

MIDNIGHT NEWS UPDATE - 12th MAR 2020

- Indigo Airlines has warned that its revenues for the March quarter and the full year could take a serious hit due to the impact of the Coronavirus pandemic. According to the airline, they had seen a 15-20% fall in daily bookings as people were trying to avoid travel to the extent possible. Also, in the last couple of months, a large number of seminars, conferences and trade shows had been cancelled and most corporates had urged executives to avoid travel to the extent possible. Since January, Indigo has cancelled its flights to Hong Kong, Chengdu and Guangzhou and reduced flights to South East Asia.
- In a rather surprising move, the government of India decided to suspend the issue of tourist visas from March 13 to avoid the spread of the Coronavirus. This will be in force till April 15. The government has also issued an advisory to all Indians to avoid any unnecessary travel abroad. Visa-free travel for OCI (Overseas Citizens of India) has also been suspended till April 15. In addition, any traveller coming from afflicted countries like China, South Korea, Italy, Iran, France and Germany would have to go through mandatory 14-day quarantine. This could hit tourism revenues but that logical in a health emergency.
- The NAVs of five Franklin Templeton debt funds fell by 3.4% on March 09, after the fund marked down its investments in bonds issued by the ADAG group. Now the fund has marked all ADAG bonds by 95%. In the case of Essel Infrastructure, the fund has written down the value of the bonds by 85% after its loans were classified as “Default”. Franklin Templeton also has a substantial exposure to the AT1 bonds of Yes Bank and hence there could be more such write-offs in the future too. In the last two years, a lot of debt funds are up against massive write-offs in their bond holdings; something unheard in the past.
- According to the Enforcement Directorate, nearly Rs.20,000 crore worth of loans directly sanctioned by Rana Kapoor have turned bad and could be linked to alleged kickbacks paid to the Yes Bank promoter. According to ED, they are investigating the money trail as Kapoor is believed to have diverted the funds via dummy entities to his own accounts abroad as well as to the accounts of his family members. The ED has pointed out that it was no coincidence that nearly 70% of the loans directly sanctioned by Rana Kapoor had eventually turned bad and most had been given without due process or diligence.
- Fitch has warned that the Yes Bank episode and the subsequent planned restructuring could have a deep impact on the asset quality of NBFCs. Fitch was of the view that the Yes Bank case would impact the cost of funds for NPAs as well as the liquidity situation for these NBFCs. The overall exposure of Yes Bank is quite small and may be just about 1% of the total bank exposure to NBFCs. What Fitch worries is the impact of the write-down of AT1 bonds as it could raise the cost of funds of the NFBCs. NBFCs could also have a problem as their primary source of funding, the banking space in India, may become a little more wary of loans to NBFCs. Fitch is already closely reviewing the access to fund as well as the liquidity position of NBFCs. Fitch will also be evaluating if the Yes Bank fiasco creates asset quality problems.
- The Dow Jones Industrial Average cracked by close to 6% more than giving up the gains of Tuesday as the Coronavirus threat appeared to be spreading rapidly cross the world. Additionally, the US markets have also been vulnerable to the issue of an economic slowdown as indicated by the inverting yield curve. The trigger for the fall came after the WHO declared the Coronavirus as a health pandemic, underlining the gravity of the situation. While the Fed has already cut rates by 50 bps in the first week of March, economists are expecting a reversal to zero levels. Additional tax cuts are not being ruled out.

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