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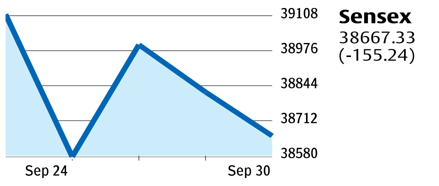

	LATEST	CHANGE
Nifty 50	11474.45	-37.95
P/E Ratio (Sensex)	27.04	-0.21
US Dollar (in ₹)	70.87	+0.31
Gold Std 10 gm (in ₹)	37532.00	-14
Silver 1 kg (in ₹)	44330.00	-390

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EMERGING ENTREPRENEURS
Venture capital companies are going beyond just investing and are nurturing start-ups p2

CRACKING THE WHIP
The government has cracked down on 97 hospitals for indulging in fraudulent practices under the PM-JAY scheme p17

GETTING THE MOJO BACK
With several strategies to accelerate growth, Cognizant is confident of regaining its stature as a bellwether, says CEO Brian Humphries p10

Ahmedabad Bengaluru Chennai Coimbatore Hubballi Hyderabad Kochi Kolkata Madurai Malappuram Mangaluru Mumbai Noida Thiruvananthapuram Tiruchirapalli Tirupati Vijayawada Visakhapatnam
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QUICKLY

TARIFF TUSSLE
US request for WTO panel blocked
New Delhi, September 30
India has blocked the first request from the US to establish a dispute settlement panel at the WTO to rule on the country's decision to impose additional import duties on 28 American products. "The Dispute Settlement Body of the WTO agreed to India's suggestion as it was the first such request from the US," said a Geneva-based trade official. P4

MONSOON ENDS
10% surplus rains on last day
Thiruvananthapuram, September 30
The South-West monsoon returned a surplus of 10 per cent on its last day, with a depression drenching Gujarat and a lesser endowed cyclonic circulation wiping out the rain deficit in UP and Bihar. Haryana-Chandigarh-Delhi saw a deficit p16

SLOWDOWN IMPACT
States' borrowing may rise: RBI
Mumbai, September 30
The slowdown in the economy can debilitate the revenue-raising capacity of States and increase borrowing, cautioned an RBI study on State finances. It referred to the States' downward rigidities under various expenditure heads, and the lower-than-expected GST revenues. P10

Despite the 'sop' opera, govt sticks to fiscal deficit target

Economic Affairs Secretary says overseas bonds are still in the works

OUR BUREAU
New Delhi, September 30

The government on Monday announced that it will borrow ₹2.68-lakh crore during the second half of the current fiscal, beginning October 1. It also made it clear that there will be no change in the fiscal deficit target for now.

Meanwhile, the fiscal deficit for the first five months (April-August) has been nearly 79 per cent of the Budget estimate of ₹7.03-lakh crore. Normally, borrowing is front-loaded during the first half, and hence, it is less in the second half. Accordingly, the second half borrowing will be ₹2.68-lakh crore, or 37.75 per cent of the Budget estimate. First-half borrowing was at ₹4.42-lakh crore, or 62.25 per cent.

"The fiscal glide path, as proposed in the Budget, is to be maintained," Economic Affairs Secretary Atanu Chakraborty told reporters here after a meeting between the government and the Reserve Bank of India. The borrowing will be done in 17 weekly auctions, with ₹16,000 crore per week in 15 auctions and ₹14,000 crore per week in the last two auctions.

Bonds with maturities of 1-4 years will account for 6.72 per cent of the overall issuance of bond, while those with maturity period of 5-9 years, 10-14 years, 15-24 years and more than 25 years will account for 17.91 per cent, 40.67 per cent, 9.33 per cent and 25.37 per cent respectively. Such bonds carry an interest rate which is paid at the end of maturity. The minimum maturity period is one year, while the maximum could be 40 years.

The Secretary also said borrowing through treasury bills (an instrument without interest rate, issued at discount and paid in full at the time of maturity)


Atanu Chakraborty, Economic Affairs Secretary SHIV KUMAR PUSHPAKAR

> The fiscal glide path, as proposed in the Budget, is to be maintained

has been planned in such a way as to result in net outflows of ₹20,000 crore during the third quarter of the current fiscal. The maturity period of such an instrument is less than one year.

When asked about bonds to be issued in the overseas market for borrowing, the Secretary said work is on, but did not give any timeline. "At present, the borrowing will be in domestic currency only," he said.

Fiscal deficit in five months

Meanwhile, the fiscal deficit for the first five months of the current fiscal touched 78.7 per cent of the Budget estimate, against 94.7 per cent of the Budget estimate for the corresponding period of last fiscal.

The government has set a target of limiting the fiscal gap to 3.3 per cent of the GDP for the current fiscal. With the reduction of corporate tax and less-than-expected revenue from the GST, there is a doubt over meeting this target. However, Finance Minister Nirmala Sitharaman has repeatedly said that she will consider all the issues at the time of finalising the revised Budget estimate.

Transfer from RBI

Aditi Nayar, Principal Economist at ICRA, said benefiting from the transfer of funds from the RBI, which has helped to shore up non-tax revenues, the government's fiscal deficit declined by 6.3 per cent on a y-o-y basis to ₹5.5-lakh crore in April-August 2019 from ₹5.9-lakh crore in the same months last fiscal.

However, "the pace of net tax revenue growth slowed considerably to 10.5 per cent at the end of August 2019 from 15.8 per cent at the end of July 2019, which appears to have partly been led by the settlement of IGST balances," she said.

Core industries' output contracts

Output of eight core industries contracted 0.5 per cent in August. In the same month last year, their output grew 4.7 per cent. The latest data point was also lower than the 2.7 per cent growth recorded this July. It was disappointingly weak, with as many as five sectors — coal, crude oil, natural gas, cement and electricity — recording a contraction during August.

Details p4

CAD narrows in April-June

India's current account deficit (CAD) narrowed to $14.30 billion in the April-June 2019 quarter, against $15.80 billion in the year-ago quarter, primarily on account of higher invisible receipts. As a percentage of GDP, CAD in Q1 was lower at 2 per cent of the GDP, against 2.3 per cent in Q1 FY19. It was, however, higher vis-à-vis the preceding quarter's $4.6 billion.

Details p10

'Reliance Group will repay ₹15,000-cr debt by March'


Tense times: Reliance Group Chairman Anil Ambani's sons Anmol Ambani (left) and Anshul Ambani at the Reliance Group annual general meeting in Mumbai on Monday BLOOMBERG

OUR BUREAU
Mumbai, September 30

Battered by regulatory action and facing heat from rating agencies, Reliance Group Chairman Anil Ambani on Monday vowed to do more to streamline the group's overall operations, including exiting the lending businesses under Reliance Capital and repaying another ₹15,000 crore of the group's debt by March 2020.

"As part of the transformation process, Reliance Capital will no longer be in the lending business," he said. Between them, the two lending businesses — Reliance Commercial Finance (RCF) and Reliance Home Finance (RHF) — have an asset base of over ₹25,000 crore. RCF and RHF are working closely with lenders to finalise the resolution plan which is expected to be completed by December 2019," Ambani said while addressing shareholders at the company's AGM.

"Reliance Capital will only be a financial shareholder in both these companies to re-converge shareholder value under a new management and shareholding structure and effectively reduce the debt of Reliance Capital Group by ₹25,000 crore," he added.

The Reliance Group has repaid over ₹35,000 crore in the 14 months till May 2019 and will be paying another ₹15,000 crore till March 2020, aggregating to over ₹50,000 crore through monetisation and cash flows to lenders.

Ambani blamed the lack of reforms in the legal and regulatory framework for some of his problems. "Our group has over ₹60,000 crore in receivables stuck in regulatory and arbitration matters which are pending for as much as 5-10 years. Resolving should be the next focus of the government," he said.

Ambani said that in the last six months, Reliance Infrastructure has suffered collateral damage due to a combination of factors — the crisis in the financial services sector, irrational actions of auditors and rating agencies, and the temporary slowdown of the economy.

Lending business exit p10

HDFC Bank defends decision to revoke security on Altico Capital

OUR BUREAU
Mumbai, September 30

Private sector lender HDFC Bank remains upbeat about consumption demand despite concerns over a slowdown and has defended its decision to revoke security in order to safeguard its exposure to Altico Capital.

"In my view, specific security is specific to the bank. That is the basis of the loan, that is the commercial practice and that is the global practice," Aditya Puri, Managing Director and CEO, HDFC Bank, told reporters on Monday.

State Bank of India Chairman Rajnish Kumar had on September 14 slammed a private sector lender for acting in a "selfish" manner and triggering the crisis at Altico Capital, which could also have wider implications for the financial system.


Aditya Puri, MD and CEO, HDFC Bank Ltd BLOOMBERG

Puri, however, did not comment on the SBI chief's statement. "Rajnish Kumar is a seasoned banker, a good friend and we are a democracy," he said.

Quick encashment

Real estate-focussed NBFC Altico Capital had last month said it had defaulted on interest payment of ₹19.97 crore on the external commercial borrowing (ECB) it had raised from Mashreqbank.

According to reports, HDFC Bank had encashed the fixed deposit quickly after the crisis broke out.

Panel to search for CEO

Meanwhile, Puri also said that a search panel of the board announced earlier will be formed by January 2020 to appoint a new Managing Director and CEO. This will ensure that Puri's successor gets to work with him for one to two months.

Puri, who has been associated with HDFC Bank since 1994, will retire in October 2020 on attaining the age of 70.

The private sector lender has also launched a three-month long financial services campaign called Festive Treats to offer discounts on over 1,000 brands and special banking facilities.

Puri emphasised that there has been no stress in the bank's credit portfolio.

Are we creating too many 'too big to fail' banks?

RADHIKA MERWIN
BL Research Bureau

After the Financial Stability Board started identifying Global Systemically-Important Banks since November 2011 — the failure of which can impact the entire global financial system — the RBI released a framework for dealing with Domestic Systemically-Important Banks (DSIBs) in 2014.

Impact on economy

The failure of these banks can have a significant impact on the health of the domestic economy. The critical question is whether the Centre's move to merge a string of public sector banks will create more 'too-big-to-fail' banks. The RBI has named three banks — SBI, ICICI Bank and HDFC Bank — as DSIBs, in its March 2019 communiqué.

Details p10

Did RBI miss PMC Bank's distress signal?

The fact that the bank's priority-sector lending fell sharply over the last 4 years should have set alarm bells ringing

K RAM KUMAR
Mumbai, September 30

The steep fall in its priority sector lending (PSL) portfolio over the last four years was possibly one of the strongest signals that the Mumbai-based Punjab and Maharashtra Co-operative (PMC) Bank sent out to the Reserve Bank of India's inspectors to indicate that it was in trouble.

According to the bank's annual reports of the last five years, its PSL portfolio, comprising loans to micro and small enterprises, housing, micro credit, agriculture, education, and the weaker sections, declined sharply to 15.06 per cent as at March-end 2019 from 40.21 per cent of total advances as at March-end 2015.

This decline in the PSL portfolio suggests that the bank's loan portfolio underwent a major shift over the last four financial years in favour of corporate lending, an area that urban co-operative banks (UCBs) avoid venturing into due to the inherent risks.

PMC Bank's PSL portfolio saw the steepest decline in FY2016 to 24.25 per cent of total advances (from 40.21 per cent in FY2015) and to 16.04 per cent in FY2017.

An outlier

The contraction in the PSL portfolio over the last four years should be seen in the context of UCBs usually exceeding the PSL target of 40 per cent of advances.

For example, in FY2017, PMC Bank's PSL portfolio was at 16.04 per cent of total advances as against UCBs' average of 45.6 per cent. In FY2018, the bank's PSL portfolio was at 16.58 per cent of total advances, against the segment average of 46.6 per cent.

The data shows that PMC Bank was an outlier among UCBs vis-a-vis PSL lending. That it was behind the curve in this category of lending for four years on the trot probably should have set the alarm bells ringing in the regulatory establishment.

If the changing face of the loan portfolio was red-flagged at the right time and corrective action initiated promptly, PMC Bank's depositors and borrowers would not have been put to trouble due to the regulatory restrictions.

HDIL exposure: 30% or 73%

Joy Thomas, former MD & CEO, admitted last Friday that PMC Bank has an exposure of ₹2,500 crore to real estate developer HDIL. This works out to about 30 per cent of its total advances.

"The loans that were granted by us were not reported during the last six-seven years…We ourselves went to the RBI on September 19 and apprised the Executive Director of our situation and asked for some time to regularise the loans," he added.

"The exposure that we reported to the RBI was to the HDIL Group….We have only exceeded the exposure norm, for which we have asked for a resolution plan," Thomas said at the press meet.

A news agency report on Sunday said the bank's exposure to this group is a whopping 73 per cent of its total advances of ₹8,383 crore. This huge group exposure, however, could not be confirmed.

The sharp drop in PSL loans ties in with the jump in the bank's corporate loan exposure, including that to HDIL.