QUICKLY

Rajnish Kumar elected IBA chief
Mumbai, October 18
SBI Chairman Rajnish Kumar was elected Chairman of Indian Banks' Association (IBA) by its managing committee on Friday for 2019-20. The committee also elected three deputy chairmen – G Rajkiran Rai, MD and CEO, Union Bank of India; SS Mallikarjuna Rao, MD and CEO, Punjab National Bank; and Madhav Kalyan, MD and CEO, JP Morgan Chase Bank. Rakesh Sharma, MD and CEO, IDBI Bank, was elected honorary secretary of the association for the year 2019-20. OUR BUREAU

Rupee up 2 paise versus US dollar
Mumbai, October 18
The rupee closed almost flat at 71.14 per US dollar amid hardening crude oil prices and lacklustre global cues. At the forex market, the rupee opened at 71.20 versus the US dollar. It traded in range of 71.31 and 71.05 during the day, before finally finishing at 71.14, up 2 paise from its previous close. PTI

BankEdge to increase training centres
Mumbai, October 18
BankEdge, one of the most economical banking and finance academies, plans to train 50,000 students over the next four years to enable them become banking professionals with leading banks, NBFCs, and other financial sector players. The company, which operates through about 64 training centres, plans to increase it to 150 to provide an opportunity for students from Tier-II and Tier III centres to get jobs in the banking sector. OUR BUREAU

MPC MINUTES

Slowdown, weak consumer sentiment prompted RBI's 25-basis-point rate cut

Experts see space for further cut in repo rate to boost domestic growth

OUR BUREAU
Mumbai, October 18

In the face of continued slowdown in economic activity and weak business and consumer sentiment, all six members of the monetary policy committee (MPC) recommended a cut in the policy repo rate, as per the minutes of the committee's meeting released by the Reserve Bank of India (RBI) on Friday.

While five members of the MPC recommended a 25 basis point (bps) cut in the policy repo rate, Ravindra Dholakia, former professor, Indian Institute of Management, Ahmedabad, pushed for a larger 40-basis-point cut to boost growth. Eventually, majority opinion prevailed, with the RBI cutting the policy repo rate by 25 bps from 5.40 per cent to 5.15 per cent on October 4.

Scan & Share

Accommodative stance

Benign retail inflation and the expectation that it will remain below the 4 per cent target proved to the clincher in the rate-cut decision. All members voted for continuation of the accommodative monetary policy stance, with four specifically stating that this stance continue until the economic activity is reinvigorated.

Chetan Ghate, Professor, Indian Statistical Institute, observed that growth impulses continue to be weak. Given this, the MPC has been pro-active in adjusting policy as reflected in the quantum of past rate cuts. He opined that "monetary policy, however, cannot be a permanent form of stimulus. As Lawrence Lindsey says in his book, *The Growth Experiment Revisited* (Basic Books, 2013), monetary policy should lean against the wind and help stabilise the business cycle. But it cannot become the wind itself, particularly one that blows at gale force."

Referring to the slowdown in growth on the domestic and global fronts, along with benign headline inflation and the expectation that it will remain below target, Pami Dua, Director, Delhi School of Economics, felt that there is policy space to further cut the policy repo rate to boost domestic growth within the flexible inflation targeting mandate.

Dholakia said in spite of late efforts by the RBI and Central government to provide the monetary and fiscal boost, it appears that growth recovery may take longer than expected.

"In my opinion, we need to maintain accommodative stance with possible rate action till growth recovers provided the inflation remains within the target...enough space exists...for a 40 bps reduction in the policy repo rate now with space still existing for future till growth recovers," explained the former IIM professor.

MD Patra, Executive Director, RBI, underscored that downturn in the economy, and especially in spending, may be deeper and more pervasive than expected. "In its counter-cyclical role, monetary policy has to be pre-emptive in addressing the negative gaps – inflation below target, and output below potential – which seem to be developing some persistence. Available space for policy action has to be calibrated to secure the closure of the gaps," he said.

BP Kanungo, Deputy Governor, RBI, said the slowdown in GDP growth in the recent period has been underpinned by deficient domestic demand. As inflation is projected to remain below the target of 4 per cent till the first quarter of 2020-21, policy space is available to support growth, he added.

Shaktikanta Das, Governor, RBI, said continuing slowdown of the economy requires all-out efforts to strengthen private consumption and investment. "As the inflation scenario remains benign with headline inflation projected at below target in the remaining period of 2019-20 and Q1 of 2020-21, there is policy space to address growth concerns," the Governor said.

L&T Finance Q2 net declines 69%

OUR BUREAU
Mumbai, October 18

The consolidated net profit of diversified non-banking finance company L&T Finance Holdings fell 68.7 per cent to ₹174.51 crore in the second quarter, as it took the benefit of the lower corporate tax and deferred tax assets provisions. It had a net profit of ₹559.12 crore in the July to September 2018 quarter.

"LTFH is opting for lower corporate tax rate of 25.17 per cent, leading to lower tax liability from 2019-20 onwards," it said in a statement on Friday. Its pre-deferred tax asset net profit is ₹647 crore for the second quarter this fiscal, which was an increase of 15 per cent from the ₹560 crore in the same period a year ago.

LTFH's total lending book grew by 10 per cent in the second quarter of the fiscal to ₹1,00,258 crore, against ₹91,201 crore in the same period a year ago.

Net interest margin and fees stood at 6.86 per cent in the second quarter, against 6.86 per cent a year ago.

SC refuses to entertain a/c holders' plea to lift restrictions on cash withdrawals

PRESS TRUST OF INDIA
New Delhi, October 18

The Supreme Court, on Friday, refused to entertain a plea filed on behalf of scam-hit PMC Bank account holders seeking lifting of restrictions imposed by the Reserve Bank of India on cash withdrawals.

'Approach the High Court'

A bench, headed by Chief Justice of India, Ranjan Gogoi, said: "We are not inclined to entertain this petition under article 32 (writ jurisdiction). Petitioner can approach the High Court concerned for appropriate relief." PMC Bank has been put under restrictions by the Reserve Bank of India (RBI) following a ₹4,355-crore scam.

Deposit withdrawals have been capped at ₹40,000 over a six-month period, causing panic and distress among depositors.

During the hearing on Friday, Solicitor General Tushar Mehta said the government is aware of the seriousness of the situation and that the Enforcement Directorate is taking appropriate action against the culprit.

Advocate Shashank Sudhi, appearing for petitioner Bejon Kumar Mishra, said he has filed the petition on behalf of 500 PMC Bank account holders, seeking lifting of restrictions imposed by the RBI on cash withdrawals.

PMC BANK CRISIS

On Wednesday, around 50 depositories of the PMC Bank staged a protest outside the RBI demanding revoking restrictions on cash withdrawals.

A depositor of PMC Bank allegedly committed suicide in Mumbai on Tuesday while another died of a heart attack a few hours after taking part in a protest by bank customers seeking their money back.

Depositors' association wants RBI to raise withdrawal limit to ₹1 lakh

OUR BUREAU
Mumbai, October 18

In a bid to alleviate the problems being faced by despondent depositors of crisis-hit Punjab and Maharashtra Co-operative Bank, the All-India Bank Depositors' Association (AIBDA) has suggested an immediate action plan to the RBI, including upping the deposit withdrawal cap to ₹1 lakh, and creation of a special line of credit that can allow additional withdrawal of up to ₹10 lakh for all eligible large depositors. The RBI needs to immediately raise the deposit withdrawal cap from ₹40,000 to ₹1 lakh well before the beginning of the upcoming Diwali festival, even as it completes its inspection and investigation of the activities of PMC Bank, said Amitha Sehgal, honorary secretary, AIBDA.

Exclusive line of credit

The association has sought the creation of an exclusive line of credit from the Deposit Insurance and Credit Guarantee Corporation's (DICGC) huge funds surplus of ₹87,995 crore (as of March-end 2019). It is easily possible to offer such a unique line of at least ₹2,000-2,500 crore, which is less than 3 per cent of the corporation's fund value.

"This can surely cover withdrawal limit of an additional up to ₹10 lakh for all large eligible depositors of PMC Bank.

"This special line of credit can be redeemed progressively with a vigorous and rigorous recovery process by confiscating and selling the assets of HDIL and its promoters – the perpetrators of the massive fraud [at PMC Bank]," said the association in a statement.

ICICI Lombard net up 5%

OUR BUREAU
Mumbai, October 18

Private sector ICICI Lombard General Insurance posted a 5 per cent increase in net profit at ₹307.91 crore in the second quarter of the fiscal. It had posted a net profit of ₹293.10 crore in the same period a year ago.

However, with losses in crop insurance, the gross direct premium income of the private sector general insurer fell by 16.4 per cent to ₹2,953 crore in the July to September 2019 quarter, against ₹3,530 crore a year ago.

"Excluding crop segment, GDPI of the company increased to ₹2,898 crore in the second quarter of 2019-20, compared to ₹2,530 crore in the second quarter of 2018-19, registering a growth of 14.5 per cent. The industry growth (excluding crop segment) for the second quarter was 15.4 per cent," it said in a statement on Friday.

Bhargav Dasgupta, MD and CEO, said the company has not been able to write any crop business this year. "Reinsurance terms have turned adverse to insurance companies, so it doesn't make sense. Rates on ground are more aggressive," he said, adding that the focus is more on motor, retail health, SME business, and fire insurance. The board of directors also declared an interim dividend of ₹3.50 per share for the first half of the fiscal year. The general insurer's scrip closed flat at ₹1,243.85 apiece on the BSE on Friday.

IRDAI tightens ad norms for insurance companies

OUR BUREAU
Hyderabad, October 18

Insurers will now have to be more clear and transparent while advertising their products. "All insurers should ensure that communications are clear, fair and not misleading whatever be the mode of communication. All advertisements must clearly state the availability of the underlying element of life insurance coverage to clearly identity the product as an insurance product," the regulator said in a master circular.

ULIPS

In respect of unit-linked life insurance products (ULIPS), the actual asset mix of various underlying funds vis-a-vis the asset composition of approved asset pattern, shall be placed on the web portal of the respective life insurance companies at least on half-yearly basis, the circular said.

The insurers should not highlight the positive financial condition of the parent (promoting partner) without mentioning the financial condition of the insurer, and/or indicate the assets of the parent company, which can be banked upon when desired.

While explaining the rationale behind regulating the nature and content of advertisements, IRDAI said the success of insurance sales' communication depends on public confidence and the faith they repose in insurers.

DHFL's June quarter numbers continue to baffle auditors

ANALYSIS

RADHIKA MERWIN
BL Research Bureau

Dewan Housing Finance Company (DHFL) was the darling of the stock market just about a year back. But the value destruction in the stock that began in September last year has been unnerving.

No disbursements

DHFL reported a loss of ₹206 crore in the June quarter after dismal performance in the March quarter, when it reported a steep loss of ₹2,223 crore. But given that there has been minimal or no disbursements since the December 2018 quarter, earnings were expected to be muted in the June quarter. What is of more concern is the fact that after the earlier statutory auditors — Chaturvedi & Shah LLP and Deloitte Haskins & Sells LLP — raised several red flags over DHFL's March quarter results, the newly appointed auditor, KK Mankeshwar, has also stated that certain developments raise a significant doubt on the ability of the company to continue as a going concern.

In respect of certain loans, the auditor stated that "it was unable to comment if they have been properly secured and, hence, these loans may have been granted in a manner that is prejudicial to the interest of the company".

Many of these concerns were already raised by the earlier auditors.

Auditor observations

The earlier auditors had put forth several qualifications and observations to the March quarter results that could have a material impact on the financial statements of the company. The management has given an update on these observations in the June quarter results, which have been reviewed by the new auditor.

In respect of Inter-corporate deposits (ICDs) aggregating ₹5,652 crore as of March 2019, the earlier auditors had noted significant deficiencies in the grant and rollover of ICDs. While the management believes that no adjustments are required to the carrying value of the ICD, the new auditor has stated that it has not been able to comment on the recoverability of the ICD due to lack of sufficient audit evidence to support the management's assertion. As of June 2019, ICDs outstanding stood at ₹4,011.7 crore.

After the Cobrapost allegations, the report by Independent Chartered Accountants looking into the allegations had highlighted certain procedural and documentation lapses (end-use monitoring of the funds loaned not performed). After the issuance of the audit report for the year ended March 2019, the audit committee and the board are yet to draw their responses in terms of a closure report in respect of the matter.

A) As noted, cheques (aggregating ₹16,487 crore in the March quarter) received from the borrowers were initially recorded in certain customer accounts for receipts, but were not deposited in the banks and later reversed. The management reported that no such instances exists as on June 2019.

B) The earlier auditors had observed certain deficiencies in the documentation of project/mortgage loans aggregating to ₹24,077 crore as on March 2019. In the June quarter, the management has reported that ₹2165 crore of such loans have been closed on receipt of amount or have been securitised.

C) The company had marked down value of loans (wholesale) aggregating ₹34,881 crore and reclassified as Fair Value Through Profit or loss (FVTPL) as of March 2019; the resultant fair value loss of ₹3,253 crore was charged to P&L. As of June quarter, loans aggregating ₹35,285 crore were reclassified as FVTPL and fairly valued at ₹31,620 crore; the resultant fair value loss of ₹408 crore has been charged to P&L in the June quarter

In respect of all these (A to C), the auditor has stated that it has been unable to obtain sufficient appropriate evidence to support the values of the loans.