HDFC Q2 net profit surges 61% to ₹3,962 cr as dividend income soars

OUR BUREAU
Mumbai, November 4

Housing Development Finance Corporation Ltd (HDFC) reported a 61 per cent jump in second quarter standalone net profit at ₹3,962 crore, against ₹2,467 crore in the year-ago period.

The bottom line was supported by a sharp rise in dividend income and profit on sale of investments, among others.

On the revenue side, interest income in the reporting quarter was up 10 per cent to ₹10,478 crore (₹9,495 crore in the year-ago period).

Dividend income skyrocketed to ₹1,074 crore (₹5.77 crore). Profit on sale of investment surged to ₹1,627 crore (₹891 crore) due to sale of 6.74 crore equity shares of face value ₹2 each of Gruh Finance Ltd.

On the expenses side, finance cost rose 11 per cent to ₹7,831 crore (₹7,045 crore). Provisions towards impairment of financial instruments jumped 88 per cent to ₹754 crore (₹401 crore). Keki Mistry, HDFC Vice-Chairman and CEO, attributed the profitability to better-than-expected growth in individual loan book, especially in the affordable housing segment, marginally higher spreads, stable net interest margin, and the sale of Gruh shares to comply with RBI requirement.

Scan & Share

The loan book increased by 12 per cent year-on-year to stand at ₹4,26,739 crore as of September-end 2019, with individual loans comprising 76 per cent of the assets under management, against 73 per cent as of September-end 2018.

The growth in the individual loan book, after adding back loans sold in the preceding 12 months, was 24 per cent (25 per cent in the year-ago period).

Total disbursement grew at a slower clip of 12 per cent vis-a-vis 17 per cent in the year-ago quarter.

Gross non-performing assets edged up to 1.33 per cent of the loan portfolio, against 1.13 per cent in the year-ago period.

The non-performing assets of the individual and non-individual loan portfolios nudged up to 0.73 per cent (0.66 per cent in the year ago period) and 2.87 per cent (2.18 per cent), respectively.

The corporation reported a 80 per cent jump in consolidated net profit at ₹10,389 crore in the reporting quarter, when compared to ₹5,759 crore in the corresponding quarter of the previous year.

Strong points HDFC witnessed better-than-expected growth in individual loan book, especially in the affordable housing segment; marginally higher spreads; and gains from sale of Gruh shares

RBI revises compensation guidelines for private bank CEOs, whole-time directors

Says compensation must include deferral arrangement in variable pay

OUR BUREAU
Mumbai, November 4

The Reserve Bank of India, on Monday, told private sector banks and foreign banks operating in India that the compensation of whole-time directors, chief executive officers and material risk takers should include deferral arrangement in the variable pay.

Malus arrangement

The deferred compensation should subject to malus/ clawback arrangements in the event of subdued or negative financial performance of the bank. This direction is part of the regulator's effort to reduce incentives towards excessive risk-taking that may arise from the structure of compensation schemes.

A malus arrangement permits the bank to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred. A clawback, on the other hand, is a contractual agreement between the employee and the bank in which the employee agrees to return previously paid or vested remuneration to the bank under certain circumstances.

In its guidelines on compensation of WTD/ CEOs/ MRTs and control function staff, the RBI said the fixed portion of their compensation has to be reasonable and that there should be proper balance between the cash and share-linked components in the variable pay.

The guidelines are aimed at reducing incentives towards excessive risk-taking that may arise from the structure of compensation schemes. All the fixed items of compensation, including perquisites, will be treated as part of fixed pay. Further, all perquisites that are reimbursable, should also be included in the fixed pay so long as there are monetary ceilings on these reimbursements. Contributions towards superannuation/retiral benefits will be treated as part of fixed pay. The variable pay can be in the form of share-linked instruments, or a mix of cash and share-linked instruments. Only in cases where the compensation by way of share-linked instruments is not permitted by law/ regulations, the entire variable pay can be in cash.

For senior executives, including whole-time directors, and other employees who are material risk takers (MRTs), deferral arrangements must invariably exist for the variable pay, regardless of the quantum of pay, the RBI said.

The deferral period should be a minimum of three years. This would be applicable to both the cash and non-cash components of the variable pay.

Wherever the assessed divergence in bank's provisioning for NPAs or asset classification exceeds the prescribed threshold for public disclosure, the bank shall not pay the unvested portion of the variable compensation for the assessment year under 'malus' clause.

IOB loss up five-fold at ₹2,254 cr in Q2

OUR BUREAU
Chennai, November 4

Indian Overseas Bank's (IOB) net loss for the second quarter shot up five times to ₹2,254 crore due to higher provisioning for bad loans. The bank had posted a net loss of ₹487 crore in the same quarter last year.

Provisions (other than tax) and contingencies increased by 49 per cent to ₹2,996 crore during the second quarter, against ₹2,017 crore recorded in the previous year.

"Taking provisions is always painful but if we take this temporary pain in September and December quarters, we will be able to come out very comfortably in March," said Karnam Sekar, MD and CEO, Indian Overseas Bank. He also said the bank may not have to make more provisions during the March quarter since it has already been providing for migratory provisions, shortfall in security provision, and various other required provisions until December 2019.

The bank, which is currently under the RBI's prompt corrective action (PCA) norms, is hopeful to exit it by March 2020. To achieve that, the bank seems to have adopted a dual strategy of frontloading bad debts provisions and increasing the pace of recovery.

Operating profit of the bank also fell by 43 per cent to ₹746 during Q2 FY20, against ₹1,304 crore registered in Q2 FY19.

"Our target is to bring the Net NPA (NNPA) to 6 per cent by December 2019 and, to do that, we need to reduce NNPAs by almost ₹4,500 crore in a single quarter," said Sekar. NNPA, as on September 30, 2019, currently stands at 9.84 per cent.

"In the whole of last year we recovered about ₹800-900 crore through one-time settlement (OTS) scheme, but in the first half of current financial year itself, we settled about ₹1,500 crore, of which, 20 per cent was received and the remaining 80 per cent (₹1,200 crore) will come in the next three months," said Sekar, adding that the bank is hopeful of recovering at least ₹3,000 crore in the third quarter.

He also added that bank will run a campaign for the next three months with a special OTS of up to ₹25 crore.

IOB's total income dropped by 6 per cent to ₹5,024 crore (₹5,348 crore), while interest income of the bank ₹4,276 crore (₹4,284 crore) during the comparable period.

To monetise non-core assets, Central Bank to sell investments in Cent Bank and Indo-Zambia Bank

K RAM KUMAR / SURABHI
Mumbai, November 4

Central Bank of India is planning to sell its investments lock, stock and barrel in subsidiary Cent Bank Home Finance and joint venture Indo-Zambia Bank, as part of its move to monetise non-core assets by March-end 2020.

The bank, which reported second consecutive quarter of net profit at ₹134 crore in the second quarter after posting 13 consecutive quarters of losses before the April-June quarter, is seriously looking at monetising its investment in the home finance company and the joint venture in Zambia, according to MD and CEO Pallav Mohapatra. "Discussions are on, valuations are being done, and I am keeping my fingers crossed to get the money by the end of the financial year. I do not have any amount in mind as valuations are on. It is work in progress," explained Mohapatra in an interaction with *BusinessLine*.

Central Bank of India wants to divest its 20 per cent stake in Indo-Zambia Bank to the other two Indian joint venture partners, who each hold 20 per cent stake. The Government of Zambia holds 40 per cent stake in the bank. "We will be exiting Cent Home Finance. In the case of Indo-Zambia Bank, our Indian partners will most probably continue. We want to exit, discussions are on. The preference will be that other two Indian JV partners take over from us," said Mohapatra.

Scan & Share

Central Bank of India will not divest its stake in subsidiary, Centbank Financial Services. This company essentially provides trusteeship services, including debenture/security trustee, executor trustee, and manages charitable trusts. As of March-end 2019, Cent Bank Home Finance's advances and deposits of stood at ₹1271 crore and ₹482 crore, respectively. The net profit of the company stood at ₹16.28 crore for the financial year 2018-19 against ₹16.84 crore in the previous year.

According to Central Bank of India's latest annual report, Indo-Zambia Bank's deposits increased by 24.21 per cent and advances by 34 per cent in calendar year 2018 over the previous year. The bank made a net profit of Kwacha 139.76 million (₹80.65 crore) for the calendar year 2018.

REGULATORY SANDBOX

RBI opens first cohort for retail payments

OUR BUREAU
Mumbai, November 4

The Reserve Bank of India, on Monday, announced the opening of the first cohort under the regulatory sandbox with retail payments as the theme.

Services to be considered

Mobile payments, including feature phone-based payment services, offline payment solutions through mobile devices, and contactless payments are some of the innovative products and services that will be considered for inclusion under regulatory sandbox.

"The adoption of 'retail payments' as the theme is expected to spur innovation in digital payments space and help in offering payment services to the unserved and underserved segment of the population," the RBI said in a statement, noting that digital modes of payments can cut down some of the cost associated with a cash economy while giving customers a "friction-free" experience.

Eligible entities can apply between November 15 and December 15 this year.

"It may be noted that the live testing of new products or services in a controlled environment may require a bank, NBFC or any other partner for the testing to commence," the RBI said, adding that in such cases, a suitable partner may be secured in advance to be eligible for admission to the regulatory sandbox.

The RBI had, in August this year, issued the final Enabling Framework for Regulatory Sandbox. Applicants can either be a company incorporated and registered in India, or banks licensed to operate in India. Further, financial institutions constituted under a statute in India, are also eligible.

"The objective of the regulatory sandbox is to foster responsible innovation in financial services, promote efficiency and bring benefit to consumers," it had noted.

RS usually refers to live testing of new products or services in a controlled or test regulatory environment, for which regulators may (or may not) permit certain regulatory relaxations for the limited purpose of the testing.

Must ensure better set-up for liquidity risk management: RBI to NBFCs

OUR BUREAU
Mumbai, November 4

The Reserve Bank of India has asked non-banking finance companies (NBFCs) to have a desirable organisational set up for liquidity risk management, formulate a contingency funding plan, and recognise the likely increased risk arising due to intra-group transactions and exposures (ITEs).

The aforementioned prescriptions come in the wake of the IL&FS debt default crisis last year and alleged diversion of funds at Dewan Housing Finance Corporation Ltd. These prescriptions are part of the RBI's guidelines on liquidity risk management framework for all non-deposit taking NBFCs with an asset size of ₹100 crore and above, systemically-important core investment companies, and all deposit-taking NBFCs irrespective of their asset size.

In the case of all non-deposit taking NBFCs with an asset size of ₹10,000 crore and above, and all deposit-taking NBFCs irrespective of their asset size, they are required to maintain a liquidity buffer in terms of liquidity coverage ratio, which will promote resilience of NBFCs to potential liquidity disruptions by ensuring that they have sufficient high-quality liquid asset (HQLA) to survive any acute liquidity stress scenario lasting for 30 days.

Bombay High Court asks RBI to list out steps taken to help PMC Bank depositors

PRESS TRUST OF INDIA
Mumbai, November 4

The Bombay High Court, on Monday, sought to know from the Reserve Bank of India what steps it has taken to protect the interests of depositors of the crisis-hit Punjab and Maharashtra Cooperative (PMC) Bank.

RBI restrictions

A division bench comprising Justices SC Dharmadhikari and RI Chagla was hearing a bunch of petitions filed by the bank depositors, challenging restrictions imposed by the central bank on withdrawals.

On September 23, the RBI imposed regulatory restrictions on the PMC Bank for six months over alleged financial irregularities. The withdrawal limit for account holders was initially ₹1,000 per each customer for six months, which was later raised to ₹10,000 and then to ₹40,000.

On Monday, the bench said it only wanted to know what the RBI was doing in the case. "The RBI knows all the affairs of the bank in question. The RBI is the bankers' bank and an expert body on such issues. We don't want to interfere and dilute your (RBI's) authority," the court said.

It said in such financial issues, the RBI will be the judge and not the court. It directed the RBI to file its affidavit and posted the matter for further hearing on November 19. The court refused to grant any interim relief in the matter.

Access to lockers

One of the petitioners sought direction to the RBI to permit depositors to access their lockers. The court, while refusing to pass any order, said: "The court cannot allow access. How can we or anyone prevent the RBI from taking action? If the RBI says 'stay away from the bank', then do so." It said the depositors could sue the bank if they wanted. The bench said by filing multiple petitions, lawyers should not give false hopes to depositors that the courts will help them.

Why YES Bank should not count its chickens before the eggs hatch

OPINION

ANDY MUKHERJEE

YES Bank has changed. In the past, the troubled Indian lender kept quiet rather than tell shareholders the truth about its bad loans. Now, under the new management, it can't stop talking about an impending rescue. If the former approach nearly destroyed the bank, this latest strategy is not going to help fix it.

In early September, CEO Ravneet Gill told Reuters that YES was in fairly advanced level of talks with a top global technology company for a stake sale. In an interview with PTI earlier this month, Gill said the white knight would be a tech firm, a deep-pocketed family office, a financial investor, or any two out of the three. In future, banks will become technology companies with a banking licence, he said.

Rescue offers

On Friday night, after reporting a September quarter loss, 50 per cent more than expected by analysts, Gill said the bank has $3 billion in rescue offers, led by a $1.2-billion binding bid from a North American family office that has not previously invested in India.

The other eager parties include a couple of Indian mutual funds and global buyout funds that have made a $1.5 billion overture, he said. Another consortium has shown up with a smaller $350 million offer.

Everyone wants a piece of YES Bank, it seems, except those tech suitors. They may not be able to participate immediately, according to media reports of what Gill is telling journalists now. And just like that, speculation that Microsoft Corp would invest has gone out of the window.

Gill's hurry to close fundraising by December is understandable: YES is skating on a dangerously thin layer of capital. Gross non-performing loans jumped to 7.4 per cent of total assets in September, from 5 per cent in June.

The Reserve Bank of India is already getting flak for neglecting supervision of a small cooperative lender and then trapping depositors by limiting withdrawals. The central bank won't take any chances not with YES losing 7 per cent of its deposits in one quarter.

Too slippery YES Bank is skating on a dangerously thin layer of capital, with gross non-performing loans jumping to 7.4 per cent of the total assets in September from 5 per cent in June

If the regulator puts the private sector bank into its correctional facility for wayward lenders, there will be limits on risk-taking. The value of the franchise to any potential investor will erode sharply.

So YES can't count its chickens before the eggs have hatched. Gill says he informed the local stock exchanges about the binding offer of $1.2 billion because it was price-sensitive information.

However, the disclosure had no details about how many shares will be sold and at what price. The bank's board is yet to weigh the plan. Regulatory approvals are far from certain.

What will the RBI do?

Will the RBI, which does not normally allow a single investor to own more than 10 per cent of a bank, make an exception to save YES? It did allow Canadian billionaire Prem Watsa's Fairfax India Holdings Corp to buy 51 per cent of a small private bank based in Kerala, the first time it had permitted a foreign investor to assume majority control. That lender, now known as CSB Bank, has nevertheless been instructed to do an IPO and dilute Watsa's stake. For YES, which is already listed, the approvals will be more complicated. The central bank will assess the suitability of the acquirer and the extent of its control. Beyond this, though, the Securities and Exchange Board of India, the stock market regulator, will have to bless the price at which new equity is sold.

A two-week average of high and low prices, the floor for an institutional placement, is a meaningless number for a stock whose trading volatility is currently off the charts.

What regulators seem to be missing or turning a blind eye to is that volatility is being amplified by half-baked disclosures.

News of the planned $1.2-billion rescue hit the market on the last Thursday of October, the day of expiry for monthly derivative contracts on the bank's stock. Bears got trapped by a near 24 per cent rise in YES shares. The very next day, the shares slumped 5.4 per cent, in anticipation of poor earnings.

If the previous management was guilty of hiding the lender's tattered asset quality, the new lot's premature hopefulness is thwarting orderly price discovery by giving rise to a cottage industry in loose talk. Last month, it was the turn of an Alibaba Group Holding-backed payments firm to buy YES Bank.

Speculation last week had DBS Group Holdings writing the cheque. The Singapore bank denied the rumour.

This everyday excitement is unhelpful. It would be nice to have YES' board approve a concrete fund-raising offer, one that has at least a reasonable chance of satisfying the regulators.

Then, Gill can talk about a rescue as much as he wants.

BLOOMBERG

Big central banks in 'wait-and-see' mode

REUTERS
Washington, November 4

Easing come. Easing go. A concentrated burst of interest rate cutting and other measures to loosen global financial conditions by the world's central bankers looks to have largely run its course, and policymakers now appear content to wait and see if their handiwork staves off a deeper slowdown in the months ahead.

> The Fed, the European Central Bank and the Bank of Japan are in no rush to drive rates any lower, especially in Europe and Japan, where they are already in the negative territory

Led by the US Federal Reserve's nearly year-long pivot away from a tightening bias, rate setters from Australia to Brazil and the euro zone to the Philippines have lowered borrowing costs in recent months to blunt the headwinds from global trade tensions headlined by the standoff between Washington and Beijing.

It is an easing wave that appears to have crested for now. For their parts, the big three in the central bankersphere – the Fed, European Central Bank and Bank of Japan – are in no rush to drive rates any lower, especially in Europe and Japan where they are already in negative territory.

The Fed last week cut rates for the third time since July, but officials emerged from the meeting with a near-explicit declaration to expect no more for the moment. In Europe, meanwhile, a changing of the guard at a deeply divided ECB likely means that its September rate cut will not be followed in the near future, with their focus instead being on jawboning the trading bloc's political leaders to step up their own efforts at stimulus.

In Japan, a BoJ weary of expending its limited ammunition has so far avoided cutting rates at all in the latest global wave. It would prefer to hold fire for as long as possible, relying instead of pledges of more accommodation in the future should it be needed.

And in the developing world, the pace of easing has slackened notably from a crescendo reached in August, although October marked the ninth straight month of net rate cuts by emerging market central banks.