## QUICKLY

**Union Bank gets nod to raise funds**

Mumbai, October 9

Union Bank of India said its committee of directors for raising of capital funds has accorded approval to make preferential issue of new equity shares to the government aggregating up to ₹11,768 crore. The fund-raising is aimed at boosting the PSB's capital adequacy, improving loan-loss provision coverage levels, and supporting loan growth in the run up to the merger of Andhra Bank and Corporation Bank with the bank. As of June-end 2019, Union Bank's capital adequacy ratio and provision coverage ratio stood at 11.43 per cent and 56.50 per cent. As of June-end 2019, the government had 74.27 per cent stake in the bank. In FY2018-19, the bank raised ₹4,112 crore from the government at ₹78.84 per equity share and ₹568 crore via ESPS at ₹58.49 per equity share. OUR BUREAU

**PMC: Remand of accused extended**

Mumbai, October 9

A court here extended till October 14 the police custody of a former chairman of PMC Bank and two directors of HDIL, arrested in connection with the alleged ₹4,355-crore scam at the bank. HDIL chairman and managing director Rakesh Wadhawan, and his son Sarang, were arrested on last Thursday, while former chairman of PMC Bank Waryam Singh was held on Saturday. The EOW of the Mumbai Police produced them before Additional Chief Metropolitan Magistrate as their custody ended on Wednesday. The police told the court that they need to interrogate them further in connection with the scam. The court then extended their remand till October 14. PTI

# Bad loans to come down for banks in Q2, but profits are likely to be muted

**SURABHI**

Mumbai, October 9

RESULTS PREVIEW

With bad loans having been largely recognised, the worst may be over for banks but second quarter results could still be muted. Analysts caution that some lenders could see volatility in earnings and muted profits on the back of recent tax changes, poor loan growth and credit costs.

"The industry has been doing fine this quarter. The implications of DTA write-off has to be seen on the basis of the view taken by each bank," said Sanjay Agarwal, Senior Director, CARE Ratings.

Scan & Share

Private sector lenders are set to announce their results for the July to September 2019 quarter, starting with IndusInd Bank on Thursday.

"Decelerating system credit growth, muted margins, and fee income is likely to lead to a moderated operating profit growth of 15 per cent for our coverage universe of large banks. With the overhang of stressed assets continuing, we are unlikely to see any meaningful turnaround in credit costs for most banks," said ICICI Securities in a research report, adding that it expects 27 per cent increase in pre-tax profits on an annual basis and two per cent drop in net profit.

**Corporate tax cut**

The recent cuts in corporate tax rate could also mean that banks with high corporate loans could increase provisions for bad loans or take the benefit to earnings or increase the write-down for deferred tax asset (DTA). "Post the recent cut in corporate tax rates, we expect banks to write down the deferred tax assets on their balance sheet.

"This will have a one-time impact on post-tax earnings," said Kotak Institutional Equities, adding that it expects banks under coverage to show volatile earnings although operating profit growth should display stable trends. Motilal Oswal Institutional Equities said it expects banks to mark down DTAs in the second quarter itself.

"Adjusting for DTA, we estimate private banks to report 64 per cent year-on-year growth in net earnings.

"We estimate PSBs' earnings to remain suppressed, led by sluggish loan growth, elevated credit costs, and DTA reversals," it said. Non-performing assets (NPAs) are likely to see further improvement this fiscal.

"We expect gross and net NPLs to show an improvement on the back of lower slippages and a few resolutions in the power sector, mostly outside the IBC process. Progress on major resolutions through the IBC process has been slow. The real estate exposure for banks is not too worrisome," said Kotak Institutional Equities.

Crisil had recently said that gross NPAs for the banking system will come down to 8 per cent to 8.5 per cent by March from the peak of 11.5 per cent in March 2018.

However, Reliance Securities remained cautious. "While there was significant improvement in slippages during the last five quarters, the risk of another wave of slippages from the leveraged corporates/NBFCs has increased during the first half of the fiscal," it noted.

**Grim picture** According to analysts, earnings of banks will take a hit on recent tax changes, poor loan growth and credit costs ISTOCK

## SBI cuts interest on SB deposits up to ₹1 lakh to 3.25%

**OUR BUREAU**

Mumbai, October 9

State Bank of India has decided to cut the interest rate on savings bank (SB) deposits up to ₹1 lakh to 3.25 per cent from 3.50 per cent in the back drop of ample liquidity in the banking system and the bank linking retail and micro, small and medium enterprise loans to the repo rate.

The move will prompt other public sector banks to also follow suit. SBI's SB deposits above ₹1 lakh currently carry an interest rate of 3 per cent.

Along with the SB deposit rate cut, SBI has also cut its Retail Term Deposit and Bulk Term Deposit interest rates in the 'one year to less than two years' tenor by 10 basis points and 30 basis points, respectively, to 6.30 per cent and 5.90 per cent, respectively, with effect from October 10.

In view of the festival season, SBI has reduced its MCLR by 10 basis points across all tenors with effect from October 10. The one-year MCLR will come down to 8.05 per cent from 8.15 per cent.

# Have regained 73% market share: LIC

Refutes rumours on social media about the insurer's 'poor' financial condition

**OUR BUREAU**

Mumbai, October 9

Refuting rumours on social media, state-owned Life Insurance Corporation (LIC) of India, on Wednesday, underlined its strong financial position and said it has regained market share at nearly 73 per cent by August.

LIC's market share for policies as on August 31 is 72.84 per cent and for first-year premium is 73.06 per cent, the insurer said in a statement. The market share in first-year premium has increased over the last six months when it was 66.24 per cent in March 31.

According to IRDAI data, LIC had collected ₹77,220.97 crore in premium between April and August this year, registering a 46.52 per cent growth on an annual basis. In contrast, the market share of private sector life insurers has come down to 26.9 per cent in the first five months of the fiscal year.

It is pertinent to note that the market share based on total premium income had fallen for LIC in 2017-18 to less than 70 per cent, and also remained muted last fiscal with private insurers becoming more aggressive in terms of sales.

"On the basis of total premium income, the market shares of LIC decreased from 71.81 per cent in 2016-17 to 69.36 per cent in 2017-18," said the annual report of the IRDAI. In contrast, the market share of private insurers had risen to 30.64 per cent in 2017-18 from 28.19 per cent in 2016-17.

However, in terms of the number of policies sold, LIC registered a 3.06 per cent drop to 67.96 lakh by August this fiscal against 70.1 lakh in the same period a year ago. Private sector insurers continued to witness growth in the number of policies sold.

Denying rumours and fake news about its financial health, LIC also said that it has declared the highest-ever bonus of over ₹50,000 crore to its policyholders last fiscal.

"The messages wrongly speculate about LIC's financial health and attempt to portray the largest life insurer in poor light in the eyes of its stakeholders. These news are factually incorrect, uncorroborated, and intend to tarnish the image of LIC brand and also create panic in the minds of its policyholders," the life insurance behemoth said, urging policyholders not to take cognizance of such news.

# PNB asset-liability committee may meet on Oct 19 to take a call on rate reduction: CEO

**KR SRIVATS**

New Delhi, October 9

Punjab National Bank's (PNB) asset-liability committee (ALCO) is likely to meet on October 19 to take a call on the reduction in lending rates after the RBI's recent move to cut repo rate by 25 basis points.

"Our ALCO will soon meet (likely on October 19) to decide on this," SS Mallikarjuna Rao, Managing Director and CEO of PNB, told *BusinessLine*.

He was responding to a query on how PNB would respond now that the RBI has cut the repo rate by 25 basis points. As of March-end 2019, PNB had deposits of ₹6.76-lakh crore, while advances stood at ₹5.06 lakh crore. It may be recalled that the RBI had, on October 4 at its monetary policy review, cut the repo rate by 25 basis points.

**'Profits may get squeezed'**

The RBI's latest move has put pressure on banks to cut their lending rates, and this is likely to squeeze their profits. On their part, banks like State Bank of India have started to trim their deposit rates to protect their margins even while going in for a small MCLR cut. Already, most banks have,

SS Mallikarjuna Rao, MD and CEO, Punjab National Bank

from October 1, linked their retail lending rates to the repo rate. Now, any cut in MCLR would help corporates get their funds at lower cost, say banking industry observers.

Cutting deposit rates beyond a point has a risk for banks as it could lead to flight of deposits to small savings, which carry a higher coupon. Since 2015, the Indian banking system is grappling with the issue of high NPAs, which has forced them to be quite cautious on the lending front.

Even large banks like HDFC Bank are facing the pressure of falling current account savings account (CASA) deposits, which had come down to 39.2 per cent in the just-ended September quarter. It is probably for the first time in over two decades that HDFC Bank's CASA has come below 40, say banking industry observers.

## Sub-K raises ₹75 crore from Maj Invest in Series C round

**OUR BUREAU**

Hyderabad, October 9

Fintech player BASIX Sub-K iTransactions Limited has raised Series C round of funding worth ₹75 crore from Denmark-based asset management company Maj Invest.

Hyderabad-based Sub-K plans to utilise the funds for product innovation and strengthening the IT platform to make the company a preferred fintech as well as a distribution partner for banks and financial institutions.

"We will be able to continue to invest in innovations and increase our reach multifold, thanks to Maj Invest who shares our vision of creating a world-class vehicle for catalysing inclusive growth, along with our existing investors, Michael and Susan Dell Foundation, Accion and Nordic Microfinance Initiative (NMI)," said Sasidhar Thumuluri, Managing Director and CEO, BASIX Sub-K.

"We are excited to work alongside the promoters, co-investors and management to continue providing top-class financial services while looking to create real social impact in the regions we serve," said David Paradiso, Managing Director and Partner, Maj Invest India.

Sub-K facilitates affordable financial services, including loans, savings, and payments to more than 30 lakh underbanked households and micro-enterprises across India, on behalf of multiple banks as a business correspondent.

The Maj Invest Group was established in May 2005 and provides financial advisory services to Danish and international institutional clients through Maj Invest Private Equity and Maj Invest Asset Management.

# Dollar demand could weigh on rupee

CURRENCY CALL

**AKHIL NALLAMUTHU**

BL Research Bureau

The rupee has marginally declined since the RBI's monetary policy announcement last week.

Though it briefly appreciated above 71, the rupee could not extend its gain beyond those levels. On Wednesday, the currency opened lower at 71.18 against its previous close of 71.02, and continued to remain within the key levels of 71 and 71.4. Interestingly, the rupee is the weakest currency in Asia month-to-date.

Looking at the year-to-date performance, the domestic currency has weakened by 2 per cent against the dollar and by 4.4 per cent against the Japanese yen. But it fared better against other majors, gaining 2.5 per cent versus the euro and 2.4 per cent against the British pound. The offshore market did not witness much volatility; one-year at-the-money volatility climbed to just 6.8 from 6.65 over the past week. One-year Non-Deliverable Forward (NDF) contract premium is at 325 basis points. It has been fluctuating between 320 and 340 basis points since the beginning of the month.

**RBI monetary policy**

Last Friday, the RBI announced a repo rate reduction of 25 basis points. The central bank also sharply reduced the GDP growth expectations for the current fiscal to 6.1 per cent from the earlier projection of 6.9 per cent, stating that domestic demand conditions continue to remain weak. These factors triggered a sell-off in the Indian equity market, which was already disappointed as it was expecting a deeper rate cut.

Since the beginning of October, foreign portfolio investors (FPI) have been net sellers in both equity and commodity segments.

They dumped ₹3,825 crore worth of equity and net sold ₹205 crore worth of debt, totalling net investments of negative ₹4,020 crore for the current month up to October 8.

However, the RBI indicating the possibility of more rate cuts, thanks to a sanguine inflation outlook, lent some comfort. The RBI also maintained its accommodative stance.

However, the central bank expected crude oil prices to be volatile in the near term and pose some risk for the Indian currency, given the import dependency.

There was an uptick in geopolitical tensions following the US imposing visa restrictions on Chinese officials and blacklisting 28 Chinese entities.

Such a development before the trade talks between the US and China has dimmed hopes of progress among investors. Unease at the Turkey-Syria border and unending protests in Hong Kong continue to favour the dollar, weighing on emerging market currencies.

**Technical outlook**

The US dollar index continues to trade between 98 and 99. Technically, the index is trading in a range and the next leg of the trend will occur only if the index moves out of it.

On the upside, the index faces resistance at 100, a major psychological level. Below the range, the dollar index will find support at 97.2.

The rupee, too, is currently trading in a range between 71 and 71.4. The domestic currency will, most likely, stay within the range for some time unless dollar demand surges on the back of geopolitical developments. Above 71, the rupee can appreciate to 70.5, whereas it could depreciate to 72 levels if it breaks below 71.4 against the dollar.

## Investors continue to lap up Indian dollar bonds even as returns decline

**BLOOMBERG**

October 9

Indian issuers look set to keep tapping the dollar bond market in the fourth quarter even after record issuance so far this year, as US currency borrowing costs remain attractive and strains persist in rupee debt markets.

Investors have lapped up debt sales in 2019 from Indian issuers, which still account for less than 7 per cent of offerings in the Asia ex-Japan market and offer diversification from Chinese deals. After significant tightening in India dollar spreads in 2019, however, investors in the fourth quarter can probably expect returns mainly from holding the notes and earning interest, according to Bharat Shettigar, head of Asia ex-China corporate credit research at Standard Chartered Bank.

"The pipeline is healthy and there will be continued issuance in October and November as all yields in dollar are very attractive for issuers and domestic credit conditions remain tight," said Shettigar. "In the dollar market spreads for Indian companies tightened because of investor demand, especially for high-yield names."

**NBFC crisis**

Tough borrowing conditions in India due to a deepening NBFC crisis has pushed issuers overseas, and dollar bond sales are running to an all-time high of $18 billion so far in 2019. While most Indian US currency credit spreads have tightened this year, the recent slump in the bond prices of financier Indiabulls Housing Finance and YES Bank highlight risks of investing in some Indian names tied to the domestic credit squeeze.

Dollar bonds issued by Indian firms posted their lowest return this year in September, but they still managed to avoid losses seen in Chinese and Indonesian notes in that period.

# *A guide to what's driving the revolution in the fintech world*

**BLOOMBERG**

October 9

Few industry combinations are as alluring to investors as finance and technology. For the past decade, fintech start-ups have offered new ways to help people handle money.

As start-ups face more competition from tech giants and deep-pocketed banks, investors are turning their attention to fintech in new markets. Here's a look at some of the developments and trends that are driving the industry today.

**A gold rush**

Mobile phones are transforming finance. While most Bloomberg Markets readers have a mobile phone and a bank account and perhaps a bank app on their phone, millions of people around the world have the phone but no bank.

These underbanked markets, led by countries in Asia and Africa, have inspired fintech innovation that's leapfrogging the technology available in the developed world. The sheer number of potential customers does not ensure success, however.

The winners are the companies that have devised business models that can profit in less developed markets, or that expand to serve wealthier customers. Ant Financial Services Group's Alipay and Tencent Holdings' WeChat Pay in China, Paytm in India, and Safaricom's M-Pesa in Kenya are some well-known examples.

Fintech innovation is no longer dominated by scrappy startups; big tech companies are getting involved. Take Facebook Inc's plan to launch a digital currency called Libra in 2020.

The social network's gigantic reach of more than 2.4 billion active monthly users could draw a much wider audience to Libra than has used previous cryptocurrencies. For instance, global remittances by migrants reached a record $689 billion last year, according to the World Bank. If Libra tapped into even a portion of that, the potential would be huge.

As start-ups face more competition from deep-pocketed banks, investors are turning their attention to fintech in new markets

So far, policymakers in the US and other major economies are resisting the tech giant's plan, which could undermine their monetary authority.

In August, Bank of England Governor Mark Carney suggested that central bankers could create a digital currency themselves.

Start-ups in almost every sector have benefited from a surge in venture capital investment.

Fintech is no exception. North America holds the top spot in terms of dollars spent. Some VC firms are making multiple bets on fintech.

San Francisco-based 500 Startups staked 43 such companies in the 12 months ended June 30. Some manage funds that specialise in particular areas, such as Andreessen Horowitz's crypto-focussed a16z. North America, with the most venture capital, is also home to many of the hottest fintechs. Payments start-up Stripe Inc's $35-billion valuation exceeds that of more than half of the S&P 500's members.

Cryptocurrency platform Coinbase, free trading app Robinhood Financial, digital bank Social Finance, and credit score platform Credit Karma are each valued at $4 billion or more.

In the second quarter, India, home of mobile payments start-up Paytm, surpassed China in the number of deals. But China still boasts the most valuable fintech.

Lu.com, the wealth management platform backed by Ping An Insurance (Group) Co, was most recently valued at $39 billion.

In Europe and Latin America, 2018 and the first half of 2019 have been good to the digital banks raising new capital.

OakNorth, Monzo, and Revolut in the UK, N26 in Germany, and Nubank in Brazil are among the most valuable fintechs in those regions.

**Innovation by acquisition**

As of August, US banks had already made 24 fintech investments in 2019. The most active were Goldman Sachs, Citigroup, and JPMorgan Chase.

Each has looked at deals with start-ups in a variety of areas, including consumer-facing personal finance applications and data analytics and aggregation capabilities that are deep in the back office.

Payments and the capital markets business have driven a lot of the investment by these banks.

Rival banks don't often invest in the same companies, but in the fintech space it's not unheard of.

Digital Asset Holdings LLC, a blockchain start-up, is backed by all three, for instance, while Plaid Inc, which connects bank customers' data to third-party finance apps, is backed by Goldman and Citigroup.

Last year, Goldman acquired Clarity Money, a personal finance website in which Citigroup had previously invested. Some fintechs will go public, others will evolve. Here is a list of private fintechs to keep tabs on in 2020.

**Credit Karma:** A key question for this credit monitoring service is how many of its more than 30 million weekly users are actually applying for credit cards on the site.

**Nubank:** This Brazilian challenger bank has raised almost $1 billion since its founding in 2013. Now it has a $10-billion valuation and has expanded into Mexico.

**Plaid:** You may not have heard of it, but chances are you have used it.

Plaid helps send information from your bank to any app or service that needs it (think Venmo). Banks don't love it, but customers do.

**Robinhood:** The free trading app's checking account idea ran afoul of regulators last year.

It has since raised more funding and launched a new version, this time after working more closely with DC.

## Credit Suisse may return to US private banking

**BLOOMBERG**

October 9

Credit Suisse Group is considering a return to US wealth management after a four-year absence as Chief Executive Officer Tidjane Thiam seeks to boost growth in private banking.

Talks have focussed on the ambition to add $15 billion of assets under management at a new base in Miami, mostly catering to wealthy Latin Americans. If the bank moves ahead, it could employ up to 30 people, including control and support staff in Florida. No final decision has been taken and talks are at an early stage.

The venture would be symbolically important for the Swiss bank, marking a return to private banking on US soil after an agreement to transfer its US brokerage to Wells Fargo & Co in 2015.

The US is one of the biggest offshore wealth centers in the world, with Miami especially favoured by Latin America clients because of its close geographic and cultural links.