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Dear Comrades,

17th September , 2016

News of Interest 17th Sep

QUOTE OF THE DAY

“A POSITIVE ATTITUDE IS SOMETHING EVERYONE CAN WORK ON, AND EVERYONE CAN LEARN HOW TO EMPLOY IT.”

JOAN LUNDEN

- 1. SBI MOVES FROM BALANCE SHEET-BASED TO CASH FLOW-BASED LENDING**
- 2. IDBI BANK SAID TO SEEK UP TO RS 6,000 CR VIA SHARE SALE**
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Business Standard

- 1. SBI moves from balance sheet-based to cash flow-based lending**

Decision sparked by mounting NPAs; mid-corporate bad loans account for 41% of total NPAs worth Rs 1.02 lakh crore

Namrata Acharya

In view of rising non-performing assets (NPAs) in the corporate sector, State Bank of India (SBI) has moved towards a projected-cash-flow financing from the earlier practice of balance-sheet financing.

"We have moved to cash-flow financing from balance-sheet funding," said Rajnish Kumar, managing director, SBI.

Notably, mid-corporate accounts for highest NPAs in SBI. In first quarter of this financial year, of the gross NPAs of around Rs 1,01,541 crore, the share of mid-corporate companies alone was around Rs 42,248 crore, or close to around 41 per cent of gross NPAs. The bank has increased its vigil of loans in the mid-corporate sector, by keeping a watch on cash flow management and equity structure.

"We are keeping a close watch on cash management in accounts where SBI is the lead banker. Especially in the mid-corporate sector, we are looking at how much cash the asset generates to service the debt," said Sunil Srivastava, deputy managing director, SBI. This apart, the bank is also seeking visibility of promoters' equity while sanctioning loans, he added.

Also, while lending cautiously to the corporate sector, SBI will increase its focus on lending to small and medium enterprises (SMEs). This year, the bank is targeting a growth of 12-13 per cent in the SME loan portfolio, against nearly flat growth in the segment last financial year, said Kumar. In the SME segment also, the bank is giving loans on the basis of projected cash flow.

At present, SBI's SMEs loan portfolio is close to Rs 2 lakh crore, of which nearly 50 per cent lending is based on projected cash-flow assessment, said Kumar.

This year, the bank has projected a total loan growth of 13-14 per cent.

"In the corporate sector, the demand for loans has been much less. There are no major projects which consume huge capital," said Kumar.

Merger of banks

SBI expects to complete merger with associate banks by the end of this financial year, said Kumar.

Merger of five associate banks and Bharatiya Mahila Bank with SBI will create a banking entity with a total business of nearly Rs 40 lakh crore, accounting for nearly 22 per cent market share, he added.

2. IDBI Bank said to seek up to Rs 6,000 cr via share sale

The fundraising may help the lender bolster its balance sheet and rein in bad debts

Bloomberg

IDBI Bank Ltd is aiming to raise Rs 6,000 crore (\$896 million) through a share sale as it seeks investors that could take over management of the state-backed Indian lender, people with knowledge of the matter said.

Investment banks met IDBI Bank this week in Mumbai to pitch for a role that is expected to include an institutional share sale and a separate offering of

preferential securities, the people said. The preferential shares could be sold to a large investor who may also take over the management of the bank, according to the people, who asked not to be identified because the information is private.

The fundraising could help the Mumbai lender bolster its balance sheet and rein in bad debts that totalled 7.47 per cent of loans at the end of June, according to a presentation on its website. IDBI had a capital adequacy ratio of 11.80 percent, compared with 13.2 percent for the country's banking system as of March, according to the Reserve Bank of India.

IDBI Bank has solicited bids for capital-raising advice, the lender said in an e-mailed response to Bloomberg queries.

"The mandate would cover an advisory on the possible avenues for mobilising part or whole of this amount," it said. "At this stage it is not possible to comment on the actual structuring or timing of transactions."

The bank earlier appointed advisors for an institutional share sale of as much as Rs 3,770 crore, people with knowledge said in January. It had reached out to potential investors including the World Bank's International Finance Corp, the people said.

IDBI Bank shareholders in July approved as much as Rs 8,000 crore of fundraising via a rights issue, preferential shares and/or an institutional share placement, according to stock exchange filings

3. Banks to follow SBI on deposit rate cuts

Awaits RBI's monetary policy in October

Abhijit Lele

Following State Bank of India (SBI)'s decision to cut deposit rates, other banks are likely to follow suit but with a lag, as they're awaiting the Reserve Bank of India's monetary policy in October.

Senior executives with both public and private banks agree that interest rates - both lending and deposit - are showing a downward trend. Yet, each bank would review the liquidity situation and maturity profile of deposits before taking call. P Marathe, executive director of Bank of India, said his bank would study liquidity pattern before taking a decision to cut rate. The upcoming monetary policy will also weigh on the decision. RBI will announce the monetary policy on October 4, the first under new governor Urjit Patel.

Financial Express

4. Look for new promoters for stressed assets, Arun Jaitley tells public sector banks

Underlining the resolution of stressed assets, finance minister Arun Jaitley on Friday asked public sector banks (PSBs) to augment their efforts to find alternative promoters or managers for straying businesses.

By: FE Bureau

Underlining the resolution of stressed assets, finance minister Arun Jaitley on Friday asked public sector banks (PSBs) to augment their efforts to find alternative promoters or managers for straying businesses. After reviewing the performance of these banks for the June quarter with their chiefs, the minister, however, said that once the economy recovered, a part of their non-performing

assets (NPAs) could be “de-provisioned” in order to improve their lending ability. The gross domestic advances of PSBs declined 2.5% in the June quarter from the previous one, even as the economy is in dire need of private investments in various sectors.

The Reserve Bank of India (RBI) had earlier advocated “creative search” for new management teams, including from the public and private sectors, to resuscitate stressed assets. “Where there are multiple banks involved with a particular debtor, the lead banker with the support of the department of financial services, if so necessary, would do the coordination (for finding buyers for assets),” Jaitley said.

Both public as well as private sector companies could make a commercial judgement on many running businesses that banks are trying to dispose of, he said. Bankers have not been able to sell many running businesses under default due to a steep haircut demanded by prospective buyers, the chairman of a leading PSB told FE, asking not to be identified.

The gross NPAs of 27 PSBs had doubled to R5.97 lakh crore as on June 30, 2016, from the year ago period, after the RBI started the process of asset quality review (AQR) from Q3FY16 to clean up their balance sheets by March 2017. The fresh slippages of PSBs in the June quarter are nearly Rs 1 lakh crore. The gross domestic NPAs of PSBs rose to 11.24% of gross domestic advances as on June 30, 2016, from 9.84% as on March 31, 2016. This has taken a toll on the PSBs, which posted a net loss of R17,991 crore in FY16, against a net profit of Rs 30,869 crore in the previous year. In Q1FY17, they made net profit of only Rs 220 crore. “Banks will now have to take greater initiatives to recover bad loans,” Jaitley said.

With regard to higher capital infusion in PSBs, Jaitley said obviously “the more the merrier, but the budget has its limitation”. If PSBs don’t step up recovery, it could further put pressure on their capital, which government is augmenting (R70,000 crore in four years through FY19) in phases. According to rating agency Fitch, Indian banks would need \$90 billion in capital to meet Basel III capital adequacy norms by March 2019.

With the highways and steel sectors showing signs of revival, Arun Jaitley said a lot of the provisioning itself would get de provisioned, and the accounts itself would get upgraded, reducing additional capital requirements for banks.

Responding to a question on a likely rate cut by the RBI on the back of weak industrial output data and a fall in retail inflation, Jaitley said: “I expect when the policy review takes place next month, then RBI and hopefully if the monetary policy committee is constituted by then, they will collectively keep all these factors in mind.”

In its latest monetary policy review, the RBI maintained status quo on key rates citing upside risks to 5% inflation target for March 2017. In the meanwhile, retail inflation eased to a five-month low of 5.05% in August while factory output contracted 2.4% in July, raising hopes for a rate cut by RBI in its next policy review on October 4 to boost growth.

5. SBI eyes 12 per cent SME loan growth in FY17

The nation's biggest lender by assets, State Bank of India (SBI), is eyeing around 12% loan growth to the small and medium enterprises (SMEs) sector in the current financial year.

By: [FE Bureau](#) |

The nation's biggest lender by assets, State Bank of India (SBI), is eyeing around 12% loan growth to the small and medium enterprises (SMEs) sector in the current financial year. Demand for loans in the corporate sector continues to remain muted.

The public sector bank would like to clock a 14-15% SME loan growth this fiscal, but a 12% increase seems to be most feasible, managing director (National Banking Group) Rajnish Kumar said at the CII Banking Colloquium here on Friday.

"Last year, growth of credit to SMEs was flat and literally there was no growth. This year, we have been optimistic with SME loan growth as order book and cash flows (of SMEs) are increasing. Credit growth to them is expected to be 10-12% in the current fiscal," Kumar said, adding that in the area of SME credit, SBI is active with products such as loans against property and supply chain financing.

According to him, the state-run lender is moving towards cash flow-based financing instead of balance sheet-based financing for SMEs. "To begin with, we are moving towards cash flow-based financing instead of balance sheet-based financing, particularly for loans up to R50 crore to these enterprises," Kumar said.

He said the overall loan growth for his bank should be around 13-14% in the current financial year although in terms of corporate lending, demand for loans was much less.

"There are no major projects which consume huge capital. There are shifts in the sectors' contribution to the GDP. The services sector contributes more to the GDP as compared to manufacturing. Thus, composition of credit is also shifting," Kumar said.

On merger of SBI with its associate banks, Kumar said there would be no closure of branches, but they could be reallocated after the merger.

"Post merger, there will be no closure of branches, but there will be a need for optimization and reallocation of branches. We are studying what will be the total number of branches after merger," he said.

The merged entity will have a network of over 24,000 branches. Kumar said the merger was likely to be over within this fiscal. There would, however, be "some issues" when it came to merger of HR practices and policies of the associate banks.

Notably, two independent directors of State Bank of Travancore have expressed concerns over "the manner in which the merger procedure is being followed", demanding transparency.

6. Govt to go ahead with merger of SBI subsidiaries, BMB: Arun Jaitley

Unfazed by the protests of bank unions, Finance Minister Arun Jaitley today said the government will go ahead with the merger of associate banks and Bharatiya Mahila Bank with SBI as the proposal has been approved at the highest level by the Union Cabinet.

By: PTI

Unfazed by the protests of bank unions, Finance Minister Arun Jaitley today said the government will go ahead with the merger of associate banks and Bharatiya Mahila Bank with SBI as the proposal has been approved at the highest level by the Union Cabinet.

"All procedure will be followed. The government has already taken decision at the level of the Cabinet to fully support the proposal for the merger," Jaitley told reporters post the meeting with public sector banks for the first quarter performance review.

Government has recently cleared the proposal to merge State Bank of India (SBI) with its five associate banks — State Bank of Bikaner & Jaipur, State Bank of Travancore, State Bank of Patiala, State Bank of Hyderabad — and the new Bharatiya Mahila Bank (BMB).

In August, SBI had said that all its associate banks and BMB will be merged into it that will add an additional Rs 8 lakh crore to its assets making it a banking behemoth with total assets of Rs 30 lakh crore, an increase of about 36 per cent.

In May, about 50,000 employees of the five SBI associate banks had gone on a day-long nationwide strike to protest the merger with their parent bank SBI.

The union, in a protest under the banner of All India Bank Employees Association, had said: "We are protesting against the plan of SBI management to merge 5 large associate banks into it.

Besides, the Kerala Legislative Assembly had passed a resolution in July against the merger of State Bank of Travancore (SBT) with SBI, stating it would adversely affect the state's economic growth.

The resolution, introduced by Chief Minister Pinarayi Vijayan, had asked the Centre and Reserve Bank of India to rescind the decision to amalgamate SBT with SBI.

In reply to a question on dilution of stake in IDBI Bank, Jaitley said the matter is still under consideration. "The issue is still under the consideration of the government. The decision of the government stands."

Government is also facing protest from bank unions with regard to divestment of its stake in IDBI Bank. It is planning to divest up to 49 per cent in a phased manner.

As of quarter ended June 30, government shareholding in IDBI Bank stood at 73.98 per cent.

**7. There are budgetary constraints on recapitalising Indian banks:
Arun Jaitley**

Indian Finance Minister Arun Jaitley pushed back on Friday against calls to increase the allocation of funds to recapitalise state banks saddled with \$120 billion in sour loans.

By: Reuters

Finance Minister Arun Jaitley pushed back on Friday against calls to increase the allocation of funds to recapitalise state banks saddled with \$120 billion in sour loans.

"Obviously banks would prefer more funds for recapitalisation but there are budgetary constraints," Jaitley told a news conference after meeting bankers in New Delhi.

Jaitley has earmarked 700 billion rupees (\$10.5 billion) in bank capital injections in the four years to March 2019.

Ratings agency Fitch estimates, however, that \$90 billion in capital will be needed for Indian banks to meet Basel III banking rules due to be fully implemented by March 2019. Fitch says that 11 Indian banks may fail to meet those norms.

Business Line

8. Paytm payments bank to cross-sell banking products

OUR BUREAU

Digital payment platform Paytm is looking to cross-sell banking products through its payments bank. The payments bank is expected to be rolled out around Diwali or "October-end".

According to Ruchita Taneja Aggarwal, Vice-President - Business, Paytm Payments Bank, it is already in advanced talks with banks, NBFCs and other financial institutions to extend such products. She, however, did not elaborate on the names or type of products that were being explored.

Because payments banks cannot lend, it is expected that cross-selling banking products will be a revenue stream. According to the RBI guidelines, these niche banks can issue ATM/debit cards, but not credit cards; payments and remittance services through various channels; BC of another bank and distribution of non-risk sharing simple financial products (like mutual fund and insurance products).

"We are open for partnerships and are in very advanced stages for integration of financial services. But, I can assure you that we are going beyond traditional business models (for the payments bank)," she said on the sidelines of a Confederation of Indian Industry (CII) event here on Friday.

Business model

Three of the 11 primary licence recipients (for payments bank) have already opted out of the fray. And, this has led to questions surrounding the viability. According to Aggarwal, the bank will target an "increased velocity of transactions" and data analytics as mainstays for its business. And, it will also look to cater to the "un-banked and under-banked".

While the payments bank will have a “physical access points”, 25 per cent of such points will be spread across Tier-V and Tier-VI towns. Aggarwal did not specify if these access points will be a branch or kiosk or in any other format.

Paytm, currently has 135 million users across 20 cities (mostly Tier-I and Tier-II) on its digital platform. There are nearly 800,000 outlets that use the payment platform which include ‘kirana’ shops to auto-rickshaws, taxis and others.

“We intend to take this number to a million (10,00,000) shortly,” she said adding that the company was looking to further its reach in smaller towns and rural areas.

9. When customers were all ‘Fed up’ by their bank

VINAY KAMATH

It was a Federal Bank meeting for around 40 of its top clients in Chennai in a hotel -- the ones doing at least ₹100 crore business with the Kerala-headquartered bank.

All senior officials of the bank are in crisp *mundus* and white shirts and so are MD and CEO Shyam Srinivasan, in an embroidered *kurta* and *mundu*. A large *pookalam* (flower arrangement) greets visitors and Malayalam folk songs play softly in the background.

The high net worth clients did not, however, air their grievances; nor was there talk of interest rates and overdrafts. The air of bonhomie was for the Onam *sadya* (feast) that Federal Bank was hosting in the city for its clients, who sat down for a sumptuous traditional meal served on a banana leaf and ate through 26 different items, ending with two varieties of rich, soporific *payasams*. If one had to feel good about their bank, this was the moment.

All the invitees tackled the meal deftly off the leaf with their fingers, including Takahiko Shibakawa, Whole-time Director of Chola MS General Insurance, and the only foreign invitee, who said eating with his fingers presented no problem as he has spent one year in Chennai.

Fourth year running

This is the fourth year running that the bank is hosting its customers in five metros outside of Kerala to an Onam feast and it is getting bigger every year. In Chennai next week the bank will host around 100 customers for a *sadya*, while MD Srinivasan is in Mumbai to participate in a meet that will have 350 customers.

Says Srinivasan, “It initially started off as a novel feature to promote an ethnic experience, but now it’s like a calendar event. It’s an opportunity to say thank you to customers who make us what we are. It signals that we value them. No business gets transacted at such events; clients are happy to come and share a meal.”

Of course, as Srinivasan pointed out in his speech before the event, if the goodwill helps generate incremental business over the year for the bank, that’s welcome.

Srinivasan says these events also serve as an opportunity to remind the employees of the bank's roots. "We now have over 40 per cent of people who are young and new to the bank and many are not from Kerala. This is an event to remind us of where we began and how we can be national and contemporary."

One guest, the CFO of a large Chennai corporate, says he's been to many dos and get-togethers organised by banks for key clients. It's an opportunity to meet all the senior management at one go.

Other banks too, he says, are hosting parties for top clients but one doesn't turn down an invitation for a feast associated with a festival, he points out, where all are fed well.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY