

FINANCIAL STABILITY REPORT

Banks' GNPA ratio seen rising to 9.9%

Change in macroeconomic scenario, marginal rise in slippages, and the denominator effect of declining credit growth are the contributing factors

OUR BUREAU

Mumbai, December 27

Macro stress tests for credit risk show that under the baseline scenario, scheduled commercial banks' (SCB) gross non-performing asset (GNPA) ratio may increase from 9.3 per cent in September 2019 to 9.9 per cent by September 2020, according to the Reserve Bank of India's latest Financial Stability Report (FSR).

The report reasoned that this is primarily due to the change in macroeconomic scenario, marginal increase in slippages, and the denominator effect of declining credit growth.

Among the bank groups, FSR assessed that under the baseline scenario, public sector banks' (PSB) GNPA ratios may increase to 13.2 per cent by September 2020 from 12.7 per cent in September 2019,

whereas for private sector banks (PVB), it may increase to 4.2 per cent from 3.9 per cent; and for foreign banks (FB), it may increase to 3.1 per cent from 2.9 per cent in September 2019.

According to the report, loans classified as special mention account 2 (principal or interest payment or any other amount wholly or partly overdue between 61 to 90 days) in the case of large borrowers, increased by about 143 per cent between March 2019 and September 2019.

A large borrower is defined as one who has aggregate fund-based and non-fund based exposure of ₹5 crore and above. The asset quality of agriculture and services sectors, as measured by their GNPA ratios, deteriorated in September 2019 when compared to March 2019.

In the case of agriculture



There was improvement in the banking sector's profitability and efficiency in September 2019

and services sector, GNPA's deteriorated to 10.1 per cent (from 8.5 per cent in March 2019) and 6.3 per cent (5.7 per cent). For the industry sector, GNPA's during the period declined to 17.3 per cent from 17.5 per cent.

The GNPA's for the retail sector was unchanged at 1.8 per cent. The share of large borrowers in SCBs' total loan portfolios and their share in GNPA's was at 51.8 per cent and 79.3 per cent, respectively, in September 2019; these were lower when compared to 53 per cent and 82.2 per cent in

March 2019. The banking stability indicator shows that there was improvement in the banking sector's soundness, profitability, efficiency and liquidity in September 2019 when compared to March 2019.

Credit growth

The aggregate growth (y-o-y) in the banking sector's gross loans and advances slowed noticeably from 13.2 per cent in March 2019 to 8.7 per cent in September 2019. The deposit growth improved from 9.9 per cent to 10.2 per cent. The

banking sector's credit growth falling short of deposit growth was last seen during Q2 2016-17.

Among bank groups, credit growth of PSBs decelerated to 4.8 per cent y-o-y in September 2019 from 9.6 per cent in March 2019.

The report observed that PSBs' weak return on equity and return on assets numbers, when compared to their private sector counterparts, continue to come in the way of their ability to raise equity capital from the market at a decent cost.

RBI to onboard non-banking entities to CPS

OUR BUREAU

Mumbai, December 27

The Reserve Bank will examine the case for increased participation of non-banks in Centralised Payment System (CPS). Providing direct access to non-banks can quicken their access to funds by pruning one layer and also reduce costs, the report said.

The National Payments Corporation of India (NPCI) has emerged as a systemically important payment system entity, the FSR said. This is specifically the case for instant retail payment systems such as the Immediate Payment Service (IMPS) and Unified Payments Interface (UPI), both of which are operated by the NPCI.

The report underscored that the availability of New Umbrella Entity (NUE) offering products, which will lead to the redundancy of existing systems can, besides addressing concentration risk, also encourage competition and innovation, thus contributing to financial stability.

Contrary to claims, 'funds flowed into realty sector'

OUR BUREAU

Mumbai, December 27

Flow of funds to the real estate sector has continued notwithstanding a general slowdown in credit growth.

While the real estate (RE) sector has flagged access to funding to complete projects as an issue, the RBI's analysis, which is based on TransUnion CIBIL data (for the sample of 310 RE companies), shows that total credit to this sector has increased from ₹1,66,286 crore as of June-end 2018 to ₹2,01,171 crore as of June-end 2019.

"Since September 2018 when the IL&FS-induced risk aversion was noted, all categories of financial intermediaries have increased their exposures to REs, the sharpest being that of housing finance companies (HFCs)," the report said.

The report said the aggregate share of HFCs and private sector banks to the realty sector increased, while public sector banks' aggregate share reduced sharply. This

might, however, understate the exposure of PSBs to the sector, given their exposure to a few NBFCs well entrenched in the realty sector.

The evolution of impairment levels across financial intermediaries (for the sample of 310 real estate companies) shows that the aggregate impaired exposure increased to 7.33 per cent in June 2019 from 5.74 per cent in June 2018.

"The analysis of 310 real estate-related obligors gives evidence of increased stress, although the aggregate exposure to the sample firms continued to increase, implying availability of credit. However, the aggregate numbers for HFCs / NBFCs / PVBs, while increasing, are relatively small in absolute amounts. PSBs' exposure, particularly with regard to impairment is fairly large.

"However, this has to be seen in the context of their aggregate real estate portfolio performance," the central bank's report added.

Govt ups capital infusion in IOB to ₹4,360 cr

PRESS TRUST OF INDIA

New Delhi, December 27

Indian Overseas Bank (IOB), on Friday, said it will get a fresh capital infusion of ₹4,360 crore from the government in the current financial year to meet regulatory requirements.

In August, the Finance Ministry had announced a capital infusion of ₹3,800 crore in the state-owned lender. This has now been increased by ₹560 crore.

"The bank has received vide letter dated December 25 for the release of ₹4,360 crore towards contribution



The bank will get an additional ₹560 cr for regulatory requirements

of the Central government in the preferential allotment of equity shares (special securities/bonds) of the bank during 2019-20 as government's investment," IOB said in a BSE

filing. Besides, the government has approved infusion of ₹2,142 crore in UCO Bank, in line with what was announced in August this year. Both lenders are under the

Prompt Corrective Action (PCA) framework of the RBI. IOB has reported widening of net loss to ₹2,253.64 crore for the quarter ended September 30, 2019. The bank had registered a loss of ₹487.26 crore in the year-ago period.

In the June quarter of the current financial year, it had posted a loss of ₹342 crore. IOB's gross non-performing assets stood at 20 per cent (₹28,673.95 crore) of gross advances during the September quarter, compared with 24.73 per cent (₹37,109.96 crore) in year-ago same period.

MoneyTap to start lending as an NBFC from Jan

SURABHI

Mumbai, December 27

Fintech lender MoneyTap is set to start disbursing loans as an NBFC from next month, and is also finalising its fund-raising plans.

"Fund-raising in terms of equity and debt is on the cards. We should be able to disclose more details in January. Next year, in 2020, we will look at fund-raising plans," said Kunal Varma, co-founder and chief business officer, MoneyTap, adding that it will begin disbursing loans as an NBFC in January.

MoneyTap, an app-based credit line, received its li-

'Fund-raising in terms of equity and debt is on the cards. We should be able to disclose more details in January'



cence to operate as an NBFC from the Reserve Bank of India in September.

It had raised \$1.23 crore in 2017 in a round led by Sequoia Capital India. Varma said the lender will continue to focus on retail lending using technology, but could foray into newer segments such as financing consumer durable purchases. "We

don't see any reason to change our product strategy in the near future. Credit line will be our main product.

"We have started diversifying a bit and experimenting with different use case lending strategy," he told *BusinessLine*.

It has a registered customer base of 85 lakh, with

an average ticket size of ₹35,000. Varma remains optimistic about business prospects and said the company has not been impacted by the liquidity crunch due to its focus on retail lending. It works with RBL Bank and other NBFCs as partners.

"Banks and other NBFCs had direct exposure, and that created an environment of caution for us.

"Overall liquidity cost, or the cost of funds, increased by about 75 basis points when compared to 12 months ago," he said, adding that the cost of funds for these partners have risen.

NCC Finance liquidated

V RISHI KUMAR

Hyderabad, December 27

NCC Finance Limited has completed the process of voluntary liquidation.

The liquidator, Sridhar Venkatraya Sundararaja, Resolution Professional, has filed the report with the BSE on the voluntary liquidation of the company under Section 50 of the Insolvency and Bankruptcy Code, 2016, and Regulation 3 of the Insolvency and Bankruptcy Board of India.

The company's shareholders, after passing a special resolution at an Extraordinary General Meeting on September 27, appointed the liquidator to take up the process and liquidate the company.

The debt of the company has been discharged to the satisfaction of the creditors. The company does not have any pending litigations. It

may be recalled that the shareholders had, in September, approved the voluntary winding up of the operation of the company under the insolvency code.

The liquidator, in the final report, submitted that all pending issues have been resolved and that the company has been voluntarily liquidated.

NCC Finance was incorporated in 1994 to carry on the business of hire purchase, leasing, and advancement of short-term loans to its various clients, such as individuals, partnership firms and companies.

Due to the cut-throat competition in the NBFC sector, the company exited from the sector and surrendered its NBFC certificate to Reserve Bank of India. It has consolidated its operations and repaid the entire public deposits and loans from banks.

We want to be the risk concierge for large, complex risks: Willis Towers Watson head

KR SRIVATS

New Delhi, December 27

Willis Towers Watson, a global advisory, broking and solutions company, wants to be the preferred "risk concierge" in India for all large and complex risks, a top official of the Indian unit said.

"We have got the technologies, the platforms and proprietary methodologies to do this. One of the new platforms — Connected Risk Intelligence — was soft-launched here recently," Rohit Jain, the head of Willis Towers Watson in India told *BusinessLine*.

Willis Towers Watson is now working with a few top-notch private sector banks in India to design a risk strategy for them from the operational risk perspective. It is using its proprietary methodology

CRI, which is based on hardcore actuarial algorithms, for this purpose, he said.

With the help of CRI, companies can have absolute certainty that their risk strategy is exactly right for their business; that their risk exposure is at the optimal level; and that they are paying precisely what they should to protect themselves, according to Jain.

The advantages could be to reduce spend, reduce risk to release risk capital for deployment elsewhere in the business, or an optimal blend of both.

Willis Towers Watson, with roots dating to 1828, has more than 45,000 employees in 140 countries and markets, and is the largest employer of actuaries in the world. In India, Willis Towers Watson has 600



Rohit Jain, head of Willis Towers Watson in India

employees in broking and consulting units.

Jain said that 'risk' has now become a board-level issue in India and noted that as a "risk concierge", Willis Towers Watson could decode the entire journey of risk, from inception to the end, including handholding the client.

"People talk of risk only as risk transfer, which is insurance. It starts much before

that — assess, protect and recover. We want to focus on the recovery as well," added Jain.

Insurtech

Willis Towers Watson also sees itself emerging as one of the "principal drivers" of insurtech in India with the help of partnerships with Plug and Play and CB Insights.

"With the rise of digital ecosystems and shifting customer needs, we are gearing up to play an integral part in insurtech. We are also working with several start-ups and seeing how we can fit into the regulator's sandbox," said Jain.

Jain said that he foresees a sizeable advocacy play for Willis Towers Watson in disaster risk management landscape. Already, initial steps have

been initiated in interacting with various stakeholders across various forums, he said. Jain also said that the Willis Towers Watson India Broking — a joint venture in which Willis Towers has a 49 per cent stake — is open to taking the inorganic route for growth.

He also indicated that Willis Towers Watson may also be open to raising its holding in the venture to 100 per cent. "Willis Towers Watson is keen to explore opportunities for 100 per cent ownership pursuant to FDI relaxation; we will initiate discussions at appropriate time," he said.

The inorganic strategy piece may gather steam once Willis Towers Watson gets 100 per cent holding in the Indian broking unit, Jain added.

Rupee falls 4 paise vs \$

PRESS TRUST OF INDIA

Mumbai, December 27

The rupee depreciated by 4 paise to close at a fresh three-week low of 71.35 against the US dollar on Friday, continuing its losing streak for the sixth day in a row amid steady rise in crude oil prices.

Forex traders said the USD/INR spot has been trading in a tight range amid lack of cues.

At the interbank foreign exchange market, the domestic currency opened at 71.26 and later fluctuated between a high of 71.19 and a low of 71.40.

The domestic unit finally settled at 71.35, showing a fall of 4 paise over its previous close of 71.31 on Thursday.

On a weekly basis rupee has depreciated by 19 paise.

'PNB Housing Finance in talks with overseas investor to raise \$75-100 m'

KR SRIVATS

New Delhi, December 27

PNB Housing Finance (PNBHFL) is in talks with an overseas investor to raise about \$75 million to \$100 million via external commercial borrowing (ECB), said Kapiash Jain, Chief Financial Officer (CFO).

The ECB-raising is expected to happen in the January to March quarter, and there is a good possibility of PNBHFL raising much above \$100 million in that quarter, given that a repeat investor (who had put money in ECB last year) has expressed keenness to invest again in ECB, Jain told *BusinessLine*.

Gets approval

Jain said that the overseas investor (a financial industry player), who is likely to invest in the ECB in the January to March quarter, has already given an in-principal nod.

It may be recalled that PNBHFL had raised \$100 million from IFC and \$75 million from Sumitomo Mitsui Banking Corp this fiscal.

Shaji Varghese, Executive

Director and Business Head, said that the big message is that there is buoyancy in this space (ECB window for housing finance firms) and both existing and new investors are willing to invest in the ECB offerings of PNBHFL.

Varghese also said that PNBHFL, which has assets under management of about ₹90,000 crore, is eyeing loan assets growth of average 18 to 20 per cent in three years. In the last three financial years, the loan assets saw a compounded annual growth of 43 per cent.

Jain said that PNBHFL may also tap the overseas 'masala bond' market next fiscal once it completes the planned ₹2,000-crore equity mop-up in the January to March quarter.

"Our board had given approval to raise pure equity up to ₹2,000 crore. We have appointed bankers. It is under way. The good news is that we are not in an extreme hurry to do it, but it is definitely in the agenda of the company.

"We have a target that it should be done before the

end of this fiscal," said Varghese.

Varghese also said that disbursements will take a dip this fiscal.

"Given the environment, we have taken a view that we will not do wholesale disbursements — fresh approval and fresh sanctions — to developers.

"We have been taking this stance since first quarter of this fiscal. We are waiting for the market to improve," he said. Being a company with a conservative outlook and there being a lot of volatility in the developer market, PNBHFL has taken a conscious decision to stop construction finance for some time till there is a comfort that the market has stabilised, he said.

"Incremental sanctions, no. However, we will continue to do disbursements for projects that we have already committed.

"The mood in the company is to preserve liquidity and have a calibrated approach to growth until the time market stabilises," said Varghese.

PMC crisis: Administrator to seek valuation of HDIL's aircraft, yacht

PRESS TRUST OF INDIA

Mumbai, December 27

The RBI-appointed administrator of scam-hit Punjab and Maharashtra Co-operative Bank (PMC Bank) has floated a request to appoint a consultant for the valuation of two aircraft and a yacht owned by HDIL Group firms.

These assets belong to HDIL Group firms owned by Rakesh Wadhawan and his son Sarang, the prime accused in the ₹6,500-crore scam at the cooperative lender.

In November, a local court had allowed the cooperative bank's administrator, JB Bhoria, to sell the aircraft and yacht.

"The RBI-appointed administrator to PMC Bank intends to monetise a yacht and two aircraft through a transparent process. For the purpose, the administrator plans to appoint a valuer/consultant and invites proposals from interested parties," the administrator said in a public notice.

Earlier this month, the administrator had invited bids from advisors/process co-



ordinator to sell these three assets. The Enforcement Directorate (ED), which is probing the scam along with the Mumbai Police's Economic Offences Wing (EOW), has attached the movable properties of the Wadhawans.

These properties comprise 15 luxury cars, a seven-seater speedboat, besides two aircraft and a yacht belonging to HDIL and its promoters.

The ED had earlier told the court that it did not have any objection to the disposal of two aircraft and a yacht by the PMC Bank administrator.

RBI Governor Shaktikanta Das had recently said that the cooperative bank, with the help of professional valuers, is assessing the realisable value of assets mortgaged by borrowers, as well the assets of the bank that have been seized by the EOW and ED.

Banks face biggest job cuts since 2015

BLOOMBERG

December 27

Banks around the world are unveiling the biggest round of job cuts in four years as they slash costs to weather a slowing economy and adapt to digital technology.

This year, more than 50 lenders have announced plans to cut a combined 77,780 jobs, the most since 91,448 in 2015, according to filings by the companies and labour unions.

Banks in Europe, which face the added burden of negative interest rates for years to come, account for almost 82 per cent of the total.

The 2019 cuts bring the total for the last six years to more than 425,000. In fact, the actual amount is probably higher because many banks eliminate staff without disclosing their plans.

Morgan Stanley is the latest firm to make a year-end efficiency push, cut-

ting about 1,500 jobs, according to people familiar with the matter. Chief Executive Officer James Gorman has said the cuts account for about 2 per cent of the bank's workforce.

Negative interest rates

This year's figures also underscore the weakness of



Digital tech in the banking sector is a threat to jobs

European banks as the region's export-oriented economy confronts international trade disputes while negative interest rates eat further into lending revenue.

Unlike in the US, where government programmes and rising rates helped lenders rebound quickly after the financial crisis, banks in Europe are still struggling to regain their

footing. Many are firing staff and selling businesses to shore up profitability.

Germany's biggest lender tops the list of planned job cuts.

Deutsche Bank is planning to get rid of 18,000 employees through 2022 as it retreats from a big part of its investment banking business.

The lender's home country is the most fragmented major banking market in Europe and among the most exposed to negative interest rates because its

lenders hold more deposits than competitors abroad. Banks will probably continue to announce further staff reduction plans next year.

Swiss wealth manager Julius Baer Group is considering cuts to reduce costs because of rising competition and tighter margins, people with knowledge of the matter said earlier this month.