

# FINSTREET JOURNAL

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## SPECIAL INTEREST ARTICLES



**Lebanon Financial  
Crisis**



**Neobanks**

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- Macroeconomic Indicators
- Corporate Earnings
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- Anecdotes from the Finance World
- Know Your Finance
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**FINSTREET**

THE PATH TO FINANCIAL EXCELLENCE

# MACROECONOMIC INDICATORS

## INDIA

Inflation Rate

Current: 7.59%

Previous: 7.35%

Frequency: Monthly

Consumer price inflation in India increased to 7.59% in January 2020 from 7.35% in December 2019, above expectations of 7.4%. The inflation accelerated for the 6th straight month to the highest level since May 2014. Vegetable prices continue to soar compared to last year. Inflation in that category rose to 50.19 percent in January compared to 60.5 percent in December. Other key food items

Like cereals, meat, milk and pulses are also now seeing prices rise at a quicker pace. Outside the food and beverages category, inflation in transport and communication rose to 6.08 percent from 4.77 percent in December. This is the second straight month that CPI has breached the upper band of RBI's inflation target of 4% - 6%. Reserve Bank of India had cited the risk posed by inflation as the primary reason for not cutting the interest rates earlier this month. High inflation rate will deter the RBI from cutting interest rates further or change its accommodative policy stance.



## CHINA

Inflation Rate

Current: 5.40%

Previous: 4.50%

Frequency: Monthly

China's annual inflation rate jumped to 5.4% in January 2020 from 4.5% in December, above market consensus of 4.9%. This was the highest inflation rate since October 2011 due to rising pork prices, stronger demand during the Lunar New Year holiday and the ongoing coronavirus outbreak. Food prices went up 20.6% YoY, the most since April 2008. Within the CPI, pork prices jumped 116 per cent, as city lockdowns and transport restrictions due to the coronavirus outbreak hurt supply and demand.

Worsening coronavirus situation could prolong the high prices which will not only hurt consumption domestically, but could push up prices globally, with extended shutdowns in China hurting supplies of various industrial goods and exported foods.

Source: [tradingeconomics.com](http://tradingeconomics.com)

## Germany

GDP Growth Rate

Current: 0.00%

Previous: 0.20%

Frequency: Quarterly

Germany's gross domestic product unexpectedly showed no growth in Q4 2019, after an upwardly revised 0.2% growth in Q3 and missing market expectations of a 0.1% advance, the federal statistics authority (Destatis) reported in preliminary statistics on Friday. Both household consumption and government spending slowed markedly, while investment in machinery and equipment was down. The new figures mean an annual growth rate of 0.6% in 2019, the worst growth since 2013. The zero growth is a reflection of broader eurozone slowness with headwinds from the US-China trade dispute and Brexit. The European Central bank has been trying to stimulate growth and inflation in the 19-country eurozone, with negative interest rates and bond purchases with newly printed money. Germany's manufacturing and export sectors have been sluggish, but consumer spending and services businesses has helped to keep the country out of recession. Germany's auto industry is also under stress due to regulatory changes and international competition. Europe's three biggest economies all stagnated or shrank in the last quarter of 2019.

Joel Johnson

| PGDM-Core | 2019-21



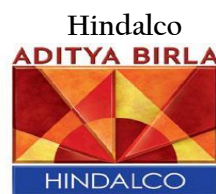
## Earning Results Summary

Hindalco's consolidated Profit After Tax stood at Rs.1062 crores in Q3 FY20, down by 24 per cent Y-o-Y.

Britannia Industries' consolidated Net Profit increased by 24% for the Quarter at Rs.373 crores.

Hiral Mody  
| MMS | 2019-21

## CORPORATE EARNINGS – Q3 FY2020



Hindalco's consolidated revenue for Q3 FY20 stood at Rs.29,197 crores compared to Rs.33,213 crores in the same quarter last year. Total EBITDA was at Rs.3,676 crores in Q3 FY20, down by 10 per cent Y-o-Y. Consolidated Profit before Exceptional Items and Tax was Rs.1,487 crores in Q3 FY20, down by 23 per cent. Profit After Tax (PAT) stood at Rs.1,062 crores in Q3 FY20, down by 24 per cent Y-o-Y. The consolidated net debt to EBITDA ratio was 2.65x as on 31 December 2019 versus 2.48x on 31 March 2019.

Mr. Satish Pai, MD, Hindalco Industries Limited, said, "For the past few years, Hindalco has continuously focused on improving plant operations. Despite global conditions, Novelis showed an increase in can and auto sheet shipments, spurred by growing consumer preference for sustainable packaging. In Q3 FY20, 80 per cent of our consolidated EBITDA was non-LME linked. In January 2020, Novelis successfully issued US\$1.6 billion bonds at attractive rates, reflecting the recognition and confidence in Hindalco-Novelis."

### Britannia Industries

Britannia Industries Ltd. (BIL), India's leading Food Company, reported consolidated revenue growth of 4% for the Quarter at Rs. 2,936 crores. Consolidated Net Profit increased by 24% for the Quarter at Rs. 373 crores. It reported consolidated revenue growth of 4% for the Quarter at Rs. 2,936 crores.

Mr. Varun Berry, MD, said, "We had a decent quarter in the face of an economic slowdown. Our revenue grew 4%, operating profit 11% & PAT by 24%. We chose to focus on strengthening the building block of the business rather than pushing sales in the face of a low offtake scenario. Our accelerated drive on cost efficiencies, reduction in wastage & leverage on fixed costs helped us deliver highest ever operating profits in the quarter on the back of a previous best quarter."

Source: Company Website



## US MARKET OVERVIEW

The Dow Jones Industrial Average closed at 29,398.08 with an increase of 1.02% since the past week. The S&P 500 Index closed at 3,380.16 with an increase of 1.58% over the week. The attention still remains on the corona virus and its effects as the number of cases increased and the companies in China are trying to re-open. The US market rose for the second straight week while the bond yield stayed unchanged. Also the economic growth is likely to have a modest hit this quarter due to the reduced air

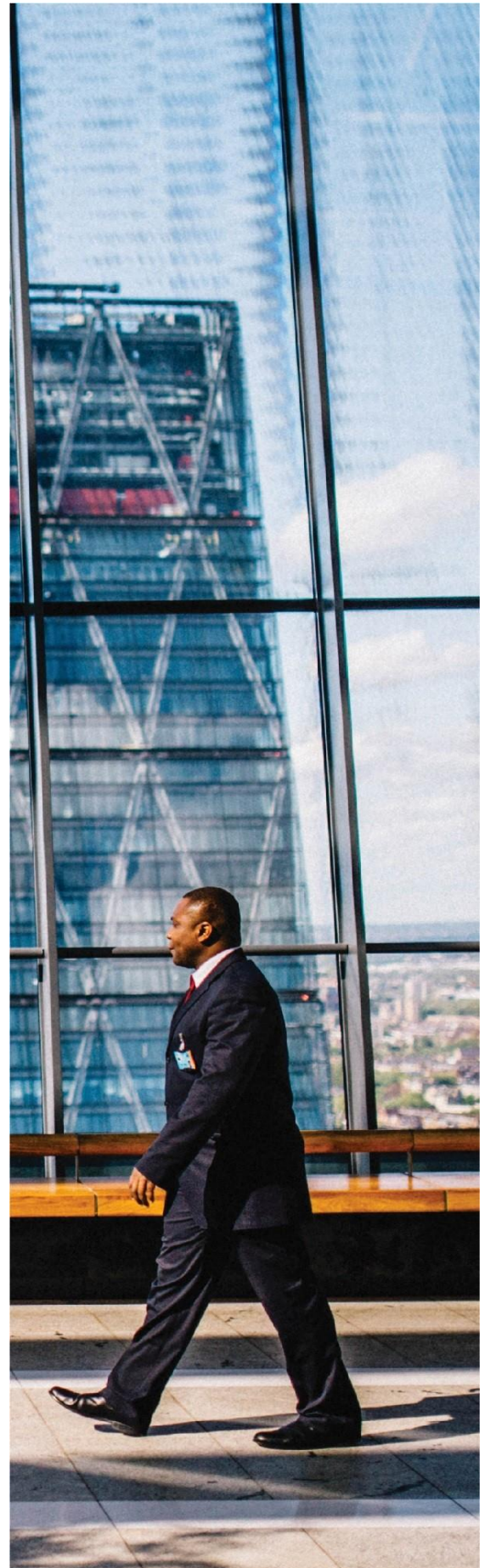
travel, international business activity and domestic company's foreign production and sales in China.

## OIL MARKET OVERVIEW

Brent Crude stood at 54.50\$/barrel 3.74% lower than the last week and the WTI Crude stood at 50.34\$/barrel 2.49% lower than the last week. Oil prices have fallen by more than a fifth since the outbreak of the virus in the city of Wuhan in China. The Brent Crude stood at \$57.32/barrel with an increase of 5.17% and the WTI Crude stood at \$52.25/barrel with an increase of 3.79% over the last week. The crisis in China due to the corona virus

and the widespread shutdown has affected the demand of oil. According to IEA the world fuel consumption which had previously been expected to grow by 800,000 barrels a day will be contracting to 435,000 a day. This will be marking the first quarterly contraction in more than 10 years. The expected decline in demand promoted the agency to cut its 2020 growth forecast by 365,000 to 825,000 barrels a day, the lowest since 2011.

***“The Dow Jones Industrial Average closed at 29398.08 with a rise of 1.02% since the past week.”***



# INDIAN MARKET OVERVIEW

Viren Palan  
| MMS | 2019-21

The 30-share BSE Sensex ended on 41,257.74 with an increase of 0.28% over the week. Similarly the NSE Nifty ended on 12,113.45 with an increase of 0.12% over the week. The Currency market had a slight growth over the week and the USD/INR stood at 71.58. Yes Bank has stated that it has received non-binding expressions from four investors recently. The lender will need to have

the RBI's approval on the size of the stake to be sold. It will also have to comply with SEBI's pricing guidelines for issuing new shares or convertible instruments. With a change in direction, Ajanta Pharma has been performing well and the stock touched a 52 week high of Rs.1483.40.

It has reported great earnings for third quarter of fiscal 2020. The net profit of the company increased from Rs.66.90 crore in Q3FY19 to Rs.107.55 crore in Q3FY20.

Source: CNBC, Bloomberg Quint

## ANECDOTES FROM FINANCE WORLD

Akshita Bahl  
| PGDM-FS | 2019-21

### Lebanon Financial Crisis

Lebanon, a politically troubled but upper middle-income Middle Eastern state, is in the midst of a deep financial and political crisis. Banks have been intermittently closed since mid-October and depositors across the country are finding it impossible to gain access to dollar balances. Lebanon has a long history of high public debt and external imbalances that dates back to the post-civil war reconstruction period of the 1990s. While a series of donor conferences, co-ordinated by then French president Jacques Chirac over 2001-2007, pledged substantial financial assistance, it never managed to restore fiscal and external sustainability. What's clear in retrospect is that the period immediately following on from the global financial crisis of 2008 — when about \$30bn of capital (around 100 per cent of GDP at that time) flew into Lebanon — was rendered a wasted opportunity to turn things around.

The majority of the inflows resulted from the repatriation of foreign assets in the context of low global interest rates. While the central bank of Lebanon (the Banque du Liban, known as the BdL) used part of these inflows to beef up its reserves, about one-third ended up financing the expansion of an already large current account deficit. More than half of the expansion in the current account deficit, meanwhile, was linked to an increase in primary (net of interest) government expenditure. Inflows also led to a burst in inflation, which peaked at 10 per cent in 2008, and to a real appreciation of the Lebanese pound.

The simultaneous desire to keep reserve levels high and to bail out troubled banks eventually led to the implementation of unconventional - and controversial — financial engineering policies. These included the provision of subsidies to commercial banks that were willing to increase dollar deposits at the central bank. Such policies introduced large fiscal costs. But they also, in other respects, resembled a Ponzi scheme since the central bank was paying ever higher interest rates to attract dollar funds, even though those funds were not generating sufficient returns to repay the interest and capital. Paradoxically, the attempt to protect gross foreign reserves then led to a large reduction of the central bank's net reserves which, according to credit rating agencies, are now negative to the tune of 100 per cent of GDP.

It was after the mysterious resignation and disappearance of Prime Minister Hariri in Saudi Arabia in November 2017, that resident bank deposits truly collapsed, interest rates spiked, bank lending to the private sector declined and GDP growth dropped to 0.25 per cent. However, the increase in interest rates only further deteriorated the fiscal situation which then properly fell apart with the collapse of foreign deposits in early 2019.

Source: New York Times

# KNOW YOUR FINANCE

## NEOBANKS

### What are Neobanks?

A neobank is a type of direct bank that is 100% digital and reaches customers on mobile apps and personal computer platforms only. Neobanks do not operate traditional physical branch networks. Neobanks are technology-driven and may adopt machine learning and artificial intelligence technologies whilst not being constrained by legacy systems of traditional banking competitors.

### How does a Neobank work?

Apps that facilitate the administration of accounts and credit cards are typical Neo Banks. They rely on customers having an account with an underlying Bank and corresponding bank license, but offer a user-friendly interface.

Put simply, a 'Neo Bank' is a bank sitting on a 100% digital and mobile platform (i.e. no physical branches), but more than that, its systems are 100% new too. This means it is not simply a digital front end to a traditional (and mostly cumbersome from a technological perspective) bank.

Currently, the digital front ends that have been added to traditional banks represent just a digital manifestation of the traditional banking experience.

### Neobanks in India

- **NiYO**

NiYO offers digital banking solutions for salaried employees across sectors. Presently, it claims that the fintech startups cater to over five lakh customers and has partnered with 3000 corporates.

- **811 by Kotak**

811 is a digital bank account product by Kotak Mahindra Bank.

The product was launched in March 2017 and is named after the day demonetisation was announced in India – November 8, 2016. It is a zero maintenance bank account, along with a virtual card and one can also earn a 6 per cent interest per annum on their savings.

- **InstantPay**

At the beginning of FY20, InstantPay launched its neo banking solutions targeting to the SMEs sector. The platform will help SMEs manage their payments, collections and financial requirements on a single interface.

*Source: Investopedia*

# COMPANY IN FOCUS

## IndusInd Bank

IndusInd Bank, caters to the needs of both consumer and corporate customers. Its technology platform supports multi-channel delivery capabilities. As on June 30, 2019, IndusInd Bank has 2000 branches and 2285 ATMs spread across geographical locations of the country. The Bank also has representative offices in London, Dubai and Abu Dhabi. The Bank believes in driving its business through technology. It enjoys clearing bank status for both major stock exchanges – BSE and NSE - and major commodity exchanges in the country, including MCX, NCDEX, and NMCE. IndusInd Bank on April 1, 2013 was included in the NIFTY 50 benchmark index.

Indusind Bank has emerged as a strong player, which has been able to post healthy NIMs/low NPAs across interest rate and asset quality cycles consistently for several years. The bank has transformed itself, not only developing strong business verticals such as vehicle finance, retail loans, credit cards, business banking, etc but also successfully establishing fee-generating verticals, which diversify its income and lead to better return ratios. It has managed credit costs well and industry-best NIMs are key differentiators for the bank. The Bank has won accolades for CSR Impacts Award and an honourable mention by Ministry of Corporate Affairs.

It has taken various initiatives for this year which include retail asset growth, intensive collaboration with fintech systems, robot-based process automation and para-banking (insurance, asset management, retail broking).

Capital Adequacy ratio stood at 15.43% (incl 9M FY20 Profits), client base stood at 24 million after growing by 2 million from the previous quarter and the CASA stood at 40%. Net interest margin was 4.15%, Net NPA 1.05% and Yield on Advances stood at 11.97%. Credit growth surged by 20% and deposit growth was up by 23%.

The bank received CRISIL A1+ rating for the certificate of deposit program, AA+ for infra bonds program and AA for additional tier 1 bond program.

For Q3 FY20, the Bank reported a revenue of Rs 4864 Crores and a consolidated net profit of Rs. 1309 Crores, which was a 33% YoY growth. 50.7% of the shareholders are foreign institutions followed by 13.04% held by promoters.

*Source: Company website*

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