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‘CENTRAL BANK HELPING NBFCs TO PRUDENTLY MANAGE LIABILITIES’

RBI to align NBFCs’ norms with banks, stop liquidity disruptions

GEORGE MATHEW
MUMBAI, MAY 26

THE RESERVE Bank of India is gradually breaking down the wall between non-banking finance companies and commercial banks with its latest proposal on liquidity coverage requirement expected to bring the regulations for struggling NBFCs in line with banks and put an end to liquidity disruptions in the sector.

With the RBI stipulating gradual shift to liquidity coverage ratio (LCR), NBFCs will, over a period of next four years, be required to hold an amount of high-quality liquid assets (HQLA) that’s enough to fund cash outflows for 30 days. The RBI had earlier made LCR mandatory for banks over the 2015-2019 period. During a period of financial stress, NBFCs like the banks will have to use their stock of HQLA. According to Deepak Mittal, MD and CEO, ECL Finance, as all the well-managed NBFCs already carry sufficient HQLA, maintaining even 100 per cent LCR should not be a problem for them. “This will not negatively impact NBFCs as ALM (asset-liability management) and liability man-

60% OF LCR TO BE HELD AS MINIMUM HQLAS

■ The liquidity coverage ratio (LCR) requirement will be binding on NBFCs from April 1, 2020 with the minimum high-quality liquid assets (HQLAs) to be held being 60 per cent of the liquidity coverage ratio, progressively increasing in equal steps reaching up to the required level of 100

per cent by April 1, 2024

■ Experts said the latest RBI norms will strengthen the framework of NBFC regulations even further ensuring a sound and robust risk management system to manage structural and dynamic liquidity in an efficient manner

agement is a key part of credit sector. In fact it will reinforce discipline amongst NBFCs as the board would be responsible to adhere to the guidelines and internal controls would also be subject to supervisory review,” he said.

NBFCs had till recently borrowed short-term funds from banks and mutual funds for lending to long-term projects, creating a liquidity mismatch. There were growing worries over an “imminent crisis” in the NBFC sector due to credit squeeze, overleveraging, excessive concentration, massive mismatch between assets and liabilities and misadventures by some large entities like the IL&FS

group. The LCR requirement will be binding on NBFCs from April 1, 2020 with the minimum HQLAs to be held being 60 per cent of the LCR, progressively increasing in equal steps reaching up to the required level of 100 per cent by April 1, 2024, the RBI said.

Experts said the latest RBI norms will strengthen the framework of NBFC regulations even further ensuring a sound and robust risk management system to manage structural and dynamic liquidity in an efficient manner. “The RBI is, via this circular, helping NBFCs to prudently manage their liabilities and the step wise approach will allow them to grad-

ually catch up to these requirements,” he said.

LCR refers to the proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short-term obligations. The introduction of liquidity coverage ratio and tolerance limits for near term granular maturity bucket will require the buffer of near term liquidity. Most of the NBFCs, post the liquidity crisis, are maintaining positive net cash flows for shorter maturity buckets. “However as the requirement grows, this could potentially have some bearing on long term structural margins. This move will increase investor confidence in the NBFC sector,” Mittal said. According to the RBI, liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. They should be unencumbered i.e. without legal, regulatory or operational impediments. Some NBFCs and housing finance companies recently faced shortage of high quality liquid assets that could have been easily and immediately converted into cash at little or no loss of value.

On the impact on NBFCs, Madan Sabnavis, Chief Economist,

Care Ratings, said, “the bigger ones will have to reassess their business models. Two related issues which confronted them were ALM mismatch and liquidity. Now from the point of view of the RBI, issues have been addressed.” But this will require fundamental realignment for NBFCs as they move towards 100 per cent liquidity coverage, Sabnavis said.

The NBFC sector’s rapid growth and reliance on short-term funding sources “bubbled over” in 2018, most evident by the default of IL&FS in September last year, a Fitch report said. Default by IL&FS translated into higher borrowing costs and reduced market access for other non-bank financial institutions, leading to domestic regulators to re-examine liquidity norms for the sector and prod banks to increase their lending to, and asset purchases from, such entities, it said. The Central Board of the RBI had last week decided to create a specialised cadre to supervise and regulate the financial sector, including banks and NBFCs. The RBI also recently asked NBFCs with asset size of more than Rs 5,000 crore to appoint chief risk officer with clearly specified role and responsibilities.

INTERVIEW WITH CHIEF COMMERCIAL OFFICER, AIRBUS

‘US-China tariff war not to benefit Airbus; Boeing to lose more with elevated trade barriers in Europe’

CONCERNED ABOUT increasing protectionism in the US, Airbus Chief Commercial Officer CHRISTIAN SCHERER said that its rival Boeing has more to lose if trade barriers were elevated in Europe for the US-made airplanes. Speaking to PRANAV MUKUL at the company’s headquarters in Toulouse, he also said that contrary to what is perceived, trade tensions between the US and China are not beneficial for Airbus. Scherer also spoke about the air safety regulator’s role in light of recent crashes. Edited excerpts:

How worried are you about increasing protectionism in the US?

You have the threat of US protectionism, which is a pretty severe concern, which I must say, we thoroughly regret because we could be supplying in the prime market of this category of airplanes (A220 aircraft), which is North America. If you threaten to impose a tariff on the product at the border, it makes the product more expensive.

The Trump administration is ready to impose tariffs on fuselage parts, wings, other components that will be going to the Mobile plant in Alabama... what do you see as the risk there that could negate the benefits of Mobile?

It is a risk. What specific risk? It’s the risk of the content that goes into these airplanes that come from countries that would be the target of these tariffs. The immediate risk is that it will increase the cost and therefore the price of these airplanes. Is that good for an industry that by definition works across borders? No, it sounds like something that goes against grain.

Delta has made it clear that they will not absorb cost of any tariffs in the Bombardier trade. What about the other airlines? Will Airbus absorb the cost or will it be passed on to the customers?

That is privileged information that’s contractual between us and our customers. What I can say though is that you have to imagine that if one side goes through with process of imposing tariffs, you have to imagine that the other side will naturally retaliate. So, is that in interest of our competitor to see trade barriers being elevated in Europe on Boeing airplanes? I’d say there’s more to lose for them



“What I fear most in this very unfortunate situation (Boeing 737MAX crisis) that our competitor is in is the public reaction. The loss of trust in specific products perhaps and the industry as a whole”

CHRISTIAN SCHERER,
CCO, AIRBUS

than for us. So, I hope this leads to a settlement very quickly.

Are you concerned that some political elements could be introduced to regulation and certification that could impact sales?

I am generically concerned about politics mixing in a business that should be very much commercially and financially driven. So be it on this topic or any other topic, what I do want to say is that the suggestion that I have heard by some that somehow Airbus is in cahoots with EASA (European Aviation Safety Agency) — I want to violently reject that as being borderline insulting. If there’s an insinuation that somehow the European regulators are playing it a little bit harder than others and that is somehow related to Airbus, I want to absolutely deny that. I am an industrial guy and what I want is a set of rules that safeguard the checks and balances in the industry and puts safety as the number one priority. How the regulators and the governments elect to do that is really up to them. They are more competent in that role than we are. There is a disequilibrium in the mandate. The FAA (US Federal Aviation Administration) has a mandate of supporting industry and safeguarding the safety of flight. That is not symmetrical with EASA or other regulators around the world. But that is not a suggestion from our part that there’s anything wrong with the FAA.

But there’s a paradigm shift after the Boeing 737MAX crisis, do you feel the change...

We are not the regulator, we cannot influence the regulation. What we can do is show the regulator our design, our production system and get approvals. Occasionally we have to do a little course correction and that is per-

fectly fine. What I fear most in this very unfortunate situation that our competitor is in is the public reaction. The loss of trust in specific products perhaps and the industry as a whole. As an Airbus guy, my concern is that a specific issue turns into a generic problem.

The bilateral aviation safety agreement signed between the EU and China seen along with the souring of relations with the US in light of the WTO case and tariff impositions — could this be seen as Airbus taking sides in the trade wars?

That’s a huge question. I would answer that with a bit of generality but I think that ultimately relations with China will normalise whether they are with the US or the Europeans and we will continue to supply to China like we used to. Do the trade tensions between the US and China work in the advantage of Airbus? No, because you can imagine that big-ticket items such as airplanes are part of this discussion so it’s not necessarily the situation as it meets the eye of the layman.

You mentioned that the industry has become less cyclical. Does this mean reducing dependency on oil prices?

The industry’s strength is mainly going to be driven by the fuel prices and the cost of money. If we have high cost of money and fuel, there will be a slowdown. From that perspective, sure, it will be cyclical. But I meant that we don’t have predominantly North American market and when North America goes well, the whole industry goes well. What we have now is compensation between various geo-political arenas. We are developing our presence in Asia.

(The trip to Toulouse was sponsored by Airbus)

PRABHA RAGHAVAN
NEW DELHI, MAY 26

DISTRIBUTION COMPANIES (discoms) in three BJP-ruled states currently make up for nearly 90 per cent of close to Rs 77,000 crore in funds to be recovered from consumers for electricity consumption, but have been unable to do so due to infrequent hikes in tariffs, according to a recent report by India Ratings and Research. India Ratings expects a two per cent growth for the Indian corporate bond market if distribution companies chose to securitise these pending regulatory assets.

As per the latest tariff orders until FY18-FY19, the total amount of these funds, known as regulatory assets, outstanding amounted to Rs 76,963 crore. Uttar Pradesh, Maharashtra and Jharkhand account for around 87

per cent of this amount, said India Ratings.

UP alone accounts for over 50 per cent of the regulatory assets market, with its discoms entitled to over Rs 40,000 crore.

At the same time, the total outstanding amount seems to have reduced from earlier reported estimates of over Rs 130 lakh crore.

Regulatory assets are costs of power consumption that a state electricity regulatory agency allows discoms to recover at a later stage, when the electricity tariffs are increased. This practice leads to lower tariffs at present, but if electricity costs are not increased to match the requirement, the regulatory assets continue to pile up as additional costs that the discoms have had to bear to provide electricity at lower prices.

The report’s findings assume significance as discom losses have been on the rise lately. With the

The total outstanding amount seems to have reduced from earlier reported estimates of over Rs 1.30 lakh crore, according to a report by India Ratings



NDA re-elected into power last week, improving the weak financial health of state discoms is an area the government is expected

to continue focus on, but it is unclear whether this will actually lead to the required rise in electricity tariffs in these states.

The power ministry last week claimed in an internal note that discom performance has not become unsustainable, and that, with “adequate” tariff recoveries projected by regulators “in future”, debt levels are expected to reduce further.

The inability of discoms to recover outstanding regulatory assets has been a long-standing concern for the government, with the Centre having blamed state regulators in the past for not raising tariffs properly to help recovery.

While the consumer is cushioned from tariff shocks in the short term, the long term implications of this financial burden could be inefficient provision of electricity supply and billing services by state discoms, which have

to recover as much as 97 per cent of the present outstanding assets.

As of March, only six state regulators had approved tariff plans for the next financial year.

Discom losses increased 43 per cent to over Rs 21,500 crore at the end of the 2018-19 financial year from around Rs 15,100 crore in the previous financial year.

As per memoranda of understanding that states have signed under the Ujwal Discom Assurance Yojana (UDAY) to improve the financial health of discoms, states were expected to implement regular tariff hikes of 5-6 per cent every year, said ratings agency CRISIL earlier this month. “While discoms enjoyed the benefit of debt reduction, structural reforms have been slow to come by,” it stated, adding that average tariff increases were “a paltry 3 per cent per annum.”

BRIEFLY

Switzerland ups process to share banking info

New Delhi/Berne: There has been a significant surge in the number of cases where Switzerland has initiated process to share information on Indians with Swiss bank accounts and shot off letters to about a dozen such individuals last week itself. Since March, at least 25 notices have been issued by the Swiss authorities to Indian clients of Switzerland-based banks.

Hulst BV buys 1.6 lakh shares of NIIT Tech

New Delhi: Hulst BV has acquired additional 1.6 lakh shares of NIIT Technologies from the open market, taking its shareholding in the mid-sized Indian IT firm to 32.38 per cent, a regulatory filing said Sunday.

Male airport: ‘No taxes payable by GMR’

Hyderabad: The Maldivian government has decided not to press for income tax and fines of over \$20 million from the GMR group on the compensation it received from the island nation for the premature termination of Male International Airport contract. **PTI**

‘India’s coal import rises 13% to 20.7 MT in April’

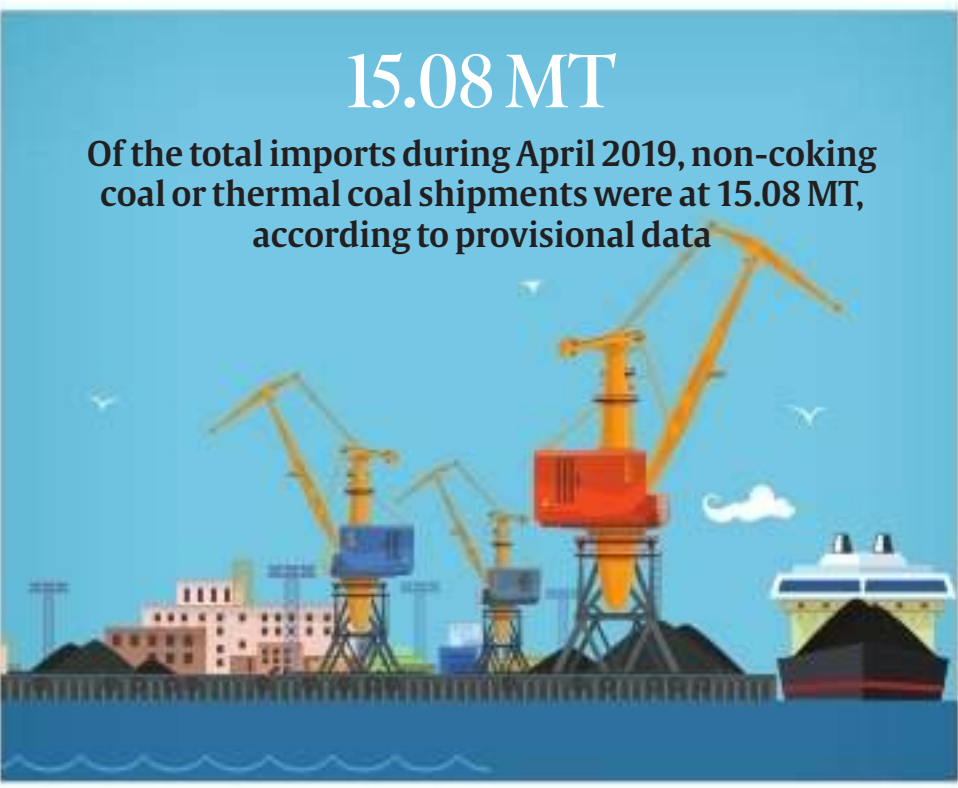
The country’s coal import increased by 13.4 per cent to 20.72 million tonnes in April compared to 18.27 million tonnes (MT) in the same last year, according to a report by mjunction services

3.52 MT

Imports of coking coal, used in iron and steel making, were 3.52 MT in April while metallurgical coke imports during the month were at 0.22 MT

9.66%

Coal and coke imports during 2018-19 increased by 9.66 per cent to 235.35 MT as compared to 214.61 MT imported in FY2017-18, latest mjunction data showed



SUFFICIENT COAL STOCK

The flat trend in non-coking coal import in April was in line with expectations, as the power plants continued to have sufficient stock of coal

TO ELIMINATE IMPORT

The Centre had earlier urged state-run Coal India to pledge self-sufficiency in production to eliminate import of thermal coal

1 BT TARGET

Government has set a target of 1 billion tonne of coal production by 2019-20

Fiat, Renault to go public on tie-up talks

REUTERS
MILAN/PARIS, MAY 26

FIAT CHRYSLER Automobiles (FCA) and Renault are set to confirm tie-up talks on Monday, with the board of the French carmaker called to an early morning meeting to discuss the situation.

It comes after news broke over the weekend that two of the world’s leading car companies are in talks on a comprehensive global combination that could address some of the main weaknesses of both.

The plan under discussion would involve some transfer of equity, according to a source close to the discussions.

Renault Chairman Jean-Dominique Senard presented an FCA-Renault merger plan to French Finance Minister Bruno Le Maire on Friday. *Les Echos* reported on its website. The French government has a 15 per cent stake in Renault.

The deal being discussed would include guarantees covering corporate governance and employment in France and Italy, the French daily said.

Pressure for consolidation among carmakers has grown with the challenges posed by electrification, tightening emissions regulations and expensive new technologies being developed for connected and autonomous vehicles.

Niti Aayog VC for revamp of Indian statistical system

PRESS TRUST OF INDIA
NEW DELHI, MAY 26

NITI AAYOG vice-chairman Rajiv Kumar has stressed on the revamp and modernisation of the Indian statistical system so that real-time data is captured and used for policy analysis.

The Aayog, Kumar says, is in touch with the World Bank for modernising the country’s statistical system. “One thing that I am clear about is that our statistical system needs to be revamped, modernised and get aligned with the statistical system in the world,” he told *PTI* in an interview.

Recently, several experts including former RBI Governor

Raghuram Rajan and former chief economic advisor Arvind Subramanian had expressed doubts over India’s revised economic growth data.

“And there is a World Bank team recently visited me, they are actively looking into what steps are to be taken for modernising our statistical system so that we can move increasingly to real-time data based statistical system and policy analysis,” Kumar added.

His comments come at a time when the Statistics and Programme Implementation (MOSPI) has decided to merge the Central Statistics Office (CSO) and the National Sample Survey Office (NSSO) into National Statistical Office (NSO).

Q4 earnings: India Inc turns in dismal results

ENS ECONOMIC BUREAU
MUMBAI, MAY 26

CORPORATE PROFITS for Q4FY19 have been quite poor, reflecting several pain points. Almost all companies have disappointed the street with just a couple of surprises. The aggregate numbers have been boosted by the relatively good numbers from a few heavyweights but for the rest of India Inc, it’s a quarter everyone would like to forget.

Analysts at Nomura wrote that the results point to an all-round slowdown in consumption. “The impact of the slowdown on earnings is strong, particularly on discretionary consumption, with a significant contraction in Ebitda margins,” they noted, adding that in the near term, the growth outlook, particularly for discretionary consumption, remains challenging. Analysts at Kotak Institutional Equities (KIE) said they had cut earnings estimates for 2019-20 across sectors, other than banks, to reflect lower volume and profitability assumptions.

For a sample of 1,012 companies (excluding banks and financials), net profits fell 13 per cent year-on-year in the three months to March. To be sure, the decline is due to the sharp fall in other incomes — down 36 per cent year-on-year.

Excluding other income, the rise in net profits is 7.3 per cent y-o-y. With the ratio of raw materials to sales coming down by 8 basis points y-o-y, operating profit margins (OPM) held on, rising 38 basis points y-o-y. **FE**

‘Reports of Jaitley’s deteriorating health false and baseless’



RBI Governor Shaktikanta Das met with Union Minister Arun Jaitley, in New Delhi on Sunday. *Via Twitter*

ENS ECONOMIC BUREAU
NEW DELHI, MAY 26

AMID RUMOURS about the health condition of Union Minister Arun Jaitley, the government Sunday termed some of these reports that speculated on his medical condition as “false and baseless”.

“Reports in a section of media regarding Union Minister Arun Jaitley’s health condition are false and baseless. Media is advised to stay clear of rumour mongering,” government spokesperson Sitanshu Kar posted on Twitter.

Rajya Sabha MP Swapna Dasgupta, who met Jaitley Sunday afternoon and presented a copy of his book, said Jaitley is recovering from a bout of heavy medication.

“Questions about @arunjaitley health understandable. He is recovering from a bout of heavy medication. But he is still in terrific form and his wit is firmly intact. Needs a little rest to get back his strength. All our good

wishes,” Dasgupta tweeted.

In another tweet, Dasgupta said, “During the mid-stage of the campaign, @arunjaitley predicted that BJP would win 302 seats. Anyway, he is off most medication now and just waiting to recover his strength.”

RBI Governor Shaktikanta Das also tweeted a picture of his meeting with Jaitley: “Had a courtesy meeting with Hon’ble Union Minister @arunjaitley this evening.” Das said in his tweet.

Union Minister Suresh Prabhu also took to Twitter to wish speedy recovery for Jaitley. “We all wish @arunjaitley a speedy recovery,” Prabhu tweeted.

Jaitley, who has not been attending office since last three weeks, met key officials of Finance Ministry on Friday. Jaitley had held a review meeting with the five secretaries of Finance Ministry on Friday, where he is learnt to have taken a stock of the economic situation and also approved an extension for the panel to review direct tax law.