



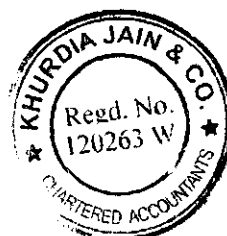
BANKING SNIPPETS FOR NOVEMBER 2017

1. MOODY'S UPGRADES INDIA'S CREDIT RATING FOR FIRST TIME

IN 13 YEARS: US based Moody's has upgraded India's sovereign credit rating by a notch to "Baa2" with a stable outlook citing improved growth prospects driven by economic and institutional reforms. The rating upgrade comes after a gap of 13 years. "The decision to upgrade the ratings is underpinned by Moody's expectation that continued progress on economic and institutional reforms will, over time, enhance India's high growth potential and its large and stable financing base for government debt, and will likely contribute to a gradual decline in the general government debt burden over the medium term," Moody's said in a statement. Upgrade/downgrade India Rating by Moody's :

Moody's India Rating History

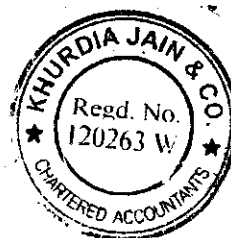
Date	Rating	Rating Action
16-Nov-17	Baa2	Upgrade
16-Nov-16	Baa3	RATING AFFIRMATION
9-Apr-15	Baa3	RATING AFFIRMATION
22-Jan-04	Baa3	Upgrade
16-Oct-03	Ba1	On Watch - Possible Upgrade
3-Feb-03	Ba1	Upgrade
14-Nov-02	Ba2	On Watch - Possible Upgrade
19-Jun-98	Ba2	Downgrade
8-Jan-98	Baa3	On Watch - Possible Downgrade
1-Dec-94	Baa3	Upgrade
14-Sep-94	Ba2	On Watch - Possible Upgrade
24-Jun-91	Ba2	Downgrade
26-Mar-91	Baa3	Downgrade
4-Oct-90	Baa1	Downgrade
28-Jan-88	A2	New





2. **GOVERNMENT TO PUT MORE CAPITAL IN PSBS TO STRENGTHEN THEM:** Finance Minister Arun Jaitley on 12th Nov 2017 said the government has decided to inject more capital in state-owned banks to strengthen the banking system and spur economic growth. Last month, the government had unveiled a staggering Rs 2.11 lakh crore two-year road map to bolster NPA-hit public sector banks, which includes recapitalisation bonds, budgetary support and equity dilution. Addressing heads of state-owned banks at 'PSB Manthan' here, Jaitley said the government has decided to put in more capital from the Budget, through bonds and banks' equity expansion and "therefore, it is the country which is virtually going to pay to keep the banking system in good health". The finance minister assured the bankers who gathered here that "you won't find us interfering" in commercial transactions, but "when the system is making all these changes and all these monetary contributions in order to strengthen the banking system, we want robust public sector banking system so that your ability to support growth itself increases". He further said one of the focus areas banks have taken up is to support MSMEs because the sector creating jobs and giving boost to the economy has no access to international finance or bond market. Jaitley told the bankers that the government is spending a lot of public money and foreign investment is coming in. "...we need the third engine also to fire and a robust private sector, MSME sector so that optimum growth rate which we have the potential for can be reached," he said. Non-performing assets of PSBs have increased to Rs 7.33 lakh crore as of June 2017, from Rs 2.78 lakh crore in March 2015. In the last three-and-a-half years, the government pumped in more than Rs 51,000 crore capitals in public sector banks.

3. **SBI NET PROFIT DOWN BY 38% ON HIGHER PROVISIONING:** State Bank of India's standalone net profit declined by 37.9% to Rs. 1,581 Crores in the second quarter of FY 2018. This is because of higher provisioning. There was robust growth in other incomes and hence the Bank's operating profit grew by 11.4% but due to higher provisioning the net profit was down by 38%.

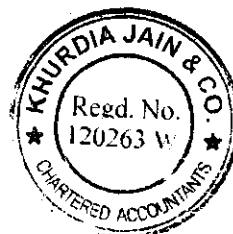




4. **GOVERNMENT'S NEW PROPOSAL "BAIL-IN" FACES LOT OF OPPOSITION FROM ALL QUARTERS:** The Centre's proposed Financial Resolution & Deposit Insurance Bill (FRDI), which is aimed at plugging bankruptcies in the financial service sector, includes a special provision ("BAIL-IN") which by definition allows the affected banks to use depositors' money to absolve some of the losses. The bill has suggested the use of "Bail-in" provision, which may result in cancellation of a liability, which could include bank deposits or could lead to modification of the terms of contract or changing the form of asset class (SB amount converting to FD for a fixed term). The provision would be last in the line for payments in case of liquidation. The present Deposit Insurance Scheme will be subsumed by the new bill, but the Rs 1 lakh deposit insurance will not change. But the plan has generated lot of heat and opposition from all quarters like political parties and bank unions who have criticised the move. Now the government has hinted at reworking the provision. It says no commercial bank has been allowed to sink in the last 70 years and that implicit sovereign guarantee continues even with this new bill. So in our opinion the question arises as to how safe is our Bank Deposits?

5. **WILFUL DEFAULTERS WILL NOT BE ALLOWED TO BID FOR STRESSED ASSETS:** SBI chairman Mr. Rajnish Kumar has said that banks will block efforts by wilful defaulters to bid for distressed assets in insolvency proceedings. He said that there is no place for wilful defaulters or people who have diverted funds as proved in the forensic audit. However he said that legally even the promoters were within their rights to bid for the stressed assets but banks would put some pre-conditions so that the wilful defaulters/promoters will not be able to bid for the said stressed assets.

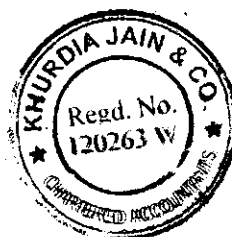
6. **SBI EXPECTS MOST CASES FROM RBI SECOND LIST OF NPAs TO GO TO NCLT:** State Bank of India expects most of the cases from RBI's second list of large Non-Performing Assets (NPAs) to be referred to the National Company Law Tribunal (NCLT) for resolution under the Insolvency and bankruptcy Code (IBC). The country's largest bank has an exposure of Rs. 26,636 crore to 27 of 30 such accounts listed by RBI.





7. AU SMALL FINANCE BANK GETS BIG THUMBS UP ON PROFITABILITY FROM MORGAN STANLEY: We expect strong growth/high profitability at AUSFB, given its: a) focus on the underpenetrated small business financing segment, b) early growth stage, c) strong credit underwriting, d) good track record, and e) experienced management. AU Small Finance Bank offers secured small loans primarily to the vehicle and the underpenetrated MSME (micro, small and medium enterprise) and SME segments in western India. It has a track record of strong growth and high risk-adjusted loan yields, driving high profitability. AUSFB is one of India's smallest banks. We expect its primary focus, the MSME loan segment, to emerge as one of India's fastest-growing financial segments over the next decade (see our 26-Sep-17 blue paper, India's Digital Leap - The Multi-Trillion Dollar Opportunity), helped by: a) improving underwriting ability, as data availability expands; and b) reduction in servicing costs, given digitization. Further, AUSFB is entering a number of newer loan segments (eg, home, gold, agriculture, business banking), in the wake of its conversion to a small finance bank from an NBFC in April 2017. While bank transition costs will likely dent F18 profitability, we expect RoE to recover quickly, to 16%/20% in F19/F20, mainly helped by: a) a highly profitable product mix (high yields); b) strong growth / operating leverage; c) funding cost reduction as deposits replace high-cost borrowing; and d) stable asset quality. AUSFB is trading at 44x our F19 / 27x our F20 EPS estimates. While this is not cheap relative to the SENSEX multiples, we expect such premium valuations to persist, given: a) a strong growth outlook; b) strong underlying profitability; c) balance sheet strength; and d) strong record of managing asset quality in a relatively riskier segment. Our price target is ₹725, which implies a valuation of 33xF20 earnings.

8. PRESIDENT APPROVES ORDINANCE TO AMEND BANKRUPTCY CODE: The government has amended the Insolvency and Bankruptcy Code to prevent wilful defaulters from bidding for stressed assets. The President has given approval for the said amendment which will be followed by cabinet approval.





9. RBI IMPOSES MONETARY PENALTY ON SOME PRIVATE

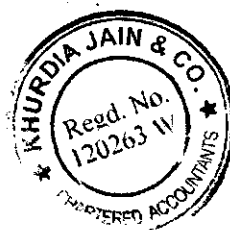
BANKS: The Reserve Bank of India has slapped a monetary penalty of Rs. 6 crore and Rs. 2 crore on Yes Bank and IDFC Bank respectively. The penalty is for violating regulations issued by RBI. Yes Bank has been penalised for non-compliance with the directions issued by RBI on income Recognition Asset Classification (IRAC) norms and delayed reporting of information on security incidents. IDFC Bank has been penalised for violating rules relating to loans and advances.

10. YES BANK RAISES \$400 MILLION LOANS FROM

JAPAN, TAIWAN: Midsize private sector lender Yes Bank has raised \$400 million in syndicated loans from lenders in Taiwan and Japan for on-lending to clients. It exercised a green shoe option to raise \$250 million in a five year commercial loan from 17 Taiwanese banks, a statement said. In Japan, it raised JPY 16.5 billion or \$150 million from eight lenders in a one-year loan in a maiden transaction, it said. This borrowing will be used for on-lending through its international branch at GIFT City, Ahmedabad. Its overall foreign asset book had stood at \$1.4 billion as of September. "Our maiden samurai transaction in Japan and strategic syndications in Taiwan demonstrate the Bank's ability to tap varied resource pools at competitive prices," its managing director and chief executive Rana Kapoor said in a statement. This the second time the bank has raised money from Taiwan, after a \$130 million loan from 10 banks last year, it said, adding that this year it had commitments of \$355 million. The bank scrip was trading 0.94 per cent up at Rs 316.15 a piece on the BSE at 1343 hrs, as against 0.66 per cent gain on the benchmark.

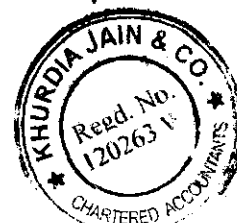
11. CRISIL SAYS NBFCs WILL EAT INTO BANKS' CORPORATE

CREDIT SHARE: Non-Banking Financial Companies have become aggressive in lending to mid-sized companies linked in real estate and infrastructure. The share of NBFCs in such loans in Indian credit market has increased by 3% and presently it is 19%. CRISIL has predicted that the next three years also the NBFCs will continue aggressive lending and this would eat up Banks' share.





- 12. SBI TO USE BLOCKCHAIN FOR SMART CONTRACTS AND KYC BY NEXT MONTH:** State Bank of India will roll out beta launches of Blockchain - enabled smart contracts. By next month SBI will also launch Blockchain enabled Know Your Customer (KYC) application. These two applications are part of BankChain, a community of 27 banks, which have joined hands to explore and build Blockchain solutions in India. The Blockchain is an incorruptible digital ledger of economic transactions that can be programmed to record not just financial transactions but virtually everything of value.
- 13. SPENDING ON INFORMATION-TECHNOLOGY BY BANKS AND SECURITY FIRMS TO TOUCH \$9 BILLION:** Information Technology (IT) spending in Indian Banking and Securities firms is expected to touch USD \$ 9.1 Billion, an increase of around 11.7% over last year. This is because the transition of Indian Banking sector to a cashless society is creating many opportunities of technology investments into digital payments infrastructure.
- 14. RBI ASKS LARGE CORPORATES TO OBTAIN UNIQUE CODE FROM BANKS:** RBI has instructed corporate borrowers having exposure of Rs. 5 crore and above to obtain a 20-digit Legal Entity Identifier (LEI) from banks, a move aimed at improving risk management. The code is conceived as a key measure to improve the quality and accuracy of financial data systems. A specific timeline for implementing LEI has been set as per the exposure. Corporates with more than Rs. 1000 crore will have to get the unique code by March 31, 2018. Those having exposure between Rs. 500 to Rs. 1000 crore have to get LEI code by June 30, 2018 and those having exposure between Rs. 100 to Rs 500 crore by March 31, 2019. Borrowers with an exposure between Rs. 50 to Rs. 100 crore have been given time till December 2019. A separate road map for borrowers having limits between Rs. 5 crore to Rs. 50 crore would be issued soon.
- 15. INDIA BECOMES 8TH BIGGEST EQUITY MARKET IN THE WORLD:** India has surpassed Canada to become the 8th biggest equity market in the world. India's market cap has swelled by 46.4% in 2017, faster than most of its emerging market peers.





16. LIC MAY TAKE PART IN BANK RECAPITALISATION

PROGRAMME: Life Insurance Corporation (LIC) may be roped in to participate in Rs. 2.11 trillion bank recapitalisation initiative. As a part of recapitalisation programme, LIC could also increase its stake in various public sector banks which are required to raise Rs. 58,000 crores from capital market. Besides this, LIC could participate in non-operating Holding Company (NOHC) structure to which the government may transfer its share and these NOHCs could issue recapitalisation bonds worth Rs. 1.35 lakh crore.

17. BANKS RECAPITALISATION TIED TO REFORMS: The government which has announced the recapitalisation of state owned banks has said that the recapitalisation does not come on its own as it is followed and preceded by a whole lot of plans and reforms. Everything is linked to the reforms which each bank board will consider within a time frame and have to come out with plan of action. The reforms also include bank board's taking a stand and coming up with a clear plan on consolidation.

18. RBI REJECTS ISLAMIC BANKING IN INDIA: In a major move, the Reserve Bank of India has decided not to pursue a proposal for introduction of Islamic banking in India. The Reserve Bank said the decision was taken after considering the wider and equal opportunities available to all citizens to access banking facilities.

19. GOVERNMENT SEEKS SPECIAL DIVIDEND FROM RBI FOR BANK RECAPITALISATION: The government has sought a special dividend from the RBI to fund a part of its Rs 2.11 lakh crore plan to recapitalise the public sector banks. The RBI has been asked to pay a special dividend apart from the yearly surplus that it pays to the government. This dividend if agreed by the RBI will be used only for bank recapitalisation.

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