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QUICKLY

DCB Bank net profit rises 24% in Q2

Mumbai, October 21

Private sector lender DCB Bank registered a 24 per cent increase in net profit for the second quarter of the current fiscal. The bank registered a net profit of ₹91 crore against ₹73 crore in the quarter ended September 30, 2018. Its net interest income grew by 11 per cent to ₹313 crore in the July-September quarter, against ₹282 crore in the same period a year ago. Net interest margin (NIM) for the second quarter was 2.67 per cent, the same as in the first quarter of this fiscal. Non-interest income grew by 38 per cent to ₹101 crore in the quarter under review. Gross non-performing assets stood at 2.09 per cent of gross advances as on September 30, 2019, compared to 1.84 per cent a year ago. OUR BUREAU

Andhra Bank sovereign gold bond sale

Hyderabad, October 21

Andhra Bank has commenced the sale of sovereign gold bonds as part of the 2019-20 Series-VI scheme notified by the government. The issue price during the sale period, October 21 to 25, has been fixed at ₹3,835 per gram, with a discount of ₹50 per gram if subscribed in the digital mode. Hence, the price for investors applying through the digital mode will be ₹3,785 per gram. The minimum investment will be one gram with a maximum subscription limit in each fiscal year of 4kg per individual and HUF, and 20 kg for trusts. The bonds will be payable on expiry of eight years from the date of issue, with an interest rate of 2.50 per cent (fixed) per annum on the nominal value. OUR BUREAU

Securitisation volumes to remain strong in the near term, says ICRA

NBFCs, HFCs raise ₹2.36-lakh cr in the last 12 months as other funding sources turn dry

OUR BUREAU
Mumbai, October 21

Non-banking finance companies (NBFCs) and housing finance companies (HFCs) together raised the much-needed funding of ₹2.36-lakh crore over the last 12-month period (October 2018 to September 2019) through sell down of their loan assets either under the securitisation or direct assignment route, according to credit rating agency ICRA.

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This unprecedented increase in sell-down volumes, which comes in the backdrop of the squeeze in liquidity since September 2018, reflects the choking up of traditional on-balance sheet borrowing channels such as loans, bonds, and commercial paper issuances.

As per ICRA, the domestic securitisation market is expected to remain robust, and FY2020 is poised to be another good year in terms of issuance volumes.

Abhishek Dafria, Vice-President and Head – Structured Finance Ratings, ICRA, said: "NBFCs and HFCs continue to rely heavily on securitisation as a tool for raising funds, managing liquidity and to correct ALM (asset liability management) mismatch. In addition to this, the partial credit guarantee scheme (PCG) of the Government of India (GoI) will also add bulk to the overall market volumes."

With PSBs directed to disburse funding of ₹1-lakh crore under the PCG scheme by February 2020, ICRA has estimated that the size of

the securitisation market would be at an all-time high, in excess of the ₹2-lakh crore for FY2020.

The sell-down market in India can be segregated into two types of transactions – rated pass through certificate (PTC) transactions, and unrated direct assignment (DA) transactions (bilateral assignment of pool of retail loans from one entity to another).

As per ICRA's estimates, PTC transaction volumes were around ₹92,000 crore between October 2018 and September 2019; ₹47,500 crore in H2 (October 2018 to March 2019) FY2019; and ₹44,500 crore in H1 (April to September 2019) FY2020. Volumes for DA transactions have been much higher at ₹1,45,850 crore over the same period (₹87,450 crore in H2 FY2019 and ₹58,400 crore in H1 FY2020).

Mortgage loan share

The agency said DA volumes witnessed a decline in H1 FY2020, mainly due to the weakened credit profile of a few originators (that were traditionally large and active participants) having impacted their ability to securitise further.

Consequently, the share of mortgage loans in overall volumes has also reduced. This asset class, which accounted for around 45 per cent to 50 per cent of overall volumes in FY2018 and FY2019, witnessed a reduction in share to 31 per cent of overall volumes in H1 FY2020.

While vehicle loans remained the most sought after within PTCs, small business loans have seen the sharpest pick-up, making up 11 per cent of the PTC volumes in H1 FY2020. Within DAs, gold loan is an asset class that has gained greater acceptance among the purchasing banks, and accounted for 10 per cent of the DA volume for H1 FY2020.

There has been a reduction in PSL (priority sector lending)-driven transactions. The share of PSL-PTC transactions reduced over the past 3-4 fiscals, and stood at 52 per cent in H1 FY2020, compared to 88 per cent in FY2017.

Private banks were the major investor category for PTC transactions, and their need for acquiring PSL assets drove their appetite. However, in recent years, a host of new investor segments such as NBFCs, foreign portfolio investors, HNIs, and insurance companies have also been participating, who do not have a specific focus on PSL assets.

As a result, there has also been an increase in the proportion of non-PSL asset segments, such as two wheeler loans, small business loans, and gold loans, among others, being securitised, said ICRA.

All-India strike may hit banking operations today

PRESS TRUST OF INDIA
New Delhi, October 21

Services at PSBs may be affected with some employee unions planning to observe a nation-wide strike on Tuesday to protest against bank mergers and fall in deposit rates.

However, officers and private sector banks are not part of the strike call given by the All-India Bank Employees Association (AIBEA) and Bank Employees Federation of India (BEFI). Most of the banks, including State Bank of India, have already informed customers about the strike and its impact on them.

"The membership of our bank employees in unions participating in strike is very few, so the impact of the strike on the bank's operation will be minimal," said SBI last week.

In the absence of any positive outcome in the meeting called by the Chief Labour Commissioner, it has been decided to go ahead with the strike, said AIBEA General Secretary CH Vekatachalam.

With the imminent exit of IDBI Bank, IDBI Federal Life looks to grow other proprietary channels to boost sales

SURABHI
Mumbai, October 21

Faced with the imminent exit of one of its promoters and muted growth, private sector IDBI Federal Life Insurance is developing other proprietary channels to increase sales.

"Growth has been a little muted as business from IDBI Bank has de-grown by 60 per cent to 70 per cent due to LIC coming on board. IDBI Bank used to be a 50 per cent contributor to our business, so naturally this is a hit that has happened. It is a short-to-medium-term impact," said Vighnesh Shahane, Managing Director and CEO, IDBI Federal Life Insurance.

Noting that IDBI Bank branches primarily sell LIC products, Shahane said the private sector life insurer is incubating proprietary channels to compensate the loss from IDBI Bank.

"We are growing agency profitably, we are incubating direct sales channel, and we are getting aggressive in broking and online space. These are proprietary channels that we are focussing on to compensate short-to-medium-term loss," he told *BusinessLine*.

First-year premium

According to IRDAI data, first-year premium for IDBI Federal Life Insurance saw negative growth of 12.07 per cent between April and September this year.

Life Insurance Corporation of India had, last year, gained a majority stake in loss-making IDBI Bank. Since then, the bank is using its network of branches to sell LIC policies.

IDBI Bank, which owns a 48 per cent stake in IDBI Federal Life Insurance, has also initiated plans to exit the joint venture to raise more capital.

Vighnesh Shahane, MD and CEO, IDBI Federal Life Insurance

Shahane said sales through Federal Bank are growing by 35 per cent to 40 per cent this year. With the imminent exit of IDBI Bank, the insurer's business development team is also in talks with other banks for a bancassurance tie up as open architecture is now allowed.

Online sales

It is also looking to focus on online sales, which currently contributes about four per cent of the company's regular premium. While declining to give a timeline for the exit of IDBI Bank, he pointed out that the process has been going on for about two years now.

"We are taking steps to compensate their loss in the medium-to-long-term. I don't see it as a permanent issue," he stressed, adding that the focus over the next six to 12 months will not be so much on growth, but "to go back to the drawing board and set up a strong foundation for the company to propel ahead".

IDBI Federal Life Insurance had posted a 3 per cent increase in net profit at ₹133 crore in 2018-19. Apart from IDBI Bank, Federal Bank and Ageas Insurance International hold 26 per cent stake each in the insurer.

Veritas Finance AUM crosses ₹1,000 crore

OUR BUREAU
Chennai, October 21

The assets under management (AUM) of Chennai-based non-banking lender Veritas Finance crossed ₹1,000 crore in September.

Credit products

The non-banking finance company (NBFC) focusses on lending to micro, small and medium enterprise (MSME) and unbanked customers in rural and semi-urban areas. The wide range of Veritas Finance's credit products includes short-term loans for working capital, medium-term loans for business expansion, and long-term loans for asset creation.

In a press statement, the company said: "After commencing the business in October 2015, Veritas Finance, over the period till September 30, 2019, has disbursed more than ₹1,400 crore. The current customer base is 40,386 customers with loan book outstanding at ₹1,048 crore."

Veritas Finance currently operates out of 193 branches in eight States, including Tamil Nadu, Karnataka, West Bengal, Odisha, Madhya Pradesh, Andhra Pradesh, Telangana, and Jharkhand, besides Puducherry.

121% rise in detection of fake ₹500 notes

PALAK SHAH
Mumbai, October 21

It is not just fake ₹2,000 notes that are on the rise. Even fake ₹500 notes have been discovered in large numbers, according to data collected by the Authentication Solution Providers Association (ASPA) from various sources.

ASPA is a two-decade-old non-profit organisation that fights and creates awareness about fake currency and counterfeit products across sectors, including pharma, food, and even goods sold on e-commerce websites.

An RTI query revealed recently that the RBI has stopped printing ₹2,000 notes. Although the central bank is yet to issue a statement on this, there is a general belief that this measure was taken due to the rise in fake ₹2,000 notes.

Another note ban?

Sources suggest it is unlikely that ₹2,000 notes will be flushed out in a demonetisation-like move as it had proved to be highly disruptive. But the RBI would consciously reduce ₹2,000 currency notes over the years. The fact that even ₹500 fake notes were in circulation is a matter of concern, as the RBI and regulatory agencies can only carry out search-and-seizure operations with regard to this, according to a legal expert on currency matters.

The rise in fake ₹2,000 currency may have forced the RBI to stop printing these notes

Yet, other experts said the number of fake notes discovered by the RBI recently seems small to trigger a decision to stop printing notes.

ASPA says the detection of ₹500 fake currency notes increased 121 per cent during financial year 2019, as per data from the RBI. The data show that 3.17 lakh fake notes were discovered by the central bank. Of this, 21,865 currency pieces were fake ₹500 currency notes. The same for ₹2,000 stood at 21,847. More than 12,728 pieces of fake notes in ₹200 denomination and 221,218 units of fake ₹100 currency notes were discovered during financial year 2019, as per RBI data.

Overall, fake currency worth more than ₹8.23 crore was discovered in India.

"Compared to the previous year, there was an increase of 20.2 per cent, 87.2 per cent and 57.3 per cent in counterfeit notes detected in the denominations of ₹10, ₹20 and ₹50. Counterfeit notes detected in the denomination of ₹100 declined by 7.5 per cent. In the ₹200 denomination, which was introduced in August 2017, 12,728 counterfeit notes were detected, against 79 during the previous year.

"Counterfeit notes in the denomination of ₹500 (new design notes) increased by 121.0 per cent, while in the case of ₹2,000, it rose by 21.9 per cent during 2018-19," the RBI said in its data sheet.

To revive urban co-operative banks, DICGC must create corpus in Deposit Insurance Fund: Expert

OUR BUREAU
Mumbai, October 21

The Deposit Insurance and Credit Guarantee Corporation (DICGC) should create a revival and merger fund with a corpus of 10 per cent of the amount in the Deposit Insurance Fund (DIF) to ensure that banks, especially urban co-operative banks (UCBs), get support before they face solvency problems, according to D Krishna, former chief executive, National Federation of UCBs and Credit Societies.

This suggestion comes in the backdrop of the depositors of scam-hit Punjab and Maharashtra Co-operative Bank (PMC Bank) taking to the streets to get their money back.

It has been nearly a month since the RBI clamped down on the bank even as depositors are desperate to get their money back.

DIF had a balance of ₹93,750 crore as of March-end 2019. DICGC, which is an arm of the RBI, insures all bank deposits, such as saving, fixed, current, and recurring. The insurance cover is limited to ₹1 lakh only per depositor(s) for deposits held by him (them) in the "same right and in the same capacity" in all the branches of the bank taken together.

Scan & Share

"Instead of sitting on the fund with substantial addition to it each year, a revival and merger fund with a corpus of 10 per cent of the amount in DIF can be created, which supports banks, before they get into solvency problems, and the DICGC can further reduce its payout of deposit insurance obligations as lesser number of banks will get liquidated," said Krishna.

DIF corpus

The DIF corpus has seen substantial accretion in the last five financial years: ₹9,840 crore in FY15; ₹9,800 crore in FY16; ₹9,900 crore in FY17; ₹11,280 crore in FY18; and ₹12,320 crore in FY19.

Krishna, who has been member of various committees of the RBI, including the high-power committee on urban cooperative banks and standing advisory committee, observed that the role of DICGC also needs to change from an organisation that provides minimal insurance support to banks and ends up making substantial profits, to one that is actively helps banks to grow.

The co-operative banking expert felt that Section 21 of the DICGC Act must be revisited. As per this section, the corporation gets the first charge on all recoveries made by a bank under liquidation, and only after paying the DICGC the full amount of the claim paid by it, will the depositor be paid.

Krishna said the limit of amount of insured deposit must be revised upwards from ₹1 lakh, which was fixed in 1993, to ₹5 lakh, with a sub-limit of ₹1 lakh exclusively for savings bank accounts.

Amitha Sehgal, Honorary Secretary, All-India Bank Depositors' Association, said when banks open a customer's savings account and/or accept fixed deposits, it is in a way a contract between the banks and the depositors. Therefore, banks have fiduciary and legal obligation towards the depositors to ensure safety of depositors' funds.

"Hence, banks cannot hide behind the RBI-sponsored DICGC cover to limit their liability to only up to ₹1 lakh. Indeed, this deposit insurance cover is extremely low in international comparison and the fact that it was fixed way back in 1993.

"Even considering the inflation factor of the last 26 years, the deposit insurance cover should have been ₹5 lakh as of today," said Sehgal.

Ujjivan Financial net profit surges 111% at ₹93 crore

OUR BUREAU
Mumbai, October 21

Ujjivan Financial Sevices registered a 111.4 per cent increase in net profit in the second quarter of the fiscal at ₹93 crore.

Ujjivan SFB is getting ready to list on the bourses by the end of next month.

Its net profit was ₹44 crore in the second quarter of last fiscal. Net interest income grew 49 per cent to ₹388 crore in the quarter ended September 30, 2019. Net interest margin was a tad lower at 10.8 per cent in the second quarter this fiscal from 11 per cent a year ago. The cost-to-income ratio also decreased to 69.5 per cent in the second quarter of the fiscal from 77.4 per cent a year ago.

The bank's asset quality was stable. Gross non-performing assets stood at 0.9 per cent of gross advances as on September 30 against 1.9 per cent a year ago.

Net NPAs remained unchanged at 0.3 per cent at the end of the second quarter from a year ago. Write-offs stood at ₹17 crore.

To float IPO

"In regards to the RBI directive of listing the bank by January 2020, we are in an advance stage of listing via IPO and are confident of complying with the guidelines," said Samit Ghosh, Managing Director and CEO, Ujjivan Small Finance Bank.

Ittira Davis, MD and CEO, Ujjivan Financial Services, also underlined the commitment for listing and said the bank will file the Red Herring Prospectus by next week.

"We would like to complete the listing by November and complete the process before Ghosh steps down," he told *BusinessLine*.

USFB had filed its DRHP with SEBI in August, and is committed to complying with the listing condition within the stipulated timelines, he said, adding that the listing would be for about 10 per cent to 12 per cent but would depend on the pricing.

AU SFB Q2 net profit rises 88%

OUR BUREAU
Mumbai, October 21

AU Small Finance Bank reported an 88 per cent jump in net profit to ₹171.94 crore in the second quarter of the fiscal. It had a net profit of ₹91.41 crore in the same period a year ago.

The bank's net interest income grew a healthy 41 per cent to ₹452 crore in the July to September 2019 quarter, against ₹321 crore in the corresponding period last fiscal. Other income rose 23 per cent at ₹151 crore.

The bank's gross non-performing assets remained unchanged at two per cent of gross advances as on September 30, 2019, from a year ago. Net NPAs improved marginally to 1.1 per cent at the end of the second quarter from 1.3 per cent a year ago.

The board of directors of SFB also appointed two two independent directors – MS Sriram and Pushpinder Singh. It also approved the reappointment of Agarwal as MD and CEO and Uttam Tibrewal as whole-time director for three years.

Financial titans fret over policy tools of central bankers losing their efficiency

BLOOMBERG
October 21

Financial industry chiefs are worrying about how much help central banks can offer if governments don't step up with more help by unleashing more fiscal support, and that tweaking monetary policy isn't enough anymore to stimulate economic growth as the benefits of lower rates have run out.

In a tight spot

"They are in a very difficult corner at the moment," said UBS Group AG Chairman Axel Weber at a conference hosted by the Institute of International Finance in Washington.

"Central banks are running out of the efficiency of their tools. Taking interest rates negative will not have the same impact as lowering the old interest rates lever."

Weber added that the acceptance of policy makers using their monetary tools is more challenged in the absence of fiscal policy coming in. Central banks have manoeuvered themselves into a difficult corner, he said.

State Street Corp CEO Ron O'Hanley took the same thought a step further, saying that monetary policy just does not work anymore on its own.

Brian Porter, CEO of Scotiabank, said he is concerned that many central bank policies, such as those that have led to trillions in negative-yielding debt, may have unintended consequences that have not been thought through because of a hunger for yield.

Fiscal policy

Former Federal Reserve and US Treasury officials endorsed the need for fiscal policy to reduce the burden on central banks – but not with the type of government spending advocated by Modern Monetary Theory.

Stanley Fischer, former Fed vice-chairman, said there is a kernel of truth with MMT. However, the fundamental

Too much to handle Former Fed officials have endorsed the need for fiscal policy to reduce the burden on central banks

flaw is that printing more money while keeping inflation under control is a situation that cannot last forever. "The coordination of fiscal and monetary policy is fine but MMT takes it way too far," said Bill Dudley, the former New York Fed president now at Princeton University.

Stanford University Professor John Taylor, a monetary policy scholar and former senior Treasury official, was more withering. He described MMT as neither modern nor monetary. The former officials appeared together on Saturday during a panel discussion at the IIF gathering.

Consumers are in good shape but manufacturers are not. Central banks are exhausted. Governments need to step up. Markets are being whipsawed by unprecedented noise. That's a sample of the mood among financial chief executives during a panel discussion at meetings of the IIF meeting in Washington.

Protectionism

A central theme was that strong consumer spending and rising wages are being offset by wrenching uncertainty for factories due to the world's tilt towards protectionism.

That may mean governments will have to coordinate a fiscal stimulus to head off a deeper downturn.

"Good news in some pockets, such as consumption, and a never-ending flow of negative signals elsewhere is proving too much for investors to handle," said Philipp Rickenbacher, CEO of Julius Baer Group. "At this stage there is just too much noise," he said.

The finance chiefs met on the sidelines of the International Monetary Fund meetings where the mood among officials has been similar.

The IMF lowered its global growth projections this week and now expects the slowest expansion in a decade. The finance chiefs didn't disagree.

"Our clients are preparing for rougher times ahead," said Olaug Svarva, board chair of DNB.

The IMF said on Friday that it delayed until as late as 2023 possible changes that would give China a greater say in the crisis lender's governance. The fund's top committee of finance ministers and central bankers also said it would consider a doubling of the IMF's crisis-era credit line, known as the New Arrangements to Borrow. That facility was cut by half in 2016.

US Treasury Secretary Steven Mnuchin said in a statement on Friday that the nation – which holds the largest voting share in the fund – welcomes the work underway to reach agreement on a broad package of IMF resources, including the quota review and proposed doubling of the New Arrangements to Borrow.