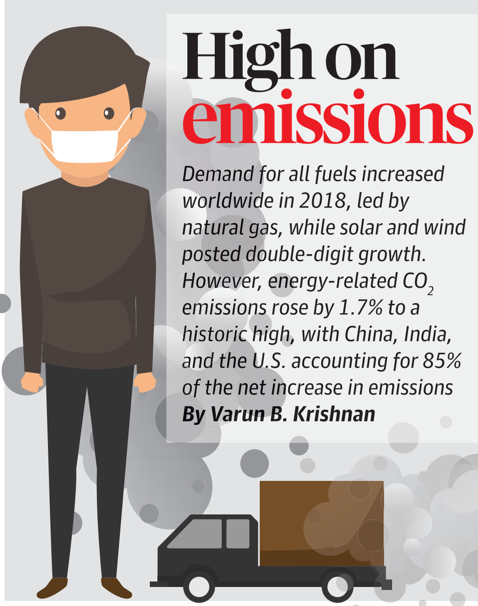
High on emissions

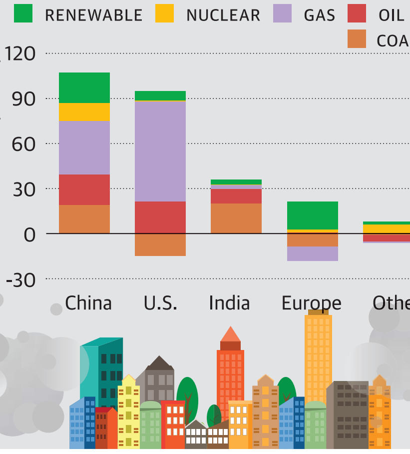
Demand for all fuels increased worldwide in 2018, led by natural gas, while solar and wind posted double-digit growth. However, energy-related CO_2 emissions rose by 1.7% to a historic high, with China, India, and the U.S. accounting for 85% of the net increase in emissions

By Varun B. Krishnan



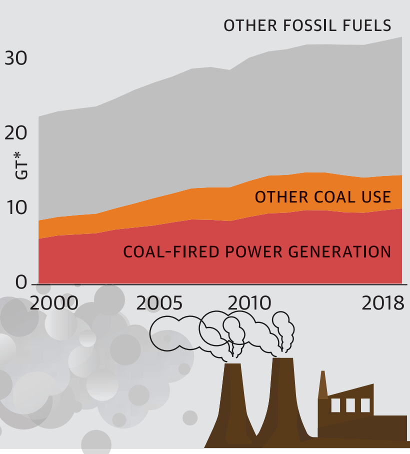
MORE COAL, OIL CONSUMED

India's primary energy demand rose by 4%, it's growth led by coal (for power generation) and oil (for transport). U.S. demand for gas rose due to a hotter summer and a colder winter



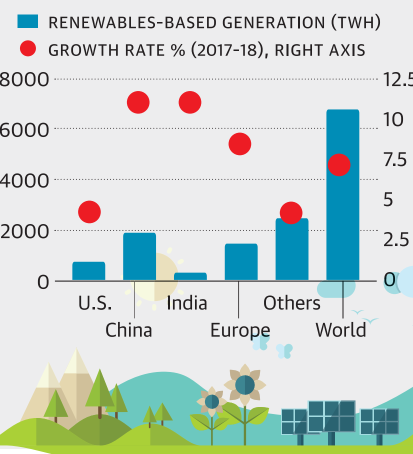
CARBON EMISSIONS PEAK

Due to more fossil fuel consumption, global energy-related CO_2 emissions grew 1.7% (highest annual growth since 2013) in 2018 to reach a historic high of 33.1 gigatonnes (GT)



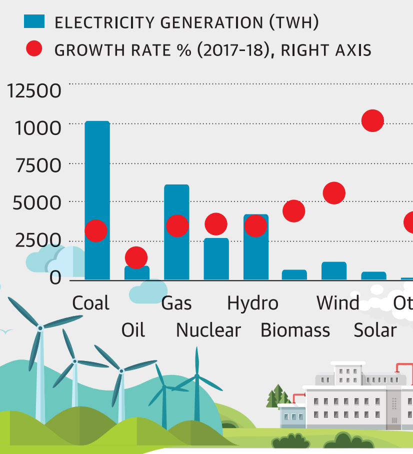
CLEAN ENERGY PUSH

In parallel, India registered over 10% year-on-year growth in renewables-based electricity generation, above the worldwide growth of 7%. China recorded the highest growth



RENEWABLES ON THE RISE

Worldwide, wind and solar energy registered the highest growth among all sources of energy for electricity generation. Generation of electricity using oil declined by 4%



*MTOE: Million tonnes of oil equivalent; GT: Gigatonnes; TWh: Terrawatt hours | Source: IEA Global Energy & CO_2 Status Report

INTERVIEW | MUKESH KUMAR JAIN

'We want to reduce corporate exposure to 25% in five years'

We don't need to raise capital for 3 years, says OBC's managing director

MANOJIT SAHA

Mukesh Kumar Jain, *MD and CEO, Oriental Bank of Commerce (OBC), talks about the lender's growth plans and strategy in an interaction. OBC had come out of RBI's prompt corrective action (PCA) in January. Edited excerpts:*

Have you seen any improvement in growth after the Reserve Bank of India (RBI) removed OBC from prompt corrective action (PCA)?

■ Yes. Now we are expecting over 10% growth in loans. Till the end of the third quarter, credit growth was 5.3%. We are extending loans only to highly-rated companies which are AAA or AA, apart from the retail and MSME segments.

OBC saw a sharp decline in net non-performing asset (NPA) ratio in the October-December quarter, that fell to 7.15% as on December 31 from 10.07% in the preceding quarter. Do you think the ratio will be less than 6% by March end? What is the one-year road map for NPA reduction?

■ Yes. Net NPAs will be below 6% by March 31. Gross NPAs, which were 15.82% in March, will also come down. We also have a healthy provision coverage of 75%. Going ahead, I see net NPA ratio falling below 5% by the end of the financial year 2019-20 and gross NPA ratio will be under 10%.

Have you been able to contain slippages?

■ In the last two years, our quarterly slippages were in the range of ₹3,000 crore. But in FY19, the slippages have been contained to below ₹3,000 crore. In the first quarter, it was ₹2,800 crore, about ₹1,450 crore in the second, ₹1,293 in the third quarter. So, there is a declining trend even if there was a negative surprise like IL&FS. This trend will continue in the fourth quarter also and FY20 will be better. We are expecting slippages of ₹1,000 per quarter in FY20.

What is the exposure you have to cases referred to the National Company Law Tribunal (NCLT)?

■ In the first RBI list, i.e. the 12 cases that were referred to NCLT, our exposure was ₹3,364 crore where we had 81% provision till December. In the second list, we have an exposure of ₹2,513 crore and a provision of 91%. Up to December, we have filed 164 accounts [for resolution] in the NCLT, where the amount involved is ₹15,000 crore. Provision is more than ₹12,500 crore, which is over 85%.

While we file cases in NCLT, we always try to go in for a one-time settlement with the party. So, we are using NCLT as a pressure tactic. In such cases, we take a relatively lower haircut of about 20%.

What kind of business growth do you see in FY20?

■ We have made profit in the last two quarters – which has come after seven quarters. Now, we feel we are on the profit trajectory.

Our aim is to have quality growth because the bank has suffered from corporate advances. So, our focus is retail and MSME. We will also extend loans to the mid-corporate segment but only to highly-rated (firms]. So, our growth target is not something big. We are looking at around 10% growth only but the focus is on quality and good margins.

On the deposit side, we are focusing on current and savings account deposits (CASA). We will end up with around 31% CASA [as a proportion of total deposits] this year. We aim to increase it to 35% by March 2020. We are also focusing on digitisation which will also help growth in CASA. Overall deposit growth will be 8%.

What is the share of corporate advances? Are you planning to reduce your dependence on corporate loans?

■ The share of loans to retail, agriculture and MSME is 52% and corporate advances are 48% of the loan book. Since most of the NPAs came from the corporate sector in the last few years, we are slowly reducing our exposure to the corporate sector. Our target is to reduce corporate exposure by 500 bps every year. Over a period of five years, we want to reduce our corporate exposure to 25% while in the RAM [retail, agriculture and MSMEs] sector we will have 75% exposure.

What is the capital-raising plan for FY20?

■ We do not have any need for capital for the next 3 years. We recently raised ₹250 crore via employee stock purchase scheme. The main reason is that we are expecting good recovery from large corporate accounts. For example, our NPAs in Bhusan Power and Steel is ₹1,616 crore. When that is resolved, about ₹850 crore will be added to our profit. This is expected to be resolved in Q2 of FY20. Since recovery will be strong, we will not need to raise capital in the next three years. We will be be able to generate capital to fund a growth of 10-12% for the next three years.

Knotty times for Tiruppur knitwear industry

The ₹46,000-cr. hub faces testing times with thinning margins, declining overseas demand and relatively high labour costs

M. SOUNDARIYA PREETHA

Tiruppur, a hub for knitwear, and its nearby areas, boast of a ₹46,000-crore annual apparel business and house the entire ecosystem that supports the industry.

Almost every street in this 159-sq.km. city witnesses some activity related to knitwear production.

Yet, all has not been well in Tiruppur for the past three years. Export growth is not up to the expected level, investments have been need-based, and there is a struggle to be price-competitive.

"We targeted annual business of ₹1 lakh-crore by 2020, including domestic sales. In the five years between 2012 and 2017, annual exports increased from ₹10,500 crore to ₹26,000 crore.

The growth was flat for the last two or three years. However, we are confident of reaching the target by 2022," says Raja M. Shanmugham, president of Tiruppur Exporters' Association (TEA).

His confidence stems from the recent announcement by the government that all embedded taxes in exports would be reimbursed.

The incentives that the industry received before implementation of GST through different schemes worked out to nearly 13.2%. This was reduced to 5.7% after GST, he says.

Thin margins

"Margins are thin for garment exporters. They can absorb the costs if the incentives were reduced by 3% to 4%. But when there is a drastic cut, it affects liquidity," adds A. Sakthivel, vice-chairman of Apparel Export Promotion Council (AEPC).

So, why are government policies, and support, critical for garment exporters in Tiruppur? In supplier conferences, buyers give priority to countries that have GSP (Generalised System of Preferences) benefits.

Buyers compare Indian prices with those of Bangladesh, says S.K. Kathiresh, joint managing director of Carona Knitwear.

Bangladesh exports

Annual garment exports from Bangladesh come to about $37 billion, Vietnam clocks $27 billion, and from Cambodia exports $12 billion worth. According to AEPC data, clothing exports from India in 2016-2017 were $17.47 billion, $16.72 billion in 2017-2018, and in the current fiscal till January, exports were $12.8 billion.

> **The inherent strengths of Tiruppur have helped it sustain exports for the last two years**
>
> A. SAKTHIVEL
> vice-chairman, AEPC

Global race

The industry is witnessing a global race where there is more competition. Some countries have an advantage because of the GSP and the support from their respective governments. Buying trends are also changing.

Some brands have gone in for 16 seasons in a year and have a signature design for each season.

This means garments for each season need to be supplied on time. The exporting units need to adapt to these changes and go with the rhythm, says Mr. Shanmugham.

Despite the challenges, it is the inherent strengths of Tiruppur, and its focus on efficiency and technology that have helped it sustain exports for the last two years, according to Mr. Sakthivel.

The exporters are of the view that they will be able to bag orders if they are price-competitive.

Since countries such as Bangladesh and Cambodia have the GSP advantage, the Indian government's support is crucial for the garment industry.

But, the recent decline in overseas demand has dampened this momentum. Focus on key three areas – incentivising technology upgrades, expanding to new markets, and product innovation – can turn the situation around.

Technology upgrades

India cannot compete on low working labour costs. The focus should be on expanding schemes for technology upgrades and introducing more policies that incentivise apparel exporters to upgrade technology. Exporters must look to new and emerging markets.

Four markets show high potential for future growth – the U.K., Chile, Israel and Japan. They should identify products with high growth potential and leverage individual strengths such as technology innovation, a report by Drip Capital says.

The knitwear industry in Tiruppur is largely in the micro, small and medium enterprises (MSME) segment. However, its profile is witnessing gradual changes.

Of the 1,500-odd direct exporters, the number of exporting units with more than ₹100-crore turnover is more than what it was a few years ago and there are at least 20 units with more than ₹500-crore turnover.

The number of letter-head exporters has reduced drastically after GST, say industry sources.

The Apparel Export Promotion Council (AEPC) has a positive outlook for exports next financial year.

The opportunities are huge for apparel exports as consumers wear multiple attires in a day – for exercise, work, casual wear, and the like. Further, western brands are eyeing Asian markets for sales, mainly the Indian market. For apparel makers, the market is only growing with this trend.

After the recent announcement by the government on reimbursing embedded taxes, the sentiment is upbeat.

"We are signing orders now. Industries need more working capital. Similar to the 59-minute loan approval scheme for MSMEs, the government should introduce a scheme for working capital," says Mr. Kathiresh.

Several common infrastructure facilities have been added by private players and those with government support. Mr. Shanmugham says the knitwear units will leverage on the opportunities in technical textiles soon.

Europe, a key market

A leading exporter and integrated player in Tiruppur says Europe is the key market for Tiruppur.

The EU and U.S., together, constitute 70% of the market for knitwear exporters.

Quality and delivery are important for exporters to gain the confidence of buyers. Prices can be negotiated. So, managements should focus on ensuring quality even when prices are under stress.

Changes for better operation and management processes need to be adopted by all stakeholders in the knitwear town for it to leap to the next growth trajectory.

Weft and warp: Since countries such as Bangladesh and Cambodia have the GSP advantage, the Centre's support is crucial for the Indian garment industry. ▪S. SIVA SARAVANAN

No threat to biggies yet but SFBs gathering steam

The ₹30,000-crore deposits held by small finance banks constitute only 0.2% of all scheduled commercial banks' deposits

TCA SHARAD RAGHAVAN

Although the consensus opinion in the industry is that small finance banks do not pose a threat to either conventional banks or non-banking financial companies (NBFC), the sector has nevertheless been seeing remarkable growth in credit disbursement as well as deposits, albeit on a low base.

Data from the Reserve Bank of India (RBI) show that the small finance banks, in total, saw their deposits grow 31.6% in the third quarter (ended December) of this financial year, compared with the second quarter.

On a year-on-year basis, this growth was 193.4%. The previous quarters saw even faster growth, with Q2 at 306%, Q1 at 331%, and the fourth quarter of the previous year at 387.5% on a year-on-year basis.

This phenomenal growth, however, has come on a very small base and that's perhaps why the bigger banks and NBFCs don't see small finance banks as a competition just yet.

In context, the ₹30,000 crore of deposits (as of December end) in small finance banks makes up just 0.2% of the deposits in all scheduled commercial banks.

Similarly, the ₹51,673 crore of loans, given by these banks, makes up just 0.6% of the total lending undertaken by the scheduled commercial banks. "If you look at the genesis of small finance banks, they have all emerged from being a non-deposit NBFC or micro-lenders," said Gaurav Anand, co-founder, Namaste Credit, a marketplace for loans.

"They were catering to a segment of the market that was not catered to by regular banks. I don't think it's a direct competition, but is complementary."

The belief is that the overall market for credit is so big that there is no scope for competition yet. Rather, as the market itself grows, the scope for more players to grow also increases.

"Our belief is that the small finance banks are probably not eating into the market share of the NBFCs either," Lucas Bianchi, another co-founder of Namaste Credit, added.

Growing market

"What's largely happening is that the market is growing and there's space for growth for everybody. There are many different segments and not all those segments have been catered to."

This sentiment is echoed by the NBFC players as well, who say that the lack of penetration in the market has meant that there is no phenomenon where small finance banks are eating into the market share of NBFCs.

"Because the market is very large and very under-penetrated, we are not likely to see any pressure from any player in terms of competition in the market," said Sanjay Sharma, managing director, Aye Finance.

"Has the competition changed from three years back to today? I can't say there has been a significant change there either.

"Small finance banks will eventually target the same segments as us, but today they are still trying to come to terms with the setting up the liabilities side of their business, which is the deposits," Mr. Sharma added.

More time to settle

Sanjay Kao, chief business officer, Ujjivan Small Finance Bank, also explained that the industry was still in its infancy, where several players were trying out different models. The overall model followed by the industry would settle only in a couple of years, he said.

"There are two arms to a small finance bank, like in any other bank," Mr. Kao explained. "One is the asset arm, and the other is the liability arm. If you look at all the small finance banks, all of them have been micro-finance institutions (MFI) in the past, so the asset business and asset base, which is the lending side of things, has always been there.

What has happened is that a few more loan verticals have been added.

"On the deposit side, it's new for all of us, so it must grow," Mr. Kao added. "It should grow at 120-170%, if not more, depending on the base that each bank operates on. The slowdown in Q3 is, in my mind, due to an increase in the base. If you look at the absolute numbers, I don't think there has been a slowdown, and certainly not in the case of Ujjivan."

The lending side of small finance banks has also seen strong growth. The RBI data shows that the total lending by small finance banks grew 88% in the third quarter of this financial year, 235% in Q2, 410% in Q1, and 449% in the fourth quarter of the previous financial year.

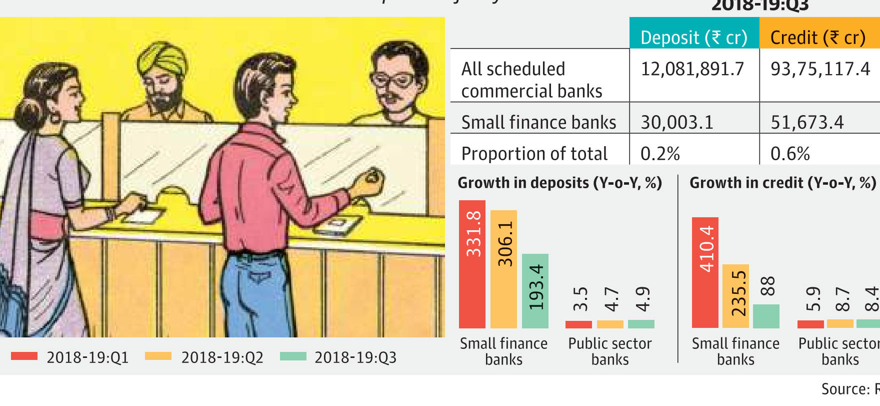
This, however, is explained by the fact that lending by the public sector banks has been subdued, according to a former Governor of the RBI.

The numbers back this assertion. RBI data shows that credit growth for the public sector banks was 8.4% in Q3, 8.7% in Q2, and 5.9% in Q1.

"If the public sector banks are not lending, then the people have to go somewhere for their loans," the former Governor said on the condition of anonymity. "The growth in credit for the small finance banks can be answered by this. People are looking for credit and have nowhere else to go."

Not yet there

The phenomenal growth of small finance banks has come on a very small base which is why bigger banks and NBFCs don't see them as a competition just yet



2018-19:Q3	Deposit (₹ cr)	Credit (₹ cr)
All scheduled commercial banks	12,081,891.7	93,75,117.4
Small finance banks	30,003.1	51,673.4
Proportion of total	0.2%	0.6%

Source: RBI