Economic growth set to revive, says Sanjeev Sanyal

REUTERS
11 February

Indian economic growth is poised to bounce back after slipping to a more than six-year low of 4.5 per cent in the July-September quarter as the government has taken measures to prop up investments and consumer demand, a top government adviser said. "Corporate tax reductions, the Insolvency and Bankruptcy Code and the banking sector reforms have helped and will help propel growth further," Sanjeev Sanyal (*pictured*), principal economic adviser at the finance ministry, said.

The Insolvency and Bankruptcy Code, introduced in May 2016, has helped banks to recover billions of dollars stuck in outstanding corporate loans and offer loans to new borrowers.

Sanyal said economic growth was set to accelerate to 6 per cent in the financial year beginning in April, compared with estimated growth of 5.0% in the current one.

But many private economists are less optimistic, saying the current downturn may continue for the next few quarters due to a dip in private investments and tepid consumer demand.

Nomura said Asia's third-largest economy will see a subpar recovery, and forecast 4.7 per cent GDP growth for the current fiscal year and 5.7 per cent for the next fiscal year.

Sanyal dismissed the conservative estimates and said his numbers took into account early signs of recovery in manufacturing and a pick-up in consumer demand.

He said the government expected that average consumer price inflation would fall to 4 per cent in the next financial year beginning April, after a recent spike driven largely by food prices.

Deposits: Another pain point for YES Bank

SUVASHREE GHOSH & ANTO ANTONY
Mumbai, 11 February

When a former YES Bank executive started selling his stake in September, the lender's top managers watched for any sign that the resulting drop in share price would trigger a rush to withdraw deposits.

The stock sales came as customers of a regional lender — Punjab & Maharashtra Co-operative Bank — were lining up outside its branches to withdraw their money following an alleged management fraud. Rampant speculation online about broader contagion forced the central bank to issue rare statements assuring the public of the safety of the financial system.

YES Bank's loss of mom-and-pop deposits in September was manageable in the end, though it pointed to a risk for the lender whose peers HDFC Bank and ICICI Bank drew more savings from customers during that period. India's fourth-largest private lender has had a tumultuous 2019 with a new chief executive unable to raise the capital needed to bolster ratios that stand just above a regulatory minimum and quell analyst questions about its stability.

"It is now a vicious circle where a lack of capital is increasing concerns on the bank's bad loans, creating uncertainty among investors and depositors, which is adding to the withdrawal of low cost and retail term deposits," said Ravikant Anand Bhat, an analyst at IndiaNivesh Securities.

The lender's share price tanked 74 per cent last year as soured debt mounted given its exposure to shadow banks entangled in a prolonged crunch in the local credit market. The plunge has continued this year, with shares dropping another 21 per cent even as a benchmark index remained little changed.

The bank is due to report results for the December quarter, which will show whether deposits eroded further in the last three months of 2019. Bhat expects total deposits to decline another 20 per cent, after they dropped 7.3 per cent from June to ₹2.1 trillion ($29 billion) as of September 30.

The lender issued a statement last month assuring customers about its liquidity and stability and said it is making every effort "to financially strengthen the bank further."

Chief Executive Officer Ravneet Gill said in October that the lender was shedding high-cost wholesale deposits in favour of trying to retain cheaper and more stable retail funds. In the September quarter, it saw outflows from both buckets at the same time as its loan book also contracted.

Last June, Gill said he planned to raise $1.2 billion over 18 months. The lender raised about $275 million through a share sale to institutional investors in August, but hasn't managed to tap investors for a follow-on preferential offering since then.

The bank's board in November disclosed the names of several potential investors, though it has since rejected most of those. It's now looking to raise capital through other routes including another institutional share sale, for which it got shareholders' approval last week.

Moody's Investors Service cut YES Bank's credit ratings in December and last month placed them under review. The credit assessor said the review of the lender's deposit rating reflects that its "standalone viability is getting increasingly challenged by its slowness in raising new capital."

The Moody's team led by Senior Credit Officer Alka Anbarasu said faith in the lender would be restored by a fresh cash injection or a "regulatory led resolution," as authorities seek to ensure stability in the banking system and protect depositors and creditors.

One sign of official concern about the stability of deposits in the wider banking system came in a February 1 Budget speech by Finance Minister Nirmala Sitharaman, who announced that insurance cover for individual bank deposits would rise five-fold to ₹5 lakh. The minister assured lawmakers that savers' money is safe in banks. The measure is effective from February 4 and would benefit 92 per cent of Indian deposit accounts and about 28 per cent of all deposits by value, according to Citigroup.

Depositors had swarmed PMC's branches last year after the Reserve Bank of India took the rare step of limiting withdrawals following reports that an insolvent developer had accounted for 73 per cent of the regional lender's total loan book. However, the RBI has since relaxed its caps on withdrawals from PMC, easing fears among depositors.

Still, S&P Global Ratings has warned that the credit profile of Indian lenders could deteriorate sharply in the event of "outsized exposure to weak entities, huge market or operational losses, or significant deposit withdrawals if the depositors lost confidence in the bank." S&P doesn't rate Yes Bank.

Other large private-sector banks continue to add deposits, according to the results published so far for the December quarter. HDFC Bank, ICICI Bank and Axis Bank. saw low-cost retail deposits rise between 14 per cent and 22 per cent.

For Yes Bank, the threat to its deposit base is likely to recede if it can bolster its capital ratios, IndiaNivesh's Bhat said.

Risk buffers

Even without a cash infusion, Yes Bank can manage its capital needs by restricting further lending. "The approach won't, however, address concerns among investors and depositors as without stronger risk buffers it can't absorb any sudden rise in bad loans," said Diksha Gera, Bloomberg Intelligence's Singapore-based banking analyst.

Yes Bank's total exposure to shadow lenders and developers — both caught up in a funding crunch since late 2018 — was 11.5 per cent as of September end, filings show. A Credit Suisse Group AG note in April marked Yes Bank out as the lender with the largest proportion of outstanding loans to large stressed borrowers, including Anil Ambani group companies, Essel Group, Dewan Housing Finance Corp. and Infrastructure Leasing & Financial Services. BLOOMBERG

Moody's revises outlook on IndusInd Bank

ABHIJIT LELE
Mumbai, 11 February

Moody's has revised the outlook on IndusInd Bank's instrument to "negative" from "stable". This is to account for the risk of further asset quality deterioration.

However, it affirmed ratings on foreign and domestic currency deposits, on the back of a strong capital base.

Over the last few quarters, the lender has seen deterioration in its asset quality, particularly in the corporate segment. The major reason for crystallisation of non-performing loans (NPLs) was the tightening of refinancing conditions for borrowers, Moody's said in a statement.

In particular, the bank has a relatively higher exposure to real estate, as compared to other banks (8 per cent of its loan book as of December 31).

Virus outbreak credit-negative for APAC ports, says rating firm

ADITI DIVEKAR
Mumbai, 11 February

The outbreak of coronavirus in China is credit-negative for Asia-Pacific's (APAC's) port operators, given that it has disrupted domestic and global supply chains and has lowered discretionary consumer spending. This will lead to reduced throughput growth of APAC's ports in 2020.

"We expect the coronavirus outbreak to have a larger negative impact on ports than that of the 2003 outbreak of Severe Acute Respiratory Syndrome (SARS), because China now has a bigger weight in the global economy and the global supply chain is more integrated," Moody's Investor Service said in a report. Pertaining to container ports, extended factory shutdowns in China and containment measures in the APAC region have hampered the manufacturing and logistics sectors, said Moody's.

All medical devices will be treated as drugs from FY21

SOHINI DAS
Mumbai, 11 February

Come April 1, all medical devices sold in the country would be treated as drugs and would be regulated under the Drugs and Cosmetics Act of 1940, the ministry of health and family welfare said in a notification on Tuesday.

At present, only 23 medical devices have been classified as drugs. Of these, only a few including cardiac stents, drug eluting cardiac stents, condoms, intrauterine devices, have been brought under price control.

The health ministry said the decision was taken after consultation with the Drugs Technical Advisory Board (DTAB), the apex decision making body on technical matters related to drugs.

In a separate notification, the health ministry made some amendments to the Medical Devices Rules, 2017 (which was made public and suggestions were invited from stakeholders). This will be called Medical Devices (Amendment) Rules, 2020 and would also come in force from April 1.

It says that the medical devices shall be registered with the Central Licensing Authority through an identified online portal established by the Central Drugs Standard Control Organisation (CDSCO). Such registration is voluntary for a period of 18 months, after which it will be mandatory.

At present, only 23 medical devices have been classified as drugs

The manufacturer of a medical device shall upload the information relating to that medical device for registration on the "Online System for Medical Devices" established by the CDSCO. Importers too will be required to do the same.

"Central Licensing Authority may verify the documents at any point of time and investigate quality or safety related failure or complaints," the health ministry notification read. It can also cancel the license of a manufacturer if it finds lapses.

Further, it gives timelines for registration and regulation of devices. For low and moderate risk devices if is 30 months from date of commencement of the rules, while for moderate high risk and high risk devices it is a period of 42 months within which it would be brought under the new regulations.

According to healthcare activist group All India Drug Action Network's (AIDAN) Malini Aisola, "

Registration requirements for all devices is positive. Timeline for subjecting devices that will be duly notified as of April 1, ranges from 2.5 years to 3.5 years.So India has a loooongg wait before all its higher risk devices are regulated."

Meanwhile, the Industry lobby said that there is no formal assurance that the MoH will work with NITI Aayog on the draft Medical Devices Bill. "We are highly uncomfortable to be regulated under the very rigid and prescriptive Drugs Act as any non conformity can be treated as a criminal offence by any Drug Inspector at his discretion and hauled before a court and there are no risk proportionate penalties," said Rajiv Nath of Association of Indian Medical Device Industry (AIMED).

He added that the industry has been seeking an assurance from MoH&FW that this is a temporary measure until the NITI Aayog drafted Bill to regulate Devices separately from Drugs becomes a separate Law.

PNB says no proposal for changing bank's name

PRESS TRUST OF INDIA
New Delhi, 11 February

Punjab National Bank (PNB) on Tuesday said there is no proposal to change the name of the bank following the merger of two other public sector lenders — Oriental Bank of Commerce (OBC) and United Bank of India (UBI) — with itself.

This statement comes days after a UBI official said that the government is expected to announce the new name and logo of the merged bank, which will become operational from April 1, 2020.

"Punjab National Bank hereby clarifies that there is no proposal to change the name of the Bank," the bank said in a tweet.

Last year, Finance Minister Nirmala Sitharaman had announced the merger of OBC and UBI with PNB, making the proposed entity the second largest public sector bank.

Further, it was decided to merge Syndicate Bank with Canara Bank, while Allahabad Bank with Indian Bank. Similarly, Andhra Bank and Corporation Bank are to be consolidated with Union Bank of India.

Last week, Oriental Bank's CEO and Managing Director Mukesh Kumar Jain had said this was an amalgamation of equals.

IRFC to decide on issue of retail bonds following IPO response

ANUP ROY
Mumbai, 11 February

Spurred by the huge response to its $1-billion overseas bond issue, Indian Railways Finance Corporation (IRFC) expects investors to lap up its initial public offering (IPO) in the coming days.

A date for the public offering is yet to be set. But according to media reports, the IPO could be floated around mid-March.

IRFC is a special purpose vehicle (SPV) that raises finances for the infrastructure needs of the railways.

Even as the railways is run by the government, the financing requirements are tackled by IRFC on behalf of the government. IRFC bonds have sovereign guarantee, even as the balance sheet of IRFC is used to service the bonds.

IRFC leases out assets to the government, and the lease rental covers all such expenses.

In the current financial year, IRFC's mandate is to mop up ₹65,400 crore, out of which it has already raised nearly ₹40,000 crore, IRFC's managing director Amitabh Banerjee told *Business Standard*.

The next year's target has not yet been communicated to IRFC.

The quasi-sovereign company was the first Indian public sector unit (PSU) to raise a 30-year bond. Except Reliance, no other Indian company raised such a long-tenure bond in the international market.

The 10-year bond, used to raise $700 million, was subscribed eight times and the 30-year bond was subscribed seven times for an amount of $300 million.

The rate of interest for the 10-year bond was 3.25 per cent, whereas the 30-year bond coupon was at 3.95 per cent. The offer was open for all investors globally, and pension funds as well as sovereign wealth funds were big buyers.

"We were pleasantly surprised by the response. This has now created a benchmark in the overseas market for Indian PSUs and other corporate sector entities," said Banerjee.

IRFC engages in selective hedging of its foreign exchange exposure, and even those costs are passed on to the government.

"We save around ₹600-650 crore by doing selective hedging. Our risk management team is always engaged in figuring out any early warning signs on the foreign exchange fluctuation part. We don't want to hedge our entire portfolio. The idea is how to make borrowing cost cheaper for the government, which runs the Indian Railways," said Banerjee.

Despite receiving good response overseas, the domestic market continues to be the mainstay for IRFC, from which it raises 93.5 per cent of its financing need.

The firm is not averse to issuing retail bonds, but will take a call on that depending upon the response received from the IPO.

The government will look to divest o5 per cent stake via an offer for sale, while there will be fresh issuance of another 10 per cent. After dilution, the stake of the government in the firm will be 86.14 per cent. However, within three years, the government's shareholding would become 75 per cent, according to capital market listing norms.