India Needs `Bad Bank' to Clean Up Soured Debt, Rating Firms Say

by Anurag Joshi Lianting Tu

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(Bloomberg) -- Ratings companies including Fitch Ratings Ltd have come out in favor of setting up a state-backed "bad bank" to tackle India's ballooning stressed assets problem, a move resisted by Raghuram Rajan, the former governor of requirements -- have risen to about 16.6 percent of total loans in India, the highest level among major economies, data compiled by the nation's Finance Ministry show. A bad bank would help facilitate the resolution of soured loans, something that various small private restructuring companies have failed to do so far, according to Saswata Guha, a Mumbai-based analyst at Fitch, said in an interview last week.

RBI Deputy Governor Viral Acharya proposed last month setting up a national asset management company for taking over unviable assets held by banks, giving new life to an idea proposed by the Finance Ministry last year. Local lenders Bank of India, IDBI Bank Ltd., Indian Overseas Bank and Syndicate Bank have been downgraded by international credit assessors amid rising concerns over bad debts.

The RBI completed its audit of the nation's 50 lenders last year, forcing them to lay bare previously hidden non-performing loans. Asset quality for private sector banks will likely deteriorate, while the pace of worsening for public sector banks has slowed in the past two quarters, according to a Feb. 23 report from Moody's Investors Service.

India's finance ministry spokesman DS Malik wasn't available for a comment, when contacted by phone Friday.

RBI Capital

Last year, Rajan, who stepped down as RBI governor in September, spoke out against using central bank funds to recapitalize public-sector banks. The government had earlier suggested using the Reserve Bank's own capital to either be directly injected into public-sector banks or used to create a "bad bank" to resolve soured debt.

Banks had been reluctant to offer discounts to offload bad loans even where they are clearly worth much less than their book value because such sales "invite the attention of anti-corruption agencies making bank officials reluctant to sign off on them," Fitch analysts including Guha wrote in a Feb. 23 note.

"With more than $180 billion in stressed assets, the government and regulators have to evaluate all avenues including a bad bank to drive better recovery rates," said Nikhil Shah, managing director at Alvarez and Marsal, a firm that specializes in turnarounds. "Mechanisms offered by the RBI haven't been successful in resolving bad loans primarily as the RBI does not regulate promoters and other equity stakeholders and as a result they cannot force resolutions on to them."

A centralized restructuring asset manager could take charge of the most complex and largest distressed cases, and make politically tough decisions to reduce debt, according to Fitch analysts.

"Bankers selling bad loans to a national bad bank won't be questioned, as this institution will be empowered by the government to take tough decisions," said Rajesh Mokashi, managing director at CARE Ratings Ltd. in an interview. A bad bank will also bring to an end to fear of "witch-hunting" of lenders, if any, by anti-graft agencies, he said.

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Live: Reliance Jumps 3.3% After Block Deal; Nifty Above 8,950

by Sagar Salvi

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Reliance Industries Jumps 3.3% After Block Deal

Shares of the Mukesh Ambani-led firm jumped as much as 3.3 percent after a block deal. About 16.5 lakh shares changed hands in a single block deal, according to Bloomberg data.

Last week, the company announced that 15 promoter groups will transfer 118.99 crore shares to eight other promoter group entities at Rs 1,100.78 per share.

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Rupee Rebounds

The rupee strengthened by 7 paise to 66.74 against the dollar in opening trade today.

Forex dealers said that besides selling of the American currency by exporters and banks, weakness in the dollar against other currencies overseas propped the rupee. Further, a higher opening in the domestic equity market influenced the rupee uptrend, they added.

On Friday, the rupee had lost 11 paise to 66.81 against the U.S. dollar on fresh demand for the American greenback from banks and importers.

PTI

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Opening Bell

Indian shares climbed higher, after posting their first weekly loss in over a month, led by automakers while IT firms slid on U.S. visa concerns.

The S&P BSE Sensex gained 0.4 percent to 28,965 while the NSE Nifty advanced 0.4 percent to 8,935. The market breadth was skewed in favour of the buyers. About 1,050 stocks advanced, 426 declined and 434 remained unchanged on the NSE.

Movers & Shakers: Bharti Airtel, Shree Cement, IT Stocks And More

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5 Things To Watch

Updated *09:21:24 am*

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ARSS Infrastructure Projects: Joint venture bagged railway order valued at Rs 141 crore
Bharti Airtel: Sign pact with Millicom to combine operations in Ghana
Castex Technologies: Clarifies founder Amtek Auto to invest in company
Cipla: To sell animal health unit in South Africa for $28.8 million
Coal India: Unit Central Coalfields approves up to Rs 1,000 crore buyback plan
Dr Reddy's: Completes 100 percent acquisition of NBFC Imperial Credit for Rs 2.05 crore
Gokul Agro: SEBI rejects Gokul Agro founders' open offer exemption request
ICICI Prudential: Says sold 3 million shares of Kalpataru Power on March 2
IDFC: Unit to buy remaining stake in IDFC AMC, IDFC AMC Trustee from Natixis for Rs 244 crore
Reliance Power: Unit sells holding in RPL Aditya Power
Shoppers Stop: Partners with Riversand for master data management
Shree Cement: Wins coal linkage of 60,000 tonne/year at Rs 970/tonne for Raipur plant in Chhattisgarh
State Bank of Mysore: Says shareholders to get 22 SBI shares for every 10 held; sets March 17 a record date
India allows Steel Authority to sell 3 special units (PTI)
Eros International has $126.1m debt due within a year
GMR Hyderabad International Airport plans $250 million-$300 million bond sale (Mint)
Axis Bank raised to add at CIMB, price target Rs 600
Siemens raised to reduce versus sell at IIFL

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Money Market Heads-Up

Investors will be cautious this week as the U.S. Fed meets next week to decide on interest rates. The odds of an increase which stood at 50 percent at the start of last week, jumped to 94 percent by Friday. A favourable jobs report on March 10 may finally prompt the Fed Chair Janet Yellen to hike rates.

Last week, the rupee fell for a second consecutive week. In today's trade, almost all Asian peers rose against the dollar, with the Taiwanese dollar gaining the most, followed by the Japanese yen.

In Bonds:

India's most-traded bonds have become virtually unavailable in the repurchase market as banks looking to maximize treasury gains before closing books for the year ending March 31 refuse to part with the securities.

Now what this means is that participants running overnight naked short positions in sovereign debt using repurchase agreements are unable to borrow the bonds to finance these positions. They are instead turning to the secondary market for the securities, causing yields on two notes maturing in 2026 to slide.

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North Korea fires multiple missiles which fall into Japan's Exclusive Economic Zone
India's NASSCOM sees U.S. H-1b visa move causing process delays
GST Council approves two bills, to meet again on March 16
India says no misuse of Aadhaar data led to identity theft, financial loss
RBI converts Rs 3,430 crore of 2017-18 bond to longer maturity note
SBI seeks top court direction to Mallya to deposit $40 million
Forex reserves rise $63.7 million to $362.8 billion in week to February 24: RBI
Coal India, Emami and TVS Motor Co. to consider mid-year dividend
Buy local China, Indian bonds before they mainstream: HSBC Asset
Global funds buy Rs 1,530 crore of local stocks; domestic funds sell Rs 737 crore rupees on March 3: Provisional data
China sets 2017 growth target of "around 6.5 percent, or higher if possible"
U.S. suspends expedited processing of high-tech visas (Reuters)
Tata Sons plans to buy Rs 7,000 crore of shares in listed units (Business Standard)
Tata said to mull sale of stake in mutual fund business (Mint)
India's Flipkart to hire 20%-30% more people in 2017 (PTI)
BASF Plans to Invest 3b Euros in Asia-Pacific 2017-2021 (Business Standard)
Kingfisher Air Lenders to auction two company assets March 6 (PTI)
Ageas keen to increase holding in IDBI Federal Life to 49 percent (PTI)

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Good Morning!

The Singapore traded SGX Nifty, an early indicator of Nifty's performance in India, was little changed at 8,929.

Stocks in Japan and South Korea fell, the yen strengthened and gold was steady after a North Korea missile launch, while investors also weighed messages from China's National People's Congress and Federal Reserve Chair Janet Yellen.

U.S. stock futures also dipped as Japan Prime Minister Shinzo Abe said the government will hold a National Security Council meeting today after North Korea fired four ballistic missiles. The move comes as South Korea and the U.S. undertake annual military drills that Pyongyang has called a prelude to an invasion.

Over the weekend, Chinese Premier Li Keqiang set a 2017 growth target of "around 6.5 percent, or higher if possible" in a report to the annual National People's Congress gathering in Beijing that reiterated the pursuit of neutral monetary policy this year.

Economists surveyed by Bloomberg project 6.5 percent expansion this year.

Meanwhile, Yellen joined a chorus of U.S. policy makers who have suggested growth remains on track to warrant tighter monetary policy as early as next week's Fed meeting. The odds for a rate hike at the March 14-15 meeting rose to 94 percent, according to futures rates tracked by Bloomberg.

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