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Dear Comrades,

20th September, 2016

News of Interest 20th Sep

QUOTE OF THE DAY

“GIVING BACK, DOING MOTIVATIONAL SPEECHES AND STUFF LIKE THAT, THAT'S ALWAYS MADE ME FEEL GOOD. IF YOU REPEATEDLY GO OUT THERE, AND YOU ARE THE CHANGE THAT YOU WANT TO SEE, THEN THAT'S WHAT YOU ARE.”

KEKE PALMER

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Business Standard

1. Banks want promoters' guarantee for new loans

Stressed assets sale stalled as bidders refused to give such guarantees

Dev Chatterjee & Abhijit Lele

To ring-fence risk, Indian banks are increasingly asking promoters of companies with high debt to give personal guarantees on fresh loans or during rescheduling of loans. This is to force promoters to repay loans as corporate guarantees are not enough for recovering from defaulters, say bankers.

A senior executive with State Bank of India said while restructuring loans, additional funding is provided, but a personal guarantee is also asked for as additional security so that promoters stand by their commitments. "Personal guarantees are a way of ensuring promoters have skin in the game and implement the turnaround plan and repay loans," the SBI official said, asking not to be named. The sale of Lanco's assets and Electrosteel Steels by banks is stuck as bidders refused to give personal guarantees, said a banker close to the development. Promoters of large but highly indebted groups are also being asked to give such guarantees when seeking to reschedule loans. But, the response has been poor with many refusing to do so, leading to a stalemate. Last week, Union Finance Minister Arun Jaitley acknowledged that public sector banks (PSBs) were finding it hard to get buyers for stressed assets.

The move comes after Vijay Mallya, chairman of the UB group, fled to London in March after a default. Banks moved the Supreme Court to recover Rs 9,100 crore from Mallya, who had given a personal guarantee on a loan for the now defunct Kingfisher Airlines. Based on the guarantee, banks are selling personal assets of Mallya to recover their loans, but this will not be enough to cover the entire loan.

Indian banks' non-performing assets or NPAs (see chart) have been rising in the past few years, and they are forcing promoters to sell assets. For example, banks asked corporate groups like Jaypee group to sell assets to recover loans. Jaypee sold its cement units to Aditya Birla group's UltraTech for Rs 20,000 crore. Chief executive officers, on the other hand, argue that all the stressed assets are not a result of mismanagement or diversion of funds and, hence, personal guarantees are not required. Many companies, chief executive officers said, fell into bad times because of difficult global conditions, or

ASSET QUALITY

	Gross NPAs to gross advances (%)			Restructured std adv to gross advances (%)			Stressed advances (GNPAs+RestStdAdv) to gross advances (%)		
	Mar 2015	Mar 2016	Jun 2016	Mar 2015	Mar 2016	Jun 2016	Mar 2015	Mar 2016	Jun 2016
PSBs	5.4	9.8	11.3	7.8	4.6	4.1	13.2	14.4	15.4
Pvt SBs	2.2	2.7	2.8	2.4	1.8	1.6	4.6	4.5	4.4
FBs	3.2	4.2	3.7	0.1	0.3	0.3	3.3	4.5	4
All SCBs	4.6	7.8	8.7	6.3	3.7	3.3	10.9	11.4	12

PSB: Public sector banks; Pvt SB: Private sector banks; FB: Foreign banks; SCB: Scheduled commercial banks Source RBI
Compiled by BS Research Bureau

cancellation of mines and telecom licences by courts. In their asset quality review, banks have identified around 150 stressed assets and any change in loan structuring now requires a personal guarantee. "Even when a new promoter is coming to a project and the company is part of the corporate debt restructuring

programme, banks are asking for personal guarantees,” said a banker.

According to corporate debt restructuring (CDR) cell data, there were 530 cases till March 2015 of banks seeking to restructure debt totalling Rs 4.03 lakh crore without classifying these accounts as NPAs.

The strategic debt restructuring (SDR) scheme launched by the Reserve Bank of India in June 2015 sought to convert a part of bank loans of an ailing company into equity, with the banks owning at least 51 per cent. But, many SDR companies failed to receive a buyer because of these conditions.

2. Asset quality cycle of banks to improve, says Moody's

Stable system outlook driven by five factors, including operating environment and government support

Abhijit Lele

Moody's said on Monday the banking system would soon move past the worst point of its asset quality down-cycle, supporting a stable outlook for the sector over 12-18 months.

The stock of impaired loans might still increase during the horizon of this outlook. Yet the pace of new impaired loan formation should be lower than what it has been over the last few years, said Srikanth Vadlamani, vice-president and senior credit officer at Moody's.

The performance of India's state-owned and private banks continued to diverge. State-owned banks would require significant capital over the next three years, with access to capital markets being limited. Their private sector counterparts would benefit from solid capitalisation and good profitability, he said.

The stable outlook is based on Moody's assessment of five drivers — operating environment (stable); asset risk and capital (stable); funding and liquidity (stable); profitability (stable); and government support (stable).

The operating environment for Indian banks is supported by a stabilising economy. Moody's baseline scenario assumes headline gross domestic product (GDP) growth of 7.4 per cent over the next two years, compared with 7.3 per cent in 2015. Key drivers are favourable monsoon season, ongoing public investment, and continued growth in foreign direct investment.

Asset quality would remain a negative driver of the credit profiles of most rated Indian banks. But the pace of deterioration should slow, according to report.

Aside from legacy issues for some banks, the underlying asset trend for banks would be stable because of the generally supportive operating environment.

Capital levels are a key credit weakness for state-owned banks. The announced capital infusion plans of the government fall short of the amount required for full capitalisation. However, Moody's said a potential way to bridge this capital shortfall would be to slow loan growth to the low single digits over three years.

Funding and liquidity are bright spots, and remain supported by Moody's expectation of relatively subdued loan growth during the outlook.

Profitability for the banks will reflect stabilising net interest margins (NIMs) and credit costs. Moody's said it expected limited policy rate cuts over the next

12 months, which should help stabilise NIMs. Credit costs will remain high for the sector, but no higher than in recent years for the industry.

State-owned banks would get a high level of systemic support, irrespective of their size. Recent government allocations, wherein weak smaller banks received a disproportionately higher share of capital, supported this view, Moody's added.

3. OBC raises Rs 1,000 cr via Basel III-compliant bond allocation

Issue of Basel III-compliant additional tier 1 bonds (private placement) was opened on September 16, 2016, for one day

Press Trust of India

State-owned Oriental Bank of Commerce (OBC) on Monday said it has raised Rs 1,000 crore, which will be added as Basel III-compliant capital.

The issue of Basel III-compliant additional tier 1 bonds(private placement) was opened on September 16, 2016, for one day.

"The issue was fully subscribed to the extent of Rs 1,000 crore and bonds were allotted on September 16, 2016," the bank said in a regulatory filing.

The issue has been rated as A+ with stable outlook by India Ratings and A+ (Hybrid) with negative outlook by Icria, it said.

Being implemented in phases since April 1, 2013, Indian banks are expected to fully comply with Basel III standards by March 2019 to improve and strengthen their capital planning processes.

The norms are being implemented to soothe concerns on potential stresses on asset quality and consequential impact on performance and profitability of banks.

Shares of the bank closed 1.16 per cent higher at Rs 126.80 on BSE.

Financial Express.

4. NPAs to dip on high industrial capacity utilisation: SBI chief

SBI chairperson Arundhati Bhattacharya said the stressed assets level in the banking sector will come down once the key industrial sectors start functioning at their optimum capacity.

By: PTI

SBI chairperson Arundhati Bhattacharya today said the stressed assets level in the banking sector will come down once the key industrial sectors start functioning at their optimum capacity.

During a media interaction, the SBI chief said that most industrial units are working at 60 to 65 per cent of their capacity against the desired 80 to 85 per cent.

"NPAs will start coming down as the demand comes back in the economy and then you see more and more capacity utilisation, which is still sub-optimal. Be it manufacturing units or power plants, most of them are running at around 60 to 65 per cent of their capacity," Bhattacharya said.

"When this comes up to 80 to 85 per cent capacity, you will definitely see NPAs coming down," she said when asked about Non Performing Assets (NPAs).

She was here to attend the foundation stone laying ceremony of SBI's Local Head Office (LHO) at Gujarat International Finance Tec-City (GIFT City) near here.

The 14-storey tower will come up at an investment of Rs 100 crore. Upon completion, current LHO in Ahmedabad will be shifted here.

During her visit at the GIFT City today, Bhattacharya also inaugurated SBI's IFSC Banking Unit (IBU) at International Financial Services Centre (IFSC) in the GIFT Special Economic Zone.

Commenting on the recent announcement about the merger of SBI and its subsidiaries, Bhattacharya said the merger is essential in the wake of tough competition from Non Banking Financial Companies (NBFCs).

"The merger is essential, because today banking is evolving at very fast rate. You face competition from not only other banks, but also from NBFCs. In order to sustain profitable growth, it is important for us to consolidate, because small organisations do not have such strength or capital," she added.

Commenting on a recent report that employees of some banks are depositing money from their pockets into Jan-Dhan accounts, Bhattacharya said, "I am not aware of this fact. It is not something which happens in our bank, and I can assure you on that." Gujarat Chief Minister Vijay Rupani was also present for the foundation stone laying ceremony of the LHO.

Rupani urged Bhattacharya and her team to complete the construction of LHO as soon as possible.

5. Bank for International Settlements warns China banks risk crisis within 3 years

Indeed, China's top banks are lending more to homebuyers and developers than at any time since at least the global financial crisis.

By: [Reuters](#)

Excessive credit growth in China is signalling an increasing risk of a banking crisis in the next three years, a report from the Bank for International Settlements (BIS) says.

An early warning of financial overheating – the credit-to-GDP gap – hit 30.1 in China in the first quarter of this year, the financial watchdog said in a review of international banking and financial markets published on Sunday.

Any level above 10 signals a crisis "occurs in any of the three years ahead," the BIS said. China's indicator is way above the second highest level of 12.1 for Canada and the highest of the countries assessed by the BIS.

Debt has played a key role in shoring up China's economic growth following the global financial crisis. Outstanding debt reached 255 percent of GDP in 2015, fuelled in large part by a surge in corporate borrowing, up from 220 percent just two years earlier.

China's bank lending in August more than doubled from the previous month, with much of the gain down to strong mortgage demand.

Indeed, China's top banks are lending more to homebuyers and developers than at any time since at least the global financial crisis.

The credit-to-GDP gap takes into account the current credit-to-GDP and expected long-run trends. But a China strategist at an international hedge fund said international historical experience is not necessarily applicable to China. The strategist could not be identified as he is not authorised to speak to the media.

The BIS also said the estimated debt service ratio – which measures principal and interest payments relative to income – is at 5.4, which is a “potential concern.”

This underlines the default risk as borrowers struggle to repay loans. Some analysts argue a weakening in banks' capital strength raises the prospect that the government may have to inject more than \$100 billion to shore them up.

Despite the concerns surrounding China's debt, UBS analysts said in a report earlier this year that they do not expect an imminent banking crisis.

A high domestic savings rate, underdeveloped capital markets, a relatively closed capital account and government ownership of banks and many large borrowers mean no one can easily “pull the plug” on its credit cycle, they said.

Debt-to-GDP could reach 300 percent before 2020, UBS said.

Business Line

6. UPI app to be loaded with more features

OUR BUREAU

Incorporating the bill payments function and setting up its own check on the number of transactions per user per day to prevent suspicious transactions are among additional features that the National Payments Corporation of India is working on to make its newly-launched payments solution Unified Payments Interface (UPI) more comprehensive and secure.

Currently, two applications — for person-to-person money transfer and for e-commerce transactions — are available on the smartphone-based UPI, which was launched on August 25. UPI enables sending and receiving money in real-time through a mobile application. Banks — 20 at last count — have uploaded their UPI app on Google Play Store.

The service facilitates virtual payment addresses as a payment identifier for sending and collecting money and works on single-click two-factor authentication.

It also provides an option for scheduling push and pull transactions for various purposes, such as sharing bills among peers. One can use UPI app instead of paying cash on receiving a product ordered from online shopping websites.

AP Hota, MD & CEO, NPCI, said: “Person-to-person money transfer and e-commerce collections are the two applications available on the UPI at the moment....We have started discussions with banks on how to plug-in the bill payments functionality (in UPI).

“So, bill payments functionality is being added. In the next two months, a couple of banks will come forward (with this feature).”

Under the bill payments facility, a bank customer can transfer money from his savings bank account via the mobile-based UPI to billers belonging to categories such as telephone, mobile, electricity, insurance, and credit cards to settle his dues, anywhere, any time.

To further enhance UPI’s security and risk mitigation features, NPCI, the umbrella organisation for all retail payments in the country, is examining the number of times a bank customer can transact in a day.

While banks have put in place a mechanism for velocity check on the number of transactions effected per day/per beneficiary, so that a suspicious operation trigger an alert within the bank and to the customer, NPCI is looking at having its own velocity check.

Hota said: “Now the individual transaction limit is ₹1 lakh (per transaction) and the velocity check is done by the individual banks. Now, they would like to let the check to be done by NPCI also.

“There is a suggestion for limiting the number of transactions (daily) to three or five. We have the capability to do velocity checks.

“We are examining what is the number that should be allowed.”

After the UPI was launched, NPCI came across cases where a bank customer’s mobile number is linked to more than one account (the customer’s own account, his wife’s account and his daughter’s account).

“In such a situation, if we try to put through a transaction, it would show an error. We need to deal with such situations. This is a condition which escaped our attention and we are trying to deal with it.

“Right now such transactions are getting rejected. We are trying to resolve this along with the banks,” explained Hota.

UPI update

As on date, 20 banks, including Canara Bank, Punjab National Bank, Bank of Baroda, Union Bank of India, ICICI Bank and Axis Bank, are offering UPI. As on September 14, the number of UPI apps downloaded were 2.25 lakhs.

Hota said SBI is expected to go live with its UPI app by October 15.

“They (SBI) are trying their best for September 30 but they want a leeway of 15 days. Same is the case with HDFC Bank.”

7. Vijaya Bank rolls out 3 new apps

ANIL URS

Vijaya Bank has launched three innovative information technology (IT) products, coinciding with Hindi Diwas celebrations.

The new IT products, according to Kishore Sansi, Managing Director and CEO of Vijaya Bank, are: VPAYQWIK, Vijaya *99# and V-eConnect+.

VPAYQWIK, a complete mobile payment wallet, is a one-stop destination for shopping, quick mobile recharge, any-time bill payment, instant ticket booking, and a lot more. This wallet, available in English, Hindi and Kannada, can be used by the bank's customers as well as others who are not. Vijaya *99# is a non-internet-based app. It uses the USSD channel for completing transactions and supports 12 languages: English, Hindi, Bengali, Telugu, Tamil, Marathi, Kannada, Gujarati, Odia, Malayalam, Assamese, and Punjabi.

And, V-eConnect+ is an app that aggregates various e-products of the bank. The app acts as an entry point for customers to know about and use various online products of the bank.

Customers can access seven different mobile apps, three websites, two missed call services, five social banking channels and five other features through this single app, which is available in English, Hindi and Kannada.

The new products were launched in the presence of Executive Directors BS Rama Rao, Y Nageswara Rao and General Managers of the bank. Today's launch comes close on the heel of the Vijaya-UPI app, which the bank released late last month.

8. Karur Vysya Bank board announces stock split

OUR BUREAU

Karur Vysya Bank Ltd has informed the BSE that the Board of Directors of the company at its meeting held on September 19 has approved the proposal for sub-division of existing one equity share of Rs. 10/- each face value fully paid up into 5 equity shares of Rs. 2/- each face value subject to the approval of the shareholders through Postal Ballot process.

9. New ED for Syndicate Bank

SS Mallikarjuna Rao has taken charge as executive director of Syndicate Bank. Prior to joining the bank, Rao was General Manager and CFO of Oriental Bank of Commerce (OBC), looking after alternate delivery channels, marketing and publicity. He started his career as probationary officer in Bank of Maharashtra in 1985. He has been a professional banker for over 31 years. Our Bureau

10. All KYC data must be compliant with new format by March next: RBI

K RAGHAVENDRA RAO

The RBI has said that all data related to KYC (know your customer) be made compliant as per CERSAI's Common KYC (CKYC) format by March 31, 2017, according to sources. A meeting was held at North Block in the Capital to assess the implementation of CKYC, sources said.

The government in November 2015 had mandated CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) to be the sole repository of KYC information related to financial sector regulators. Uploading of KYC data in CKYC format for accounts opened after October 15, 2016, will be a requirement. Existing KYC registration agencies regulated by SEBI have to

provide a new structure in their existing modules and make it CKYC compliant by December 31. Then the data has to be exported to CKYC.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY