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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

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IDBI Bank Wrote Off Rs45,693 Crore Bad Loans and Recovered Just 8% in 7 Years

Yogesh Sapkale, 7 September 2020
MONEYLIFE

IDBI Bank Ltd, which has received multiple bailouts in the past few years is the latest to join the list of lenders that wrote off tens of thousand crore rupees as bad loans. The bank was re-categorised as a private sector lender in January 2019 after the Life Insurance Corporation of India (LIC) increased its stake to 51% in the lender. During the past seven years, IDBI Bank wrote off total bad loans worth Rs45,693 crore but could recover just 8% of it after spending more than Rs29 crore, as the analysis of annual reports of the bank shows. The analysis is done by well-known activist Vivek Velankar as per response from IDBI Bank under the Right to Information (RTI) Act.

The government has repeatedly infused large sums of money to bailout the bank and help it meet capital adequacy requirements; this in addition to LIC acquiring a 51% stake in a bailout move.

IDBI Bank flatly refused to share information on loans of Rs100 crore and above that were written off, the names of these borrowers and the money recovered from these big defaulters with the activist.

As in the cases of the State Bank of India (SBI), Bank of Baroda (BoB), Bank of Maharashtra (BoM), and Union Bank of India (UBI) that have been reported by *Moneylife,* this is yet another example of massive 'technical' write-off with minuscule recoveries, leading to frequent recapitalisation of banks with the taxpayer's money. Such write-offs also debunk the aggressive posturing by the government and policy-makers about their so-called recovery efforts.

Rather than furnishing information about the written off debts, IDBI Bank directed the RTI activist to find out details for himself from the bank's annual reports for it. Mr Velankar did that and found that during FY2013-

14 to FY2019-20, IDBI Bank wrote off bad loans of Rs45,693 crore, including technical or prudential write-offs and loans written off other than technical or prudential. The bank recovered just Rs3,704 in the same period crore for which it incurred an expense of Rs29.34 crore.

(All Figs. In Crores)

Year	Write-off amount	Recovery Amount	Expenses incurred for the Recovery of Write-off
2019-2020	5,935	1,247	4.85
2018-2019	15,918	796	4.66
2017-2018	12,514	50	3.93
2016-2017	2,868	544	3.90
2015-2016	5,458	409	3.62
2014-2015	1,608	52	3.76
2013-2014	1,392	606	4.62
TOTAL	**45693**	**3,704**	**29.34**

(Source: Vivek Velankar, Pune)

As on March 2020, IDBI Bank has shown Rs40,313.95 crore as the written off amount, of which it had recovered Rs1,247.60 during the fiscal year. The annual report, however, does not mention the period during which this amount has been accumulated.

What is even stranger is the reply given by IDBI Bank to Mr Velankar about sharing information on loan accounts worth Rs100 crore and more that were written off. In its reply to the RTI, the lender says, "Sought information is disproportionately diverting the resources of the Bank; Hence the same is exempted from disclosure under section 7(9) of the RTI Act."

Further, IDBI Bank ought to have published on its website the names of big defaulters whose loans of Rs100 crore and above have been written off. Yet, in its reply the Bank told Mr Velankar, "The information sought is pertaining to the customers/ borrowers of the bank, which is in the nature of commercial confidence and also held such information by the bank in its fiduciary relationship, and hence the same is exempted from disclosure under section (8)(1)(d) and 8(1)(e) of RTI Act. Further, there is no larger public interest that warrants disclosure of such information under RTI Act."

However, much of this information has also been published by the All India Bank Depositors Association (AIBEA), and, yet, IDBI Bank's sympathies seem to lie with the big defaulters.

The amounts written off by the IDBI Bank eat into its profits and cause a range of charges to be slapped on ordinary depositors. Yet, the Bank asserts that there is no larger public interest involved, even though it relates directly to money in the form of savings accounts and deposits made by common people.

Yet, almost all PSBs hide behind the so-called fiduciary relations, overlooking the judgement given by the Supreme Court. In November 2015, a division bench of justice MY Eqbal and justice C Nagappan had held that the Reserve Bank of India (RBI) cannot withhold information citing 'fiduciary relations' under the RTI Act. (**Read: RBI cannot withhold information under RTI citing 'fiduciary relations': SC**)

"In the instant case, the RBI does not place itself in a fiduciary relationship with the financial institutions (though, in word it puts itself to be in that position) because, the reports of the inspections, statements of the bank, information related to the business obtained by the RBI are not under the pretext of confidence or trust. In this case neither the RBI nor the Banks act in the interest of each other. By attaching an additional 'fiduciary' label to the statutory duty, the regulatory authorities have intentionally or unintentionally created an in terrorem effect," the apex court had said.

All banks are mandated to furnish information to RBI on bad loans, loans written off and recovery on a periodic basis as part of the statutory requirements. Under such a situation, banks cannot even use the clause of fiduciary relation to deny information under the RTI Act, since this information that they have, had already been submitted to the RBI as a statutory obligation.

As the Supreme Court had rightly pointed out, RBI and the banks have sidestepped the general public's demand to give the requisite information on the pretext of 'fiduciary relationship' and 'economic interest'. This attitude of the RBI will only attract more suspicion and disbelief in them. RBI as a regulatory authority should work to make the banks accountable to their actions, the apex court had said.

Mr Velankar, president of the Pune-based Sajag Nagrik Manch, also says the same thing. He says, "If this information is in commercial confidence or held under fiduciary relation, then how did SBI share the names of its top 225 defaulters, whose loans were written off? Or does the definition of commercial confidence or fiduciary relations change with every bank? Moreover, why do the names and loan amounts written off by these big defaulters need to be kept a secret?"

"When a common borrower defaults, the same bank publishes his name and all the details through advertisements in newspapers. Why do they want to keep the names of bigger defaulters hidden? Why don't the 'confidentiality' and 'fiduciary relation' clauses apply while publicising the names of the common borrowers?" he asks.

Technically speaking, when debts are written off, they are removed as assets from the balance sheet because the bank does not expect to recover payment.

This practice is frowned upon by experts but is routinely done by banks as part of their tax management clean-up process. The beneficiaries are invariably some of our biggest industrialist defaulters.

In contrast, when a bad debt is written down, some of the bad debt value remains as an asset because the bank expects to recover it. However, as SBI, BoB, BoM and UBI have shown, most of the times, there is no recovery or negligible recovery for the amounts written off.

As reported by *Moneylife*, Union Bank of India wrote off bad debt worth Rs26,072.81 crore between FY11-12 and FY19-20 (this information pertains only to loans of over Rs100 crore).

(**Read: Union Bank of India Writes Off Rs26,027 Crore as Bad Loans in 8 years; Stalls Query on Recoveries and Big Defaulters' Names**)

Bank of Maharashtra has written off bad loans of over Rs7,402 crore in the past years, while recovering a paltry 4% in over eight years through recovery efforts. The lender wrote off bad debts worth Rs7,402 crore during four out of the past eight years, while recovering just Rs253.55 crore. (**Read: Bank of Maharashtra Writes Off Rs7,100 Crore Bad Loans; Recovers Just 4% in 8 Years**)

From 2012 to 2020, BoB had technically written off 97 accounts with bad debts of Rs100 crore and more. These add up to Rs21,476.89 crore over eight years, while recovery in that same period is just 4.91% or Rs1,056.53 crore. (**Read: Bank of Baroda Follows SBI, Writes Off Rs21,474 Crore in Bad Loans; Recovers only Rs1,057 Crore in Past 8 Years**)

Similarly, from FY12-13 to FY19-20, SBI, the country's largest lender, wrote off bad loans worth Rs1.23 lakh crore of bad debt but recovered a paltry Rs8,969 crore. (**Read: SBI Writes Off Rs1.23 Lakh Crore of Bad Debt, Recovers Paltry Rs8,969 Crore in 8 Years!**)

A few months ago, there were a lot of heated arguments about written off loans of big defaulters. In April, the Reserve Bank of India (RBI) had said that Indian banks have technically written off a staggering amount of Rs68,607 crore due from 50 top wilful defaulters, including absconding diamantaire Mehul Choksi. RBI had revealed this information in reply to an RTI query filed by Saket Gokhale.

However, at that time, everyone from the government, including the Union finance ministry and supporters of the government had insisted that technical write-off does not mean waiving off loans and efforts are on for the recovery of these written off loans.

Meanwhile, State-run lenders continue to write off huge amounts of bad loans without any real effort on recovery. All this happens, as Mr Velaknar has rightly pointed out, due to lack of checks and balances in banks by the regulator and the concerned authorities. In the end, it is the common bank customer who pays for all this financial manipulation and bad book-keeping, either through increased charges for every service or by receiving lower interest rates from the lenders on deposits or savings account.

GDP numbers should alarm us all, says Raghuram Rajan

SPECIAL CORRESPONDENT
NEW DELHI, SEPTEMBER 07, 2020

THE HINDU

Government and its bureaucrats need to be frightened out of their complacency, opines former RBI Governor

The 23.9% contraction in GDP growth numbers for the first quarter of FY 2020-21 "should alarm us all" and the government and its bureaucrats need to be "frightened out of their complacency" and into meaningful activity, former Reserve Bank of India Governor Raghuram Rajan said in a LinkedIn post.

With discretionary spending expected to stay low until the virus is contained, government-provided relief becomes all the more important, Mr. Rajan said, adding that the government's reluctance to do more today to conserve resources for a possible future stimulus is a "self-defeating" strategy.

"Without relief measures, the growth potential of the economy will be seriously damaged," he said.

Mr. Rajan said that the 23.9% contraction in India, which will probably be worse when estimates of the damage in the informal sector come out, compares with a drop of 12.4% in Italy and 9.5% in the United States — two of the most COVID-19-affected advanced countries.

"Yet India is even worse off than these comparisons suggest. The pandemic is still raging in India, so discretionary spending, especially on high-contact services like restaurants, and the associated employment, will stay low until the virus is contained," he said.

"Government-provided relief becomes all the more important. This has been meager; primarily free food grains to poor households; and credit guarantees to banks for lending to small and medium (SMEs) firms, where the take down has been patchy," Mr. Rajan added.

Further explaining, the former RBI Governor said if you think of the economy as a patient, relief is the sustenance the patient needs while on the sickbed and fighting the disease. Without relief, households skip meals, pull their children out of school and send them to work or beg, pledge their gold to borrow, let EMIs and rent arrears pile up. Similarly, without relief, small and medium firms – think of a small restaurant – stop paying workers, let debt pile up, or close permanently.

"Essentially, the patient atrophies, so by the time the disease is contained, the patient has become a shell of herself. Now think of economic stimulus as a tonic. When the disease is vanquished, it can help the patient get out of her sickbed faster. But if the patient has atrophied, stimulus will have little effect," he said.

Even if people start earning, indebted households will not consume freely, especially if they believe they have to manage further periods without livelihoods or government help. Similarly, even small and medium firms that have stayed open but have huge unpaid bills and interest will not be able to function well.

He noted that Brazil, which has spent tremendously on relief, is seeing a much lower downgrade to medium term growth than India. "So, government officials who hold out the possibility of a stimulus when India finally contains the virus are underestimating the damage from a more shrunken and scarred economy at that point."

Instead of claiming there is a V-shaped recovery round the corner, Mr. Rajan said, they should wonder why the United States, despite spending over 20% of GDP in fiscal and credit relief measures, is still worried the economy will not return to pre-pandemic GDP levels by the end of 2021.

‘Pessimistic mindset’

Stating that because of the pre-pandemic growth slowdown and the government’s strained fiscal condition, officials believe it cannot spend on both relief and stimulus, he said this mindset is too pessimistic, but the government will have to expand the resource envelope in every way possible, and spend as cleverly as possible.

“It also has to take every action that can move the economy forward without additional spending. All this requires a more thoughtful and active government. Unfortunately, after an initial burst of activity, it seems to have retreated into a shell,” he said.

On the resource front, Mr. Rajan said, India could borrow more without scaring the bond markets if it committed to return to fiscal viability over the medium term – for example, by setting future debt reduction targets through legislation, and committing to honest and transparent fiscal numbers with a watchdog independent fiscal council.

In addition to borrowing, the government should prepare public sector firm shares for on-tap sale, to take advantage of every period of market buoyancy. “The current period of buoyancy already looks like a missed opportunity,” he said. Many government and public sector entities have surplus land in prime urban areas, and those too should be readied for sale. Even if sales do not take place immediately, preparations for sale, as well as an announced time table, will give bond markets greater conviction the government is serious about restoring fiscal stability.

“Turning to government spending, the key will be to prioritize. MNREGA is a tried and tested means of providing rural relief and should be replenished as needed. Given the length of the pandemic, more direct cash transfers to the poorest households, especially in urban areas that do not have access to MNREGA, is warranted,” he said, adding that government and public sector firms should clear their payables quickly so that liquidity moves to corporations.

In addition, small firms below a certain size could be rebated the corporate income and GST tax they paid last year, with the rebate tapering off with firm size. "This would be an objective way of helping small viable firms based on a hard-to-manipulate metric, even while rewarding them for their honesty. Finally, the government will likely have to set aside resources to recapitalize public sector banks as the extent of losses are recognized."

He suggested that the private sector should also be urged to give a helping hand. Cash-rich platforms like Amazon, Reliance, and Walmart, he said, could help smaller suppliers get back on their feet, even funding some of them.

"All large firms should be incentivized to clear their receivables quickly. As the various payment moratoria come to an end, a number of entities will be unable to repay. Instead of reacting in a piece-meal way, the government should have a well-thought-out plan to deal with the coming financial distress," he said, adding that a a variety of structures should be in place to help debtors and claimants such as landlords and banks reach agreements to restructure obligations, including having unpayable amounts written off.

A number of arbitration forums should be set up to renegotiate claims of various sizes. Civil courts, debt recovery tribunals, and the NCLT should be beefed up to provide rapid back-up judgments, he recommended.

"Given the depth of the contraction, stimulus will also be needed, especially investment in infrastructure construction which creates jobs and increases demand for all manner of inputs like cement and steel. The center should replenish the coffers of the state governments, which typically spend more on infrastructure. This can be accounted for as part of the GST dues the center owes the states," Mr. Rajan said.

He added that the Centre should notify shelf-ready projects that are in the National Infrastructure Pipeline for implementation. "Given the lead time for such spending, all this should happen now," he said.

"Reforms can be a form of stimulus, and even if not carried out immediately, a timeline to undertake them can boost current investor sentiment. The world will recover earlier than India, so exports can be a way for India to grow. For that to happen, the government has to reverse its recent raising of tariffs so that inputs can be imported at low cost," he said.

Once it resets tariffs, the government should make it harder to change them at whim, else firms will not have the confidence to invest in export production, given how competitive the world is, he said, adding that to improve our competitiveness, long debated reforms to land acquisition, labour, power, and the financial sector should be implemented, as should recently announced reforms in agriculture.

"Temporary half-baked "reforms", such as the recent suspension of labour protections in a number of states, will do little to enthuse industry or workers, and give reforms a bad name," he said.

"India needs strong growth, not just to satisfy the aspirations of our youth but to keep our unfriendly neighbors at bay. The recent pick-up in sectors like autos is not evidence of the much-awaited V-shaped recovery. It reflects pent-up demand, which will fade as we go down to the true level of demand in the damaged, partially-functioning, economy. No doubt, the government and its bureaucrats are working hard as always, but they need to be frightened out of their complacency and into meaningful activity. If there is a silver lining in the awful GDP numbers, hopefully it is that," he concluded.

RBI's loan recast plan ready, relief for 26 sectors; banks to follow these rules before restructuring

FE Bureau | Sep 08, 2020

THE FINANCIAL EXPRESS

Reserve Bank of India (RBI) on Monday released guidelines for banks to follow while restructuring Covid-stressed loan exposures, across 26 sectors

The committee sets 180 days to implement the plan and makes an inter creditor agreement (ICA) mandatory

Reserve Bank of India (RBI) on Monday released guidelines for banks to follow while restructuring Covid-stressed loan exposures, across 26 sectors. The circular, based on the recommendations given by the KV Kamath Committee, said five financial metrics need to be taken into account while deciding on a recast plan: total outstanding liabilities/ adjusted tangible net worth, total debt/Ebitda, current ratio, debt service coverage ratio, and average debt service coverage ratio. For each of these parameters, RBI has prescribed either a floor or a ceiling.

Experts observed that some of the ratios were strict. For instance, RBI has said the current ratio and DSCR (debt service coverage ratio) in all cases shall be 1.0 and above, and adjusted SCR shall be 1.2 and above. Lenders are expected to ensure that the ratio of the total outside liabilities to the adjusted tangible networth (TOL/ATNW) is complied with when the recast is implemented.

Moreover, this ratio needs to be maintained, in all cases, as per the plan, by March,31 2022, and on an ongoing basis thereafter. However, wherever there is equity infusion, the ratio may be suitably phased-in over the period. All other key ratios shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter, RBI said.

The committee sets 180 days to implement the plan and makes an inter creditor agreement (ICA) mandatory. The tenure of a loan may be extended by a maximum of two years, with or without a moratorium, the panel has said. The resolution process shall be treated as invoked once lenders representing 75% by value and 60% by number agree to invoke the same.

The central bank said the resolution plans "shall take into account the pre-Covid-19 operating and financial performance of the borrower and impact of Covid-19 on its operating and financial performance' to assess cash flows for FY21/FY22 and subsequent years, suggesting some degree of flexibility.

"In these financial projections, the threshold TOL/adjusted TNW and debt/Ebitda ratios should be met by FY23. The other three threshold ratios should be met for each year of the projections starting from FY22," the report said, adding that the base case financial projections need to be prepared as part of the plan.

The sector-specific parameters may be considered as guidance for preparation of resolution plan. Also, lenders may adopt a graded approach classifying the impact on borrowers as mild, moderate and severe. "Considering the large volume and the fact that only standard assets are eligible under the proposed scheme, a segmented approach of bucketing these accounts under mild, moderate and severe stress, may ensure quick turnaround," the report said.

Severe stress cases would require comprehensive restructuring. Exceptions to thresholds were made for five sectors — auto manufacturing, aviation, real estate, roads and trading — wholesale. Any default by the borrower with any of the signatories to the ICA during the monitoring period shall trigger a review period of 30 days.

If the borrower is in default with any of the signatories to the ICA at the end of the review period, the asset classification of the borrower with all lending institutions, including those who did not sign the ICA, shall be downgraded to non-performing asset (NPA) from the date of implementation of the plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.

Forget stimulus, clear your dues: Rs 7 lakh crore unpaid dues to industry by central govt depts and PSUs

Prasanta Sahu | September 8, 2020
THE FINANCIAL EXPRESS

If the Centre's dues of Rs 2.5 lakh crore to the Food Corporation of India (FCI) are added, as on March 31, 2020, the unpaid dues by the government to various economic players could climb to around

Rs 9.5 lakh crore or 4.2% of the GDP estimated for FY21; in fact, the dues will appear to be much higher when expressed as fraction of GDP given the shrinking GDP

The central and state governments owe sugar mills over Rs 9,400 crore; the bulk of this, around Rs 8,300 crore, is owed by the Centre

Central government departments, central public sector undertakings (PSUs) and some state PSUs together owed around Rs 7 lakh crore in dues to the industry at the end of FY20. The dues may have only risen since, according to official sources. Had these monies been released to the firms concerned, it could have amounted to a big stimulus to the sinking economy, without a corresponding budgetary cost or rise in public-sector borrowings. This is because a large part of these unpaid dues to the industry are on behalf of the state-run undertakings/PSUs, many of which are cash-rich.

Besides various central government departments, the unpaid dues to the industry for goods and services procured in recent years include that of central entities such as NHAI, the railways, India Post and state power distribution entities (SEBs/discoms).

NHAI owed concessionaires, as on February 2020, around Rs 25,900 crore – Rs 5,400 crore for annuity obligations, Rs 19,300 crore of grant for Hybrid Annuity Model projects and Rs 1,200 crore of grant/viability grant funding towards BOT (Toll) projects. These apart, as on December, 2019, more than 300 highways arbitration cases involving total claims by contractors of Rs 78,653 crore were ongoing.

As on March 31, 2020, state discoms had owed Rs 91,860 crore to power generating companies; the dues increased to Rs 1.17 lakh crore as on July 31. Similarly, discoms haven’t paid Rs 6,145 crore to PowerGrid Corporation, the transmission utility.

The central and state governments owe sugar mills over Rs 9,400 crore; the bulk of this, around Rs 8,300 crore, is owed by the Centre under various heads like a production subsidy, a buffer stock subsidy and even interest subvention. Another Rs 1,100 crore is owed by states that bought electricity produced by sugar mills but have yet to pay for it. This is even as the sugar mills owe farmers about Rs 17,300 crore across the country for cane supplies.

As on March 31 this year, the Centre also owed about Rs 27,000 crore to fuel retailers towards expenditure on kerosene and cooking gas subsidy.

Expenditure secretary TV Somanathan recently said the dues from 26 top central PSUs to MSMEs were less than Rs 1,000 crore as on March 31, 2020. Including defence establishments, railways and other departmental undertakings, the dues from the Centre and departmental undertakings were less than Rs 10,000 crore by the end of last fiscal, he had said.

In May, MSME minister Nitin Gadkari had created a flutter by saying that the Central government, state governments and corporate India together owed more than Rs 5 lakh crore to MSMEs.

Former national president of All India Manufacturers Organisation KE Raghunathan had told FE that the government may be referring to the cases reported by MSME Samadhaan website, an online delayed payment monitoring system. Raghunathan had said most of the MSMEs have not taken this route for fear of repercussions to their businesses.

If the Centre's dues of Rs 2.5 lakh crore to the Food Corporation of India (FCI) are added, as on March 31, 2020, the unpaid dues by the government to various economic players could climb to around Rs 9.5 lakh crore or 4.2% of the GDP estimated for FY21; in fact, the dues will appear to be much higher when expressed as fraction of GDP given the shrinking GDP.

Of course, the FCI operations are going on largely unaffected since the NSSF loan facility has been made available to it.

The budgetary (fiscal) cost of the stimulus announced so far — 1.4% of the GDP — has been more than offset by the expenditure curbs in other areas. As FE reported earlier, the government is likely to announce another dose of stimulus by October-November, which will focus on infrastructure and construction sectors, and may include an employment scheme for the urban poor on the lines of the Mahatma Gandhi National Rural Employment Guarantee Scheme. However, even this new tranche of stimulus could prove to be economical from a fiscal perspective, even as many economists and analysts warn against such a policy line, given the collapse of private consumption and investments.

The Centre's Budget spending in April-July was up just 11.3% on year, compared with the targeted growth (Budget estimate) for the full year of 13.2%. For July, the spending growth was a mere 6% on year, against 46% achieved in June, according to the official data released separately on Monday. Worse, the budget capex in July at `23,576 crore was down a sharp 47% on year.

Rate of decline in key segments of economy has slowed in July: Assocham

PTI | September 7, 2020

THE FINANCIAL EXPRESS

Fall in steel output too has been arrested to 16.4 per cent in July, after a drop of 56.8 per cent for the April-June period, the chamber said. The Assocham analysis, however, takes production and consumption at the same level due to absence of data about the possible inventory

Fall in steel output too has been arrested to 16.4 per cent in July, after a drop of 56.8 per cent for the April-June period, the chamber said

The rate of decline in output of core segments of the economy has been arrested significantly in July, industry chamber Assocham said on Monday. India's economy had contracted 23.9 per cent in the April-June quarter, hit by the coronavirus-induced lockdowns. According to an analysis by Assocham, cement, steel and coal, which suffered heavy declines in the first quarter, recovered significantly in July 2020, even though the annualised numbers reflect contraction.

"Within the broader index of industrial production, manufacturing has the largest of the weight. Having fallen off the cliff by 40.7 per cent during the April-June quarter, it is likely to witness a rebound when July IIP data is released. However, turnaround to positive growth trajectory could be some time away," Assocham said.

After a contraction of 15 per cent in Q1 of 2020-21 over the same quarter in the previous fiscal, coal production dropped at a much lesser pace of 5.7 per cent in July, it said. Likewise, cement output in July dropped by 13.5 per cent in the month after witnessing a sharp contraction of 38.3 per cent in April-June.

"Even as we are waging an unprecedented war against COVID-19 to safeguard human lives and making best possible efforts to minimise the economic impact, key sectors of the economy are responding well to the new normal. "Whether it is a factory shop floor workman or an office-goer, or a CEO, they are finding ways to cope up with the new reality. Steady restoration of confidence should help, going forward," Assocham Secretary General Deepak Sood said.

Fall in steel output too has been arrested to 16.4 per cent in July, after a drop of 56.8 per cent for the April-June period, the chamber said. The Assocham analysis, however, takes production and consumption at the same level due to absence of data about the possible inventory.

"Things are surely challenging, but certainly not alarming and we will reshape quite well. This is not to under-estimate the unknowns about the pandemic. We hope a break-through in vaccine is achieved sooner than later," Sood added.

Other vital sectors of the economy like electricity and construction too are expected to restore much of their lost traction, Assocham said. The chamber believes that agriculture and allied sector, which remains the bright spot in the challenging times, is likely to retain the positive trajectory, thus boosting segments like tractors, chemicals, fertiliser, two-wheelers and non-discretionary consumption.

Global Multidimensional Poverty Index: Niti Aayog to leverage monitoring mechanism, sets up panel

PTI | September 7, 2020

THE FINANCIAL EXPRESS

Niti Aayog is the nodal agency for the MPI. It has also constituted a Multidimensional Poverty Index Coordination Committee (MPICC). Global MPI is an international measure of multidimensional poverty covering 107 developing countries

The Niti Aayog will leverage the monitoring mechanism of the Global Multidimensional Poverty Index to push forward reforms in the country and in this regard, the government think-tank has also set up a coordination committee. The "Global Multidimensional Poverty Index (MPI) is part of the government's decision to monitor the performance of the country on 29 select global indices", an official release said on Monday.

"The objective of the 'Global Indices to Drive Reforms and Growth (GIRG)' exercise is to fulfil the need to measure and monitor India's performance on various important social and economic parameters and enable the utilisation of these indices as tools for self-improvement, bring about reforms in policies, while improving last-mile implementation of government schemes," it said.

Niti Aayog is the nodal agency for the MPI. It has also constituted a Multidimensional Poverty Index Coordination Committee (MPICC). Global MPI is an international measure of multidimensional poverty covering 107 developing countries. It was first developed in 2010 by Oxford Poverty and Human Development Initiative (OPHI) and United Nations Development Programme (UNDP) for UNDP's Human Development Reports.

The index is released at the High-Level Political Forum (HLPF) on Sustainable Development of the United Nations in July every year, according to the release. Global MPI is computed by assigning scores for each surveyed household on 10 parameters. These are based on nutrition, child mortality, years of schooling, school attendance, cooking fuel, sanitation, drinking water, electricity, housing, and household assets.

It utilises the National Family Health Survey (NFHS), which is conducted under the Ministry of Health and Family Welfare (MoHFW) coordinated by International Institute for Population Sciences (IIPS).

The first meeting of the MPICC was held on September 2.

"Preparation of a MPI Parameter Dashboard to rank states and UTs, and a State Reform Action Plan (SRAP) are at an advanced stage of development. The MPICC will next be organising a workshop with representatives of States and UTs for taking the SRAP forward," the release said. In Global MPI 2020, India was 62nd among 107 countries with an MPI score of 0.123 and 27.91 per cent headcount ratio, based on the NFHS-4 (2015-16) data.

ED slaps Rs.100-crore fine on Standard Chartered for 2007 deal

Bloomberg September 8 | September 08, 2020

THE HINDU BusinessLine

An eight-year probe found that Standard Chartered violated the Foreign Exchange Management Act

India's anti-money laundering agency fined Standard Chartered Plc Rs.100 crore ($13.6 million) for breaking foreign exchange rules when it worked on the takeover of a local bank, marking one of the country's biggest penalties imposed on an overseas lender.

An eight-year probe found that Standard Chartered violated the so-called Foreign Exchange Management Act — which monitors offshore financial transactions — when it worked with a group of investors to buy a stake in Tamilnad Mercantile Bank Ltd in 2007, according to an August order from India's enforcement agency that was seen by Bloomberg.

Senior officials at Standard Chartered saw an investment in TMB shares as an opportunity that might ripen into an eventually larger ownership for the bank, Sushil Kumar, the enforcement agency's special director, said in the order.

A representative for the British lender confirmed receipt of the order, adding that the bank was evaluating it and so unable to comment further.

Escrow accounts

Standard Chartered — India's largest foreign bank by branches — also acted as a custodian for shares on the deal, according to the order. Tamilnad Mercantile was fined almost Rs.17 crore for similar charges, the order said.

A spokesman at Tamilnad Mercantile declined to comment, while the Enforcement Directorate didn't immediately respond to an email seeking comment.

The case dates back to about 13 years ago when Tamilnad Mercantile transferred 46,862 shares to overseas investors, including GHI Ltd, Swiss Re Investors, FI Investments and Cuna Group, without seeking permission from India's central bank, according to the order. Some of those shares were then transferred to Sub-Continental Equities Ltd, an affiliate of Standard Chartered in April 2008, without the Reserve Bank of India's permission, it said.

The transfers were done through escrow accounts with Standard Chartered, which acted as a transaction agent and a lender to one of the investors on the deal, the order said.

Standard Chartered, through its affiliate Subcontinental, was a proposed and eventually an actual investor in TMB shares to be purchased through the escrow agreement arrangements, Kumar said.

LIC Act likely to be amended to facilitate public issue

Shishir Sinha New Delhi | September 07, 2020

__To list as corporation, ensure no change in sovereign guarantee given to policyholders__

The government is likely to move a Bill in the forthcoming monsoon session of Parliament to amend the Life Insurance Corporation (LIC) Act, 1956.

This amendment, being prepared by the Department of Financial Services (DFS), will facilitate the Initial Public Offering (IPO) of the country's largest life insurer. It will also enhance its paid up equity capital.

The process to appoint merchant bankers has already been initiated. According to sources, the DFS is preparing a Cabinet proposal. The Cabinet may also consider a tagged proposal to give umbrella approval for off loading up to 25 per cent of equity in various tranches.

The government plans to come out with the IPO during the second half of the current fiscal. The amendment in the LIC Act is required to achieve at least three objectives — to list as a corporation and not as a company, expansion of paid up capital and continuation of sovereign guarantee to shareholders.

Listing as a corporation and not as company is key to ensure sovereign guarantee as there are some issues in giving sovereign guarantee under the Companies Act, 2013.

LIC Act envisages that, "The sums assured by all policies issued by the Corporation including any bonuses declared in respect thereof and, subject to the provisions contained in Section 14 the amounts assured by all policies issued by any insurer the liabilities under which have vested in the Corporation under this Act and all bonuses declared in respect thereof, whether before or after the appointed day, shall be guaranteed as to payment in cash by the Central Government."

The original capital of the Corporation was Rs.5 crore. After the 2011 amendment in the LIC Act was passed, the paid up capital was enhanced to Rs.100 crore.

Considering the size of business and to offer more shares, while retaining the government's shareholding over 50 per cent, the capital base will have to be expanded. The amendment in the Act will help achieve this.

Though, the government has not disclosed how much of its shareholding will be offloaded through the IPO, expectations are that it will be 10 per cent. Once listed, an entity is required to have at least 25 per cent of public shareholding — shares owned by those other than promoters and include institutions and individuals after three years.

According to sources, an umbrella approval of off-loading up to 25 per cent can help the government to approach the market as and when required.

The Budget documents show the government has set a disinvestment target of Rs.2.1-lakh crore, of which Rs.90,000 crore would come from the sale of IDBI Bank and LIC stake.

LIC reported a 12.42 per cent increase in total premium income in 2019-20 to Rs.3.79 lakh crore as against Rs.3.37 lakh crore in 2018-19. New business performance for the year ending March 2020 has grown by 25.17 per cent in its first year premium, by posting a highest ever figure of Rs.1.77 lakh crore.

Rejig of Covid-hit loans: RBI sets 5 key norms for lenders based on Kamath panel recommendations

Our Bureau Mumbai | September 07, 2020

THE HINDU BusinessLine

The Reserve Bank of India has specified five key financial parameters that lenders must consider before finalising resolution plans (RP) for eligible borrowers in 26 sectors, ranging from auto to trading, to mitigate the impact of Covid-related stress.

The financial parameters relating to leverage, liquidity and debt serviceability are based on the recommendations of the Expert Committee, headed by former ICICI Bank chief KV Kamath, on a 'Resolution Framework for Covid-related stress'.

In August, the RBI had permitted one-time restructuring of corporate advances and personal loans amid concerns of a spike in bank NPAs due to the Covid-19 pandemic.

Besides auto and trading, the major sectors for which the parameters (ceilings or floors, as the case may be) have been prescribed include aviation, construction, consumer durables/FMCG, corporate retail outlets, gems and jewellery, hotel, restaurants, tourism, power, and real estate.

The five financial parameters are: Total Outside Liabilities (TOL)/Adjusted Tangible Net Worth (ATNW); Total Debt/EBITDA; Current Ratio; Debt Service Coverage Ratio (DSCR); and Average DSCR.

Under the RBI's framework, only borrowers classified as standard and with arrears of less than 30 days as on March 1, 2020 are eligible for resolution.

Other sectors

Where sector-specific thresholds have not been specified, lending institutions shall make their own internal assessments regarding TOL/ATNW; and Total Debt/EBITDA.

However, the current ratio and the DSCR in all cases shall be 1.0 and above, and ADSCR shall be 1.2 and above.

The central bank said lending institutions are free to consider other financial parameters as well while finalising the resolution plan apart from the mandatory five key ratios and the sector-specific thresholds prescribed.

Graded approach

Given the varying impact of the pandemic on sectors/entities, the RBI said the lending institutions may, at their discretion, adopt a graded approach depending on the severity of the impact on the borrowers, while preparing or implementing the resolution plan. Such an approach may also entail classification of the impact on the borrowers into mild, moderate or severe, as recommended by the Committee.

India Ratings has estimated that around 7.7 per cent (Rs.8.4-lakh crore) of the total bank credit as at end-March 2020 from corporate and non-corporate segments could get restructured under the Covid resolution framework.

ED arrests Deepak Kochhar in money laundering case

Our Bureau. Mumbai | September 07, 2020

BusinessLine

The Enforcement Directorate has arrested Deepak Kochhar, husband of Chanda Kochhar, former ICICI Bank MD & CEO, in the ICICI Bank-Videocon loan case. The arrest was made in Delhi after the ED questioned him for a few hours.

The ED had filed a criminal case under the Prevention of Money Laundering Act (PMLA) early last year against Chanda Kochhar, her husband, and Venugopal Dhoot of Videocon Group alleging irregularities in sanction of loans of Rs.1,875 crore by ICICI Bank.

Restructuring 2.0: Expert committee leaves little wiggle room for banks, poses challenges

Radhika Merwin, BL Research Bureau | September 07, 2020

BusinessLine

Arriving at resolution plans can be a herculean task with the panel's one-size fits all approach

Recognizing that the Covid-19 pandemic has affected the best of companies and that the impact has been pervasive across sectors, the expert committee constituted by the RBI to make recommendations on the resolution framework to deal with Covid-led stress, has set out five financial metrics, covering 26 sectors. Sectors such as Agri, IT, food processing, have been excluded from the list of sectors. But with 72 per cent of the banking sector debt (analysed by the committee)-- about Rs.37.7 lakh crore-- affected by the Covid pandemic, the list covers a comprehensive set of sectors.

While the committee's recommendations ensure uniformity by putting forth specific thresholds for specific sectors, excessive standardization may prove counter-productive. After all, within each sector, companies operate in different sub-segments, across different markets and are vastly diverse in size and structure. Hence the one-size fits all approach may make it difficult to arrive at a resolution plan. Also, it could be a herculean task to project financial performance and cash flows to prepare the resolution plan, as laid down by the committee, in many cases.

Giving more freedom to banks to set out internal policies and parameters, while deciding on the resolution plan, would have been welcome.

Key recommendations

To ensure that the restructuring is made available particularly to those borrowers who have been hit by the pandemic (and not perennial stressed accounts), the RBI had mandated that only those borrowers that were 'standard', and not in default for more than 30 days with the bank as on March 1, 2020, will be eligible for restructuring.

The expert committee was to recommend a list of financial parameters which would need to be factored into the assumptions for each resolution plan, and sector specific benchmark ranges for such parameters.

The panel has selected five financial parameters--total outside liability / adjusted tangible net worth (TOL / ATNW, essentially debt to equity), total debt / EBIDTA, current ratio (current assets by current liabilities), debt service coverage ratio (for the relevant year) and average debt service coverage ratio (for period of the loan)---covering key aspects of leverage, liquidity and debt serviceability.

Given that the ideal levels of these ratios would vary across sectors, the committee has set different thresholds for each of the 26 sectors. For instance, while TOL/ATNW threshold for auto and auto components is fixed at <=4 and <=4.5 respectively, for aviation and real estate (commercial) which use more debt financing the limit has been set at a higher <=6 and <=10 respectively. For total debt/ EBIDTA the threshold ranges between <=4 to <=12.

Current ratio for all sectors has to be >=1, barring aviation (set at lower 0.4) because of its cash and carry model for revenue purpose.

Apparent hitches

While the committee has recognized sector-specific disparities, it has failed to take cognizance of distinctions within a sector across companies. This could pose challenges in arriving at resolution plans in many of the cases. For instance, within the auto components space, there are players that differ vastly in size, in the products they manufacture and the sub-segments (cars, CVs, or two-wheelers etc.) they cater to. It would be difficult to arrive at a resolution plan based on fixed parameters, in many cases.

To meet the set of five financial metrics itself may be difficult, as in certain cases, many of these metrics may not be relevant or difficult to assess. For instance in case of roads sector, the committee has itself stated that given that the financing is cash flow based and at SPV level, ratios like TOL / ATNW, Debt/EBITDA and current ratio may not be relevant at the time of restructuring. There could be other companies in other sectors which have a negative working capital cycle, which may not be able to meet the panel's threshold limits on current ratio.

Projections difficult

The panel has stated that the sector specific parameters are to be considered as guidance for preparation of resolution plan for a borrower in the specified sector. The plan should be prepared based on the pre-Covid-

19 performance of the borrower and impact of Covid-19 in the June and September quarter, to assess cash-flows for FY21 / FY22 and subsequent years. In these financial projections, the threshold set for TOL/Adjusted TNW and debt/ EBIDTA ratios should be met by FY23. The other three threshold ratios should be met for each year of the projections starting from FY22.

In many businesses, it may be difficult to arrive at cash flow projections. The pandemic led lockdowns and restrictions have only made the task more difficult. Taking a view on the long term operational and financial performance of companies, particularly cash flows would be no mean task, given the prolonged uncertainty.

Given that lenders have made the initial assessment while sanctioning loans, more leeway and flexibility should have been given to banks to arrive at parameters, while deciding the restructuring, but with reasonable caveats.

Devious borrowers make life tough for bank recovery officers

K Ram Kumar Mumbai | September 07, 2020

THE HINDU BusinessLine

In a viral video, the wife of a borrower threatens she'd file a rape case against the bank's recovery officers

Bank recovery officers visiting a customer's premises for recovery of loans had better take a lady official and a videographer along with them when they go on recovery rounds. This can ensure that some recalcitrant customers don't resort to devious ways to force them to beat a hasty retreat.

A WhatsApp video that has gone viral recently in banking circles underscores the importance of such precautions. It shows three-four middle-aged recovery officials from a bank shaken when a customer's aggressive wife unleashes a volley of expletives and even threatens to file a rape case.

A routine recovery exercise almost turned into a nightmare for the bank officials. The lady apparently took umbrage to the manner in which the bank officials spoke with her husband and wanted them to apologise.

While the conversation that took place between her husband and the bank officials is not captured in the video, her browbeating them is clearly seen and heard. The location where this incident took place seems to be Bengaluru as the lady spoke to them in four languages — Tamil, English, Hindi and Kannada.

The lady proved too much for the officials to handle, with one of them almost falling at her feet when she uttered the 'R' word. It spooked him.

A senior public sector bank official said just like a woman constable or a sub-inspector is a part of police teams, it could be a good idea to include a lady as part of banks' recovery teams as some defaulting customers are adept at outwitting banks.

Videographing the interaction with the customer is advisable as it will ensure that bankers are protected from customers' allegations, he added.

Referring to the video, the official observed that the bank can take legal action against the lady for preventing a public servant from discharging his duty. Under Section 46A of the Banking Regulation Act, 1949, "Every chairman, director, auditor, liquidator, manager and any other employee of a banking company shall be deemed to be a public servant for the purposes of Chapter IX of the Indian Penal Code."

S Nagarajan, General Secretary, All India Bank Officers' Association, observed that just like a devil can cite the scripture for his purpose, wilful defaulters too exploit loopholes in the law and resort to Machiavellian tactics to keep bank recovery officers at bay.

'States soon to be ranked on poverty index parameter'

Our Bureau New Delhi | September 07, 2020

THE HINDU BusinessLine

The MPICC will hold workshop to take State Reform Action Plan forward

A Multidimensional Poverty Index (MPI) Parameter Dashboard to rank States and UTs and a State Reform Action Plan (SRAP) are at an advanced stage of development, according to the NITI Aayog, the nodal agency for the Global MPI to drive reforms in India.

"The inaugural meeting of the MPI Coordination Committee (MPICC) was held on September 2, 2020. Preparation of a MPI Parameter Dashboard to rank States and UTs, and a SRAP are at an advanced stage of development.

MPICC workshop

"The MPICC will next be organising a workshop with representatives of States and UTs for taking the SRAP forward," an official release circulated by the NITI Aayog on Monday stated.

Global MPI is part of the Centre's decision to monitor the performance of the country in 29 select global indices. The objective of the 'Global Indices to Drive Reforms and Growth' exercise is to fulfil the need to measure and monitor India's performance on various important social and economic parameters and enable the utilisation of these indices as tools for self-improvement, bring about reforms in policies, while improving last-mile implementation of government schemes, the release said.

The MPICC, chaired by the Adviser (Sustainable Development Goals) has members from relevant line ministries and departments such as Power, Woman and Child Development, Telecommunication, Statistics and Programme & Implementation, Rural Development, Petroleum & Natural

Gas, Food & Public Distribution, Drinking Water & Sanitation, Education, Housing & Urban Affairs, Health & Family Welfare, and Financial Services.

"These ministries/departments have been mapped to the 10 parameters of the index. Experts from OPHI and UNDP, as the publishing agency, have also been on-boarded for their technical expertise," the release stated.

SBI plans to hire more than 14,000 employees

Our Bureau. Mumbai | September 07, 2020

THE HINDU BusinessLine

The bank also plans to introduce 'On Tap VRS' to reduce costs

State Bank of India (SBI), on Monday, said it has plans to recruit more than 14,000 employees this year.

This announcement comes even as India's largest bank is planning to introduce an 'On Tap VRS' to optimise human resources and costs. SBI emphasised that it is expanding its operations and requires people. This is evidenced by the fact that the bank has plans to hire more than 14,000 employees this year, according to the bank's statement.

On Tap VRS

Referring to the 'On Tap VRS', SBI underscored that it has an existing workforce of around 2.50 lakh, and has been in the forefront of serving employee needs and designing ways and means for engaging and assisting employees in their life journey.

"In this backdrop, it was thought to provide a congenial solution to employees who expressed desire for making strategic shift in their vocations, either due to professional growth limitations, mobility issues, physical health conditions or family situation," the bank said.

As per the proposed eligibility criteria, 11,565 officers (from the Junior Management Grade Sscale – I to the Top Executive Grade Special Scale-I) and 18,625 award staff (clerical and sub-staff) members will be eligible for the scheme, which comes in the backdrop of increased digitialisation and outsourcing by banks.

Net savings

As per estimates based on July 2020 month's salary, the bank expects net savings of Rs.2,170.85 crore if 30 per cent of eligible employees opt for retirement under the scheme. The scheme will be kept open for three months from December 1 to February-end every year.

The scheme will be open to all permanent officers and award staff (including those from erstwhile associate banks and erstwhile Bharatiya Mahila Bank), who have put in 25 years of service and completed 55 years of age as on the date of application; officers who missed three or more promotion opportunities in present scale; on mobility ground/ mobility restriction for self or as caretaker.

The staff member whose request for retirement under VRS has been accepted will be paid an ex-gratia amounting to 50 per cent of salary for the residual period of service (up to the date of superannuation), subject to a maximum of 18 months last drawn salary.

As per the objectives of the scheme, it provides an option and 'respectable' exit route to the employees who have reached a level of saturation in their career; may not be at the peak of their performance; have some personal issues or want to pursue their personal/ professional life outside of bank; and have better opportunities elsewhere.

ALL INDIA BANK EMPLOYEES' ASSOCIATION
Central Office: PRABHAT NIVAS
Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001
Phone: 2535 1522 Fax: 2535 8853, 4500 2191
e mail ~ chv.aibea@gmail.com
Web: www.aibea.in