

Equities

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India Banking Bits

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- **In News Today** — Axis seals Enam deal with revised structure; SBI may clock profit over Rs100bn this fiscal; Interview with DK Mehrotra, Acting Chairman, LIC; Loan rates to pinch this festive season, SBI to pass rate hike in 2-3 weeks; Lending rates to rise, albeit with a lag; Rate hike on expected lines, say bankers.
- **Axis seals Enam deal with revised structure** — Axis's board on Friday approved a revised deal structure mandated by the RBI. While Axis Bank has stuck to an all-stock deal as proposed in November last year, it will now sell the business to its arm, Axis Securities and Sales, for Rs2.74bn in cash. The amount represents the book value of Enam's financial services business. (Business Standard, September 17)
- **SBI may clock profit over Rs100bn this fiscal** — Country's largest lender State Bank of India profit in the current fiscal is likely to exceed Rs100bn on the back of increased business and sustained effort to contain bad assets. "The bank is making all-round effort to achieve Rs100bn profit during the year," senior officials of the bank said. The bank also expects Net Interest Margins (NIM) to be robust at over 3.5% during 2011-12 on the back of a rising lending rate. (Business Standard, September 19)
- **Interview with DK Mehrotra, Acting Chairman, LIC** — Life Insurance Corporation of India, the country's largest insurer, has shifted focus to traditional products from unit-linked insurance plans (Ulips) over the past two years, said acting chairman DK Mehrotra. In an interview with Shilpy Sinha, Mehrotra said that the Corporation, which is now trying to reach out to the younger generation, will witness improvement in sales, going forward. (Economic Times, September 19)
- **Loan rates to pinch this festive season, SBI to pass rate hike in 2-3 weeks** — State Bank of India to pass on policy rate hike to consumers in two-three weeks. A day after the RBI raised the key policy rate by 25bps the country's largest lender State Bank of India (SBI) said it will pass on the increase to consumers in two-three weeks by increasing its base rate. Another government-owned lender Bank of Maharashtra said it will raise its base rate from October 1. (Business Standard, September 18)
- **Lending rates to rise, albeit with a lag** — With the Reserve Bank of India (RBI) raising key policy rates by 25 basis points to 8.25 per cent on Friday, bankers said they would follow suit, though adding the transmission may come with a lag. Bankers also said high interest rates may lower credit growth further this financial year. State Bank of India (SBI), the country's largest lender, would increase the base rate, though that may not happen immediately. (Business Standard, September 19)
- **Rate hike on expected lines, say bankers** — The RBI's repo rate hike is on expected lines, which will be transmitted to borrowers sooner or later. However, some bankers feel that with inflation not getting moderated at all, the central bank might be coming out with few more rate hikes in the future. Though lending rates are expected to go up again, public sector Canara Bank will not transmit the burden to borrowers immediately. (Business Line, September 17)

See [Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.](#)

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Industry

New panel comprising LIC, IIFCL and IDFC to ease infrastructure funding

A proposed panel comprising LIC, state-run non-life insurance companies, IIFCL and IDFC will get to appraise and lend to infrastructure projects, a finance ministry official told ET. According to an IIFCL official, the panel will become operational in two weeks. "Banks can sell us their existing infrastructure portfolios and further agreements can be signed for new projects," the official said. (Economic Times, September 17)

After Ulips, traditional plans come under Irda scanner

After unit-linked insurance policies (Ulips), the Insurance Regulatory and Development Authority (Irda) is set to crack the whip on traditional plans as well. According to Irda sources, the regulator is wary of the low life risk covers associated with some traditional policies and is planning to introduce a minimum death benefit at five times the annual premium. (Business Standard, September 19)

MFIs in a quandary as clients refuse to repay loans

Desperate to collect dues of nearly Rs70bn which were held up with the clients for almost a year, the microfinance institutions (MFIs) in Andhra Pradesh have now doubled efforts to get back their money. There are many clients of various MFIs - who have loan dues amounting up to over Rs40,000 to different MFIs — who insist that they did not have the capacity to repay. (Business Line, September 19)

Govt panel to look into banks' capital needs

The government has formed a committee to look into the capital requirements of public sector banks in the light of the Basel-III norms, which the banks will start implementing from 2013. The finance ministry on Saturday reiterated that the government is committed to seeing its banks are well capitalised. (Business Standard, September 18)

Bankers take the digital path to financial inclusion

PJ Nayak, MD and country head, Morgan Stanley, has called for a bigger role for non-banking institutions in fostering financial inclusion, saying it would result in a more diverse financial ecosystem. Nayak believes that projecting banks as the central thrust of financial inclusion may not really work. (Financial Express, September 19)

SEBI's decision to revise penalty upsets traders

Brokers fear that the move will adversely impact participation of investors in the derivatives segment. Investors may have to cut their outstanding positions thereby affecting liquidity in the system, as brokers would be compelled to demand more margins to avoid being subjected to penalty. (Economic Times, September 19)

Old private banks factor in hike ahead of RBI announcement

Old private banks such as Catholic Syrian Bank, Tamilnad Mercantile Bank and City Union Bank seem to have hiked their base rate recently. So, a hike in the rate post the RBI's announcement of a hike in the repo rate today, did not leave the chiefs of these banks speechless, nor made them say 'we will take cue from the bigger players in the industry,' as they did in the past. (Business Line, September 17)

Bond yields inch up on RBI's hawkish tone

Yields on the 10-year benchmark 7.80% government bonds closed three basis points higher at 8.36% Friday, compared with yesterday's close of 8.33%. "Markets had already priced in the rate rise and, hence, did not react much," said a treasury official of a Chennai-based public sector bank. The lack of fresh supply from bond auctions kept the yields from hardening further. (Business Standard, September 17)

Banks / Financial Institutions

LIC wants to buy over 10% in a company

Life Insurance Corporation of India (LIC) has asked the sector regulator to allow a single fund from its portfolio to hold more than 10% of a company, so that it can buy more equity in a falling market. "We have reached the 10% ceiling and so we keep churning the portfolio, depending upon the market conditions. We have written to the regulator to increase the headroom," said DK Mehrotra, the acting chairman of LIC. (Economic Times, September 19)

IOB seeks Rs40.16bn capital support for 3 years

Indian Overseas Bank (IOB) has sought capital support of Rs40.16bn from the Govt. to fund its business growth for the three-year period beginning 2011-12. Of this Rs40.16bn, IOB has pegged the requirement for this fiscal at Rs12-Rs14bn. Although necessary enabling resolutions are in place to raise equity capital from public, the bank is not looking to come out with any follow-on public offering (FPO) this fiscal, Mr Narendra said. (Business Line, September 18)

Srei Infra raises lending rate 75 bps

Srei Infrastructure Finance Ltd has hiked its benchmark lending rate by 75 basis points to 17.5 per cent with immediate effect. The company's Asset Liability Management Committee took the decision to raise interest rates after reviewing the trend of increasing interest rates to curb inflation, said a press statement from Srei. (Business Line, September 17)

ICICI Lombard eyes art insurance

ICICI Lombard General Insurance Company is eyeing the 'relatively small and untapped' Indian art insurance market to expand its product portfolio. The Indian art market has seen a 500 per cent jump in sales in the last five years, according to a company presentation. Art insurance, among others, covers any damage arising from natural disasters, including floods and terrorism, transportation and restoration of the art work. (Business Line, September 19)

Sidbi to unveil Rs8.5bn VC funds to support SMEs

Small Industries Development Bank of India, or Sidbi, plans to launch three venture capital funds worth 8.5bn this fiscal to support small and medium enterprises. "The domestic market for SMEs is buoyant. The funds will support the growth story," Sidbi managing director S Muhnot told newsmen in Kolkata. (Economic Times, September 17)

Karur Vysya Bank on expansion mode

Karur Vysya Bank has added 10 branches and 50 ATMs to its network, to take the total branch network to 386 and ATMs to 583. It is aiming to have a network of 400 branches and 600 ATMs by end-September. Mr R. Gopalan, Secretary, Department of Economic Affairs, Ministry of Finance, inaugurated the Delhi – Connaught Circus branch. (Business Line, September 19)

Opinion

High prices to force home loan growth dip: National Housing Bank

Housing finance watchdog National Housing Bank (NHB) has said demand for home loans will slow down in the next few months due to high property prices. "Housing loans can be a bit sluggish because buyers feel there is no way of getting properties at a reasonable price, (and) they are postponing their purchases," NHB chairman and managing director RV Verma told reporters here over the weekend. (Economic Times, September 19)

New banks need to attune with national priorities: FM

With just 40% of India's population having bank accounts, finance minister on Saturday exhorted banks to do more for financial inclusion. Speaking at the FE Best Banks Awards ceremony, Mukherjee said he expected "the new banks which are going to come would be in a position to effectively compete with existing players and attune themselves with national priorities". (Financial Express, September 19)

RBI may hike lending rates further, says Exim Bank CMD

This was 12th rate hike by the apex bank in the past 18 months. "This may not be the last time that we are seeing a rate hike, the cycle may continue because of the rising inflation. Industry must also adjust to this high tide level," said T C A Ranganathan, chairman and managing director, Exim Bank, speaking on the sidelines of an ICC meet here. (Business Standard, September 19)

Non-life insurance sector to reach Rs900bn by 2015

The non-life insurance industry is expected to grow by over 18 per cent by 2015 to become a Rs900bn sector from the current level of Rs470bn, the Associated Chambers of Commerce and Industry of India (Assocham) has estimated. The growth forecast is being attributed to strong demands and growth of consumer base in motoring and healthcare, growth of services and small and medium enterprises. (Business Standard, September 19)

Splitting the chair in PSU Banks

The Reserve Bank of India's (RBI) proposal to split the post of chairman and managing director in public sector banks (PSB) is in line with the recommendations of HR committee on PSBs, 2010, appointed by the government, which this author had the privilege to chair. There are arguments for and against the proposal. (Economic Times, September 17)

RBI right in sticking to its guns

As expected by many observers and the markets, the RBI has raised the policy rates by 25bps to deal with the phenomenon of intractable inflation. After the index of industrial production for July 2011 showed a deceleration in the year-on-year growth from 8.8% in June to 3.3%, both industry and government put pressure on the RBI to declare a pause in its rate hikes, despite the near double-digit inflation prevailing in the economy. (Business Line, September 17)

The rate hikes have backfired

The RBI's mid-quarter review justifies, as usual with clarity, the decision to raise the repo rate last Friday. Modest as the hike may be, it signals the apex bank's intention to continue its hawkish stance. Banks are aware that the borrowing sentiment isn't exactly buoyant, given the hikes in lending rates so far. They are worried about the likely fall-out of those hikes on existing exposures. (Business Line, September 17)

Appendix A-1

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