## QUICKLY

### ICICI to open 450 branches in FY20

Kolkata, November 5

ICICI Bank will open a total of 450 branches across the country in 2019-20 to expand its footprint, and 14 of those new branches will be in West Bengal. With 385 new branches opened so far this fiscal, ICICI Bank now has a wide retail network of nearly 5260 branches across the country, the bank said on Tuesday. Of the new branches in West Bengal, four are in rural areas – Andul, Char Maijdia, Matigarahat and Panagar. Other branches have been opened in locations such as Kolkata, Bidhannagar and Jhargram. With this expansion, the bank now has a network of 248 branches and extension counters in West Bengal, along with 615 ATMs. PTI

### Rupee rises 8 paise against dollar

Mumbai, November 5

The rupee gained 8 paise to close at a fresh five-week high of 70.69 against the US dollar on Tuesday, following foreign fund inflows and gains in Asian peers after the Chinese central bank cut interest rates. The rupee opened lower at 70.80 per US dollar, compared to the previous close of 70.77 at the interbank foreign exchange market. Later, it recovered some lost ground and moved in a range of 70.65 and 70.81 in afternoon trade before concluding at 70.69, showing a rise of 8 paise. The dollar index, which gauges the greenback's strength against a basket of six currencies, rose 0.07 per cent to 97.57. Brent crude futures, the global oil benchmark, surged by 1.17 per cent higher at $62.86 per barrel. PTI

# PNB reports ₹507-crore net profit in Q2

OUR BUREAU

New Delhi, November 5

Delhi-headquartered Punjab National Bank, on Tuesday, reported a net profit of ₹507 crore for the three-month period ending September 30. On a year-on-year basis, the corresponding quarter of the previous fiscal saw a loss of ₹4,532 crore; however, on a sequential basis, the net profit is down by nearly 50 per cent as it was ₹1,018.63 crore in the first quarter (April-June period of FY19).

Talking about the bank's performance, Managing Director and CEO, SS Mallikarjuna Rao, said net profit is down on a sequential basis due to provisioning for bad loans. During the quarter, the bank availed dispensation for deferment of provision in respect of frauds amounting to ₹2,580.72 crore. Accordingly, ₹645.19 crore was charged to the profit-and-loss account during the quarter, and ₹1,935.53 crore was deferred to the subsequent quarter.

The bank's net non-performing asset (NPA) ratio at the end of September 30 was 7.65 per cent. The bank also apprehends fresh slippage of more than ₹7,000 crore during the second half of the current fiscal. Still, Rao said, net NPA will be below 6 per cent by March 2020.

Gross non-performing assets accounted for 16.76 per cent of the gross advances at the end of September, which is lower than 17.16 per cent a year ago. Provisions for bad loans sharply declined to ₹3,253.32 crore in the quarter, against ₹7,733.27 crore in July-September 2018. The bank's total income during July-September quarter rose to ₹15,556.61 crore, against ₹14,035.88 crore in the same quarter last year, the bank said. PNB's non-interest income during the quarter shot up 32.5 per cent to ₹2,264.7 crore, and pre-provision operating profit grew 25.4 per cent to ₹3,562 crore compared to the same period last year. Net interest income during the July-September quarter increased 7.3 per cent year-on-year to ₹4,263.8 crore, with credit de-growth of 0.7 per cent on a year-on-year basis.

Scan & Share

## Dismal performance raises concerns over impending merger

### Q2 COMMENT

RADHIKA MERWIN

BL Research Bureau

Punjab National Bank, which has reported a rise in bad loans, elevated provisioning and weak core performance in the latest September quarter, could have been passed off as yet another bank, among many others, witnessing a rough quarter. But the fact that PNB is the anchor bank in the proposed merger with OBC and United Bank raises grave concerns over its persisting weak finances, and its ability to shoulder the impeding merger with weaker banks.

Aside from the headline numbers that paint a dismal picture, it is the looming pressure on earnings that needs more attention.

In the latest September quarter, PNB's bad-loan book went up to ₹79,458 crore from ₹77,267 crore in the previous June quarter. While provisions on bad loans also moved up sequentially (51 per cent) impacting earnings, the performance would have been much worse, had the bank not deferred provisions in respect of frauds and adoption of the new corporate tax rate regime.

About ₹2,284 crore of provisions for certain frauds have been carried forward to the coming quarters.

Importantly, the bank has not moved to the new corporate tax rate regime. If and when it does, the adjustment (write-down) on its deferred tax asset (DTA) can be substantial, leading to a sharp one-time impact on profit.

PNB, which reported a marginal profit of ₹507 crore in the September quarter, could well have slipped into the red, had some of these provisions and write-downs been taken into account during the quarter.

After reporting a steep ₹12,282 crore of loss in FY18 and a near ₹10,000 crore loss in FY19, PNB has clawed back into the black in the first half of the current fiscal. But the profits are modest and can erode in the coming quarters.

For one, with a huge bad-loan book of about ₹79,000 crore, provisioning will continue to remain elevated, even if slippages moderate. Two, the bank has made use of dispensation for deferment of provisions in respect of frauds.

Already the bank had an unamortised amount of ₹718 crore under this head, up to the June quarter, which was to be carried forward in the coming quarters, including the September quarter.

The bank, in the latest September quarter, has declared additional provisions of ₹2,580 crore in respect of frauds; a part of this has been charged to P&L during the quarter, while the rest has been carried forward to the coming quarters. Also, following the adoption of change in corporate tax rate, the bank will have to remeasure the balance of net DTA, which could result in a sharp write-off.

#### Capital conundrum

PNB had a weak CET1 capital ratio of 6.35 per cent in the June quarter. This went up notably to 10.9 per cent in the latest September quarter due to two rounds of capital infusion by the Centre in September amounting to ₹16,000 crore.

The infusion is part of the Centre's proposed merger plan, which seeks to infuse about ₹16,000 crore into the combined entity of PNB, OBC, and United Bank.

Given the weak state of affairs at OBC (GNPA at 12.5 per cent) and United Bank (GNPA at 15.5 per cent), it needs to be seen if the capital infused so far would be sufficient.

# MSTC, Allahabad Bank tie up to develop e-auction platform

OUR BUREAU

Mumbai, November 5

MSTC has signed an agreement with Allahabad Bank to develop a dedicated e-auction platform directly linked with the Indian Banking Association's portal (https://ibapi.net) for sale of non-performing assets through the SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest) Act.

"The e-auction platform will be a one-of-a-kind solution, where a bidder once registered, will be able to participate in auctions for all banks. This move will help banks monetise NPAs through a streamlined process, thereby increasing revenue generation," said MSTC in a regulatory filing.

MSTC is a Kolkata-based Central Government company engaged in domestic and international trading. It specialises in the international trade of ferrous input materials, and has imported millions of tonnes of ferrous melting scrap, old ships for breaking, sponge iron, hot briquetted iron, re-rollable scrap, among others.

The company also undertakes marketing of ferrous and miscellaneous scrap arising from integrated steel plants, engineering companies and refineries, among others.

# RBI raises withdrawal limit for PMC depositors to ₹50,000

OUR BUREAU

Mumbai, November 5

The Reserve Bank of India has upped the withdrawal limit by ₹10,000 for the distraught depositors of scam-hit Punjab and Maharashtra Bank Co-operative (PMC) Bank. The new withdrawal limit is now ₹50,000 of the total balance in their accounts.

#### Bank's liquidity position

To ease the process of withdrawal, the RBI has allowed the depositors to withdraw from the bank's own ATMs within the prescribed limit of ₹50,000.

The RBI, in a statement, said the decision to further enhance the limit for withdrawal to ₹50,000, inclusive of ₹40,000 allowed earlier, was taken after reviewing the bank's liquidity position and its ability to pay its depositors.

This is the third time the withdrawal limit has been increased since the bank was put under directions from the close of business on September 23.

With the latest relaxation, more than 78 per cent of the depositors of the bank will be able to withdraw their entire account balance, the RBI said in a statement.

The central bank said it is closely monitoring the position, and will continue to take further steps to safeguard the interest of the bank's depositors.

The Reserve Bank of India said it will continue to take further steps to safeguard the interest of PMC Bank's depositors

According to the central bank, the financial position of the bank has been substantially impaired due to fraud perpetrated on it by certain persons.

The bank reportedly has a huge single-party exposure of almost two-thirds of its total loan book to the bankrupt HDIL Group, which stopped servicing the loans a couple of years back.

In a statement on October 14, the RBI said: "As soon as the matter came to the notice of Reserve Bank of India, action was taken in appointing an administrator and ensuring that the bank's available resources are protected and not misused or diverted.

"Meanwhile, based on a complaint filed by the bank against its officials and borrowers associated with the fraud/financial irregularities in the bank and manipulation of its books of accounts, the Economic Offences Wing, Maharashtra Police, has started its investigations into the matter."

Further, forensic auditors have been appointed by the administrator of the bank and are looking into the related transactions.

The administrator, and the three-member advisory committee appointed by the RBI, are working for speedier resolution of the various issues being faced by the bank in conducting its operations.

Depositors have hit the streets to get their money back, holding protests in front of the RBI's main office as well as Bandra-Kurla Complex office in Mumbai ever since the bank got into trouble.

# Central Bank to reduce NPAs by selling bad loans to ARCs

K RAM KUMAR / SURABHI

Mumbai, November 5

THE BL INTERVIEW

**Central Bank of India hit a purple patch in the last couple of quarters after posting 13 quarters of losses on the trot. Pallav Mohapatra, MD and CEO, says the bank is grinding down its bad loans portfolio by focussing more on sale to asset reconstruction companies (ARCs). The public sector bank is employing the 'Swiss Challenge' method for such sales, so that it can realise better price through counter bids for stressed assets. Now that Central Bank has turned the corner, Mohapatra, in an interaction with *BusinessLine*, said the bank, which is currently under the Reserve Bank of India's prompt corrective action, could rake in a net profit of ₹1,000 crore in FY2020 and ₹2,000 crore in FY2021. Excerpts**

**How did the bank turn the corner?**

In the last one year, we undertook transformational measures. We focussed on reducing the stress through resolution and recovery process. So, we came out with an objective one-time settlement (OTS) scheme for stressed assets up to ₹10 crore. There was another scheme (for larger stressed assets) based on the net present value (NPV), which explored the five options for recovery/ resolution – National Company Law Tribunal (NCLT), sale to ARCs, OTS, SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act) action, and Debts Recovery Tribunal. So, we were able to get some good recovery.

We focussed more on sale to ARC under the Swiss Challenge method. Why this is better than an open auction is that there is already a binding offer by one investor who is working through an ARC, and then we put that under the Swiss Challenge for the counter-bid. Through this process, in March, we were able to sell four assets – Bhushan Power and Steel, Alok Industries, Jayaswal Neco and Bombay Rayon – which were in NCLT, and we got an uptick on the NPV. So, the recovery position in the fourth quarter of FY19 was quiet significant. Even in the first quarter we sold a road project, also under the Swiss Challenge method. In the second quarter, we were in discussions with the investors. So, some sale will be fructifying this month itself, and in the third quarter we will again see a good amount coming in.

*What we strongly believe now is that instead of earning a high spread on low quality (exposure), it is better to earn a lower spread on better quality*

PALLAV MOHAPATRA

MD and CEO

Central Bank of India

The other thing that we did is to engage with resolution firms on a success-based incentive for getting resolution or recovery.

**How did you manage to contain slippages?**

The system that we have put in place is that from the beginning of the first month of the quarter, every week those accounts that are in the special mention account (SMA) category (accounts showing signs of incipient stress), where the interest is falling due, we send this (information) to the field so that they can start recovery.

So, by focussing on SMAs, we are trying to control fresh slippages. So, our slippage ratio in this quarter has come below 1 per cent. And even on the credit cost, since adequate provision has already been made and additional slippages is low, the credit cost is also coming down.

Now, to prevent the accounts from slipping, we have strengthened our appraisal and risk parameters. What we strongly believe now is that instead of earning a high spread on low quality (exposure), it is better to earn a lower spread on better quality.

**Can you sustain the profitability?**

Yes. We have a provision coverage ratio of 77 per cent. If we are able to do resolution or recovery in the stressed asset cases, to that extent there will be a write-back of the provisions.

We will get that amount in the profit-and-loss account. When we are building up quality in the loan book, slippage should be contained. And in the second half our loan book will grow (in the first half there was a degrowth) because our pricing is one of the lowest in the market, even as we are maintaining quality.

For example, in the case of home loans, the pricing is 8 per cent for the low-risk customer. No bank in the industry gives home loans at 8 per cent. We will not charge processing fee up to March 31. A home buyer taking a loan looks at two things – pricing and turnaround time. We did a bit a restructuring so that the turnaround time also improves.

**Your non-performing asset level still seems to be higher?**

Both gross NPA and net NPA have not come down and are almost flattish. This is basically because of the denominator as the loan book has shrunk. If the loan book was at the level of September 2018, the GNPA percentage would have come down to at least 16 per cent and net NPA below 7 per cent...By the end of FY2020 GNPA will be around 15 per cent and net NPA below 6 per cent.

# Cholamandalam posts ₹307-crore profit in Q2

OUR BUREAU

Chennai, November 5

Murugappa Group's NBFC, Cholamandalam Investment and Finance Company Ltd (CIFCL), has announced that Arun Alagappan has been elevated as the Managing Director of the company. He has been serving as Executive Director at Cholamandalam from August 19, 2017. The company's board, at a meeting on Tuesday, approved the appointment of Alagappan for five years effective November 15.

The company's net profit for the quarter ended September 30, 2019, grew marginally to ₹307 crore, when compared to ₹305 crore in the year-ago quarter. Profit before tax grew 14 per cent to ₹523 crore, when compared to ₹460 crore. Total expenses were higher at ₹216 crore against ₹155 crore in the year-ago quarter. Total income from operations stood at ₹2197 crore, against ₹1,676 crore, posting a growth of 31 per cent.

Total disbursements saw an increase of 7 per cent at ₹7,381 crore (₹6,899 crore). It disbursed ₹5,796 crore in vehicle business, against ₹5609 crore in a year-ago period, an increase of 3 per cent, mainly due to the stagnation in the industry volumes during the September 2019 quarter.

Arun Alagappan, who has been elevated as the NBFC's Managing Director

"We were able to register a growth of 7 per cent in our disbursements in spite of the severe slowdown in the market.

"In vehicle finance, since there was slow down in commercial vehicle space, we increased our focus on the refinance and passenger vehicle segments to sustain growth momentum. We are positive on the outlook for the rest of the year," said Alagappan.

# NBFC impact: What is the RBI's new liquidity framework all about?

## ANALYSIS

RADHIKA MERWIN

BL Research Bureau

The IL&FS crisis and the subsequent Dewan Housing Finance Company (DHFL) debacle have triggered much wider concerns over the liquidity problem at non-banking finance companies (NBFCs) over the past year.

#### Structural issues

In a bid to address some of the structural issues that came to light on the asset-liability front, the RBI had, in May, proposed guidelines on the liquidity risk management framework for NBFCs.

On Monday, the RBI issued the final guidelines on the liquidity framework, which will help restore confidence in the sector over the long term.

The impact of these norms in the near term would, however, vary across players, depending on their existing asset-liability mismatch and liquidity situation.

The RBI's final guidelines on the liquidity framework for NBFCs have only minor tweaks from the draft guidelines issued in May.

Essentially, the timeline for the implementation of the norms, has been extended (earlier, it was April 2020 onwards; now it applies from December 2020).

For smaller non-deposit taking NBFCs, there is a little more leeway on the implementation. That aside, the broad guidelines remain the same as proposed earlier.

The liquidity framework is applicable to all non-deposit-taking NBFCs with an asset size of ₹100 crore and above, systemically-important core investment companies, and deposit-taking NBFCs, irrespective of their asset size.

The first key norm is on the maturity buckets for cash flows and tolerance limit. The RBI has broken up the up to one-month bucket into smaller buckets and set tolerance limits for mismatches. The first 30-day bucket has been divided into 1-7 days, 8-14 days and 15-30 days, and the net cumulative negative mismatches should not exceed 10, 10 and 20, respectively, of cumulative cash outflows.

Scan & Share

The second key aspect of the liquidity framework is the introduction of liquidity coverage ratio (LCR). The main objective of the LCR is to ensure that NBFCs maintain sufficient liquid assets to meet obligations in a 30-day stress scenario.

NBFCs will be required to maintain a stock of liquid assets equal to 100 per cent of total net cash outflows over 30 days. This will be implemented in a phased manner.

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, have to maintain LCR at 50 per cent starting from December 2020, increasing progressively by 10 per cent every year until December 2022 (70 per cent); 85 per cent by December 2023, and 100 per cent by December 2024.

The RBI framework will help bring in better discipline and structure in the management of liquidity among NBFCs

For all non-deposit-taking NBFCs with asset size between ₹5,000-10,000 crore, the LCR requirement will start at 30 per cent in December 2020 and reach 100 per cent by December 2024. From a long-term perspective, the RBI's liquidity framework will help bring in better discipline and structure in the management of liquidity among NBFCs. Remember, the aggressive growth over the past few years, increasing overreliance on short-term funds, and wide asset-liability mismatches — had impacted the NBFC sector.

Wide mismatches in the short term — up to six months to one-year bucket — had hurt many NBFC players.

In the near term, the impact could vary across players. For larger NBFCs that already have a good ALM profile, the impact of the new norms would not be significant.

Many players also maintain an ample liquidity buffer (in the form of liquid investments or undrawn credit lines from banks) and, hence, complying with the LCR requirement may not be difficult. Post the crisis, many listed NBFCs sport a healthier ALM profile than in FY18.

#### Comfortable for NBFCs

Cholamandalam Investment and Finance Company has a well-matched asset-liability balance, with no cumulative negative mismatches in the less than one-year bucket as of September 2019. Bajaj Finance also has a favourable ALM, with substantial positive gaps (inflows less outflows) across time buckets, as of September 2019 quarter. The company's relatively shorter tenure on loans also helps. The company has consolidated free cash and equivalent of ₹7,978 crore as of September.

Shriram Transport Finance, too, has a well-diversified funding mix. The annual report for FY19 suggests that its ALM position is sound, with cumulative positive gaps across all maturity buckets. For Mahindra & Mahindra Financial Services, too, the ALM is well-matched, with cumulative positive gaps as of September 2019. Sundaram Finance is also comfortably placed on the liquidity front.

While for now, these guidelines apply to NBFCs, the liquidity norms are also likely to become applicable for housing finance companies soon. Market leader HDFC's diversified funding base and superior credit ratings are key positives.

For CanFin Homes, according to ICRA, the company has as an adverse ALM profile, given the long-term nature of home loans. But the company enjoys substantial undrawn overdraft facility from banks, including the parent bank, which can be utilised, if needed.

The company (according to its presentation) expects to have a surplus of ₹1,300-1,700 crore over the next three quarters. The liquidity buffer mitigates the concerns on ALM to some extent.

# CreditAccess finalises terms of ₹214-crore NCD issue

OUR BUREAU

Mumbai, November 5

The executive, borrowings and investment committee of CreditAccess Grameen, on Tuesday, finalised the terms of issue of NCDs aggregating ₹214 crore to Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden NV (FMO) on preferential basis.

The NCDs of ₹10-lakh each are unlisted, unrated, senior secured, redeemable and transferable, said the microfinance institution. CAGL focusses on providing micro-loans to women customers, predominantly in rural areas.

The company operates in 213 districts in 13 States – Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, Gujarat, Rajasthan, Uttar Pradesh, Bihar, and Jharkhand, and also in Puducherry.