ECONOMY

GOLD	RUPEE	OIL	SILVER
₹39,240	₹70.90	$61.59	₹47,680

*Indian basket as on October 24, 2019

SENSEX: 39,058.06 ▲ 37.67 NIFTY: 11,583.90 ▲ 1.30 NIKKEI: 22,799.81 ▲ 49.21 HANG SENG: 26,667.39 ▼ 130.56 FTSE: 7,287.77 ▼ 40.48 DAX: 12,848.62 ▼ 23.48

*International market data till 1900 IST

GROSS NPAs DECLINE TO ₹161,636 CRORE IN Q2FY20 FROM ₹205,864 CRORE A YEAR AGO

SBI net up 219% on asset quality, insurance stake sale

ENS ECONOMIC BUREAU
MUMBAI, OCTOBER 25

RIDING HIGH on an improvement in asset quality and gains from stake sale in a subsidiary, State Bank of India (SBI), India's largest bank, on Friday posted a 219 per cent jump in the net profit for the September quarter at Rs 3,012 crore, as against Rs 945 crore in the same period of last year.

The bank made a Rs 3,500-crore profit from stake sale in SBI Life Insurance. This was fully used to provide for two potential cases of stress that the bank is staring at, SBI Chairman Rajnish Kumar said.

The bank has also set aside Rs 2,600 crore for a power account where restructuring has failed, while Rs 900 crore will be utilised for a potential loss towards an exposure to a mortgage lender currently in stress.

The bank's gross non-performing assets (NPAs) declined to Rs 161,636 crore (7.19 per cent of advances) from Rs 205,864 crore (9.95 per cent) a year ago. Net interest margin (NIM) rose to 3.22 per cent from 2.80 per cent.

SBI's overall provisions for bad assets increased up to Rs 11,040 crore from Rs 10,184 crore, helping the bottomline.

The bank has made a write-off of Rs 12,000 crore in the September quarter and Rs 16,000 crore in the June quarter. The total write-off in the previous fiscal (2018-19) was Rs 58,000 crore, taking total write-offs to Rs 86,000 crore in the last six quarters. "You can't call it write-off ... this amount has gone from on-balance sheet to off-balance sheet," Kumar said at a media conference call.

He said the bank has already classified its Rs 1,200-crore exposure to a power project as an NPA, but will commit another Rs 2,600 crore to the same account to honour a letter of credit. However, the bank has already made full provision this upcoming drawdown.

Meanwhile, part of the Rs 16,822-crore stressed accounts, which are standard now, will slip into NPAs in the next two quarters, but the slippages will be within the Rs 32,000-crore range, he said.

The bank has an exposure of Rs 35,735 crore to the telecom segment as of September. Of this, Rs 9,327 crore has become NPAs. It is difficult to assess the impact of the Supreme Court judgement on average gross revenue issue, involving a payout of over Rs 92,000 crore to the government, he said.

On branch network expansion, SBI has a target to have 600 new branches in FY20, as against 275 a year ago. About shelving the SBI General Insurance IPO plans, Kumar said the valuation has to go up to Rs 50,000 crore before the bank can begin a share sale process, and admitted that such a possibility is remote this fiscal. But they will go ahead with IPO for its cards business in the March quarter, he added.

Core net interest income, meanwhile, grew 17.67 per cent to Rs 24,600 crore, aided by 0.42 percentage point widening in the NIM to 3.22 per cent, but was suppressed by low loan growth. While only 32 per cent of working capital limits are being utilised by corporates now, the latest Reserve Bank of India data on credit growth indicates some reprieve and maintained the earlier credit growth guidance of 12-14 per cent, the bank said.

Slippages of loans were at Rs 8,805 crore, as against Rs 10,725 crore a year ago. The bank exuded confidence of keeping gross slippages under 2 per cent. "We have reached a situation where our gross slippages, even in not-so-good circumstances, are not likely to exceed 2 per cent," the SBI Chairman said.

The bank's retail exposure was at Rs 6.86 lakh crore, a growth of 18.90 per cent. Total deposits rose by 8.05 per cent to Rs 30.33 lakh crore. SBI is focusing on retail to grow the book, and has not yet faced any troubles from the auto sector, Kumar said.

On Friday, the bank's shares zoomed 7.19 per cent to close at Rs 281.60 on the BSE.

EXPLAINED E. Plans afoot to expand branch network

WITH THE largest bank in the country having more than trebled its profit for the September quarter of fiscal 2019-20, the lender has now set a target to set up 600 new branches in the current fiscal.

By expanding its branch network, SBI can cater to the credit needs of a larger number of retail customers and encourage them to spend more. This could give a boost to consumption, at a time when various sectors, including automobile, are facing a slowdown.

Fears over contagion risk in financial sector 'overstated': SBI chief

ENS ECONOMIC BUREAU
MUMBAI, OCTOBER 25

STATE BANK of India Chairman Rajnish Kumar on Friday sought to allay fears about the growing contagion risk in the financial sector, stating that the fears have been "overstated" and the sector has not seen any downgrade or deliquency, except in the case of a housing finance company.

When asked about the warning of Standard & Poor's against the banks' exposure to the financial sector resulting in systemwide difficulties ahead, Kumar said many a time the threats are "overstated" and that SBI has not faced issues on this segment barring one account.

"Rating agencies are proactive now. There has been no downgrade," he said during Friday's media conference call.

About the difficulties banks are facing due to their exposure to housing finance company Dewan Housing Finance Corporation (DHFL), including banks and mutual funds to reach an agreement on resolution, Kumar said SBI has the capability to deal with any eventuality.

Without naming DHFL, Kumar said it has a Rs 7,000-crore exposure to a housing finance company and expects the account to slip into a NPA in the third quarter. The bank has already set aside 20 per cent (Rs 1,400 crore) of its exposure as provision.

Though the SBI Chairman did not mention the company's name, bank sources said it was DHFL. Even as the crisis-ridden DHFL has been working on a resolution plan for some time now, it is yet to take a concrete shape. The forensic audit conducted by KPMG has reportedly found fund diversion at the firm.

On October 23, S&P Global Ratings said the Indian financial sector is facing rising risk of contagion and failure of any large finance company will adversely impact economic growth.

According to an S&P report, a bank failure could disrupt interbank market, payments, hurt credit availability and adversely affect economic growth. "India's finance companies are among the country's largest borrowers. A substantial part of this funding comes from banks," it said.

Reliance to integrate RJio, digital initiatives into new subsidiary; to invest ₹1.08 lakh cr

ENS ECONOMIC BUREAU
MUMBAI, OCTOBER 25

> **"This new company ... will bring together India's number 1 connectivity platform, leading digital app ecosystem and world's best tech capabilities globally, to create a truly digital society for each Indian"**
>
> MUKESH AMBANI
> CMD, RELIANCE INDUSTRIES

MUKESH AMBANI'S Reliance Industries (RIL) has decided to create a wholly-owned subsidiary for digital platform initiatives and invest Rs 108,000 crore in the subsidiary through optionally convertible preference shares (OCPS).

The board of RIL on Friday approved the digital technology platform entity which will hold all digital initiatives, including Reliance Jio Infocomm (RJIL), digital connectivity platform and development of initiatives of cutting-edge technologies.

The subsidiary will also acquire RIL's equity investment of Rs 65,000 crore in RJIL. It has also proposed a scheme of arrangement between RJIL and certain classes of its creditors, including debenture holders, for transfer of identified liabilities of up to Rs 108,000 crore to RIL. There will be a rights issue of OCPS aggregating up to Rs 108,000 crore for the purpose of payment of consideration for transfer of identified liabilities.

The subsidiary will subscribe to this issue. RJIL will become virtually net debt free company by March 31, 2020, with the exception of spectrum related liabilities.

"Like global technology peers, the Digital Platform Company with negligible leverage makes a compelling investment proposition for both strategic and financial investors, many of whom have evinced strong interest in partnering with us. It will have significant financial strength to address the digital services opportunity in India," RIL said.

Mukesh Ambani, chairman and managing director, RIL, said, "This new company will be a truly transformational and disruptive digital services platform. It will bring together India's number 1 connectivity platform, leading digital app ecosystem and world's best tech capabilities globally, to create a truly digital society for each Indian. Jio has been heralding the digital services revolution in India and will continue to do so in the years to come.

"Given the reach and scale of our digital ecosystem, we have received strong interest from potential strategic partners. We will induct the right partners in our platform company, creating and unlocking meaningful value for RIL shareholders," he added.

The proposed plan will ensure monetisation opportunities accrue to shareholders efficiently, RIL said. "There is no impact in the value pre- and post-reorganisation for any shareholder. There is no impact on the consolidated debt of RIL. Consolidation of liabilities in RIL creates an efficient structure to manage debt and cash. "It does not impact RIL's standalone credit profile given its robust cash flows and conservative leverage," it added.

According to RIL, these platforms are also backed by investment in emerging and next generation technologies, including blockchain, artificial intelligence and machine learning, virtual, augmented/ mixed realty, computer vision, high performance and edge computing, natural language processing, and voice enabled services.

AGR demand threatens survival, says Bharti Airtel

ENS ECONOMIC BUREAU
NEW DELHI, OCTOBER 25

> **On Thursday in response to the order on adjusted gross revenue, Bharti Airtel had said the Supreme Court decision has come at a time when the sector is facing severe financial stress**

THE MASSIVE Rs 92,000-crore payout — which incumbent telecom operators need to make to the government as outstanding licence fee after the Supreme Court order on October 24 — would rise even higher to around Rs 1.33 lakh crore, if spectrum usage charge dues are also taken into account.

Though the companies which are supposed to make the largest amount of payment, Vodafone Idea and Bharti Airtel, expressed their disappointment on Thursday, the latter on Friday went to the extent of stating that the apex court's judgment casts doubt on the company's ability to continue as a going concern.

Bharti Airtel, which on Friday posted the July-September quarter earnings of its Africa unit, said, "The Group will continue to assess this risk as the impact of the court judgment becomes clearer and has considered whether this could give rise to the early repayment of the balance of the remaining $2.2 billion of Notes. This represents a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern".

It, however, went on to add: "However, the Group has cash and facilities together with a number of financing options and other operational mitigation measures available to it should they be required and has concluded that despite the risks associated with the court judgment against the intermediate parent and its impact on the Notes, the Group will be able to continue as a going concern". The company will announce the July-September quarter earnings of its India business on October 29.

Bharti's dues to the government as a fallout of the SC order is to the tune of Rs 21,682 crore.

The situation of Vodafone Idea is grimmer. The company had total cash balance of Rs 21,000 crore at June end and its liability to the government as a result of the SC order is Rs 28,308 crore.

On Thursday in response to the order on adjusted gross revenue (AGR), Bharti Airtel had said the operators have invested billions of dollars in developing the sector and this decision has come at a time when the sector is facing severe financial stress and may further weaken the viability of the sector as a whole. **FE**

'Gems and jewellery exports may fall 5-7% in FY20'

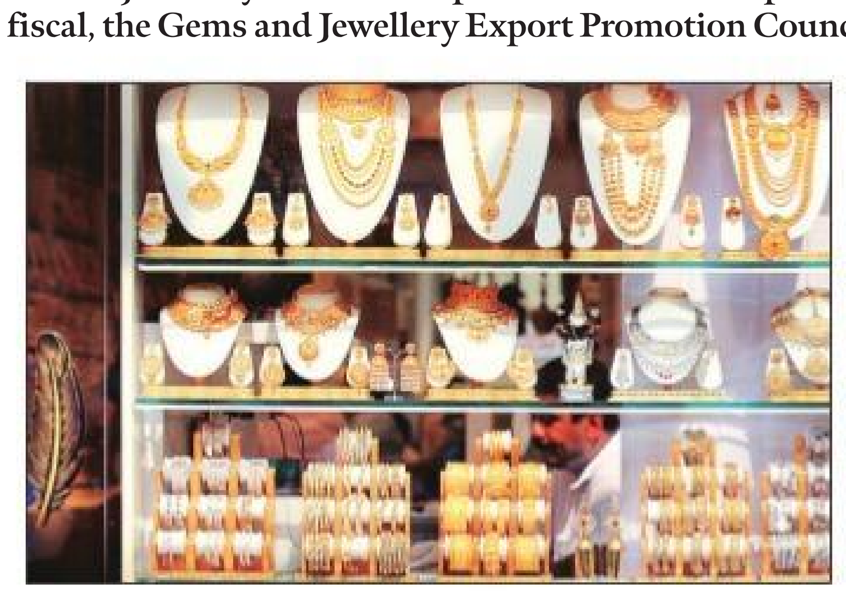
India's gross exports of gems and jewellery sector are expected to decline 5-7 per cent in 2019-20 as compared to the previous fiscal, the Gems and Jewellery Export Promotion Council (GJEPC) said

$30.96 bn: Net exports of the sector in 2018-19, which showed a decline of 5.32 per cent, mainly on account of slowdown in demand in major developed markets

~$40 bn: Gross exports in gems and jewellery sector last financial year

5-7%: Expected decline in exports of gems and jewellery in current fiscal

$75 bn: Expected outbound shipments of sector in the next four-five years



1.5-2 mn: Expected number of jobs to be added to current sectoral workforce of 5.5 million

7.5%: Current import duty on finished diamonds and coloured gemstones, which GJEPC has demanded be brought down to 2.5 per cent

Exclusion from RCEP deal: The Council has requested the government that finished jewellery be kept out of the purview of proposed mega trade deal Regional Comprehensive Economic Partnership (RCEP) to protect the interests of domestic manufacturers

Jewellery parks across country: To boost shipments from the sector, the Council is looking at establishing jewellery parks in major clusters across the country

Poor global demand, rising gold prices: Slowdown being faced by various nations across globe, as well as rise in gold prices domestically are the major factors affecting growth

LOW SPENDING, PRICE RISE

Subdued demand hits Dhanteras sales

PRESS TRUST OF INDIA
NEW DELHI/MUMBAI, OCTOBER 25

MIRRORING SLOWDOWN in the economy, pre-Diwali Dhanteras sale of gold and silver dipped by as much as 40 per cent as high prices and lower consumer spending hit demand.

Dhanteras, considered the most auspicious day in Hindu calendar to buy items ranging from precious metals to utensils, was a muted affair in most markets across the country with traders complaining of lesser footfall and reduced consumer spending.

On Friday, gold prices rose by Rs 220 to Rs 39,240 per 10 gram in the national capital, up by 20 per cent compared to 2018 Dhanteras

Customers shop for gold ornaments during Dhanteras, which marks the beginning of Diwali, on Friday. *Ritesh Shukla*

when the rates stood at Rs 32,690 per 10 gram.

According to the Confederation of All India Traders (CAIT), about 6,000 kg of gold worth Rs 2,500 crore was estimated to have been sold till evening on Dhanteras day, as against 17,000 kg of gold worth Rs 5,500 crore on this auspicious day in 2018. "As per an estimate, there was a decline of business from 35 to 40 per cent which is a cause of major worry for the traders," CAIT's Gold and Jewelery Committee Chairman Pankaj Arora said in a statement.

Sales were down as prices of both gold and silver have sharply increased from over last Dhanteras, which has weakened the demand, he said, adding it was perhaps the "most disappointed Dhanteras" for the traders in past more than 10 years.

Jewellers' apex body All India Gem and Jewellery Domestic Council (GJC) chairman Anantha Padmanaban said, "In volume terms, we expect sales to be 20 per cent less than last year. In terms of value, it will be same as last year because of higher prices." Most consumers are going for token buying of lesser value and are waiting for price correction for purchase of wedding jewellery, he said.

SEPT QTR CONSOLIDATED NET LOSS AT ₹188 CR

Q2: Tata Motors cuts loss, JLR surge offset by domestic numbers

ENS ECONOMIC BUREAU
MUMBAI, OCTOBER 25

TATA MOTORS on Friday beat Street estimates on all fronts as it substantially narrowed the consolidated net loss to Rs 188 crore for the quarter ended September 30, as against with a loss of Rs 1,009.5 crore in the year-ago period, on the back of a turnaround in Jaguar and Land Rover (JLR) performance. In Q1 FY20, the company had reported one of its biggest losses of Rs 3,679 crore.

Falling sales of JLR in China were impacting the company's overall performance as it continued to post high losses over the past few quarters. JLR contributes 78 per cent to the Tata Motors' consolidated revenues.

However, in the September quarter, the management said there was an improvement in China because of better operating metrics.

JLR posted a pre-tax profit of 156 million pound for the September quarter of FY20. The improvement reflects favourable wholesale volume and product mix, operating costs, depreciation and amortisation and foreign exchange. Profitability at JLR significantly improved with an EBIT margin of 4.8 per cent against -0.7 in Q2 of FY19. The operating margin was at 13.8 per cent during the latest quarter, against 9.1 per cent in the same quarter last year. JLR's free cash flow remained negative at 64 million pounds for the quarter, but it was an improvement of 559 million pounds y-o-y.

Also, the company's Project Charge transformation programme for JLR contributed 162 million pound of cost improvement and 285 million pound reduction in investment spending in the quarter. PB Balaji, chief financial officer, Tata Motors, said, "With 2.2 billion pounds efficiencies achieved to date, JLR remains on track to achieve the full target of 2.5 billion pounds by March 31, 2020." Revenue for JLR increased 8 per cent y-o-y to 6.1 billion pounds, driven by wholesales and favourable product mix. **FE**

Will engage with DoT to consider granting relief: Vodafone Idea

ENS ECONOMIC BUREAU
MUMBAI, OCTOBER 25

VODAFONE IDEA on Friday said it was reviewing the financial implications of the recent judgment of the Supreme Court on the issue of adjusted gross revenue (AGR).

"The judgment has financial implications, which we are reviewing. We will engage with the Department of Telecom (DoT) in order for it to consider granting relief, including a waiver of interest and penalties," the company said in an exchange filing.

On Thursday, the SC upheld the DoT's definition of AGR — a long-standing dispute between the government and the telcos. The companies will now be required to include the non-core income for calculation of AGR, which would require them to pay the government as much as Rs 92,641 crore extra, including disputed demand, interest and penalty.

Following the judgment, Vodafone Idea shares fell 23.36 per cent, closing at Rs 4.33 on Thursday. On Friday, the company's shares fell further and were down 5.08 per cent, closing at Rs 4.11 on the BSE.

According to DoT's calculations, the telco owes a total of Rs 28,309 crore to the government, including Rs 13,006 crore in interest on balance of license fee, a penalty of Rs 3,206 crore and an interest on penalty of Rs 5,226 crore.

Vodafone Idea may have no cash left for capex in case of full payment to the government following an order by the SC on AGR, brokerages said. **FE**

'DEFICIENCIES' IN FLIGHT CREW'S COMMUNICATION, MANUAL CONTROL OF PLANE LED TO CRASH

Indonesia report on 737 MAX crash faults Boeing design

BERNADETTE CHRISTINA MUNTHE & JESSICA DAMIANA
JAKARTA, OCTOBER 25

BOEING, ACTING without adequate oversight from US regulators, failed to grasp risks in the design of cockpit software on its 737 MAX airliner, sowing the seeds for a Lion Air crash that also involved errors by airline workers and crew, Indonesian investigators found.

The fatal crash, coming within five months of another at Ethiopian Airlines, led to a global grounding of the Boeing 737 MAX and a crisis for the world's biggest planemaker, which this week ousted its commercial airplanes chief.

In its final report into the Oct. 29, 2018, Lion Air crash that killed all 189 people on board, Indonesia made recommendations to Boeing, the airline, the US Federal Aviation Administration (FAA) and other agencies. A copy was seen by *Reuters* and it is due to be released publicly later on Friday or on Saturday, an investigator said.

Indonesian regulators criticised the design of the anti-stall system known as MCAS, which automatically pushed the plane's nose down, leaving pilots fighting for control.

"The design and certification of the MCAS did not adequately consider the likelihood of loss of control of the aircraft," the report said. Boeing has been working on a redesign of MCAS although it has yet to certified by the FAA.

The report also said "deficiencies" in the flight crew's communication and manual control of the aircraft contributed to the crash, as did alerts and distractions in the cockpit. The accident had been caused by a complex chain of events, Indonesian air accident investigator Nurcahyo Utomo told reporters at a conference, repeatedly declining to be drawn on providing a single dominant cause.

"From what we know, there are nine things that contributed to this accident," he said. "If one of the nine hadn't occurred, maybe the accident wouldn't have occurred."

During the flight, the first officer was unable to quickly identify a checklist in a handbook or perform tasks he should have had memorised, it said, adding that he had also performed poorly in training exercises. The captain did not properly brief the first officer when handing over control just before the plane entered a fatal dive, it also said. The report noted that according to the cockpit voice recorder, the first officer told the captain the flight was not in his initial schedule and he had been called at 4 a.m. to be informed of the revision, while the captain said he had the flu. **REUTERS**

Indonesian investigators speak during a news conference on the release of the final report into the 2018 crash of a Boeing 737 MAX jet operated by Lion Air, that killed 189 people, in Jakarta, Indonesia, on Friday. *Reuters*