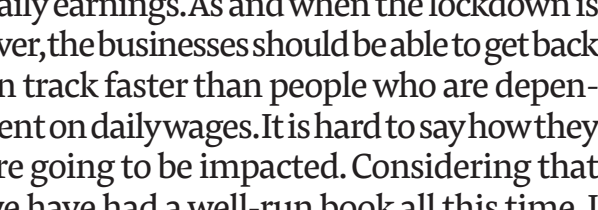
The euro fell against the US dollar



The euro fell against the US dollar



The euro fell against the US dollar



The euro fell against the US dollar



## THIRD-WORST PERFORMER IN ASIA

# Rupee loses 70 paise to close at a record low of 76.34

Heavy dollar-buying by banks and expectation of bigger stimulus package put pressure on rupee

FE BUREAU  
Mumbai, April 8

THE RUPEE ON Wednesday fell by 70 paise to close at a record low of 76.34 against the dollar. Currency dealers say heavy dollar-buying by custodian banks and negative sentiment on the domestic currency in the wake of increasing Covid-19 cases in the country that could lead to the extension of the lockdown put pressure on the rupee.

Dealers also indicated that there is a widespread expectation in the market that the government may announce further stimulus measures which could be larger in quantum compared to the measures announced earlier and the subsequent possibility of the fiscal deficit getting hit by a wide margin is also weighing on the domestic currency.

The dollar index, which tracks the strength of the US dollar against a basket of US trade partners' currencies was trading around 100.11 on Wednesday evening, having come down from the highs of 102.82 seen on March 20.

Abhishek Goenka, CEO at IFA Global, told FE that there was huge dollar-buying



by custodian banks that cater to foreign portfolio investors on Wednesday. "The dollar-buying by custodian banks could be because of the some capital market outflows or due to some ECB hedges. At the same time, we feel that RBI is unlikely to have intervened in the currency markets on Wednesday. Both these factors combined have put pressure on the rupee," Goenka said.

The rupee lost 6.5% so far in 2020, making it the third worst performer in Asia after the Indonesian rupiah and the Thai baht. Foreign portfolio investors (FPIs) have pulled out over \$17 billion from the Indian capital markets since the beginning of March. Meanwhile, crude oil prices have also rebounded from the lows seen a few weeks back. Brent crude which was trading at as low as \$21.65 per barrel



during the end of March has rebounded significantly over the last few days. After surging 3.4% in intra-day trade on Wednesday, Brent crude pared much of its gains and was trading at \$32.02 per barrel, up 0.5%.

Rahul Gupta, head of research-currency at Emkay Global Financial Services, said he expects the rupee to depreciate to 77.20 levels.

"There are reports stating that further stimulus measures are likely to be announced by the government. The market is expecting this stimulus package to be about ₹2-3 lakh crore. If that comes, the fiscal deficit is definitely going to take a hit. These worries are showing up on the domestic currency taking it to an all-time closing low. Crude oil prices have also rebounded recently," Gupta said.

## Spooked by new Covid cases, markets end in red

FE BUREAU  
Mumbai, April 8

AFTER POSTING ITS single biggest day gain on Tuesday, Indian equities lost steam on Wednesday, as new Covid-19 cases continued to be reported. The 30-share index Sensex was down by 0.58%, or 173.25 points, to close at 29,893.96.

Broader Nifty50 was down by 43.45 points, or 0.49%, to close at 8,748.75. Global tally of the infections has crossed 14 lakh, with over 82,000 deaths. While in India, the number of cases crossed 5,000 with 150 deaths.

Siddhartha Khemka, head-retail research, Motilal Oswal Financial Services, said, "Investors are worried that the lockdown in the country could be extended further, considering rising cases in cities like Mumbai, Delhi and other states. Thus, market would continue to remain volatile with swing on either side as it would track global markets along with the trend in coronavirus cases. For markets to sustain an uptrend, more positive news on the virus containment as well as lifting of lockdown is needed."

The Nifty50 crossed 9,000 points intraday but gave up its gains towards the second half of the session. The F&O volumes on NSE on Wednesday stood at ₹11.62 lakh crore and the cash market volume stood at ₹57,593 crore as opposed to the 6-month average of ₹14.65 lakh crore in F&O market and ₹39,134 crore in the cash market. The market will be closely looking at how the businesses will align themselves after the Covid-19 pandemic is contained and how they would reinvent themselves in the long-run. Companies, in



order to ensure that their businesses function smoothly, will have to maintain liquidity on its balance sheet.

FPIs remained net buyers in the Indian equity markets on Wednesday and bought equities worth \$254.5 million. Domestic institutional investors, on the other hand, sold equities worth \$230.2 million. FPIs have, so far, in April sold equities worth \$660 million. The biggest gainers on Nifty50 were Vedanta, Sun Pharma, Cipla, NTPC and Bharti Infratel, which were up by 5.4%, 4.8%, 4.61%, 4.60% and 4.26%, respectively. The biggest losers were Shree Cement, TCS, Titan, Hindalco and ICICI Bank, down by 3.8%, 3.79%, 3.74%, 2.6% and 2.59%, respectively.

According to Deven Choksey, MD, KRChoksey Investment Managers, the rallies that the market is witnessing is mainly due to short-covering in derivatives. "The banking stocks on Wednesday rallied earlier in the day due to short-covering," he said. Nifty Bank ended the day 0.6% lower.

## RBI declines additional provisioning relief to banks

ANKUR MISHRA  
Mumbai, April 8

THE RESERVE BANK OF India (RBI) has refused to grant 20% additional provisioning relief to banks for the unresolved cases as per the June 7, 2019 circular of RBI, sources close to development told FE.

Indian Banks' Association (IBA) had earlier approached RBI for the deferral of additional provisioning till June quarter. The regulator has made clear that all the measures announced by it were strictly to provide Covid-19 relief, the source added. Banks are facing provisioning pressure of at least ₹25,000-30,000 crore in the March quarter as most of the cases where inter-creditor agreements (ICA) were signed remain unresolved.

According to the June 7, 2019 circular of RBI, banks will have to make additional 20% provisioning for the cases where resolution could not be reached over a period of 210 days, after signing the inter-creditor agreement. State Bank of India alone may have to provision around ₹13,000 crore for unresolved cases, as per sources.

"Banks can still make individual representation to RBI for provisioning. However, the IBA will not pursue this matter further," a senior banker told FE. The relaxation in additional provisioning was one of the five requests IBA had submitted to the regulator on March 20.

"It is a huge disappointment from RBI to overlook demand on provisioning relief," another banker who did not wish to be named told FE.

## Bond investors to test yield comfort in first auction

REUTERS  
Mumbai, April 8

INDIAN BOND MARKETS are set to demand punishing high yields at the Union government's first auction of the fiscal year on Thursday as they test both the government's ability to pay as well as the central bank's intent to cap interest rates.

The first auction for the year that begins in April occurs against the backdrop of rising market yields as domestic investors fret over illiquidity wrought by the coronavirus pandemic and heavy borrowing by the government.

Yields on 10-year bonds have climbed nearly 50 basis points, to around 6.44%, since late March, when the RBI delivered a bigger-than-hoped 75 bps rate cut and infused large amounts of cash into the system. The benchmark short-term policy rate is at 4.4%.

While traders would not reveal the exact prices they would pay for 10-year, 2-year and 40-year bonds at Thursday's auction, several said they would likely bid at current market yields. "There is still need for RBI to announce more measures to support market liquidity and to maintain easier financial conditions, in order to accommodate 10 trillion rupees of excess borrowing by centre and state governments," said A Prasanna, economist at ICICI Securities Primary Dealership. The government is set to borrow ₹4.88 trillion (\$63.9 billion), or about 63% of its full-year target, for the April to September period, with its first ₹190 billion sale scheduled for Thursday.

Traders say that unless the central bank is willing to offer such high yields, underwriters to the auction would be forced to buy some bonds for the first time since Septem-

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ber. "This auction will be difficult. There is no demand at these levels in government bonds going by the volume," said Murthy Nagarajan, head of fixed income at Tata Asset Management.

Trading volumes in recent weeks have been around a tenth of the average, according to clearing house data, and the high volatility has prompted the RBI to halve trading hours. RBI has in the past aggressively bought bonds via open market operations to ease pressure on yields, spurring hopes for similar support this time.

Still, at an auction of state development loans (SDL) on Tuesday, 19 states managed to raise only 325.6 billion rupees against a planned 375 billion, and yields surged across the board with the Kerala government agreeing to pay 8.96% on its 15-year paper. "Between the last and current auction, yield on 10-year SDLs have increased by more than 50 bps," said Sameer Narang, chief economist at Bank of Baroda.

A calendar outlining the RBI's plans for open market operations would help give markets some clarity and thus ease yields, he said. Participants are hopeful the central bank will provide support not only through secondary market purchases, but also in primary auctions which are permitted under extraordinary circumstances, DBS Bank economists said in a note.

## IDBI Bank plans to raise ₹7,500 cr via rupee bond

PRESS TRUST OF INDIA  
New Delhi, April 8

PRIVATE SECTOR LENDER IDBI Bank on Wednesday said it has targeted to raise up to ₹7,500 crore through rupee bond in the current fiscal year.

The Board of Directors, at its meeting held on Wednesday, has approved the rupee bond borrowing limit of ₹7,500 crore for FY21 to be borrowed in one or more tranches, IDBI Bank said in a regulatory filing. The borrowing programme comprises additional Tier-1 bonds up to ₹3,000 crore, Basel-III Tier-2 bonds up to ₹3,500 crore and senior/ infrastructure

bonds up to ₹1,000 crore by way of private placement during 2020-21.

Separately, it said that the board of directors has also approved the proposal to sell bank's stake of up to 27% in its life insurance joint venture IFLI.

"The Board of Directors, at its meeting... has approved in principle the proposal to sell IDBI Bank's stake in IDBI Federal Life Insurance Company (IFLI) to the extent of 23-27%," the bank said. IFLI is a three way joint venture between IDBI Bank (48%), Federal Bank (26%) and Europe's insurance major Ageas (26%). Stock of IDBI Bank closed at ₹19.85 apiece on the BSE, down 1% from previous close.

## BoB launches Covid-19 personal loans for existing customers

BANK OF BARODA (BoB) on Wednesday announced that it will extend a Covid-19-related personal loan product for existing retail loan customers, including home and auto loan customers and loans against property (LAP) borrowers.

Customers may avail of this product till September 30 to tide over any liquidity mismatch caused by the nationwide lockdown. "The customers may approach their existing branches to avail this personal loan up to a maximum limit of ₹5 lakh in a hassle-free manner," the public sector lender said.

The interest rate of the Covid-19 personal loans will be linked to the repo-linked

lending rate - Baroda repo-linked lending rate, plus strategic premium, plus 2.75% per annum, with monthly rest, the bank said. The minimum borrowing limit for the facility is ₹25,000.

Auto loans, LAP and all variants of home loans customers who have banked with BoB for at least six months are eligible to avail this facility. Additional eligibility requirements are that their loans must be fully disbursed, with moratorium periods completed and minimum three months' instalments paid, and their account must never have slipped in the SMA-1 category until February 29.

-FE BUREAU

## ANALYST CORNER

### PNB Housing Fin: Maintain 'neutral' with TP of ₹190

MOTILAL OSWAL INSTITUTIONAL  
EQUITIES

PNB HOUSING Finance (PNBHF) disclosed some key details of the quarter gone by in an exchange release. The company ended the fiscal year with AUM of ₹840 bn (-3% q-o-q/-1% y-o-y). According to our calculations, disbursements during the quarter would have been ₹35-40 bn (down 50-60% y-o-y).

In our view, disbursements are likely to be muted due to lower incremental demand post Covid-19, scale-back in corporate lending and high leverage. The company raised deposits of ₹92 bn in FY20 (~₹15 bn in Q4FY20), note that the share of deposits stood at 19% of total borrowings in M9FY20 (+200bp q-o-q). On an incremental basis, PNBHF is able to raise 1-3 year retail deposits at 7.5-7.6% (down 30-40bp over the past six months).

Note that as of FY19, 82% of deposits were retail, thus adding to the granularity of the deposit portfolio. The company ended the year with ₹76 bn of liquidity on the balance sheet (ex-SLR investments). In addition, it has ₹40 bn of undrawn lines from banks outstanding. Note that this was after

net borrowing repayment of ₹25 bn during the quarter. Loan spread is expected to be within the guided range of 2.1-2.15% for the year.

PNBHF entered into an agreement for a ₹75-mn ECB from Japan International Cooperation Agency with \$25 mn co-financing from Citibank. The loan is for a five-year tenure and for providing affordable housing finance to low-income households. The past 4-6 quarters have been tough for PNBHF on both liability and asset sides.

The company has not been able to raise adequate money from capital markets and relied largely on bank loans and securitization for incremental debt capital. High securitisation volumes have also boosted earnings in FY20 due to upfront income recognition under Ind-AS. On the asset side, the company has witnessed slowing growth and an increase in the GNPL ratio (up 100bp to 1.45%). Recovery of stressed corporate accounts would now be delayed due to the impact of Covid-19 on the real estate sector. PNBHF is likely to deliver high-single-digit AUM CAGR with RoE of 12-14%. Maintain 'neutral' with a TP of ₹190 (0.3x FY22E BVPS).

## INTERVIEW: NITIN CHUGH, MD & CEO, Ujjivan Small Finance Bank

# 'We have to be better prepared for post-Covid-19 scenario'

THE COVID-19 CRISIS is a good opportunity for businesses to plan for the future, as a lot of business models and customer behaviour are expected to change in the post-crisis scenario, says Nitin Chugh, MD and CEO, Ujjivan Small Finance Bank. In an interview with Hariprasad Radhakrishnan, Chugh said that the bank has adopted an opt-out repayment moratorium policy for its microbanking customers as they would need it the most. Excerpts:

How do you think the lockdown would affect the asset quality of your microfinance book? What has been the impact on your rural borrowers?

Borrowers have been affected everywhere, and not just the rural borrowers. However, in our case, most of our borrowers run their own businesses, while a very small proportion of borrowers are dependent on their daily earnings. As and when the lockdown is over, the businesses should be able to get back on track faster than people who are dependent on daily wages. It is hard to say how they are going to be impacted. Considering that we have had a well-run book all this time, I think we will be better off and well-prepared.

Have your repayments been affected? We had to stop our microfinance repay-



ments a day before the lockdown was announced. On March 23 itself, our field operations were stopped. There is a very small proportion that comes through digital repayments. For all practical purposes, on microbanking, there are no repayments right now. In any case, the loans are under moratorium.

How is Ujjivan rolling out the moratorium to its borrowers?

For March, most payments had already come. The recovery is due for April and May, and for those who have not repaid in March. For microbanking, we have extended it for everybody as they would need it the most. For all the other busi-

nesses, the offer is for all, but the customers have to make a request. We are reaching out to customers, and some of them are contacting us. We are taking these requests from customers who are in need, and make the changes in the system. For microbanking, it is opt-out, but all other customers have to opt-in for the moratorium.

What is the bank's strategy to handle the crisis?

Our strategy is to ensure the well-being of our employees and customers at this time. We have put in a set of empowered teams in place. We are making a lot of outreach to our customers, offering them free doctor consultations nearly two weeks ago. Our senior management and HR team are checking on our employees' well-being. Our branches are operational with very limited staff. Business continuity plan is functional and ATMs are working. We are also in touch with the deposit side of our customers. We encourage our customers to use digital channels. This time is a good opportunity for us to plan for a different way of running our businesses in the future, because a lot of things will change after this. We will see a lot of changes in business models and customer behaviour. We have to be better prepared for the post-crisis scenario.

When do you expect disbursements to pick up?

It is too early to say right now. If I have to give top-up loans to my repeat customers, it would not require a face-to-face interaction, and a phone interaction may be good enough. Maybe, they can be restored faster. If it is a new customer, a face-to-face interaction will be required. A field visit is required for loan against property or a business loan, which is not happening anytime soon. We will see how it plays out. Our level of preparedness will continue to be high.

Do you think there could be issues around deposit stability in small finance banks due to the crisis?

I don't want to generalise, but small finance banks are as secure, stable and trustworthy as any other category of banks. If at all, we have seen these worries playing out in some of the larger private sector banks and, once in a while, in public sector banks also. Now, the RBI governor has assured that people should not have to worry about their deposits in any of these banks. Small finance banks are far more regulated than universal banks. Ujjivan has the highest capital adequacy ratio of 28.3%. We are strong in terms of portfolio quality, governance and management.