

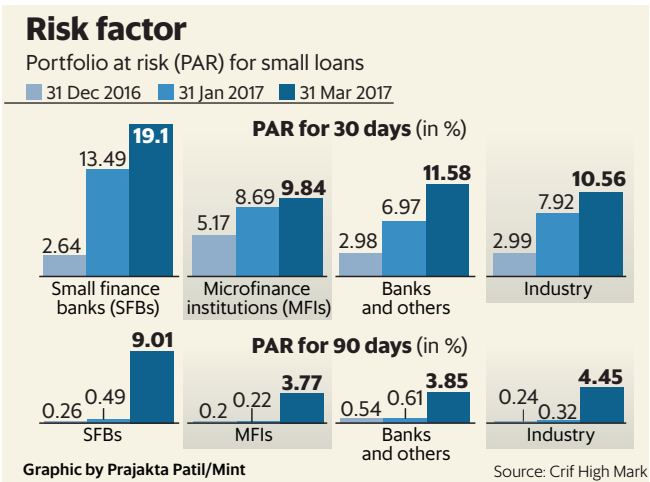
Small finance banks see asset quality deteriorate

Portfolio at risk for 30 days rises to 10.56% as of March-end from 2.99% in Dec

BY SAHIB SHARMA
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MUMBAI

Small finance banks (SFBs) are showing elevated signs of risk as asset quality deteriorated post the invalidation of high value currency notes in November. As a grouping, small finance banks (SFBs) have the worst numbers. According to data compiled by Crif High Mark Credit Information Services, a credit bureau, the portfolio at risk (PAR) for 30 days has increased 10.56% at the end of March compared to 2.99% three months earlier. PAR is the proportion of loans overdue (for a specific number of days) to the overall loans outstanding. Similarly, PAR above 90 days for microloans stood at 4.45% at the end of March compared to 0.24% at December-end. Total microloans outstanding at the end of March stood at Rs1.05 trillion, up 31% from a year ago, and a slowdown from the 42% pace



recorded the previous year, according to Crif data. Year-ago figures for the industry stood at 0.30% for PAR above 30 days and 0.16% for PAR above 90 days. This loan portfolio is roughly divided into three equal parts held by small finance banks, microfinance companies and commercial banks and others. For SFBs, PAR above 30 days and PAR above 90 days stood at 19.10% and 9.01% at the end of

March. This was an increase from their December-end numbers as the chart alongside shows. That microfinance asset quality would drop post demonetization is not surprising, but the depth of the fall has surprised analysts. "Small finance banks have diversified portfolios and the ones having exposure in Karnataka, Maharashtra and Uttar Pradesh were severely impacted," said Rohit Inamdar,

senior vice-president at Icra Ltd. "The small finance bank portfolio is getting skewed because of some of the entities. Excluding them will make this portfolio in line with microfinance companies and others." Collection rates dropped to levels of 40-50% during December in places such as Maharashtra, Karnataka and Uttar Pradesh where some political leaders told people their loans have been waived off. Janalakshmi Financial Services Ltd has a PAR above 30 days of 31% at the end of March while its PAR above 90 days stood at 14%, according to two people aware of the matter. Both these numbers are roughly three times the industry level. Janalakshmi spokespersons did not respond to calls seeking comment. Emails sent on Thursday and Monday remained unanswered. Janalakshmi holds 40% of the loan portfolio among small finance bank portfolio at the end of March, according to Mint research.



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TOO EARLY TO DECLARE VICTORY ON INFLATION

EXPERT VIEW

SONAL VARMA



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In the aftermath of note ban, both food price and core inflation measures continue to slow. Average CPI inflation looks set to undershoot the Reserve Bank of India's (RBI) projection of 4.5% in the first half of 2017-18. Does this call for a shift in policy stance and monetary policy easing by RBI? Not really. There are five reasons why caution is still warranted. First, one of the main reasons for recent low inflation numbers is lower-than-expected food price inflation. It is true that proactive food management by the government and prudent support price policies have led to a lowering of food price inflation and its volatility. In 2015-16, food price inflation averaged 5.2% year-on-year (y-o-y) versus 9.6% in 2012-14. But the recent trend in food price inflation reflects more the initial distress sales in perishables during demonetization and improved supply, especially in the case of pulses. In April 2017, food price inflation stood at 0.6% y-o-y, vegetable price inflation at -8.6% and pulses price inflation at -15.9%. This is not a new normal. Rural agriculture wages rose 8.1% y-o-y in March 2017 and the weighted average minimum support price increase was around 6% in 2016-17. Hence, even if food price inflation reverts back to its 2015-16 average of 5%, this could add 1.7 percentage points to headline inflation. Second, core inflation has moderated. There are many methods of measuring core inflation; our preferred gauge is the 10% trimmed mean, which excludes 10% each of the highest and lowest CPI inflation components each month. We find that that trimmed mean inflation was broadly stable in the 4.5-5.0% range until October 2016, but it started to moderate after demonetization and stood at 4.1% y-o-y in April 2017. If the downtrend was triggered by demonetization, then won't re-monetization reverse the downtrend, albeit with a lag? Moreover, it is hard to disentangle the role of structural from cyclical factors. Some of the moderation is possibly structural as seen in disinflation in non-discretionary categories such as health servi-

ces. But the negative output gap and stressed balance sheets have also played a large cyclical role. If these cyclical drivers reverse, will inflation still stay at 4% sustainably? Third, an important aspect of the flexible inflation-targeting regime is the need to lower households' inflation expectations. Even as CPI inflation moderated to around 3.5% y-o-y in Q1 of 2017, one-year ahead inflation expectations rose to 9.3%. Now, expectations are known to be adaptive. Our analysis suggests that the sensitivity of expectations to actual inflation is the highest at a five-quarter lag with both food and oil prices playing important roles in their formation. This implies that if the current regime of low headline and food price inflation persists, then inflationary expectations should moderate in the coming quarters. But policymakers need to wait out this process. One-year ahead inflation expectations have fallen from their peak of 13% in 2013, but they are still much higher than in 2006 (5.5-6%). Fourth, there are triggers on the horizon that may result in a one-time rise in inflation later this year. The house rent allowance (HRA) increase for central and state government employees is still pending. The near-term inflation impact of the coming goods and services tax (GST) is not yet certain. Even as the government has tried to ensure that the GST is progressive and results in disinflation, this may not practically materialize due to firms' asymmetric pricing responses, which tend to be rigid on the downside and more flexible on the upside. Other factors like difficulties in isolating the profits accruing due to GST suggest that while direct benefits may be passed, the indirect benefits may be fully

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retained by most firms. Indeed, international evidence suggests caution. We studied the impact of GST on near-term inflation in Australia, Canada, Japan, Malaysia and Singapore. We found that even as the GST tax rate was introduced at a rate lower than previous tax rates, inflation rose in all five after GST implementation, including in Malaysia, which tried to more strictly enforce anti-profiteering mechanism. Fifth, caution is also warranted due to global factors. A gradual reduction in the Fed's balance sheet and potentially even by the European Central Bank next year could result in higher longer-term rates globally and trigger capital outflows from emerging markets. India has a sufficient cushion on this front—higher real interest rate and strong fundamentals—but policymakers still need to stay alert. Overall, though headline inflation has moderated and will stay benign in the next few months, it is best to exercise caution now. Rather than ease in haste and reverse course later, it is prudent for policymakers to stay the course and ensure that the recently made gains are indeed more durable. Sonal Varma is managing director and chief India economist, Nomura. This is the first in a three-column series ahead of RBI's second bimonthly policy meeting of 2017-18 on 6-7 June.

RBI unlikely to dictate banks' haircuts on bad loans: S&P

BY ALEKH ARCHANA
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The Reserve Bank of India (RBI) is unlikely to step in and dictate the loan amounts banks must sacrifice in the process of resolving bad loans, S&P Global Ratings said.

On 5 May, the government moved an ordinance empowering the central bank to intervene directly in stressed asset cases. Resolving stressed loans will involve banks taking so-called haircuts, or sacrificing a part of the principal and interest payments due to them. The available pool of capital, especially with public sector banks,

to absorb stressed loans remained thin as of the end of March, S&P said in a report. S&P also pointed out that the ordinance and the other measures announced by RBI and the government fail to address the structural issue of lack of capital, which restricts the ability of state-owned banks to write down non-performing loans to

more accurate levels. S&P estimates total stressed loans, gross bad loans and restructured assets in the banking sector will increase to 13-15% by end of March 2018, from 12.3% reported on 30 September 2016. "India's public sector banks will account for most of this weakness," said S&P Global Ratings credit analyst Deepali Seth Chhabria.

2nd ANNUAL

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Date: 25th - 26th May 2017

Venue: The Lalit, Mumbai

www.indiainsurancesummit.com

Keynote address by K Sanath Kumar , National Insurance Company

Chief Guest address by Shri Vinit Goenka

CEO Panel on General Insurance

CMO & Marketing Panel

CEO Panel on Life Insurance

Panel on Technology & Innovation in Insurance

CEO Panel on Health Insurance

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The 2nd Annual Insurance India Summit & Awards 2017, with the theme "Futurecrafting the Insurance Industry" provided a platform for industry stakeholders to work out a roadmap for unleashing the true potential of the Insurance sector. The Focus was on 3Cs – Cost, Customer and Competitors. The exclusive 2 day summit just got concluded on 25th -26th May, 2017 at the Lalit hotel in Mumbai. The Honourable Chief guest address was delivered by Shri Vinit Goenka, Member – Governing Council CRIS, Ministry of Railways & Member – Task Force (IT), Ministries of Shipping, Road, Transport and Highways. Mr Krishnan Chatterjee, Head of Marketing, SAP India Sub-continent, welcomed the audience with the welcome address for the industry leaders. The Keynote address on Future crafting the Insurance Industry, was delivered by veteran and industry stalwart, Mr K Sanath Kumar, CMD, National Insurance Company. Mr Hareesh Ramchandani, Director & CEO, Value Direct, spoke and presented on New customer acquisition through social media. The first CEO panel of the summit was on 3Cs – Cost, Customer & Competitors – The Future of General Insurance Industry. The panel was moderated by Mr Vikrant Chowdhury, Head, BFSI & Telecom, SAP India Sub continent, with key general insurance industry stalwarts – Mr Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance, Mr K Sanath Kumar, CMD, National Insurance Company, Mr Rajiv Kumar, MD & CEO, Universal Somp General Insurance, Mr Roopam Asthana, CEO, Liberty Videocon General Insurance, as panel members. Mr Srikumar Kumar, Founder & CEO, Alparithm Technologies Pvt Ltd, presented and delivered address on the crucial subject of Data replication benefits for the Insurance industry. The next highlight of the day, was the panel on Power of creating your own Market - Marketing & Innovation, when two worlds collide, the panel was moderated by Mr SV Ramanan, CEO & MD, CAMSRep, with key industry experts – Mrs Anamika Roy Rashtrawar, Senior President, Bajaj Allianz General Insurance, Mr Shalabh Saxena, Chief Operating Officer, Canara HSBC OBC Life Insurance Company, Mr Gunjan Ghai, Senior Vice President – Brand & Marketing & Product Development, SBI General Insurance, Mr Ashish Rao, Executive Vice President & Head – Customer Service, ICICI Prudential Life Insurance as key panel members. The next big panel was on CEO – The Future of the Life Insurance Industry, which was moderated by Mr Vikrant Chowdhury, Head, BFSI & Telecom, SAP India Sub continent and included key stalwarts – Mr Nilesh Parmar, COO, Edelweiss Tokio Life Insurance, Mr Anuj Mathur, CEO, Canara HSBC OBC Life Insurance, Mr Mohan Jayaraman, MD, Experian Credit Information Company India Pvt Ltd as panel members. The panel focused on 3Cs – Cost, Customer and Competitors in Life Insurance industry. The Final Panel session of Day 1 was on the State of Digital Capture through Technology Innovation, which was moderated by Mr Srikumar Kumar, Founder & CEO, Alparithm Technologies Pvt Ltd, and key experts from the Industry – Mr Sudip Banerjee, Chief Risk & Technology Officer, Reliance General Insurance, Mr Mayur Vasa, Head – IT Applications, Liberty Videocon General Insurance, Mr Sourabh Chatterjee, President, CIO, Head – Digital Sales, Marketing & Direct Business, Bajaj Allianz General Insurance, Mr Rajesh Varrier, Chief Information & Digital Officer, EVP – Birla Sun Life Insurance, Mr Akhil Choudhary, CEO, Binary Semantics, Mr Subhajit Banerjee, Group Product Manager, Majesco, Mr Vinayak Khadye, Director – Digital Transformation Solutions, NeoQuant Solutions Pvt Ltd, Mr Mohit Rochlani, Director – IT & Ops, IndiaFirst Life Insurance as key panel members. 2nd Day of the Summit, was opened with the CEO Health Insurance Panel on the subject 3Cs and the future of the Health Insurance industry, it was moderated by Mr Aditya Narayan Das, Industry Director, SAP India Sub continent, the panel was graced by Mr Sandeep Patel, MD & CEO, Cigna TTK Health Insurance, Mr Antony Jacob, CEO, Apollo Munich Health Insurance, Mr Mayank Bathwal, CEO, Aditya Birla Health Insurance, Dr Nayan Shah, Founder & MD, Paramount Health Group, Mr Vinay Kumar, CEO, Arya.ai as the key panel members. Mr Aditya Narayan Das, Industry Director, SAP India Sub continent on the subject InsuranceNEXT: The SAP story, delivered an exciting and interactive presentation. SPECIAL REPORT: INSURANCE INDIA AWARDS 2017! The WINNERS: A Big Congratulations to all from Quest Conferences

- Insurance Company of the Year – The New India Assurance Co Ltd
- Life Insurance Company of the Year – IDBI Federal Life Insurance
- General Insurance Company of the Year – Reliance General Insurance
- CEO of the Year Life Insurance – Mr Anuj Mathur, Canara HSBC OBC Life Insurance
- CEO of the Year General Insurance – Mr Roopam Asthana, Liberty Videocon General Insurance
- Health Insurance Company of the Year – Apollo Munich Health Insurance Company
- Insurance Personality of the Year – Mr Tapan Singhel, Bajaj Allianz General Insurance
- Life Time Achievement Award – Mr G Srinivasan, The New India Assurance Co Ltd
- Rising Star of the Year – Aditya Birla Health Insurance Company
- Marketer of the Year – DHFL Pramerica Life Insurance Company
- Technology Initiative of the Year – IndiaFirst Life Insurance
- Customer Service Provider of the Year – Universal Somp General Insurance
- Agriculture Insurance Company of the Year – Agriculture Insurance Company of India Ltd
- Product Innovator of the Year – Aditya Birla Health Insurance Company
- Innovative Solution Provider of the Year for the Industry – SAP India
- Insurance Company of the Year (BANGLADESH) - Popular Life Insurance
- TPA of the Year - Paramount Health Services (TPA) Pvt Ltd

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