

17 ECONOMY

SENSEX: 40,239.88 ▼ 247.55 NIFTY: 11,856.80 ▼ 80.70 NIKKEI: 23,410.19 ▼ 20.51 HANG SENG: 26,436.62 ▼ 58.11 FTSE: 7,156.85 ▼ 77.05 DAX: 12,918.01 ▼ 187.60

GOLD

₹38,460

RUPEE

₹70.92

OIL

\$64.84

SILVER

₹44,607

*Indian basket as on December 9, 2019

*International market data till 1900 IST

SBI under-reported NPAs by ₹11,932 cr; FY19 loss would be ₹6,968 crore: RBI

ENSECONOMIC BUREAU
MUMBAI, DECEMBER 10

STATE BANK of India (SBI), India's largest lender, has under-reported its bad loans, or non-performing assets (NPAs), by Rs 11,932 crore for the fiscal ended March 31, 2019 as per an assessment done by the Reserve Bank of India (RBI). After taking into account the divergence and additional provisioning, the bank would have made a loss of Rs 6,968 crore in the year, the RBI said.

As per the RBI's final Risk Assessment Report (RAR), SBI's gross NPAs should have been higher by Rs 11,932 crore at Rs 1,84,682 crore as against Rs 1,72,750 crore for 2018-19, the bank said in a filing. Similarly, the net NPA should have been Rs 77,827 crore as compared to the disclosed figure of Rs 65,895 crore, reflecting a divergence of Rs 11,932 crore, it said.

While the provisions reported by SBI for fiscal 2019 was Rs 106,856 crore, the RBI said it

should have been Rs 1,18,892 crore. The additional provision to be made by SBI works out to Rs 12,036 crore. After making this additional provisioning of Rs 12,036 crore in the balancesheet, the bank would have made a loss of Rs 6,968 crore for the year. SBI had posted a profit of Rs 862 crore for 2018-19 in May this year.

As per SBI, after subsequent slippage or upgradation during the current financial year, the remaining impact on the gross NPAs in the third quarter of current fiscal is Rs 3,143 core. The impact on provisioning in the third quarter stood at Rs 4,654 crore, it said. SBI shares declined by around 1 per cent to Rs 313.45 on the BSE on Tuesday.

There have been several instances of under-reporting of bad loans by banks, prompting regulatory action by the Reserve Bank of India. The RBI had recently linked CEO compensation to NPA under-reporting. In its guidelines on compensation of directors and CEOs of banks, the RBI said, "wherever the assessed divergence in

EXPLAINED

New RBI, Sebi norms to act as deterrent

BANKS, WHICH are saddled with huge bad loans, have been hiding such loans to show higher profits using various methods like evergreening of loans.

Despite RBI and Sebi tightening disclosure norms, lenders have been under-reporting bad loans. With the RBI linking under-reporting to CEO's pay and Sebi asking banks to report such divergence to the bourses within 24 hours, such practices are expected to come down in the future.

bank's provisioning for NPAs or asset classification exceeds the prescribed threshold for public disclosure, the bank should not pay the unvested portion of the variable compensation for the assessment year under 'malus' clause." Several private banks had reported governance issues and suppressed non-performing assets to artificially show better performance even as their CEOs got higher pay packages year after year.

In November this year, market regulator Sebi had directed all listed banks to disclose any divergence in bad loan provisioning within 24 hours of receiving RBI's risk assessment report, rather than waiting to publish the details in their annual financial statements. In a circular, Sebi noted that disclosures in respect of divergence and provisioning are in the nature of material events and hence necessitate immediate disclosure. Further, this information is also price sensitive, requiring prompt disclosure by a listed entity.

Accordingly, the regulator has

decided that "listed banks shall make disclosures of divergences and provisioning beyond specified threshold, as mentioned in aforesaid RBI notifications, as soon as reasonably possible and not later than 24 hours upon receipt of the Reserve Bank's Final Risk Assessment Report (RAR), rather than waiting to publish them as part of annual financial statements". The Sebi had stepped in for more disclosures after investors suffered losses when NPA under-reporting by banks led to erosion in market valuations.

Central Bank of India has reported an increased net loss of Rs 6,430.48 crore for 2018-19 due to NPA divergence after assessment of higher bad loans by the RBI. The bank reported Rs 11,333.24 crore net NPAs during the year, while the RBI assessed it at Rs 13,898.24 crore, leaving a gap of Rs 2,565 crore. Indian Bank reported a divergence of Rs 820 crore in its net NPAs for 2018-19, while Union Bank of India reported divergence of Rs 998.70 crore.

FM says RBI had no objection to electoral bonds issuance by SBI; documents point otherwise

UDIT MISRA
NEW DELHI, DECEMBER 10

ON TUESDAY, replying to a question in Rajya Sabha raised by DMK's Tiruchi Siva about what the Reserve Bank's "indirect" approval to the issuance of electoral bonds meant, Finance Minister Nirmala Sitharaman said: "RBI, being a stakeholder, was involved in the consultation process and during the consultation process, they had certain questions to ask about the particular platform of issuance as to who is going to issue it and also the proforma with which it is going to be issued. These consultations were recorded, but, at the end of it, as long as the bonds were going to be issued by the State Bank of India, they did not have an objection. So, when said 'indirectly', it meant, subject to that".

However, documents accessed through RTI by transparency activist Anjali Bharadwaj, show that — far from being just "involved in the consultation process" — the

It is unclear why the government initially assured the RBI that RBI "alone" will issue electoral bonds as it could not do so under Section 31(3) of RBI Act

government had for the longest time assured the RBI that the central bank "alone" would issue the bonds. However, the RBI could not issue electoral bonds. This was because of the amendment to the RBI Act, which added a new Section 31(3), in February 2017, which allowed the government to authorise only "scheduled banks" to issue electoral bonds.

But RBI is not a scheduled bank and could not legally issue bonds under Section 31 (3). As early as August 5, Prashant Goyal, (the then joint secretary, DEA) had noted this fact. In reply, SC Garg, the then Secretary, DEA, agreed

that for RBI to issue electoral bonds "might be legally difficult". Yet, in repeated letters (on September 21 and 29 later that year) Garg assured Patel writing "I, with approval of the Finance Minister, convey ... (that) RBI's suggestion on issuance of Electoral Bonds by RBI alone... had been accepted by Government earlier". These letters downplayed the "inclusion of any Scheduled Bank in the draft scheme", claiming that such inclusion "is intended only as an enabling provision".

It is unclear why the government initially assured the RBI that the central bank "alone" will issue electoral bonds when the government knew all along that RBI could not issue such bonds under the newly added Section 31(3) of the RBI Act.

The significance of issuing electoral bonds under Section 31(3) is that the donors get the benefit of anonymity only under this Section.

Emailed queries to both the RBI and Garg went unanswered.

SECTOR WATCH PHARMACEUTICAL

Day after key diabetes drug goes off patent, 20 generics send prices down by up to 70%

PRABHARAGHAVAN
NEW DELHI, DECEMBER 10

AS POPULAR diabetes drug 'vildagliptin', marketed by Novartis here as 'Galvus', has gone off-patent in India, its price is expected to have dropped as much as 70 per cent with the introduction of cheaper copies.

While experts expect the development to improve patient access, some add the impact may not be as substantial as portrayed.

Vildagliptin, which belongs to a class of drugs called DPP-4, was first launched in the country in 2008 for the treatment of type-2 diabetes.

Today, vildagliptin, in combination with metformin, is the second-largest gliptin by market size after the sitagliptin-metformin combination. The drug is usually prescribed to be taken twice a day.

Once a drug's patent expires, the firm with the patent loses its rights to exclusively market the formulation in the country, allowing other companies to enter the market with cheaper versions of the formulation known as 'generics'.

Over 20 firms launched generic versions of vildagliptin and the vildagliptin-metformin combination on Tuesday, said industry analysts.

This includes firms like Zydus Cadila, expected to have launched Vinglyn (vildagliptin) and Vinglyn M (vildagliptin-metformin) and Eris Lifesciences, which had earlier this month announced the acquisition of the trademark for vildagliptin brand Zomelis from Novartis for a "head-start" over other generics. Panacea Biotech on Tuesday told the BSE that it had launched its generic brands ViLACT and ViLACT M.

India may see over 50 new brands launched in this space in the coming days, said Karishma Shah, founder and director of Pronto Consult.

Several companies have been scrambling for a piece of the vildagliptin market over the last few months, with the National Pharmaceutical Pricing Authority receiving applications from as many as 14 companies to fix the retail prices of their vildagliptin-metformin combinations in October. The prices for these combinations were set between Rs 6 and Rs 24 per tablet, depending on the strength of metformin and the company.

"The current price, which was around Rs 20-22 per tablet is set to see low prices as seen with Vinglyn at Rs 4.95 per tablet (for only vildagliptin)

Vildagliptin, which belongs to DPP-4 class of drugs, was launched in India in 2008 for treating type-2 diabetes

from Zydus and Vilgript at Rs 6.50 per tablet from Vitabolik Pharmaceuticals," said Hari Natarajan, founder and MD, Pronto Consult.

At the same time, doctors expect the price drop to have a marginal impact on improving access. "This drug will be more accessible to the middle class and lower-middle class population but, even when the patent was there, there were enough cheaper alternatives ... I expect the number of patients benefitting from this to be minuscule because the price is not dropping to an insignificant value," said Shashank Joshi, senior consultant-endocrinologist, Lilavati Hospital.

"Drugs like sitagliptin, linagliptin, alogliptin and saxagliptin have documented cardiac safety trials, which vildagliptin does not have. Because of the cost of vildagliptin coming down, there may be a pressure on all evidence-based gliptins (to reduce its price)," he added.

"Gliptins are an important class of medication, but all of them are equally effective and there have always been cheaper gliptins like teneeligliptin already available in the market. Bringing the cost down will not make much difference, at least to my practice," said Richa Chaturvedi, senior consultant-endocrinologist at Indraprastha Apollo Hospital.

"Most people with diabetes require several medicines apart from antidiabetic medicines, like blood pressure or cholesterol lowering medicines and certain vitamins. If the cost is not substantially low, there is no point prescribing this drug because it hasn't proven itself to be substantially safer than the other gliptins," she added.

The vildagliptin and vildagliptin-metformin market, valued at over Rs 900 crore in November 2019, accounts for roughly a fourth of the over Rs 3,500-crore gliptins market, as per data from AIOCD Awacs PharmaTrac.

"We will continue to serve people living with diabetes through the innovator molecule in India, Galvus. We will not be able to share our strategy as that is confidential information," said a Novartis spokesperson.

'NBFCs to look for growth opportunities in offshore markets'

RESTRICTED ACCESS
The rating agency expects offshore access to be restricted to larger entities with stronger credit fundamentals

INDIA'S WEAKER macroeconomic backdrop is likely to add to the existing funding, growth and asset-quality strains weighing on NBFCs

THE OFFSHORE route will allow better-placed NBFCs to diversify funding sources after volatile liquidity conditions over the past year

India's non-banking financial companies will look increasingly to offshore financing as local funding conditions may stay under pressure, Fitch Ratings said

FUNDING CONDITIONS within the domestic market will remain relatively tight for NBFCs overall, notwithstanding some improvement since the failure of IL&FS in late 2018

WHOLESALE LENDERS are more at risk of asset impairments, especially those exposed to property-developer financing and loans against property
Source: PTI

Gloom in passenger vehicle sales returns after festivities fizzle out

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 10

THE REVIVAL in domestic sales of passenger vehicle in the festive month of October, turned out to be a blip as the sales of passenger vehicles in November declined again, thereby continuing with the broader trajectory seen over the last 12 months. Sales of passenger vehicles — considered a proxy for urban demand — fell 0.84 per cent in November over the corresponding period last year.

Data released by the Society of Indian Automobile Manufacturers shows that the aggregate sales of all vehicles declined 12.05 per cent in November.

While sales of passenger cars fell 10.83 per cent, utility vehicles continued to buck the trend with a growth of 32.7 per cent in sales primarily driven by continued demand for the vehicles and several new launches in the segment. In

the eight month period between April and November 2019 the sales of passenger cars declined 17.98 per cent even as sales of utility vehicles rose by 3.83 per cent in the same period.

Sales of commercial vehicles continued their slide falling by 14.98 per cent. Within that the sales of medium and heavy commercial vehicles (M&HCVs) witnessed a de-growth of 32.8 per cent whereas the light commercial vehicles witnessed a decline in sales of 5.42 per cent. This indicates the slowdown in the industrial activity within the country.

Two wheelers that are considered as the barometer of demand in the rural economy also continued to witness a dip in demand. The sales of two wheelers in November fell 14.27 per cent in November.

In the eight month period the sales of CVs and two wheelers have registered a de-growth of 22.12 per cent and 15.74 per cent respectively.

It is, however, important to note that while the de-growth continues for the sector, the pace of decline has softened over the last couple of months. In September, while sales of PVs fell 23.7 per cent, that of commercial vehicles and two wheelers dropped 39 per cent and 22 per cent respectively.

In line with the fall in demand, the production of vehicles too has been on a decline. While the production of all vehicles fell 1.41 per cent in November to 23.36 lakh, it was led by decline in production of passenger cars, M&HCVs and two wheelers among others.

While production of passenger cars declined 7.58 per cent, that of M&HCVs and two wheelers fell 45.5 per cent and 2 per cent respectively. In the eight month period till November 2019, the industry produced a total 18,920,298 vehicles as against 21,937,557 in the same period last year, registering a de-growth of 13.75 per cent.

GST rationalisation, compliance feature at Centre, state officers' meet

ENSECONOMIC BUREAU
NEW DELHI, DECEMBER 10

GOODS AND Services Tax (GST) rate rationalisation, including a proposal to have a dual rate structure, a relook at items which were taxed at a higher rate in pre-GST VAT era such as milk powder, butter, correction of rate structure for items facing inverted duty and compliance related issues were some of the proposals discussed at the meeting of committee of officers on revenue augmentation on Tuesday.

Though many proposals were discussed in the meeting including hiking the 5 per cent slab to a higher rate such as 8 per cent along with a possible merger of

12 per cent and 18 per cent slabs, no consensus emerged at the end of the meeting, two senior government officials said.

One of the states also proposed a dual GST rate structure—10 per cent and 20 per cent—and doing away with rest of the rate slabs, one of the officials said.

All states, however, are not in favour of raising GST rates, especially the lower rate slab of 5 per cent. "The GST Council after very prolonged deliberations had fixed the rates and then the upper slab 28 per cent without much serious consideration of revenue implication was brought down. The compulsion of elections weighed on the decisions...now, they want to raise the rates of lower slab...which is not fair. In this current

52,720 IGST refund claims pending for more than one year: Thakur

New Delhi: As many as 52,720 Integrated GST (IGST) refund claims are pending for more than one year, Minister of State for Finance Anurag Singh Thakur informed Parliament on Tuesday.

The reasons for this pendency include non-submission of required documents by the applicants, he said in a

written reply to Rajya Sabha.

A number of companies applied for Goods & Services Tax (GST) refund since the introduction of the tax regime, he said, adding a total of 1,86,158 entities have filed 36,42,272 refund applications, out of which 34,46,010 refund applications have been finalised as on December 2. PTI

Minister Thomas Isaac told CNBC-TV18. States have received no formal communication regarding any rate hike decision, he added.

IndiGo, GoAir's A320neo aircraft return to origin airports after snags

ENSECONOMIC BUREAU
NEW DELHI, DECEMBER 10

TWO AIRBUS A320neo aircraft of IndiGo and GoAir, operating on domestic and international routes, returned safely to their origin airports on Monday, following snags including high vibration and oil smell in cockpit, respectively.

The aircraft have been grounded at Delhi and Singapore airports. "On 09-12-2019, IndiGo A320 (Neo) Aircraft VT-ITK operating flight 6E-552 (Delhi-Hyderabad) was involved in Air Turn Back to Delhi due to High Vibration on No.2 engine. Aircraft landed safely at Delhi and has been grounded at Delhi," a senior Aviation Ministry official said.

A Bengaluru-bound A320neo operated by GoAir had to return to Singapore following oil smell in cockpit and cabin. "On 9.10.2019 Go Air A320 (Neo) Aircraft VT-WJJ operating flight G8-028

Asymmetry in FTAs on govt radar: Goyal in RS

ENSECONOMIC BUREAU
NEW DELHI, DECEMBER 10

COMMERCE AND Industry Minister Piyush Goyal on Tuesday said India pulled out of the RCEP trade deal as its concerns over a host of critical issues. He also promised to "correct the asymmetry" in existing free trade agreements (FTAs) with Asean, Japan and South Korea.

Speaking in Rajya Sabha on the Regional Comprehensive Economic Partnership (RCEP), Goyal said: "Any trade deal like RCEP must consider that countries have very different sizes and population, unequal levels of economic development and human development indicators, contrasting levels of prosperity, investment capacity, cultural diversity and significantly different political and judicial systems." FE

All proposals for rate rationalisation and revenue augmentation will now be taken up in the GST Council meeting, which is scheduled for December 18. Any significant rate changes are likely to take effect only from next financial year, one of the officials said.

The Standing Committee on Finance in a report released Tuesday also flagged the revenue and compliance related issues under the GST regime. Noting that the GST collections have slowed in the recent months vis-à-vis the targets, the Committee said it expects the government to "resolve all the troubling issues relating to GST at the earliest to achieve the desired revenue buoyancy".

The committee also urged the

government to monitor compliance and prevent misuse of provisions. "The Committee would also urge the Department of Revenue to remain vigilant so as to prevent misuse of provisions such as input tax credit and enhance monitoring of overall compliance. Systematic reports as well as feedback surveys should also be collected from tax payers to evaluate whether GST is operating smoothly," the report said.

Slowing revenues under GST have become a concern over the last few months, with compensation payments to states being held back since August. If a rate hike is resorted to by the GST Council to protect the revenue stream, it would be the first time a hike in rates would be undertaken.