



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)  
163/4, Kutchery Road, Mylapore, Chennai - 600004

E mail i.d: [aiubparf@gmail.com](mailto:aiubparf@gmail.com)/ [ubioatnng@gmail.com](mailto:ubioatnng@gmail.com)/ [suryanarayananram@gmail.com](mailto:suryanarayananram@gmail.com)

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Com. P.B. Thomas Chairman Thiruvananthapuram M: 09447177456	Com. B.B. Yadav Vice Chairman Sangli M: :098811 91110	Com. Nitin Desai President Ahmedabad M: 097277 60641	Com. S. Bagchi Working President Kolkata M: 0983081586	Com. N. Govindarajulu General Secretary Chennai M: 09841089111
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Dear Comrades,

30th January, 2019

### News of Interest 30<sup>th</sup> Jan

#### QUOTE OF THE DAY

“YOU WILL NEVER KNOW YOUR LIMITS UNTIL YOU PUSH YOURSELF TO THEM”

#### HIGHLIGHTS

1. THE IL&FS SOAP OPERA HAS NOW CREATED MORE DRAMA; THIS TIME FOR ZEE
2. DHFL DIVERTED RS 31,000-CRORE LOANS TO PROMOTER FIRMS, SAYS COBRAPOST
3. PSUS FACE CREDIT RISK FROM SHARE BUYBACKS, WARNS S&P
4. TAXMAN TARGETS BANKS FOR FREE LOGO USE BY SUBSIDIARIES
5. DHANLAXMI BANK TO FOCUS ON NPA REDUCTION: CEO

#### Business Standard

##### 1. The IL&FS soap opera has now created more drama; this time for Zee

The implosion of the highly rated lender raised financing costs for everyone who had borrowed short-term funds to invest in long-term assets such as roads, power stations, waste-management plants

Andy Mukherjee |

The opportunity to own the largest broadcaster in a consumer market of 1.3 billion people doesn't arrive all that often; even more rarely does it come after a single-day 26 per cent rout in the stock.

The special situation has arisen because of Indian infrastructure financier-operator IL&FS Group's sudden \$12.8 billion bankruptcy. Analysts who believed the tremors would reach other shadow-banking entities like Dewan Housing Finance Ltd. were half right. Yes, Dewan's loan disbursements fell 95 per cent from a year earlier in the December quarter amid pressure on

the mortgage lender to deleverage. But the shock waves have now spilled beyond finance to reach the glamorous world of television content.

Subhash Chandra, the founder who controls 41 per cent of Zee Entertainment Enterprises Ltd., is putting half his shares on the block after making wrong-way leveraged bets in unrelated industries such as infrastructure, a mistake the tycoon acknowledged in an open letter on Friday evening. Although the stake-sale plan has been known for a while, the official explanation so far was that Zee wanted a partner to become a "global media-tech player." It's clear now that the real reason is the debt load of Chandra's Essel Group. *Bloomberg Quint* estimates the burden at 170 billion rupees (\$2.4 billion) across 87 operating companies as of March 31, 2017.

The collapse of IL&FS found a mention in Chandra's mea culpa. The implosion of the highly rated lender raised financing costs for everyone who had borrowed short-term funds to invest in long-term assets such as roads, power stations, waste-management plants, or in the case of drug maker Sun Pharmaceutical Industries Ltd.'s billionaire founder Dilip Shanghvi, apartment complexes and windmills. The collateral for these forays in most instances was shares of their successful, publicly traded operating companies.

But as both Shanghvi and Chandra recently found out, collateral can wear thin very quickly. All it takes is a whistleblower complaint of financial irregularities or a news article insinuating links with a company allegedly dealing in unaccounted-for cash to make the stock price plunge. Strenuous denials or defamation lawsuits can't quite set things right with creditors left edgy by IL&FS's defaults, though a weekend meeting with lenders does seem to have bought Chandra time to conclude the sale of his crown jewel.

Zee, where I worked briefly in the 1990s, is a content powerhouse with a 20 per cent share of India's traditional television viewing market. The network also boasts 35 per cent Ebitda margins despite heavy investment in Zee5, a fast-growing digital app. There's no confirmed bidder yet, but according to a report in the *Business Standard*, Zee may be of interest to Amazon, Apple Inc., Tencent Holdings Ltd., AT&T Inc., Singapore Telecommunications Ltd., Comcast Corp. and Sony Pictures Entertainment Inc.

If that weren't already a long list, Reliance Jio Infocomm Ltd., a telecom operator controlled by Mukesh Ambani, India's richest man, is also likely to join the contest, the article said. If Ambani snags the asset, his triple play of carriage, content and commerce could deal a blow to Amazon boss Jeff Bezos's multibillion-dollar plan to dominate e-tailing in India.

Demand for digital video in India is exploding as Ambani drives down data prices. With an enterprise value of \$4.8 billion, and more cash than debt, Zee has a good chance to take on 21st Century Fox Inc.'s local-streaming platform, HotStar, as well as Netflix Inc. and Amazon.com Inc.'s Prime.

But a quick deal is critical. Lenders have agreed to a standstill. While that helped the stock recover from Friday's carnage, lenders' patience will have a limit. General elections will be held soon; and the opposition Congress party, which has started fancying its chances in the polls, is no fan of Zee Media Corp.'s news operations. (Chandra became a member of parliament with the support of the ruling party in 2016.)

Media isn't the only asset in play. The TV mogul has also put a chunk of his road portfolio on the block, though with the beleaguered IL&FS also looking to offload its transport investments, buyers are spoiled for choice. It'll be easier to deleverage by selling Zee than by disposing of a bunch of highways. If the pressure to come up with liquidity forces Chandra to cede control of his TV empire, then the new owner will have the deadbeat infrastructure financier IL&FS to thank.

## **2. DHFL diverted Rs 31,000-crore loans to promoter firms, says Cobrapost**

Cobrapost said its revelations were not based on whistle-blowers documents but a result of its research

Somesh Jha |

Media outlet Cobrapost on Tuesday alleged Dewan Housing Finance Corporation (DHFL) had diverted loans worth Rs 31,000 crore — a charge the company termed "mischievous".

The stocks of DHFL, a non-banking financial company, went down more than 8 per cent to close at Rs 170.05.

"DHFL has siphoned off Rs 31,000 crore into promoter companies to create private wealth through a network of shell companies," said Cobrapost, which held a press conference here on Tuesday.

According to the Cobrapost expose, DHFL, which has a net worth of Rs 8,700 crore, raised Rs 96,000 crore through loans and public deposits.

Cobrapost said, "By lending to shell or pass-through companies without due diligence, DHFL has ensured that the recovery of such dubious loans is impossible since the companies or their directors themselves do not own any assets. This way the properties or private wealth acquired by the promoters and their associates by using the funds from these dubious loans are completely ring-fenced from any recovery process that may be initiated by authorities under the SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest) Act or Insolvency and Bankruptcy Code of India."

Lenders, including public sector banks, have disbursed Rs 37,000 crore to the DHFL promoters, Cobrapost said, adding State Bank of India (SBI) had the highest exposure at Rs 11,500 crore, while Bank of Baroda has an exposure of Rs 4,000 crore in the group.

Cobrapost said its revelations were not based on whistle-blowers documents but a result of its research. The expose alleged the scam had been pulled off mainly by sanctioning and disbursing astronomical amounts in secured and unsecured loans to dubious shell/pass-through companies related to DHFL's own primary stakeholders Kapil Wadhawan, Aruna Wadhawan and Dheeraj Wadhawan through their proxies and associates, which had in turn passed the money on to companies controlled by the Wadhawans. "The money has been used to buy shares/equity and other private assets in India and abroad, including in countries like the UK, Dubai, Sri Lanka and Mauritius," it said.

Denying all the charges in an official statement, DHFL said the company was a publicly listed one and regulated by the National Housing Bank and the Securities and Exchange Board of India, among other regulators.

“This mischievous misadventure by Cobrapost appears to have been done with a mala fide intent to cause damage to the goodwill and reputation of DHFL and resulting in erosion in shareholder value,” the statement said, adding the company was a law-abiding corporate entity and all loans were disbursed in compliance with all regulatory norms. DHFL said it had a strong corporate governance regime and received the AAA credit rating from leading agencies. “The company is fully tax-compliant and its books are audited by global auditors,” it said. The NBFC further said as a responsible corporate, it met all obligations to the lenders and paid back more than Rs 17,000 crore in the last three months “despite the recent liquidity regime”.

The real intent of this exercise appears to be to destabilise the company, DHFL said.

### **Cobrapost claims**

- DHFL diverted loans worth Rs 31,000 crore to create private wealth through a network of shell companies
- Alleged scam pulled off by sanctioning and disbursing astronomical amounts in secured and unsecured loans to dubious firms related to DHFL's own primary stakeholders
- Money used to buy shares/equity and other private assets in India and abroad

### **Financial Express**

#### **3. PSUs face credit risk from share buybacks, warns S&P**

By: [FE Bureau](#)

As per S&P, the credit impact on the respective companies can vary depending on the size of cash outflow.

The Centre’s bid to boost its non-debt capital receipts by pushing the cash-rich central PSUs to buy back their own shares has impacted the credit profile of these firms.

S&P Global Ratings said on Tuesday that corporate activities that are designed to support the government coffers by PSUs are ‘credit negative’ for such entities.

In the past three months, 10 PSUs have announced or executed buybacks for a cumulative amount of Rs.15,000 crore, which will count toward the government’s target of Rs.80,000 crore from disinvestment of state-owned entities. As FE reported earlier, buybacks and liberal dividends have depleted central PSUs’ surplus cash from Rs.2.64 lakh crore in FY14 to Rs.1.95 lakh crore in FY17 and further to Rs.1.7 lakh crore in FY18. CARE Ratings said in a report on Tuesday that in all years from FY15 to FY19, off-budget allocation of capital expenditure via internal and external budgetary resources (funds raised by central PSUs by way of profits, loans and equity among others) has been higher than the budget allocation of capital expenditure.

In fact, the PSUs are also being made to invest in the government's assorted schemes and programmes.

Funds raised by the CPSEs through external sources like bonds/debentures, ECBs and suppliers credit (excluding internal profits and others) which are essentially the off-budget amount available by the government to fund capex rose from Rs.1.49 lakh crore in FY16 to Rs.2.02 lakh crore in FY17 to Rs.2.17 lakh crore in FY18, according to CARE Ratings.

As per S&P, the credit impact on the respective companies can vary depending on the size of cash outflow.

"Extracting cash from SOEs (PSUs) decreases their financial flexibility in a stress scenario, which — at least over the short term — is credit negative at the firm level," S&P said. "While we await the final acquisition cost, PFC's leveraged buyout of the government's 52% shareholding in REC led us to place the rating on CreditWatch with negative implications. Although we don't expect a change in government support for PFC, if the government were to reduce its shareholding, this would trigger a review our rating on PFC with pressure likely to the downside," S&P said.

It added while extraction of existing excess capital in the form of dividends generally has an impact only on the short-term business of these firms as dividends are discretionary and can be scaled back if future profitability is low. "In contrast, we believe that debt-funded share buybacks, mergers or acquisitions have longer-term implications. Further, reduced government linkages to divested firms may lower the likelihood of government support in a stress scenario," S&P said.

(With PTI inputs)

## **Economic Times**

### **4. Taxman targets banks for free logo use by subsidiaries**

*By Joel Rebello|Sachin Dave*

The tax department has started issuing notices to banks that allow subsidiaries, such as mutual fund and insurance units, to use their logos for free. The tax department wants the banks to pay 18% GST on the "deemed" value of such transactions and has even calculated how much these are worth, said people with knowledge of the matter.

State Bank of India, Citibank, ICICI Bank, Bank of Baroda, Kotak Mahindra Bank NSE -0.72 % and others have received show-cause notices or are being scrutinised and could soon be getting them, said people with direct knowledge of the matter. Subsidiaries use logos for the promotion of related products with the understanding — sometimes included in a contract — that no fees have to be paid. The tax department says these are "related party transactions" and hence should be subjected to valuation regulations as per the GST framework.

This follows banks being asked last year to cough up taxes on services provided free to customers.

The department has arrived at a value for such transactions and imposed GST on that.

Citibank declined to comment. SBI, ICICI, HDFC Bank, Kotak Mahindra Bank and Bank of Baroda did not respond to queries. Axis Bank and Yes Bank denied having received any such notice.

The banks that have got the notices have to reply by March end. None of them has done so yet, according to the people cited above.

Tax experts said nothing under the GST framework is considered free. Everything has a value and hence tax has to be paid on the amount.

Under GST, a "supply of brand" is deemed to have taken place from the bank to the subsidiaries, which are related parties, an expert said. Logos and trademarks are licensed by the bank that holds them to its subsidiaries. This didn't attract attention previously because there were no regulations that dealt with free supply of services between related parties, experts said.

"The critical aspect to be considered is whether there is a supply and if there is a supply — only then — consider the valuation of the supply," said Uday Pimprikar, partner, tax and regulatory services, EY India. "Having said this, it needs to be appreciated that neither service tax legislation or state VAT (value added tax) legislation contained conditions that mandated an arm's length pricing of supplies between related parties — this was on account of the extreme difficulty in complying with such provisions as also administrating the same."

The incremental revenue on this count would be nominal in the overall scheme of things, he said, adding that the government should consider simplifying the valuation rules.

"As receipt of consideration was a prerequisite for an activity to qualify as a service, taxability of free-of-cost services was not an issue in the erstwhile service tax regime," said Mekhla Anand, partner, Cyril Amarchand Mangaldas. "However, the GST regime contemplates tax on free supplies between related parties."

Banks may not be able to claim input tax credit on this count.

"Where the GST paid is available as a pass-through, there are no concerns. However, this may create disruptions where credit cannot be offset in its entirety by the recipient," said Anand.

This is the second big issue banks are facing with the indirect tax department. In notices served in April last year, all banks were asked to pay service tax, penalties and interest on free services offered to customers. The demand was retrospective with a 12% service tax claimed since 2012, 18% interest on the amount and a 100% penalty. This issue could also come to haunt the banks again under the GST regime, say tax experts.

## **Business Line**

### **5. Dhanlaxmi Bank to focus on NPA reduction: CEO**

[V Sajeev Kumar Kochi](#)

When T Latha, the MD and CEO of Dhanlaxmi Bank, took over the reins of the crisis-ridden bank in July 2018, she had some definite plans to turn around the 90-year-old institution.

Her efforts – with the collective support of the entire banking team – have not gone futile. The bank started making profits in the last two consecutive quarters with PAT of Rs.16.90 crore in Q3 of the current fiscal vis-a-vis Rs.21.74-crore loss in the corresponding period of the previous fiscal. Now, she is confident of achieving 8-10 per cent growth in business in the current fiscal, with a clear focus on retail growth, both in assets and liabilities. In a brief chat with *BusinessLine*, she spoke on the initiatives to enhance the bank's business as well as strengthening the monitoring mechanism to arrest fresh slippages. Excerpts:

### **What led to the rise in net profits this quarter?**

In the third quarter, operating profit increased by 38.96 per cent and net profit by 177.69 per cent. Net interest income and non-interest income have also increased by 8.92 per cent and 24.87 per cent, respectively. We could improve the net interest income through proper liability management. Our efforts to recover from written-off accounts also helped improve the total income. Further, reduction in provision requirement for NPA accounts due to effective recovery/monitoring measures and reduced provisioning requirement for investment portfolio, supported the increase in net profits.

### **Why has the gross NPA increased?**

Gross NPA rose to 8.11 per cent of total advances from 6.96 per cent. It increased slightly due to stress in a few accounts in the last three quarters. However, net NPA is at the same level. To reduce gross NPA, we have strengthened the monitoring mechanism, which helped control fresh slippages. However, there is no particular sector responsible for the increase in gross NPA.

### **What measures did you take to reduce net NPA?**

Net NPA declined to 2.93 per cent from 4.08 per cent a year ago due to recovery. Moreover, we have strengthened and streamlined the entire recovery and monitoring process and, reviewed regularly, at various levels, to improve the effectiveness. We have also introduced different recovery, OTS schemes to accelerate the process.

### **What are your plans for this quarter?**

The bank intends to improve business by concentrating on retail growth, both in assets and liabilities. NPA reduction is another focus area, besides improving non-interest income

We have formed marketing teams to source credit business. Our main focus will be on gold loans, retail loans, business loans and MSMEs. We have a very strong business in the micro-finance sector and have come out with specific products to facilitate women customers.

We have introduced a new loan product, based on GST returns, to offer speedy solutions for the working capital requirements of MSME customers by way of overdraft. This facility brings in improved convenience of easy

sanctioning of OD facility, as paper-intensive assessment of financial documents, including balance sheets of previous years, are not mandated. This also enhances the convenience for MSMEs (based on GST returns) for assessing their eligibility of working capital limits, thereby simplifying the process for sanctioning OD with minimum turnaround time.

With kind regards,

Yours Comradely,

A handwritten signature in blue ink, appearing to read 'N. Govindrajulu', with a long, sweeping underline that extends to the right.

**( N. GOVINDRAJULU )  
GENERAL SECRETARY**