RATE-CUT HOPES

BlackRock Boosts India Bond Holdings

Bloomberg

New York: BlackRock, the world's largest money manager, has been increasing positions in Indian local-currency bonds in the past two months, lured by attractive carry returns and the prospect for more monetary easing.

"In the current low interest-rate environment, the search for income continues," Neeraj Seth, head of Asia credit at the firm, which oversees $5.1 trillion, wrote in an e-mailed response to questions. "India offers one of the highest yields within the Asian local bond markets, thus it provides an attractive carry (income) for investors."

ON CURRENCY

Borrowing in $ to purchase ₹ assets earned 3% since end of June, highest carry returns in Asia after Indonesia

Borrowing in dollars to purchase rupee assets earned almost 3% since the end of June, the highest carry returns in Asia after Indonesia, data compiled by Bloomberg show. Indian consumer prices rose at the slowest pace in 13 months in September, data showed this month. That's after a monetary policy panel on October 4 cut the benchmark interest rate to the lowest in more than five years.

"Given softening inflation, there is room for further monetary easing to support growth, which is positive for the local bond market," Seth wrote.

Banks Reboot Security

▶▶ From ET Markets

"There has to be some clarity from the RBI on when and to what extent is the customer liable if he fails to mitigate the damage done," Nishit Dhruva, Managing Partner, MDP & Partners told **ET**.

"Right now, it is not clear who will eventually take the fall in this case."

In some cases money was not debited from the accounts as the transactions were stopped mid-way. However, money was still withdrawn from ATM machines outside India. In such cases, the Indian banks will have to settle the transactions with foreign banks.

"The transactions are settled between banks every quarter, but this is a different situation. Since data is breached, the customer has lost money but he can't be charged for the same," a senior forensic official working with an Indian bank said. People in the know said banks would be issuing the guidelines on how they would reimburse the money in the coming month.

The breach, according to the investigators working with the banks, has mainly affected the magnetic strip ATM cards. Indian banks issue two types of cards — chip-based cards and Magnetic strip cards.

After banks alerted Visa and MasterCard, a forensic audit is being conducted by Bengaluru-based payment security specialist SISA.

The breach is said to have originated in malware introduced in the systems of Hitachi Payment Services, enabling fraudsters to steal funds. Some sources said the malware infection took about six weeks to detect, affecting transactions in that period. As many as 3.2 million cards were used on the Hitachi network.

ET Q&A

NARAYANAN SADANANDAN

Executive Vice-President, SBI Capital Markets

BHARAT CHANDA

> Being a part of the larger SBI group, we aspire to grow our investment banking business. We are one of the oldest merchant bankers on the Street with the experience of handling more than 1,000 equity capital issuances

Credit Market Competition to Grow, Borrowers to Gain

Top-rated companies are increasingly tapping the corporate bond market because bank loans are costlier, said Narayanan Sadanandan, EVP at SBI Capital Markets. This is a sign of a developed market. Banks alone cannot serve the credit needs of the $1.7-trillion economy, where many smaller entities seek loans, Sadanandan, who is also group head (Investment Banking Group), told **Saikat Das**, in an interview.

Why are investors exuding confidence in IPOs now?

Most recent IPOs (initial public offerings) have a good amount of offer-for-sale component. This is because most of these issuers are companies where private investors have invested and stayed with the company for over 4-5 years, added value, grown the company and have planned to partially/completely exit now. These are good issuers that have been nourished by the private equity investor community and are attracting interest from marquee investors. These fundamentally good issuers are attracting good interest from large anchor investors. When the market sentiment is bullish, big issues set the market tone. This helps future issuers, who sell it smoothly.

India has seen the first insurance IPO. Will it help set a benchmark for others?

ICICI Prudential Life was the first insurance company to hit the markets. It attracted huge response from investors. Many others including state-owned insurance companies will follow soon. All these IPOs are adding to the IPO market exuberance.

How does a retail investor treat insurance IPOs?

Insurance in our country is under-penetrated. With India at the cusp of economic growth, we have a long way to go in the insurance industry. Retail investors should make good money from such investments.

For those investors who missed the bus in the primary market, the secondary market still offers a potential opportunity for long-term investment gains as these companies will grow multiple times in coming years.

Will bond market pose a challenge to bank credit?

Top-rated companies are increasingly tapping the corporate bond market, which offers them lower borrowing costs, at least by 150-200 basis points, going by the current trend. Bank loans are costlier. This is a sign of a developed market. Banks alone cannot serve the credit needs of this $1.7-trillion economy where many smaller entities starve for credit. The credit market will soon turn more competitive, which in turn will benefit all borrowers. But the market is huge. So, there is no scope of losing market share as such. The paradigm of loan markets will only change as low-rated companies will have multiple options to access credit.

ON RATES

Rate differential is still high in India, with a relatively stable currency. This alone is drawing investor attention

Many yield-hungry investors are coming to India. Will the momentum sustain?

The rate differential is still high in India, with a relatively stable currency. This alone is drawing investor attention. With an expected US rate hike in December, foreign portfolio inflows may halt for the time being, but would not ebb. Moreover, India's growth rate is much better than any other peer. Moreover, with the introduction of REITs (real estate investment trusts) and InvITs (infrastructure investment trusts), the product set is also widened.

Will there be any challenge?

On the domestic front, the fiscal numbers need to be watched, although the finance minister has negated any deviation from the stated path earlier. Globally, the US election, the Brexit trajectory, low-growth concerns in Europe and slowdown in the Chinese economy may well taper investor sentiment.

ON GLOBAL ISSUES

US election, Brexit trajectory, low-growth concerns in Europe, slowdown in Chinese economy may taper investor sentiment

With foreign entities shrinking their businesses, how do you see investment banking opportunities for domestic players?

Being a part of the larger SBI group, we aspire to grow our investment banking business. We are one of the oldest merchant bankers on the Street with the experience of handling more than 1,000 equity capital issuances. In equity issuances, we are ranked 3rd during the first three quarters of the current year, with 10 issues aggregating ₹15,725 crore. In the past one year, we have elevated our Bloomberg rank to second from 14 earlier. Similarly, we are ranked 6th in the debt capital market, having handled 31 debt capital issues aggregating ₹45,900 crore. With many PSUs and corporates hitting the capital markets, we find it a golden opportunity to expand our business.

LOSING SHINE Gains are meager compared with what they were in 2001-03: Credit Suisse

'Treasury Gains Would not Offset Loan Losses'

Our Bureau

Mumbai: Belief that treasury gains would help Indian banks to offset much of their losses is a myth given that the gains are meager compared with what they were in 2001-03 and the lower size of their investment book itself could ensure they don't gain much from the bonds rally, says Credit Suisse, in a report released on Thursday.

"The drop in bond yields is a welcome development for Indian banks given their large mandated treasury holdings. However, unlike the 2001-03 experience, this is no "get out of jail" card for the Indian PSU banks as these treasury profits will not sufficiently address their provision/capital needs," said Credit Suisse report.

The market was hoping that PSU banks, which reported historic losses in fiscal year 2015-16 due to huge provisions made against bad loans, would get some respite with the softening of the yields. The stressed loan of commercial banks is estimated at 15% of total loan book while recovery of bad loans continues to be lukewarm.

However, during this interest rate cycle yields have not eased as much as in early 2000. Between November 2000 and 2003, the 10-year g-sec fell 670 bps from 11.7% to 5.0%, while from October 2013 to 2016, it has fallen 200 bps from 8.7% to 6.7%. Also, banks had invested 91% of loans in g-sec in 2001 versus 38% now. The report points out that banks did not have to meet huge pension liabilities in early 2000 as is the case now. "0"Pension liabilities are up 5 times since fiscal year 2008 and these are inversely correlated to bond prices," said the report.

Corporate-focused lenders will continue to see pressure on growth as better rated borrowers moved to the bond market. This is because the market saw rapid drop in bond market yields which banks were unable to match with their lending rate cuts.

Insurance Queries | Munish Sharda, Future Generali Life Insurance

Online Term Plans More Affordable, Convenient

I am 27 and wish to buy a term insurance for a cover of Rs 1 crore from a company that is in the process of merging. Will the company honour my claim post-merger without bias? Should I go with critical rider, accidental rider and waiver of premium as a rider or separate standalone policy?

The merger will not have any impact on policy holders as, in such a situation, the policy holders' interest is adequately protected by the prevailing regulations. You should definitely enhance your protection with riders as they come at a nominal cost and are attached to same policy thus saving you trouble of remembering premium payments for different policies. You must evaluate the plans available based on your requirements and take an informed decision.

ANIRBAN

I retired last year and I'm a pensioner in 30% tax bracket. Should I explore life insurance for both tax breaks and investment opportunities? Does contribution to Jeevan Akshay VI of LIC qualify for section 80 CCD?

As a retired pensioner, most of the insurance plans may not suit your requirement, and generally, one is not recommended to buy life insurance at this stage. Jeevan Akshay VI is an annuity plan and you can get tax benefits on premium paid under section 80C. Only contribution in the New Pension Scheme will make you eligible for tax benefits under 80CCD. In case you opt for an annuity plan like Jeevan Akshay VI, the income through annuity will also be taxable as per prevailing tax laws. You must consult a tax professional or chartered accountant for more details before taking a decision.

Online term plans are cheaper than offline plans. Are there any medical tests conducted and who bears its cost? Is the premium decided based on the results of medical test apart from regular calculations?

Term plans available online are definitely more affordable and convenient to buy. You may have to undergo a medical test on the basis of your age and the amount of cover you seek. The cost of medical tests is borne by the insurer. The premiums are decided on a case-to-case basis and may increase or decrease based on the medical test findings. In case of any adverse findings, the insurer may significantly increase your premiums or even deny the insurance cover. There is also a possibility of a decrease in premium if the insurer (provided there is an option) classifies you as a preferred healthy life based on the information you have shared in the application form and the results of the medical test.

Please send your queries on
Stocks to et.stocks@timesgroup.com;
Mutual Funds to et.mfs@timesgroup.com
Tax to et.tax@timesgroup.com
Insurance to et.insurance@timesgroup.com
Realty to et.realty@timesgroup.com

Every week, an expert selected by ET answers queries from our readers on insurance

A CLARIFICATION

I am into day trading (purchase & sell of securities without taking delivery) using the MIS (Margin Intra Day Square off) mechanism. In any financial year the total buying and selling amount exceeds ₹1 crore whereas the amount I pay to the brokerage firm is less than a few lakhs. My profit/loss is also in the region of few lakhs. I pay income tax (I-T) as per profit/loss based on short-term capital gains. Now, the I-T dept is asking that I carry out an audit of security transactions as the dealings are over ₹1 crore (even though the net amount is much lower than ₹1 crore). Will such an audit have to cover other assets like FDs, MFs, and residential property? —KUMARAN P

From the facts I understand that you recognise in the books of accounts only the gain/loss in respect of your day trading transactions. The gross gain or loss does not exist ₹1 crore. You are not liable to get your accounts audited under section 44 AB of Income Tax Act, 1961 as the gross receipt from the profit does not exceed ₹1 crore. As regards the income from FD, mutual fund and residential property the same is not chargeable to tax under the head 'Income from Business and Profession' and hence, the same also is not to be considered for the purpose of computing the turnover limit of ₹1 crore.

(The answer to the query printed in ET edition dated October 19, 2016 was incomplete. We are reprinting query and answer.)

ET in the Classroom

Why Price-to-Book is Important for Fin Stocks?

There are a number of valuation parameters that determine whether a stock is cheap or expensive. They are especially relevant in the current times when market is trading at near peak levels. One of them is P/B ratio, a tool used to value stocks in the banking space.

ANIRBAN BORA

1. What is price-to-book value ratio?

The ratio helps in understanding how many times the stock is trading over and above the company's book value. It is the total value of the company's assets that shareholders would theoretically get if the company were to wind up.

2. How to calculate P/B and why is it used?

P/B ratio is calculated by dividing the current market price of the stock with the book value of the company. For example, if a company's book value per share is ₹50 apiece and the stock price is ₹250 then the P/B ratio is 5. Value investors use it as a tool to identify low-priced stocks with high growth prospects.

3. How to use it to invest in cos?

The P/B ratio is useful only when you are looking at businesses that are capital intensive. The basic definition is that price-to-book ratio lower than 1 could mean that the stock is undervalued. In a ragging bull market it can also mean that something is fundamentally wrong with the company. Conversely, a stock with a P/B ratio of more than 1 can be viewed as relatively expensive or over-valued.

4. How do investors look at this ratio in practice?

Fund managers say that P/B ratio needs to be looked at in the context of return on equity. For example, a company with a higher RoE will always command a higher P/B ratio and vice versa. It is used mostly to compare banks as most assets and liabilities of banks are valued at market value.

5. What are the drawbacks?

It does not take into account factors such as goodwill, brand name and intellectual property. In particular, it is less useful in understanding the value of service-oriented companies that do not have significant tangible assets. For example, technology firms do not need much physical capital to create earnings. It is also not much useful in understanding companies that have high debt.

TEXT: **Sanam Mirchandani**

StanChart Lessons for Indian Banks, Judges

The Skeptic

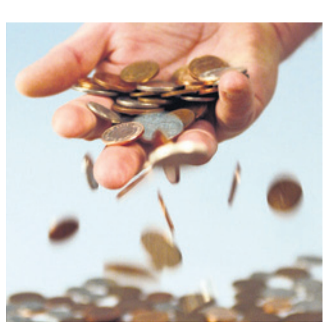
MC GOVARDHANA RANGAN

When Vijay Mallya received $75 million from Diageo, the Indian banking industry rose in chorus demanding that it be given to them for his Kingfisher Airlines' default of loans. Now, the Ruias are getting $13 billion from the sale of Essar Oil and there is hardly a murmur despite local banks being saddled with thousands of crores of bad loans from Essar Steel.

The answer may lie in the way Standard Chartered conducted its business and the fear of the judiciary in the UK where much of the loan transactions between Ruias and Standard Chartered, ICICI Bank and Axis Bank have happened. Also, the business of Mallya was grounded and Ruias' steel business still has hopes of revival.

Proceeds from the sale of stake in Essar Oil will take care of more than two-thirds of Standard Chartered's total loans to the group at the holding company level. The British bank's advantage over Indian peers was the way its contracts with Essar were designed and the sound judicial system that would have helped it sell the assets secured with it in case of default.

Does such protection exist here? Are banks using them? Yes, there are. When it comes to exploiting it, banks fall short and the judiciary is not helpful either. Most Indian banks, especially the state-owned, run business on relationships than pure contracts. However much honest the businessman is, fortunes of businesses fluctuate.



Banks are tolerant and businesses recover when the rising tide of economy lifts them rather than aggressively run after them to get their dues. Restructurings have been skewed in favour of equity holders which led to the regulator abolishing it. These became the norm because of the notorious 'calls from Delhi' which for some strange reason sided with businessmen, though its socialist policies led to license raj. It is not that Standard Chartered was immune to Indian banking practices.

When Bill Winters, the CEO of Standard Chartered, was asked to identify the problem in India, he had this to say: "When I look at the big problems we got, they tend to be the newer relationships. We just got over concentrated and the relationship became one sided."

Paperwork and collateral for many bank loans to big companies are flimsy. One begins to wonder how thousands of crores of rupees are given away without recourse to assets, leave alone the value erosion in assets. The standards have been lax.

The contrast is visible when it comes to retail lending. Take the case of mortgage or an automobile loan. It is not that these loans do not default. If so, the asset is seized and the auction process begins in right earnest. It is not that corporate loans do not have such processes, but they are not enforced with vigour.

"We are not making much progress and I don't think we have anybody else to blame but the banks themselves," said Vinod Rai, chairman of Banks Board Bureau.

To be fair, public sector banks also do fight. But more often than not, it is the judiciary that fails them. Take the case of Mallya and Kingfisher Airlines. Lenders ring-fenced loans with guarantees from Mallya and his holding company UB Holdings which owns shares in firms like United Breweries, the makers of Kingfisher and Heineken beer.

Mallya's stake in United Breweries and the other company should have been sold off and banks would have got their dues. But Indian courts are just sitting on the banks' plea. In India, instead of being the friend of the bank, the judiciary has been on the defaulter's side.

There has been a significant climb in the ease of doing business index, it may be time that Bankruptcy Act and better lending practices lead to a similar achievement in the ease of recovery index.