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Dear Comrades,

10th May , 2017

News of Interest 10th MAY

QUOTE FOR THE DAY

“IF YOU WANT TO SUCCEED YOU SHOULD STRIKE OUT ON NEW PATHS, RATHER THAN TRAVEL THE WORN PATHS OF ACCEPTED SUCCESS. “

JOHN D. ROCKEFELLER

- 1. VIDEOCON INDUSTRIES TURNS NPA FOR DENA BANK**
- 2. DENA BANK TO FACE RBI HEAT AS IT REPORTS LOSS FOR TWO CONSECUTIVE YEARS**
- 3. IDBI BANK FIRST UNDER CORRECTIVE ACTION PLAN**
- 4. STRONG MARGINS BOOST VIJAYA BANK'S Q4 PROFIT**
- 5. 'NPA ORDINANCE CREDIT POSITIVE, BUT MORE STEPS NEEDED: MOODY'S**

BUSINESS STANDARD

1. Videocon Industries turns NPA for Dena Bank

The total exposure of lenders to the electronic goods maker is pegged at Rs 45,000 crore

[Abhijit Lele](#)

With the default on payments, Dena Bank has declared Videocon Industries account as non-performing asset (NPA) in the fourth quarter ended March 2017.

The total exposure of lenders to the electronic goods maker is pegged at Rs 45,000 crore. Venugopal Dhoot, chairman, Videocon group, did not respond to repeated calls made. The Mumbai-based bank took a hit of about Rs 120 crore in the form of provisions (about Rs 90 crore) and reversal of interest income (Rs 28-30 crore) in the fourth quarter, Dena Bank officials said.

Two officials with other public sector bank said it is just a matter of time (some quarters) that all lenders would treat it as bad loan.

2. Dena Bank to face RBI heat as it reports loss for two consecutive years

Under PCA, RBI can clamp down on bank's business activities, curbing lending and branch expansion

Abhijit Lele

Dena Bank is heading for prompt corrective action (PCA) after reporting net loss for a second consecutive financial year.

Under PCA, the Reserve Bank of India (RBI) will clamp restrictions on business activities, including curbs on lending and branch expansion. This is done to bring an ailing bank on the recovery path.

The public sector lender's net loss for the year ended March 2017 declined to Rs 836 crore from Rs 935 crore in year ended March 2016.

Ashwani Kumar, chairman and managing director of Dena Bank, said the RBI would put restrictions on lending. The lender would also not increase headcount this financial year. There might be replacement hiring for those retiring, Kumar added. The bank will not open new branches in 2017-18 but will focus on rationalising branches. The Mumbai-based public sector lender had 1,874 branches at the end of March 2017, up from 1,846 branches a year ago. Dena is one of the 10 public sector bank identified by the government that will have to present a medium-term turnaround plan before it can get capital.

Its stock closed lower by five per cent at Rs 44 a share on the BSE. Dena's net interest income for the reporting quarter declined from Rs 625 crore in January-March 2016 to Rs 450 crore.

Net loss widened to Rs 575 crore in fourth quarter ended March 2017 from Rs 326 crore in the fourth quarter of the previous financial year, due to a fall in net interest income and rise in provisions for bad loans. Provisions for non-performing asset (NPAs) rose to Rs 972 crore in Q4FY17 from Rs 900 crore in Q4FY16. Gross NPAs rose to Rs 12,618 crore (16.27 per cent) at the end of March 2017 from Rs 8,560 crore (9.98 per cent) at the end of March 2016.

Net NPAs were at 10.66 per cent for the end of March 2017, another reason for triggering the PCA.

The board has approved a proposal to raise equity capital of up to Rs 1,800 crore through issuance of shares to government on preferential basis and via routes such as qualified institutional placement.

The capital adequacy ratio stood at 11.39 per cent with tier-I capital of 9.05 per cent at the end of March 2017.

3. IDBI Bank first under corrective action plan

High NPAs, negative returns on assets trigger step

Abhijit Lele

IDBI Bank has become the first case to be put under the revised prompt corrective action (PCA) regime, due to high level of net non-performing assets (NPAs) and negative returns on assets.

Under PCA, the Reserve Bank of India (RBI) will clamp restrictions on business activities, including curbs on lending and branch expansion. This is done to bring an

ailing bank on the recovery path.

IDBI Bank would have to take mandatory corrective actions such as raising capital levels and restricting dividend payment, among others. In extreme cases, the ailing public sector lender might have to put restrictions on management compensation, to be eligible to exit the PCA framework. In a notice to the stock exchanges, the lender said the RBI has initiated PCA in view of high non-performing assets (NPAs) and negative returns on assets (ROA). Its net NPAs stood at Rs 20,949 crore (9.61 per cent) and ROA was -1.09 by the end of December 2016. The lender claimed the action would not have any material impact on its performance.

Rating agency ICRA, in a note on PCA, said 16 PSBs out of 21 (excluding SBI associates) and two out of 16 private banks might come under the PCA framework. Overall, this (PCA regime) is expected to strengthen the banking system over the medium term and allow stronger and well-managed banks to grow, while putting the onus of improving the systems and procedures on weaker banks and their promoters/management, ICRA said.

Sharp deterioration in asset quality has significantly hit IDBI Bank's profitability. In the nine months through December 2016, its net loss was Rs 1,958 crore, compared to a net loss of Rs 3,664 crore in fiscal year 2016.

This was mainly on account of a sharp increase in provisioning costs. Its net interest margin (NIM) at 1.4 per cent for nine months ended December 2016 also fell sharply due to interest reversal on NPAs and de-recognition of interest income on accounts under strategic debt restructuring.

Rating agency CRISIL, while downgrading its deposits last week, had said provisioning costs might remain high over the next few quarters, given the continued slippages and higher requirement with the ageing of NPAs. While NIM might increase gradually, it would remain lower than that of peers on account of the bank's modest resource profile.

Resource profile was constrained by the small proportion of low-cost current account and savings account deposits (30 per cent as on December 31, 2016). The bank's ability to return to profitability and manage earnings was a key sensitivity factor, CRISIL said.

Business Line

4. Strong margins boost Vijaya Bank's Q4 profit

OUR BUREAU

Vijaya Bank's efforts to improve its net interest margin (NIM) and reduce non-performing assets (NPAs) have boosted its profit by 186 per cent to ₹203.99 crore in the fourth quarter of 2016-17 (FY17).

The bank's operating profit rose 123.70 per cent to ₹703.12 crore from ₹314.30 crore in the same period last year.

Total income in Q4 grew 8.55 per cent to ₹3,504.73 crore (₹3,228.48 crore in the same period last year). EPS (basic) stood at ₹2.04 while last year it was ₹0.83. For the whole year (FY17), the bank's net profit almost doubled to ₹750.48 crore from ₹381.80 crore in the same period last year.

Commenting on the bank's Q4 performance, Kishore Sansi, Managing Director and CEO, Vijaya Bank, said: "Our key focus on improving the bank's net interest margin and reduction in NPAs has paid off. Also, our performance in retail and MSME was robust." The bank's gross NPA ratio for Q4 stood at 6.59 per cent (6.64 per cent) and the net NPA ratio at 4.36 per cent (4.81 per cent).

The bank's net interest income (NII) rose 48 per cent to ₹989.49 crore and NIM to 3.10 per cent from 2.20 per cent.

Other income rose 65 per cent ₹450.16 crore, while fee-based income was up 30.48 per cent at ₹226.44 crore.

Deposits, advances

Current account, savings account (CASA) deposits rose 28.32 per cent to ₹37,373 crore.

The bank's total business climbed 6.30 per cent to ₹2,29,833 crore, with advances growing 6.67 per cent to ₹96,821 crore and deposits 6.04 per cent to ₹133,012 crore.

5. 'NPA ordinance credit positive, but more steps needed: Moody's

PTI

The government's ordinance on bad loans resolution is credit positive, but does not address the key structural issues plaguing the banking sector, ratings agency Moody's said today.

Last week, the government through an ordinance provided the Reserve Bank with greater powers to intervene in the resolution of non-performing loans (NPLs). Later, the RBI lowered the threshold for consensus required among lenders in the Joint Lenders' Forum (JLF) to approve resolution proposals.

"These measures improve the efficacy of NPL resolution mechanisms and are credit positive. However, they do not address the lack of capital at the state-owned banks that has prevented them from writing down NPLs to realistic levels," the global ratings agency said in a statement.

It expects NPL resolution to be a relatively long drawn out process.

The agency further said the reason for the limited success of the various regulatory measures so far was that they did not address related structural factors.

It said the operating environment in the key stressed sectors remained challenging and the market value of stressed assets was typically much lower than what the banks currently reflect on their balance sheets.

Hence, successful resolution, either through debt relief or asset sale, will require banks to take a big hit when they write-down the value of these assets to market value," Moody's said.

However, state-owned banks' weak capital levels mean that they do not have the capacity to take these sort of write-downs.

"Our base case remains that state-owned banks will use most of their operating profits over the next two years to gradually increase loan loss coverage from the current low levels.

"It is only at that stage that they will be in a position to appropriately mark down NPLs and clean up their balance sheets," it said.

The bad loans of banks is estimated at over Rs. 8 lakh crore.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY