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Dear Comrades,

9th October , 2018

News of Interest 9th OCT

MOTIVATIONAL QUOTES

“STAND IN FAITH EVEN WHEN YOU ARE HAVING THE HARDEST TIME OF YOUR LIFE”

NOT KNOWN

HIGHLIGHTS

1. IMF RETAINS ECONOMIC GROWTH PROJECTION FOR INDIA AT 7.3% FOR FY19
2. TO CALM INVESTORS, INDIABULLS HOUSING-FIN SAYS LIQUIDITY POSITION HEALTHY
3. IL&FS CRISIS: MORE SKELETONS OUT, COMPANY UNDER-REPORTED ASSETS BY RS 50 CR
- 4 WHAT PROTECTION IS AVAILABLE TO A DEPOSITOR IF BANK FAILS: DELHI HIGH COURT ASKS CENTRE
5. PUNJAB NATIONAL BANK AIMS TO MAKE A STRONG COMEBACK IN Q2

Business Standard

1. IMF retains economic growth projection for India at 7.3% for FY19

Echoes RBI on exchange rate intervention, but differs on rate tightening

Indivjal Dhasmana

The International Monetary Fund (IMF) on Monday retained economic growth projection for India at 7.3 per cent for 2018-19 (FY19), lower than the government's and the Reserve Bank of India's (RBI's) forecasts. This is, however, noteworthy as the IMF cut global growth projections by 0.2 percentage points.

In its World Economic Outlook (WEO), the IMF said foreign exchange interventions should be limited to address disorderly market conditions, something which RBI Governor Urjit Patel also talked about. The IMF wants

the RBI to tighten monetary conditions, something which it did not do in the October policy review.

For the next year (FY20), the IMF lowered India's growth projections by 0.1 percentage points to 7.4 per cent.

As such, the IMF does not see India's growth reaching 7.5 per cent even in FY19. However, the RBI pegged India's growth projections at 7.5 per cent. The government expected the rate to exceed 7.5 per cent this year on the back of 8.2 per cent growth rate in the first quarter. India's economy grew 6.7 per cent in FY18.

India will continue to be the fastest-growing major economy as China's growth projection was retained by the IMF at 6.6 per cent for FY19. For FY20, the Chinese economic growth rate was cut by 0.2 percentage points to 6.2 per cent.

The IMF releases its annual WEO ahead of its meeting with the World Bank. This year, the meeting is being hosted in Bali, Indonesia, since Friday.

The IMF said its forecast for investment growth for FY19 is weaker than in April, despite higher capital spending in India, on account of contracting investment in economies under stress, such as Argentina and Turkey, which is also reflected in a downward revision for import growth.

Acceleration in the growth rate from 2017-18 reflects a rebound from transitory shocks (the currency exchange initiative and implementation of the goods and services tax), with strengthening investment and robust private consumption, the IMF said. India's medium-term growth prospects remain strong at 7.75 per cent, benefitting from ongoing structural reform, but have been marked down by just under 0.5 percentage point relative to the April 2018 WEO, the IMF said.

It said reform priorities in India include reviving bank credit and enhancing the efficiency of credit provision by accelerating the clean-up of bank and corporate balance sheets and improving the governance of public sector banks.

It also said renewed impetus to reform labour and land markets, along with further improvements to the business climate, are crucial. The IMF talked about continued capital outflows from emerging market economies and pressure on exchange rates because of monetary normalisation in the US.

"Under floating exchange rate regimes, foreign exchange interventions should be limited to addressing disorderly market conditions while protecting reserve buffers," it said.

On monetary policy, the IMF said it should be tightened to anchor expectations where inflation is expected to pick up, say in India. It said core inflation (excluding all food and energy items) in India had risen to about 6 per cent as a result of a narrowing output gap and pass-through effects from higher energy prices and exchange rate depreciation.

The IMF said a high interest burden and risks from rising yields in India also require continued focus on debt reduction to establish policy credibility and build buffers.

2. To calm investors, Indiabulls Housing-Fin says liquidity position healthy

Company says it has a healthy liquidity position standing at Rs 200 billion as of September 2018

Advait Rao Palepu | Mumbai

To quell concerns from investors that housing finance companies (HFCs) are facing liquidity issues, Indiabulls Housing Finance (IBHFL) on Monday said the company has a healthy liquidity position standing at Rs 200 billion as of September 2018.

Assuming there are no fresh borrowings by the company, IBHFL's six-month liquidity coverage ratio stands at 135 per cent as of date, the company said in filings with the BSE. During the January to March quarter of FY18, the company's cash position stood at Rs 165 billion, as compared to Rs 211 billion of cash available during the October to December quarter of FY18.

Despite consistently growing quarter-after-quarter, the liquidity (cash) in the company fell to its lowest level in the January to March quarter of FY18, since the April-June quarter of FY17.

Over the last 15 days, IBHFL engaged in a Rs 18.2-billion buy-back from the secondary market, and has raised about Rs 36.2 billion through primary issuances. Further, about Rs 4.1 billion worth of IBHFL debt paper were traded, the company said.

While the RBI regulations allow only for a 15 per cent mismatch for the short-term (one to 14 days, 15-30 days and one year) buckets, IBHFL's position is positive by 10 per cent (1.1x) in the cumulative 30-day bucket, and is positive by 5 per cent (1.05x) in the one year bucket.

IBHFL says that it has matched all its asset-liability management (ALM) in all buckets.

Further, the company raised Rs 5 billion in 2-3 buckets from insurance companies at 9.5 per cent, while the cost of funds for borrowing from CPs stood at 8.25 per cent.

These concerns over ALM mismatch were triggered by loan and debenture defaults made by subsidiaries of Infrastructure Leasing and Financial Services (IL&FS), a systemically important non-banking financial company (NBFC) and infrastructure firm.

As a result, over the last two weeks, several NBFC stocks began to fall on the stock exchanges. Stocks like DHFL, IBHFL, Bajaj Finserv, PNB Housing Finance, Mahindra Finance, among others, were affected by market sentiments.

NBFCs have excessively raised finances through a large quantum of commercial papers (CPs) and non-convertible debentures (NCDs) in the last few years.

For instance, these companies have pooled 25 to 30 per cent of their incremental funding from CPs during FY2018, according to Nomura India.

Since these NBFCs were raising money through short-term debt and were lending credit to longer term projects or for eight to 15 year mortgages, this led to ALM and liquidity issues at HFCs, given the impending maturity of the CPs and NCDs.

Market participants had cited that liquidity issues at NBFCs and HFCs led to a rise in the yields of their CP, which is why there was a sell-off in these stocks.

So far this year, there has been a substantial rise in the number of CP issuances to Rs 6.2 trillion between April and September 2018 as compared to Rs 3.8 trillion for FY2018. "About two-thirds of these issuances are from financial institutions," states a report by India Ratings.

Further, the report says that the top 12 NBFCs have about Rs 300 billion worth of CPs due for repayments in the three months ending December 2018.

RBI last week announced that it would revise the guidelines for ALM management for NBFCs.

HFCs like IBHFL or DHFL will require a separate set of guidelines from its regulator the National Housing Bank, the regulator of the mortgage industry.

Financial Express

3. IL&FS crisis: More skeletons out, company under-reported assets by Rs 50 cr

According to REDD Intelligence, a stressed debt analytics provider, the IL&FS group had total assets worth over Rs 1.65 lakh crore, but reported consolidated assets of Rs 1.16 lakh crore.

By: Rouhan Sharma |

In the report dated September 27, the firm also said IL&FS has Rs 30,000 crore of loans at risk. Of the group's total debt of Rs 91,000 crore, Rs 68,000 crore is secured, while Rs 23,000 crore is unsecured. (Reuters)

Not only did IL&FS have many more subsidiaries than estimated earlier, but the company also under-reported its assets by about Rs 50,000 crore.

According to REDD Intelligence, a stressed debt analytics provider, the IL&FS group had total assets worth over Rs 1.65 lakh crore, but reported consolidated assets of Rs 1.16 lakh crore.

The Singapore-based research firm calculated the total assets of the parent company and its 175 subsidiaries from information mentioned in IL&FS' annual report. However, the new board of IL&FS, which took charge of the company from October 1, said the company's existing management told it there were actually 348 subsidiaries, associates and joint ventures.

In the report dated September 27, the firm also said IL&FS has Rs 30,000 crore of loans at risk. Of the group's total debt of Rs 91,000 crore, Rs 68,000 crore is secured, while Rs 23,000 crore is unsecured.

The report said: "Given the second lien nature of the secured loans at IL&FS parent and IL&FS Transportation Networks (ITNL), recovery could be constrained by the quality of the collateral (equity pledges from operating subsidiaries)."

The loan to subsidiary Tamil Nadu Power Company, which owns a 1,200 MW plant, is also at risk following filing a local insolvency process by bank lenders. The required equity infusion could be in the range of Rs 22,500 crore to Rs 30,000 crore, much higher than the earlier rights issue of Rs 4,500 crore that was proposed, the research firm said, adding that the equity required to right size the balance sheet is about Rs 30,000 crore, equal to standalone borrowings at IL&FS and ITNL.

"Excessive holding company leverage was used to finance parent contributions in operating subsidiaries," the report said. Hence, IL&FS needs to make an impairment of at least Rs 15,000 crore before even considering the recovery of about Rs 14,000 crore in loans and advances to its subsidiaries.

The research firm estimates IL&FS would need to write off over Rs 3,000 crore in losses. It also said IL&FS has not provided any information on asset pledges, but believes that it might already have pledged shares of its subsidiary IL&FS Securities Services (ISSL) which was sold to IndusInd Bank in June. It is unlikely that sale of ISSL will bring in any cash into IL&FS as it may be pledged for borrowings, the report noted.

Economic Times

4. What protection is available to a depositor if bank fails: Delhi High Court asks Centre

PTI

What is the protection available to customers having deposits of over Rs 1 lakh if a bank fails, the Delhi High Court asked the Centre on Monday, saying this was a matter of public importance. A bench of Chief Justice Rajendra Menon and Justice V K Rao posed the query to the central government while hearing a PIL which claimed that the Deposit Insurance and Credit Guarantee Corporation (DICGC) provides a maximum insurance cover of Rs 1 lakh per customer, irrespective of the amount of deposit, including savings, fixed, current and recurring.

The DICGC, a subsidiary of the Reserve Bank of India, was established in 1961 for providing insurance on deposits and guaranteeing of credit facilities.

The PIL filed by Pardeep Kumar challenged the Corporation's decision to provide a maximum insurance cover of only Rs 1 lakh irrespective of the amount deposited.

Advocate Vivek Tandon, appearing for Kumar, told the bench that according to information received under RTI, there are 165 million accounts in the country having deposits of over Rs 1 lakh.

He said there has been no revision in the insurance cover in the last 25 years.

During the hearing, the Centre and DICGC told the bench that the Rs one lakh was only an immediate relief and does not constitute the complete final relief in case of a bank failure.

However, the counsel for Corporation and the Centre were unable to show the court which provision of the law states that Rs one lakh was the immediate relief.

"Under the law what protection is available? Where is it? What is the protection available to the amounts deposited in the bank account? It is a matter of public importance," the bench said and directed the Centre and DCGIC to file affidavits in answer to the court's query.

It was reported in August that the Centre has turned down suggestions to raise the insurance cover on bank deposits to Rs 15 lakh from the current Rs one lakh.

Business Line

5. Punjab National Bank aims to make a strong comeback in Q2

G BALACHANDAR

Targets a recovery of ₹20,000 crore; strengthens internal systems and processes to prevent future frauds

Punjab National Bank (PNB) said that its performance in Q2 will continue to be strong (as in Q1), as the public sector lender attempts to bounce back after being hit by the ₹14,000-crore Nirav Modi scam last year.

While the bank has raised the cash-recovery targets for the current fiscal in view of the possible resolution in NCLT accounts, it has also put in place a two-pronged mechanism to prevent future scams.

"We are yet to announce the audited results. On a broader level, Q2 was again a good quarter for us. Our retail recovery was on track like Q1. Our credit has grown by 13.8 per cent, much better than the industry. Domestic deposits also grew by about 10 per cent. The bank achieved the targets for priority sector lending," said Sunil Mehta, Managing Director & CEO of PNB.

RWA declines

He said that despite the increase in gross credit, the bank's risk-weighted assets (RWA) had declined, mainly due to the churning of its credit portfolio. "In the June quarter also, our RWA had gone down (year-on-year basis) to 55 per cent from 64.5 per cent. Q2 will still be better," he said.

After achieving high recoveries in Q1 of this fiscal, the bank is hopeful of maintaining the same level in Q2; the bank is expecting to report recoveries of about ₹5,000 crore.

"We had planned for total recoveries of ₹17,500 crore and ₹4,500 crore of upgradations for the current fiscal. Now, we are targeting ₹20,000 crore of recoveries as we expect contribution from NCLT accounts. Thus, overall, the

target is ₹22,000 crore, of which we have recovered about ₹13,000 crore in just two quarters alone," he added.

Answering a question on learnings from the Nirav Modi scam and the IL&FS issue, Mehta pointed out two key areas where the bank was strengthening its efforts to avoid frauds in the future.

To mitigate the people risk in forex operations, the bank has created a centralised back office for trade finance operations. So, all trade finance transactions processed at the branch level, will move to the centralised back office and then to the SWIFT (Society for Worldwide Interbank Financial Telecommunication) payment centre.

"There is a three-layer checking system now," he said.

Also, the bank has integrated the SWIFT system with the core banking solution (CBS).

Referring to the IL&FS episode, he said PNB was the least affected bank due to its low exposure, and pointed out that there was a need to strengthen internal rating systems at banks instead of just depending on external ones.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY