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Dear Comrades,

16 th April , 2019

### News of Interest 16<sup>th</sup> APR

#### QUOTE OF THE DAY

"ALWAYS DO YOUR BEST. WHAT YOU PLANT NOW, YOU WILL HARVEST LATER." - OG MANDINO

#### HIGHLIGHTS

1. NCLT REBUKES STERLING BIOTECH RESOLUTION PROFESSIONAL, DEMANDS EXPLANATION
2. LAKSHMI VILAS BANK BOARD TO MEET ON APRIL 22 TO DISCUSS PREFERENTIAL TREATMENT
3. BONUS CLAW BACK PLAN FOR IL&FS EXECUTIVES
4. RBI LIKELY TO SLASH INTEREST RATE FOR THIRD TIME IN JUNE, SAYS BOFA-ML
5. NET INTEREST MARGIN OF NBFCS LIKELY TO COME UNDER PRESSURE

#### Business Standard

##### 1. NCLT rebukes Sterling Biotech resolution professional, demands explanation

The CIRP of Sterling Biotech ended on March 8, 2019, after the 180-day period was extended by a further 90 days

Subrata Panda

The National Company Law Tribunal (NCLT) reprimanded the resolution professional of Sterling Biotech for failing to discharge his duties and has asked him to submit an explanation as to why he didn't opt for liquidation when no resolution plan was being approved by the committee of creditors (CoC), and file his report within the time provided under the Insolvency and Bankruptcy Code (IBC).

The resolution professional had filed an application with the tribunal to continue his duties as a resolution professional of the corporate debtor till the disposal of the case. The resolution professional also wanted to convene meetings of the CoC to discuss an important matter concerning the indebted company.

The resolution professional, through his application in the tribunal, was also seeking to replace the statutory auditors of Sterling Biotech and wanted to include the cost of such actions as the resolution professional's costs, which was to be paid from the debtor's accounts.

However, the tribunal has categorically denied permission to the resolution professional to discharge his duties after the 270-day corporate insolvency resolution process (CIRP).

"It is pertinent to mention that after initiation of the CIRP, we have not restrained the resolution professional in discharging his duties. The CIRP continued till the end of the CIRP period i.e., March 8, 2019. If no resolution was approved within the statutory period for completion of the CIRP, then he should have acted as per the provisions of the code," the NCLT said in its interim order.

The tribunal has also barred the resolution professional from replacing the statutory auditors, as the tribunal observed that any such decision by the resolution professional should have been taken within the statutory period.

"It is also to be made clear that after completion of the statutory period, in our view the resolution professional has no authority to replace statutory auditor of the corporate debtor since the same is not provided for under IBC, 2016," said the NCLT in its order.

The CIRP of Sterling Biotech ended on March 8, 2019, after the 180-day period was extended by a further 90 days.

The tribunal also observed that the application for withdrawal of insolvency plea against Sterling Biotech by Andhra Bank, one of its financial creditors, was filed on the last day of the statutory period and then the resolution professional filed the application for withdrawal after the statutory period.

The first withdrawal of insolvency plea was filed by the financial creditor but this violates the rules, and the second was filed by the resolution professional after the completion of the statutory period, hence, the maintainability of the withdrawal application is questionable, the tribunal observed.

## **Financial Express**

### **2. Lakshmi Vilas Bank board to meet on April 22 to discuss preferential treatment**

By: [FE Bureau](#)

Indiabulls Housing Finance on April 5 said it would merge with Lakshmi Vilas Bank in an all-share deal, where 100 shares of the bank would fetch 14 shares of the housing-finance lender.

Private-sector lender Lakshmi Vilas Bank (LVB) on Monday said its board would meet on April 22 to discuss the price and date of preferential equity shares to be issued to Indiabulls Housing Finance (IBHF) following their merger earlier this month.

The bank has proposed to make preferential allotments to the extent of 4.99% of its post-money equity – a company's estimated worth after external capital injections are made to its balance-sheet. "This does not presuppose any capital augmentation on account of the proposed merger, which would only conclude after receipt of all regulatory approvals," the bank clarified in a statement.

Indiabulls Housing Finance on April 5 said it would merge with Lakshmi Vilas Bank in an all-share deal, where 100 shares of the bank would fetch 14 shares of the housing-finance lender. The merged entity, to be called Indiabulls Lakshmi Vilas Bank, will be among the top eight private sector banks in India by size and profitability, Indiabulls Housing Finance said in an exchange filing. However, the merger is yet to receive regulatory approvals from RBI.

In March, the south-based lender raised Rs.459.59 crore through a qualified institutional placement (QIP) to bolster its capital adequacy. The bank's capital adequacy ratio (CAR) was at 7.57% as of December 2018, lower than the minimum regulatory threshold of 8% under Basel-III norms.

Lakshmi Vilas Bank has over Rs.30,000 crore in deposits – of which Rs.7,000 crore is CASA – and 22 lakh depositors across 569 branches.

## **Economic Times**

### **3. Bonus claw back plan for IL&FS executives**

*By Sidhartha, TNN|*

The government is looking at clawing back bonuses and other benefits that accrued to several top executives in the group that has liabilities of Rs 91,000 crore to the financial system.

The approach is similar to the one adopted by ICICI Bank against Chanda Kochhar, who was forced to quit amid serious charges of irregularities.

The government is looking to claw back bonuses and other benefits that accrued to ousted top executives of IL&FS Group, who are accused of failing to discharge their duties and leaving the entity in a financial mess.

The government had put in place a new board, led by Kotak Mahindra Bank vice-chairman and CEO Uday Kotak to run the affairs, citing mismanagement. But with probe by the Serious Frauds Investigation Office (SFIO) pointing to major irregularities in case of of IL&FS Financial Services (I-Fin), the government is looking at clawing back bonuses and other benefits that accrued to several top executives in the group that has liabilities of Rs 91,000 crore to the financial system.

The approach is similar to the one adopted by ICICI Bank against Chanda Kochhar, who was forced to quit amid serious charges of irregularities, involving her husband Deepak Kochhar in loans sanctioned by India's top

private bank. She has been asked to return the bonuses and shares, which were given as part of the ESOP scheme.

The move at IL&FS is part of a drive that will focus on the role of key management personnel, such as former IL&FS chairman Ravi Parthasarthy, former vice-chairman Hari Shankaran and I-Fin chief Ramesh Bawa, sources told TOI. While several other executives are under the scanner, Shankaran and Bawa have been arrested by the SFIO, which has alleged irregularities.

In addition, the sources said, the role of independent directors is also suspect as they are seen to have played ball with the management and not raised doubts. Besides, Deloitte is being probed minutely as the auditor had failed to detect any irregularities. Already some executives have been questioned by authorities.

Given the massive web of companies at IL&FS, estimated at over 250, the SFIO is looking at four major blocks, with its investigation related to I-Fin nearing completion. After this, the focus will shift to the parent and its power arm, apart from IL&FS Transportation Network (ITNL), sources said. At the same time, the board is looking to sell several subsidiaries to recover money, given that several of the assets in the group's portfolio may not result in significant recovery.

"There are several instances of gold-plating of assets, resulting in more loans having been disbursed to the entities," alleged a source, who did not wish to be identified. Already, the government has told the National Company Law Tribunal that there was ever-greening and irregularities with the financial services arm I-Fin, which released funds to several groups, when some of the group companies were NPAs. In some cases, relaxation was also given in creating a charge on assets and loans were given citing "past relationship".

## **Business Line**

### **4. RBI likely to slash interest rate for third time in June, says BofA-ML**

[PTI Mumbai](#)

A foreign brokerage, on Monday, said the Reserve Bank of India will cut its key policy rates by another 25 basis points, after Governor Shaktikanta Das' weekend speech focussing on ways to revive growth.

Speaking at the annual meetings of the IMF in Washington over the weekend, Das had stressed on reviving growth when inflation is trending below targets.

"We now expect the monetary policy committee to cut rates by 0.25 per cent to 5.75 per cent on June 7," Bank of America Merrill Lynch said in a note. If done, this will be the third straight reduction, taking the quantum of reduction in six months to a hefty 75 bps.

The Wall Street brokerage had earlier said the next cut may be either in June or in August, and had added the rate action hinges on rains.

In his speech, Das also presented “out-of-the-box” ideas such as questioning why a rate cut should be limited to multiples of 0.25 per cent, and why a central bank cannot cut by 0.35 per cent, the brokerage said.

It can be noted that the RBI is mandated to contain inflation at 4 per cent in the medium term with a 2 percentage point leeway on either side. Lower inflation in recent months has resulted in the bank cutting rates by 0.50 per cent in 2019 so far.

The brokerage said headline inflation will come in at 2.6 per cent in April as food prices will continue to fall.

Core inflation, excluding food and fuel, is also expected to peak off to 4.8 per cent in April from 5.1 per cent in January, it said.

“Fundamentals do not support higher inflation. Tight liquidity is reining in demand-side inflation,” it added. Soft commodity prices limit supply side inflation, while global rate pressures are fading with the US Fed turning dovish, it said.

## **5. Net interest margin of NBFCs likely to come under pressure**

### [Our Bureau](#)

Small NBFCs face balance sheet contraction on tight liquidity and sell-down of portfolios

With limited availability of liquidity and sell-down of portfolios, net interest margins (NIMs) of non-banking finance companies (NBFCs) might be under pressure across the board, with small- and low-rated NBFCs facing balance sheet contraction, according to an industry wrap by State Bank of India’s economic research department.

NIM, which indicates how well a lender manages its assets and liabilities, is measured as the excess of interest income over interest expense scaled by total assets.

SBI’s NBFC industry wrap said that in some of the sub-sectors, such as housing finance, the high leverage is a cause for concern, and needs to be addressed appropriately along with efficient asset-liability management (ALM), which will always be critical.

NBFCs, with higher exposure to SMEs/loan against shares and developer loans, may see near-term pain, it added. Referring to liquidity issues and ALM mismatches being faced by some of the NBFCs, the report said they have witnessed an increase in the cost of funds, and are trying to shore up the liquidity levels now.

### **No change in financials**

Overall, given the current backdrop in the NBFC space, the report assessed that nothing major has changed in the financials of the sector per se, except the overall perception towards the sector. Further, both asset quality as well as capital to risk-weighted assets (CRAR) ratio look better in than the previous year, and the model followed by NBFCs is more or less the same as hitherto.

At the same time, it is also true that some of the NBFCs have raised interest rates in the last few months amid liquidity issues.

## **Bridging the gap**

In her foreword to the report, Anshula Kant, Managing Director (Stressed Assets, Risk and Compliance), SBI, said: "NBFCs have been playing an important role in bridging the gap between organised and unorganised lending, and are considered an important pillar of the economy.

"In recent times, the regulators have come out with various policy measures, including partial credit enhancement, harmonisation, and co-origination as an enabler for the sector."

Additionally, RBI's recent announcement of setting up a committee on the Development of Housing Finance Securitisation Market is a welcome move, as a liquid secondary mortgage market would enable competitive interest rates and better asset liability management for financial institutions, Kant added.

According to the SBI report, as of March 2018, the aggregate size of loans and advances of NBFC sector (including HFCs), registered an annual growth of around 22 per cent, amounting to Rs.27 lakh crore.

Continuing the trend, the first half of FY19 recorded a growth of 12 per cent, with loan size reaching Rs.30-lakh crore. However, with the subsequent portfolio sell-out and liquidity issues, the loan size of NBFCs might not have expanded at the same pace as in H2FY19.

With kind regards,

Yours Comradely,



( **N. GOVINDRAJULU** )  
**GENERAL SECRETARY**