4 ECONOMY & PUBLIC AFFAIRS



"RBI's role as the regulator has been enhanced. We trust that this will deter malpractices and make our financial systems more credible... I will request all bankers to keep a keen eye and not let a good idea die for lack of funding" RAM NATH KOVIND

President

"I am not going to increase the cost (of the Zojila project)... There is a need for tunnels to provide all-weather connectivity. In the next five years, we will undertake work worth more than ₹1 trillion for tunnels" NITIN GADKARI

Union minister for road transport and highways

MUMBAI | THURSDAY, 13 FEBRUARY 2020 Business Standard



"Keeping in mind the directions of the Supreme Court, certain agreements have been signed, which will resolve Sahara's problems within this year, that is 2020"

Sahara group chief

(%)

SUBRATA ROY

Q3 brings much-needed respite for state-run banks

Allahabad Bank

Bank of Baroda

Andhra Bank

Bank of India

Canara Bank

Central Bank

Indian Bank

Oriental Bank

State Bank of India

IOB

PNB

REDUCING NPAs, RISING PROFITS

Net NPA (%)

Q3FY19 Q3FY20

7.7

7.0

4.3

5.9

6.4

10.3

13.6

4.4

7.2

8.2

5.1

6.4

4.1

6.0

5.1

9.3

5.8

3.5

6.0

7.2

2.7

Change

(bps)

-260

-63

-21

10

-132

-106

-780

-92

-120

-104

-130

NPA ratio declines even as PBT improves for most; MSMEs, agri and retail segments though may see fresh stress, warn experts

HAMSINI KARTHIK & ABHIJIT LELE Mumbai, 12 February

Improvement in the profile of public sector banks (PSBs) became visible in the December quarter (Q3). Most have either reported a higher profit before tax (PBT) or moved into the black, besides reporting a dip in net non-performing assets (NPAs), compared to a year ago, even as overall credit growth remained muted.

In Q3 of financial year 2019-20 (FY20), for instance, five of the 13 banks — led by State Bank of India (SBI) — reported a year-on-year (YoY) rise in PBT, while four others -Andhra Bank, Bank of India, Central Bank and Oriental Bank of Commerce - reported PBT as compared to a loss before tax (LBT) in the December 2018 quarter.

The combined profit figures would have been higher but for the continued losses (before tax) of Allahabad Bank (₹2,195 crore) and a 162 per cent surge in LBT of Indian Overseas Bank to ₹5,902 crore in Q3FY20.

The asset quality - NPAs as a percentage of loan book as well as provisions for bad loans — also shows tion in systemic stress, mainly lumpy improvement. Of 13 lenders, 12 accounts and high provisioning costs

Q3, compared to the year-ago period. Even on a sequential basis (over O2FY20), nine saw their net NPA ratios decline or remain flat. The decline was aided by increased provisions by banks, as well as improved recovery of bad loans.

Slippages (loans turned bad) in corporate loan book have come down compared to the year-ago period. There were two finance accounts in Q3, including Dewan Housing Finance Limited (DHFL), which turned into NPAs and partly offset the gains arising from the reduction in bad loans to the tune of ₹40.000 crore because of resolution of Essar Steel loan account.

"Corporate loan NPA was 18-19 per cent in FY18 and now they are trending down to 15-16 per cent. These numbers are likely to further come down and I see a clear trend of asset quality easing in corporate loan," savs Krishnan Sitaraman, senior director of Financial Sector Ratings and Structured Finance

Ratings at CRISIL. Experts say, two factors are helping these banks - an overall reducreported a decline in net NPA ratio in that these banks have taken over the



to a comfortable level in terms of handling the asset quality, particularly on their corporate book. Jindal Haria, director, banking

and financial institutions, India Ratings & Research, says provisioning that PSBs have taken on corporate gross NPAs is 70 per cent or upwards (excluding technical write-offs). In fact, most PSBs currently work with a provision coverage ratio (PCR) upwards of 80 per cent and IDBI Bank, in particular, has PCR of 94 per cent (including technical write-offs).

These are record levels of PCR for state-run banks and the Indian bank-

4.0 Syndicate Bank 6.8 5.9 -81 Union Bank 8.3 7.0 g assets; source: Capital past years. These have brought them ing system at large. "The overall position on PCR is much better now than before and much of the stress is well

recognised. Additions, hence, could be limited," says Haria.

What's also providing comfort is the declining trend of slippages ratio or accretion of fresh NPA as a percentage of total loan book. According to CRISIL, the slippages ratio for FY20 is pegged at 3.5 per cent, which is a little lower than the 3.7 per cent level seen in FY19 and nearly half the peak slippages ratio of 7.4 per cent.

That said. Sitaraman warns that even at current levels, the slippages ratio is far from the steady level of

ago. This also means that while large corporate bad loans may not be a headache for PSBs any more, it

remains to be seen if incremental stress will add up from small loans. Two factors will matter for PSBs among others. The inter-creditor agreement or ICA signed among banks to resolve stressed loan accounts since June 2019 haven't proved successful so far. Examples such as Cox and Kings, Dewan Housing Finance and Jain Irrigation bear testimony

of this and banks have started pro-

Easing slippages



es; AQR: Asset quality review

known in the March quarter as the

validity of these ICAs would have

lapsed starting January 2020 and

banks would have to provide for them

small and medium enterprises

(MSMEs) get a one-year window for restructuring, stress is fast building in

this segment warranting higher

extent of caution. Pointing out that

the recent regulatory dispensation

only concerns standard assets.

Siddharth Purohit of SMC Capital.

Similarly, while loans to micro,

starting from March 2020 quarter.

PSBs. "What if the underlying economic situation doesn't recover even after the dispensation, that is also equally a concern," he adds. S S Mallikarjuna Rao, Punjab

said MSME loans could soon pose

the twin risk of asset quality deterio-

ration and lower pace of growth for

National Bank managing director and chief executive officer, has already guided for elevated stress in Q4 and probably for the first quarter of FY21 coming from MSME and agricultural loans. Interestingly, SBI's chief, Rajnish Kumar, in a post-results conference call indicated that debt wavier schemes have impacted recoveries and renewal of agri loans, and slippages in this segment stood at ₹2,900 crore in Q3FY20.

The uncertainty for the banking system and for PSBs, in particular, is on recoveries. Analysts say Q3 numbers were significantly comforted by recoveries from Essar Steel. "Going into March quarter, there are no big recoveries to help the financials of banks," Purohit adds.

There is some bit of stress building up on the retail loans front, too, for the entire banking sector, private banks included. Therefore, while Q3 does instill confidence on the asset quality front, the ability to sustain this is more critical for PSBs. With the finance minister recently nudging banks to raise capital on their own, it is imperative for PSBs to sustain the improvement in their financials.

IN BRIEF Maharashtra govt staff to have 5-day work week from Feb 29

The Maharashtra government on Wednesday announced five-day work week for its officers and employees beginning February 29 and extended the current work hours by 45 minutes. The government is of the view that the new structure would not only improve the quality of life of its employees but will also cut down expenses on fuel and electricity. State employees have been demanding the five-day work week since the last many years. The decision was taken at the state Cabinet meeting chaired by Chief Minister Uddhav Thackeray, which will benefit nearly 2 million officers and employees. The employees currently get holidays on every second and fourth Saturday.

E-cigarettes, similar products banned at airports, aircraft

The aviation security regulator BCAS has banned e-cigarettes and similar products on all airports and aircraft in India "E-cigarettes includes all forms of electronic nicotine delivery system, heat not burn produrts e-hookah

fter approved a ₹2,500-crore A approved a <2,500-crore infusion into three stateowned general insurance companies on Wednesday, the finance ministry is hoping the additional bill will be far lower than ₹6,950 crore announced in Budget 2020-21.

The CMDs of the three companies, Oriental Insurance, United India Insurance and National Insurance have been advised by the government to quickly bring their claims settlements in each line of business motor, health and fire — in sync with each other. The companies would soon announce the formation of joint Lok Adalats as well as take the help of the insurance Ombudsman. This would

Cabinet okays infusion of market share **₹2.5K cr into 3 PSU insurers** Centre takes steps to make insurance merger bill less than Budget Estimates

SUBHOMOY BHATTACHARJEE New Delhi, 12 February

the Cabinet

ILLUSTRATION: AJAY MOHANTY

OTHER DECISIONS IN THE CABINET

To provide autonomy to the Nod to India-Iceland pact in

know the details of the complicated cases and the extent of losses that might need to be paid up by these three firms. This is a surprise for the sector where the Ombudsman scheme has languished owing to lack of response by the insurance firms, government run or privately held. The bringing together of the

claims department of each firm would also help to improve the public perception of these companies which might otherwise face dwindling business, rapidly. Unlike life insurance, nonife policies are written for just a year, though the Supreme Court has last year ordered that third party motor insurance companies to be issued for three years. Unlike the merger of banks, where it was important to ensure that their IT framework work seamlessly with each other so that the depositors face no difference in their experience. the government-run insurance companies are primarily judged by the experience of their claims settlement practices. In. say, a motor accident case. the owner of the vehicle is not too bothered with the technological interface as much with the swiftness with which her claim is settled. "It has little to do with the technological practices but a lot to do with the efficiencv of the practices the companies have put in," said a source. The differences crop up because of competition with each other as well as with private firms. The plan now is to build on the strengths and weaknesses in different markets of general insurance of each of these firms which would also

Govt insurers' loss continues In the February 2018

NAMRATA ACHARYA Kolkata, 12 February

announced a plan to merge Public sector general insur-National Insurance, United ance companies continue to India Insurance and Oriental lose market share to private Insurance, and list the peers. As of January, the merged entity on the stock cumulative market share of the four PSU general insurance companies stood at 38.2 per cent, against 40.23 per cent in January 2019, according to the data released by the Insurance Regulatory and Development Authority of

India (Irdai). National Insurance, Oriental Insurance, United India Insurance and New India regulatory requirement of 1.5, Assurance are the four PSU according to the data. insurers, and barring New India Assurance, the others have in the second quarter (Q2) of been losing market share for FY20. The company posted some time now. However, compared to December 2019, United India Insurance has marginally gained market share in January. New India Assurance continues to have the highest market share in the general insurance space at 14.28 per cent, followed by United India Insurance at 9.19 per cent, National Insurance at 7.67 per cent, and ICICI Lombard at 7.22 per cent.

exchanges. However, there has little progress on the merger since, even as the financial health of the firms deteriorated in terms of losses, falling market share

Budget, the government had

and poor solvency ratios. National Insurance's solvency ratio, a key measure of financial strength, stood at 1.04 at the end of FY19, against the

It was 1.05 for Unite

MERGER OF STATE-OWNED GENERAL INSURANCE FIRMS

-128 133 -1,618 582 esearch Bureau npiled by BSR 2.5-3 per cent seen before asset qualviding for these loan exposures. ity deterioration about four-five years Clarity on nearly ₹2.5 trillion loan accounts covered under ICA will be

PBT (₹ crore)

Q2FY20

-2,108

141

1,127

408

507

103

592

212

633

5,060

317

-2,250

Q3FY20

-2,195

-2,197

235

120

531

170

390

256

-383

291

10,970

-5,902

Q3FY19

-726

-424

744

380

-6,728

-1,097

-2,717

6,619

-609

223

346

136

circular, adding sale, storage, distribution and advertisement of these is prohibited. **PTI**

CIA spied on India. other nations for decades: Report

The CIA read the encrypted messages of several countries, including India, for decades through its secretly owned Switzerland-based company trusted by governments all over the world to keep the communications of their spies. soldiers and diplomats secret, said an American daily. **PTI**

BS staffer dies

Assistant art director of **Business Standard Sunil** Kumar Girota passed away in New Delhi on Wednesday. He was 54. On Tuesday, he was admitted to Safdarjung Hospital after a brain haemorrhage. He is survived by his wife, son and daughter. He joined Business Standard in 2008. **BS REPORTER**

across all series for a tenor ranging between 24, 40, 60 and 120 months. The annual coupon rate ranges between 9.29 per cent and 10 per cent. The company has an AA rating. **BS REPORTER**

JM Financial to

launch NCD issue

of ₹300 cr today

JM Financial Products will

launch on Thursday the third

tranche of its non-convertible

debenture (NCD) issue for up to

shoe option of ₹200 crore. The

₹300 crore, including green-

minimum application size

would be ₹10,000 collective

City Union Bank pre-tax profit drops to ₹227 cr

Kumbakonam-based City Union Bank has posted a marginal decline in profit before tax at ₹227.43 crore during the quarter ended December, 2019, compared to ₹228.10 crore during the same period last year. BS REPORTER

I-T dept to share all taxpayers' PAN and other data with Sebi

The Income-Tax (I-T) Department will share all taxpayers' data like PAN information with Sebi to help the regulator in its probe against various entities. PTI

one round of meetings. "The exercise will also tell us more accurately how much of their money is locked up as provisioning for these cases," said a government official, aware of the developments. This will determine how much money the government may need to provide the merged entity to

bring its solvency ratio in line with the yardsticks of the insurance regulator, the Insurance Regulatory and Development Authority of India (Irdai).

Finance Secretary Rajiv Kumar recently said the merger would happen next year. The finance ministry had provided the ₹2,500 crore through the first

top 12 major ports, and improve their efficiency and competitiveness, the government approved the much-awaited Major Ports Authority Bill

bring the claims handling grants for 2019-20, which has departments of the firms closer been cleared by the Cabinet now. to each other's best practice. This is the first time ever when The CMDs have already held the government has had to put money into the insurance companies as their owner. Going ahead while each company has put up a large bill towards merger, the ministry feels the additional support needed would be reasonable. It will depend on improving what is called the solvency ratio, a measure of the balance between assets and liabilities of the companies.

The biggest drain on the solvency ratio of these companies comes from the claims from the third-party motor insurance business. According to Irdai data, the total third-party premium booked by these three companies in 2018-19 was ₹11,860.58 crore. Since no insur-

Pesticides Management Bill, 2020, approved. It will regulate the pesticide sector by fixing prices and setting up an authority their claims with each other, the

the fisheries sector

finance ministry and Irdai suspect that a lot of the resultant claims are duplicates. The claims ratio - claims paid over net earned premium for the three companies - is 108.54 per cent compared with 74 for the private sector companies (2018-19). The number for the stateowned firms has deteriorated over the past few years with United India at one stage having stopped taking out fresh group medical insurance business.

To bring clarity in the claims business, beginning with the motor portfolio, which is usually the second-largest business of these firms, the government has also decided to involve the insurance Ombudsman in each region. There are 17 such Ombudsmen spread across supplementary demands for ance companies share data on India. They are expected to take down the merger bill. pre-tax loss of ₹1,091 crore in Q2FY20, according to the data from the General Insurance Council. Oriental Insurance's solvency ratio was 1.56 in O1FY20. The company had

posted net loss before tax of ₹330 crore in O2FY20. The three insurers, under the aegis of GIPSA (General Insurance Public Sector Association), earlier appointed consultant EY to draw a blueprint for the merger plan.

A MIXED TREND



'Given the position of balance sheets, banks may not be able to go to the market'



United Bank of India (UBI), one of the oldest banks in eastern India, is set to be amalgamated with Oriental Bank of Commerce and Punjab National Bank on April 1. ASHOK KUMAR PRADHAN, managing director and chief executive officer of the bank, in conversation with Namrata Acharya and Ishita Ayan Dutt, shares his views on the banking sector and the current status of the merger. Edited excerpts:

What is your assessment of the Budget, especially its impact on public sector banks?

money from the market. Given

Increasing the deposit insurance limit to ₹5 lakh is a positive, but it will largely impact the operating profit of banks. Regarding their recapitalisation, the government has assured that capital will be provided to banks, as and when required. It

their balance sheet, they may of the three banks. not be in a position to go to the market just yet. Has the swap ratio

What is the progress on the merger? All the 34 committees

they have the combined views

have given their reports. It is being evaluated by the advisor (meanwhile, the anchor bank recommendations of has appointed one advisor). They will be in a better position is expected that banks will raise to standardise/harmonise, as



What are the broad the committees?

needed is codification and svnchronisation of products' features and processes to give clarity in the amalgamated entity.

What is the progress of the information technology (IT) merger?

We understand Infosys is working on the merger of Bank of Baroda. Hopefully they have come out with some sort of solution for BoB. If they success, that should be car- other areas/pockets. ried forward.

What will be the cost of the merger?

Initially the cost will be mostly on IT integration. The real picture will be clear after a year or so. There will be savgrowth will get a big boost. ings, in terms of administrative cost. The overlap of Is agri loan a cause branches in Punjab, Haryana, for concern? It is considered as a loan in Himachal Pradesh, and Delhi could be rationalised. It is not perpetuity. Now the regulator that we need to close the is suggesting it should be liqbranches, but some of them uidated and given afresh. We can be merged and the have suggested a part of the licence, which is freed, can be find a reasonable amount of utilised to open branches in

credit growth in the last

In the current scenario, what is the overarching concern?

Stalled projects is a major

How has the credit offtake been this financial year?

Credit offtake has been poor this financial year, 7-7.5 per cent for the banking sector. At UBI, we have been relatively better. In retail, our credit growth is 14 per cent. loan be continued and the In micro, small and medium enterprises, it is 7-8 per cent.



tion process is on.

All banks draw guidelines from

the Government of India. The framework is the same. What is





monetary policy? It was an excellent monetary policy. Definitively, credit

What is your view on the steps taken to boost

issue. In the power industry, more than ₹2 trillion is stuck. Solution in the power sector would unlock massive funds.

rest be closed/allowed again.