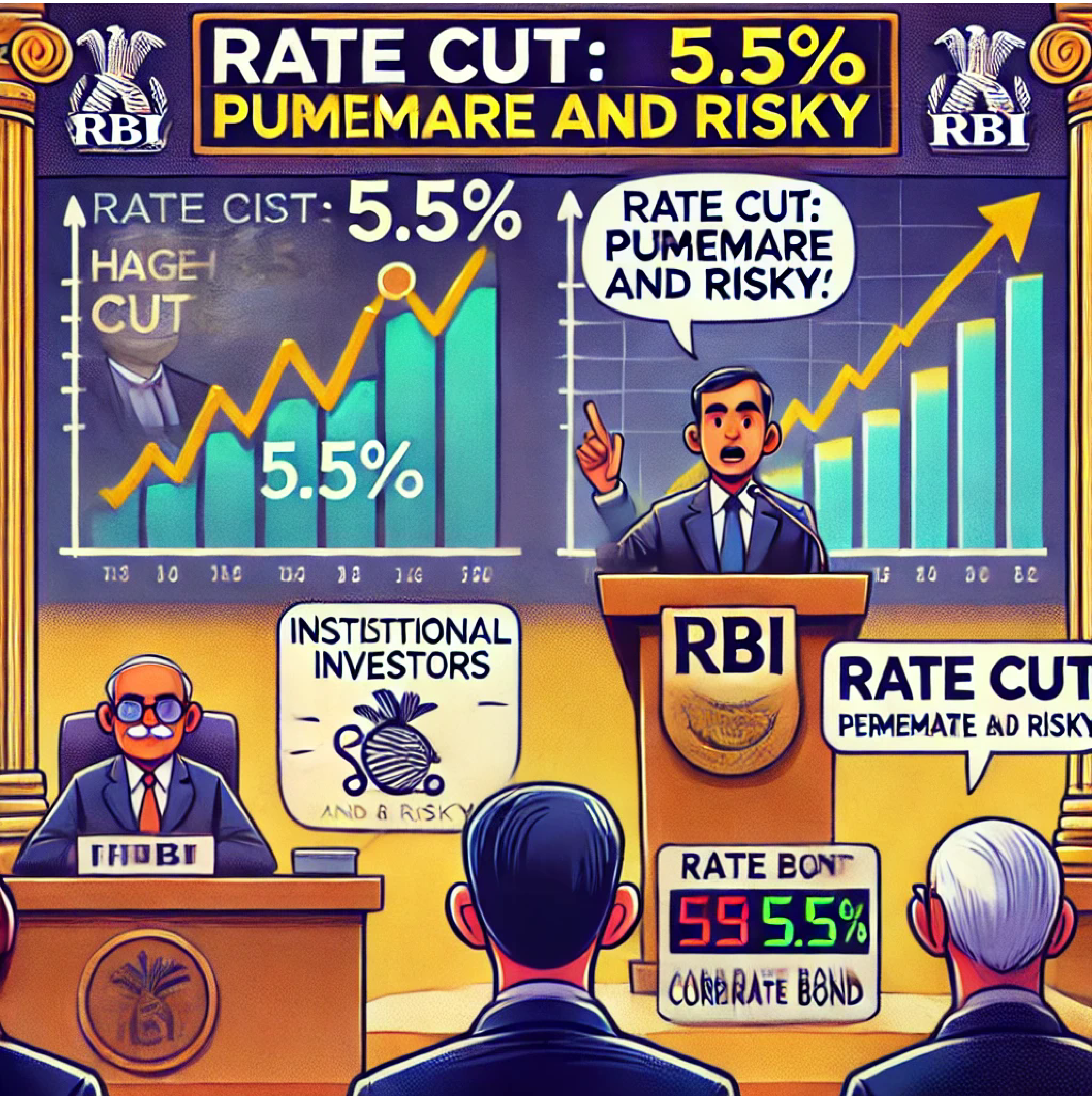
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As inflation remains high, a rate-cut now is pre-mature and highly risky: RBI chief

Piyush Shukla
Mumbai

With India's retail inflation surging to a nine-month high of 5.5 per cent in September and expectation of a higher print in October as well, a repo rate cut at this juncture seems premature and highly risky, RBI Governor Shaktikanta Das said here on Friday.

"Rate cut at this stage will be very premature and can be extremely risky. When your inflation is at 5.5 per cent and the next print is also expected to be high, you can't be cutting rates at that point. More so, if your growth is also performing well," the Governor said at the Bloomberg India Credit Forum.

The RBI's six-member Monetary Policy Committee (MPC) earlier this month decided to keep the benchmark policy repo rate unchanged at 6.50 per cent while shifting the policy stance to "neutral" from "withdrawal of accommodation".

Das said that while the US Federal Reserve had cut interest rates, India is not "behind the curve," and that the country's growth story remains intact with the MPC projecting a 7.2 per cent rise in GDP for the current fiscal.

RBI Governor Shaktikanta Das at the Bloomberg India Credit Forum on Friday BLOOMBERG

A rate cut in the future will be entirely dependent on the incoming data and a favourable inflation outlook.

BOND MARKET

Even as India's corporate bond market has grown from nearly ₹3.7 lakh crore to ₹8.6-8.7 lakh crore over the last decade, some issues need consideration to further deepen the bond markets.

"The RBI has taken a few steps in recent years. For example, there is a partial credit enhancement that the RBI has facilitated. We have now permitted corporate bonds also to be treated as part of the HTM (held-to-maturity) holdings of banks."

For major projects, the regulator has mandated that ideally 50 per cent of resources should be accessed from the bond market.

Further, the number of institutional investors, especially foreign, participating in the bond market needs to increase, Das said.

The focus must also be on developing a robust secondary market for corporate bonds, he added.

PRIVATE CREDIT

Furthermore, Das called on global central banks and regulators to ascertain the potential financial risks arising from the private credit market.

"At the global level, private credit is increasingly posing certain risks and I think every regulator should be looking into that. Quality of credit appraisal and collateral involve certain risks," he said.

The resilience of private credit in a downward credit cycle is yet to be tested, Das said.

Accordingly, regulators and institutions must conduct stress tests under all scenarios to ascertain the risk build-up.

However, in India, the risk arising out of the private credit market is lower as the market is largely dominated by highly regulated non-bank lenders.


FESTIVE OFFER:
NO PROCESSING FEES!
NO PUIVESTOMAL BANIS-AND OTHERS!
PUBLIC SECTOR BANK
NUTIONAL BANK

FESTIVE OFFER While state-owned lenders are trying to make it easy for homebuyers and spur demand, private sector banks have not made any such move

PSBs Waive Processing Fees on Home Loans to Attract Business

Rozebud Gonsalves

Mumbai: Several state-owned banks have waived the processing fees on home loans to spur demand for their primary retail product during the festive season.

Banks, including Central Bank of India, Canara Bank, Indian Overseas Bank, Bank of Baroda and Punjab National Bank, have fully waived processing fee for the period ranging from December 2024 till March 2025, according to information on their websites.

Indian Overseas Bank, which waived the processing fee for home loans, saw a 19% quarter-on-quarter increase in disbursals to ₹1,849.67 crore in the second quarter of this financial year.

"Purchasing new things, especially a house, is considered most auspicious during the festive season. We announced a waiver of the processing fee for home loans. This is a big attraction to acquire more business from existing customers and attract new clients," said Ajay Srivastava, managing director and CEO, Indian Overseas Bank.

Stoop to Conquer

Institution	Home loan interest rate	% of processing fee waived
Central Bank of India	8.5% to 9.5% (based on CIC Score)	100% waived till 31st Dec 2024
Punjab National Bank	8.4% (floating)	100% waived till 31st March 2025
Bank of Baroda	8.4% to 10.6% (based on CIBIL score & loan limit)	100% waived
Indian Overseas Bank	9.35% (Repo Linked Lending Rate)	100% waived
State Bank of India	8.50% to 9.65% (linked on EBLR rates)	0.35% of home loan plus taxes
HDFC Bank	8.75%	Up to 0.5% of home loan plus taxes
ICICI Bank*	9.25% to 9.65%	0.50% of home loan plus taxes
Kotak Mahindra Bank	8.75% onwards	0.50% of home loan plus taxes

All rates are for loans up to ₹30 lakh, and for salaries employees
* For a loan up to Rs. 35 lakh

EBLR - External Benchmark Lending Rate

Unlike public sector banks, private sector banks have not announced any such waiver so far. Public sector banks usually offer more attractive home loan rates, making them the preferred institutions for borrowers.

On a loan of up to ₹30 lakh, the lowest rate offered by some private banks is 8.70%, while state-run banks are offering similar loans at 8.35% for up to 30 years.

"Lenders who source the business through direct sales agents (typically private banks) don't usually waive processing charges, as the sanctioning process involves costs. Given the competitive lending rates for PSUs (public sector undertakings), lower proportion of DSA origination and business targets amid festival season, these state-run banks could waive processing charge," said Anil Gupta, vice president, financial sector ratings, at ICRA.

Further, as home loans are long tenor assets for lenders, the ability to cross sell liability or other asset product over the customer lifetime is higher, which is another incentive to waive such charges, he said.

Credit outstanding to the housing sector, primarily home loans, has increased by Rs 10 lakh crore since 2022, primarily because of pent-up demand for homes in the wake of the Covid-19 pandemic, according to the Reserve Bank of India data. Bank credit outstanding to home loans stood at ₹28.33 lakh crore in August, up from ₹18.35 lakh crore two years ago, as per the data.

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analyst for diversified financials at Elara Capital.

upper end of the price band of ₹1,865-1,960 per share.

month, Hyundai India's shares were trading at a premium of ₹380 per

IPO opens lower or around the issue price," Jasani said.

Banks' NII to come under pressure in rate-cut cycle: IOB MD & CEO

ANUPREKSHA JAIN
Mumbai, October 18

AJAY SRIVASTAVA, MD & CEO, IOB

"AS FAR AS IOB IS CONCERNED, OUT OF TOTAL DEPOSITS, IT HAS AROUND 93-94% OF RETAIL DEPOSITS AND CASA. SO, WE ARE SAFE.

THE NET INTEREST income of banks is likely to be affected when the Reserve Bank of India starts reducing the key policy rates, said Ajay Srivastava, managing director and CEO of Indian Overseas Bank.

Interest incomes of banks having higher exposure to retail and micro, small and medium enterprises loans will get adversely impacted once the RBI cuts the policy rate, putting pressure on banks' marginal cost of funds-based lending rates, he said.

When the RBI had significantly raised the key rates, banks failed to match the rise. Now, when the cycle is expected to reverse, banks find themselves in a sticky situation where they could not reap the benefits of higher rates any longer.

Going forward, reduction in loan products, which are linked to the external benchmark lending rate or the repo rate, may see a decline as a percentage of banks' overall lending books, Srivastav said. Therefore, to navigate the situation, lenders will need to reduce the rate of interest on deposits.

This may aggravate the problem for banks, especially for those having a low share of retail and current account and savings account (CASA), as it may further discourage customers to put their savings in banks. Banks having less than 80% of retail deposits and CASA of total deposits and with heavy reliance on bulk deposits may bear the brunt of lowering deposit rates. "As far as Indian Overseas Bank is concerned, out of total deposits, the bank has around 93-94% of retail deposits and CASA. So, we are safe," said Srivastava.

The RBI is likely to implement the draft guidelines on the norms pertaining to the BASEL-III liquidity coverage ratio from the next financial year. Anticipating the impact, IOB bank has already started working on the additional run-off factor as proposed in the guidelines. Salary accounts, CASA and retail term deposits are also in focus. These products are sustainable and the run-off factor is favorable to the bank as the per the RBI guidelines, he said. Also, the new guidelines are unlikely to have a big impact As IOB's LCR stands at 136%, substantially above the threshold of 100%.

According to the MD, IOB is planning to increase the number of branches and automated teller machines. The loan process for MSME portfolios is likely to be streamlined in a couple of months on the line of retail credit. The bank already has collaborations with six fintechs and talks are on to onboard more such entities, Srivastav said.

CHENNAI/KOCHI

With 1.25 lakh offers, PM Internship Scheme garners strong support from corporates

GAINING MOMENTUM. 253 companies make internship offerings, Maruti Suzuki tops the list with 11,000 opportunities

KR Srivats
New Delhi

Corporates have responded enthusiastically to the Prime Minister Internship Scheme (PMIS), with 253 companies collectively making nearly 1.25 lakh offers for internships on the dedicated portal, official sources said.

The initiative, aimed at providing young Indians with practical industry experience and enhancing their employability, has witnessed an overwhelming response from both the private sector and aspiring interns.

The Corporate Affairs Ministry (MCA) is administering the PMIS, which was announced in this year's Union Budget.

Top 500 corporates by CSR spend (average of last three financial years) have been allowed to participate in the scheme and offer internship opportunities to the youth.

The strong response to the scheme from corporates can be gauged from the fact that the number of internship opportunities posted on the portal has surged from about 16,000 as of October 7 to about 1,25,000 as of October 18, sources in MCA said.

The PMIS had received a strong response from aspiring interns, with 1,55,109 candidates initiating the process for registering on the portal within 24 hours of its opening on October 12.

BRIDGING THE GAP

The scheme seeks to bridge the gap between academic learning and industry requirements by offering internship opportunities across diverse sectors such as technology, manufacturing, finance, retail, healthcare and more.

The government's focus on making India's youth job-ready and aligning their skills with market demands appears to be resonating with companies eager to contribute to the nation's workforce development.

NEW HEIGHTS. The number of internships posted on the portal surged from 16,000 on October 7 to 1,25,000 as of October 18

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

In fact, Maruti Suzuki is among the leading set of corporates as regards PMIS participation and has offered about 11,000 internship opportunities, official sources said. The maximum number of internship opportunities were seen in oil gas & energy (29,019), followed by automotive (20,433), travel and hospitality (15,518), banking and financial services (12,190) and metals and mining (8,782), official sources said.

The other key sectors that saw internship opportunities posted by corporates include manufacturing & industrial, infrastructure and construction, IT and software development, FMCG and telecom.

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

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.

The window for youth registration under the PMIS was opened on October 12 and is likely to remain open till early November. The first day candidate registrations count 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 MCA.

MCA has set December 2 as 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, Diploma or graduates are eligible to avail the benefits under the scheme. Under the PMIS, there will be an allowance of ₹5000 per month and ₹6000 as a one-time grant. The government has set aside ₹800 crore for the pilot scheme, which aims to provide 1.25 lakh internships to youth aged between 21 and 24 in FY'25.

Moving beyond survival borrowing, the lower middle class is now embracing digital credit tools

KR Srivats
New Delhi

There's a big shift in borrowing patterns of lower middle class consumers — from survival-driven borrowing to one fuelled by aspirations, entrepreneurship and long-term investments.

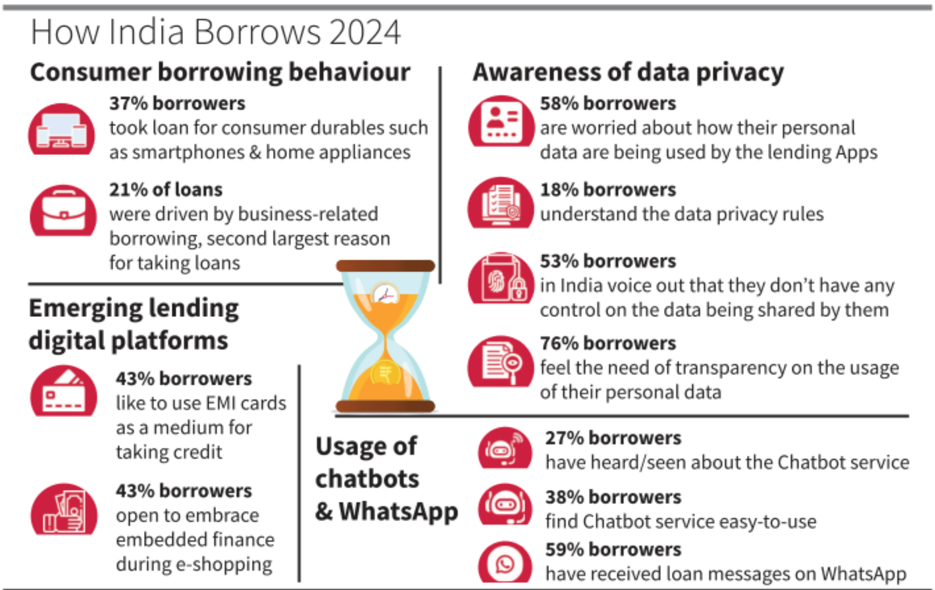
A new consumer study titled 'How India Borrows' by Home Credit India showed consumers are increasingly focused on improving their quality of life, empowered by greater access to credit and the growth of digital platforms. This is the sixth edition of Home Credit India's annual consumer study.

Ashish Tiwari, Chief Marketing Officer, Home Credit India, said: "Our latest How India Borrows 2024 study highlights a transformational shift in the borrowing behaviour among the lower-middle-class borrowers".

DIGITAL LITERACY

It shows an increasing preference towards borrowing for consumer durables and small business ventures and consumer's growing comfort with app-based banking, chatbots for customer service, WhatsApp payments, and digital literacy, according to Tiwari.

This reflects not only the evolving financial aspirations of borrowers to enhance their lifestyle and income opportunities, but also the growing role of digital platforms in making credit more accessible, he added.



Source: HomeCredit

The study also points out the strong affinity towards embedded finance and EMI-based financing and the importance of raising awareness around data privacy.

The 'How India Borrows 2024' study was conducted across 17 cities, including Delhi-NCR, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, Pune, Ahmedabad, Lucknow, Jaipur, Bhopal, Patna, Ranchi, Chandigarh, Ludhiana, Kochi and Dehradun. The sample size consisted of about 2,500 borrowers in the 18-55 age group, with an average monthly income of ₹31,000.

BORROWERS' TAKE

Vikas, an auto driver, explained that he had borrowed to purchase a smartphone.

"My borrowing behaviour has shifted significantly when it comes to mobile phones. Initially, I borrowed to purchase basic phone models that met my essential communication needs, was affordable and functional. However, as I gained access to more flexible credit options over time, I borrowed to purchase a smartphone not just out of necessity, but as part of my aspirations to improve my income," he said.

"For example, my new smartphone helps me to use apps to get customers for a ride and also captures beautiful memories of time spent with my family. This shift in borrowing reflects a transition from meeting basic needs to achieving both personal and professional goals," Vikas said.

Rahul Singh, a delivery agent with a food delivery app, said that he had taken credit for home renovation.

"My borrowing behaviour has changed recently only. Initially, I relied on loans primarily for covering essential expenses, such as rent, medical bills and any other unforeseen expenses, which were critical for survival. However, as my income stabilised and I became more aware of the credit options available in the market, I began to view borrowing as a tool for fulfilling my aspirations. One of them being the renovation of my house," Singh said.

"Today, when I reflect on my borrowing journey, I see a big transformation in both me and my family's mindset – from borrowing for making ends meet to borrowing for building a brighter future for us all".

Pooja, a healthcare staff, said she had taken credit for purchase of consumer durables.

"In the beginning, I had borrowed to purchase essential household appliances like a refrigerator and washing machine, which were necessary for day-to-day living. However, as I became familiar with the ease and flexibility of financing, particularly through Home Credit India's 'Paise ki Pathshala' videos, my outlook of borrowing has shifted.

"Now, I look forward to acquiring premium products, like smart electronics or high-end home appliances, for enhanced convenience, improved efficiency, and a more elevated lifestyle," Pooja said.

LIC agents to protest against claw back norms

UP IN ARMS. They also expressed concern over reduction in first-year commission

Suresh P Iyengar
K Ram Kumar
Mumbai

The agents distributing the state-owned Life Insurance Corporation of India policies are up in arms against the new claw back norm introduced for policies surrendered prematurely by the policy holders.

The agents of LIC have also raised their apprehension against the reduction in the first-year commission to 28 per cent from 35 per cent following the revision of surrender value norms.

However, LIC has increased the commission for renewal premiums to 7.5 per cent from 5 per cent currently.

The minimum sum assured on the revised policies has also been raised to ₹2 lakh from ₹1 lakh, effective from October 1.

IRDAI CIRCULAR

In June, Insurance Regulatory and Development Authority of India had issued a master circular on life insurance products, introducing norms to ensure better payouts for customers who exit their policies prematurely. The new norms came into effect from October 1.

NEW NORM. The claw back clause allows LIC to recover the agents' commission if the policyholder surrenders it prematurely after paying the first premium

The All India Life Insurance Agent Federation of India, in a letter addressed to Sidhhartha Mohanty, MD and CEO, said the 14 lakh agents of LIC strongly feel that the steps taken by the Corporation is very much harmful to agents.. in the name of restructuring the commission has been reduced when the agents have been demanding an increase in payout.

The commission should be kept as it was at 25 per cent plus 40 per cent (of commission) as bonus in the first year and from second year till the end of the policy it should be increased to 9 per cent, according to the Federation.

STRIKE PLANNED

"We strongly protest the claw back clause and request your good self to withdraw this. If the move is not rolled back, agents will be compelled to go on nation-wide strike," it added in the letter.

The claw back clause allows LIC to recover the agents commission if the policyholder surrenders it prematurely after paying the first premium.

The new commission structure of LIC will reduce the first-year payout from 35 per cent to 28 per cent at a time when the cost of operations has gone up steadily in the last few years, said an LIC agent.

On top of this, he added LIC also wants to take the money back it has paid as commission for bringing in business for them, if the policyholders surrender their policy for whatever reason.

Under the new special surrender value norm, endowment policyholders on premature exit after paying for the first year will receive a marginal payout after providing for expenses.

However, in the earlier regime, policyholders had to forego the entire premium paid if they exited after paying the first premium. LIC is trying to protect its margin by passing on some of the cost burden by cutting on commission to agents.

An email sent to LIC seeking its comments on the aforementioned developments remained unanswered till press time.

livemint

Anil Ambani to pay 50% penalty in RHFL case

Priyanka Gawande
priyanka.gawande@livemint.com
NEW DELHI

The Securities Appellate Tribunal (SAT) on Friday put a conditional stay on the ₹25 crore penalty imposed on the Anil Dhirubhai Ambani Group (ADAG) chairman, Anil Ambani, over his alleged involvement in the Reliance Home Finance Ltd (RHFL) fund-diversion case.

"There should be no recovery of the penalty amount (₹25 crore) subject to 50% of the deposit within four weeks," said a bench led by Justice Dinesh Kumar in its order.

SAT issued a notice to the Securities and Exchange Board of India (Sebi), asking it to file a reply within four weeks. A detailed order is awaited.

Anil Ambani had challenged Sebi's 22 August order, which banned him from participating in the securities market for five years and required him to pay a penalty of ₹25 crore for allegedly siphoning funds from RHFL by providing loans to borrowers linked with the promoters.

The regulator stated that it would assess the amount of illegal gains generated by the purported fraudulent schemes and take appropriate action.

This matter concerns general-purpose working capital loans (GPCL) that RHFL disbursed during 2018 and 2019. Reliance Home Finance's loan book had jumped dramatically from ₹3,742 crore in 2017-18 to ₹8,670 crore in 2018-19.

The markets regulator, in its probe, found certain disclosure lapses and violations at RHFL.

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

FM Bats for 'Responsible Capitalism'

Says the challenge for large economies is not just to achieve growth but also to bridge gaps and create opportunities for all

Our Bureau

New Delhi: Finance minister Nirmala Sitharaman has underscored the need for "responsible capitalism", stating that challenges for large economies are not just to achieve and sustain high growth but also to bridge gaps and create opportunities for all.

Addressing a tech leaders' roundtable in Guadalajara in Mexico late on Thursday, the minister highlighted the rapid strides India is taking to emerge as a developed country by 2047, according to a finance ministry post on X (formerly Twitter) on Friday.

The minister dwelt on ways India and Mexico can gain from opportunities generated by each other. Sitharaman is on a visit to Mexico until October 20.

The International Monetary Fund (IMF) has forecast India will remain the world's fastest-growing major economy in the current fiscal and the next with rates of expansion touching 7% and 6.5%, respectively, more than double the global averages.

However, the IMF expects Mexico's economic growth to slide to 1.5% in 2024 and 1.3% next year, citing tight monetary policy and capacity constraints. Latin America's second-largest economy had grown 3.2% in 2023.

Sitharaman highlighted India's recently-announced centres of excellence in artificial intelligence in healthcare, agriculture and sustainable cities as potential areas of bilateral collaboration.

MISSION 2047

Addressing a tech leaders' meet, the minister highlighted the rapid strides India is taking to emerge as a developed country by 2047

Presenting the full budget in July, the minister had announced the setting up of these centres, as part of a vision to "Make AI in India and Make AI work for India." Earlier this week, the government approved the creation of three AI centres of excellence with an outlay of ₹990 crore until FY28.

Mexico has been thriving through "near-shoring" that has resulted in collaboration between multinational companies, she said, while batting for increased cooperation between the two countries.

Near-shoring refers to the practice of relocating business operations to a nearby country. Mexico, being a neighbour to the US, has been a key beneficiary of near-shoring.

Kotak Mahindra Bank to buy ₹4.1K cr India personal loan book of StanC

MANOJIT SAHA
Mumbai, 18 October

Leading private sector lender Kotak Mahindra Bank Limited (KMBL) has entered into an agreement to acquire the ₹4,100 crore India personal loan portfolio of British banking major Standard Chartered Bank. The deal, for which the financial terms remain undisclosed, is subject to regulatory approval and is expected to close within three months, according to KMBL.

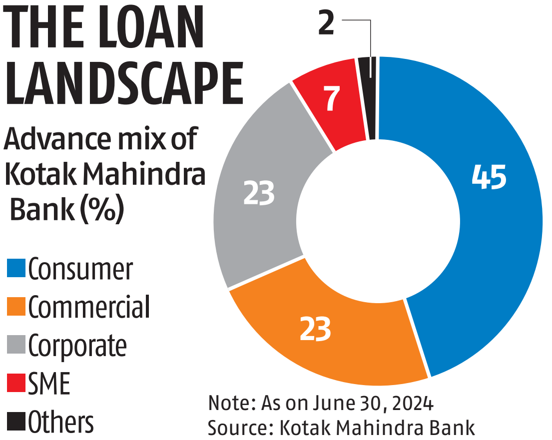
The loans KMBL is acquiring are classified as standard assets. This move, the bank said, aligns with its strategy to drive growth, expand market share, and tap into the affluent salaried customer segment.

This deal marks the second significant transaction between an Indian private sector bank and a foreign bank in recent years.

Turn to Page 6

THE LOAN LANDSCAPE

Advance mix of Kotak Mahindra Bank (%)



Note: As on June 30, 2024
Source: Kotak Mahindra Bank

Deal aligns with strategy to scale up operations: Kotak Mahindra Bank

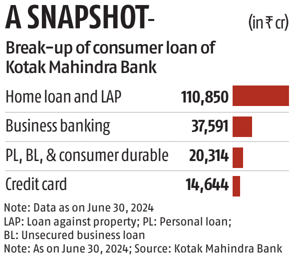
In 2022, Axis Bank, India's third-largest private lender, acquired Citi India's consumer and wealth management business.

"The transaction is expected to be completed over the next three months, subject to regulatory and other approvals and the satisfaction or waiver of customary closing conditions, and KMBL will acquire the loan book which will be outstanding closer to the completion date," Kotak Mahindra Bank said in a press release.

While Kotak Mahindra Bank in the past has acquired many entities like ING Vysya Bank, this is the first major deal under the leadership of Ashok Vaswani, who took over as managing director and chief executive officer in early 2024.

The bank said that the acquisition aligns with its larger strategy to scale up operations and focus on customer-centric growth. "The high-quality loan book from Standard Chartered Bank allows KMBL to build on its strength in the affluent customer segment and further reinforces its leadership in the retail lending space," it said.

As of June 30, consumer loans accounted for 45 per cent of KMBL's total loan book, which stood at ₹1.83 trillion. Of that,



personal loans, unsecured business loans (for non-personal use), and consumer durables loans represented ₹20,317 crore, reflecting 1 per cent year-on-year growth.

"KMBL aims to leverage its technology expertise and quality customer service to ensure a seamless transition for existing Standard Chartered Bank Personal Loan customers, maintaining the high standards both institutions are known for," the Indian lender said.

Meanwhile, Standard Chartered Bank explained that the decision to divest its personal loan portfolio aligns with its focus on the wealth management, affluent, and SME segments in India. Aditya Mandloi, head–wealth & retail banking, Standard Chartered Bank, India & South Asia, said: "India continues to be a key market for Standard Chartered network, with wealth & retail banking (WRB) and corporate & investment banking (CIB) as the cornerstones and we will continue to invest and grow in India. Together with Kotak (Mahindra Bank), we remain committed towards ensuring a seamless transition for our clients."

Ambuj Chandna, head-products, consumer bank, Kotak Mahindra Bank, said with Kotak Group's successful integration track record, the lender is committed to a smooth transition.

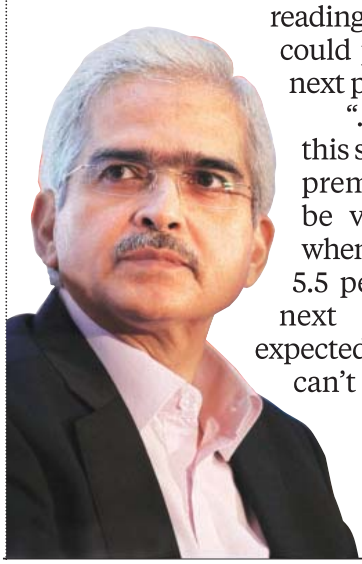
"India's unsecured lending market offers significant growth potential for Kotak, especially in the higher-end segment. Our strong risk management, customer-centric products, and technology-driven approach position us for sustainable growth," added Chandna.

Disclosure: Entities controlled by the Kotak family have a significant holding in Business Standard Pvt Ltd

Rate cut at this stage could be 'risky, premature': RBI guv

SUBRATA PANDA
Mumbai, 18 October

Reserve Bank of India (RBI) Governor Shaktikanta Das cautioned on Friday that cutting the policy rate at this juncture could be "very premature" and "risky" in light of an uptick in the latest headline inflation reading, something that could persist until the next print, as well.



"... (A) rate cut at this stage will be very premature and can be very, very risky when your inflation is 5.5 per cent and the next print is also expected to be high, you can't be cutting your rate, more so if your growth is also doing well," said Das at *Bloomberg*'s India Credit Forum.

He signalled that the RBI would only consider rate cuts once inflation is durably aligned with the 4 per cent target. "I would not like to speculate on a rate cut in advance. We will need to wait for incoming data," he emphasised.

The RBI's policy actions will remain forward-looking, depending on the inflation outlook. "We have to see what is the outlook on inflation for the next six months or one year... (and) based on that we would take action," Das said.

Earlier this week, RBI Deputy Governor Michael Debabrata Patra indicated that retail inflation may durably align with the 4 per cent target by FY26.

Turn to Page 6

"NO, WE ARE NOT POLICEMEN. WE ARE WATCHING... WHEN IT BECOMES NECESSARY, WE TAKE ACTION"
SHAKTIKANTA DAS, Governor, RBI

PAGE 6

RBI ACTION ON NBFCs: Fintechs may face disruption

The Reserve Bank of India's (RBI's) action on two non-banking financial firms (NBFCs) on Thursday could temporarily disrupt disbursements for fintech companies that have been sourcing customers for these firms. The disruption for fintech companies is expected to be temporary, thanks to their multiple partnerships beyond just NBFCs.

▶ MFI SECTOR STRESS DUE TO CUSTOMER OVERLEVERAGING: MOSL

For large private-sector deals, BRLMs charge 1-3% of issue size

Alongside Hyundai's offering, Vodafone India's ₹18,000 crore follow-on public offering (FPO) generated ₹287 crore in fees, while Ola Electric Mobility's ₹6,146 crore IPO pumped ₹145 crore into the pockets of investment bankers.

The five banks handling HMIL's IPO will divide the fees. The sheer scale of the deal — over four times the size of the year's second-largest IPO, Bajaj Housing Finance's ₹6,560 crore offering — has propelled these banks up the league table of leading investment banks in the country. In contrast, LIC's ₹20,557 crore IPO in 2022 paid only ₹11.8 crore in fees, spread thinly across 16 banks. IPOs of government companies typically offer much lower fees, but banks often bid for these mandates to elevate their league table rankings, which can help win more prestigious private-sector mandates in the future. For large private-sector deals, BRLMs typically charge between 1 per cent and 3 per cent of the total issue size. "For a deal of Hyundai's size, a fee of nearly 1.8 per cent is highly lucrative. If there is enough pull for the stock, companies can drive a hard bargain. If the issue is price attractively, the efforts required during roadshows is less," said an investment banker, citing the case of Bajaj Housing Finance.

More on business-standard.com

Indian banks in Canada fear biz loss amid row

HARSH KUMAR
New Delhi, 18 October

If there is a decline in the number of Indian students pursuing higher studies in Canada due to the ongoing diplomatic tensions between the two countries, it may have implications for Indian banks operating in the North American country, senior bank officials said.

India and Canada have expelled their top diplomats amid escalating tensions over the assassination of a Khalistani leader on Canadian soil.

"Majority of our customers in Canada are Indian students who do financial transactions through us. If there is a fall in Indian students travelling to Canada for studies, it may impact our business. However, the situation has not reached that level so far and are hoping to run the business as usual," a senior bank official said.

State Bank of India (SBI) and ICICI Bank have subsidiaries in Canada. They could face potential impacts if this key segment of their customer base shrinks.

"I don't think there will be any significant impact on the financial sector. Some impact may occur, but it will be limited to certain sec- tors. We need to see to what extent," said another senior bank official.

"As a policy, (the) bank does not comment upon such matters," SBI said in a response to a query.

ICICI Bank didn't respond to a query till the time of going to the press.

As of March 2023, SBI Canada reported assets under management (AUM) totalling ₹8,854 crore. In comparison, ICICI Bank Canada had an AUM of ₹2,343 crore. ICICI Bank Canada's core operating profit saw a significant rise, increasing from Canadian dollar (CAD) 26.2 million in FY22 to CAD 61.2 million in FY23. This was attributed to higher net interest income (NII) and fee income, despite a partial offset from rising operating expenses.

As of March 31, 2023, ICICI Bank Canada maintained a total capital adequacy ratio (CAR) of 17.3 per cent, up from 17.2 per cent from the previous year. In contrast, SBI's CAR stood at 13.89 per cent as of March 31, 2023.

Canada has historically been a popular destination for foreign students. Last year, a record 1,040,000 foreign students were accepted, according to the immigration department data.

Since 2015, the number of foreign study permits issued has nearly tripled.

However, the numbers have been falling. In 2023, Canada approved 509,390 international study permits, but in the first seven months of 2024, only 175,920 were issued. The changes aim to bring the number of study permits down to 437,000 by 2025. According to the Indian government's data released last month, about 1.3 million Indian students are studying abroad, with about 427,000 in Canada. Between 2013 and 2022, the number of Indian students moving to Canada saw an increase of 260 per cent.

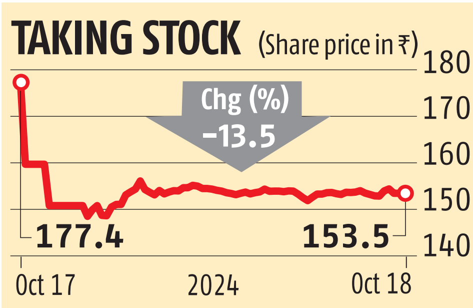
Manappuram Finance stock falls 13.5%

SUBRATA PANDA
Mumbai, 18 October

Shares of Manappuram Finance fell 13.5 per cent to ₹153.45 apiece on Friday, a day after its subsidiary Asirvad Micro Finance was barred by the Reserve Bank of India (RBI) from sanctioning and disbursing loans.

Asirvad can continue to service its existing customers and carry out its collection and recovery processes, the RBI will review this ban after the company takes corrective measures to fully comply with regulatory guidelines, particularly regarding its pricing policies, risk management, customer service, and grievance handling.

"Going by precedents in the recent past where the RBI had handed out a ban (on specific product lines) to particular NBFCs, we believe this ban on Asirvad could potentially take between six to nine months to be revoked," said Motilal Oswal in a report on Friday.



According to the report, Asirvad contributes around 27 per cent to the consolidated assets under management (AUM) of Manappuram Finance. As of June 2024, Asirvad's AUM stood at ₹12,300 crore, which included ₹1,200 crore of the gold loan portfolio. Additionally, Asirvad's profit after tax (PAT) contribution to the consolidated entity stood at 21 per cent in FY24 and 15 per cent in FY23. In addition to microfinance, Asirvad housed 515 gold loan branches, which will be impacted because of this ban.

"We believe this RBI action will impact its MFI collections as well. Overall, we believe that the RBI ban will affect Asirvad's AUM growth (ban on lending operations) and profitability (moderation in spreads). We now estimate Asirvad's AUM to decline 25 per cent year-on-year in FY25 (compared to the 9 per cent year-on-year growth expected earlier)," the report added.

'MFI stress largely due to customer overleveraging'

SUBRATA PANDA
Mumbai, 18 October

The current stress in the microfinance (MFI) sector is largely driven by unchecked credit growth and the issuance of multiple loans to customers on fake voter ID cards among other documents, which resulted in significant overleveraging among borrowers, said Motilal Oswal in a report on Friday, adding that the industry's challenges are largely self-inflicted.

Additionally, the report has indicated that stress in the MFI sector in the current cycle will last for the whole of FY25, and the sector will begin to exhibit signs of normalisation only at the onset of FY26. "Our channel checks suggest that Q2FY25 will be the most challenging quarter of FY25 and credit costs in H2FY25 will likely remain elevated," it said. The MFI sector has been grappling with persistent challenges and obstacles over the past five-six months, resulting in a notable deterioration in asset quality.

Unchecked credit growth and issuance of multiple loans to customers on fake voter ID cards resulted in overleveraging among borrowers, the report said

According to Sa-dhan data, the asset quality of the microfinance portfolio deteriorated in the quarter ended June 2024 (Q1FY25). The loans with 90-plus days past dues (dpd) rose to 1.2 per cent in June 2024 from 0.9 per cent in June 2023. Loans with 30-plus dpd have risen to 2.70 per cent in June 2024, compared to 2.30 per cent in March 2024, and 2 per cent in June 2023. Sa-dhan is a Self-Regulatory Organisation (SRO) for MFIs that collects and analyses data to understand the microfinance sector.

"In Q1FY25, several NBFC-MFIs (including small finance banks and a few banks) highlighted disruptions due to elections and heatwaves. While these factors may have led to operational challenges in convening centre meetings and delays in repaying EMIs, they could not have affected customers' willingness or ability to repay," the report highlighted.

According to the report, the current state of the MFI sector can be attributed to several factors, including, but not limited to, customer overleveraging and inability to repay, resulting in low centre meeting attendance; lending to customers with multiple fake voter ID cards categorised as new-to-credit (NTC) customers; and defaults from "ring leaders" or "intermediaries" in some pockets of the country.

Additionally, high attrition at field officer and even branch manager levels, and heavy rainfall and/or floods in certain regions that adversely impacted customer earnings and even their repayments, played their part. Not all of these reasons are mutually exclusive, and there is a fair possibility that one could be the cause of the other, the report stated.

A DAY AFTER RBI CURBS ON NBFCs

Fintechs may face temporary disruption

AJINKYA KAWALE
Mumbai, 18 October

The Reserve Bank of India's (RBI's) action on two non-banking financial companies (NBFCs) on Thursday could temporarily disrupt disbursements for fintech companies that have been sourcing customers for these firms.

The disruption for fintech companies is expected to be temporary, thanks to their multiple partnerships beyond just NBFCs.

Notably, the RBI barred DMI Finance and Navi Finserv from sanctioning and disbursing loans due to their practice of charging exorbitant interest rates.

"Since a fintech partners with multiple NBFCs, the regulatory impact on a single entity may be very small for a fintech's overall business. Thus, fintech firms may not get impacted in the longer term and only some minor disruption would be visible," an industry executive said, requesting anonymity.

For instance, fintech major Google Pay, which extends loan offerings, including secured and unsecured credit, has partnered with five lenders. These include DMI Finance, Indifi Technologies, ICICI Bank, Aditya Birla Finance, and Muthoot Finance.

The ban of sanction and disbursement on its partner DMI Finance would be effective on October 21, according to the RBI directive.

Google Pay and DMI Finance did not respond to queries sent by *Business Standard*.

"One thing fintechs would now consider is to check whether the same practices are there in their other partners as well, and they would also try to see that these partners at least follow what is prescribed," an industry executive said.

However, the banking regulator's directive could reverse significant gains achieved by these NBFCs.

In FY24, Bengaluru-based Navi Finserv had assets under management (AUM) ₹8,527.2 crore, a 7.8 per cent year-on-year (Y-o-Y) increase from ₹7,859.6 crore in FY23.

The company had seen its disbursements swell to ₹16,006 crore in FY24, a 32.2 per cent increase from ₹12,106.7 in FY23, according to the company's annual report.

UNDER THE RBI SCANNER

While the Reserve Bank of India has been cautioning NBFCs on charging excessive interest rates, the decision to impose curbs on four entities on one day has sent shockwaves to the industry. Whether the move would make the industry more disciplined and if more such restrictions would follow are some of the questions the industry is pondering.

AATHIRA VARIER

HERE ARE BRIEF PROFILES OF THESE FOUR ENTITIES

ASIRVAD MICROFINANCE: Satish Nair-headed Asirvad MicroFinance is a middle layer NBFC and a subsidiary of Manappuram Finance that deals with micro, gold, and MSME loans.

₹12,310 cr: Assets under management as on June 30

₹458.30 cr: FY24 net profit

₹1,500 cr: Fundraise plan via IPO deferred

22.79%: Capital adequacy ratio as on March 31

AROHAN FINANCIAL SERVICES : Kolkata-based Arohan Financial Services (NBFC-MFI), headed by Manoj Nambiar, is part of Aavishkaar Group. Nambiar is also the chairman of MFIN, one of the MFI SROs.

₹7,112 cr: Gross loan portfolio in FY24

₹1,915 cr: Networth

₹313.81 cr: Profit in FY24

29.01%: Capital adequacy ratio as on March 31

DMI FINANCE: Rajul Bhargava is the chief executive officer of DMI Finance, which is a digital-first NBFC arm of DMI Group dealing with consumption, personal, and MSME loans

₹403.14 cr: Profit in FY24

NAVI FINSERV: Flipkart founder Sachin Bansal's Navi Finserv , a middle layer NBFC offers micro, personal, and home loans.

₹8,527.2 cr: Assets under management

₹26,14.2 cr: Income in FY24

₹668.8 cr: Profit in FY24

₹16,006 cr: Disbursements

28.42%: Capital adequacy ratio

RBI'S RECENT ACTIONS AGAINST SELECT ENTITIES

Entity:
PAYTM PAYMENTS BANK
(Mar 2022)

Action:
Stopped from onboarding of new customers

Reason:
Persistent non-compliance and material supervisory concerns

Status:
Curbs continue

Entity:
M&M FINANCIAL SERVICES
(Sep 2022)

Action: Stopped from recovery repossession through outsourcing arrangements

Reason:
Supervisory concerns about management of outsourcing

Status:
Curbs lifted

Entity: JM FINANCIAL PRODUCTS
(Mar 2024)

Action: Barred from financing against shares and debentures

Reason: Serious deficiencies in loan sanctions

Status: Curbs lifted

Entity:
IIFL FINANCE (gold business)
Mar 2024

Action:
Ban on fresh sanctions and disbursement of gold loans

Reason:
Breaches in loan to value ratio norms; disbursement, collections in cash in excess of limit "

Status: Curb lifted

Entity:
KOTAK MAHINDRA BANK
(Apr 2024)

Action:
Barred from issuing fresh credit cards and onboarding new customers through online and mobile banking channel"

Reason:
Serious shortcomings in IT infrastructure

Status: Curbs continue

COMPILED BY ABHIJIT LELE