PNB gets lion's share of recapitalisation

'After reviewing banks' fundamentals, we see no reason for recapitalisation to exceed ₹70,000 crore'

TCA SHARAD RAGHAVAN
NEW DELHI

Finance Minister Nirmala Sitharaman on Friday laid out the broad strokes for the recapitalisation plan for public sector banks, providing the approximate allocation breakup for about ₹55,000 crore of the ₹70,000 crore promised in the Budget.

Ms. Sitharaman, while speaking at a press conference to announce the merger of 10 public sector banks into four entities, said that the final figures for the allocation would be decided following consultation with the banks themselves, but that the figures provided on Friday were reasonably accurate.

Finance Secretary Rajiv Kumar said, as of now, the recapitalisation amount would remain at ₹70,000 crore, and added that the mergers announced on Friday were all that the government had envisaged so far.

"As the Finance Minister said, the government is fully committed to making the banks robust," Mr. Kumar said at the press conference. "However, after seeing the fundamentals of the banks before and after the merger, we see no reason for the recapitalisation amount to exceed ₹70,000 crore announced."

"As of now, the roadmap for mergers is final," Mr. Kumar added. "Twelve is the right number of banks which should remain." Punjab National Bank, which will now be merged with Oriental Bank of Commerce and United Bank, will receive the highest share of the capital infusion of about ₹16,000 crore. Union Bank of India, which is to be merged with Andhra Bank and Corporation Bank, will receive about ₹11,700 crore.

Punjab National Bank will, post-merger, become the second-largest bank in the country, after State Bank of India. The amalgamated Union Bank of India will become the fifth-largest bank.

Bank of Baroda, which had earlier been merged with Dena Bank and Vijaya Bank, will likely receive ₹7,000 crore, and will be the third-largest bank in India.

Canara Bank, to be merged with Syndicate Bank, will receive about ₹6,500 crore of the capital infusion. It will be the fourth-largest bank in India, post-merger. Indian Bank, which will be merged with Allahabad Bank, will receive about ₹2,500 crore, and will be the seventh-largest bank.

The government also announced the tentative recapitalisation breakup for the remaining smaller banks. Of these, Indian Overseas Bank is to receive about ₹3,800 crore, Central Bank of India ₹3,300 crore, UCO Bank ₹2,100 crore, United Bank of India ₹1,600 crore, and Punjab & Sind Bank will get about ₹750 crore.

The Finance Minister had announced the ₹70,000 crore recapitalisation package for public sector banks in the Budget, and had said that given the stronger financials of the banking sector, this amount would be used as growth capital and to increase credit outflow.

Money in the bank

The government has provided an approximate break-up as to how ₹55,000 crore, of the ₹70,000 crore promised in bank recapitalisation this year, will find its way into public sector banks

Amounts in ₹cr.

Punjab National Bank	16,000
Union Bank of India	11,700
Bank of Baroda	7,000
Canara Bank	6,500
Indian Overseas Bank	3,800
Central Bank of India	3,300
Indian Bank	2,500
UCO Bank	2,100
United Bank of India	1,600
Punjab & Sind Bank	750
Total	**55,250**

'Reform measures for banks already kickstarted'

Finance Minister cites reduction in interest rates, launch of more repo rate-linked loan products

SPECIAL CORRESPONDENT
NEW DELHI

Finance Minister Nirmala Sitharaman on Friday said that several steps had already been taken to implement the reform measures she had announced last week for the banking sector, including the launch of more repo rate-linked loan products by banks.

"The seven announcements we have made, particularly on the interest rate reduction and also for the banks to follow up, you've had quite a few product launches by the public sector banks and instructions for compliance have all been issued," Ms. Sitharaman said at a press conference on Friday to announce the second wave of reforms the government is initiating to revive the economy.

According to the Finance Minister, eight public sector banks have launched repo rate-linked home loans, vehicle loans, mortgage, and cash-credit loan products. Last week, she had said that the government had decided to ask the banks to introduce repo-linked loan products to ensure rate cuts by the RBI to end consumers.

Nirmala Sitharaman

'Instructions given'

Ms. Sitharaman also said that instructions had been given to the banks to ensure the time-bound return of loan documents following the closure of loans. This mechanism would be done through the core banking system and regional managers would be responsible. Last week, she had said that banks would return loan documents within 15 days of the closure of the loan.

Similarly, to facilitate online tracking of loan documents, as announced last week, the Finance Minister said that such a system had been initiated, with borrowers able to track their loans on the loan management systems of their banks.

'One-time policy'

The government had last week announced a transparent one-time policy that will be issued by banks to enable MSME and retail borrowers to settle their overdues. Instructions for this had been issued to the banks, Ms. Sitharaman said.

"Particularly for the NBFCs, the support we had promised, which includes housing finance corporations, the partial credit guarantee schemes have all been executed," Ms. Sitharaman said. "Sanction has begun with ₹3,300 crore already given, and above ₹30,000 crore is in the pipeline. So, liquidity is reaching them."

The Finance Minister also said that the plan for the co-origination of loans between banks and NBFCs announced last week had already rolled into motion, with bank-NBFC tie-ups, with four NBFCs already in place.

BANKING ON MERGERS

Source: Union Finance Ministry

Post-merger metrics	Punjab National Bank OBC^ United Bank of India	Canara Bank Syndicate Bank	Union Bank of India Andhra Bank Corporation Bank	Indian Bank Allahabad Bank
Rank	2	4	5	7
Number of branches*	11,437	10,342	9,609	6,104
Business (₹crore)	17,94,526	15,20,295	14,59,434	8,07,859
Net NPA ratio (%)	6.61	5.62	6.3	4.39
Number of employees	1,00,649	89,885	75,384	42,814

*Domestic | ^ Oriental Bank of Commerce (Data as per March 2019 financials)

Can 10 'weak' banks together create four large, strong banks?

Nine have net NPAs of over 5%, close to PCA risk threshold

MANOJIT SAHA
MUMBAI

Out of the 10 banks that the government has decided to merge to create four, nine have net non-performing assets (NPAs) of over 5%. Only Indian Bank's net NPA is below 5%, at 3.75%, as on March 31, 2019.

United Bank of India, for example, has a net NPA of 8.67% as on March 31 with provision coverage ratio (PCR) of only 51.17%. As a result, the merged entity will have a net NPA of 6.61% and PCR of 59.59%.

United Bank of India is also under the prompt corrective action framework (PCA) of the RBI due to high NPA.

Punjab National Bank (PNB), which suffered a loss of about ₹14,000 crore last year in the Nirav Modi scam, has a net NPA of 6.55%, while Oriental Bank of Commerce, which came out of the PCA framework earlier this year, has a net NPA of 5.93%. These three banks will create the second largest public sector bank after State Bank of India with around ₹18 lakh crore of business.

Net NPA of 6% is one of the risk threshold of PCA, the breach of which could invite restrictions by RBI.

Both banks in the second merger – Canara Bank and Syndicate Bank – have low a provision coverage ratio of 41.5% and 48.8% respectively. The merged entity's PCR will be 44.32%, much lower than the regulatory comfort of 70%. The net NPAs are also high at 5.37% for Canara and 6.16% for Syndicate.

Net NPAs of all the three banks in the third merger – Union Bank, Andhra Bank and Corporation Bank – are around 6%, with Union Bank having the highest at 6.85%. Andhra Bank's net NPA is 5.73%, while that of Corporation Bank is 5.7%. The combined NPA will be 6.3%.

Harmony in asset quality

"The amalgamation will require harmonisation of asset quality and provisioning levels among the merging banks and may spike the credit provisions this year as was seen in the recent merger of Bank of Baroda," said Anil Gupta, vice-president and sector head – Financial Sector Ratings, ICRA. He added that given the sizeable capital infusion being announced for amalgamating banks, the merger was unlikely to be credit negative for merging banks.

Asset quality of the fourth set – Indian Bank with Allahabad Bank – looks much better, mainly because of the lower NPA of the former. The combined net NPA is 4.39%. Indian Bank's provision coverage ratio is, however lower, at 49.13%.

Due to high bad loans of the merged entities, profitability could be impacted in the near term.

"Merger related issues including HR/IT related synchronisation, branch rationalisation and realigning NPAs could impact interim profitability," said Mona Khetan, banking analyst with Reliance Securities.

Geographical synergies

The fourth set also has geographical synergies. Allahabad Bank, headquartered in Kolkata, is stronger in east and north India, while Indian Bank has strong presence in the south.

This geographical synergy is somewhat missing in the other three sets. In the first set, both PNB and OBC are north-based, with strong presence. Similarly, both Canara Bank and Syndicate Bank have strong presence in the south. In the third set, Andhra Bank and Corporation Bank have strong presence in the south, while Union Bank is headquartered in Mumbai, with a national presence.

However, in all the four sets of merger, there is technological synergy as all the banks in a particular bucket have similar core banking solution platforms.

'Indian Bank, Allahabad Bank merger may be a smooth affair'

'Move will not result in branch closure, retrenchment'

N. ANAND
CHENNAI

The proposed merger of Allahabad Bank with Indian Bank, as part of the mega merger plan announced by Union Finance Minister Nirmala Sitharaman, would be a smooth affair, said a top Indian Bank official.

"We expect this merger to be a smooth affair as we both work on the same technology platform.

Nation-wide presence

"The merger will make us the seventh-largest bank in the country and we will have presence throughout the country. Currently, we have strong presence in the south and west, and our partner bank, in the north and east," he added. Asserting that Indian Bank was on a stronger wicket than Allahabad Bank in terms of total business, non-performing assets, net profit and capital adequacy ratio (CAR), he said Indian Bank registered total business of ₹4.3 lakh crore as of March 31, 2019 against ₹3.77 lakh crore of Allahabad Bank.

Integration is expected to be easy as both banks use the same technology platform.

Indian Bank's NPA ratio stood at 3.75% and Allahabad Bank's at 5.22%. The CAR stood at 13.21% and 12.51%, respectively.

During FY19, Indian Bank reported a net profit of ₹322 crore while Allahabad Bank incurred a loss of ₹8,334 crore.

'Too early to mark date'

"The proposed merger will not result either in closure of branches or retrenchment of employees. It would be smooth as in the case of Bank of Baroda, Dena Bank and Vijaya Bank. It is too early to state the effective date of merger," he said.

About Indian Bank's housing subsidiary, he said: "We are very eager to commence the operations soon and plans are in place."

AIBEA urges govt. to review merger plan

SPECIAL CORRESPONDENT
CHENNAI

The All India Bank Employees' Association has urged the Centre to review its proposal to merge 10 public sector unit banks into to four big banks.

"The need of the hour is to come out of the economic crisis, rather than experimenting with anything," said C.H. Venkatachalam, general secretary, AIBEA.

According to him, the proposed merger would result in closure of large number of branches as it happened in the case of State Bank of India, affect banking services and reduce employment opportunities. AIBEA said it opposed the proposed merger as it would help only corporates and go against the requirements of the common people.

'Merger process expected to complete by March 2020'

HR and IT are the key issues, says Canara Bank MD & CEO

MANOJIT SAHA
MUMBAI

The merger process of 10 public sector banks is expected to be completed by March 31, 2020.

"March 31 could be the timeline for all the approvals. Technically it is possible to roll out on April 1," said R.A. Sankara Narayanan, MD & CEO, Canara Bank, which will be merged with Syndicate Bank.

Mr. Narayanan is the only CEO who would have executed two public sector bank mergers in one year. Earlier, he was the MD and CEO of Vijaya Bank.

The Bank of Baroda-Dena Bank-Vijaya Bank merger, which was announced on September 17, 2018, was completed by March 31, 2019.

R.A. Sankara Narayanan

On the current merger, Mr. Narayanan said the integration of human resources (HR) and information technology (IT) were the key issues for a successful merger.

"HR integration without retrenchment...without losing any quality or motivation is the first thing," he said.

Canara Bank has an employee strength of 58,350, while Syndicate Bank has 31,535.

"Another thing is IT. It must be well planned and executed. If that happens, then the process is through. These are the two major issues – HR and IT," Mr. Narayanan said.

He also added there would not be any branch closure in the near future though Canara and Syndicate had a strong presence in south India.

"Not immediately [branch rationalisation]. Even in the previous merger, there was no closure of branches or loss of opportunity. Even if two branches are doing well in one street or in a building, why should we close them? Our aim is to improve on overall parameters," he added.

'Weak asset quality is a concern'

SPECIAL CORRESPONDENT
MUMBAI

Rating agencies have raised concerns over the merger of public sector banks announced by Finance Minister Nirmala Sitharaman citing weak asset quality, but said mergers could be credit positive.

"The announced consolidation of PSU banks is a credit positive as it enables the consolidated entities to meaningfully improve scale of operations and help their competitive position," said Srikanth Vadlamani, vice-president, Financial Institutions Group, Moody's Investors Service.

"At the same time, there will not be any immediate improvement in their credit metrics as all of them have relatively weak solvency profiles," he added.

Another rating agency, India Ratings, said the absorbing banks were not necessarily in good health.

Stating that bank consolidation was a good move in a step towards improving efficiency of the PSBs, Prakash Agarwal, head – Financial Institution, India Ratings and Research (Fitch Group), said, "It is possible that the current mergers may face more friction than the last one – of BoB, Dena and Vijaya. In that case, a large, well-capitalised strong bank absorbed two much smaller entities. In the present case, the mergers are mostly among larger banks, with the absorbing bank not necessarily in strong health."

"However, given that the merged banks are on a similar technology platform, the integration should be smoother," Mr. Agarwal added.

The government has announced that 10 banks will get ₹55,250 crore capital out of the ₹70,000 crore that has been allocated for the current year.

IL&FS gets binding bids for road assets

SPECIAL CORRESPONDENT
MUMBAI

IL&FS has received binding bids for 10 road assets in its domestic roads transportation vertical, the company said on Friday.

The 10 road assets, which account for a total debt of over ₹17,700 crore (nearly 19% of total group debt), received 14 binding bids from multiple bidders.

"This development represents yet another important milestone in the overall resolution process for IL&FS Group being undertaken by the new board," it said. The assets include Jharkhand Infrastructure Implementation Company Ltd., Jharkhand Road Projects Implementation Company Ltd., Moradabad Bareily Expressway Ltd., and Chenani Nashri Tunnelway Ltd.

Appellate tribunal dismisses govt.'s plea in Videocon case

Centre sought $314 mn towards its share of 'profit petroleum'

SPECIAL CORRESPONDENT
MUMBAI

The government's demand to recover $314 million along with applicable interest from Videocon Industries Ltd. towards the former's share of profit petroleum from Ravva Oil Field has been dismissed by the National Company Law Appellate Tribunal (NCLAT).

The government, through the Petroleum Ministry, had issued a demand notice dated October 22, 2018 to Videocon Industries, raising a demand to assign and allocate 100% of the sale proceeds/oil and gas invoices in favour of the government with immediate effect. This was for recovering the provisional sum of $314 million together with applicable interest towards the unpaid government share of profit petroleum.

"It is open to the corporate debtor [Videocon] to recover any amount as per law and award, if any, passed in its favour. It was in this background, the adjudicating authority rightly held that during the period of moratorium, the Union of India, Ministry of Petroleum and Natural Gas (Exploration Division), cannot recover any amount, nor can issue demand notice to the corporate debtor through 'Interim Resolution Professional' to pay any amount. In the aforesaid background, we hold that the adjudicating authority rightly stayed [the] demand notice dated October 22, 2018 during the pendency of the resolution process as long as the moratorium is applicable on the corporate debtor," the order reviewed by *The Hindu* said.

The share of profit petroleum belongs to the Ravva Oil Field, in which Videocon Industries has 25% participating interest.

NCLAT also upheld the NCLT's decision that Ministry of Petroleum can lodge its claim for any legally enforceable right of recovery through 'resolution professional', thereby not rendering it without any remedy.

IndiGo CFO Rohit Philip resigns

PRESS TRUST OF INDIA
NEW DELHI

InterGlobe Aviation on Friday said its chief financial officer Rohit Philip had put in his papers.

Aditya Pandey would replace him from September 16, the company said in a regulatory filing. Mr. Philip's resignation is effective September 15.

The resignation has come at a time when two promoters of the airline are engaged in a feud.

The feud between IndiGo co-promoter Rahul Bhatia and Rakesh Gangwal came into public domain after Mr. Gangwal wrote to SEBI in July and sought its intervention to address the alleged corporate governance lapses at the company, charges that have been rejected by the Bhatia group.

India Inc. hails decision on bank mergers

'Shows resolve to address slowdown'

PRESS TRUST OF INDIA
NEW DELHI

The government's move to consolidate public sector banks indicates its resolve to address the slowdown in GDP growth, as the country's economy expanded at its weakest pace in over six years in the April-June quarter of 2019-20, industry said on Friday.

A sharp deceleration in manufacturing output and subdued farm sector activity pulled down India's gross domestic product (GDP) growth to 5% in the April-June quarter.

The gross value added (GVA) growth in the manufacturing sector tumbled to 0.6% in the first quarter of this fiscal from 12.1% expansion a year ago.

"Well this certainly ruined my Friday & will dampen the weekend. A lot of work to be done. But I remain steadfastly optimistic. Was pleased to see the bank consolidation announced by @nsitharaman. A 'reform a week' is just the kind of tonic we need...," Mahindra Group Chairman Anand Mahindra tweeted.

'Now, with the government and the Reserve Bank having common prescription, the economy should bottom out soon and things should improve in the coming quarters,' Assocham president B.K. Goenka said.

Commenting on the consolidation exercise, FICCI president Sandip Somany said "the decision reflected the government's commitment to provide the country the financial base on which we can grow and move towards the $5-trillion mark."