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Banks list Rs 83,000 crores NPAs for bad bank

Mumbai: JUNE 3 2021 **TIMES OF INDIA**

Public sector banks have shortlisted 28 loan accounts to be transferred to the National Asset Reconstruction Company (NARCL). Of these, lead banks have completed the process of obtaining approval from co-lenders in 22 accounts with Rs 82,500 crore of loans due.

Within this amount, borrowers such as VOVL, Amtek Auto, Reliance Naval, Jaypee Infratech, Castex Technologies, GTL, Visa Steel and Wind World account for 80%.

Other large companies that are to be sold to the NARCL include Lavasa Corporation, Ruchi Worldwide, Consolidated Construction and a few toll projects. According to banking sources, work is progressing on multiple fronts to ensure that the bad bank starts operations as soon as possible.

On Wednesday, bankers met to finalise the capital structure of the bad bank (NARCL). Sources said that the company would need at least Rs 6,000-crore capital of equity and debt to start operations.

In terms of Reserve Bank of India (RBI) regulations, asset reconstruction companies (ARCs) must pay 15% of the purchase consideration in cash upfront. Even if these 22 non-performing assets (NPAs) were valued at 50% of the loan amount, the ARCs would have to pay over Rs 12,000 crore to banks. The NARCL can, however, raise money on its own.

Since all these 28 loans have been fully provided for, any consideration that the banks receive will go into their bottom line as profit. Once the capital structure is finalised, the promoters will seek a licence from the RBI.

Lenders have decided to ask power finance companies to be the promoters as most other large lenders have a stake in existing ARCs.

While all banks will hold just below 10% stake, Canara Bank and Bank of Maharashtra will hold just over 10% and may be given promoter status.

Most other large banks will contribute to the ARCs' equity. The articles of association of the NARC have already been finalised.

Simultaneously, lenders are also discussing the setup of the asset management company that will do the recovery work. Lenders are hopeful of completing the loan transfer to the NARCL in July.

Finance minister Nirmala Sitharaman had announced in the Budget the setting up of a bad bank (NARCL) to acquire the NPAs from banks. The NARCL was to be in the public sector so that lenders do not have any problems in selling their bad loans.

The NARCL would pay 15% in cash and the balance in security receipts, which are similar to units in a mutual fund with the consolidated bad loan being the underlying asset.

The government would provide a guarantee to the security receipts issued by the bad bank, which would improve their valuation. Besides the loans having been fully provided for, the other requirement was that each loan should be above Rs 500 crore.

Also, loans that were classified as fraud or were in the midst of a liquidation process were not eligible. Many of these large accounts are undergoing recovery proceedings by banks and buyers have shown interest in these companies. The consolidation of loans will enable faster decision-making by the NARCL.

Banks Likely To Transfer Over Rs Two Lakh Crore Worth NPAs To Upcoming 'Bad Bank': Report

By **Swarajya Staff** - May 21, 2021

Both SBI and Syndicate Bank have announced a hiring spree (Pradeep Gaur/Mint via Getty Images)

With the stage set for the operationalisation of a 'bad bank' called National Asset Reconstruction Company Limited (NARCL) by next month, the banks are said to be gearing up for transfer of about 70-80 large non-performing assets (NPAs) to the new entity, reports *Economic Times*.

The size of all 70-80 of the each of the NPA accounts to be transferred by the banks to NARCL is said to be over Rs 500 crore. The NARCL will serve as a financial institution that will take over these NPAs of the lenders and undertake their resolution.

NARCL was announced by Union Finance Minister Nirmala Sitharaman earlier this year when she tabled the Union Budget 2021-22 before the Parliament on 1 February. It is expected that due to the formation of the NARCL, NPAs to the tune of over Rs 2 lakh crore will move out of the books of the banks.

After taking over the NPAs, the NARCL will then manage and dispose off the assets to alternate investment funds and other potential investors for eventual value realisation.

Meanwhile, it should be noted that NARCL will pick up only those assets that are 100 per cent provided for by the lenders. Also, the Reserve Bank of India (RBI) had said that loans classified as fraud cannot be transferred to NARCL.

Rural jobs scheme: Curious gap between 'offers' & works picked up

Surya Sarathi Ray | June 03, 2021
THE FINANCIAL EXPRESS

Unlike in April 2020, which saw complete nationwide lockdown and a decline in demand for MGNREGS work, the demand for work under the scheme that provides subsistence wages, remained high in May 2021, which also witnessed a near pan-India lockdown

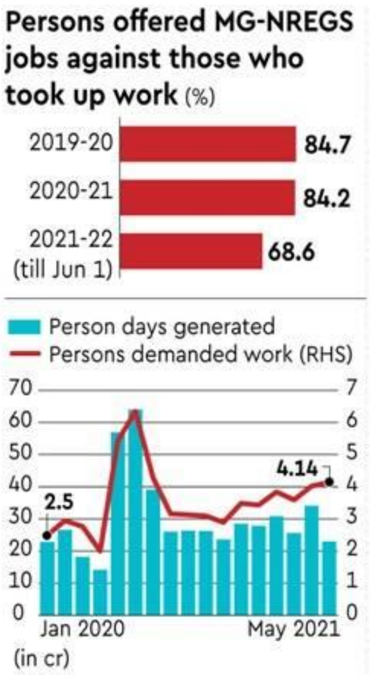
The Budget outlay for the scheme in 2021-22 is Rs 73,000 crore

Only 69% of the persons who were 'offered' work under the rural employment guarantee scheme (MGNREGS) turned up for it till June 1 in the current financial year against around 85% in the last two years, reflecting a rapid spread of Covid-19 in rural areas and probably a hesitancy on the part of the people to be exposed to the virus.

Unlike in April 2020, which saw complete nationwide lockdown and a decline in demand for MGNREGS work, the demand for work under the scheme that provides subsistence wages, remained high in May 2021, which also witnessed a near pan-India lockdown.

While 4.41 crore persons demanded work in May against 3.59 crore in March, only 22.9 crore person days were created in May compared to 25.6 crore in March. Curiously, even as the demand for work is high, people are unable to grab the work offered. Or there could be a 'communication gap' between the officers at the block/gram panchayat level and the workers, so that "work offers" are much less than reported officially.

The government was quite liberal with disbursal of MG-NREGS funds in the weeks that followed last year's lockdown – person days shot up to 57 crore and 64 crore, respectively, in May and June last year from an average of 22.1 crore/month in 2019-20. Though the rate declined since, a higher level of MGNREGS work was maintained throughout 2020-21, resulting in the spike in the budget outlay for the scheme to Rs 1.11 lakh crore from Rs 61,500 crore originally estimated. However, this time around, the government seems to be more economical with the spend on the scheme – at least there isn't evidence of a loosening of the purse strings by it as yet.



The Budget outlay for the scheme in 2021-22 is Rs 73,000 crore.

In a recent report, Nomura has noted that nominal rural wages have been pushed much higher during the pandemic – in 2020-21, rural wage buildup in the agricultural sector increased by 7.2 pp after rising 3.8 pp in FY20, while rural non-agricultural wages rose by 5.4 pp compared to a 3.9 pp buildup in FY20. Attributing the faster buildup in rural wages largely to supply-side factors, the agency added that while higher rural wages are usually positive for rural demand, it was unlikely the case in the instance reported. "Higher rural agricultural wages, alongside rising costs of other inputs like fodder, diesel and fertilisers, could lead to higher farm production costs, thereby resulting in cost-push inflationary pressures," it noted.

Mehul Choksi's bail plea rejected by Dominica court; to appeal in higher court

FE Online | June 03, 2021

THE FINANCIAL EXPRESS

Mehul Choksi appeared for the hearing before the magistrate on a wheelchair in a blue T-shirt and black shorts

Choksi is wanted in India in an alleged Rs 13,500 crore loan fraud case in Punjab National Bank and has an Interpol Red Notice against him

A magistrate court of Dominica has rejected the bail application of fugitive businessman Mehul Choksi, in connection with his illegal entry into the island nation. The diamantaire was arrested in Dominica last month after he went missing from Antigua and Barbuda. Soon after the judgement, his lawyer said that they will appeal in a higher court against the judgement. "We will move the upper court," said Vijay Aggarwal, Choksi's lawyer.

Choksi appeared for the hearing before the magistrate on a wheelchair in a blue T-shirt and black shorts. He has been sent to the hospital where he will continue to receive the treatment for injuries sustained.

Earlier yesterday, the Dominica High Court had ordered his production before a magistrate court after hearing a habeas corpus petition filed on behalf of the businessman. Choksi had claimed that he was abducted from Antigua and Barbuda and forcefully brought to the Caribbean Island nation. Choksi's lawyers alleged that the businessman was kidnapped from Jolly Harbour in Antigua.

The prosecution contended that the habeas corpus petition does not stand in the case as Choksi had entered Dominica illegally and was subsequently detained. Choksi's lawyer Vijay Aggarwal had claimed that production before the magistrate court has vindicated their stand that Mehul Choksi is in illegal detention.

The Public Prosecutor had submitted that Choksi should be deported to India while the businessman's lawyers argued that he is not an Indian citizen of India as Article 9 of the Indian Constitution says that when a person acquires citizenship of another country, he/she will automatically cease to be a citizen of India.

The businessman had mysteriously disappeared on May 23 from Antigua and Barbuda and was detained in Dominica for illegal entry after a possible romantic escapade with his rumoured girlfriend. Choksi has been staying in Antigua and Barbuda since 2018 as a citizen after fleeing from India.

Choksi is wanted in India in an alleged Rs 13,500-crore loan fraud case in Punjab National Bank and has an Interpol Red Notice against him.

Central banks may taper stimulus soon

Lokeshwarri SK | June 03, 2021

THE HINDU BusinessLine

Govt debt is at unprecedented levels and continued money-printing is beginning to impact inflation and create asset price bubbles

Stock markets that have managed to convince themselves that central bank liquidity will continue for a long time will soon have to wake up to taper. For most central banks have begun preparing the ground for an exit. While some central banks such as the Bank of Canada have begun reducing the quantum of bond purchases, others are seriously considering increase in policy rates.

The central bank that everyone closely monitors due to its overarching impact on global liquidity — the Federal Reserve — is however treading extremely cautiously. The Fed Chairman has been stoic and the latest policy meeting statement went all out to assure markets that accommodative policy will be maintained for as long as it takes.

But rumblings were noticed in the minutes of the latest FOMC meeting. A number of participants are reported to have suggested that if the economy continued to make rapid progress towards the committee's goals, "it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases". Regulators in other countries are also dropping hints on similar lines.

But it is clear that central banks want the exit from the monetary easing cycle to be smooth, without destabilising financial markets. For the "wealth effect" created by inflated stock prices has a large part to play in driving consumption to fuel economic recovery, once the pandemic curve is flattened.

That said, everyone agrees that expansionary policies cannot be continued for long. Besides taking the government debt to unprecedented levels, continued money-printing is beginning to impact inflation and is creating bubbles in many segments of the market.

Sooner rather than later, central banks will have to begin tapering and stock prices will have to adjust to the new demand-supply equilibrium.

Expanding balance sheets

The scale of stimulus unleashed by central banks last March was like a giant wave that lifted financial markets and helped economies recover faster than earlier anticipated. The stimulus was a combination of massive interest rate cuts and trillions of dollars of money printed to infuse into the economies. The money printing has however resulted in a sharp expansion in the balance sheets of central banks.

The Federal Reserve’s balance sheet expanded 76 per cent in 2020, increasing from $4.1 trillion to $7.3 trillion. The quantum of Coved-stimulus in the US is more than twice the amount infused during the last quarter of 2008, in response to the Global Financial Crisis. Other central banks including the ECB, Bank of Japan and Bank of Canada have also seen their balance sheets expanding sharply after February 2020.

This expansion has resulted in the debt-GDP ratio of these countries rising to alarming levels in 2020. According to the IMF’s fiscal monitor, the US’ general government debt as a per cent of GDP increased from 108 per cent in 2019 to 127 per cent in 2020 and is set to hit 132.8 per cent in 2021. Debt to GDP of UK similarly increased from 85 per cent in 2019 to 103 per cent in 2020 and Canada witnessed a sharper increase from 86 per cent to 118 per cent.

While the debt-GDP ratio of emerging economies such as India, China and Brazil did not exceed 100 per cent in 2020, it has nevertheless registered a sharp expansion due to the extra borrowing to fund pandemic-related expenses.

Fiscal balance of all countries has jumped due to the expenditure incurred during the pandemic and falling revenue. The IMF estimates that average overall deficits as a share of GDP in 2020 reached 11.7 per cent for advanced economies, 9.8 per cent for emerging market economies, and 5.5 per cent for low-income developing countries.

But as economies recover with the progress of vaccination and as government revenues pick-up, fiscal deficit is expected to reduce in 2021, leading to lower need for supporting the economy through additional borrowing.

Inflation raises its head

The other reason why Covid-stimulus may be unwound soon is the impact it has on inflation. As consumption demand began recovering due to containment of the virus in many countries and as governments began spending more on infrastructure and construction to revive their economies, prices of commodities including metals, agri commodities and energy have been shooting higher. Supply constraints due to lower output last year are also contributing to the price increase.

Debt levels above high-water mark

General government debt (as % of GDP)

	2016	2017	2018	2019	2020	2021
Japan	232.5	231.4	232.5	234.9	256.2	256.5
UK	86.8	86.3	85.8	85.2	103.7	107.1
US	106.6	105.6	106.6	108.2	127.1	132.8
Canada	91.7	88.8	88.8	86.8	117.8	116.3
Euro Area	90.1	87.7	85.8	84.0	96.9	98.2
China	48.2	51.7	53.8	57.1	66.8	69.6
India	68.7	69.5	70.2	73.9	89.6	86.6
Brazil	78.3	83.6	85.6	87.7	98.9	98.4
South Africa	51.5	53.0	56.7	62.2	77.1	80.8

CPI inflation becoming a concern

Latest CPI (%)

US	4.2
Canada	3.4
Russia	5.5
UK	1.5
Japan	-0.4
India	4.3
Euro zone	1.6
Brazil	6.8
China	0.9

Source: IMF fiscal monitor, Bloomberg

Consumer inflation has become worrisome for many countries including the US, where it hit 4.2 per cent in April. While the Fed has been brushing this aside as a transitory phenomenon, there are many who think that the Fed could be falling behind the curve. Inflation has crossed 5 per cent in many economies including Brazil and Russia.

Inflation is being fuelled by the extra cash in circulation due to stimulus funds as well as the ultra-low interest rates in advanced economies. Pressure is therefore beginning to mount on Fed and other central banks to consider increasing rates.

Asset price inflation

The bigger problem before central bank is the asset price inflation fuelled by low interest rates in the US, Europe and Japan. With over 70 per cent of global funds and investors originating from these regions, lower interest rates here is fuelling carry trade (wherein loans are taken in currencies with lower rates to invest across global asset classes).

Federal Reserve Dallas President Robert Kaplan was quite vocal in a recent interview about asset price inflation, especially in prices of single family homes in the US, which according to him, was caused by continued liquidity infusion by the Fed. He was of the opinion that asset purchases that were initiated during the crisis need to be moderated and the Fed should take its foot off the accelerator gradually.

The RBI Annual report for 2019-20 had an interesting section titled, 'Is the bubble in stock markets rational?' The central bank argues that the 100.7 per cent increase in the stock market since the March 2020 lows in the context of 8 per cent contraction in the GDP in 2020-21 poses the risk of a bubble.

The RBI also acknowledges that liquidity injected to support economic recovery can lead to unintended consequences in the form of inflationary asset prices and states that "liquidity support cannot be expected to be unrestrained and indefinite and may require calibrated unwinding once the pandemic waves are flattened and real economy is firmly on recovery path."

Given the multiple reasons why central banks cannot continue the stimulus forever, it appears to be a matter of time before tapering begins in most economies. Investors of stock markets therefore need to get ready for life without the liquidity support. While some correction in stock prices could be on the cards, if tapering begins, it will be healthy, helping remove some of the speculative froth.

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