ECONOMY

BANKING WATCH

20 BPS CUT IN MCLR BY PSB

New Delhi: Punjab & Sind Bank (PSB) Saturday said it has lowered its marginal cost of funds based lending rate (MCLR) by up to 0.20 per cent for various tenors. The state-owned bank has cut the benchmark one-year MCLR to 8.50 per cent from 8.70 per cent earlier. **PTI**

CORPORATES BATTLING LEGACY LOAN ISSUES, SLUGGISH ECONOMY

India Inc's Q1 profit takes a hit amid high interest costs, demand slowdown

GEORGE MATHEW
MUMBAI, AUGUST 17

THE CORPORATE sector ended up paying higher interest costs in the June 2019 quarter, even as the Reserve Bank of India (RBI) cut the key policy interest rate by 75 basis points (bps) between February and June this year and banks went slow in passing on the benefits of rate reduction to their customers.

Interest costs soared by 22.16 per cent to Rs 65,485 crore during the first quarter ended June 2019 even as demand slowdown started hitting India Inc.

On the other hand, a 11.97 per cent fall in the net profit of the corporate sector led to a 10.48 per cent decline in tax payment by corporates to Rs 49,895 crore during the June quarter, according to figures available from a sample of 2,179 companies. Operating margins of these companies were down by 34.30 bps to 14.84 per cent as the slowdown took its toll.

"The 75 basis points cut in the first half of the calender year wouldn't have made any impact on the corporates in the near term as these were old loans priced earlier. These loans would have been given years ago at a higher interest rate. Fresh loans issued to corporates would be priced lower according to their credit rating," said a senior official of a nationalised bank.

The RBI had cut the repo rate by another 35 bps in its latest monetary policy meeting earlier this month, thus making the total reduction to 110 bps in 2019.

A softening interest rate regime does not mean lower tax outgo for corporates which are battling legacy loan issues and slowdown in the economy. On top of this, some of the big corporates are in the defaulters list and banks were hesitant to lend, leading to choking of credit to some sectors. "Banks had tightened their lending norms to many sectors after the surfacing of the NPAs and the liquidity crunch in the NBFC sector," the official said.

While addressing the annual general meeting of HDFC recently, chairman Deepak Parekh had said "banks are reluctant to lend and there has been a flight to safety where a select, few, high-rated NBFCs (non-banking finance companies) and HFCs (housing finance companies) have access to funding while for several others, access to credit has been chocked".

The central bank and the government have been pushing for faster transmission of rate cuts, but banks are taking their own sweet time to pass on the benefits. "The stance of policy was changed from neutral to accommodative in June. These policy impulses have been transmitted through financial markets fully. The weighted average call money rate (WACR) has declined by 78 bps, market repo rate by 73 bps and 10-year benchmark G-sec yield by 102 bps," RBI Governor Shaktikanta Das had said in his monetary policy statement.

Banks, on the other hand, have reduced their interest rates on fresh rupee loans by 29 bps so far (February-June 2019). "Our interactions with various stakeholders, including both public sector and private sector banks, indicate that steps are being taken by them on an ongoing basis to progressively lower their interest rates so that the benefits of the policy rate reductions are passed on to the economy. Accordingly, we expect higher transmission of monetary policy actions and stance by the banks in the weeks and months ahead," Das said.

Though bankers are optimistic about bringing down the interest rates, it won't give much benefit to old borrowers."With improvement in liquidity position and reduction in deposit rates offered by banks, further reduction in lending rate are expected," Sunil Mehta, managing director, Punjab National Bank, said. However, overall economic activity in the global market has slowed down and India is no exception.

Arun Singh, chief economist, Dun & Bradstreet India said, "In India, the manufacturing sector's performance was a drag to the economic growth and will now have to brace for a further slowdown in services sector as well. In this regard, a series of rate cuts will provide required impetus to the economy."

"The focus has to be more on transmission of the rate cut to the lending rate as a 75-bps cut in the repo rate has only translated into a 29-bps reduction in lending rate on fresh rupee loans during February–June 2019. Continued weak credit growth to the micro and small sector and negative export credit growth for more than two years will require special interventions which the government is trying to address," he added.

EXPLAINED

Rate transmission by banks yet to pick up pace

INCLUDING THE 35 bps cut announced in August by RBI, the total reduction in repo rate has been 110 bps in 2019. However, the lower rates will be applicable only on fresh loans and will vary for companies as per their credit rating.

Moreover, banks have been slow in transmitting the reduced repo rate on to their fresh loans. In addition to faster transmission, government intervention is the need of the hour.

HOW INDIA INC FARED IN APRIL-JUNE (Rs IN CRORE)

	2019-Jun	2018-Jun	% change
Net Sales	18,12,757	17,12,309	5.87
Other Income	40,433	41,335	-2.18
OPM %	14.84	15.18	-34.30 bps
Depreciation	87,213	72,406	20.45
Interest	65,485	53,606	22.16
Tax	49,895	55,734	-10.48
Net profit	103,899	118,026	-11.97

Sample of 2179 companies (excluding banks and financials)
Source: FE

CBDT SENDS LETTER TO ZONAL CHIEFS

Checklist to be made for verifying taxpayers who made suspicious deposits during demonetisation

ENS ECONOMIC BUREAU
NEW DELHI, AUGUST 17

The checklist would gather information regarding a taxpayer's compliance in filing regular income tax returns, total income and percentage of cash deposit to gross total income

IN WHAT is expected to assist assessing officers in further analysis, the Income Tax Department would now make a verification checklist for taxpayers who were found to have made suspicious cash deposits during demonetisation. The verification checklist aims to break down thousands of such cases into a few categories, the Central Board of Direct Taxes (CBDT) said in a letter to zonal chiefs.

The checklist would gather information regarding a taxpayer's compliance in filing regular income tax returns, total income and percentage of cash deposit to gross total income.

Further, taxpayers would be classified based on the nature of deposit — whether it was out of loan received, out of repayment of loan, gift and cash in hand, among others.

For taxpayers engaged in business, the information regarding nature of businesses, use of cash in a normal year and whether books of account are properly maintained or not will be filed in the checklist. Further, cash deposit made by these assessees in earlier years and its comparison with their yearly sales will also be recorded.

This is another attempt by the Department to streamline information gathered from taxpayers who were shortlisted as potential tax evaders because of their activities during demonetisation in 2016.

In March, CBDT had asked senior I-T officials to go after over 87,000 people who were yet to file I-T returns in response to the notices issued to them. The assessment in all these cases should be completed by March-end, the board had said, in a missive to the field formations.

Tax officials were instructed by the Board to gather additional information about the above persons and establish a trail of the funds deposited by them.

"Further, a detailed analysis of any past income tax returns of these people should also be made to ascertain the nature of their transactions during the demonetisation period (November 8 to December 31, 2016)," the CBDT had said.

As had been reported earlier, the I-T Department had identified 23.5 lakh permanent account numbers (PANs) for post-note ban cash deposits being inconsistent with income profiles under the Operation Clean Money (OCM) programme.

Subsequently, the department issued statutory notices to three lakh among these. Of these three lakh PANs, "a total of 2.1 lakh persons filed income-tax returns and total amount of self-assessment tax was Rs 6,560.88 crore," the department had told *FE*, in response to a RTI filed by the paper earlier. Some 90,000 of these people have not filed returns despite receiving statutory (Section 142-1) notices, whose cases are now being followed up.

The department had further said that of the original 23.5 PANs, over 17 lakh filed e-returns after receiving communication. Out of these, over 14.5 lakh PANs filed their I-T returns for last three assessment years — AY2015-16,2016-17 & 2017-18.

As on January 7, 2019, out of the 23.5 lakh persons, a total 4.15 PANs had never filed I-T returns.

Just before demonetisation, the government had launched the Voluntary Income Disclosure Scheme which ran from June 1 to September 30, 2016. It managed to mop up Rs 12,700 crore in tax from 71,726 persons who had declared undisclosed income of Rs 67,382 crore under the scheme.

Additionally, coinciding with demonetisation, the government had launched another income disclosure scheme namely the Pradhan Mantri Garib Kalyan Yojana which was open from December 2016 to March 31, 2017. However, the response to this scheme was lukewarm as only 21,000 persons declared Rs 4,900 crore of undisclosed income, eventually yielding Rs 2,451 crore in tax. **FE**

BRIEFLY

Two RCom promoters pledge stake

New Delhi: Two promoter entities of Reliance Communications (RCom) have pledged 11.5 per cent more stake in favour of Axis Trustee Services, said filings. Reliance Communications Enterprises and Reliance Telecom Infrainvest on August 16 pledged about 11.51 per cent of their holding in Reliance Communications amounting to 31.82 crore shares in favour of Axis Trustee Services acting as security/debenture trustee. A BSE filing on pledge of RCom shares in favour of Axis Trustee Services showed that fresh pledge of 31.82 crore shares was created on August 16, 2019.

Ujjivan Bank files DRHP with Sebi

Bengaluru: Ujjivan Small Finance Bank, which caters to the unbanked urban poor and young middle-class customers, filed its draft red herring prospectus (DRHP) with the Securities and Exchange Board of India (Sebi) for its proposed IPO (initial public offering). As per the DRHP, the company seeks to raise Rs 1,200 crore, including reservation of equity shares of up to Rs 120 crore. **PTI**

'Indian firms operating in China to ramp up investments in 2019'

Most Indian companies present in China are planning to continue to invest there in 2019, the second edition of the 'Business Climate for Indian Companies in China' survey by Confederation of Indian Industry (CII) and Evalueserve said

57 Number of Indian companies in China that took part in the survey

98% Proportion of respondents who plan to make some investments in China in 2019

66% Percentage of firms that said their business was profitable in 2018, with higher EBIT than in 2017

30% of companies generated revenues higher than 100 million yuan from China in 2018

72%: Proportion of Indian companies that are invested in Shanghai, the most popular destination

72%: Percentage of respondents that have up to 50 employees and hire over half the workforce locally

74%: Percentage of companies that said the US-China trade friction has had no impact on their business

CHALLENGES FOR INDIAN FIRMS IN CHINA:

- Rising labour cost
- Finding and retaining talent
- Stricter regulations

ADVANTAGES FOR INDIAN FIRMS IN CHINA:

- More innovation, favourable than worldwide average
- Quality of products and services

DGCA examining introduction of multi-crew pilot license system

PRESS TRUST OF INDIA
NEW DELHI, AUGUST 17

The MPL training is dynamic, rather than hours-prescriptive (the traditional ab-initio commercial pilot license training approach), as per an IATA document

AVIATION WATCHDOG DGCA is looking at the option of introducing a new pilots training programme that will focus more on competitive assessment rather than just fixed flying hours.

The introduction of Multi-Crew Pilot License (MPL) programme — which is in place in many European countries — could be an alternate mode that would be more efficient and quicker, a senior official said of the aviation regulator said.

The Directorate General of Civil Aviation (DGCA) has constituted a committee to look into the "pros and cons of MPL", as per an order issued by the regulator.

The MPL programme shifts the focus from "prescriptive flying hours requirements to competency-based training and assessment," it said.

As per a document from the global airlines' grouping International Air Transport Association (IATA), MPL is a state-of-the-art ab-initio airline pilot training programme, seamlessly integrated with an airline type rating, with continuous multi-crew focus.

The MPL training is dynamic, rather than hours-prescriptive (the traditional ab-initio commercial pilot license training approach), according to the document. "The committee is expected to examine the implication of adoption or otherwise of MPL and submit its recommendations by September 16, 2019 for further action," the order stated.

In case the MPL programme is introduced in the country, it would be as an option. Currently, an individual has to undergo training, clock a specified flying hours and clear examinations for a commercial pilot license. The programme is expected to help in bridging the supply and demand gap for pilots. Around 350 pilots pass out from flying schools every year but the requirement is estimated to be 600 to 800 pilots annually, the official said.

Debt to fall to ₹1,000 cr post tech park sale: CDEL

PRESS TRUST OF INDIA
NEW DELHI, AUGUST 17

CAFE CHAIN operator Coffee Day Enterprises (CDEL) on Saturday said its total debt is expected to reduce to around Rs 1,000 crore after adjusting the proceeds from sale of its Global Village Tech Park in Bengaluru to Blackstone.

"The company has already announced the divestment of Global Village Tech Park held by its subsidiary Tanglin Developments Ltd for an aggregate consideration of Rs 2,600-3,000 crore. On receipt of the consideration for the sale of Global Village after payment of required Statutory payments, the debt position of Coffee Day Group will reduce around by Rs 2,400 crore," Coffee Day Enterprises said in a regulatory filing.

The debt position of Coffee Day Group post repayment of debt out of proceeds from sale of Global Village is expected to be around Rs 1,000 crore in the next 45 days, it added.

M&M sets up assembly plant in Colombo

ENS ECONOMIC BUREAU
COLOMBO, AUGUST 17

Mahindra & Mahindra (M&M) has set up an assembly plant in Colombo, Sri Lanka, as part of its initiative to push more volumes in the international market, at a time when domestic demand has been weak over the past one year.

The Mumbai-based automaker will from Saturday start assembling compact SUV KUV100 at the new plant, with a production capacity of 5,000 units per annum. In collaboration with Ideal Motors of Sri Lanka, the plant has been built with an investment of over Rs 80 crore. The resultant entity has been christened Mahindra Ideal Lanka.

While Ideal Motors will own 65 per cent of the joint venture, M&M will own the remaining.

Pawan Goenka, managing director of M&M, said the company would roll out more products over the next three years from the plant. "This is the first passenger car assembling plant in Sri Lanka. Sri Lanka is a key strategic market for us and we are now fully equipped to deliver products customised to local needs, on time," Goenka said. **FE**

TVS Motors arm buys US analytics firm

Chennai: TVS Motor Company's subsidiary TVS Motor (Singapore) has picked up an undisclosed stake in US-based Predictronics Corporation, a specialist in providing end-to-end predictive maintenance analytics solution, for an investment of $3.2 million. **FE**

Trump says Apple will spend 'vast sums' in US

REUTERS
BEDMINSTER, AUGUST 17

US PRESIDENT Donald Trump said he was having dinner on Friday with Chief Executive Officer Tim Cook of Apple Inc, a company the president has criticized for not manufacturing more of its products in the United States.

"Having dinner tonight with Tim Cook of Apple. They will be spending vast sums of money in the US Great!" the US President, who is currently on a working vacation at his golf club in Bedminster, New Jersey, said in a Twitter message. The White House did not immediately respond to a question about the agenda for the dinner and what Trump was referring to when talking about 'vast sums' in the US.

Apple did not immediately respond to a request for comment. Trump has said he wants manufacturers to move their production from China and other countries to the United States.

CENTRAL BANK WILL IMPROVE MECHANISM USED TO ESTABLISH LOAN PRIME RATE (LPR) FROM THIS MONTH

China unveils rate reform to steer funding costs lower for companies

LUSHA ZHANG & KEVIN YAO
BEIJING, AUGUST 17

CHINA'S CENTRAL bank unveiled a key interest rate reform on Saturday to help steer borrowing costs lower for companies and support a slowing economy that has been hurt by a trade war with the United States.

The People's Bank of China (PBOC) said it will improve the mechanism used to establish the loan prime rate (LPR) from this month, in a move to further lower real interest rates for companies as part of broader market reforms.

Analysts say the move, which came after data that showed weaker than expected growth in July and followed a cabinet announcement on Friday, underscores the government's attempts to use reforms to support a slowing economy.

"By reforming and improving the formation mechanism of LPR, we will be able to use market-based reform methods to help lower real lending rates," the central bank said in a statement published on its website.

The PBOC will "deepen market-based interest rate reform, improve the efficiency of interest rate transmission, and lower financing costs of the real economy," it further said. Chinese banks' new LPR quotations will be based on rates of open market operations, and the national interbank funding center will be authorised to publish the rate from August 20, the Chinese central bank said.

It added the rate will be published every month on the 20th, effective this month.

Banks must set rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating lending rates, the PBOC said, adding that banks will be barred from setting any implicit floor on lending rates in a coordinated way.

The central bank said five-year and longer tenors will be added to the existing one-year LPR, which will help banks set rates on long-term loans such as mortgages.

China will add eight small banks, including two foreign-funded banks, to the existing 10 nation-wide banks that will be allowed to submit LPR quotations, the central bank said.

The move followed pledges from China's State Council on Friday that the country will rely on market-based reform measures to help lower real interest rates for companies.

The central bank said that it will strengthen its supervision on banks' rate quotations and punish banks for irregularities that disrupt the market order.

The PBOC will incorporate LPR application into its macro-prudential assessment (MPA) to urge banks to use LPR pricing.

This week's data broadly showed China's economy stumbled more sharply than expected at the start of the third quarter, as the intensifying trade war with the United States took a heavier toll on businesses and consumers. Second-quarter economic growth slowed to a near 30-year low.

Tang Jianwei, an economist at Bank of Communications in Shanghai, said the reform could be seen as a guided rate cut as PBOC can guide rates of its open market operations, which will be closely followed by the LPR. "The tool (LPR quotation reform) equals to a guided rate cut, and is only pushed out by the PBOC at crucial moments," said Dai Zhifeng, analyst with Zhongtai Securities Co.

The central bank has pledged to gradually unify two interest rate "tracks" — its market-based rates developed in recent years and its benchmark bank deposit and lending rates.

Analysts say the new LPR rate will be lower than the current level, but they are divided over the scope of reductions on borrowing costs for firms. **REUTERS**

AMONG REFORMS TO SUPPORT ECONOMY

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