HDFC to raise ₹14,000 cr, fixes ₹1,838 as floor price for QIP

Mortgage lender will use part of capital to fund inorganic opportunities and investments in existing group businesses

ABHIJIT LELE
Mumbai, 5 August

Housing Development Finance Corporation's (HDFC's) Qualified Institutional Placement (QIP) for equity shares opened for subscription on Wednesday with a floor price of ₹1,838.94 per share. It is looking to raise ₹14,000 crore of equity capital.

HDFC might offer a five per cent discount on the floor price. Its share closed almost flat at ₹1,776.9 per share on the benchmark BSE Sensex.

The mortgage lender is also looking to raise ₹9,000 crore through secured non-convertible debentures.

The company will use part of fresh capital for funding inorganic opportunities and investments in existing group businesses. It is also looking at setting up a real estate fund in collaboration with other investors to finance stressed projects.

The fund raising by HDFC comes within a day of Axis Bank launching its QIP to raise around ₹10, 000 crore. The floor price set by the bank is ₹442.19 per share. According to the terms of the deal, the base deal size is up to ₹8,000 crore, with an option to upsize an additional ₹2,000 crore.

HDFC's capital adequacy ratio (CAR) was 17.6 per cent, of which tier-I capital was 16.5 per cent and tier-II capital was 1.1 per cent, in financial year 2019-20 (FY20). The investment in HDFC Bank has been considered as a deduction in the computation of tier-I capital.

During the year, the National Housing Bank amended the capital adequacy requirements for housing finance companies (HFCs). Accordingly, the minimum stipulated CAR for FY20 was increased from 12 per cent to 13 per cent and the minimum tier-I capital was increased from 6 per cent to 10 per cent.

In addition, NHB has also stipulated that the minimum CAR for HFCs would increase to 14 per cent by March 31, 2021, and 15 per cent by March 31, 2022. In 2018, HDFC had raised ₹13,000 core through equity offering. Out of that, ₹8,500 crore were infused in the country's largest lender HDFC Bank.

The mortgage lender reported a pre-tax profit of ₹3,607 crore in the first quarter of FY21 (Q1Fy21), against ₹3,985 crore in Q1Fy20 on additional provisioning for pandemic-related uncertainties and a negative carry due to higher liquidity.

FINANCE FIRMS HIT MARKET TO PREPARE FOR POST-COVID WORLD

Financial sector entities are raising capital to tide over the Covid-19 pandemic. While most private banks and non-banking firms are able to raise money on the strength of their profile, some public sector banks will need a helping hand from the Centre.

What's driving capital raise

Need to create buffers to absorb shocks

Preparations for growth

To instill confidence that bank can withstand slump

Scene at state-owned entities

PSBs need additional capital of **₹ 35,000-40,000 cr** in the current financial year, according to S&P

CAPITAL CALL

Bank\NBFC	Capital amount (₹cr)	Status
YES Bank	15,000	Raised
IDFC First	2,000	Raised
Kotak Mahindra Bank	7,440	Raised
Axis Bank	15,000	In market
HDFC	14,000	In market
M&M Finance	> 3,100	In market – rights issue
State Bank of India	20,000	Intent
ICICI Bank	15,000	Intent
Bank of Baroda	9,000	Intent
Punjab National Bank	7,000	Intent

Source: Announcements; shareholders resolutions

Canara Bank's pre-tax profit falls 15% in Q1

Provisions and contingencies were raised to ₹3,826 cr, against ₹1,899 cr in the year-ago period

AGENCIES
New Delhi, 5 August

Canara Bank on Wednesday reported a 15.11 per cent decline in its pre-tax profit in the June quarter on sharp rise in provisions and contingencies. The PBT fell to ₹459.12 crore against ₹540.88 crore in Q1FY20.

Its standalone net profit rose 23.5 per cent at ₹406.24 crore. The public sector lender logged a net profit of ₹329.07 crore in the same quarter of the previous financial year. Canara Bank, which amalgamated Syndicate Bank into itself with effect from April 1, 2020, however, said the earning figures are not comparable as these are related to standalone financials for pre-amalgamation period.

Total income in April-June 2020-21 increased to ₹20,685.91 crore from ₹14,062.39 crore in the year-ago period, Canara Bank said in a regulatory filing.

The bank's gross NPAs were up slightly at 8.84 per cent of the gross advances as on June 30, 2020 as against 8.77 per cent at June-end last year.

In absolute value, gross NPAs or bad loans stood at ₹57,525.52 crore as against ₹39,399.02 crore by the year-ago same period. Net NPA ratio, however, fell to 3.95 per cent (₹24,355.23 crore) from 5.35 per cent (₹23,149.62 crore).

Provisions and contingencies for the first quarter were raised to ₹3,826.34 crore as compared to ₹1,899.13 crore in the year-ago period. Of this, provisions for NPAs stood at ₹3,549.99 crore as against ₹2,282.70 crore a year ago.

"Figures are related to standalone Canara Bank financials for pre-amalgamation period, hence not comparable with post-amalgamation financial for the quarter ended June 30, 2020," it said.

Monetary policy: Here's why RBI may go for rate cut today

As the Reserve Bank of India's (RBI's) Monetary Policy Committee meets on Thursday to take a call on whether to cut or pause rates, Bank of America Merrill Lynch (BofA) has cited several reasons why the central bank might opt for a 25 basis points cut. Interestingly, a *Business Standard* poll of 10 economists and bond market participants on this question saw mixed results. However, BofA says the RBI will not only cut rates now, but will follow it up with another 75 bps cut in rest of the financial year 2020-21 (FY21).

Here are the reasons for the cut:

6% FY21 GDP contraction

The Covid-19 shock is expected to contract gross domestic product (GDP) by 20% in the June quarter and 6% in FY21 in BoFA's base case. This assumes that unlock measures will extend to mid-November with the restart taking six weeks to December.

CPI inflation on weak fundamentals

Consumer price index (CPI) inflation should slip to 2.5% in H2FY21 from 6.4% estimated by BofA in July, as supply side disruptions (evident in a growing wedge between CPI and WPI food prices) and methodological issues are ironed out. Apart from favourable base effects ahead, fundamental drivers remain weak: GDP contraction, improved sowing, and low "imported" inflation.

High real lending rates hurt growth

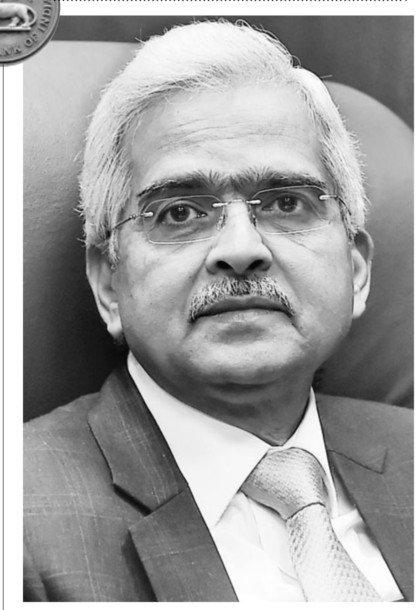
High real lending rates might hurt growth beyond the Covid-19 shock. While nominal MCLR (marginal cost of funds based lending rate) has reduced by 105 basis points (bps) since March 2019, real MCLR is still up by 44 bps

'Busy' industrial season begins in October

Time is running out for RBI rate cuts with the "busy" industrial season beginning in October. As loan demand picks up seasonally, transmission of RBI easing would become more difficult

Rising money supply growth

Rising money supply growth, at 12.4% above our 9.1% forecast, constrains the RBI from trying to contain yields through quantitative easing ($105 billion Open Market Operations) as freely as in the past. It is for this reason BoFA expects the RBI to extend HTM (held to maturity) to its estimated additional borrowing of 4% of GDP/5.3% of NDTL (net demand and time liabilities) as well as buy foreign exchange ($17.2 billion) forward.



RBI Governor Shaktikanta Das heads the MPC, which is scheduled to announce its decision on Thursday. This is the 24th meeting of the MPC

Adequate forex reserves

Adequate foreign exchange reserves should provide room for the RBI to cut rates and support recovery. BoFA estimates that the RBI can sell $50 billion to defend the Indian currency in case of a speculative attack.

COMPILED BY DEV CHATTERJEE

Debt raising brings respite but financial condition is still fragile, say economists

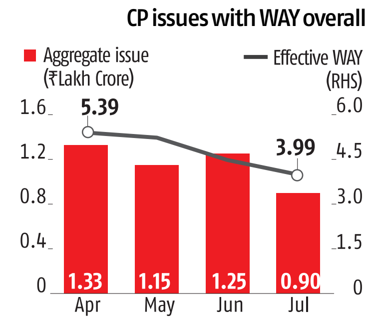
ANUP ROY
Mumbai, 5 August

SHORT-TERM DEBT RAISED IN FY21 (₹ in crore)

Month	Financial Institutions	Housing finance firms	NBFCs	MFIs	Total
April #	7,275	4,400	4,275	–	15,950
May	1,000	6,950	22,033	–	29,983
June	6,000	5,000	17,963	5	28,968
July *	2,650	1,775	19,406	10	23,841
Total	16,925	18,125	63,677	15	98,742

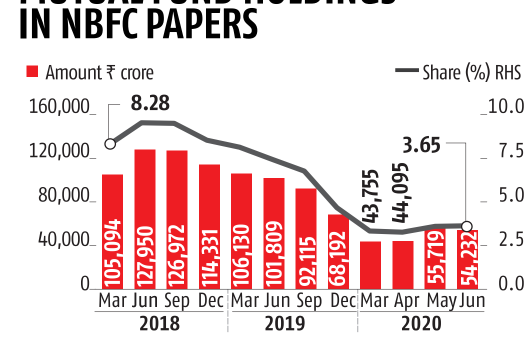
Source: SBI Research; # April data may not be exhaustive; *up to July 30

DOWNWARD TREND



Source: SBI Research; WAY – Weighted Average Yield

MUTUAL FUND HOLDINGS IN NBFC PAPERS



Source: SBI Research

There has been a spurt in bond and commercial paper issuances by private entities, especially non-banking financial companies (NBFC), and they are doing this at a cheaper rate than the pre-Covid levels.

At the same time, taking advantage of low rates overseas and relatively relaxed norms by the Reserve Bank of India (RBI), Indian companies are lining up to raise resources abroad.

While some suggest that this could indicate financial stability taking hold in the system, others are not so optimistic even though they agree that there has been some respite concerning the NBFC sector.

In his Ecowrap report, State Bank of India (SBI) group chief economic advisor Soumya Kanti Ghosh said there was a clear indication that the "RBI policy of constrained discretion in monetary policy making has yielded rich dividends." The rate transmission by banks has been the fastest in history, with banks cutting rates on an average by 72 basis points on fresh rupee loans in four months. In the first four months of the current fiscal year, CP issuances by the NBFC sector have been ₹98,741 crore, with the cost of borrowing declining by a sharp 140 basis points. "Contrary to popular narratives, several small mutual funds (MFs) with much lower rating (A3+ with an equivalent long-term rating at BBB) are also participating in the CP market. The spread between NBFCs and G-secs with equivalent tenure has also softened, on an average, by 30-35 basis points since the beginning of the current fiscal year, and most importantly, mutual fund investment has incrementally gone up by ₹10,000 crore," Ghosh wrote.

The rates have come down sharply because the RBI has lowered policy repo rate by 115 basis points since March, while responding to the Covid-19 crisis. The central bank was already in a rate cutting spree, and has lowered the policy rate by 250 basis points since February 2019. All eyes are now on Thursday's monetary policy announcement. Whether the central bank would extend the moratorium, or allow a one-time restructuring of loans will be keenly awaited.

Economists fear that the relative stability seen could be elusive, as the economy contracts and moratorium on repayment continues. Some also fear that the money raising spree is to hide losses.

"What if the money being raised is used for loss financing, and thereby, not using liquidity for real demand creation. If that is the case, we are potentially heading towards an even bigger crisis," said Prabal Banerjee, group finance director at the Bajaj group.

"In my opinion, the RBI must extend the moratorium till at least March 2021. If not, there will be a huge accumulation of non-performing assets (NPAs) by end-March 2021 in bank books and cleaning up those won't be easy," Banerjee said. He added, if banks are saddled with uncontrollable NPAs, then market capitalisation will be severely impacted. The capital market will be in negative and the government has to again recapitalise banks, which is entirely avoidable.

According to Gaurav Kapur, chief economist at IndusInd Bank, the financial stability pressure for the NBFC sector, especially related to market access and liquidity, has subsided compared to last year, However, the spread on government securities yield for NBFC papers remains high due to credit risk aversion. This is true particularly for ratings below AA.

"Asset-liability mismatch issues have been tackled, though market differentiation between better-rated NBFCs and others remains. The bigger issue on financial stability front, going ahead, would be asset quality deterioration, post lockdowns," Kapur said.

Markets have certainly improved, "but the economy is still looking in a very difficult place. The state of banks and the financial sector is still very poor," said Ananth Narayan, associate professor at SP Jain Institute of Management Research (SPJIMR).

While there is a semblance of financial stability, "a clearer picture will emerge after the moratorium ends," said Sameer Narang, chief economist at Bank of Baroda.

A large number of financial institutions have or are in the process of raising equity capital. The enhanced equity capital will act as a buffer against an anticipated increase in non-performing loans, Narang said. RBI's baseline assessment projects gross NPA ratio of banks to increase to 12.5 per cent in March 2021 from 8.5 per cent in March 2020, "An extension of moratorium or a restructuring for certain sectors, impacted by the pandemic, will give borrowers room to pay back the loans as per a new schedule."