
TOPIC OF THE DAY:
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BANK ACCOUNT

# What is a Mule Account?

A mule account is a bank account used by criminals to facilitate money laundering or transfer illegal funds across financial systems. The term 'mule' comes from the fact that the person holding the account (the 'mule') is often unaware that they are being used as a tool to move illicit money.

Here's how it works:

1. Recruitment: Criminals recruit individuals (mules) to open bank accounts in their name or use existing accounts. This recruitment often happens through fake job offers, online scams, or promises of easy money.

2. Fund Transfers: Once the account is active, illegal funds are deposited into the mule's account. The mule is instructed to withdraw or transfer the money, often internationally.

3. Deception: The mule is often unaware that the funds are illegal, believing the source to be legitimate, like a business or charity.

4. Risks for Mules: Even if unaware, mule account holders can face legal consequences, including criminal charges, frozen accounts, and damaged reputations.

5. Avoiding Risks: Be cautious of job offers or individuals asking to use your bank account for fund transfers. Never share your banking details with unknown parties, and avoid 'easy money' opportunities that involve financial transactions.

Mule accounts are illegal and monitored by law enforcement agencies. Involvement, even unknowingly, can result in severe legal consequences.


UNSCURED LOANS
NBFC
TIGHNIRED RISKS TIGHNING NORMS
SCURED RISKS
RISKS
UNSUERED ROANS
RAISING DEEECENCY IN LOANS
FINE PRINT
RISKS LOANS
NBFC

## Growth of unsecured loans

**OVER THE LAST** decade, NBFCs have shown resilience amidst systemic shocks like Covid-19 and the IL&FS crisis thanks to crucial regulatory support and stronger balance sheets. NBFCs have witnessed exponential growth in the post-Covid era led by unsecured lending with inquiry volumes increasing across product categories. The share of NBFCs in total credit has been consistently high at a three-year average of 25%. Unsecured loans such as personal loans have been the driving force (nearly tripled since FY21), contributing to ~28% of the incremental growth in retail loans as of FY24. Unsecured personal loans by NBFCs have grown at a CAGR of 44% during FY21-24 to reach ₹2.93 lakh crore. A report by TransUnion CIBIL reveals that the middle-class young consumer (age less than 35 with credit scores of 620-720) is the primary driver behind the surge in demand for unsecured loans with 51% share (~45% share in March 2020). Further, the total bank credit to NBFCs has increased at a CAGR of 17% to ₹15.2 lakh crore. Advent of data analytics and increased focus on customer centricity have encouraged lenders to offer innovative products, including no-cost EMI options.

**ASSESSING THE RISKS**

# Why NBFCs need to tread with caution

The Reserve Bank of India has warned non-banking financial companies (NBFCs) against aggressively chasing "growth at any cost" and how this could eventually impact the entire financial system. ***Pratik Shah*** & ***Anand Mihir*** explain what led the regulator to sound the warning

**₹2.93 Lcr**

UNSECURED PERSONAL LOANS BY NBFCs AS OF MARCH 2024, WITH CAGR OF 44% DURING FY21-24

**RBI HAS SOUGHT DETAILED DISCLOSURE OF DATA FROM SELECT NBFCs ON THEIR OUTSTANDING LOAN BOOK**

**4.9%**

DELINQUENCY LEVEL IN PERSONAL LOANS AT NBFC-FINTECH LENDERS AS OF MARCH 2024

## Delinquency trends in unsecured lending

**GIVEN THE BURGEONING** unsecured lending space and interconnectedness with banks, the RBI from time to time has expressed discomfort at the expanding share of certain unsecured loan products. Also, there are concerns about higher delinquencies in small-ticket personal loans. Delinquency levels for those with personal loans below ₹50,000 was 5% in March 2024 against ~2.8% a year ago. NBFC-fintechs, which have the highest share in sanctioned and outstanding (46.8% in March 24) personal loans, had the second highest level of delinquency at 4.9% in March 2024. Vintage delinquency, a measure of slippage, was 8.2% in March 2024. In fact, a little more than half of the borrowers in this segment have three live loans at the time of origination and more than one-third have availed more than three loans in the last six months.

## RBI's key concerns

**BESIDES BUILD-UP OF** stress, the RBI has flagged certain lending practices of select smaller NBFCs, fintechs and micro-finance institutions (MFIs), especially in the unsecured loan business. These pertain to lack of comprehensive credit evaluation, incorrect application of risk weights, higher loan-to-value, cash disbursal beyond statutory limits, absence of collateral monitoring and poor KYC compliance by third parties. Even for certain secured products like gold loans, similar concerns relating to lending practices were expressed by the RBI. It has also expressed concerns around select NBFCs, MFIs and HFIs focusing on excessive returns on equity. This is especially concerning when they charge usurious interest rates, high processing fees, and impose frivolous penalties. RBI has also raised concerns regarding customer complaints in the NBFC and fintech sectors, primarily focusing on the adequacy of grievance redressal mechanisms and compliance with regulatory standards.

## Tightening the norms

**MOST ISSUES ARISE** from lax under-writing standards and insufficient risk assessment practices. The RBI norms call for robust internal controls and compliance checks. In November 2023, it had announced a sharp hike in capital requirement on unsecured retail loans for banks and NBFCs as well as on banks' credit exposure to NBFCs (excluding housing finance companies). It now prescribes higher risk-weights to the extent of 25 pps in these two segments. has sought detailed disclosure of data from select NBFCs on their outstanding loan book broken down by product type and annualised interest charged.

## Need for sound risk management

**THE MESSAGE FROM** the regulator is that it wants to advocate disciplined growth in these segments. The concern emanates from the fact that select NBFCs are pursuing a "growth at all costs" approach without focusing on building sustainable business practices and risk management frameworks aligned to the complexity of the portfolio. Although the current exposure of banks and NBFCs within the retail unsecured segment may not necessarily be drawing parallels with the last NPA cycle (driven by stress in corporate segment), it shall certainly be dealt with more timely preventive measures. Prudent lending practices and continuous portfolio monitoring shall be key to sustain the healthy growth momentum in retail loans segment. The increased risk weights have helped to streamline the growth in consumer credit, but continuous monitoring is essential to address emerging risks and ensure the robustness of the financial system. The RBI's caution aims to ensure that NBFCs maintain sound risk management practices while promoting responsible lending.

*Shah is Financial Services leader and Mihir is partner & leader, Financial Services Risk Consulting, at EY India*

# 65% of millennials prefer digital to traditional gold as savings option: Study

**Our Bureau**
Bengaluru

Digital gold platforms are increasingly gaining traction among millennials, who view them as a prudent and convenient savings option.

According to a survey conducted by Moneyview, 65 per cent of millennials prefer digital gold over traditional. With a low entry ticket size, digital gold reduces the financial burden associated with traditional gold investments, making it an attractive option for savings.

Urban consumers are leading the trend toward digital gold, driven by their digital literacy and internet access. In contrast, rural consumers have traditionally preferred physical gold purchases. As fintech platforms continue to offer innovative solutions, digital gold is poised to play a pivotal role in shaping the future of gold, according to Sushma Abburi, Chief Business Officer at Moneyview.


## INVESTOR FLEXIBILITY

Unlike traditional gold investments, which require finding a reputable dealer, arranging safe storage, and ensuring authenticity — digital gold allows for fractional ownership, making it accessible to a wider range of customers. It can be easily converted to cash or physical gold, giving investors flexibility to trade without incurring transaction costs or delays.

The survey shows that over 75 per cent of respondents under the age of 35 prefer digital gold to physical gold, citing its liquidity and convenience as major factors. Investors, particularly in the 25-40 years age group are increasingly integrating both physical and digital gold into their financial strategies. The research surveyed 3,000 participants using parameters such as location, age, and income.


65%
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ANALYSTS ANTICIPATE MARGINAL MODERATION IN AUM GROWTH

# NBFC profit growth may take a hit on rise in credit costs

**ANUPREKSHA JAIN**
Mumbai, October 16

**NON-BANKING FINANCIAL COMPANIES** (NBFCs) are expected to witness a relatively-slower growth in their net profits for the July-September period because of an uptick in cost of borrowings, according to research reports.

According to a report by ICICI Securities, the net profit of NBFCs is expected to grow at a moderate rate of 11% year-on-year while registering a decline of 2% on a quarterly basis.

"In a nutshell, rising cost of funds, competition and interest reversals are likely to result in margin contraction for NBFCs during Q2FY25," said the report.

While NBFCs are benefitting from a steady credit demand, particularly in housing, infrastructure and gold financing, there are early signs of a spike in credit cost. Credit costs are projected to rise by 21 basis points YoY to 1.6%, signalling potential asset quality risks, especially in the microfinance and unsecured loan segments, according to a report by Elara Securities.

As banks' borrowing to NBFCs with ratings of below 'AA' has become dearer, non-bank lenders have leaned towards alternative sources – reliance on commercial papers, foreign currency borrowings and securitisation has significantly gone up – now accounting for 16% of overall borrowings as of the end of the first quarter of the current fiscal, according to Crisil.

## CAUTIOUS OPTIMISM

- Net profit of NBFCs is expected to grow at **11%** YoY while registering a decline of **2%** on a quarterly basis
- Credit costs are projected to rise by **21 basis points y-o-y,** signalling potential asset quality risks

- With rates transmission happening through asset repricing, NIM should hold, according to a brokerage
- Regulatory scrutinies, tighter funding conditions and liquidity challenges are seen as key factors impacting performance

**As banks' borrowing to NBFCs with ratings of below 'AA' has become dearer, non-bank lenders have leaned towards alternative sources**

RESULTS PREVIEW

Although net interest margins (NIMs) are expected to improve by 12 bps QoQ, funding cost pressures are likely to affect margins in upcoming quarters.

"With rates transmission happening through asset repricing, NIM should hold. Q2FY25E aggregate NIM would witness an uptick of 12 bps QoQ and 6 bps YoY. While asset repricing is largely behind us, funding cost strain may reflect in the upcoming quarters. Effective liability management, impending debt maturity and liquidity chest may determine the margin trajectory for NBFC," Elara Securities report said.

Research reports highlight that although non-performing assets remain under control, with a modest decline of 6 bps QoQ, credit costs are beginning to climb.

Analysts are anticipating a marginal moderation in assets under management growth, primarily because of the slowdown in disbursements following heavy rainfall in a few geographies and a slightly-slower growth in unsecured segments.

According to the Systematix Research report, the AUM growth is expected to remain in the range of 19-34% across product categories.

NBFCs may face a slowing momentum in the near term as the sector grapples with rising funding costs and potential impacts of upcoming elections. Multiple research reports forecast that NBFCs will post an 18% Y-o-Y growth in businesses in Q2, but also warn that commercial vehicles and consumer financiers may see tailwinds only in the second half of FY25.

To sum it up, increased regulatory scrutinies, tighter funding conditions and liquidity challenges are seen as key factors impacting the sector's performance.

# A case for easing CD ratio for small finance banks

## This will provide SFBs more flexibility in managing capital and liquidity; they can lend more effectively

**P Saravanan**
**A Paul Williams**

Small finance banks (SFBs) in India are facing a growing challenge as their credit-deposit (CD) ratios surge past comfort levels. This has prompted them to approach the Reserve Bank of India (RBI) seeking relief from the existing regulatory framework.

Recent news reports highlight this rising concern, with some SFBs reporting CD ratios exceeding 100 per cent, significantly higher than the 75 per cent generally seen as prudent for scheduled commercial banks. This surge in lending activity, while indicative of SFBs fulfilling their mandate of extending credit to underserved segments, raises concerns about their liquidity positions and ability to manage risks effectively.

**CD ratio:** The credit-deposit ratio (CD) provides insight into a bank's lending practices and liquidity management. By indicating how much of the deposited funds are being used for loans, it helps assess the bank's ability to generate income through interest on loans.

A higher CDR suggests that the bank is actively lending more relative to its deposits, which can lead to greater interest income. Conversely, a lower CDR might indicate a more cautious lending strategy, potentially leading to lower income.

This ratio is crucial for stakeholders, including regulators, investors, and the bank's management, to evaluate the bank's operational efficiency and risk management.

**SFBs vs commercial banks:** While both SFBs and commercial banks operate within the banking sector, they cater to distinct customer segments and have different operational focuses. Comparing them would be akin to comparing apples and oranges.

SFBs primarily focus on serving the unserved and underserved sections of society, including micro-enterprises, small farmers, and unorganised sector entities.

Commercial banks, on the other hand, cater to a wider range of customers, including individuals, large corporations, and government entities.

SFBs prioritise financial inclusion and developmental activities, providing customised financial products. Commercial banks, while also contributing to financial inclusion, have a broader mandate that includes corporate banking, investment banking, and international operations.

SFBs operate under a differentiated regulatory framework that recognises their unique mandate and provides them with certain relaxations.

**LENDING.** Must be inclusive ISTOCK

### THE RATIONALE

SFBs were originally set up with an aim to promote financial inclusion by providing banking services to underserved population. They often focus in niche lending like microfinance and agriculture.

Exemption could provide them with greater flexibility to manage capital and liquidity, allowing them to lend more effectively based on demand rather than being constrained by regulatory ratios. Without the pressure of maintaining a certain CD ratio, SFBs can focus on expanding their lending portfolios and growing their customer base.

By easing CD ratio requirements, SFBs can increase funding for small businesses and entrepreneurs in rural and semi-urban areas, contributing to job creation and growth. Exempting SFBs from strict CD ratio requirements similar to that of commercial banks could be a significant step toward enhancing their ability to promote financial inclusion.

Further, SFBs have generally maintained a healthy CD ratio. In recent years, there has been an increasing trend in the CD ratio of SFBs, indicating their growing confidence in lending to their target segments and their ability to manage liquidity effectively.

It is essential, however, to balance this flexibility with robust oversight to ensure that these institutions remain solvent and effective in their mission. The case for exemption can certainly be considered alongside a framework that emphasises responsible lending and risk management.

Saravanan is a Professor of Finance and Accounting at IIM Tiruchirappalli and Williams is the Head of India at Sernova Financial

'REVISION WITHOUT CONSULTATION'

# ICAI's new audit standards legally void, says NFRA

## Audit regulator may take up the matter with govt

MANU KAUSHIK
New Delhi, October 16

AUDIT REGULATOR NATIONAL Financial Reporting Authority (NFRA) has taken strong objections to the Institute of Chartered Accountants of India's (ICAI's) recent revision of a clutch of audit standards, calling it "illegal". The authority is likely to take the matter up with the government. The ICAI released the revised standards of quality management (SQMs) on Monday along with a series of concomitant standards of audit (SAs).

"The ICAI doesn't have the powers to change standards of audit. As per ministry of corporate affairs' (MCA's) directive, any modifications in standards have to be examined by the NFRA first. They have revised the without consulting us. This is illegal and void ab initio," an NFRA source told *FE* on condition of anonymity.

The SQM revision was overdue and was needed to take into account new realities in audit practice, give due emphasis on risk assessment and bring in tailor-made, scalable audit systems. The shift from SQC to SQM has been taking place globally over the last few years.

"In August, ICAI had asked for three weeks to send the SQM draft to NFRA but now they have released the SQM without showing us the draft," the source said.

NFRA board, including members like the Sebi, CAG and RBI, is of the opinion that SQMs have to be notified as auditing standards (with legal backing) whereas the ICAI maintains that SQMs are not standards of auditing.

Continued on Page 7

### AT LOGGERHEADS

- Audit regulator to look at the revised audit standards in Nov meeting
- ICAI released the revised SQM on Oct 14 along with a series of concomitant SAs
- Any modifications in standards have to be examined by NFRA first, says regulator
- NFRA is of the opinion that SQMs have to be notified as auditing standards
- But the ICAI maintains that SQMs are not standards of auditing

# Panel for merging cess

# NFRA: ICAI's audit standards void

"GIVEN THAT NFRA has been kept in dark by ICAI, we are going to examine the revised SQMs afresh. Our team is already studying the SQMs. In NFRA's next board meeting in November, we are going to consider this issue," the source said.

In August 2021, the MCA had written a letter to ICAI, requesting it to consult NFRA, before issuing audit standards. The standards would finally be notified by the government.

As per ICAI's website, SQM1 will come into effect from April next year whereas the SQM 2 has to be implemented from April 2026. "It seems that the ICAI is defying the government's orders. Since these changes doesn't have the government's nod, the practicing chartered accountants (CAs) will have no option but to ignore these standards," the source said.

While SQM 1 deals with a CA firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, SQM 2 talks about the appointment and eligibility of the engagement quality reviewer and the review process. ICAI has also said that the extant corresponding standard – SQC 1 – will continue to be applicable till these standards become applicable.

livemint

# Rang De, Faircent, others face RBI probe over P2P lending

Gopika Gopakumar
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MUMBAI

The Reserve Bank of India had issued show-cause notices to P2P lending platforms in June. HT

Faircent, Monexo, Rang De, Finzy, Lendbox (Transactree Technologies Pvt. Ltd) and Financepeer are the six peer-to-peer (P2P) lending platforms that have received show-cause notices from the Reserve Bank of India (RBI), according to a person aware of the development and a right-to-information (RTI) query. While RBI's RTI reply showed its enforcement department issued show-cause notices to four platforms, the person told *Mint* that the regulator's banking supervision department issued notices to two platforms.

"The enforcement department has initiated action against four more NBFC-P2P lending platforms. The details of violations by these firms cannot be shared at this stage as it would impede the enforcement process," the banking regulator said in its reply to the RTI filed by investment awareness platform ALT Investor's founder Yash Roongta. As per the person cited above, the enforcement department's notices are related to non-compliance, while those issued by the supervision department are related to licence cancellations.

The banking regulator is still contemplating whether to impose any fines on the fintechs, said an executive at an NBFC-P2P on condition of anonymity. "Since some of them have a lower net worth, a fine of ₹2 crore will be a huge burden for some of them."

Emails sent to the RBI, Faircent, Rang De, Finzy, Lendbox and Financepeer remained unanswered till press time.

The RBI sent out the first set of show-cause notices to P2P platforms in June. In August, it imposed monetary penalties of nearly ₹2 crore each on LenDenClub (Innofin Solutions Pvt. Ltd) and LiquiLoans (NDX P2P Pvt. Ltd) for non-compliance with certain provisions of the Non-Banking Financial Company-Peer-to-Peer Lending Platform (Reserve Bank) Directions, 2017 and Guidelines on Digital Lending.

The apex bank found neither platform disclosed the borrowers' required personal details, including credit assessment and risk profile, to the prospective lenders. They also disbursed loans without individual lenders' approval and routed the amounts through a 'co-lending escrow account'. Further repayments for merchant loans were routed through the nodal account of a third party, which acted as a lending service provider.On 16 August, the RBI tightened the P2P lending rules to stop fintechs from misinterpreting the existing guidelines. The regulator asked all NBFC-PPIs (prepaid payment instruments) to stop offering any assured returns or credit guarantees and allow the lender to bear the losses on account of borrowers' defaults, among other changes.

**RBI found that P2P platforms didn't disclose the borrowers' required personal details to the potential lenders**

It also asked the platforms to ensure that funds are transferred to the borrower or lender from the escrow account within the T+1 timeline.

The RBI barred fintech investors from investing money into a P2P platform only to be lent to the borrowers of the same fintech, thereby creating a closed user group.

The RBI's new rules have brought the industry to a near standstill, with business volume falling nearly 95%, according to industry experts. Some companies have paused transactions, while others are looking to diversify their business model to stay afloat.

Roongta said the RBI's clarification removed the scope for creative interpretation of the P2P rules.

"While most P2P platforms have paused operations to reassess their next steps, some larger players are still not fully complying with the new guidelines—particularly those related to automatic lending, not allowing lenders to select borrowers directly, and providing complete and accurate portfolio performance disclosures on their websites," he said.

*For an extended version of this story, go to* livemint.com

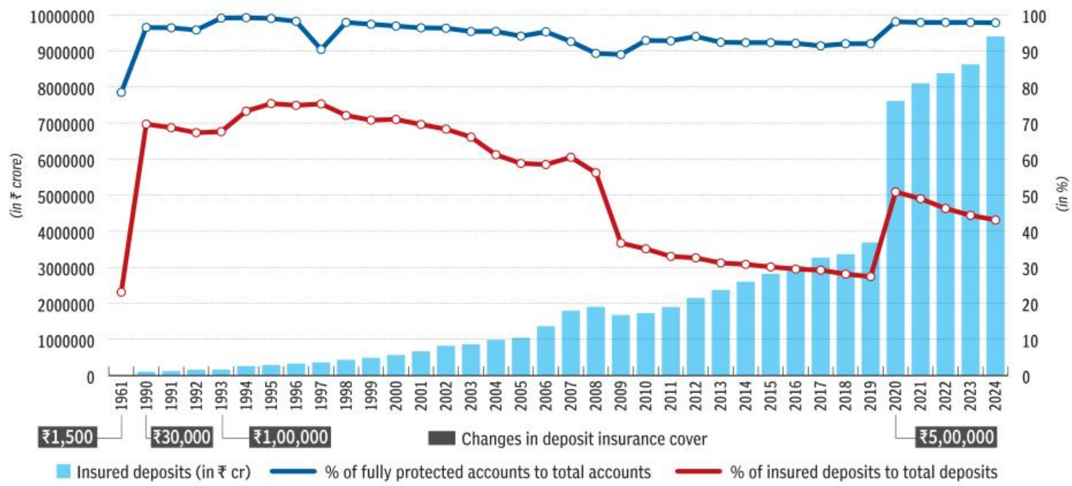
# Does deposit insurance deliver?

Coverage of bank deposit insurance in India has improved since 2020, but premium collection can be linked to risk

POINT
BLANK.

LOKESHWARRI SK

Improving deposit insurance cover




Source: DICGC

Deposits with banks have somehow been the mainstay of Indian household's financial savings, perhaps due to their simplicity and the implicit safety. Though mutual funds, insurance and other alternative assets have been making inroads, Indian households still park 45 per cent of their financial assets in their friendly neighbourhood banks.

Deposit insurance, therefore, assumes importance in helping the regulators retain the trust of the masses in the financial system. India was the second country after the US to start a Deposit Insurance Corporation, in 1962. This was in response to the banking crisis in Bengal and the closure of the Laxmi Bank and Palai Central Bank in the post-Independence period. DICGC was formed with the merger of the Credit Guarantee Corporation in 1978.

Globally too, deposit insurance has moved into the spotlight since the global financial crisis in 2008, which witnessed many large banks going under. The collapse of the Silicon Valley Bank in 2023 and the erosion of the assets of all US banks, further underlined the need to provide a safety net for depositors.

Fortunately, in India, larger commercial banks, where 93 per cent of household bank deposits are parked, have been on a relatively steady footing. The last of the commercial banks for whom deposit insurance was paid were Sikkim Bank in 2000 and Benares State Bank in 2002. Since then, RBI has been adroit in rescuing troubled banks by either merging them with other financial institutions such as Lakshmi Vilas Bank and IDBI or giving a plan to reconstruct their dues and to continue operations such as YES Bank.

The problem however persists with cooperative banks which attract deposits from large number of urban dwellers and currently account for 7 per cent of household bank deposits.

**WHAT WORKS**

The long-overdue increase in the deposit insurance coverage in February 2020, from ₹1 lakh to ₹5 lakh has helped improve the insurance coverage ratios in the country. Though the coverage limit has been revised six times since inception, the limit had been left unchanged since 1993. With this revision, the percentage of fully protected accounts improved from 92 per cent to almost 98 per cent. This makes Indian deposit insurance match other countries which have similar proportion of fully insured deposits.

Similarly, the percentage of insured deposits to total assessable deposits too witnessed a large improvement from 27.4 per cent in 2019 to 50.9 per cent in 2020. This ratio is currently at 43.1 per cent, which is lower than the global average of 47 per cent, but it is far better than the 30 per cent in other lower middle-income countries.

The deposit insurance fund of the DICGC which is made of the premium collected and the return on the investments made from this fund, stood at ₹1,98,753 crore towards the end of March 2024.

The ratio of the fund to insured deposits stood at 2.11 per cent, which is in line with the global median of fund sizes of other deposit insurers of 2 per cent in the last decade.

The insurance coverage in India is, therefore, largely in line with the philosophy of IADI (International Association of Deposit Insurers) which states that deposit insurance coverage should be "limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline."

**Despite the higher risk in cooperative banks, the insurance premium charged to them is the** same as other commercial banks — 12 paisa on every ₹100 of assessable deposits

**THE UCB CONUNDRUM**

That said, the Indian banking landscape with large number of tiny cooperative banks which are operating with relatively lighter regulations and carry higher risk creates unique challenges in deposit insurance. Of the 1997 banks registered with the DICGC towards the end of March 2024, there were just 140 commercial banks but 1,857 cooperative banks.

And failures have been more among cooperative banks in recent years. The RBI has cancelled the licences of 78 urban cooperative banks since 2014; 10 of these licences were cancelled in 2024. Since inception, ₹295.9 crore has been paid towards insurance claims of 27 commercial banks. In contrast, around ₹16,000 crore has been paid to settle the claims of depositors of urban cooperative banks.

But despite the higher risk in cooperative banks, the insurance premium charged to them is the same as other commercial banks — 12 paisa on every ₹100 of assessable deposits. There is a strong case for charging premium based on risks in the business.

This will address the moral hazard in charging a flat premium. It will call for an assessment of the risks in banks' books based on granular data on their credit book, governance practices, capital adequacy and asset quality.

According to the IADI, approximately half of deposit insurers globally levy differential premiums which consider additional risk measures and thus price risk on a more granular basis; the share was just 30 per cent in 2010.

**OTHER ISSUES**

The time taken by the DICGC to settle claims can also be shortened to meet global standards. The IADI recommends reimbursement of the claims of most depositors within seven working days. Around 70 per cent of European deposit insurers and 40 per cent of their Asian counterparts commence payouts within seven days.

This timeline mandated for DICGC is, however, quite generous. The Corporation must pay depositors of the banks placed under All Inclusive Direction (AID) within 90 days from the date of imposition of AID. In case any scheme of amalgamation or other scheme, this period could be extended by 90 days.

These timelines may have been set keeping in mind the lower technology adoption by cooperative banks. But depositors should not be penalised for the bank's tardiness in digital adoption. Finally, the DICGC needs to review the coverage limit per depositor at 5-year intervals to account for inflation and growing bank deposits. The share of insured deposits to total deposits has already moved down from 50.9 per cent in 2020 to 43.1 per cent now.

# South Indian Bank Q2 net up 18% on overall growth

**Our Bureau**
Kochi

P R Seshadri, MD & CEO

The focus given on quality assets across all verticals has enabled the Kerala-based South Indian Bank to achieve 18 per cent rise in its profit in Q2. The bank registered a net profit of ₹324.69 crore against ₹274.81 crore in the same period last fiscal.

Across the board there is a reasonable growth especially in gold loans, housing loans portfolio. On the retail asset side, the portfolio is growing quite nicely and it is quite visible, said PR Seshadri, MD & CEO.

**OTHER METRICS**

The gross NPA came down by 56 bps from 4.96 per cent to 4.40 per cent and net NPA dropped by 39 bps from 1.70 to 1.31 per cent. Net interest income went up from ₹830.58 crore to ₹882.28 crore, registering a growth of 6.22 per cent.

Retail deposit grew from ₹93,448 crore to ₹1,01,652 crore, showing an increase of 8.78 per cent. NRI deposit grew 5.92 per cent to ₹30,488 crore.

Gross advances jumped 13 per cent to ₹84,714 crore.

# Banks' CASA ratio back at post-demonetisation levels

**K Ram Kumar**
Mumbai

Banks' CASA (current account, savings account) ratio seems to have come a full circle, returning to where it was after the 2016 demonetisation of ₹500 and ₹1,000 banknotes.

This comes against the backdrop of higher interest rates being offered on term deposits (TDs) by banks, and savers/investors chasing better returns from mutual funds and capital markets.

"If we look at long-term data, it was after demonetisation that the CASA ratio moved up to 36-38 per cent (from 34-35 per cent earlier) and then to 44-45 per cent during Covid."

**SHIFTING PROFILE**

"The recent decline in the CASA ratio to 38-39 per cent is a mean reversion to the pre-pandemic level," said Karthik Srinivasan, Senior Vice-President and Group Head, ICRA. He observed that while the funds that go to the capital markets stay within the banking system, the profile of such deposits changes from retail to wholesale deposits.

"Such wholesale deposits reduce the lending abilities of banks as such deposits have higher outflow rates and pull down the liquidity coverage ratio compared to when the same deposit would have been from a retail depositor," Srinivasan said.

Low-cost CASA deposits help banks bring down their cost of funds. Usually, the higher the proportion of these deposits in total deposits, the better their net interest margin.

**FUNDS FLUX.** Current account deposit balances came down to 9.1% of total deposits in June 2024 from 9.6% a year ago REUTERS

Consistent with the rising return on term deposits, there has been higher accrual to this deposit category and the share of savings deposits in total deposits came down to 29.8 per cent in June from 30.1 per cent a quarter ago and 31.8 per cent a year ago, according to the RBI's quarterly BSR statement.

Current account deposit balances came down to 9.1 per cent of total deposits in June 2024 from 9.6 per cent a year ago; the decline in both current and savings deposits was observed across all population groups (rural, semi-urban, urban and metropolitan).

**CHANGING TREND**

BK Divakara, Executive Director, CSB Bank, said, "Retail investors have become financially savvy.

Currently, the lure of relatively higher returns from mutual funds and equity markets *vis-a-vis* bank deposits is irresistible. But this trend may change after some time when they will prioritise the safety of money (by parking in bank deposits) over chasing higher returns from MFs and equity markets."

He noted that as long as a mutual fund investment is not sold, it is not taxable.

But in the case of a bank deposit even if the interest gets credited into the account, TDS is deducted automatically.

"So, MF investments are becoming increasingly popular... Banks have represented to the government seeking parity in the tax treatment of MF investments and bank deposits," Divakara said.

# Restaurants Staring at Plate Full of Problems this Festive Season

## After 2 quarters of sluggish sales, rising prices of edible oils, vegetables to put fresh pressure on profitability

**Ratna Bhushan & Sagar Malviya**

**New Delhi | Mumbai:** Dining-out chains are bracing for a hit on profitability this festive season amid steep price hikes in edible oils, vegetables and wheat, executives said.

This comes at a time when the industry has been pinning hopes on demand revival this festive quarter. And, nobody wants to increase menu prices upfront.

"Unlike FMCG, increasing prices upfront is not an option for us, more so in the October-December quarter, considered our biggest quarter in terms of annual sales," said Anjan Chatterjee, chairman of Speciality Restaurants that operates Mainland China and Sigree restaurants.

The industry has had two consecutive quarters of sluggish sales largely due to scorching heatwaves in the summer, followed by heavy rains during the monsoon season, escalating the overall slowdown in the sector impacted by hyperlocal competition and food inflation.

"Cost is a big challenge, but we are not passing it to customers," said Zorawar Kalra, managing director of Massive Restaurants, which owns Farzi Cafe and Bo Tai, among others.

Big restaurant chains generally have long-term contracts with large suppliers that shield them from sudden inflation.

"But we are supporting smaller vendors by absorbing some of the cost temporarily so that they don't bear the full burden," Kalra said.

Prices of vegetables such as tomatoes and onions surged up to 35.9% in September over the previous month, impacted by heavy rains and supply-disruptions. To add to the inflationary trend, the government hiked import duties on crude and refined edible oils by 20 percentage points in September, pushing India's retail inflation to a nine-month high of 5.5% in September, against 3.65% in August, government data released on Monday showed.

Abhayraj Singh Kohli, founder of Tori, Grandmamas Café and Pritam Da Dhaba restaurant chains, said their menu price revision happens every six to eight months and unlike FMCG, changing prices linked with inflation is not feasible.

VARANI SAHU

"Every percentage point increase in cost impacts our bottom line as the restaurant business has wafer thin margins," Kohli added.

Some executives said they are putting in place various options such as renegotiating contracts with suppliers to offset the cost impact.

"We already took a single-digit price hike two quarters back, and another increase is not possible," said Riyaaz Amlani, managing director of Impresario Entertainment and Hospitality, operator of Social and Smoke House Deli. "Our profitability will be significantly hit in the quarter given the inflation; we are talking to our vendors and suppliers for bulk deals which would be beneficial in terms of costs for them and us, and trying to leverage backend synergies," Amlani added.

**₹7.7 L CR**

**LIKELY DOMESTIC FOOD SERVICES SECTOR SIZE BY 2028: NRAI REPORT**

Sharad Madan, director at Khubani and Imperfecto chains, said the restaurants cannot tweak portion size or menus to manage inflation and cost. "Since we have long term contracts with our suppliers, prices do not change frequently. However, if a situation arises when it becomes completely unviable for our vendors to bear the entire cost, we will support them but will not pass on the cost to customers," Madan said.

A report by BNP Paribas India last month noted that consumers are moving away from dine-in while delivery numbers are getting fragmented. "Sales growth is being led by delivery, while dine-in sales are under pressure. We think this trend is likely to continue," Kunal Vora, head - India equity research at BNP Paribas, said in the report.

A report by National Restaurants Association of India (NRAI), estimated the domestic food services sector at ₹7.76 lakh crore by 2028, up from the current ₹5.7 lakh crore.

# Central Employees Get 3% Hike in DA

## Impact on exchequer: ₹9,448 cr pa

**Our Bureau**

**New Delhi:** The union cabinet on Wednesday approved an additional instalment of dearness allowance (DA) to central government employees and dearness relief (DR) to pensioners.

This 3% increase will be applicable from July 1, 2024, and will be in addition to the existing rate of 50% of basic pay or pension. This revision will compensate against price rise, an official statement said.

A combined impact on the exchequer on account of DA and DR will be ₹9,448.35 crore per annum.

This will benefit about 4.92 million central government employees and 6.49 million pensioners, the statement said.


"This revision is based on the rise in 12-monthly average of All India Consumer Price Index for Industrial Workers (AICPI-IW)," railways, information broadcasting, and information technology minister Ashwini Vaishnaw told journalists after the cabinet meeting.

**MULTITRACKING RAIL ROUTE**

In addition to this, the Cabinet Committee on Economic Affairs (CCEA) approved multitracking the Varanasi-Pt Deen Dayal Upadhyaya (DDU) railway route. This includes a new rail-cum-road bridge across the Ganga river. The total estimated cost of the project is pegged at ₹2,642 crore and will be completed in four years.

"This bridge is an integral part of the Indian Railways network and will be developed by inhouse capabilities of the national transporter," Vaishnaw said.

An official statement said the existing 137-year-old Malviya bridge at Kashi is among the oldest railway bridges across the Ganga river. "The rail-cum-road bridge (2-line rail and 2-lane road) is oversaturated (163%), and the route needs replacement," the statement said.

This proposed multi-tracking project will ease operations and reduce congestion, providing the much-required infrastructural development on busiest sections across Indian Railways.

This project goes through Varanasi and Chandauli districts in Uttar Pradesh, a route vital for both passenger and freight traffic.

ON THE CENTRAL BANK'S RADAR

# As Re Slides, RBI Weighs Securities Threat on Bond St

## Taps foreign banks to gauge impact of recent FPI outflows from FAR bonds

**Bhaskar Dutta**

**Mumbai:** The recent slowing of foreign investment in so-called fully accessible government bonds has caught the attention of the Reserve Bank of India (RBI), which has been making market enquiries about the impact of global volatility on local debt markets amid pressure on the rupee's exchange rate.

Officials from RBI's Financial Markets Regulation Department (FMRD) have informally spoken to banks, particularly foreign lenders, to gauge unwinding of overseas trading positions in Indian debt markets, including those taken in certain interest rate derivatives, people aware of the matter told **ET**.

"FMRD officials makes regular calls to bond market participants to assess market developments and over the last couple of days focus has been on outflows from the FAR (fully accessible route) securities at a time when heavy equity outflows due to global turmoil have exerted pressure on rupee," a source said.

TRS Instruments ▸▸ 9

**Rise in FPI investment in FAR bonds from**

| | |
|---|---|
| Jun 27 to Jul 31 ₹21,033.99 cr | Aug 30 to Sept 30 ₹17,971.37 cr |
| Jul 31 to Aug 30 ₹23,914.01 cr | Sept 30 to Oct 15 ₹47.5 cr |

FPI outflow from FAR bonds from Oct 4 to Oct 11 ₹**1,675.25 cr***

Indicative value of aggregate FPI holdings of FAR bonds as on Oct 15: ₹**2.47 L cr**

Rise in 10-year US Treasury yield so far in October: **22 basis points**

**Rupee weakened past 84/$1 mark for first time on Oct 11**

*First weekly outflow since JP Morgan index inclusion commenced on June 28

# TRS Instruments

▸▸ From Page 1

"They have been asking foreign banks about the unwinding of TRS (total return swap) positions as a portion of the flows that hit the market in the run-up to the JP Morgan index inclusion were via the TRS instrument, which is used as a proxy to take exposure to local bonds," the person said.

The FAR category of government securities, introduced by the RBI in March 2020, has no restrictions on overseas investment. Only bonds in the FAR category are eligible for inclusion in the JP Morgan index.

Of around $10 billion worth of foreign investment that flowed into Indian debt from September 2023 to June 2024, foreign bankers estimated 20-25% to be through TRS instruments. JP Morgan announced India's inclusion in its EM bond index in September 2023. The RBI didn't respond to queries.

**BONDS LOSE APPEAL**

After three months of heavy foreign portfolio investment flows into Indian FAR bonds, the pace of overseas buying has come to an abrupt halt this month, with last week marking the first weekly outflow since domestic bonds were included in the JP Morgan index on June 28. Meanwhile, foreign portfolio investors (FPI) have sold local stocks worth $8 billion so far this month, depository data showed.

In the week ended October 11, the indicative value of aggregate holding of FPIs in FAR bonds dropped by ₹1,675.25 crore to ₹2.48 lakh crore, Clearing Corporation of India Limited data showed. Between September 30 and October 15, FPI holdings of FAR bonds have increased by just ₹47.5 crore, a much smaller rise than in the preceding three months. On October 15, the FPI holding of FAR bonds was at ₹2.47 lakh crore.

In July, the value of FPI holdings in FAR bonds rose by ₹21,033 crore, followed by an increase of ₹23,914 crore in August and ₹17,971 crore in September, the data showed.

# Lendingkart Faces Big Valuation Cut as Cash Crisis Looms Large

**SPOT OF BOTHER** Likely FFH deal may value co at around $100m compared to $350m at last raise

**Pratik Bhakta & Samidha Sharma**

**Bengaluru | Mumbai:** Lendingkart is staring at a massive valuation cut amid a cash crisis that has hit the MSME-focused lending platform over the past few months due to stress in the unsecured loan market, people familiar with the development said.

The 10-year-old company is negotiating a new funding deal with existing investor Fullerton Financial Holdings (FFH), a wholly owned subsidiary of Temasek, at a valuation of $100 million, down from $350 million it commanded during its last equity fundraise four years ago, one of the persons privy to the details told ET.

FFH owns around 38% stake in Lendingkart, as per data from Tracxn, and has infused ₹722 crore into the company over the past five years, public filings showed.

"Fullerton is now looking at taking its stake up to more than 60% in the company and become a majority shareholder," said another person privy to the deal talks. "There were discussions of a funding round a year ago, but those fell through due to a valuation mismatch. That time, Lendingkart's financials were looking good due to a strong comeback after Covid. But now the default percentages on loans have inched up significantly," the person added. Subsequently, the company picked up $10 million in external commercial borrowing from BlueOrchard Fund.

Lendingkart was among the new-age lending platforms that made a turnaround in the financial year ending March 31, 2023 after the pandemic severely dented their business. It swung to a profit of ₹119 crore in FY23 against a loss of ₹203 crore in the previous year. It closed FY24 with a small profit of ₹3 crore at the group level.

Lendingkart Finance is wholly owned by Lendingkart Technologies, which is the group entity.

ET's query to Lendingkart and FFH remained unanswered till press time.

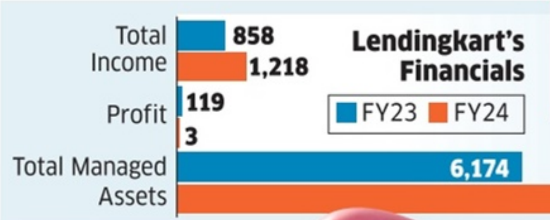
Fullerton CEO Yeo Hong Ping and chief operating officer Anindo Mukherjee are on the Lendingkart Finance board.

The lending firm reported a 46% on-year growth in its assets under management to ₹7,254 crore, which was primarily driven by co-lending arrangements with other entities.

According to a credit note released by rating agency Icra on July 16, its off-book share of the assets under management (AUM) stood at 70% as of March 2024, compared to 39% two years earlier, showing a slant towards partner books.

For context, Indifi Capital saw its share of on-book lending actually grow till September 2023 to 56% of its AUM. As per RBI norms, fintechs can enter into co-lending arrangements with larger lenders with 80% of the loan being booked in the partner's book and 20% being booked in the fintech's book. "LFL has co-lending arrangements with 25 lenders (banks and NBFCs), with the co-lenders' share ranging from 70-100%," the note observed. This has impacted the company's revenue lines.

**Money Matters**




Figures in ₹cr. Source: ICRA

**A Brief Profile**

$41 million
Total equity raised

$350 million
Last valuation

**Major shareholders**

Founders: **14.3%**

Fullerton Financial Holdings: **38.0%**

Bertelsmann India Investments: **11.0.%**

MayField: **10.4%**

SOURCE: TRACXN

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# Compare NRE FD rates

Non-resident Indians (NRIs) can open NRE fixed deposits with different Indian banks. The benefit of an NRE deposit is that it can be opened simply by making inward remittance to India in any freely convertible currency. Another benefit is that the interest earned on NRE deposits are tax-free and the deposit is fully repatriable, allowing NRIs to transfer funds back to their country of residence without restrictions. NRE FDs can be opened and managed online too with Indian banks. NRIs can also obtain loan against NRE FDs which can be used for a variety of purposes. These loans can be granted to the NRI in India or outside India (by overseas branch of Indian banks) or even to third parties.

**NRE Term Deposits Interest Rates (%) upto ₹1 crore**

| | 1 to < 2 years | 2 to < 3 years | 3 to < 5 years | 5 years and above |
|---|---|---|---|---|
| DCB Bank | 7.10-8.05 | **7.50-7.55** | 7.40-7.75 | **7.25-7.65** |
| Axis Bank | 6.70-7.25 | **7.10** | 7.10 | **7.00** |
| HDFC Bank | 6.60-7.25 | **7.00-7.35** | 7.00-7.40 | **7.00** |
| IndusInd Bank | 7.75 | **7.25-7.75** | 7.25 | **7.00-7.25** |
| RBL Bank | 7.50-8.10 | **7.50-8.00** | 7.10-7.50 | **7.00-7.10** |
| YES Bank | 7.25-8.00 | **7.25** | 7.25 | **7.00-7.25** |
| ICICI Bank | 6.70-7.25 | **7.00-7.25** | 7.00 | **6.90-7.00** |
| Canara Bank | 6.85-7.25 | **6.85** | 6.80 | **6.70** |
| Dhanlaxmi Bank | 6.75-7.25 | **6.50-6.75** | 6.50-7.25 | **6.60-7.25** |
| Federal Bank | 6.80-7.35 | **7.05-7.40** | 7.00-7.40 | **6.60** |
| Bank of Baroda | 6.85-7.00 | **7.00-7.15** | 6.80-7.15 | **6.50-6.80** |
| Bank of Maharashtra | 6.50-7.15 | **6.50-7.25** | 6.50 | **6.50** |
| Central Bank of India | 6.85-7.45 | **6.50-7.00** | 6.75 | **6.50** |
| Indian Overseas Bank | 7.10-7.30 | **6.80** | 6.50 | **6.50** |
| State Bank of India | 6.80-7.25 | **7.00** | 6.75 | **6.50** |
| Union Bank of India | 6.60-7.25 | **6.40-6.60** | 6.50-6.70 | **6.50** |
| IDFC First Bank | 6.50-7.75 | **6.80-7.50** | 6.75-7.00 | **6.50-6.75** |
| Jammu & Kashmir Bank | 7.00 | **7.00** | 6.75 | **6.50** |

Data taken from respective bank's website as on 14 October 2024; Only main entity of the merged banks are taken. Banks which merged with its main entity are removed from the table; The list of 18 banks is based on highest fixed deposit rates available for 5 years and above

Source: BankBazaar