

# 13 ECONOMY

MARKET WATCH

FPIs REMAIN NET BUYERS IN JUNE

New Delhi: Foreign portfolio investors (FPIs) remained net buyers in the domestic capital markets in June, pouring in a total of Rs 11,132 crore on a net basis so far this month, according to depositories' data. PTI

FROM ₹13.64 LAKH CR AT SEPT-END 2018 TO ₹14.14 LAKH CR AT APR-END 2019

## Churn in NBFC sector: Mutual funds invest more, but pick safer options

SUNNY VERMA & SANDEEP SINGH  
NEW DELHI, JUNE 16

EVEN AS investment by mutual funds in debt papers of non-banking financial companies (NBFCs) fell sharply starting September 2018, when the IL&FS default rattled debt markets, the mutual funds industry funding to better-run and retail-focused NBFCs jumped sharply since September last year.

The funding squeeze for NBFCs seems to be company specific and not across the board, according to discussions with industry people.

For example, while the total MF funding to DHFL group fell from Rs 18,235 crore at September-end 2018 to Rs 6,501 crore at April-end 2019, in the case of retail-focused NBFC Bajaj Finance, the MF industry holdings jumped from Rs 7,599 crore at September-end 2018 to Rs 13,520 crore at April-end 2019.

Other such NBFCs that did not have much wholesale loans on their books — such as Muthoot Finance, Magma Fincorp group, HDB Financial Services among others — also attracted higher resources from the MF industry.

Despite the churning of investments by MFs away from certain NBFCs, their overall investment in the space has risen by Rs 48,857

### EXPLAINED Higher exposure to NBFCs focussed on retail

OVER THE last few months, mutual funds have been seen shifting their exposure from wholesale business oriented NBFCs to retail focussed ones and those with no asset liability mismatch, instead of totally stopping funding to the sector.

While this reduces the risk of a contagion within the sector and will lead NBFCs to focus on models that do not expose them to ALM, industry players say that evolution of long term funding for the financial sector is a key challenge in the market and it needs to evolve.

crore from Rs 13.64 lakh crore at September-end 2018 to Rs 14.14 lakh crore at April-end 2019, according to data from industry sources.

However, MF lending to NBFCs and housing finance companies fell to Rs 3,12,308 crore in April 2019 from Rs 3,79,425 crore in September 2018.

Industry players said that while there does not seem to be a risk of contagion on account of funding woes of DHFL and a few others companies, there could be some consolidation in the NBFC sector and ultimately investors and mutual funds would look at the business model and finance those that have no asset liability

mismatch (ALM) or those with a positive ALM. ALM can occur when NBFCs borrow short term but lend long term such as housing loans. There is no trouble in such a business model till the time NBFCs are able to rollover their debt obligations. When debt rollover is not possible, the business model crumbles.

"There will be a temporary hiccup. There will be a kind of a shakeout, some consolidation might happen, but again (funds and investors) closely see what is the business model, where are you lending, who is your customer, what is your ability to collect," Thomas John Muthoot, CMD of the Muthoot Pappachan Group

### SHIFT IN MUTUAL FUND EXPOSURE ACROSS FINANCIAL GROUPS SINCE IL&FS DEFAULT

Who lost the most	Sept 2018	Apr 2019	Change over 7 months
Indiabulls Group	35,477	13,264	-22,213
Piramal Group	24,749	12,930	-11,819
DHFL Group	18,235	6,501	-11,734
Yes	15,879	5,152	-10,727
Edelweiss Group	16,042	6,426	-9,616
IIFL Holdings	14,252	6,101	-8,151

  

Who has benefited	Sept 2018	Apr 2019	Change over 7 months
Bajaj Finance	7,599	13,520	5,921
Muthoot Finance	6,935	9,657	2,722
HDB Financial Services	5,538	8,255	2,717
Kotak Mahindra Investment	804	2,878	2,074
Fullerton India	2,040	3,426	1,386
Sundaram	3,469	4,659	1,190

Source: Industry. All figures in Rs crore

(MPG), which runs NBFC Muthoot Fincorp, told *The Indian Express* when asked whether the present crisis could turn into a contagion.

"In the months of October and November, right after the IL&FS default, we had slowed down lending activity and were holding cash but since then business is back to normal," he said.

MFs and investors have started differentiating between

wholesale and retail NBFCs. While earlier MFs had been investing heavily in commercial papers and NCD (non-convertible debentures) of all NBFCs, now they are doing pick-and-choose based on the kind of business model," an industry source said. Funding to the microfinance industry, meanwhile, has not suffered after the IL&FS crisis and banks continue to aggressively lend to them.

## Digital transactions set to rise four times by 2021: RBI

GEORGE MATHEW  
MUMBAI, JUNE 16

INDIA'S PUSH to build a less-cash economy seems to be gathering momentum with the central bank recording a phenomenal growth in digital transactions till March 2019 and setting an ambitious target to push up the volumes by four times by 2021

Total digital transactions in volume terms recorded a growth rate of 58.8 per cent during 2018-19, on top of a growth of 50.4 per cent during 2017-18, the Reserve Bank of India said in a report.

The RBI says digital transactions in value terms grew by 19.5 per cent during 2018-19, compared to the growth of 22.2 per cent during 2017-18. Though the bulk of digital transactions in value terms (82.8 per cent) are accounted for by RTGS transactions, retail component of digital transactions (excluding RTGS customers and interbank transactions) witnessed a volume growth of 59.3 per cent during 2018-19, as against 50.8 per cent growth in the previous year.

Given the current trend in cheque usage and the thrust to shift to digitised transactions, the RBI's vision document expects the volume of cheque-based payments would be less than 2.0 per cent of the retail electronic transactions by 2021. Payment systems like the Unified Payment Interface (UPI) are likely to register average annualised growth of over 100 per cent and NEFT at 40 per cent over the vision period. The number of digital transactions is expected to increase more than four times from Rs 2,069 crore in December 2018 to Rs 8,707 crore in December 2021, it says.

"In value terms, retail transactions grew by 38.2 per cent, on top of 45.8 per cent growth last year. They accounted for 99.4 per cent and 17.2 per cent of total digital transactions volume and value, respectively," the RBI said in its report 'Payment and Settlement: The Plumbing in the Architecture of India's Financial System'.

### 58.8% GROWTH IN VOLUME IN FY19

■ Total digital transactions in volume terms recorded a growth rate of 58.8 per cent during 2018-19, on top of a growth of 50.4 per cent during 2017-18, the RBI said in a report

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under UPI, an instant real-time payment system, reached a peak of 799.5 million in March 2019, 4.5 times the volume in March 2018.

For the fiscal as whole, the total UPI volume was six times larger than the volume during 2017-18. In terms of value, UPI transactions witnessed an eight-fold increase over the previous year. The average value per transaction stood at Rs 1,670 in March 2019, the RBI said.

UPI is an immediate money transfer system that enables round the clock interbank fund transfer, throughout the year. Since its commercial launch in August 2016, it has seen a mammoth rise in volumes by far exceeding the transactions done on the IMPS platform.

The volume of cards in point-of-sale (PoS) transactions grew 30.1 per cent during 2018-19 (36.2 per cent last year) and in value terms, by 30.2 per cent (39.6 per cent last year). During 2018-19, debit cards grew by 19.5 per cent and 16.3 per cent in volume and value terms (9 per cent and 24.9 per cent last year), the RBI says.

However, credit cards witnessed higher growth of 25.4 per cent and 31.4 per cent in volume and value, respectively, during 2018-19 (29.2 per cent and 39.7 per cent a year ago).

"Though ATM usage accounted for major share of debit card transactions (69.1 per cent in volume and 84.8 per cent in value), there is evidence of increase in usage of debit cards at PoS consistently, from 4 per cent in 2011-12 to 15 per cent in 2018-19 in value terms," it said. During 2018-19, debit card PoS usage grew by 32 per cent and 29 per cent for volume and value, respectively (39.3 per cent and 39.5 per cent a year ago).

The Reserve Bank is now pushing for a 34 per cent increase in PoS terminals to 50 lakh in merchant establishments, mainly involving 44 per cent of total debit card transactions, in the next two years while aiming for "cash-lite economy" and digital modes for e-commerce.

### BRIEFLY

#### PNB puts on block six NPAs worth ₹1K cr

New Delhi: Punjab National Bank (PNB) has put on sale six non-performing loans amounting to over Rs 1,000 crore, namely Vandana Vidhut, Visa Steel, Temptation Foods, Helios Photovoltaic, Cabcom Cables, and Zoom Vallabh Steel. Asset reconstruction companies, non-banking financial companies, other banks and financial institutions can submit binding bids till June 26, with the bids being opened on the following day. PTI

#### UP power rates may be hiked by up to 25%

Lucknow: Uttar Pradesh Power Corporation (UPPCL) has sought the state power regulator's nod for average tariff increase of 20-25 per cent for domestic consumers for 2019-20. Defending the UPPCL's move Principal Secretary, Energy and chairman of UPPCL, Alok Kumar said that there was an urgent need to increase the energy rates. The state discom had not sought any tariff revision last year in light of the forthcoming Lok Sabha polls. ENS

## 'NBFC crisis to pull down home loan growth'

Housing finance growth is set to slow down to 13-15 per cent this fiscal, due to lingering liquidity issues faced by non-banking lenders, warned a report by Icra

**15%** Overall industry loan growth for housing finance companies in FY18

**64%** Overall market share of banks in FY19, as against 62 per cent a year ago



#### ₹19.1 LAKH CRORE

Outstanding housing credit as of March 2019, which could see an adverse impact

#### ₹4-4.5 LAKH CR

Funds required by housing finance companies in FY20 to meet growth requirement of 10-14 per cent

**13-15%** Expected growth range of the housing credit in FY20, lower than last three years

**4.6%** NPAs in affordable new housing segment as on March 2019, as against 5 per cent in December 2018

**1.5%** Gross NPAs (non-performing assets) as on March 2019, as against 1.4 per cent in Dec 2018 and 1.1 per cent in March 2018

**10%** Credit growth of dedicated housing finance companies in FY19

**1.8%** Expected overall NPAs of housing finance companies in FY20

There could be some pressure on the asset quality owing to the challenging operating environment and the emerging risk factors

ICRA

### AMID US-CHINA TRADE WAR

## Commerce Min sees export boost in 354 items

ENSE ECONOMIC BUREAU  
NEW DELHI, JUNE 16

THE TRADE war between the United States and China has opened a window of opportunity for India to record additional exports in case of at least 354 items — ranging from capital goods to base metals — worth billions of dollars, according to a new Commerce Ministry study.

Of the 774 American tariff

lines (items) on which China has imposed extra duties, India can ship out more and replace the US, especially in 151 items, the study suggests. In these 774 items, China's imports from the US stand at an annual \$20.4 billion.

However, while India exports these items worth \$32.8 billion to the world, it ships out only \$2.9 billion to China. This means there is a huge scope for India to replace the US. However, as has been pointed out by analysts, benefits

to India are contingent on greater competitiveness as well as its ability to scale up production to meet higher demand.

Similarly, of the 531 tariff lines on which the US has imposed additional duties on China, India can export more, more so in 203 items. In these 531 items, China's supplies to the US are to the tune of \$30.6 billion a year. While India ships out these items worth \$22.2 billion to the world, it exports only \$2.4 billion to the US.

Indian products that can tap the Chinese market include rubber, paper/paperboard, copper ores, equipment for transmission voice/data in a wired network, tunes and pipes, while goods that can grab exports opportunities in the US market include industrial valves, vulcanised rubber, carbon or graphite electrodes and natural honey. Raising exports could help India narrow the trade deficit with China, which stood at around \$52 billion in 2018-19. FE

### Swiss accounts: Details of at least 50 Indians being shared

PRESS TRUST OF INDIA  
BERNE/NEW DELHI, JUNE 16

SWISS AUTHORITIES are in process of sharing details of at least 50 Indian nationals having accounts in Switzerland-based banks, with regulatory and enforcement agencies in the two countries tightening their noose on individuals suspected to have amassed illicit wealth.

Officials involved in process of mutual administrative assistance between the two nations said that these individuals largely include businessmen associated with firm, including the dummy ones, in sectors ranging from real estate, financial services, technology and telecom to paints, home decoration, textiles, engineering goods, gems and jewellery.

Switzerland has been trying hard to shed a long-standing perception of it being a safe haven for black money, while the issue has been a politically sensitive one in India as well.

## RBI recommends four officials to be promoted to executive directors

ENSE ECONOMIC BUREAU  
MUMBAI, JUNE 16

THE RESERVE Bank of India has recommended names of four senior officers for empanelment for promotion to the rank of executive directors (EDs).

While the RBI originally empanelled five senior officials, one officer has already taken over as ED. The remaining four include N S Dave, Chief General Manager (CGM); Anil K Sharma, CGM; S C Murmu, Regional Director; and T Rabi Sankar, CGM.

Rabi N Mishra, CGM, who was also recommended for the post, has already been appointed as ED following the retirement of Rosemary Sebastian. "The remaining empanelled officers will get the ED post as and when vacancies arise," said an official.

RBI Deputy Governor N S Vishwanathan will complete his three-year tenure on July 4, 2019.

Prior to his elevation as Deputy Governor, Vishwanathan was ex-

**Rabi N Mishra, chief general manager, who was also recommended for the post, has already been appointed as executive director following the retirement of Rosemary Sebastian**

ective director. A new Deputy Governor will be selected from the EDs serving the central bank.

The Central Board of the RBI had recently decided to create a specialised supervisory and regulatory cadre within the RBI in order to strengthen the supervision and regulation of commercial banks, urban cooperative banks and non-banking financial companies. The decision follows a series of events including the IL&FS defaults, ICICI Bank loan issue, Punjab National Bank fraud and the liquidity issues in the NBFC sector in the last two years.

### ACKNOWLEDGES COMPANY MADE MISTAKE IN FAILING TO DISCLOSE DEFECTIVE COCKPIT WARNING LIGHT ON ITS 737 MAX

# Boeing CEO says will take time to win back confidence of customers

ERIC M. JOHNSON  
PARIS, JUNE 16

THE HEAD of Boeing Co said on Sunday that the aircraft manufacturer had made a mistake in implementing a faulty cockpit warning system on the 737 MAX plane and predicted it would take time to rebuild the confidence of customers in the wake of two fatal crashes.

Chairman and chief executive officer Dennis Muilenburg said Boeing failed to communicate "crisply" with regulators and customers, but defended the broad engineering and design approach to nose-down control software at the centre of probes into the accidents

that led to the plane's worldwide grounding.

Muilenburg acknowledged the company made a mistake in failing to disclose a defective cockpit warning light on its 737 MAX to regulators and customers, and said that failure has been part of reviews by global regulators.

Muilenburg, who has been under fire over the MAX design and Boeing's handling of the crisis, said "we are seeing over time more and more convergence among the regulators" on when the MAX should return to service.

He said he expected the MAX to return to service this year and that 90 per cent of customers had participated in

simulator sessions with its upgraded MCAS software as the company works towards a certification flight with regulators soon.

Boeing says it followed long-standing engineering procedures when designing the 737 MAX. Asked how the procedures failed to capture apparent flaws in MCAS control software and sensor architecture, Muilenburg said: "Clearly, we can make improvements, and we understand that and we will make those improvements."

He added: "When I make comments about the previous MCAS design and how we followed those processes, that's something we put a lot of thought and depth of analysis



CEO Dennis Muilenburg told reporters Boeing expected to announce some orders at the Paris Airshow, but that its main focus at this year's industry gathering was safety. Reuters file photo

into. That doesn't mean that it can't be improved."

Muilenburg's comments on the eve of the Paris Airshow highlight efforts by Boeing to strike a different tone than it did in the days after the Lion Air crash in October, when it raised questions over pilot and maintenance issues.

Muilenburg said the US planemaker expected to announce some orders at the show for wider-body jets, but that its main focus at this year's industry gathering was safety.

He forecast a \$8.7 trillion marketplace for Boeing's products and services over 10 years, up from the \$8.1 trillion it projected last year, and predicted the world would need 44,000

commercial jets over the next 20 years, up from the 43,000 Boeing forecast in last year's estimate.

He stuck to a previous timeline for the all-new 777X twin-aisle jet, which Boeing aims to fly later this year and deliver to airlines in 2020.

Muilenburg said a possible new jet dubbed NMA had fallen behind the MAX's return to service as a priority, but that the timeline on decisions and entry to service remained unchanged.

He took aim at European rival Airbus' planned new extended-range A321XLR, saying the aircraft would only "scratch an edge" of the market segment targeted by the NMA,

which would replace Boeing's 757s and 767s.

Whether or not Boeing moves forward with the new mid-sized plane to serve a niche market falling between narrow- and wide-body aircraft is expected to reshape competition with Airbus, which dominates the top end of the medium-haul sector.

Asked whether he had been interviewed or submitted evidence in an ongoing criminal investigation launched by the United States Department of Justice in the wake of the 737 MAX crashes, the Boeing chairman said, "We are fully supporting any government inquiries and providing information." REUTERS