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In this issue

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Executive Director
Reserve Bank of India


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From The Desk Of Editor-in-Chief

The Corporate Affairs Ministry (MCA) under its revised definition for threshold for paid up capital for small companies has specified that the capital would not be exceeding Rs.4 Crores and turnover threshold would be 'not exceeding Rs.40 crores. Prior to the latest change, the threshold for paid up capital was not exceeding Rs.2 crores and turnover 'not exceeding 20 crores. This decision of MCA will ease the working of the small companies.

As per report of Finance Ministry Direct Tax collected has surged to 36%, the total collection being approx. 6.5 lac crores in F.Y. 22-23 till August 2022.

CBDT has issued guideline that it has relaxed various norms relating to compounding of offences under the IT Act and allowed compounding in cases where the applicant has been sentencedupto two years of imprisonment.

RBI is planning to set up a "fraud registry" to create a database of websites, phone numbers, email ID and IP addresses used in digital frauds to protect the interests of consumers, while maintaining that only a minuscule proportion of complaints its receives relates to "mis-selling of products".

RBI notified the rupee drawing arrangement for cross-border remittances through the Bharat Bill Payment System (BBPS), paving the way for non-resident Indians to make bill payments through the channel.

The commerce ministry has allowed invoicing, payment and settlement of exports and imports in Indian rupee, a move aimed at facilitating trade in the domestic currency. This will help to reduce the dependency of other currency and reduce price fluctuations.

In July, the Reserve Bank of India had asked banks to put in place additional arrangements for export and import transactions in Indian rupees in view of increasing interest of the global trading community in the domestic currency.

Contents

Banking News

Pralay Mondal named as new MD & CEO of CSB Bank

Kerala-based CSB Bank announced the appointment of Pralay Mondal as new Managing Director and CEO of the bank.

Pursuant to the approval received from Reserve Bank of India (RBI) on September 15, 2022, the Board of Directors of the Bank in its meeting held on the same day, has approved the appointment Mondal as the MD & CEO of the Bank, it said in a press release.

Mondal's appointment is for a period of three years from September 15, 2022 up to September 14, 2025 in line with the approval of RBI, the bank said.

Mondal joined the bank as President (Retail, SME, Operations and IT) on September 23, 2020 and was appointed as the Deputy Managing Director of the Bank with effect from February 17, 2022.

Asset-liability mismatch looms on banking sector: Pronab Sen

India's banking sector is faced with the predicament of a "massive asset-liability mismatch" that could explode anytime, renowned economist Pronab Sen said, adding that there is a need to reassess laws governing the industry.

Sen said "that explosion" has not yet happened as most of the banks are in the public sector.

Explaining the situation, he said the Indian banks had adopted the British model, and the laws don't allow lenders to borrow from the capital market, which essentially makes deposits the only source of funds.

"The average tenure of bank lending is about nine years, and deposits' tenure is close to two-and-a-half years. So, you have nine years on the asset side, and 2.5 years on the liability side... which means there is a massive asset-liability mismatch which can explode anytime," the former chairman of the statistical commission said.

Super senior citizen FD launched

BL Bank has launched a super senior citizen fixed deposits product on the occasion of International Senior Citizens Day. Under the newly launched product, the bank will offer an additional 0.75 per cent p.a. on FDs to super senior citizens - age-group of 80 years and above, a statement said. This takes the 15-month tenure bucket interest rate to 7.75 per cent p.a. These FDs can be booked easily through RBL Bank's website, internet banking, RBL MoBank app, branches and contact centre. Additionally, the bank offers free doorstep banking for all senior citizens.

Small finance banks may be allowed to co-lend with NBFCs soon

After making Small Finance Banks (SFBs) eligible for Authorised Dealer (AD) Category-I license, the Reserve Bank of India (RBI) may take the next step in liberalising their scope of activities. It could allow these banks to co-lend with non-banking finance companies (NBFCs).

Currently, SFBs are not permitted to co-lend with another lender. Only scheduled commercial banks and NBFCs are allowed to co-lend to the priority sectors like agriculture; micro, small and medium enterprises (MSMEs), education, housing, among others.

Though RBI has so far mandated that SFBs do only direct lending, it is believed to be weighing industry requests to allow co-lending in areas where these Banks don't have expertise.

"Co-lending could specifically be allowed in cases where we can get expertise. For example, if an SFB wants to enter commercial vehicle (CV) funding, it makes more sense for it to tie up with a specialised CV player (NBFC) rather than doing it all by themselves," said a senior SFB official.

Industry watchers say the banking regulator seems to be open to SFBs' co-lending demand. If these banks and NBFCs join forces, it will increase priority sector lending (PSL), which is a focus area for both the Government and RBI. PSL is productive and generates income for borrowers.

"In the case of microfinance, SFBs don't want to hold all the exposure in their books. If co-lending is allowed with another NBFC or another mainstream Bank, it will help SFBs manage their risks. Probably, RBI is waiting for all SFBs to list before liberalising this rule," say experts.

Finance Ministry: No move to levy charges on UPI services

There is no move in the government to levy any charges on UPI (Unified Payments Interface) transactions, the finance ministry said. It asserted concerns of service providers for cost recovery have to be met through other means.

"UPI is a digital public good with immense convenience for the public and productivity gains for the economy. There is no consideration in the government to levy any charges for UPI services," the finance ministry said on Twitter in a series of posts.

It said the government had provided financial support for the digital payment ecosystem last year and has announced the same this year as well to encourage further adoption of digital payments and promotion of payment platforms that are economical and user-friendly.

Govt nudges banks to give more education loans

With Public sector banks wary of disbursing low-value education loans claiming defaults, the Government has asked them to increase disbursement, citing several complaints received from various quarters on delay in sanction and denial on "flimsy grounds", has learned.

An official source said the issue was discussed in a meeting held recently by the Department of Financial Services (DFS) and involving representatives of all 12 PSBs. Banks were told that the department has received a lot of complaints from a range of quarters, including the highest levels in the government. "They were asking to increase education loan disbursement," said the source.

The banks were told to disburse education loans within the stipulated time of 15-30 days, not to deny loans on "flimsy grounds", such as CIBIL score of co-borrower and non-eligibility of courses, and not to seek collateral security for such loans up to Rs 7.5 lakh.

Banks were also asked to guide education loan seekers on the Central Sector Interest Subsidy Scheme for students with an annual family income of up to Rs 4.5 lakh.

Finance Ministry reviews PSBs on inclusion schemes

The finance ministry reviewed the financial performance of public sector banks (PSB) and progress made by them on the Centre's financial inclusion initiatives.

PSBs' quarterly financial performance was reviewed based on broad parameters such as credit growth, asset quality, and recoveries made during the year, and their projections for the entire year. Their preparedness for advancing loans ahead of the festive season was also assessed.

Besides financial performance, efforts taken by PSBs towards financial inclusion, improving penetration of the Centre's flagship insurance schemes, and saturation campaign of the PM Jan Dhan Yojana (PMJDY) were also gauged.

Some of the PSBs such as Bank of Baroda, Canara Bank, and Union Bank of India have seen an increase in their share of Jan Dhan accounts this year as compared to last year, while others such as State Bank of India, Central Bank of India and Indian Bank saw their share of such accounts decline during the same period.

Bandhan's non-microfin pie at 56%

Bandhan Bank has moved on from the days when its entire advance book comprised just microcredit, said its MD & CEO Chandra Sekhar Ghosh. "The share of microcredit has come down to 44%, while the remaining 56% consists of non-microfinance loans," he said at the seventh anniversary celebrations of the bank.

Speaking on the growth in non-microfinance segment, Ghosh said: "Our home loan portfolio is increasing at a pace of nearly 20% year-on-year. The bank is also well-placed to disburse over 8,000 two-wheeler loans per month during this fiscal from 3,000 earlier." The bank currently has about three lakh home loan customers.

As a part of its focus to make its distribution strongeroutside the east, Bandhan will open 551 more branches in 2022-23 taking the total count over 6,000, the MD & CEO added. "Majority of these will be outside of eastern India." He said Bandhan will continue to expand its product portfolio.

Rupee trade: Indian banks weigh the risks of tying up with Russian lenders

Indian banks are weighing the risk of opening correspondent banking relations with Russian banks, including ones that have a presence in India, such as Sberbank and VTB Bank, to carry out bilateral trade in Indian rupee. There are concerns about irking the Western nations that have imposed banking sanctions against Russia, said a person tracking the matter.

Banks in India, such as UCO bank and Canara Bank, involved in talks with Russian banks, will also need to see whether aligning with Russian banks for rupee-denominated trade would lead to economic gains as it did while carrying out rupee-rial trade with Iran, the source added.

"In the case of Iran, UCO Bank was getting a lot of money that stayed in the account for a long time. But in case of rupee-denominated trade with Russia, the rupee balance can be used for investment in securities or infrastructure.

"So, banks are not sure whether the money will be available with them for a long time," said the source.

These issues came up for discussion at a meeting earlier this month between the banks from both countries to discuss the details of carrying out rupee trade, which has now been permitted by the RBI.

"Initially, Indian banks were hoping to have correspondent bank relations with only those Russian banks that are not under Western sanctions. But now, both Russian banks that have operations in India - VTB bank and Sberbank - are under sanctions. Moreover, there is a chance that the smaller Russian banks that are not covered under sanctions right now may also come under sanctions. Russian banks That's a point of worry," said the source.

ICICI Bank launches 'Festive Bonanza' for its customers

Private lender ICICI Bank on Thursday announced the launch of 'Festive Bonanza', a wide variety of offers for all its customers at the onset of the festive season.

The customers can enjoy the benefit of discounts and cashbacks upto Rs. 25,000 which can be availed using the Bank's credit cards, debit cards, internet banking, consumer finance and cardless EMI.

"We are delighted to announce the launch of 'Festive Bonanza' for our customers which will include a plethora of offers, discounts and cashbacks on purchases and spends," said Rakesh Jha, Executive Director, ICICI Bank.

"We have collaborated with leading brands and e-commerce platforms across a wide range of products and services. In addition, we have introduced festive benefits across our banking solutions –home loan, balance transfer, loan against property, personal loan, auto loan, two wheeler loan."

The Bank has curated a bouquet of offers to meet the festive needs of customers in categories ranging from electronics & gadgets, global luxury brands, apparels & jewellery, grocery, automobile, furniture, travel and dining.

The list of brands offering attractive offers include Flipkart, Amazon, Myntra, Bigbasket, Blinkit, MakeMyTrip, iPhone 14, Samsung, Ajio, Reliance Digital, Croma, LG, Dell, Swiggy, Zomato. Special offers on banking products such as loans (home loan, personal loan, and gold loan) can also be availed. ❐

Reserve Bank News

RBI may increase repo rate

India was expected to stand out from the rest of the developed world in limiting the pace of increases in its borrowing costs, but a spike in consumer prices last month will make it difficult for the central bank to immediately break ranks with its peers on either side of the Atlantic.

The Eurozone central bank raised rates by an unprecedented three-quarters of a percentage point recently to anchor inflationary expectations, while the US Federal Reserve has indicated it is not done with rate tightening just yet despite the very real threat of protracted economic contraction.

Against this backdrop, India seemed an island of tranquility where growth was back on the front burner amid a visible softening in prices since April.

But August has changed that, and analysts now believe the Reserve Bank of India (RBI) may have to press ahead with another half-a-percentage-point increase in repo rate at the end of the month.

Windfall tax on domestic crude cut

The Centre slashed the windfall tax on domestic crude by 21% to Rs 10,500/ tonne, in the fifth fortnightly review of the one-off tax on oil companies, taking into consideration the cooling of global crude prices. It also cut the special levy on export of diesel by 37% to Rs 8.5/litre and rimmed the tax on jet fuel shipments by a steeper 44% to Rs 5/litre, as refining margins moderated from last revision.

The move will benefit state-run ONGC & OIL and private refiner Reliance Industries, which is the principal exporter of petroleum products.

The imposts were introduced on July 1, to ensure that the exchequer benefits from the windfall gains of oil companies due to elevated crude prices and refining margins. These levies have since been reviewed on a fortnightly basis.

The Indian basket of crude has moderated to $92.68/barrel on average in the first 15-days of September compared with the August average of $97.4/bbl.

Govt permits invoicing, payment and settlement of trade in rupee

The commerce ministry allowed invoicing, payment and settlement of exports and imports in Indian rupee, a move aimed at facilitating trade in the domestic currency.

In July, the Reserve Bank of India (RBI) had asked banks to put in place additional arrangements for export and import transactions in Indian rupees in view of increasing interest of the global trading community in the domestic currency.

To align the Foreign Trade Policy (FTP) with this decision of the RBI, the Directorate General of Foreign Trade (DGFT) added a new paragraph in the FTP.

DGFT is an arm of the ministry which deals with export and import related matters.

"Para 2.52 (d) is notified to permit invoicing, payment and settlement of exports and imports in INR (Indian rupee) in sync with RBI's ...circular dated July 11, 2022. This shall come into force with immediate effect," DGFT said in a notification.

India's foreign exchange reserves down $2.23 billion to $550.87 billion

The country's foreign exchange reserves declined by USD 2.234 billion to stand at USD 550.871 billion for the week ended September 9, the Reserve Bank of India (RBI) said.

In the previous reporting week, the

reserves had dropped by USD 7.941 billion to USD 553.105 billion.

The fall in the reserves during the reporting week was on account of a dip in the foreign currency assets (FCAs), a major component of the overall reserves, according to the Weekly Statistical Supplement released by the RBI.

The FCAs decreased by USD 2.519 billion to USD 489.598 billion in the reporting week.

Expressed in dollar terms, the foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves.

The value of the gold reserves increased by USD 340 million to USD 38.644 billion, the data showed.

The Special Drawing Rights (SDRs) dropped by USD 63 million to USD 17.719 billion.

The country's reserve position with the IMF was up by USD 8 million to USD 4.91 billion in the reporting week, as per the data.

RBI sees India's current-account deficit staying within 3% of GDP

India's central bank expects the country's current account deficit to stay within a limit it considers sustainable amid softening global fuel, food and fertilizer prices while portfolio flows and exports pick up.

"Overall, the current account deficit is expected to be within 3% of gross domestic product," the Reserve Bank of India said in its September Bulletin. "With portfolio flows returning and foreign direct investment remaining strong, this order of deficit is eminently financeable."

RBI Governor Shaktikanta Das has assured the markets several times that the current account gap will be sustainable and the central bank can finance it comfortably. Deputy Governor Michael Patra in an August speech pegged a range of 2.5%-3% of CAD as sustainable.

RBI's take on the CAD -- the widest measure of external finances -- assumes importance as economists from Citigroup Inc. and Standard Chartered Plc. peg the deficit at near 4%, terming the record trade deficit in the last two months as 'unsustainable'.

RBI supports govt's gradual privatisation of PSU banks

The RBI clarified that researchers at the central bank were of the view that instead of a bigbang approach to public sector bank privatisation, a gradual approach - as announced by the government - would result in better outcomes.

The central bank was reacting to reports based on the article 'Privatisation of Public Sector Banks: An Alternate Perspective' published in the August 2022 issue of RBI Bulletin. It was viewed by some as RBI being opposed to privatisation of PSU banks. "As clearly stated in the article itself, the views expressed are those of the authors and do not represent the views of the RBI," according to an RBI statement. "The press release relating to the August Bulletin highlights that "the gradual approach to privatisation adopted by the government can ensure that avoid is not created in fulfilling the social objective of financial inclusion," the statement said.

A big-bang approach of privatisation of PSU banks may do more harm than good, an article in the RBI bulletin said and backed a more nuanced approach.

RBI lifts ban on American Express

The Reserve Bank of India has lifted the ban on new customer acquisition by American Express which was imposed with effect from May 2021 due to non-compliance with local data storage norms.

"In view of the satisfactory compliance demonstrated by American Express Banking Corp. with the Reserve Bank of India (RBI) circular dated April 6, 2018, on Storage of Payment System Data, the restrictions imposed, vide order dated April 23, 2021, on onboarding of new domestic customers have been lifted with immediate effect," RBI said.

Similar bans were imposed on Diners Club International and Mastercard previously. The ban on Diners Club was lifted in November last year, while the restrictions on Mastercard was removed in June this year.

RBI digitising Kisan cards for rural thrust

RBI has started an initiative for digitisation of rural finance, beginning with Kisan credit cards.

This month, the regulator is launching a pilot in select districts of MP and Tamil Nadu aimed at automation of various processes within banks and integration of their systems with the service providers. The project along with Union Bank and Federal Bank aims to make it more efficient and cut costs and the turnaround time significantly.

"Rural finance encompasses a range of financial services offered to rural customers, including farmers, at all income levels. In a country like India, rural credit is closely related to inclusive economic growth, as it caters to the requirements of agriculture and allied activities, small businesses, etc.," the RBI said.

RBI plans fraud registry

RBI is planning to set up a "fraud registry" to create a database of websites, phone numbers, email ID and IP addresses used in digital frauds to protect the interests of consumers, while maintaining that only a minuscule proportion of complaints its receives relates to "mis-selling of products".

RBI ED Anil Kumar Sharma told reporters the database will help keep tabs on fraudsters. "There is no definite timeline for setting up of the fraud registry. At present, we are talking to different stakeholders, including different departments like payments & settlement and supervision of the RBI," he said. Payment system participants will be provided access to this registry for near-real time fraud monitoring. The aggregated fraud data will be published to educate customers on emerging risks.

India Q1 GDP is up 13.5%, but lower than RBI estimate

India's economy grew 13.5 per cent from a year ago in the April-June quarter this fiscal, its fastest year-on-year growth rate in four quarters. It was led by higher household consumption, especially of contact-intensive services, and buoyant investment activity, as compared to the same quarter of the last fiscal that bore the brunt of the second Covid-19 wave.

But this was lower than the Reserve Bank of India estimate that the GDP growth rate was likely to be around 16.2 per cent in the first quarter. Finance Secretary T V Somanathan said the Indian economy is "on course" to achieve over 7 per cent growth this fiscal.

"It (Q1 GDP) is good enough to achieve the rate of growth that we think everyone including the IMF and RBI have expected as real GDP growth for four quarters of this year. We are on course to achieve more than 7 per cent GDP growth in the year, in the range 7.0-7.5 per cent. The IMF has predicted 7.4 per cent," he said at a briefing.

RBI enables cross-border bill payments via BBPS

RBI notified the rupee drawing arrangement for cross-border remittances through the Bharat Bill Payment System (BBPS), paving the way for non-resident Indians to make bill payments through the channel.

" ...it has been decided to allow foreign inward remittances received under the rupee drawing arrangement (RDA), to be transferred to the KYC compliant bank account of the biller (beneficiary) through Bharat Bill Payment System (BBPS)," the central bank said in a notification to all category-I authorised dealer banks.

The notification is aimed at implementing a measure announced by the RBI in its statement on developmental and regulatory policies on August 5. The BBPS, owned and operated by NPCI Bharat BillPay, has over 20,000 billers and it processes more than 80 million transactions on a monthly basis. So far, the payment channel was accessible only for residents in India.

The central bank decided to enable BBPS to accept cross-border inward payments in order to facilitate non-resident Indians (NRIs) undertaking utility, education and other bill payments on behalf of their families in India. RBI governor Shaktikanta Das had said the move will greatly benefit senior citizens in particular. The idea was also to benefit payment of bills of any biller on-boarded on the BBPS platform in an interoperable manner.

Central Bank rallies 15% after RBI lifts PCA curbs

Shares of Central Bank of India rallied 15 per cent to hit the day's high of Rs 23.4 per share on the NSE after the public sector bank was removed from the prompt corrective action (PCA) framework by the RBI. The bank has been subject to tough lending curbs since June 2017.

It was the last bank to exit the PCA framework, which is implemented in case banks breach 3 primary risk thresholds based on parameters including net non-performing assets, minimum capital criteria and return on assets.

"It was noted that as per the assessed figures of the bank for the year ended March 31, 2022, the bank is not in breach of the PCA parameters," RBI said.

The bank was removed from the PCA framework following the review by the Board for Financial Supervision. The bank has provided a written commitment that it would comply with the norms of minimum regulatory capital, net NPA and leverage ratio on an ongoing basis. Also, the bank has apprised the RBI of the structural and systemic improvements in place now that shall help in meeting the aforementioned commitments.

At around 9:36 am, the stock pared some of its earlier gains, and traded higher by over 9 per cent at Rs 22.2 per share. ❑

Industry News

Subramanian appointed India's next executive director at IMF

The Appointments Committee of the Cabinet has approved former Chief Economic Adviser Krishnamurthy Subramanian for the post of Executive Director (India) at the International Monetary Fund for a period of three years starting November 1, 2022, or until further orders.

Mr. Subramanian, who is currently a Finance Professor at the Indian School of Business, will replace Surjit S. Bhalla who was appointed to the role in 2019.

The Secretariat to the Cabinet's appointments panel said the appointment's approval entailed curtailing the tenure of Mr. Bhalla up to October 30, 2022.

Mr. Bhalla had been appointed as the Executive Director (India) at the IMF for a period of three years in October 2019 after his predecessor Subir Gokarn had passed away in July 2019.

On the curtailment of Mr. Bhalla's tenure, government sources explained that he had joined the IMF Executive Board on November 9, 2019 and his term has been curtailed by 9 days to align it with the IMF's two-year electoral cycle for directors, which is upto October 31, 2022.

"Getting India's nominee elected for a period of 9 days only and thereafter causing a bye-election for the new incumbent would have been impractical," an official said, adding that nominations for the next two-year term which begins on November 1, have to be made by August 29.

"The IMF's EDs are elected for a period of two years through voting by the Governors representing the respective constituency countries. India is in a 4-country constituency having India, Bangladesh, Sri Lanka and Bhutan as members. The next 2-year term of the EDs will start from November 1, for which the voting will happen on October 14," the official added.

GIC Housing Finance to raise upto Rs. 2,500 crore via bonds

GIC Housing Finance has said it is mulling to raise up to Rs 2,500 crore by issuing bonds on a private placement basis to augment its capital resources.

"Seeing the long-term borrowing requirement of the company and to augment resources at a cheaper rate of interest, approval is sought to mobilise some more funds by way of issue of redeemable NCDs/bonds on private placement basis," GIC Housing Finance said in its annual report 2021-22.

The housing financier will seek approval from its shareholders on the capital raise plan in the upcoming annual general meeting on September 23, 2022.

The company said whether the funds will be moped-up in one or more tranches will depend upon the requirement, time of issue as well as market conditions, in accordance with the decision of the committee of the board members.

Nepal opens first human milk ban for at-risk infants

Nepal President Bidhya Devi Bhandari inaugurated the Himalayan nation's first-ever human milk bank at a maternity and women's hospital here to give premature and other at-risk infants access to the vast benefits of breast milk when they need it the most.

'Amrit Kosh,' the human milk bank at the Paropakar Maternity and Women's Hospital has the facilities to collect, pasteurise, test, and store safe donor human milk from lactating mothers and then provide it to infants in need, officials said.

The centre has been established in partnership between the Government of Nepal, the European Union and UNICEF.

"Premature, low birthweight and small for gestational age babies are vulnerable in terms of survival and cognitive development and usually have feeding problems due to their medical conditions," said Prof. Dr. Amir Babu Shrestha, Director, Paropakar Maternity and Women's Hospital.

Microfinance loans grow 24% YoY in Q1

The loan portfolio of micro-finance institutions (MFI) increased 24 per cent year-on-year (YoY) to Rs 2.75 trillion by end of this June from Rs 2.22 trillion a year ago.

Sequentially, the loan book expanded from Rs 2.62 trillion at end of March 2022 (Q4Fy22), according to Sa-Dhan, the self-regulatory organisation (SRO) for microfinance.

Jiji Mammen, chief executive officer of Sa-Dhan, said the sector is on track after overcoming the impact of the coronavirus. Although it was busy in implementing the Reserve Bank of India's regulations during Q1, it has clocked a healthy growth.

Fund flow to the sector has improved but some smaller MFIs still find it difficult to access finance from banks. The organisation is working towards removing this gap, Sa-Dhan said in a statement.

Barring banks, portfolio of other microfinance lenders recorded double digit growth. Non-banking finance companies working as MFIs recorded growth of 35.18 per cent. The small Finance Banks clocked 27.66 per cent YoY growth.

Disbursements more than doubled to Rs 57,842 in April-June 2022 (Q1Fy23) from Rs 27,328 crore during the same quarter of last year. However, disbursement is down around 35 per cent compared to the previous quarter (Q4Fy22) as lenders were fine tuning their disbursement policy as per the new regulations, Sa-Dhan said.

Loan recovery has improved compared to the previous quarter and reached almost 99 per cent in some states. However, there are still certain geographies where collection is below the normal. For example, the collection efficiency in Assam stood at 50-55 per cent.

Sectoral non-performing assets was at around 12 per cent at the end of June 2022, and for NBFC-MFIs it was 9 per cent.

CA Institute issues revised guidance note on tax audit

The CA Institute has issued the Revised Guidance Note on Tax Audit to help its members discharge their obligations in a timely and effective manner under the income tax law.

The Revised Guidance Note - eighth edition- was approved at a meeting of the central council of Institute of Chartered Accountants of India (ICAI) at Siliguri.

"We have in the recent council meeting approved the revised Guidance Note on Tax Audit. It's going to be a big change as it is being done after seven or eight years," Debashis Mitra, President of ICAI, told.

The format of tax audit reports have changed significantly since the last revision in year 2014, which broaden the responsibility of the chartered accountants while discharging their professional duties in this respect, sources said. Also, guidance was required on certain issues around Goods and Services Tax (GST).

FPIs pump in Rs. 44,500 crore into equities so far in August

After turning net buyers last month, foreign investors have shown tremendous enthusiasm for Indian equities and have infused close to Rs.44,500 crore in August so far amid softening of inflation in US and falling dollar index.

This was way higher than a net investment of nearly Rs 5,000 crore by Foreign Portfolio Investors (FPIs) in entire July, data with depositories showed.

FPIs had turned net buyers for the first time in July after nine straight months of massive outflows, which started in October last year. Between October 2021 till June 2022, they sold a massive Rs 2.46 lakh crore in the Indian equity markets.

In the coming months, FPI flows are to remain volatile. However, with the fading concerns of rising inflation, tightening of monetary policy and performance of first quarter earnings, inflows are likely to improve in emerging markets, said Shrikant Chouhan, Head - Equity Research (Retail), Kotak Securities.

GST revenue crosses Rs. 1.40-lakh crore

GST revenue collection has been more than Rs 1.4 lakh crore for six months in a row. For the month of August, Rs 1,43,612 crore was collected, said the Ministry of Finance in a statement. It further added that revenues for August was 28 per cent higher than the GST revenues in the same month last year.

Gross GST revenue collected in August was Rs 1,43,612 crore, out of which CGST was Rs 24,710 crore, SGST was Rs 30,951 crore, IGST was Rs 77,782 crore including Rs 42,067 crore collected on import of goods, and cess was Rs 10,168 crore, including Rs 1,018 crore collected on import of goods.

The ministry said that it had settled Rs 29,524 crore to CGST and Rs 25,119 crore to SGST from IGST. After regular settlement, the total revenue of the Centre stood at Rs 54,234 crore and Rs 56,070 crore for states.

In August last year, the GST revenues stood at Rs 1,12,020 crore, which is 28 per cent lower than August this year. During the month, revenue from import of goods was 57 per cent higher and the revenue from domestic transactions (including import of services) was 19 per cent higher than the same month last year.

Officers can launch prosecution in cases of over Rs. 5-crore GST evasion

GST officers can now launch prosecution against offenders in cases where the amount of evasion or misuse of input tax credit is more than Rs 5 crore, the Finance Ministry has said.

However, this monetary threshold will not be applicable in the case of habitual evaders or in cases where arrests have been made at the time of investigation.

"One of the important considerations for deciding whether prosecution should be launched is the availability of adequate evidence, the GST investigation wing under the Finance Ministry said, while issuing instructions for launching prosecution.

Prosecution should normally be launched where the amount of tax evasion, or misuse of ITC, or fraudulently obtained refund is more than Rs 5 crore, it said. Launching of prosecution by taxmen means commencement of legal proceedings.

Deposits rule: Now, auditors, too, must confirm company's compliance with MCA guidelines.

The Ministry of Corporate Affairs (MCA) has amended its acceptance of deposits rules so as to bring in transparency and enhance the role and responsibilities of statutory auditors.

The MCA's move will widen the responsibility of deposit rules compliance from directors to include statutory auditors, said company law experts.

The Amendment to the Companies (Acceptance of Deposits) Rules, 2022 - which came into effect on August 29 - will bring in greater transparency on acceptance and receipt of amounts by companies as deposits and also amounts received by companies but not treated as deposits, they added.

Direct tax collection in April-August surges 33%

Collections from direct taxes in the April-August period touched Rs. 4.80 lakh crore, marking about 33 per cent growth over the Rs. 3.60 lakh crore collected during the corresponding period in the last fiscal.

In an interview, Nitin Gupta, Chairman of the Central Board of Direct Taxes (CBDT), said he is hopeful of crossing the budget target during the current fiscal. "The budget target for direct taxes is Rs. 14.20 lakh crore. Till date, we have healthy net collections of around 4.80 lakh crore after accounting for the higher refund outgo, which is 80 per cent higher than last year. There is a big buoyancy in the tax collections. If this trend continues in the second instalment as well, we do expect a fairly good collection over and above the budget target," Gupta said.

During FY22, direct taxes grew by 49 per cent to reach Rs. 14.10-lakh crore.

In shell firm clean-up 2.0, MCA tells registrars to physically verify companies' registered address

Stepping up its drive to weed out shell companies and inoperative businesses, the Ministry of Corporate Affairs (MCA) has brought in rules to tighten the verification process post-incorporation.

In the first stage of extinguishing shell and defunct companies, the MCA has, in the last five years, removed over four lakh corporates from its Register of Companies owing to several defaults, including non-compliance on filing of financial statements and annual returns.

The latest rule spells out the process to be followed by the Registrar of Companies (RoCs) for physical verification of the registered offices of companies that are suspected not to be in existence or not having business operations though they have been incorporated and have intimated MCA21 about their registered office address.

In effect, the new rule operationalises a provision in law that allowed physical verification of registered offices by RoCs for inoperative companies where the office concerned is not able to receive government communications. The company law was amended in July 2019 to allow RoCs to physically verify the registered offices of companies where the Registrar has reasonable cause to believe that the business - after incorporation - may be inoperative. This physical verification of the registered office is essentially a post-incorporation activity.

Company law experts see the latest MCA move as a second round of "operation clean up" of defunct and inoperative companies.

BSNL to sell 10,000 towers as part of monetisation plans

Bharat Sanchar Nigam Limited (BSNL) has kicked off a process to sell 10,000 telecom towers to meet targets laid out by the Centre as part of its national monetisation pipeline (NMP), people aware of the development told.

The state-owned telecom services provider has pegged the enterprise value of the towers to be sold at 4,000 crore and engaged KPMG as a financial advisor to administer the sale, they said.

BSNL, which provides telecom services in every part of the country except Mumbai and Delhi, owns 68,000 telecom towers. It is selling only those towers that have co-location arrangements with third party telecom service providers such as Reliance Jio and Airtel, people cited above said. BSNL did not comment when contacted. KPMG said it would not comment on company matters.

Industry watchers believe the tower sale could attract interest from Brookfieldowned Data Infrastructure Trust, which acquired over 130,000 towers of Reliance Jio in 2019, and Indus Towers, which is partly owned by Airtel.

Tower infrastructure sharing is seen as a means of cost optimisation for telecom companies. Hence, the sector has seen significant consolidation and the emergence of independent telecom tower companies such as American Tower Corporation (ATC), which provides tower infrastructure support to telcos.

Chhattisgarh govt plans to set up 300 rural industrial parks in one year

In a move aimed to strengthen the rural economy and make the "gauthan" (cattle shed) a centre of livelihood, the Chhattisgarh government will set up rural industrial parks in the state. In the first year of the project, there will be 300 such parks.

"The project will be launched on Gandhi Jayanti, October 2," Chief Minister Bhupesh Baghel has said.

"We are going to start 'gramin aajeevika parks', to be known as 'rural industrial parks', to develop gauthans as livelihood centres."

In keeping with Mahatma Gandhi's vision of gram swaraj, which is strengthening the rural economy by promoting cottage industries, Baghel has started the initiative to establish such units to provide income-generating opportunities. The first such park in Chhattisgarh came up in Kulgaon, Kanker district, which has been named Gandhi Gram. The district administration, along with women's self-help groups, has developed the park.

SEBI cases norms on AIF, VCF investments in overseas firms

India's alternate investment funds (AIFs) and venture capital funds (VCFs) can now invest in any company they want across the world, thanks to market regulator SEBI relaxing its norm. Earlier, it was mandated that AIFs and VCFs raising funds in India should invest in only those companies globally that have connection to India or at least a back-office in the country.

"The requirement has been done away with. Now they can invest in companies across the world in countries that are signatories to the IOSCO (International Organization of Securities Commissions) multilateral memorandum of understanding between the regulators, barring countries having Financial Action Task Force (FATF) restrictions," said Deepika V Sawhney, Founder, Transique Corporate Advisors.

Tata enters pension biz

Tata Asset Management has announced its foray into pension business. Pension Fund Regulatory and Development Authority (PFRDA) has appointed Tata Pension Management Ltd (TPML), sponsored by Tata AMC, as a pension fund manager (PFM) for managing the funds under National Pension System (NPS) for which the certificate of commencement of business was issued by PFRDA on July 28. Currently, there are seven PFMs including UTI Retirement Solutions, SBI Pension Funds and HDFC Pension Fund Management. ❑

Mutual Fund News

ICICI Prudential Mutual Fund launches Nifty50 Equal Weight Index Fund

ICICI Prudential Mutual Fund has launched the ICICI Prudential Nifty50 Equal Weight Index Fund. The scheme will invest in the constituents of the Nifty50 Equal Weight Index.

The scheme will be managed by Kayzad Eghlim and Nishit Patel.

"Since indices perform differently under variable market conditions, it is prudent to diversify across indices with different weightage methodology.

Nifty50 Equal Weight Index is less concentrated in the top 5 sectors as compared to the Nifty 50 Index, thus providing an excellent diversification opportunity. Also, there is no size bias as the index tries to reduce the impact of bigger companies on the index performance," says Chintan Haria, Head-Product Development & Strategy, ICICI Prudential AMC.

According to the fund house, the Nifty 50 Equal Weight Index invests in the top 50 stocks in India based on market capitalization. An equal weight index has empirically higher dividend yield as compared to a market capitalization weighted index as it allocates funds equally to its components. According to the press release, the scheme exhibits smart-beta characteristics as the index intends to have no size bias. The index is less concentrated and helps in providing stability to the portfolio.

IDFC Mutual Fund launches Nifty100 Low Volatility 30 Index Fund

IDFC Mutual Fund has launched the IDFC Nifty100 Low Volatility 30 Index Fund, an open-ended index scheme that will consist of the 30 least volatile stocks from the large cap universe replicating the Nifty100 Low Volatility 30 Index.

"As Indians move from being savers to becoming investors, stock market volatility could be unnerving for many new investors, often leading to impulsive reactions, unjustified investment decisions and regret. The Low-volatility strategy provides investors an opportunity to benefit from the high return potential of equities while aiming to reduce volatility, helping investors stay true to their overall investment goals. This Index has provided a compelling riskreward opportunity over the years, yielding relatively higher returns with relatively lower risk as against major stock indices," said Vishal Kapoor, CEO, IDFC AMC.

The Nifty100 Low Volatility 30 Index follows a disciplined process of assigning a higher weight to less volatile stocks and a lower weight to high volatility stocks. Nifty100 Low Volatility 30 Index yielded a relatively higher return of 15.4% p.a. as against 14.6% p.a. for the Nifty 100 Index and 14.0% p.a. for the Nifty 50 Index over a rolling 10-year timeframe. At the same time, it has demonstrated a stronger ability to withstand the impact of volatility where the return per unit of risk is 1.05 for Nifty100 Low Volatility 30 Index against 0.85 for Nifty 100 Index and 0.83 for Nifty 50 Index, clearly demonstrating its advantage.

HDFC Mutual Fund launches three Smart Beta ETFs

HDFC Asset Management Company has launched three Smart Beta ETFs - NIFTY100 Quality 30 ETF, NIFTY50 Value 20 ETF, and NIFTY Growth Sectors 15 ETF.

Smart Beta investing involves stock selection and weighting that is done based on pre-defined factors. These investment strategies endeavor to provide better risk-adjusted returns than broad market cap weighted indices.

According to the press release, the indices underlying the Smart Beta ETFs - the NIFTY100 Quality 30 TRI, NIFTY50 Value 20 TRI and NIFTY Growth Sectors 15 TRI - generated higher average rolling returns over 1, 3, 5 and 10 year horizons compared to the NIFTY 100 and NIFTY 50 TRI.

"Smart Beta investing is popular globally with AUM rising steadily. HDFC AMC is happy to expand index solution offerings for investors that are backed by empirical research. Smart Beta ETFs offer one-shot diversification of portfolio at a low cost, and is proven tool for investors who seek returns over the long-term. The fund house has 20 years of experience in managing passive funds, which comes with highly disciplined and robust Investment and Risk Management policies and processes," said Navneet Munot, Managing Director and Chief Executive Officer, HDFC Asset Management Company.

Mutual funds cut stake in RIL, Infy & TCS to buy from varied sectors

Mutual funds were seen trimming stakes in the bluest of blue chips, namely Reliance Industries, Bharti Airtel, Infosys and TCS, among others, while they were seen buying into many catch-up plays from varied sectors.

Among them is Sona BLW Precision, a components manufacturer, where domestic fund managers bought an additional 3.62 crore shares to take the MF holding to 11.96 crore shares in August from 8.33 crore shares in July, valuing Rs 1,892 crore. This stock is down 27 per cent year-to-date.

Kotak Mahindra Bank, fund managers held 18.09 crore shares against 17.65 crore shares, up 44 lakh shares month-on-month (MoM). The change in value terms stands at Rs 845 crore. This scrip is up 5 per cent this calendar, underperforming BSE Bankex's 13 per cent rise during the same period.

Mutual funds also bought shares of Max Healthcare, which was down 11 per cent till August. This scrip had seen a sharp rise in September that helped it cut year-to-date losses to 4 per cent. The additional 1.95 crore shares that MF bought in this healthcare company were valued at Rs 756 crore.

Inflows in equity mutual funds sink to 10-month low

Retail investors were cautious in allocating money to equity mutual funds in August as the sharp rebound in the stock market saw valuations jump, seeing flows into equity mutual funds in August slowing to Rs 6,120 crore compared from July's Rs 8,898 crore, according to data released by Association of Mutual funds in India (AMFI). This is the lowest inflow equity funds have witnessed in the last 10 months.

However, flows into mutual funds through the monthly systematic investment plans (SIPs) rose to Rs 12,693 crore, much higher than the previous month's Rs 12,140 crore, suggesting investors were more comfortable spreading their bets on equities after the recent gains.

Mark to market gains in equity mutual funds along with inflows of Rs 49,164 crore into debt mutual funds saw the industry's assets under management touch an all-time high of Rs 39.53 lakh crore.

Aditya Birla Sun Life Mutual Fund launches Turbo Systematic Transfer Plan

Aditya Birla Sun Life Mutual Fund has announced the launch of Aditya Birla Sun Life Turbo Systematic Transfer Plan (Turbo STP). It is a facility, in which the unitholders can opt to transfer variable amounts from a source scheme to a target scheme, at defined intervals.

According to the fund house, the variable or actual amount of transfer to the target scheme via the turbo STP will be determined based on the results from an in-house model which helps ascertain market valuation. The model tracks technical and fundamental parameters like valuation ratios, trend ratios and volatility ratios, to arrive at an Equity Valuation Multiplier (EVM). This value helps determine the actual amount to be transferred based on the pre-selected STP base amount.

"Turbo STP is a facility for those market participants having lumpsum amount to invest and are confronted with issues regarding market valuations, whether they are alluring or costly, and the amount they ought to contribute and for what tenure. It will help invest more at attractive market valuation levels and less when valuations are expensive," said A Balasubramanian, Managing Director & CEO, Aditya Birla Sun Life AMC.

Sundaram Flexi Cap Fund NFO collects Rs 1,679 crore

Sundaram Mutual's, Sundaram Flexi Cap Fund, has garnered Rs 1,679 crore in its NFO period, said the fund house. A total of 71,720 investors participated in the NFO. The NFO was open for subscription between August 16 and August 30. The fund house said that this is the second largest New Fund Offer in Sundaram Mutual's 25+ years history.

Sundaram Flexi Cap is an open-ended equity scheme with the ability to invest across sectors in large, mid and small cap stocks. The fund will be managed by Mr. Sudhir Kedia - Fund Manager - Equity and Mr. Ravi Gopalakrishnan, CIO - Equity. The benchmark for the scheme is the Nifty 500 TRI Index.

"The support of more than 5800 Distribution Partners and the faith reposed by 70,000 + Investors has far exceeded our expectations. It is now our turn to exceed their expectations. The fund will aim to live up to its tagline of Optimizing Opportunities by seeking to manage the Risk-Reward trade-off in the investors' favour and deliver appropriate wealth creation over the medium term," said Sunil Subramaniam, Managing Director, Sundaram Mutual.

He also attributed the success to the high octane multi-media campaign across Print, Digital and OOH of the 'Laughing Buddha' creative. The product video, which aptly conveyed the fund's aim to choose the right cap curve mix across time to meet investor needs, received over 19 million+ views. The Sundaram Mutual website received a record 1.5 million visitors over the course of the NFO and resulted in roughly half of the collections being digital.

Kotak Mutual Fund launches Kotak Business Cycle Fund

Kotak Mutual Fund has launched Kotak Business Cycle Fund, an openended scheme following business cycles based on investing themes. The fund would invest in stocks and sectors of the companies that can navigate through various economic cycles. The term "Business Cycle" refers to various stages where a company or a specific sector undergoes a period of expansion, moderation and contraction in the business.

Investors can invest a minimum amount of Rs 5,000 during the NFO period. The fund will be managed by Pankaj Tibrewal and Abhishek Bisen.

Kotak Business Cycle Fund will take into account various economic parameters (GDP growth, current account deficit, corporate profit growth trend, inflation etc.), investment indicators (investment in capex, capacity utilisation, credit growth, etc.), business and leading economic indicators (business confidence index, purchasing manager index, etc.) while picking stocks.

Speaking at the launch of the fund, Nilesh Shah, Group President and Managing Director, Kotak Mahindra Asset Management, said, "Kotak Business Cycle Fund provides a good opportunity for investors to diversify their equity portfolio as there are equity stocks across categories, which tend to do better at various stages of the Business Cycle. Even during challenging times of economic slowdown, these companies have managed to navigate the challenges and perform well across various economic parameter."

Helios Capital gets Sebi's in-principle approval to launch mutual fund business

Helios Capital has received capital markets regulator Sebi's in-principle approval to launch a mutual fund business. Helios Capital Management PTE Limited, which is the business of portfolio management services, applied for a mutual fund license with the Securities and Exchange Board of India (Sebi) in February 2021.

After quitting Alliance Capital almost 20 years ago, Arora is re-entering the 43-player mutual fund industry. He was the Chief Investment Officer of Alliance Capital's Indian mutual fund business.

The company has joined entities like Zerodha, Samco Securities and Bajaj Finserv that received Sebi's go-ahead to launch mutual fund operations. Besides, half a dozen companies are awaiting Sebi's nod to enter into the mutual fund space.

Axis Mutual Fund launches Silver ETF and Silver FoF

Axis Mutual Fund has launched the Axis Silver ETF, an open ended scheme replicating domestic price of Silver, and Axis Silver Fund of Fund, an open ended fund of fund scheme investing in units of Axis Silver ETF. Both the funds will be benchmarked against the LBMA Silver daily spot AM fixing price.

Pratik Tibrewal, Fund Manager, Commodities, will be managing the Axis Silver ETF and the minimum application amount would be Rs 500 per application and in multiples of INR 1/- thereafter. Aditya Pagaria, Fund Manager, Fixed Income will be managing the Axis Silver FoF and the minimum application amount be Rs 500 and in multiples of Re 1/- per application in the ETF and Rs 5,000 and in multiples of INR 1/- thereafter in the FoF.

The fund house said in a press release that Silver in its physical form may pose challenges with respect to corrosion over time, safety, purity of the metal, liquidity risk etc. Investors can opt to gain exposure to the precious metal via an ETF (Exchange Traded Fund) that aims to generate returns in line with the performance of physical silver in domestic prices, subject to tracing error. Investors who do not have a Demat account can gain exposure by investing in Silver FoF (Fund of Fund). ❑

Co-Operative Bank News

RBI imposes penalty on Eight Cooperative banks

The Reserve Bank said it has imposed penalty on eight cooperative banks for violation of directions of RBI.

A penalty of Rs 10 lakh has been imposed on Bharat Heavy Electricals Employees' Co-operative Bank, Kailasapuram, Tiruchirappalli, Tamil Nadu; Rs 5 lakh on The Ottapalam Co-operative Urban Bank Ltd, No.F. 1647, Ottapalam, Palakkad District, Kerala; and Rs 10 lakh on The Darussalam Co-operative Urban Bank, Hyderabad, Telangana.

In a statement, the RBI said a Rs 55 lakh penalty has been imposed on The Visakhapatnam Co-operative Bank, Visakhapatnam, Andhra Pradesh for violation of directions related to 'income recognition, asset classification, provisioning' and finance for housing schemes.

The RBI has also imposed a fine of Rs 10 lakh each on The Nellore Cooperative Urban Bank Limited, Gandhi Nagar, Nellore District, Andhra Pradesh and Kakinada Co-operative Town Bank Ltd, Kakinada, East Godavari District, Andhra Pradesh.

Besides, Rs 1 lakh fine has been imposed on The Kendrapara Urban Cooperative Bank, Kendrapara and Rs 5 lakh on the National Urban Cooperative Bank Limited, Pratapgarh, Uttar Pradesh.

RBI cancels banking license of Rupee Co-operative Bank

The Reserve Bank of India (RBI) cancelled the license of Rupee Co-operative Bank Ltd in Pune.

According to a press release, the commissioner for cooperation and registrar of Cooperative Societies, Maharashtra has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank.

"Consequent to the cancellation of its license, "Rupee Co-operative Bank Ltd, Pune" stands prohibited from conducting the business of 'banking' which includes, among other things, acceptance of deposits and repayment of deposits as defined in Section 5(b) read with Section 56 of the Banking Regulation Act, 1949 with effect from September 22, 2022," stated the RBI press release.

The RBI has directed the bank to provide every entitled depositor a full amount of their deposits from DICGC. It said, "every depositor would be entitled to receive deposit insurance claim amount of his/her deposits up to a monetary ceiling of 5,00,000/- (Rupees five lakh only) from Deposit Insurance and Credit Guarantee Corporation (DICGC) on liquidation."

As on May 18, 2022, DICGC has already paid 700.44 crore of the total insured deposits under the provisions of Section 18A of the DICGC Act, 1961 based on the willingness received from the concerned depositors of the bank.

RBI cancels licence of Maharashtra-based Laxmi Co-operative Bank

RBI cancelled the licence Solapur-based Laxmi Co-operative Bank Limited for failing to comply with various provisions of the Banking Regulation Act, 1949.

"The Reserve Bank cancelled the licence of the bank as it does not have adequate capital and earning prospects. As such, it does not comply with the provisions of Section 11(1) and Section 22 (3) (d) read with Section 56 of the Banking Regulation Act, 1949. The bank has failed to comply with the requirements of Sections 22(3) (a), 22 (3) (b), 22(3)(c), 22(3) (d) and 22(3)(e) read with Section 56 of the Banking Regulation Act, 1949," the central bank said in a release. ❑

Legal News

Benami Act of 2016 cannot be used retrospectively: Supreme Court

In a landmark decision, the Supreme Court ruled that the Benami Transaction (Prohibition) Amendment Act of 2016 will apply prospectively, thus firewalling benami properties transacted between 1988, when the original law was enacted, and 2016, when the amended law came into being, from confiscation and shielding perceived offenders from the mandatory three-year jail term.

Terming as illegal the punitive actions taken by various agencies through retrospective application of the 2016 law to benami properties transacted for 28 years without sanction of an established procedure, a bench of Chief Justice N V Ramana and Justices Krishna Murari and Hima Kohli declared Sections 3(2) and 5 of the Act as unconstitutional.

Under Section 3(2), punishment of three years is mandated for those who entered into benami transactions from September 5, 1988 to October 25, 2016. Section 5 of the Act allowed the central government to confiscate benami properties without there being laid-down procedure, and even in the absence of the transaction being declared illegal through a criminal trial.

Pre-mediation in commercial cases mandatory

The Supreme Court held that the pre-mediation process in commercial cases is mandatory and suits not complying with this provision would be rejected.

A Bench of Justices KM Joseph and Hrishikesh Roy, in Patil Automation Pvt Ltd vs Rakhija Engineers, held that not complying with the mediation stage would defeat the purpose of the Commercial Courts Act 2015.

"We hold that any suit instituted violating the mandate of Section 12A (pre-mediation) must be visited with the rejection of the plaint. We, however, make this declaration effective from August 20 so that concerned stakeholders become sufficiently informed," the court said in the order.

The apex court said the power to reject the plaint can be exercised even suo motu by the court.

The court also clarified that in cases where plaints have been rejected and no steps taken in the period of limitation, the matter cannot be reopened based on this declaration.

Lastly, the court said if the plaint is filed violating Section 12A after the jurisdictional high court has declared Section 12A mandatory also, the plaintiff will not be entitled to relief.

Medicine purchases by in-patients exempt from GST: TN AAR

Supply of medicines and consumables along with other services provided to an inpatient from admission until discharge to be treated as 'composite supply' and no GST to be applicable. However, medicines supplied to outpatient will attract GST, says Tamil Nadu Authority for Advance Rulings (TNAAR).

This ruling was given after GST Council recommended GST to be levied on non-ICU room rent above Rs. 5,000, but before the notification specifying date of July 18 was issued.

Applicant, the Chennai-based Be Well Hospitals Private Limited moved TNAAR seeking advance ruling on GST applicability for medicines and consumables supplied to inpatients and outpatients by the pharmacy unit of the hospital for diagnosis or treatment during the patient's admission in hospital would be considered as 'Composite Supply' of healthcare service as under GST and consequently avail exemption.

Under GST, when goods/services supplied in a bundle, either it could be composite or mixed supplies. Composite Supply means supply of two or more goods or services or both. These are bundled and supplied in conjunction with each other in the ordinary course of business and one of which is called principal supply. Rate for principal supply will be rate for entire supply and if it is exempted, entire supply will be exempted.

Tax credit allowed on lease premium

An Authority for Advance Ruling (AAR) judgement saying tax credit should be allowed on goods and services tax (GST) paid on upfront lease premium could give a breather to companies and even corporate individuals. Tax authorities have been disallowing the tax credit up until now.

The AAR ruling means that many tenants would now be able to challenge the taxman's stance, experts said.

"Generally, tax authorities are disallowing input credit on upfront lease premium on the ground that same is in relation to immovable property, hence restricted, or where tenants undertake some renovation or construction work before they use the property, the credit is denied on the logic of input service of lease being used for construction," said Harpreet Singh, partner at KPMG India.

Input tax credit is a mechanism under GST where part of the tax paid can be set off against future tax liability. Tamil Nadu AAR in a ruling on July 27 had said, "The upfront premium made is the lease rentals as per the allotment order/letter of Chennai Port Trusts and it is nothing but lease rentals paid for the services of 'renting of immovable property' for business purposes. The upfront premium paid is not related to construction activity of such covered space but against the rental value for the period of rent calculated for the period of lease and collected upfront."

Customs department can't sell assets of companies in bankruptcy to recover dues: SC

In an important ruling, the Supreme Court said that once proceedings under the Insolvency and Bankruptcy Code (IBC) are initiated against an importer or exporter company, the customs department authorities cannot sell-off goods of that company for realisation of dues.

A bench of Chief Justice N V Ramana and Justices J K Maheshwari and Hima Kohli quashed an NCLAT order allowing the customs authorities to dispose of goods in their warehouse belonging to a company, ABG Shipyard, to realise dues relating to customs duty on imported items.

Writing the judgment, the CJI said, "The IBC would prevail over the Customs Act, to the extent that once moratorium is imposed in terms of Sections 14 or 33(5) of the IBC, as the case may be, the respondent authority only has a limited jurisdiction to assess/determine the quantum of customs duty and other levies. The Customs Authority does not have power to initiate recovery of dues by means of sale/confiscation, as provided under the Customs Act."

Allowing the appeal filed by the liquidator of ABG Shipyard against the NCLAT judgment, the bench said, "The respondent authority does not have the power to initiate recovery of dues by means of sale/confiscation, as provided under the Customs Act."

It said the customs authorities could assess the value of the goods and the customs duty thereon and "submit its claims (concerning customs dues/operational debt) in terms of the procedure laid down, in strict compliance of the time periods prescribed under the IBC, before the adjudicating authority. In any case, the IRP/RP/liquidator can immediately secure goods from the Customs authority to be dealt with appropriately, in terms of the IBC. Resultantly, we allow the appeal and set aside the impugned order and judgment of the NCLAT."

SC tells HCs to write rulings in language easy to understand

Supreme Court sent back an "incomprehensible" verdict to Himachal Pradesh High Court for fresh consideration saying judgments must make sense to litigants.

A bench of Justices D Y Chandrachud and A S Bopanna said use of complex and long sentences in judgments defeat the efficacy of justice delivery as they confuse litigants as to how and why a court rendered a particular decision.

Terming a judgment of a division bench of Himachal Pradesh HC "incomprehensible" and "difficult to navigate through" even for the SC judges who have spent more than two decades as constitutional court judges, the bench said, "A litigant for whom the judgment is primarily meant would be placed in an even more difficult position. Untrained in the law, the litigant is confronted with language which is not heard, written or spoken in contemporary expression."

Writing the judgment, Justice Chandrachud said, "Language of the kind in a judgment defeats the purpose of judicial writing. Judgment writing of the genre before us in appeal detracts from the efficacy of the judicial process. The purpose of judicial writing is not to confuse or confound the reader behind the veneer of complex language."

Karur Vysya Bank opens a new Personal Banking Branch in Hyderabad

Karur Vysya Bank Limited which has been growing year on year is widening its reach and has opened its first High Net worth Individuals (HNI) Branch in Banjara Hills, Hyderabad on 7 th August, 2022, with plans of many more such branches across India. This will be the 792 nd Branch exclusively for retail assets and personal banking services. This Branch will accept Deposits and offer loans as part of retail banking facilities.

The newly inaugurated branch is located at H. No. 8-2-269/10, Plot No. 2/A, Ground Floor, Trendset Towers, Road No. 2, Banjara Hills, Hyderabad – 500034.

The Branch was inaugurated by Shri Sunil Narang, MD, M/s AMB Cinemas while Smt. Namrata Shirodkar, Director, M/s AMB Cinemas lighted the auspicious lamp. Shri B Ramesh Babu, MD & CEO of Karur Vysya Bank, Shri J Natarajan, President & COO of the Bank, Shri Nitin Rangaswami, Chief Business Officer, Shri C Ramakrishna, Divisional Head, Hyderabad, officials of KVB and customers graced the occasion.

ICICI Bank partners with NPCI to launch RuPay credit cards

ICICI Bank announced its partnership with National Payments Corporation of India (NPCI) to launch a range of credit cards on RuPay, the indigenous payments network. To begin with, the ICICI Bank RuPay Credit Card is available in the Coral variant of the Bank's Gemstone series, which will be followed by Rubyx and Sapphiro variants soon.

Called, 'ICICI Bank Coral RuPay Credit Card', the contactless card offers a host of privileges and benefits including reward points on daily purchases like shopping and restaurants, paying utility bills, complimentary domestic airport & railway lounge access, waiver of fuel surcharge, discounts on movie tickets & dining, among others. The card also offers exclusive benefits of the RuPay network such as accident insurance coverage to the cardholder and dedicated personal concierge services.

Speaking on the launch, Mr. Sudipta Roy, Head- Credit Cards, Payment Solutions and Merchant Ecosystem, ICICI Bank, said, "ICICI Bank has always been at the forefront of offering innovative, powerful and distinctive value propositions for its customers. We are delighted to partner with NPCI to launch ICICI Bank Credit Cards on RuPay network, which is an Indian card payments network equipped with state-of-the-art technology. This partnership has combined the advantages of ICICI Bank Credit Cards with RuPay's exclusive offerings, providing enhanced benefits to customers. We will add more cards from our Gemstone collections to the family of ICICI Bank Rupay debit and credit cards."

Ms. Praveena Rai, COO, NPCI said, "We are happy to partner with ICICI Bank to launch Coral Credit Card on the RuPay network. We believe our association with ICICI Bank will provide a convenient, rewarding and delightful shopping experience to the users of this card. Over the years, RuPay has progressively established itself as a modern, contemporary and youthful brand by offering innovative and customer oriented value propositions backed up by cutting-edge technology."

Axis Bank and Square Yards launches Open Doors, co-branded Home Buyer Ecosystem

Axis Bank, India's third largest private sector bank and Square Yards, India's largest integrated Real Estate platform, today announced the launch of 'Open Doors', a novel, co-branded Home Buyer Ecosystem. This unique platform will ensure that the complete journey from searching to buying one's own dream home becomes a hassle-free, efficient, and delightful experience for customers.

Open Doors is a first-of-its-kind unified platform, designed to address the entire gamut of customer queries related to residential property. Customers looking to purchase a house can now avail end-to-end home buying assistance, exclusive builder inventory access, seamless home loan processing and other ecosystem services including rental and property management, home furnishing, and legal and technical services - everything under one roof in a cost-effective manner.

"We are delighted to partner with Axis Bank to bring all housing related requirements on a single platform. Axis Bank has always been a frontrunner in providing holistic, affordable financial solutions for consumers in an increasingly digital ecosystem. We will leverage Axis Bank's widespread geographical reach and diversified portfolio of financial products to enhance homebuyer experience," said Tanuj Shori, Founder and CEO, Square Yards.

Speaking on the collaboration, Mr. Sumit Bali, Group Executive and Head – Retail Lending and Payments, Axis Bank said, "With the launch of Open Doors, we are building a robust ecosystem for home buyers where customers can seek assistance, browse through properties extensively, apply for quick home loans and connect with vendors to transform the house into their own dream home. Our partnership with Square Yards aims to simplify the challenges faced by our customers during the home buying process. With our strong retail banking presence across India, we will also ensure that all customers get easy access to home loans.''

Real estate inventory displayed on the Open Doors platform will carry joint offers from both Square Yards and Axis Bank on home buying, home loan, Interiors, Property Management and other allied property services, creating value for customers and bringing down the total cost of home ownership.

With this unique collaboration, Axis Bank and Square Yards customers can now avail an array of value-added financial benefits, including customized loan amounts and flexible tenure, along with minimal documentation for a seamless home buying experience.

Axis Bank and Square Yards have been constantly innovating digital-first solutions to simplify customer journeys, which reflects the cultural alignment between the two organizations. This co-branding move signifies the shared values of technological innovation, ingenuity, and convenience; paving a stellar opportunity for both the companies to reach out to the target audience with meaningful solutions and enhance their business growth.Bank to reach out to startups and offer customised solutions that meet the unique needs of across life stage.

Bank of Maharashtra Raises Rs 710 Crores Via AT1 Bonds Subscribed by more than 10 Times of base issue

Bank of Maharashtra, a premier public sector bank in the country has raised Basel III compliant Additional Tier 1 (AT1) bonds of Rs 710 crores (including green shoe option of Rs 610 crores) on Wednesday at coupon rate of 8.74 per cent. The issue garnered overwhelming response from investors with subscription of 10 times against base issue size of Rs 100 crores. The AT1 bonds were fully subscribed with in a fifteen minutes from opening of the issue.

The capital of Rs 710 crores raised through the AT1 bonds will support the business growth of the bank. The AT1 instrument is perpetual in nature; with call option after 5 years.

The Bank has credit ratings of AA (Stable) for AT1 Bonds

MERGERS IN INDIAN BANKING INDUSTRY

Introduction

Banks are the pillars and responsible for making the present world what it is today. They are the avenues, which facilitate investment and stimulate economic activity by mobilizing the savings of the public and channelizing funds to borrowers with promising investment propositions and needs. Keeping this view in mind, the world economies have undertaken several measures to ensure that the banks are strong and can cater to the needs of the ever-changing business environment.

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In the Indian Banking system, there have been rapid changes like the entry of new foreign banks with substantial financial resources, new technological innovations to smoothen the banking operations, the introduction of complex financial products and the changing customer behavior, who are demanding a wide range of products at lower prices with excellent service quality. The increasing competition has reduced the profit margins of the banks considerably and many are struggling to achieve profitability in this dynamic environment. They are looking for new ways to increase their market share and enhance their profitability.

One of these ways is Mergers

A merger is one of the most prevalent methods used by firms to increase their market share by creating synergy and economies of scale. A merger implies a combination of two or more firms into a single entity, while Acquisition indicates one firm taking over another. The word merger can be abbreviated as - M - Mixing, E -Entities, R - Resources for, G - Growth, E - Enrichment and R - Renovation Mergers is considered to be one of the methods which can strengthen market share and allow a firm to tap into new markets within a very short period of time. Economists refer to the phenomenon of the "2+2 = 5" effect brought about by synergy.

Need of the study

Since the early nineteen nineties the structure of the banking sector has considerably modified due to the liberalization, in the course of divestment of public sector banks, entry of foreign banks and merger of many banks in India and within the world. In the post reform period about twenty five bank mergers took place in India. These mergers have vital implication on the performance and efficiency in the banking sector. So, from the view point of both managerial and policy interests, it is very vital to understand the impact of these merges on the potential levels of banks and their temporal behavior thus, to understand how the banking system has been reacting to the emerging challenges and which banks are performing better than others in this age of transition.

With the globalization of the world economy, firms are growing by merger and acquisition in a bid to expand operations and stay competitive. The complexness of such transactions typically makes it troublesome to assess all risk exposures and liabilities, and needs the talents of experts. Banks are facing an increasingly competitive business environment, which is driving them to perpetual to improve services and increase potentiality of the banks

The main objective of this paper is to review the advantages

and disadvantages of bank mergers and acquisitions in India and analyze the expected challenges and important considerations due to these mergers.

Why Banks Go For M&A?

M&A is driven by a set of motives and no single reason might provide full explanation. The causes for mergers and acquisitions may be segregated into people who enhance shareholder value and others. Shareholder value may be increased through enlargement of operations resulting to increased market share and cost savings through large scale economies or by cross selling of products and scope or synergy.

Motives for M &A

Large Scale Economies- Economies of scale - means benefit of the large production. If two persons do their business separately then they have to bear the cost individually. But, if they combine then there is a chance that the cost may come down because of large production. For example - two different tutorials organised by two different coachers then cost is rent 10,000 each, furniture 5,00 each notes 5,000 each so total 40,000 . If combined then rent 10,000 furniture 5000 and notes 10,000 then total cost is 25000 .this is because cost reduced when there is a combination.

- **Elimination of severe and extravagant expenditure -** The combined operations result in cost savings, in any of the areas like. Manufacturing, marketing, operations, manpower, corporate overheads etc., would be the case of cost reduction synergy bulk discounts from your suppliers as you buy in bulk quantity& which leads to cost reduction. The second thing is depending upon the business we can also reduce the fixed overhead cost, for example the head office functions, the support functions or human resources, this leads to more efficiency in cost reduction .SO, there are range of possible reasons why the merger & Acquisition is beneficial through these synergies. The other reason is M&A is easier than Starting a company.

- **Desire to enjoy monopoly power -** M&A is planned and executed to achieve market share and market power at times including pricing power. M&A is primarily used as a growth strategy.

  In practice, Monopoly works in three ways:

  1) Market leaders trying to consolidate their position further

2) Profitable and cash rich companies trying to gain market leadership

3) Market entry strategy

- **Survival option -** Business wants to survive, competitors don't let them to survive, so, the option is either to be a competitor or merge. Small companies will not be able to compete with large company because large companies have lot of money they can invest in technology, they can invest in advertisement, small companies cannot have enough resources, So they fail to compete with the large company, then the left out option in to survive is merge. Cannot fight then join this is all about business first fight if not join i.e. merge to survive rather than to die
- **Specific assets -** it is easy to get tangible assets like land, building, machinery but what cannot get in the open market is intangible asset i.e., specific asset like goodwill . Customers are addicted to brands, they are not bothered about the promoter of the company or the shareholders of the company or where is the company located or where is the company's registered office and head office is located
- **Cross border motivations -** sometimes it may be difficult to company A to sell its product in other country so then it acquire a company in other country or there may be another scenario like market imperfections for example there would be a software company in US and that company acquires software house in India, where they are low cost developers so, that is an another motivation or sometimes the technology may transfer to other companies in other countries where they can use the technology much better and this can happen only through acquiring the company. So, like this there are several cross border motivations. Cross border means a company acquiring another company in other country.

Benefits

- **Regulatory change -** Deregulation has played a significant role in mergers. Industries subjected to deregulations in the years like, telecommunications, health care, insurance, media, Banks also had been actively indulging in merger activities. Deregulation promotes the mergers by eliminating the barriers

- **Financial Synergy -** It involves combining both the acquirer and target company balance sheets to achieve either a reduction in the weighted average cost of capital or a better gearing ratio or other improved financial parameters. This deals with the impact that a merger has on the cost of capital of newly formed firm resulting from merger. The minimum return required motivating the investor and lenders to buy a firms stock or lend to the firms known as cost of capital. Lower cost of borrowing results when a firm has excess cash flows combines with a firm that has internally generated cash flows insufficient to fund its investment opportunities in a matured industry. Firms with low growth may produce cash flow in excess than the available opportunities. Another firm with high growth may lack enough cash required for the available investment opportunities. Thus firm in a mature industry may have a lower cost of capital than the one in which high growth industry when combining such firms could lower the average cost of capital of the merged firm. In other words there could also be a benefit of offsetting the risk in cash flows. If the two companies have fluctuating cash flows, like one company may a have a surplus cash flows at one moment of time and other may have deficit cash flows. Then the company can offset these cash flows and to a large extent they can be saved from the burden of interest charges. If the company borrow in bulk they get a better rate and asset based security is easy & charged at low rate. This is another benefit
- **Marketing Synergy -** It also involves leveraging on the brand equity of one of the two companies to push the

sale of the other company's products. Revenue Synergy - This can be described as the generation of much higher growth rate and turnover than the individual company's growth rates during independent operations. This includes the market power (brand awareness, increase the share of market and attract more customers). The second thing to consider are complementary products- this leads to increase in sales. Another advantage is it reduces the competition.

- **Tax Synergy -** It involves merging a loss making company with a profitable one so that the profitable company can get tax benefits for writing off accumulated losses of the loss making company against the profits of the profit making company. It is called as reverse merger. Losses can be set off by profits of the company and on the remaining amount of the profit company the tax is paid and saved to the extent of setoff. When the entities are separate, indirect taxes are paid twice, like sales tax, excise duty, service tax are paid at two levels. If these two companies are single unit then the taxes will be paid only once. So there can be saving in taxes.
- **Diversification -** Company buying a firm which does not belong to its existing line of business is termed as diversification. Depending upon the business there could be diversification of risk. This is proved in the capital asset pricing model (CAPM), that more company are added to portfolio it reduces the unsystematic risk, therefore the whole business will be less risky as compared to before. Diversification leads to risk reduction. If there is economy slow down for some reason the cash flow can be off set and this leads to continuous flow of cash, and for survival of business continuous cash flow is required and this can be achieved through M&A. Benefit - reduces the risk. How does it matter? This results in cost competitive, because taxes ultimately form the part of the cost and this reduces the cost and to create / enhance competitive advantage- having edge over the other competitors
- **Technological synergy -** Technological changes encourages M&A activity. By using M&A activity the firms can acquire new technology and prevent the new and important technologies from slipping into the hands of their competitors. Operational benefits - It involves rationalizing the combined operations in such a manner that through sharing of facilities such as warehouses, transportation facilities, software and common services such as accounts and finance, tax, HR, administration, etc., duplication is avoided or logistics are improved leading to quantum cost saving. Operating synergy comprises of both economies of scale and economies of scope. Both these components of synergy act as a important determinant of shareholders wealth creation. Efficiency gain can be either from component of synergy or from improved managerial practices. Economies of scale are realized by spreading fixed cost over increasing production levels. Here scale is defined by fixed cost, such as depreciation of equipment, etc. Utilization of set of skills or an asset specific to production of a given or service to produce another product leads to economies of scope. This happens when it is more cost effective to carry out production of multiple products in one firm than producing them in separate firms.

Demerits

- **Poor Strategic fit -** The two banks may have different strategies and objectives and they may conflict with each other and as a result the M&A activity may fail.
- **Cultural and social differences -** If two banks have a wide differences in culture, then the synergy values can be very elusive
- **Incomplete and Inadequate due diligence -** Due diligence plays role of watch dog in mergers and acquisition process. If the watch dog fails to do its job then it leads to some serious problems within the mergers and acquisition process.
- **Poorly Managed Integration -** The Integration of two banks requires a very high level of quality management, if this fails then as result M&A fails
- **Overly Optimistic -** If the acquiring bank is too optimistic

in its projections about the target bank , then an overly optimistic forecast leads to a critical issue and M&A activity fails

Challenges and opportunities Involved in the Bank Mergers in Indian banking sector

From now there would be larger presence of Global players in Indian financial system and some of the Indian banks would become global players in the coming years. The new mantra for Indian banks is to go globally in search of markets, clients and gains. There are numerous challenges involved in the process of M& A of banks. Some of the most common challenges that arise during M&A in the Indian banking Industry by examining the preceding bank mergers in the context of India are

- **Competition -** Suitable to face more competitive pressures and establish a strong institution, which will revise banking in the tremendous competitive age of globalization and liberalization
- **Tech Edge -** ATM, Phone and internet banking will save the cost
- **Regulatory Ambiguity:** M& A laws and regulations are still developing and trying to catch up with the global M&A
- **Legal Developments:** There have been constantly new legal developments in the Competition Act, 2002, SEBI Takeover Regulations in 2011 and also the announcement of limited sections of the new Companies Act, 2013, has led to issues in India relating to their interpretations and effect on the deals valuations and process.

Considerations towards M&A

- Should have a fairly large number of banks to match up with international banking standards
- Value maximizations & performance magnification
- Government should give high attention to the M&A process
- Streamline HR functions
- Study previous experiences before merger
- Empirical study on M&A between big and small banks to greater gains
- Capital Adequacy & NPA position improves
- Not confined to one particular banking group but across groups
- Since banks display analogous characteristics of performance scope of consolidation increases

Future Scenario

The upcoming outlook of the Indian banking sector has a lot of action plans set to be seen with respect to M & A as a key to competitiveness being the driving force. Some of the PSU banks are indeed planning to combine with their peers to consolidate their capacities. In the coming times there is also a chance of strong cooperative banks merging with each other and weak cooperative banks merging with stronger ones.

While there would be numerous benefits of M&A like size and thereby scale of economies, considerable geographical penetration, enhanced brand name, increased negotiating power, and many more.; there are also likely to be threats involved in M&A like problems associated with size, variance in structure, systems and the procedures of the two companies, problem of valuation etc which would need to be solved before such M&A activity can give enhanced value to different sectors

Conclusion:

Before allowing mergers to proceed, it must be ensured that certain conditions must be satisfied so that merger proves too beneficial for all the concerned. The merger process should insure that the merged entities should be adequately capitalized to meet these requirements. In a fast-growing sector like banking, Mergers is a, which, if used strategically after considering all the implications, will propel growth and prosperity not only in the domestic economy but also the global economy at large.

Mergers should be designed in such a manner that the operational efficiency and financial performance improves. As presented above, these bank mergers can also cause some severe problems in implementation. To be able to completely reap the benefits of the mergers, all the stakeholders like the customers, employees, management should be satisfied. Other aspects like technology should be carefully considered before such mergers.

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FISHERIES AND AQUACULTURE INFRASTRUCTURE DEVELOPMENT FUND (FIDF)

(A booster for infrastructure finance)

Mission Blue Revolution envisioned by the Government primarily focuses to enhance fish productivity, fish production at a growth rate of 6% to 8% and creation of need based infrastructure facilities for fisheries. Through the concerted efforts put in by the Central and State Governments in implementation of various programmes and policies, the country's fish production has increased from 0.75 million tonnes in 1950-51 to 12.61 million tonnes (P) during 2017-18, contributing to the economic development together with food and nutritional security.

Keeping in view that (i) there is limited availability of funds through the normal budgetary process and even these are mostly grant based without the ability to leverage them for credit based finance, (ii) there is conspicuous lack of credit funding in fisheries sector and (iii) to fill the large gaps in fisheries infrastructure, the Department of Fisheries, Ministry of Fisheries, Animal Husbandry and Dairying has set up a dedicated Fisheries and Aquaculture Infrastructure Development Fund (FIDF). FIDF envisages creation of fisheries infrastructure facilities both in marine and inland fisheries sectors and augment the fish production to achieve the target of 15 million tonnes by 2020 set under the Blue Revolution.

- In the Union Budget 2018, the Hon'ble Finance Minister has announced to set aside a corpus of Rs. 10,000 crores for setting up of Fisheries and Aquaculture Infrastructure Development Fund (FIDF) for fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF) for financing infrastructure requirement of animal husbandry sector.

- The proposed Fisheries and Aquaculture Infrastructure Development Fund entails an estimated fund size of Rs 7522.48 Crore comprising of Rs 5266.40 crore to be

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raised by the Nodal Loaning Entities (NLEs), Rs 1316.60 crore beneficiaries' contribution and Rs 939.48 crore budgetary support from Government of India..

Area of operation

The Fisheries and Aquaculture Infrastructure Development Fund (FIDF) as detailed in the ensuing paragraphs is implemented in all the States and Union Territories of India. Objectives of fund

- Creation and modernization of capture & culture fisheries infrastructure
- Creation of Marine Aquaculture Infrastructure
- Creation and modernization of Inland Fisheries Infrastructure
- Reduce post-harvest losses and improve domestic marketing facilities through infrastructure support.
- To bridge the resource gap and facilitate completion of ongoing infrastructure projects.

Nodal loaning entities (NLEs)

- National Bank for Agriculture and Rural Development (NABARD),
- National Cooperatives Development Corporation (NCDC),
- All scheduled Banks

Nodal Implementing Agency (NIA)

National Fisheries Development Board, Hyderabad

Eligible entities

- State Governments / Union Territories,
- State Owned Corporations/State Govt. Undertakings/ Govt. Sponsored / Supported Organizations
- Fisheries Cooperative Federations
- Cooperatives, collective groups of fish farmers & fish produce groups etc.
- Panchayat Raj Institutions/Self Help Groups (SHGs)/ NGOs
- SCs/STs/Marginal Farmers, Women & entrepreneurs, Self Help Groups and cooperatives of this etc.
- Private companies/entrepreneurs
- Physically disabled
- Any other institution/entity to be decided by the Government

Eligible investment activities

- Establishment of Fishing Harbours.
- Establishment of Fish Landing Centres.
- Infrastructure for Mariculture and Advanced Inland Fisheries (Ocean farming, Cage Culture etc.)
- Construction of Ice Plants (both for marine and inland fisheries)
- Development of Cold Storages (both for marine and inland fisheries)
- Fish Transport and Cold Chain Network Infrastructure
- Development of Modern Fish Markets
- Setting up of Brood Banks
- Development of Hatcheries
- Development of Aquaculture
- Modernization of State Fish Seed Farms
- Establishment of state of art Fisheries Training Centres
- Fish Processing Units
- Fish Feed Mills/Plants
- Establishment of Cage culture in Reservoirs
- Introduction of Deep Sea Fishing Vessels
- Establishment of Disease Diagnostic Laboratories
- Development of Mariculture

- Establishment of Aquatic Quarantine Facilities
- Any other innovative projects/activities designed to enhance fish production/productivity/value

Quantum of Loan and margin money/ beneficiary contribution

The project under the FIDF shall be eligible for loan up to 80% of the estimated/actual project cost. Beneficiaries are required to contribute at least 20% of the project cost as margin money.

Contribution of margin money in case of States/UTs, State Entities implemented projects shall not be mandatory. However, the concerned States/UTs, State entities, may decide contribution and size of the margin money preferably on lines of RIDF, depending upon availability of budget in their respective states/UTs.

Interest subvention and lending rate of interest

- **Interest subvention -** Up to 3% per annum for all Eligible Entities for development of identified fisheries based infrastructure facilities.
- **Lending Rate of interest -** Not lower than 5% per annum for all Eligible Entities for development of identified fisheries based infrastructure facilities.
- The Department of Fisheries, Ministry of Fisheries, Animal Husbandry and Dairying shall pay the interest subvention amount to NABARD/ NLEs till due outstanding loan and interests are fully paid off.
- Department of Fisheries, Ministry of Fisheries, Animal Husbandry and Dairying shall make adequate annual budget provision for interest subvention to NABARD/ NLEs for 12 years covering the entire repayment period of loan by the Eligible Entities under FIDF based on annual plan submitted by NABARD.

Funding mechanism

- NABARD being one of the Nodal Loaning Entities will raise the funds from the market or utilize its own financial resources for funding under the FIDF, the cost of which shall be informed to Department of Fisheries on a quarterly basis.

- NABARD would fund the public infrastructure components through the State Governments/State Entities. Besides, NABARD, if required would also provide refinance to the other Nodal Loaning Entities namely NCDC and scheduled Banks as per its refinance policy for implementation of FIDF.
- NCDC will lend the loan to the Eligible Entities in cooperative sector either through the State Governments/UTs or directly to the Eligible Cooperative Societies & Federation etc. in accordance with its financial terms and conditions at the specified rate of interest with ceiling on interest subvention specified under the FIDF.
- NCDC will source the required funds from the market borrowing, or utilise own financial resources or avail refinancing from NABARD for lending the loan in cooperative sector for implementation of the FIDF.
- The banks may also avail re-finance from NABARD, if required for lending to the Eligible Entities for implementation of the FIDF.

Repayment

Maximum Repayment period 12 years inclusive of moratorium of 2 years on Repayment of principal. Banks and NABARD being independent commercial institutions would be at liberty to sanction/ release the loans as per their commercial norms/ policies and in compliance with the regulatory guidelines as notified by RBI from time to time. The operational and credit related decisions like process of repayment, rate of interest , penal interest, security and extent of finance will be decided by Nodal Loaning Entities.

Availability of land, water bodies and statutory clearance

- ❖ Loan under the FIDF shall not be provided for acquisition of land and water bodies in any manner such as purchase, transfer, lease, accession/addition etc. required for implementation of the identified project activities.
- ❖ The project proponents (Eligible Entities) are required to acquire necessary land and water bodies (in case of non-availability of land with them) at their own cost and complete all processes associated with land acquisition, before submission of the proposal for concessional finance under the FIDF.
- ❖ The Eligible Entities shall provide documentary evidence/certificate of availability of requisite land and water bodies free from all encroachment and encumbrances.
- ❖ Confirmation with necessary documentary evidence on availability of land and water bodies and statutory clearances (wherever necessary) shall be clearly indicated in the DPR/Self Contained Proposal.

Formulation of detailed project report (DPR)

Concessional financing under the FIDF is based on Detailed Project Reports (DPRs) / Self Contained Proposals. Detailed projects especially for infrastructure and large magnitude projects shall be formulated based on-

- ❖ Identification of suitable site,
- ❖ Necessary engineering and socio-economic investigations and surveys,
- ❖ Planning and designing of the facilities and
- ❖ Model studies wherever required etc.
- ❖ The Eligible Entities shall submit the DPR/self Contained Proposal in triplicate copies

Submission of the project proposal

To Joint Secretary (Fisheries) Department of Fisheries, Ministry of Fisheries, and Animal Husbandry and Dairying, Krishi Bhawan, New Delhi-110001. One Copy of the proposal shall also be submitted to the Nodal Implementing Agency (NIA) at the following address: The Chief Executive, National Fisheries Development Board, Department of Fisheries, Ministry of Fisheries, Animal Husbandry and Dairying, GoI, Pillar No:235, PVNR Expressway, SVPNPA Post, Hyderabad-500052.

NIA would receive the proposals from the concerned State Governments/UTs in respect of State/UT owned/ implemented projects and directly from the other Eligible Entities (wherever the State/UT financial contribution is not involved in the implementation of the intended project under the FIDF).

- ❖ Except for Private Entrepreneurs/Companies, all the other Eligible Entities shall route their applications through Nodal Departments of their respective State/ UTC
- ❖ The Nodal Implementing Agency (NIA) of NFDB will scrutinize, evaluate, and appraise the proposal submitted by us and place it before Central Approval and Monitoring Committee (CAMC) for approval.
- ❖ CAMC will consider the proposals placed before it and accord in-principle approval to projects signifying approval for grant of interest subvention and recommend such approved proposals to the NLEs for considering sanction of loans.
- ❖ The lending decision would be left to the Banks and NABARD as per their policy and regulatory guidelines. NLEs to send a copy of the loan sanction to CAMC and NIA for information.

Conclusion

Fisheries and Aquaculture Infrastructure Development Fund will help in improving the infrastructure facilities in marine and inland fisheries sectors Achieving sustainable growth of 8-9% and target of 20 MMT fish production by 2022-23. It will be helpful for Generating employment for over 9.40 lakh fishers; it will attract private investment in fisheries sector with Adoption of new and innovative technologies by fishers.

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NEW WAY TO INCREASE LENDING TO PRIORITY SECTOR THROUGH CO-LENDING MODEL

Indian banks / Financial Institutions have sufficient funds for lending at lower interest rates, but meagre outreach through it's branch network hamper their ability to extend credit to the unserved and under-served segments of population. Most of the un-served and under-served population are engaged in sectors which were neglected by Banks / FIs. These sectors were identified by Government and termed as 'Priority Sector' which have national importance and have been given priority for development.

Priority sector refers to those sectors of economy which may not receive timely and adequate credit in the absence of this special dispensation. Further, these sectors impact large sections of the population in general and weaker sections in particular, they are employment intensive, meets the basic needs of a common man and Productive sectors of the economy which contributes more to GDP of a nation.

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In the National Credit council meeting held in July 1968, it was emphasized that commercial banks should increase their involvement in financing Priority Sectors. Accordingly, the description of Priority Sectors was formalized in the year 1972 as per Informal study group on statistics relating to Priority Sector Advances constituted by RBI in May 1971. Although initially there was no specific target fixed in respect of Priority Sector lending, in November 1974 banks were advised to raise the share to Priority Sector in their aggregate advances to the level of 33.33% by March 1979.

Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks, all commercial banks were advised to achieve the target of Priority Sector lending at 40% of aggregate bank advances by 1985. Now, presently, the computation of Priority Sector targets/sub-targets achievement will be based on the ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposures, whichever is higher at the corresponding date of the preceding year. Presently, eight sectors were identified as Priority Sector. They are

1. Agriculture
2. MSME
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy and
8. Others

Reserve Bank of India and Commercial banks are exploring and innovating several options for meeting the regulatory requirement and Government of India's guidelines. In addition to direct lending to Priority Sector by banks to individuals, many ways and means were explored to reach the unserved & underserved population using different methods of lending like

1. Joint Liability Groups
2. Self Help Groups
3. Engaging the services of Business Correspondents (BCs) to provide various services such as identification of borrowers, collection, recovery, follow-up and such other ancillary services
4. On-lending to eligible intermediaries like Micro Finance Institutions. On-lending means loans sanctioned by banks to eligible intermediaries for onward lending only for creation of Priority Sector assets
5. Co-lending by banks through NBFCs

Non-Banking Financial Companies (NBFCs) are having advantage due to their agile nature and less stringent regulation, enjoy greater penetration into the market but frequently suffer from liquidity crises. NBFCs can lend and also can make investments. As such their activities are similar to that of banks. However, NBFC cannot accept demand deposits, do not form part of the payment and settlement system and cannot issue cheques drawn on itself. Further, deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs.

Co-lending refers to a collective operation of two or more entities in the financial sector. To address the challenge of the rising credit gap within the unserved and underserved economy, RBI has introduced this new model of partnership between banks and NBFCs on 5th November 2020 for Co-Lending to the Priority Sector.

With an object to improve the flow of credit and also to make funds available to the un-served and under-served sectors at an affordable cost Reserve Bank of India rechristened co-origination of loans by banks and NBFCs for lending to Priority Sector as "Co-Lending Model" (CLModel).

Banks do have plenty of funds at lower cost for the purpose of lending while Non-Banking Financial Companies (NBFCs) have the infrastructure for greater reach to un-served and under-served population.

RBI has provided greater operational flexibility under Co-Lending Model by permitting banks to co-lend with all registered NBFCs (including HFCs) based on a prior agreement, but with strict regulatory guidelines on outsourcing, Know Your Customer (KYC) and minimum share of the individual loans by NBFCs in their books. The main advantage to Lending Institutions is that banks can claim Priority Sector status in respect of their share of credit while engaging in the CLModel. However, CLModel shall not be applicable to foreign banks with less than 20 branches in India.

Salient features of Co-Lending Model

1. **Master Agreement:**

   Banks & NBFCs are required to enter a Master Agreement for implementing the CLM. Master Agreement may contain necessary clauses on

representations and warranties which the NBFC shall be liable in respect of share of loans taken into its books by the Bank. If the Agreement entails a prior, irrevocable commitment on the part of the Bank to consider share of individual loans already originated by the NBFC, the arrangement must comply with the extant guidelines on Managing Risks & Code of Conduct in Outsourcing of Financial Services by Banks

2. KYC guidelines:

Banks are also required to comply with the directions of KYC to rely on customer due diligence done by a third party

3. Escrow account:

CLM specifies the opening of an escrow account for the purpose of disbursals, collections, etc. The co-lending banks & NBFCs were obligated to maintain every borrower's account for proper exposures assessment

4. Minimum Holding Period:

If Bank can exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement, the arrangement will be similar to a direct assignment transaction. Accordingly, the taking over bank shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities with exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM. The MHP exemption shall be available only in cases where the prior agreement between the banks and NBFCs contains a back-to-back basis clause and complies with all other conditions

5. Loan agreement:

NBFC shall enter into a loan agreement with Customers (borrowers). All details of the arrangement including roles and responsibilities of NBFC and Bank shall be disclosed to customers and their explicit consent should be obtained. The borrower may be charged an all-inclusive interest rate as may be agreed by NBFC and Bank conforming to the agreed guidelines. Guidelines relating to Customer service, Fair practices code and other obligations of Bank & NBFC shall be applicable. NBFC should be able to generate a single unified statement of the Customer, through appropriate information sharing arrangements with the Bank.

6. Grievance redressal:

Necessary arrangements for Grievance redressal must be made by NBFC and Bank to resolve any complaints registered by a borrower with NBFC within 30 days, failing which the borrower would have the option to escalate the same with the concerned Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI or Banking Ombudsman.

7. Monitoring & Recovery:

Banks and NBFCs shall maintain individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFCs relating to CLModel shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. Banks and NBFCs shall establish a framework for monitoring & recovery of loans. Banks and NBFCs shall arrange for creation of security and charge as per agreed terms. Banks and NBFCs shall adhere to the asset classification and provisioning norms as per regulatory guidelines. Loans under CLModel shall be included in the scope of internal and Statutory Audit within Bank & NBFC as per internal guidelines and regulatory requirements. Assignment of a loan by Bank or NBFC to a third party can be done only with mutual consent.

8. BCP:

Bank &NBFC shall have a Business Continuity Plan (BCP) to ensure uninterrupted service to their borrowers till repayment of loans under CLModel.

Advantages of CLM

1. CL Model is helpful in increased credit flow to healthy Priority Sector loans
2. Contribute to the country's financial inclusion imperative towards building an AtmaNirbhar Bharat
3. CL Model is applicable not only to NBFCs but also Housing Finance Companies
4. Lower Credit risk
5. Convenient repayment schedule to the ultimate borrowers
6. Aim is to reach out to a large section of society by offering easy, convenient, and efficient credit solutions
7. CL Model can be instrumental in increased consumption there by providing for robust growth in the economy
8. CL Model provides fund flow in smoother and seamless way for NBFCs
9. As it is with collaboration, both organisations i.e., Banks and NBFCs mutually make progress
10. Due to CL model, flow of credit reaches the unserved and under-served population
11. Lot of potentiality for Digital products
12. CL model will be instrumental in marching the country towards the vision of a $1-trillion economy
13. CL model will help MSMEs to avail customized lending solutions
14. Competitive rate of interest
15. Significant reduction in processing and sanction of loan applications leading to reduced turn-around time
16. Allows traditional lenders to associate with Fintech firms
17. Provide an excellent avenue for NBFCs to grow their assets under management
18. Sharing the risk and returns

Short comings

Reserve Bank of India's Co-Lending Model has been around for a while now, but it has many short comings

1. CL Model is not applicable to Small Finance Banks, Regional Rural Banks, Urban Cooperative Banks and Local Area Banks
2. CL Model shall not be applicable to foreign banks with less than 20 branches
3. 80% of the total credit risk under this model shall be on the bank's loan book
4. CL Model is just old wine in new bottle as it is an upgraded model of Co-origination of loans scheme
5. CLModel will be successful only when there is good team dynamics exist between Banks & NBFCs
6. There may be good number of operational issues for both Banks & NBFCs
7. CL model may not be suitable for all sectors of the economy
8. NBFCs are required to maintain at least of 20% share of individual loans in their books due to which many tech savvy companies cannot participate

Suggestions

While realising the needs of unserved and underserved, Banks has to keep in mind the increased expectation of it's existing Customers by using Digital technology to resolve many operational issues

Conclusion

CLModel provides an alternate opportunity to banks to give more funds and allows to link with Fintech firms that have greater reach of un-served and under-served population. The model also provides a platform for NBFCs to grow. It will help NBFCs to mitigate the funding crisis and capital constraints and take part in the sustainable credit to the priority sector along with Banking Institutions. Banks & NBFCs have to make sure that there are efficient systems placed to implement proper Due Diligence. Effective functioning of NBFC required to deal and negotiate with the borrowers. Innovative models like CLModel will evolve and grow to fulfil the credit requirements of the Priority Sector segments in particular and Financial Inclusion in general.

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STOCK MARKETS UP, INVESTORS' WEALTH DOWN

Pre- Covid Era started witnessing increase in investment in Stock Market by Retail investors. Bank FDs and other safe avenues for passive interest income were losing charm due to decline in interest rates offered. Bumper listing of IPOs, launch of easy trading platforms through mobile apps, a few success stories on social media added fuel to the common man's desire of making money in stock market. Result, when other economic indicators showed slump, Stock market index were breaking records.

Covid19 pandemic created scenarios which were never thought in wildest dreams of not only common man but sovereign governments also. The world came to a stand still and economy started moving in backward direction. Share Markets crashed, Companies started Laying off staff, New employment opportunities seized, Income level went down, inflation went up and siren of ambulance overpowered every other sound. When streets looked vacant and silent, economy bleed and cried hard. To bring the world back on track, Governments needed to inject the money in system and what could have been the better way other than banks to do the job. Banks again reduced deposit rates to add funding fuel to accelerate economic engine.

Common man, who was now sitting at home, browsing internet, concerned about income sources saw stock market as good opportunity to invest. Money from all side started flowing into the market and everything became Bumper i.e. Bumper subscription, Bumper opening, bumper listing, bumper growth, and yes, a few investors made bumper profit also. While the dream run of inflow funds in stock market still continuing, is it really earning fortune of majority of investors?

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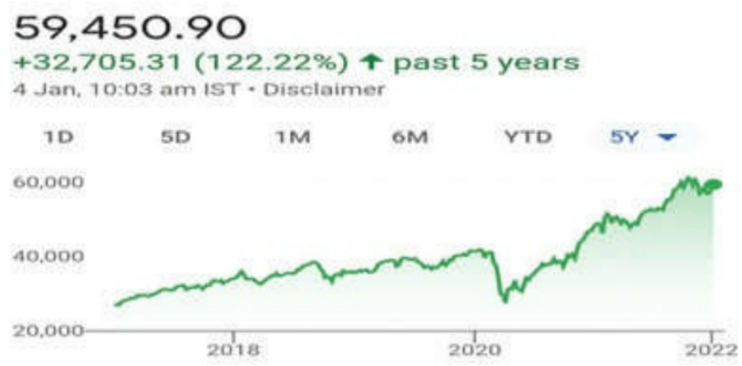

Reference: BSE index dated 04/01/2022

2021 witnessed record number of new traders and investors. Despite some recent corrections in Stock Market indexes, the market is still showing bullish trends. In the history of stock market, many things changed except one thing that never changed is Greed. Stock Market, which is probably the toughest place to make easy money, countless people are lured into the markets and have a rosy view of trading. As per article written by Nitin Kamath, CEO Zerodha in The economic times of 3rd Jan 2021, less than 1% of active traders earned more money than a bank fixed deposit over a 3-Years period. Rest 99% either lost money or made marginal profits.

Myth of Entry and Exit:

A very common strategy among beginners is to buy stocks which are going down or at their 52 weeks low. The mindset while investing is that the stock has already gone down and it will bounce back soon. But many times, the stocks follow the trend and either goes down or hold the position for a long time. New traders mostly either do not show required patience or sometimes do not know when to exit. The smart trader always knows when to quit. Hope of stock getting up again keeps on widening their loss. Traders must make sure to define and stick to a sensible stop loss, an amount he/she can afford to lose. Traders also need to define the time period he/she will wait for a stock to turn profitable. There is a famous quote of Jack Schwager saying, "You should make sure that you don't lose more than 1% of your trading capacity on any trade". The larger the losses get on a trade, The higher the chances of trader acting irrationally.

Averaging and Leveraging are weapon of Mass destruction:

Averaging the stock going down is a strategy of buying more of that stock to bring down the average price of stock. Same way people tend to sell stocks that have gone up to buy the same stock again in future when it comes down. This strategy affects most traders, and they should be doing the opposite- Cut the losers and ride the winners. The phrase-"Trend is your best friend" actually works in the stock market. The ride of hope that everything will go as we expect, is more of hope trading than stock trading. Hope trading isn't really a trading strategy. Buying more as a stock price falls drastically might work once a while but is generally a losing strategy in long run.

Averaging is weapon of wealth destruction and is like trying to fix a trading mistake which could have been avoided by using stop loss function. Leveraging goes one step further towards wealth loss. Leveraging is investment of Borrowed money into stock market to gain huge profits. While it is easy to get lured by promise of making outsized gain using leverage, all it takes to blow up the whole account is one bad trade. This is the biggest reason for people going bankrupt in stock market. Leverage should be used only when there is a very strong conviction in trade and should be used with a stop loss.

Rapid Loss recovery is Rapid Loss Strategy:

The common problem among a lot of traders is when they incur a loss, they try to overtrade aggressively to recover from the loss. This leads to more losses. When there is a loss in a trade, it means it was a wrong trade. When to recover loss, more aggressive investment is done in that trade is just being wrong twice. Losses are the part of trading process and that is why limits are set and adhered to judiciously.

Everyone has a tip of making money

Every second person is having a stock tip to create wealth. Now a days there are countless people claiming themselves as Stock market experts. These kind of stock tips rarely work. What makes it worse that even if there is a good advice, people are terrible at following it. Greed plays a big role here also. The biggest risk is that most of the tips on social media and other groups is pump and dump scams. One should not blindly follow the trading tips and rumours without their own analysis. The best way to trade is to gradually master how to read charts and how to interpret news flows and trade on your own. It is a slow process but there is really no alternative to learning trading process methodically.

The bottom Line

The Markets are extremely dynamic and constant flux. Sometimes this randomness that can create profits for unskilled and new traders which they tend to think is because of their ability and market sense. This gives the positive bias and leads to substantial loss. The only way to do this background research with good trading plan and a small percentage of capital on each trade. Most successful traders with longevity discover a style that consistently works for them. The reality of stock market is that we only hear success stories but there are exponentially more people that lose money trying to catch lightning in a bottle.

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Forthcoming Events

Media Partner: Banking Finance

10th Annual CX Asia Week2022

November 21 - 24, 2022 |Sands Expo and Convention Centre, Singapore

The 10th CX Asia Week remains Asia's leading platform bringing the region's CX leaders together to debate new, innovative and transformative strategies for both customers and businesses alike. Join us as we celebrate success of best practices, learn from real-life lessons and build strategies together to reach the new, gold standard of CX.

https://www.cxnetwork.com/events-customerexperienceasia

International Business Magazine Annual Awards

October 29, 2022, DUBAI

International Business Magazine Awards is established with the prime objective of admiring the best in class achievements pertaining to budding Industrial talent, global leaders, Corporates, etc across varied spheres related with the International Business and Finance arena.

http://www.intlbm.com/

10th Finance Transformation India Summit & Awards 2022

10 - 11 October 2022 | The Chancery Pavilion, Bengaluru

With the global economy and the business environment becoming more complex every day, companies and finance professionals are increasingly keen to transform the finance function from just a supporting department within an organisation into an integral part of the business. For many companies, Finance Transformation is no longer a choice it is the only way forward. Building on the previous editions the 10th Finance Transformation India Summit 2022 will bring together leading industry experts to share best practices, case studies and latest trends from leading Indian companies. This summit is designed to enable finance departments within organizations to not only be efficient and effective, but also integrated and flexible.

https://financetransformationindia.com/

"CREDIT MONITORING ARRANGEMENT"- A TOOL FOR EFFECTIVE CREDIT ASSESSMENT

Every business be it a small or big needs funding to expand in its capacities in the form of plants, machinery, equipment, meeting working capital requirements, etc. For fulfilling this purpose, generally huge amount of investment is required. The investment may come from either internal or external sources. If the investment comes from internal sources, we call the source as capital or reserves or surplus profits are reinvested in the business. On the other hand if the sources are external, they might be of two types i.e. Equity funding & Debt funding. While in debt financing capital is acquired through the borrowing of funds from financial institutions against a security to be repaid at a later date.

In equity financing, rising of capital is by selling stocks to investors. While each method of funding comes with its fair share of pros &cons, Debt financing is a simpler and reliable method of funding for businesses through loans and credit, as it allows a business to use a small amount of money into a much larger sum enabling faster growth that otherwise might be possible. Whereas equity financing contains a large amount of time comparatively, complex paperwork, disclosures& legal arrangement. Hence borrowing from a lender or bank or NBFCs or even from a modern-day Fin-tech lending platforms is convenient as they take pride in their ability to disburse a loan within a day or two.

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Basically, when an applicant approaches a lending institution like banks or NBFC, banks want to ensure that they are lending funds in safe hands i.e. they want to ensure two important things about the borrowing concern, one, ability to repay and the other is willingness to repay. The later can be assessed by proper due diligence while the former can be assessed by obtaining various financial statements.

These financial statements will speak about the financial position, performance & health of the business entity, credit history, timely repayment, etc. The banks rely very much on these reports for their credit decisions by carefully evaluating the proposal, taking all measures to mitigate the possible risks while arriving at the eligibility of funding.

Thus bankers require a comprehensive tool to know the existing financial position and projected financial position of the borrowing concern using all the financial information provided by the borrower.

What is CMA? How it originated?

The Credit Monitoring Arrangement data or CMA report is an analytical tool of the current and projected financial statements of a loan application by the banker. It showcases a systematic analysis of the financial operations and management aspects of the borrower i.e. the way the entity manages its funds in an efficient way, application of the funds, business probabilities, etc.

The concept of CMA came into existence in 1975 with the recommendations of the Chore Committee & Tandon group in 1974. Introduced in 1988, the CMA system aimed to prevent delays in loan approvals & loan disbursements which earlier required RBI's approval. Prior to the introduction of CMA, Credit Authorization scheme was in place. Under this practice, an authorization from RBI was mandatory for credit above the specified limit as fixed by RBI. This is to ensure curtailing the mismanagement of the limited capital available for credit.

But, this process was cumbersome, time-consuming, and inefficient. Hence the Government initiated to introduce the system of the CMA report. CMA has simplified the credit decision process as the financial institutions are given authority to sanction the credit after self-assessment of the CMA report submitted by the client. Although now the process is much simplified, mandatory scrutiny by the RBI after the approval of loan is required.

Applicability of CMA report.

Through the CMA report, banks evaluate the eligibility of funding borrower based on the careful evaluation of the CMA data, as it allows bankers & financial analysts to take the financial pulse of the undertaking. For this reason, borrowers are required to submit CMA data while getting loans from the bank every year for business loans like short term or long term loans, project loans& even for meeting working capital requirements for day-to-day business. As per RBI guidelines, banks should ask for CMA data and submit the same to RBI, if the amount of term loan is above INR Two crore (2 Cr) and working capital finance of INR five crores (5 Cr).

Components of a CMA report

Typically, there are seven components/statements that together constitute a CMA report which helps bankers to evaluate the financial aspects of a business entity.

1. **EXISTING & PROPOSED LIMITS:** This is the first constituent of a CMA report, through which the banker wants to know about the present fund& non-fund based credit limits of the borrower along with their credit limit usage and their credit history. Also, other details like current outstanding along with proposed limits are required to be mentioned in the statement. It is always advised that the applicant should have a clean credit history with no defaults and the proposed amount should match with the fund limits.
2. **OPERATING STATEMENT:** Secondly, every banker requires the borrower enterprise to present a profit& loss statement which contains details like current sales, direct& indirect expenses, PBTA, PAT, sales projections, expenses, profitability projections for the coming 3 to 5 years based on the capability of borrower's business. In other words, this statement is a scientific analysis of the current & projected financial growth potentiality of the borrower.
3. **BALANCE SHEET ANALYSIS:** Analysis of the balance sheet is the third statement in the CMA report, which gives the indication that the company is financially

sound. The statement gives a detailed analysis of current& non-current assets and liabilities, cash position of the borrower. In other words, the analysis of the balance sheet provides a clear insight into the applicant's financial position and the net worth.

Generally, creditors require at least two years of audited balance sheets and upcoming three years projected and estimates for effective analysis.

4. **CHANGES IN WORKING CAPITAL:** This is the fourth statement that provides the comparative analysis of the movement of current assets& liabilities. This analysis gives an idea regarding the ability of the applicant to meet their daily working capital requirements. Besides, indications regarding the working capital requirement (actuals) along with future projected cycle growth are made.

5. **CALCULATION OF MPBF:** As per the recommendations of the Tandon committee, calculation of Maximum Permissible Bank Finance helps us to know the difference between the working capital requirement & permissible finance in the borrower's enterprise i.e. capacity of the applicant to borrow money.

   There are generally two ways to calculate MPBF:

   o In the first method, the permissible limit of funding shall be 75% of the networking capital gap which means 75 % (current assets less current liabilities other than bank borrowings).

   o Under the second method, MPBF shall allow (75% of the current assets) less current liabilities other than bank borrowings.

   Thus, the MPBF limit is only the cash credit component of the borrower which is generally known as the drawing limit (DP), and this is the reason why this statement forms the basis of the CMA report.

6. **FUND FLOW STATEMENT:** Generally a fund flow statement of the borrower's enterprise is given to evaluate if there are sufficient funds available with the entity or if the concern is utilizing its funds properly or not.

7. **RATIO ANALYSIS:** Last but not the least, analysis of operational and financial ratios gives an overall summary of the entity's growth, performance & loan repayment capacity. Some of the important ratios like current ratio, net profit ratio, net worth ratios, quick ratio, stock & asset turnover ratios, debt-equity ratio, etc. help the bankers to make the credit decision regarding approval of funds.

Steps involved in drafting CMA data.

Past performance and actuals should be exactly as per Audited Financial.

All assumptions and estimates mentioned in preparation of CMA data should be mentioned separately with valid justifications.

Future projections should be realistic and not merely arithmetic multiples of current year figures.

The borrower has to prepare reports for existing loans, credits, repayment status, and any other liabilities in any form.

The borrowing concern need to submit all the financial reports& statements, including Balance sheet and Profit and loss accounts and also Audit Report.

Calculation of MPBF and preparation of changes in working capital along with ratio analysis.

Fluctuations in performance should be justifiable with valid reasons.

All the data pertains to fixed assets, depreciation and loan repayment history along with schedules should be annexed and linked to CMA Data.

The entity should be able to justify the performance and numbers projected

In case of multiple businesses activities or locations, detailed report / annexure should be attached showing breakup of how the projected numbers are arrived at?

CMA Data should represent a viable business performance - over borrowing is un-favorable and cannot be justified through mere projecting some financial ratios.

Why is it important to prepare a CMA report?

A. Significance of CMA Data for Borrowers

CMA data gives a financial blueprint of an entity's performance year-on-year basis. The overall financial position, performance and health, loan eligibility, repayment capacity, etc., can be determined with the use of CMA data report. CMA data clearly marks out the flow of & application of funds in a concerned business. A properly planned and well drafted CMA Data is sufficient to establish eligibility for loan as it is the mirror of creditworthiness for borrower who wants to enjoy credit facility from banks.

B. Significance of CMA Data for Banks

Bank and financial institutions do employ various measures to mitigate the chances of risks and further wants to decrease the impacts of the risks if happens like default of loan. With the help of CMA data and its components banks will know the financial position, the changes in the balance sheet's components, knowing the flow of funds, knowing the performance of the borrowing concern and also understand the earning cycle for paying the expenses. It also helps them to know short term solvency of borrowing concerns. With ratio analysis, bank will understand the position and efficiency of the entity more clearly within few minutes. Compilation of CMA report helps the banks to find out the financial health of the enterprise as it is unworthy to provide funds to such entities who are already sick or where chances of survival are few.

Conclusion:

As mentioned above, a professionally crafted CMA data report could really make the loan approval process simple, quick& hassle-free. Even though a CMA Data is a very detailed analysis of the Profit and Loss statement and balance sheet of an entity, the key to prepare a good CMA Data is to present a healthy financial projection to analyze the past & proposed flow of funds and viability of the project of the borrower. Therefore, someone with vast experience and in-depth knowledge of finance should study & prepare CMA report.

From a banker's perspective CMA data is a systematic analysis of working capital management of a borrower and the main objective is to ensure the usage of long term and short term funds for the given purpose. Though, the Banks have been given liberty by RBI not to follow CMA for deciding the eligibility and magnitude of working capital finance, yet many are relying on the CMA data, as the CMA system is so scientific and systematic, that it transpires the whole activity of the firm and shows the errors of the borrower and their ill intention to misuse the Banks' funds.

Another key area where proper knowledge about CMA data is imperative is avoiding creative accounting. In the recent past banks have been in news mostly in wrong sense because of the frauds happened mostly financial statement frauds. A deeper analysis of those cases reveals that somewhere down the line bankers lack the skills to identify the red-flags thrown by the CMA. Hence a thorough knowledge and proper interpretation of the CMA data is needed for effective credit assessment and decision making. ❑

L&T talks with several firms to set up green hydrogen plants

Larsen & Toubro(L&T) is in talks with about a dozen companies including steel, cement and refineries companies, to help them set up green hydrogen plants. The Indian multinational company, which is engaged in engineering, procurement and construction projects, hi-tech manufacturing and services, also plans to supply green hydrogen to some of these companies. Green hydrogen is an alternative fuel produced by splitting water into hydrogen and oxygen using renewable electricity.

The plan to help companies to either set up green hydrogen plants or supply the fuel to them comes even as L&T commissioned its first green hydrogen plant at its AM Naik Heavy Engineering Complex in Hazira. Built at a cost of over Rs. 25 crore, the plant will supply 45 kg of green hydrogen daily. This will be used for captive consumption in the company's Hazira manufacturing complex. The green hydrogen plant will reduce the carbon footprint by 300 tonnes per annum. The work on the plant began in January.

PRE-PACKAGED INSOLVENCY RESOLUTION PROCESS FOR THE MSMES

The Insolvency and Bankruptcy Code 2016 ("IBC") provides a framework for insolvency resolution of corporate debtors in a time bound manner and the provision relating to corporate insolvency resolution process came into force on 01.12.2016 and for guarantors to Corporate Debtor came into force from 01.12.2019.

The Government on April 4, 2021 notified the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021 ("IBC Ordinance, 2021") amending the IBC, 2016 (by introducing new chapter IIIA) to introduce Pre-packaged insolvency resolution process (PPIRP) for Micro, Small and Medium Enterprises, classified as MSME under Sub-Section (1) of Section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 and as per Notification no. 2119(e) dated 26.06.2020 of Ministry of Micro, Small and Medium Enterprises.

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The Government has also introduced the Insolvency and Bankruptcy (Pre-packaged Insolvency Resolution Process) Rules, 2021, with effect from April 9, 2021.

Background:

IBC has been criticized for failing to bring successful resolution in a majority of cases. One of the main reasons for this is neither the committee of creditors nor the resolution professionals are in many cases equipped to take timely and fruitful business decisions, and it is the promoters who have their fingers on the pulse of their businesses. This in turn leads to the businesses eventually succumbing to liquidation, which was the residuary but not the primary expected outcome of the IBC.

Pre-Packaged Insolvency therefore works on the formula of debtor-in-control approach (in contrast with the creditor-in-control IBC regime prevailing till now), since a conscious and willing promoter of the corporate debtor has the best shot of reviving his own business with the support of law, the creditors and of course, the NCLT.

The intent of the Ordinance is to address the specific requirements of MSME enterprises relating to the resolution of their insolvency during the Covid 19 pandemic, due to the unique nature of their businesses and simpler corporate structures and to provide an efficient alternative insolvency resolution, ensuring quicker, cost-effective and value maximizing outcomes for all the stakeholders, in a manner which is least disruptive to the continuity of their businesses and which preserves jobs.

Pre-Packaged Resolution:

A pre-pack is an agreement for the resolution of the debt of a distressed company through an agreement between secured creditors by following informal (Out of Court) and formal (judicial) process through the Insolvency and Bankruptcy Code 2016 under the NCLT supervision with an aim to facilitate early resolution through a fast, cost efficient and effective manner in resolution of stressed asset, much before value deteriorates, with the least business disruptions and without attracting the stigma attached with the formal insolvency process.

Highlights of PPIRP:

Vide the Ordinance dated 04.04.2021 a separate chapter, Chapter IIIA has been inserted in the IBC to deal with the pre-packaged insolvency resolution process. Subjected to

various conditions as enumerated in Section 54A an application for initiating pre-packed insolvency resolution can be made by a Corporate Applicant with the Adjudicating Authority in respect of Corporate Debtor classified as MSME.

The provisions of Pre-pack Insolvency for MSME shall not be applicable where an application under Section 7, 9 or 10 of IBC has been filed and pending as on date of above mentioned Ordinance, 2021. In case where an Application to initiate pre-pack insolvency resolution process is pending in terms of Section 54C, the Adjudicating Authority before considering any application filed under Section 7, 9, or 10 of IBC shall admit or reject Section 54C on priority. In case, an Application under Section 54C is filed within 14 days of any application filed under Section 7, 9 or 10, which is pending then the Adjudicating Authority must dispose of the Application under Section 54C. Where an Application under Section 54C is filed beyond 14 days from filing of any application under Section 7, 9 or 10, then the Adjudicating Authority shall dispose of the application under Section 7, 9 or 10 of the IBC.

An Approval of 66% has to be obtained by the Corporate Debtor from its Financial Creditors, not being its related parties for filing an application for initiation of pre-pack insolvency process in such a form as may be specified. The timeline for competition of Pre-Pack insolvency process for MSME is 120 days from the pre-pack insolvency commencement date.

The Adjudicating Authority within 14 days from the receipt of Application by an order may admit or reject the Application. However, before rejecting an application, the Adjudicating Authority must give notice to the applicant to rectify the defect in the Application within 7 days.

Moratorium as prescribed under the Section 14 of IBC shall be mutatis mutandis apply to the Pre-Pack insolvency Process for MSME. The Moratorium shall be available from the pre-pack commencement date till the process is closed. Unlike the usual Corporate Insolvency Resolution Process the control and possession during the Pre-Pack process lies with the current promoters and management of the Corporate Debtor. The Base Resolution Plan as submitted by the existing management in case not approved or in case where the base Resolution Plan does not provide for the full payment of the confirmed claims, the Resolution Professional shall invite prospective Resolution Applicant to submit a Resolution Plan or compete with base Resolution Plan. Appeal against the order approving the Pre-Pack Resolution Process lies under Section 61(3) of the IBC.

That the Committee of Creditors by a vote of 66% may resolve to initiate a Corporate Insolvency Resolution Process in respect of Corporate Debtor at any time after the pre-pack commencement date but before the resolution plan approval under Section 54K of the IBC. The Adjudicating Authority in case of any fraudulent conduct of the Company and/or gross mismanagement and where there is termination of pre-pack insolvency process pass an order of liquidation.

Salient features of PPIRP are:

- Alternate Insolvency Resolution Process
- Retention of IBC 2016 basic structure.
- It covers only Corporate and LLP MSMEs.
- It does not include partnership firms and individuals.
- Minimum Amount Due Rs. 10,00,000/-.
- Debtor in possession and creditor in control model.
- Least disruptive to the continuity of businesses.
- Binding effect and structure of formal Insolvency process.
- Fast, efficient resolution process, maximization of value and Cost effective.
- Formal and informal approach model.
- Provides alternate option to convert CIRP.
- Provides power to CoC of vesting of Management control with RP.
- Approval required by not less than 66 percent of the financial creditors.
- Pre-packaged insolvency resolution process to be completed within 120 days. The borrower gets the benefits of a traditional restructuring under pre-pack deals.
- Provides penal provision for any violation by Directors or partners of the CD.

- Provides enabling clause:
  - for declaration of Liquidation in certain circumstances
  - for vesting of Management with RP in certain circumstances
  - for initiating avoidance of transactions
  - to initiate for fraudulent or wrongful trading or fraudulent management

However, exemptions are provided to MSMEs under section 29A, following restrictions shall apply to PPIRP:

A person shall not be eligible to submit a resolution plan, if such person, or any other person acting jointly or in concert with such person:

- is an undischarged insolvent;
- is a wilful defaulter in accordance with the guidelines of the Reserve Bank of India
- has been convicted for any offence punishable with imprisonment for two years or more under any Act specified under the Twelfth Schedule of IBC 2016; or for seven years or more under any law for the time being in force. The said provision shall not apply to a person after the expiry of a period of two years from the date of his release from imprisonment:
- is disqualified to act as a director under the Companies Act, 2013;
- is prohibited by the Securities and Exchange Board of

India from trading in securities or accessing the securities markets;

- has been a promoter or in the management or control of a corporate debtor in which a preferential transaction, undervalued transaction, extortionate credit transaction or fraudulent transaction has taken place and in respect of which an order has been made by the Adjudicating Authority under this Code.

Other General Prerequisite conditions

- During the period of three years preceding the initiation date the CD
  - Not undergone PPIRP,
  - Not completed corporate insolvency resolution process and
  - Not undergoing a corporate insolvency resolution process.
- No liquidation order by NCLT against CD
- Corporate Debtor or its promoter are otherwise eligible to submit a resolution plan under Section 29A of IBC, meaning thereby that the account of the Corporate Debtor is not NPA and the promoters of the Corporate Debtor are not wilful defaulters and/or barred on other parameters specified in Section 29A of IBC;
- The FCs who are not related parties of the CD and have not less than ten per cent of the value of the total financial debt of such creditors may propose names of insolvency professionals to be appointed.
- Special Resolution/Resolution:
  - CD being Corporate Debtor shall pass a special resolution approving the filing of an application for initiating PPIRP or
  - CD being LLP shall pass at least three-fourth of the total number of partners of the corporate debtor approving the filing of an application for PPIRP.
- The CD shall provide to Financial Creditors a base Resolution Plan.

Process Flow:

The procedure for initiation and completion of Pre-Packaged Insolvency, as of now available only for MSMEs, is broadly as follows:

- A Corporate prepares a Base Resolution to Financial Creditor.
- Approval from financial creditors (other than related parties) is a prerequisite for the filing of an application for initiating PPIRP. (Representing not less than 66%, in value of the financial debt due to such creditors)
- Financial Creditor can propose name of IRP with 66% of Voting (value of financial debt)
- Corporate Debtor needs to file an application with the NCLT under Section 54C for initiating PPIRP within 90 days, complying with other applicable provisions of the IBC;
- The NCLT shall, within a period of fourteen days of the receipt of the application, by an order admit/reject the application;
- AA is required to admit or reject within 14 days from the date of filing. If admitted PPIRP commences.
- Moratorium commences from the date of admission.
- Public announcement to be made within 2 days. RP Finalizes the List of Claims and constitutes CoC and conduct meetings.
- The Pre-Packaged Insolvency shall commence from the date of admission of the application. The time-limit for its completion is within a period of one hundred and twenty days from the pre-packaged insolvency commencement date;
- The resolution professional ("RP") shall procure and submit the resolution plan, within a period of ninety days from the pre-packaged insolvency commencement date. The base resolution plan by the promoter of MSMEs is to be approved by committee of creditors. If the base resolution -plan is not approved by the committee of creditors, the RP shall invite prospective resolution applicant to compete with base resolution plan;
- If CoC approves the resolution plan with 66% voting, RP to submit the same to AA for approval
- If no resolution plan is approved by the committee of creditors, the RP shall file an application with the NCLT for termination of the pre-packaged insolvency resolution process. The jurisdictional NCLT Bench may inter-alia terminate the Pre-Packaged Insolvency and pass a liquidation order.

- If AA approves, PPIRP is completed and resolution plan will be implemented
- If not, AA to pass order of Termination of PPIRP
- 30 days' time frame for AA to pass above orders from the date of receipt of application

Challenges and Drawbacks/Concerns:

- TRANSPARENCY: The success of Pre-Packs shall greatly depend on the transparency with which the existing management works coupled with the role played by the Resolution Professional. The approach of both the creditor and the debtor to operate, in the best interest of the company is required to be ingrained in the working of various stakeholders.
- APPROVAL OF THE ADJUDICATING AUTHORITY/ NCLT: Under the Ordinance, the Resolution plan does not attain finality, even after the consent of 66% of the Financial Creditors, until the Adjudicating Authority/ NCLT approves it. Such approvals are not only time consuming but also results in an element of uncertainty being cast on the process of the entire pre-pack scheme. Such an element of uncertainty gravely prejudices the success of a Pre-Pack.
- Efforts for marketing of pre-pack companies for sale may be insufficient: The experience gained in other countries like US, UK that the quality of marketing of businesses that intend to pre-pack was very less. The evidence of research (in countries where adopted) shows that where no marketing is carried out, pre-packs return less money to creditors.
- Valuation methodology: The valuation may be limited to certain assets, normally the assets and property, but not the intellectual property or goodwill. More could be done to explain the valuation methodology.
- Concerns about due consideration may be given to the future viability of the new company or not.
- Current NCLT infrastructure may be insufficient to handle the pre-packs resolution process. As it is expected that, due to Covid, that a lot of companies would be pushed into insolvency in the coming times and lot of cases will be referred to NCLT.
- Banks do not typically take many MSMEs to IBC courts as the loan value will be typically lower. Most IBC cases involve medium and large companies.

Conclusion:

The introduction of the Pre-Pack insolvency for the MSME has fortified the Indian Insolvency Resolution Framework. It serves to promote the IBC objectives in achieving steady and smoother resolution of the distressed organization.

While currently the Pre-Pack is limited to Micro, Small and medium enterprise, the Government plans to roll out it for other Corporate as well. The success and the failure of MSME Pre-pack should be kept into consideration while drafting the Pre-pack scheme for other Corporate.

Pre-packed deals are new in India, whereas in countries such as the UK and the US, such deals are common. This newly introduced framework for MSMEs, inter alia providing for quick and cost-effective resolution, may fairly be expected to further strengthening both the financial and operational position of MSMEs, importantly under the prevailing Covid-19 crisis.

MSME borrowers can retain control of the firm and negotiate a settlement with lenders without going through the entire IBC process that saves time and money. Further, adopting a plan evaluation process akin to the Swiss Challenge retains competitive tension such that promoters propose plans with the least impairment to rights and claims of creditors.

It is expected and emphasized that if the pre-pack system is implemented well, it would lead to smoother implementation of resolution plans, would promote growth and keep the company as a going concern while retaining jobs and ensuring creditors receive the funds due to them. Especially during these difficult financial times, it is imperative that such a system would only yield fruitful results and would have more pros than cons.

The government needs to further augment the NCLT's infrastructure so that pre-packs can be implemented in time-bound manner. The government may consider setting up specific benches looking at pre-pack and insolvency above a certain size to expedite the resolution of large cases in a time-bound manner.

As with any legislation, this Ordinance will also need to evolve as it goes along to address implementation issues that will arise. ❑

IS ATM LOSING ITS SHEEN?

We have witnessed the days of competition when banks were trying to outdo the other by opening the maximum number of ATMs but the pace seems to have dried out now. Are we increasingly becoming a cashless society? Will ATMs become extinct in the coming decade? Are we heavily depending on our mobiles and laptops for banking?

Are we relying more on digital transactions and e wallets? Whatever the answer may be, one thing for sure stands apart is that growth of ATMs in India has started flattening. Covid 19 pandemic on the other hand has dampened the use of cash world over. India too, did not remain aloof from this and encountered a paradigm shift from ATMs to other digital payment modes since the year 2019.

About the author

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The same can be explained with the help of two indicators. The first is embedded in the number of ATMs per 100,000 adult population for India and the world. It can be easily reflected that ATMs in India grew at a fast velocity up to 2014 but thereafter its tempo has slowed down with the growth track being almost flattened out. On the contrary, the growth all over the world is in ensuing an almost contrasting pattern that remained quite buoyant and, particularly, post 2017 the growth accelerated, broadening the gap between the two curves. If juxtaposed with the world average of 51.7 ATMs per one lakh population in the year 2020, India is way below, at an average of 21.5 ATMs per one lakh population, that is much lower than China, which is at 87.9 ATMs per one lakh population and Brazil too, which is at 96.6 ATMs per one lakh population.

The truth remains that India continues to be among the countries with the lowest penetration of ATMs. Though India has 650,000 villages, but there is approximately only one ATM for 10 villages which remains a big hurdle for financial inclusion. The other indicator can be seen in the way the ATMs are being increasingly replaced by technological innovations like mobile banking, Point Of Sale, E-Wallet and now may be even CBDC (Central Bank Digital Currency).

Hiccups faced by ATMs in India

- The economic slowdown, Covid-19 pandemic alongside the increased digitization in cities has given another blow to the ATM industry that is already stuck in unviable operations. Most of the SCBs and independent ATM operators otherwise also called the white label ATM operators, have brought down the number of ATMs operated by them.
- The total number of ATMs in India stands at 239,761 by end of June 2021, marginally up from 234,357 in March 2020, according to RBI data. The industry has seen diminutive growth since 2017, following strong annual growth of 14% between 2012 and 2017. The diminishing growth in ATMs is putting a serious strain on the bank customers across the country and they are exploring the alternate digital channels.
- An addition to the miseries was made by the announcement made by RBI that all such ATMs who go out of cash should try and ensure timely replenishment to avoid cash outs. "Any non compliance in this regard shall be viewed seriously and shall attract penalty " . This came as a jolt and exacerbated the existing wound and many banks had planned on shutting down of some of their ATMs so as to escape such monetary penalties. Though later on this guideline was withdrawn but this had struck as a lightening.
- There was also a discernible change in the consumer behaviour following the pandemic. The majority of the population highly reduced their activities at ATMs for the fear of the COVID virus. A drastic shift to Google Pay, PayTm and PhonePe was seen and we witnessed even the smallest of the hawkers carrying the QR Code along with them to smoothen out the sales. Then there was also the long pending issue of revision in the interchange fee (payment from the card holder's bank to the ATM owner). Many of the ATM operators especially the white-label ATM operators decided against deploying new machines unless and until there was an upward revision in the interchange fee. Companies were missing out on their money since the interchange fee was way scant. Muthoot Finance Ltd and SREI Infrastructure Finance Ltd, even withdrew themselves from the business as it was financially unviable. Muthoot had 217 ATMs in March 2020, and none by September 2020.
- It is gauged that the white-label operators have drained over Rs 1,000 crore to set up 25,000 ATMs in India, at an average cost of Rs 5 lakh per ATM. Based on the location, each ATM may exhaust a running cost of Rs. 30,000 to Rs. 50,000 per month. We may draw that 90-100 transactions are required per day to make its operations viable and profitable .
- In 2016 at the time of demonetization we witnessed the stockpiling of Rs 15.31 lakh crore notes that came through the deposits by the customers subsequent to which it was not anticipated that currency in circulation would knock with such a huge bang that it would reach an amount of over 28 lakh crore rupees as of March 2021. Nevertheless banks are still on the ride of shrinking their ATM base which is adequate enough to exhibit that a huge chunk of this CIC (Cash in circulation) is still outside of the banking industry.
- In June 2019, the RBI had set up a committee spearheaded by V.G. Kannan, the then chief executive of Indian Banks' Association, to analyse the interchange fee structure. The aim was to stimulate ATM deployment in the country, especially in the unbanked areas. The committee had also pondered on the issues involved around the cost effects of regulatory guidelines for enhancing ATM security and control measures. Intensified security measures at the ATMs and the vehicles fetching cash had also impacted the overall economics of ATM deployment.

ATMs in India - an uplift Strategy

Further implementing the recommendations of the committee, the RBI on June 10, 2021 hiked the interchange fee on each financial transaction at an ATM to Rs 17 from existing Rs 15. The ceiling on customer charges was raised to Rs 21 per

transaction from Rs 20 as before, beyond the free transactions for customers. This hike takes into account the higher outgo on interchange for banks. It came into effect from January 1, 2022. For years, private banks and white label ATM operators had been expecting an increase in the interchange fee to Rs 18 from Rs 15. In simple words, one will have to pay more for using other banks' ATMs beyond the free limit. The interchange on non-financial transactions was also enhanced to Rs 6 from Rs 5 for non-financial transactions in all centres, effective from August 1, 2021. These rules and guidelines also hold true for transactions done at cash recycler machines, other than for cash deposit transactions.

India also has one of the lowest ratios of ATM cash withdrawals as compared to the cash in circulation, according to an RBI report, `Benchmarking India's Payment Systems' released in June 2019. It is also an index of the low efficiency in recycling cash, meaning, the cycle of cash withdrawals, payments made with it and again depositing the cash through the banking system, said the report. The data for the last 3-4 years reflects that banks have now slowed down in setting up new ATMs. There have been several instances of the PSU bank mergers wherein the managements have decided to shut down ATMs if the merged banks were having independent cash machines in the same locality. Moreover, since the cost involved in deploying an ATM is higher, one can't blame banks if they have decided against opening new ATMs and use the already existing machines by paying a lower fee for every transaction by their customers.

Conclusion

The fast emerging fintech industry will surely further erode the utility of ATMs for both banks and non-banks, which have deployed these, as well as customers. In fact, the entire payments system all over the world is constantly seething, both in scale and scope. Dealing with these changes will definitely define the future landscape of the payments system. As suggested by the Nandan Nilekani Committee on Deepening of Digital Payments, ATMs need to undergo change and should be seen as an access point for customer education, awareness, and support.

In addition, they have to support the gamut of banking facilities that includes cash deposit, bills payment, funds transfer, tax deposits, mobile recharge, investments etc. Evaluation of ATM transactions needs to be done on cost-plus basis, keeping in view the official changes introduced by RBI from time to time. It is worth mentioning that the

cost should be taken on the basis of actual amount incurred rather than estimation. It could be done through fixing the fee through comprehensive 'inter-bank agreements' after assessing all possible technical and non-technical parameters.

Utility and significance of ATMs are inextricably linked to the use of cash in an economy. If cash starts losing its dominance as 'the-king', the co existence of ATMs could automatically head towards an end. Intimidated by the ongoing rise of cryptos, a range of central banks across the world are no more reluctant to experiment with the digital currency.

Bahamas has already unrolled the first official digital currency of the world whereas El Salvador has recognized Bitcoin as legal tender. China, Japan, Sweden, Bank of England and European Central Bank are already working on the trials of CBDC and RBI is the latest to join the crusade.

Nevertheless, it's too early to write a eulogy for cash as well as ATMs. It is very much possible that ATMs start being replaced with cash recyclers. It has already dawned over the Banks and independent ATM deployers (IADs) that ATMs or their advanced version, the ACR (Automated Cash Recycler), are very much required in India, so as to serve the cash requirements of the population.

Digital payments, especially UPI, has undoubtedly multiplied its fold during this period, but cash remains the lubricant of the economy. In the days to come , we might be seeing the ATMs regaining their rightful spot and lustre as the accelerators of economic and inclusive growth. They might claim their thrust among the other dispensation models like UPI, micro ATMs, e-wallets, etc. But the need of the hour is such that there will be enough play for all. ❑

WHY UPI SHOULD REMAIN A FREEBIE

Historically, one of the defining characteristics of almost all central banks has been the monopoly rights over issue and management of currency notes.

This was to suit the economic needs of a nation. It's a monopoly cast on central banks by statute in most jurisdictions. By making available adequate quantity of cash, central banks grease the economic wheels at an affordable cost.

In keeping with the times and advancement in computer and communications technology, central banks have taken the lead in developing various payment products, outside the traditional cash-based payment system, with a view to reducing cost and enhancing user convenience.

Currency or cash has always come without any charge to the users. Not so with electronic payment products for which customers or beneficiaries in transactions have had to bear a small amount of fees imposed by Payment System Participants (PSPs), Payment System Operators (PSOs), Card Networks, Intermediaries, Third Party PSOs, etc.

So, when the RBI recently placed in public domain a 'Discussion Paper on Charges in Payment Systems', seeking public feedback, it was only stating the obvious that "in any economic activity, including payment systems, there does not seem to be any justification for a free service, unless there is an element of public good and dedication of the infrastructure for the welfare of the nation."

One particular proposal, however, attracted immediate reaction of the Union Government and it was quick to assert that "UPI is a digital public good with immense convenience for the public and productivity gains for the economy. There is no consideration in Government to levy any charges for UPI services."

Unified Payments Interface or UPI is today a household name recording over 14.55 billion transactions valued at Rs. 26.19 trillion (Q1 2022). Systems like UPI, IMPS and RuPay are owned and operated by National Payments Corporation of India (NPCI), which is a non-profit entity and "an umbrella organisation for retail payment systems." Significantly, one of the objectives of NPCI has been to take initiatives that "will contribute towards achieving cashless society." NPCI is not just a Section 8 company under Companies Act, 2013.

It is now a group having two wholly-owned subsidiaries under its belt. As per the balance sheet (FY 2020-21) of NPCI, the group is prohibited by its objects to carry out any activity on commercial basis.

Is UPI subsidised?

It need be mentioned that the Government had budgeted Rs. 1,500 crore for FY 2021-22 towards reimbursement of charges for RuPay debit card and UPI transactions. Similar financial support has also been announced for FY 2022-23. Further, the Government had also amended the Payments and Settlement Systems Act (PSS Act), to make the merchant discount rate (MDR) for both the aforesaid products zero, effective January 1, 2020.

This article contends that it is the statutory obligation of the RBI to operate any retail Funds Transfer System that de facto functions as a substitute for currency. Further, UPI, by definition, is not a part of the 'Funds Transfer Payment System', like NEFT, RTGS and IMPS, necessitating reimbursement of cost and maintenance charges. UPI is a surrogate for cash and NPCI a proxy for the RBI.

As such, the UPI system does not require any 'reimbursement' even by the Government. Section 2(h) of the Foreign Exchange Management Act, 1999 too defines 'currency' to include "all currency notes, postal notes, postal orders, money orders, cheques, drafts, travellers' cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments as may be notified by the Reserve Bank" .

NPCI was originally promoted by 10 banks from both the public and private sectors and licensed as a PSO by the RBI in 2008 as joint initiative of the RBI and the Indian Banks' Association (IBA) to takeover certain functions from the Institute for Development and Research in Banking Technology (IDRBT). Its mission is to touch "every Indian with one or other payment services."

Note that by virtue of being the sole operator for its services, licensed by the RBI, it has no competitor and has been bestowed with the monopoly to develop and operate retail payment systems.

That the balance sheet of NPCI for FY 2011-12 says that "the payment and settlement functions of RBI was divested to NPCI and any income generation is only incidental", further corroborates this contention. NPCI acts like an extended arm of the RBI so far as payment systems are concerned.

Under Section 22 of the RBI Act, 1934, the Bank has the sole right to issue currency notes in India. The RBI has made elaborate administrative arrangements for the discharge of the currency functions. The economy requires a certain quantity of cash to function. Cash used to be the dominant means of payment in day-to-day retail transactions. Cash is also essential for the inclusion of socially vulnerable citizens, such as the elderly or lower-income groups.

Let us not forget that bank notes are the only form of money that people can keep without involving a third party. You do not need access to equipment, the internet or electricity to pay with cash.

Ergo, when the central bank or its preferred agent nudges citizens to shift to electronic payment mechanisms, an obligation arises on its part to make available the small value electronic payment service without any cost to the user.

Printing, distribution costs

The RBI incurs substantial expenditure on printing and distribution of currency notes. Costs under this head, which was Rs. 2,021 crore in 2006-07 had recorded a CAGR of 6 per cent for a nine-year period reaching Rs. 3,421 crore in 2015-16. From 2017-18 through 2020-21, expenditure under this head has clocked a negative CAGR of 6.5 per cent, except for the year 2016-17 which was an outlier due to the re-monetisation efforts undertaken by the RBI.

This is supported by the data published by the RBI on printing of currency notes. According to this data, currency notes in 10 and 100 denomination have gone down in circulation during the last five years. Similarly, shipments of fresh notes by the presses in denominations of 10, 20, 50 and 100 have been recording secular contraction over the same period.

All these point to only one conclusion: cash payment is being replaced by UPI and other digital means. UPI is the future of cash. Of course, there is another instrument waiting in the wings to replace even the UPI and that is the Central Bank Digital Currency, when issued.

Thus, the savings on account of reduced spend on printing can partially, if not fully today, offset the cost borne by NPCI on promoting UPI without any 'reimbursement' by the Government.

UPI has revolutionised the way we carry, pay and settle peer-to-merchant and peer-to-peer transactions of small value, without having to handle currency notes. Today, UPI is going places and evolving as a brand internationally. It needs to be supported and perpetuated as a freebie before some other oven-baked technology takes over. *(Source: Business Line)*

RBI CIRCULAR

Compliance Function and Role of Chief Compliance Officer (CCO)- Urban Co-operative Banks

RBI/2022-2023/118

September 19, 2022

1. As part of the overall structure for Corporate Governance, the Compliance Function serves a critical role. Therefore, it has been decided to introduce certain principles, standards and procedures for Compliance Function in UCBs, keeping in view the principles of proportionality. Accordingly, this Circular shall be applicable to all UCBs under Tier 3 and Tier 4 categories1 except UCBs under All Inclusive Directions (AID)2. UCBs under Tier 1 and Tier 2 categories shall continue to be governed under the existing guidelines3.
2. The UCBs under Tier 4 category shall put in place a Board-approved policy and a Compliance Function, including the appointment of a Chief Compliance Officer (CCO), based on the Framework given in the Annex, latest by April 1, 2023. The UCBs under Tier 3 category shall implement the same latest by October 1, 2023.
3. This Circular shall be placed in the immediate next meeting of the Board of Directors for information and devising an implementation strategy, under the Board's supervision, in a time-bound manner.

(Tarun Singh)
Chief General Manager

Master Directions on Interest Rate on Deposits

RBI/2022-2023/117

September 16, 2022

1. Please refer to the instructions on the Foreign Currency (Non-resident) Accounts (Banks) Scheme contained in Section 19 (h) of the Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016 dated March 03, 2016 and Section 18 (h) of the Master Direction – Reserve Bank of India (Co-operative Banks – Interest Rate on Deposits) Directions, 2016 dated May 12, 2016 in terms of which, reference rates for arriving at the interest rates on FCNR (B) deposits shall be quoted / displayed by Foreign Exchange Dealers Association of India (FEDAI).
2. In terms of the guidance provided by RBI, the reference rates mentioned above are being quoted / displayed by Financial Benchmarks India Pvt. Ltd. (FBIL) with effect from January 31, 2022. In this regard, the relevant sections of both the Master Directions on Interest Rate on Deposits have been suitably modified.
3. Further, the instructions regarding eligibility for opening of savings account contained in Section 28 (h) and Section 27 (h) of the above-mentioned Master Directions (MDs) dated March 03, 2016 and May 12, 2016, respectively, and item No. 6 in Schedule I of the two MDs have been modified to make them more explicit.
4. The relevant sections of the Master Directions as amended are indicated in the Annex.
5. All other instructions in this regard shall remain unchanged.

(Santosh Kumar Panigrahy)
Chief General Manager

Rupee Drawing Arrangement - Enabling Bharat Bill Payment System (BBPS) to process cross-border inbound Bill Payments

RBI/2022-23/115

September 15, 2022

1. Please refer to A.P. (DIR Series) Circular No. 120 dated April 10, 2014 on 'Rupee Drawing Arrangement – Direct to Account Facility', in terms of which, foreign inward remittances received under Rupee Drawing Arrangement (RDA) can be transferred to the KYC compliant beneficiary bank accounts through electronic mode, such as, NEFT, IMPS, etc. subject to the procedure and conditions mentioned therein.
2. As announced in Para 6 of the Statement on Developmental and Regulatory Policies issued on August 05, 2022, it has been decided to allow foreign inward remittances received under the Rupee Drawing Arrangement (RDA), to be transferred to the KYC compliant bank account of the biller (beneficiary) through Bharat Bill Payment System (BBPS), subject to the conditions mentioned in Para 3 of A.P. (DIR Series) Circular No.120 dated April 10, 2014.
3. AD Cat-I Banks may bring the contents of this circular to the notice of their constituents concerned.
4. The directions contained in this circular have been issued under Section 10(4) and Section 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law.

(Vivek Srivastava)
Chief General Manager

Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)

RBI/2022-23/113

September 07, 2022

1. Please refer to paragraph 5.2 of the Master Circular on Basel III Capital Regulations dated April 1, 2022 in terms of which banks are permitted to apply zero percent risk weights in respect of claims on Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC).
2. In order to have a consistent approach with regard to risk weights for exposures guaranteed by such Trust Funds, it is advised that the risk weight of zero percent shall be applicable in respect of exposures guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH and NCGTC satisfying the following conditions:
   i. **Prudential Aspects:** The guarantees provided under the respective schemes should comply with the requirements for credit risk mitigation in terms of paragraph 7.5 of the Master Circular on Basel III Capital Regulations dated April 1, 2022 which inter alia requires such guarantees to be direct, explicit, irrevocable and unconditional;
   ii. **Restrictions on permissible claims:** Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by member lending institutions (MLI), payout cap, etc., the zero percent risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations.
   iii. In case of a portfolio-level guarantee, effective from April 1, 2023, the extent of exposure subjected to first loss absorption by the MLI, if any, shall be subjected to full capital deduction and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations, on a pro rata basis. The maximum capital charge shall be capped at a notional level arrived at by treating the entire exposure as unguaranteed.
3. Further, subject to the aforementioned prescriptions at paragraph 2 above, any future scheme launched under any of the aforementioned Trust Funds, in order to be eligible for zero percent risk weight, shall provide for settlement of the eligible guaranteed claims within thirty days from the date of lodgement, and the lodgement shall be permitted within sixty days from the date of default.
4. Some illustrative examples of risk weights applicable on claims guaranteed under specific existing schemes are given in the Annex.
5. The above regulatory stipulation shall be applicable to all the regulated entities to whom this circular is addressed, to the extent these entities are recognised as eligible MLIs under the respective schemes.

(Manoranjan Mishra)
Chief General Manager

INDUSTRY - WISE DEPLOYMENT OF BANK CREDIT

(₹ Crore)

Sr. No.	Industry	Outstanding as on						
		Jun 21, 2019	Jul 19, 2019	Aug 30, 2019	Sep 27, 2019	Oct 25, 2019	Nov 22, 2019	Dec 20, 2019
2.1	Mining & Quarrying (incl. Coal)	41129	40563	40938	41380	41176	41372	42741
2.2	Food Processing	151625	150077	145210	142388	139693	136930	145578
2.2.1	Sugar	29572	28582	27889	27424	25914	24624	24541
2.2.2	Edible Oils & Vanaspati	20100	19475	18929	17923	17681	17430	20071
2.2.3	Tea	5110	5200	5356	5558	5497	5832	5458
2.2.4	Others	96843	96820	93036	91483	90601	89044	95508
2.3	Beverage & Tobacco	14376	14440	13857	14973	14717	14030	15034
2.4	Textiles	193595	191284	186307	186773	187677	186323	189152
2.4.1	Cotton Textiles	91947	90087	84473	84020	83999	83448	85688
2.4.2	Jute Textiles	2122	2110	2117	2168	2209	2181	2215
2.4.3	Man-Made Textiles	25984	25452	25423	25295	25763	25820	26170
2.4.4	Other Textiles	73542	73635	74294	75290	75706	74874	75079
2.5	Leather & Leather Products	11150	11211	11051	11044	11052	10813	10949
2.6	Wood & Wood Products	11691	11701	11881	12082	11992	11968	12067
2.7	Paper & Paper Products	30142	29760	29864	29973	30507	30230	30697
2.8	Petroleum, Coal Products & Nuclear Fuels	55775	53085	51976	53576	52477	52466	53536
2.9	Chemicals & Chemical Products	174540	173212	177006	180523	176120	173231	177427
2.9.1	Fertiliser	33118	34419	35572	36835	34080	34112	34375
2.9.2	Drugs & Pharmaceuticals	49021	48195	48566	49177	48873	48501	49839
2.9.3	Petro Chemicals	39493	37900	39987	39110	39743	37445	39154
2.9.4	Others	52908	52698	52881	55401	53424	53173	54059
2.10	Rubber, Plastic & their Products	45828	45843	46501	47007	46919	47029	49164
2.11	Glass & Glassware	9832	9652	9942	9387	8687	8686	8784
2.12	Cement & Cement Products	56126	57539	59223	60809	60587	59309	58502
2.13	Basic Metal & Metal Product	352015	347995	348467	354021	351144	347906	337587
2.13.1	Iron & Steel	266162	265912	266309	269955	268259	265599	254848
2.13.2	Other Metal & Metal Product	85853	82083	82158	84066	82885	82307	82739
2.14	All Engineering	164574	165038	166488	163374	166861	162680	158648
2.14.1	Electronics	37942	37367	37284	35168	35706	32895	33145
2.14.2	Others	126632	127671	129204	128206	131155	129785	125503
2.15	Vehicles, Vehicle Parts & Transport Equipment	81419	82728	83022	83038	82552	81472	82840
2.16	Gems & Jewellery	66218	66066	66361	65637	62792	61310	60452
2.17	Construction	97160	95384	95990	100074	99394	100091	102579
2.18	Infrastructure	1026481	1034716	1004811	1003786	1019784	1025154	1029417
2.18.1	Power	563743	568247	558892	557170	559953	562711	562025
2.18.2	Telecommunications	106831	112215	109761	115017	127493	130960	134310
2.18.3	Roads	186128	188386	190895	185293	185424	186529	186870
2.18.4	Other Infrastructure	169779	165868	145263	146306	146914	144954	146212
2.19	Other Industries	228356	218066	216319	215038	222620	221247	229218
	Industries	2812032	2798360	2765215	2774883	2786751	2772248	2794372

(Continued

INDUSTRY - WISE DEPLOYMENT OF BANK CREDIT (Concld.)

(₹ Crore)

Sr. No.	Sector	Outstanding as on Jan 31, 2020	Feb 28, 2020	Mar 27, 2020	Apr 24, 2020	May 22, 2020	Jun 19, 2020
2.1	Mining & Quarrying (incl. Coal)	41886	41600	43927	43508	42094	42890
2.2	Food Processing	150279	149851	154146	152326	149382	157937
2.2.1	Sugar	26288	26623	27382	27362	26556	25491
2.2.2	Edible Oils & Vanaspati	20745	19461	19240	18044	17980	17589
2.2.3	Tea	5438	5290	5375	5193	4406	5108
2.2.4	Others	97808	98476	102149	101727	100440	109749
2.3	Beverage & Tobacco	14991	15063	16522	16458	16111	15025
2.4	Textiles	190108	188067	192424	190040	189249	189236
2.4.1	Cotton Textiles	87850	86276	89283	87254	86023	86401
2.4.2	Jute Textiles	2198	2117	2116	1994	1958	2046
2.4.3	Man-Made Textiles	26017	25822	26074	26094	26349	26835
2.4.4	Other Textiles	74043	73852	74951	74698	74919	73954
2.5	Leather & Leather Products	10882	10720	11098	10830	10609	10936
2.6	Wood & Wood Products	12205	12102	12233	12343	12432	12591
2.7	Paper & Paper Products	31085	30607	30965	31276	31570	31675
2.8	Petroleum, Coal Products & Nuclear Fuels	55622	58679	75834	81636	73835	73323
2.9	Chemicals & Chemical Products	183048	184239	202949	193201	182315	180006
2.9.1	Fertiliser	34535	37028	49066	35981	34781	34486
2.9.2	Drugs & Pharmaceuticals	52072	50685	53427	53198	51800	52040
2.9.3	Petro Chemicals	40697	40188	42233	47383	40832	39455
2.9.4	Others	55744	56339	58223	56639	54902	54025
2.10	Rubber, Plastic & their Products	49254	48752	50415	49763	48645	48402
2.11	Glass & Glassware	8678	8494	8777	8412	8165	8132
2.12	Cement & Cement Products	57715	56634	58689	58916	58234	57163
2.13	Basic Metal & Metal Product	335104	333597	350325	354085	354466	350359
2.13.1	Iron & Steel	252173	250942	262396	268125	268756	266465
2.13.2	Other Metal & Metal Product	82931	82655	87929	85960	85710	83894
2.14	All Engineering	157586	155428	157259	154251	155201	147283
2.14.1	Electronics	33594	32900	30159	29968	30438	29742
2.14.2	Others	123992	122528	127100	124283	124763	117541
2.15	Vehicles, Vehicle Parts & Transport Equipment	79793	79111	82606	82565	84499	85374
2.16	Gems & Jewellery	59841	59147	59515	58880	57447	55686
2.17	Construction	105113	103972	104288	98980	100381	102608
2.18	Infrastructure	1036852	1018749	1053913	1055204	1055249	1069160
2.18.1	Power	559305	538993	559774	566556	568131	568950
2.18.2	Telecommunications	136080	141171	143760	139040	138289	146173
2.18.3	Roads	192232	186148	190676	189441	192041	194921
2.18.4	Other Infrastructure	149235	152437	159703	160167	156788	159116
2.19	Other Industries	237483	238000	239266	231698	231723	237424
	Industries	2817525	2792812	2905151	2884372	2861607	2875210

Source : *Reserve Bank of India.*

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