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From IL&FS to PSB mergers, the year gone by for India Inc

BY ET BUREAU | DEC 26, 2018, 07.46 AM IST

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IL&FS Implosion

Defaults in repayment obligations by IL&FS, followed by rating downgrades, shook the financial system this year.

Fresh lending by NBFCs, including housing finance companies, took a hit as they diverted cash to meet the outstanding liabilities. It halted the upswing enjoyed by NBFCs over last five years. It started with IL&FS defaulting on commercial paper due end-August and later in September. On October 1, the government moved the NCLT and superseded the board. The government appointed a new board headed by [Uday Kotak](#) to revive it by selling assets and raising funds.

Soon, the business models of NBFCs were questioned, asset-liability mismatch discussed and borrowing rates hardened. RBI started looking at asset-liability norms. Either they were too reliant on short-term borrowings, or the underlying asset being financed was illiquid.

Valuations of NBFCs and housing finance companies corrected and price to book halved in the last quarter of the calendar year. Supertech Realty's default in interest repayment led to concerns of defaults by developers. Since October, growth in lending of NBFCs and HFCs has slowed down. The scrutiny would ensure that good business models will survive and emerge stronger.

LIC-IDBI Bank

LIC bailed out debt-laden lender [IDBI Bank](#) by buying 51% stake in it. The deal was seen happening at the behest of the government using public money. IDBI Bank has NPAs of 30% of the total advances. The investment was done after the insurance regulator gave a special permission to LIC to breach the investment guidelines. There were concerns raised on this investment decision and returns on investment. LIC will also have to draw a plan to revive the bank, reduce the non-performing loans, and plan future recapitalisation.

The Rupee

The rupee plunged to a record low this year as emerging markets, including Turkey and Argentina, spooked global investors. On October 11, the rupee hit 74.48 against the dollar amid a bout of overseas fund outflows from emerging markets.

But the sentiment reversed later, shortening the odds in favour of emerging market investments as global crude oil prices slumped about 40% from their peak.

Although the rupee remains one of the worst emerging market currencies, it started gaining strength from November onward. The local unit now ranks as one of Asia's best performing currencies.

PSB Mergers

In September, the government announced the merger of Bank of Baroda, [Dena Bank](#) and [Vijaya Bank](#). Analysts looked at it as the beginning of a consolidation in the public sector banking sector, reeling under capital pressure and bad debt woes. In this merger, BoB is seen as a strong lender that can absorb the smaller peers. The order sent a message that the government needs PSU banks to play a role in the economy and cannot let them fail. The merged entity is expected to have deep penetration and expand faster. Larger scale and a strong CASA base, along with a pan-India presence brought about by the merger, should improve access to capital for the merged banking entity. This brings Dena Bank out of restrictions imposed under the Reserve Bank of India's Prompt Corrective Action framework. The merger is likely to aid in better risk pricing of loans and support recovery in profitability over the longer term.

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Vijaya Bank

-0.55 (-1.13%)

PSB

-0.60 (-1.80%)

IL&FS

0.60 (4.29%)

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