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Dear Comrades,

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News of Interest 13th JULY

MOTIVATIONAL QUOTES

“THERE ARE NO SECRETS TO SUCCESS. IT IS THE RESULT OF PREPARATION, HARD WORK, AND LEARNING FROM FAILURE. “COLIN POWELL

HIGHLIGHTS

- 1. LACK OF MACHINES DELAYED COUNTING OF BANNED NOTES: RBI CHIEF TELLS PANEL**
- 2. SLOW TO START, BANKS WRESTLE WITH INSOLVENCY REGIME**
- 3. SBI WAIVES CHARGE ON IMPS FUND TRANSFER OF UP TO RS 1,000**
- 4. GROSS NPA DIVERGENCE AT RS 6,816 CR BY MARCH 2016: IDBI BANK**
- 5. BOB TO RAISE RS 3,000 CR VIA BASEL III BONDS**

Business Standard

1. Lack of machines delayed counting of banned notes: RBI chief tells panel

Panel gives RBI Governor Urjit Patel 15 days to submit data on deposits of demonetised currency

Dilasha Seth & Archis Mohan

Lack of adequate machines and related infra has delayed the counting of demonetised currency that has come back into the system, the Reserve Bank of India (RBI) Governor Urjit Patel is learnt to have told a parliamentary panel on Wednesday.

During the meeting that lasted more than three hours, Urjit Patel, according to sources said that the central bank is yet to arrive at the final figure since counting was still in progress.

The parliamentary standing committee on finance, that will table the report on demonetisation in the monsoon session starting July 17, gave the RBI chief 15 days time to submit data on deposits of invalidated Rs 500 and Rs 1,000 notes, besides counterfeit currency in circulation.

The RBI has cut staff holidays to complete the counting of currency which returned to the system after demonetisation, and has also ordered more machines to expedite the process, Patel told the panel, informed sources.

According to sources, the panel told Patel that since the RBI will have to close its accounts as on June 30 and prepare the balance sheet for 2016-17, it must be in a position to share the number.

"While the governor shared some data, he did not give exact figures and said that they are still being counted," said a source.

The RBI transfers its surplus to the Union government every year that ends on June 30.

The number's game

- During the more than three-hour long meeting of the standing committee on finance, Patel took a lot of questions but members said he did not provide any "specific number" on the amount of money that came back to the system after November 8
- In January too, the RBI governor had appeared before the committee and had told the members that he would submit a statement on the amount of money that came back into the system after demonetisation
- Patel told the panel that the RBI has cut down on holidays to complete counting of the junked currency note and that its staff is working "round-the-clock" except on Sundays

Appearing before the panel for the second time, Patel was accompanied by three deputy RBI governors - B P Kanungo, S S Mundra and N S Vishwanathan.

"The governor answered a lot of questions but failed to provide a specific number on the money that came back into the system after demonetisation. We have asked him to provide the figure in 15 days," said a source.

However, Patel told the panel that the money currently in circulation is Rs 15.4 lakh crore, against Rs 17.7 lakh crore at the time of demonetisation in November last year.

Cash in circulation cannot be a parameter to assess the quantum of black money or white money in the system, a panel member said.

As on November 8, 2016, prior demonetisation, of the approximately Rs 17.7 lakh crore currency in circulation, the Rs 500 and Rs 1,000 notes made up about Rs 15.50 lakh crore, or over 85 per cent of the total.

Meanwhile, former Prime Minister Manmohan Singh, a member of the panel, did not ask the governor any question. He had bailed him out at a previous meeting of the panel.

While the government has given three reasons for demonetisation - to combat corruption, black money and militancy - the purpose does not appear to have been realised, a panel member observed. "We can see militancy has increased; corruption levels, too, have not come down," he said.

Citing a study by the Indian Statistical Institute in Kolkata, the source quoted above said Rs 400 crore worth of fake currency is still in circulation, and Rs 70 crore is added every year.

"The moot question is if there was a need for such a disruption," he added.

The Rs 500 and Rs 1,000 notes were allowed to be exchanged till December 30 last year, while the deposit window for non-resident Indians and Indians abroad during the two months was open till March 31.

In January, too, the RBI governor had appeared before the committee and had told the members that he would submit a statement on the amount of money that came back into the system after demonetisation.

The committee will come out with its report on demonetisation in two parts. The first part to be tabled during the upcoming Parliament session will be on demonetisation, while the second one will be on transformation in the digital economy.

The panel will meet government's think tank NITI Aayog and officials from the Ministry of Home Affairs for their report on digital economy on Thursday.

"We will also come out with the second part of the report on transition to the digital economy a few months later," said the source.

On the goods and services tax (GST) that rolled out from July 1, the standing committee asked the RBI whether it will consider cutting the repo rate since government has claimed the GST will bring down inflation.

"The government has been claiming that inflation will come down. If that is the case, the RBI should also cut the repo rate. The central bank governor was asked this question," said a person in the know.

The six-member monetary policy committee, chaired by the RBI governor, left the repo rate unchanged at 6.25 per cent for the fourth time in a row in June. While the officials in the government have claimed that the consumer price index-based inflation will see a 1-2 percentage point reduction by the year-end, the RBI in its policy meet projected inflation to increase to 3.5-4.5 per cent in the second half from 2-3.5 per cent in the first half.

Regarding the Ordinance to amend that Banking Regulation Act for resolution of non-performing assets (NPAs) of state-owned banks, the panel is learnt to have raised with the central bank governor the rationale behind the move, as it will take away the autonomy of banks. The Ordinance was issued in May, empowering the RBI to recover mounting NPAs of the state-owned banks running up to over Rs 6 lakh crore. It has empowered the central bank to initiate insolvency resolution proceedings for bankruptcy code cases and recover bad loans.

The RBI is keeping a close watch on transactions involving crypto currencies

2. Slow to start, banks wrestle with insolvency regime

As on July 10, 112 such announcements have been made and banks account for just 17 announcements

Veena Mani & N Sundaresha Subramanian

Neeraj Singhal, promoter and vice-chairman of Bhushan Steel, was arrested by the Central Bureau of Investigation (CBI) in August 2014. Singhal's arrest came days after the agency had arrested S K Jain, the then chairman and managing director of Syndicate Bank on bribery charges.

Soon after, the Bhushan Steel account was referred to a joint lenders' forum. It was part of the Reserve Bank of India's (RBI) asset quality review in 2015 before being

declared a non-performing asset (NPA) by the end of 2015-16. Three years later, Bhushan Steel is one of the 12 companies recommended for insolvency proceedings by the RBI.

Another complicated case is that of Era Infra engineering, against which as many as 18 winding-up pleas are pending in courts. The shares of this company were suspended by the bourses over a year ago, implying its troubles are much older.

Essar Steel first defaulted on debt repayment in 1999. It went into a corporate debt restructuring in 2002 and came out of it in 2006. Its shares were delisted in 2007, but it still emerged with a loan book of Rs 37,000 crore. In 2014, Essar Steel's Canadian acquisition Algoma filed for bankruptcy, two years later Essar Steel Minnesota filed for Chapter 11.

Young defaults versus critically ill

An insolvency expert whose firm is advising the resolution process of one of the large accounts, said, "Each case has to be taken on its merits. While some accounts may be difficult, others might be eminently suitable."

There is a view in the industry that the law is more suited for "young defaults", when companies are in a better state of health. When insolvency is taken up as the last option, it may not be effective.

Pavan Vijay, managing director of Corporate Professionals, said some companies entering insolvency were like patients that need ventilator support. Some of these companies are not a "going concern" and liquidation is inevitable.

Laden with such challenging and chronic cases, banks, especially the public sector ones, have been slow to wake up to the new insolvency regime. The bankruptcy code was passed by Parliament a year ago, the Insolvency and Bankruptcy Board of India (IBBI) was constituted in October and registration of professionals began by late November. But the public sector banks (PSBs) swung into action only a few months later.

According to regulations, resolution professionals are required to make a public announcement in the beginning of the insolvency resolution process once this has been admitted by the National Company Law Tribunal (NCLT). The process has to be completed within 180 days of this announcement, failing which liquidation will be initiated.

Missing banks

As on July 10, 112 such announcements have been made. Of these, banks account for just 17 announcements, or 15 per cent. State Bank of India (SBI) and Punjab National Bank (PNB) have been applicants in three cases each, while Bank of India (BoI), IDBI Bank and ICICI Bank account for two cases each. Edelweiss Asset Reconstruction has initiated three cases. A majority of the cases admitted by the NCLT have been initiated by the companies themselves or operational creditors like suppliers and customers.

Private lender ICICI Bank was first off the blocks and received the tribunal's clearance for Innovative Industries as early as January. At this point, there were 977 registered insolvency professionals. The NCLT was also not as crowded as it is now. But the PSBs did not do much in the first four months.

By the time BoI's application in the matter of Hindustan Dorr Oliver was cleared it was May 5. SBI and PNB came into the picture a couple of weeks later. PNB's first case was in early May in Chandigarh and SBI's account was opened with two cases in Telangana towards the end of that month.

State-owned banks were cooling their heels in the first few months, said insolvency professionals. Only after receiving a clear signal of this being the preferred route to dealing with stressed assets did banks begin to scamper for talent, knowledge and other resources.

With the government and the RBI on their heels, the late start and bureaucratic processes have added to the challenges for banks. SBI Chairperson Arundhati Bhattacharya's comments that the ecosystem had not evolved must be seen against this backdrop, said insolvency professionals. Bhattacharya pointed out that certain mandatory components, such as information utilities, were not yet in place and that there were not enough insolvency professionals. She also pointed to the lack of capacity in the NCLT.

Teething troubles

Insolvency professionals feel banks are the weak links in the ecosystem. They pointed out that there were about 500 registered professionals and, despite its workload, the NCLT had not delayed hearing insolvency cases. Further, the government has started the process of appointing 15 new members to the NCLT.

Mamta Binani, an insolvency professional based in Kolkata and former president of the Institute of Company Secretaries of India, said, "There are 500 trained professionals available in India to tackle these cases. There is no dearth of insolvency professionals."

The IBBI has been stringent in empanelling insolvency professionals. It refused to empanel an applicant working with a multinational auditing and consultancy firm. The IBBI's order states an insolvency professional must not engage in "any employment with the entity where he is appointed (as a resolution professional, liquidator, bankruptcy trustee, etc.). To justify this, he has submitted that the objective of the code of conduct is to maintain independence and to avoid conflict of interest."

One insolvency professional recalled a meeting of the committee of creditors where the bankers discussed only the debt and not its restructuring. Another professional said bankers were poorly informed about cases and most of them lacked powers to make decisions.

Binani said bankers were not yet ready to accept the code. "In the case of Palogix Infrastructure, which filed for insolvency, two banks have not filed claims," she added.

Insolvency professionals feel the code will deter defaulters, but NPAs will not cease unless banks are sensitised on credit appraisal and experts are hired by banks to inspect what is happening with their loans.

"Both sides of the arguments are true. While certain parts of the framework, such as the information utilities, are not yet in place, the basic structure is ready," said an expert.

On July 16, the deadline for Innovative Industries, the first case initiated, ends. But the case is in courts on technicalities. There are reports about difficulties in getting multiple lenders to agree on terms.

Though there have been challenges in courts, these are part of evolution of any law, say regulators. In a recent interview, M S Sahoo, chairman of the IBBI, said, "Nothing develops in a vacuum. Only when something is available will there be a market for it."

Feeling the insolvency squeeze

- With the Centre and the RBI on their heels, the late start and bureaucratic processes have added to the challenges for banks
- There is a view in the industry that the law is more suited for “young defaults”, when firms are in a better state of health
- The bankruptcy code was passed by Parliament a year ago
- Insolvency professionals feel banks are the weak links in the ecosystem. They pointed out there were about 500 registered professionals and, despite its workload, the NCLT had not delayed hearing insolvency cases

Business Line

3. SBI waives charge on IMPS fund transfer of up to Rs 1,000

PTI

The country’s largest bank SBI has waived charges for fund transfer of up to Rs. 1,000 through its IMPS (Immediate Payment Service) to promote small transactions.

State Bank of India had been charging Rs. 5 along with the applicable service tax for IMPS fund transfer of up to Rs. 1,000.

IMPS are an instant interbank electronic fund transfer service through mobile phones as well as Internet banking.

“In order to promote small ticket size transactions, SBI has waived IMPS charges for transfers up to Rs. 1,000,” the bank said while informing about the revised IMPS transfer charges under the Goods and Services Tax (GST) regime.

For IMPS, the charge will be Rs. 5 along with GST for fund transfer in the range of Rs. 1,000 to Rs. 1 lakh. The charge will go up to Rs. 15 for transactions of Rs. 1-2 lakh.

GST at the rate of 18 per cent is applicable on all financial transactions.

4. Gross NPA divergence at Rs 6,816 cr by March 2016: IDBI Bank

PTI

Public lender IDBI Bank’s gross NPAs at the end of March 2016 were lower than the Reserve Bank’s estimate, with a divergence of Rs. 6,816.60 crore, its annual report shows.

As of March 31, 2016, the bank had reported gross non-performing assets (NPAs) or bad loans to the tune of Rs. 24,875.07 crore, according to the bank’s annual report for 2016-17.

The Reserve Bank had put gross bad loans on the bank’s balance-sheet at Rs. 31,691.67 crore by 2016 March-end, which works out to a difference of Rs. 6,816.60 crore.

In case of net NPAs by this period, the divergence is of Rs. 4,755.60 crore.

The lender had reported net NPAs worth Rs. 14,643.39 crore as against RBI's estimate of Rs. 19,398.99 crore.

During 2015-16, the bank had reported a net loss of Rs. 3,664.80 crore because of a surge in bad loans on its books.

This led to an overall divergence in the bank's provisioning at Rs. 2,061 crore.

The annual report data further showed that the bank's total exposure of 20 largest borrowers and customers by the end of March 2016 stood at Rs. 62,329.21 crore (14.55 per cent of total advances), which further increased to Rs. 63,967.81 crore (15.53 per cent) as of March 31, 2017.

The total exposure to the top four NPA accounts was Rs. 11,576.97 crore at the end of the fiscal ended March 2016 and Rs. 13,172.74 crore by March 31, 2017.

In his message to shareholders, MD and CEO Mahesh Kumar Jain said the good performance during 2016-17 was overshadowed because of a deterioration in asset quality.

As a consequence of higher NPAs and stressed assets, provisioning rose, which in turn negatively impacted the bottom line of the bank and raised concerns on the capital adequacy front, he said.

"These developments have led to implementation of a prompt corrective action (PCA) framework on your bank by RBI. We are ensuring the RBI guidelines relating to distribution of dividend, branch expansion, capital expenditure, investment in subsidiaries are followed," he said.

Jain said the bank has devised a comprehensive turnaround strategy that seeks to leverage its strengths and entail identification of areas for containing cost and revenue maximisation that would ensure sustainable growth and profitability.

Earlier in May, IDBI Bank came under RBI's PCA watch because of the high level of bad loans on its balance-sheet.

In April this year, RBI had issued a set of enabling provisions under the revised PCA framework with a clause that if the bank does not improve, it could either be merged or taken over by another bank.

Under PCA, RBI has powers to curb a bank's capacity for giving fresh loans, besides putting restrictions on dividend distribution, among others.

Banks are now required to state their bad loan divergence in their financial statements if it exceeds 15 per cent.

The stock of IDBI Bank traded at Rs. 56.85 on the BSE, up 0.89 per cent from its previous close.

5. BoB to raise Rs 3,000 cr via Basel III bonds

PTI

Bank of Baroda is set to raise up to Rs. 3,000 crore through Basel III compliant bonds.

"The finance committee of our bank today approved issuance of AT-1 capital bonds compliant with Basel III capital regulations... for a minimum amount of Rs. 500 crore with green shoe option and total issuance not to exceed Rs. 3,000 crore," the bank said in a regulatory filing today.

Raising of funds will be in single or multiple tranches.

The BoB stock was trading at Rs. 161.90, down 0.37 per cent from its previous close, on the BSE

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY