PSB MERGER

Gains may not accrue soon for investors

Experts say concern over growth, credit cost, and asset quality would restrict valuation improvement despite sharp correction in share prices

SHREEPAD S AUTE
Mumbai, 8 March

Based on their closing stock prices on Thursday, when the share-swap ratios involving the combination of 10 public-sector banks (PSBs) into four were announced, the exercise looks beneficial only for the shareholders of Punjab National Bank (PNB), Oriental Bank of Commerce, and Syndicate Bank.

While the mergers are expected to improve the performance of the PSBs over the long term, concern over growth, market share gains, and credit cost could keep a lid on their valuations in the near to medium term.

Mona Khetan, analyst at Reliance Securities, says: "Past PSB mergers show that both asset quality and growth are affected in the four-six quarters after the merger, making the incumbents unattractive despite sharp correction in valuation multiples."

In the current tepid environment, too, where credit growth is expected to remain moderate, pressure on market-share gains for PSBs would be more severe, even as their near-term capital position looks fair.

Analysts at Antique Stock Broking expect private banks, mainly the top five lenders, to gain more market share.

Factors such as technology advancement, faster branch expansion, and a sufficient capital base of the private sector as well as foreign banks have led to PSBs losing market share to the former in the past few years.

According to ICRA, the market share of private banks has improved to around 35 per cent as of September last year from 28 per cent as of March 2014.

Also, though PSBs have two-thirds market share, close to 50 per cent is held by the country's largest bank, State Bank of India, which has a very large business base.

Lalitabh Shrivastawa, deputy vice-president at Sharekhan, says market-share gains would be difficult for PSBs as private players have been aggressively focusing on growth.

On asset quality, the merger process will lead to increase in gross non-performing assets (NPAs) of the anchor banks — PNB, Union Bank, Canara Bank, and Indian Bank — by up to 580 basis points, based on the October-December 2019 numbers.

This, in turn, would keep credit cost (provisioning as a percentage of loan book) elevated for some more time.

Additionally, the impact of the ongoing economic slowdown and coronavirus on asset quality is still not clear, but is more likely to be negative.

India Ratings says the credit profiles of companies are likely to remain under pressure as the economy grapples with a synchronised and prolonged economic slowdown and so ₹10.52 trillion, or 16 per cent of system level corporate debt, is vulnerable to default over the next three years.

This could keep the credit cost for the corporate banking segment, not just PSBs, under pressure.

Though some corporate loan accounts are expected to be resolved, Shrivastawa says recovery could get longer.

However, the likely gains over the long term are something still keeping experts hopeful about PSBs.

G Chokkalingam, founder and managing director, Equinomics Research Advisory, says: "The merger could improve the medium-to long-term business potential of PSBs. Most PSBs, which trade at a discount to adjusted book values now, are likely to see a significant premium to their adjusted book values in the medium term."

For now, investors with less risk appetite are recommended "wait" till clarity on growth and asset quality emerges.

GOING CHEAP
Price-to-book value ratio (x)

Andhra Bank	0.00
Allahabad Bank	0.14
Indian Bank	0.17
Union Bank of India	0.24
Canara Bank	0.26
Syndicate Bank	0.27
United Bank of India	0.33
Oriental Bank of Commerce	0.35
Punjab National Bank	0.43
Corporation Bank	0.55

Trailing 12 months price-to-book value; data as of March 6, 2020; compiled by *BS* Research Bureau
Source: Bloomberg

Perpetual licences for fund managers by PFRDA soon

Considers raising fund management charges a bit

INDIVJAL DHASMANA
New Delhi, 8 March

The Pension Fund Regulatory and Development Authority (PFRDA) will issue request for proposals (RFPs) in the next two months and select fund managers for perpetuity against the current practice of issuing these licences for five years.

Supratim Bandyopadhyay, newly appointed chairman of PFRDA, said the authority expected that the existing seven fund managers and some others would apply for these RFPs.

Licences for perpetuity means these would not be revoked unless a fund manager itself wants to exit or it violates some terms. The fund managers will only need to pay fee for renewing licences.

Earlier, PFRDA had put a cap on the number of fund managers at 10. It is now having a re-look whether to increase it or not. Bandyopadhyay clarified that the licences were given for perpetuity but these would not be issued on tap. "On tap means you give some eligibility conditions and anyone filling those conditions can apply and get the licences without we issuing the RFPs." As to why PFRDA is not going for on-tap licences, he said the authority also decides fund management charges in the RFP process. "We cannot do that if we issue on-tap licences," he said. The regulator is also planning to increase this charge moderately from the existing 1 basis point.

"Currently, fund management charges are pittance. It is just 1 basis point, which means for every ₹100 you give, only one paisa is charged. We feel that there is a scope to increase it a little bit to professionalise pension funds," Bandyopadhyay said. It has yet not decided the exact fund management charges. "We will find the ideal charge," he said. On whether PFRDA will decide to issue licenses on tap later, he said,"Let us see what is the response we get on our RFPs."

Currently, there are seven pension fund managers — HDFC Pension Management, ICICI Prudential Pension Fund Management, Kotak Mahindra Pension Fund, LIC Pension Fund, SBI Pension Funds, UTI Retirement Solutions, and Aditya Birla Sun Life Pension Management.

SUPRATIM BANDYOPADHYAY, chairman, PFRDA

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PENSION FUND MANAGERS

FOR GOVT SECTOR
- LIC Pension Fund L
- SBI Pension Funds
- UTI Retirement Solution

FOR PRIVATE SECTOR
- HDFC Pension Management
- ICICI Prudential Pension Fund Management
- Kotak Mahindra Pension Fund
- LIC Pension Fund
- SBI Pension Funds
- UTI Retirement Solutions

Crypto trade getting back on track

RAJESH BHAYANI
Mumbai, 8 March

With the Supreme Court setting aside the Reserve Bank's circular banning banks from dealing with cryptocurrency, several exchanges have started opening accounts to bring back trading on exchanges like they were doing before April 2018.

However, investors have been advised caution in trading till the government the clears its stand on the issue. The Centre in February 2019 introduced a Bill proposing a ban on cryptocurrency.

Bitcoin, the largest and the first cryptocurrency, is commanding premium of 1.5-2 per cent of its cost on one of the exchange's apps which has started permitting trading against payment. Even buy-sell spread was seen very high despite new investors' registration was noticed.

Unocoin, a crypto exchange from the south, has resumed offering services. The exchange's chief executive officer (CEO), Sathvik Vishwanath, said: "We already have processed hundreds of requests for deposit and withdrawal of Indian rupee and more customers are signing up now."

Another exchange, WazirX, is expected to finalise proposals of banks that have shown interest in opening their account. The exchange was recently acquired by Binance, which is the world's largest crypto exchange.

"We have the best mobile app in India with highest rating. We will continue to offer attractive features for Indian users so that they can easily be involved in Bitcoin and other crypto. We are at testing stage," said the exchange's CEO Nischal Shetty.

"Doors to massive crypto adoption in India has now opened. It proves that we can now innovate, and the entire country can participate in the blockchain revolution. With more than 1 billion population, the Indian market is a sleeping giant," Nischal said.

He sees hundreds of new crypto start-ups in India, millions of dollars of venture capitalists' investment in this sector and more job openings.

Naveen Surya, chairman emeritus, Payment Council of India and current Chairman of Fintech Convergence Council, is bullish after the SC judgment. He, however, cautioned investors against dealing with cryptocurrency till the Centre came up with its plan to deal with it.

Investors have been advised caution in trading till the government the clears its stand on the issue. It had earlier introduced a Bill proposing a ban

Banks well capitalised, no reason to worry: CEA

PRESS TRUST OF INDIA
Mumbai, 8 March

Allaying concern over the banking sector's health in the wake of the YES Bank fiasco, Chief Economic Adviser Krishnamurthy Subramanian on Sunday said Indian banks were well capitalised and there was no reason to worry.

He further said that it was a wrong method to assess a lender's health based on the ratio of deposit to market capitalisation (m-cap).

"What I want to emphatically state is that the m-cap ratio is a totally incorrect metric for assessing the safety of the banks. No banking sector expert or banking regulator uses this measure," Subramanian said.

Experts or regulators use the capital to risk weighted assets ratio, and not the deposit/m-cap ratio as a measure to gauge resilience of banks, he added.

"What banking sector experts and regulators use is what is called the CRAR. It is important to keep this in mind that the international norms for CRAR is 8 per cent and Indian banks on an average have a CRAR of 14.3 per cent.

"So, 8 per cent is the mandated minimum norm and our banks on the average have 14.3 per cent (CRAR). Now 14.3 per cent versus 8 per cent almost translates into 80 per cent greater capital than the international norms," he said.

He further said that the Reserve Bank of India (RBI) mandates the Indian banks to keep CRAR at 9 per cent.

FROM PAGE 1

Rana Kapoor in ED custody, faces ₹4K-cr kickback probe

Rana Kapoor being after being arrested by the Enforcement Directorate PHOTO: PTI

Rana Kapoor's wife Bindu Kapoor at ED's office in Mumbai on Sunday PHOTO: KAMLESH PEDNEKAR

The agency is in possession of some crucial documents that show Kapoor bought two properties in the UK, and their valuation of which is underway. The probe agency also seized 44 paintings from Kapoor's residence.

Roshini, Kapoor's daughter, was stopped by immigration authorities from taking a Mumbai-London flight as a look-out-circular had been issued against Kapoor family members by the ED. The ED started its probe last Friday based on a first information report (FIR) filed by the Central Bureau of Investigation (CBI). The CBI in the FIR alleged Kapoor entered into a criminal conspiracy with DHFL promoters Kapil Wadhawan and others for extending financial assistance to DHFL by YES Bank in lieu of substantial undue benefits to himself and his family members through the companies held by them.

The CBI FIR also names DoIT Urban Ventures, a company allegedly held by Kapoor's family members.

The ED remand copy cited the CBI report and has explained the transaction between DHFL and Kapoor and his business enterprise in detail. According to the remand copy, DHFL had sanctioned a loan of ₹600 crore to DoIT in 2018 for repayment of an earlier loan of ₹300 crore and rest for general corporate purpose. This loan was against the five properties valued at ₹40 crore as collaterals. This happened when DHFL had already defaulted on a ₹3,700-crore loan given by YES Bank. DHFL, however, arrived at the valuations of these properties at ₹735 crore on the basis of future development potential, according to the instruction of Wadhawan. The valuations were done assuming these land parcels would be converted from agricultural use to residential. However, there has been no change in status as of now. According to the ED, the assessed value would have only been ₹485 crore even after conversion of land use. Therefore, the claimed value of these properties is highly inflated.

The ED also highlighted another loan of ₹750 crore, which was disbursed in 2018 by YES Bank to Belief Realtors (an RKW Group Company) for redevelopment of Bandra Reclamation project. Of the said amount, ₹118 crore was taken by YES Bank as processing fees and balance ₹632 crore was transferred to RKW and from there, immediately to KYTA Advisors through three group companies of Dheeraj Realty. The advisor company transferred the full amount to DHFL immediately.

Shadow over AT-1...

Fixed income experts say these bonds have been an important avenue of raising funds for banks, especially for those unable to tap the equity markets due to beaten down equity value. "Most public sector banks already can't access equity capital markets. Such a move will make it difficult for them to access debt markets as well. This is a retrograde step," a debt fund manager said.

"For the first time, AT-1 bonds are being written off ahead of equity. Equity shareholders will still own 51 per cent of the restructured bank, but AT-1 bondholders will suffer full loss. This could put brakes on fundraising in the AT-1 market," the fund manager said. Under Basel III Capital Regulations, outlined by the RBI in its master circular, an AT-1 bond is superior to equity. Meanwhile, information memorandums of such bonds highlight the risk of write-down or conversion to equity if a bank's financial health is in trouble.

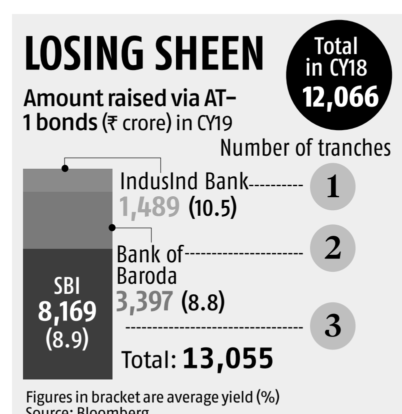
According to sources, banks are reconsidering fundraising plans through AT-1 bonds. On Saturday, IndusInd Bank decided not to consider issuing bonds for fundraising. The bank said Monday's board meeting, which was to consider issuances of AT-1 bonds and/or tier-2 bonds, was being put on the back-burner.

Fixed income experts say regulatory intervention on AT-1 bonds can further widen risk premium on such bonds, especially for smaller banks.

"Going forward, appetite for such an instrument in the market shall be muted or be available only at higher spread for risk-free names," said a person heading the institutional fixed income business of a non-banking financial company (NBFC).

Further, financial advisors say AT-1 bonds were also sold to retail investors, citing the 250-300 basis point higher yield than bank fixed deposits, without disclosing the inherent risks of write-down or losses.

So far, AT-1 bond market has been tapped by both large and small-sized banks. According to data from Bloomberg, State Bank of India raised ₹8,169 crore from AT-1 bonds in 2019. Among other banks that accessed the AT-1 bond market last year were IndusInd Bank (raised ₹1,489 crore) and Bank of Baroda (raised ₹3,397 crore). Other banks that raised capital through AT-1 bonds include Punjab National Bank, Canara Bank, Union Bank of India, Andhra Bank, ICICI Bank, and HDFC Bank, among others. Some NBFCs have also used AT-1 bonds for capital requirements.



Foreign pension...

Reforms in India's pension sector has been patchy, with several grey areas persisting in the market. For instance, the largest pension fund operator in the country, the Employee Pension System (EPS) under the Employees' Provident Fund Organisation, is run by the labour ministry and is outside the scope of the PFRDA. All private sector employees earning below a certain threshold have to mandatorily subscribe to the EPS, though the government established a bridge between the two pension systems in 2015. The most important reform will be the establishment of more than one pension trust instead of the sole National Pension System Trust. The NPS Trust was established by the PFRDA in 2008 with the execution of the NPS Trust Deed. Any worker who subscribes to the pension system run by the PFRDA comes under the NPS Trust. Their interests are guarded by the NPS' board of trustees. While the money to build up the pension funds of the workers are invested by the companies that bid for the rights, the board of trustees takes care of the assets and funds in the interest of the subscribers. The government feels that a sole NPS has stalled the development of the sector. Hence, the Trust deed will be modified to allow for multiple trusts, which can be set up by any pension company. So a foreign pension fund like, say Calpers, could run a pension fund in India and set up a pension trust for the purpose.

The existing NPS will become a self-regulatory organisation to ensure that best practices are followed by all the pension trusts. It will report to the regulator, the renamed PRDA.

Ujjwala may get...

The source said mobile vans would be introduced, giving priority to safety aspects, too.

The government had faced flak over lower Ujjwala refills, as the average number of refills by normal customer comes to around 7. The Ujjwala scheme, under which free cooking gas connections are given to poor families, was instrumental in increasing LPG coverage to 97.4 per cent households from 55 per cent. According to the ministry of petroleum and natural gas, of 275.9 million LPG consumers in India, 80.3 million consumers come under the Ujjwala scheme. "Behavioural change, further strengthening the supply chain, and a shift towards cleaner energy are some of our key priorities. We are looking for innovative ways to increase refills and sustain adoption," Petroleum Minister Dharmendra Pradhan said last week, stating "the mission is not yet complete". After the BJP government took charge for a consecutive time last year, PMUY beneficiaries were given options of 14.2-kg and 5-kg cylinders. Now, existing PMUY beneficiaries are being given the option to go for two 5-kg cylinders instead of a 14.2-kg connection.

BS SUDOKU

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Solution tomorrow

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SOLUTION TO #2992

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COVID may delay roll-out of Vivad se Vishwas scheme

There are more than 400,000 such cases eligible to avail of the scheme, and they involve at least ₹9.3 trillion.

As things stand now, tax has to be paid by March 31. Otherwise, the scheme is open till June 30 this year, but an additional 10 per cent of tax dues will need to be paid in the case of payments made after March 31.

The earlier dispute resolution scheme of 2016 provided a seven-month window till December 31, but an additional one-month extension was given. Similarly, the Sabka Vishwas Legacy Dispute Resolution Scheme, for service tax and excise duty, also saw a month's extension till January 31, 2020. Amit Maheshwari, partner, AKM Global, said: "It is not an easy decision to take in a lot of cases, especially when it involves multinationals, and hence it would take time. The frequently asked questions have been released recently and we are all racing against time to get this done."

An extension, he said, would be welcome, considering that coronavirus was affecting Indian offices as well as global/Asian headquarters of several multinationals. Rajat Mohan, partner, AMRG Associates, said the taxpayers had been given a short window to discuss, deliberate, and decide the fate of tax disputes in various forums and were related to ultra-technical issues. The deadline to pay by March 31 is pushing the envelope too far, he added.

"That has made the scheme lose its lustre. An extension of payment dates by three months without any additional charge of interest seems to be just and would motivate many more taxpayers to opt for the scheme."

The designated authority (DA) will determine the amount payable within 15 days of receiving the declaration and grant a certificate of amount to be paid. The declarant will have to deposit the money within 15 days of the determination of the tax liability. The clarification gives little time to assessees to square up by March 31 because the Bill is yet to be enacted.