The Hindu Business Line

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Rise in bad loans may spawn more ARCs

With RBI moving to resolve issue, players with deep pockets will be keen to set up shop

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While rising non-performing loans is bad news for banks, it seems to be good news for those wanting to set up Asset Reconstruction Companies (ARCs).

In the last nearly one year, four new ARCs have set up shop and even existing players are looking to boost their capability to help cleanse the banking system.

As of March-end 2017, the banking system is reeling under ₹12-lakh crore worth of stressed assets (gross non-performing loans plus restructured advances), providing a happy hunting ground for ARCs.

According to latest Reserve Bank of India data, 19 ARCs were registered with it as on August 31, 2016 while the Association of ARCs in India's membership currently stands at 22. So, three new members — Ambit Flowers Asset Reconstruction Pvt Ltd, Raytheon Asset Reconstruction Pvt Ltd, and Suraksha ARC — came on board the Association in the last one year or so.

A couple of months ago, Indiabulls Ventures announced that its wholly-owned subsidiary Indiabulls ARC has been granted the Certificate of Registration by the RBI. This takes the total number of ARCs in the country to 23.

Ambit Flowers ARC is a joint venture between Ambit Holdings and US-based private investment firm JC Flowers.

Suraksha ARC is sponsored by Sudhir Valia, Executive Director, Sun Pharmaceutical Industries, and Vijay Parekh, a first generation entrepreneur with 20 plus years experience in real estate.

Raytheon ARC has been floated by Anil Bhandari, who has 23 years experience, including 13 years in banking, with exposure to legal/ recovery including restructuring/ one-time settlement/ Board for Industrial and Financial Reconstruction, etc.

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Debt aggregators

ARCs act as debt aggregators by acquiring non-performing loans from the banking system, managing and recovering illiquid NPLs by putting them on the resolution path, according to an Assocham report. In the process, ARCs help unlock capital for the banking system held in NPLs, thereby helping banks to focus on core activities and put the underlying assets held as security (industrial and other assets) back to productive use at sustainable values through resolution.

Rashesh Shah, Chairman and CEO, Edelweiss Group, said, "Our ARC business (Edelweiss ARC) is scaling up well. We expect that in the next three-four years as all these NCLT (National Company Law Tribunal) cases happen, there will be a lot more demand (for the services of ARCs and stressed asset funds).

"I think ARCs and stressed asset funds will provide capital and exit to banks. Our estimate is that every year about ₹20,000 crore of cash will need to be deployed (for buying out stressed assets from banks, pumping in additional capital into these companies, buying equity in these companies, providing priority funding, etc) in the stressed asset market. Of this, we are hoping to deploy about ₹3,000-4,000 crore."

Credit rating agency Crisil, expects that with the RBI taking a series of steps, including increasing net-owned funds requirement for ARCs to ₹100 crore from ₹2 crore, to strengthen the ecosystem, more players with deep pockets will be attracted to set up ARCs. The RBI's move will enhance transparency in transactions, improve recoveries and open up scope for consolidation.

ASSOCHAM IN THE NEWS

The Indian Express

16 August, 2017

WHOLESALE INFLATION AT 1.88%

Retail inflation up to 2.36% in July on higher food prices

Clamour for monetary easing rises as prices still within RBI's comfort zone

ENS ECONOMIC BUREAU
NEW DELHI, AUGUST 14

BOTH RETAIL and wholesale price inflation rose in July, mainly due to a sharp jump in tomato prices that impacted food inflation. Consumer price inflation rebounded from a record low of 1.46 per cent in June to touch 2.36 per cent in July, as a deflation in food prices narrowed sharply.

An upward revision of house rent allowance (HRA) for Central government staff and higher GST on services in the first month of its launch may have weighed on retail inflation a bit, said analysts, although the impact hasn't been very significant yet.

WPI inflation rose to 1.88 per cent in July from just 0.9 per cent in the previous month. Analysts say tomato prices alone drove up the headline WPI by as much as 78 basis points (bps) and CPI by 50-60 bps.

Despite the rise in July, headline retail inflation remained within the lower end of the central bank's forecast range of 2-3.5 per cent for the first half of the current fiscal, leaving some scope for further monetary easing.

The Economic Survey for 2016-17 (Volume-II), released last week, has reckoned the scope for further monetary easing by 25-75 basis points, or more.

TOMATO IMPACT ON FOOD INFLATION

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HEADLINE RETAIL inflation remained within the lower end of RBI's range of 2-3.5 per cent for the first half of the current fiscal

The survey noted that India was possibly entering a phase of low inflation for the first time since 2005, aided by structural caps to price pressure in food and fuel.

It added that both expected inflation and GDP are subdued relative to their equilibrium levels and the economy is lacking the dynamism to push inflation back toward the 4 per cent target. Industrial production growth, too, hit a 48-month low of -0.1 per cent in June.

However, given the impact of the higher HRA and uneven geographical spread of rainfall, especially in southern regions, could prompt the monetary policy committee (MPC) to adopt caution before trimming the repo rate further.

Earlier this month, the MPC cut the repo rate by 25 basis points, the first rate cut since October last year, to 6 per cent. But it retained its "neutral" stance and warned inflation could pick up again.

"As the favourable base effect unwinds, vegetable prices record a seasonal hardening and the impact of HRA pushes up housing inflation further, we expect the CPI inflation to ramp up over the next few months, and cross 4 per cent by October. Based on this anticipated trajectory, and the recent commentary by the MPC, we see a low likelihood of further rate cuts in FY2018," said Aditi Nayar, principal economist with Icra.

"Policy rates have likely plateaued for now, with room for rate cuts requiring a sharp downward drift in core inflation or growth slump in the second half of this fiscal," said Radhika Rao, group economist at DBS Bank.

Last week, supporting the case for a sharp rate cut, the survey said the RBI had overestimated inflation by more than 100 basis points in six of the past 14 quarters (three in 2014 and three in the most recent period) with an average error of 180 basis points.

India Inc echoed sentiments that there is room for further rate cut by the RBI to boost investments from private sector and revive industrial growth.

"Given the trend and outlook for inflation, we see clear space for a more accommodative stance in the monetary policy. This is all the more important given the state of industrial sector where growth is anaemic.

"Private sector investments continue to remain weak which is key concern for now. We look forward to a further cut in the policy rate by the RBI at the earliest. This along with forthcoming festive season demand and expected improvement in rural incomes should help propel consumption and thus investment sentiment," Ficci [resident Pankaj Patel said.

"Continuous increase in the prices of petrol and high speed diesel due to rise in prices of crude oil globally have to be taken care of by policy makers since it may have impact on import bills and subsequent impact on exchange rates," Assocham Secretary General DS Rawat said. **FE & PTI**

ASSOCHAM IN THE NEWS

The Tribune

16 August, 2017

Inflation up, trade deficit widened in July

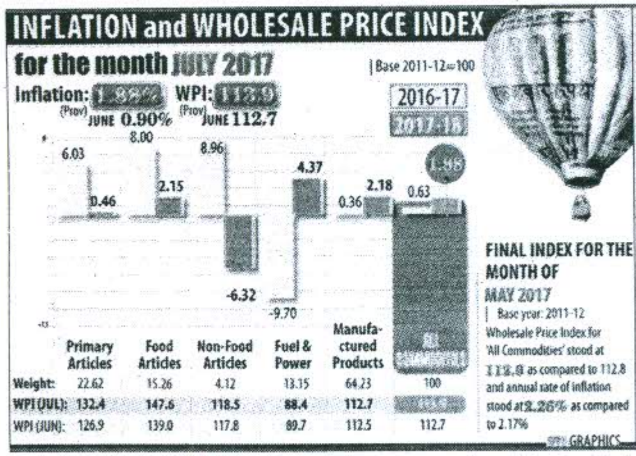
Report card: Export growth at 8-month low at 3.94% | India Inc sees room for more rate cut

NEW DELHI, AUGUST 14

Retail as well as wholesale inflation turned sharply higher in July, but remained far below the RBI's comfort level of 4 per cent, leading to the chorus of lower rates getting louder.

Retail inflation as measured by the consumer price index (CPI) jumped to 2.36 per cent in July on a yearly basis after easing for three straight months. The rise in CPI was chiefly driven by hardening of prices in sugar and confectionery items, pan, tobacco and intoxicants. However, there was disinflation in the food basket.

The RBI, which factors in CPI for arriving at its monetary policy, had earlier this month slashed the key interest rate (repo rate) by 25 basis point to 6 per cent. However, the industry expects a bigger rate reduction. According to the CPI data released by the Central Statistics Office, food inflation saw deflationary pressure at (-)0.29 per cent in July as against (-)2.12 per cent in June this year.



> Given the trend and outlook for inflation, we see space for a more accommodative stance in the monetary policy. This is important given the state of industrial sector where growth is anaemic... We look forward to a further cut in the policy rate by the RBI at the earliest. **–Pankaj Patel,** FICCI PRESIDENT

> The continuous increase in fuel prices due to a hike in rates of crude oil globally has to be taken care of by policymakers since it may have a negative impact on input prices for the industry which has already started to feel the pressure on its profitability. **– DS Rawat,** ASSOCHAM SECRETARY GENERAL

Another macro-economic indicator for July showed that the wholesale price index (WPI) inflation rose sharply to 1.88 per cent — first rise in five months — as some food articles turned dearer. On the inflation data, Economic Affairs Secretary Subhash Chandra Garg tweeted: "Both WPI and CPI inch up in July at 1.88 per cent and 2.4 per cent year on year. But still below the comfort level of 4 per cent."

Meanwhile, trade data for July released by the Commerce Ministry revealed that exports growth slowed to eight-month low of 3.94 per cent in July while trade deficit widened to $11.44 billion on account of high gold imports. The country's overseas shipments aggregated $22.54 billion in July 2017 against $21.68 billion in the same month last year. It is the lowest export growth since November 2016 when shipments had expanded by 2.29 per cent. Thereafter, the growth had risen to 27.59 per cent in March before it started to decelerate.

Imports rose by 15.42 per cent to $34 billion in July, from $29.45 billion in the year-ago month, due to a jump in inward shipments of crude oil and gold. Gold imports firmed up 95 per cent to $2.1 billion in July against $1.07 billion in the same month last year. — PTI