

IDBI Bank to resume corporate lending for existing customers

ABHIJIT LELE & HAMSINI KARTHIK
Mumbai, 8 October

IDBI Bank, which has been under the Reserve Bank of India's (RBI's) Prompt Corrective Action (PCA), will resume corporate lending in a limited way to existing customers with a high credit rating.

It has received the RBI's nod for taking an exposure to clients.

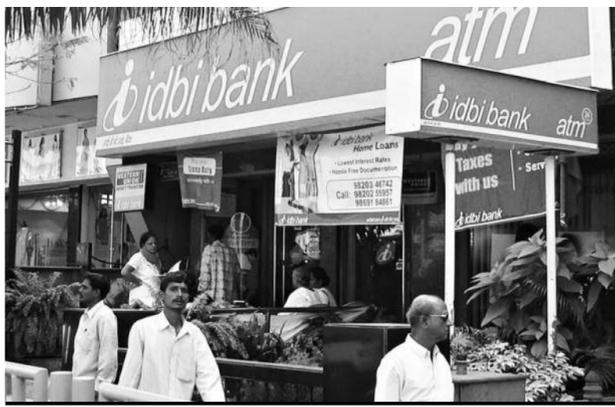
The bank was waiting to meet capital adequacy norms before starting corporate lending.

It received more than ₹9,000 crore as equity capital from Life Insurance Corporation of India, which holds 51 per cent in the erstwhile public-sector bank, and the government in the second quarter.

Rakesh Sharma, managing director and chief executive, IDBI Bank, said: "The RBI, based on the results of the March quarter, has given relaxation in doing business. But we were going slow because capital was below regulatory requirements."

Its capital adequacy ratio was 8.14 per cent, with tier 1 at 6.1 per cent, at the end of June this year.

There was a gap in meeting regulatory norms for capital adequacy.



ACTION PLAN

■ Start lending to existing corporate clients

■ Complete stake sale in MF, insurance units

■ Monetise investment in NSE, ARCL

■ Generate up to ₹1,500 crore from non-core assets

■ Raise up to ₹2,000 crore in tier-II capital

The bank is using the capital it has received to make provisions for bad loans, meet capital adequacy requirements, and support business growth.

"The capital the bank received in the second quarter will take care of growth requirements. The RBI has given relaxations in extending credit to higher-rated accounts. For existing accounts, we can do some enhancement," Sharma said.

Being under PCA, the RBI restricted giving loans. There is a cap of ₹5 crore on taking an exposure. Also it could not lend to companies and partnerships, but only to individuals.

"Having learnt from the past, the bank will be careful about how to do business. The main focus will continue to be on retail. The business level anticipated for 2019-20 is that the ratio of retail to

corporate lending should be 55:45," Sharma added.

The bank's net non-performing assets (NPAs) stood at 8.02 per cent at the end of the first quarter ended June. It has indicated that its net NPAs will be below 6 per cent by the end of the second quarter (September 2019). Some accelerated provisioning was done in the first quarter and some more will be done for the second

quarter by using the capital infused by the government and LIC, Sharma said.

Referring to monetising the holdings in its two subsidiaries, he said the bank expected to sell stakes in the asset management unit (mutual fund) by December. As for the life insurance entity, IDBI Federal, in which the bank holds 48 per cent, the target is March next year.

Being a subsidiary of LIC, an insurer, the bank has to exit IDBI Federal. Federal Bank and Belgian insurer Ageas hold 26 per cent each in the insurance company.

The bank has equity investments, which too will be sold. It has started the process of selling its stake (over 1 per cent) in the National Stock Exchange (NSE). The bank expects to generate up to ₹1,500 crore by selling non-core assets in 2019-20, Sharma said.

There is a plan to enhance capital adequacy also.

"Depending on rates (yields), once the bank is out of PCA, we expect a revision in ratings. If not ₹3,000 crore, we can raise ₹2,000 crore, which should help to improve the bank's profile," he added.

Ocean freight IGST: Importers in courts

INDIVIAL DHASMANA
New Delhi, 8 October

Importers have moved courts regarding the imposition of integrated goods and services tax (IGST) on the cost incurred through an agreement between two foreign parties to bring goods to India via ocean waters. This cost is termed ocean freight.

Petitions are pending before the high courts at Delhi and Mumbai. The Gujarat high court has concluded hearings on another case, reserving its judgment.

"The taxability of ocean freight for transactions between two non-residents

will have to cross the constitutional barrier and the controversy is soon expected to be resolved," said Abhishek Rastogi, a counsel for the petitioners and partner at Khaitan & Co.

A provision in the Central GST Act allows levying of both the basic customs duty and IGST on the cost, insur-

ance and freight (CIF) value of goods brought into India, and an additional IGST on ocean freight between two foreign parties for movement of these goods.

For instance, assume goods come from Washington to London, before being shipped further to Mumbai port. There is an element of ocean freight between the parties in Washington and London. This could include steamship costs, broker commissions, duties and tariffs, vessel and port maintenance costs, labour costs, etc.

When the basic customs duty and IGST are already paid on the CIF value, argue the petitioners, why should there be another tax on the ocean freight element. This would, contends Rastogi, give rise to double taxation -- the ocean freight element includes CIF. Besides, how are Indian parties concerned with a transaction between two overseas entities?

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Financial sector needs governance rehaul: S&P

ABHIJIT LELE
Mumbai, 8 October

The trouble at Punjab and Maharashtra Cooperative Bank (PMC) highlight a governance deficit in the country's financial sector. Governance and transparency in India's financial institutions lag its larger international peers, according to global rating agency Standard and Poor's (S&P).

The Reserve Bank of India (RBI) has appointed an administrator and superseded the board of directors at PMC, after the discovery of major financial irregularities, failures of internal control and systems, and wrong/under-reporting of exposure.

PMC appears to have exceeded prudential norms in extending loans to a single customer, a distressed real estate company.

Cooperative banks generally have less onerous regulations. Cooperative bank failures in the past haven't spilled over to the broader banking sector.

"India's financial sector needs to raise its governance standards and restore trust," S&P said.

Last year's discovery of fraud at Punjab National Bank involving almost \$2 bn also reflected lack of internal controls.

The Reserve Bank's assessment of non-performing loans for a number of banks was higher than the latter's in the past. Such divergence underscores the poor transparency, says S&P.

While it does not expect the stress in co-operative banks to spill over to the broader banking sector, it also says contagion risk cannot be ignored in a market when paranoia sets in.

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Kejriwal denied nod for Denmark climate meet

PRESS TRUST OF INDIA
New Delhi, 8 October

Delhi Chief Minister Arvind Kejriwal will not be able to attend the C-40 Climate Summit in Denmark as the Ministry of External Affairs refused political clearance to his visit, official sources said on Tuesday.

Delhi government sources said that the chief minister was scheduled to leave for the summit in Copenhagen at 2 pm on Tuesday, but could not take the flight, as the MEA denied him political clearance to attend the meeting.

AAP's Rajya Sabha MP Sanjay Singh termed the Centre's deci-

sion to withhold the clearance "unfortunate", saying it would affect India's image.

He wondered why the Centre was "so much" angry with the AAP government.

Kejriwal was to lead an eight-member delegation for the summit, slated to begin on October 9 and end on October 12.

"Kejriwal was not going on a vacation but to tell the world how Delhi managed to reduce its air pollution by over 25 per cent through its schemes like odd-even," Singh told reporters.

Singh said the Centre's decision will "affect India's image on the global stage and send a



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wrong message in the international community". "What will the people think about how our

federal structure works. Why is there so much anger against us from the Centre?" the Aam Aadmi Party's (AAP's) Rajya Sabha MP said.

The MEA, however, gave clearance to West Bengal Urban Development Minister Firhad Hakim, claimed sources.

In response to media query over Kejriwal's proposed visit to Denmark, the MEA last week had said a decision on the issue is taken based on multiple inputs.

"I do not answer query specific to political clearance. And if you understand how it functions, we get hundreds of requests for political clearances every month from ministries, secre-

taries, bureaucrats. A decision is based on multiple inputs," MEA spokesperson Raveesh Kumar had said.

"Some of the inputs we get from the mission and it takes into account the nature of the event where the person is going to participate. It takes into account the level of participation from other countries and also the kind of invitation that is extended," he had added.

In an official statement on September 22, the Delhi government had said the chief minister was expected to speak at the Summit on his government's experience in lowering air pollution in the city.