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Dear Comrades,

27th July , 2017

News of Interest 27th JULY

MOTIVATIONAL QUOTES

“ALL YOU NEED IS THE PLAN, THE ROAD MAP, AND THE COURAGE TO PRESS ON TO YOUR DESTINATION. “ EARL NIGHTINGALE

HIGHLIGHTS

- 1. RBI MAY CUT REPO RATE BY 25 BPS IN AUGUST POLICY REVIEW: ICRA**
- 2. YES BANK Q1 NET UP 32% AT RS 966 CR AS GROSS BAD LOAN RATIO FALLS**
- 3. IS THERE A PLAN TO SCRAP THE RS 2,000 NOTE?**
- 4. FEDERAL BANK JUNE QUARTER PROFIT UP 26% AT RS 210 CR**
- 5. HDFC CLOCKS □1,556-CR STANDALONE NET PROFIT IN Q1**

Business Standard

1. RBI may cut repo rate by 25 bps in August policy review: ICRA

Expected rise in CPI inflation in FY18 may contribute to a lack of consensus to cut repo rate

ANI

Credit rating agency ICRA has anticipated that the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) would reduce the repo rate by 25 basis points (bps) in the upcoming policy review in August 2017.

However, the decision is unlikely to be unanimous and the tone of the policy document may not signal that further cuts would be forthcoming. In addition, the RBI is likely to indicate that additional open market operations would be conducted to manage the prolonged liquidity surplus.

"With the CPI inflation easing below the two percent floor of the inflation target band in June 2017, a reasonably favourable progression of the monsoon and kharif sowing

so far, and limited evidence of a knee-jerk rise in prices following the imposition of the goods and services tax (GST), there is a high likelihood that the MPC would vote to reduce the repo rate by 25 bps in their upcoming meeting," said MD and Group CEO ICRA, Naresh Takkar.

"The expected rise in the CPI inflation in H2 FY2018 is likely to contribute to a lack of consensus in this vote to cut the repo rate, and infuse caution in the tone of the policy document regarding the possibility of future rate cuts," added Takkar.

The year-on-year (YoY) CPI inflation declined to a series low of 1.5 percent in June 2017 from 2.2 percent in May 2017, led primarily by a deeper disinflation in food items (to -1.2 percent from -0.2 percent) and a broad-based easing in the previously sticky core CPI inflation (excluding food and beverages and fuel and light; to +3.9 percent from +4.3 percent). While the CPI inflation has undershot the midpoint of the RBI's inflation target band of four percent for eight consecutive months, June 2017 is the first instance of the lower end of the band of two to six percent being breached.

The monsoon dynamics have been reasonably favourable so far, which has boosted sowing of most crops. Moreover, prices of a number of food items such as pulses, vegetables (barring tomatoes) and oils remain weak on a seasonally adjusted basis so far in July 2017. However, a reversal of the favourable base effect could result in food and headline inflation rising sharply, and exceeding four percent during H2 FY2017.

ICRA expects the final impact of the GST on inflation to become clearer with a lag, as businesses would observe the impact of this tax on costs over a period of time, prior to raising prices. Although the revision in house rent allowance (HRA) of Central Government employees with effect from July 1, 2017, is likely to push up housing inflation, its impact would be staggered over FY2018 and the first quarter of FY2019.

Despite measures taken by the RBI to absorb liquidity through instruments such as cash management bills (CMBs), treasury bills (T-bills) issued under the market stabilisation scheme (CMB) and the recent open market sales of G-sec, a substantial Rs. 3.4 trillion is being absorbed on an average through overnight and term reverse repos in July 2017.

ICRA maintains its view that a portion of the continuing surplus in systemic liquidity is structural and not frictional in nature, warranting permanent measures of absorption such as sales of the RBI's holdings of G-sec through OMOs. In addition to the Rs. 200 billion of OMO sales announced by the RBI over the last month, ICRA expects further OMO sales of Rs. 300-400 billion in multiple tranches, to supplement the absorption of surplus liquidity through other short term tools.

The likelihood of further OMO sales of G-sec is expected to push up yields to some extent, partly offsetting the impact of the anticipated 25 bps rate cut.

2. YES Bank Q1 net up 32% at Rs 966 cr as gross bad loan ratio falls

Gross bad loans as a percentage of total loans fell to 0.97% in Q1 from 1.52% in Q4FY17

Reuters

YES Bank reported a 32 per cent rise in net profit to Rs 966 crore (\$150 million) in the quarter ended June 30, 2017, compared to Rs 732 in the year-ago period helped by higher interest and fee income.

The country's fifth-biggest private-sector lender by assets said on Wednesday.

Analysts on average had expected the Mumbai-based bank to report a net profit of Rs 956 crore, according to Thomson Reuters data.

Gross bad loans as a percentage of total loans fell to 0.97 per cent at the end of June in the financial year (FY) 2017-18 from 1.52 per cent at the end of March in FY17.

YES Bank shares were trading 3 per cent higher after the results in Sensex that was up 0.36 per cent.

Business Line

3. Is there a plan to scrap the Rs 2,000 note?

PTI

The Opposition in the Rajya Sabha asked Finance Minister Arun Jaitley to clarify whether the government has decided to scrap the newly launched Rs. 2,000 note and introduce a Rs.1,000 coin. However, Jaitley who was present in the House, did not respond even as the Opposition members insisted for clarification from him on the issue.

Raising a point of order during the Zero Hour, Samajwadi Party's Naresh Agrawal said, "The government has taken a decision to scrap the Rs. 2,000 note. The RBI has been given orders not to print the Rs. 2,000 notes ... If any policy decision has been taken during the Parliament Session, the tradition is to announce it in the House."

So far, the RBI has printed 3.2 lakh crore pieces of Rs. 2,000 notes. Agarwal said that the RBI has stopped printing of these notes. "One note ban has been done, the second one is being planned," he noted. He alleged that the earlier note ban decision was taken by the government and not the RBI. "The RBI board had opposed it but the government took the decision. The earlier decision (of demonetisation) was taken by the government, the second one is also from the government," he said.

Echoing his views, the Leader of Opposition Ghulam Nabi Azad too sought clarification from the government on whether it was planning to introduce Rs. 1,000 coins. "Every day we read about coins of 1,000, 100 and 200. What is the actual status? Are we to go by what media is writing? The House is to be enlightened by the Finance Minister. What is the truth?," he asked.

Adding that there was no politics in this issue, he asked, "Are we going to have coin of Rs. 1,000? To carry coins, we have to purchase a bag. We must know. Our sisters have the purse. We shall also have to buy purse just to carry the coins of Rs. 1,000."

Another member from the Opposition, Tiruchi Siva (DMK) said he cannot dispense with the media reports completely and sought clarification from the government on the issue. Sharad Yadav (JD-U) said the issue was serious as the rumours are strong. He wanted the government to clarify and stop the rumours, warning the government that the people will start returning the Rs. 2,000 notes.

4. Federal Bank June quarter profit up 26% at Rs 210 cr

V SAJEEV KUMAR

Riding on the comfort of overall credit growth, Kerala-based Federal Bank posted a 26 per cent surge in net profit at ₹210.15 crore in the first quarter of FY17.

"Consistent growth in deposits and savings at 20 per cent, increase in overall credit at 29 per cent and controlled expenses are the contributing factors for the good performance, which is expected to continue further," Shyam Srinivasan, Managing Director and CEO, told Business Line over phone from Mumbai. To a question, he said the first quarter growth was slightly below expectations even as the bank had a good performance in the last two quarters.

"Our job is to make sure that the underlying performances will improve in every quarter. I am happy that this quarter witnessed the highest operating profit on the back of very strong operating performance," he added.

The operating profit witnessed a 31 per cent surge touching ₹557.86 crore, compared to ₹425.86 crore. The total business reached ₹1,72,145.95 crore. While total deposits increased 18 per cent to touch ₹95,838.84 crore, total advances grew 29 per cent to ₹76,307.11 crore.

CASA deposits grew 20.33 per cent to reach ₹32,048 crore. CASA as a percentage to total deposits increased to 33.44 per cent. Net interest income grew 15.68 per cent to ₹800.68 crore (₹692.17 crore).

On asset quality, gross NPA stood at ₹1,867.94 crore which as a percentage to gross advances was 2.42 per cent. The net NPA stood at ₹1,061.26 crore, and the net NPA percentage to net advances at 1.39 per cent.

Asked about the increase in gross and net NPAs, Srinivasan said both gross and net NPAs in the quarter improved significantly to 2.42 per cent from 2.92 per cent in the first quarter of the last fiscal. However, sequentially, it has seen a minimum increase to 2.42 per cent from 2.32 per cent. This is because one account in the big-ticket segment slipped; otherwise it was fairly consistent, he said.

On a possible rate cut in the next RBI policy, he said the management expects the Monetary Policy Committee would look at the current inflation trend which suggests that a rate cut is imminent.

5. HDFC clocks ₹1,556-cr standalone net profit in Q1

OUR BUREAU

HDFC reported a standalone net profit of ₹1,556 crore in the first quarter ended June 30, 2017. In the year-ago quarter, it had logged a net profit of ₹1,871 crore. India's largest standalone housing finance company said the profit numbers for the reporting quarter are not comparable with the corresponding year-ago period as the company, in the June 2016 quarter, had sold shares of HDFC ERGO General Insurance to ERGO International AG for ₹922 crore and had also created a one-time special provision of ₹275 crore as a charge to the profit and loss statement.

The net interest income (difference between interest earned and interest expended) for the reporting quarter was up 16 per cent year-on-year (y-o-y) at ₹2,793 crore. Net interest margin (net interest income/ total assets) at 4 per cent was the same as in the year-ago quarter.

The loan book grew 18 per cent y-o-y to stand at ₹3,12,978 crore as on June-end 2017 (₹2,65,731 crore in the year-ago quarter).

On assets under management (AUM) basis, the growth in individual loan book was 16 per cent and non-individual loan book, 23 per cent.

As at June 30, 2017, individual loans comprised 72 per cent of the AUM. During the quarter, 64 per cent of incremental loans came from individual loans and 18 per cent each from commercial lease rental discounting and construction finance.

Gross non-performing loans (GNPL) as at June-end 2017 rose 75 per cent y-o-y to ₹3,513 crore (₹2,006 crore). This is equivalent to 1.12 per cent (0.75 per cent) of the loan portfolio.

Referring to the Reserve Bank of India's Internal Advisory Committee identifying various accounts for reference under the Insolvency and Bankruptcy Code, HDFC said it has an exposure of ₹909 crore (included in GNPL) as of June 30, 2017, in one of the accounts.

As of March 31, 2017, though the account was not a non-performing loan, as a prudent measure, the company had made adequate provisioning against the exposure.

Thus, no further provisioning was required on the exposure for the quarter ended June 30, 2017. As at June 30, 2017, the unrealised gains on HDFC's listed investments amounted to ₹93,923 crore (₹64,375 crore).

For the quarter ended June 30, 2017, the consolidated profit after tax stood at ₹2,734 crore compared to ₹2,797 crore in the corresponding quarter last year.

The share of profit from subsidiary and associate companies in the consolidated profit after tax stood at 43 per cent for the reporting quarter against 33 per cent in the year-ago quarter.

HDFC shares closed at ₹1,633.25 apiece on Wednesday, up 0.06 per cent over the previous close, on the BSE.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY