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DAILY NEWS DIGEST BY BFSI BOARD

28 May 2024

ECONOMY

Goldman Sachs revises India's GDP forecast upwards on RBI dividend bonanza: The US-based Goldman Sachs has revised its GDP forecast for India by 10 basis points to 6.7 percent expecting a sustained growth momentum with additional fiscal space on account of a bumper dividend transfer from the central bank. The global financial institution also expects the Reserve Bank of India to go for a rate cut in the October-December quarter as it forecast an uptick in core goods inflation due to a rise in manufacturing costs.
(Moneycontrol)

MPC Poll: RBI to leave key interest rates unchanged in June monetary policy, say economists, bankers: The Monetary Policy Committee (MPC) led by the Reserve Bank of India (RBI) is likely to maintain status quo in the upcoming June monetary policy while remaining cautious on inflation, according to Moneycontrol's poll of 20 economists and bankers. A majority of experts said that the central bank will maintain its 'Withdrawal of Accommodation' stance. However, two economists said it will be changed to neutral. Executive Director and Senior Economist, DBS Bank, said that that policy commentary is likely to acknowledge the recent stability in the headline inflation and the favourable monsoon forecast by the IMD.
(Moneycontrol)

Centre saved over Rs 25,500 cr via fund transfer norms: FM Sitharaman: The government has so far achieved savings of more than Rs 25,500 crore through the treasury savings account (TSA) and the single nodal agency (SNA) bank accounts, Finance Minister Nirmala Sitharaman said on Monday. In a series of tweets on social media platform X, Sitharaman listed out the improvements brought in the finance ministry's Budget exercise and expenditure management over the past 10 years. "Our Budgets are characterised by fiscal prudence, transparency, and inclusiveness, ensuring investments in social development and infrastructure," the FM said.
(Business Standard)

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BANKING & FINANCE

LIC Q4 net profit rises marginally to Rs 13,762 cr, asset quality healthy; announces Rs 6 interim dividend: Life Insurance Corporation of India reported a 2.5 percent year-on-year rise in net profit at Rs 13,762 crore for the March quarter of the financial year 2023-24, from Rs 13,421 crore in the year-ago period. The country's largest insurer's asset quality improved in the final quarter of FY24, the company said on May 27. The insurer announced an interim dividend of Rs 6 per share. Its gross non-performing asset (GNPA) stood at 2.01 percent against 2.56 percent in the year-ago period. The value of new business (VNB) of the insurer increased by 4.66 percent to Rs 9,583 crore and VNB margin increased by 60 bps to 16.8 percent.
(Moneycontrol)

RBI scrutiny make investors cautious on fintechs: With the Reserve Bank of India (RBI) pushing fintech firms towards calibrated growth, investors in them companies are turning cautious. In a recent meeting, the banking regulator asked lending-focussed fintechs to cut down growth. Entities growing at over 30% have been asked to keep growth at 15-20%, say industry sources. "This directive is a double-edged sword for fintech start-ups. While it is vital to have robust systems and practices in place; investors also seek high growth rates in a promising sector like fintech," Anisha Patnaik, Founder, LexStart Partners said, adding that it remains to be seen how this "plays out".
(Financial Express)

RBI imposes penalty on Yes Bank and ICICI Bank: The Reserve Bank of India imposed penalties on two private banks—ICICI Bank and Yes Bank—for lapses in compliance, the regulator said in a statement Monday evening. The penalty on Yes Bank is Rs 91 lakh, while that on ICICI Bank is Rs 1 crore. The penalty is imposed on Yes Bank because it levied charges on customers for non-maintenance minimum balance in certain savings accounts with insufficient or zero balance, which is in violation of RBI's guidelines, while ICICI Bank sanctioned term loan/ loans to certain entities in lieu of or to substitute budgetary resources envisaged for certain projects.
(Economic Times)

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INDUSTRY OUTLOOK

RBI's notification on partly paid AIF units puts industry in a bind: Foreign portfolio investors (FPIs) are in a bind after a recent notification by the Reserve Bank of India (RBI) that aims to regularise the issuance of partly-paid units by alternative investment funds (AIFs). While the central bank's move paves the way to issue these units, industry players fear they may face penal action for outstanding issuances made. Last week, the RBI issued a circular stating that it will regularise the issuances of partly-paid units by AIFs to investors outside India prior to an amendment done in March through “compounding.” It entails that partly-paid units by AIFs issued before March will be legitimised on payment of a fee. The AIF industry has sought more clarity on the amount to be paid for this move.
(Business Standard)

Adani Energy gets board nod to raise Rs 12,500 crore: Adani Energy Solutions (AESL) on Monday received the board’s approval to raise Rs 12,500 crore through qualified institutional placement (QIP) of shares or other avenues in one or more tranches. Besides other regulatory approvals, the board will seek shareholders’ nod at the company’s annual general meeting on June 25. The company is yet to fix the QIP date and the price at which the securities will be issuedAdani Group, which has raised almost $6 billion from marquee investors like Rajiv Jain’s GQG Partners, Qatar Investment Authority and TotalEnergies since January last year, is aiming to aggressively expand its businesses..
(Financial Express)

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REGULATION & DEVELOPMENT

Sebi reduces turnover requirement for agri commodity options to Rs 100 cr: Capital markets regulator Sebi on Monday lowered the required average daily turnover for launching options on agricultural and agri-processed commodities to Rs 100 crore from Rs 200 crore earlier. This change will take effect from June 1, Sebi said. The decision has been taken keeping into account representations received from market participants and deliberations by Sebi's Commodity Derivatives Advisory Committee (CDAC). "It is decided that for launching options contracts on agricultural and agri-processed commodities, the average daily turnover of underlying futures contracts of the corresponding commodity during the previous twelve months shall be Rs 100 crore instead of existing Rs 200 crore," Sebi said in a circular.
(Business Standard)

Greater transparency: No indemnity clause in NPA sale pact between banks and ARCs: fter year-long negotiations, high-street banks and stressed asset firms last week adopted a 'model agreement' for selling loans, but were unable to reach a meeting point on the tricky issue of 'indemnity' which banks typically refuse to give once sticky assets move out of their books. Lenders, according to documents reviewed by ET, would also have the right to declare an account as 'fraud' and make asset reconstruction companies (ARCs) that acquired the stressed loan responsible for dealing with the investigative agencies looking into the offence. Even though a model template settles several differences arising in the course of loan sales, the two issues, pertaining to indemnity and fraud, place selling banks at a comparatively advantageous position.
(Economic Times)

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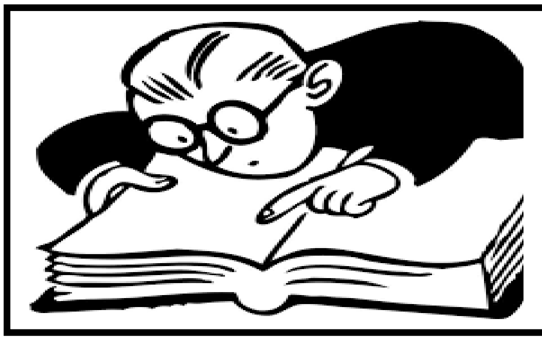

FINANCIAL TERMINOLOGY

ABANDONMENT VALUE

- Abandonment value is the equivalent cash value of a project if it is liquidated immediately after reducing all debts which need to be repaid.
- Abandonment value is also known as liquidation value of an asset. The general rule for deciding to discontinue the product is that if the product's salvage value is greater than the net present value (NPV) of its expected cash flows, the project is abandoned. It is an important factor in bankruptcy filings where assets are generally sold at a discount.
- Suppose, the optimal economic life of an asset is 4 years, but the project's expected cash flows may change over the life of the asset. The company should also estimate the future abandonment values in the initial investment phase. It would help the manager to effectively gauge the optimal economic life of an asset.
- For Example: A company's cost of capital is 10%, and the initial investment cost to be incurred at the beginning of the project is Rs 3,50,000. Future cash flows expected in the next 4 years are 2,00,000, 1,50,000, 10,0000 and 50,000.

  Now, if we calculate the net present value of each of the cash flows and subtract it with the initial investment value, it still comes out positive, which is Rs 65,067. Considering the fact that NPV is still greater than zero, the company should continue with the project and not exercise the option.

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RBI KEY RATES

Repo Rate: 6.50%
SDF: 6.25%
MSF & Bank Rate: 6.75%
CRR: 4.50%
SLR: 18.00%
Fixed Reverse Repo: 3.35%

FOREX (FBIL 1.30 PM)

INR / 1 USD : 83.0838
INR / 1 GBP : 105.8277
INR / 1 EUR : 90.1132
INR /100 JPY: 52.9800

EQUITY MARKET

Sensex: 75390.50 (-19.89)
NIFTY: 22932.45 (-24.65)
Bnk NIFTY: 49281.80 (+310.15)

Courses conducted by BFSI Board

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- Aide Memoire on lending to MSME Sector (including restructuring of MSME Credit).
- Guidance Note on the Internal Audit of General Insurance Companies.
- BFSI Chronicle (quarterly issue of BFSIB)
- Handbook on Stock & Book Debts Audit (Revised and Enlarged 2nd Edition)

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