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₹6,000 CRORE TO BE INJECTED THROUGH RECAPITALISATION BONDS

Fund infusion to Exim Bank comes amid deteriorating assets quality

SUNNY VERMA
NEW DELHI, JANUARY 20

THE GOVERNMENT'S decision to infuse Rs 6,000 crore in Exim Bank — more than Rs 4,800 crore of capital injection in the last five-and-a-half years put together — comes in the backdrop of sharp deterioration in assets quality as well as capital adequacy of the leading export credit agency while it recorded steep losses since 2017-18.

Earlier this week, the Union Cabinet approved plans to inject equity into Exim Bank in two tranches — Rs 4,500 crore in 2018-19 and Rs 1,500 crore in 2019-20.

With the government facing financial constraints, the fund infusion is being done through issuance of recapitalisation bonds, on the lines of similar bonds being issued for capital infusion in public sector banks.

Even as the Union Budget for 2018-19 had allocated only Rs 500 crore for equity infusion in Exim Bank (or Export Import Bank of India), the Centre had to step up funding support sharply to augment the bank's capital adequacy amidst mounting non-performing loans (NPL) and provisions to cover against loan losses.

E No immediate impact expected on fiscal deficit

THE STRATEGY of infusing equity in state-owned banks through issuance of recapitalisation bonds has been extended to export credit agency Exim Bank, as the government approved capital infusion of Rs 6,000 crore. Deteriorating asset quality and falling capital adequacy ratio prompted the government to pump in a record amount into the bank.

While the infusion through the recapitalisation bonds route does not immediately impact the fiscal deficit, extension of its usage indicates that this is emerging as a key tool for the government to support banks and financial institutions without impact the fiscal consolidation plan.

Exim Bank recorded gross NPL ratio of 12.93 per cent in the first half of the current fiscal, up from 10.34 per cent in 2017-18, according to a recent investor presentation made by the bank. Its net NPL ratio also jumped to 4.14 per cent in first half of current fiscal, from 3.75 per cent in 2017-18.

The bank suffered a net loss of Rs 2,923.7 crore in 2017-18 and Rs 508 crore in the first half of the current fiscal year.

The bank had negative return on assets and negative return on

Year	Gross NPL Ratio (%)	Capital Adequacy Ratio (%)	Net Profit (₹ Crore)
2013-14	2.1	14.32	710
2014-15	2.94	15.34	726
2015-16	4.17	14.55	316
2016-17	9.24	15.81	41
2017-18	10.34	10.35	(-)2,924
2018-19 (Apr-Sep)	12.93	9.85	(-)508

Source: Exim Bank investor presentation

year, the Reserve Bank of India did away with all its earlier instructions dealing with resolution of stressed assets and replaced them with the revised framework for resolution of stressed assets.

The circular specified that the one-day default norm requires banks to implement a resolution plan within 180 days and in case of non-implementation, lenders are required to file an insolvency application.

Exim Bank's provisions against NPLs jumped nearly three times to Rs 6161 crore in 2017-18 from Rs 2168 crore in 2016-17.

Regulated by the Reserve Bank and fully owned by the central government, Exim Bank lends to exporters and supports overseas buyers and Indian sup-

pliers for export of developmental and infrastructure projects, equipment, goods and services from India.

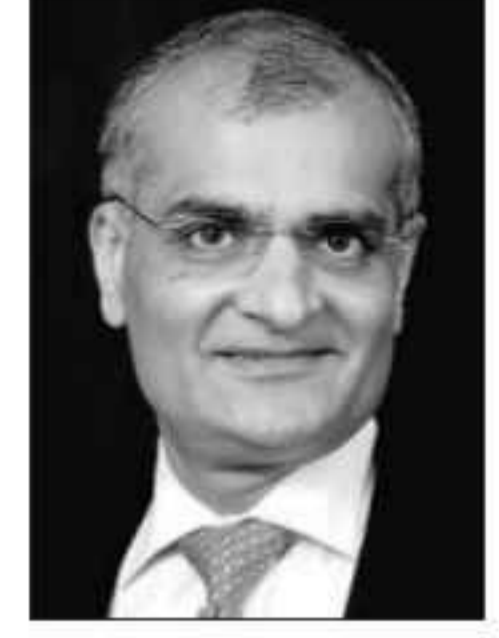
It provides export finance, buyer's credit, pre and post shipment credit, lines of credit among others.

While approving equity infusion in Exim Bank, the government said: "The infusion will give an impetus to anticipate new initiatives like supporting Indian textile industries, likely changes in Concessional Finance Scheme (CFS), likelihood of new LoCs (Lines of Credit) in future in view of India's active foreign policy and strategic intent." The Centre also approved an increase in the bank's authorised capital from Rs 10,000 crore to Rs 20,000 crore.

RASHESH SHAH, CHAIRMAN AND CEO, EDELWEISS GROUP

'Two areas govt slipped on were agri distress and pvt sector investments'

IF OUTCOME of the general elections 2019 remains the biggest uncertainty for the markets, **Rashesh Shah, chairman and CEO, Edelweiss Group** told **Sandeep Singh** that the market is already preparing for it. Stating that the fundamentals look set for strong growth in 2019, he said that markets will not be too stressed if there is a coalition government as structural policy decisions that have been taken will continue. Pointing that there is a sense within the government that agri, small business and urban poor have not done well over the last four years Shah said that he expects some announcement on the farm sector soon. Excerpts:



What if a coalition government comes to power at the Centre?

Now that the five year term of the current government is coming to an end, how do you assess it?

I think overall a lot of work has been done such as GST, IBC and RERA among others. Foundation has been laid and good policies have been put in place whose impact will come in three-five years. However, the two areas that it slipped on were agricultural distress and private sector investments. Low food prices for a long period of time coupled with demonetisation put a lot of pressure on agri economy and its revival remains an urgent requirement.

On investments, I would say that the interest rates stayed too high and liquidity remained restrictive for too long. I think we have one of the highest real interest rates in the world. However, I remain optimistic and I think the economy is a coming back and all things are falling in place and 2019 should be a good year.

What gives you that optimism?

Capital investments have started, capacity utilisations are crossing 75 per cent in several sectors. Bank credit growth has picked up even as it slowed down for NBFCs (non-banking financial companies). While the combined credit growth of banks and NBFCs over the last five years was 12 per cent, I think it will average 14-15 per cent for the next two years. Oil prices are lower and inflation remains low. If US economy slows, it is good for us because if US economy is under pressure, oil prices come down and interest rates come down. India imports only two things — capital and oil. So when there is some pressure in global economy, it results in lower oil price and lower interest cost and that is good for India.

As of now the liquidity remains tight and interest rates are high and this does not augur well for investment revival. However, as it improves over the next few months, the economy will take off. Also, once the election uncertainty is out of the way, it will help lift sentiments.

answers even from industry chambers as they have many companies that work in rural areas and so they wanted to know what can be done pre and post harvest. I think some announcement on farm sector will definitely come in the near future.

How do you see the NBFC liquidity crisis?

The liquidity problem stated even before IL&FS issue. When demonetisation happened then a huge amount of liquidity came into the system and that liquidity went out slowly as people took back the cash. Also, FIs sold a lot from both from equity and debt markets last year. The IL&FS issue on top of these two acted as a spark in a fairly combustible environment.

In the hindsight, I am partly happy that it happened as it was a good stress test for the industry and the NBFCs came out very well. There were some concerns on ALM mismatch but that was not a big issue. The industry in the long term will become stronger. Earlier, they were focussed only on growth and profits but now people are starting to ask questions on asset liability management and that is a good development.

Also, some rebalance was required. Over the last four years it was all NBFCs and no banks but now some growth has switched back to banks.

Ideally NBFCs and banks are complementary to each other, but since 2014-15, only NBFCs were growing as banks had their own issues on NPA etc. Now that balancing has also happened. If this would've happened a year later, it would have been much tighter and harder to handle. It was a much needed speed breaker and people slowed down, looked into their businesses, processes and now the road will open up and growth will come back.

Are you happy with how RBI handled the issue?

I think the RBI should have done more on liquidity and commentary. They should have calmed the market by saying that we are there, which they are doing now. When the panic sets in, it is important for RBI to come and say that we will not let anything go wrong. NBFCs have become a very important part of the system and now 20 per cent of the credit economy and they will grow.

How do you see market movement from here?

Until the elections there will be some sort of cap on markets because the uncertainty is for real. But, the underlying economy is doing well and if oil prices remain low, RBI cuts interest rates and infuses more liquidity then the second half of the year will be very good.

BRIEFLY

'Financial stress could impact flight safety'

New Delhi: Raising concerns over delayed salary payments, a group of Air India pilots has said that financial stress could impact flight safety. The Indian Pilots' Guild also told DGCA that the management has repeatedly cited financial losses to illegally change their service conditions and withhold payment of arrears.

Some banks likely to be out of PCA: Kumar

New Delhi: Some public sector banks could come out of the Prompt Corrective Action (PCA) framework in next few months on the back of improvement in various parameters, Financial Services Secretary Rajiv Kumar said.

Three pharma majors recall products in US

New Delhi: Indian drug majors Lupin, Sun Pharma and Glenmark Pharmaceuticals are recalling various drugs from the US market for a variety of reasons. **PTI**

Oct saw most complaints filed with NAA in FY19

This fiscal, till November, over 350 complaints have been filed with the NAA, with 93 filed in October alone

THE NATIONAL Anti-Profitteering Authority (NAA) has been constituted under Section 171 of the Central Goods and Services Tax Act, 2017, to ensure that the reduction in rate of tax or the benefit of input tax credit is passed on to the recipient by way of commensurate reduction in prices

COMPLAINTS RECEIVED BY NAA IN 2018

Month	Received on NAA portal	Received by e-mail	Received by post	Total
April	9	0	1	10
May	7	0	1	8
June	4	2	2	8
July	62	3	2	67
August	64	6	4	74
September	64	0	1	65
October	43	44	6	93
November	16	18	1	35

DURING the current fiscal, a rising number of complaints regarding companies not passing on the full benefits of tax cuts to consumers have been received by the NAA. The details are:

Commissioners of Central Tax to stress upon consumer awareness programmes
 ■ Launching a helpline to resolve the queries of citizens regarding registration of complaints against profiteering
 ■ Receiving complaints through email and NAA portal
 ■ Working with consumer welfare organisations in order to facilitate outreach activities
 (Source: Ministry of Finance)

High costs keep Q3 results dull across sectors

ENS ECONOMIC BUREAU MUMBAI, JANUARY 20

THE DECEMBER quarter earnings season was not expected to be an exciting one and while these are early days, the results so far have been ordinary. As anticipated, revenues have risen sharply but so have costs and competition; consequently, margins are under pressure. Hindustan Unilever (HUL) reported strong volumes, up 10 per

cent year-on-year (y-o-y), and net operating revenues, which rose 11 per cent y-o-y. However, the domestic business grew at a somewhat subdued 13 per cent y-o-y, possibly due to the less-than-expected pricing power. If HUL managed to post good Ebitda margins despite keen competition, it was by reining in costs — employee costs declined five per cent y-o-y while ad spends were down 50 basis points (bps) as a share of revenues.

At TCS, revenues were strong but margins were weak, contracting 90 bps quarter-on-quarter. Analysts believe growth at India's biggest software service player will slow down in 2019-20, given the signs of a macro-slowdown in the US.

Infosys, too, reported a very smart topline growth; revenues in constant currency rose 10.1 per cent y-o-y.

However, the IT major's Ebit margins fell 110 bps q-o-q due to a higher on-site mix and a lower utilisation rate. Costs and competition hit Avenue Supermarkets' where Ebitda margins slipped 200 bps y-o-y, even though revenues were up 33 per cent y-o-y. The retailer reported net profits that missed analysts' estimates.

For a sample of 67 companies (including banks and financials), operating profit margins contracted 300 bps year-on-year.

Revenue for IT companies were boosted by a weak rupee and as such total revenues jumped 39 per cent y-o-y. **FE**

WORLD ECONOMIC FORUM TO KICK OFF THIS WEEK

With Trump out, Davos chief eyes fixing world architecture

ASSOCIATED PRESS
DAVOS, JANUARY 20



Klaus Schwab during an interview on the eve of the World Economic Forum in Davos, Sunday. AP

THE FOUNDER of the World Economic Forum says US President Donald Trump would have been an "interesting discussion partner" at its annual Davos event starting this week, but acknowledges that the partial US government shutdown scuttled those plans.

Klaus Schwab says he saw Trump shortly before Christmas and heard he had been "very much looking forward to coming back." Last year, Trump was a highlight attendee at the elite gathering in the Swiss Alps, where he dined with business executives and met foreign leaders. Trump canceled the US delegation's trip to Davos this year amid the partial government shutdown.

"He would have been an interesting discussion partner," Schwab said. "But of course, we

cuts doped-up the economy and markets last year.

"I'm concerned because we are walking on very thin ice," Schwab said in an interview at the Davos conference center. "We are the back-end of a very strong, long positive economic cycle — maybe boosted by tax relief in the US."

Schwab, who believes the world is going through a "Fourth Industrial Revolution" involving rapid technological change, says too many are being left behind. He wants to see more "equilibrium" between national or individual needs and imperatives facing the world. "We are living in an interdependent, global humanity and there are global challenges like the environment, like terrorism, like mega-migration for which we have to find common solutions," he said.

The forum released Sunday a poll in which more than three-fourths of respondents said it was "important" or "very important" for countries to work together toward a common goal — a feeling that was strongest in places like South Asia or sub-Saharan Africa. Smaller majorities in Europe and North America felt the same way.

The poll of more than 10,000 people across 29 countries, considered to be a representative sample of various economic levels and continents, was conducted through online from January 4-17.

WEF said the survey results pointed to a "rejection of populism." But Schwab said leaders need to do a better job of addressing people's problems.

"We have really a gap in terms of shaping the future," he said.

"So, it's not astonishing that people lose hope because if you don't know how your future looks particularly at times of rapid change, then you become really egocentric, you revert to a bunker mentality — and that's reflected not only on the political and national level."

Indians biggest supporter of international aid, says survey

Davos: Indians have emerged as the biggest supporters of international aid, with a global public opinion survey putting India on the top when it comes to people expecting their nation to help other countries.

The survey released by the World Economic Forum ahead of its high profile annual meeting in this ski resort town on the Swiss Alps showed that South Asian countries, including India, Pakistan and Bangladesh, as also Nigeria and Saudi Arabia exhibit widespread support for international aid.

The respondents in the survey of over 10,000 people were asked that do they think their country has a responsibility to help other countries in the world.

As many as 95 per cent Indians replied in affirmative, which was the highest for any country, followed by 94 per cent in Indonesia and Pakistan each.

Bangladesh followed with 87 per cent, while Nigeria scored 84 per cent, Saudi Arabia 83 per cent and China 80 per cent.

The global average was 72 per cent, with countries like Argentina, France, Germany, the United Kingdom and the United States scoring 60 per cent or below. **PTI**

Decentralise policy implementation: Jalan

ENS ECONOMIC BUREAU
KOLKATA, JANUARY 20

AMID SHARP criticism from the Opposition that the nda-LED central government has been "compromising" with independence of autonomous institutions, former governor of the Reserve Bank of India (RBI) Bimal Jalan on Sunday said there should be a "decentralised system" in terms of implementing policies.

Jalan stated that the administrative system needs to be made much more "public-oriented, rather than the government-oriented, which is the case now".

In December last, Jalan was appointed chairman of an expert committee tasked with framing guidelines to decide on an appropriate size of reserves that the RBI should maintain and the dividend it should give to the government.

Jalan said the administrative system needs to be made much more "public-oriented, rather than the government-oriented, which is the case now"

"It has to be decentralised. Policy decision by the government, but implementation (should be carried out) by the independent institutions... Once institutions like the UPSC, Election Commission, CAG (Comptroller and Auditor General) have been set up for public interest and to serve the public, then they should be autonomous," Jalan said on the sidelines of the 202nd Founders' Day Celebrations, organised by the Presidency University. **FE**