

QUICKLY

ICICI Pru posts ₹301-crore profit in Q2

Mumbai, October 23

ICICI Prudential Life Insurance posted an almost flat growth in net profit at ₹301.86 crore in the second quarter of the fiscal year. It recorded ₹300.87 crore profit in the year-ago period. However, the private sector life insurer's total income in the July-September quarter fell to ₹8,209.08 crore from ₹8,826.90 crore a year ago. Its first-year premium income also declined by 6.56 per cent to ₹1,718.54 crore in the second quarter this fiscal from ₹1,839.36 crore in the corresponding period a year ago. "The value of new business grew by 20.2 per cent to ₹709 crore in the first half of 2019-20 from ₹590 crore a year ago," it said in a statement. The board has approved an interim dividend of ₹0.80 per equity share for the first half of the fiscal year. The insurer's scrip gained 1.05 per cent to close at ₹485 apiece on the BSE. **OUR BUREAU**

Rupee inches up 3 paise vs dollar

Mumbai, October 23

The Indian rupee rose 3 paise to close at 70.91 against the US dollar on Wednesday amid lack of triggers and geopolitical uncertainties. Easing crude oil prices propped up the local unit, though fresh capital outflows capped the gains, forex traders said. At the interbank foreign exchange, the rupee opened lower at 71.01 and fell to 71.03 against the greenback. The domestic unit finally settled for the day at 70.91, higher by just 3 paise over its last close. Brent crude futures, the global oil benchmark, fell 0.77 per cent to \$59.24 per barrel. **PTI**

Contagion risks rising in financial sector, warns Standard and Poor's

OUR BUREAU

Mumbai, October 23

Global rating agency Standard and Poor's, on Wednesday, warned there is a rising risk of contagion in the Indian financial sector. "Markets reflect this fragility. Many finance companies have lost more than half of their equity value in the past year, and credit markets are charging huge premiums on debt issued by the riskier finance companies," it said in a report titled 'Indian Financial Sector Braces for Fat Contagion Tail Risk'.

Pointing to the recent analysis by the Reserve Bank of In-

dia, which suggested that the failure of any top-five HFC or NBFC could result in the default of up to two banks, S&P said this could have dramatically negative effects for the credit growth and economy.

"India's finance companies are among the country's largest borrowers. A substantial part of this funding comes from banks.

"The failure of any large non-banking financial company (NBFC) or housing finance company (HFC) may deliver a solvency shock to lenders," said S&P Global Ratings credit analyst Geeta Chugh.

In its base case, S&P said it expects the resolution of weak finance companies to be swift and orderly and that contagion will be managed. It pointed out that even the default by Dewan Housing Finance Ltd has not generated the kind of panic that was seen after the default of Infrastructure Leasing and Financial Services Ltd in mid-2018.

Government support

It said it also expects the government to support systemically important institutions that get into trouble, although the support is more likely to be

available to banks rather than finance companies.

On Tuesday, rating agency Fitch had said that banks would face a capital shortfall of about \$50 billion or about ₹3.5-lakh crore in the event of a systemic crisis in the non-banking financial sector.

"The credit profiles of state-owned banks would come under significant pressure, and the weakest - including those with viability ratings in the 'b' range - would face heightened solvency risks without capital injections from the government," a stress test conducted by Fitch Ratings had found.

HDFC Life Q2 profit up 7.5%

OUR BUREAU

Mumbai, October 23

HDFC Life Insurance has registered a 7.56 per cent in net profit to ₹308.69 crore in the second quarter of the fiscal, against ₹286.98 crore a year ago.

Its net premium grew by nearly 10 per cent to ₹7,453.68 crore in the July to September 2019 quarter, when compared to ₹6,777.55 crore in the same period a year ago.

Vibha Padalkar, Managing Director and CEO, HDFC Life, said: "We have delivered strong performance across all key metrics and have continued to sustain our profitability. We expect our continued

product innovation and advancements in the use of technology to sustain our performance across business cycles."

Market share rises

In the first six months of the fiscal, the life insurer increased its market share in the private sector to 15.2 per cent based on Individual WRP, on the back of year-on-year growth of 35 per cent. As on September 30, it has assets under management of more than ₹1.3-lakh crore.

The company's scrip, however, closed 0.56 per cent lower at ₹608.15 apiece on the BSE on Wednesday.

Muthoot Fin raises \$450 m from overseas bond markets

SAJEEV KUMAR

Kochi, October 23

Muthoot Finance has successfully priced a \$450-million Fixed Rate Senior Secured Issuance in 144A/Reg S format for a three-year tenor at 6.125 per cent.

The MFIN bond transaction marks the first international bond by an NBFC to debut in the 144A/Reg S market, allowing it to tap the US investor base, in addition to Asia and Europe. The proceeds will be used for permitted purposes, including onward lending in accordance with the RBI's ECB



guidelines and other applicable laws.

The company engaged with investors during an extensive deal road show across Singapore, Hong Kong, London and the US. Backed by strong investor feedback, the transaction was launched with an initial price guidance of 6.375 per

cent area. Following a strong order book momentum, supported by high-quality real-money investors, the company was able to tighten pricing by 25 bps to 6.125 per cent. The final order book was in excess of \$1.2 billion, with over 11 subscriptions of more than 2.5 times.

The transaction witnessed 37 per cent participation from Asia, 28 per cent from Europe and West Asia, and 35 per cent from the US, with 88 per cent investments from asset managers, 6 per cent from insurance and pension funds, and 6 per cent from others.

IOB to link payout of additional benefits to branch staff with performance

VINSON KURIAN

Thiruvananthapuram, October 23

Indian Overseas Bank (IOB) has decided to link payout of a list of additional benefits for staff members with performance against a series of parameters at the end of every month through the remainder of 2019-20.

This is being initiated with a view to improving the efficiency and commitment of staff towards growth in business, said a circular issued by the industrial relations section of the HR Department of the bank and reviewed by *BusinessLine*.

Additional benefits

The list of additional benefits listed include monthly reimbursement of (i) conveyance allowance (ii) telephone/mo-

bile rental charges (iii) cost of newspapers, and (iv) entertainment charges, which are extended to "enable staff members improve their efficiency and perform well to improve the bank's business".

Officers are given all four benefits with a ceiling on the amount payable depending on their cadre.

The award staff members can claim only conveyance allowance and reimbursement of the cost of one newspaper.

But now, it has been decided to withhold the above-listed benefits to staff members attached to branches if there is non-performance/under-performance as defined in detail in the circular. Branches are given monthly targets in terms of growth current account/savings ac-

count (CASA), opening of savings bank/certificates of deposits (SB/CD) accounts, sanction of jewel loans and housing loans, and NPA recovery and one-time settlement (OTS) sanctions.

"Every staff member attached to the branch is required to work for achieving the targets...in opening SB accounts, improvement in CASA, and disbursement of jewel/housing loans, besides NPA recovery and OTS sanctions," the circular said.

List of parameters

The following will be the parameters to determine the performance of the branches at the end of every month in the remaining part of the financial year 2019-20:

1. The outstanding under SB



and CD accounts should not fall below the outstanding as on March 31, 2019.

2. The total number of accounts opened under SB and CD during the month should not be below the average number of accounts opened for a particular region in the respective category.

3. The outstanding under the housing portfolio should not fall below the outstanding on March 31, 2019. 4. Similarly, the outstanding under

NBFC stress can affect revival of banking sector, cautions Fitch

OUR BUREAU

Mumbai, October 23

Systemic stress across India's non-banking financial companies (NBFCs) would deal a significant setback to the banking sector's recovery, reversing recent improvements in performance, pressuring viability ratings (VRs), and posing solvency risks to state-owned banks with the thinnest buffers, Fitch Ratings has cautioned.

Scan & Share



"We assume that 30 per cent of the NBFC exposure becomes non-performing. We view this as close to a worst-case scenario, but the figure also reflects the proportion of the sector that we believe is characterised by riskier business and financial profiles.

"We also assume 30 per cent of property exposure becomes non-performing, and that economic knock-on effects lead to an extra 10 per cent of personal, credit card and consumer durable loans

and 2.5 per cent of corporate loans becoming non-performing," said Fitch analysts Saswata Guha, Tania Gold, Dan Martin, and David Prowse.

The analysts estimate that the banking system's gross non-performing loans (NPL) ratio would rise to 11.6 per cent by FYE21 from 9.3 per cent at FYE19, compared with their baseline expectation of a decline to 8.2 per cent.



In limbo The NBFC sector has been under pressure from tight financing conditions after the series of default at IL&FS

"We would expect the recovery process to become even more protracted in such a difficult environment, although banks would resort to writing off some of the legacy bad loans to manage their NPL stock as has generally been the case so far," they opined.

Capitalisation pressures

Bank losses would add to existing capitalisation pressures, particularly at state-owned banks. Fitch estimates that banks are already

\$7 billion short of the capital required to meet a 10 per cent weighted average common equity Tier 1 (CET1) - the level that would give them an adequate buffer above regulatory minimums.

The gap would rise to about \$50 billion by FYE21 under the stress scenario.

In reality, it is unlikely that banks would be in a position to maintain that level of capital, and many would struggle to stay above the regulatory minimum of 8 per cent that is set to apply from the end of March 2020, the agency added.

Fitch estimates that the aggregate weighted-average CET1 ratio would fall by 350 basis points to 7.5 per cent in a stress scenario, leaving a system-wide aggregate shortfall of about \$10 billion to meet the regulatory minimum.

The shortfall at state-owned banks would be larger, as the agency expects large private

banks to remain generally above the minimum.

Ability to issue capital

Most banks' ability to issue capital would be limited in a stress scenario, which would put the onus on the government to address capital shortfalls, especially since state banks have already off-loaded considerable assets to boost capital levels, assessed the analysts.

"Our sovereign team would not expect a capital injection of \$10 billion (or 0.4 per cent of GDP), on its own, to put significant pressure on India's sovereign rating (BBB-/stable)," they said.

State-owned banks with VRs (viability ratings) in the 'b' range would face heightened solvency risks if fresh equity is not injected, while those in the 'bb' category could breach the minimum regulatory additional Tier 1 (AT1) threshold of 5.5 per cent CET1, triggering compulsory AT1 write-downs.

DHFL: Have taken cognisance of key observations in KPMG report

OUR BUREAU

Mumbai, October 23

Financially-stressed Dewan Housing Finance Corporation Ltd (DHFL), on Wednesday, said its board took cognisance of the key observations from the draft report prepared by KPMG. Though the company did not disclose its contents, the draft report is believed to have found diversion of funds to the tune of about ₹20,000 crore.

This alleged diversion, coupled with the ongoing investigation by the Enforcement Directorate, could complicate the resolution plan for DHFL that is currently in the

works. DHFL, in a stock exchange notice, said the board has directed it to review the aforesaid key observations and also present a detailed response to the said key observations before the audit committee. The board also directed the company to share the responses with the lenders.

KPMG was appointed by Union Bank of India, the lead banker of the consortium, to conduct forensic audit of DHFL.

Last Sunday, the company, in a stock exchange notice, clarified that the officers of the Enforcement Directorate

visited one of its offices and "raised certain queries to the senior officials of the company".

"The company has provided the necessary documents and clarifications as required by the department as part of their investigations, and remains committed to co operate with the authorities and respond to any queries by them," the notice said.

As per DHFL's resolution plan, 2.3 per cent of each category of lenders' debt exposure to the company will be converted into equity at an assumed price of ₹54 per equity share.



Mukesh Kumar Jain, MD and CEO, Oriental Bank

also not averse to CHOICE being taken public and listed in bourses in the coming days. The final choice of the route to take CHOICE public will, however, rest with the three-way amalgamated PNB Board, he said. OBC, which

recently got appreciation from Finance Minister Nirmala Sitharaman for its unique GST-related product, has now come up with yet another novel product for MSMEs.

"Our board, on Tuesday, gave the approval for 'OBC Tatkal 25' product to help small units get financing easily up to ₹25 lakh," he said.

Collateral-free loans

OBC has decided that small units, which conform to the document requirements specified under 'PS-Bloansin59minutes', need

not file extra documents to get collateral-free loans from the bank.

"For getting loans up to ₹25 lakh, such borrowers can just walk into our branch and get loans under the CGTSME (Credit Guarantee Fund Trust for Micro and Small Enterprises) cover without the need for collateral or any additional paper work," he said.

Jain also suggested that the government should look at setting up an 'MSME Suvidha Centre' to help small units complete their paper work and, thereby, avail bank financing easily.

Added 6 lakh merchants since 2017: American Express

KR SRIVATS

New Delhi, October 23

American Express, the world's largest card issuer by purchase volumes, aims to find acceptance for its cards in at least 75 per cent of all the merchants in the 15 top cities in India that it is currently focused on, a top official said.

"The aspiration for us is that we really want to be accepted in almost all the locations in the 15 premium cities we are focussed on. The best scenario for us will be 100 per cent acceptance, but in the short term, we aspire to

be accepted in at least 75 per cent of the places over the next year," Anurag Gupta, Vice-President and Head, Global Merchant Services, American Express, told *BusinessLine*.

Gupta said that American Express has, since 2017, aggressively expanded its merchant coverage in India, adding six lakh new merchants. The growth across the country was driven by increased demand from Tier 1 and Tier 2 cities where American Express card members are keen to spend, he said. This includes categories

such as online merchants, utilities, insurance, hospitals, retail, grocery stores, and fuel stations.

"Our numbers (merchants added) have gone up eight to nine times in the last four years. That's the kind of growth Amex has seen in comparison to anyone else in the market. Growth has been phenomenal for us. While growth has been 35 per cent for industry, it has been upwards of 50 per cent year-on-year for us," he said.

He also said that Amex has been entering into partner-

ships with major banks to drive coverage for its cards. Not just the top 15 cities, even those beyond it across the country now accept Amex cards. "It's the top 15 where our focus is because that's where our card members are. We want to be accepted among the small merchants space as well in these top 15 cities," he said. Traditionally, Amex has been accepted across the board in the premium space. The challenge has been the small merchants space, and that's where the endeavour has been over the last four to five

years and where growth is coming from, said Gupta. "The numbers you are looking at (six lakh) is predominantly small merchants," he said.

Demonetisation impact

Asked if demonetisation - announced by the government in November 2016 - had played a role in the increase in merchants onboarded in the last three years, Gupta said that as an industry a lot of merchants who were not accepting any form of digital payments have now come on board.

'Bad-loan sales should be made easier for EU banks'

BLOOMBERG

October 23

It is difficult for European banks to sell their non-performing loans using securitisations, and rules should be put in place to make the process more attractive, according to the bloc's top banking regulator.

Under current rules, potential buyers of bundled loans face very high capital requirements for owning the assets, said the European Banking Authority. On top of that, new regulations governing asset-backed securities are causing compliance challenges for bad-debt sellers.

The issues result in higher funding and transaction costs, depress the price of assets, increase the originating institu-

tions losses, and make securitisations an unattractive funding tool, the EBA said on Wednesday. Banks have faced pressure from EU regulators for several years to reduce their non-performing loans. The total stock fell to €636 billion (\$707 billion) at the end of June from more than €1 trillion in 2016. But levels remain elevated in some member states, including Greece, Cyprus, Portugal and Italy.

Lenders have several options when it comes to getting rid of soured assets: They can keep them and absorb the loss, package and offer them at a discount or securitise them, where loans are bundled and sold in tranches with different levels of risk.



Padmaja Chunduru, MD and CEO, Indian Bank, announcing the bank's results in Chennai on Wednesday BIJOY GHOSH

Indian Bank's Q2 profit rises to ₹359 crore

OUR BUREAU

Chennai, October 23

Indian Bank's second quarter net profit more than doubled to ₹359 crore due to increase in other income and lower provisioning.

The bank recorded a net profit of ₹150 crore in the same period last year.

The bank's other income grew by 72 per cent to ₹738 crore during the September quarter against ₹428 crore last year. The spike in other income is on account of 'profit on sale of investment', which contributed ₹249 crore, in addition to miscellaneous and forex income.

Total income of the bank rose by 18 per cent to ₹6,045 crore (₹5,129 crore) during the quarter, while net interest income grew by 7.6 per cent to ₹1,863 crore (₹1,731 crore).

Operating profit for the quarter grew by 26 per cent to ₹1,502 crore (₹1,191 crore). Provisions during the quarter decreased by 9.46 per cent to ₹909 crore, against ₹1,004 crore in the year-ago quarter. However, provisions increased on a sequential basis. Provisions during the first quarter stood at ₹795 crore.

Fresh slippages stood at ₹741 crore, down from ₹1,624 crore recorded for the same period last year. "This is because of our sustained focus on arresting slippages and, this, I believe, is helping us a lot in restricting the increase in NPAs," said Padmaja Chunduru, MD and CEO, Indian Bank.