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Dear Comrades, **11th May , 2017**

News of Interest 11th MAY

MOTIVATIONAL QUOTES

"WHEN THE LEGENDS DIE, THE DREAMS END; THERE IS NO MORE GREATNESS. "
TECUMSEH

HIGHLIGHTS

1. RBI RESTRICTS IDBI BANK FROM BORROWING OVER FINANCIAL HEALTH CONCERNS

2. DENA BANK TO FACE RBI HEAT AS IT REPORTS LOSS FOR TWO CONSECUTIVE YEARS

3. CREDIT GROWTH PLUNGES TO EVEN LOWER THAN FY17 LEVEL TO 4.3%

4. BANKS DON'T NEED TO WAIT 90 DAYS TO START LOAN RECOVERY

5. RBI INITIATES CORRECTIVE ACTION PLAN FOR IDBI BANK; WHO'S NEXT?

6. MAKE THE MOST OF VOLUNTARY PROVIDENT FUND

Business Standard

1. RBI restricts IDBI Bank from borrowing over financial health concerns

In April, regulator had put in place revised guidelines for a correction action plan for weak banks

ANI

The Reserve Bank of India (RBI) on Wednesday invoked prompt corrective action (PCA) on government-owned IDBI Bank due to its bad loans and return on assets (ROA).

Earlier in April, the RBI put in place revised guidelines for a correction action plan for weak banks after assessing and monitoring their financial health, reported the MoneyControl.

The apex bank had set trigger points on the basis of their capital ratio CRAR (a metric to measure balance sheet strength), Tier-I capital ratio, NPA (non-performing assets) and ROA (return on assets), which were in the mandatory action plan.

However for IDBI Bank, the trigger was NPAs and ROA.

"Have not heard anything from RBI on PCA," said Dena Bank's Chairman and Managing Director Ashwani Kumar on Wednesday.

A public sector lender, Dena Bank's net NPAs at end of the fourth quarter was 10.66 percent, up from 9.52 percent in the third quarter.

RBI may also impose restrictions on the bank on borrowings from interbank market.

"The action will not have any material impact on the performance of the bank and will contribute to improving internal controls of the bank and improvement in its activities," said IDBI Bank in a regulatory filing.

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.

Financial Express

3. Credit growth plunges to even lower than FY17 level to 4.3%

The new fiscal year began on a sour note for bank credit growth, which slipped to 4.32 per cent in the fortnight to April 28, much lower than the 63-year low level of 5.08 per cent in fiscal 2017, the latest RBI data showed

By: PTI

The new fiscal year began on a sour note for bank credit growth, which slipped to 4.32 per cent in the fortnight to April 28, much lower than the 63-year low level of 5.08 per cent in fiscal 2017, the latest RBI data showed. In the reporting fortnight, credit grew at an anaemic 4.32 per cent to Rs 75.45 trillion as against the Rs 72.32 trillion in the same period. For the fiscal ending March 2017, credit growth had plunged to a multi decadal low of 5.08 per cent with an outstanding loan at Rs 78.81 trillion as against Rs 75.01 trillion on Arpil 1, 2016.

The lowest recorded credit growth was in fiscal 1953-54 when it grew at a pale 1.7 per cent. However, loan growth had marginally risen to 5.52 per cent in the fortnight to April 14 to Rs 76.31 trillion. Even then the cumulative growth for the first month of the new fiscal year is only 5.3 per cent. Low credit growth is due to high bad debt and weak corporate demand, and also due to increasing use of debt from corporate bond markets, where rate of interest is much cheaper than what banks are offering.

In the reporting fortnight, bank deposits growth also slowed to 10.33 per cent to Rs 105.09 trillion compared to Rs 95.25 trillion in the fortnight ended April 29, 2016. In the previous fortnight, bank deposits had grown by 11.59 per cent to Rs 105.91 trillion. Banks have seen a rise in deposits due to large flow of funds into the banking system after the note-ban last November.

Economic Times

4. Banks don't need to wait 90 days to start loan recovery

BY DHEERAJ TIWARI

Banks can initiate loan recovery proceedings without waiting for an account to be formally classified as non-performing, as the latest amendments to banking rules allow for faster resolution of their bad debt problem, a senior government official said.

Under Reserve Bank of India rules, a loan becomes non-performing if the interest or instalment of principal remains overdue for more than 90 days. "Under the ordinance, we have clarified that the default will be considered as per as per bankruptcy laws, which means if the payment is missed it turns into a default the next day," said the official.

This provision was inserted into the Banking Regulation Act through last week's ordinance so that banks can plan their remedial action in advance.

India's banks, especially state run ones, are sitting on a mountain of bad debt, hurting their financial performance and ability to lend. While issuing the ordinance — the amendments empower the RBI to issue directions to banks for resolution of stressed assets — the government said it is committed to expeditious resolution of stressed assets in the banking system.

If there is a case where lenders are of the opinion that they need to look at other measures, including change of management, to recover their arrears from a defaulting company, they can now go ahead without waiting for the 90-day period to end before initiating the resolution process. “It is not that they (banks) will know only after the 90 day period that the account is stressed,” he said.

The Insolvency and Bankruptcy Board of India (IBBI) said the ordinance goes by the definition of ‘default’ as in the Insolvency and Bankruptcy Code. This means even if an asset in not classified as an NPA, it can still be taken up for the resolution process.

“The ordinance clearly states that, and there is no ambiguity,” said IBBI chairperson MS Sahoo. It is up to the banks to take a call whether it is the right time to really invoke bankruptcy or other options, he added.

Some experts, however, sought more clarity.

“The Reserve Bank should clarify what should be the provisioning requirement for companies going under bankruptcy in the first day of default, in the event a bank decides to file it the same day,” said Sapan Gupta, partner at law firm Shardul Amarchand Mangaldas & Co.

Earlier this week, a senior finance ministry official said the RBI will identify cases of bad debt to be taken up for resolution under the new NPA ordinance in consultation with the Indian Banks’ Association.

5. RBI initiates corrective action plan for IDBI Bank; who’s next?

RADHIKA MERWIN

High net non-performing assets (NNPA) and negative return on assets (ROA) have led the Reserve Bank of India to invoke Prompt Corrective Action (PCA) on IDBI Bank.

Based on the recently tightened PCA framework for banks, the mandatory action plan for IDBI Bank could include restrictions on dividend distribution and branch expansion, and higher provisions.

Going by the results for the nine months ended December 2016 (and FY17 wherever available), the RBI could soon impose similar corrective action plans on other lenders such as IOB, Dena Bank, United Bank, UCO, Oriental Bank of Commerce and Bank of Maharashtra.

What changed?

The PCA framework has three risk threshold levels; and breach of capital, asset quality and profitability levels would lead to banks being bucketed in one of the three threshold levels.

Depending on the levels, there will be restrictions on dividend distribution, branch expansion, and management compensation.

Breach of the third level of threshold of minimum core equity (CET) would identify a bank as a likely candidate for resolution through tools such as amalgamation, reconstruction, and winding up.

The recent revision in the PCA framework had set the bar higher, by increasing the requirement of total capital adequacy levels and additionally introducing the minimum core equity criteria.

Banks with total capital adequacy (CRAR) of less than 10.25 per cent but more than 7.75 per cent will fall under threshold 1. Those with CRAR of more than 6.25 per cent but less than 7.75 per cent will fall in the second threshold. In case a bank's CET falls below 3.625 per cent it gets bucketed under the third threshold level.

Also, in a bid to ensure that banks maintain higher provision coverage, the revised guidelines have lowered the net NPA levels to be maintained to avoid PCA.

From 10 per cent earlier, banks need to have net NPA of lower than 6 per cent to avoid PCA. Banks that have a net NPA of 6 per cent or more but less than 9 per cent fall under threshold 1, and those over 9 per cent but less than 12 per cent fall under the second level. Banks with net NPA of 12 per cent or more fall under the third threshold level.

On the profitability front, banks with negative ROA for two, three and four consecutive years fall under threshold 1, threshold 2 and threshold 3, respectively.

Based on the data available until December 2016, two banks — Dhanlaxmi (9.24 per cent) and Central Bank of India (9.99 per cent) — fall under the threshold 1 level based on the minimum CRAR criteria.

Eight banks — Corporation Bank, Canara Bank, Allahabad Bank, Central Bank of India, Punjab & Sind Bank, Union Bank, Andhra Bank and Bank of India — fall under threshold 1 on account of high net NPA.

Seven others — Bank of Maharashtra, United Bank, Oriental Bank of Commerce, IDBI Bank, Dena Bank, PNB and UCO Bank — fall under threshold 2 as their net NPAs are 9 per cent or more. Only one bank, IOB, falls under threshold 3, with net NPA of more than 12 per cent as of December 2016.

On the profitability front again, if data for the nine months ended December 2016 is considered, then IOB falls under threshold 2 for reporting negative ROAs for three consecutive years.

IDBI Bank falls under threshold 1 for recording negative ROAs for two years in a row. UCO, Dena Bank, Bank of India, Central Bank and Allahabad Bank are others that fall in this bucket.

6. Make the most of Voluntary Provident Fund

ANAND KALYANARAMAN

Interest rates across most debt instruments have fallen sharply over the last year or so. Still, there are a few investments in the category that continue to give very attractive returns.

The Employees' Provident Fund (EPF) and, its add-on, the Voluntary Provident Fund (VPF) have seen minimal cut in rates, and are among the best debt options in the market at present. The EPF and the VPF are also highly tax-efficient and safe.

As a salaried employee, you would anyway be investing in the EPF — 12 per cent of your basic and dearness allowance is deducted monthly towards your EPF contribution, and your employer matches the contribution with a similar amount. You cannot increase your EPF contribution, but you have the choice of contributing more voluntarily by investing in the VPF.

You can invest up to 100 per cent of your basic and dearness allowance in the VPF. The VPF earns the same rate as the EPF and accumulates in your EPF account.

Also, most rules pertaining to the EPF — including lock-ins, withdrawal, loans and taxation — also apply to the VPF. There is a crucial difference, though. While the employer matches your EPF contribution, there is no such matching contribution in the VPF — the latter is your voluntary investment.

Best-in-class returns

The key attraction of the EPF and, by extension, the VPF, is the high rate they enjoy. Last month, the Employee' Provident Fund Organisation (EPFO) fixed the rate on EPF balances for 2016-17 at 8.65 per cent. Despite a cut from 8.8 per cent applicable for 2015-16, the returns on the EPF and the VPF still remain best-in-class.

Last year, the Public Provident Fund (PPF) and National Savings Certificate (NSC) offered 8-8.1 per cent, while banks slashed fixed deposits (FDs) rates to 7-7.5 per cent. Even the highest-yield schemes offered by the post office — Sukanya Samriddhi Scheme and Senior Citizens Savings Schemes — gave 8.5-8.6 per cent, lower than the rate fixed for EPF and VPF.

The other major advantages of the EPF and VPF are safety and tax-efficiency. They are as safe as they get, being guaranteed by the government. Besides, the investments qualify for tax deduction under Section 80C, the interest earned is exempt from tax, and so is the maturity amount — that is, these investments come under the exempt-exempt-exempt (EEE) category. This pegs up the effective returns sharply, compared with taxable options such as bank FDs. While the investment in VPF is covered under Section 80C (up to the overall limit of ₹1.5 lakh a year), you can invest more than this limit, but will not get the initial tax break. The interest earned and the corpus though will continue to be exempt from tax. The ability to invest over ₹1.5 lakh gives the VPF an added edge over the PPF where the investment is restricted to this limit.

The rates on EPF and VPF change every year and are fixed by the EPFO. The rate for the current year (2017-18) will be known only towards the end of the year after the EPFO recommendation and confirmation by the Finance Ministry. Can the rates moderate from the present level? Yes, but going by past experience, they are likely to be better than other comparable debt options such as the PPF.

Currently, the PPF offers 7.9 per cent a year (for the April to June 2016 quarter) and the rate is subject to change every quarter. Also, with the EPFO gradually increasing exposure to equity investments, the returns gap between the EPF/VPF and pure-debt investments could widen in the long term.

Simple process

Investing in the VPF is quite simple. You only have to inform your employer about the quantum you want to contribute to the VPF. The amount will get deducted from your monthly pay and accumulate into the EPF corpus. Some employers allow employees to enrol for VPF and make changes to the amount contributed on a monthly basis. Others allow this once or a few times in a year.

Don't go overboard

Sure, it's a great debt investment. But don't go overboard with your VPF allocation. Contribution to VPF reduces your monthly take-home pay to that extent. There is no point investing heavily in debt only to borrow later to meet expenses. Next, your investment portfolio should have a good mix of debt, equity and other investments. Equity investments such as well-managed mutual funds have the potential to deliver much superior returns than the best debt instruments over the long run, though they could be riskier in the short term.

With kind regards,

Yours Comradely,

(N. GOVINDRAJULU)
GENERAL SECRETARY