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Corporate credit offtake rises in FY19, but no material change seen

G Naga Sridhar Hyderabad | May 12, 2019

BusinessLine

The lag effect of investment may explain shrinking factory output, low demand in Q4

Corporate credit offtake increased significantly in the financial year ended March 31, 2019 compared to the previous year, going by data available with major banks. Yet, the situation on the ground has not showed a commensurate change.

On the contrary, factory output has contracted and early fourth quarter results of India Inc., do not suggest an increase in the demand for goods or services.

State Bank of India (SBI) recorded a 14.83 per cent increase in corporate credit growth in FY19 compared to 2.18 per cent the previous fiscal. Advances rose to ₹8,51,638 crore (₹7,41,668 crore).

SBI has been stepping up corporate lending in the recent past, setting up an exclusive corporate advances group and a corporate clients group to address the needs of different categories.

As per the strategy outlined in the analyst presentation for the year on Friday, post its fourth quarter results, SBI plans to reach out to new segments look for product penetration across high priority relationships.

ICICI Bank, too, said that it witnessed 'continued' growth in its domestic corporate loan portfolio at 14 per cent year-on-year (YoY). The data of many public sector banks also reveals a similar picture.

Not just of individual players, even the RBI's data on industry-wise deployment of bank credit presents an encouraging picture.

While total credit to industry inched up 6.9 per cent, the highest Y-o-Y increase was under the broad category of 'infrastructure lending' at 18.5 per cent. Within this, credit to telecommunications was up 36 per cent.

Chemicals and chemical products, engineering, and cement and cement products were the other categories that showed increased bank credit off-take.

Manufacturing growth

While higher corporate credit off-take should lead to higher investments and an increase in production/job creation, the latest Central Statistics Office data on the manufacturing sector shows a negative growth.

Factory output, as measured by the Index of Industrial Production (IIP), contracted by 0.1 per cent in March 2019 against a growth of 5.3 per cent in March 2018; this was the lowest since June 2017, when it contracted by 0.3 per cent.

Net sales of India Inc, which had grown at a brisk 26-27 per cent in the September and December quarters, slowed to 16 per cent in the last quarter of the fiscal year.

Uneven disbursal

This is possibly because of uneven disbursal of loans and the lag-effect in the transmission of bank loans converting to investments.

Devendra Pant, Chief Economist, India Ratings and Research (Fitch Group), pointed out that bank lending is one of the key sources of funding for businesses, but other factors also determine growth. "We also need to take into consideration factors such as lag-effect and nature of demand in this regard," he added.

The health of a few businesses is still a matter of concern for banks when it comes to lending as beverages and tobacco, textiles, basic metals and metal products, gems and jewellery showed a dip in off-take of loans.

With the RBI softening its monetary policy and expected to cut rates for a third consecutive time next month, the investment sentiment among corporates might improve in the short to medium term.

Imminent crisis in NBFC sector, says Corporate Affairs Secretary

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There is an "imminent crisis" in the non-banking financial companies (NBFCs) sector as misadventures by some large entities and credit squeeze present a perfect recipe for disaster, according to Corporate Affairs Secretary Injeti Srinivas

In recent months, the country's financial system has been grappling with multiple woes in the wake of the turmoil at the diversified IL&FS Group as well as debt defaults by some other large entities.

"There is an imminent crisis in the NBFC sector. There is a credit squeeze, over-leveraging, excessive concentration, massive mismatch between assets and liabilities, coupled with some misadventures by some very large entities, which is a perfect recipe for disaster," Srinivas said in an interview.

However, he added that "responsible" companies are managing the risk well and are not facing such a dire situation.

Defining moment

Srinivas also said corporate governance in India is being put to test. "It is a defining moment. The way things are moving, in the medium to long term it will be for the good. In the short term, there can be turbulence," he said.

"If you are responsible, you manage the risks. There are many companies in the country that have strong corporate governance. They take risks but manage them as well. So, they don't face such a dire situation that some others are facing today," Srinivas said.

Amid instances of non-performing assets (NPAs) being linked to external factors, he noted that it would not be a convincing explanation. "To say that the situation (NPA) can be attributed entirely to external factors and business risks is not a convincing answer because there is something known as responsible behaviour," he emphasised.

Earlier this month, former Prime Minister Manmohan Singh said the banking sector is "under severe stress" and the way out of "this mess" is to reverse some "gross distortions", work closely with the RBI, restart the process of credit delivery and ensure sufficient liquidity and cash in circulation.

Need to breathe life back into WTO

Ajay Srivastava | May 12, 2019

BusinessLine

Rich countries are pushing their agenda in areas such as e-commerce. Developing country interests should be safeguarded

These are challenging times for developing countries at the WTO. Ministers and officials of 23 Developing and Least Developed Countries (LDCs) will bear the brunt of the Delhi heat on May 13-14 to brainstorm trade issues of long-term consequences. India is hosting this informal ministerial of select WTO members.

The four significant issues of concern to developing countries are: (i) Push for a new decision making model at the WTO — from the current all-member consensus principle to small group-based plurilaterals; (ii) Push for negotiations on e-commerce where understanding is limited; (iii) Push for abolishing flexibilities available to developing countries; (iv) Prevent the Dispute Settlement Mechanism (DSM) from becoming dysfunctional. Let us understand the key arguments of each issue.

Plurilaterals: WTO members at the launch of the Doha Round in 2001 agreed for an ambitious development-centric negotiation agenda on agriculture subsidy, market access and services. However, big countries seem to have lost interest in these issues and are pursuing new subjects of interest to their corporates. This is the background for their pursuing plurilaterals. But could consenting members coming together to sign plurilateral agreements be an alternative to the consensus-driven decision making at the WTO? Even plurilaterals should be introduced only by consensus of all WTO members.

Developed countries do not agree. They took the first step and proposed four plurilaterals in the last WTO Ministerial meeting at Buenos Aires in December 2017. Areas are e-commerce, investment facilitation, MSME and gender. As many as 70-100 members support these. But, should large participation legitimise the action? Developed countries can quickly get such numbers. Fifty LDCs with little domestic capacity say yes to them. Add OECD countries including 28 EU members and number crosses 100.

Looking at the push from developed countries, many feel days of multilateral level rule-making may be numbered. And Agreement on Fishery subsidy slated for next year could be the last Multilateral Agreement of the WTO. The real game is between developed countries on one side and large developing countries such as India, Brazil, South Africa, and Indonesia, etc. on the other. China has already joined most plurilaterals.

E-Commerce: This sector has most dollars at stake and hence is turning out to be the most heated. Large US technology firms dominate the digital economy space. Google and Facebook deal with data and services while Amazon sells goods. With a technology lead backed by deep pockets, they have no rivals in any country. Except for China, which followed a three-pronged strategy.

It did not allow entry to Google or Facebook and gave a tough time to Amazon. It also developed national champions like Baidu and Tencent.

China also introduced cyber security laws and other necessary regulations creating a robust ecosystem. Only after fortifying its interests, China has joined the e-commerce plurilateral negotiations. It is now in a position to negotiate global markets for Baidus and Tencents while preventing the free run of Google or Facebook.

India has taken steps to introduce e-commerce policy framework, online data protection and data localisation rules. These need to be expanded and woven into a central law. India also needs to promote national champions. But nurturing firms needs active government support. Imagine one obscene or hyper-national rant on an Indian platform and the promoter lands in jail. Who bothers about such things on Google or Facebook?

On their part, the US, EU, and Japan are in a great hurry to have WTO rules on e-commerce. The US wants no restrictions to data flow, the EU wants full protection of personal data, while others like India, countries of Africa and Indonesia feel it’s too early to make global rules at the WTO. Members that are interested may sign FTAs.

Countries are still grasping the significance of issues like data flow, server localisation, mandatory disclosure of source code, etc. Here is an example, how half-baked understanding does not help.

One country prescribed disclosure of source code as a necessary condition for grant of business. Firms from most countries declined. Finally, a Chinese firm shared the code and got the business. It turned out that the code was dynamic and changed every moment. Signing a deal without complete understanding will throw such surprises. It would turn the world into a passive consumer with no place for domestic firms.

Special and Differential Treatment: SDT are flexibilities allowed by WTO to developing countries and LDCs in implementation of the WTO agreements. A few examples are (i) higher domestic support for agriculture, (ii) Export subsidy not to be treated as prohibited subsidy for developing countries with less than $1000 per capita income, (iii) longer implementation period under various WTO agreements like TRIPS.

How SDTs were incorporated in the WTO agreements is interesting. Developed countries accepted SDT elements in return of developing countries agreeing to developed countries' proposals on introducing non-trade subjects like intellectual property in the WTO.

But now the US, EU and Japan argue that developing countries are sufficiently developed and do not need SDT which should be limited to LDCs alone. Most developing countries including India, China, and countries of the African group oppose this move. They argue that gap in the standard of living between developed and developing countries has only increased over the years and hence SDT must continue. Also, SDTs are part of the WTO agreement, so any change would require negotiations among all members.

Dispute Settlement Mechanism: DSM has proven to be the most useful of the WTO bodies, settling over 500 trade disputes. But it is at risk of being dysfunctional with the US stopping the appointment of Appellate Body members. The US probably foresees that most of Trump's action would fail the DSM test. It will stop functioning from December 2019 with the retirement of last of the three members. Without DSB, the WTO will lose its bite as countries cannot not be tried for violating WTO rules.

WTO has been a fertile ground for the power play. But the developing countries secured a reasonable deal in the past by having a common position. Time will tell if they are lucky again.

Finance Ministry rejigging process to speed up CPSE sales

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In last fiscal, the government raised Rs.84,972 crore from disinvestment, of which Rs.15,914 crore came in from strategic stake sale

The finance ministry is reworking strategic sale procedure to ensure outright sale of CPSEs within 4 months of issuance of documents to potential investors, a move aimed at ensuring speedier conclusion of the entire process, an official said.

However, for CPSEs like Air India, which are relatively bigger in size, the timeline for completion of strategic sale is likely to be fixed at 6 months from the date of issuance of Preliminary Information Memorandum (PIM) about the company.

Currently, there is no set timeline for concluding strategic sale of a state-owned company and the entire process, in some cases, drags on for months, if not years.

"The strategic sale policy is already in place, but the procedure needs to be streamlined so that the sale process is completed within 3-4 months' time. The thinking is that if a process cannot be completed in 4 months then it should be abandoned," an official told PTI.

Facing a daunting task of meeting the Rs.90,000-crore disinvestment target in the current fiscal, the Department of Investment and Public Asset Management (DIPAM) will focus on outright sale of selected CPSEs, which have been pending for long. NITI Aayog has already identified 35 profitable and loss-making CPSEs which can go in for strategic sale.

"The procedure would be drafted in a way such that the process can go on simultaneously for more than one CPSE. For bigger CPSEs, the timeline for completion of sale could be extended till about 6 months," the official added.

Shortlisted companies

The companies which have been shortlisted for strategic sale include Air India, Air India subsidiary AIATSL, BEML, Scooters India, Bharat Pumps Compressors, and Bhadrawati, Salem and Durgapur units of steel major SAIL.

The other CPSEs for which approvals are in place for outright sale include Hindustan Fluorocarbon, Hindustan Newsprint, HLL Life Care, Central

Electronics, Bridge & Roof India, Nagarnar Steel plant of NMDC and units of Cement Corporation of India and ITDC.

The process for strategic sale of many state-owned companies started back in late 2017 or early 2018 but the transactions could not be concluded.

The DIPAM had issued PIMs for sale of Pawan Hans, Bharat Pumps & Compressors Ltd, Hindustan Fluorocarbons Ltd in April 2018, while the same for Scooters India, Hindustan Newsprint was floated in March 2018. The same of SAIL's Alloy Steel Plant was issued in February, while that of Hindustan Prefab was posted on website in October 2017. However, these transactions could not be completed so far due to variety of reasons.

In last fiscal, the government had raised Rs.84,972 crore from CPSE disinvestment, of which Rs.15,914 crore came in from strategic stake sale.

During the fiscal, state-owned NBCC bought government stake in HSCC for Rs.285 crore. Besides, a consortium of four ports acquired the government's 73.44 per cent stake in Dredging Corp of India for Rs.1,049 crore, while National Projects Construction Corporation (NPCC) was sold for Rs.80 crore.

An amount of Rs.14,500 crore was raised by way of state-run state-run Power Finance Corp acquiring the government stake in REC.

So far in current financial year, the government has mopped up Rs.2,350 through disinvestment transactions.

Insolvency: Institutional creditors may have to fork out liquidation costs upfront

KR Srivats New Delhi | May 12, 2019

THE HINDU BusinessLine

The IBBI felt that this may prove to be burdensome for the retail individual creditors

Secured institutional financial creditors may have to bear liquidation expenses upfront, according to the Insolvency and Bankruptcy Board of India's (IBBI) latest proposal.

The proposal states that upfront expenses should be paid if the debtor company has no liquid assets available to defray the costs.

By coming up with this proposal, the IBBI has rejected the suggestion of stakeholders that the cost of liquidation may be borne by all the financial creditors upfront, and the same may be recovered from sale of assets.

The IBBI felt that this may prove to be burdensome for the retail individual creditors.

It preferred that the liquidation costs be borne by the secured institutional financial creditor and recovered from sale of assets.

The IBBI may in the coming days mandate that the Committee of Creditors (CoC) consider an agenda item, while rejecting a resolution plan or deciding to liquidate the corporate debtor, providing for liquidation expenses.

Estimating cost

The CoC must consider the estimated amount of liquidated costs, the availability of liquid assets, and the balance amount for meeting the liquidation costs.

The secured institutional financial creditors will have put in upfront the balance, in an escrow account with a scheduled bank. This must be done within seven days of the liquidation order.

The money brought in by the secured institutional financial creditors — along with the interest at the bank rate thereon — would then have to be included in the liquidation cost, the IBBI has said.

Meanwhile, the IBBI also proposed increasing the upper age limit to 75 years for independent directors of the Insolvency Professional Agency (IPA) and Information Utilities (IUs).

The current regulations provide that an individual may serve as an independent director for a maximum of two terms of three years each, or up to the age of 70 years, whichever is earlier.

The main objective to relax the upper age limit is to provide a little leeway, given that the IPAs need experienced individuals as independent directors, sources said.

RBI proposes mobile app to help visually impaired to identify currency notes

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Around 80 lakh people are likely to benefited by this initiative

The Reserve Bank of India proposes to come out with a mobile application to aid visually impaired persons in identifying Indian currency notes.

At present, banknotes in the denominations of Rs.10, 20, 50, 100, 200, 500 and 2,000 are in circulation, besides Re 1 notes issued by the Government of India.

Intaglio printing based identification marks for helping the visually challenged in identification of denomination of banknotes are present in notes of Rs 100 and above.

The RBI has solicited bids from technology firms for developing the mobile application.

"The application should be able to identify denomination of legal tender banknotes of Mahatma Gandhi Series and Mahatma Gandhi (New) series by capturing the image of the notes placed in front of mobile camera or scrolled across it," said the request for proposal issued by the central bank.

Also, the mobile application should be searchable via voice option in all app stores, it said.

"The mobile application should be able to identify the bank note denomination in 2 seconds or less," the RBI said, and added that the app should also work in offline mode without internet connection.

Further, the mobile application shall provide multi-lingual support as well as audio notifications. The application is expected to support Hindi and English language as a minimum, it said.

Cash constitutes the most important means of transaction in the country. As on March 31, 2018, there were about 102 billion pieces of banknotes in circulation having a value of Rs. 18 lakh crore.

There are about 80 lakh blind or visually impaired people in the country, who are likely to benefit from the initiative of the central bank.

In June, 2018 the central bank had declared that it would explore the feasibility of developing a suitable device or mechanism for aiding the visually impaired in the identification of Indian banknotes.

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