LIC gets RBI approval to hike stake in Kotak Bank

SUBRATA PANDA
Mumbai, 29 November

The Reserve Bank of India (RBI) has granted approval to state-owned insurance behemoth Life Insurance Corporation (LIC) of India to raise its stake in private lender Kotak Mahindra Bank up to 9.99 per cent.

Currently, the life insurer holds 4.96 per cent in the private lender. In a notification to exchanges, the lender said, "...Kotak Mahindra Bank has received an intimation from LIC stating that the Reserve Bank of India (RBI) had granted its approval to LIC, for increasing its holding in the bank up to 9.99 per cent of the paid-up equity share capital of the bank...".

Shares of Kotak Mahindra Bank closed with gains of 2.92 per cent on the BSE after the announcement —the most among Sensex components. The approval of the central bank will be valid for one year.

According to the central bank norms, prior approval of the RBI is required to increase stake in private banks beyond 5 per cent.

LIC is one of the biggest institutional investors in India's stock market and has a stake in a number of private and public sector banks. LIC has a stake in as many as 24 scheduled commercial banks, shows the data from Capitaline. It holds 49.24 per cent stake in IDBI Bank.

Once LIC raises its shareholding in Kotak Mahindra Bank to 9.99 per cent, it will be the second-largest shareholding of the insurer in a scheduled commercial bank. Among other major banks, LIC holds 8.8 per cent in Canara Bank, 8.3 per cent in Punjab National Bank and State Bank of India, 8.2 per cent in Axis Bank, and 7.6 per cent in ICICI Bank.

Disclosure: Entities controlled by the Kotak family have a significant holding in Business Standard Pvt Ltd

BANKS IN WHICH LIC HOLDS 5% STAKE OR MORE AS OF SEPT

Banks	Stake (%)
IDBI Bank	49.2
Canara Bank	8.8
Punjab National Bank	8.3
State Bank of India	8.3
Axis Bank	8.2
ICICI Bank	7.6
Bank of Baroda	7.1
IndusInd Bank	5.4
Union Bank of India	5.1
Karnataka Bank	5.0
Kotak Mahindra Bank	5.0

Compiled by *BS* Research Bureau Source: Capitaline

CAG flags lack of transparency in food subsidy for FY17 & FY18

INDIVJAL DHASMANA
New Delhi, 29 November

The Comptroller and Auditor General of India (CAG) has flagged the use of extra budgetary resources for payment of food subsidy in a report tabled in Parliament on Monday for the financial year 2017-18 (FY18) and FY19.

Experts said making the books of the Food Corporation of India (FCI) public in the Budget for FY22 would go a long way in plugging this loophole.

The CAG report said the government undertook funding of revenue and capital expenditure using extra budgetary resources in both the years.

Referring to food subsidy, it said there was a carryover liability of ₹81,303 crore of unpaid food subsidy during FY18 and then there was fresh subsidy claim of ₹1.16 trillion, resulting in a total pending liability for food subsidy of ₹1.97 trillion. Against this, the government released only ₹61,982 crore to the FCI, leaving a pending liability of ₹1.35 trillion at the end of FY18.

It was noted that the budgeted provision of ₹1.45 trillion for FY18 for meeting food subsidy expenses was not fully utilised and there were savings of ₹48,228 crore at the year-end. These savings were due to a provision of a ₹42,919 crore loan from the National Small Saving Fund (NSSF) to FCI instead of payment of food subsidy using the budgeted funds.

In the next year, FY19, along with a carry forward liability of ₹1.35 trillion from the previous years, there was additional liability towards food subsidy of ₹1.2 trillion for FY19. However, despite a budgetary provision of ₹1.69 trillion for food subsidy in the BE of FY19, only ₹70,098 crore was released from the Budget to partly clear carryover liability of previous years.

Payment amounting to ₹70,000 crore already released to FCI towards food subsidy was found to have been reversed and replaced by a loan from NSSF, leaving the existing Budget provision unutilised to this extent.

This was done primarily as a measure of compressing revenue expenditure to contain the revenue deficit. As a result, the total carried forward liability on account of subsidy arrears rose to ₹1.85 trillion at the end of FY19.

"Thus, by not discharging liabilities in full from budgetary sources towards food subsidy on account of PDS operations, revenue expenditure, RD (revenue deficit) and FD (fiscal deficit) at the end of FY18 and FY19 were understated," it said. Aditi Nayar, chief economist of ICRA, said greater disclosures related to the NSSF will boost transparency and aid the analysis of the government's fiscal position.

The CAG said despite NSSF loan to the FCI, there was variance between Budget Estimates of fiscal deficit, revenue deficit and effective revenue deficit and actual numbers. The same happened in the following year, it said.

GOVT PULLED UP FOR ERRONEOUS PROCESS OF IGST DEVOLUTION

The CAG has pulled up the Union government for adopting an erroneous process of devolution of IGST to states and short-transfer of cesses to reserve funds, which resulted in under-reporting of deficit figures for the 2017-18 and 2018-19 fiscals. The Integrated Goods and Services Tax (IGST), which is levied on inter-state sale of goods and services, is shared between the Centre and states in the 50:50 ratio. In its report tabled in Parliament, the Comptroller and Auditor General of India (CAG) found that a sum of ₹13,944 crore was left unapportioned and retained in the Consolidated Fund of Indiain 2018-19, even though the amended IGST Act now provides for a process for ad-hoc apportionment of IGST. PTI

R Infra plans to cut debt by March

DEV CHATTERJEE
Mumbai, 29 November

The Reserve Bank of India's (RBI's) action against Reliance Capital — to supersede the board — comes at a time when Anil Ambani group companies are planning to make a comeback. In fact, group company Reliance Infrastructure is raising funds from the promoter family to pay off part of its debt by March 2022.

As part of the comeback plan, Reliance Infrastructure received ₹550-crore funds from the Anil Ambani family. A month earlier, Reliance Power, a listed subsidiary of Reliance Infrastructure, also raised funds from its parent. It was via preferential allotment of shares.

AS PART OF THE COMEBACK PLAN, ANIL AMBANI FAMILY HAD INFUSED FUNDS INTO THE INFRASTRUCTURE COMPANY IN JULY

Two other group companies, Reliance Communications and Reliance Naval & Engineering have been referred to the National Company Law Tribunal (NCLT) for debt resolution under the Insolvency and Bankruptcy Code (IBC), 2016.

While debt resolution of Reliance Communications has been delayed due to litigation, the lenders are currently evaluating proposals from bidders of Reliance Naval.

In July, Reliance Infrastructure had announced that it would raise funds by issuing securities on a preferential basis to Anil Ambani family to take its stake to 22 per cent from 5 per cent now. A month earlier, Reliance Power, a subsidiary of Reliance Infrastructure, had announced that it would raise ₹1,325 crore by issuing preferential shares and warrants to its parent.

Reliance Infra had a debt of ₹14,000 crore as of March this year while for Reliance Power, the figure was ₹24,000 crore. With the funds infusion, Reliance Infrastructure's holding in Reliance Power increased to 25 per cent by September end from 9.06 per cent held in March this year. Reliance Infrastructure's stake was to further increase to over 38 per cent on conversion of warrants in the power subsidiary. Reliance Infra's stake in Reliance Power had come down due to invocation of pledged shares by the lenders.

Reliance Infrastructure took several steps to reduce its debt, including selling 100 per cent equity stake in DA Toll Road Private Limited (a subsidiary) on March 14, 2019. It was for an enterprise value of ₹3,600 crore, including equity or equity-linked instruments or debt of up to ₹1,700 crore, to Cube Highways and Infrastructure III Pte Ltd.

Why RBI move is par for the course

The Reserve Bank of India's decision to supersede the board of Reliance Capital (RCap) should not come as a surprise. The company had last reported profits in 2016-17 (FY17) and has been loss-making ever since.

It reported a cumulative net loss of nearly ₹19,000 crore in the last four and a half years, leading to a complete erosion of its net worth. It reported a negative net worth of ₹13,700 crore at the end of September this year (H1FY22), against gross debt of ₹27,100 crore.

The dire financial condition of RCap is emblematic of the decline of the Anil Ambani group in the last five-six years. The six listed companies in the group reported a combined net loss of ₹17,000 crore in 2020-21 and a net loss of ₹14,400 crore during the trailing 12 months ended September. With this, the group cumulatively lost ₹1.03 trillion in the past four and a half years. The group had last reported profit at a group level in FY17. The group companies reported combined gross debt of ₹1.31 trillion at the end of H1FY22 and negative net worth of ₹59,300 crore, making it one of the most indebted business groups in India. All group companies are loss-making, with Reliance Communication and Reliance Naval and Engineering being the most financially stressed.

At the same time, group revenues are down by a third in the period, from a high of ₹78,500 crore in 2015-16 to ₹50,000 crore during the 12 months ended September. The group companies' market capitalisation is down 85 per cent in the last five years, from ₹58,500 crore at the end of March 2017, to ₹8,360 crore now.

KRISHNA KANT

FINANCIAL POSITION OF ANIL AMBANI GROUP FIRMS
(Figures based on results for H1FY22 in ₹ crore)

Company	Revenues*	Opr profit*	Interest*	Net profit*	Networth	Total debt	Mkt cap	Debt to equity	Debt to Ebitda
Reliance Infra	21,350.3	3,739.9	2,477.2	-339.0	11,326.1	13,928.0	2,310.4	1.2	3.7
Reliance Capital	20,541.0	-4,852.0	2,641.0	-9,261.0	-13,676.0	27,067.0	481.4	-2.0	-5.6
Reliance Power	7,660.2	3,696.8	2,431.6	242.8	13,021.4	23,946.7	4,396.4	1.8	6.5
Reliance Naval	112.2	-218.7	1,328.0	-1,621.3	-12,177.5	7,648.0	211.0	-0.6	-35.0
Reliance Com	667.0	-6,011.0	49.0	-5,991.0	-57,153.0	45,576.0	768.8	-0.8	-7.6
Reliance Home	538.2	-901.8	1,150.9	-1,646.1	-624.9	12,850.7	191.9	-20.6	-14.3
All group firms	**50,868.9**	**-4,546.8**	**10,077.7**	**-18,615.7**	**-59,283.9**	**131,016.3**	**8,359.8**	**-2.2**	**-28.8**
Group Ex-Reliance Capital	30,327.9	305.2	7,436.7	-9,354.7	-45,607.9	103,949.3	7,878.4	-2.3	340.6

* Profit & loss numbers for trailing 12 months ended September 30; debt & neworth as of September 30, #All Reliance Naval numbers for FY20; market cap as of November 29, 2021
Source: Capitaline, compiled by *BS* Research Bureau

FROM PAGE 1

Sensex...

On Monday, FPIs took out ₹3,332 crore.

Market players say until the selling by foreign funds abates, the market may not climb much higher.

Major markets in the world, too, returned to the green on Monday. Stocks in Europe and US rebounded, along with Treasury yields, as a semblance of calm returned to global markets.

In a sign of improved risk appetite, crude oil prices staged a rebound and safe-haven assets, such as gold took a breather. Bitcoin, too, was in the green.

"Investors were torn between buying the dips and uncertainties over the impact of Omicron on economic recovery," said Vinod Nair, Head of Research at Geojit Financial Services.

RBI...

"In view of the defaults by RCL (Reliance Capital Ltd) in meeting the various payment obligations to its creditors and serious governance concerns which the board has not been able to address effectively", the central bank superseded the board.

The RBI has appointed Nageswar Rao Y, former executive director of Bank of Maharashtra, administrator of Reliance Capital.

The central bank said it would "shortly initiate the process of resolution of the company under the Insolvency and Bankruptcy ... Rules, 2019".

The central bank will also apply to the National Company Law Tribunal (NCLT), Mumbai, for appointing the administrator insolvency resolution professional.

The action on Reliance Capital, though, may not have any significant impact on the sector because the group to which it belongs has been in trouble for long, and had repeatedly failed in repaying its debt to lenders or bondholders, the latest being on November 27.

It has a default rating, or "D".

Reliance Capital had ambitions in banking, but the central bank has stayed away from giving licences to large corporate houses.

Reliance Capital has defaulted on term loan payments multiple times and the account is classified as a non-performing asset (NPA) with banks.

Various arms of the group have been either partly sold or in the possession of creditors. The company has been scouting for joint venture partners for its subsidiaries with mixed results.

Anil Ambani, who was once among the world's top 10 richest, declared bankruptcy in the UK in 2020. The group started defaulting, including in its dollar bonds, from at least 2017.

(With inputs from Abhijit Lele and Dev Chatterjee)

NINL sale...

NINL, promoted by MMTC, Industrial Promotion and Investment Corporation of Orissa, and other government agencies, has set up a 1.1-million tonne integrated iron and steel plant at Kalinganagar, Orissa.

The condition for the sale would be subject to the sale proceeds being utilised for the company within three years, the official said. The condition set by the government is that the total book value of assets sold or the proceeds from the sale should not exceed 15 per cent of the total book value of the company's net fixed assets. The employee retention clause has been set at one year, which means the new buyer cannot retrench employees for one year after the completion of transaction.

The potential bidders for the steel company had also sought allowing the merger of an SPV into NINL, and the government has allowed the same provided the bidders stay in control of the company for three years.

The Centre has also agreed to the demand that some members of the consortium of buyers may just be financial investors who would not agree to share joint liability. A joint liability requires parties to share the risks associated with taking on debt. The government has allowed the members of the consortium to have several liability, and the lead member will have a joint and several liability. It has also waived the requirement of giving 10 per cent of the bid amount as the post-completion bank guarantee.

The NINL privatisation is at an advanced stage and is expected to be completed in the ongoing financial year. The requests of bidders were considered and accommodated wherever possible so that the transaction goes through, the official quoted above said.

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SOLUTION TO #3525

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