

MOTIVATIONAL QUOTES

**“COURAGE IS RESISTANCE TO FEAR, MASTERY OF FEAR, NOT ABSENCE OF FEAR. “
MARK TWAIN**

HIGHLIGHTS

- 1. RESERVE BANK EXTENDS 'REST' PERIOD FOR AUDITORS TO 6 YEARS**
- 2. FARM LOAN WAIVERS CONTRIBUTE TO BANDHAN BANK'S RISING NPA**
- 3. AXIS BANK SCOTCHES RUMOURS ON SHIKHA SHARMA, REAPPOINTS HER FOR 3 MORE YEARS**
- 4. THERE'S ONE GOOD REASON INDIA SHOULDN'T CUT RATES**
- 5. ICICI BANK STANDALONE NET DIVES 8% TO ₹2,049 CRORE**
- 6. WE HOPE TO SEE A TURNAROUND THIS FISCAL: IOB CHIEF**

Business Standard

1. Reserve Bank extends 'rest' period for auditors to 6 years

Central bank has extended the rest period of statutory auditors to at least 6 years
Anup Roy

The Reserve Bank of India (RBI) on Thursday criticised private and foreign banks for appointing the same set of auditors alternatively after mandatory rest of two years, as such practice establishes a “comfortable relationship that may lead to compromise in strict adherence to audit principles.”

As per the extant rules, a statutory auditor has to be appointed for a period of four years and then there should be a rest of two years. Now the central bank extended the rest period to at least six years.

According to RBI, in some cases in private and foreign banks, the same audit firm was reappointed after a gap of two years’ rest. In a few other banks, the immediately preceding statutory auditor firm was appointed on completion of the four-year tenure of the current statutory auditor.

“The statutory central audit responsibility in such banks thus remained confined to two audit firms which were appointed on a cyclical basis,” said RBI in a notification on its website.

Criticising these banks, the central bank said the rest and rotation policy in the appointment of auditors have been mandated so that books are looked at afresh, “as a new team is likely to examine the issues in a bank from a different perspective.”

In order to make the banks follow the policy in letter and spirit, the central bank said that an auditor, after completion of its four-year tenure in a bank "will not be eligible for appointment as SCA of the same bank for a period of six years."

The central bank's directive assumes importance in the light of wide divergence found in the books of some private sector banks, which reported much lower NPA in their books for FY 16 than what the central bank auditors later found. If the divergence found is more than 15 per cent from RBI's perspective, it is now mandatory than banks disclose the information in the annual report.

2. Farm loan waivers contribute to Bandhan Bank's rising NPA

Darjeeling standoff will add to the new lender's woes

Avishek Rakshit

Agri loan waivers in Uttar Pradesh, Madhya Pradesh and Maharashtra have not only added stress to HDFC Bank, which has considerable direct exposure in the sector in these states, but Bandhan Bank, which doesn't even have a direct agri exposure has also come under stress as a result of the government scheme.

The bank's gross non-performing asset (NPA) rose sharply to 0.82 per cent during the quarter ended June 30, 2017 as against the gross NPA of 0.38 per cent just a quarter back. On a year-on-year comparison, the gross NPA stood at 0.22 per cent during the first quarter of the 2016-17 fiscal year.

The bank's managing director and CEO, Chandra Shekhar Ghosh attributed payment indiscipline arising from such waivers as the primary cause for the steep rise in the NPA.

"Any loan waiver affects the loan repayment culture. People are told that you won't have to repay the loan. That's the general understanding of people when a loan waiver scheme is announced", he said.

Over 75 per cent of the bank's Rs. 175 crore NPA arises from these three states. Although Bandhan Bank has refrained from direct agricultural loans, most of its disbursements in these three states are towards the allied agro sector like vegetable cultivation, fisheries and others.

"However, we have done a one per cent provisioning while the RBI had asked us for a 0.4 per cent", he added.

To add to Ghosh's concern, the ongoing political showdown in Darjeeling is poised to further the gross NPA in the coming quarters.

Its loan disbursement in the Darjeeling-Sikkim belt, which is mainly micro credit, is to the tune of Rs.20-25 crore. Owing to the ongoing shutdown in the area, the bank's collection agents from 10-11 collection centres are unable to collect repayments from the borrowers in the hills of northern West Bengal.

"Till now, the loans from Darjeeling, hasn't turned out to be NPA, but is expected to become soon", the bank's managing director and CEO, Chandra Shekhar Ghosh said.

"Since the situation is tense there, I am not able to ask my staff to go there in case any incident happens. I can't put their life is put in danger", he added.

The tea and tourism sector, as a result of the ongoing political tension there, is estimated to have undergone at least Rs 350 crore loss since tensions erupted in early June.

The bank's net interest income during the quarter ended June 31, 2017 rose by 38 per cent at Rs. 743 crore as against Rs. 538 crore earned during the year-ago period. Its net profit, in the quarter under review grew by 35 per cent at Rs 327 crore as against Rs 242 crore during the first quarter of the year ended March 31, 2017.

In the coming days, Ghosh will be focusing on increasing disbursements in the MSME and affordable housing segment.

3. Axis Bank scotches rumours on Shikha Sharma, reappoints her for 3 more years

Shikha Sharma, the managing director and chief executive of Axis Bank, today kept everyone guessing about her future with the third largest private lender amidst the bank hiring a headhunting agency and reports of Tata Group sounding her out

By: PTI

Seeking to rest speculation, Axis Bank today re-appointed Shikha Sharma as the managing director and chief executive of the third largest private lender for a third term that will last till June 2021. "The board, at its meeting held on July 26, approved the re-appointment of Shikha Sharma as the managing director and chief executive of the bank for a period of three years, with effect from June 1, 2018," the bank said in a regulatory filing this afternoon. The unusual announcement comes over 11 months ahead of the 59-year-old banker's current term and within a couple of hours of her own comments earlier in the day that left everyone guessing about her next move.

"You should wait to hear that announcement from the board at the appropriate time. My job right now is to focus on working with the team and doing the best we can for our customers and other stakeholders," he told reporters earlier in the day. A section of the media had first reported appointment of an executive search firm by the bank to find her successor, which was followed by another report that Tata Sons sounded her out with an offer.

"The appointment of a search firm is in the interest of best governance, given that I'd have done nine years in 2018 with the bank and it doesn't preclude anything about whether I will do another term or not," Sharma told reporters, after announcing a Rs 385-crore acquisition of wallet company Free charge in an all-cash deal. The veteran banker is serving the second term that comes to an end in June 2018. She joined Axis Bank in 2009 with a five-year mandate which was subsequently extended.

According to a recent media report, subsequently denied by the bank, she has been sounded out by Tata Sons chairman N Chandrasekaran to head the conglomerate multiple financial services verticals. "All I can say is that I'm deeply excited about the opportunity of what's possible in the financial services space in the country," she told reporters. However, she was quick to add that right now the focus is on building the bank. "We believe that Axis Bank has created some very strong capability in it, we have a strong brand which all customer surveys suggest people who experienced it have liked it. So I think there are lots of exciting things to do in the bank."

She, however, did not spell out her plans when specifically asked about her future with the bank, saying, "I think the bank has given its comment on the reports. I have nothing more to add as far as that is concerned." She joined Axis from ICICI Prudential Life where she was the first managing director and chief executive and replaced PJ Nayak, Axis Bank's first chairman and CEO. Sharma began her career with the erstwhile infra lender ICICI Ltd in 1980 and played a key role in setting up the group's investment banking business.

Economic Times

4. There's one good reason India shouldn't cut rates

Bloomberg

When the committee that sets monetary policy for India's central bank meets early next month, their decision should be clear. There are plenty of good reasons for them to cut rates. Still, there's one even better reason to hold off.

Since the committee last conferred two months ago, inflation has steadily declined. Food is cheaper now and overall consumer price inflation stands at less than 2 percent. That's below the Reserve Bank of India's target zone, which gives the bank more than enough space to loosen policy.

Quick Take India's Aspirations

And economic conditions would seem to cry out for lower rates. Growth has slowed for four consecutive quarters, with the last print coming in at a far-from-respectable (for India) 6.1 percent. While the International Monetary Fund predicts India will grow at 7.2 percent, its most recent estimates have tended to be high.

It's unclear what more the government -- which in 2015 was promising to deliver double-digit growth but has now discovered how "difficult" that task is -- can do to revive the economy. The real problem is that the private sector remains unusually unwilling to invest. Investment as a proportion of gross domestic product needs to rise by several percentage points if India is to return to its previous levels of growth or to match China's high-growth takeoff. The textbook advice is clear. To increase investment, lower the cost of capital.

But things never work quite that simply in India. For one, there's no reason to suppose that a cut in the policy rate by the RBI would lead to entrepreneurs actually gaining access to cheaper capital. Both the current governor, Urjit Patel, and his predecessor, Raghuram Rajan, often complained that banks simply refused to pass on lower rates to their customers. Partly that's because competition doesn't quite work in the Indian banking sector, which is largely state-owned; partly it's because most banks are struggling with bad loans. They're feeling particularly cautious about new lending.

Even if that hurdle can be surmounted, there's another, deeper reason why the RBI should consider holding off. Now that the minutes of the monetary policy committee's June meeting are available, one intriguing passage stands out. The central bank's deputy governor, the economist Viral Acharya, apparently answering a suggestion that easier monetary policy would help stressed banks recapitalize, correctly points out that would be a terrible idea: "It is best for the sake of policy credibility to not mix instruments with objectives they are not meant to target."

His argument against thinking of easier money as a tool to fix banks holds as an argument against a rate cut in general. "This would relax the pressure," Acharya argues, "on good efforts that are underway ... to improve the banking architecture." In other words, if thrown a lifeline now, banks will have less of an incentive to clean up their books.

The same logic applies to India's most indebted and badly managed firms. The economy has reached a crucial point, where owners and operators of companies are finally coming face-to-face with the consequences of a decade of bad choices. If markets are to work properly, this is the moment when those executives should lose control of the companies they've mishandled. Only then can the system be flushed and capital allocated to more productive and innovative enterprises.

If allowed to raise more cash, on the other hand, these companies will simply stay in the game until the economy as a whole recovers and all is forgiven. Holding off on a rate cut might delay that recovery. But at least it would help ensure an infusion of new blood and credibility.

Policymakers in China face a very similar dilemma. Everyone there admits that the economy needs a shakedown that reduces excess capacity, cleans up ownership and helps China face the future. But the temptation to keep extending credit -- just for another quarter, just till political problems sort themselves out, just till the economy turns up on its own -- is overwhelming.

Both of Asia's giants face something of a reckoning, in which their long-term needs clash with their short-term interests. China appears to have made its choice, for now. India might want to think twice before making the same one.

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.

Business Line

5. ICICI Bank standalone net dives 8% to ₹2,049 crore

OUR BUREAU

ICICI Bank reported an 8 per cent dip in standalone net profit at ₹2,049 crore in the first quarter ended June 30, 2017, compared with ₹2,232 crore in the year-ago period on account of continued provisioning pressure due to bad loans and lower non-interest income.

A deferred tax adjustment (income tax refund) of ₹302 crore in the reporting quarter helped lessen the blow to profitability. In the year-ago quarter, DTA was at ₹22 crore.

Net interest income increased 8 per cent to ₹5,590 crore (₹5,159 crore).

Non-interest income was lower at ₹3,388 crore (₹3,429 crore).

Chanda Kochhar, MD & CEO, explained that the dip in profit was on account of the fact that exchange rate gain related to overseas operations, which was available in the year-ago quarter, was no longer permitted to be accounted for as income from the reporting quarter and ICICI Prudential Life had moved to dividend payments on half-yearly basis from quarterly basis.

Total advances nudged up 3 per cent to ₹4,64,075 crore. The growth in total advances comes solely on the back of domestic advances growth, which was up 11 per cent y-o-y. Overseas advances declined 22 per cent y-o-y.

Within the domestic advances, retail and small & medium enterprise advances were up 18.6 per cent and 18.4 per cent respectively, corporate advances declined 2.8 per cent.

Total deposits increased 15 per cent to ₹4,86,254 crore. The composition of low-cost current account, savings account (CASA) deposits in overall deposits improved to 49 per cent (45.1 per cent). Net interest margin edged up 3.27 per cent (3.16 per cent).

Gross non-performing assets (net of write-offs) jumped to ₹43,148 crore (₹27,563 crore). GNPA as a percentage of gross assets rose to 7.99 per cent (5.28 per cent). Provisions towards bad loans were at ₹2,609 crore (₹2,515 crore).

Kochhar said gross additions to NPAs at ₹4,976 crore in the June quarter were the lowest in the last seven quarters. Further, in the reporting quarter, recoveries and upgrades of ₹2,775 crore reflected completion of the sale of cement business of a borrower, which was classified as NPA in the preceding quarter. Net addition to gross NPA was at ₹2,201 crore.

Stressed accounts

On the bank's exposure to 12 large stressed accounts, against whom the RBI wanted banks to initiate insolvency resolution process, the ICICI chief said her bank had exposure to nine of the accounts amounting to ₹6,889 crore (excluding non-fund outstanding amount of ₹351 crore).

As of June-end 2017, the bank held a provision of ₹2,828 crore against these outstanding loans, which amounted to 41 per cent provision coverage. The bank is required to make an additional provision of ₹647 crore over the next three quarters as advised by the RBI.

Kochhar said NPA accretion in the current financial year would be less vis-a-vis the previous financial year.

The bank's consolidated net profit edged up 3.5 per cent to ₹2,605 crore (₹2,516 crore). The consolidated net profit includes the financial performance of ICICI Prudential Life Insurance Company, ICICI Lombard General Insurance Company, ICICI Prudential AMC, and ICICI Securities.

On Thursday, ICICI Bank shares closed at ₹307.05 apiece, down 1.02 per cent over the previous close, on the BSE.

6. We hope to see a turnaround this fiscal: IOB chief

G BALACHANDAR

Chennai-headquartered Indian Overseas Bank (IOB) was brought under the prompt corrective action (PCA) programme by the RBI from September 2015 after the bank reported the highest non-performing assets (NPAs). Following this, a comprehensive turnaround strategy was initiated and is showing results. R Subramaniakumar, Managing Director & Chief Executive Officer of IOB, explains the various initiatives and their outcomes in an interview to *Business Line*. Excerpts:

What are the initiatives taken to address NPAs accounted for by corporate?

About 52 per cent of NPAs are in the corporate segment with majority of them in the consortium accounts. We have an exposure in 10 of the 12 large NPA accounts recently announced by the RBI for resolution under reference to NCLT. The 10 accounts constitute one-fifth (about 20 per cent) of our NPAs. Here we see a timely resolution which is expected to take place — in 180 days or 270 days. Most of these accounts are asset-based. So, we are confident of recovery. Further, having identified these accounts as NPAs, we hold sufficient provisions for their accounts.

What about NPAs in retail, MSME and agriculture segments?

One of our biggest NPA recovery initiatives here is the 'Out Reach' programme, under which branch teams are made to visit NPA account-holders. We have about five lakh plus accounts in the small NPA segment. Our branch managers have so far reached out to four lakh plus accounts in about four months. This has helped us reduce the retail NPA share to 3.87 per cent from 7 per cent. Similarly, NPAs in the SME segment has fallen to 17 per cent from 23 per cent. For the first time, we used the 'skip tracing' method on social media to locate the loan defaulters (some debtors still update their social media networking sites such as Facebook and give their current details after moving to different places. The IOB recovery team tracks these sites to hunt down the loan defaulters). We expect better results in the coming quarters.

What are you doing on the loan portfolio side?

Our asset profile is getting rebalanced. Corporate used to account for 53-54 per cent of the loan book. Our rebalancing started with reducing the high-risk-weighted assets to that of the medium- and low-risk-weighted assets. In Q4 of 2016-17, we were able to reduce the corporate share to 48 per cent. This was achieved by accelerating the branch level asset growth strategy.

We started strengthening our traditionally strong area, the mid-corporate segment. We brought back the focus and this has created new relationships that had vanished during our transition period.

Have you been able to contain incremental slippages?

In the January-March 2016 quarter, we had slippages of about ₹22,000 crore. A year later, it came down about ₹12,000 crore. Also, our recovery in the March quarter of 2016-17 was ₹8,710 crore as against ₹5,800 crore in the year-ago period. So, recovery is going northwards, while slippages are moving southwards.

Our aim is to increase the recovery by 25 per cent during this year. Similarly, we plan to arrest the slippages by 30 per cent. We have embarked on a multi-pronged approach to achieve the same.

What initiatives are being taken to improve customer service?

I should admit that we were not doing well on the ATM front. Our ATM uptime was about 60 per cent and we focused on maximising it. Now, it has reached about 78 per cent. We have installed about 400 CDMs (cash deposit machines), which will do both cash acceptance and dispensing.

We have also installed passbook printing kiosks in 700 places. Each machine will be able to meet the requirements of 100 plus customers daily. Otherwise, we would need to deploy at least one person in every branch for this.

Have you taken up any branch or ATM rationalisation exercise?

We identified the branches that are unviable to operate. In the March quarter, we closed 21 branches. We have identified 31 branches for closure during this quarter. This is an ongoing exercise, which will see closure of about 100 branches. But customers' convenience is kept in mind during this work. Actually, closure means merging them with the nearest ones. There are certain branches that are hardly 50 metres apart.

We have also identified ATMs where transactions are few. We have repositioned them or deployed them at places where there is need for more machines. One hundred and seventy eight such ATMs have been repositioned.

Is the worst behind for IOB?

I can't say that. It is not a standalone issue as we are taking the impact of the banking sector. But the rate of worsening has been addressed. The entire team of 30,000 IOBians have started looking in a direction where we are confident of reaching the goal of turnaround.

We are in the phase of consolidation and beginning of the leveraging stage. We are able to address all our problems and start opening up the fronts where we will be able to make better profit and leveraging will come in the subsequent quarters. We hope to see a turnaround in this fiscal.