◉ INTERIM BUDGET 2024-25

VIEWSROOM.

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It's all about deft fiscal management

Along expected lines, the FY25 Interim Budget underscores policy continuity on the back of India's economic resilience despite global adversities. In my opinion, there are three key takeaways for the economy.

The finance minister has tightened purse strings by sticking to the promise of gradual fiscal consolidation. In a surprise move, the FM fine-tuned the target for the FY24 fiscal deficit to 5.8 per cent of GDP from 5.9% earlier. Further, the target for the fiscal deficit has been lowered to 5.1 per cent of GDP in FY25 — better than the consensus expectation of 5.3-5.4 per cent. In my assessment, the consistent delivery of a fiscally responsible budget has been India's differentiating factor in preserving macro-financial stability in the post-pandemic recovery phase.

Fiscal prudence has its macro advantages. Gross g-sec borrowing by the central government is budgeted for a moderation to ₹14.13-lakh crore in FY25, the lowest in three years. This will free up space for corporate sector borrowings and, more importantly, drive interest rates lower, thereby benefiting the banking and financial sectors at large.

FOCUS ON PUBLIC CAPEX

The budget carries forward its commitment for driving investments in the economy. Total capex spend is slated to touch 3.4 per cent of GDP in FY25 — the highest in the last two decades. Capex thrust will be riding on higher allocations for the transportation sector, especially railways, which is supposed to benefit from the proposed creation of three major economic corridors under the PM Gati Shakti program. In addition, the focus on green infrastructure will find some fillip with the proposed 100 mt capacity creation for coal gasification and liquefaction, along with the adoption of e-buses for the public transport network. Further, a new scheme would be launched for strengthening deep-tech technologies for defence purposes and expediting 'atmanirbharta' along with the creation of five integrated aquaparks.

The Budget carries forward its commitment for driving investments in the economy

India's investment rate has improved from its recent low of 27.3 per cent of GDP in FY21 to 29.8% in FY24, as per the NSO. With a continued thrust on public capex, I believe the investment ratio could increase further to 30-31 per cent in FY25. T

This will not just provide avenues for credit creation; it will also help ancillary sectors like real estate, MSMEs, hospitality, etc., which have high backward and forward linkages to infrastructure creation.

With PM Awas Yojana (Grameen) close to achieving its target of 3 crore houses, the scope has now been extended to another 2 crore houses for the next five years. In addition, the FM promised that the government will soon launch a scheme to help deserving sections of the middle class 'living in rented houses, slums, chawls, unauthorised colonies' to buy or build their own houses.

The FM highlighted that 1 crore households will obtain 300 units of free electricity per month through rooftop solarisation. This is expected to generate annualized household savings of ₹15,000-18,000. This dovetails with the PM KUSUM Scheme, which is doing a splendid job of promoting energy security through solar capacity creation in rural areas.

The healthcare coverage under the Ayushman Bharat scheme will be extended to all ASHA workers, Anganwadi workers, and helpers. I believe the micro-emphasis on affordable housing and its integration with the green energy objective is a masterstroke and a win-win for all stakeholders.

This could get chiselled further if the government incentivises female home ownership. The housing credit to GDP ratio, which is expected to touch a new high of 8.7 per cent in FY24, could see further gains in FY25 amidst new launches and upward movement in home prices in recent quarters.

SETTING THE STAGE FOR 7-IN-7

In the near term, I expect the spirit of fiscal prudence with a targeted focus on job-creating sectors to get further policy attention in the FY25 final budget, which could get tabled later in June or July 2024.

From an investor perspective, the FY25 Interim Budget has maintained the government's focus on high-quality growth, an attractive feature for equity investors, while pleasantly surprising the extent of fiscal consolidation and market borrowing, something that debt investors are going to love. This will boost investor sentiment while strengthening the foundation for a structurally higher growth trajectory — this, in my opinion, will take India to a 7 trillion dollar economy in 7 years.

Ahead of RBI deadline, most banks make AIF provisions in Q3

PRUDENT. In Oct-Dec, 5 banks made provisions of ₹2,334 cr against their AIF portfolios

Anshika Kayastha
Mumbai

Amid few options for existing investments and the hope of some easing in guidelines by the regulator, most private banks made provisions against their investments in alternative investment funds (AIFs) during the quarter ended December 2023.

In October-December, five private banks made provisions of ₹2,334 crore against their AIF portfolios, leading with HDFC Bank, which had the maximum provisions of ₹1,220 crore, and ICICI Bank, with provisions of ₹627 crore.

In the earnings call, HDFC Bank CFO Srinivasan Vaidyanathan said that the fair value of the investments was about ₹500 crore higher, which reflects that there is good value in the assets, but the bank has chosen to make 100 per cent provisioning on a prudent basis. He added that if the RBI makes any concessions in the future, the bank will accordingly take a call. I

ICICI Bank said that it has not.

RBI'S CAUTION

The RBI had, on December 19, asked lenders not to invest in AIFs that have direct or indirect downstream investments in companies that were borrowers in the last 12 months. Further, such existing investments were required to be liquidated in 30 days or fully provided for.

AIF investments are usually long-term in nature. With AIFs turning down redemption requests due to their inability to sell off investments at short notice, lenders have been left with little option but to provide for these portfolios.

As of the deadline of January 19, 2024, AIFs had seen minimal redemptions, as per industry sources.

Exposure to AIFs

	Provisions made (₹ cr)
HDFC Bank	1,220
ICICI Bank	627
Kotak Bank	190
Axis Bank	182
RBL Bank	115

Detailing its total exposure at ₹207 crore, Axis Bank said that of this, 46 per cent was in government-owned or sponsored entities, and the bank did not have exposure of over ₹50 crore in any fund. Further, 85 per cent of the portfolio that overlaps with the RBI circular includes 'A-' and above-rated companies.

RBL Bank MD and CEO R Subramaniakumar said that a bulk of the investments are in venture debt funds, which have been made over years for building inroads into new-age digital businesses. The bank made provisions of ₹115 crore.

IndusInd Bank said that it has an overall exposure of about ₹113 crore in AIFs. However, the bank is exploring selling them down and seeing enough demand, which is why it chose not to make additional provisions during the quarter.

While Federal Bank has no exposure to AIFs, MD and CEO Shyam Srinivasan said that banks have made a representation to the regulators, who might look at exposure differently for various banks.

EASING NORMS

Reports suggest that the central bank is considering some relaxations in norms sought by banks, including allowing investments in stressed asset funds, which may include banks' existing borrowers.

Banking system liquidity deficit down to ₹1.40-lakh cr

Our Bureau
Mumbai

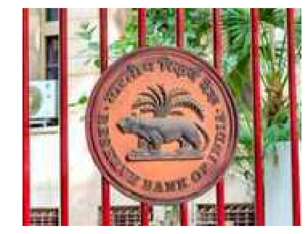
The liquidity deficit in the banking system shrank to about ₹1.40-lakh crore on February 4 from the recent peak of ₹3.46-lakh crore (on January 24th) in view of the government stepping up spending, per RBI data.

The declining liquidity deficit also had a salubrious effect on the overnight money market rates, with the weighted average rate easing to 6.33 per cent from around 6.50 per cent to 6.75 per cent last month.

The Reserve Bank of India (RBI) has been keeping liquidity tight in the banking system in tune with the "withdrawal of accommodation" monetary policy stance to ensure that inflation progressively aligns with the target while supporting growth.

V Rama Chandra Reddy, Head of Treasury, Karur Vysya Bank, attributed the reduction in liquidity deficit to the government releasing contract payments, salaries, etc. in the first week of February.

However, the liquidity deficit could increase to ₹2-lakh crore-₹2.5-lakh crore as there will be outflows from the banking system due to GST payments in mid-February.



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RBI Governor Shaktikanta Das, in his December 2023 monetary policy statement, noted that the evolution of liquidity conditions has been in alignment with the monetary policy stance.

"Going forward, government spending is likely to further ease liquidity conditions. On our part, the Reserve Bank will remain nimble in liquidity management," he then said.

Sundaram Finance posts 24% rise in Q3 net profit

Our Bureau
Chennai

Sundaram Finance Ltd. (SFL) has reported a 24 per cent increase in its standalone net profit to ₹300 crore for the quarter ended December 31, 2023, compared with a net profit of ₹243 crore in the year-ago quarter, aided by strong growth in income.

The board of the company has declared an interim dividend of ₹14 per share (140%) for 2023-24.

The Chennai-headquartered NBFC's interest income grew by 33 per cent to ₹1,195 crore in the December 2023 quarter (₹897 crore in the year-ago quarter), while total income grew by 34 per cent to ₹1,352 crore when compared with ₹1,011 crore.

Finance costs were higher at ₹694 crore compared with ₹458 crore in Q2FY23. Total expenses stood at ₹962 crore when compared with ₹692 crore in Q2FY23.

Disbursements in the December 2023 quarter rose 15 per cent to ₹6,524 crore compared with ₹5,653 crore a year ago.

"Q3 activity in the automotive space was well below expectations of the festival period, with several asset classes declining year-on-year and others growing in single digits. Despite this, Team Sundaram has delivered a tremendous performance," said Rajiv Lochan, Managing Director of the Company.

For the nine months ended December 31, 2023, the company's net profit grew 23 per cent to ₹.948 crore when compared with ₹772 crore in the same period last year.

Harsha Viji, Executive Vice Chairman, Sundaram Finance

Interest income was higher at ₹3,283 crore (₹2,551 crore), while disbursements rose 27 per cent to ₹19,954 crore (₹15,707 crore in 9M FY23), with all asset classes and geographies witnessing significant growth.

Harsha Viji, Executive Vice Chairman of the Company, said it had delivered a strong nine months and Q3 of FY24 despite lower-than-expected economic activity during the quarter. "Assets under management grew by 26 per cent to a new high of ₹42,172 crore; net stage 3 assets closed at 1.02 per cent over the prior year period," he added.

The gross NPA dropped to 2.61 per cent in Q3FY24 from 3.97 per cent a year ago, while the net NPA decreased to 1.82 per cent from 2.78 per cent as of December 31, 2022.

"Our group companies in asset management, general insurance, and home finance have continued their trajectory from FY23 and recorded strong results, added Viji.

LIC HFL eyes 15% loan growth in FY25

Our Bureau
Mumbai

LIC Housing Finance Ltd. (LIC HFL) expects 15 per cent y-o-y loan growth in FY25, with an increased focus on growing loans in the affordable housing segment.

Tribhuwan Adhikari, Managing Director and Chief Executive Officer, attributed the modest 5 per cent y-o-y growth in outstanding loan portfolios in the third quarter to the company being in a consolidation mode, including major organisation revamps and technology upgrades.

The outstanding loan portfolio of LIC HFL was up 5 per cent y-o-y and stood at ₹2,81,206 crore as of December 2023, comapared with ₹2,68,444 crore as of December 2022.

LOAN PORTFOLIO

Within the overall loan portfolio, individual loans increased 6 per cent y-o-y to ₹2,72,637 crore, and project loans declined 21 per cent y-o-y to ₹8,569 crore.

In the reporting quarter, total disbursements declined 6 per cent y-o-y to ₹15,184 crore (₹16,100 crore in Q3FY23).

Disbursement in the individual home loan and project loan segments was down 5 per cent y-o-y (at ₹12,868 crore) and 12 per cent y-o-y (at ₹375 crore), respectively.

Non-housing individual loan disbursement was down 12 per cent y-o-y at ₹1,726 crore, whereas non-housing commercial loan disbursement rose 76 per cent y-o-y to ₹215 crore. Adhikari said affordable home loans will pick up steam in the next two years, with this portfolio expected to grow from the current 8-10 per cent of LIC HFL's overall loans to 20-25 per cent. There is tremendous demand for affordable home loans, he added.

According to CRISIL, India's mortgage market is divided into two segments by the ticket size of the housing loan at the time of disbursement: loans with a ticket size of more than ₹15 lakh and loans with a ticket size of ₹15 lakh and below. The former can be called the normal mortgage market, which is prominent in the metro and urban areas, and the latter, which generally includes houses on the outskirts of these areas and semi-urban and rural areas, can be defined as an affordable housing market.

The LIC HFL chief said about ₹2,000 crore worth of loans in the project loan portfolio are non-performing. The company has initiated measures, including a legal route, negotiation with the borrower, and a one-time settlement.