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Dear Comrades,

18th May , 2017

News of Interest 18th MAY

MOTIVATIONAL QUOTES

“START WHERE YOU ARE. USE WHAT YOU HAVE. DO WHAT YOU CAN.”
ARTHUR ASHE

HIGHLIGHTS

- 1. ALLAHABAD BANK SWINGS BACK INTO THE BLACK IN Q4 AT RS 111 CR**
- 2. INDIA RATINGS DOWNGRADES IDBI BANK TO AA FROM AA+; OUTLOOK NEGATIVE**
- 3. PAYTM PAYMENTS BANK TO START OPERATIONS ON MAY 23, SAYS ONE97 COMMUNICATIONS**
- 4. ₹2.6-LAKH CR LOANS COULD TURN STRESSED BY FY19: IND-RA**
- 5. STRESSED ASSETS OF INDIAN BANKS EXCEED THEIR NETWORTH, SAYS MCKINSEY REPORT**

Business Standard

1. Allahabad Bank swings back into the black in Q4 at Rs 111 cr

Lender announces plans to pare corporate exposure and diversify into agri and MSME sectors

[Avishek Rakshit](#)

Kolkata-based Allahabad Bank, which is aggressively trying to recover non-performing assets (NPA) this year besides changing its focus over loan disbursal, posted a net profit of Rs 111.15 crore in the fourth quarter (Q) of the last financial year (FY) as against the loss of Rs 581.13 crore in Q4 of FY16.

While the bank's operating profit shot up by 22 per cent at Rs 1,065.66 crore in the quarter under review, the net interest margin (NIM) also increased to 2.54 per cent in Q4 of FY17 from 2.21 per cent in Q4 of FY16. For the current FY, it expects to keep the NIM between 2.3-2.5 per cent.

However, the total income had risen by a little over one per cent at Rs 5,105.13 crore as against the earning of Rs 5,051.38 crore in the last quarter of FY16.

On an annual basis, the bank was able to bring down its net loss by 58 per cent to Rs 313.52 crore.

This year, the bank has decided to bring down its exposure to the corporate sector and instead, focus on increasing loans to the micro-small scale industry, retail and agricultural sector.

Currently, the corporate sector accounts for 65 per cent of the bank's gross credit of Rs 1,58,104 crore, which it plans to bring down to 50 per cent. As on March 31, 2017, credit to the agricultural sector and the micro, small and medium enterprises (MSME) from the bank stood at Rs 27,075 crore and Rs 29,835 crore, respectively. Retail credit, excluding housing, stood at Rs 29,168 crore.

"Our corporate loan book is extensive and going forward this year, we plan to reduce it while increasing our exposure to the MSME, retail and agricultural sector. But, it doesn't mean we'll reject fresh loans to the corporate sector," the bank's newly appointed managing director and chief executive officer, Usha Ananthasubramanian said, adding, steel sector loans are the most stressed.

The bank's corporate loan book covers companies in the steel, infrastructure, power and textiles segments.

Apart from changing focus on the loan portfolio, Ananthasubramanian said in the ongoing FY, the bank is going to focus on NPAs recovery. During 2016-17, Allahabad Bank's net NPA to net advances ratio increased to 8.92 per cent from 6.76 per cent in the corresponding period of the previous FY. Additionally, slippage prevention is also a priority this year.

Apart from these two priorities, the bank is also focussing on rationalising its branches, most of which is expected to happen in urban centres. While it implies assimilation of multiple branches into a single branch, Ananthasubramanian said. As a consequence, she said, the branches' financial performance and staff count will be considered while taking decisions.

"However, it would not be possible to cut down on rural branches as it may leave areas unbanked," she said.

The bank is also getting a fresh infusion of Rs 418 crore from the Centre, which will take up its stakes from the current 65.92 per cent to 68 per cent.

By September 2017, Allahabad Bank would merge its wholly-owned subsidiary, All Bank Finance, with itself.

2. India Ratings downgrades IDBI Bank to AA from AA+; outlook negative

RBI has recently initiated 'prompt corrective action' for the bank on account of higher NPAs

[Press Trust of India](#)

India Ratings and Research on Wednesday downgraded state-run IDBI Bank to AA from AA+ and gave a negative outlook due to stress asset challenges and weak capital position.

The rating agency also downgraded various debt instruments of the bank.

Reserve Bank has recently initiated 'prompt corrective action' for the bank on account of higher NPAs and negative return on assets.

"The downgrade in the long-term issuer rating reflects the consistent drop in IDBI's share of systemic assets as the bank struggles with its asset quality challenges," the rating agency said in a note here today.

It said the bank continues to grapple with a weak capital profile and the RBI's invocation of prompt corrective action framework would continue to weigh on its share of systemic assets and liabilities.

The bank's credit costs is likely to remain significantly high over the medium term, on account of higher fresh slippages and provisioning requirements on the current stock of stressed corporates, the agency said.

The rating downgrade of AT1 bond and upper Tier II subordinated debt reflects the structural weakening of the bank's standalone profile, likely elevated levels of credit costs, significant erosion of capital, limited visibility on capital infusion and the bank's inability to timely garner equity capital by monetisation of its non-core assets.

The rating agency further said the negative outlook on the bank reflects the high possibility of the lender reporting its common equity tier I below the minimum regulatory requirement and continuously struggling with its core capitalisation level in the absence of a significant capital infusion from the government.

Financial Express

3. Paytm Payments Bank to start operations on May 23, says One97 Communications

Paytm Payments Bank will commence its operations from May 23, as it has secured the final approval from the Reserve Bank of India, its parent company One97 Communications said.

By: [FE Bureau](#)

Paytm Payments Bank will commence its operations from May 23, as it has secured the final approval from the Reserve Bank of India, its parent company One97 Communications said on Wednesday. The company has appointed Renu Satti as the CEO of Paytm Payments Bank. Satti currently is the vice-president of business at Paytm. "As per the directions of the RBI, the company will be transferring its wallet business to the newly incorporated payments bank entity, Paytm Payments Bank, under a payment bank licence awarded to a resident Indian, Vijay Shekhar Sharma," the company said in a notice.

Under the payments bank licence, Paytm wallet users will be transferred to Paytm Payments Bank unless the user notifies otherwise. The amount can be transferred to his/her bank account after the user provides the name of the account holder, account number and IFSC code. Last year, Paytm had separated its wallet business from the horizontal e-commerce portal. The two businesses are known as Paytm Payments Bank and Paytm E-Commerce Pvt. Ltd.

Paytm Payments Bank was registered in August 2016 as a subsidiary of One97 Communications with Sharma holding a 51% stake in the company. For the first five years, the stake of the promoter in payments banks should be at least 40%, according to the RBI guidelines. The launch of the payments bank launch has been delayed though the company bagged the in-principle nod from the central bank in August 2015. Other companies which bagged the payments bank licence include Reliance Industries, Aditya Birla Nuvo, Fino Pay Tech Ltd, and Vodafone m-Pesa.

According to the RBI's guidelines, payments banks can accept deposits of up to `1 lakh from each individual customers and issue services such as ATM cards, net

banking and non-risk financial products such as mutual fund and insurance. Payments banks, however, are not eligible to offer loans or credit cards. Earlier this month, FE had reported that Japan's Softbank Group is in talks with One97 Communications to invest around \$1.4 billion in its mobile payments company, Paytm. The fund-raising could raise the company's valuation to \$7 billion.

Business Line

4. □2.6-lakh cr loans could turn stressed by FY19: Ind-Ra

OUR BUREAU

Indian banks are sitting on unrecognized stressed loans worth □7.7 lakh crore, and corporate and SME loans aggregating □2.60 lakh crore could potentially be recognised as stressed loans by FY19, said India Ratings and Research (Ind-Ra).

The credit rating agency's study pegs stressed corporate and SME debt at 22 per cent of total bank credit.

"While a sizeable proportion of the unrecognized stressed exposure has strong group linkage or some form of parental support, potentially half of it could further slip in the next 12-18 months. The recognised stressed corporate and SME loans in the system stands at around 12 per cent of total bank credit," said the study.

In the report 'FY18 bank outlook: Long tail of credit costs to subdue profitability despite plateauing stressed assets', Ind-Ra assessed that impaired assets will peak at 12.5-13 per cent by FY18/FY19.

"Credit costs, however, will show an extended recovery period (FY18 forecast: 185 basis points (bps); FY16: 230 bps), as a large proportion of recently-acquired higher-bucket non-performing loans keep ageing.

"This will keep the return on assets (RoAs) for public sector banks and private sector banks at around 20 bps below their respective long-term medians," the study said. One basis point equals one-hundredth of a percentage point.

India Ratings estimated that of the total unrecognized stressed book that banks are sitting on, around 1.8 per cent is to stressed public sector units, around 2 per cent of it either enjoys some group support and could flow to the joint lender forum or would be subject to asset sale, around 2.9 per cent could be the addition to the restructured book from infrastructure projects and 3.2 per cent is the potential slippage in the next 12-18 months.

A break-up of stress shows that the sectors that have the highest unrecognized stressed exposure include infrastructure, power, telecom and real estate, among others.

The agency elaborated that "while the iron and steel sector has seen lot of stress recognition in the asset quality review exercise conducted by the RBI in the last fiscal, provisioning continues to remain inadequate. Some sectors, including infrastructure and real estate, have lower amount of stress recognised as in many cases they enjoy group support."

On the discrepancy in banks' recognition of bad assets, Ind-Ra said much of the unrecognized bad loans will start trickling in over 12-18 months.

5. Stressed assets of Indian banks exceed their networth, says McKinsey report

OUR BUREAU

The Indian banking system is in the middle of a perfect storm with stagnant credit growth, surging deposits, and growing stressed assets even as it grapples with rapid digital banking adoption as well as a changing regulatory environment, a new report released by McKinsey & Company said.

The report, 'Mastering new realities: A blueprint to transform Indian banking', highlights the challenges as well as the technological trends driving the growth of new opportunities.

Renny Thomas, Senior Partner, McKinsey & Co, and leader of the firm's financial services practice, said that the stressed assets of the Indian banking sector are currently greater than its networth, with the potential of putting the entire equity base of banks at risk.

Stressed assets had crossed ₹10 lakh crore in December 2016 but provisioning against these levels is only ₹3 lakh crore, he said.

He argued that the industry structure as it exists today is sub-optimal with far too many public sector banks in existence and made the case for more mergers.

However, one has to move beyond consolidation in order to attract capital and talent into State-owned banks on a sustainable basis, he said.

Calling for a structural overhaul, a systemic intervention to resolve the issue of non-performing assets (NPAs) and spur innovation and transformation, Renny said this could lead to the overall credit volume moving up by more than 120 per cent from current levels over the next five years in a favourable scenario, compared to a contraction if status quo is maintained.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY