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Dear Comrades,

31st October , 2017

News of Interest 31th OCT

MOTIVATIONAL QUOTES

“GOOD, BETTER, BEST. NEVER LET IT REST. 'TIL YOUR GOOD IS BETTER AND YOUR BETTER IS BEST.” ST. JEROME

HIGHLIGHTS

- 1. IDFC-SHRIRAM MERGER CALLED OFF ON DIFFERENCES OVER SWAP RATIO**
- 2. GOVT TO SET UP ALTERNATIVE MECHANISM TO FAST TRACK PSBS MERGER**
- 3. BAIN CAPITAL READIES A RS 6,400 CRORE BET ON AXIS BANK**
- 4. GOVT WON'T SWITCH TO NEW FISCAL CYCLE SOON**
- 5. SBI CIRCULAR ON 'WORK-LIFE BALANCE' STRIKES A CHORD WITH UNIONS**

Business standard

1. IDFC-Shriram merger called off on differences over swap ratio

We never got a formal counter-offer, presumably, because their set of shareholders could not get comfortable with our ask, said Rajiv Lall

Abhijit Lele & Anup Roy

IDFC Group and Shriram Group have called off their talks for a merger after failing to agree on a swap ratio. The two parties had, on July 8, entered into a 90-day agreement to evaluate a strategic combination of their relevant financial services. With no finality in sight, the parties had extended talks by a month till early November.

“Despite best efforts the two groups have not been able to reach an agreement on a mutually acceptable swap ratio. As a consequence, the

exclusivity period stands terminated with immediate effect," IDFC informed the stock exchanges.

Shriram City Union Finance and Shriram Transport Finance also issued statements saying, "Despite best efforts by both Shriram and IDFC, we could not reach common ground and arrive at a mutually acceptable structure and valuation." Both parties had agreed to terminate any further discussions on the proposed potential combination, the statement added.

Rajiv Lall, founder managing director and chief executive officer of IDFC Bank, said, "We were actually very confident of carrying the majority of our shareholders at a valuation that we believe was reasonable and fair. We made an offer to Shriram Capital shareholders, but we did not receive a formal counter-offer from the Shriram group." Lall believes it probably was because Shriram shareholders were not comfortable with IDFC's offer. Shriram group officials did not respond to *Business Standard's* queries.

The proposal involved Shriram City Union Finance and the group's retail operation being merged with IDFC Bank and Shriram Transport Finance delisting to become a wholly owned subsidiary of IDFC.

Two insurance companies from the Shriram stable were also to be brought into the IDFC fold.

IDFC Bank in a statement said while focusing on enhancing its strategic momentum, it would continue to explore opportunities for inorganic growth. The bank had, in July 2016, acquired the south-based Grama Vidiyal Microfinance for an undisclosed amount.

Elaborating on the rationale for considering mergers and acquisitions, Lall said, "IDFC Bank has legacy burden that creates a drag on its profit and loss statement for two reasons. There are stressed assets, which impact the pre-tax profit to the tune of Rs 175 crore a year. We also have Rs 36,000 crore of fixed rate bonds with coupons of 8-9 per cent that have migrated from the infrastructure company to the bank." The pre-tax impact of these bonds is about Rs 350-400 crore.

Both are adversely impacting the return on assets (RoA) and return on equity (RoE). "The only way I get superior RoAs and RoEs is to grow out of this problem. We believe that by FY21, this RoA drag would be coming down from 35 basis points to under 10 basis points. But it will take me three to three-and-a-half years to grow out of my legacy challenges. If I can cut this journey from six years down to three through inorganic growth, it's not a bad thing," he said.

IDFC Bank's strategy is to expand its retail business and diversify its corporate business beyond its traditional infrastructure focus. Over the past 24 months, IDFC Bank has developed a diversified retail asset portfolio of Rs 18,000 crore. By the end of 2017-18, excluding infrastructure, the bank would have a corporate loan book of over Rs 20,000 crore, it said.

The announcements were made after the markets closed. Shares of IDFC Bank declined 1.8 per cent to Rs 55.95 and IDFC lost 2.7 per cent to Rs 61.70. Shriram Transport Finance gained 1.8 per cent to Rs 1,180.40, while Shriram City Union Finance was up 1.9 per cent to Rs 2,186.25 on the Bombay Stock Exchange.

Bankers said it was a setback for both groups. While the Shriram group has a strong franchise and network, IDFC's plans to garner retail presence will get delayed.

IDFC has certain strengths to fall back on, such as a strong management team, comfortable capital base, and diversification of business mix and revenue streams, they said. However, attracting retail customers would be a cost-intensive and time-consuming proposition for the private lender. It continues to remain largely a wholesale borrowing and lending institution and is likely to remain so in the near term. Lall said the bank's retail loan book, which was zero two years ago, stood at Rs 5,000 crore in September 2017.

The bank, with two years of presence, has a small share of low-cost deposits - current and savings accounts (CASA) — which moved up from 7.8 per cent of total deposits in September 2016 to 8.2 per cent in September 2017. Currently, liquidity is good in the system and the bank could use this for strengthening its liability profile, said another banker.

2. Govt to set up alternative mechanism to fast track PSBs merger

Move to create large banks aims at meeting credit needs of growing Indian economy

Press Trust of India

Moving ahead with reforms in the public sector banking space, the government has constituted a ministerial panel headed by Finance Minister Arun Jaitley that will oversee merger proposals of state-owned banks.

The other members of the panel include Railway and Coal Minister Piyush Goyal and Defence Minister Nirmala Sitaraman.

"Govt walks the talk on banking reforms; constitutes Alternative Mechanism for PSBs consolidation; Finance Minister to head," Financial Services Secretary Rajiv Kumar said in a tweet.

While announcing the unprecedented Rs 2.11 lakh crore capital infusion roadmap for the public sector banks last week, Jaitley had said, this will be accompanied by series of banking reforms over next few months.

The constitution of Alternative Mechanism (AM) is a movement in that direction.

The Union Cabinet in August had decided to set up an Alternative Mechanism to fast track consolidation among public sector banks to create strong lenders.

The move to create large banks aims at meeting the credit needs of the growing Indian economy and building capacity in the PSB space to raise resources without dependence on the state exchequer.

The AM will oversee the proposals coming from boards of PSBs for consolidation.

The decision to set up the AM follows State Bank of India merging its five associate banks, as also the Bharatiya Mahila Bank, with itself.

Economic Times

3. Bain Capital readies a Rs 6,400 crore bet on Axis Bank

By Indulal PM Arijit Barman , ET Bureau

Bain Capital is in advanced talks with Axis to invest between \$750 million and \$1 billion (Rs 4,800-6,400 crore), in what could be one of the largest private equity investments in the Indian banking sector.

India's third-biggest private lender is in talks to raise money amidst worsening asset quality and regulatory glare.

Bain's proposed investment will come as a primary issuance of shares through a preferential allotment that will allow the PE fund to own up to 5% of Axis.

However, some of the sources mentioned above said there could be a subsequent secondary deal as well, through which the Bain may grab another 5% stake from existing investors. This may increase its exposure to nearly 10%, taking the total investment to close to \$1.5 billion. The deal will have to be approved by the Reserve Bank of India.

The transaction will help Axis meet capital requirements for the medium term as competition intensifies in Indian banking. JPMorgan is working with Axis for the transaction, which is expected to be concluded within a few weeks, sources said.

Foreign Investors Eyeing Indian Banks

"Bain has started meticulous diligence on Axis' books. The formal process is on and a deal is likely very soon," said one of the sources mentioned earlier.

Spokespersons for Axis Bank and Bain Capital declined to comment.

The Indian banking sector has, in recent times, seen Canadian pension players like Canada Pension Plan Investment Board (CPPIB) and Caisse de depot et placement du Québec (CDPQ) buy into private lenders such as Kotak Mahindra Bank.

From ICICI Bank to Yes Bank, and from ING Vysya to Centurion Bank of Punjab, private sector lenders have always attracted foreign private capital. Even Axis in its earlier avatar of UTI Bank had seen investments from PE fund ChrysCapital.

Axis Bank's current market cap stands at Rs 1.16 lakh crore. The promoters (Specified Undertaking of Unit Trust of India, or SUUTI) own 30.35% while foreign portfolio investors, including the Government of Singapore Investment Corp and Abu Dhabi Investment Authority, hold 49.13%. Foreign investors can automatically own up to 5% in a bank in India, which with RBI approval can go up to 10%.

"Increased corporate NPLs (non-performing loans) drove the overall NPL increase," Moody's said in its result commentary on Axis Bank.

"Overall, based on the trends in the quarter that ended September 2017, the extent of deterioration in the bank's asset quality over the next 12-18 months may be more than what we previously expected. In addition, compared to the other rated Indian banks, we believe that the bank has been laggard in recognising its asset quality problems, a credit negative for its credit quality," it added in the report dated October 17.

However, Axis Bank CEO Shikha Sharma had told ET that the bad loans issue is short term and the lender is expected to get into normal credit cost cycle by next year.

"I guess the regulator is looking at fortifying balance sheets of banks or they want us to take a more conservative stance. Will there be further pain? We have said there will be a few more quarters where we may see elevated levels of stress. But going into the next year, we believe that we should be getting back to a normal credit cost cycle," Sharma told ET on October 27.

Sharma, whose term was recently extended till 2021, said the recognition cycle for much of the asset quality is more or less complete, and that the bank is getting into a resolution cycle.

BAD LOAN TROUBLE

However, analysts expect a normalisation of stressed loans and credit costs to aid earnings and improve adjusted core book value. "We expect earnings to normalise from FY19 and lift ROE to mid-teen levels. Its retail business continues to grow and has scope for operating efficiencies that will improve earnings. Valuations are close to the five-year historical average. Strong CASA franchise will aid asset growth and margins," CLSA analysts Aashish Agrawal and Prabhakar Sharma said in a note on Oct 13.

According to Bloomberg estimates, Sharma, who was appointed the bank's CEO in 2009, has overseen shareholder returns of 252%, less than the Bankex index at 270%. Under her watch, \$250 million of bad loans have swelled to more than \$4 billion, even as total assets have merely tripled.

Axis Bank shares have fallen 4.6% during the past month because of the bad loans issue, bucking the overall trend in banking shares. Most public sector banks rallied after the government's Rs 2.11 lakh crore recapitalisation plan, with the Bank Nifty index rising 3.1% to a fresh peak this month.

On Monday, Axis Bank shares closed down 0.04% at Rs 484.3 on the BSE compared with a 0.33% gain in the Sensex.

At \$17.6 billion, PE investments into the country during the first nine months of the year have already created a fresh record. The number dwarfs the previous high of \$17.3 billion seen during the entire 2015, according to data compiled by Venture Intelligence. The banking and financial sector has seen maximum PE investments so far this year.

Business Line

4. Govt won't switch to new fiscal cycle soon

SURABHI

The Centre seems to have shelved its plans to change the financial year cycle, at least for the time being. With the demonetisation of high-value notes and the roll-out of the Goods and Services Tax (GST) causing a temporary disruption, sources said the government is not keen to ensure that the economy is not unsettled further.

Though preparations for the Union Budget 2018-19 have begun, the change in financial year cycle could happen only after 2019.

Currently, the Centre follows a financial year beginning April 1 and ending on March 31. Last July, the Finance Ministry had set up an expert panel, led by former Chief Economic Adviser Shankar Acharya, to examine the "desirability and feasibility" of having a new financial year cycle.

Though committee's report was not made available to the public, it is understood to have recommended a fiscal year coinciding with the calendar year, ie from January 1 to December 31.

"The report for a change in the financial year cycle is still under active consideration, but its implementation any time soon is unlikely," said a source, adding that it could be considered in the medium-term. It may now be taken up after 2019, the source said.

The issue is also understood to have come up for discussions during pre-Budget meetings of the Finance Ministry with Nodal Ministries to finalise their Revised Estimates for 2017-18 and their Budget Estimates for the next fiscal.

Some Ministries are understood to have made enquiries on a possible change in the financial year cycle.

Finance Ministry officials had earlier said that such a shift would not be very difficult as it would only mean having three quarters in a fiscal for one year.

The Centre had also urged States to follow suit. Madhya Pradesh has already announced switching to the new fiscal year cycle.

Global agencies and many countries also follow the January-December financial year. For India, it is felt that the calendar year cycle would help improve the flow of expenditure before the monsoon sets in

5. SBI circular on 'work-life balance' strikes a chord with unions

VINSON KURIAN

In what State Bank of India (SBI) unions have described as a welcome gesture, a management circular to all branches and offices have stressed the need to ensure a good work-life balance for the staff.

"A good and healthy work environment, mutual respect and empathy in workplace, (and) a good work-life balance are essential to achieve a healthy and happy workforce," the circular said.

Several initiatives

It noted that a number of initiatives already taken up in human resources development are critical to ensure that the bank remains ahead of peers and employees are equipped to meet the challenges of tomorrow.

It talked of several other initiatives being taken up to 'ensure and improve the welfare of our employees.' But it also reminded them that they should be punctual and adhere to workplace discipline.

Productivity and agility in the market place are critical to meet the requirements of customers. But working longer hours or working on holidays should not be the mode of achieving productivity.

Employees should also have adequate time to devote to their personal and family needs to remain healthy, the circular said. This issue has often been flagged by the unions in the past.

Duty on holidays, Sundays

"While there could be occasions when some of us are required to work beyond normal duty hours or on Sundays/holidays, such occasions should be rare," the circular said.

Calling officers for doing routine work on Sundays or holidays should be avoided by better planning of work during the work week. This too goes to meet a long-felt demand that the unions have aired quite often.

"If some offices are required to be kept open for the convenience of customers on Sundays/holidays, shift system should be followed to ensure that no official or employee is required to work on all days of the week."

At the same time, non-completion of assigned tasks or lack of decorum in office are totally unacceptable and would be dealt with accordingly. "All of us have a responsibility to keep this organisation healthy and successful," the circular added.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY