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Dear Comrades,

21st December, 2017

News of Interest 21st DEC

MOTIVATIONAL QUOTES

“THE FOUNDATION STONES FOR A BALANCED SUCCESS ARE HONESTY,
CHARACTER, INTEGRITY, FAITH, LOVE AND LOYALTY. “
ZIG ZIGLAR

HIGHLIGHTS

1. RBI PLACES BANK OF INDIA UNDER PROMPT CORRECTIVE ACTION
2. PE FUNDS STARE AT CAPITAL LOSS ON STRESSED INVESTEE FIRMS
3. WHY BANKERS ARE ASKING FINANCE MINISTRY TO HIKE LIMIT FOR CLSS BENEFITS
4. RBI PUTS UNITED BANK OF INDIA ON CORRECTIVE ACTION PLAN
5. NATIONWIDE BANK STRIKE CALLED ON DEC 27 DEFERRED

Business Standard

1. RBI places Bank of India under prompt corrective action

First large lender to go under PCA

[Abhijit Lele](#)

With continuing weak financial and credit profile, the Reserve Bank of India (RBI) put public sector lender, Bank Of India (BOI), under prompt corrective action (PCA) with immediate effect.

The fallout of the RBI action would be an increase in the cost of funds when the bank taps the market for resources and a dent in its market perception.

The action would mean the Mumbai-based lender would face restrictions on lending activity. BOI, where the government holds 75.1 per cent stake, will also have to step up efforts on recoveries from stressed assets, sale of non-core assets, and control costs.

Reacting to the development, the BOI stock fell by four per cent to Rs 174 per share at the close of trading on the BSE.

BOI is the first among large banks to be placed under PCA. It joins the pack of state-owned banks such as IDBI Bank, Central Bank of India, Dena Bank, Bank of Maharashtra, and Indian Overseas Bank, which are already under the PCA framework.

In its filings with the stock exchanges, BOI said the PCA was triggered by the high level of net non-performing assets (NPAs), insufficient common equity tier 1 capital (CET1), and negative return on assets (RoA) for two consequent years.

Reflecting the weak profile, its gross NPAs stood at 12.62 per cent and net NPAs at 6.47 per cent at the end of September 2017. The CET1 stood at 7.21 per cent. Its RoA was negative for the past two financial years.

Dinabandhu Mohapatra, managing director and chief executive, said the bank has been working on a turnaround plan for the last six months, following a memorandum of understanding with the government, its majority shareholder.

"The priority has been on controlling costs through steps like rationalisation of branch and ATM network, and rebalancing of loan portfolio by increasing share of retail loans," he added.

The bank continued to be under stress, with fresh slippages remaining high during FY17 and this year. While there was an improvement in recoveries and up gradations, the bank's gross and net NPAs remained elevated.

Rating agency Icria in a note said it took comfort from the bank's high provision coverage ratio (52.23 per cent as on March 31, 2017, against public sector banks' average of 43.1 per cent and banking sector average of 43.6 per cent). This strengthens the bank's ability to absorb any significant future losses.

Notwithstanding the capital infusion from the government, its capitalisation has remained weaker than that of other similar-rated peer banks. The government infused Rs 2,838 crore in FY17 and Rs 3,605 crore in FY16. The bank's capitalisation was also supported by the Rs 2,500 crore additional tier I bonds raised during FY17.

2. PE funds stare at capital loss on stressed investee firms

Some have tried to put in claims as financial creditors; even these have seen only partial acceptance

N Sundaresha Subramanian

Even as vulture funds eye bargain buys from stressed assets on sale, a set of private equity (PE) funds are staring at capital losses and looking at ways to limit these, as their investee companies are dragged to the National Company Law Tribunal (NCLT) by lenders.

Among the 'Big 12' companies (unpaid loans so big that the Reserve Bank of India ordered banks to refer these to NCLT for insolvency resolution), PE giant Blackstone Group has exposure to Monnet Ispat. In 2011, the US-based fund had invested around \$50 million (Rs 230 crore then) for a 7.12

per cent stake. It also had exposure to Monnet Power, a subsidiary. With lenders converting debt to equity, Blackstone's stake in Monnet is down to around 2.3 per cent.

Equity shareholders, being owners, come at the end of any payment in a liquidation. Lawyers say PE funds usually have clauses giving them priority over promoters. There is possibility of litigation if these agreements are not honoured, a lawyer handling one such case said. However, it is not clear how much they would be able to recover in cases where even the lenders are looking at large haircuts (write-offs).

Some funds, which had taken exposure through other instruments, have filed claims as financial creditors. According to a filing by Carnation Auto India, three investors — IFCI Ventures Capital, Gaja Capital and Hasham Investment — have filed claims as financial creditors. The venture, promoted by former Maruti Suzuki executive Jagdish Khattar, has been dragged to the NCLT by Punjab National Bank for dues of Rs 140 crore.

While the bank's claims have been fully admitted, the funds' claims have been admitted only partially. For example, Rs 28 crore of IFCI Ventures' Rs 91-crore claim has been admitted but Hasham, investment vehicle of Wipro promoter Azim Premji, saw only a fraction (Rs 1.14 crore) of its Rs 287-crore claim admitted. A Rs 3.64 crore claim by Gaja was not admitted at all. Lawyers advising PE funds said though these have been trying to claim as financial creditors by virtue of convertibles such as compulsorily convertible debentures, they run the risk of being asked to convert their holding into equity shares and join the line.

More companies with heavy PE exposure are in the line for insolvency processes in the months ahead. In the Reserve Bank of India's next list of 26 companies is Coastal Projects. Fidelity Ventures (9.14 per cent), Tunnel Holdings (11.79 per cent) and Sequoia Capital (8.53 per cent) are among the top shareholders of this Hyderabad-based company.

Vaibhav Parikh, partner, Nishith Desai Associates, said there could be several PE-backed companies now going through the insolvency process. "The funds might have put in claims since the provision is available. But, they are not the ones looking at cents to a dollar. They are risk takers who look at 2x, 3x, returns." Such losses are part of the game, he added.

Financial Express

3. Why bankers are asking Finance Ministry to hike limit for CLSS benefits

The CLSS was introduced in June 2015 by the ministry of housing & urban poverty alleviation, to enable people from the economically weaker section (EWS) and low income group (LIG) to own houses

By: [Shritama Bose](#) |

Banks have requested the finance ministry to raise the cap on benefits available on housing loans for affordable home buyers in urban areas, so as to make the incentive more meaningful, given the high realty prices in big cities. At present, interest subsidy under the government's Credit Linked Subsidy Scheme (CLSS) is restricted to an amount of up to Rs 12 lakh. According to sources FE spoke to, the representation was made at a meeting held in New Delhi on December 15 and attended, among others, by finance minister Arun Jaitley, finance secretary Hasmukh Adhia, State Bank of India

(SBI) chairman Rajnish Kumar, HDFC Bank managing director (MD) Aditya Puri, ICICI Bank MD and CEO Chanda Kochhar, Axis Bank MD and CEO Shikha Sharma and Kotak Mahindra Bank vice-chairman and MD Udaya Kotak. "One of the asks that came was that in the urban areas, the ministry can consider relooking at the Rs 12-lakh cap because in a metro even an affordable house costs more than Rs 12 lakh," one of the sources said, adding that there was no discussion on what the new limit should be, in case of a revision.

The CLSS was introduced in June 2015 by the ministry of housing & urban poverty alleviation, to enable people from the economically weaker section (EWS) and low income group (LIG) to own houses. The ambit of the CLSS has been expanded with two modifications this year. On December 31, 2016, two new income segments were covered under it. These were households classified as middle income group (MIG)-I, whose annual incomes range between Rs 6 lakh and Rs 12 lakh, and MIG-II, with incomes between Rs 12 lakh and Rs 18 lakh per annum. MIG-I is eligible for an interest subsidy of 4% for loan amounts up to Rs 9 lakh, while MIG-II households will get an interest subsidy of 3% for loan amounts of up to Rs 12 lakh. In November, the carpet area ceilings for MIG households were raised, making more people eligible under CLSS. For MIG-I, it was raised from 1,000 square feet to 1,300 square feet, while for MIG-II it was increased from 1,200 square feet to 1,600 square feet. At the meeting, a proposal was also shared to raise the limit for tax deducted at source (TDS) on interest income from fixed deposits. At present, TDS applies to interest income of over Rs 10,000.

Economic Times

4. RBI puts United Bank of India on corrective action plan

By Atmadip Ray

Reserve Bank of India has directed United Bank of India to raise capital, diversify credit portfolio and take cost control measures as the state-run lender is under severe stress with high sticky loans.

The central bank has also told the lender to retain whatever profit it earns without distributing it among shareholders.

"The action points focus on profit retention, capital augmentation, provision coverage, diversification of credit portfolio, rationalisation of expansion and cost control," UBI said Wednesday in its disclosure to stock exchanges.

RBI told the bank to follow these steps Tuesday under its Prompt Corrective Action (PCA) initiative as the bank was suffering from high net non-performing assets, low leverage ratio and requirement to raise capital, based on the assessment of the bank's position as on March 31.

The bank had net non-performing assets ratio at 10% as on March, breaching the prescribed second level risk limit of 9%, which was the reason for inviting RBI direction.

ET had in its report on May 19 highlighted the possibility of RBI action on the bank.

This is the second time in four years that UBI came under regulatory sanctions and be forced to take corrective measures for strains in financials. In 2013, RBI had restricted the bank from lending freely after the then chairperson Archana Bhargava flagged off accounting malpractices.

UBI's asset quality deteriorated further with gross NPA at Rs 12893 crore at the end of September out of total advances of Rs 68562 crore. The gross NPA ratio slipped to 18.8% making it one of weakest banks in terms of asset quality.

The Kolkata-based bank also suffered two consecutive quarterly losses this fiscal. It reported Rs 212 crore loss in the June quarter and Rs 345 crore loss in the September quarter.

The bank said the RBI action will not hamper other banking activities such as acceptance of deposit, credit disbursement and treasury function.

UBI's share price closed at Rs 17.35 on BSE Wednesday, 38% lower than its 52-week high of Rs 28.05.

"The regulatory action is not likely to have any material impact on the bank's performance and will contribute to the improvement of the internal control and intrinsic strength of the bank," UBI said in its filing to bourses.

Business Line

5. Nationwide bank strike called on Dec 27 deferred

K R SRIVATS

The nation-wide bank strike called on December 27 by the All India Bank Employees Association (AIBEA) and the All India Bank Officers Association (AIBOA) stands deferred.

This follows the IDBI Bank Management agreeing to complete the wage settlement within a month, C H Venkatachalam, General Secretary, AIBEA, told *Business Line* here.

The assurance came at the conciliatory meeting convened by the Chief Labour Commissioner with the bank staff unions over wage revision at IDBI Bank that is due from November 1, 2012.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**