COAL WATCH

COAL IMPORTS UP 9% IN APR-SEPT

New Delhi: India's coal imports increased by 9.3 per cent to 126.91 million tonnes (MT) in the first six months of FY20, industry data showed. The country had imported 116.04 MT of coal in April-September period of FY 2018-19, as per data from mjunction. **PTI**

FROM ABOUT 6% IN 2015 TO 24% BY END OF 2018, AS PER RBI DATA

Rising NPAs: Banks' exposure to unrated loans increased threefold in three years

SUNNY VERMA
NEW DELHI, NOVEMBER 3

BANKS' NON-PERFORMING assets (NPAs) for unrated exposure jumped to as much as 24 per cent by the end of 2018 from about 6 per cent in 2015, data from the Reserve Bank of India (RBI) shows.

This indicates the growing risks from loans that are not rated by credit rating agencies.

While the proportion of unrated loans to total loans has stayed constant at around 40 per cent in last four years, NPAs in unrated exposures have surged steadily each year.

This data is based on assessment of banks' funded and non-funded exposure to large borrowers.

The central bank requires banks to report individual exposure of more than Rs 5 crore with the Central Repository of Information on Large Credits (CRILC), to capture data on large borrowers.

EXPLAINED

Banks wary of whom to lend amid financial squeeze

FINANCIAL RESULTS declared by many banks for the July-September quarter show that their unrated loans, BB and below rated book has been turning into non-performing assets at a much faster pace.

As many NBFCs and housing finance companies are still reeling under the financial squeeze, the high proportion of unrated exposure of banks poses risks to the financial system, even though many lenders have started shifting to rated loans in recent years.

Unrated borrowers account for about 60 per cent of the total number and 40 per cent of the total exposure of large borrowers, as captured by CRILC, according to an RBI research study.

While most large loans are credit rated by rating agencies, in many cases, banks rely on their internal assessment of credit worthiness of borrowers before extending loans.

The RBI data shows that NPAs in case of unrated exposures have been steadily rising since June quarter 2014, as captured by CRILC database which came into operation in financial year 2014-15.

High levels of NPAs in unrated accounts indicate that these are inherently more risky for the banks.

In order to nudge banks to get credit ratings done for loan exposure, the Reserve Bank in 2016 raised risk weights on unrated exposures.

The banking regulator had raised the risk weights to 150 per cent for banks lending to corporates, asset finance companies and non-banking financial companies (NBFCs) having aggregate exposure from the banking system of over Rs 200 crore

This brought the risk weights on par to those for rated companies having a rating of BB or below. Higher weights on unrated exposures reduce capacity of banks to lend to such borrowers, encouraging them to switch towards ratings.

Share of large borrowers in banks' total loan portfolios and their share in gross NPAs was at 53.0 per cent and 82.2 per cent, respectively, in March 2019; this was lower compared to 54.7 per cent and 83.9 per cent in September 2018, according to the RBI's recent Financial Stability Report.

While the proportion of NPAs has risen in unrated exposures, banks have to take a hit even on their rated exposures in the last one year as many companies went into bankruptcy and defaulted on bank loans.

Some of the private sector banks experienced significant stress in their exposures to BB and below rated loan accounts.

Earlier this year, many companies also defaulted on some of the rated debt papers which were subscribed by mutual funds in their fixed maturity plans, resulting in delayed or partial payment for the investors.

At the macro level, however, the RBI's Financial Stability Report projected the gross NPA ratio of all banks to come down from 9.3 per cent in March 2019 to 9.0 per cent by March 2020, as recoveries pick up pace due to resolution of some cases under the Insolvency and Bankruptcy Code and banks write off their bad loans.

INTERVIEW WITH PRESIDENT, OPPI

'Insurance or a financing mechanism the only way to get latest drugs in India'

PRICE CAPS may not always be the right solution if India wants to ensure its population gets access to newer, innovative and often patented medicines, says A VAIDEESH, president of the Organisation of Pharmaceutical Producers of India (OPPI), which represents multinational drug makers. Vaideesh, who was recently re-elected as the group's head, tells PRABHA RAGHAVAN in an interview how different financing models and schemes like Ayushman Bharat could help bring such expensive medicines within reach of low and middle-income patients. Edited excerpts:

"We've got to find the (right finance) model. Expecting an individual to pay out of the pocket Rs 2 lakh per dose, it's impossible'

A VAIDEESH

How are multinational drug makers with high-priced, often patented drugs, evolving to cater to the Indian population?

The way in which multinational companies participate is ... if it is a significant public health issue, we end up actually giving (the medicine) more or less free. For HIV, GSK has (a) deal with a third party and the government gives it at a very low price ... every company does. Now, what happens is, (with) some of those oncology drugs ... there is a reference pricing that happens all over the world, so you can't give any special prices. So, what the companies do is something called Patient Assistance Program.

One of the (other) ways that we are trying to overcome (issues with affordability and access is), there are various financing models that are being looked into, (like) micro-insurance ... some companies are looking at how to come up with insurance products on this. I think this whole concept of insurance has to develop, where the insurance companies are also interested in working (directly) with the pharmaceutical companies ... It hasn't fully evolved. It's still in the early stages. Insurance or a financing mechanism is the only way to get the latest drugs in this country. Not price control.

Where price control is concerned, the government has been exploring a shift from ceiling price caps to trade margin rationalisation. It even piloted this on over 40 cancer medicines earlier this year. What is your stance on such a move?

We support (trade margin rationalisation) ... (But), oncology (as a therapy) is a hospital-based product. So, the oncology model will not work, because other therapies are all retail-based products ... The margins are generally fixed in retail, which is the standard norm of 10 (per cent) and (20 per cent) anyway. Whereas, in a hospital ... the difference between the MRP (maximum retail price) billed and the hospital billing price (the price billed to hospitals by the pharmaceutical company or distributor) is significant. So, you can't apply the same principles (of trade margin rationalisation) to retail-based products. Around 90 per cent (of the drugs in the country) would be retail-based.

Unlike in oncology, where the value of the prices are also very high, in many of our products, they are not (priced at) Rs 50,000 or a lakh (rupees). They are all Rs 30 and Rs 40 ... so you (government) may only want to look at a high value product (for trade margin rationalisation) — cardiology, oncology, neurology. For small value drugs, I don't see how materially it (trade margin rationalisation) is going to have an impact.

(On pricing of innovative or patented products), this (the price of the drugs) cannot be paid out of pocket. Nowhere in the world, barring a few markets, does the individual pay out of pocket. It is all managed through a financing mechanism. We've got to find the (right finance) model. Expecting an individual to pay out of the pocket Rs 2 lakh per dose, it's impossible. And expecting companies also to ... sell it (the drug) at Rs 2,000 is also not a workable proposition ... How many times are you going to say (go for) compulsory licencing? You may (do it), say, once or twice. It is not a sustainable (model) for every drug which is expensive. Future drugs are all going to be expensive — biologics. The sooner we find a financing model instead of a pricing model, (it will be better).

With affordable, life-saving medicines an important component towards achieving India's goal of universal healthcare through programmes like Ayushman Bharat, what scope do you see to participate?

In Ayushman Bharat 1.0, I don't think we will be able to participate because of the L1 tender and all that ... I think where we will have a chance is when they start moving towards Ayushman Bharat 2.0, where they will open it up for a middle class population ... I don't think the government is opening it up (yet), but that is very much in the cards.

That is the time where the middle class population will be asked to pay a small premium (and) that is the time where we will start having a conversation with the insurance companies, saying I am willing to give (the medicine) to you at this price.

Because, the size of the population — around 200 million — will be governed under that. Then the volume goes up and the company can also say, "If I am getting x amount of cases, I'm willing to give it ... at so much of a price." So the insurance companies will start dealing with the (pharmaceutical) companies directly. That is what we are expecting to happen.

BRIEFLY

TCS, Wipro in fray to manage IRDAI's BAP

New Delhi: Four IT companies, including Tata Consultancy Services and Wipro, are in the fray to manage and operate the Business Analytics Project (BAP) of insurance sector regulator IRDAI. IRDAI said TCS, Larsen and Toubro InfoTech, Wipro and EIT Service India Private Ltd have been shortlisted for the next round of bidding. The four companies had submitted their initial bids in response to an 'expression of interest' floated by the Insurance Regulatory and Development Authority of India (IRDAI) in August. L&T InfoTech has been providing BAP services on a Build, Operate and Transfer(BOT) model to Irdai since 2011.

'Thomas Cook India not being sold to Fosun'

New Delhi: Travel services provider Thomas Cook India on Sunday said the sale of the company to China's Fosun does not include regions of India, Sri Lanka and Mauritius. "With regard to recent media reports pertaining to the sale of the Thomas Cook Global brand to Fosun of China, it is imperative to clarify that the reported sale of the Global Thomas Cook brand to Fosun of China does not include the regions of India, Sri Lanka and Mauritius," Thomas Cook India chairman and managing director Madhavan Menon said. **PTI**

Gencos' dues on discoms for Sept up 37% y-o-y

Power producers' total outstanding dues owed by discoms rose around 37 per cent to Rs 69,558 crore in September 2019 over the year-ago month, reflecting stress in the sector, as per government portal PRAAPTI

₹50,583 cr
The total amount which power distribution companies (discoms) owed to power generation companies (gencos) as of September last year

₹52,408 cr
The total overdue amount, which was not cleared even after 60 days of grace period offered by generators in September this year, as against Rs 34,658 crore in the same month last year

₹80,087 cr
Amount of total outstanding on power discoms in August 2019; meanwhile, total overdue amount was Rs 60,935 crore

₹ 9,921.78
Overdue amount of NTPC, the largest among all central public sector power generators

60 days
Time given by power producers to discoms for paying bills for the supply of electricity

908
The number of days Delhi takes to make payments to power generating firms

STATES WHERE DISCOMS ACCOUNT FOR THE MAJOR PORTION OF DUES TO GENCOS:
- Rajasthan
- Jammu and Kashmir
- Telangana
- Andhra Pradesh
- Karnataka
- Tamil Nadu

STATES IN ORDER OF THEIR RANKING IN TERMS OF DUES
- Rajasthan (881 days to make payments)
- Haryana (879 days)
- Tamil Nadu (877 days)
- Madhya Pradesh (866 days)
- Telangana (859 days)

'Digital payments revenue likely to grow at 11% over next six years'

ENS ECONOMIC BUREAU
MUMBAI, NOVEMBER 3

AS MUCH as 14 per cent of Indian banks' payments revenue, or \$9 billion, is likely to be displaced by the growth of digital payments and competition from non-banks, as payments become more instant, invisible and free, says an Accenture report.

Payments revenue in the country will likely grow at an annual rate of 10.7 per cent, from \$38 billion in 2019 to more than \$70 billion by 2025. "Only banks that change their business models to adopt the latest technologies and focus on providing value-added services to customers will capture a share of the \$32 billion in incremental revenue growth," the consultancy said in a report, based on a survey of 240 payments executives at banks across 22 countries.

"Global payments revenue in all markets surveyed will likely grow to more than \$2 trillion by 2025, creating a \$500 billion opportunity for banks in those countries," it said. Over next six years, banks will face further pressure on income from card transactions and fees, with free payments putting 8.4 per cent of payments revenue at risk in India, it added.

Competition from non-banks in invisible payments — where payments are completed in a 'virtual wallet' on a mobile app or device — will put 3.6 per cent of bank revenues at risk. "More than two-thirds (71 per cent) of the banking executives surveyed in all markets agree that payments are becoming free; nearly three-quarters (73 per cent) believe that most payments are already invisible or will become so over the next 12 months; and even more (78 per cent) said that payments are either already instant or will become instant over the next 12 months," the report said.

Nearly 18 per cent of respondents said the main priority for banks is to build security into retail payments transactions and 22 per cent cited artificial intelligence, robotics, machine learning and innovative payments hubs as the key platform technology capabilities they need to adapt their core systems to high-speed and continuous payment flows, it added.

'Led by India, South Asia could become centre of global growth'

Washington: Led by India, South Asia is moving towards becoming centre of global growth and could contribute about one-third of the world's growth by 2040, as per a research by International Monetary Fund (IMF).

Under a liberalisation scenario, supported by efforts to improve infrastructure and successfully harness South Asia's young and large workforce, the region could contribute about one-third of global growth by 2040, the paper 'Is South Asia Ready for take Off? A Sustainable and Inclusive Growth Agenda' by IMF states. **PTI**

'WILL TAKE MORE TIME TO AGREE ON A FINAL TEXT'

India will get opportunity to grow its exports: CII on joining RCEP bloc

ENS ECONOMIC BUREAU
NEW DELHI, NOVEMBER 3

INDIA WOULD be unable to gain preferential market access and will lose its export competitiveness if it holds out on signing the Regional Comprehensive Economic Partnership (RCEP) agreement, said an industry body Sunday. This would also lead to the country hindering its efforts to increase its integration into regional and global chains, it added.

"By being part of the bloc, India will get an opportunity to tap large and vibrant economies and grow its exports," said the Confederation of Indian Industry (CII) in a statement attempting to outline the cost of the country not being a part of RCEP. The statement comes in the run up to the RCEP Leaders' Summit in Bangkok on Monday, where India and 15 other nations in the trading bloc are expected to take a call on the future course of the proposed mega trade deal.

"Not being a part of the bloc is tantamount to not having an even footing in terms of preferential access and losing export competitiveness. This will only harm India's export and investment flow in the future," the body said.

RCEP — which contributed 30.8 per cent of global trade in 2017 — has the potential to become "one of the largest" trading blocs in recent times, CII added.

"In the RCEP negotiations, India has demanded significant deviation both in terms of lower tariff lines coverage and longer phasing-out period with regards to China," stated CII.

While members have made "significant progress" on the chapter of tariff modalities, it will take more time to agree on a final text that would satisfy all RCEP countries, it added.

CII president Vikram Kirloskar said, "A large section of Indian industry has expressed serious concerns about joining RCEP on the basis of a very genuine reasons ... However, any decision of joining an agreement of this size and magnitude must not be based on our concerns with regards to just one country."

BANKERS TELL SAUDI GOVERNMENT INVESTORS WILL LIKELY VALUE COMPANY AT AROUND $1.5 TRILLION

Saudi Aramco kick-starts IPO, offers scant details

RANIA EL GAMAL, MARWA RASHAD, SAEED AZHAR & DAVIDE BARBUSCIA
DHAHRAN, SAUDI ARABIA/DUBAI, NOVEMBER 3

SAUDI ARABIA'S giant state oil company finally kick-started its initial public offering (IPO) on Sunday, announcing its intention to float on the domestic bourse in what could be the world's biggest listing as the kingdom seeks to diversify its economy away from oil.

But in its long-awaited announcement, Aramco, the world's most profitable company, offered few specifics on the number of shares to be sold, pricing or the date for a launch.

Bankers have told the Saudi government that investors will likely value the company at around \$1.5 trillion, below the \$2 trillion valuation touted by Crown Prince Mohammed bin Salman when he first floated the idea of an IPO nearly four years ago.

Aramco also did not mention what measures it has taken to beef up security following unprecedented attacks on its oil plants in September. Sources have told *Reuters* the oil company could offer 1 per cent-2 per cent of its shares on the local bourse, raising as much as \$20 billion-\$40 billion. A deal over \$25 billion would top the record-breaking one of Alibaba in 2014.

"Today is the right opportunity for new investors to reap the benefits of Aramco's ability to achieve value, and boost it on the long-term," Aramco Chairman Yasir al-Rumayyan told a news conference at the company's headquarters in the eastern city of Dhahran.

The company will spend the next 10 days talking to investors and sounding out their interest

Amin H. Nasser, president and CEO of Saudi Aramco, and Yasser al-Rumayyan, Saudi Aramco's chairman, at a news conference at the Plaza Conference Center in Dhahran, Saudi Arabia, on Sunday. *Reuters*

and the price range will follow, he said. The IPO is designed to turbocharge Prince Mohammed's ambitious economic reform agenda by raising billions to build non-energy industries and diversify revenue streams.

Rumayyan said a decision on an international listing for Aramco shares will be made in the future, without giving a time frame or venue for the overseas listing. "Selling a small piece of Aramco in a captive market gives the KSA (Kingdom of Saudi Arabia) more control to prop the value of Aramco up over its fair value," said Gary Ross, CEO at Black Gold Investors.

Confirmation of the sale of shares in the oil giant, whose formal name is Saudi Arabian Oil Co, comes about seven weeks after the crippling attacks on its oil facilities, underlining Saudi Arabia's determination to push on with the listing regardless. Aramco said it does not expect the September 14 attack, which targeted plants at the heart of Saudi Arabia's oil industry and initially halved its production, would have a material impact on its business, operations and financial condition.

Aramco accounted for about one in every eight barrels of crude oil produced globally from 2016 to 2018, it said on Sunday.

Its net income for the third quarter of 2019 amounted to \$21.1 billion, according to *Reuters* calculations, dwarfing the income for the same period of oil giants like Exxon Mobil Corp , which was just over \$3 billion. Rumayyan said the valuation should be determined after the investor roadshow. CEO Amin Nasser told the same news conference that Aramco plans to release the prospectus on November 9. To help get the deal done, Saudi Arabia is relying on easy credit for retail investors and hefty contributions from rich locals.

"Whatever this local round achieves, with domestic players being strong armed into investing, international investors are still going to value this well below the expectations of (Crown Prince) Mohammed bin Salman," said Rory Fyfe, managing director at Mena Advisors. **REUTERS**

Jio writes to Prasad: COAI canvassing for going against SC order

ENS ECONOMIC BUREAU
NEW DELHI, NOVEMBER 3

Jio said any move to provide relief would be considered as loss to the public exchequer and will set a bad precedent

REITERATING ITS demand that no relief should be given to incumbent operators with respect to the Supreme Court's verdict on adjusted gross revenue (AGR), Jio said any move to provide relief would be considered as loss to the public exchequer. It will also set a bad precedent for other sectors.

In a letter to Communications Minister Ravi Shankar Prasad, Jio said any reduction in the financial liability of operators would in effect be rewarding them for their conduct in initiating frivolous and vexatious proceedings to delay payment of their just dues. It also said the Cellular Operators Association of India (COAI) is continuing to overlook its points of view, which indicate a deliberate and motivated agenda to only safeguard interests of two members: Airtel and Vodafone Idea.

Jio said "... in order to help its two select members get a financial windfall from the government, the COAI is in fact canvassing for going against the decision of the Supreme Court judgment."

The telco said the SC, in its October 24 order, clearly settled the base on which statutory levies such as telecom licence fee and spectrum usage charge have to be paid, and waiving of interest and penalty on due amounts of the past 14 years will be violative of the judgment. **FE**