RBI removes interest cap for microfinance loans

Annual income criteria for loans hiked to ₹3 lakh

SUBRATA PANDA
Mumbai, 14 March

The Reserve Bank of India (RBI) has increased eligibility criteria for microfinance loans to a household having an annual income of up to ₹3 lakh while removing the interest rate cap on such loans. It has also asked all lenders to put in place a board-approved policy on pricing.

In the final guidelines for microfinance loans released on Monday, the RBI said it will scrutinise the rates charged by the lenders so that they do not charge usurious rates, and has asked the lenders to put in place a ceiling on pricing of loans and related fees.

The microfinance institutions are required to disclose pricing-related information to a prospective borrower in a standardised simplified fact sheet. Further, the RBI has asked the lenders to prominently display the minimum, maximum, and average interest rates charged on loans in all its offices, in the literature issued by them, and details on its website.

The regulator has also revised the definition of microfinance loans by increasing the loan cap. Collateral-free loan given to a household having annual household income up to ₹3 lakh will now be considered as microfinance loan. Currently, a microfinance borrower is identified by the annual household income not exceeding ₹1.25 lakh for rural and ₹2 lakh for urban and semi-urban areas.

"All collateral-free loans, irrespective of end use and mode of application/processing/disbursal, provided to low-income households, i.e., households having annual income up to ₹300,000, shall be considered as microfinance loans," the RBI said.

THE GUIDELINES

- All collateral-free loans, irrespective of end-use, considered microfinance loans
- Board-approved policy for income assessment
- Limit on loan repayment is at 50% of monthly household income
- Cap on processing fee and interest removed; disclosures on charges to be made explicit
- Self-regulatory organisations may publish a range of interest rates charged by members for each district, for awareness

The RBI has also said that to ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

"The framework will address issues of over indebtedness and multiple lending, which were of paramount concerns for the sector," said Alok Misra, chief executive officer (CEO) and director, MFIN.

"More importantly, the RBI has taken a prudent view of the bottlenecks that are presented in credit delivery, addressing each of them. Revision of household income is a very progressive move with far-reaching implications as needier and low-income households will now come into the purview of accessible credit, taking us closer to our financial inclusion goal," Misra said.

Chandra Shekhar Ghosh, managing director and CEO of Bandhan Bank, said the latest guidelines are a strong reflection of the maturity that the microcredit industry has reached in India. "It will help harmonise the regulatory framework for different types of lenders, encourage healthy competition and enable customers to make an informed choice regarding their credit needs."

The RBI also said the regulated entities should have board-approved policy to ensure that the outflows of a household on account of repayment of monthly loan obligations should not exceed 50 per cent of the income of the household.

"The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralised loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration," the RBI said.

Also, for existing loans, if outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceeds the limit of 50 per cent, then they shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

Further, the lenders will not be allowed to charge a penalty if the borrower decides to pre-pay their obligations. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount, the RBI said.

The RBI also said self-regulatory organisations and other associations may develop a common framework based on the indicative methodology to determine the household income.

HDFC Bank: Recouping lost credit card share to be 'gradual'

Analysts expect the bank's underperformance to reverse

SUBRATA PANDA & NIKITA VASHISHT
Mumbai/New Delhi, 14 March

While HDFC Bank has vowed to recoup its lost market share in the credit card segment in three to four quarters by aggressively sourcing new cards, brokerages believe it is a little hard to come by, given how competitive the landscape has become, with other players in the market becoming equally aggressive to gain market share.

Kotak Institutional Equities in its report on Monday said, "We would like to believe that the recovery in market share is likely to be gradual, if any. All the key players, including Axis Bank, are now willing to expand their credit card portfolios as they have tested quite well against Covid-19."

"With retail asset quality holding up well, competition is likely to be strong. The ability to expand market share in this environment is likely to be challenging," it added.

After nearly 10 months of restrictions, the Reserve Bank of India (RBI) lifted the embargo on issuing new cards in August last year. Following the lifting of restrictions, the bank stated it would come back with a bang in the credit market and make up for lost time.

Since August 2021, the bank has added over 1.3 million credit cards to its portfolio up until January (latest RBI data). Yet, the bank has shed 20 basis points (bps) in market share, in terms of the number of cards, while the key gainer among large players has been Axis Bank, with 50 bps gain since August 2021, according to Macquarie Research.

Similarly, HDFC Bank's market share in spends is down 170 bps since the embargo lifted, while SBI Cards and ICICI Bank have gained 130 bps and 180 bps, respectively, over the same period.

Speaking to Business Standard earlier this week, Parag Rao, country head-payments business, digital banking, and consumer finance, HDFC Bank, said the embargo has impacted its incremental growth rates and its market share (number and spends).

"It will take us at least three to four quarters to get back to our growth in market-share run rate. We will slowly start seeing the impact of new issuances, which we have been doing since September, because they will now start contributing to the spends. The partnerships, which we have announced in December and January, will also start kicking in," Rao had said.

Meanwhile, over the weekend, the RBI lifted restrictions on digital launches of the bank after a gap of 15 months.

HDFC Bank's stock price has reacted positively to this development, with shares of the lender closing 3.25 per cent higher at ₹1,442.4 on Monday, over the previous day's close.

Analysts are of the view that with the RBI lifting all curbs, the bank is well-positioned to push the launch of payments and customer experience hubs, neobank vertical, and ecosystem platform.

According to a note by Jefferies, the lifting of restrictions will help the bank push the aforesaid key digital initiatives over the next six to 12 months. It will also allow the bank to smoothen business-as-usual initiatives, instead of having to seek clarity from the RBI in case of doubt, it said.

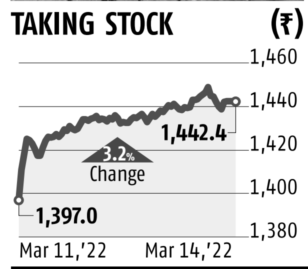
"The fact that the RBI took nearly 15-plus months to revoke the ban clearly indicates it has taken time to do a thorough due diligence and then revoked the ban. We view this development as a significant positive milestone," said Macquarie Research in its report, adding, "By lifting the ban, the RBI is sending a signal that we are fine with the bank's information technology system and capabilities."

According to Motilal Oswal Financial Services, HDFC Bank's operating performance witnessed deterioration after implementation of the RBI curbs.

Retail loan growth moderated to 7 per cent in 2020-21 (FY21), compared with 15 per cent in 2019-20 (FY20). A stronger performance in wholesale business, however, offset the impact on overall loan growth.

HDFC Bank delivered 14 per cent growth in overall loans in FY21 relative to 21 per cent in FY20.

TAKING STOCK (₹)



EXPECT PICK-UP IN DIGITAL LAUNCHES

PAYMENTS HUB: Combine the payments services of existing platforms such as PayZapp, SmartBuy, and SmartHub

CUSTOMER EXPERIENCE HUB: Focus on improving relationship management and also improve customer experience

NEOBANK WITHIN HDFC: Will digitise acquisition, sale of products and services, and client management

ECOSYSTEM FOR AUTO, HEALTH CARE & RURAL BANKING: Integrate its offerings in these ecosystems

Source: Jefferies

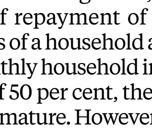
FALLOUT OF RUSSIA-UKRAINE WAR

Western sanctions offer an opportunity to internationalise rupee, says SBI report

MANOJIT SAHA
Mumbai, 14 March

With some countries looking to bypass western sanction on Russia after its invasion of Ukraine as proposals of rupee-ruble and yuan-ruble trade are made, this also presents an opportunity for the internationalisation of rupee, according to a report by State Bank of India (SBI).

Internationalisation means the currency can be freely transacted by both resident and non-residents, and be used as a reserve currency for global trades. "An interesting anecdote, the hegemony of US $ appears likely to continue in next few decades, notwithstanding the alternate settlement mechanism being envisaged by select nations desirous of continuing inter-territorial trades of compulsory nature, circuiting around the western sanctions as backdoor talks gather momentum for rupee-rouble or yuan-rouble settlements globally, with some enthusiasts betting for gold settlements too!," said Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI, in a report. "This, however, should present the moment of reckoning for the internationalisation of rupee too, underpinning the need to evolve alternate payment and settlement mechanisms. Let us grab the iron when it is hot!," said Ghosh.



The sanctions against Russia by the US, European Union and other western partners including cutting off Russia from the Swift Payment system has crippled Russian trade with other countries.

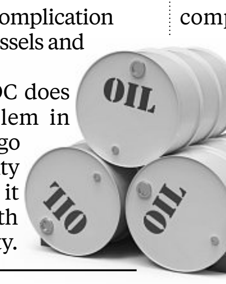
IOC BUYS 3 MN BBL RUSSIAN CRUDE VIA TENDER

REUTERS
New Delhi, 14 March

Indian Oil (IOC), the country's top refiner, bought 3 million barrels of Russian Urals from trader Vitol for May delivery, trade sources said, its first purchase of the grade since Russia invaded Ukraine on February 24.

Western sanctions against Russia have led many companies and countries to shun its oil, depressing Russian crude to record discount levels. IOC said on February it would buy Russian oil on delivered-basis to avoid any complication relating to fixing vessels and insurance.

Sources said IOC does not see any problem in paying for the cargo as oil as a commodity is not banned and it was not dealing with a sanctioned entity.



Vitol sold the cargoes at a discount of $20-$25 a barrel to dated Brent, one of the sources said. The companies typically do not comment on commercial deals.

Separately, IOC also bought 2 million barrels of Abu Dhabi's Murban crude and one million barrels each of Nigeria's Akpo and Forcados, and Cameroon's Kole, they said.

CENTRE CONSIDERS BUYING DISCOUNTED RUSSIAN OIL, COMMODITIES

The government is considering taking up a Russian offer to buy its crude oil and other commodities at discounted prices with payment via a rupee-rouble transaction, two officials said, amid tough Western sanctions on Russia over its invasion of Ukraine. The country imports 80 per cent of its oil needs, and usually buys about 2 per cent to 3 per cent of its supplies from Russia. "Russia is offering oil and other commodities at a heavy discount. We will be happy to take that. We have some issues like tanker, insurance cover and oil blends to be resolved. Once we have that we will take the discount offer," one of the government officials said. REUTERS

PETROLEUM MINISTRY INDICATES READINESS TO RELEASE MORE RESERVES

Minister of State for Petroleum and Natural Gas Rameswar Teli on Monday said the country will take "appropriate" steps to calm the rise in oil prices, triggered by Russia's invasion of Ukraine, indicating the country could release more oil from national stocks if required. "The government is ready to take all appropriate action, as deemed fit, for mitigating market volatility and calming the rise in crude oil prices," Teli said in a written reply to lawmakers. Last month India said it was prepared to release additional crude from its national stocks in support of efforts by other major oil importers to mitigate surging global prices. REUTERS

Govt procurement: No. of farmers registering to sell wheat at MSP in Madhya Pradesh down 17%

SANJEEB MUKHERJEE
New Delhi, 14 March

The number of farmers in Madhya Pradesh registering to sell wheat to state agencies has dropped by more than 17 per cent because of the rush for the cereal on the part of private players.

This is owing to the spike in global prices because of the Russia-Ukraine crisis.

Official sources said until March 10 (which was the last date for registration), around 1.98 million farmers applied to sell wheat to government agencies, while last year during the same period it was around 2.4 million.

This has happened after a long time in Madhya Pradesh, one of the foremost of the states procuring wheat for the Central pool.

For the past few years, it has been figuring above Haryana as the largest contributor to the Central pool after Punjab.

"As a result of the drop in registrations, we might have to scale down our procurement target from 12.8 million tonnes to around 10 million tonnes as of now, which could go down even further if prices remain at the current levels," Deepak Saxena, director of food and civil supplies, Madhya Pradesh, told *Business Standard* on the phone from Bhopal.

Saxena said there were two main reasons for the sharp and unprecedented drop. One is the decision of the government to authenticate all applicants with their Aadhaar numbers, and the second, and more potent, reason is the sudden spike in *mandi* prices.

"We are purchasing wheat at a minimum support price of ₹2,015 per quintal, while in several *mandis* of the state the average price being quoted for the past 10-15 days is much higher at around ₹2,300-2,400 per quintal," Saxena said.

The state government had made arrangements for storing around 14 million tonnes of wheat this year by vacating the space occupied by *chana* and other crops, but now it seems the extra space might not be required.

Long queues of tractors are appearing outside all major *mandis* where the crop is sold in Madhya Pradesh.

"Until a few weeks ago, wheat was selling at around ₹2,000 per quintal but now suddenly the prices have shot up to ₹2,300-2,500, which is why farmers are looking to liquidate their produce in a hurry," a farmer in Mandsaur district of Madhya Pradesh said.

He hoped the trend would continue after Holi as well, when arrivals are expected to pick up.

Indian wheat prices in world markets shot up to around $360 per tonne (FOB) a few days ago in the aftermath of the Russia-Ukraine crisis, cooling a bit to $340-350 per tonne.

The current price of Indian wheat is still the cheapest among all global competitors. The absence of wheat from Ukraine and Russia from world markets for the next few months will give Indian traders a chance to ship record quantities this fiscal year and even in FY23.

Trade and government sources said India was expected to export a record 7-7.2 million tonnes in the current financial year. The export could reach a fresh milestone of almost 10 million tonnes in 2022-23 if global market conditions remain benign and curbs on outbound shipments are not imposed.

India is expected to harvest over 111 million tonnes of wheat, a record, in 2022-23, which is almost 2 million tonnes more than this year.

THE BENEFICIARIES

No. of farmers benefiting from wheat procurement in Madhya Pradesh has risen exponentially in past few years

RMS: Rabi market season
Source: Food Corporation of India