Rising yields a worry; RBI should act: Bond dealers

Rise in interest rates could hit corporate earnings, hinder economic recovery

Mumbai, 3 February

■ he post-Budget rise in bond yields could hinder the fledgling growth impulses, and the central bank may have to once again assure the market that yields would be kept under check by providing ample support, say experts.

Much of those assurances can be expected on Friday, when the Monetary Policy Committee (MPC) announces its decision on policy rates, which are likely to be on hold for an extended period. The bond yields have moved up at least 15 basis points after the Budget, closing at 6.10 per cent on Wednesday. The mood in the market has soured after the government said it would borrow ₹12 trillion for the next fiscal year and an extra ₹80,000 crore this fiscal year.

For the better part of 2020, the yields have remained below 6 per cent. If the yields close the financial year at a substantially higher level, there would be heavy losses in the books. The Reserve Bank of India (RBI) has run a negative interest rate in the economy, and let the three-month borrowing cost dip to 3 per cent, far below the overnight policy rates. If the yields rise, much of those would be undone.

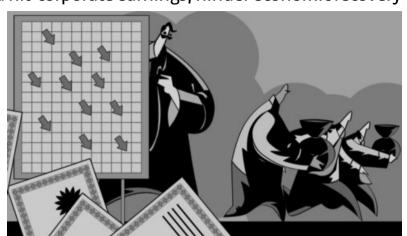
That won't be good for the economic

"The larger-than-expected borrowing will put pressure on the yields and will eventually hinder transmission and crowd out private borrowing," said Ashhish Vaidva, head of treasury at DRS Rank

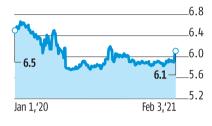
Still, mopping up of excess liquidity would continue as the market can function well with even ₹2 trillion of surplus liquidity, against more than ₹6 trillion now.

The rise in interest rates could also hit the corporate earnings. Most companies, including banks and non-banking finance companies, reported a decline in their interest burden in the first nine months of FY21 (April-December 2020) following a sharp fall in bond yields.

For example, the lenders' (banks plus non-bank) combined interest cost was up just 1.4 per cent year-on-year (YoY) during the nine months in fiscal 20-21 (9MFY21), compared to a 17.1 per cent rise Debendra Dash, head of asset liability altering the borrowing cost for the for the same period a year ago. The



10-YEAR G-SEC YIELD (%)



lenders' interest cost in the December 20 quarter was the lowest in the last seven quarters even as the industry revenue reached a new high in the third quarter, a Business Standard analysis shows. This resulted in a sharp rise in lenders' interest margins and profits, going up nearly 27 per cent YoY (excluding YES Bank numbers).

Low interest rates also boosted the bottom line of mainline manufacturing and service sector companies. The combined interest cost of companies, excluding financial companies, was down 4.9 YoY during 9MFY21. This cushioned the blow from 15.5 per cent y-o-y decline in net sales during the period. This, in combination with a dip in raw material cost, allowed companies to report 9.2 per cent YoY growth in net profit in the April-December 2020 period.

"India is trying to build a manufacturing base. A higher manufacturing cost because of higher interest components will make us uncompetitive," said management at AU SFB. "Global interest

rates are low and any rise in interest rates will attract more capital, which will make the rupee appreciate and impact our exports.

According to Gopal Tripathi, head of treasury at Jana SFB, interest rates would naturally rise with growth, and everyone would be prepared for that in the next year. "Given the economic recovery and that normalcy is returning, the RBI's tolerance level to keep the 10-year yield in check can go up by 40-50 basis points," said Tripathi.

But the central bank probably won't let rates rise in this current fiscal year. The RBI gave some of these indications by cancelling the primary auction on

"The market will be looking for the tone and guidance from the MPC and RBI, and how the central bank strikes a balance between keeping liquidity and managing inflation expectations along with the oversupply of government bonds," Vaidya said.

The RBI can technically increase the reverse reporate from its current 3.35 per cent and at the same time give a larger amount through long-term repo operations (say, for one or three years) along with some periodic open market operations (OMO) calendar, Vaidya said. OMO is used to buy bonds from the secondary market to keep demand robust.

These measures can flatten the vield curve with the long end remaining well anchored and, thereby, not materially

Monetary policy will continue to have role in supporting fiscal stimulus



SAUGATA BHATTACHARYA

The FY22 Budget has definitively shifted the fulcrum of recovery away from the earlier dominant monetary stimulus, manifest in the ostensible Survive, Revive and Thrive strategy, to fiscal policy. Yet monetary policy will play not just a supporting, but an equal, flanking role in reinforcing the government's expenditure boost inter alia by anchoring interest rates. This will need to be accompanied by managing a gradual, calibrated normalisation of the accommodative stance in order to reduce potential financial stability risks.

The MPC will keep the policy repo rate on hold, unanimously, despite the prospect of a drop in CPI inflation to 5 per cent in Q4 and then likely to average 4.5 per cent in FY22. The accommodative stance will be maintained. Not only are there

continuing risks from higher global inflation (metals MONETARY consumption ex-China was very POLICY REVIEW strong in Q4'20), a quicker and seemingly more broad-based recovery in India might push inflation. Consensus forecasts on crude in 2021 remain in the \$60/barrel range. The effects of the higher government $spending\,envisaged\,in\,Q4\,of\,FY21\,also$ need to be monitored.

Having said this, initial readings of the set of leading and concurrent indicators we track suggest a slight tick down of economic activity in January. Sustaining the recovery deep into FY22, and then pushing up India's potential growth upwards of 7 per cent will not be easy.

Increasing credit, more broadly the total flow of funds, to borrowers will need to complement the fiscal measures to sustain the recovery momentum. We had expected the Budget to have expanded the scope of credit guarantees following the template of the fairly successful ECLGS model for MSMEs, particularly for farm loans. While this did not happen. details of operationalising the new institutions and mechanisms which have been proposed will need to be monitored, to gauge their likely impact on credit flows in the medium term. As the forbearance measures are gradually rolled back, the resulting stress on loan portfolios will also be a decision factor.

Even if inflation stabilises at around 4.5 per cent, there is virtually no space for any cut in the reporate. As recovery progresses, policy and short-term rates will need to be taken up into positive real territory, reversing the deep negative real rates we have had for most of 2020.

The US Fed is likely to start tapering sometime later this year, and will contribute to increasing global volatility with spillovers to EMs, although probably weaker than the 2013 episode. Hence, policy statement and communication will be about

keeping markets stable while the normalisation process is taken forward in baby steps.

Although the time for initiating normalisation is still distant, markets will gradually need to be prepared for tightening financial conditions. Yet, we expect the autonomous

 $drivers\,of\, liquidity\, to\, add\, to\, the\, current$ surplus in FY22. Hence, the design of the normalisation process, including the timing of the expected hikes in the reverse repo accompanying liquidity management, will be crucial.

Forward guidance plus signaling through OMOs, twists, auction yield cut-offs, variable rate reverse repo auctions, forex market interventions, etc, will be part of communication strategy

The author is executive vice-president and chief economist, Axis Bank

Sticking points in India-US mini trade deal fixed: **Commerce secy**

INDIVJAL DHASMANA New Delhi, 3 February

Commerce Secretary Anup Wadhawan on Wednesday said the negotiations over India-US mini trade deal are ongoing and that the contentious points have largely been addressed. "There are no sticking points. Bilateral discussions never end," said Wadhawan.

The two countries are negotiating a trade package to iron out the chinks and promote two-way commerce.

India has demanded resumption of export benefits to certain domestic products under the Generalised System of Preferences, and greater market access for its products from sectors like agriculture, automobile, auto components, and engineering.

Equalisation levy

Wadhawan reiterated the country's stand that it does not agree with the United States Trade Representative (USTR) report that New Delhi's move to impose 2-per cent equalisation levy on foreign e-commerce firms discriminates against American companies.

"We do not agree with that conclusion," said Wadhawan.

Budget & exports

Wadhawan said exports are picking up and will soon reach pre-Covid levels.

He said the Budget measures, such as provisions relating to countervailing duties and anti-dumping duty, a scheme for mega investment textile parks, substantial investments in the development of modern fishing harbours an fish landing centres, Operation Green scheme for the agriculture sector, will enable growth, diversification, and technological enhancement of India's exports.

Customs duties

Wadhawan said the broad principle is that it should do away with the inverted duty structure and increase competitiveness of exports. He said all Customs duties are within the bound duty rates committed by India in the World Trade Organization.

"Our stance is clear," he said.

India had opted out of the deal in 2019. The Regional Comprehensive Economic Partnership (RCEP) says its doors to India are open.

SHIVAM AUTOTECH LTD

SHIVAM AUTOTECH LIMITED CIN: L34300HR2005PLC081531

Registered Office: 10, 1st Floor, Tower-A. Emaar Digital Greens. Sector-61, Golf Course Extension Road, Gurugram, Haryana-122102 Tel: 0124-4698700: Fax: 0124-4698798

Email id: info@shivamautotech.com; Website: www.shivamautotech.com **NOTICE**

Notice is hereby given, pursuant to Regulation 47 read with Regulation 29 & 33 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, that the meeting of the Board of Directors of the Company will be held on Friday, the 12th day of February, 2021, to consider, approve and take on record the Unaudited Financial Results of the Company for the quarter and nine months ended on December 31, 2020 along with other business matters

The Notice is also available on the website of the Company www.shivamautotech.com and that of the BSE Limited (www.bseindia.com) and the National Stock Exchange of India Limited (www.nseindia.com). By order of the Board

For Shivam Autotech Limited Samta Bajaj

Date: February 03, 2021 Place: Gurugram

Company Secretary M.No. 50269



HINDALCO INDUSTRIES LIMITED

I. Office: Ahura Centre, 1st Floor, B wing, Mahakali Caves Road, Andheri (East), Mumbai-400 093, Tel No. 6691 7000 Fax No. 6691 7001 Email: hindalco@adityabirla.com CIN No.: L27020MH1958PLC011238 Website: www.hindalco.com & www.adityabirla.com

NOTICE is hereby given pursuant to Regulation 29 (1) read with Regulation 47 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, that a meeting of the Board of Directors of the Company will be held on Wednesday, 10th February, 2021 to consider amongst other items of agenda the Unaudited Standalone and Consolidated Financial Results of the Company, for the quarter and nine months ended 31st December, 2020.

The information contained in the notice is also available on the Company's Exchanges viz: BSE Limited – www.bseindia.com and National Stock Exchange of India Limited www.nseindia.com.

For HINDALCO INDUSTRIES LIMITED

Place: Mumbai

Date: 3rd February, 2021

ANIL MALIK President & Company Secretary

Services PMI rises for 4th month Price discounting strategies helped Inflation a concern;

firms confident of a rise in output

DILASHA SETH New Delhi, 3 February

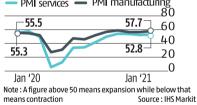
Activity in the services sector expanded for the fourth straight month in January as the Covid-19 vaccination roll-out drove showed on Wednesday. The IHS Markit India Services Business

Activity Index rose to 52.8 in January, from 52.3 in December, suggesting the pace of growth was moderate. The 50-point mark separates expansion from contraction. "The service sector enjoyed good levels

of activity in January, with new business volumes rising for the fourth successive month and growth rates for both measures picking up from December," said Pollyanna De Lima, Economics Associate Director at IHS Markit. "The sector looks set to sustain growth and confidence towards hiring may improve as Covid-19 concerns diminish.

Though the pace of growth accelerated





from December, the headline figure remained below its long-term average of pace of growth, the survey said.

The rise in new business continued to be driven by the domestic market even as new export work dropped further as travel restrictions and the pandemic dampened

total new orders. Marketing efforts, the reopening of some establishments and strengthening demand supported the increase in sales. The goods and services tax collection touched a record high of ₹1.19 trillion in January. On the inflation front, input costs

increased for the seventh straight month, with monitored companies reporting higher prices for fuel and a wide range of materials. "The main area of concern is the extent to which costs are rising a the services economy, with the rate of inflation remaining above trend despite easing from December," Lima said. Besides, higher costs have prevented

firms from taking on additional staff, with the PMI survey showing a second successive fall in employment.

Firms were confident of a rise in output in the next 12 months. Positive sentiment was supported by beliefs that the roll-out of vaccines would underpin demand growth and improvements in the wider economy. The overall degree of optimism was at an 11-month high.

The composite index, including manufacturing and services, edged up to 55.8 in January, from 54.9 in December.

NOTICE CUM ADDENDUM

SBI MUTUAL FUND

NOTICE CUM ADDENDUM TO THE SCHEME INFORMATION DOCUMENT / KEY INFORMATION MEMORANDUM OF SBI SMALL CAP FUND

Further to our notice-cum-addendum dated September 04, 2020, notice is hereby given that, in terms of enabling provision of the Scheme Information Document of SBI Small Cap Fund ("the Scheme"), SBI Mutual Fund Trustee Company Private Limited. Trustees of SBI Mutual Fund has decided to make following changes in the Scheme, with effect from February 04, 2021:

- a. Fresh registration through SIP / STP-in on or after February 04, 2021 in the Scheme will be capped at ₹25,000/- per month per PAN (first holder / guardian PAN) for daily, weekly, monthly and quarterly frequency
- b. The limits for various frequencies will be as under:
- Daily SIP / STP-in: ₹1,250/-
- Weekly SIP / STP-in: ₹6,250/-• Monthly SIP / STP-in: ₹25,000/-
- Quarterly SIP / STP-in: ₹75,000/-
- c. There would be no limit on the number of applications through SIP / STP-in. An investor can give multiple applications for SIP / STP-in in the Scheme, provided the total investment amount irrespective of frequency of all applications received on or after February 04, 2021 is less than or equal to ₹25,000/ per month per PAN (first holder / quardian PAN)
- e. SIP Top-up facility, Flex STP-in, CASTP-in, DTP-in, and Swing STP-in will not be available in the Scheme.

d. SIPs will not be available under Semi-annual and Annual frequency in the Scheme.

All other terms and conditions pertaining to SIPs / STPs remain unchanged under the Scheme The AMC reserves the right to reject the application and refund the amount without any notice to the investor, if the application made under the Scheme is not in line with the applicable provisions of the

f. All on-going / existing SIPs. STP-in registered before February 04, 2021 will continue to be processed

scheme related documents. Further, the Trustees of SBI Mutual Fund may at their sole and absolute discretion decide to close the investment under the Scheme again at any time All other terms and conditions of the Scheme remain unchanged. This addendum forms an integral part of the Scheme Information Document / Key Information Memorandum of the Scheme as amended from

Investors are requested to kindly take note of the above.

For SBI Funds Management Private Limited Sd/-

Vinay M. Tonse

Place: Mumbai Managing Director & CEO Date: February 03, 2021

Asset Management Company: SBI Funds Management Private Limited (A Joint Venture between SBI & AMUNDI) (CIN: U65990MH1992PTC065289), Trustee: SBI Mutual Fund Trustee Company Pvt. Ltd (CIN: U65991MH2003PTC138496), Sponsor: State Bank of India Regd Office: 9th Floor, Crescenzo C- 38 & 39, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai - Tel: 91-22-61793000 • Fax: 91-22-67425687 • E-mail: partnerforlife@sbimf.com • www.sbimf.com

> Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

SBIMF/2021/FEB/01

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Mumhai - 400013

E-mail: subs_bs@bsmail.in

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53.3 and was consistent with a moderate

international demand for services.

RBI makes risk-based internal audit mandatory for select NBFCs, UCBs

Mumbai, 3 February

The Reserve Bank of India (RBI) on Wednesday introduced a risk-based internal

non-bank lenders and urban co-operative banks (UCBs). All deposit-taking nonbanking financial companies (NBFCs), NBFCs with an asset size of ₹5,000 crore, and UCBs with an asset size of ₹500 crore

will have to implement the

audit (RBIA) system for select

system by March 31, 2022. This, the RBI said, will enhance the efficacy of internal audit systems and processes followed by NBFCs and UCBs. The central bank had introduced RBIA for scheduled commercial banks (SCBs) in 2002.

These entities already

but by and large they have focused on transaction testing, checking accuracy and reliability of accounting records and financial reports,

WHAT CHANGES

- All deposit-taking NBFCs & those with asset size of ₹5,000 cr
- have to implement the audit system ■ UCBs with asset size of ₹500 cr, too, need to implement it RBI has asked the entities concerned to implement it by March 31, 2022
- These have to form a committee of senior executive to transition into this system
- This committee will formulate an action plan and report to the board

adherence to legal and regulatory requirements, etc.

As these entities have grown in size and become systemically important, the central bank felt different audit systems for lending entities, engaged in financial intermediation of similar nature, has created inconsistencies, risks and gaps.

The RBI has been focushave internal audit systems, ing on bringing the supervisory regulations of NBFCs, UCBs on a par with banks after some recent defaults. These firms, especially NBFCs, have enjoyed light-

touch regulation from the RBI which has enabled them to grow at a faster rate.

"As SCBs, NBFCs and UCBs face similar risks by virtue of being engaged in similar financial intermediation activities, their internal audit systems also need to broadly align while keeping in mind the principle of proportionality," the RBI said.

RBIA is an audit methodology that links an organisation's overall risk management framework and provides an assurance to the board of

agement on the quality and effectiveness of internal controls, risk management, and governance-related systems and processes.

For NBFCs and UCBs, the internal audit system will evaluate the risk management systems and control procedures in various aspects of operations, in addition to transaction testing, which is expected to help the entities to anticipate risks and mitigate it too.

According to the RBI guidelines, the board of the entity or its audit committee - which anyway is responsible for overseeing the internal audit function of the organisation — will be responsible for reviewing the performance of RBIA. The RBIA system should be consistent with the entity's goal so that it adds value to the organisation.

The RBI has suggested the entities prepare a risk audit matrix based on the magnidirectors and the senior man-tude and frequency of risk.