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# Dissent on sovereign bonds

Show me one country after the world war which has done a foreign currency sovereign bond and not paid dearly for it. Brazil, Argentina, Turkey, Greece, Indonesia have all paid a price for foreign currency sovereign borrowings



RATHIN ROY, member of PMEAC

## OUR SPECIAL CORRESPONDENT

New Delhi: Rathin Roy, a member of the Prime Minister's Economic Advisory Council, on Monday called for a discussion on sovereign bonds instead of an "imperial announcement" of the borrowing programme.

"I have grave concerns about this proposal on grounds of economic sovereignty, and about the macro-economic consequences... the government should instead look at relaxing the rupee bond limits for foreign portfolio investors," Roy said at an event here.

The economist said: "I would pay very careful attention to former governor Y.V. Reddy's argument that these

are sovereign liabilities in perpetuity. I would pay very careful attention to the history of this country, on why we have not gone down this route in 70 years, despite huge provocations to do so."

Roy, who is also a director of the thinktank NIPFP, said: "And I would pay very careful attention to governor Raghuram Rajan's statement, and I would urge, very respectfully, a public consultation on this subject, a public discussion, rather than imperial announcements of borrowing programmes being made without taking account of these facts."

"Show me one country after the world war which has done a foreign currency sovereign bond and not paid dearly for it. Brazil, Argentina,

Turkey, Greece and Indonesia have all paid a price for foreign currency sovereign borrowings," Roy said.

There are several other voices against the sovereign bonds.

Swadeshi Jagran Manch (SJM) has termed the move as "anti-patriotic" and a risk for the economy. "We cannot

allow this to happen," declared Ashwani Mahajan, the co-convenor of the SJM, the economic wing of the Rashtriya Swayamsevak Sangh (RSS).

He sounded a warning that the move could result in the country falling into a debt trap.

Rajan has said that any plan to issue foreign currency

debt has no real benefit and is fraught with risks. A global bond sale won't reduce the amount of domestic government bonds the local market has to absorb and the country should worry about short-term "faddish investors buying when India is hot, and dumping us when it is not", Rajan had written in a newspaper column.

C. Rangarajan, former RBI governor, has said that borrowing in foreign currencies may expose the economy to risks as the rupee's depreciation or current account deficit cannot be contained in the long run. Former finance minister Yashwant Singh has said that even in the face of the 1991 balance of payment crisis the government did not go for sovereign bonds.

However, chief economic adviser Krishnamurthy Subramanian feels the government should take advantage of the benign interest rate abroad to raise funds through overseas sovereign bonds.

Finance ministry officials said the government could raise about 10-15 per cent of the proposed Rs 7.1 lakh crore government borrowings this fiscal through sovereign bonds.

Roy also urged the government to issue a white paper on the medium-term fiscal framework, arguing that it would be difficult to meet the budgetary tax collection target for 2019-20. He said the economy is facing a silent fiscal crisis owing to a shortfall in tax revenues, and the government's budget suggests it may have grossly underestimated the problem.

## STOCK CHECK

Sensex intra-day movement



Previous 38337.01

## CURRENCIES

US \$	Rs 68.92
UK Pound	Rs 85.88
Euro	Rs 77.29

## INDICES

BSE		
Sensex	38031.13	-305.88
Midcap	13994.18	-84.16
Smallcap	13156.82	-153.53
NSE		
Nifty	11346.20	-73.05
Next 50	26676.10	+19.95
Nifty 500	9247.75	-56.90

## Most active on NSE

Scrip	Price	Traded value#
Yes Bank	91.15	1846.26
Reliance	1278	1678.58
HDFC Bank	2302	1276.17
Bajaj Fin	3257	1191.10
Indigo	1513	1168.36

## COMMODITIES

Gold (10 gram in Rs)		
Pure	35535	+10
Hallmark	34220	+10
Silver (kg in Rs)		
Bar	40850	+300
Portion	40950	+300
Crude*	3886	+58
Copper#	456.25	-0.25

\*per barrel in Rs; # per kg in Rs

## MONEY MARKET

Yield (%)	
Call rate	4.40
91-day T-Bill	5.77
1-year Gilt	5.89
5-year Gilt	6.39
10-year Gilt	6.41

## IN BRIEF

### Clarity on GST invoice

■ **NEW DELHI:** The finance ministry on Monday said entities taking goods abroad for exhibitions or other export promotion events will not have to generate tax invoice for those goods which are brought back to India within six months. PTI

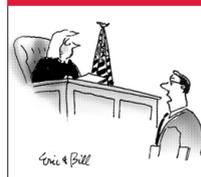
### Bandhan Bank

■ **NEW DELHI:** Private lender Bandhan Bank, which reported a net profit of Rs 701 crore in the first quarter of the current financial, on Monday announced the appointment of Sanjeev Naryani as head of business. PTI

### Jaypee Infra

■ **NEW DELHI:** Promoters of debt-ridden Jaypee Infra-ech on Monday proposed before the NCLAT that they will pay creditors the entire outstanding amount without any hair cut and complete pending projects within three years. PTI

## BOTTOM LINERS



"Save your breath, Your Honour... I already found your verdict on Twitter"

# Bar on EMI paid by builders

## OUR SPECIAL CORRESPONDENT

Mumbai: The National Housing Bank (NHB) has asked housing finance companies (HFCs) to stop funding subvention schemes where a developer or a builder offers to pay the interest on loans taken by a home buyer.

The NHB has asked HFCs to disburse loans based only on the stage of construction of a project and that an upfront payment should not be made. In a circular issued last week, the NHB said that it had received complaints on such products.

"Instances of frauds having been allegedly committed by certain builders using subvention schemes have also been brought to the notice of the NHB...Based on a review of the matter, HFCs are advised to desist from offering loan products involving servicing of the loan dues by builders/developers on behalf of the borrowers," the NHB said.

"The prevalent products of HFCs, if any, should also be reviewed on the above

amount for which he has taken a loan, while the interest is paid by the builder till the project is complete.

The buyer who starts to pay EMI only after possession, saves on the interest component. Moreover, there is also an impression that the project will get delivered on time since the developer was paying the interest.

**Areas of concern**

Sources said the NHB was worried about cases where the entire money for which the loan was taken by the borrower was given to the builder or the developer since there was a risk that the project may not get completed.

Therefore, the NHB is insisting that disbursements should happen only based on the progress of the project.

"It is another detrimental news for the real estate industry. It will definitely hamper the sales cycle of real estate developers," said Parth Mehta, managing director, Paradigm Realty.

The practice under such schemes is of the buyer making a part payment for the

## LOAN LOGIC

■ Instances of frauds allegedly committed by certain builders using subvention schemes have been brought to the notice of the NHB

■ HFCs have been advised to desist from offering loan products involving servicing of the loan dues by builders/developers on behalf of the borrowers

lines. It is clarified that the above stipulation shall also be effected in cases wherein the HFC is yet to commence disbursements under the sanctioned cases," it added.

In a difficult market marked by unsold inventories, builders or developers have in the past come up with such schemes to attract customers.

The practice under such schemes is of the buyer making a part payment for the

## OUR SPECIAL CORRESPONDENT

Mumbai: Disappointing results by banks have dealt a fresh blow to the markets, already reeling under the higher surcharge imposed in the budget on foreign portfolio investors structured as trusts.

The BSE Sensex on Monday tanked around 306 points to close at a two-month low, with the HDFC Bank being the worst hit after HDFC Bank reported a slight rise in bad loans for the first quarter ended June 30.

HDFC Bank's net profits, announced on Saturday, were in line with estimates. But the percentage of gross non-performing assets rose to 1.40 per cent against 1.36 per cent on a sequential basis and 1.33 per cent in the same period of the last year. In absolute terms, the gross NPAs stood at Rs 11,768.95 crore against Rs 11,224.16 crore in the previous quarter.

At the earnings call, the management sounded caution

## STREET UPSET

Stocks on BSE

(Close in Rs, loss in %)

Scrip	Close	Loss
RBL Bank	478.05	4.46
HDFC Bank	2297.05	3.32
Federal	95.56	3.24
Kotak Bank	1453.65	3.08
IndusInd	350.80	1.46

on unsecured loans, while citing risks in certain pockets such as agriculture lending.

Brokerages have, however, retained their buy call on the stock. "We see HDFC Bank sustaining its best in class track record on asset quality despite minor blemishes given its focus on internal customers, strict adherence to cashflow-based lending and unwavering focus on risk," a note from JM Financial said.

However, the outlook given by the lender saw the stock declining 3.32 per cent to

close at Rs 2,297.05 on the BSE. During the day, it dropped 3.95 per cent to Rs 2,281.90.

Selling was also seen in HDFC Ltd which cracked 5.09 per cent to close at Rs 2,186.60 on the BSE.

Shares of yet another private sector bank — RBL Bank — crashed around 4.50 per cent after its management forecast a rise in its NPAs.

Apprehensions of weak corporate earnings at a time some non-banking finance companies continue to face difficult times saw the 30-share index settling lower by 305.88 points to 38031.13, a level not seen since May 17.

The broader NSE Nifty fell 82.10 points to close at over a two-month low of 11337.15.

"Once the FM clarified in Parliament that there is no relief for FPIs registered as trusts, selling has accentuated. The market has also started factoring in weak corporate results and the slow progress of monsoon," said Rajiv Singh, CEO at Karvy Stock Broking.

## IL&FS wind asset sale cleared

### OUR SPECIAL CORRESPONDENT

Mumbai: Cash-strapped Infrastructure Leasing and Financial Services (IL&FS) on Monday said it has received approval from NCLAT-appointed Justice (Retd) D.K. Jain for the proposed sale of its balance 51 per cent stake in seven wind energy subsidiaries to Orix Corporation of Japan.

Justice Jain has been appointed by NCLAT to supervise the resolution process of the IL&FS group companies, the company said in a release.

The wind energy subsidiaries are held under IL&FS Wind Energy Ltd (IWEL).

At present, Orix Corporation owns 49 per cent stake in each of the seven operating wind power plants of the group and had expressed its intent to buy out the remaining 51 per cent stake held by IWEL.

"The approval has been granted on the condition that the proposal will be placed before the NCLT for its approval and the bid amount realised from the sale be kept in an escrow account," the release said.

### Order on auditors

The National Company Law Tribunal (NCLT) on Monday reserved its order in a plea by the ministry of corporate affairs (MCA), seeking a five-year ban for IL&FS Financial Services auditors — Deloitte and BSR Associates.

After hearing arguments of the auditors and the MCA, the tribunal comprising V.P. Singh and Ravikumar Duraisamy reserved the order.

Deloitte Haskins & Sells and BSR Associates are no longer the auditors of IL&FS group.

## OUR BUREAU

Calcutta: The Supreme Court has agreed to settle the issue of the distribution of funds flowing out of an insolvency resolution process among the various classes of creditors "once and for all".

The apex court made the observation while hearing the appeal of the committee of creditors of Essar Steel, which challenged the judgment of the National Company Law Appellate Tribunal (NCLAT). The SC put the sale of Essar Steel to ArcelorMittal on hold and agreed to hear the matter on August 7.

A bench of Justices R. F. Nariman and Surya Kant said the monitoring committee will continue its work till the case is heard. "Once the committee of creditors (CoC) in their concerned wisdom had decided on the division of assets, there should have been no re-distribution, like you are an interim resolution professional (IRP). We would settle this issue once and for all," the bench observed at the outset.

The bench was hearing a plea by the CoC of Essar Steel, challenging NCLAT's July 4 order, which approved steel tycoon L.N. Mittal-led ArcelorMittal's Rs 42,000 crore bid for acquiring the debt-laden firm. The CoC has sought the quashing of the NCLAT order which had given financial creditors equal status with operational creditors in the distribution of the ArcelorMittal's bid amount.

## Visa invests in PayMate

### OUR SPECIAL CORRESPONDENT

Mumbai: PayMate, a business-to-business payments company, on Monday said it has raised funding from Visa, Recruit Strategic Partners, Brand Capital, and existing investor Mayfair 101.

The company, which aims to raise a total of \$25 million in the series-D round, plans to invest the funds to accelerate its expansion within India and abroad to central and eastern Europe, West Asia, and Africa.

"We have raised funds from Recruit Strategic Partners, which is the venture capital arm of Recruit Co Ltd (Japan), Brand Capital and Visa. Existing investor Mayfair 101 also participated. The series-D round will be open for 60 more days and we expect to raise \$25 million in this round," PayMate founder and chief executive officer Ajay Adisesshann said.

He added that Visa was already a commercial partner for the company and is now coming onboard as an investor.

PayMate, however, did not disclose the valuation of the company after the transaction. It had raised \$18 million in its previous funding rounds.

## SC DECISION

- SC to hear matter on August 7
- Will settle issue of distribution of funds among creditors
- NCLAT gave equal status to financial and operational creditors
- Essar CoC wants NCLAT order to be quashed

Essar Steel was auctioned under the new Insolvency and Bankruptcy Code (IBC) to recover Rs 54,547 crore of unpaid dues.

In its July 4 order, the NCLAT had said that financial creditors will get 60.7 per cent of their admitted claims of Rs 49,473 crore, almost the same as operational creditors.

The operational creditors with admitted claim amount of less than Rs 1 crore would get 100 per cent, while those with above Rs 1-crore claim would get 60.26 per cent and workmen and employees would get 100 per cent.

The tribunal had said that the CoC will have no role in the distribution of Rs 42,000 crore and allowed the claims of the operational creditors such as Indian Oil, GAIL, ONGC, and the NTPC.

ArcelorMittal had told the NCLAT that it would pay Rs 42,000 crore, including a minimum guarantee of Rs 2,500 crore as working capital, for acquiring Essar Steel under the insolvency process.

# Exports plan in the works

### OUR SPECIAL CORRESPONDENT

New Delhi: The commerce ministry has called a meeting with exporters on July 31 to finalise its strategy to boost shipments by taking advantage of the ongoing trade war between the US and China.

## THRUST AREAS

- Govt to leverage on opportunities offered by US-China trade war
- Exporters to meet Piyush Goyal on July 31
- Trade war has opened up opportunities for 203 items for export to US
- Similarly, 151 items can be exported to China

A senior ministry official said the meeting, to be chaired by commerce minister Piyush Goyal, will focus on high-potential items for exports that have already been identified by the government.

They said the meeting would discuss the problems faced by exporters and the strategies to be adopted.

## Court relief for Tata in Wadia case

Mumbai: The Bombay high court on Monday quashed the proceedings initiated by a local court against Tata Sons' former chairman Ratan Tata, its current chairman N. Chandrababu Naidu and eight directors in a criminal defamation case filed by Nusli Wadia.

Last year, on December 15, a magistrate court in the city had issued notices to Ratan Tata and the others in the criminal defamation case filed by Wadia.

Wadia filed the defamation case in 2016 after he was voted out of the boards of some Tata group companies. He claimed that Tata and the others made defamatory statements against him after they recovered Cyrus Mistry on October 24, 2016, as the group chairman of Tata Sons.

Tata and the others approached the high court seeking to quash and set aside the proceedings initiated against them.

A division bench of Justices Ranjit More and Bharati Dangle on Monday quashed the proceedings, noting that prima facie there was no case of defamation.

The bench said there was complete non-application of mind by the magistrate while issuing process (notices) against the petitioners.

"The magistrate has committed haste in issuing the process without conducting an inquiry into the allegation of the complainant to satisfy himself whether there was sufficient ground for initiating the proceedings against the accused," the court said. PTI