AIBEA's Banking News

7 DECEMBER, 2017

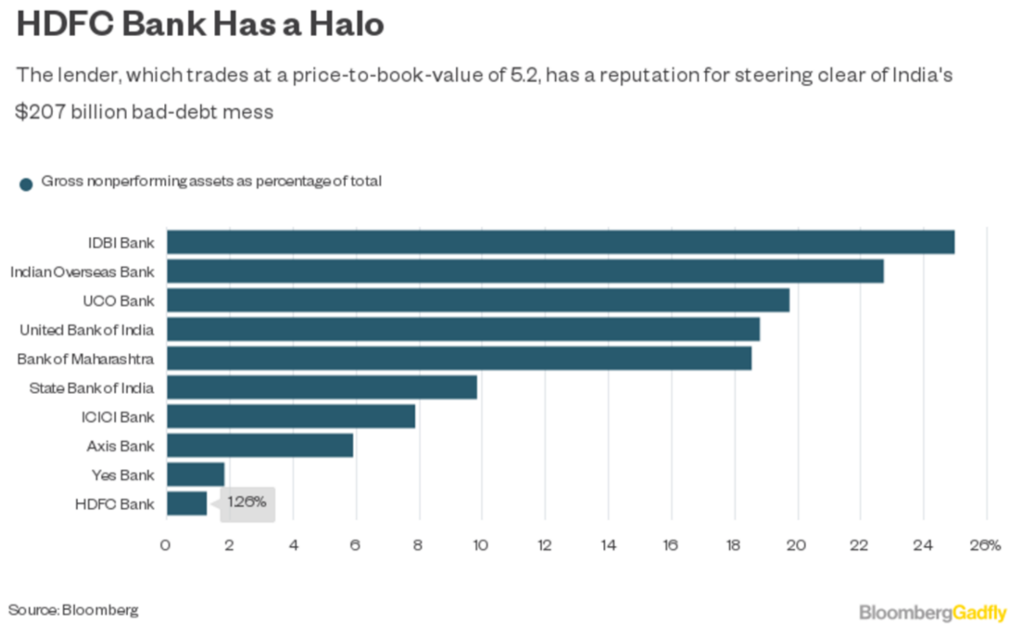
NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

World's Most Richly Valued Lender Has an Unhappy Secret

Andy Mukherjee December 5, 2017,

(Bloomberg Gadfly) -- Bad things don't happen to good banks. Or that's the carefully crafted image projected by the world's priciest lender.

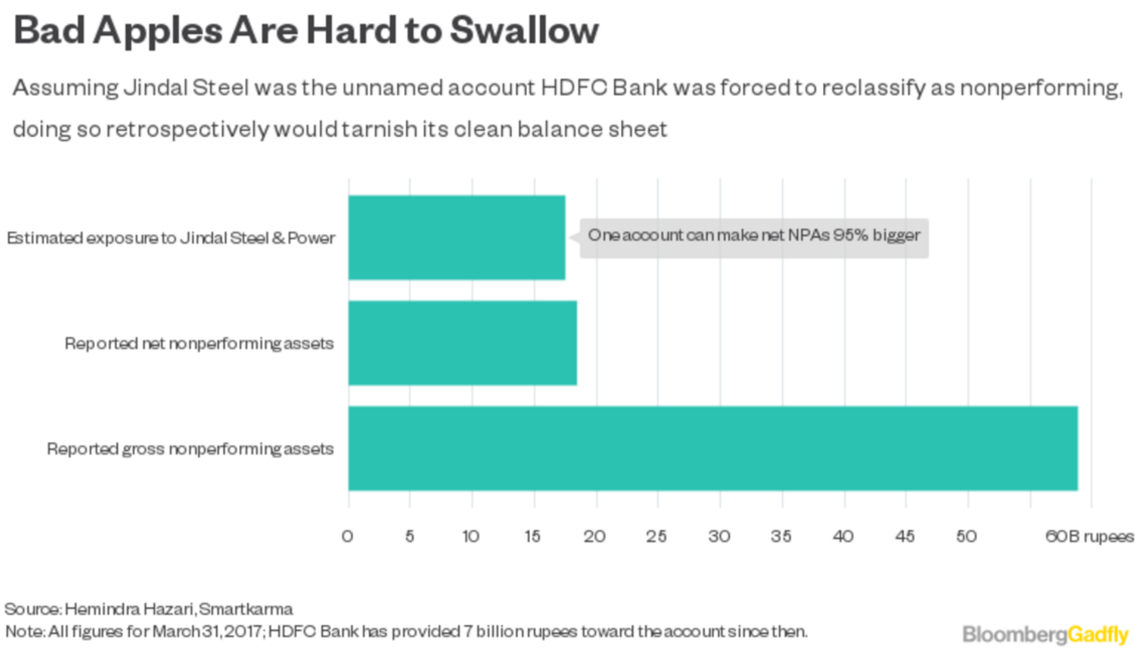
Assiduously shielding its loan book from the flying debris of India's $207 billion bad-debt crisis, HDFC Bank Ltd. has kept its balance sheet in a near-pristine condition. The aura of invincibility bestowed by a 1.26 percent soured-loan ratio -- compared with almost 10 percent for State Bank of India and 25 percent for IDBI Bank Ltd. -- also explains why HDFC Bank has a price-to-book multiple of 5.2. Among lenders with at least $50 billion in market value, anywhere, none is as expensive.



So it was a surprise last month when HDFC Bank reported a hefty provision against an unnamed corporate account that it said *wasn't* a nonperforming asset, then one day later marked the loan down to NPA because the Reserve Bank of India, the regulator, had told it to do so.

The matter would have rested there, were it not for an independent banking analyst, Hemindra Hazari. In a note on Smartkarma, a research website, Hazari reproduced last week a letter from the bank to Jindal Steel & Power Ltd., allowing it to sell and lease back its oxygen plant, provided the proceeds were "utilized towards clearing overdues to make our account absolutely regular."

This opens a Pandora's Box. Jindal Steel had net debt of 440 billion rupees ($6.8 billion) at the end of September. Was the steel company indeed the unidentified shaky account? If so, was HDFC Bank on the hook to that borrower for more than 15 percent of its reported nonperforming assets on March 31, the end of its financial year? Hazari believes so.



In that case, the correct thing to do would be for HDFC Bank to acknowledge the "divergence" between its self-reported and RBI-assessed NPAs. But doing so would also mean admitting that those soured loans, net of provisions, were 95 percent more than disclosed in the full-year accounts.

Its halo would thus slip, and the charge of being less than truthful that I've leveled at other non-state Indian lenders -- Axis Bank Ltd., ICICI Bank Ltd. and Yes Bank Ltd. -- would apply equally to HDFC Bank.

Questions might also arise about the RBI. Axis Bank CEO Shikha Sharma told the Economic Times that she was compelled by the central bank to reclassify standard borrowers as NPAs, and did so because "we are obedient children." Jindal Steel has been named by local media as one of those accounts. The RBI can't arbitrarily force some lenders to appear less than truthful, while sparing others the humiliation of a mea culpa.

The fairness of the RBI's assessment is one thing, its correctness is another. For now, India's bloated steelmakers are enjoying an uptick in domestic demand and operating profitability. But they aren't out of the woods.

Suppose sometime after March next year, Jindal Steel struggled to pay rentals on its expensive sale-and-leaseback deal with Srei Equipment Finance Ltd., and the latter dragged it to the insolvency tribunal. By then the firm would have been an NPA for a year, and India recently prohibited borrowers with nonperforming loans overdue a year or longer -- or parties connected to such debtors -- from bidding for assets in bankruptcy.

Not only would Naveen Jindal, chairman of Jindal Steel, stand to forfeit the firm; even his brother Sajjan Jindal's JSW Energy Ltd., which is already bailing out the sibling's company by buying one of its power plants, would be unable to help him win it back because it's a connected party.

With the stakes this high, the RBI needs to crack the whip of asset classification with a steady hand -- one that treats creditors fairly and borrowers correctly. Meanwhile, HDFC Bank must present a more accurate picture of its soured loans. After all, bad things can happen even to great banks.

Andy Mukherjee is a Bloomberg Gadfly columnist covering industrial companies and financial services. He previously was a columnist for Reuters Breakingviews. He has also worked for the Straits Times, ET NOW and Bloomberg News.

Bank recapitalisation and banking reforms finally go hand in hand

LIVEMINT, *Tamal Bandyopadhyay, consulting editor*

The Reserve Bank of India (RBI) and the finance ministry have been jointly working on the Rs2.1 trillion recapitalisation package for public sector banks. This piece of information released at the RBI governor's press conference after the monetary policy committee meeting on Wednesday is definitely more important than RBI's monetary policy review.

Historically, the government (read: the finance ministry), the majority owner of the PSU banks, decides on which bank gets how much capital. In the past, each time the government announced bank recapitalisation, there was extensive paper work and data gathering and extracting promises on performance from the banks but ultimately it all depended on the whims and fancies of the officials of the finance ministry and lobbying of the respective banks. There was no art or science behind the distribution of money.

This is being changed, and changed for the better. This time around, it seems bank recapitalisation and banking reforms will go hand in hand. This means, there will be definite preconditions and only when the banks accept those conditions, they will get their lifeline in the shape of recapitalisation bonds.

Those banks which have relatively strong balance sheets and are doing reasonably well will get the capital in the first round. The laggards will have to make many commitments, including sale of non-core assets and change in focus areas to be eligible for recapitalisation funds.

This is being done to prevent a recurrence of pile in bad assets and yet another round of government bailout, using taxpayers' money.

Simply put, banks cannot take recapitalisation funds for granted; they will have to earn it. Far too long the Indian government has been too democratic in doling out money to its ailing banks. It's time to show the door to those banks which are fast becoming irrelevant. The news of the day is not an actionless RBI's bimonthly monetary policy review, but the Indian central bank's determination to play an active role in determining which bank will get how much money, and not leaving it to the government's benevolence.

An extended pause

The bond market heaved a sigh of relief on Wednesday with the RBI's bimonthly monetary policy review turning out to be a non-event. There was a minor 3-4 basis points rally in the market after the Indian central bank kept its stance of the policy unchanged-neutral.

One basis point is one-hundredth of a percentage point.

No one was expecting RBI to tinker with its policy rate and hence there was no surprise that it has not changed the rate but the relief came from the tone of the policy. It is definitely not more hawkish than the October policy when RBI pressed the pause button. The Indian central bank has made it amply clear that it has no bias and only the flow of data in future will determine the trajectory of the policy. This means, nothing will change too soon (read: the February review) and we are in for an extended pause.

RBI has raised the projection of inflation in the second half of current fiscal year by 10 basis points-from a range between 4.2-4.6% to 4.3-4.7%.

Here, too, there is no surprise-the market has all along been a bit over-ambitious on the inflation front while the central bank remains pragmatic. The growth projection also remains unchanged at 6.7%, keeping in mind quite a few factors including recapitalization of public sector banks and the bulk of money being raised from the primary market. After a sudden slump in the economic growth in the June quarter to a three-year low 5.7%, growth bounced back to 6.3% in the July-September quarter. The Reserve Bank expects 7% growth in the December quarter and 7.8% in March.

Vijay Mallya has 'case of fraud' to answer, UK court told

The extradition trial of Vijay Mallya, wanted in India on charges of Rs 9,000 crores fraud and money laundering, began at a UK court on Monday here, with the prosecution asserting that the embattled liquor baron had a "case of fraud" to answer.

By: PTI | London | Updated: December 5, 2017

Vijay Mallya leaves court, followed by the media after the first day of his extradition case at Westminster Magistrates Court in London. (AP)

The extradition trial of Vijay Mallya, wanted in India on charges of Rs 9,000 crores fraud and money laundering, began at a UK court on Monday here, with the prosecution asserting that the embattled liquor baron had a "case of fraud" to answer. The trial, however, was briefly halted as the courtroom had to be evacuated due to a fire alarm. The 61-year-old tycoon and others waited outside the Westminster magistrates court during the fire drill. The trial began with the Crown Prosecution Service (CPS), arguing on behalf of the Indian government, presenting its opening arguments in the case which focused on loans totalling around Rs 2,000 crores sought by the erstwhile Kingfisher Airlines from a consortium of Indian banks. It concluded the opening day's proceedings by asserting that they had "shown by virtue of evidence a prima facie case" against Mallya and the hearing should now move to the next phase of whether there were any "bars to extradition". The CPS detailed "three chapters of dishonesty" by the former Kingfisher Airlines boss – the first being misrepresentations to various banks to acquire the loans, then how he misused the money and finally his conduct after the banks recalled the loans. "Instead of acting as an honest person and doing what he could to meet his obligations, he sets about erecting lines of defence," said CPS barrister Mark Summers.

The Indian government says the reasons why a court can conclude, that these were loans that the "defendant (Mallya) never intended to repay" and that the company and airline industry were in "intensive care" and heading only in one direction, Summers said. Instead of absorbing those losses, which would "impinge on his lifestyle", Mallya chose to palm it off to banks, in particular state-owned banks. Several internal emails, the government claims, disclose the reality of the position which was misrepresented to the banks, he said.

The judge noted that businessmen in this position would be "hopeful that things will turn around", but the CPS said this was not the case with Kingfisher Airlines. It went on to add that loans acquired in the name of rescuing the struggling airline were in fact used to pay off other debts, including paying the rent on a corporate jet "owned by Kingfisher but operated for the defendant's (Mallya) own benefit".

The CPS presented an email written by Mallya in December 2009 justifying the use of loans to "achieve round robins", confirming that he was open to using money received from banks for Kingfisher Airlines to repay other banks to settle overdue bills and charges. This was "expressly prohibited" as part of the agreed terms of the loans provided to the then struggling airline. He also failed in his obligations as a "personal guarantor" of the loans by failing to use 40 million dollars received from Diageo from the sale of shares in United Spirits Limited to repay some of the debt. "Instead of honouring his obligations, he squirrelled away the 40 million dollars in trusts for his children," Summers said.

Mallya claimed later that those personal guarantees were secured by the banks under duress, a move the CPS highlighted was not the actions of an honest person. The judge responded with a chuckle by saying it was "quite inventive though".

The CPS admitted that there may have been "irregularities" in the internal processes of the banks sanctioning some of those loans but that would be a question to be dealt with at a later stage in India. "The focus of our case will be on his (Mallya's) conduct and how he misled the bank and misused the proceeds," said CPS barrister Mark Summers. He then went on to lay out a detailed chronology of events, with specific focus on a loan sought by Kingfisher Airlines from IDBI bank in November 2009.

The loan sought amounted initially to Rs 950 crores but was later reduced to Rs 750 crores, after it had received Rs 200 crores from UCO bank. Meanwhile, Mallya was also sanctioned a loan of Rs 150 crores from IDBI in advance of the larger loan sought from the state-owned bank to meet "critical obligations to overseas vendors".

The CPS gave details of how much of this money landed in Mallya's Formula One motor racing team Force India, something the defence has characterised as "legitimate advertising expenses" as the team's cars carried Kingfisher advertisements. These pertained to the money laundering charges levelled against Mallya, which the CPS said was not a "desperately important issue" for the judge to decide on, with fraud remaining central to the case. "There is clearly no money laundering case," Mallya said in response to this assertion by the CPS at the end of the hearing.

The CPS noted that in all the loans sought, "loss-making" Kingfisher Airlines had relied on nearly the same set of security pledges, which included the UB Group's reputation, Kingfisher's own "brand value", a promised infusion of equity funds and a projected return to profit by the airline by February 2011. "The airline had claimed that it had put proactive measures in place to improve performance," the CPS noted.

However, it was also a time when according to an industry analysis, the state of the airline industry was described as "grim" and as being in "intensive care". "It was not a scenario in which a state bank would have entertained such loan requests," the CPS added.

Court was told that loans acquired in the name of rescuing Kingfisher Airlines were in fact used to pay off other debts, including paying the rent on a corporate jet "owned by Kingfisher but operated for the defendant's (Mallya) own benefit". The CPS presented an email written by Mallya in December 2009 justifying the use of loans to "achieve round robins", confirming that he was open to using money received from banks for Kingfisher Airlines to repay other banks to settle overdue bills and charges.

This was "expressly prohibited" as part of the agreed terms of the loans provided to the then struggling airline, it said. The first day of the trial is expected to be taken up entirely by the CPS setting out the Indian government's prima facie case against Mallya, a fact that was not welcomed by his defence team.

Mallya's barrister, Clare Montgomery, told the judge that she had hoped to set out the defence's opening arguments on the first day as well. But the CPS said it will "not be rushed" as it lays out the complete chronology of events.

Meanwhile, Mallya watched the proceedings from behind a glass-windowed dock. His defence team tried to get the judge to allow him to sit outside the dock near his defence team to access some of the complicated paperwork being relied upon, but the judge denied that request saying all defendants are expected to sit in the dock.

However, the judge has directed that a table be provided to Mallya for easier access to his paperwork.

Earlier, Mallya looked relaxed when he entered the court to stand trial on charges of fraud and money laundering related to his erstwhile Kingfisher Airlines owing several Indian banks around Rs 9,000 crores. "These (allegations against me) are false, fabricated and baseless," Mallya told reporters outside the court ahead of the hearing.

A four-member CBI and Enforcement Directorate (ED) team from India had also arrived at the court ahead of the trial, one of whom nodded when asked if they were "confident" about their case. Mallya, who has been out on bail since Scotland Yard executed an extradition warrant in April this year, will be in the dock for the duration of the trial – scheduled to end on December 14.

A judgement in the case, being presided over by Judge Emma Louise Arbuthnot, is unlikely until early next year. The CPS will need to demonstrate a prima facie case by producing evidence to show that the criminal charges against Mallya are justified and that he should be extradited to face the Indian courts.

Prison conditions in India are expected to be at the forefront during the hearing, with the Indian government providing assurances of protection of Mallya's human rights. The tycoon has been on self-imposed exile in the UK since he left India on March 2, 2016.

While on strict bail conditions, which include providing a bail bond worth 650,000 pounds, surrender of his passport and a ban on possessing any travel documents, the former Rajya Sabha member has been based at his Hertfordshire estate Ladywalk in the village of Tewin, nearly 50-km from London.

The CPS had presented "supplemental" charges of money laundering to previous charges of fraud against the businessman at an earlier hearing in October. The judge had agreed to effectively re-open a fresh case so that all charges can be heard concurrently in court. If the judge rules in favour of extradition at the end of the trial, the UK home secretary must order Mallya's extradition within two months.

However, the case can go through a series of appeals in higher UK courts before arriving at a conclusion. Judge Arbuthnot and her colleague, Rebecca Crane, at Westminster Magistrates' Court have recently rejected two other long-pending extradition requests from India.

'No evidence' to justify extraditing Vijay Mallya to India, UK court told

Mallya's lawyer said that the Indian government's case revealed a 'shocking' • lack of appreciation of how companies function.

Reuters moneycontrolcom

Indian tycoon Vijay Mallya should not be extradited to his home country to face fraud charges related to the collapse of his Kingfisher Airlines because there is no evidence to back up India's case against him, a London court heard on Tuesday.

The Indian government has requested Mallya's extradition from Britain accusing him of fraudulently palming off the airline's losses onto banks by taking out loans he had no intention of repaying.

The 61-year-old has had business interests ranging from aviation to liquor. He is also the co-owner of Formula One motor racing team Force India.

The case against him centres on a series of loans Kingfisher obtained from Indian banks, especially state-owned lender IDBI. The banks want to recover a total of about $1.4 billion that the state says the defunct airline owes.

"There is no evidence," Mallya's defence lawyer Clare Montgomery told Westminster Magistrates Court.

She said there were competing narratives, fraud versus business failure, and that no reasonable jury would be able to reach a safe conclusion that there had been a deliberate intent to defraud.

She added that the Indian government's case revealed a 'shocking'☐ lack of appreciation of how companies function and of basic realities such as the effects of incorporation and the rights of shareholders.

Mallya, the focus of intense media interest in India, arrived wearing a dark suit and yellow tie and was mobbed by cameramen as he walked into the building.

Inside the courtroom he spoke only to confirm his name and age, before sitting quietly in the glass-walled dock as Montgomery spoke.

She said the government's allegation that Mallya had deliberately misled banks by overstating Kingfisher's projected profits was a 'false premise'.

That was because airlines were subject to many unpredictable factors beyond their control, such as fuel cost fluctuations and the global economic climate, so to make entirely accurate projections several years in advance was unrealistic.

Montgomery also rejected the allegation that senior managers at state-owned lender IDBI were involved in Mallya's fraudulent plan.

That is one of a number of allegations that prosecuting authorities have made without a shred of evidence,☐ she said.

Montgomery also rejected the allegation that Mallya had improperly spent the money borrowed from the banks, saying there was no evidence of disbursements on anything other than the benefit of Kingfisher.

The extradition hearing is expected to last two weeks. The judge, England's Chief Magistrate Emma Arbuthnot, will have to decide whether there is a prima facie case against Mallya and whether the alleged crimes would be offences in Britain as well as India.

NCLT clears liquidation of Gupta Coal India; had debt of Rs 2580 cr

The Mumbai bench of the National Company Law Tribunal (NCLT) has approved the liquidation of Gupta Coal India.

By: Bhavik Nair | Published: December 5, 2017

The Mumbai bench of the National Company Law Tribunal (NCLT) has approved the liquidation of Gupta Coal India.(Representational image)

The Mumbai bench of the National Company Law Tribunal (NCLT) has approved the liquidation of Gupta Coal India, sources aware of the development told FE. The Nagpur-based firm had filed a petition for the initiation of insolvency proceedings and was admitted by the NCLT on March 9. A mail sent to the company remained unanswered till the time of going to press. The company owes lenders close to `2,580 crore, according to the NCLT order on March 9. Around 13 banks, led by Bank of India, are believed to have loaned the company money. Gupta Corporation, Gupta Global Resources and Gupta Energy are already under corporate insolvency resolution process.

The resolution professional appointed for Gupta Coal India, Abhay Manudhane, a partner at Waterfall Insolvency Professionals, has also been appointed as the liquidator in the case. Two other companies, Gupta Infrastructure and Gupta Infra-tech, may also be admitted to the NCLT soon, sources indicated. Gupta Coal operates as a subsidiary of Gupta Group and Padmesh Gupta and Piyush Marodia are among its directors. According to people dealing with the firm, the company imports and supplies coal to end users in power, steel, paper, sugar, and other sectors. It also provides logistics services. Once a company is admitted to the corporate insolvency resolution process, the court appoints an interim resolution professional (IRP) who takes over the company. A committee of creditors is formed. The IRP has 180 days to find a buyer for the firm failing which the deadline can be extended by three months. If no resolution is reached within this period, the firm is ordered to be liquidated.

The resolution professional appointed for Gupta Coal India, Abhay Manudhane, a partner at Waterfall Insolvency Professionals, has also been appointed as the liquidator in the case. Two other companies, Gupta Infrastructure and Gupta Infra-tech, may also be admitted to the NCLT soon, sources indicated. Gupta Coal operates as a subsidiary of Gupta Group and Padmesh Gupta and Piyush Marodia are among its directors. According to people dealing with the firm, the company imports and

supplies coal to end users in power, steel, paper, sugar, and other sectors. It also provides logistics services. Once a company is admitted to the corporate insolvency resolution process, the court appoints an interim resolution professional (IRP) who takes over the company. A committee of creditors is formed. The IRP has 180 days to find a buyer for the firm failing which the deadline can be extended by three months. If no resolution is reached within this period, the firm is ordered to be liquidated.

Adani Dealt Fresh Blow As Three Banks Refuse To Fund Its Coal Project

In the latest blow to the Adani Enterprises Ltd., at least three banks have ruled out funding the conglomerate's long-delayed Carmichael coal mining project in Australia.

Bank of China and Investec Bank today released separate statements saying that they do not intend to fund the already controversial mining project.

Bank of China has not, and does not intend to, provide funding for the Adani Carmichael Mine project. Bank of China Statement

The Industrial & Commercial Bank of China had released a similar statement on Sunday. Besides, China Construction Bank also ruled out funding Adani's plans to build Australia's largest coal mine, The Guardian reported on Monday, citing a statement issued by the lender's public relations firm.

In June, the Adani group said it plans to raise $2.5 billion for the Carmichael project. Of the total amount, the firm intended to raise at least $500 million through a bond issue, Bloomberg said in a report.

Investec Bank was one of the joint lead managers for the bond offering for the Adani-operated Abbot Point Terminal last month. "Investec will not be involved in any potential lending for Adani's Carmichael coal mine in Queensland state", a Sydney-based external spokesman for the bank told Bloomberg in an e-mailed statement.

The mining giant's Australia project has been plagued by environmental and regulatory concerns and became a defining issue in recent elections in Queensland state. The Australian Labor Party, which argued against the development of the coal mine citing its effect on the environment and the Great Barrier Reef, is set to win the elections leaving the project's future uncertain. The party has also vowed to reject A$900 million in federal funding to build a new rail link needed to carry coal to the coasts for export.

Coal from Australia's largest coal mine would be used for Adani's plants back in India and for trading, the company had earlier said.

Adani Group has not responded to BloombergQuint's emailed query.

More Chinese lenders to take Reliance Communications to insolvency court

Two major Chinese lenders plan to support a move by China Development Bank to put RCom into insolvency court as they seek to recover about Rs 9,000 crore in debt.

By: FE Online | Updated: December 6, 2017

Last month, China Development Bank moved to National Company Law Tribunal (NCLT) under the Insolvency and Bankruptcy (IBC), which Reliance Communications termed as "premature action", but it seems trouble for Anil Ambani's debt-ridden company is far from over as it is being reported that two more Chinese lenders are in support of insolvency proceedings.

Reuters on Tuesday reported quoting three unnamed people that two major Chinese lenders plan to support a move by China Development Bank to put RCom into insolvency court as they seek to recover about Rs 9,000 crore in debt. Industrial and Commercial Bank of China (ICBC), the country's biggest-listed lender by assets, and Export-Import Bank of China plan to back CDB, Reuters reported.

The Anil Ambani-owned company has a debt of Rs 9,000 crore from the China Development Bank. The company was also dragged by Ericsson

India to NCLT for unpaid dues of nearly Rs 1, 150 crore. RCom is reeling under a total debt of Rs 45,000 crore. Of this, Rs 25,000 crore is domestic debt and remaining Rs 20,000 crore is in the form of foreign loans and bonds. RCom classified Rs 22,550 crore of borrowings as non-current liabilities.

n June this year, RCom got a seven-month breather from its lenders as part of a strategic debt restructuring (SDR) scheme. RCom said it would repay its Rs 25,000 crore debt from two merger deals with Aircel and Brookfield of Rs 14,000 crore and Rs 11,000 crore respectively, which Bloomberg called "summer sale".

As the December deadline is close by, the company has announced plans to repay its debt — converting Rs 7,000 crore debt into 51% equity and handing over to banks as the new plan after its merger deal with both Aircel and Brookfield collapsed. The company claimed that under the new plan there will be zero write-off for the lenders. As on Monday, RCom's market valuation stood at Rs 3,900 crore only.

RCom said the company will be raising another Rs 17,000 crore to repay the debt through the asset sale. Of this, the company will raise around Rs 10,000 crore through the sale and commercial development of real estate assets.

AIBEA THIS DAY – 7 DECEMBER	
1994	**VI B P Discussion. Broad Understandings reached on Major Wage Components.**
2005	**UFBU meets, demands one more option for pension & oppose Bank mergers.**
2002	**AIBEA's 4th All India Women bank Employees Convention**

ALL INDIA BANK EMPLOYEES' ASSOCIATION

Central Office: PRABHAT NIVAS

Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001

Phone: 2535 1522 Fax: 2535 8853, 4500 2191

e mail ~ chv.aibea@gmail.com

Web: www.aibea.in