

QUICKLY

India surpasses Italy in bad loans

March 19
India holds the dubious distinction of having the worst non-performing loan ratio among the world's major economies and has surpassed Italy. The Reserve Bank of India said in

December that the ratio for banks fell for the first time since 2015, though it's still high for comfort. A \$190-billion pile of soured and stressed debt has cast the future of some lenders in doubt and curbed investments. Italy succeeded in quickly reducing its bad loan ratio, with non-performing loans falling to about €200 billion (\$227 billion) last year from their peak of more than €360 billion in 2016. **BLOOMBERG**

Leo Puri appointed Northern Arc chief

Chennai, March 19
Northern Arc Capital (formerly IFMR Capital Finance) has announced the appointment of Leo Puri as its first Independent Non-Executive Chairman of the board. Puri's addition is part of Northern Arc's overall restructuring of its governance structure, and its aim to become a board-led financial services company with no identifiable promoter. Puri was the MD of UTI Asset Management Company till September 2018, prior to which he has been a senior partner at McKinsey as well as Managing Director at Warburg Pincus. **OUR BUREAU**

Exim Bank to explore equity support for African projects

Bank likely to consider fund-of-funds structure, says Managing Director

KR SRIVATS

New Delhi, March 19

Exim Bank of India may consider providing equity and quasi-equity support for projects in Africa, said its Managing Director David Rasquinha.

"This is an idea that has come before us. We will explore it. I don't see Exim Bank putting equity directly out of our balance sheet or as a standalone activity. But we may create a fund-of-funds and channelise funds along with other investors into select sectors in Africa," Rasquinha told *BusinessLine*.

Exim Bank has, so far, been largely a debt provider with practically no exposure to equity funding of projects.

"If we provide equity or quasi-equity support, we will be a core investor or an anchor investor.

Given our name and experience in Africa, we should be able to catalyse other investors," he said.

The idea that Exim Bank should consider equity support for African projects (with Indian industry involvement) came from African countries at the just-concluded 14th CII-Exim Bank Africa Conclave in the Capital.

Rasquinha said there is increasing clamour from African countries for the need for outside players like Exim Bank of India to consider providing equity and quasi-equity support.

"This (providing equity support) is something new to us. We have RBI permission to look at this. But they date back to a prior period, and so we have to examine it afresh," he said.

Exim Bank is also open to the possibility of collaborating with



David Rasquinha, Managing Director, Exim Bank of India

overseas pension funds to offer financing for projects in Africa.

Rasquinha also said Exim Bank will look to offer forgoing in export credit support. Under forgoing, exporters can receive immediate cash by selling their medium- and long-term receivables at a discount through an intermediary.

Exim Bank will also look at innovative sources of financing,

such as green bonds, development impact bonds, and diaspora bonds in the coming days. Rasquinha said the bank was keen to up the game on its offshore investment play in the coming days.

Rasquinha sees the government side of business becoming dominant, going forward. As of December-end last year, both government and commercial portfolios had a 50:50 share in the business mix.

"Our current pipeline for government business is strong. My growth on government side will be steady. On the commercial side, we are trying to reorient itself and narrow the focus. We will also focus on overseas investment finance, which is export of capital by another name," he said.

Government-mandated business includes lines of credit, concessional financing scheme, and buyers' credit where Exim Bank works as an agent of the government.

NCLAT accepts RBI request to be impleaded as 'party respondent' in IL&FS case

OUR BUREAU

New Delhi, March 19

The National Company Law Appellate Tribunal (NCLAT) has accepted the RBI's impleadment request as a "party respondent" in the appeal filed by the Centre against NCLT's historic February 25 order in the IL&FS case.

As the regulatory authority overseeing banks and non-banking finance companies, the central bank had submitted to the NCLAT that it was interested in the outcome of the appeal filed by the Centre in the IL&FS case.

RBI's request for impleadment as a party respondent was accepted at the NCLAT hearing on Tuesday, and the next date of hearing is now proposed for March 29, said sources close to the development.

It may be recalled that October 15, 2018, February 11, 2019, and February 25, 2019, had



passed various directions, including direction to all banks and financial institutions not to declare the accounts of Infrastructure Leasing & Financial Services Limited (IL&FS) or its entities as non-performing assets.

In its application for impleadment, the RBI has submitted that if the banks and financial institutions implement the orders of NCLT, it would lead to a situation where the statutory instructions/guidelines/circulars issued by the RBI would become "infructuous".

Proposed dollar-rupee swap 'has been received well': RBI chief

Says there is an increasing need to give a permanent status to Finance Commission

OUR BUREAU

Mumbai, March 19

Reserve Bank of India Governor Shaktikanta Das, on Tuesday, said that the proposed \$5-billion dollar-rupee swap 'has been received well'.

"March 26 is the auction, let's see. I cannot say if we will repeat it," he told reporters.

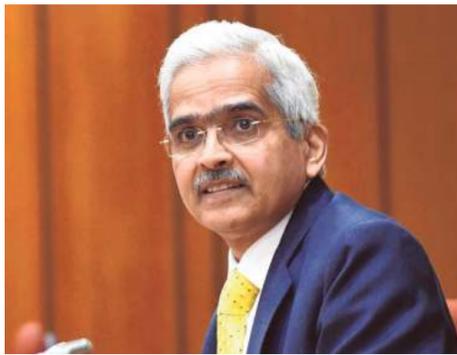
Book launch

Meanwhile, speaking at the launch of the book, *Indian Fiscal Federalism*, co-authored by a former Governor of RBI, YV Reddy, and GR Reddy, Das raised five key issues related to fiscal federalism in India, and proposed

that the Finance Commission could possibly be given permanent status, and the scope of the Goods and Services Tax Council may be expanded beyond the indirect levy.

"Geopolitical risks have necessitated higher expenditure on defence and internal security. Natural calamities and disasters have called for higher expenditure on relief and rehabilitation," he said, adding that in parallel, aspirations of the people and the country have required that the government spends more on developmental programmes.

Noting that while over the



Shaktikanta Das, Governor, Reserve Bank of India

past several decades different Finance Commissions have adopted different approaches for devolution of tax revenue, grants, and fiscal consolidation, Das said

there has to be a framework for fresh thinking for each panel and there should also be some continuity in views, especially after GST. "There is increasing need to give per-

manent status to the Finance Commission. In the intervening period, it can be a leaner organisation," he said, adding that it can also address issues arising from the implementation of the recommendations of the Finance Commission.

Das, however, clarified that his views do not represent deliberations of the 15th Finance Commission, of which he was a member before heading the RBI.

At present, the Finance Commission is set up every five years to decide on the devolution of taxes between the Centre and States.

He also underlined the need to set up State Finance Commissions every five years.

Noting that initiatives such as GST have helped in

fostering cooperative federalism, Das said the challenges for the GST Council are to meet the full potential of GST and to enhance tax-GDP ratio.

"Can the GST Council expand its scope to other areas of reforms to generate national consensus?" he asked.

Expenditure planning

The RBI Governor also noted that cooperative federalism should not lead to inertia, and there should also be a spirit of competition between States.

He also underlined the importance of the fiscal consolidation roadmap at the level of both the Centre and States. He called for robust expenditure planning based on commonly agreed goals.

Withdraw automatic extension of policies: IRDAI to general insurers

OUR BUREAU

Hyderabad, March 19

The Insurance Regulatory and Development Authority of India (IRDAI) has asked all general insurers, other than standalone health insurers and specialised insurers, to withdraw the automatic extension option.

In a circular issued on Tuesday, the regulator said some insurers have been offering automatic extension of period clause.

This provides the policyholder an option to extend the base policy cover by a specified period. An additional pro-rata premium is being charged for this period.

"It is observed that some insurers are offering automatic extension of period

clause as an add-on to annual policies such as standard fire special perils, industrial risks, office package, home package, shop package."

Contradicts norms

However, the automatic extension of period is contrary to existing norms.

"Hence, all insurers are advised to withdraw add-ons offering coverage similar to automatic extension of period clause with immediate effect and the same shall be informed to the authority," said Yagnapriya Bharath, General Manager, IRDAI.

The existing policy issued with the above clause will be allowed to remain in force till their respective expiry dates.

Award for Muthoot Capital Services

OUR BUREAU

Kochi, March 19

Muthoot Capital Services, also known as Muthoot Blue, was presented with 'India's Best Company of the Year Award 2018' in automobile financing by Berkshire Media Pvt Ltd, a division of Berkshire Media LLC, USA.

Berkshire Media conducted a comprehensive research to select the top-50 companies of India, across services and infrastructure sectors. The robust evaluation procedure

was based on expert analysis and qualitative research of 500-plus companies. The parameters against which the companies were ranked include current year market standing, innovation, leadership, governance, and CSR, among others.

"The award will further help reinforce our stakeholders' belief and confidence in the current performance and future readiness of the company," said Thomas George Muthoot, Managing Director, MCSL.

BofA pays \$479 m for distressed loans of Jayaswal Neco Ind

BLOOMBERG

March 19

Bank of America Corp has bought its biggest distressed asset in India, adding to a growing trend of foreign investors diving deeper into the country's massive pile of bad debt.

A group of investors, led by the US bank, have paid \$479 million for soured loans of a beleaguered Indian maker of cast iron pipes, according to

people familiar with the matter.

The group, which includes local bad debt buyer Assets Care & Reconstruction Enterprise, bought distressed loans of Jayaswal Neco Industries, with a face value of ₹4,700 crore, said the people, asking not to be identified, as they are not authorised to speak publicly. Lenders, led by State Bank of India, sold the debt, taking a haircut of 30 per cent on the



all-cash deal, the people said.

As India battles with the worst non-performing loan ratio among the world's major economies, foreign investors

are vying for a piece of the \$190-billion pile of soured and stressed debt. Steelmakers have struggled to repay debt in recent years, with Essar Steel India among one of the most high-profile cases. Jayaswal Neco became stressed as a slump in demand for its products eroded its debt repayment capability.

Bank of America has been upping the ante on its investments in India. Its purchases of

distressed loans in India include those of telecom tower firm GIL Infrastructure and SevenHills Hospital.

It was also the sole bidder for State Bank of India's \$2.2-billion Essar Steel loan, which was scrapped.

Representatives for BofA, Assets Care & Reconstruction and SBI could not immediately respond to an e-mail seeking comment on the loan purchases. Foreign investors that

have been active in India include Deutsche Bank, which is setting up a unit in India to buy and reorganise soured debt.

Other overseas investors, including Blackstone Group and SSG Capital Management, have bought into existing asset reconstruction companies. More than 29 asset reconstruction companies have been set up in India under a 2002 law, passed to help lenders reorganise NPAs, RBI data show.

Why Deutsche Bank kept lending to 'risky' client Trump

INVESTIGATION

NEW YORK TIMES

March 19

For nearly two decades, Donald Trump relied on Deutsche Bank to lend to him when other banks wouldn't. Deutsche Bank, eager to expand in the United States, made a decision to repeatedly take a risk on him.

Much has been written about their relationship, which is now under investigation on Capitol Hill and by the New York Attorney General. Here are some of the new revelations from *The New York Times'* investigation into Trump's ties to Deutsche Bank.

The risk factor

From the outset, Deutsche Bank executives recognised that Trump was a risky client—that's why most other banks considered him off-limits. But the bank soon got an up-close view of its client's problems.

In 2003, Deutsche Bank helped Trump's casino company sell hundreds of millions of dollars in bonds. (The salesmen were rewarded with a trip to Mar-a-Lago.) Trump's company defaulted in 2004, leaving Deutsche Bank's clients with deep losses. The bank's investment division that sold the bonds vowed to not do business again with Trump.

A year later, though, Trump approached another part of

the investment division for a \$640-million loan to build a skyscraper in Chicago. It made the loan—and in 2008, Trump defaulted and sued Deutsche Bank. That prompted the whole investment division to sever ties with Trump.

And then, three years after his previous default, Deutsche Bank started lending to him again, this time through the private-banking division that catered to the super rich. In fact, it lent Trump money that he used to repay what he still owed Deutsche Bank's investment division for the Chicago loan.

Since Trump won the 2016 election, Deutsche Bank officials have been trying to minimise the importance of their business with the new president, arguing that some senior executives didn't even know the relationship existed.

But two of Deutsche Bank's chief executives—as well as numerous other senior executives—knew about and, at times, aided the relationship.

Ties resume

In late 2011, as the bank debated whether to resume lending to Trump after his 2008 defaults, a senior executive asked Josef Ackermann, who was in his last months as chief executive, about the potential loans. Ackermann gave a thumbs up, according to people familiar with the process. (Ackermann said in an interview that he didn't recall



A long rope for Trump Deutsche Bank was so determined to win business from rich clients that its executives had looked past Donald Trump's history of stifling lenders. **BLOOMBERG**

being involved). His successor, Anshu Jain, was briefed on the Trump relationship early in his tenure. In February 2013, Jain accompanied Rosemary I Vrablic—Trump's personal banker at Deutsche Bank—to Trump Tower in Manhattan, according to two former executives. Over lunch, Jain remarked to Trump that he was surprised by his relatively low levels of debt. Vrablic told her colleagues that Jain had sounded upbeat about Trump's finances.

In 2016, the board of directors commissioned a report into how the bank had become so enmeshed with Trump. The report, prepared by the board's integrity committee, concluded that Deutsche's private-banking division, which catered to very rich individuals, was so determined to win business from big-name clients that its executives

had looked past Trump's history of stifling his lenders and for engaging in demagoguery, according to a person who read the report.

Exposure reports

The review also found that Deutsche Bank had produced a number of "exposure reports" that flagged the growing business with Trump, but that they had not been adequately reviewed by senior executives.

Board members found that the Trump relationship was a symptom of a broader problem with the bank's siloed management structure and a culture of getting deals done at all costs.

Trump's first point man at Deutsche Bank was Mike Offit, who arranged loans to renovate 40 Wall St and to build a tower opposite the United Nations. He and Trump grew friendly, golfing and attend-

ing boxing matches together. Trump even wrote in a June 1998 letter to Offit's father saying, "you have a great son!"

In 1999, a senior Deutsche Bank executive discovered that a credit officer's signature on a Trump loan document had been forged. Offit was never accused of forgery and the loan did not go through. He was later fired.

Next, another banker, Justin Kennedy, stepped up to help lead the bank's commercial real estate group. Kennedy was the son of Supreme Court Justice Anthony Kennedy, who occasionally visited Deutsche Bank's offices.

The younger Kennedy developed a relationship with Trump and helped him borrow money from Deutsche Bank, including on the fateful Chicago project.

Finally, there was Vrablic. Deutsche Bank recruited her to its private-banking division in 2006. One of her existing clients was Jared Kushner, who later introduced her to his father-in-law, Trump, according to a person familiar with the relationship.

Vrablic, an intensely private person who rarely discussed personal matters with her colleagues, steered more than \$300 million in loans to Trump over the ensuing years. When he was sworn in as president, Vrablic sat in the VIP section of the audience. She expects to be called to testify before Congress.

Rupee's fall – a sign of things to come?

BLOOMBERG

March 19

The rupee's eye-watering rally had to come to an end sooner or later, but today's 0.4 per cent drop was a somewhat anomalous event in emerging markets, as most of its peers continued to benefit from the dollar's pre-Fed weakness.

However, it may be a sign of things to come – for a host of reasons.

First, the central bank has been signalling lately it's not entirely happy with the rupee's strength.

Second, oil is headed back up toward \$70 a barrel.

Third, it's unlikely the recent surge of flows into Indian bonds can be sustained given the country's limits on foreign holdings.

And, if you like technical indicators, the rupee's 30-day relative strength index has been signalling a pullback for the past five days.

Sensex

Indian stock markets did not get the memo, though. The Sensex, the world's biggest gainer in dollar terms this month, rose as much as 0.4 per cent, no doubt boosted by a bullish call from Goldman Sachs.

And this on a day when the MSCI emerging markets stock index barely budged.

Recent flows into the country's stocks have been buoyant, too, and don't forget that unlike bonds, there are no limits on foreign holdings of Indian equities. As implied

volatility in emerging market currencies wallows at its lowest level in a year, Thailand's vote this weekend might be about to offer some excitement.

The baht, little changed today ahead of tomorrow's rate decision, has weakened in the second quarter in seven of the last 10 years, as Bloomberg's Bangkok-based emerging market reporter Yumi Teso points out.

Emerging markets

Emerging market watchers can look forward to some intriguing election stories in

the months ahead, from India to Indonesia to Turkey and South Africa.

East Europe stirrings

Finally, there are a few currency pairs in emerging markets quite as calm as the zloty-forint, with 30-day price swings at their lowest in a quarter century.

But, as Bloomberg's emerging markets editor Alex Nicholson shows, those waters may be about to get stirred as a pre-election spending spree in Poland and a potentially historic rate decision in Hungary loom.

Slips 43 paise versus dollar

PRESS TRUST OF INDIA

Mumbai, March 19

Halting its six-day winning run, the Indian rupee, on Tuesday, edged lower by 43 paise to close at 68.96 to the US dollar on emergence of demand for the greenback from importers.

The local currency also came under pressure due to rising crude prices and a caution ahead of the outcome of the Federal Open Market Committee (FOMC) meeting.

At the interbank forex market, the domestic currency opened at 68.53 a dollar, and fell further to touch the day's low of 69.05. It finally settled at 68.96 per dollar, down 43 paise over its previous close.

The rupee, on Monday, had

surged by 57 paise to close at an over seven-month high of 68.53 against the US dollar.

"The rupee has depreciated today on account of importers' demand at lower levels.

"However, broad sentiments remain positive due to foreign fund inflows in the debt and equity markets. In the near term, the rupee may trade in the range of 68 and 69.50," said Rushabh Maru, Research Analyst, Currency and Commodity, Anand Rathi Shares and Stock Brokers.

Meanwhile, the dollar index, which gauges the greenback's strength against a basket of six currencies, fell 0.18 per cent to 96.35, ahead of the Federal Reserve policy decision tomorrow.