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Banks' cuppa to brew with mergers

MANOJIT SAHA, THE HINDU, 3-9-2017

Thorny path: Mergers of public sector banks may not have an easy route to closure. SBI, with which associate banks and Bhartiya Mahila Bank merged, saw NPAs rising from Rs 1.01 lakh crore to Rs 1.88 lakh crore, post merger

Worsening asset quality turns an opportunity for the government to push for consolidation

Consolidation of public sector banks had been discussed in banking circles for many years now. P Chidambaram, Finance Minister in the previous United Progressive Alliance (UPA) Government, had highlighted the need for large-sized banks to fund the huge infrastructure requirements of the country as well as compete with global lenders. But the UPA Government had always maintained merger proposals should come from the respective bank boards — which did not happen. A tongue-in-cheek question that went around was: 'Which chief executive will propose to merge his bank with another and lose his job?'

But, it appears that the present government has no intention to make it 'voluntary' for the board of a bank to decide on a merger. It is evident from the fact that it has followed up on the issue with communication to the banks to kick start the process of mergers and get their respective boards' approval. This may be the first time in recent history that an official communication has been made by the government to the banks asking them to act on mergers.

Nudge to banks

The government has also set up an 'Alternative Mechanism', which would comprise a ministerial group, to oversee proposals for mergers among banks last month. While announcing the mechanism, Finance Minister Arun Jaitley stressed that the decision to create strong and competitive banks will be solely based on commercial considerations and such decisions must start from the boards of the banks.

The government had also ensured that some key chief executives, who would steer the process of mergers, were in the loop. In the last few months, it had discussed the issue with some top bankers before dashing off official communication to them last week.

A framework had been conceived in which a bank's board would first clear the decision to merge and then send the proposal to the 'Alternative Mechanism' for its in-principle approval. After the in-principle approval comes through, the bank will take steps in accordance with law and SEBI's requirements . The final scheme will be notified by the government in consultation with the Reserve Bank of India (RBI).

Simultaneously, some hurdles have been removed to expedite the process. For example, approval requirement from the Competition Commission has been done away with.

What drives mergers?

Bankers involved in discussions with ministry officials said technological synergy and geographical complementarity are the two most important factors that would drive mergers.

While steps are now being taken to facilitate consolidation, the thinking around bank consolidation began after the current government assumed office — the first week of January 2015, to be precise.

At the bankers’ retreat, known as Gyan Sangam, the idea of consolidation was first floated. In 2015, however, bank chiefs — reeling under bad loan pressure — vetoed the idea on the grounds that first they need to put their houses in order.

While the asset quality problem worsened to became a full-blown crisis, this has not deterred the move to push the consolidation idea further. In fact, at the second edition of Gyan Sangam in 2016, Finance Ministry officials wanted to know from banks what their plan B was, if the government stopped capital support. Bankers, who attended this retreat said that the discussion was not ‘whether to consolidate’ but only ‘how to consolidate.’

Bankers familiar with the ministry’s thinking said the present asset quality crisis has actually became an opportunity for the government to push for consolidation. Many banks are not in a position to raise equity from the market. Shares of most of them trade at a discount to their book value. Investor appetite for PSU bank shares has been typically low, barring state-run insurance behemoth Life Insurance Corporation of India. In other words, there is no Plan B for raising capital, which has been depleted by rising bad loans.

Further, banks would also need capital for complying with Basel-III norms, apart from supporting business growth.

The Reserve Bank of India has also played a key part in pushing the idea of consolidation. Revisiting the norms on prompt corrective action (PCA) after many decades was an indication. The revised PCA norms, applicable if certain threshold levels are breached, can cramp prospects for a bank’s business growth. There are already some banks that are under the PCA framework.

Viral Acharya — the youngest deputy governor of RBI — has already made his thoughts clear on mergers among public sector banks. “As many have pointed out, it is not clear we need so many public sector banks. The system will be better off if they are consolidated into fewer but healthier banks,” Mr. Acharya said in one of his speeches. “Historically, bank stress of the order we face has almost always involved significant bank restructuring.”

’Weak banks’

Elara Capital, in a note to its clients, has identified five weak banks which could be first in line for consolidation. These are Bank of Maharashtra, Dena Bank, Indian Overseas Bank, Punjab and Sind Bank and United Bank of India.

“These banks with less core capital, low provision buffer and high level of un-provided NPLs [non-performing loans] would need substantial amount of equity capital for NPL resolution, going ahead. Some of these banks are expected to have made presentations to Finance Ministry,” the note said. Elara has identified Punjab National Bank, Canara Bank and Bank of Baroda as the lenders who will acquire smaller banks.

Post-merger issues

“The likely merger would create a lot of complexities in terms of lesser core capital, high net NPLs, branch rationalisation and reduction in human resources productivity for the merged entity. At present, we’ve an example of the merger of SBI with associate banks and Bhartiya Mahila Bank; post merger, the merged entity fundamentals have weakened significantly,” the note cautioned.

SBI, following its merger, has seen non-performing assets rising significantly, from Rs1.01 lakh crore (6.94%) to Rs 1.88 lakh crore (9.97%).

Of the 20 public sector banks, nine have had impaired loans in excess of 20% and 12 had common equity tier-I capital ratio below 8%. For example, if Bank of Baroda were to take over two small banks such as Dena Bank and Bank of Maharashtra, its impaired asset level could exceed 18%, analysts said.

It is to be seen if the big banks can bear the pain of a merger and put their house in order quickly so that the objective of creating a big lender that can fund large projects is fulfilled.

PSB chiefs' selection may be put on hold amid merger push

NEW DELHI: By Dheeraj Tiwari, ECONOMIC TIMES

The government will likely impose a temporary halt on the selection of state run bank chiefs as it looks to push lenders toward consolidation.

It may also review the performance of bank managing directors with those who don't score too well being asked to improve or quit, said a finance ministry official, who did not want to be named. Consolidation won't mean people losing their jobs.

"It has been clarified that there will be no loss of jobs at any level. If two banks merge, the existing managing director of one of the PSBs (public sector banks) will stand eligible for a similar vacancy in another bank," the ministry official said.

The cabinet gave in-principle approval in August for a group of ministers to oversee consolidation but left it to bank boards to come up with such proposals, meaning that mergers wouldn't be rammed through.

The decision to create the alternate mechanism of a group of ministers rather than the entire cabinet "would facilitate consolidation among the nationalised banks to create strong and competitive banks," the government had said in a statement.

The finance ministry official, however, clarified that the government will not let any bank remain headless. "If that bank has no plans to merge, or is not a possible candidate for acquisition, we may appoint an MD and CEO."

The tenure of three MDCEOs, including the Andhra Bank boss, is set to get over by the end of this year and early next year. In May, the government had appointed MD-CEOs at seven state-run banks including Bank of India, Vijaya Bank and Union Bank.

"We are also closely watching the performance of the top executives of these lenders and those who fall short on performance will be held accountable," said the official said cited above.

Earlier this year, the government shifted Usha Ananthasubramanian, then MD of Punjab National Bank, to the smaller, Kolkata-based Allahabad Bank. Similarly, Melwyn Rego, then MD of Bank of India, was transferred to Syndicate Bank.

Rajiv Kumar takes charge as Niti Aayog vice chairman

THE Indian Express/ PTI | New Delhi |September 1, 2017

Kumar had also served as the chief economist of the Confederation of Indian Industries (CII) and held senior positions in the Asian Development Bank, the Indian Ministry of Industries, and the Ministry of Finance.

Noted economist Rajiv Kumar today took over as the vice chairman of government think tank Niti Aayog. Kumar replaced Arvind Panagariya, an Indian-American economist who left the think tank yesterday to return to academia.

Kumar was a senior fellow at the Centre for Policy Research (CPR). He holds a DPhil in economics from Oxford and a PhD from Lucknow University.

Earlier, he had also served as Secretary General of industry association Ficci. He was a member of the National Security Advisory Board between 2006 and 2008.

Kumar had also served as the chief economist of the Confederation of Indian Industries (CII) and held senior positions in the Asian Development Bank, the Indian Ministry of Industries, and the Ministry of Finance.

Essar Steel seeks another Rs 1,000 Cr loan to keep itself running

MUMBAI: TIMES OF INDIA

Essar Steel, which is managed by an insolvency professional pending resolution of Rs 45,655 Cr debt, is seeking another Rs 1,000 Cr in loans to keep the firm running, and easing of restrictions imposed by lenders on the use of funds, said two people familiar with the matter.

The interim resolution professional, consultant Alvarez & Marsal's Satish Kumar Gupta, has urged banks to lift 'tagging' of its accounts and end the 'trust and retention' account practice, said the people, seeking anonymity.

Tagging refers to the practice of banks taking out a specific portion of fund flows into a company's accounts towards debt obligations to them. Trust and retention is a mechanism where the lead bank operates the company's account through which most of the cash flows happen.

Bankers may positively consider additional loans to ensure the asset value doesn't deteriorate, but may be averse to lifting the tagging and end the monitoring of funds coming to the coffers of the company, said those people.

"Banks led by SBI deliberated on some of these critical demands made by the IRP although no decision is taken on it yet," said one of the bankers who attended the meeting with the IRP.

"Lenders are not comfortable with the demands by the IRP," said the banker who attended the meeting with the IRP.

The IRP could not be immediately reached for comment.

Essar Steel is battling bankruptcy after losing a legal fight with the Reserve Bank of India over its order to banks to try the firm under the bankruptcy law, which prescribes a timetable to settle default cases.

It is among a dozen large companies that the regulator identified to be taken to bankruptcy courts to help clean up the banking system that is saddled with stressed loans. Stressed assets are an aggregate of defaulted loans and those which have been restructured.

Once a company is admitted, its board is dissolved and an interim resolution professional takes charge of running the day-today affair. Soon, the IRP invites claims from creditors and also does the valuation of the assets of the company.

In the past, lenders had rejected Essar's plea to not 'tag' its accounts, because it is the only way banks can get interest payments from the company. They have recovered close to Rs 3,000 Cr from Essar Steel over the past 12 months by tagging its account.

Shareholders can play spoilsport for lenders banking on resolution plan

MUMBAI: Sugata Ghosh, ECONOMIC TIMES

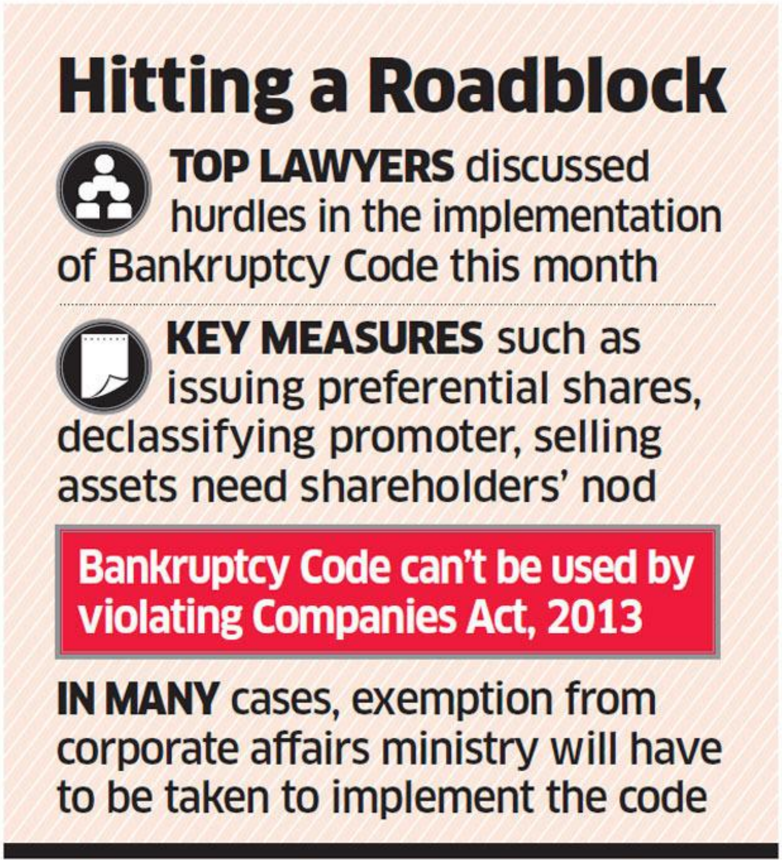
Since existing promoters, who resist giving up control, are also significant stakeholders in such companies, they could oppose key resolutions to frustrate lenders.

Amid the euphoria over Bankruptcy Code and hopes of turning around debt-ridden companies, many lenders have overlooked a simple, yet crucial, caveat.

Almost all significant decisions — such as offering preference shares to infuse funds into a defaulting company, selling properties and assets, floating convertibles, and declassifying the promoter following a dilution of shareholding have to be approved by shareholders of the company in question; and some key decisions have to be cleared by a special resolution, requiring the support of 75% shareholders.

Since existing promoters, who resist giving up control, are also significant stakeholders in such companies, they could oppose key resolutions to frustrate lenders. A few weeks ago, members of some of the top law firms met in Mumbai to discuss possible hurdles in the course of executing the code. It was felt that in several cases one would have to obtain exemptions from the ministry of corporate affairs to allow insolvency professionals to rope in investors without seeking the permission of shareholders.

According to Madhukar R Umarji, a member of the Bankruptcy Law Reforms Committee which drafted the new law, "A Resolution Plan for a company under insolvency will have to be in compliance with the provisions of any law in force, as provided in section 30(2)(e) of IBC,2016."



In other words, bringing in new investors and diluting the control of the existing promoter cannot be pushed through by sidestepping or violating the Companies Act, 2013.

Here lies the legal ambiguity.

"While regulations," according to Umarji, "provide that a resolution plan can be approved even if the consent of shareholders as required under the Articles of Association has not been obtained, the regulations do not dispense with the compliance with any applicable provisions of law. Hence, if the companies law requires shareholders' approval for any provision or step provided in the Resolution Plan, the same will have to be obtained."

A failure of the insolvency resolution plan puts a defaulting company on the road to liquidation. Under the circumstances, Umarji believes that shareholders would be under great pressure to approve the plan because the consequence of rejection will be a liquidation order. But a promoter, working to derail the plan and looking for a bargaining chip, knows that liquidation — which could mean large write-offs — is the last resort for most lenders.

While Sebi has allowed a company (under insolvency) to issue preferential shares, Chapter IV of the Companies Act requires that such a decision has to be passed by special resolution of the shareholders. There are other questions that remain unanswered: for instance, given that the Sebi exemption is restricted to 'equity', can a company issue 'convertible instruments' in line with insolvency resolution?

Shareholder nod is essential for the sale of assets exceeding 10% of the turnover of the company; reclassification of a 'promoter' as 'public shareholder' cannot be carried out without shareholders giving the go-ahead. Another concern shared within the legal fraternity is a possible conflict with the rights of minority shareholders following a reduction in share capital in the course of insolvency resolution.

According to the law, any financial creditor (among other creditors) can file an insolvency petition before the National Company Law Tribunal (NCLT) which was formed to resolve corporate disputes, improve ease of doing business, and enable faster implementation of the bankruptcy code. Within 14 days, the tribunal has to pass an order for insolvency resolution.

Once NCLT passes its order, the severity of the bankruptcy code comes to the fore: an insolvency practitioner steps in to take possession of the company's assets, replace the board with a committee of creditors, issue public notices, and run the company as a going concern. In the next 180 days, which can be stretched by another 90 days, a resolution package comprising a debt rejig, the entry of new investors, infusion of fund by promoters, among other conditions is drawn up.

The company goes into liquidation if either the management or creditors with at least 75% of the outstanding loans turn down the revival package.

BANKS BACHAO – DESH BACHAO

SAVE BANKS – SAVE INDIA

MORCHA TO PARLIAMENT

15TH SEPTEMBER, 2017

CLARION CALL FROM
UNITED FORUM OF BANK UNIONS

RECOVER THE CORPORATE BAD LOANS

CATCH THE CULPRITS

ENUSRE ACCOUNTABILITY

PUNISH THE WILFUL DEFAULTERS

DO NOT WRITE OFF THESE LOANS

IT IS PEOPLE'S MONEY

BE A PART OF THE HISTORIC MORCHA TO PARLIAMENT

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AIBEA THIS DAY – 4 SEPTEMBER	
1930	M K Bhat, one of the Founders and former President of Corporation Bank Employees' Union (date of birth)
1953	13 Bank Unions join together and form Delhi State Bank Employees Federation.
1983	A C Kakkar, former President of AIBEA passes away
2003	Badge wearing Day (Health Campaign)

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