GOLD	RUPEE	OIL	SILVER
₹39,239	₹71.27	$66.63	₹47,146

*Indian basket as on December 23, 2019

SENSEX: 41,461.26 ▼ 181.40 **NIFTY:** 12,214.55 ▼ 48.20 **NIKKEI:** 23,830.58 ▲ 9.47 **HANG SENG:** 27,864.21 ▼ 42.20 **FTSE:** 7,633.09 ▲ 9.50 **DAX:** 13,300.98 ▼ 17.92

*International market data till 1900 IST

SECTOR WATCH
SHADOW BANKING

NBFCs' NPA ratio in 2018-19 jumps to 6.1% from 5.3% on default crisis

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 24

GROSS NON-PERFORMING assets ratio of the non-banking financial company (NBFC) sector jumped to 6.1 per cent in 2018-19 from 5.3 per cent in 2017-18, reflecting the default crisis triggered by IL&FS, data in the Reserve bank of India's (RBI's) report on 'Trend and Progress of Banking in India' showed. On a net basis, the NPA ratio rose to 3.4 per cent in 2018-19 from 3.3 per cent in FY18.

Sector-wise data for the retail loans in the NBFC sector showed a sharp contraction in the credit deployment to the consumer durables sector, which declined by 40.9 per cent to Rs 5,094 crore in 2018-19 from Rs 8,626 crore in 2017-18, and stood at Rs 4,917 crore in the first six months of this fiscal.

Credit deployment to micro and small, medium industrial sectors also recorded a decline, with credit extended to medium industries falling by 18.8 per cent to Rs 22,979 crore in 2018-19 from Rs 28,311 crore in 2017-18. During April-September, credit to medium industries stood at Rs 19,981 crore, the data showed. Micro and small industries also witnessed a contraction in credit deployment from the NBFCs, falling 15.3 per cent to Rs 54,597 crore from Rs 64,455 crore. However, the pace of credit extension to micro and small industries has picked up pace in April-September, the first half of this financial year, rising to Rs 59,713 crore, the report showed.

Among retail loans, vehicle/auto loans credit grew 21.6 per cent to Rs 1.99 lakh crore in 2018-19 from Rs 1.64 lakh crore in previous fiscal, and it has continued to rise in April-September to Rs 2.08 lakh crore. Education loans also witnessed a growth in credit deployment, with credit to the sector rising 21.9 per cent to Rs 8,777 crore in 2018-19 from Rs 7,202 crore in 2017-18. During April-September 2019, credit extended for education loans has further increased to Rs 10,032 crore, the report showed.

On a net basis, the NPA ratio saw a marginal uptick at 3.4 per cent in the fiscal ended March 2019 compared with 3.3 per cent in FY18.

However, the report did not disclose of the September NPA ratio. In 2018-19, GNPA ratio of non-deposit NBFCs deteriorated to 6.1 per cent from 5.3 per cent in FY18, the report said.

The net NPA ratio for NBFCs-ND-SI edged up marginally, reflecting the maintenance of adequate buffers, especially by micro-finance institutions (MFIs) and Infrastructure Finance Companies (IFC). NBFCs-MFI, however, reported a significant improvement in the GNPA ratio at 4.3 per cent in FY19 compared to 7.5 per cent.

"The improvement in the GNPA ratio of the NBFCs-MFI may be attributed to write offs of aging loans," the report said. In the case of deposit taking NBFCs, gross NPAs declined to 5.3 per cent in FY19 to 6.1 per cent in FY18.

The report said although the NBFC sector grew in size to Rs 30.9 lakh crore in FY19 from Rs 26.2 lakh crore in FY18, the pace of expansion was lower than in FY18, mainly due to rating downgrades and liquidity stress in a few large NBFCs in the aftermath of the IL&FS event.

Despite liquidity stress faced by the sector, there was expansion in asset size of IFCs. Balance-sheets of NBFCs-MFI also expanded on the back of strong growth in their loans and advances, especially to the agriculture sector.

CREDIT TO VARIOUS SECTORS BY NBFCs

	Percentage Variation in FY19 over FY18
Gross Advances	**16.0**
Industry	**11.8**
Micro and small	-15.3
Medium	-18.8
Large	15.9
Services	**15.9**
Retail	**24.4**
Home Loan	16.8
Consumer durable	-40.9
Vehicle loan	21.6
Education loan	21.9

RBI'S TREND AND PROGRESS OF BANKING 2018-19 REPORT

IBC: Banks recover over ₹70K cr

AASHISH ARYAN
NEW DELHI, DECEMBER 24

SCHEDULED COMMERCIAL banks in India recovered a total of Rs 70,819 crore in Financial Year (FY) 2018-19 under the Insolvency and Bankruptcy Code (IBC), compared to Rs 4,926 crore recovered in FY 2017-18, the Reserve Bank of India said in a report on Tuesday.

The recovery by the banks have been made from the 1,135 cases admitted for corporate insolvency resolution by the National Company Law Tribunal (NCLT) in FY19, compared to the 704 cases admitted by various NCLT benches in FY18, the Reserve Bank of India said.

For FY19, the total disputed amount involved in the cases admitted by NCLTs stood at Rs 1.66 lakh crore, compared to Rs 9,929 crore for FY18. The recovery percentage for FY 2019, however, fell by to 42.5 per cent from 49.6 per cent in the previous financial year.

Ministry of Corporate Affairs (MCA) Secretary Injeti Srinivas had, in December last year, said that the NCLTs had helped recover close to Rs 80,000 crore in 2018, and expected that the number would go beyond Rs 1 trillion in 2019.

RECOVERY THROUGH VARIOUS ROUTES

	2017-18				2018-19			
	No of Cases referred	Amount involved	Amount recovered	Recovery rate	No of Cases referred	Amount involved	Amount recovered	Recovery rate
Lok Adalats	33,17,897	45,728	1,811	4%	40,80,947	53,506	2,816	5.3%
DRTs	29,345	1,33,095	7,235	5.4%	52,175	3,06,499	10,574	3.5%
SARFAESI Act	91,330	81,879	26,380	32.2%	2,48,312	2,89,073	41,876	14.5%
IBC	704	9,929	4,926	49.6%	1,135	1,66,600	70,819	42.5%
Total	34,39,276	2,70,631	40,352	14.9%	43,82,569	8,15,678	1,26,085	15.5%

*Amount in ₹ crore

The recoveries, made by banks, through other routes such as Lok Adalats, Debt Recovery Tribunals (DRT), and the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, however, continued to perform dismally.

In FY19, bank recovered only Rs 2,816 crore of the Rs 53,506 crore worth of disputes from the 40.80 lakh cases filed in the Lok Adalats, a mere 5.3 per cent. In FY18, banks filed 33.17 lakh cases these Lok Adalats, and managed to recover only 1,811 crore from Rs 45,728 crore, or about 4 per cent.

The DRT route proved even tougher to recover monies for banks, as they managed to reclaim only Rs 10,574 crore from the Rs 3.06 lakh crore. The number of cases filed by banks in DRT also nearly doubled in FY 19 to 52,175. In FY18, banks had managed to recover Rs 7,235 crore from 29,345 cases worth Rs 1.33 lakh crore.

The recovery rate of banks under SARFESI also dipped in FY19.

The scheduled commercial banks of the country managed to recover 14.5 per cent, or Rs 41,876 crore from 2,89,073 crore, compared to Rs 26,380 crore from 81,879 crore or 32.2 per cent in FY18.

The number of cases under SARFESI more than doubled in FY19 to 2.48 lakh cases, compared to 91,330 cases filed in FY18.

In total, the commercial banks of the country managed to recover, using all the routes, Rs 1.26 lakh crore from Rs 8.15 lakh crore, or nearly 15.5 per cent, according to the Reserve Bank of India report.

EXPLAINED

Code lends a helping hand

THE DATA released by RBI shows that the scheduled commercial banks have struggled to recover money from defaulters over the past two years. Of the 8.15 lakh crore, the banks managed to reclaim only 1.26 lakh crore, or about 15.5 per cent. Compared to FY18, the recovery percentage has improved slightly. The only relief for banks is the improvement in the recoveries made via IBC.

First time in 3 yrs: Commercial banks open more branches than year ago

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 24

FOR THE first time in three years the pace of opening of new branches witnessed growth as the scheduled commercial banks opened 4,518 branches in FY19 as against 3,938 branches opened in FY18. By comparison, the scheduled commercial banks had seen a decline in the growth rate of new branches opened in the previous two years. While in FY16 the SCBs opened 9,080 new branches, they opened 5,357 branches in FY17 and the number of new branches declined further to 3,938 in FY18.

RBI data shows Tier-1 and Tier-2 cities led to the rise in additional branches last year and those in Tier-5 and Tier-6 continued to witness a decline in the pace of addition of new branches.

"More than 50 per cent of the new branches were opened in Tier-1 and Tier-2 centres; on the other hand, the shares of Tier-5 and Tier-6 centres declined. This is consistent with the banks' policy of opening branches in high population density areas where they are likely to be more commercially viable, while relying on BCs to enhance their outreach in other centres," said RBI in its Report on Trend and Progress of Banking in India. It added the revised guidelines on rationalisation of branch authorisation policy introduced in May 2017 has provided banks autonomy to decide their business strategy in facilitating financial inclusion. While the pace of new branch opening witnessed reversal and witnessed a growth of almost 15 per cent, the number of ATMs operated by scheduled commercial banks declined from 2,07,052 at the end of March 2018 to 2,02,072 at the end of March 2019. However, the number of white labelled ATMs increased from 15,195 in FY'18 to 19,507.

RBI said the growth in white label ATMs has been boosted by policy changes introduced on March 7, 2019, to enhance the financial viability of WLAs, such as allowing their operators to source cash directly from the Reserve Bank, offer non-bank services, and advertise non-financial products in their premises. While private banks recorded an increase in their on-site and off-site ATMs, PSBs reduced both.

GROWTH IN NEWLY OPENED BRANCHES

	2015-16	2016-17	2017-18	2018-19
Total	9,080	5,357	3,938	4,518
Tier 1	3,247	2,336	1,581	2,114
Tier 2	694	363	336	515
Tier 3	1,192	639	567	700
Tier 4	790	429	333	359
Tier 5&6	3,157	1,590	1,121	830

Source: RBI

Co-op banks' assets nearly halve to 10.6% in FY19 from FY05

Mumbai: As more and more co-operative banks go belly up, their combined assets nearly halved to 10.6 per cent of the assets of commercial banks in FY19 from 19.4 per cent in FY05, as per an RBI report released on Tuesday.

September saw one of the biggest cooperatives, the city-based PMC, going belly up after a massive scam. Almost 73 per cent of its assets at Rs 6,500 crore of Rs 11,800 crore that was given to the crippled HDIL group turned into non-performing assets. The bank since then has been under an RBI administrator.

In fact, PMC is only one of the three dozens of cooperatives gone under since January this year. **PTI**

Gross NPAs stable at 9.1% as of Sept: RBI

ENS ECONOMIC BUREAU
MUMBAI, DECEMBER 24

AFTER RISING for seven years in a row, the gross non-performing asset (GNPA) ratio of banks declined in the financial year 2018-19 as recognition of bad loans neared completion, said the Reserve Bank of India's (RBI) report on Trend and Progress in Banking in India 2018-19. However, this trend has seen a reversal in the first half of FY20 as the year has seen several defaults, some of which were not expected as in the case of some non-banking financial institutions.

The report says that stress in large borrower accounts has been on the rise for both private banks and public sector banks (PSBs) in the first half of 2019-20.

The central bank's supervisory data shows that the GNPA ratio of banks remained stable at 9.1 per cent at end-September 2019. All bank groups recorded an improvement in asset quality, with PSBs experiencing a drop both in the GNPA and in the net NPA ratios. The deteriorating asset quality of private banks in terms of the GNPA ratio is due to the reclassification of IDBI Bank as a private bank effective January 21, 2019. However, after excluding IDBI Bank, the GNPA ratio of private sector banks declined. **FE**

CBI books ex-Maruti Udyog MD Jagdish Khattar for loan fraud

EXPRESS NEWS SERVICE
NEW DELHI, DECEMBER 24

THE CBI has booked former Maruti Udyog Ltd Managing Director Jagdish Khattar for alleged loan fraud. The agency has alleged that Khattar's company, Carnation Auto, diverted loan funds to sister concerns, causing a loss of Rs 110 crore to Punjab National Bank (PNB). The CBI also searched the premises associated with Khattar and his company on Monday.

Denying the allegations, Khattar attributed the losses to "bona fide business failure". "Carnation Auto was a first mover to create an open multi-brand auto solutions platform for customers whose cars were outside warranty period and who felt pinched by high maintenance costs. It unfortunately became a bona fide business failure on account of many reasons including cartelisation by auto majors due to non-supply of genuine parts," he said in a statement on Tuesday.

The FIR, which has named Khattar and Carnatation Auto Pvt Ltd as accused, has said that in May 2009, Carnation Auto took a term loan of Rs 110 crore from the PNB branch at Tolstoy Marg in New Delhi. "Sh Jagdish Khattar, MD of Carnation Auto Pvt. Ltd, in criminal conspiracy with unknown public servants of PNB, has cheated the bank of the said amount at Rs 110 crore... as the same has not been repaid and declared as NPA on 30.9.2015 w.e.f. 30.6.2012. Further, the accused borrowers dishonestly and fraudulently, and in order to cheat the bank, sold the goods hypothecated to the bank without its permission and diverted the funds, thereby causing criminal breach of trust and cheating, causing wrongful loss to the bank and corresponding gain to themselves," says the FIR.

The agency has said that a forensic audit was conducted by the bank through K G Somani and Company, which reported that the accused had dishonestly and fraudulently sold the fixed assets costing Rs 66.92 crore for a consideration amount of Rs 4.55 crore, without the approval of the bank. It said the assets had been furnished as security to the bank.

"Further, after the sale, the accused did not deposit sale proceeds with the bank. It was also found that the accused borrower had dishonestly and fraudulently extended loans and advances to its sister concern subsidiaries also. Thereby it has committed misappropriation of bank funds and has put them for own use," says the FIR. Khattar, in his statement, said: "I had invested my life savings in the company. I understand the bank is following a process. I have always made myself available and will continue to fully cooperate with all the agencies. The claims being made were examined in great detail during the forensic audit and we provided satisfactory replies on each. We were cleared in the forensic audit on each count. I have no doubt we will be vindicated again once the investigation is completed."

According to Khattar, Carnation was a board-managed company with the highest ethical standards and best management practices. Some of the most reputed investors in the country, including Premji Invest and Gaja Capital, were board members who, in their own interest, kept a tight vigil on its operations and finances, he said.

"Each financial decision was based on comprehensive business plans and approvals. The company was finally sold to Mahindra Group. Post its failure as a business, an exhaustive and detailed independent forensic audit at the behest of the bankers under the resolution professional was conducted by a leading independent auditor and nothing was found amiss. Having found no lapses in operations or financial management, the bank has referred the matter to CBI as a part of the process followed by them. The company has not indulged in any wrongdoing. A search was conducted by CBI but nothing incriminating was found," Khattar said.

"It unfortunately became a bona fide business failure on account of many reasons including cartelisation by auto majors due to non-supply of genuine parts"

JAGDISH KHATTAR
FORMER MANAGING DIRECTOR, MARUTI UDYOG

Ex-CEA against cut in personal income tax, extra fiscal boost

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 24

ARGUING AGAINST a major restructuring of personal income tax at this juncture to give relief to taxpayers, former Chief Economic Adviser Arvind Subramanian said on Tuesday that instead, the forthcoming Union Budget (2020-21) ought to bring back honest accounting of the Centre's finances and refrain from rolling out any additional fiscal stimulus. Rather than coming out with any surprises or making dramatic announcements, the Budget should set realistic and modest targets, without any undue stress on fiscal consolidation either, he said at the Indian Express Group's Idea Exchange programme here.

According to Subramanian, income tax relief might have only limited impact on consumption, as only 5 per cent of population pays the tax. Instead, he favoured a greater push to schemes like the PM Kisan, National Rural Employment Guarantee Scheme or a universal basic income, to cater for a larger population that is under stress and stimulate demand to contain the slide in growth.

Following the recent slashing of corporate tax rates, the clamour for a cut in the personal income tax rates has grown shriller. When asked about this, Finance Minister Nirmala Sitharaman recently said if the government opts for reducing income tax, it would purely be on the basis of intrinsic merit of such a step, rather than in relation to the corporate tax cut.

Noting that there is a growing opinion that many economies might have erred on the side of fiscal prudence, Subramanian said it would still not make a case for India to loosen its fiscal policy given the consolidated primary deficit (fiscal deficit less interest payments) of the general government here remained high and interest rates exceeded GDP growth rate. Also, he was sceptical about the government's ability to spend quickly and meaningfully to bring about a push to economy of the required magnitude and topicality. Economic growth slowed to a 4.5 per cent in Q2FY20, the lowest quarterly growth since Q4FY13.

He said the current slowdown is intense but said there was no longer any "magic bullet" for the short term to fix the economy, suggesting structural remedies would probably do the trick, with focus on agriculture and power-sector reforms. Although GST collections have been trailing the targets month after month, Subramanian thinks the indirect tax structure is being blamed harshly. **FE**

Ex-CEA Arvind Subramanian at the Idea Exchange programme. *Express Photo*

India in the midst of significant slowdown; mostly cyclical not structural, says IMF

LALIT K JHA
WASHINGTON, DECEMBER 24

INDIA IS now in the midst of a significant economic slowdown, the International Monetary Fund has said, urging the government to take urgent policy actions to address the current prolonged downturn.

In its report released Monday, the IMF Directors noted that India's rapid economic expansion in recent years has lifted millions of people out of poverty. However, in the first half of 2019, a combination of factors led to subdued economic growth in India.

"The issue in India currently is the growth slowdown. We still believe it is mostly cyclical, not structural... because of the financial sector issues, we think, the recovery will be not as quickly quick as we thought earlier. That's the main issue," Ranil Salgado, Mission Chief for India in the IMF Asia and Pacific Department said as it released its annual staff report on India.

With risks to the outlook tilted to the downside, the IMF Directors called for continued sound macroeconomic management. They saw an opportunity with the strong mandate of the new government to reinvigorate the reform agenda to boost inclusive and sustainable growth, the report said. The staff report was done in August when the IMF was not fully aware of India's current economic slowdown.

"India is now in the midst of a significant economic slowdown," Salgado told reporters over phone.

Growth in the second quarter of FY 2019/20 came in at a six-year low of 4.5 per cent (y/y), and the composition of growth indicates that private domestic demand expanded by only 1 per cent in the quarter. Most high-frequency indicators suggest that weak economic activity has continued into December, he said.

Salgado attributed this to the abrupt reduction in non-bank financial companies' (NBFC) credit expansion and the associated broad-based tightening of credit conditions appears to be an important factor and weak income growth, especially rural, has been affecting private consumption. **PTI**

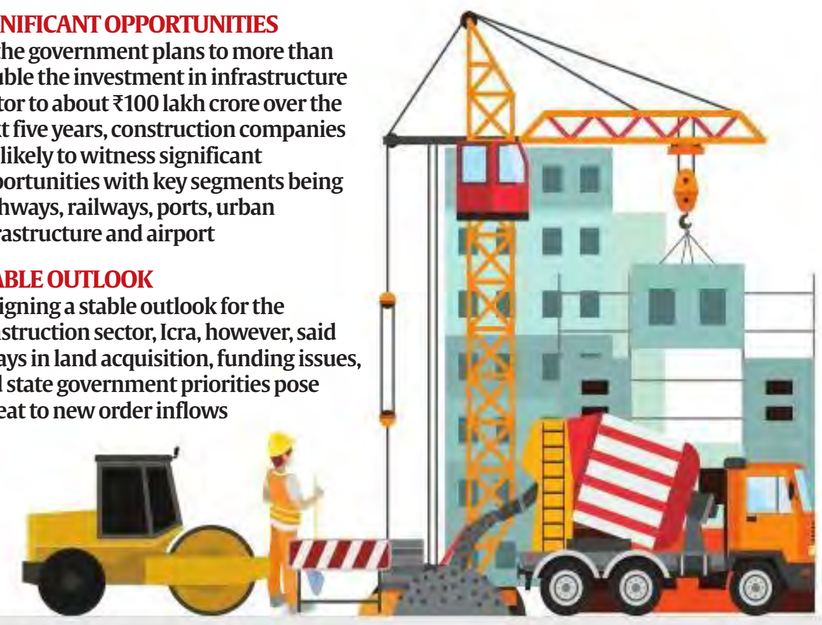
Meanwhile, IMF Chief Economist Gita Gopinath (*right*) met Finance Minister Nirmala Sitharaman. *PTI*

'New order inflows for construction sector to improve in 2020'

New order inflows for construction companies will improve in 2020 with a huge pipeline of projects in the infrastructure sector, Icra said

SIGNIFICANT OPPORTUNITIES
As the government plans to more than double the investment in infrastructure sector to about ₹100 lakh crore over the next five years, construction companies are likely to witness significant opportunities with key segments being highways, railways, ports, urban infrastructure and airport

STABLE OUTLOOK
Assigning a stable outlook for the construction sector, Icra, however, said delays in land acquisition, funding issues, and state government priorities pose threat to new order inflows



FINANCIAL HEALTH: Operating profitability is expected to remain stable with the benefits of benign inflation and steady execution

RISKS: The agency also said delays in land acquisition, funding issues, and state government priorities remain key risks to the new order inflows

Source: Icra/PTI