QUICKLY

Rupee trips 7 paise to 68.58

Mumbai, July 10

The rupee declined by 7 paise to close at 68.58 against the US dollar on Wednesday, pressured by persistent foreign fund outflows and firming crude oil prices. At the forex market, the domestic unit opened weak at 68.61 and soon slipped to hit the day's low of 68.67. However, it pared some losses to touch a high of 68.48, before finally closing at 68.58, showing a loss of 7 paise over its previous close.. The 10-year government bond yield was at 6.54 per cent. PTI

ICICI Securities to sell retail loans

Mumbai, July 10

ICICI Securities has diversified its business model to include offering of retail loans through its online (ICICI Direct) platform and offline channels, which includes a network of nearly 200 branches. "This service is inclusive of products such as personal loans, home loans, loan against property, auto loans, and credit cards offered by ICICI Bank," it said in a release on Tuesday, adding that it will earn a distribution commission for selling these products. Stating that this is a new revenue stream for the company, Vijay Chandok, Managing Director and Chief Executive of ICICI Securities, said retail distribution is a fast-growing segment and entry into this segment marks its presence in the entire financial planning journey of their customer's lifecycle. Over five lakh I-Sec customers are already pre-approved and credit-cleared who can avail of personal loan through the ICICI Direct platform without any documentation. OUR BUREAU

'There is no asset-liability mismatch for majority of NBFCs'

G BALACHANDAR

Chennai, July 10

THE BL INTERVIEW

TT Srinivasaraghavan, Managing Director of Sundaram Finance, a leading non-banking finance company (NBFC) that is part of TVS group, feels elated as NBFCs' role has been acknowledged for the first time by a Finance Minister in Budget speech. He welcomed the measures put forth by Finance Minister Nirmala Sitharaman to address some of the burning issues facing the sector. Srinivasaraghavan spoke to *BusinessLine* about the liquidity scenario, slowdown in the automobile sector and near-term challenges. Excerpts:

Have liquidity constraints eased now in the NBFC sector?

Liquidity is better. For some of the larger NBFCs, liquidity has eased. Actually, for many of the bigger players, liquidity was always available but it came at a higher cost after the IL&FS issue flared up in Q3 of last year.

In the last month or so, the cost of funds has eased which, I believe, is reflective of the fact that liquidity too has started easing. From Q3 of FY19 to Q1 of this fiscal, we are definitely in a better place. However, for medium and small players, I don't think liquidity has eased. They were actually untouched by the capital market happenings and were largely dependent on bank borrowings. With banks tightening the screws on lending to the smaller players and also increasing the rates, they have been badly hit.

Numerically, they are large and it is they who deliver much of the last mile credit. If there is a greater push by the government/RBI and if banks free up the funds a little bit, the situation with the medium and small NBFCs will improve.

What do you have to say on the issue of ALM (asset-liability mismatch) in the NBFC sector?

There is no ALM problem for most of the NBFCs. This is mostly uninformed discourse that NBFCs have an ALM issue. Where is the question of ALM for vehicle financing NBFCs, which have an average lending duration of 3-5 years, or consumer durable financing NBFCs, which have asset tenures of 12 months or less?

The HFCs (housing finance companies) have an issue in terms of asset-liability mismatch given that they lend for 15-20 years and there is no long-term funding source available for them.

That is a systemic issue but that again is nothing new. It has been there for decades. But it is important to realise that there are no ALM issues for the overwhelming majority of NBFCs.

Is there any hope for revival in the commercial vehicle (CV) sector in the near term?

The first six months of the last year was a boom time for the CV sector. But starting from Q3, sales dropped month after month, including in Q1 of the current year.

The actual problem started with the introduction of the revised axle load norms. That came at a time when CV sales were at a peak. It created a 15-20 per cent excess capacity, especially in the M&H (middle and heavy) CV segment. Rural sentiment was negative, freight movement has been sluggish, thereby resulting in the M&H CV segment going into a free fall.

And now there is talk of BS-VI and pre-buying ahead of the launch. My own feeling is that even if there is pre-buying, it will be a limited one, largely driven by replacement buying. Even with that, the CV sector is likely to go through a bumpy ride over the next 12-18 months.

There are lots of unknowns surrounding BS-VI, including higher initial cost, availability of fuel across the country, and so on. But this is not the first time we are seeing this downturn.

Cyclicality is a known factor in the CV sector. I expect a revival in the second half of FY21.

What is your take on the slowdown in other auto segments?

The biggest worry is the passenger car segment. CV is cyclical and there it is a question of 'when' and not 'if'. But in the case of passenger vehicles, one wonders what will trigger the revival and the turnaround.

The outlook is currently bleak for the passenger vehicle segment. This is the more worrying area because of the cascading effect it can cause. The recent buzz around Electric Vehicles will only add to the confusion in the customers' minds.

What is Sundaram Finance's strategy this year in light of the CV slowdown?

What we have done well over the years is to develop a diversified portfolio.

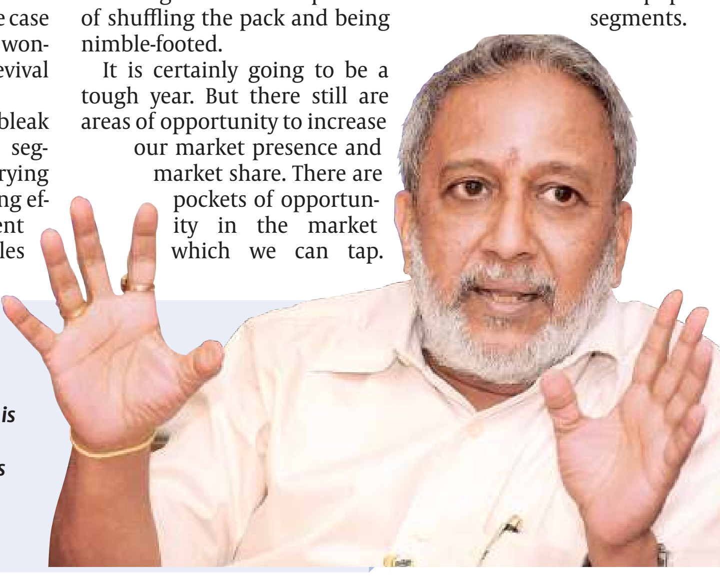
If you look at our FY19 numbers, we did not grow in the CV segment and yet we registered an increase in disbursements of almost 10 per cent, which is an indication of strong growth in other segments. It is a question of shuffling the pack and being nimble-footed.

It is certainly going to be a tough year. But there still are areas of opportunity to increase our market presence and market share. There are pockets of opportunity in the market which we can tap. Even in the CV segment, there are gaps in the market.

Infrastructure is a big story, today and for the future. The continuing focus of the government on the infrastructure space will help boost the construction equipment segment.

If the monsoon turns out well, the farm sector could see a revival and positive rural sentiment will result in increased consumption spending.

We see good growth prospects in the construction equipment and farm equipment segments.



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TT SRINIVASARAGHAVAN
MD, Sundaram Finance

CONSOLIDATION OF STATE-OWNED BANKS

Govt to induct 5 whole-time directors on boards of large public sector banks

K RAM KUMAR
SURABHI

Mumbai, July 10

Following the merger of Dena Bank and Vijaya Bank with Bank of Baroda (BoB), the government is now seeking to beef up the number of whole-time directors (WTDs) on boards of large public sector banks (PSBs) into which other PSBs will get merged.

The government wants to have five WTDs — a Managing Director and Chief Executive Officer (MD and CEO) and four Executive Directors (EDs) — on boards of large PSBs, whose balance sheets will grow bigger once other PSBs merge with them, going by the amendments proposed to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

At present, the government appoints four WTDs — an MD & CEO and three EDs — on the boards of large PSBs– BoB, Punjab National Bank, Bank of India, Canara Bank, Union Bank of India and Central Bank of India.

Banking Companies Act

In accordance with the proposed amendments, the clause of "not more than five whole-time directors to be appointed by the Central government after consultation with the Reserve Bank" will be incorporated. At present, the clause relating to the appointment of WTDs in PSBs reads as "not more than four whole-time directors to be appointed by the Central government after consultation with the Reserve Bank".

SBI-like model

According to BK Divakara, former Executive Director, Central Bank of India, the government may be intending to put in place a State Bank of India (SBI) board-like structure in order to help the consolidated PSBs efficiently manage their businesses. SBI, the country's largest lender, has five WTDs — the Chairman and four Managing Directors — on its board.

Consolidation in the PSB space has been kick-started with the merger of Dena Bank and Vijaya Bank with BoB with effect from April 1, 2019. BoB has four WTDs — the MD & CEO and three EDs.

When the cabinet approved the amalgamation of Dena Bank and Vijaya Bank with BoB in early January 2019, the Finance Ministry had said that the consolidation among the three PSBs will help create a strong, globally-competitive bank with economies of scale and enable realisation of wide-ranging synergies. Leveraging of networks, low-cost deposits and subsidiaries of the three banks have the potential to yield significant synergies for positioning the consolidated entity for substantial rise in customer base, market reach, operational efficiency, wider bouquet of products and services, and improved access for customers, it added.

To strengthen governance at the board-level, the position of Chairman and Managing Director in PSBs was bifurcated into a non-executive Chairman and an MD & CEO during the Modi government's first five-year tenure.

According to the Finance Ministry, a professional Banks Board Bureau has been created for arm's length selection of non-executive Chairmen and whole-time directors.

Insurers say 5% TDS on net proceeds of life cover will ease tax compliance

It avoids cases of tax cut even while there is no gain

SURABHI

Mumbai, July 10

In a step that will help ease compliance hassles for life insurance policy holders, the Budget proposed a 5 per cent tax deducted at source (TDS) on net insurance proceeds. The provision will come into effect from September 1, 2019.

This means that for such policies, net insurance proceeds — which is the amount payable minus total premium paid — will be taxed at 5 per cent.

TDS is deducted at 1 per cent of gross proceeds at the time of payment, as per current norms.

At present, under section 194DA of the Income Tax Act, a person is obliged to deduct tax at source if the person pays any sum to a resident under a life insurance policy, which is not exempt under sub-section (10D) of section 10. "Several concerns have been expressed that deducting tax on gross amount creates difficulties to an assessee who otherwise has to pay tax on net income (that is after deducting the amount of insurance premium paid by him from the total sum received)," said the Memorandum to the Finance Bill, 2019, adding that it will also help tax administration easily match the TDS.

Riders attached

Insurers said the provision is for only specific covers, which are largely single premium as most policies have a 10-time cover and are so outside the ambit of tax.

"Most insurance policies don't fall under the ambit of this tax provision because it only applies for those policies under section 10(10D), that is policies which do not have a minimum 10 times life cover. Even for policies which will attract this tax, the new proposal of 5 per cent TDS is possibly better as it is only applicable on the net gains (total payout less premiums paid). At present, one per cent TDS is levied on the total payout exceeding ₹1 lakh, so there could be situation where the customer ends up paying TDS even if s/he has not had any gains," said Ashwin B, Chief Operating Officer, Exide Life Insurance.

Smoother IT filing

Satyan Jambunathan, Chief Financial Officer, ICICI Prudential Life Insurance, also welcomed the move and said it will facilitate smoother tax compliance for the customer.

"This is because generally customers mention only the net income in their income tax returns, whereas Form 26AS reflects the total proceeds on which tax has been deducted, thus leading to a mismatch. Going forward, such instances can be avoided," he said.

As NCLAT ruling on Essar Steel pinches banks, SBI chief says IBC can be amended

OUR BUREAU

Mumbai, July 10

State Bank of India Chairman Rajnish Kumar on Wednesday indicated that there may be a need to amend the Insolvency and Bankruptcy Code after the ruling of the NCLAT in the Essar Steel case.

"Let us see what works out. There have been in the past, and if required, there can be more amendments to the IBC. Let us be patient," he told reporters on the sidelines of launching a book on HDFC Bank. Kumar said that if secured financial creditors are put at par with operational creditors, it can be a disincentive. "We are a different class of creditor," he said, adding that in liquidation lenders are the top priority along with employees.

The NCLAT earlier this month had approved ₹42,000-crore bid of ArcelorMittal to take over Essar Steel. But lenders will have to take a larger haircut as NCLT allowed a bigger share to operational creditors than what was envisaged by Committee of Creditors.

SunTec launches solutions to help banks with digital transformation

VINSON KURIAN

Thiruvananthapuram, July 10

SunTec Business Solutions has launched in London the Xelerate Digital Core, a 'low-risk approach for banks to accelerate digital transformation without having to replace their functionally stable legacy core systems'.

Xelerate seeks to simplify the process by 'hollowing out customer engagement functions' from the core system and managing it as a horizontal cross-enterprise layer.

These include product innovation capabilities, sophisticated customer data management, partner ecosystem and revenue management and pricing.

Digital transformation

With this approach, banks can quickly adopt new technologies, add more functionalities and capabilities, offer customised products and enhance the customer experience.

The goal is transition from a product-based to an agile, customer-first organisation, according to K Nanda Kumar, CEO, SunTec.

This aligns with Forrester Vice-President and Principal Analyst Jost Hoppermann's analysis on what banks need to do to succeed with digital transformation.

Nanda Kumar quoted Hoppermann as observing in 'The State Of Digital Banking Transformation, 2019' report that "the digital banking transformation imperative has never been as relevant as today".

"Banks urgently need to move to a state-of-the-art application landscape. Without one, they will find it hard to do more than merely survive the next decade."

SunTec's emphasis is on the simplicity of how this can be done, Nanda Kumar said. "Our goal is help banks de-link their digital transformation aspirations from the state of their legacy systems."

The company claims that banks can quickly adopt new technologies, add more functionality and capabilities, offer customised products and enhance the customer experience with its offering

Agility and flexibility

Xelerate equips banks with the agility and flexibility required to make their digital transformation plans a success. It allows banks to bring together different facets of technologies to create new customer experience.

SunTec has teamed up with Capgemini to bring personalised customer engagement solutions to global financial services clients with Xelerate Digital Core.

Anirban Bose, CEO, Capgemini's Financial Services, said: "SunTec is an important part of the partner ecosystem as we seek to offer the most powerful and relevant offerings to meet the needs of our global client base."

Corp Bank settles 1,148 claims under social security schemes

OUR BUREAU

Mangaluru, July 10

Corporation Bank has settled a total of 1,148 claims under two social security schemes of the government during 2018-19 and up to May of the current fiscal.

A press release said here on Wednesday that the bank settled 776 claims under the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) in 2018-19, and 123 claims up to May of the current financial year. The scheme provides insurance cover to citizens in the age group of 18 to 50 years at an annual premium of ₹330.

The bank settled 211 claims under Pradhan Mantri Suraksha Bima Yojana (PMSBY) during 2018-19, and 38 claims up to May of 2019-20. PMSBY provides accident insurance cover to citizens in the age group of 18 to 70 years at a premium of ₹12 per annum.

The schemes are linked to savings bank accounts. The premium is deducted automatically from the bank account of the insured person, it said.

Job cuts may be the new norm in banks, but Citigroup is hiring

BLOOMBERG

July 10

In one of the darker weeks for finance jobs, Citigroup Inc said it's planning to increase senior banking hires across key sectors and markets as it aims to become a top-three investment bank.

The lender is seeking to add to its healthcare and technology teams, and is also looking to increase local deal-making clout in some emerging markets, Tyler Dickson and Manolo Falco, co-heads of the bank's investment banking operation, said in a telephone interview.

"We are focused on quality, not quantity," Falco said. "There are lots of opportunities for us to expand in China, parts of the Middle East and Latin America, aside from our US expansion. Our focus is on bringing in high-calibre talent who are complementary to our existing business model."

New York-based Citigroup is ranked fourth among advisers on deals announced so far this year, according to data compiled by Bloomberg.

The firm began a revamp last year, combining the investment bank with the capital markets origination unit in a move meant to align fund-raising and advisory products and give clients more comprehensive coverage.

It hired three executives from troubled German firm Deutsche Bank AG last month, including Mark Keene, who was brought in to become co-head of technology banking.

Volatile M&A

Citigroup has also employed senior bankers from Goldman Sachs Group and Barclays in recent months to expand in the US.

The lender plans to recruit for its healthcare and tech teams and is also looking to increase local deal-making clout ISTOCK/ZAKOKOR

Deutsche Bank announced a major overhaul this week that will include 18,000 job losses as it combats declining revenue and rising funding costs.

"Advising and financing on mergers and acquisitions, a key source of investment bankers' fees, is likely to remain volatile because of increasing uncertainty in the global economic and political outlook," Dickson said.

"We will see increasing volatility in the M&A and financing markets going forward and won't be surprised to see periods where the deal flow is much less than in the previous years," he said. "However, our pipeline remains strong."

Global M&A volumes are down about 10 per cent this year, largely due to a sharp slowdown in Europe, where deal-making has been impacted by a slowing economy and concerns over the UK's plans to leave the European Union. Activity in the US, traditionally the biggest deals market, is healthier, with spending up about 8 per cent from the same period last year to $1.2 trillion.

Citigroup is also targeting growth in private equity, using its new combined structure to build its business with financial sponsors and alternative asset managers, Falco said.

Private equity

"Financial sponsors are the highest-growth asset class given they have so much capital to deploy on new investments," he said. "This is a huge area of focus for us, and we think they are going to be even more active than they are now."

Buyout firms, sitting on $1.1 trillion of uninvested capital, have deployed billions of dollars in new investments this year, taking advantage of a dip in valuations and renewed focus by companies to shed unwanted assets. Citigroup advised an affiliate of Brookfield Asset Management in its $6.3-billion purchase of Genesee & Wyoming earlier this month.

Deutsche Bank to lay off over 20 equities & sales staff in India

BLOOMBERG

July 10

Deutsche Bank AG will let go more than 20 people in India as part of its global move to withdraw from equity sales and trading business, according to people familiar with the decision.

The German lender plans to undertake the retrenchment in phases, with some of the affected staff in equity research and sales leaving first, the people said, requesting anonymity because the cuts aren't public. Some traders will stay on for a while to wind down its existing positions before departing, they added.

Deutsche Bank's equities team in India is divided into about 10 researchers and around 20 in sales and trading.

Deutsche Bank said in an email it's too early to comment on the details of cuts in India. The German lender unveiled a sweeping overhaul of its operations at the start of the week, involving an exit from global equities business and the loss of 18,000 jobs worldwide by 2022.

About half of the equities staff across Asia have been cut, and another 25 per cent will go in a month, a person familiar with the matter said on Monday.

Deutsche Bank has more than 13,000 employees in India, in businesses including retail and wholesale banking, investment banking advisory and wealth management.

More than 11,000 work in back office and technology roles.