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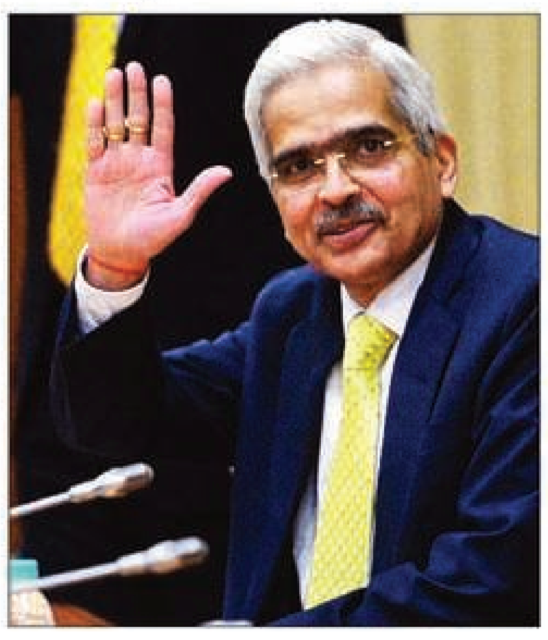
RESERVE BANK OF INDIA'S FINANCIAL STABILITY REPORT

Bad Loans Declining for First Time Since 2015

THE GOOD AND THE BAD Report says asset quality of banks has improved, although profitability continues to erode

Our Bureau



Mumbai: The Reserve Bank of India (RBI), which has been relentlessly pushing banks to recognise bad loans, believes that they may be over the worst with the industry likely reporting a decline in non-performing assets (NPAs) in the current fiscal year for the first time since 2015, when the regulator began tightening norms.

The central bank forecast gross bad loans will decline to 10.3% of total loans by March 2019 from 10.8% at the end of September 2018 and 11.5% in March 2018. The net NPA ratio also registered a decline during the period.

"In a sign of possible recovery from the impaired asset load, the GNPA (gross non-performing asset) ratio of both public and private sector banks showed a half-yearly decline, for the first time since March 2015, the financial year-end prior to the launch of asset quality review," RBI said in its 18th Financial Stability Report, the first since Shaktikanta Das became governor in December following Urjit Patel's departure. "The banking stability indicator (BSI) shows that asset quality of the banks has improved, although profitability continues to erode."

The Indian banking industry was plunged into gloom after RBI's asset quality review in 2015 forced lenders to reclassify many standard loans as bad assets. These had been shown to be standard by either evergreening or restructuring on terms that were impossible to achieve. Many corporate borrowers with revamped loans continued to struggle and default on payments.

The turnaround will be good news for the government, which has been looking to shore up credit growth in order to spur economic activity and generate jobs. Financial services secretary Rajiv Kumar had told **ET** last week that the bad loans of state-run banks were declining and that they had recognised most of their stressed assets.

While the overall situation is improving, the jump in bad loans under a stress test scenario will leave many banks vulnerable and push them below minimum capital requirements, said the report.

"Sensitivity analysis indicates that 18 SCBs (scheduled commercial banks), including all public sector banks (PSBs) under Prompt Corrective Action (PCA) may fail to maintain the required CRAR (capital to risk weighted assets ratio) under a two standard deviation shock to the GNPA ratio, unless capital infusion takes place and banks improve their performance," said the report.

MORE REPORTS ▸▸ PAGE 7

Although the industry shows signs of stabilising, the gulf has widened between banks under PCA due to their weak finances and those with sufficient capital.

"There has been a further widening between PCA and non-PCA PSBs," it said. "While the non-PCA PSBs' credit growth improved from 9.1% in March 2018 to 13.6% in September 2018 and deposits increased from 6.1% to 7.9% in the same period, the PCA-PSBs registered negative growth in both credit and deposits."

Patel quit as RBI governor following differences with the government such as the restrictions on weak banks under the PCA regime, easing liquidity for non-banking finance companies and the level of reserves the regulator needed to hold.

PURE POLITICS

Triple Talaq Bill Stalled in RS

The triple talaq bill, which makes instant talaq a punishable offence and was passed in the Lok Sabha last week, was stalled by a united Opposition in the Rajya Sabha on Monday. The House was adjourned for the day in the afternoon. Earlier, the opposition parties at a joint meeting decided to support the resolution brought by Trinamool Congress to send the bill to a select committee. ▸▸ 2

JPC Nod in Toto to Citizenship Bill

A Joint Parliamentary Committee on Monday cleared the bill to amend the Citizenship Act, 1955. The bill seeks to grant citizenship to people from minority communities – Hindus, Sikhs, Buddhists, Jains, Parsis and Christians – from Afghanistan, Bangladesh and Pakistan after six years of residence in India instead of 12, even if they don't possess proper documents. ▸▸ 3

ET INSTA POLL

Do you think the new restriction on etail discounts is unfair to the consumer?

YES	NO	CAN'T SAY
61%	34%	5%

TODAY'S QUESTION

Is Shaktikanta Das more likely to opt for policy continuity rather than drastic changes at RBI?

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REGULATORY FILING TO QUASH SPECULATION

RCom, Jio Keep Asset Sale Deal Alive, Extend Deadline to June 28

DoT's rejection of spectrum deal between telcos sparked speculation about fate of wireless asset sale

Our Bureau

Mumbai: Reliance Communications (RCom) and Reliance Jio Infocomm (Jio) have extended till June 28 the term of the pact under which the Anil Ambani-owned company will sell some wireless assets to the telco owned by elder brother Mukesh, aiming to quash talk that the agreement was dead.

"Reliance Jio Infocomm Ltd, a subsidiary of Reliance Industries Ltd, extended the term of the definitive agreement for the acquisition of specified assets of Reliance Communications Ltd and its affiliates to 28th June 2019," Jio said in a regulatory filing on Monday.

In a separate but similar filing, RCom said that the two operators have extended the "validity of the agreements signed on 28th December 2017 for sale of towers, fiber, MCNs (media convergence nodes) and spectrum of RCom and its affiliates to 28th June 2019." That's a six-month extension from the original deadline of December 28.

Both companies didn't reply to ET' emailed queries.

While the Rs17,000-crore pact covered four wireless assets, the spectrum was at the heart of the deal. It will allow Jio to strengthen its 4G airwave holdings and help RCom pare its Rs46,000-crore debt by paying off financial lenders besides operational creditors such as Sweden's Ericsson. RCom has already sold fibre and nodes to Jio for Rs 5,000 crore.

"This announcement will stop all speculation that it was off the table," said an executive who didn't want to be named.

Speculation about the fate of the deal had been sparked by the department of telecommunications (DoT) rejecting RCom's deal to sell spectrum to Jio about two weeks ago, saying it didn't conform to airwave trading rules.

DoT's decision followed Jio's letter to the government seeking an assurance that it won't be held liable for RCom's past dues related to airwaves. In its letter, Jio further said that DoT should only clear the deal once the Mukesh Ambani-owned telco confirmed that RCom had fulfilled certain conditions agreed to between the two companies.

DoT said Jio's conditions were not in accordance with the government's spectrum-trading norms, which stipulate that the buyer is liable for dues that haven't been recovered from the seller.

FM SAYS RBI RESERVES NOT REQUIRED TO MEET FISCAL DEFICIT TARGET

Supplementary Demand for Grants

The government does not need the Reserve Bank of India's reserves to meet its fiscal deficit target, finance minister Arun Jaitley reiterated, replying to a parliamentary debate on the supplementary demand for grants. ▸▸ 9

Policy Sops on Anvil for Apple, Others

Bid to encourage cos to make & export from India

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New Delhi: The Centre is exploring specific policy incentives to woo Apple Inc along with other electronics manufacturers to make and export from India, said a top government official.

The Cupertino-based technology giant is in talks with the Ministry of Commerce and the Department of Revenue to seek certain sops for its component manufacturers. The company is seeking a commitment of tax breaks for five years under the Merchandise Exports from India Scheme (MEIS), besides income tax benefits for the proportion of exports made. Officials from the two ministries have sought inputs from the Ministry of Electronics and IT (MeitY) for the proposed policy tweaks, the person told **ET**.

"Apple doesn't see India as a large domestic market, so their plan is more export-driven," said the official.

Under the MEIS scheme, the government provides duty benefits of 2-4% depending on the product and the country to which it is being exported.

ANGEL TAX CONTINUES TO HAUNT STARTUPS ▸▸ PAGE 10

MeitY is in favour of expanding India as a hub for electronics exports through these incentives. The government is keen to ensure that the entire electronics manufacturing industry benefits from any change in policy instead of sops being doled out only for Apple, the person said on the condition of anonymity.

Light Vehicles Keep India on Fast Track

Country fastest growing among top 5 markets

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Mumbai: India has kept its position as the fastest growing among the top five markets for light vehicles in 2018, a year when a weak China is predicted to have pulled the automotive industry into its first recession in a decade.

The Indian market is estimated to have grown 8.6% to about 4 million units in the year that just went by, automotive forecasting firm IHS Markit said. Among the other top markets, it expects China and Germany to report a fall in output, and the US and China to post flat numbers.

India has held on to the pole position for at least two years now, despite the local market facing an adverse macroeconomic environment of rising finance and insurance cost, and uncertain fuel prices. In 2017, the market had expanded at a marginally slower pace of 8.2%. Light vehicles include cars, utility vehicles, vans and pickup trucks.

Gaurav Vangaal, senior analyst for forecasting at IHS Markit, said such sustained strong growth would give confidence to global majors to remain focused to India, especially at a time when they are facing headwinds in other markets. In December, Bloomberg News reported that the global automotive industry was heading to its first decline in output since 2009.

"The inherent structural demand of the Indian market helped vehicle makers overcome multiple challenges right from a spike in tariff, hike in interest rates and rupee depreciation," Vangaal said.