



Govt weighs merger of Bank of Baroda, IDBI Bank, Oriental Bank, Central Bank

If the bank merger plan goes through, the resulting entity will become the second largest bank in the country after State Bank of India, with combined assets of Rs.16.58 trillion

Jun 04 2018 | Anirudh Laskar & Remya Nair



Mumbai: The government is considering merging at least four state-run banks, including Bank of Baroda, IDBI Bank Ltd, Oriental Bank of Commerce and Central Bank of India, two people aware of the matter said. If the plan goes through, the merged entity will become the second-largest bank in the country after State Bank of India, with combined assets of Rs.16.58 trillion.

DEEP IN THE RED

The combined net losses of the four banks stood at ₹21,646.38 crore in the year ended 31 March.

Net loss (in ₹ crore)



Source: Capitaline

► The department of financial services may also consider a **51% stake** sale in IDBI Bank to a strategic partner, for **₹9,000-10,000 crore**.

► A merger would allow the weak banks to **sell assets, reduce overheads and shut down money-losing branches.**

► In April last year, **RBI governor Urjit Patel** had said that the Indian banking system could be better off if some public sector banks were consolidated.

With the merger, the government hopes to help stem the rise in bad loans in their books at a time when poor asset quality has crippled the lending ability of some of them. The merger will also allow the weak banks to sell assets, reduce overheads and shut money-losing branches.

The four banks that are being proposed to be merged are under pressure with combined losses of Rs.21,646.38 crore in the year ended 31 March.

The department of financial services, under the finance ministry, is also simultaneously considering a 51% stake sale in IDBI Bank to a strategic partner, for Rs.9,000-10,000 crore, the people said on condition of anonymity.

“Dilution of (government) stake in IDBI Bank could also be achieved through stake sale to private equity investors,” said one of the two people cited above. Queries emailed to IDBI Bank, Bank of Baroda, Oriental Bank of Commerce and Central Bank of India did not elicit any response.

On 21 May, IDBI Bank told the exchanges in a regulatory filing that a special resolution will be placed for further issue of capital at its board meeting of 25 May.

On the following day, IDBI Bank informed the exchanges about a scrutinizer report for an increase in the bank’s authorized capital from the existing Rs.4,500 crore to Rs.8,000 crore.

The increase in authorized capital could facilitate the sale of a stake of 51% or more, in the form of a preferential issue to investors.

Government officials declined to comment, saying the matter is highly market sensitive. In his 2016 budget speech, finance minister Arun Jaitley said that the government was considering reducing its stake in IDBI Bank to less than 50%.

The government had merged SBI with five of its associate banks and Bharatiya Mahila Bank in April 2017.

Zombie banks need more than RBI's prompt corrective action to revive

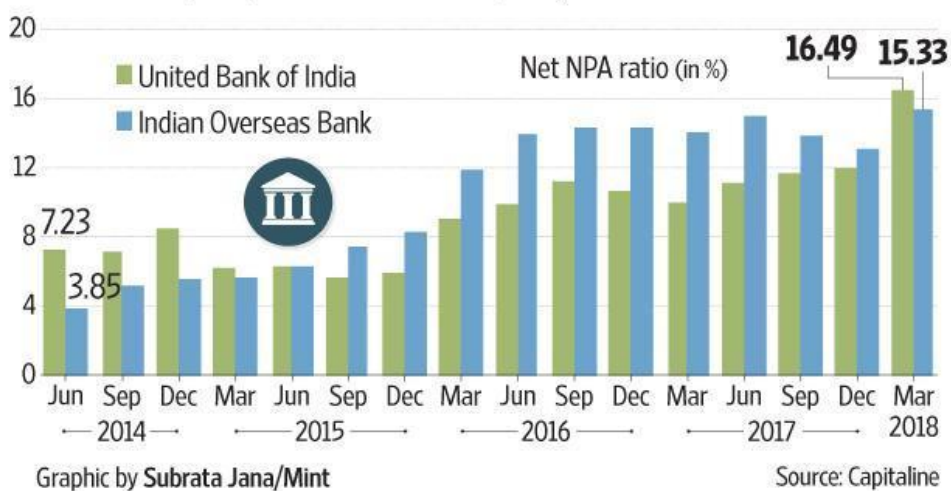
Apart from overhaul of bank managements, what is also needed is acceptance of the fact that some of the banks need to be merged or probably privatised

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The relevance of having 11 distressed public sector banks has often been questioned, despite them having a large borrower base with an outstanding loan book of about Rs.17 trillion as of fiscal year 2017-18.

SICK BAY OF BANKING

The analysis of United Bank of India and Indian Overseas Bank shows that the RBI's prompt corrective action (PCA) does more harm.



These 11 banks also hold close to Rs.25 trillion worth of public deposits garnered across a massive network of over 30,000 branches. Their relevance is under debate because they are under the Reserve Bank of India's (RBI) prompt corrective action (PCA). It is, essentially, a regulatory intensive care unit for sick banks with deep holes in their balance sheets.

Introduced in 2002, the objective of PCA is to try and reduce the stress on the balance sheet within a specific time.

True, these 11 lenders are more sick than the rest, with some having a bad loan stockpile double that of their net worth. So, RBI's intensive care unit sounds perfect for them.

But an analysis of the financials of two banks that have been under PCA for more than two years shows it has done little to help them and in fact, it has caused more harm.

United Bank of India (UBI) was placed under corrective action in February 2014, while Indian Overseas Bank (IOB) found itself under PCA in October 2015.

UBI triggered alarm bells when its net non-performing assets (NPA) rose to over 7% in December 2013, triggering corrective action from the RBI. The bank focused on recovery but the improvement in its bad loan ratio over a two-year period was just 80 basis points to 5.9% in December 2015. The bank has since then reported far worse ratios and the net NPA ratio stood at an ugly 16.49% as of March. UBI made huge losses and its capital position also deteriorated rapidly.

IOB is in an even worse shape and, unlike UBI, had hardly reported any improvement in its metrics ever since it was put under PCA. IOB's net NPAs have risen to a huge 25.28% as of March and its capital adequacy is below the regulatory minimum.

It is not surprising then that bankers abhor PCA and Punjab National Bank executives had said they would do everything to prevent their bank from coming under the PCA, when the lender reported a historic loss.

After all, the freedom to make decisions is snatched away and the core income of the bank is hit even though its expenses continue.

Perhaps, expecting PCA alone to fix everything would be erroneous. Intensive care is not just quarantine, but also medication. That is why PCA must be followed by other more critical measures for sick banks to become healthy.

Banking experts believe that lenders under PCA need huge capital infusion, which the government has provided. But most importantly, they

need an overhaul of their management and boards. Governance is one area in which the government has chosen to remain mute. What is also needed is acceptance of the fact that some of them need to be merged or probably privatised.

But T.T. Ram Mohan, professor of finance at Indian Institute of Management, Ahmedabad, thinks the government has not thought through banking reforms. "They have not worked out how to deal with the backlash if they move forward with a plan to consolidate these banks," he said.

Under PCA, the 11 lenders would soon risk becoming extremely narrow in their operations and some, like Dena Bank, can no longer lend. Their withering balance sheets each passing quarter is crying out for reform. Even as some of these lenders try hard to improve their operating metrics, whether they are doomed to become zombie banks is ultimately in the hands of the government.

'Retail banks will continue to grow, worst over for corporate banks'

Mirae Asset Global Investments' CIO Neelesh Surana says the worst is behind us for banks, but prefers those that are strong on retail loans

Jun 04 2018 | Kayezad E. Adajania



Mirae Asset Global Investments is India's 20th largest fund house out of 38, but packs in quite a punch. This is largely due to two of its stellar equity schemes and Neelesh Surana, its chief investment officer (equity). In a chat with *Mint*, Surana says the worst is behind us for banks, but prefers those that are strong on retail lending.

The March 2018 quarter results are said to be better than previous quarters. There has been an improvement in business sentiment and pick-up in consumer demand in the March quarter after major

disruption post demonetisation and implementation of the goods and services and tax (GST). Do you see a recovery in corporate earnings in future?

The overall recovery in profits has been broadly in line, excluding corporate banks which dragged down the earnings owing to accelerated provision related to the February 2018 Reserve Bank of India (RBI) framework on asset quality. Excluding the segments of state-owned banks and private corporate banks, the sales and profits grew at about 16% and 14%, respectively. The transition impact from GST, demonetisation, RERA (Real Estate Regulation and Development Act), etc. is normalising, and there is pick-up in rural demand. Export-oriented businesses like commodities have also seen a sharp turnaround. Overall, on the low base of financial year 2018, we expect (compounded annualised) earnings of about 18% over the next two years.

How do you see the banking sector? While there is a scare of bad loans, most broad-based benchmark indices have a large weight of banking sector stocks. How do you strike a balance?

In the last few years, the weightage of retail-oriented banks has increased steadily in the benchmark indices, at the expense of state-owned and corporate banks. Most banks have two segments where they lend money—retail and corporate. We have been largely investing (about 70% of banking exposure) in retail-oriented banks.

These banks have gained market share from the weaker state-owned banks, and also due to financialisation of savings. These banks' earnings will continue to grow at more than 18% over the next few years. Having said that, the worse in corporate banks is behind us.

Since you say that the worst in corporate banks is over, are you buying more of those stocks?

At an aggregate level, overall gross non-performing asset is about 12%, despite write-off of about 5% of loans in the last five years. Most of the bad loans recognition is almost done. The initial signs of bad loan recovery are good, although most of these are from the steel sector.

Beyond the steel sector, we may not see too much success and the key is to watch stress-asset resolution within the power sector. Overall, bad loans have been almost fully recognised, and the worst of new NPA formation is behind us.

Considering the above, we have about 30% of banking exposure into corporate banks, which also have retail franchise. The call is based on attractive valuations, arising from the stress in their corporate segment. Over time, we anticipate valuation multiples to revert to mean on two counts: (a) recovery in stress portion, and (b) proportion of retail and small and medium enterprises (SMEs) to the total lending book will increase. Overall, we expect recovery in "return on equity" over the next two years, which will improve valuations.

In the ongoing scheme recategorisation exercise, why did you make Mirae Asset Emerging Bluechip Fund, which was a mid-cap fund, a large- and mid-cap fund? Mid-cap valuations have become high and the size of your fund is also growing.

No, not because of valuations. The scheme has, for many years, held around 30% in large-cap stocks. Although it has been a mid-cap fund, large-cap stocks have been present here. We could have either let it remain as a mid-cap fund or we could have moved it to the large- and mid- cap category. We chose the latter because that would involve minimal changes to the existing portfolio. As per the Securities and Exchange Board of India's definition of a large- and mid-cap fund, it has to have at least 35% of its portfolio in large-cap stocks and at least 35% of its portfolio in mid-cap stocks. Since Mirae Asset Emerging Bluechip Fund fitted the large- and mid-cap category, we moved it to this new category.

Mirae Asset Emerging Bluechip Fund has done well in the mid-cap category. However, now it will be pitted against a whole new set of funds, some of whom may have a higher large-cap stocks allocation and so on. The definition of this category is very wide. Do you think this scheme may lose some of its legacy?

That's true to an extent, but the category is a new one. It will evolve over time and we will see how funds in this category evolve as well. There are some funds in this category that have moved from large-cap and multi-cap categories. A couple of funds like Mirae have moved in here from the mid-cap categories.

So yes, the past performance of all these funds would be meaningless for now. But over time, as the category evolves, ideally these funds should have a more proper balance of large- and mid-cap stocks at about 50% each, give or take some.

Mirae Asset Emerging Bluechip Fund has become a large fund now—around Rs5,500 crore. You stopped accepting lump sum subscriptions since October 2016 and put a cap on systematic investments plans (SIPs) in December 2017. Now that the fund has got some flexibility due to its moving to a new category, would you start accepting fresh money?

Let everyone understand and get a grip of this category (large- and mid-cap). By moving into a new category (large- and mid-cap), the scheme's capacity has increased. We might open the fund in future. Our SIP and systematic transfer inflows are satisfactory.

Why is Mirae launching a pharma and healthcare fund? What triggered this launch? What's the pitch for a retail investor to choose a pharma fund from Mirae?

The healthcare opportunity in India is secular and large, and valuations are reasonable. The reasonable valuation is on account of multiple headwinds in the last two years, which in our opinion are receding. Healthcare includes pharmaceuticals, hospitals, medical insurance, medical equipment, fine chemicals and other allied sectors. Overall, we are positive on the sector.

Mirae hybrid equity fund declared dividends three times last year (2017), but so far this year no dividends have been declared. Any reason?

Some other balanced funds have continued with their dividend declaration in 2018 as well. Subject to booked profits, we have in the past declared

dividends roughly at about 5-8% of net asset value (NAV) every year, across all funds. On a yearly basis, we would try to maintain the same trend, including the hybrid fund.

India's \$210 billion bank bad loans lures funds hunting for returns

From Canada's CDPQ to Hong Kong's SSG Capital Management and Oaktree Capital and Varde Partners, venture capital funds are eyeing India's NPA accounts for acquisition

India's banking sector is coping with about \$210 billion of NPAs, a legacy of a borrowing spree following the global financial crisis and an economic slowdown after that

Jun 04 2018 | Anurag Joshi, Bloomberg



Mumbai: India's insolvency and bankruptcy code (IBC), which gives creditors more power to restructure troubled companies, is luring more and more offshore investors from as far as Canada to buy the nation's bad loans.

Caisse de dépôt et placement du Québec (CDPQ), a Canadian pension fund manager, has made \$600 million available to Edelweiss Group for investment in local distressed assets, according to R.K. Bansal, an adviser for Edelweiss Asset Reconstruction Co. Hong Kong-based SSG Capital Management Ltd sees more opportunities in such assets, and foreign funds including Oaktree Capital Group LLC and Varde Partners are also keen to participate in the fledgling market.

India's banking sector is coping with about \$210 billion of non-performing assets (NPAs), a legacy of a borrowing spree following the global financial crisis and an economic slowdown after that. The insolvency and bankruptcy code introduced in 2016 has given rise to opportunities for funds to acquire borrowers' distressed assets. High potential profits on

those deals attract funds: SC Lowy Financial HK Ltd. expects annualized returns of about 15%, according to chief investment officer Soo Cheon Lee.

“The change now is that there is more bad debt available to buy as many more names are in restructuring,” said Pallavi Gopinath Aney, a principal in the finance and projects team at Baker McKenzie Wong & Leow in Singapore. Foreign funds see significant value in problem assets and “are willing to bring in management and expertise to run the distressed companies,” she said.

SSG Capital Management, which oversees more than \$4 billion, has deployed a “significant amount of capital” in India, said the fund’s Chief Investment Officer Edwin Wong without elaborating. Its outlook on the nation remains positive, he said.

Sales of distressed assets from banks to third-party investors jumped in the year ended 31 March, according to Jamie Tadelis, co-head of sales at SC Lowy Financial in Hong Kong. “We have seen an increase in fund managers pivoting their efforts from other jurisdictions towards India,” he said.

The Hong Kong-based loan and bond trading firm sees India as its main market for distressed debt in Asia, SC Lowy’s Lee said in an interview in March. As a foreign financial firm, it is easier to do business in India than in China, where local partnerships are usually required, Lee said.

The introduction of the bankruptcy law has brought the benefit of debt resolutions with deadlines for foreign funds, said Aney at Baker McKenzie Wong & Leow.

Narendra Modi’s goal

Indian banks are seeking to resolve about 40 of the largest NPA accounts with an outstanding debt of more than Rs4 trillion this year, in line with Prime Minister Narendra Modi’s push to get rid of bad loans.

The bad debt resolutions are already starting to spark mergers and acquisitions.

Tata Steel Ltd. last month said it had **completed** the acquisition of a controlling stake in Bhushan Steel Ltd. after debt resolution under the insolvency and bankruptcy code. Local bankruptcy courts are also working on other troubled firms such as Bhushan Power and Steel Ltd and Essar Steel Ltd.

Loan fraud on the rise in banks

The Hindu Data Team

MAY 29, 2018

THE HINDU

The total amount involved in bank loan frauds of Rs.1 lakh and above has increased 14 times in the past 10 years, according to RBI data. The total loan frauds in the financial year 2017-2018 amounted to Rs.22,469.6 crore.

While the amount involved in loan frauds in public sector banks has increased exponentially and has grown even faster since 2014, the rate of increase in private sector banks has been relatively slower. The overall number of frauds has also increased by 20% since 2009.

What's driving the GDP revival?

Aarati Krishnan

JUNE 03, 2018

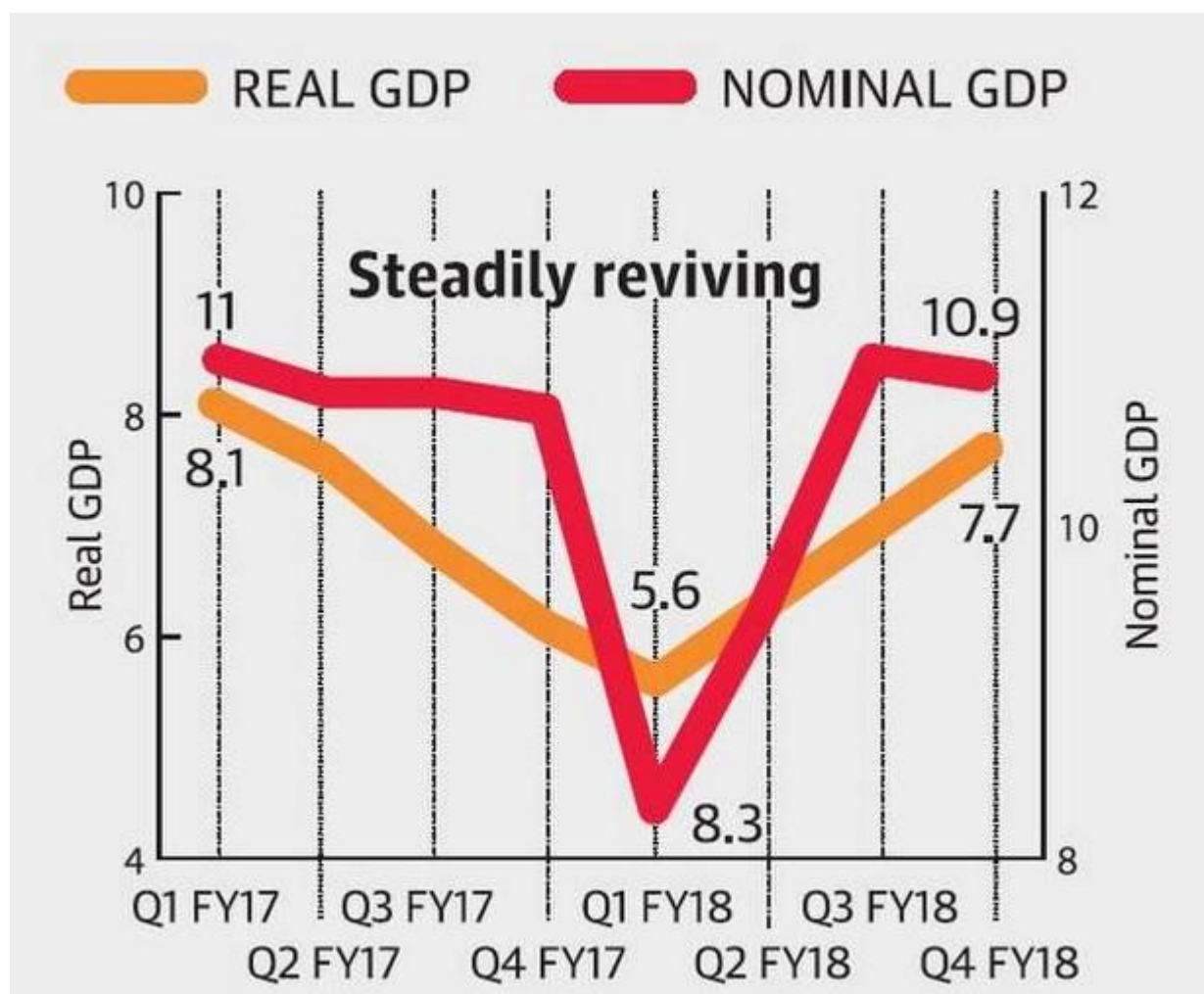
THE HINDU

Manufacturing, services and investments are looking up, but the government's hand clearly stands out

Economy watchers who were wallowing in gloom due to soaring oil prices, the wilting rupee and skittish foreign investors have been given some reason for optimism by the Central Statistics Office (CSO).

The CSO's provisional GDP estimates for FY18 suggest that growth revved up to a brisk 7.7% in the January-March quarter, the highest real GDP

print in seven quarters. So, is this sustainable and what are the takeaways from the fine print?



A show of resilience

The good news first. The quarterly GDP numbers show that the Indian economy has proved remarkably resilient to watershed events such as demonetisation and implementation of the Goods and Services Tax (GST). GDP growth, which was cruising along at 7.6% in the second quarter of FY17 decelerated sharply to 6.8% and 6.1% in Q3 and Q4 of FY17, after demonetisation vacuumed up a large chunk of money supply. Even as remonetisation proceeded at a sluggish pace, the rocky transition to GST, from July 2017, posed fresh challenges. Glitches in the GST Network, lack of clarity about transitory provisions and frequent changes to tariffs impeded business-as-usual in the transition months from April to August. This forced many firms to pare inventories and go slow on sales during

these months. This slowed GDP growth to 5.6% and 6.3% in Q1 and Q2 of FY18.

But economic activity has revived quite briskly thereafter. Real GDP growth accelerated to 7% in Q3 of FY18 and 7.7% in Q4, as per the latest GDP data, showing that the formal sector at least, has managed to successfully navigate the twin speed bumps of demonetisation and GST.

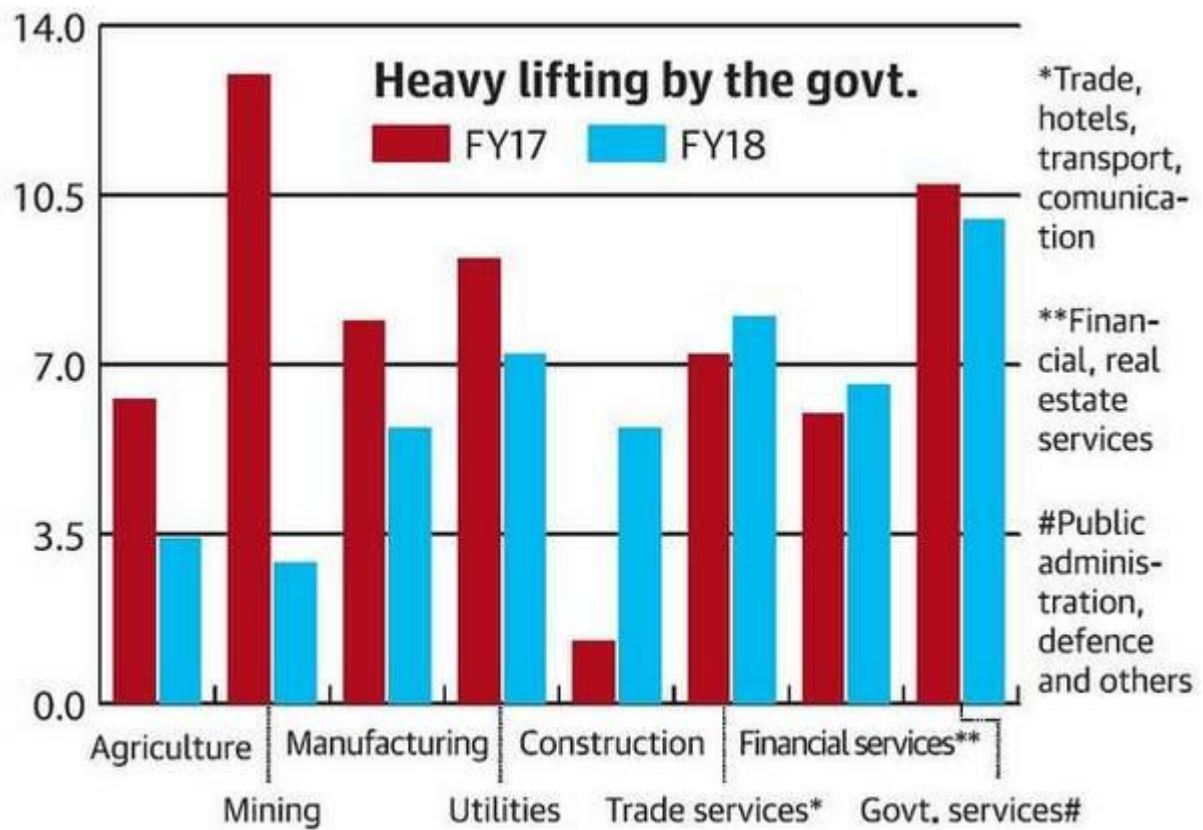
Though FY18 has closed with the lowest real GDP growth in four years (6.7%), trends in recent quarters promise better times ahead.

Economic commentators tend to focus exclusively on real measures of output to gauge economic activity, after stripping out the price effect. But it is nominal growth that truly drives income growth for households and top-line growth for firms.

Nominal growth returns

Thanks to high inflation rates, India's nominal GDP growth rates have historically held at double digits, with these growth rates hovering between 10.7% and 13% in the four years to FY17. But with inflation moderating and growth slowing abruptly in the first half of 2018, nominal growth rates dipped from 10.7% in Q4 of FY17 to 8.3% and 9.5% in Q1 and Q2 of FY18. But with inflation normalising and growth picking up, the last two quarters have seen nominal GDP growth return to 11%. That is good news for income earners as well as investors at India Inc.

A sectoral breakdown of GDP numbers shows that job-creating sectors, which took a sharp hit in January to June 2018, are now on a turnaround path. Manufacturing, which saw GVA (gross value added) growth slip to 6.1% in Q4 FY17 has expanded by 9.1% in Q4 FY18. Construction which shrank by 3.9%, grew by a hefty 11.5% in Q4 FY18. Trade, hotels, transport and communication, which slipped to 5.5% in Q4 FY17 has rebounded to 6.8%. And financial services and real estate which flatlined in Q4 FY17 grew by 5% in the latest quarter.



Yes, agriculture and mining have slowed. But given that manufacturing, trade, construction and services are the key employment generators for the Indian economy, their revival has a big impact on the feel-good factor.

That is not all. For the last four years, analysts have fretted about stalled private investments holding back growth, with the two other legs — private consumption and government spending — doing much of the heavy lifting. This was attributed to high interest rates, excess capacities across industries and the high debt stockpile at India Inc. But the latest quarter has brought evidence of private investments coming back to life too, with Gross Fixed Capital Formation growth at 14.4%, improving steadily from 1% in Q1. Buoyant commodity prices, lower interest rates and dwindling corporate debt are likely to have driven this.

Silent stimulus

Despite all these positives though, the economy's Achilles Heel is its continued reliance on government spending for growth.

Breaking down the GVA numbers for FY18, it is hard to ignore that the fastest growing segment was not manufacturing or services, but 'public administration, defence and other services'. This segment expanded by 10% in FY18 on top of a 10.7% growth in FY17.

Aggregates:

Year on year growth	FY17	FY18
Real GVA	7.1	6.5
Net taxes on products	7.4	9.1
Real GDP	7.1	6.7
Nominal GDP	10.8	10.0

Now, 'public administration, defence and other services' is simply jargon for the revenue expenses incurred by the Central and State governments towards running their officialdom. GVA estimates at current prices of this item rose from Rs.16.6 lakh crore in FY16 to Rs.22 lakh crore in FY18, as the implementation of the Seventh Pay Commission recommendations entailed higher salaries, HRA and other benefits to government staff.

These burgeoning payouts have clearly acted as a stimulus over the last three years, propping up consumer demand, aiding sales of goods and services, and thus feeding into GVA growth for both manufacturing and services.

Shorn of this item, India's real GVA expanded by a not-so-heartening 5.9% for FY18 and 6.6% in FY17.

Oil bonanza

What has helped the government sustain these high spends despite its deficit restraints, is its buoyant excise, customs and sales tax (now GST) mop-ups. These tax mop-ups, at Rs.15.9 lakh crore for FY18 accounted for a 9% chunk of the nominal GDP. The tax collections in turn have

received a huge helping hand from the exceptionally high duties on fuel, imposed at a time of falling oil prices.

But with global oil prices soaring in recent months, this windfall is no longer a given. Crude oil prices are now expected to average \$68-70 a barrel in 2018, compared to \$55 last year. As pump prices climb to record highs, pressure is mounting on the government to roll back its duties to offer relief to consumers. If the government complies, it will have to tighten its belt on both revenue and capital spending.

This will amount to the withdrawal of the silent stimulus that India's economy has enjoyed over the last three years.

So, will Indian households carry on with their spending spree even without the Pay Commission booster? Will the private sector ratchet up its investments to compensate for a government go slow? This will decide whether India's GDP numbers power ahead or lose steam in the coming months.

The biggest ever fire sale of Indian corporate assets has begun, to tide over bad loans crisis

Piyush Pandey
MAY 08, 2016

THE  HINDU

'For sale' tags on airports, roads, ports, steel plants, cement units, refineries, corporate park, among others, are visible

We are seeing what is effectively India Inc.'s biggest ever fire sale. It's even bigger than the government's planned divestment target.

The Reserve Bank of India's (RBI) has decided to clean up the balance sheets of Indian banks, which are collectively saddled with Rs five lakh crore of bad loans, by the end of this fiscal. So, the banks have started cracking the whip on Indian companies for repayment of loans. For most affected firms and groups, this will mean they will be forced to sell prized assets to repay their ballooning debts.

We are seeing 'for sale' tags on airports, roads, ports, steel plants, cement units, refineries, malls, corporate parks, land banks, coal mines, oil blocks, express highways, airwaves, Formula One teams, hotels, private jets, and even status symbol corporate HQs. Substantial stakes in firms, and in some cases entire companies, are on the block.

The Hindu reviewed leading corporate houses with billion-dollar loans riding on them, and the results are startling. The top 10 business house debtors alone owe Rs 5,00,000 crore to the banks. They will be forced to sell assets worth over Rs 2,00,000 crore.

Reliance Group (Anil Ambani)

The Anil Ambani-led Reliance Group alone owes Rs 1,21,000 crore of loans to the banks and had an annual interest liability of Rs 8,299 crore against earnings before income tax of Rs 9,848 crore. Some of the group's firms, like Reliance Infrastructure and Reliance Defence, don't earn enough to service the interest outgo.

Assets put on sale by the Reliance Group include about 44,000 telecommunications towers (valued at Rs 22,000 crore) and optic fibre and related infrastructure (Rs 8,000 crore) from Reliance Communications (RCom), its flagship firm. Weighed down by about Rs 40,000 crore of debt, RCom has posted a loss of Rs 154 crore in FY14-15, and has continued to post losses in the first three quarters of FY 15-16, accumulating losses of over Rs 2000 crore until December 31, 2015; it is likely to end that fiscal with a net loss too. The company is valued at Rs 13,440 crore, less than a third of its total debts. However, RCom plans to reduce its debts to Rs 10,000 by selling Rs 30,000 crore of telecom assets.

Reliance Infrastructure (R-Infra) is sitting on a pile of debt of Rs 25,000 crore as of February. In November 2015, it agreed to sell a 49 per cent stake in its electricity generation, transmission and distribution business in Mumbai and adjoining areas to Canadian pension fund Public Sector Pension Investment Board (PSP Investments). The transaction is expected to reduce debt of Rs.7,000 crore attached to the distribution business. It

agreed to sell its cement business to Birla Corporation for Rs 4,800 crore in February, and is looking to sell its entire roads portfolio, valued at Rs 9,000 crore, for which three international bidders have been short-listed. R-Infra's EBIT stands at Rs 1,686 crore, against interest liability of Rs 1,974 crore. Its market capitalisation at Rs 14,476 crore is Rs 10,000 crore lower than its debt. By sale, of cement, road and the Mumbai power distribution businesses, the company expects to be debt free on standalone basis by the end of this fiscal.

Reliance Capital, with debt of Rs 24,000 crore has sold stakes, in phases, in its mutual fund and life insurance businesses to Nippon Life Insurance for Rs 3,461 crore to allow the latter to increase its stake to 49 per cent in each of the businesses. It further plans to raise another Rs 4,000 crore by the end of 2016-17 by selling non-core assets, including proprietary investment book and by inducting a partner in its general insurance business. Reliance Capital's debt includes its lending portfolio – commercial lending and housing finance- of about Rs 18,000 crore and claims to have a debt-equity ratio of 1.77, the lowest in the industry, as of December 31, 2015.

Mr Ambani is also looking to exit the media and entertainment businesses, under Reliance Broadcast Network Ltd (RBNL), for Rs 1,500 – Rs 2,000 crore.

His foray into defence — the recently-acquired Pipavav Defence & Offshore Engineering, rechristened Reliance Defence — is sitting on debt of Rs 6,800 crore against its current market capitalisation of Rs 4,895 crore. The loss-making company with negative EBIT of Rs 306 crore has an interest liability of Rs 347 crore a year.

Ruia's Essar group (Shashi and Ravi Ruia)

Shashi and Ravi Ruia's Essar group has gross debt of Rs 1,01,461 crore. The group is looking to sell about 50 per cent stake of its family silver, i.e., Essar Oil's 20mtpa (million tonnes per annum) Vadinar refinery, for Rs 25,000 crore. It also plans to bring in a financial partner for its 10mtpa steel business that currently has a debt of Rs 40,000 crore; a 49 per cent

stake in the steel facility will be valued at about Rs 25,000 crore. The debt-laden group is also looking to sell stake in its ports business. Essar Steel and Essar Oil each account for one-third of the group debt, and Essar Power, one-fifth.

Adani group (Gautam Adani)

The billionaire Gautam Adani's Adani group, with Rs 96,031 crore debt, is under pressure to sell its stake in the Abbott Point coal mines, port and rail project. The Adani Group's debt stands at Rs. 72,000 crore. Last year, Standard Chartered bank had recalled loans amounting to \$2.5 billion as part of its global policy of reducing exposure in emerging markets. Global lenders have backed out from funding the \$10-billion coal mine development project. State Bank of India has also declined to offer a loan despite signing an MoU to fund the group with \$1 billion. An Adani spokesperson declined to offer any comments on the issue.

Jaypee group (Manoj Gaur)

Manoj Gaur's Jaypee group's debt is over Rs 75,000 crore. The group has agreed to sell its 20mtpa of cement assets to Kumar Birla-led Ultratech for Rs 15,900 crore. This will leave its listed entities with about 6mtpa of cement capacity, three thermal power plants, one hydropower plant, an expressway project and land parcels. It is looking to sell most of these assets at the right price, but buyers are not easy to come by. Aside from selling stake in its land parcels and the Yamuna Express Highway, the group is looking to sell its remaining cement plants for Rs 4,000 crore and its Bina thermal power plant for Rs 3,500 crore. In the last year, the group has defaulted on payment obligations worth \$350 million. Analysts say its capacity to service its debt has not improved.

GMR group (GM Rao)

G.M. Rao's GMR group was one of the first debt-ridden companies to sell off assets; it has already offloaded stake worth Rs 11,000 crore in its roads, power and coal assets in the last two years. Despite this, its total debt has actually gone up: from Rs 42,349 crore at the end of FY13 to Rs 47,738 as of March, 2015. The group is planning to raise about Rs 5,000

crore this year by selling land parcels, energy assets and stake in airport subsidiary. Last month, it announced it was selling part of a road project in Karnataka, to help reduce debt by more than Rs 1,000 crore. It also plans to sell 30 per cent of its stake in its airport arm, which is valued about Rs 10,000 crore.

Lanco group (L Madhusudhan Rao)

The Lanco group has debts of Rs 47,102 crore. It completed the sale of its Udupi plant in FY16 for Rs 6,300 crore (15 per cent of FY15 debt). Debt levels have continued to rise, up 6 per cent in FY15. The group plans to sell power assets worth Rs 25,000 crore to de-leverage its balance sheet and retire debts of about Rs 18,000 crore. It is also planning to sell a one-third stake in the Australian coal mine it acquired in 2011 for \$750 million.

Videocon group (Venugopal Dhoot)

Despite the Videocon group selling its stake in its Mozambique gas fields for Rs 15,000 crore, gross debt has continued to rise: it is up 10 per cent year-on-year to Rs 45,405 crore, while net debt has remained largely flat at Rs 39,600 crore. Last month, it sold its spectrum to Bharti Airtel for Rs 4,600 crore. "If you minus last month's spectrum sale amount of Rs 4,600 crore which will be paid directly to the banks, then debt comes to Rs.34,000 crore. To decrease debt further, we will be liquidating assets worth Rs 5,000 crore this year so the net debt of the group will be around Rs 29,000 crore," Videocon Industries chairman Venugopal Dhoot told The Hindu adding that out of this net debt, Rs.21,000 crore has been taken for oil and gas ventures in Brazil, Indonesia and across the globe, where the group and its partners have discovered oil and gas reserves. So, domestic debt of around Rs 8,000 crore will be serviced.

GVK group (G.V. Krishna Reddy)

To repay some of its debt of Rs 34,000 crore, the GVK group is in talks to sell 49 per cent of its airport subsidiary, which has an enterprise value of Rs 10,000 crore. Last month, it agreed to divest its 33 per cent stake in BIAL to Fairfax India Holdings Corp for an aggregate investment of Rs

2,149 crore. The company is also exploring the possibility of bringing in equity investors into Hancock Infrastructure Pvt Ltd, its holding company for its rail and port projects in Australia. A GVK spokesperson in reply to an e-mail query by The Hindu said, "As part of our corporate policy, we do not comment on any speculation in the media. While it's public knowledge that we are considering various options for reducing our debt, we regret we cannot respond to any of your queries."

Reliance Industries (Mukesh Ambani)

India's largest debtor, Mukesh Ambani's Reliance Industries (RIL), has a total debt of Rs 1,87,079 crore (up from Rs 62,500 crore as on March 31, 2010, mainly because of the Rs 1,50,000 crore roll-out of Reliance Jio), the biggest among all corporate houses, and the largest ever in Indian corporate history. But it's also one of the best-rated firms in servicing its interest, so banks are happy to offer RIL loans at competitive rates. Analysts believe that huge debt may weigh down the profitability due to interest outgo and depreciation after the commercial roll-out of Reliance Jio, if it is not able to scale up quickly.

Company	Gross debt (2014-15)	Assets for sale (Rs.Cr)
Reliance Industries (Mukesh Ambani)	187070	-

Tata Group

The Tata Group, India's largest corporate group, with over 100 companies, wants to sell its UK steel business, which came as part of the \$12.9 billion acquisition by Tata Steel of Corus in 2007. Tata Steel had invested over \$ 2 billion as capital expenditure in its UK steel business and it has now written down the value of its investment of \$2.9 billion, meaning the value of its UK steel business is almost zero. The company's

consolidated debt was \$10.7 billion on September 30, 2015, with the total long-term debt of its Europe business at about \$4.3 billion.

The others

Among other corporates,

- Naveen Jindal-led Jindal Steel and Power Limited has agreed to sell a 1,000 MW power plant to his elder brother Sajjan Jindal at an enterprise value of Rs 6,500 crore and is looking to sell other assets to reduce debts of Rs 46,000 crore.
- DLF Ltd, India's most valuable property developer, has sought expressions of interest from several top global investors to sell a 40 per cent stake in its rental assets arm as it seeks to pare debt. The rental assets arm holds about 20 million sq.ft of leased-out office space and is valued at about \$2 billion,
- India's largest sugar producer Shree Renuka Sugars Ltd has declared its Brazilian unit bankrupt and has filed for protection in the country. The company plans to fully exit from the National Commodity & Derivatives Exchange (NCDEX), as part of a strategy to sell all its non-core assets to reduce debt.
- The Sahara group's sale list is long: 86 real estate assets, a 42 per cent stake in Formula 1 team Force India, four airplanes, and its hotels: the Sahara Hotel in Mumbai, Grosvenor House, London, the New York Plaza Hotel, and The Dream New York Hotel.
- Almost all of Vijay Mallya's assets are on sale by the banks.

Quenching the fire

Despite all the desperate deleveraging, the financial stress at these groups has intensified: all of them saw further increases in debt in FY15. These debts have grown seven-fold over the past eight years and account for 12 per cent of system loans, according to Credit Suisse

As groups like Jaypee and GMR cut back on capex and sold assets, their debt and EBITDA have deteriorated further, mainly because they sold their best assets, which were contributing to as much as 70 per cent of

their EBITDA. For Jaypee, Lanco, Essar, and GMR, about half their debt has already been downgraded to Default by rating agencies. For GMR and Videocon, absolute debt has continued to rise despite asset sales. Lanco's Udipi plant sales reduced debt levels by 15 per cent, but that project contributed to 69 per cent of its FY15 EBITDA. Videocon too hasn't seen any reduction in debt levels.

Investment advisor SP Tulsian said that when you have gangrene in your body, you need to chop off that part to survive; "Similarly, Indian firms need to sell off assets to deleverage their balance sheets or they will die sooner or later. For, banks will take control of their assets and sell them to recover dues."

However, Morgan Stanley, the global financial services firm believes that the worst of India's corporate debt crisis seems to be over as companies are reporting positive Free Cash Flow (FCF) for only the second time in two decades.

In its Asia Insight Report titled "India – Macro meets Micro," Morgan Stanley said that the distress in corporate India's balance sheet is unchanged for the past four years and lists out the following problems of corporate sector:

It's a balance sheet recession

- Corporate debt to equity is at all-time high

- The debt service ratio is at a new low. The BSE 500 index companies have about 4 times their operating income to pay interest expenses compared to around 10 times in the boom years

- Interest to sales is approaching an all-time high, hurting net margins and impeding debt serviceability.

- Excess return on capital (ROCE minus the prime lending rate) is at all-time lows and in negative territory. This means that companies are earning less on their investment than the cost of their debt.

Tulsi Tanti's Suzlon became the first casualty of the banks' recovery drive. In 2015, it was forced to sell its largest international subsidiary, Senvion,

bought for €1.4 billion euro in 2007, for around €1.1 billion. The sale helped Suzlon cut down its debt of Rs 16,500 crore to Rs 10,500 crore, and reduce its interest liability from Rs 1,600 crore to Rs 800 crore a year. More companies from indebted sectors — power, infra, steel, realty for example — will be forced to emulate Suzlon and go for rapid asset sale in the hope of staying afloat until better times.

'PSB losses wipe out \$13 bn of infusions'

PTI
MUMBAI, JUNE 02, 2018
THE HINDU

Situation likely to sustain in FY19: Fitch

Losses at state-run banks have almost entirely wiped out the \$13-billion capital infusion by the government, and the situation is unlikely to improve in the current fiscal year, ratings agency Fitch said.

The big losses will pressure banks' viability ratings as well, it warned.

"Cumulative losses at the state banks were large enough to wipe out almost all of the government's capital injections of \$13 billion in FY18, and weak performance is likely to continue in the coming year," it said.

The poor results are due to revision in non performing asset (NPA) recognition norms, which is accelerating bad loan recognition, it said, adding that the February 12 revision is part of a clean-up that should improve the health of the bank sector over the long term.

The revisions have led to a major uptick in credit costs for state-run lenders to 4.3% in FY18, from 2.5% in the year-earlier period, while NPAs for the banking sector rose faster than expected to 12.1% from 9.3%.

For state-run lenders, the average NPAs shot up to 14.5%, with IDBI Bank, UCO Bank and Indian Overseas Bank having NPAs of above 25%. About 19 of the 21 state-run banks reported losses for the fiscal, including the country's largest lender SBI, while the otherwise

resilient private sector banks were also not immune, with Axis Bank reporting its first quarterly loss.

Capital buffers at six state-run banks, including second-largest lender by assets Punjab National Bank, slid below the minimum prescribed by the regulators, it said, adding that they will have to meet the 8% requirement by end of FY19.

Govt. capital needed

The \$11 billion in capital committed by the government for FY19 will help banks avoid breaching regulatory triggers, but more government capital is required to stabilise banks' balance sheets, meet regulatory requirements and support growth, it underlined.

It is possible that the list of state-run banks placed under the RBI's prompt corrective action framework that focuses on strengthening quality over growth, will get enlarged this year, Fitch said.

The higher NPAs reflect a "full recognition of legacy problems," Fitch said, welcoming the rise in provision coverage ratios by banks to 50%.

NPA resolutions under the insolvency and bankruptcy code can also release capital for banks, but there is the risk of legal delays, the credit ratings agency said.

Govt appoints IDBI Bank MD M. K. Jain as RBI Deputy Governor

[PTI](#) | NEW DELHI, JUNE 4
THE HINDU
BusinessLine

The government today appointed IDBI Bank Managing Director M K Jain as Deputy Governor of RBI in place of S. S. Mundra, who completed his three-year term in July last year. "Government appoints experienced banker Mahesh Kumar Jain, MD & CEO of IDBI Bank, as Deputy Governor of RBI for a term of three years," said Financial Services Secretary Rajiv Kumar in a tweet.

A search panel headed by the Cabinet Secretary interviewed candidates, including three senior bureaucrats, on May 10. The search panel also includes the RBI Governor, Financial Services Secretary and some independent members.

Jain, with 30 years of banking experience, has been MD of IDBI Bank since March 2017. Prior to this, he was MD of Chennai-based Indian Bank. He was appointed MD of Indian Bank in November 2015. He also served on several banking sector panels, including Secretary and Coordinator to the Basant Seth Committee on Review and Revamp of Internal and Concurrent Audit System in public sector banks.

He was a member of the government-constituted committee on PIL on NPAs for submission to the Supreme Court, and redesign of the Annual Performance Appraisal Report of PSB officers.

According to the RBI Act, the central bank should have four deputy governors - two from within the ranks, one commercial banker, and another an economist - to head the monetary policy department. The Other serving Deputy Governors are Viral V Acharya, N S Vishwanathan and B P Kanungo.

Although interviews were conducted on July 29 last year, the government decided to start the process all over again in January this year. The deputy governor would draw a fixed salary of Rs 2.25 lakh per month plus allowances, it had said.

Free banking services will not attract GST

[SHISHIR SINHA](#) | NEW DELHI, JUNE 3
THE HINDU
BusinessLine

But late credit card and EMI payment to be taxed

Tax authorities have made it clear that free service – such as certain number of ATM withdrawals, issuance of cheque book or account statement provided by banks – will not attract Goods and Services Tax

(GST). Butcharges for late payment of credit card dues and additional interest charged in case of default in EMI payment will attract GST.

This clarification has come after the Department of Financial Services and Department of Revenue were not on same page regarding the imposition of GST on services such as free ATM transaction or issuance of cheque book. In fact, tax authorities have issued notices to many banks asking them to pay tax on free services as they are subject to 'maintaining minimum balance'. After all these notices, the DFS had approached the revenue department, seeking clarity on whether such services would attract GST.

Detailed FAQ

Now, the Central Board of Indirect Taxes and Custom (CBIC, which was previously known as Central Board of Excise and Custom, or CBEC) has issued detailed Frequently Asked Questions (FAQ) on issues related to the financial services sector.

In one of the responses, it said: "Section 7 of the CGST Act 2017 read with Schedule I thereto provides that services supplied without consideration to related persons or distinct persons only would qualify as 'supply'. Also import of services by bank from a related person, or from any of its establishments outside India in the course or furtherance of business, will be 'supply' even if imported without consideration. Therefore, where the services are supplied by a supplier without consideration to an unrelated recipient or a person other than a related or distinct person, the same would not amount to supply and not liable to GST."

This makes it clear that free services such as the use of withdrawal for up to 3 or 5 times will not attract GST.

FAQ also made it clear that there if a bank gives discount or concession on service charge, then GST will not be levied on the higher rate. It said that banks provide various services to customers for a charge.

However, at times, customers are provided services free or at a concessional/differential rate. Such a rate is offered, considering factors

such as credit rating and stability of the customer, size of relationship, expected future business or the opportunity presented in the market elsewhere. As a result, the charges for the same service may differ from customer to customer. "Such services provided to persons who are not related persons will be taxable on the transaction value, that is, the value of the services charged or recovered from the customers or account holders," it said.

The tax department also answered questions regarding taxability on late credit card or EMI payment. It said that GST will be levied on charges for late payment of dues on outstanding credit card bills.

"The exemption from levy of GST on interest specifically excludes interest charged on outstanding credit card balances," it said. For delayed EMI, it mentioned that the value of supply includes, among others, interest for delayed payment of any consideration for any supply.

"Additional interest charged for default in payment of instalment in respect of any supply, which is subject to GST, will be includible in the value of such supply and, therefore, would be liable to GST," it said.

Private lenders surge ahead of PSBs weakened by asset-quality woes

OUR BUREAU | MUMBAI, JUNE 1
THE HINDU
BusinessLine

Will result in PSBs losing market share, say experts

Private sector banks have stolen a march over public sector banks, which have been reeling under asset-quality woes over the last couple of years.

According to data released by the Reserve Bank of India, as of March-end 2018, private sector banks (PvSBs) recorded robust annual average deposit and credit growth of 17.4 per cent and 20.9 per cent, respectively.

As of March-end 2018, All Scheduled Commercial Banks (ASCBs) clocked annual average deposit and credit growth of 6.8 per cent and 9.5 per cent, respectively.

In sharp contrast, public sector banks (PSBs) recorded muted annual average deposit and credit growth of 3.1 per cent and 4.7 per cent, respectively.

“Aggregate deposits recorded broad-based growth (year-on-year) across all population groups (rural/ semi-urban/ urban/ metropolitan) after moderating for two quarters; private banks continued to maintain double-digit growth in deposits.

“...Although bank credit growth (y-o-y) moderated marginally from a quarter ago, there has been a recovery during 2017-18 from a slump in the preceding year; private sector banks recorded the highest credit growth, both on sequential as well as on annual basis, whereas it remained low for public sector banks,” the RBI said. According to market experts, the slowdown in PSBs’ deposit and credit growth will result in them losing ground to PvSBs in terms of market share.

Regional Rural Banks, too, logged above industry (ASCBs) average business growth rates, with annual average deposit and credit growth of 7.2 per cent and 11.3 per cent, respectively.

Foreign banks, however, clocked below industry average business growth rates, with annual average deposit and credit growth of 5.8 per cent and 3.9 per cent, respectively.

CID charge sheets staff of PSU banks, pvt firm in Rs 68-cr fraud

Bellie Thomas,
DH News Service, Bengaluru, JUN 02 2018



The Criminal Investigation Department (CID) has filed a charge sheet against two employees of a leading metal exporting company for

misappropriation of funds, amounting to Rs 78 crore, in collusion with five bank officials.

When the owner and managing director of Metal Closures Pvt Ltd got to know of the misappropriation, the accused also took possession of the company, misusing the provisions under the Sarfaesi Act, the charge sheet stated.

The charge sheet named Mahesh Hegde, CFO (chief financial officer), as the prime accused and Yogesh Ural K, general manager (commercial), Bengaluru unit, Metal Closures, along with bank officials S Bhaskaran, deputy general manager, Mid Corporate Branch SBI; Rao Saheb Honakatti, chief manager and authorised officer (Sarfaesi); Avinash Katavare, chief manager from Punjab National Bank (PNB); D Vasudevan, deputy general manager, PNB; and V V Krishnamurthy, a chartered accountant appointed as concurrent auditor by SBI for Metal Closures.

Based on an FIR registered at the Subramanyapura police station, the case was transferred to the CID for investigation. The sleuths claimed to have found evidence to establish misappropriation of funds, illegal possession of the company and also efforts to close down its operations to conceal the fraud.

Metal Closures managing director Prashanth Hegde, the complainant, discovered that Mahesh fraudulently operated the company's bank accounts by forging the managing director's signature and issuing RTGS payments based on photocopied and faxed cheques. He also found out that the misappropriated funds amounted to Rs 68 crore and brought this to the notice of the deputy general manager of SBI S Bhaskaran, who led the consortium of banks (SBI, PNB, Corporation Bank and UCO Bank) that financed the company's operations.

Prashanth also urged the consortium to reject any loan enhancement requests from the CFO.

"Meanwhile, the consortium went ahead and sent notices to the company, stating it would take possession soon for showing non-performing assets

(NPA). But by then, SBI had already appointed a concurrent auditor and a security agency from the bank's side, expelling the existing company's security guards," said K Nanjunde Gowda, DySP, CID.

After the first notice under Section 13(2) of the Sarfaesi Act is served, the company should be given 60 days to respond. The second notice under Section 13(4) must be issued before the possession, which should also be done before a mahajar or inventory. But in this case, the consortium of banks took possession of the company well before the notices were served, which establishes the malafide intent, the charge sheet stated.

After the consortium realised that their possession was illegal, they withdrew the earlier two notices and served two fresh ones. However, the company account's NPA date on the earlier two notices was May 28, 2014, while the re-issued notices stated the company account's NPA was since January 31, 2010.

The charge sheet also stated that there were thefts in the company during the period of the bank's possession. There were instances of the accused selling expensive equipment to its competitors at a throwaway price, which did not come into the company's account. The accused also instigated and allowed the LPG installation belonging to the company to be removed, which is the company's lifeline, and the intent was to close down its operations, the charge sheet stated.

Second case

The CID is also investigating another case of misappropriation of funds, involving UCO Bank employees in collusion with employees of Metal Closures. This case is based on an FIR registered at the Ashok Nagar police station in 2015 by Metal Closures managing director Prashanth Hegde and chief financial officer Mahesh Hegde and staff of UCO Bank. The CID is yet to file the final report in this case.

Banking sector this week: PSB staff strike impacts cash transactions, ICICI Bank chief on “annual leave” & loan rates hiked

ICICI Bank and other banks followed PNB and SBI to raise lending interest rates, thereby making loans costlier for new and old borrowers

Beena Parmar [@BeenaParmar](#)



ICICI Bank chief Chanda Kochhar has gone on an “annual leave” at a time when an independent enquiry is probing her after impropriety allegations from yet another whistleblower.

Meanwhile, loan borrowers get hit by the increase in their EMIs as top banks raise interest rates. In between, customers were also inconvenienced after a two-day bank strike on May 30 and 31, where 10 lakh employees were protesting against a meagre two percent wage hike.

A mid-week announcement by ICICI Bank to call for an independent probe against Kochhar, its CEO and managing director who is battling nepotism allegations since two months, had cheered investors.

After the enquiry announcement, ICICI Bank shares shot up five percent as the shareholders expected the uncertainty over the leadership position and its impact on the bank’s future.

Kochhar has been in the midst of a storm relating to charges of impropriety and conflict of interest while granting loans to Videocon Group, whose promoter Venugopal Dhoot is said to be an investor in NuPower Renewables which is founded by Kochhar’s husband.

On Friday, reports suggested that Kochhar was asked by the bank’s Board to go on “indefinite leave” until the probe against her is completed.

However, the bank denied this saying she was on her annual leave as planned in advance itself. This led to correction in the stock which ended about 1.37 percent higher on Friday.

Lending rate hike

On the business front, ICICI Bank and other banks followed Punjab National Bank (PNB) and State Bank of India (SBI) to raise lending interest rates, thereby making loans costlier for new and old borrowers.

Starting off with government owned second largest lender PNB, which hiked rates on Thursday by 10-20 basis points (bps), country's biggest lender SBI also increased the rates by 10 bps across all tenure loans. This was quickly followed by HDFC, ICICI Bank and Kotak Mahindra Bank.

More banks are likely to follow suit and borrowers will now have to shell out more on their EMIs or equated monthly instalments.

The rate hike by the banks came just days ahead of the key policy rate due to be announced by the Reserve Bank of India (RBI) on June 6.

In other news, Allahabad High Court provided relief to banks to avoid taking action on power sector stressed assets based on the RBI's February 12 circular that mandates insolvency proceedings on non-performing assets (NPAs) which are failed to resolve within 180 days of default.

Currently, lenders led by SBI along with Power Finance Corporation are working to resolve 11 stressed power projects among other resolution plans.

AIBEA THIS DAY MAY 7	
1947	Second Conference of Bihar Provincial Bank Employees' Association. Shri Jayaprakash Narayan addresses. Com. B C Roy Choudhury elected as General Secretary.
1955	Two hours strike in Calcutta in all banks. Solidarity for struggle in Allahabad Bank.
1996	Central Committee meeting at Hyderabad.



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