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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Bank unions to observe July 19 as 'Save public sector banks day'

VINSON KURIAN THIRUVANANTHAPURAM, JULY 4:

BusinessLine

CH Venkatachalam, general secretary, All India Bank Employees Association. (File photo)

All members will wear a commemorative badge on the day, display posters in front of all branches, distribute leaflets and hold rallies/demonstrations

The **United Forum of Bank Unions** has decided to observe **July 19**, the 48th anniversary of nationalisation of major banks, as **'Save public sector banks' day.**

All members will wear a commemorative badge on the day, display posters in front of all branches, distribute leaflets and hold rallies/demonstrations at all centres across the country.

Nation buildes

Public sector banks are made to bear the cross for the sins of the private corporate defaulters, C.H Venkatachalam, general secretary, All India Bank Employees Association, said.

These banks need to be defended and saved. They are nation-building institutions and must remain so. Social banking has to be strengthened and expanded.

The main challenge that they face today is the alarmingly increasing bad loans euphemistically known as non-performing assets.

These have crossed all acceptable proportions and have reached a dangerous level threatening the very sustainability of the banks.

"Everyone knows that the main share of this danger is contributed by the corporate defaulters who are taking our banks for a ride," Venkatachalam said.

Recover bad loans

But the government has refrained from taking any tough measures to recover these bad loans. On the other hand, all types of concessions are being doled out to them.

These range from interest waivers, one-time settlements, compromises, corporate debt restructuring, strategic debt restructuring, provisions, hair cuts and write-offs to sustainable structuring of stressed assets.

To cover up these losses, customers and banking clients are made the scapegoat by way of hike across all types of service charges, fees and penalties.

"It is high time that the government took stringent measures to recover the bad loans and take bold action against the big defaulters," Venkatachalam said.

NPA resolution: a rough road ahead

But the RBI’s recent move to take large defaulters towards insolvency proceedings at least shows that firm action is finally being taken

The most important takeaway from the latest “Financial Stability Report”, released by the Reserve Bank of India (RBI) last week, is that conditions in the Indian financial system are expected to deteriorate further before they improve. There is more pain ahead.

Here are a few important pointers. Gross non-performing assets (NPAs) rose from 9.2% in September 2016 to 9.6% in March 2017. Stress tests conducted by the Indian central bank indicate that this number could rise to 10.2% under the baseline scenario. The indicator of banking stability worsened over the second half of fiscal year 2017—with measures of asset quality and profitability providing the most cause for concern even while there has been a modest improvement in capital adequacy, thanks to the private sector and foreign banks.

The situation in public sector banks is especially worrisome. Capital adequacy is under strain. Return on assets is negative. So is return on equity. More than a quarter of the loans given by public sector banks to industry (thus excluding loans to agriculture, services and retail consumers) are under stress. All this is a reminder of the fact that government banks are at the epicentre of the larger banking mess.

The financial authorities have now decided to focus on a few large problem accounts that are weighing down the Indian banking system. Does this make sense? The "Financial Stability Report" has some useful data on this issue as well.

Fifty-six per cent of the loans given out by Indian banks have gone to large borrowers—but they account for a massive 86% of gross NPAs. In that sense, the new strategy of focusing on large defaulters makes good strategic sense. Bad loans are concentrated in a few firms in a few sectors such as telecommunications, power, infrastructure and steel.

All this is a good backdrop at a time when the NPA resolution process has reached a critical stage. The RBI has already identified 12 big accounts for quick resolution, under the powers given to it by the recent presidential ordinance (though this publication continues to believe that the government, as the owner of three-fourths of the banking sector, should not have pushed the regulator into the resolution of individual bad loans, but done the job itself).

These 12 accounts are the source of a full quarter of the total NPAs of the banking system. Lenders have been instructed by their regulator to use the provisions of the new Insolvency and Bankruptcy Code to file insolvency proceedings against companies. Lenders have approached the National Company Law Tribunal in at least two of the 12 accounts identified by the RBI.

What happens in the months ahead will be watched with interest—especially as a test case for the new bankruptcy process, which is as yet untested. But what is important right now is that for perhaps the first time in recent Indian financial history, powerful firms are living under the threat of liquidation. The new bankruptcy law allows defaulters 270 days to come up with a credible plan to repay loans—and lenders can initiate liquidation if companies fail to do so. In other words, the design of the bankruptcy law ensures that companies cannot merely kick the can down the road. That is welcome.

Any banking clean-up will eventually require capital—lots of capital. Credit rating agency Moody's said in a recent note that the 11 public sector banks rated by it will need external equity capital of unto Rs95,000 crore, far higher than what the government has budgeted as capital infusion for all the banks it owns.

Some analysts have now begun to argue that the Indian investment cycle is set to turn. It is well known that the economic recovery cannot build momentum unless private sector investment revives. Such a revival will be very difficult unless the twin balance-sheet problem—over-leveraged corporations and undercapitalized banks—is solved credibly. The "Financial Stability Report" indicates that the road ahead will still be a rough one. The recent moves to take large defaulters towards insolvency proceedings shows that some firm action is finally being taken.

A banking clean-up plus corporate deleveraging are critical for a more robust economic revival led by investment rather than just consumption.

After steel, next up are power sector's NPAs; innovative solutions need to be found

A sizeable chunk of bank loans are to the power sector where many projects have little or no economic value. A workable solution has to be found to deal with the NPAs in the sector.

Jitendra Gupta Moneycontrol Research

A sizeable chunk of bank loans are to the power sector where many projects have little or no economic value. Private sectors players like Tata Power, Adani Power, GMR and others want to exit some of these projects, but are not finding takers. The few buyers who have expressed interest are demanding a hefty discount. Recently, SREI bid for one of GMR's gas based 768 MW power plant in Rajahmundry, where the terms indicated that the banks will have to take a 50 percent haircut on the outstanding debt.

Nevertheless, government and banks are looking for innovative ways to deal with the issue. According to a section of the media, banks have identified nine such stressed projects which could be managed by NTPC without any financial liability or commitment.

It is expected that some of these projects might get bundled into a separate entity managed by NTPC. Most of these projects will require huge equity infusion to make them viable. One workable solution would be for the banks to convert some of their debt to equity and bring in additional equity probably from the government (through NTPC) or other investors.

Many of these troubled assets have huge execution issues; but NTPC's existing operations will not be impacted unless the entire burden of ownership falls on NTPC. However, owning these assets will inflate its own debt to equity and deteriorate its credit rating and exert pressure on financials, which will have an impact on the lenders as well.

In all probability, these assets will remain in the books of the banks. Any equity investor would be interested if these assets offer a decent return in the region of about 14-18 percent.

Hypothetically, to construct a new 10,000 MW of (coal-based) power capacity today would cost around Rs 80,000 crore. With the debt to equity of 70:30, it will require close to Rs 24,000 crore of equity. Now, if 10,000 MW of stressed power assets are bundled, since there is no equity left, the project cost will increase to Rs 104,000 crore. (Rs 80,000 crore being original cost and Rs 24,000 crore of new infusion by the banks). At that cost, there will be hardly any return on equity because the competitive tariffs (based on 14-16 return on equity) will be largely set at the project cost of Rs 80,000 crore. This effectively means if equity investors have to come in these projects, the banks will have to take a hit, which may vary depending on the cost overrun during the period of construction and capitalisation of losses during the period of operation.

The only silver lining is that the related debt in the books of the companies that are holding these assets and incurring expenses such as interest cost, will come down significantly as the debt will be knocked off from the balance sheet of these companies.

But it is too simplistic to remotely suggest that the assets taken over by the banks can be turned around. Most of these companies are or about to go for the insolvency proceedings as their business viability has completely eroded.

For instance, in the case of Lanco Infra the banks have been directed by the RBI to initiate corporate insolvency process. In this case, since there is no equity and the assets aren't enough to pay back the debt, there will be very little left for the equity investors. To put the numbers in perspective, Lanco has got close to Rs 50,000 crore debt on its books as against the net fixed asset value of about Rs 20,000 crore, indicating that there is a huge gap to be covered and the possibly of deep haircut that the banks will take as the asset goes for resolution.

Jyoti Structures becomes first case to be admitted for bankruptcy proceedings

NCLT approved bankruptcy proceedings for Jyoti Structures, making it the first among the 12 cases referred by RBI under Insolvency and Bankruptcy Code

Jayshree P. Upadhyay. LIVE MINT 4 7 2017

Mumbai: The National Company Law Tribunal (NCLT) on Tuesday approved bankruptcy proceedings for power infrastructure company Jyoti Structures Ltd, making it the first among the 12 cases referred by the central bank under India's new Insolvency and Bankruptcy Code (IBC).

The tribunal's order came on an insolvency application filed last week by the company's lead lender State Bank of India (SBI). According to NCLT filings, the company has total debt of Rs7,000 crore.

“As the company is not opposing, the application is approved,” said B.S.V. Prakash Kumar, presiding member, NCLT.

On Tuesday, the tribunal also approved consulting firm BDO India to manage Jyoti Structures in the interim, as suggested by SBI when the case was last heard on Thursday.

On 13 June, the Reserve Bank of India (RBI) directed banks to refer 12 troubled companies with a combined debt of close to Rs2.5 trillion to the NCLT. Of them, creditors have moved the tribunal against Jyoti Structures, Monnet Ispat Ltd, Electrosteel Steels Ltd, Essar Steel Ltd and Amtek Auto Ltd.

When the tribunal heard the matter on Thursday, counsel for Jyoti Structures did not raise any objections on the proceedings, but had mentioned an offer from a prospective buyer.

“A proposal from a prospective buyer is in the offing, which is a going concern. We request that the same should be considered and tabled before the insolvency resolution professional once the insolvency proceedings start and later to the committee of creditors,” said Amit Vyas, counsel for Jyoti Structures.

Jyoti Structures was one of the power sector firms hit by a lack of fuel linkages or trouble in completing land acquisition. Lenders invoked RBI’s strategic debt restructuring (SDR) norms in 2015 and restructured its debt outside the provisions of SDR. Since then, banks have been trying to sell their 51% stake in the company with no success.

Animesh Bisht, a senior associate at law firm Cyril Amarchand Mangaldas, who appeared on behalf of SBI, said all proposals for resolution would be considered, and that the governing plea is a master restructuring agreement begun in September 2014.

Counsel for both parties did not elaborate on the prospective buyer.

Recast of state-run banks before stake sale wrong: RBI ex-guv Y V Reddy

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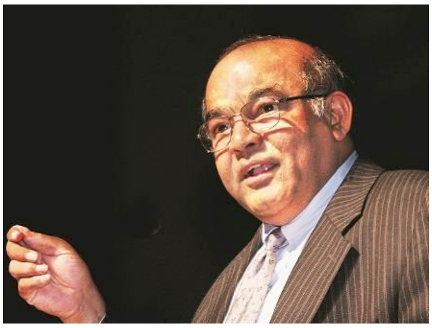

Y V Reddy, former governor, Reserve Bank of India

Former RBI Governor Y V Reddy has said that the idea of government first restructuring public sector banks (PSBs) and then selling a stake in them is a flawed idea as restructuring invariably comes with a cost. "The idea that you consolidate PSB banks, restructure and then sell is wrong. Ultimately, restructuring has invariably some cost. Let the fellow do the restructuring who is taking over, then you doing it," the former RBI Governor said in an interview to PTI.

Asked to comment on the Finance Ministry requesting Monetary Policy Committee (MPC) members for a meeting ahead of the second bi-monthly policy review of 2017-18 last month, Reddy said that MPC members are competent enough as they are also economists.

"If they (Finmin) have called them (MPC member) on the capacity of economist then it is different — purely as MPC then yes — that's an official communication," Reddy said, adding, "I think, what has happened is MPC has just started. The conventions are yet to develop and procedures are yet to develop."

Referring to the Insolvency and Bankruptcy Code (IBC), he noted that it is good that the legislative framework has been put in place.

"It's (IBC) an important development. Therefore, certainly, it is a desirable thing," Reddy said.

Asked about his opinion of the present RBI Governor Urjit Patel who rarely communicates with the media, Reddy pointed out that every RBI Governor has his own style of functioning. "For instance, C Rangarajan was speaking quite frequently as RBI Governor, Bimal Jalan used to speak less freequently, but used the deputy governors. D Subbarao used to talk frequently. So, it depends," he noted.

Lack of investment, NPAs, note ban dampening India's growth: Rahul Bajaj

NPAs of 27 public sector banks were estimated at Rs 6,47,759 crore, says Rahul Bajaj

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Bajaj Auto Chairman Rahul Bajaj

India's GDP growth of 7.1 per cent achieved last fiscal is not as encouraging as it might seem despite the expansion rate being better than all developed countries, according to Bajaj Auto Chairman Rahul Bajaj.

Impact of lack of significant investments in the last 4-5 years; inability of private sector to put in fresh capital with availing of loans becoming an issue due to rising NPAs of banks, along with demonetisation were mainly responsible for dampening growth, he said.

"I thought of starting with encouraging news about India's economic growth in 2016-17. But as I started looking at the latest evidence, it didn't seem as encouraging as I believed it might be," Bajaj said in his address to shareholders in the company's Annual Report for 2016-17.

He said in its latest advance estimate, the Central Statistical Organisation has pegged India's real GDP growth for last financial year at 7.1 per cent.

"No doubt it is better than all developed countries and most emerging markets including China. However, it is not as good as the 7.9 per cent GDP growth achieved in FY2016," Bajaj said.

While the country has grown, the veteran industrialist said, "we possibly have a longer way to go to attain a steady state annual growth rate between 7.5 per cent and 8 per cent, which is what we need to create a launch-pad for greater employment, a more significant global economic presence and accelerated poverty reduction."

Elaborating on three factors that have played a role in dampening growth, Bajaj said there has been a lack of significant investments over the last four to five years.

"Of late, there has been a serious effort at government investments in some key infrastructure areas. But that takes time to translate into additional income and employment. And truth be told, there is hardly any private sector investment worth the name," he said.

Underlining the impact of rising bad loans and its impact on private sector investments, he said the non-performing assets (NPAs) of 27 public sector banks were estimated at Rs 6,47,759 crore, or 88 per cent of the total recorded NPAs across all banks.

This represents a 140 per cent increase over what it was two years earlier, and constitutes 12 per cent of total loans and advances, he added.

"With these banks being badly stressed, there seems to be no appetite for advancing term loans without which it is virtually impossible to envisage the kind of investment spends needed for getting us securely on to a higher growth path," Bajaj said.

The third factor, according to Bajaj was the "shorter term aberration" and "temporary negative effects" of demonetisation of Rs 500 and Rs 1,000 notes announced on November 8 last year.

"Although the estimates for October-December 2016 show no appreciable dip in either real GDP or GVA, there seems to be enough evidence on the ground that removing over four-fifth of the value of currency in circulation almost overnight and substituting it with a much slower injection of the new Rs 500 and Rs 2,000 notes created constraints across various sectors of the economy," he claimed.

While it remains to be seen what the overall effect of this will be on growth for the first half of FY2018, Bajaj said: "If at all, I hope it will be moderate."

Commenting on the company's performance, he said Bajaj Auto "could have possibly done better, but given the circumstances, it has done reasonably well to be where it is."

The company's net sales declined by 3.5 per cent to Rs 21,374 crore and profit after tax (PAT) also dipped by 2.6 per cent to Rs 3,828 crore in 2106-17, he said.

He said the company was also affected even worse by "external factors" of poor economic conditions and severe foreign currency constraints in some of key importing countries in 2016-17 than 2015-16.

"Motorcycle exports de-grew by 16.5 per cent; and three- wheeler exports fell by 31.2 per cent," he said, adding that in terms of rupees Baja Auto's exports fell by over 19 per cent to Rs 7,880 crore while in US dollar terms they shrank by 23 per cent to USD 1.09 billion.

(Only the headline and picture of this report may have been reworked by the Business Standard staff; the rest of the content is auto-generated from a syndicated feed.)

Apex court gives Centre, RBI time to devise plan for depositing demonetised currency

PTI/ BUSINESSLINE, NEW DELHI, JULY 4:

The Supreme Court today granted the Centre and the Reserve Bank of India two weeks to consider the option of granting a window to those who could not deposit their demonetised Rs. 500 and Rs. 1,000 currency notes for a compelling reason.

A bench comprising Chief Justice J. S. Khehar and Justice D. Y. Chandrachud asked Solicitor-General Ranjit Kumar, representing the Centre, to take instructions on the issue.

"There can be a situation where a person has lost his/ her money for no fault. Suppose a person was in jail during the period... We want to know as to why you chose to bar such persons," the bench said.

The Solicitor-General then sought time to seek instructions for granting an opportunity to persons to deposit their money on a case-by-case basis.

The bench was hearing a batch of petitions, including one filed by Sudha Mishra seeking a direction to authorities to allow her to deposit demonetised notes as she could not do so during the period specified by the Centre and the RBI.

The Central Government had on November 8 last year announced that Rs. 500 and Rs. 1,000 notes would no longer be legal tender from November 9.

The government also assured the people that demonetised currency notes could be exchanged at banks, post offices and RBI branches till December

30, 2016. If people were unable to deposit them by that day, they could do so till March 31, 2017 at RBI branches after complying with certain formalities.

SAVE PUBLIC SECTOR BANKS

ALL INDIA DAY ON 19TH JULY, 2017

WE DEMAND

- STOP ANTI-PEOPLE BANKING REFORMS
- DO NOT PRIVATISE PUBLIC SECTOR BANKS
- STOP PLANS OF MERGER OF BANKS
- DO NOT ALLOW CORPORATE DEFAULTERS TO KILL OUR BANKS
- TAKE CRIMINAL ACTION ON WILFUL DEFAULTERS
- RECOVER CORPORATE BAD LOANS – DO NOT WRITE-OFF
- DO NOT PASS ON THE BURDEN OF CORPORATE NPAs ON BANK CUSTOMERS THROUGH HIKE IN SERVICE CHARGES

UNITED FORUM OF BANK UNIONS

(AIBEA – AIBOC – NCBE – AIBOA – BEFI – INBEF – INBOC – NOBW – NOBO)

AIBEA THIS DAY – 5 JULY	
1997	Joint Trade Union demonstrations- Fact finding Committee report implementation demanded.
2008	Huge Mass Rally of Workers/Officers in Ludhiana (Health Campaign)

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