

Flash Note 20/02/2018

Alex Fusté
[@AlexfusteAlex](#)
alex.fuste@andbank.com

What has been behind the recent underperformance of Indian market? Outlook.

The facts:

- India's SENSEX index has been hit recently by worries about impact from Punjab National Bank (PNBK.NS) disclosure of a \$1.77bn fraud. Indian federal police arrested three more employees of Punjab National Bank PNBK.NS on Monday (two previously arrested bank employees colluded with billionaire jeweller Nirav Modi to issue fraudulent letters of guarantee, which the businessmen used to raise loans from overseas Indian banks over a seven year period).
- Police have also issued look out-notices for Nirav Modi and for Mehul Choksi, who heads jewellery retailer Gitanjali Gems Ltd GTGM.NS and other companies, both of whom are overseas.
- Ratings agency Fitch on Tuesday, placed Punjab National Bank's (PNB) Viability Rating on Rating Watch Negativ (the lender could see a rating downgrade). Currently, PNB has an overall rating of Baa2 by Moodys
- The finance ministry pointed a finger at the Reserve Bank of India for failing to pick up the fraud, which took place at a single branch of PNB in Mumbai, according to local media. The government has written a letter to the RBI, India's central bank, saying the failure to detect the fraud raised questions about its "efficacy of supervision to detect and check systemic failure", financial news provider NewsRise and other local media reported.

Outlook:

- At the moment, PNB has assured all its customers of "enough arrangements" for their banking transactions without any inconvenience, and that it has sufficient assets to meet any liability.
- Market reaction could already be overdone:
 - PNB shares slid for a fourth straight day on Monday, closing 7.2 percent lower. The sell-off has already wiped out more than a quarter of the bank's market value, since it disclosed the fraud last Wednesday.

- Within the Sensex index, the Banking sub index (Nifty) has underperformed in February (down 7.94%), dragging the broad Indian market.
- Indian market closed this morning with modest gains as Sensex looks to regain 34,000-mark. All sectoral sub-indices with the exception of the (Banking Nifty index) were in the green,
- The finance ministry (Rajeev Kumar, the top government bureaucrat overseeing banks) has ordered the country's banks to take effective steps to avoid a repeat of a PNB-like fraud.

Best