QUICKLY

Rupee firms up 11 paise versus dollar

Mumbai, November 1

The rupee appreciated by 11 paise to close at 70.81 against the US dollar on Friday due to fag-end selling of the greenback by banks and importers amid persistent foreign fund inflows. Strengthening crude oil prices, however, capped the gains for the domestic unit, forex dealers said. At the interbank foreign exchange market, the rupee opened weak at 70.96 and touched a low of 70.98 in early trade. However, late selling of dollars by banks helped the rupee recoup its losses. It finally finished at 70.81 against the US currency, showing a rise of 11 paise over its previous close. On a weekly basis, the rupee fell 9 paise against the greenback. The dollar index, which gauges the greenback's strength against a basket of six currencies, slipped 0.11 per cent to 97.24. PTI

KVB profit slips to ₹63 crore in Q2

Coimbatore, November 1

Karur Vysya Bank's net profit for the quarter ended September 2019 slipped to ₹63.33 crore from ₹83.74 crore in the corresponding quarter of the previous fiscal. However, total income from operations rose to ₹1,815.24 crore, when compared to ₹1,632.50 crore a year ago. The bank's operating profit was up 19 per cent at ₹431 crore (₹361 crore), net interest income improved by ₹17 crore to ₹596 crore, and non-interest income swelled by 58 per cent to ₹278 crore (₹176 crore). The bank's total business increased to ₹1,11,601 crore with advances at ₹49,388 crore, and deposits up by 7 per cent at ₹62,213 crore. Gross and net NPA of the bank stood at 8.89 per cent and 4.5 per cent, respectively. OUR BUREAU

YES Bank posts ₹600-cr loss on rise in provisioning

OUR BUREAU

Mumbai, November 1

YES Bank slipped into the red, reporting a net loss of ₹600 crore in the quarter ended September 30, even as its asset quality deteriorated.

The private sector bank also disclosed that it has received various anonymous whistleblower complaints during the quarter alleging irregularities in its operations, which the lender is continuing to analyse.

The bottomline in the reporting quarter was impacted due to remeasurement of accumulated deferred tax asset resulting in a one-time additional charge of ₹709 crore and higher provisions.

YES Bank had reported a net profit of ₹965 crore in the year-ago period.

Net interest income (the difference between interest earned and interest expended) declined 10 per cent at ₹2,186 crore (₹2,418 crore in the year-ago period).

Non-interest income (comprising fees and commission, selling of third-party products, earnings from foreign exchange transactions, and profit/ loss on sale of securities) was down 36 per cent at ₹946 crore (₹1,473 crore).

The bank made provisions aggregating ₹1,336 crore, up 42 per cent vis-a-vis the year-ago period's ₹940 crore.

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The bank's gross NPAs jumped ₹5,042 crore during the quarter to stand at ₹17,134 crore.

Gross NPAs in percentage terms rose to 7.39 per cent of gross advances against 5.01 per cent in the preceding quarter.

Whistleblower complaints

During the quarter/ half-year, the bank said it has received various anonymous whistleblower complaints alleging irregularities in its operations, which it is continuing to analyse.

The bank will consider the implications of ongoing work once the examination of this matter is completed, it added.

Exposure to stressed firms will weigh on earnings

Q2 COMMENT

RADHIKA MERWIN

BL Research Bureau

While the ongoing stress in certain companies to which YES Bank has exposure was expected to weigh on the bank's earnings, the lender's latest September quarter results have only accentuated investor concerns.

The bank reported sharp rise in bad loan book in the September quarter, leading to dismal earnings performance.

But what is more concerning is the fact that of the ₹5,945 crore of slippages during the quarter, ₹3,730 crore came from within the stressed book (BB and below rated book) and about ₹2,220 crore from outside the bank's stressed book, mainly from SME and retail.

This indicates that there could be more pain for the bank, coming from outside the identified stressed pool in the coming quarters, which is a cause for worry.

As such, YES Bank's stressed asset pool inching up in the September quarter lends little comfort. On the core operational front, the management's calibrated growth strategy to conserve capital has also hurt earnings. The bank's loan book shrunk by 6 per cent during the September quarter, leading to a near 10 per cent drop in core net interest income, which was also impacted by the sharp rise in slippages (reversal in interest income).

YES Bank reported a loss of ₹600 crore in the September quarter, owing to weak core performance and a one-time impact on deferred tax assets (DTA) write-off of ₹709 crore. Even excluding this impact, the net profit at ₹109 crore is dismal for the once-fancied private lender.

The bank had identified ₹10,000 crore of stressed accounts in the March quarter. But the stressed pool has steadily increased since then. In the June quarter, the stressed book stood at ₹29,470 crore, which has further increased to ₹31,400 crore in the latest September quarter.

In the March 2019 quarter, the bank had created a contingent provisioning of ₹2,100 crore towards the identified stressed accounts.

Of this, the bank has used up ₹1,399 crore in the June quarter, and the balance in the latest September quarter. With the contingent provisioning buffer used up, earnings could get impacted. The bank's provision cover is low at 43 per cent and sharp rise in slippages, can erode earnings.

Growth concerns

This throws up concerns on the capital front. Aided by a ₹1,900-crore capital-raising through QIP, the bank has been able to increase its CET 1 ratio (common equity tier-1) to 8.7 per cent in the September quarter, from 8 per cent in June quarter.

The bank has been consolidating its loan book to ease up capital. But this could only hurt earnings and capital further.

From stellar 30-50 per cent growth in loans in the past, YES Bank's loan growth has taken a big hit in the past few quarters. A weak capital can continue to impact the bank's credit growth, unless there is quick resolution of stressed accounts.

RBI sets up 2 new departments for better supervision, regulation of banking sector

PRESS TRUST OF INDIA

Mumbai, November 1

Under attack for not being able to prevent scams in the banking sector, the Reserve Bank of India, on Friday, reorganised its supervisory and regulatory functions into two departments to deal more effectively with potential systemic risks.

The central bank had separate departments for supervisory as well as regulatory functions, which have been integrated into two unified departments.

The development follows the RBI's central board decision to create separate supervisory and regulatory cadre.

The new departments

"The Reserve Bank of India has reorganised its regulatory and supervisory departments," the RBI said in a statement.

"It has been decided to integrate the supervision functions into a unified Department of Supervision, and regulatory functions into a unified Department of Regulation with effect from November 1," the central bank said. The Central Board of the

RBI, in its meeting on May 21, approved the creation of separate supervisory and regulatory departments. The restructuring of regulatory and supervision functions is among the series of steps the RBI will take to implement this decision. Currently, the supervision of financial sector entities is undertaken through three separate departments — Department of Banking Supervision, Department of Non-Banking Supervision, and Department of Co-operative Bank Supervision.

Similarly, the regulatory functions related to financial sector entities are carried out through three separate departments — Department of Banking Regulation, Department of Non-Banking Regulation, and Department of Co-operative Banking Regulation.

Bank of India reports ₹266-cr profit in Q2

OUR BUREAU

Mumbai, November 1

Bank of India reported a net profit of ₹266 crore in the second quarter ended September 30, 2019, against a net loss of ₹1,156 crore in the year-ago period. Healthy growth in both net interest income and non-interest income, coupled with lower provisioning burden towards bad and doubtful debt and depreciation on investment, supported the bottomline.

Net interest income (difference between interest earned and interest expended) rose 32 per cent to ₹3,860 crore, against ₹2,927 crore in the year-ago period. Non-interest income (comprising commission, exchange and brokerage, profit from exchange transactions, profit from sale of investments, among others) was up 29 per cent at ₹1,327 crore (₹1,030 crore in Q2 FY2019).

Gross non-performing assets (GNPAs) declined by ₹592 crore during the quarter to stand at ₹61,476 crore as of September-end 2019. Slippages during the quarter were at ₹3,166 crore (₹3,683 crore in the preceding quarter).

Provisioning towards bad and doubtful debt and depreciation on investment was lower at ₹1,452 crore (₹2,828 crore in the year ago-quarter) and ₹49 crore (₹547 crore), respectively. The public sector bank's portfolio of special mention accounts (SMAs) jumped to ₹16,309 crore (from 218 accounts) as of September-end 2019, against ₹6,875 crore (from 187 account) as of June-end 2019.

Total SMA portfolio

Neelam Damodharan, Executive Director, said of the total SMA portfolio of ₹16,309 crore, three accounts, including a public sector aviation company with a total exposure of about ₹6,000 crore, are expected to come out of this classification in the current quarter.

In FY2020, the bank is eyeing a business (deposits plus advances) growth of 10 per cent, operating profit of ₹9,500 crore, and net profit of ₹1,500 crore, he added. Damodharan observed that the bank has proactively made a 5 per cent provision towards its ₹4,000-crore exposure to the troubled Dewan Housing Finance Corporation Ltd.

Though the bank faced valuation hurdles and lack of investor appetite in selling some of its non-core assets, Atanu Kumar Das, Executive Director, said he was confident of garnering ₹1,500 crore through disinvestment in FY2020.

Chaitanya G Chintapalli, Executive Director, said the bank had sanctioned ₹2,000 crore for purchase of high-rated pooled assets of financially sound non-banking finance companies.

Global investors dump Indian bonds as credit worries persist

BLOOMBERG

November 1

Foreign investors' net sales of Indian rupee company bonds rose to the highest in five months, as the slowest economic growth in six years and credit market strains weighed on sentiment. Overseas funds pulled $372.2 million in October, making it the seventh straight month of outflow and the longest streak since 2016, according to National Securities Depository Ltd.

NBFC woes

While foreign investors only account for a small share of India's corporate debt purchases, their retreat adds to pressures at a time of record defaults amid a shadow banking crisis. India's central bank has already cut interest rates five times in a row to spur spending, while the government has taken a series of fiscal steps to boost growth, including a $20-billion cut to corporate taxes.

Concerns that the government will borrow more to fund its fiscal deficit, and a sharp jump in credit spreads in October as credit strains deepened, are also making some overseas investors wary.

"Smart money is leaving to take profit and will continue to do so," said Tongli Han, chief investment officer at Deepblue Global Investment Ltd. A lack of progress in strengthening the nation's banking sector, and better prospects for other emerging market currencies than the rupee, are also reasons, according to Han.

The extra yield demanded by investors to buy top-rated three-year corporate paper over government bonds climbed 26 basis points to 116 last month. That's the biggest increase in a year. Not all investors are pessimistic. Some signs that the economy may improve have also emerged.

"Even with issues in the banking sector, Indian local bonds have delivered solid returns over the last year," said Kenneth Akintewe, senior investment manager at Aberdeen.

Valuations remain compelling in better quality issuers.

Microfinance institutions' AUM to grow 40-45% in FY20, says Brickwork Ratings

G BALACHANDAR

Chennai, November 1

Microfinance institutions (MFIs), which provide financial services to the low-income population, are expected to record healthy growth for the second year in a row in FY20 despite the challenging conditions in the NBFC sector.

The growth momentum in the MFI segment will continue going forward, with assets under management (AUM) expected to grow in the range of 40-45 per cent in the current fiscal, according to Brickwork Ratings. Availability of credit, expectations of reduced interest rates, and a disciplined collection and recovery model are expected to drive growth this fiscal. Also, the RBI's recent proposal to increase the household income limit for eligible borrowers, and the higher permissible indebtedness of borrowers, augurs well for the growth momentum.

Growth drivers

The AUM of the microfinance industry grew by 47 per cent y-o-y in FY19 on the back of an increase in the client base (up 34 per cent to 3.17 crore), coupled with disbursement of higher ticket size loans (up 13 per cent). On the other hand, other NBFCs have struggled with liquidity since September 2018.

MFIs have been able to increase their client base by expanding to other districts in States where they already have a presence and by expanding their reach in under-penetrated States such as Rajasthan, Assam, Jharkhand and Gujarat.

Eastern India has been growing at a rapid pace, with the AUM in Bihar (77 per cent), Odisha (40 per cent), West Bengal (83 per cent), Jharkhand (53 per cent) and Assam (167 per cent) growing much faster than the overall growth rate (47 per cent).

Scan & Share

These five States accounted for almost 40 per cent of the total AUM, the report said.

An increase in the ticket size of loans has also been driving growth. The average loan amount disbursed per account went up to ₹25,543 in FY19, compared to ₹15,419 in FY16. This signifies that demand for credit in rural areas has been increasing as they account for nearly 75 per cent of the total AUM.

Mature markets such as Bihar, Odisha and West Bengal, which have historically seen growth in client additions, will now see higher ticket size loans. Therefore, future growth is expected to be driven by client additions in new under-penetrated geographies, and higher ticket size loans in States with a big presence. In FY19, MFIs raised a significant proportion of their liabilities from securitisation to keep their liquidity position in check.

Demonetisation had slowed down the AUM growth to 20 per cent in FY17 from 35 per cent in FY16. However, growth rebounded in FY18. The growth momentum has continued in FY19, and is expected to sustain in FY20 as well.

The loans disbursed by an MFI should be to borrowers whose rural household annual income does not exceed ₹1 lakh (proposed to be increased to ₹1.25 lakh), or to borrowers whose urban and semi-urban household income does not exceed ₹1.6 lakh (proposed to be increased to ₹2 lakh).

IndusInd may name Sumant Kathpalia as next MD/CEO

OUR BUREAU

Mumbai, November 1

Private sector IndusInd Bank is likely to appoint Sumant Kathpalia as its new Managing Director and CEO. Kathpalia currently heads the consumer banking division at the private sector lender, and has is seen as been responsible for building the bank's retail franchise.

Sources close to the development said the bank had finalised a list of internal candidates to take over the reigns when the current MD and CEO Romesh Sobti retires in March 2020.

The bank's board of directors, in its meeting on October 30, finalised a potential candidate for the post of MD and CEO, based on the recommendation of the Nomination and Remuneration Committee.

"As mandated under the extant RBI norms, the bank has submitted an application to the RBI, seeking approval for the appointment of the new MD and CEO of the bank," it had said in a statment on October 31, adding that it would make the requisite disclosure on receipt of approval from the RBI. IndusInd Bank scrip closed 5.18 per cent higher at ₹1,379.45 apiece on the BSE on Friday.

China to use digital currency to 'block' illegal cash flows

REUTERS

Shanghai, November 1

As China prepares to become the first country to launch a digitised domestic currency, market participants and experts say it is a testament to both financial innovation and Beijing's desire to have fail-safe control over its cash economy.

China's central bank has revealed a few specifics of its Digital Currency Electronic Payment (DCEP) project, one that has been five years in the making, though more details have trickled out over the past few weeks in the bank's presentations on the subject.

Akin to Facebook's proposed Libra digital currency and other cryptocurrencies such as bitcoin, the DCEP will be powered partially by blockchain technology and dispersed through digital wallets.

What sets it somewhat apart, however, are features that allow the central bank to track the movement of the currency and even supervise transactions. The digital currency's design seemingly provides Beijing with unprecedented oversight over money flows, giving Chinese authorities a degree of control over their economy that most central banks do not have.

Eye for detail The People's Bank of China will be able to track the movement of the currency and even supervise transactions

Illegal cash flows

The main motivation behind the project, market observers say, is China's desire to protect its capital borders in the face of fears that newer global payment systems and advanced technology could facilitate illegal cash flows.

"There is a consensus around the world among central bank governors and governments at large that they want to have control of money and money supply and the seigniorage that comes along with it," said Keyu Jin, professor of economics at the London School of Economics on the sidelines of a forum in Singapore.

"But over-obsessive control and governance is probably more unique to China than anything else."

So far, Beijing has sent mixed messages on how soon the digital currency will be launched. The head of the Chinese central bank's digital currency research institute, Mu Changchun, told a public forum in August that it was "almost ready". However, in September, Chinese central bank chief Yi Gang said there was no timetable for its rollout and that it still needed to meet requirements, such as anti-money laundering.

Libra, a threat to China

Authorities have, however, made no bones about their disapproval of Facebook's Libra, labelling it a threat to the sovereignty of China and other emerging economies and insisting that digital currencies should only be issued by governments and central banks.

Mu hinted at these fears and desire to preserve control in his lectures. "Just imagine, if we acquiesce, that yuan can be converted into Libra, there will definitely be a massive currency exchange, triggering yuan depreciation."

The People's Bank of China (PBOC) did not immediately reply to Reuters questions on its digital currency plans.

More than 50 patents filed by the PBOC and Mu's comments indicate that the PBOC plans to distribute the digital currency through commercial banks, much like how it does currently with physical yuan.

It will, thereafter, follow a model familiar to most users of systems such as Apple Pay and Chinese payment system Alipay, requiring commercial banks to distribute the cash via digital wallets that can be downloaded on phones.

But unlike physical cash, one patent filed shows that the bank is exploring a tracking system that would make the digital currency's movements traceable between transactions and people.

Mu said the DCEP also would strike a balance between allowing anonymous payments and classified supervision to prevent illegal activity such as money-laundering, with authorities able to monitor such instances via big data recognition.

As an example, Mu said, telephone fraud tended to be characterised by large, fragmented sums of money suddenly being deposited into one bank account for a short while before swiftly scattering and disappearing into multiple bank accounts. "Once we analyse these transactions, use big data and data mining technology and conduct identity comparisons, we will be able to find the culprits."

Uncertainty over Brexit delays BoE policy action

REUTERS

London, November 1

Britain's central bank looks set to keep interest rates unchanged next week, despite a weak economic outlook, as it awaits a snap election that could reshape Brexit and bring more public spending.

The Bank of England, unlike the US Federal Reserve and the European Central Bank, has not cut rates as the trade war between the United States and China caused a global economic slowdown. Britain's economy has weakened, too, although the BoE is unlikely to make much change to its August forecasts for annual growth of 1.3 per cent this year and next. That is about a percentage point below the growth rate before June 2016 Brexit referendum.

Despite the slowdown, BoE has hesitated to step away from its long-term message that it expects to gradually raise rates from post-financial crisis lows as a jobs boom and robust wage growth suggests there is not much slack in the economy.

Complicating the outlook for the BoE had been the risk that Britain might leave the European Union without a transition deal on October 31, requiring decisive action by the central bank.

Now Brexit has been postponed for a third time, until January and Prime Minister Boris Johnson has called an early election for December 12 to try to get a majority to pass his new, harder Brexit deal through parliament. If the opposition Labour Party wins, it will seek to negotiate a new deal and hold a referendum on it, potentially overturning the decision to leave the EU.

"It's a nightmare for them, really," HSBC economist Liz Martins said, referring to the BoE's Monetary Policy Committee.

"Against that backdrop they will err on the side of caution, sound dovish, and do nothing."

The BoE's Bank Rate stands at 0.75 per cent, unchanged since a quarter-point increase in August 2018.

Two external MPC members, Michael Saunders and Gertjan Vlieghe, have said the BoE cannot ignore the damage that Brexit uncertainty is doing, and a rate cut might be needed soon.