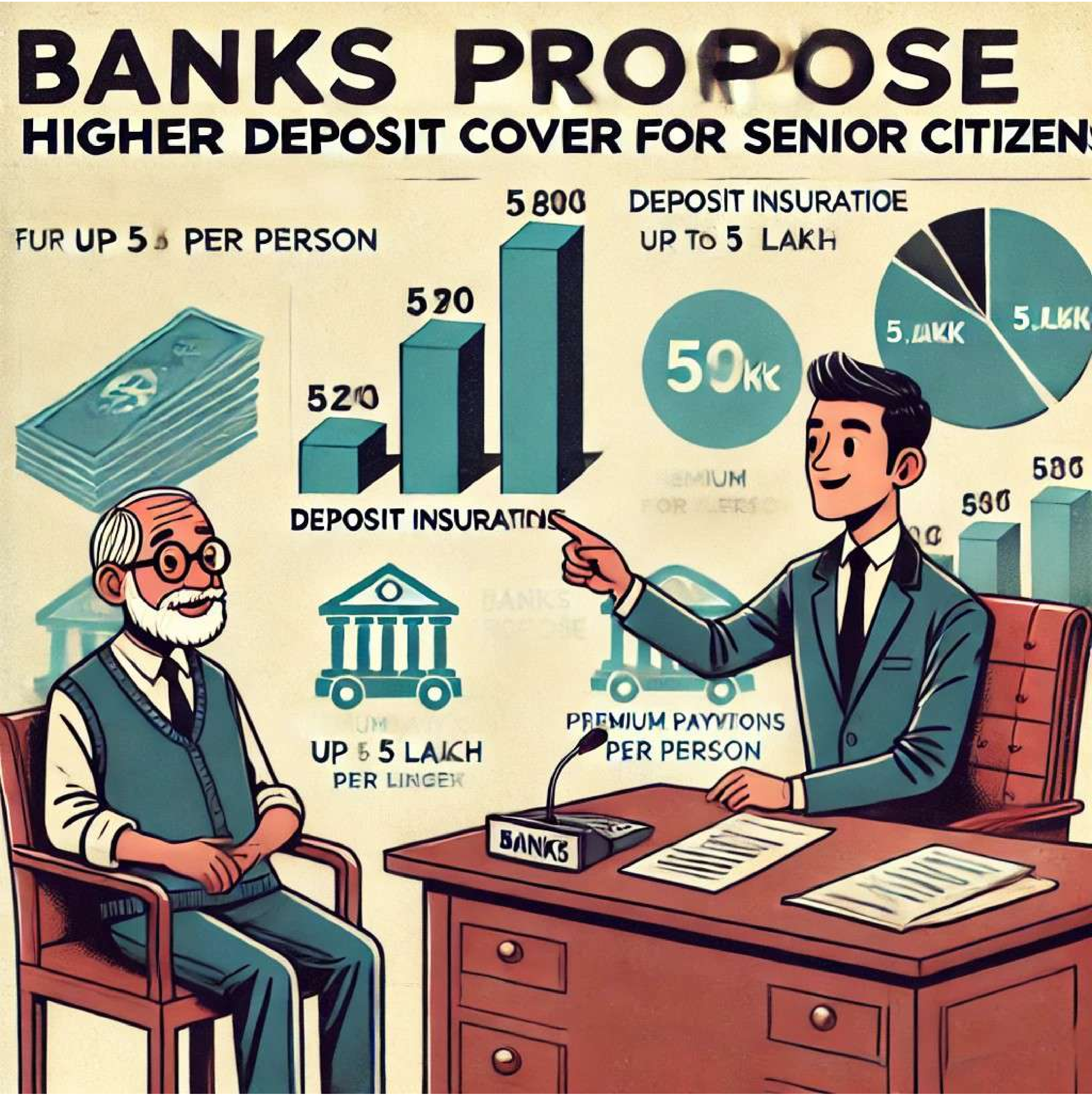
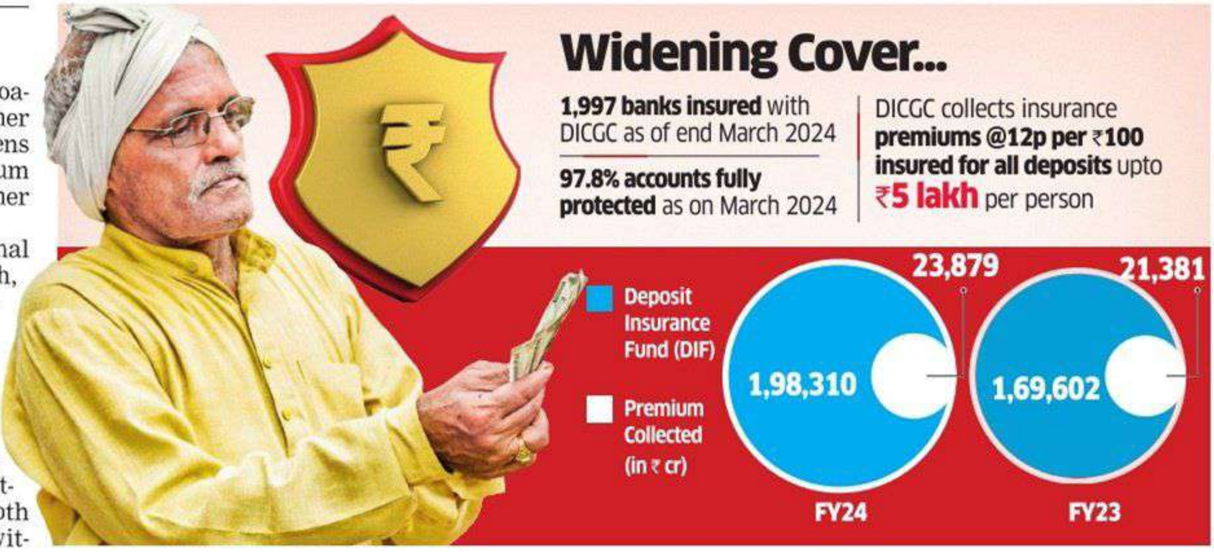

BANKS PROPOSE
HIGHER DEPOSIT COVER FOR SENIOR CITIZENS
FUR UP 5 PER PERSON
5 800
520
520
DEPOSIT INSURATIONS
DEPOSIT INSURATIOE
UP TO 5 LAKH
5.LAKK
5.LKK
50KK
580
580
UP 5 5 LAICH
PER LINGEK
PREMIUM PAYVTONS
PER PERSON
BANKS

Banks Pitch Higher Deposit Cover for Senior Citizens

Also seek relief in premium payments for guaranteeing other retail deposits

Dheeraj Tiwari



New Delhi: Banks have approached the RBI pitching for a higher deposit cover for senior citizens while seeking relief in premium payments for guaranteeing other retail deposits.

This move follows an internal meeting of bankers last month, after which the lenders collectively decided to take the matter to the RBI, according to two executives familiar with the developments. "We have had an informal discussion with the regulator and are now in the process of submitting a more detailed plan to both the government and the RBI within this month," said a senior bank executive.

Under existing provisions, deposit insurance coverage is uniformly set at₹ 5 lakh per depositor per insured bank.

The Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly owned subsidiary of RBI, insures deposits across the banking system. This insurance is financed by premiums collected from the insured institutions, and the fund is used to pay the depositors in the event of a bank failure.

Banks have suggested that this amount should be raised for senior citizens, as they are the most vulnerable section of depositors.

"Most of them are solely dependent on income coming from their bank deposits, and that's why, considering factors such as life expectancy and inflation, the protection amount should be increased periodically," he said, adding that if the stakeholders, both the RBI and the government, are in agreement, a proportionate minimum amount can be arrived at.

Move follows an internal meeting of bankers last month, after which the lenders decided to take the matter to RBI

In August 2021, the Parliament had passed the Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021, paving the way for an increase in the bank deposit insurance cover from ₹1 lakh to ₹5 lakh, and that the amount has to be refunded to the depositor within 90 days. Any further changes will also require Parliament's approval, said an official, adding that the premium amount, however, can be decided by DICGC.

In 2020, after RBI's approval, the premium amount was increased from 10 paise per ₹100 of assessable deposits per annum to 12 paise. Another banker said that if such changes are to be incorporated, then there is also a case for reassessment on calculating the premium paid by banks. "It should be made applicable only to the extent of the insured amount, irrespective of the actual outstanding deposit amounts per depositor," he said, adding that the new mechanisms will lead to more saving for the banks. The new mechanism could also factor in other factors like economic growth rate and increase in bank deposits.

In August, RBI deputy governor M Rajeshwar Rao observed in his address at the IADI Asia-Pacific Regional Committee International Conference 2024 that considering multiple factors like growth in the value of bank deposits, economic growth rate, inflation, and increase in income levels, a periodical upward revision of the present ₹5 lakh limit may be warranted. "This means that the deposit insurer has to be mindful of the additional funding and needs to work out suitable options to meet the same," he had said.,

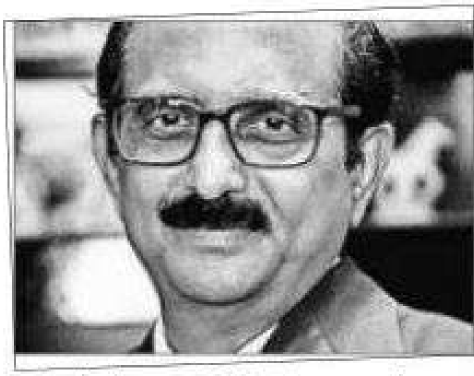

SBI
SME
MSME LOAN SCHEMES
MSME LOAN
SIMPLICATION on
on MSME loan schemes
THRESHOLD LIMIT
ABOVE 5 CRORE
Theschod inuin limit
ixcreaded 5 crore
DIGITI
MSME
SAHAJ
SBI
Pobone in the irstirfatne,
the digital loan limit
above 5 crore

SBI plans to enhance threshold limit under MSME loan scheme

PRESS TRUST OF INDIA
New Delhi, October 13

WITH AN AIM to ensure easy and adequate credit availability to the MSME sector, State Bank of India (SBI) is planning to enhance the threshold under the instant loan scheme from existing ₹5 crore.

'MSME Sahaj — End to End Digital Invoice Financing' provides solutions ranging from applying for the loan, documentation and disbursement of the sanctioned amount within 15 minutes without any manual intervention.



SBI chairman **CS Setty** says the bank aims to simplify the MSME credit process

"We last year introduced a business rule engine-based, data-based assessment of credit limits of up to ₹5 core. Anybody walking into our MSME branch has to only give their PAN and the approval for sourcing GST data. We can give approval in 15-45 minutes," SBI chairman CS Setty said.

Simplification of the MSME credit is something that the bank is emphasising, he said, adding that this reduces the need for collateral, which would enable a lot of people to come into the formal MSME borrowing system. "We still have a large number of MSME customers accessing the informal credit. We would like to bring them to the banking fold."

As far as the network expansion is concerned, Setty said SBI is planning to open 600 branches across the country in the current financial year.


HIGH DEPORIT COSTS
MAY HIT BANK MARGINS
RISRES
DEPORIT
COSTS
DEPOSIT COSTS
3%

Q2 FORECAST Slippages may rise, softer loan growth also weighs; PSBs likely to weather margin pressure better

High Deposit Costs may Hit Bank Margins

Joel Rebello & Saloni Shukla

Earnings Preview

Mumbai: Increased cost of deposits is likely to keep bank margins under pressure in the second quarter though analysts will watch out for loan growth trends amid a weakness in the unsecured retail segment.

Slippages may also rise as banks tighten their risk weights in unsecured loans, analysts said.

Brokerage firm India Infoline expects bank net interest margins (NIMs) to contract by 2-5 basis points versus the first quarter of the fiscal due to hikes in term deposit rates as banks still reprice deposits. Limited loan yield expansion has already contracted incremental spreads by 8 basis points for private sector banks and they remain flat for PSU banks, IIFL said in a banking preview report. One basis point is 0.01 percentage point.

As per analysts, HDFC Bank is likely to report an on-year profit after tax of nearly ₹16,300 crore at the end of the September quarter, an on-year growth of 2.4%. ICICI Bank is likely to report PAT of ₹10,910 crore, year-on-year growth of 6.3% for the September quarter. Axis Bank is likely to report profits of ₹6,630 crore, an on-year growth of 13%.

Banking results kick off with Bank of Maharashtra on Tuesday. NIM is the difference between the yield earned on loans and that paid for deposits.

Motilal Oswal expects net interest income (NII) for banks it covers to grow about 8.6% on year in the second quarter resulting in a 13.2% rise in operating profit.

"For the second quarter, we thus estimate private/PSU banks to report earnings growth of 4.1%/17.2% year-on-year. We observe that deposit competitiveness shows no signs of ebbing, which should keep the deposit rate and cost of funds elevated. Consequently, these should keep NIMs under pressure, while the reversal in rate cycle should further lead to yield pressure. We believe PSBs will be better capable of maintaining their margins, aided by their higher mix of MCLR rate books. We believe that unsecured loans will continue to see deterioration in the second quarter," Motilal Oswal said.

The brokerage expects banks with higher exposure to micro finance and unsecured loans to see slower growth and higher credit costs. "We factor in a modest rise in provisioning expenses as the recovery from the existing NPA and written off pools moderates, while credit costs normalise gradually after being extremely benign over the recent period," Motilal said.

System loan growth has moderated and is nearly 14% as of latest fortnight's data. Deposit growth remains range-bound at 11-13%. Analysts say that loan-to-deposit ratio and liquidity coverage ratio would be key determinant for loan growth as deposit growth still lags loan growth.

NIM strain, softer loan growth and a likely rise in slippages from unsecured loans are also the key trends, reported Elara Capital's note.

"Subdued recovery trends means net slippages may rise for some. So, credit costs may gradually move towards normalisation. Within our coverage universe, we expect an overall earnings growth of 10-12% with 5-10% growth for private and 15-18% growth in PSU banks," Elara Capital said. Yes Securities expects most banks to be able to sequentially hold NIM, while a few would see lower NIM. "Some banks have increased their card rates on deposits and there will also be some residual repricing of legacy low-cost deposits, causing blended cost of deposits to rise. On the flip side, some banks may see favourable loan mix change," Yes Securities said in a note.

IDBI Capital said there was a need to watch out for the impact of increased risk weight changes in personal loans, credit cards and NBFC on credit growth. "We need to monitor the impact of farm loan waiver on credit culture and NPA formation for banking sector. We need to watch for credit cost guidance going forward," IDBI Capital said.

Banks will not benefit much from a 15 basis points fall in government securities yield due to a change in accounting practices by the RBI implemented from the first quarter of the current fiscal.

Loan growth could also moderate as banks improve their liquidity coverage ratio. "We expect credit costs to inch up and would look out for stress in unsecured loans for private sector banks and corporate slippages for PSU banks. Our second quarter net profit is 3-14% below consensus for RBL, Axis, IndusInd, Kotak and HDFC, and largely in line for Bank of Baroda, Federal, and ICICI," India Infoline said.


10 COMMON TRICKS
IWICKS USED
BY SCAMMERS
SCAM
RCAMS
ISCAMS
TRAI ACTION
AGAINST PHONE
CRERITY CARD
USEK BY
CUSTOMS
TRAI ACTION ARRISTET
DIGITAL ARRISTED
FAGITAL ARBE ARRSTED
SCAIS
SCAMS
FREMILY CARD
FARINST CUSTOMS
CREDIT CARD
USED BY
CUOCKS
FRACIL CARD
ARRESTED
CRERIT CARD
STUCKED
CUSTOMS
GERT BIGH
BY TRADING
STUSCKS
FONEY MEMBER ARRISTED
MONEY TRANSRED ARRISET
MONEY TRANSERED
KYC
HAS
STOCKS
KYC
HAS
STOCKS
GET RICH FROM
MISFAREKS
KYC HAS EESY
KYC
HAS
REFUND
GET RICH HAS EXTESED
KYC RIC HAS XERPDRED
GENEROUS TAX REFUND

10 common tricks used by scamsters

Middle-aged and elderly people are most vulnerable, though even youngsters fall into the traps laid by fraudsters.

TRAI action against phone

You get a call supposedly from the Telecom Regulatory Authority of India (TRAI) saying your mobile number has been used for illegal activities, so phone services will be suspended. The call is then forwarded to a fraudster posing as an official of the cybercrime cell of police.

TRAI says disconnection of phone services is done by telecom companies, not TRAI.

Put under digital arrest

Posing as a police officer, the fraudster accuses the victim or relative of a crime. A fake CBI officer conducts an interrogation via video or audio call and threatens digital arrest.

Police have clarified that they do not do digital arrests or online interrogation. Disconnect call and report number.

Family member arrested

Someone posing as a policeman informs the victim that a close relative will be arrested on a serious charge. The victim is told to pay up for the charges to be dropped. Some may even use AI to mimic the family member.

Don't panic. Check with family member before further action.

Get rich by trading stocks

Social media ads promise lucrative 30-40% returns from stocks. Victims are directed to a fake website that grants them access to a bogus portfolio. Scammers initially give very high returns on a small sum of money, encouraging victim to invest more. When he tries to withdraw, scamsters vanish.

A scheme that offers very high returns is an obvious scam. Don't fall for them.

Earn big from easy tasks

Scammers offer high sums for simple tasks such as liking YouTube videos or social media posts. The victim is then asked to invest in cryptos and other assets for high returns. A small sum is credited to victim's account to appear legitimate. When victim puts in a large sum, scamsters vanish.

Schemes offering easy money are scams. Don't be deceived by them.

Parcel stuck at customs

The victim is told that a parcel containing contraband has been intercepted by the customs department. The average person panics and agrees to pay to hush up the case. The victim could also be asked to send some amount for the release of the shipment.

If you click on link, they get access to your device. Disconnect call and report number.

Credit card issued in your name

A fake executive calls to say a large transaction was conducted on the victim's credit card and wants to confirm it. The credit card is bogus so the victim's call is forwarded to another fraudster who offers to help. Once they gain trust, they ask for card details, CVV and OTP.

If card issued in your name, you will get SMS about the transaction. Check with your bank.

Money transferred by mistake

Victim gets a fake text message that some amount has been credited to his account. Scamster then calls up and says the transaction was done by mistake and wants the victim to return the money. The text message is not from bank and no money was actually transferred.

Check your bank account to confirm whether money has been received before you act.

KYC has expired

Victim receives an SMS, call, or e-mail asking to update his KYC details by clicking on a link. The link takes him to a website that gets access to his device and steals personal information.

Banks never send links for online updation of KYC. They always insist on a branch visit or an in-person interaction.

Generous tax refund

Taxpayers who have filed their tax return or are expecting a tax refund get a phone call from fraudsters posing as tax officials. They ask the taxpayer to furnish bank details so that the refund can be expedited. Once they get the details, they clean the bank account.

The tax department sends SMS and mail directly to the taxpayer. It already has the taxpayer's bank details.

Cost of Imports Up; RBI Likely to Turn Cautious on Rupee

Share of imported inflation in CPI up to 0.5%; FPIs, RBI steps can ease situation

Gayatri Nayak

Mumbai: After remaining in the negative zone for several months, imported inflation or cost of imports has been slowly edging up since the beginning of this financial year. The contribution of imported inflation in the Consumer Price Index (CPI) inflation has increased by 0.5 percentage points since April, showed an analysis by the RBI. Strong foreign portfolio investment (FPI) inflows and the RBI's currency management could, however, help bolster the value of the rupee which in turn would help rein in such inflation, said experts.

Of the 3.7% CPI headline inflation in August, 3.5% was on account of domestic factors, while the balance was due to imported factors. "The contribution of imported components to headline inflation turned positive from April 2024 and increased gradually to 0.5 percentage points by August 2024," the RBI said in its latest monetary policy report.

Significantly, the contribution of imported inflation to overall CPI inflation was negative since December 2022.

"This (rise in contribution of imported inflation) will continue as global prices have started rising. It will impact core inflation," said Madan Sabnavis. chief economist at Bank of Baroda.

Global commodities that drive domestic prices or the items that drive imported inflation include petroleum products, coal, electronic goods, gold, silver, chemical products, metal products, textiles, cereals, milk products and vegetable oils. These together have a weight of 36.4% in the CPI basket, the RBI said in its latest monetary policy report.

Imported inflation tends to have an upward impact on the overall CPI inflation when the domestic currency tends to weaken against the US dollar. Keeping this in mind, the central bank is likely to be more cautious in influencing the level of the rupee and ensure that it does not adversely hurt the import prices in local currency.

"The Reserve Bank will be alert on currency as imports will increase. But FPI should steady the rupee," Sabnavis said.

The rupee is overvalued by 4.7% relative to its intrinsic worth, as of September-end, in terms of real effective exchange rate, showed the latest RBI data. The 40 currency trade weighted real effective exchange rate (REER) index is at 104.7 as of September 27, as per the data, while the six currency trade weighted REER index is at 101.7 implying the rupee is overvalued by 1.7% here.

No free lunches in lending

The borrower should always consider it his responsibility to understand the implications of taking a loan, his ability to repay and the risk of falling into a debt trap, says **Uma Shashikant**.

GETTY IMAGES

UMA SHASHIKANT
IS CHAIRPERSON,
CENTRE FOR INVESTMENT
EDUCATION AND LEARNING

How much charge on future income one can afford is a personal financial question that the borrower alone can answer. The lender can look at your assets or income and propose how much he will lend. Discount the 'loan eligibility' worked out by the borrower. Do your homework about how much you can pay every month. Even if the lender masks your eligibility as a privilege, it is not. You borrow, you repay.

"They persuaded me to take a personal loan," he lamented online. Soon, readers filled up the thread with comments about how bankers and finance companies are sharks that prey on innocent people, luring and trapping them with high-cost loans. It is very tough for me to empathise in this case. So I just read the responses, trying to understand why someone feels privileged to receive a large sum of money to spend as one wishes. All loans, in all forms, are charges on future income that we undertake with full consent. Period.

There was a time when bankers and finance companies would focus on deposits. The incentives for staff were aligned with the ability to mobilise money. Lending was seen as risky and subject to many restrictions. Retail loans were unheard of and banks could not lend against immovable assets; no home loans on their books. The focus of lenders was to get deposits from the retail market and lend it to the corporate and institutional sector.

After this equation was modified in the 1990s in favour of the retail market, stocks of banking and financial businesses increased in value immensely. As incomes have risen for the common man, and the willingness to spend and borrow have moved up, lending to the retail market has become the bread and butter for the banking and financial sector. If there is an asset backing the loan, be it a house, securities or gold, so much the better. If not, a high-cost personal loan can be taken against future income. Recovery remains risky, but margins are steep enough to make it a viable business.

The marketplace is now filled with lenders. If they see a possible stream of future cash flow, they readily productise it, and sellers are out to find borrowers. That does not make it evil, as online advisers suggest. It just calls for the borrower to learn, understand and decide on the basis of need and capability. A borrower who thinks a lender's call makes the former the chosen one, he has already taken the bait.

The borrower is standing in a marketplace, where eager lenders are willing to take a risk on him. However, the math about the interest charged has been obscured by the EMI. No amount of education on effective interest rates and bifurcation of EMI into interest and principal has enabled the retail borrower to see what he is getting into. A very small percentage cares about and understands math. The lender takes the risk, the lender offers the money upfront and, therefore, the lender sets the terms. The borrower must make the effort to know what he is getting into. He can choose to be informed, educated and understand it. He has the power to say no, to choose from competing lenders, and to take the time to sign up.

Two things about the loan must be known to every borrower. One, the repayment will be much more than the borrowed amount because loans carry interest, reflecting the risk assumed. A zero-interest loan will come with other administrative costs and a possible marked-up price. There is no free lunch; it is a marketplace. Two, the interest will be recovered upfront, which means the initial EMIs will go towards interest, almost completely, tapering as time elapses. This also means that the principal repayment begins later, and prepaying the loan before maturity is costly. It is the lenders' market all the way. Take it or leave it. Thankfully, it is a competitive market with many players.

What are the common mistakes that borrowers make? First, how much charge on the future income one can afford is a personal financial question that the borrower alone can answer. The lender can look at your assets or income and propose how much he will lend. Discount the number called 'loan eligibility' worked out by the borrower. Do your homework about how much you can pay every month. He knows nothing about how much you spend monthly, or the loans you propose to take, or other commitments. Even if the lender masks your eligibility as a privilege, it is not. You borrow, you repay. This simple first principle is forgotten by many desperate borrowers.

Second, using loans for large lifestyle expenses can create a lifestyle creep, which charges future income severely at the cost of savings and flexibility to make other large expenses. Upgrades to car, phone, home and holidays are desires that come with increase in income. Or not. There is a loan, an instalment plan, a deferred payment scheme sold along with these products. Keeping repayments within the capacity of future income is the only way to use loans. The underlying assets lose value quickly and loans are costly for this reason. The EMI masks this cost.

Third, if there is no asset to back the loan, not only is it expensive, but also risky for both the borrower and lender. Personal loans and credit card loans fall in this category. If you stretch your capability to borrow, you will find yourself in a debt trap, where you have a high-cost outstanding amount growing rapidly in value with time, snowballing into an amount you can ill-afford to pay from your regular income. Keep loans to the minimum and pay on priority before they balloon.

Is not borrowing at all a good policy? It's a very conservative view. If there is a future stream of cash flow, converting it to an upfront lump sum that can get an asset to use right away, is a smart financial transaction. The business balance sheet uses borrowings as a lever to push itself to bigger size and efficiency. Banks and finance companies build on this leverage, borrowing as deposits and lending as loans to catapult the business upwards.

On a personal balance sheet, you have physical and financial assets that have value, and human asset that can generate income. How you leverage these to borrow and build more assets is a personal financial strategy. Many of us wouldn't own homes if a home loan weren't available. Our productivity with respect to work and small joys in everyday life are funded by EMIs. What we pay as EMIs can be saved to build assets too.

Borrowing hurts when the objective is to spend beyond one's means, compromising tomorrow's income today. Whatever be the temptation and sales talk, pledge your future income with great care. There are no free lunches in the lending market.

Please send your feedback to
etwealth@timesgroup.com

AS IFSCA PUTS 6-MTH CAP ON FDs WITH BANKS IN GIFT CITY...

In a Fix, HNIs Await RBI Directive on Foreign FDs

No clarity yet if foreign deposits are unlisted debt or bank balance

Sugata Ghosh

Mumbai: Many wealthy Indians were rankled amid festivities by a regulatory communique which could ruffle their plans of parking money with overseas banks. The directive is linked to the issue of resident individuals (RIs) opening fixed deposits (FDs) with banks abroad–a subject that the Reserve Bank of India (RBI) has so far left ambiguous.

On September 10, International Financial Services Centres Authority (IFSCA), the unified regulator for financial markets and services in IFSC GIFT City, spelt out that tenures of FDs of RIs with banks in the financial centre can only be less than 180 days. This was conveyed to all banks running branches (or international banking units) in the GIFT City.

With this, many high net worth individual (HNI) investors could be forced to change tack on overseas investments. "Many residents who have invested in FDs with offshore banks in centres like Singapore and New York, will have to redraw investment strategy. With IFSCA order, banks and their clients face a fundamental question: if something is not permitted in IFSC GIFT, can it be permitted in Singapore and London?

This is because IFSC GIFT, like Singapore or London, is treated as an external jurisdiction from the point of the Foreign Exchange Management Act," said Rajesh Shah, partner at Jayantilal Thakkar and Company, a CA firm specialising in tax and cross-border regulations. "We expect RBI to clarify this soon so that resident Indians do not unintentionally violate FEMA Regulations."

Well-heeled residents routinely move money to Singapore, London, Dubai and other financial hubs to open bank accounts and bet on stocks and properties in accordance with the rules laid down under the RBI's liberalised remittance scheme (LRS) which allows an individual to invest and spend up to $250,000 a year subject to certain dos and don'ts.

Many HNI investors could be forced to change tack on overseas investments

However, unlike IFSCA, which has laid down in no uncertain terms that banks in GIFT financial centre cannot offer FDs beyond six months to RIs, RBI regulations do not explicitly clarify when foreign FDs are permissible under LRS.

As per RBI's new overseas investment guidelines announced in August 2022 and the master circular on LRS, the LRS window cannot be used to invest in unlisted debt and hold idle funds beyond six months. So, today, some banks handling LRS applications allow FDs beyond six months while some don't (and permit only less than six-month FDs), depending on whether they treat FDs as 'idle bank balance' or not.

However, according to Pankaj Bhuta, founder of CA firm PR Bhuta & Co, "Presently, there is no clarity on whether overseas FD is to be treated as an unlisted debt instrument or as akin to bank balance. HNIs should be cautious in placing reliance on IFSC directive to claim that FDs should be permitted up to six-month tenure even outside India."

For the past two years, banks and professionals have repeatedly asked RBI to clarify whether foreign FDs are allowed under LRS. The point was never clarified by RBI in writing, or addressed in its FAQs. The question that no one has an answer to is: what is holding back RBI from unambiguously laying down the rule?

Over the past few years, regulators have hardened their stance to discourage RIs from transferring large sums to acquire assets abroad. The confusion around FDs and 'idle funds', many say, pose hurdles as several banks abroad insist on fairly large, minimum balance to preserve banking relationships.

LOANS & DEPOSITS

ET WEALTH collaborates with **ETIG** to provide a comprehensive ready reckoner of loans and fixed-income instruments. Don't miss the information on investments for senior citizens and a simplified EMI calculator.

Top five bank FDs

TENURE: 1 YEAR	Interest rate (%) compounded qtrly	What ₹10,000 will grow to
Bandhan Bank	8.05	10,830
IndusInd Bank	7.75	10,798
RBL Bank	7.50	10,771
Karnataka Bank	7.35	10,756
YES Bank	7.25	10,745
TENURE: 2 YEARS		
RBL Bank	8.00	11,717
IndusInd Bank	7.75	11,659
DCB Bank	7.50	11,602
Karnataka Bank	7.35	11,568
Bandhan Bank	7.25	11,545
TENURE: 3 YEARS		
DCB Bank	7.55	12,516
RBL Bank	7.50	12,497
Bandhan Bank	7.25	12,405
IndusInd Bank	7.25	12,405
YES Bank	7.25	12,405
TENURE: 5 YEARS		
DCB Bank	7.40	14,428
Dhanlaxmi Bank	7.25	14,323
IndusInd Bank	7.25	14,323
YES Bank	7.25	14,323
RBL Bank	7.10	14,217

Top five senior citizen bank FDs

TENURE: 1 YEAR	Interest rate (%) compounded qtrly	What ₹10,000 will grow to
Bandhan Bank	8.55	10,883
IndusInd Bank	8.25	10,851
RBL Bank	8.00	10,824
Karnataka Bank	7.85	10,808
YES Bank	7.75	10,798
TENURE: 2 YEARS		
RBL Bank	8.50	11,832
IndusInd Bank	8.25	11,774
DCB Bank	8.00	11,717
Karnataka Bank	7.85	11,682
ICICI Bank	7.75	11,659
TENURE: 3 YEARS		
DCB Bank	8.05	12,701
RBL Bank	8.00	12,682
YES Bank	8.00	12,682
Bandhan Bank	7.75	12,589
IndusInd Bank	7.75	12,589
TENURE: 5 YEARS		
YES Bank	8.00	14,859
DCB Bank	7.90	14,787
Axis Bank	7.75	14,678
Dhanlaxmi Bank	7.75	14,678
IndusInd Bank	7.75	14,678

Top five tax-saving bank FDs

TENURE: 5 YEARS AND ABOVE	Interest rate (%)	What ₹10,000 will grow to
DCB Bank	7.40	14,428
Dhanlaxmi Bank	7.25	14,323
IndusInd Bank	7.25	14,323
YES Bank	7.25	14,323
RBL Bank	7.10	14,217

ALL DATA SOURCED FROM ECONOMIC TIMES INTELLIGENCE GROUP (ETIGDB@TIMESGROUP.COM)

HOME LOAN RATES

With effect from October 2019, all banks have made the transition to external benchmarks for pricing new home loans. Most banks have picked the RBI repo rate as the external benchmark.

REPO RATE: 6.5%

BANK		FOR SALARIED		FOR SELF-EMPLOYED (%)		
	RLLR (%)	FROM (%)	TO (%)	FROM (%)	TO (%)	WEF
City Union Bank	9.70	8.25	10.50	8.25	10.50	23 May 2024
IndusInd Bank	--	8.35	10.00	8.35	10.00	Not Given
Bank of Maharashtra	9.30	8.35	10.40	8.45	10.90	13 June 2024
Union Bank of India	9.25	8.35	10.75	8.35	10.75	11 April 2024
Indian Bank	9.20	8.40	9.80	8.90	10.30	15 April 2024
Indian Overseas Bank	9.35	8.40	10.50	8.50	10.60	13 Oct 2023
Bank of Baroda	9.15	8.40	10.60	8.40	10.60	14 Feb 2023
Bank of India	9.35	8.40	10.70	8.40	10.85	1 June 2024
UCO Bank	9.30	8.45	10.30	8.45	10.30	15 Mar 2023
IDBI Bank	9.10	8.45	10.80	8.55	12.30	12 Aug 2024
SBI Term Loan	9.15	8.50	9.65	8.50	9.65	5 April 2024
Punjab & Sind Bank	8.45	8.50	10.00	8.50	10.00	16 Feb 2024
Canara Bank	9.25	8.50	11.20	8.55	11.25	12 Aug 2024
Karnataka Bank	--	8.60	10.62	8.60	10.62	1 April 2024
South Indian Bank	9.85	8.70	11.20	8.75	11.70	Not Given
Kotak Mahindra Bank	--	8.75	9.00	8.75	9.00	Not Given
HDFC Bank	--	8.75	9.95	8.75	9.95	Not Given
Federal Bank	--	8.80	10.25	10.20	10.30	16 Feb 2024
Karur Vysya Bank	9.90	9.00	11.05	9.00	11.05	19 Aug 2024
J & K Bank	9.45	9.10	10.20	9.10	10.20	10 June 2024
Bandhan Bank	--	9.16	13.33	9.16	13.33	Not Given
ICICI Bank	--	9.25	9.90	9.40	10.05	Not Given
Dhanlaxmi Bank	8.50	9.35	10.00	9.85	10.50	1 Aug 2024

Your EMI for a loan of ₹1 lakh

TENURE	5 YEARS	10 YEARS	15 YEARS	20 YEARS	25 YEARS
@ 7%	1,980	1,161	899	775	707
@ 8%	2,028	1,213	956	836	772
@ 9%	2,076	1,267	1,014	900	839
@ 10%	2,125	1,322	1,075	965	909

FIGURES ARE IN ₹. USE THIS CALCULATOR TO CHECK YOUR LOAN AFFORDABILITY. FOR EXAMPLE, A ₹5 LAKH LOAN AT 10% FOR 15 YEARS WILL TRANSLATE INTO AN EMI OF ₹1,075 X 5 = ₹5,375

Post office deposits

	Interest (%)	Minimum investment (₹)	Maximum investment (₹)	Features	Tax benefits
Sukanya Samriddhi Yojana	8.20	250	₹1.5 lakh p.a.	One account per girl child	80C
Senior Citizens' Savings Scheme	8.20	1,000	₹30 lakh	5-year tenure, minimum age 60 yrs	80C
Public Provident Fund	7.10	500	₹1.5 lakh p.a.	15-year tenure, tax-free returns	80C
Kisan Vikas Patra	7.50	1,000	No limit	Can be encashed after 2.5 years	Nil
5-year NSC VIII Issue	7.70	1,000	No limit	No TDS	80C
Time deposit#	6.9-7.50	1,000	No limit	Available in 1, 2, 3, 5 year tenures	80C*
Post Office Monthly Income Scheme	7.40	1,000	Single ₹9 lakh	5-year tenure, monthly returns	Nil
			Joint ₹15 lakh	5-year tenure, monthly returns	Nil
Recurring deposits	6.70	100	No limit	5-year tenure	Nil
Savings account	4.00	500	No limit	₹10,000 interest tax-free	Nil

Data as on 10 Oct 2024

#Benefit available only for 5-year deposit livemint

Best home loan rates

A home loan is probably the biggest loan that one takes. Not only in terms of the loan amount, but also tenure, which can be 15 years or more. The total final amount that one pays can be double of what was borrowed. But a home loan is among the cheapest loans available, and usually it is the only way a person can buy a house. A home loan is called a 'good' loan because it helps you acquire a tangible asset that can appreciate over the long term. It makes sense to buy a house if you plan to live in it. Given the fact that the construction of several housing projects in India continues to be delayed or stalled by many years, financial advisers say that one should buy a ready-to-move-in house. Here's a look at the lowest home loan interest rates of some leading banks.

Loan amount = ₹30 lakh. Tenure = 20 years

Lender	Interest rate (%)	EMI (₹)	Processing fee
City Union Bank	8.25-10.50	25,562-29,951	**0.20% - 0.35%** + GST
Bank of India	8.35-10.85	26,283-30,660	**0.25%** (Min. **₹1,500** and Max. **₹20,000**) for Individuals*
Bank of Maharashtra	8.35-10.90	26,283-30,762	Up to **0.25%** (Max. **₹25,000**)
Central Bank of India	8.35-9.50	26,283-27,964	Waived up to 31 Dec 2024
UCO Bank	8.35-10.00	26,283-28,951	**0.5%** (Min. **₹1,500** and Max. **₹15,000**)
Union Bank of India	8.35-10.75	26,283-30,457	**0.50%** (Max. **₹15,000**) + GST
Bank of Baroda	8.40-10.60	25,845-30,153	Nil; Out of pocket expenses of up to **₹10,000** + GST (Per Property)
Canara Bank	8.40-11.25	25,845-31,478	**100%** waiver in processing charges from 01 Sep 2024 to 31 Dec 2024**
Indian Bank	8.40-10.35	25,845-29,650	Up to **0.25%**
Indian Overseas Bank	8.40-10.60	25,845-30,153	Up to **0.50%** (Max. **₹25,000**) + GST
Punjab National Bank	8.40-10.10	25,845-29,150	Waived from 5 Jun 2024 to 31 Mar 2025
Nainital Bank	8.40-11.00	25,845-30,966	Not updated
IDBI Bank	8.45-12.30	25,940-33,662	**₹5,000** to **₹15,000**; Nil for Inward Balance Transfer and PMAY Cases
State Bank of India	8.50-9.65%	26,035-28,258	**0.35%** (Min. **₹2,000** and Max. **₹10,000**) + GST
Punjab & Sind Bank	8.55-10.00	26,130-28,951	Full waiver of processing charges

Data taken from banks' websites as on 9 October 2024. EMI range is indicative and calculated on the basis of interest rate range; it may include other charges and fees. Actual applicable interest rate may vary based on the credit profile of the loan applicant. *0.50% (Min. ₹3,000 and Max. ₹40,000) for other than individual. **under Retail Loan Festival

PRANAY BHARDWAJ/MINT

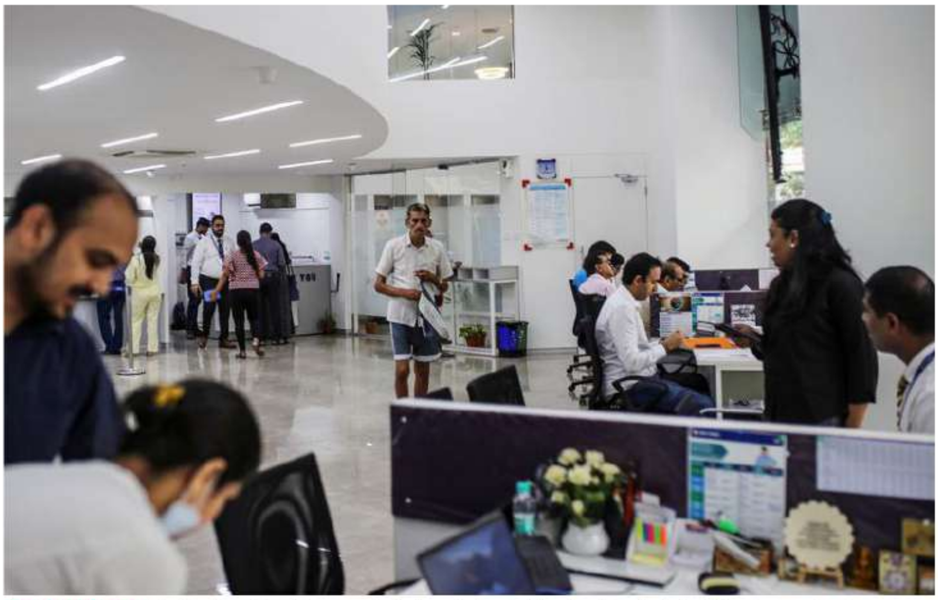
Source: MyMoneyMantra.com

◉ PHYGITAL PUSH

Why banks are branching furiously

FACE-TO-FACE. From financial inclusion to wooing back savings deposits, lenders have reasons to reject digital-only mode

K Ram Kumar
G Naga Sridhar



FIRST-HAND. Physical touchpoints, especially in an industry like banking, help build customer trust BLOOMBERG

Even as digital banking finds more and more takers, major banks in India continue to also favour the time-tested brick-and-mortar model and have been stepping up branch expansion of late.

This trend is common to both private and public sector banks, although the former appear to be racing ahead for now.

After India's largest private sector bank, HDFC Bank, merged the financial services company HDFC Ltd into itself in July 2023, it is fast-tracking branch expansion to replace the maturing liabilities of the erstwhile HDFC with retail deposits and lower the credit-deposit ratio.

However, its competitors do not want to let this move go unchallenged, lest they lose market share.

HDFC Bank added over 900 branches in FY24 and will add more in the current financial year, says MD and CEO Sashidhar Jagdishan in the bank's latest annual report. It currently has 8,851 branches.

ICICI Bank, India's second largest private sector bank, is treading a similar path. Its branch count grew by 64 in the first quarter of FY25 to reach 6,587.

State Bank of India (SBI) plans to add 600 branches in the current financial year to tap business opportunities in emerging areas, including large residential townships, said Chairman CS Setty in a recent interview with a wire agency.

India's largest bank added 40 branches in the first quarter, taking the total to 22,580.

Of the 137 branches added last fiscal, 59 were in the rural areas.

There are many reasons driving bank branch expansion. Boston Consulting Group (BCG), in its latest report, notes that in the evolving banking landscape, shaped by open banking and digital public infrastructure, the distribution medium has changed significantly over the years.

"However, for a diverse nation like India, with pronounced digital divides, the relevance of physical branches in fostering customer trust remains crucial," it says.

ADVISORY CENTRES

BCG flags three key requirements for banks: transforming branches into advisory-led centres rather than product pushers; aligning services with channels tailored to specific customer segments; and adopting a 'phygital' approach.

This hybrid model, balancing digital capabilities with physical interaction, not only optimises the cost-income ratio but also extends the reach of banks.

The report observes that the digital-only approach is not successful globally. Digital banks saw a lower deposit base compared to traditional banks.

BCG emphasises that physical touchpoints build customer trust, are vital to educate and engage customers, are preferred by the elderly and non-tech savvy customers, and serve as a bridge to unbanked areas.

There is a clamour to mobilise deposits because credit growth is outstripping deposit growth. Aggregate bank credit and deposits grew robustly at 14.4 per cent and 12 per cent respectively, as on September 20, 2024.

DEPOSIT RETENTION

Though narrowing, the gap between bank credit and deposits persists (bank credit and deposits expanded year-on-year by 15.3 per cent and 12.3 per cent respectively, as on September 22, 2023).

Karthik Srinivasan, Senior Vice-President and Group Head, ICRA, points to the fall in the share of retail deposits in overall bank deposits.

"Even if somebody opens a digital savings account, the deposit is more likely to remain with the bank as a term deposit at a higher cost, unless the bank offers a higher rate on savings deposits."

"However, the retention of such savings deposits remains sensitive to interest rates. So, banks are going back to increasing branch network to mobilise stable deposits while offering other banking services as a value-add proposition," he says.

Srinivasan observes that following the merger of a non-bank with a large bank and the restrictions on another bank's digital customer acquisition, there is an even greater need to rapidly ramp up the deposit base.

"So branch network must be expanded even more rapidly to mobilise deposits. When large banks become aggressive in mobilising deposits, other banks also have to re-strategise their business plans," he says.

PRODUCT BASKET

Banks are expanding their product basket and focusing on fee-based income through sale of insurance, mutual funds, and so on.

In rural areas, this can be done more effectively through a brick-and-mortar branch, as compared to digital marketing.

"The focus on financial inclusion and schemes like the Pradhan Mantri Jan Dhan Yojana (PMJDY) have proved to be viable for many banks, and branch expansion will give us last-mile connectivity," says a senior economist of SBI.

Compared to private sector banks, public sector banks are slower with branch expansion, especially after the mega consolidation of 10 public sector banks into four in 2020.

HOUSEHOLD BEHAVIOUR

According to Reserve Bank of India data, the number of public sector bank branches has fallen from 87,892 in FY20 to 86,311 in FY21 and 84,258 in FY22. However, the number of branches nudged up to 84,404 by March 2023.

Branches of private sector banks, on the other hand, increased from 34,794 in FY20 to 41,426 in FY23.

There are newer currents in the banking industry. As observed by BCG, households' savings behaviour is changing as they are becoming net borrowers from the banking industry — driving pressure on margins and liquidity.

So, banks will need to think up more innovative ways of attracting more deposits.

Retail inflation likely to have surged to around 5% in Sept

Shishir Sinha
New Delhi

Retail inflation based on the Consumer Price Index (CPI) is likely to have surged to around 5 per cent in September on account of base effect, combined with a rise in food prices. If so, the inflation rate could cross 5 per cent for the first time after June. The government will make inflation data public on Monday.

Retail inflation was below 4 per cent for last two months — July (3.6 per cent) and August (3.7 per cent). This raised hopes for policy interest rate revision. However, considering higher inflationary expectations, the Monetary Policy Committee kept the rate unchanged earlier this month.

Following the policy stance, apart from an unexpected rise in food prices, the volatile global situation is affecting crude and commodity prices; this is also likely to impact headline inflation.

The first indication about higher inflation came from RBI Governor Shaktikanta Das' statement after the MPC meeting. He said, "The CPI print for the month of September is expected to see a big jump due to unfavourable base effects and pick-up in food price momentum, caused by the lingering effects of a shortfall in the production of onion, potato and chana dal (gram) in 2023-24, among other factors."

A report prepared by Shreya Sodhani, Regional Economist at Barclays, concurred with the RBI Governor. "We forecast CPI inflation accelerated in September, as base effects reversed. Momentum in retail prices appears contained, especially for food."

Further, the report estimated that CPI inflation is likely to have picked up pace to 5 per cent in September. "The acceleration was likely driven largely by a reversal of base effects, which had earlier dragged inflation below 4 per cent over July-August," it said, adding that sequential price pressures are expected to be relatively muted.

MODERATION LIKELY

Sodhani sees moderation in food inflation from October onwards. "Momentum seems broadly contained, and with the kharif harvest likely to hit the markets in the coming weeks, increased supply of non-perishables may bring down elevated food inflation from Q3," the report said.

Das thinks the overall inflation rate will come down from the next quarter (January-March). "The headline inflation trajectory, however, is projected to sequentially moderate in Q4 of this year due to a good kharif harvest, ample buffer stocks of cereals and a likely good crop in the ensuing rabi season," he said.

Still, he listed some risks, though they are evenly balanced. "Unexpected weather events and worsening of geopolitical conflicts constitute major upside risks," he said.

PM Internship Scheme receives huge response, 1.55 lakh youth register on day 1

GOOD START. The registrations have surpassed the pilot project target of 1.25 lakh candidates

KR Srivats
New Delhi

The Prime Minister Internship Scheme (PMIS) has received an enthusiastic response from aspiring interns, with 1,55,109 of them registering on the PMIS portal within the first 24 hours, sources at the Ministry of Corporate Affairs (MCA) said.

The window for youth registration under the PMIS opened on Saturday (5 p.m.) and will remain open till October 25.

The first day's registrations are, in fact, higher than the overall target of 1.25 lakh candidates that are sought to be provided internship under the pilot project for PMIS, being administered by the MCA.

The Ministry has set December 2 as the target date by which the 1.25 lakh internships would be provided under the pilot project. Youth aged 21-24 and who have passed 10th, 12th, ITI, polytechnic and diploma courses or graduates are eligible to avail themselves of the benefits under the scheme.

BLOCKBUSTER RESPONSE. The number of internship opportunities posted on the portal has also surged from about 16,000 as of October 7 to 90,849 as of October 11

CORPORATES ONBOARD

PMIS was announced in this year's Budget to ensure the skilling of youth to enhance their employability.

Under the pilot programme, the dedicated PMIS portal —- www.pminternship.mca.gov.in — was opened on October 3 for corporates to onboard and register their internship opportunities. As of October 11, as many as 193 companies had posted 90,849 internship opportunities on the portal, MCA sources said.

Buoyed by the strong response from corporates to the PMIS, the MCA has now extended the window for corporate onboarding on the newly set up dedicated portal till October 15, the sources added.

TOP COMPANIES

Some of the top corporates who have already offered internship opportunities to the youth include Mahindra & Mahindra, Tata Consultancy Services, Larsen & Toubro, Reliance Industries, HDFC Bank, Maruti Suzuki, Tech Mahindra, ONGC, Bajaj Finance, Eicher Motors, Max Life Insurance, Muthoot Finance and Jubilant Foodworks.

Presently, internship opportunities are available in 737 districts, spread over 37 States and Union Territories.

The top five States in terms of the number of internship opportunities posted are Maharashtra (10,242), Tamil Nadu (9,827), Gujarat (9,311), Karnataka (8,326) and Uttar Pradesh (7,156), the sources added.

The strong response to the scheme from corporates can be gauged from the fact that the number of internship opportunities posted on the portal surged from about 16,000 as of October 7 to 90,849 as of October 11.

Under the PMIS, there will be an allowance of ₹5,000 per month and ₹6,000 as a one-time grant.

The MCA recently stipulated that internship aspirants looking to avail themselves of benefits of the PM Internship Scheme need to possess Aadhar number or undergo Aadhaar authentication.

The government has set aside ₹800 crore for the pilot scheme, which aims to provide 1.25 lakh internships to youth in FY'25. Companies will review and select candidates between October 27 and November 7.

● RISE IN COST OF FUNDS

Banks may face NIM compression

Credit growth, a key driver for earnings, has decelerated in Q2FY25

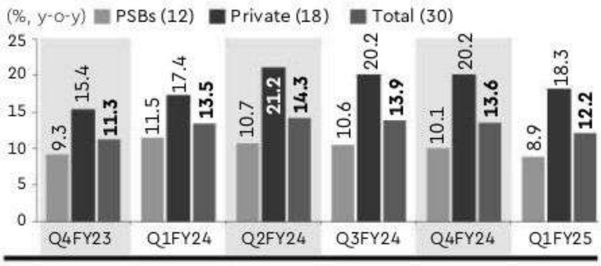
SACHIN KUMAR
Mumbai, October 13

BANKS ARE LIKELY to report a modest earnings growth in the second quarter, driven by a slower credit growth and a moderate decline in net interest margins (NIMs). Lenders are expected to witness 5-10-basis-point (bps) compression in NIMs due to rise in cost of funds, say experts.

"NIM are expected to decline by 5-10 bps sequentially, given the pressure on cost of funds resulting from repricing of deposits. Additionally, the CASA ratio for most banks has been on a declining trend," brokerage firm Sharekhan said in a report. "NIM compression is expected for coverage universe given limited opportunity to increase the yield on the asset side," it said.

Most large banks have indicated that the pass-through of fresh term deposit rates is largely complete and any further rise in overall cost of deposits should be very marginal, the report said.

DEPOSITS GROWTH



HDFC Bank, Axis Bank, Bank of Maharashtra and Indian Overseas Bank will announce their quarterly results this week.

After a lacklustre performance in Q1, deposit growth has shown signs of improvement. Provisional numbers show improved trends in deposit mobilisation, particularly in current account savings account (CASA).

However, the industry's CASA ratio remains under pressure, reflecting higher reliance on term deposits. Analysts say this shift has increased the cost of funds for banks, further impacting their margins. Systemic deposit growth stood at around 11.5% as of September 20, 2024, compared to 11-13% in recent periods.

While larger banks may experience a more controlled decline in margins, small finance banks (SFBs) are expected to witness sharper NIM compression due to their greater dependence on high-cost deposits.

RESULTS PREVIEW

"While managements have been optimistic about the demand-led growth continuing in FY25; we believe our under-coverage bank could see a downward revision in their credit growth estimates for FY25, driven by banks' attempt to maintain a balanced LDR, moderating credit in the unsecured segment and slower corporate credit pick-up," said Dnyanada Vaidya, research analyst, Axis Securities. "We expect earnings momentum to decelerate and banks (including SFBs) under our coverage to deliver a modest earnings growth of 7% year-on year and a de-growth of 6% quarter-on-quarter".

Credit growth, a key driver for earnings, has decelerated in Q2FY25. Systemic loan growth is expected to be around 14% YoY, but just 4% QoQ, according to Axis Securities.

The slowdown is largely driven by private sector banks, which are adjusting their loan-to-deposit ratio (LDR) to maintain balanced liquidity, while public sector banks are likely to fare better, continuing their healthier growth trajectory.

On the asset quality front, most banks are expected to report steady metrics. Slippages are projected to remain broadly stable on a sequential basis, with corporate asset quality continuing to be pristine. However, higher slippages are anticipated in the unsecured loan and microfinance institutions (MFI) segments.

"We see slippages for most banks to remain at similar levels sequentially in the second quarter as the residual restructured book will be reasonably well behaved," said Yes Securities in a report. "Furthermore, the macro environment due to elevated interest rates has already caused some incipient build-up of stress, but slippages should broadly stabilise at these levels," noted the report.

PSU defaults and moral hazards

How long will the banking system bank on government ownership?

BANKER'S TRUST

TAMAL BANDYOPADHYAY

One could hear a collective sigh of relief from the Indian banking sector when the bankers learnt that the government was considering a bailout for the Mahanagar Telephone Nigam Limited (MTNL) and the Rashtriya Ispat Nigam Ltd (RINL), both Navratna public sector undertakings (PSUs). The telecom and steel ministries have been discussing this with the finance ministry.

A committee of secretaries from the departments of expenditure, investment and public asset management, and telecommunications will take the final call on MTNL's debt.

On September 25, the State Bank of India (SBI) downgraded its MTNL exposure as a non-performing asset (NPA) due to non-payment of instalments and interest since June 30. Ahead of that, in mid-September, Punjab National Bank (PNB) had joined others to downgrade the account.

For SBI, the total outstanding on the MTNL loan account was ₹325.52 crore as of September 30, according to the bank's letter dated October 1, shared by the company with the stock exchanges. Going by MTNL's September 13 filing with stock exchanges, the outstanding amount for PNB is ₹441 crore and the overdue at least ₹46 crore.

Ahead of that, MTNL disclosed that it had defaulted on ₹519 crore in repayments to several state-owned lenders between June and August 2024.

MTNL is a listed entity, owned 56.25 per cent by the government of India and 13.12 per cent by the Life Insurance Corporation of India. In March 2024, it had a ₹23,663 crore hole in its net worth, after posting a net loss of ₹3,302 crore in FY24 on top of the ₹2,915.1 crore loss posted in FY23.

It is burdened with about ₹35,600 crore debt, of which ₹27,700 crore are bonds guaranteed by the central government. These bonds continue to be rated as "AAA (CE)". CE highlights the credit enhancement on account of the government guarantee. The balance exposure of about ₹7,900 crore is by way of term loans and working capital from a clutch of banks, including Union Bank of India, Bank of India, SBI, PNB, Punjab & Sind Bank and Uco Bank.

RINL, commonly known as Vizag Steel, is 100 per cent owned by the government. It had posted a loss of ₹2,858 crore in FY23 (the latest available audited numbers). Its net worth was ₹391 crore in March 2023, but this has been wiped out as the company reported a net loss of ₹2,058 crore in the first half of FY24.

RINL has a total debt of ₹20,413 crore — term loan of ₹10,812 crore and working capital worth ₹9,601 crore. Like MTNL, it also started defaulting in June. It seems that all banks have classified both RINL and MTNL accounts as bad loans in the September quarter.

On top of the term loan and working capital exposure, banks have non-fund exposures to these two companies in the form of letters of credit and guarantees. Most of that exposure will also devolve on lenders (as it gets converted to funded facilities). They may have to write it off if the government does not step in.

The government granted the Navratna status to MTNL in July 1997 and RINL in November 2010. The Navratna companies are central public sector enterprises and considered to be important to India's economy. They enjoy autonomy in areas like capital expenditure, investment in subsidiaries and joint ventures, and human resource management.

MTNL was set up on April 1, 1986 to upgrade the quality of telecom services, expand the telecom network, introduce new services and raise revenue for the telecom development needs of India's key metros: Delhi and Mumbai. Mumbai is where India's first telephone exchange was set up in 1882.

The MTNL website, last updated in February 2018, has stopped mentioning the milestones it has achieved since 2012. Past milestones include introduction of voicemail service in 1992, setting up of wholly-owned subsidiaries such as Millennium Telecom Ltd in 2000 and Mahanagar Telephone Mauritius Ltd in 2003, and the launch of 3G mobile service in 2008.

Recently, the government assured the banking industry that MTNL would not default to the bond holders and its operations would be transferred to Bharat Sanchar Nigam Ltd (BSNL), a Miniratna. Efforts to monetise its assets to pay off bank dues have also been on, telecom minister Jyotiraditya Scindia has said. Until that happens, the government will stand by its guarantee to the bonds.

The telecom company had earlier offered to settle the bank debt at a 60 per cent discount, but that was not to the lenders' liking.

Generally, lending to PSUs is considered safe. However, there have been multiple instances of defaults, and banks have taken haircuts in lending to them. Many loans to the cooperatives in the sugar and textile sectors were also written off in the past, the effects of which are visible even today in poor credit flow to the cooperative sector.

In private, bankers do talk about their experience with PSUs when it comes to lending. The petition to wind up STCL Ltd (earlier called Spices Trading Company Ltd), a 100 per cent subsidiary of State Trading Corporation of India Ltd (STC), a Miniratna PSU, has been pending in Karnataka High Court for over a decade now. The Enforcement Directorate attached the assets of STCL under FEMA/PMLA in 2021.

In March 2023, STCL owed Rs 4,559 crore to a consortium of eight public and private banks. The recovery cases have been lying with the Debt Recovery Tribunal (DRT) and Debt Recovery Appellate Tribunal (DRAT).

Similarly, there will be next to nothing recovery from STC, owned 90 per cent by the government. It ceased operations in 2021. In March 2024, it owed ₹806 crore to a consortium of six banks. The recovery cases have been pending before DRT and the National Company Law Tribunal (NCLT).

In the case of Hindustan Newsprint Ltd, a wholly-owned subsidiary of Hindustan Paper Corporation Ltd, a central Miniratna PSU, banks took a haircut of about 65 per cent. The deal was done under the Insolvency and Bankruptcy Code (IBC) through the NCLT process and not through private negotiations by the ministry, as is happening with MTNL and RINL.

Incidentally, bankers lose out on lending to state governments as well. Banks suffered losses in 2016 on food credit extended to the government of Punjab. Andhra Pradesh tried to renegotiate the power-purchase agreement for renewable energy entered into by the previous government. The project developers and lenders would have suffered a huge loss had it not been for the court's intervention. Such instances erode investor confidence in projects and could make credit flow scarce and costlier.

The Reserve Bank of India's regulations do not provide any forbearance to defaults by PSUs vis-à-vis the private sector. The PSUs are, however, excluded from group exposure norms. This is in sync with the international practice — the exposure to the sovereign is not cumulative.

MTNL and RINL aren't good stories, particularly when both lenders and investors are getting their appetite for the infrastructure sector back

However, these instances of default and write-off erode the confidence of banks in lending to PSUs, which are generally perceived to be inefficient. How long will the banking system bank on government ownership?

The decision to settle RINL and MTNL's debt is reportedly being taken by the Committee of Secretaries and not by the group of lenders. The IBC is the law of the land, and there is a market mechanism to find true value. In contrast, private negotiations always depend on the strength of the negotiating parties. Particularly when government is the negotiator, will the government-owned banks be able to bargain hard? On top of that, this is fraught with moral hazards as well.

MTNL and RINL aren't good stories, particularly when both lenders and investors are getting their appetite for the infrastructure sector back.

The writer is an author and senior advisor to Jana Small Finance Bank Ltd.
His latest book: Roller Coaster: An Affair with Banking. To read his previous columns, please log on to www.bankerstrust.in
X: @TamalBandyo

Collateral anchor: Fintech cos steer towards secured lending

This comes after RBI raised risk weights on unsecured personal loans

AJINKYA KAWALE
Mumbai, 13 October

Nearly a year after the Reserve Bank of India (RBI) raised risk weights on unsecured personal loans, the country's leading fintech companies are shifting focus, expanding their portfolios to include collateral-backed credit in collaboration with lending partners. The strategy allows these firms to diversify revenue streams and offset risks from rising loan delinquencies.

Leading the charge, Bengaluru-based PhonePe has launched a broad range of secured credit products, including mutual fund loans, gold loans, vehicle loans, loans against property, and education loans, significantly enhancing its credit distribution portfolio since May.

BharatPe introduced two-wheeler loans and loans against mutual funds in August, working with non-banking financial companies (NBFCs). Google Pay followed in October, offering gold loans.

"Secured credit is a large market," said Hemant Gala, chief executive officer (CEO) of PhonePe Lending. "While not digitally savvy a few years ago, it's catching up very fast. Everyone wants to try and figure out a model for it."

The pivot comes as growth in unsecured personal loans moderates. Data from the Fintech Association for Consumer Empowerment (FACE), a self-regulatory organisation for fintech companies, reveals a slight decline in fintech disbursement volumes in Q1FY25 to 26.4 million, down from 26.6 million in Q4FY24. Despite this trend, fintechs remain optimistic about secured loans, supported by a large market and lender enthusiasm to partner on risk-mitigated, collateral-based credit.

"There're users who want secured loans because of the lower cost of borrowing. Second, there're users who may never get a loan, and there is no way to underwrite them," said Sharath Bulusu, Google Pay's director of product management, told *Business Standard* in an earlier interaction. These offerings bring more customers into the formal credit fold, he underscored.

ILLUSTRATION: BINAY SINHA

DIVERSIFICATION DRIVE

- Growth in unsecured loan disbursements slows, pushing fintechs to diversify
- PhonePe, Google Pay, and BharatPe offer secured loan options
- New secured products include mutual fund loans, gold loans, vehicle loans, etc.
- Secured loans see better conversions than unsecured loans
- Fintechs partner with lenders for sourcing and disbursal
- End-to-end digitisation could streamline secured loan processes
- Secured loans offer lower borrowing costs for eligible users

Exploring models

Since May, PhonePe has expanded its roster of lending partners from 15 to 35 institutions, while Google Pay now collaborates with five lenders to extend both personal and gold loans.

According to Gala, secured loan conversions tend to outperform unsecured options due to the targeted nature of collateral-based credit and higher customer intent. He noted that PhonePe is also refining its revenue model to decide between lead-based and disbursal-based structures.

Solving early bottlenecks

In typical arrangements, fintech firms focus on customer acquisition, while lenders handle underwriting and, in most cases, collections. Commissions or take rates per loan drive fintech revenue in these partnerships.

"Very small loans don't always work for lenders because of high origination costs," said Bulusu of Google Pay, adding that digitisation can cut these expenses.

Unlike extending unsecured loans for which fintech firms and lenders rely on credit history, the process of underwriting the value of collateral-based loans is different, involving moving parts that require significant offline presence.

"We have to see how there could be processes that can evolve and that we can leverage to replicate assets digitally," said Gala from PhonePe Lending. "The end-to-end digitisation may play out well in the next 12-24 months," Gala from PhonePe Lending said. However, onboarding and paperwork can deter customers from completing the secured loan process.

SBI talent emerges high-yield asset for private sector banks

Regulatory comfort drives bank boards to appoint SBI officials for stability

MANOJIT SAHA
Mumbai, 13 October

IN DEMAND

PARTHA PRATIM SENGUPTA
MD & CEO, Bandhan Bank

ARUNDHATI BHATTACHARYA
Chairperson & CEO, Salesforce India

PALLAV MOHAPATRA
MD & CEO, ARCIL

DIWAKAR GUPTA
Chairman, NARCL

In the past six months, at least three former State Bank of India (SBI) executives have been appointed managing director and chief executive officer (MD and CEO) of different private sector banks, with Partha Pratim Sengupta being the latest.

Last week, the Reserve Bank of India (RBI) approved Sengupta's appointment as MD and CEO of Kolkata-based Bandhan Bank. He will take charge in November.

Sengupta was the deputy MD and chief credit officer at SBI. He was later appointed MD and CEO of the public sector lender Indian Overseas Bank. He is widely credited with turning around the Chennai-based lender and taking it out of the prompt corrective action framework. The CEO position fell vacant at Bandhan after founder Chandra Shekhar Ghosh announced a surprise retirement in April this year.

In August, the regulator approved Salee Sukumaran Nair as MD and CEO of Tamilnad Mercantile Bank. Nair's approval followed the RBI's rejection of the CEO candidates proposed by the bank board in April. He started his career in 1987 when he joined SBI as a probationary officer and rose to the rank of deputy MD. His last assignment at SBI was as deputy MD and chief credit officer until May 2024, where he was responsible for managing the credit portfolio.

Sanjeev Nautiyal took charge of Ujjivan Small Finance Bank (SFB) on July 1.

Turn to Page 6

6 private sector banks have CEO from SBI

A banker with over three decades of experience, Nautiyal was a deputy MD of SBI and also served as MD and CEO of SBI Life Insurance. Nautiyal became the third CEO of the bank in five years, taking charge after his predecessor, Ittira Davis, was relieved before the completion of his term.

Currently, there are six private sector banks in the country where the CEO is from SBI, with Sengupta set to become the seventh once he assumes charge.

Additionally, there are three banks, including one public sector bank where a former SBI official serves as a non-executive chairman: Karnataka Bank, Utkarsh SFB, and UCO Bank.

Bankers note that regulatory comfort is the key reason for bank boards to choose SBI officials for top positions.

“The RBI governor has been highlighting the importance of governance and compliance issues in banks, particularly in the private sector. In this context, the regulator seems comfortable with the idea of an SBI official heading banks,” said a senior banker from a private sector bank that is led by a former SBI official.

After the government allowed SBI deputy MDs to become MD and CEO of other PSBs, private sector banks began hiring SBI officers as well. Until a few years ago, several PSBs, such as UCO, Bank of Baroda, and Indian Bank, were headed by SBI officials.

“Appointment of a public sector banker as CEO provides stability to an organisation like Bandhan, which has witnessed exits in the past year,” Macquarie said in a note on Sengupta’s appointment.

The performance of banks headed by former SBI officials has been satisfactory to the regulator so far, according to bankers. For example, Prashant Kumar, a former deputy MD at SBI, was tasked with reconstructing Yes Bank as MD and CEO after it faced financial irregularities. Kumar was able to bring stability to the lender before shifting focus to growth. Similarly, Rakesh Sharma, MD and CEO of IDBI Bank, successfully shifted the focus from corporate loans to retail lending, addressing asset quality issues stemming from corporate credit in the past decade. The RBI approved extensions of tenure for both Kumar and Sharma for three years in 2022.