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Dear Comrades,

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News of Interest 15th JUNE

MOTIVATIONAL QUOTES

“SOMETIMES IT'S WORSE TO WIN A FIGHT THAN TO LOSE. “
BILLIE HOLIDAY

HIGHLIGHTS

- 1. BANKERS BRACE FOR DELAYS, LEGAL BATTLES OVER RBI ACTION ON DEFAULTERS**
- 2. TMB PLANS TO LIST BY 2019**
- 3. RBI INITIATES PROMPT CORRECTIVE ACTIONS ON CENTRAL BANK OF INDIA OVER HIGH NPA'S, NEGATIVE ROA**
- 4. INSOLVENCY FRAMEWORK SOON FOR BANKS, INSURERS**
- 5. STRESSED STEEL SECTOR LOANS EASIER TO RESOLVE: BANKERS**

Business Standard

1. Bankers brace for delays, legal battles over RBI action on defaulters

Bankers are bracing for hitches at the NCLT

[Abhijit Lele](#) & [Anup Roy](#)

Even as the central bank has identified 12 large accounts for bankruptcy proceedings and directed lenders to work on a resolution process for 500 more, bankers say the system is not ready for effective resolution.

Bankers are bracing for hitches at the National Company Law Tribunal (NCLT) as the process evolves under the new system. For example, there are not enough insolvency professionals and, no information utility company which houses all the credit data of borrowing firms and can be used in a bankruptcy proceeding.

The 12 cases handled by the central bank would be expedited, but some gaps need to be plugged by the government and the central bank for an effective environment.

This is important when the bankruptcy code is sought to be made a natural tool for banks. According to bankers, it will take another two to two-and-a-half years for the ecosystem to come up and till then, banks cannot really do much invoking bankruptcy code.

The time-bound nature of the bankruptcy code, envisaging resolution within 180 to 270 days, would put enormous pressure on the existing judicial infrastructure. The legal system and NCLT are new to this game. "Expect unintended twists and setbacks as cases come up before the tribunal," said a recovery head at a Mumbai-based public sector bank.

Experience with the Debt Recovery Tribunals (DRTs), which were to give verdicts within time limits, has been disappointing. While there are DRTs, and five appellate tribunals, judges in these tribunals are in short supply.

Delays are common, for a variety of reasons — inadequate staff, infrastructure and frequent adjournments. DRTs have a huge backlog, said a senior banker.

And, with ownership of huge assets at stake, promoters and owners are not going to give up control so easily. Bankers expect a legal battle ahead in big-ticket cases. Rating agency Icria said a key imponderable is the extent to which these decisions could be challenged in the courts.

Bankers are also concerned about the burden of additional provision at a time when growth in their income is weak and credit costs for aging bad loans are already high. Banks need more time to absorb the higher provisioning. Lenders have already made a demand to the Reserve Bank of India for spreading the provisions over a few quarters.

Analysts estimate additional provisioning in excess of Rs 15,000 crore for the 12 big accounts in question. These have a fourth of the share in gross bad debt, the latter estimated at Rs 7.11 lakh crore. It means the 12 accounts would be responsible for about Rs 1.8 lakh crore of these. Assuming these accounts were non-performing assets (NPAs) at the end of March 2016, the broad provisioning might be in the region of 35-40 per cent. Another 10-15 per cent of exposure would have to be set aside by banks as provision.

Banks have been given six months to come up with a resolution process for their other NPAs. The central bank has indicated that it might change the provisioning norms for cases referred to the insolvency tribunal, said brokerage firm Edelweiss Securities.

2. TMB plans to list by 2019

Bank's shares were privately traded at around Rs 400 and this price could double before the IPO

T E Narasimhan

Tamilnad Mercantile Bank (TMB) is planning an initial public offering (IPO) before 2019. "Shareholders' issues are being resolved. Two courts have ruled on share issues related to two factions that should resolve the matter once and for all," said S Annamalai, chairman, TMB. If all went well, the IPO was likely before 2019, he added.

The 96-year-old bank will list to meet Reserve Bank of India regulations. The IPO will provide an exit to some investors, mainly foreign institutional investors.

TMB executives said the bank's shares were privately traded at around Rs 400 and this price could double before the IPO.

Foreign institutional investors (FIIs) have indicated they might dilute 5-10 per cent of their holdings, Annamalai said. FIIs hold around 20 per cent in TMB. The FII stakes are mainly held by Ramesh Vangal of Katra Holding. Disputes have erupted over transfer of shares by Katra Holding and RST Ltd to Subcontinental Equities. According to reports, Subcontinental Equities is a subsidiary of Standard Chartered Bank.

Annamalai said TMB had enough reserves to grow at 15 per cent till 2019. If the bank needed fresh capital it might go in for a rights issue, he said.

The bank's total business in 2016-17 was Rs 54,162 crore. TMB reported a 21 per cent drop in net profit in 2016-17 at Rs 418.94 crore.

TMB is focussing on the retail business and has restricted big-ticket consortium lending. The infrastructure sector is the largest contributor to TMB's non-performing assets, which have climbed to 1.74 per cent from 0.89 per cent a year ago. TMB has a target of Rs 60,000 crore advances in 2017-18. "We will be a retail bank, and the focus will be retail, MSMEs, housing, gold loans and education," said Annamalai.

Financial Express

3. RBI initiates prompt corrective actions on Central Bank of India over high NPA's, negative ROA

The Reserve Bank of India (RBI) has initiated a prompt corrective action (PCA) plan for Central Bank of India owing to the lender's high net non-performing assets (NPAs) and negative return on assets (ROA)

By: FE Bureau

The Reserve Bank of India (RBI) has initiated a prompt corrective action (PCA) plan for Central Bank of India owing to the lender's high net non-performing assets (NPAs) and negative return on assets (ROA). A notification to this effect was sent to the stock exchanges by the lender on Wednesday. In 2016-17, Central Bank's net NPA ratio stood at a high 10.20%, while the ROA was -0.80%. Central Bank is the third bank after IDBI Bank and Dena Bank to be put under PCA by the RBI after it published the revised PCA framework in April. In 2016-17, the public sector lender reported a net loss of Rs 2439 crore atop a loss of Rs 1,418.2 crore in 2015-16. The bank had a balance sheet size of Rs 3.30 lakh crore at the end of March 2017, compared with Rs 3.0 lakh crore in March 2016. The action comes a day after the RBI said its internal advisory council had recommended 12 accounts for immediate resolution under the Insolvency and Bankruptcy Code (IBC).

The PCA would see Central Bank facing restrictions on distributing dividends and remitting profits. The lender would also see restrictions on its branch expansion — international and domestic — management compensation and directors' fees. "We believe that corrective measures arising out of the PCA will help in improving overall performance of the bank," Central Bank said in the notification. In the revised PCA framework, the RBI had noted that if a bank reached the level of "risk threshold 3", it could end up a candidate for amalgamation, reconstruction or even be wound up. Among the many metrics that will be used to gauge how weak a lender is are capital, NPAs, ROA and Tier 1 leverage ratio, it had added. The RBI also stipulated that a capital adequacy of less than 3.625% would leave the lender at risk threshold 3.

Today, a bank needs to have a minimum capital of 10.25%. Also, if net NPAs are more than 12% or a bank reports a negative ROA for four consecutive years, a bank will find itself classified as threshold 3. Earlier, the RBI had initiated a PCA plan for Indian Overseas Bank in 2015 and for United Bank of India (UBI) in 2014. The RBI had barred UBI from taking an exposure of more than Rs 10 crore per client.

Business Line

4. Insolvency framework soon for banks, insurers

OUR BUREAU

After putting in place a legal framework to resolve insolvency in non-financial entities, the Centre has moved a step closer towards creating a similar apparatus for specified financial sector bodies such as banks and insurance companies.

The Cabinet on Wednesday gave its nod for the introduction of the Financial Resolution and Deposit Insurance Bill, 2017 (FRDI), in Parliament.

It will create a framework to deal with bankruptcy in banks, insurance companies and financial sector entities. Once enacted, it will also lead to the establishment of a Resolution Corporation.

The proposal is aimed at giving comfort to consumers of financial service providers in instances of any financial distress by strengthening and streamlining the current framework of deposit insurance for retail depositors.

According to an official statement, the Bill will also result in the repeal of the Deposit Insurance and Credit Guarantee Corporation Act, 1961, and the transfer of deposit insurance powers and responsibilities to the Resolution Corporation.

The Resolution Corporation will protect the stability and resilience of the financial system by protecting consumers of covered obligations up to a "reasonable limit" and by protecting public funds "to the extent possible," an official release said.

The Bill also seeks to cut down the time and costs involved in resolving the problem of distressed entities.

5. Stressed steel sector loans easier to resolve: bankers

OUR BUREAU

Stressed companies in the steel sector stand a better chance of getting resolved under the Insolvency and Bankruptcy Code (IBC) in the backdrop of revival in steel demand and pick up in prices, say bankers.

This observation comes in the context of Reserve Bank of India's internal advisory committee recommending for immediate reference under the IBC 12 accounts totalling about 25 per cent of the current gross non-performing assets (GNPAs) of the banking system. GNPAs of the banking system are estimated at about ₹8 lakh crore.

A public sector banker clued in to the development observed that the insolvency professional, who is appointed by the National Company Law Tribunal (NCLT) under the IBC for drawing up a resolution plan and managing the affairs of a stressed steel company, may be able to find buyers for the asset under his charge.

"Stressed steel companies are relatively low-hanging fruit for resolution under IBC. I am sure healthy steel companies would like to expand their capacities via the acquisition route. If no private sector player is interested in acquiring these productive assets, State-owned companies may throw their hat in the ring," he said.

Liquidation of assets is not an option as huge investments have gone into the creation of these assets, said another banker.

In the case of stressed holding companies in the infrastructure sector, the resolution process could take longer as they typically float special purpose vehicles for

individual projects and the insolvency professional may need to simplify complex holding structures. Further, the government will have a big role to play in the case of distressed core sector projects, which have stalled for want of inputs such as gas and coal and have seen huge cost and time overruns, he added.

An important step

Credit rating agency ICRA said with identification of 12 borrowers against whom the RBI will direct banks to initiate proceedings under IBC an important step towards resolution of stressed assets has been taken.

The RBI is expected to direct the banks shortly, upon which the latter will have to file cases against these borrowers with the NCLT which will decide on the admission on these cases under IBC within a period of 14 days.

According to Karthik Srinivasan, Group Head – Financial Sector Ratings, ICRA, a key imponderable is the extent to which the decisions could be challenged in courts, thus delaying the process. However, while there is a precedent of a borrower challenging in the High Court the invocation of IBC by its lenders and its reference to NCLT, the same was not stayed and the proceedings under IBC continued.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY