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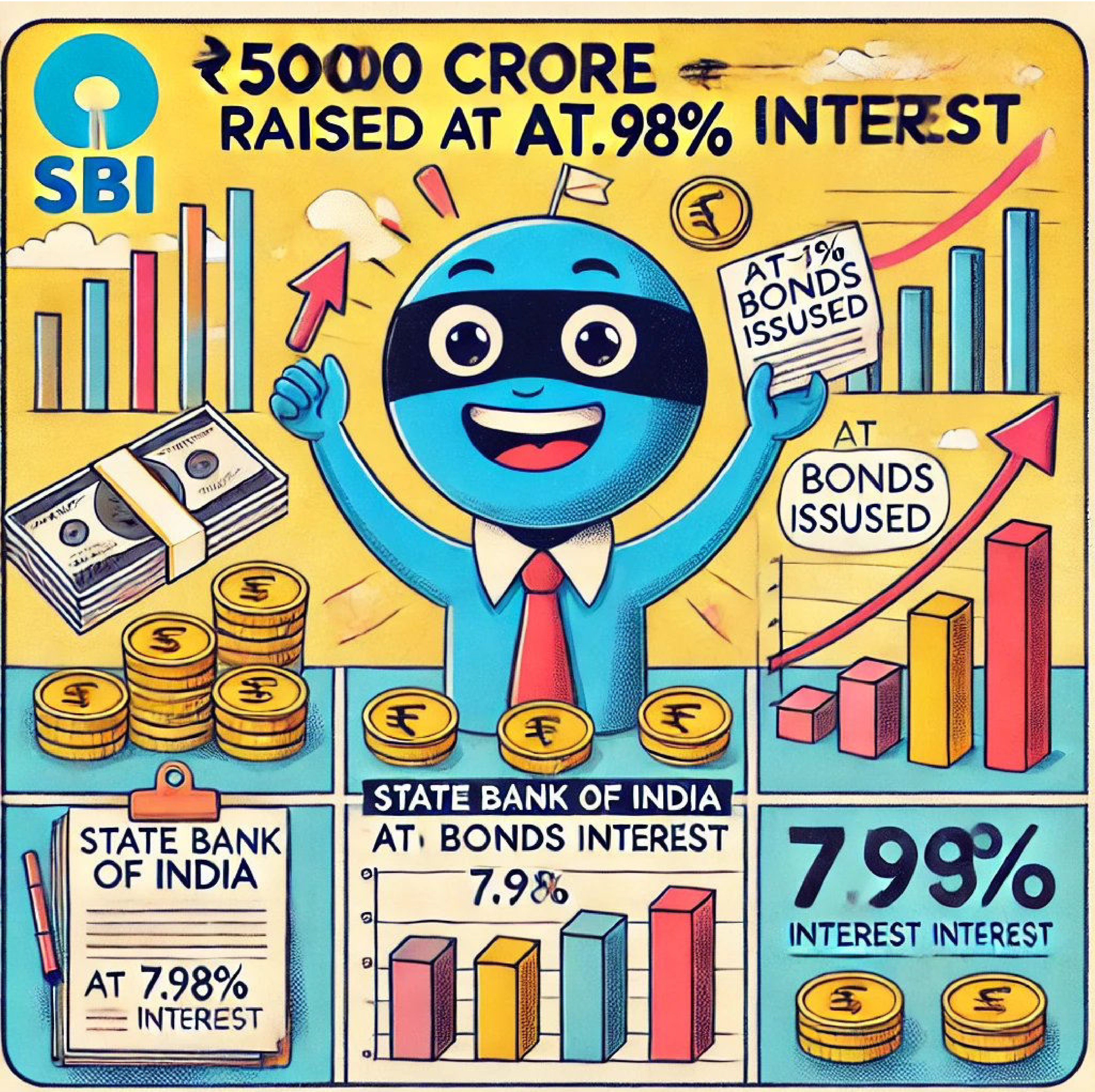
DFS secy: MFIs must refrain from reckless lending

Microfinance institutions (MFIs) have played a crucial role in fostering financial inclusion but they should refrain from any reckless lending, Financial Services Secretary M Nagaraju said.

"We should all be careful on this. Any reckless or poor underwriting norms regarding lending to Self Help Groups (SHGs) or Joint Liability Groups (JLGs) will only harm the sector," he said at an event organised by Sa-Dhan. Anything that will impact their capacity to repay will harm MFIs, he said.

"So, we should be very careful in what we lend, when we lend, and how we lend because their financial literacy is limited…their exposure to the outside world is limited. We should not capitalise on that. We should actually try to empower them, provide the needed finance and also ensure hand holding so that they flourish," he said.

Nagaraju said under the SHG-Bank Linkage Programme, there are more than 7.7 million groups with ₹2.6 trillion outstanding loans benefitting about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SBI raises ₹5,000 cr via AT-1 bonds

ANJALI KUMARI
Mumbai, 23 October

Country's largest lender State Bank of India (SBI) raised ₹5,000 crore on Wednesday through the issuance of Additional Tier-I (AT-1) bonds at a coupon rate of 7.98 per cent to bolster its capital base, marking the bank's first such issuance in the current financial year.

Coupon rate is the rate of interest that bank will pay to investors.

The bonds have a call option exercisable after 10 years. AT-1 bonds are debt instruments that are issued by banks to raise money and shore up the capital base.

At coupon rate of 7.98%, the issue attracted bids in excess of 3.5x against base issue size of ₹2,000 cr

Market participants said that the bonds were fairly priced, considering the large size of the issuance, given its last AT-1 issuance in January for ₹5,000 crore was priced at 8.34 per cent.

The coupon rate for the bonds was expected between 7.98 and 8 per cent, sources said. With yields on government bonds easing by over 30 basis points since April, the cost of raising funds by banks has come down.

The AT-1 bond issue had a base size of ₹2,000 crore, with a greenshoe option for an additional ₹3,000 crore. They have been rated 'AA+' by Crisil Ratings.

The issue attracted an overwhelming response from investors with bids in excess of 3.5 times against the base issue size of ₹2,000 crores, SBI said in a release. The total number of bids received was 108 indicating participation.The participants were across provident funds, pension funds, insurance firms, mutual funds, NBFCs, banks etc, the bank said.

Chairman C S Setty said that wider participation and heterogeneity of bids demonstrated the trust investors place in the bank.

These bonds comply with Basel-III norms, which are designed to improve banks' ability to absorb shocks.

The allotment date for this bond issue is Thursday, with SBI Capital Markets Ltd serving as the arranger.

Most members comfortable on inflation, show MPC minutes

MANOJIT SAHA
Mumbai, 23 October

MPC'S LINE OF THOUGHT

INTERNAL MEMBERS

"AT THIS STAGE OF ECONOMIC CYCLE, HAVING COME SO FAR, WE CANNOT RISK ANOTHER BOUT OF INFLATION. THE BEST APPROACH NOW WOULD BE TO REMAIN FLEXIBLE"

SHAKTIKANTA DAS

"GRADUAL WAIT-AND-ASSESS APPROACH TO REMOVING POLICY RESTRAINT IN TERMS OF THE RATE REMAINS APPROPRIATE AS LONG AS INFLATION IS NOT LASTINGLY CLOSE TO ITS TARGET"

MICHAEL PATRA

"THERE IS NOW GREATER CONFIDENCE ON INFLATION ALIGNING WITH THE TARGET UNLESS DISRUPTED BY WEATHER EVENTS AND WORSENING OF GEO-POLITICAL RISKS"

RAJIV RANJAN

EXTERNAL MEMBERS

"THERE IS CASE FOR REMAINING VIGILANT ABOUT FOOD INFLATION AND SUPPORTING GROWTH"

RAM SINGH

"RISKS TO NEAR-TERM GROWTH–INFLATION TRADE-OFF AT THIS POINT IN TIME SEEM BALANCED"

SAUGATA BHATTACHARYA

"INDUSTRY IS SUFFERING FROM DEMAND DEFICITS IN BOTH DOMESTIC & EXTERNAL MARKETS"

NAGESH KUMAR

The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) drew comfort from the likely future trajectory of inflation at its meeting earlier this month, but the three new external members highlighted slackness in demand.

The members of the re-constituted MPC decided to keep the policy repo rate unchanged at 6.5 per cent with a 5:1 vote. External member Nagesh Kumar voted for a 25-basis point (bp) rate cut. All the members were unanimous on changing the policy stance to neutral from withdrawal of accommodation.

"...the Indian industry is clearly suffering from demand deficits in both domestic and external markets," said Kumar, according to the minutes of the meeting released on Wednesday. "Given that inflationary expectations have been successfully anchored, and industrial demand in both domestic as well as export markets is flagging, a rate cut could help to revive demand and help boost private investment," said Kumar, who is director and chief executive at Institute for Studies in Industrial Development.

Economist Saugata Bhattacharya, meanwhile, said that signals on growth momentum presented a mixed picture, with uncertainty regarding aggregate demand. He said inflation 'appears' to be more stable.

"...risks to the near-term growth–inflation trade-off at this point in time seem largely balanced, even as inflation is projected to be trending towards the target and is eventually likely to durably align with it," Bhattacharya said.

Commenting that available macroeconomic data and indicators suggested that domestic economic activity remained steady, Ram Singh, director, Delhi School of Economics, said: "Food inflation is expected to moderate later this financial year because of strong kharif and rabi sowing on top of adequate buffer stock."

At the same time, Singh said: "There is a case for remaining vigilant about food inflation and, at the same time, supporting growth."

Among internal members, Deputy Governor Michael Debabrata Patra said that the overall inflation environment was improving and inflation expectations of households and businesses had eased and remain anchored.

Patra was confident of growth revival, attributing slowdown in economic indicators to idiosyncratic factors like unusually heavy rainfall in the retreat of the southwest monsoon and pitrupaksha, when many consumers defer purchases.

Patra was cautious on rate cut. "Reducing restraint too quickly may negate the progress made on disinflation. Hence, a gradual wait-and-assess approach to removing policy restraint in terms of the policy rate remains appropriate as long as inflation is not lastingly close to its target."

Governor Shaktikanta Das also sounded comfortable on inflation. "Despite its uneven progress, headline inflation is softening," he said.

But, Das emphasised on remaining vigilant. "At this stage of the economic cycle, having come so far, we cannot risk another bout of inflation. The best approach now would be to remain flexible and wait for more evidence of inflation aligning durably with the target," Das said.

Internal member Rajiv Ranjan said that with steady progress in monsoon, higher kharif sowing, favourable rabi prospects, and softening global commodity prices, there was more clarity on the disinflationary path. "There is now greater confidence on inflation aligning with the target unless disrupted significantly by weather events and worsening of geopolitical risks," he said.

More on business-standard.com

Byju's back in insolvency as SC nixes NCLAT order

BHAVINI MISHRA & PEERZADA ABRAR
New Delhi, 23 October

The Supreme Court on Wednesday set aside the National Company Law Appellate Tribunal (NCLAT) order halting the insolvency proceedings against edtech firm Byju's on a petition filed by US-based creditor firm Glas Trust Company LLC — which represents lenders to which Byju's owes $1.2 billion.

This order has sent cash-strapped Byju's back to the corridors of the National Company Law Tribunal (NCLT), where it will once again face the insolvency proceedings that had kicked off on a plea filed by the Board of Control for Cricket in India (BCCI).

In July, the NCLT had started the insolvency proceedings after BCCI alleged that Byju's had defaulted on ₹158 crore. But the NCLAT halted the proceedings after Byju's claimed that it had reached an agreement to pay ₹158 crore to BCCI towards outstanding dues.

But Glas Trust, while alleging that the money was "illegal" and siphoned from them, had moved the apex court.

Turn to Page 6

RECAP OF THE SAGA

Byju Raveendran and his brother Riju have again lost control over Think and Learn, or Byju's

Mar 2019: Bjyu's signs jersey sponsorship deal with BCCI for three years

Jun 2022: Company renews contract

Nov 2022: Seeks to terminate the contract due to fund crunch

Sept 2023: BCCI initiates insolvency proceedings for defaulting ₹158 crore dues

Jan 2024: BCCI tells NCLT it has referred the dispute to an arbitrator

Jul 2024: NCLT admits BCCI's plea seeking insolvency proceedings against Byju's

Aug 2024: NCLAT halts insolvency proceedings, approves settlement with BCCI

Oct 2024: SC overturns NCLAT order, reviving insolvency proceedings against Byju's

Byju's case: SC asks BCCI to deposit ₹158 cr in escrow a/c

On Wednesday, a Bench of Chief Justice of India (CJI) D Y Chandrachud, and justices J B Pardiwala and Manoj Misra said: "The NCLAT cannot be considered a post-office which will stamp such withdrawal applications being moved by the IRP... There was no formal application made for withdrawal, the first respondent who was a former director of corp debtor, had moved NCLAT directly," it said.

"Despite these grave deviations, the NCLAT still approved the settlement... Exercise of inherent powers cannot be done to subjugate the legal process and the NCLAT should have stayed the composition of CoC instead. Thus, we allow the appeal and set aside the NCLAT judgement," the Bench said.

It asked other parties to approach the Committee of Creditors (CoC) of the insolvent firm to pursue appropriate remedies. The apex court also said the money should now be deposited in an escrow account managed by the CoC.

"We allow the present appeal and set aside the impugned judgment of the NCLAT dated August 2, 2024, in the above terms. At this stage, it would not be appropriate for this court to adjudicate on the objections of the appellant to the settlement agreement on merits. The issues raised are the subject matter of several litigations in different fora, including the Delaware Court and investigation by various authorities, including the Enforcement Directorate, which are pending," the court said.

The apex court also said: "Nothing in this judgment should be construed as a finding on the conduct of any of the parties or other stakeholders involved in the insolvency proceedings."

In September, the top court had raised concerns about the NCLAT order, which closed the insolvency proceedings against Byju's, saying the appellate tribunal "did not apply its mind at all".

'Growth needs to be supported by cheaper credit'

MANOJIT SAHA
Mumbai, 23 October

Nagesh Kumar, one of the three newly appointed external members of the Reserve Bank of India (RBI)'s Monetary Policy Committee (MPC), said on Wednesday that interest rates should be reduced to make loans cheaper to support growth, which has been sluggish.

Kumar was the only member who voted for a rate cut (of 25 bps) earlier this month. All other members voted for keeping the policy repo rate unchanged at 6.5 per cent.

"I voted for a 25 basis point cut in the repo rate and the adoption of a neutral stance, as I felt that inflationary expectations have been successfully anchored, while economic growth needed to be supported through cheaper credit," Kumar told *Business Standard*.

He said that the monetary policy has had success in managing inflation and anchoring inflationary expectations well, which was evident from the fact that CPI headline has been around 4.5 per cent, and was slightly lower at 3.6 per cent in July-August, 2024.

Kumar commented that inflation, excluding vegetables, is even lower at 3.2 per cent (July-August) and that food inflation, especially cereals and vegetables, has been challenging but it is driven by cyclical supply side issues rather than demand, which is addressed by monetary policy.

EXTERNAL MEMBER NAGESH KUMAR SAID FOOD INFLATION WAS DRIVEN BY SUPPLY-SIDE ISSUES, NOT DEMAND

He also said that household inflationary expectations have declined by 10 bps. "A lower proportion of households expect prices and inflation to increase over 3 or 12 months ahead," Kumar said.

The external member said the Indian economy shows signs of a slowdown of growth rate, from 8.2 per cent in FY24 to 6.7 per cent in Q1FY25, while pointing out a lower growth forecast for the current financial year as compared to the previous one.

"The (RBI) projection for 2024-25 is around 7.2 per cent, which is still among the highest in the world but lower than the 2023-24 growth rate," he said, adding that the Survey of Professional Forecasters has revised it down by 10 bps.

Making a strong case for reduction in interest rates, Kumar said core sectors such as cement, iron & steel, and chemicals have shown negative growth over the past two quarters despite a rather heavy infrastructure push by the government.

"Various surveys suggest that the demand conditions in manufacturing and the job landscape moderated across major sectors. Overall business sentiment has moderated in Q2FY25. PMI for manufacturing eased somewhat in September, although it stayed in the expansionary zone," he said.

Kumar cited India's merchandise exports, which shrank by 9.3 per cent in August due to subdued demand abroad, and said that the April-August growth of merchandise exports has been "just a marginal 1.1 per cent only".

More on business-standard.com

target for the NSE Nifty 50 Index to

expected to resume.

Banks load up on short-term govt bonds ahead of new LCR norms

ANUPREKSHA JAIN
Mumbai, October 23

WITH THE RESERVE Bank of India (RBI) planning to implement draft guidelines pertaining to the liquidity coverage ratio (LCR) from April, banks have started shuffling their investment portfolios among different investment categories.

Keeping draft LCR guidelines in mind, banks are planning to expand their availability for sale (AFS) book by keeping government securities with a maturity below five years in the said category, said market participants.

As per the investment norms, banks have three investment categories: held to maturity, available for sale and fair value through profit and loss.

New LCR norms have pushed banks to buy short-term government bonds, as these guidelines would require banks to make more investments in high-quality liquid assets. Hence, keeping in AFS will give banks a room to sell short-term securities whenever there is a situation of stress.

"We have expanded our AFS books, and we are planning to continue doing so. Since our LCR stands at 105%, we plan to increase it to 110%. So, keeping that in mind, we need to invest more in short-term G-secs. And since it is a rate cut cycle, we would prefer it to keep in AFS," said Nidhu Saxena, MD, Bank of Maharashtra, in a post-result conference call.

IN SYNC

- In July, RBI released new draft guidelines on the liquidity coverage ratio (LCR)

- These guidelines aim to tighten the liquidity standards
- The new norms are expected to increase credit costs for banks

According to the bank's quarterly results till now, most banks' LCR is well above the threshold of 100%

According to the bank's quarterly results till now, most banks' LCR is well above the threshold of 100%, hence putting them in a safe place. Large private banks such as HDFC and Kotak Mahindra Bank have LCRs of 128% and 140%, respectively. HDFC saw a 500 basis point rise in their LCR percentage on a quarterly basis. Meanwhile, Kotak Mahindra Bank has maintained the ratio well above the threshold.

In bond market parlance, AFS is referred to as a trading book, which means banks can take out their investments as and when required, unlike HTM and fair value.

Earlier in July, the Reserve Bank of India (RBI) released new draft guidelines on the LCR, which are expected to increase credit costs for banks, pressure margins, and drive demand for short-term government securities. These guidelines aim to tighten the Basel III Framework on Liquidity Standards.

Market participants said that keeping g-secs in AFS will serve them twin benefits. In addition to meeting requirements for the LCR norms, traders can reap benefits by booking gains in short-term securities, as these bonds are usually preferred in rate-cut cycles.

Citi sees robust deal pipeline and transactions in India

Janaki Krishnan
Mumbai

Citigroup in India is expecting to deliver a blockbuster year in 2024 in terms of equity capital markets, and mergers and acquisitions (M&As) with a robust pipeline in both, as it comes off the recent listing of Hyundai Motor India, the largest initial public offer in the country.

The pace activity is also likely to roll over into 2025 and the outlook for the next several years is positive, senior Citi officials said in a media briefing. Its pipeline of transactions at the moment is much stronger than what it was last year, they said.

Citi topped the charts in advising primary public market issuances as well as in M&As, they added.

Despite the lacklustre listing of the shares of Hyundai Motor India, there was significant interest from global MNCs to list in India.

"We have a lot of other large MNC clients, who are keen to explore this opportunity," said Rahul Saraf, Citi's India Head of Investment Banking. "I think they are actually encouraged with the listing of Hyundai."

Despite the size of the IPO at $3.3 billion, it did not really affect the overall markets in anyway, said Arvind Vashistha, India Head of Equity Capital Markets, pointing out that it was an indicator of the ability of the market to absorb "jumbo transactions".

BRIGHT PROSPECTS. Despite Hyundai's weak listing, many large MNCs are keen to enter the Indian market, says Citi's Investment Banking chief in India Rahul Saraf

OUTBOUND M&AS

Activity was being seen across the board and was not confined to a few large companies or some specific investors.

He predicted that outbound M&As would see a big rise next year.

A big trend was that the size of transactions had increased "and again for us that's very interesting because we get to play a more meaningful role in big transactions defined as $500-$750 million-plus," Saraf said.

Apart from the Hyundai IPO, Citigroup has been involved in several big-ticket transactions such as the recent CD&R-Sanofi Consumer Healthcare India deal, BAT Plc selldown in ITC, TCS selldown for Tata Sons, the forthcoming IPO of Swiggy, RIL acquisition of Star India, and Brookfield buying American Tower's India assets.

The risks arising from geopolitical conflicts and tensions, from volatile commodity prices and interest rates were being withstood by the market, said Vashistha. He said the IPO boom in India was being driven by the growth in the economy, earnings growth and participation of investors across the board.

Paytm gets NPCI nod to onboard new UPI users

KR Srivats
New Delhi

One 97 Communications, which owns brand Paytm, has received approval from the National Payments Corporation of India (NPCI) to onboard new Unified Payment Interface (UPI) users.

This comes nearly nine months after the RBI placed an embargo on addition of new customers. The latest NPCI approval is, however, subject to Paytm following all NPCI guidelines and circulars, including those on risk management, brand guidelines for app and QR, multi-bank guidelines, third-party application provider (TPAP) market share and customer data, NPCI said.

In a letter to the company's founder and CEO Vijay Shekhar Sharma, NPCI chief Dilip Asbe granted approval for the Noida-based firm to resume onboarding new users.

"We would like to inform you that vide letter dated October 22, 2024, the National Payments Corporation of India (NPCI) has granted approval to the company to onboard new UPI users, with adherence to all NPCI procedural guidelines and circulars," Paytm said in an exchange filing late on Tuesday.

The latest NPCI nod may lead to an increase in UPI transaction volumes for Paytm in the coming days.

It maybe recalled that Paytm's associate entity Paytm Payments Bank Ltd (PPBL) faced crippling restrictions from the banking regulator in January. Paytm's market share on UPI had slipped from 13 per cent in January to about 7 per cent in September 2024 on the back of the RBI's embargo to add new users.

Paytm's UPI service was powered by PPBL and consequent to the RBI action, the company had to transition to a third party app model. In February, the RBI advised the NPCI to consider Paytm's request to become a TPAP for continued UPI operation of the app.

AU Small Finance Bank Q2 net surges 42% on all-round growth

KR Srivats
New Delhi

Q2 scorecard

(in ₹ crore)

	July-Sept 2024	April-June 2024	July-Sept 2023
Interest earned	3,911	3,769	2,531
Other income	638	509	406
Total income	4,549	4,278	2,937
Operating profit	1,132	952	629
Net profit	571	503	402

AU Small Finance Bank on Wednesday reported a 42 per cent increase in net profit for the second quarter ended September 30,2024 at ₹571 crore (₹402 crore).

The latest bottomline performance is 13.5 per cent higher than the net profit of ₹503 crore recorded in the June 2024 quarter.

Total income for the quarter under review increased 55 per cent to ₹4,549 crore (₹2,937 crore).

For the April-September 2024 period, AU Small Finance Bank reported a net profit of ₹1,074 crore, up 36 per cent over the net profit of ₹789 crore in same period last year.

Commenting on the performance, Sanjay Agarwal, MD & CEO, AU Small Finance Bank, said, "First half of this financial year saw some discontinuity in business momentum with persistent inflation, general elections and various state elections as well as heat wave and unusual heavy rain in August. We have started to see early signs of pickup in economic weeks and remain optimistic of an improved operating environment in H2 as consumer confidence, rural demand and private investment picks up."

STABLE PERFORMANCE

Amidst this macro backdrop, AU SFB delivered another quarter of consistent performance across most parameters with sustainable growth in assets and profitability, he said.

AU Small Finance Bank had, in September, applied to the RBI for voluntary transition to universal bank, which will improve its brand acceptance with higher perception of safety and trust and enable it for the next phase of growth and buildout of a "forever bank", he added. For the quarter under review, Net Interest Margin (NIM) increased by 5 basis 6.05 per cent in June quarter.

In the first half of the current fiscal, the bank's net interest margin stood at 6.1 per cent compared to 5.6 per cent in same period last fiscal. While the gross loan portfolio crossed a milestone of ₹1 lakh crore at ₹1,05,031 crore, total deposits crossed the milestone of ₹1 lakh crore to touch ₹1,09,693 crore.

AU Small Finance Bank has 109 lakh plus customers, serves them through 2,408 touch points in 21 States and 4 Union Territories with about 48,000 employees. Shareholders fund of the bank has now surpassed ₹16,000 crore.

For the quarter under review, gross non-performing assets (GNPA) increased to 1.98 per cent (vs 1.78 per cent in Q1) and net NPAs increased to 0.75 per cent (vs

Karnataka Bank Q2 profit flat at ₹336 cr

Our Bureau
Manguluru

Karnataka Bank Ltd recorded a net profit of ₹336.07 crore in the second quarter of 2024-25 against a net profit of ₹330.26 crore in the corresponding quarter of 2023-24, registering a growth of 1.76 per cent.

The meeting of the board of directors of the bank on Wednesday approved the financial results for the quarter and the half year that ended September 30.

Net interest income of the bank stood at ₹833.56 crore in Q2 of FY25 against ₹822.41 crore in Q2 of FY24, a growth of 1.36 per cent. Fee-based income was at ₹222.75 crore (₹196.58 crore in Q2 of FY24) during the period.

The net interest margin decreased to 3.23 per cent during the second quarter of 2024-25 from 3.62 per cent in Q2 of 2023-24.

GROSS NPAS DOWN

During the second quarter of 2024-25, the gross NPAs (non-performing assets) of the bank decreased to 3.21 per cent (3.47 per cent). However, the net NPA increased to 1.46 per cent (1.36 per cent) during the period.

The bank's capital adequacy ratio stood at 17.58 per cent as on September 30, 2024 compared to 16.2 per cent as on September 30, 2023.

The aggregate business of the bank stood at ₹1,75,284.08 crore (on a gross basis) for Q2 of FY25, compared to ₹1,56,467.71 crore in Q2 of FY24, a growth of 12.03 per cent. The aggregate deposits stood at ₹99,967.99 crore (₹89,531.73 crore) and gross advances stood at ₹75,316.09 crore (₹66,935.98 crore) during the period. Retail advances grew by 12.2 per cent Q2 of FY25 in comparison to Q2 of FY24. The CD ratio (gross) stood at 75.34 per cent.

Quoting Srikrishnan H, Managing Director and Chief Executive Officer of Karnataka Bank, a media statement said: "Karnataka Bank has demonstrated stable financial performance in Q2 FY25 with improvement in book quality, and growth in retail segment that will be the focus going forward."

CONSOLIDATION DRIVE

Sekhar Rao, Executive Director, said, "We are pleased with the performance in Q2 FY25, highlighted by our efforts in consolidation and improved control over NP As and slippages. Strengthening risk management has been a key focus, resulting in better asset quality."

Q2 scorecard

	Q2 FY25	Q2 FY24
Net profit (₹ cr)	336.07	330.26
Net interest income (₹ cr)	833.56	822.41
Fee-based income (₹ cr)	222.75	196.58
Net interest margin (%)	3.23	3.62
Gross NPAs (%)	3.21	3.47
Net NPAs (%)	1.46	1.36

AI adoption: RBI study

KEY DRIVERS. Asset size, CRAR influencing banks' focus on AI

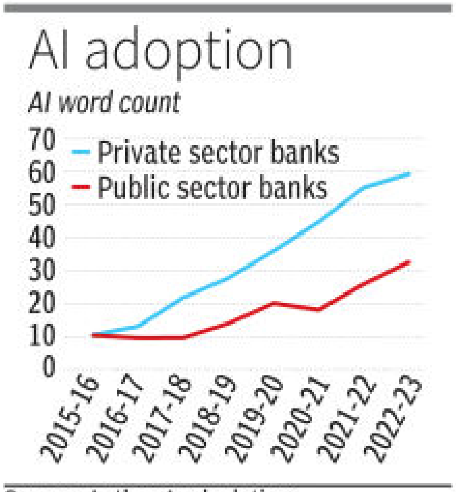
Our Bureau
Mumbai

Artificial Intelligence (AI) adoption is gaining momentum led by private banks, with asset size and CRAR (capital to risk weighted asset ratio) influencing the rate of adoption, according to RBI staffers.

Among different banking indicators, size and financial health of a bank is found to positively influence the bank's focus on AI, reflecting the impact of economies of scale and the availability of investment on the technological advancement, they said.

Further, text mining of annual reports of Indian banks during 2015-16 to 2022-23 reveals that both private and public sector banks are increasingly emphasising on AI and related technologies; however, the pace of increase is higher for private banks.

"Across all models, we find that AI score is positively related to the asset size of the banks as evident from positive and statistically significant coefficient, suggesting higher adoption by larger banks," said RBI officials Shobhit Goel, Dirghau K. Raut, Madhuresh Kumar and



Source: Authors' calculations

gence?', which was published in the RBI's latest monthly bulletin.

They observed that this finding aligns with the resource-based theory, which posits that organisations with greater resources are more inclined to invest in innovation and modern technologies like AI and survey results showing higher AI adoption rate among banks having larger asset size.

Further, larger banks, owing to their difficulties in coordination across verticals, are likely to achieve higher net gains from the adoption of such technologies and data integration, thereby increasing the motivation for adoption of AI. It may also be indicating that the adoption of technologies such as AI is relatively difficult for smal-

Capital-to-risk weighted asset ratio (CRAR), which is a proxy for the capital adequacy of the bank and thus a reflection of the financial health of the bank, is positively related to AI score, per the study. This result resonates with the viewpoint that well-capitalised banks are better positioned to take investment risks in new technology in terms of adequate capital buffers and confidence to pursue AI solutions, it added.

AI-RELATED KEYWORDS

The authors assessed that the usage of AI-related keywords in the annual reports of private sector banks increased by approximately six-fold in 2022-23 reports as compared to the 2015-16 level, going by the quantitative measure of AI adoption in the Indian banking system using a text-mining approach by RBI staffers. Even in the case of public sector banks, the emphasis on new age technologies like AI in their annual reports has increased more than 3 times between 2015-16 and 2022-23.

"In a few public sector banks, the enthusiasm towards AI-based technologies

With a rise in over-leveraged clients, lenders are wary of unsecured loans

LOOMING PROBLEM. Delinquencies increasing in some credit card segments, micro loans

Piyush Shukla
Mumbai

Banks and non-banking finance companies are becoming increasingly cautious in growing their unsecured loan book due to over-leveraging of customers, senior bankers say.

"On the MFI (microfinance loans) side, we restricted growth because, as we called out about two quarters ago, we were seeing some strain. We are being cautious on growing in the MFI space. We expect the strain to continue for maybe two quarters, then it should get stable," said Ashok Vaswani, MD & CEO, Kotak Mahindra Bank. "In the credit card business also, we have seen some level of credit stress due to over leveraging of certain kind of customers," he added. Kotak Bank's slippages increased to ₹1,875 crore in Q2FY25 from ₹1,358 crore in Q1 and ₹1,314 crore in Q2FY24.

Axis Bank ED Munish Sharda said the bank has a small micro-loan portfolio, which it is monitoring "very carefully". "We have taken risk actions to ensure that we do not venture into areas which can get over-leveraged We are also having a sharp area-wise, region-wise, state-wise focus on exposure... So, our disbursals have come down," he said.

The bank's officials said certain credit card segments are showing signs of early stress. So, the lender is tightening credit score threshold for credit cards and curtailing spending limits.

WORRISOME TREND

- Kotak Bank's slippages increased to ₹1,875 crore in Q2
- Axis Bank says certain segments in credit cards are showing signs of early stress
- Bajaj Finance increased its credit costs guidance for FY26 to 185-195 bps against the 175-185 bps earlier

MIXED BAG FOR NBFCs

NBFC major Bajaj Finance had a mixed second quarter, with higher volumes and operating efficiencies but also elevated loan losses, resulting in muted profits and return on asset growth. The NBFC's leverage analysis, based on June data, showed that customers having three or more live unsecured loans are showing higher propensity to default, and collection efficiencies have come down. Motilal Oswal said it expected Bajaj Finance's credit costs to remain elevated in FY25 and normalise in FY26. However, the NBFC has raised its credit costs guidance for FY26 to 185-195 basis points against the 175-185 bps earlier.

Piramal Finance said a chunk of its fresh slippages is from unsecured loans, and this segment's customers are showing signs of over-leveraging, with some borrowing to invest in equities.

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	6.85-7.30	**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	**6.80-7.25**	6.75-6.80	**6.50-6.75**
Jammu & Kashmir Bank	7.00	**7.00**	6.75	**6.50**

Data taken from respective bank's website as on 21 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

SC restores insolvency case against Byju's

Top court raps NCLAT; decision shifts control from founder to creditors

Krishna Yadav & Mansi Verma
NEW DELHI/MUMBAI

The apex court order marks a pivotal moment in Byju's financial crisis. BLOOMBERG

In a blow to the once-high-flying edtech giant Byju's, the Supreme Court (SC) on Wednesday overturned a decision that had halted insolvency proceedings against the company. The ruling mandates that Byju's follow established protocols under the Insolvency and Bankruptcy Code (IBC) to resolve its ₹158 crore debt to the Board of Control for Cricket in India (BCCI).

The order marks a pivotal moment in Byju's financial crisis, effectively shifting control of the company from founder Byju Raveendran to its creditors. The decision is welcome news for Glas Trust Co. LLC, a US-based financial creditor, which had challenged the National Company Law Appellate Tribunal's (NCLAT) earlier order halting the insolvency process.

For the BCCI, the decision pushes it further down the queue among operational creditors.

The Supreme Court mandated that Byju's deposit the ₹158 crore settlement amount, previously agreed upon with the BCCI, into an escrow account overseen by the Committee of Creditors (CoC). This directive aligns with the court's 26 September order, instructing the interim resolution professional (IRP) to maintain the status quo and refrain from convening CoC meetings until the judgment was delivered.

The court emphasized that while Byju's and the BCCI may continue to pursue their settlement, it must do so under the strict supervision of the IRP and CoC, adhering to the established procedures outlined in the IBC.

The case has been sent back to the NCLT for fresh adjudication, with clear instructions that any settlement application must be submitted through the IRP rather than the company's management.

"Since the Supreme Court has clarified ... be used to circumvent the proper process, the settlement will now need to be presented formally by the Resolution Professional before the NCLT," said Shiv Sapra, partner at Kochhar & Co.

A three-judge bench led by Chief Justice D.Y. Chandrachud criticized the NCLAT for misusing its inherent powers under Rule 11 of the NCLAT Rules, 2016, to permit the withdrawal of an insolvency application. The top court emphasized that where specific procedures exist for withdrawal, the NCLAT cannot bypass them by invoking its inherent powers.

The court clarified that once an insolvency application is admitted, only the IRP has the authority to file withdrawal requests on behalf of the debtor, not the parties involved.

It further underscored that managing the debtor's affairs becomes the IRP's responsibility upon admission of the case, meaning any settlement or withdrawal requests must align with Section 12A of ... Regulation 30-A of the IBBI (Insolvency and Bankruptcy Board of India) Rules.

The Supreme Court noted that the NCLAT's error lay in approving the settlement directly, bypassing the National Company Law Tribunal (NCLT), which holds primary jurisdiction over such withdrawals.

Previously, on 2 August, the NCLAT had dismissed insolvency proceedings against Byju's and approved the settlement with BCCI. This ruling followed Riju Raveendran raising ₹158 crore to repay the cricket board, temporarily restoring Byju Raveendran's control over the company's operations.

On 14 August, the Supreme Court had directed BCCI to deposit the ₹158 crore settlement amount into a separate escrow account pending the outcome of Glas Trust's appeal.

COURT'S MANDATE

BYJU'S must deposit ₹158 cr settlement into an escrow account, overseen by a creditors' panel

RULING mandates that Byju's follow protocols under IBC to resolve its debt to the BCCI

Scan the QR code to read an extended version of this story

Mastercard to tap India's credit boom

Bloomberg
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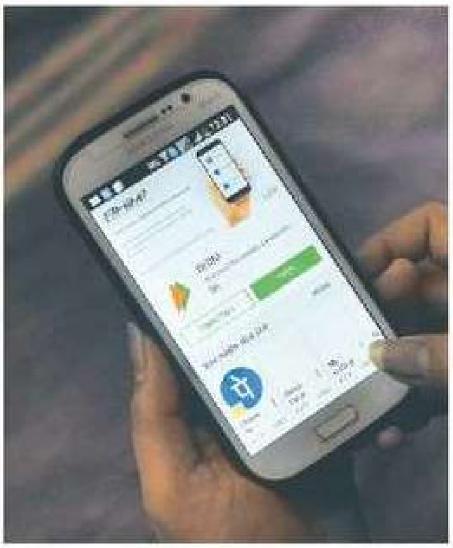
Mastercard Inc. is looking to expand its base of partners and services to tap into the growing credit opportunity in India where the use of digital payments has surged.

Digital transactions in India have jumped 39% to 187.4 billion rupees ($2.2 billion) in fiscal 2024, largely spurred by the public infrastructure platform Unified Payments Interface, or UPI, according to data from Reserve Bank of India. UPI accounted for 70% of all digital payments.

The global payments technology firm is working with its existing customer base of banks to see how it can help "widen their aperture" for products and services, according to Gautam Aggarwal, who heads South Asia for Mastercard.

The firm is also exploring partnering with non-traditional banks to provide credit to smaller towns and underserved segments like small businesses, farmers and women entrepreneurs, Aggarwal said.

The wide-scale adoption of UPI has turbocharged India's digital economy and is helping deepen financial inclusion as it brings in small businesses and unbanked individuals by creat-



Wide-scale adoption of UPI has turbocharged India's digital economy. MINT

ing a financial record and credit history. The database is helping them access previously unavailable credit. "There is a huge opportunity in credit," Aggarwal said. One of Mastercard's initiatives in India is Community Pass, a farmer-focused digital marketplace where they can sell their produce and make purchases. The portal allows all credit cards as well as UPI for payments.

"Our aim has been to expand the ecosystem by making people aware of how they can harness the power of digital payments," Aggarwal said. UPI has not eaten a significant chunk of Mastercard's business, he said, since the payments spectrum in India has expanded — from cash to UPI, debit, prepaid cards and credit cards.

livemint

Paytm's merchant loan business has to do the heavy lifting

Abhinaba Saha
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Paytm parent One97 Communications Ltd's stock rose 8% on Wednesday. While the September quarter (Q2FY25) earnings had a few positives, such as improved traction in merchant loan disbursals and visible cost-control efforts, the exuberance stemmed from it getting the National Payments Corporation of India's (NPCI) nod to onboard new customers on its unified payments interface (UPI) application.

In early 2024, Reserve Bank of India (RBI) barred Paytm Payments Bank, an associate of Paytm, from boarding new customers. Now that NPCI has allowed it to onboard customers onto its UPI app through third-party tie-ups with banks, it can expand its consumer UPI business while its merchant UPI operation is getting better. Merchant subscriptions grew 22% year-on-year (y-o-y) to 11.2 million subscribers in Q2FY25, resulting in a 9% y-o-y uptick in merchant transactions at ₹991 crore.

Paytm plans to capitalise on its merchant base to expand its financial services operations, which contributes 23% of revenue and has a higher profit contribution margin than payments services. As of Q2FY25, it has 600,000 such customers, including consumers and merchants.

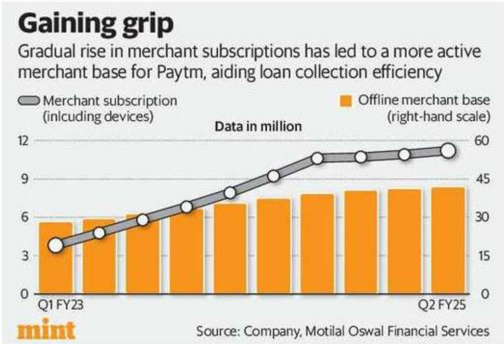
The lending service provider (LSP) has started extending merchant loans under RBI's revised first loss default guarantee (FLDG) norms that require LSPs to pay 5% of the loan portfolio to creditors in case of defaults. This ensures more skin in the game from LSPs, giving creditors more confidence.

Paytm stands to accrue higher collection revenues via higher volumes of FLDG loans if the credit loss is lower than budgeted. More FLDG loans may boost profitability, especially when the average takeaway rate on FLDG and non-FLDG loans is the same at 5%.

Paytm pays the cover charge to SMFG India Credit Co. Ltd—its sole lending partner—in advance, below the 5% cap, as direct expense. And half of its merchant advances, totalling ₹1,651 crore in Q2, were FLDG loans.

But its overall disbursals at ₹5,300 crore in Q2FY25 were below expectations, with personal loans contracting.

In the past six months, Paytm stock has jumped 93%. Further re-rating will depend on faster recouping of lost monthly transacting users, strong bounce-back in the lending business, and no further regulatory disruption, said Emkay Global Financial Services report on 23 October.



PRANAY BHARDWAJ/MINT

NPCI Curbs on Unauthorised Use of UPI IDs by Fintech Cos

Looks to stop all forms of 'unauthorised' use of UPI IDs beyond payments and settlements

Pratik Bhakta

Bengaluru: The National Payments Corporation of India (NPCI) is cracking down on all forms of 'unauthorised' use of virtual IDs being generated for Unified Payments Interface (UPI) transactions, beyond payments and settlements.

Presently, certain fintech firms are offering a service through which a business entity or a third party body can authenticate users through their UPI IDs, which is however unauthorised by NPCI and the Reserve Bank of India as per rules for entities operating on the retail payment network, said two people in the know.

In a letter to fintechs earlier this month, NPCI instructed these firms to shut down such services. ET has seen a copy of the letter.

"NPCI has observed instances of unauthorised use of UPI APIs by certain participants. In accordance with the guidelines set forth...the UPI APIs provided by NPCI are strictly for the purpose of facilitating "UPI payments" for customers and for required verification of users for fraud prevention. These APIs must not be used independently for any other purposes other than the above mentioned," the letter read.

Identity verification platforms like Idfy, payment aggregators like Cashfree and other fintechs offer this service by using UPI application processing interfaces (APIs) offered by NPCI, either directly or through their partner entities like banks and third party payment applications like PhonePe, Paytm and such. APIs allow different businesses to integrate their backend systems through software networks and facilitate flow of information.

NPCI did not respond to ET's queries. Queries to Cashfree and Idfy went unanswered too.

Participating members with access to these APIs are prohibited from entering into commercial arrangements with third parties for the provision of "APIs as a service", NPCI said in its letter.

"Any violation of these compliance guidelines will be dealt with the utmost severity, including the imposition of penalties or cessation of UPI services," the letter added. By using the NPCI network for UPI payments, these platforms can verify data for any user against their UPI ID, like their name, bank account status, mobile number, and if the customer is holding any alternate UPI ID.

A FINTECH CEO SAYS...

This is not a case of data leak, but it is unauthorised use of certain sensitive data which is held by banks and NPCI

Keeping Watch

NPCI IN A LETTER SAYS...

- **There are instances of unauthorised use of UPI APIs by certain participants**
- **UPI APIs are strictly for facilitating UPI payments for customers and verification**
- **These APIs must not be used independently for any other purposes**

Members with APIs are prohibited from entering into commercial arrangements with third parties for the provision of APIs as a service

Says any violation will be dealt with the utmost severity

ONGOING TUSSLE WITH NFRA

Issuing Audit Quality Standards Within our Remit: ICAI to MCA

Letter comes after NFRA objected to ICAI issuing 2 standards and making some tweaks

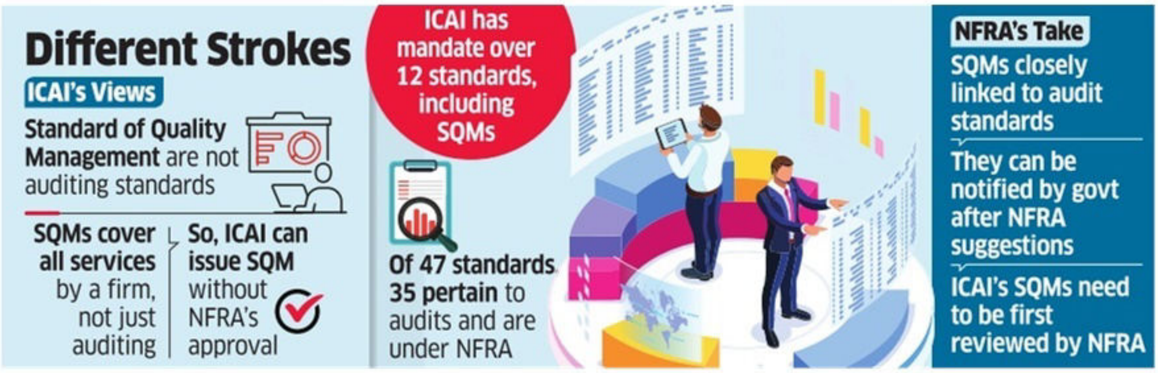
Banikinkar Pattanayak

New Delhi: The Institute of Chartered Accountants of India (ICAI) has written to the corporate affairs ministry, asserting that it has the mandate to issue quality management standards for accountancy and audit firms, amid its tussle with the National Financial Reporting Authority (NFRA), people aware of the development said.

The letter, sent to the ministry last week, comes after NFRA objected to the issuance of two new standards on quality management (SQM)—called SQM1 and SQM2—and 16 "consequential changes" in auditing standards by the ICAI on October 14.

The institute has argued these quality management standards were not auditing standards, so it was within its right to issue them without audit regulator NFRA's clearance, one of the persons told **ET**.

The ICAI expects firms to mandatorily adopt SQM, which will replace the 2007 standard on quality control, from April 2026. It maintains that the SQMs cover all services rendered by such firms, going well beyond just auditing, and are distinct from audit standards.



The latest issue is likely to further widen the differences between the two regulators, which first cropped up in August over NFRA's bid to align the domestic audit standard with the global norms.

The latest issue is likely to further widen the differences between the regulators, which first cropped up in August

The ICAI has called a special meeting of its Central Council on October 29 to deliberate on NFRA's proposal to revamp the standard of auditing 600 and the SQMs, the person said.

For its part, NFRA reckons that SQMs should be treated as a part of audit standards as they are intricately linked, and notified by the ministry following its recommendations.

NFRA also views that changes to the Standards of Auditing 220 (SA220), announced by the institute as part of its SQMs issuance, suggests the two can't be viewed separately. The ICAI, however, argues that the "consequential changes" to the SA220 are a natural fallout of the introduction of SQMs, which are applicable to audit firms as well.

'DIFFERENT STANDARDS'

In its response to ET, the institute cited the Companies Act, 2013, saying the Engagement and Quality Control and Quality Management Standards comprise a total of 47 standards, 35 of which cover the standards of auditing (SA) that come under the NFRA purview. The remaining 12 other standards—consisting of SQMs, standards on specialised areas, review engagements, assurance engagements and related services—come under the ICAI's remit, it said. Before NFRA's inception in 2018, ICAI used to firm up even auditing standards for all companies.

THE LEGAL ANGLE

Section 143 (10) of the Companies Act empowers the government to "prescribe the standards of auditing or any addendum thereto, as recommended" by the ICAI, in "consultation with and after examination of the recommendations" made by NFRA.

However, it adds a proviso that "until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards".