Banks' cuppa to brew with mergers

Worsening asset quality turns an opportunity for the government to push for consolidation

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Thorny path: Mergers of public sector banks are likely to be fraught with difficulties. SBI, with which associate banks and the Bhartiya Mahila Bank merged, saw NPAs rising from ₹1.01 lakh crore to ₹1.88 lakh crore. •GETTY IMAGES/ISTOCK

Consolidation of public sector banks had been discussed in banking circles for many years now. P Chidambaram, Finance Minister in the previous United Progressive Alliance (UPA) Government, had highlighted the need for large-sized banks to fund the huge infrastructure requirements of the country as well as compete with global lenders. But the UPA Government had always maintained merger proposals should come from the respective bank boards – which did not happen. A tongue-in-cheek question that went around was: 'Which chief executive will propose to merge his bank with another and lose his job?'

But, it appears that the present government has no intention to make it 'voluntary' for the board of a bank to decide on a merger. It is evident from the fact that it has followed up on the issue with communication to the banks to kick start the process of mergers and get their respective boards' approval. This may be the first time in recent history that an official communication has been made by the government to the banks asking them to act on mergers.

Nudge to banks

The government has also set up an 'Alternative Mechanism', which would comprise a ministerial group, to oversee proposals for mergers among banks last month. While announcing the mechanism, Finance Minister Arun Jaitley stressed that the decision to create strong and competitive banks will be solely based on commercial considerations and such decisions must start from the boards of the banks.

The government had also ensured that some key chief executives, who would steer the process of mergers, were in the loop. In the last few months, it had discussed the issue with some top bankers before dashing off official communication to them last week.

A framework had been conceived in which a bank's board would first clear the decision to merge and then send the proposal to the 'Alternative Mechanism' for its in-principle approval. After the in-principle approval comes through, the bank will take steps in accordance with law and SEBI's requirements. The final scheme will be notified by the government in consultation with the Reserve Bank of India (RBI).

Simultaneously, some hurdles have been removed to expedite the process. For example, approval requirement from the Competition Commission has been done away with.

What drives mergers?

Bankers involved in discussions with ministry officials said technological synergy and geographical complementarity are the two most important factors that would drive mergers.

While steps are now being taken to facilitate consolidation, the thinking around bank consolidation began after the current government assumed office – the first week of January 2015, to be precise.

At the bankers' retreat, known as *Gyan Sangam*, the idea of consolidation was first floated. In 2015, however, bank chiefs – reeling under bad loan pressure – vetoed the idea on the grounds that first they need to put their houses in order.

While the asset quality problem worsened to become a full-blown crisis, this has not deterred the move to push the consolidation idea further. In fact, at the second edition of *Gyan Sangam* in 2016, Finance Ministry officials wanted to know from banks what their plan B was, if the government stopped capital support. Bankers, who attended this retreat said that the discussion was not 'whether to consolidate' but only 'how to consolidate.'

Bankers familiar with the ministry's thinking said the present asset quality crisis has actually became an opportunity for the government to push for consolidation. Many banks are not in a position to raise equity from the market. Shares of most of them trade at a discount to their book value. Investor appetite for PSU bank shares has been typically low, barring state-run insurance behemoth Life Insurance Corporation of India. In other words, there is no Plan B for raising capital, which has been depleted by rising bad loans.

Further, banks would also need capital for complying with Basel-III norms, apart from supporting business growth.

The Reserve Bank of India has also played a key part in pushing the idea of consolidation. Revisiting the norms on prompt corrective action (PCA) after many years was an indication. The revised PCA norms, applicable if certain threshold levels are breached, can cramp prospects for a bank's business growth. There are already some banks that are under the PCA framework.

Viral Acharya – the youngest deputy governor of RBI – has already made his thoughts clear on mergers among public sector banks. "As many have pointed out, it is not clear we need so many public sector banks. The system will be better off if they are consolidated into fewer but healthier banks," Mr. Acharya said in one of his speeches. "Historically, bank stress of the order we face has almost always involved significant bank restructuring."

'Weak banks'

Elara Capital, in a note to its clients, has identified five weak banks which could be first in line for consolidation. These are Bank of Maharashtra, Dena Bank, Indian Overseas Bank, Punjab and Sind Bank and United Bank of India.

"These banks with less core capital, low provision buffer and high level of unprovided NPLs [non-performing loans] would need substantial amount of equity capital for NPL resolution, going ahead. Some of these banks are expected to have made presentations to Finance Ministry," the note said.

Elara has identified Punjab National Bank, Canara Bank and Bank of Baroda as the lenders who will acquire smaller banks.

Post-merger issues

"The likely merger would create a lot of complexities in terms of lesser core capital, high net NPLs, branch rationalisation and reduction in human resources productivity for the merged entity. At present, we've an example of the merger of SBI with associate banks and Bhartiya Mahila Bank; post merger, the merged entity fundamentals have weakened significantly," the note cautioned.

SBI, following its merger, has seen non-performing assets rising significantly, from ₹1.01 lakh crore (6.94%) to ₹1.88 lakh crore (9.97%).

Of the 20 public sector banks, nine have had impaired loans in excess of 20% and 12 had common equity tier-I capital ratio below 8%. For example, if Bank of Baroda were to take over two small banks such as Dena Bank and Bank of Maharashtra, its impaired asset level could exceed 18%, analysts said.

It is to be seen if the big banks can bear the pain of a merger and put their house in order quickly so that the objective of creating a big lender that can fund large projects is fulfilled.

GUEST COLUMN

Moving to the faster lane

GST will drive efficiencies in the country's supply chain

M. K. AGARWAL

We are in times of outstanding significance and consequence for our nation. The start of the GST era is already upon us with the law coming into effect July 1 onwards. Just a few months earlier, sceptics were actively debating whether the roll-out would happen within the stated timeline, or if it would see administrative delays.

However, here we are, in a post GST India and the implementation of 'One Nation, One Tax, One Market' reform has proven sceptics wrong. GST reform is certain to catalyse conformity in every part of the business chain and to expand the tax base in a transparent and efficient manner. There may be initial hiccups for a few months as organisations, large and small, across industry sectors are adapting to this fundamental change.

Of course, these pain points will be short lived as companies are expected to settle in rapidly into the new GST era. The introduction of GST tax reforms will have the most far-reaching ramifications in the growth of the logistics sector in India.

Supply chain evolution

From a macroeconomic perspective, a commonly used metric to compare global economies in terms of supply chain efficiency is the 'logistics costs as a percentage of national GDP.' This percentage for India is as high as 14% compared with 8% in developed nations. Digging deeper into the logistics costs percentage and breaking it down into components reveals the actual challenges. Compared with global economies, India has some of the cheapest transportation and warehousing costs. However, our inventory carrying costs and losses (from food wastage), is the highest in the world. The high inventory carrying costs are due to modest physical infrastructure, inadequacy of technology adoption and complicated tax structure. On the issue of complex taxation, recent actions related to the Goods & Service Tax (GST) denote a major legislative milestone in the long-term evolution of efficient logistics in India.

There are facets of our industry where the GST is undeniably expected to impact. Interstate movement of goods has become easier with reduced procedures and restrictions at state borders. Dismantling of check posts at state borders on July 1 has remarkably reduced transit times by about 18% for organised players as average truck speeds have increased.

In the long term, GST offers a unique opportunity for customer organisations to eliminate inherent inefficiencies in the location, movement and inventory holding of goods. GST is the trigger for the user industry to migrate from legacy supply chain models designed for optimising tax payouts, to more efficient models, though these are medium- to long-term plans. Tremendous opportunities hence arise for logistics players.

The logistics industry supports goods movement for numerous end-user verticals, which requires specialised capabilities and product know how. This complex amalgamation of overall goods movement has placed the onus of preparedness post-GST on the logistics players. Moreover, state governments have begun issuing interim transit rules, requiring logistics players to quickly adapt for efficient movement of goods. While these were early hiccups, an anticipated disruption in the medium and long term is the proposed implementation of the e-way bill legislation.

We believe that the initial draft e-Way bill Rules needed to recognise the process involved in time-sensitive multi-modal transportation. A desirable GST structure will support reduction of bottlenecks. So, we urge regulators to take cognisance of unique features of the logistics industry in formulating final rules.

The GST is already proving to be a blessing for supply chain costs and lead time to market. At a broader level, numerous initiatives in the area of trade and investment promotion have helped place India favourably in an otherwise volatile global economy. Complemented by this encouraging environment, GST is expected to help unlock much-needed efficiencies in the way domestic businesses operate today. Shifting gears and moving on to a faster lane is a matter of time for the logistics industry.

(The writer is member, CII Southern Regional Council and founder & CEO, Gati Limited)

This is the third instalment of a six-part series on GST implementation across industries. The series has been facilitated by the Confederation of Indian Industry

Upward ho: The new tax regime is the trigger for the user industry to migrate to more efficient models from earlier models that were designed to optimise tax outgo. •GETTY IMAGES/ISTOCK

Finding the right firm

Start-up helps U.K.'s international students spot openings

VIDYA RAM
LONDON

An idea emerges: Dhruv Krishnaraj and Tripti Maheshwari say the idea stemmed from their own struggles in landing a job.

Concerns about the ability of international students to stay on and work in Britain is seen as one of the reasons why the number of students from India have fallen sharply in recent years.

Under changes brought in five years ago, students have up to four months after their studies to find a job, which can prove daunting and greatly reduce Britain's attractiveness as a place to study, given the large levels of investment put into obtaining a degree. Two former Indian students turned entrepreneurs – from Mumbai and Jaipur – hope to change that through Student Circus, an online portal targeted at helping international students in Britain find employment.

The founders, Dhruv Krishnaraj and Tripti Maheshwari, said they came upon the idea following their own struggles, and those of friends: finding a job after completing their degree. They began to wonder what the root of the problem was. It was not lack of willing employers: about 30,000 U.K. companies have the necessary licence to hire workers on a Tier 2 visa. Nor was it the cost: hiring an international student directly after his or her studies is considerably easier than hiring from abroad.

"We realised we just weren't applying for the right jobs... as an international student, you have to focus on firms willing and able to give job visas but that is difficult in a pressed amount of time... you need to be smart in your job search and that is why we came up with the idea of Student Circus," said Ms. Maheshwari.

3,000 sign up

They've focused on whittling through the 30,000 companies that have a Tier 2 sponsorship licence to identify those that were willing to hire foreign students, particularly on their graduate training programmes.

Since starting in January, Student Circus has signed up more than 3,000 students from 112 universities across the U.K., with four universities already signing up at their portal for all the students.

The firm is also expanding into legal advice, via law firm Veale Wasbrough Vizards, VWV, and online training for students on the rigorous graduate training programme selection process deployed by many large companies.

"There is a often a huge difference between the system here and at home and you can't really apply without preparing," he said.

They've attracted considerable interest from businesses – especially in shortage areas such as engineering, where Britain has an identified skills shortage, though law and finance have also proved popular.

The firm plans to extend coverage to jobs at smaller firms, and other sectors from fashion to media. It hopes to branch out to services for firms too. "If a trading house needs a Mandarin speaker with a relevant degree, we can help them find them." With the pressure on universities to attract foreign students, the founders believe more institutions will sign on. "There are far more jobs out there for international students than many think there are," said Mr. Krishnaraj, noting that more than 6,000 have transferred from Tier 4 (student) visas to Tier 2 (work) visas in the past year in the U.K.

Growth has also come from an unexpected quarter: EU students, concerned around the uncertainty of their position in the aftermath of Brexit, have signed up at Student Circus. "They need the security that if things get rough, they have someone who could sponsor their visa... we never imagined that would be the case but we now have another whole area open."

Stirring anxiety into a melting pot

Changes to the Australian 457 visa policy have made hiring of temporary skilled workers restrictive

NARAYAN LAKSHMAN
CANBERRA

It was around April this year when Meera Koramannil, a migration consultant based in Darwin, in Australia's Northern Territories (NT) state, started noticing an uptick in the number of clients of Indian origin walking into her office requesting her urgent assistance with obtaining permanent residency in Australia.

She quickly realised that most of the individuals were on Australia's 457 visa for temporary skilled workers, and that this wave of anxious migrants was driven by significant changes in law that made the conditions for hiring them relatively more restrictive.

The changes in the 457 visa policy have been 20 years in the making. It was initially introduced in the context of Australia's yawning skilled labour gap in the workforce. While it allowed successful applicants to find, in some cases, a path to permanent residency, this remained essentially a form of temporary migration that nevertheless soon came to "dwarf" the rate of permanent migration into the country.

"While [the 457 visa programme] has been regarded a success, it does involve a departure from the historical model of immigration in Australia... Since the end of the Second World War, when people migrated to Australia, the default was that they were migrating... permanently," Tim Soutphommasane, Race Discrimination Commissioner at the Australian Human Rights Commission, told *The Hindu*.

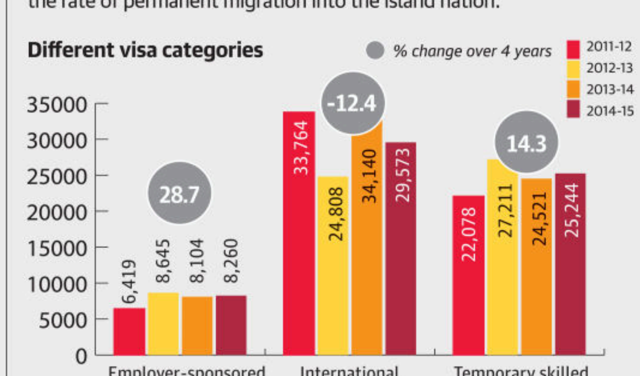
On April 18, 2017, Australian Prime Minister Malcolm Turnbull announced that he proposed to "safeguard Australian jobs by abolishing the Subclass 457 Visa for foreign workers and creating a new temporary visa restricted to critical skills shortages."

Target 457

Highlights of changes to Temporary Skill Shortage Visa policy

- More targeted occupation lists better aligned to Australian skill needs
- At least 2 years' work experience in the skilled occupation
- Employers must pay Australian market salary rate and meet the Temporary Skilled Migration Income Threshold 1 which ensures that overseas workers cannot be engaged to undercut Australian workers
- Mandatory labour market testing
- Visa renewal onshore and permanent residence pathway after 3 years under Medium-Term stream
- Tax File Numbers to be matched with Tax Office records (salary level check)

Though brought in to address Australia's yawning skill gap, the 457 visa policy had become a route for temporary migration that dwarfed the rate of permanent migration into the island nation.



Migrants under various heads in 2014-15

Temporary work visa subclass 457	No. of migrants
Software and applications programmers	4,253
ICT business and systems analysts	1,469
Cooks	1,081
ICT support and test engineers	600
ICT managers	589
Cafe and restaurant managers	533
Management and organisation analysts	293
Database and systems administrators, and ICT security specialists	253

Source: Department of Immigration and Border Protection, Government of Australia

Changes galore

The most important changes included: a reduction in the list of allowed occupations for the temporary skilled visa by about 200 (from an original list of around 650 occupations), the introduction of a two-tier system of skilled migration visas, short-term (two years, renewable once) and medium- to longer-term (four years but with a different occupations list), minimum mandated work experience for some occupations on the temporary visa list including some ICT-related jobs, and in some cases assurance of a minimum salary level that would be expected to correlate to the skill level.

There is also now a heightened focus on English-language requirements, and those with salaries above A$96,400, who were exempted from some of these requirements, will now have to submit proof of the same.

All of these measures certainly have a familiar ring to them, and raise questions about whether the current global mood of tightening national borders and immigration restrictions, led by the U.S., is catching on in Australia too.

Be that as it may, Ms. Koramannil explains, the Australian government's 457 visa reforms are by no means a knee-jerk reaction: the decision is always arrived at after extensive consultations with chambers of commerce, accounting agencies, and university experts, about prevailing skill shortages in the labour-market, she says.

Revisions not 'dramatic'

In this context, it would also be incorrect to characterise the policy changes as dramatic for it is only relatively less-skilled occupations that count among the 200 bumped off the temporary visa list, and this would be in line with Mr. Turnbull's remark that "Australian workers are given the absolute first priority for jobs, while businesses will be able to temporarily access the critical skills they need to grow if skilled Australians workers are not available."

Further, there is still is a shortage of skilled labour in some regions, such as the NT. In such cases, there are understandings between the state and federal governments – known as Designated Area Migration Agreements – to waive some of the visa conditions, perhaps by allowing lower minimum scores in the English-language tests.

Nevertheless, just as U.S. President Donald Trump may have to consider ways to make American industry globally competitive and not rely purely on proposals for economic protectionism, for a long-term solution, Australia may ultimately have to do more to up-skill its local population in sectors that it considers critical and not only tinker with the inflow of skilled migration to meet its changing economic needs.