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Dear Comrades,

2nd November , 2018

News of Interest 2nd NOV

MOTIVATIONAL QUOTES

'IN ORDER TO SUCCEED, WE MUST FIRST BELIEVE THAT WE CAN. '

NIKOS KAZANTZAKIS

HIGHLIGHTS

1. BANKS' CONSUMER DURABLE LOAN PORTFOLIO FALLS 82% IN SEPT
2. GOVT VS RESERVE BANK: WHY DIFFERENCES MAY SURFACE AGAIN
3. THE SECTION-7 QUESTIONS: CAN THE CENTRE ISSUE ORDERS TO THE RESERVE BANK BY LAW?
4. RESERVE BANK OF INDIA GIVES LICENCE TO KIRLOSKAR CAPITAL
5. HDFC Q2 NET UP 25% TO ₹2,467 CR ON HIGHER INTEREST INCOME

Financial Express

1. Banks' consumer durable loan portfolio falls 82% in Sept

By: [Shritama Bose](#) | Published: November 2, 2018 3:39 AM

Outstanding loans to the segment dropped a sharp 82% year-on-year (y-o-y) to Rs 3,225 crore on September 28.

Having lent large sums as consumer durables loans, over the past couple of years banks seem to be shying away from them possibly fearing delinquencies. Outstanding loans to the segment dropped a sharp 82% year-on-years (y-o-y) to Rs 3,225 crore on September 28.

Banks may be letting non-banking financial companies (NBFCs) play in this space given how exposure to NBFCs jumped 41.5% in September. Lenders say there is heightened risk aversion due to defaults on these advances which are given for the purchase of products such as smart devices and home appliances.

A year ago, the outstanding credit to this space was Rs 17,846 crore, data released by the Reserve Bank of India (RBI) showed.

Indeed, banks seem to be cautious on loans to individuals as a whole — classified as personal loans by the RBI; at just over 15% y-o-y, the growth has hit a 12-month low in September, analysts at Anand Rathi Research pointed out.

Within the category, the skew shifted in favour of housing loans, which are secured. While the share of personal loans in outstanding non-food credit increased to 25.3% in September 2018 from 24.5% a year ago, in incremental terms it declined from 56% to 32% over the same period.

Incremental share of housing within personal loans is on the rise while loans for durables and education are contracting, the note from AR said.

Analysts say banks are turning cautious about unsecured retail lending after a year or so of dizzy growth in the category. Sujan Hajra, chief economist, Anand Rathi Shares and Stock Brokers, said risk aversion is certainly on the rise at banks. "This hasn't begun now. For the last six months, which is all of H1FY19, personal loans, which were the major driver for loan growth last year, haven't seen much momentum," Hajra said.

He also observed that some of the demand for consumer durable loans is being met by NBFCs now, especially given that banks' exposure to NBFCs rose 41.5% y-o-y in September. In other words, banks may have yielded a significant share of the unsecured market to NBFCs.

Non-bank entities' Q2FY19 figures bear this out. For instance, Bajaj Finance, a leading player in consumer durable financing, reported a 44% y-o-y growth in assets under management in the consumer B2C businesses category.

In January 2018, nearly a third of outstanding retail loans in the banking system were unsecured. Outstanding loans to individuals as on January 19 stood at `18.28 lakh crore, of which loans worth Rs 5.62 lakh crore — about 31% — were unsecured.

2. Govt vs Reserve Bank: Why differences may surface again

By: [FE Bureau](#) | Published: November 2, 2018 2:42 AM

Despite a temporary easing in tension between the finance ministry and the central bank, differences could surface again when the Reserve Bank Of India's board meets next on November 19, as the ministry will likely take up the contentious issues again.

Despite temporary easing in tension between the finance ministry and the central bank, differences could surface again when the Reserve Bank Of India's board meets next on November 19, as the ministry will likely take up the contentious issues again. An official source told FE that key issues — including liquidity, prompt corrective action (PCA) framework for weak banks, surplus funds from RBI and higher credit to MSME — could be flagged again in the meeting.

For its part, though, the RBI will likely stick to its stance. Still, it will be an opportunity for both to de-escalate the tension that hit the peak last week when RBI deputy governor Viral Acharya last week warned against 'potentially catastrophic' consequences of any government incursion into the central bank's

autonomous regulatory space. Already, the finance ministry said on Wednesday that it respected the autonomy of the RBI.

The central bank and the finance ministry have differed in their assessment of the liquidity crunch being faced by non-banking financial companies (NBFCs). While the central bank is learnt to have asserted that there is no liquidity crunch, the finance ministry feels (based on its interactions with some NBFCs) that any such concern needs to be addressed.

In a meeting of the Financial Stability and Development Council (FSDC) on Tuesday, chaired by finance minister Arun Jaitley, the finance ministry asked the RBI to ensure that the crisis at Infrastructure Leasing & Financial Services doesn't spill over to the broader financial system. Both the department of financial services and the RBI also agreed to exchange inputs and data on liquidity crunch in the NBFC segment and ensure the situation doesn't turn into a crisis.

While the government seeks more funds from the RBI, among experts there are divergent views on the RBI's surplus and how much of that needs to be shared with the government. Former chief economic adviser Arvind Subramanian had suggested that the central bank's 'excess capital' could be redeployed to bolster the capital base of state-owned banks. Others, including former RBI governor Raghuram Rajan had, however, denounced the proposal, saying if the proposal is implemented, it could get the banking regulator into the business of owning banks with resultant conflicts of interest.

Experts also reckon that the RBI needs to maintain a strong balance sheet to perform its functions effectively. They note that the perception that the RBI capital is in excess of what generally other central banks have is because of the amount held in the currency and gold revaluation account (which stood at ` 5.29 lakh crore on June 30, 2017). The gains arising out of revaluation of foreign currency assets, these experts point out, are notional and cannot be treated as free reserves that could be transferred to the government.

The finance ministry has also sought changes to the 'stringent' prompt corrective action (PCA) regime for stressed banks, suggesting that the framework be aligned with best global practices to allow banks some headroom for growth. But arguing against any dilution, Acharya recently said that without the PCA imposition, some banks would have witnessed even higher losses and required even higher taxpayer money for recapitalisation.

As many as 11 of the 21 public-sector banks are on the RBI's watch list for battered financial position. Under the PCA guidelines, stressed banks operate under some tough conditions. The lenders are stopped from expanding their branch networks and need to maintain higher provisions. In certain cases, they are stopped from lending until they fix their finances. Recently, the RBI also made public its dissent note on certain recommendations of a government panel under the economic affairs secretary, opposing the idea of setting up an independent regulator outside the central bank to deal with issues relating to payments.

3. The Section-7 question: Can the Centre issue orders to the Reserve Bank by law?

The High Court went forward and noted that, prima facie, there exists material which deserves to be taken into consideration.

A previously obscure provision of the Reserve Bank of India Act, 1934, has gained prominence in the past few days. As it has been widely reported, section 7 of the Act empowers the Central government to issue directions to RBI. The use of this power has two safeguards. Firstly, the Central government has to hold prior consultations with RBI and, secondly, the directions have to be necessary in the name of public interest.

Interestingly, the use of this provision was suggested by the Allahabad High Court in its order in the matter of Independent Power Producers Association of India vs Union of India, 2018. In its judgment, the High Court observed that, "It would, therefore, be appropriate for the Central government to step in, in exercise of the powers under Section 7 of RBI Act, and after consultation with the Governor of RBI, to take an appropriate decision or issue directions, as it deems fit and proper in the larger public interest". However, the Court had cautioned regarding the scope of such powers. It had made it clear that the Central government is not expected to issue any directions, as contemplated under Section 7(1), indiscriminately or randomly. Such directions are possible only when there exists sufficient material in support. The High Court went forward and noted that, prima facie, there exists material which deserves to be taken into consideration.

Although the provision in the RBI Act has been in the statute book for a long time, it is interesting to note that even newer legislations contain similar provisions. For example, in terms of section 55 and 56 of the Competition Act, 2002, the Central government has the power to give directions to Competition Commission of India (CCI) on questions of policy and supersede the CCI in "public interest". Similarly, the Central government has the power to give directions to the Securities and Exchange Board of India (SEBI) and supersede SEBI under section 16 and 17 of the SEBI Act, 1992.

The Parliamentary Standing Committee on the Competition Bill, 2001, had raised concerns that giving such enormous powers to the Centre, in terms of giving directions on policies to the CCI and of superseding the CCI in special circumstances, would undermine the independence of the CCI. The reasons for inclusion of these powers as pointed out in the report (2002) are that the "Government may have security concerns or reason of public interest, on account of which intervention becomes necessary", the provision already exists in many other Acts and that the "Government rarely resorts to such extraordinary powers, and if it does, its decisions are subject to examination in the media, Parliamentary scrutiny and judicial review".

In fact, the exercise of power under a similar provision contained in Section 20 of the University Grants Commission Act, 1956, was challenged before the Allahabad High Court in the matter of Ramesh Kumar Yadav and another vs University of Allahabad and others, 2012. The High Court held that the Central government, in its letter dated November 3, 2010, clearly overstepped its powers under Section 20 (1) in overruling the University Grants Commission (UGC). The High Court interpreted the phrase "policy relating to national purpose" strictly and held that UGC, as an expert body, is required to perform the statutory functions of prescribing the minimum qualifications for appointment to teaching posts and also possesses the powers and duties to prescribe relaxation.

The opinion of the UGC in such case has to be treated as an opinion of experts and unless there is anything to the contrary, which does not serve the national interest, it does not fall within the power of Section 20 of the Act, for the Central government to record its disagreement with such relaxation.

On appeal, the Supreme Court overruled the decision of the High Court in the matter of P Suseela vs University Grants Commission, 2015. The Supreme Court held that the directions of the Central government under Section 20 of the UGC Act pertain to questions of policy relating to national purpose. The court also pointed out that the regulation making power is subservient to directions issued under Section 20 of the Act. It further observed that the UGC Act contemplates that such an expert body will have to act in accordance with directions issued by the Central government. The Court was of the view that even after a regulation becomes law, the government has the power to issue directions and the regulations would have to be modified in accordance with such directions. This decision of the Supreme Court does seem to indicate that the power of the Central government to issue directions is broad enough to direct RBI to modify its contentious February 12, 2018, circular.

In the past, there have been murmurs of the government giving unofficial directions to regulators to do their bidding. The fact that the Central government may have to resort to the use of its powers under Section 7 is a testament to the autonomy of RBI. Equally, the power to issue directions has legislative backing and is also supported by judicial precedents. The government may be emboldened since the Allahabad High Court has already given its view that there does exist prima facie material to at least consider such an extreme step.

While the Central government may have the power to issue directions to RBI, these powers are indeed to be exercised with great care. The exercise of such power has already been subject to intense debate in the media and if the government decides to issue such a direction, it is likely to be subject to judicial scrutiny as well. It may also lead to a broader discussion on whether such powers given to the Central government under various legislations should be removed from the statute books altogether.

Economic Times

4. Reserve Bank of India gives licence to Kirloskar Capital

By *Saikat Das*

Kirloskar Capital, the non-banking financial company, has received the Reserve Bank of India's licence for its lending business. The move assumes significance at a time when the whole non-banking sector has been going through a crisis of confidence.

Vimal Bhandari, a veteran in the industry, will lead the company as its chief executive officer. "It will reflect what we have been traditionally – conservative but solid, and ready to grow" said Atul Kirloskar, executive chairman of KOEL. "We see opportunities in the financial services space and are willing to commit Rs.1,000 crores of patient capital over the next three years."

Kirloskar Oil Engines Ltd (KOEL) distribution network, the company said in a release on Thursday. Corporate lending will be to help companies by providing debt funds for their growth. The initial focus will be on lending to

small and medium-sized enterprises.

The Kirloskar group has more than 30,000 retailers and about 1,000 dealers, who will be leveraged – especially for SME loans, the company said.

Business Line

5. HDFC Q2 net up 25% to ₹2,467 cr on higher interest income

OUR BUREAU

HDFC does not have any exposure to debt-laden IL&FS: CEO

A healthy growth in interest income and a jump in profit on sale of investments help HDFC post a 25 per cent increase in standalone net profit at ₹2,467 crore in the second quarter ended September 30, 2018 against ₹1,978 crore in the year ago period.

India's largest standalone housing finance company reported a 19 per cent year-on-year growth in interest income at ₹9,673 crore (₹8,114 crore in the year ago period).

Profit on sale of investments surged to ₹1,000 crore (₹63 crore) as during the quarter. The Corporation offered 85,92,970 equity shares of ₹ 5 each of its subsidiary HDFC Asset Management Company via initial public offer, resulting in a profit of Rs 891 crore.

HDFC reported higher net gain of ₹101 crore on fair value changes against ₹15 crore in the year ago period.

Finance costs rose 21 per cent to ₹7,045 crore in the reporting quarter against ₹5,845 crore in the year ago period.

Expenses incurred towards impairment on financial instruments (expected credit loss) jumped ₹401 crore against a write back of 62 crore in the year ago period. Employee benefit expenses declined 67 per cent yoy to ₹128 crore (₹387 crore).

Shares of HDFC ended at ₹1,761.70 on the BSE, down 0.44 per cent from its previous close.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**

