Bankers flag issues on realty sector exposures

List delays in project completion and defaults as reasons

ABHIJIT LELE
Mumbai, 16 February

Banks have highlighted issues like delay in project completion, lack of fund sources, divergence of money, governance and defaults as reasons for their hesitation to take up additional exposure to the real estate sector.

This comes after Union cabinet minister Piyush Goyal's statement that bankers will meet real estate players in a forthright.

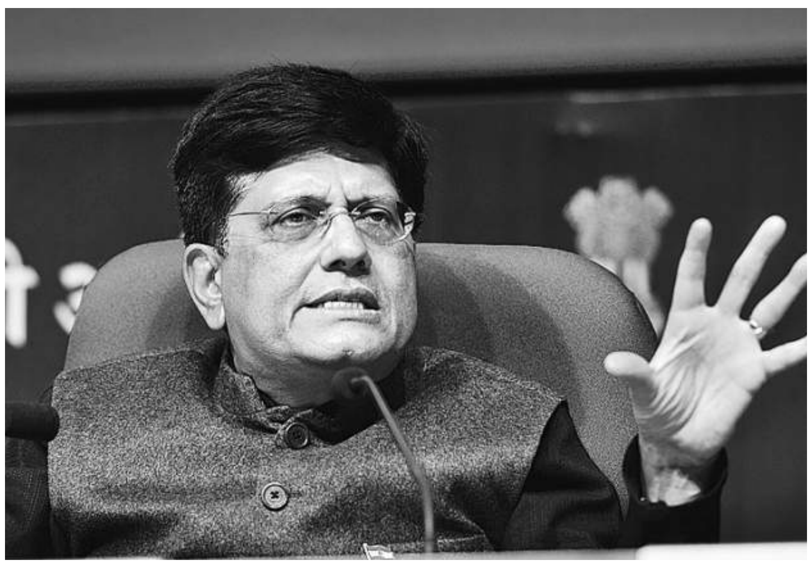
The sector has been hit hard by demonitisation and the Real Estate Regulations (RERA). This is in addition to challenges like delays in project completion, questionable sources of funds and divergence of money and weak project management practices, bankers said.

A few days ago, while addressing a Confederation of Real Estate Developers' Associations of India (CREDAI) event in Delhi, interim finance minister Piyush Goyal had said that within the next 7-15 days, the Indian Banks' Association (IBA) will hold a meeting with the real estate players to help increase funding to the sector.

The minister also assured that goods and services tax (GST) rates would be brought down soon for the sector, which has been facing a demand slack.

"There is a real problem (being faced by the realty sector)," Goyal said.

Public sector bankers dealing in housing finance said the sector is in transition, showing the effects of RERA. Many of the builders have taken huge exposures and inventories (housing units and commercial places) are piling up. The returns are coming down. Some of them are defaulting, which is matter of concern for lenders.



While addressing a CREDAI event in Delhi a few days ago, Union minister Piyush Goyal told banks they will have to meet real estate players in a fortnight

After Reserve Bank India's (RBI) February 12, 2018, circular on restructuring of stressed loans, which is more stringent, things have become tight. So, there is hesitation to take additional exposure to the already risky sector, pointed out a private banker.

The loans to commercial real estate sector from banks have grown by just 4.1 per cent in 12 months in December 2018. The outstanding loans to commercial real estate stood at ₹1.9 trillion, according to RBI data.

Rating agency ICRA, in its outlook on the real estate sector, said the residential realty segment has been increasingly relying on non-banking financial companies (NBFCs) and housing finance companies (HFCs) to raise debt financing. This is owing to the risk perception attached with the segment by banks.

The liquidity crunch faced by the NBFC and HFC segment towards the mid of FY2019 has impacted fund availability to the real estate sector. If the current scenario persists in FY2020, it may cause credit stress to developers who are reliant on refinancing to support balance sheets on land assets or slow-moving inventory, ICRA added.

India becomes No. 1 buyer of Venezuelan crude in Feb

LUCIA KASSAI
16 February

India is feasting on Venezuelan oil, after the US imposed a de facto ban on crude imports from the Latin American nation.

While flows to the US came to a halt, India became the No. 1 buyer of Venezuelan crude in the first half of February, with imports jumping 66 per cent to 620,000 barrels a day. Indian refiners Reliance Industries and Nayara Energy, which is backed by Rosneft Oil Co PJSC, are driving the boost.

Still, Venezuelan crude exports have plunged since US President Donald Trump ratcheted up sanctions against the country's oil company. Shipments of oil, the commodity that bankrolls the regime of embattled President Nicolas Maduro, fell to 1.12 million barrels daily in the first half of February, down 9.2 percent compared with the same period in January. No US-bound vessels have left Venezuelan ports in that time.

Seven Venezuelan oil-laden vessels loaded for US refiners Valero Energy Corp and Chevron Corp have been stranded since sanctions were announced on January 28, as state-owned Petroleos de Venezuela SA demands upfront payment for the cargoes. BLOOMBERG

Maiden maritime meet to focus on security, trade

MEGHA MANCHANDA
New Delhi, 16 February

A report confirmed that global merchandise trade conducted via the seas has been on the rise since 1975

Safeguarding the shores and promoting India-Asean trade along the sea route would be the theme for the country's maiden 'Regional Maritime-Safety Conference' in Mumbai on February 19 and 20.

The inaugural edition is being organised by the National Maritime Foundation (NMF) in coordination with the Ministry of Shipping and the Ministry of External Affairs.

A shipping ministry official said that India wants to safeguard its territory from its formidable neighbours and therefore safety and security of the shores is of paramount importance to the country.

"Besides, we want to develop our ports and port infrastructure to facilitate greater trade via the sea route," the official added.

Like India, several nations from East and Southeast Asia, too, are in the process of rolling out ambitious plans for accelerated economic development.

All of this have significant maritime implications, according to a concept paper on the maritime safety conference.

The volume of maritime traffic to be found within the India-ASEAN sub-region is already very dense. For instance, the Straits of Malacca-and-Singapore alone account for about 90,000 ship movements every year. And, a security beef up could help in boosting trade and martime connectivity. The UNCTAD's '2017 Review Report' confirms that global merchandise trade conducted via the seas has been on the rise since 1975.

Today, over 80 per cent of global trade by volume and 70 per cent by value is conducted via the maritime space. In the Indian context, 95 per cent of trade by volume and 77 per cent by value flows on the sea. Maritime transport provides unparalleled cost effectiveness, which is why it is the preferred choice for transportation of bulk commodities such as oil and coal, among others.

A research report by the American Geophysical Union, published in the magazine 'Science', noted that maritime traffic increased four-fold over the past 20 years.

Using satellite data to estimate the number of vessels transiting the oceans annually, it states that between the years 1992 and 2012, the number of ships traversing the oceans has grown by 60 per cent.

Of particular interest is the study's assertion that during the same period, ship-traffic along the Indian Ocean grew by more than 300 per cent.

This is also the period when piracy increased in the region (initially off the Straits of Malacca, and subsequently, off the coast of Somalia). Despite the immense spurt in piracy, the growth of maritime traffic continues unabated.

A Bill to protect investors from ponzi schemes

INDIVJAL DHASMANA
New Delhi, 16 February

Busting of the deposit-collection schemes run by the Saradha group in 2013 exposed the fault lines of such ponzi schemes. The moot issue was that there is no single regulator for these fund-raising activities and many do not figure anywhere in the regulated sphere.

To curb these activities, a comprehensive Bill was proposed in 2016-17 by Finance Minister Arun Jaitley. Subsequently, a draft Bill was put in the public domain by the Narendra Modi government. Then, the Banning of Unregulated Deposit Schemes Bill, 2018, was introduced in Parliament on July 18, 2018.

The Bill was then referred to the Parliament's standing committee on finance, which vetted it and again the revised Bill was tabled in the Lok Sabha earlier this month. The Bill was passed by the Lower House on the last day of the budget session, but it lapsed with the end of the session.

Forgetting politics behind moving the Bill so late in Parliament, the legislation was quite an important one to help the common man from falling into the trap of these schemes. One only hopes that the Bill is tabled again in Parliament by the new government, whosoever forms it.

Ponzi schemes, or those promising unrealistically high rates of interest to investors, broadly fall under a complex non-banking financial sector. At present, there are several regulators monitoring acceptance of money from the public. For example, non-banking financial companies (NBFCs) are regulated and supervised by the Reserve Bank of India (RBI) under the provisions of the Reserve Bank of India, 1934 (RBI Act). Chit funds and money circulation schemes are under the domain of state governments, while housing finance companies come under the purview of National Housing Bank (NHB). Collective investment schemes come under the purview of the Securities and Exchange Board of India (Sebi) and active deposit acceptance by companies other than NBFCs is regulated by the ministry of corporate affairs.

The Bill, to curb illicit deposit scheme lapses, was passed by the Lok Sabha on the last day of the budget session, but it lapsed as the session ended

Further, section 45S of the RBI Act prohibits acceptance of deposits by individuals and unincorporated entities. The obligation and the power to pursue violation of this provision rests concurrently with the RBI and the state governments concerned. RBI has consistently depended upon state governments to pursue such cases because of their relative advantage.

According to information provided by RBI, some 978 unauthorised schemes were discussed in state level coordination committee (SLCC) meetings in various states and UTs between July 2014 and May 2018. These cases were then referred to the respective regulators and law enforcement agencies in the states. A large number of such instances have been reported from the eastern part of the country, where Saradha group was also active earlier. In fact, advancement of technology is also leading to these activities.

Rachit Chawla, Founder & CEO, Finway, says,"At one end technology is creating the level playing field for socio-economic developments across the globe, on the other end, it is helping fraudsters in running various Ponzi schemes, and none other than the financial sector, which is considered as the backbone of industrial, economic, and social development is often the first target of Ponzi schemers."

However, what exactly comes in whose jurisdiction has also been contested. For instance, the famous Sahara-Sebi case relates to the issuance of Optionally Fully Convertible Debentures (OFCDs) by two companies of Sahara India Pariwar. Sebi had claimed its jurisdiction and objected to the fact that Sahara had not sought its permission. Sahara, on the other hand, had claimed that those bonds were hybrid products and did not come under Sebi's jurisdiction. The group claimed the instruments were governed by the Registrar of Companies (ROC) under the Ministry of Corporate Affairs, from which the two Sahara companies had already taken permission and submitted the red herring prospectus with ROC before issuing the bonds.

Later the Securities Appellate Tribunal (SAT) upheld Sebi's jurisdiction over the OFCDs. The Bill bans all the deposit taking activities that are not listed in a clause of the Bill that is regulated by various regulators. What's more, regulated deposit taking activities include EPF, which is regulated by EPFO, and the schemes regulated by PFRDA and IRDAI.

The Bill identifies three different types of offences, namely, running of unregulated deposit schemes, fraudulent default in regulated deposit schemes, and wrongful inducement in relation to unregulated deposit schemes. The Bill prescribes monetary penalty which could be as high as ₹ 50 crore and a jail term of up to 10 years for duping gullible depositors.

The principle is that the Bill would ban unregulated deposit collections altogether, by making them an offence ex-ante, replacing the existing legislative-cum-regulatory framework which only comes into effect ex-post, with considerable time lags.

The Bill has provisions for repayment of deposits in case the schemes manage to raise funds illegally. It allows states to designate a competent authority to ensure repayment of deposits in the event of a default. The Bill also prescribes powers and functions of the competent authority, including the power to attach assets of a defaulting establishment.

Timelines have been given for attachment of property and restitution to depositors. The Bill seeks to enable creation of an online central database for collection and sharing of information on deposit collections.

MFs seek common kitty for ratings

JASH KRIPLANI
Mumbai, 16 February

The Securities and Exchange Board of India's (Sebi) plan to make the credit rating agencies' business model less issuer-oriented through a proposed subscription-like platform on exchanges is unlikely to have the desired result, according to mutual fund (MF) industry officials.

Fund houses say need measures like rotating rating agencies to resolve any conflict of interest

Fund managers say the market regulator would need to take more measures to resolve the possible conflict of interests. "We need a framework where rating agencies are rotated after a certain time frame, like auditors. Additionally, instead of issuer choosing the rating agency, the regulator could put in a system where it assigns rating agencies to the issuer," a fixed income fund manager said, requesting anonymity.

The officials added that creating a subscription-like platform for ratings is not a feasible idea either. "Putting an explicit pay structure for ratings may not find many takers within the investor community. Just like mutual funds have pooled in their resources for investor education, the debt market participants can pool in a certain share of their assets towards rating fees," said Dwijendra Srivastava, chief investment officer (fixed income) at Sundaram MF.

According to reports, a proposal being mooted involves creating a platform on exchanges where an issuer files its draft prospectus. The rating agencies would then analyse the issuer's financials and other relevant fundamentals. The investors would pay the rating agencies they choose to see their ratings. A new investor of that paper can choose to continue with the same rating agency or pick up another one.

Fund managers said the ability of Indian rating agencies to assess companies is itself questionable as they tend to be aggressive in giving highest ratings to issuers. Compared to developed markets like the US where only a handful of companies are rated AAA, India has 60-70 AAA-rated companies, they pointed out.

The role of rating agencies came into spotlight last year when Infrastructure Leasing and Financial Services (IL&FS) saw multiple downgrades from AA-plus to D in a few days. The sharp nature of rating downgrades hurt net asset values of some schemes holding the IL&FS debt papers.

With focus on homes, Saubhagya overlooks enterprises, says study

JAYAJIT DASH
Bhubaneswar, 16 February

The Pradhan Mantri Sahaj Bijli Har Ghar Yojana, or Saubhagya scheme has achieved near 100 per cent electrification of households but not everybody has benefited from it. A sizeable chunk of commercial rural enterprises is still cut off from grid-connected power as the scheme's thrust is eminently on rural households, a study says.

The study commissioned jointly by Smart Power India, a subsidiary of the Rockefeller Foundation, in collaboration with the Initiative for Sustainable Energy Policy at Johns Hopkins School of Advanced International Studies (US) shows only 65 per cent of the micro rural enterprises in the surveyed states of Bihar, Odisha, Rajasthan and Uttar Pradesh were serviced by grid-connected power.

While the study gives accolades to the government for the massive electrification drive, it bares Saubhagya's overarching focus on household electrification, perhaps unintentionally prioritizing *ghar* (home) over *dukan* (enterprise).

Enterprises that have better access to reliable electricity rely less on diesel, can offer better services and stay open longer — increasing income for that entrepreneur, and creating prosperity within communities. Jaidep Mukherji, chief executive officer at Smart Power India, says: "Saubhagya explicitly aims to provide free electric connection to all households. Commercial rural enterprises are not a part of this mission. By providing free electricity connection to households, the government has removed the entry barriers to access an electric connection. However, for commercial rural enterprises, the upfront connection cost for the electric connections remains, and it is prohibitive for many, particularly those with lower electricity needs. There is a strong case of prioritising the micro-enterprise connections as they are potentially paying customers and are already paying for the fuel, like diesel."

A day after flag-off, Vande Bharat runs into trouble

Commercial run will start on Sunday as scheduled, said railways officials

Vande Bharat Express, returns from Varanasi after its inaugural run, at New Delhi Railway Station, on Saturday PHOTO: PTI

SHINE JACOB
Barhan/New Delhi, 16 February

The Indian Railways on Saturday said the Vande Bharat Express possibly hit a cow on its return journey from Varanasi to New Delhi, causing it to break down for a while. Those on the train said it was a traumatic experience.

Railway officials said commercial operations of the train would start as scheduled from Sunday.

Indian's first semi-high speed train, Vande Bharat, was flagged off on Friday from the national capital by Prime Minister Narendra Modi. On Saturday, during its return journey, it ran into trouble near Barhan, about 600 km northwest of Varanasi.

At 4:30 a.m., it stopped on its tracks. Power connection to several coaches failed. Smoke and a foul smell were detected in at least four coaches, along with a rattling sound, causing panic among passengers. At first the train stopped briefly before resuming its journey. It went on for a few kilometres at 10 kmph, before coming to a complete halt at about 5:30 a.m.

A railway spokesperson said, "This appears to be a disruption possibly caused by a cattle being run over. The train was returning at night. Cattle being run over is a possibility. After removing obstacles, the train resumed its journey around 8:15 am."

Officials on board said the power failure had caused a technical snag, followed by the parking and holding brakes being jammed. They were heard issuing instructions over the wireless system that the train should not run at more than 40 kmph.

"There was a major technical fault leading to the breaks locking and friction. There was also power failure in four coaches," said an official who did not want to be named.

About 7:50 a.m. railway officials stopped another train near Chamraula, about 190 km from Delhi, and asked all media persons, including this reporter, and to evacuate Vande Bharat and get into it.

Vande Bharat reached the New Delhi railway station only at 1.15 pm, taking more than 10 hours. Another official said such snags may take 8-10 hours to get repaired.

Vande Bharat has 16 coaches and can ferry 1,128 passengers. It was conceived and executed in 18 months. The train is fully booked till February 24. It can run at a speed of 130 kmph, while its average speed is expected to be around 99 kmph.