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Dear Comrades,

13th June , 2017

News of Interest 13th JUNE

MOTIVATIONAL QUOTES

“IF YOU WOULD KNOW STRENGTH AND PATIENCE, WELCOME THE COMPANY OF TREES. “
HAL BORLAND

HIGHLIGHTS

1. TOP LOAN DEFAULTERS' LIST ALMOST READY: ARUN JAITLEY
2. BANK SHARES FALL ON FARM LOAN WAIVER IN MAHARASHTRA
3. GOVERNMENT ACTIVELY WORKING TOWARDS BANK CONSOLIDATION: ARUN JAITLEY
4. LAKSHMI VILAS BANK TO RAISE RS 1,000-1,100 CRORE
5. DHANLAXMI BANK NOT LOOKING AT 'MERGER OR STRATEGIC ALLIANCE'

Business Standard

1. Top loan defaulters' list almost ready: Arun Jaitley

Jaitley says states offering farm loan waivers will have to generate funds from their own resources

Dilasha Seth & Arup Roychoudhury

Union Finance Minister Arun Jaitley said on Monday that the Reserve Bank of India (RBI) was at “a fairly advanced stage” of preparing a list of borrowers from whom non-performing assets (NPAs) of public sector banks could be recovered under the Insolvency and Bankruptcy Code. The move, he said, would help beleaguered public sector banks (PSBs) recover part of their NPAs, estimated at over Rs 6 lakh crore.

Jaitley’s remarks came after he, along with RBI and finance ministry officials, held a meeting with the heads of PSBs and took stock of problems affecting the lenders.

"Under the new Ordinance issued, the RBI is at a fairly advanced stage of preparing a list of those debtors where a resolution is required through the Insolvency and Bankruptcy Code (IBC) process. You will be shortly hearing about it," he said.

The Centre issued an Ordinance last month by amending the Banking Regulation Act, to empower the central bank to recover mounting NPAs of the state-owned banks. The Ordinance essentially empowers the RBI to ask banks to initiate insolvency resolution proceedings for bankruptcy code cases and recover bad loans.

Jaitley said the meeting did not discuss the issue of consolidation in the banking space, but added it was being "actively considered". He refused to divulge any names due to price sensitiveness.

On farm loan waivers being considered by a few Bharatiya Janata Party (BJP)-ruled states, the finance minister said resources would have to be generated by the states themselves and that the Centre would not be part of it. Uttar Pradesh and Maharashtra have already announced the loan waiver, subject to certain conditions.

Deputy Governor S S Mundra, who attended the meeting, said an internal advisory committee had been constituted for identifying accounts to be actively considered for resolution.

Mundra said the RBI was collecting information from banks on certain large accounts and action points. "I think, soon some of the action points will emerge from that," he added.

About 81 cases have been filed under the Insolvency and Bankruptcy Code. Of these 18 cases have been initiated by financial creditors.

"These are already before the National Company Law Tribunal (NCLT) and since a bulk of the NPAs, about 70%, are either in consortium or in multiple banking arrangement, the speedy resolution is required," Jaitley said.

He said a few bankers expressed apprehensions about the infrastructure available for enforcement under the NPA ordinance.

The two-hour meeting saw discussions on issues such as financial position of PSBs, NPA resolution, review of all financial inclusion schemes, and cyber-security.

NPAs have been eating into the net profits of PSBs. For instance, banks made a stable operating profit of Rs 1.5 lakh crore in 2016-17, but net profit was only Rs 574 crore due to various provisioning requirements, Jaitley said.

After the merger of State Bank of India with its subsidiaries, the government is looking at the next phase of consolidation in the public sector bank space.

"We are actively moving in that direction. I can't give you further details as these are price-sensitive information. But you can take it that there is movement in that direction," Jaitley said.

Government's policy think tank Niti Aayog is learnt to be working on the consolidation road map for PSBs by studying their financial health, NPA position and geographical reach, and is likely to submit the report within a month.

On the farm debt waiver issue, Jaitley said, "We have already made the position clear that states that want to go in for these kind of schemes will have to generate funds from their own resources. Beyond that, the central government has nothing more to say."

2. Bank shares fall on farm loan waiver in Maharashtra

Impact of the loan waivers will be felt more on public sector banks than their private sector peers

Ashley Coutinho

Shares of banks fell up to four per cent on Monday after the Maharashtra government decided to waive off farms loans of small and marginal farmers.

Union Bank of India and Oriental Bank of Commerce were the top losers, slipping 4.5 per cent and 4.2 per cent, respectively. Canara Bank, Bank of India, Indian Bank, Allahabad Bank and Bank of Baroda were the other major losers, losing anywhere between 3.1 per cent and 3.9 per cent. The Nifty Bank index fell about one per cent to 23,470. The impact of the loan waivers will be felt more on public sector banks (PSBs) than their private sector peers.

According to a note by Kotak Institutional Equities, Maharashtra has nearly Rs 4.2 lakh crore of agriculture loans (comprising 23 per cent of loans) and Rs 1.2 lakh farm loans (seven per cent of loans) with PSBs holding nearly 52 per cent of total farm loans, followed by cooperative banks (32 per cent) and private banks (12 per cent).

On Monday, Finance Minister Arun Jaitley met PSB chiefs to take stock of their finances. He said the government was working towards consolidation of state-owned banks and the Reserve Bank of India was also in the process of preparing a list of bad loans where resolution is required under the insolvency and bankruptcy rule.

The Maharashtra government has reportedly waived off loans of small and marginal farmers with immediate effect, with these farmers being eligible for fresh loans despite being blacklisted earlier due to the overdue status of their loans.

"Frequent farm waivers create expectations of future waivers and can be serious disincentive to delay or stop loan repayments. Greater share of PSU banks in farm credit, which are considered quasi-government, increases the risk of moral hazard," observed the Kotak report.

"Lower product profitability due to higher delinquencies can lead to higher interest rates or reduction in credit availability. This has obvious risk of greater reliance on unorganised sources for incremental credit needs," it said.

Earlier this year, the Yogi Adityanth-led government in Uttar Pradesh had announced it would write off farm loans to the tune of over Rs 30,000 crore.

The loan waiver comes in the wake of banks' growing non-performing assets (NPAs) and under-capitalisation woes. McKinsey estimates the entire banking system will need capital to the tune of Rs 1.85-2.75 lakh crore till FY22 to manage their business.

Financial Express

3. Government actively working towards bank consolidation: Arun Jaitley

The government is "actively working" towards consolidation of banks, said Finance Minister Arun Jaitley today

By: PTI

The government is "actively working" towards consolidation of banks, said Finance Minister Arun Jaitley today. The meeting of top bankers with the finance minister, where ministry officials and RBI Deputy Governor S S Mundra were present, was called to take stock of lenders' financial position and speedy resolution of bad assets. "Consolidation of banks was not on the agenda as far as this present meeting is concerned. But I can tell you, we are actively working in that direction," Jaitley told reporters at a question-answer session, post first round of the discussions. "I can't

give you further details because some of these are price sensitive, but you can take it that there is a movement going on in that direction," he emphasised. The minister hinted that a solution is coming very soon.

Public banks are sitting on a mountain of bad loans to the tune of over Rs 6 lakh crore at the end of 2016-17. A top ministry official said there is no option but to resolve the NPAs as far as the sectorial source is concerned. Rules have been framed for the six such large sectors and task forces have been on the job.

"We worked out four refined institutional ways in which banks can actually put their points across to the task force to the specific sector and telecommunication is one of them. In each of the sectors, there is no option but to resolve as you go along," the official stressed.

Economic Times

4. Lakshmi Vilas Bank to raise Rs 1,000-1,100 crore

By Indulal PM

Lakshmi Vilas BankBSE -0.21 % plans to raise Rs 1,000-1,100 crore through a share sale to institutional investors as the Chennai-based private sector bank looks to reap the interest of global financial institutions in India's financial services sector, several people with direct knowledge of the matter told ET.

The bank, which got board approval on Tuesday to sell 50 million shares to investors through a qualified institutional placement (QIP), is in talks with Credit Suisse JP Morgan, Centrum and SBI Capital Markets to manage the issue. The QIP will be launched soon after the company's annual general meeting, due on July 18, sources said.

"The process has started. There is a lot of appetite from large institutional investors and long-only funds to invest in India's banking and financial services sector," said one of the persons cited above .

The funds will be used for expansion as well as inorganic growth opportunities of the bank into states and geographies where it does not have a presence currently, he said. Lakshmi bank did not respond to ET's mail seeking comments sent on Friday.

State Bank of India, the country's largest lender, recently raised Rs 15,000 crore in a record QIP. Shares of Lakshmi Vilas have more than doubled to Rs 194 in a year.

With Parthasarathi Mukherjee at the helm, the south India-based lender has in the past year built a team of several senior bank executives recruited from lenders such as HDFC Bank SBI, Axis and Royal Bank of Scotland.

They've been able to improve profitability despite a challenging environment. Net profit rose to Rs 78 crore in the December quarter from Rs 48 crore in the same period a year ago.

The share sale plan comes as Indian markets are hovering near record highs. On Friday, Goldman Sachs raised its 12-month target on the Nifty to 10,400 from 10,000 earlier citing increased confidence in corporate earnings recovery.

Giving a bullish view on banks, Goldman said it expects the sector to recover from a downgrade cycle with upgrades to next year's earnings driven by improving operating efficiency and net interest margins.

"Recovery in volume growth for consumer stocks, encouraging domestic order flow trends in Industrials, better-than-expected growth and margin trends in banks, and evidence of waning demonetisation impact suggests earnings recovery is gathering

pace,”

said

Goldman.

The earnings per share revisions in India may turn positive in the coming months, it added.

5. Dhanlaxmi Bank not looking at ‘merger or strategic alliance’

V SAJEEV KUMAR

Making a turnaround after a difficult patch in the last few years, Dhanlaxmi Bank — one of Kerala’s oldest private sector banks — is now eyeing 15 per cent growth in business. In an interview to *Business Line*, Managing Director and CEO, G Sreeram, said he is bullish about sustaining this growth momentum given the encouraging first quarter performance. Excerpts:

Do you have plans to raise more capital?

Right now, there is no such plan. The RBI-stipulated CRAR was 10.25 per cent as on March 31 and the bank has reached 10.26 per cent.

After infusing ₹120 crore fresh capital on May 15, the CRAR has gone above 12 per cent which supports both advances and risk-weighted assets by sustaining a growth rate of 15-20 per cent in FY18.

However, the bank will go with minimum growth rate of 15 per cent in credit and above 10 per cent in deposits.

What is your current credit-deposit growth?

The industry level slow pace in credit growth affected our bank also. Considering the regulatory requirement on capital adequacy, the bank in FY17 concentrated on low-risk advances.

Further, the bank took a conscious approach for collateral-based lending to improve the asset quality. At the same time, we continued lending to the micro credit agriculture and SME segments.

With the infusion of ₹120 crore, the bank can expand its credit base in FY18. Retail advances, including agriculture and micro credit, and lending against gold are the thrust areas for the current year.

During the period, the bank concentrated on low-cost deposits. In FY17, CASA (current account, savings account) deposits increased by ₹483 crore to ₹3,325 crore, registering a growth of 17 per cent.

On the deposit side, the thrust areas for FY18 are new current and savings bank deposits, expand the NRI base and deepening of existing relationships.

Do you foresee any problems in NPA recovery or any plans for the sale of distressed assets?

Regarding NPAs, the bank is expecting a very good recovery in the first half of FY18. The bank has recovered a good number of NPA accounts in the first quarter itself. Right now, there is no plan to sell distressed assets to ARCs (asset reconstruction companies). The gross NPA ratio as on March 31 is improved to 4.78 per cent from 6.36 per cent and the net NPA ratio to 2.58 per cent from 2.78 per cent a year ago. The provision-coverage ratio was 79.99 per cent.

The entire monitoring and recovery force has been revamped and the team is constantly in the field to recover maximum NPAs and to avoid further slippage.

At present, the NPA level is fully collateralised and manageable within the recovery system and no plan for ARC sale is under consideration. Whenever this route is considered, the same also will be based on cost-benefit analysis of the proposal.

Is there any reason for the recent run-up in the bank's share price?

Investors are now showing more interest and comfort in the growth of the bank and its way of functioning.

Labour trouble is a major problem faced by the bank. Has the issue been settled?

Industrial relations are very cordial now and the workforce is cooperating for the growth, survival and sustainability of the bank.

Is there a future for the bank as a standalone entity or will it go for a merger to form a bigger and stronger bank?

There is no question of merger or strategic alliance with any bank or any other institutions.

Altogether, 48 per cent of the shareholding is by Keralites who have an interest in the revival of the bank.

Is there a fear that some NRIs are cornering the shares?

NRIs' permitted equity holding is 24 per cent as per RBI guidelines, and as on date, 21 per cent equity in the bank is held by NRI entrepreneurs.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**