SPECIAL ISSUE: BT-KPMG BEST BANKS STUDY

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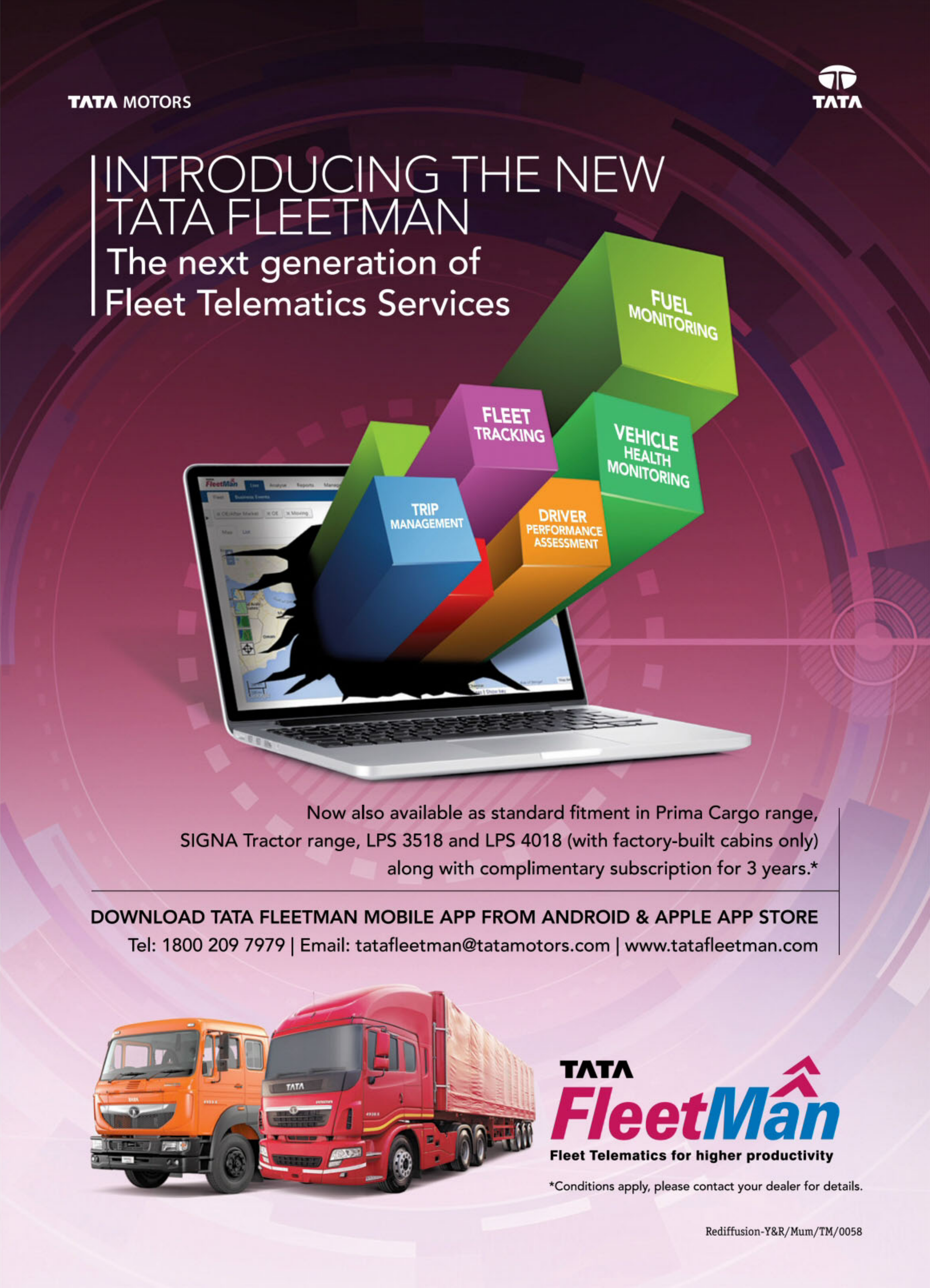
E-COMMERCE

RUNNING ON EMPTY

Start-ups go for drastic cost cuts as fund raising gets tougher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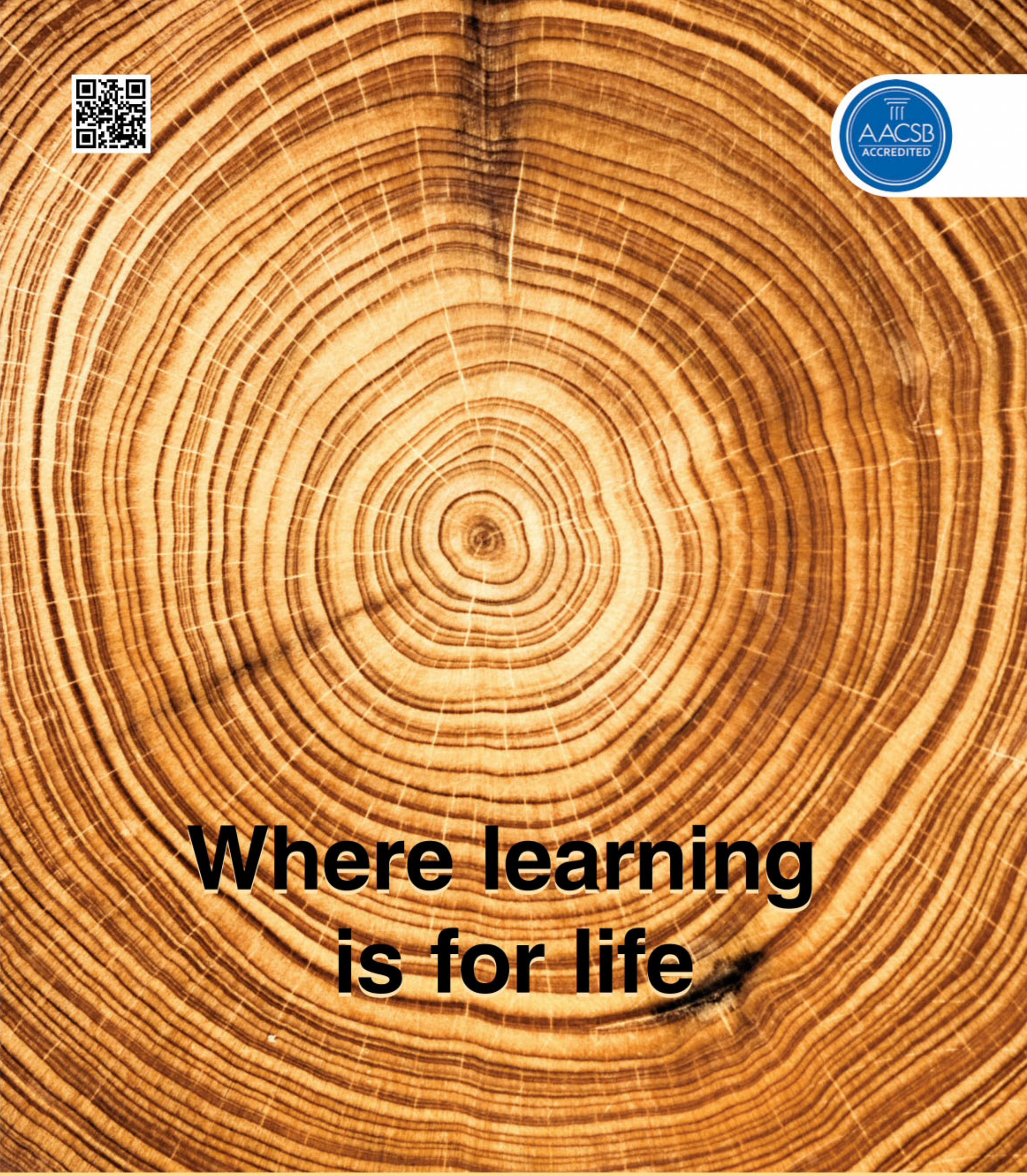
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From the Editor

Conserving Cash

Two years can make all the difference. If start-ups – especially those with Internet business models – were riding the crest of the roller coaster till early 2015, they are now nearing the trough in early 2017. During the heady days of 2014 and early 2015, many start-ups had got accustomed to raising money from venture capital (VC) funds at ever higher valuations. In turn, VCs hunted out start-ups beginning to gain traction and practically begged them to take more money. The easy funding environment had set off its own chain reaction. First, every start-up was expected to scale up exponentially in double quick time. It did not matter how much cash they were burning up or how much red ink they were accumulating on their balance sheets. What mattered was growing revenues at a breakneck speed, even if losses were growing even faster.

The easy inflow of cash and the pressure to grow revenues in turn meant that the start-ups threw cash at every problem. It created a culture of excess.

Sometime in late 2015, the scenario started changing. The leaders in each market still found it easy to raise lots of fund. But things became increasingly difficult for everyone else. Some had to down shutters, while others had to scale down operations. For much of 2016, this was the recurring theme.

In January 2017, things have deteriorated further for Indian start-ups. Now even leaders are finding it difficult to raise funding at anywhere near the valuations they commanded in 2015. Worse, almost all investors are asking tough questions about the path to breakeven and cash burn and unviable operations.

It is belt-tightening time for most start-ups in the digital space in the country – bar a couple of exceptions. As a result, most of them are now hiring CFOs (or expanding the scope of their responsibilities), and cutting costs in any which way they can.

I believe that while the pain is likely to be immense, the survivors in this round will be companies that have the most realistic business models and who are as focused on keeping cash burn low as they are on growing revenues. Senior Editor Goutam Das talked to some of the most prominent founders in the start-up ecosystem to put together our cover story this issue.

Meanwhile, this is also our annual ranking of Best Banks in the country. Last year was particularly tough for Indian commercial banks, and mainly for the public sector banks. The best private sector banks have taken care to increase their balance sheet size, while simultaneously keeping non-performing assets under check. With our partners KPMG, we conducted a quantitative survey and this was followed by a jury meeting to decide on the best banks in some specific categories. Deputy Editor Anand Adhikari anchored the project, while the eminent panel of jurors – M.D. Mallya, former chairman and managing director of Bank of Baroda; Alok Agarwal, Chief Financial Officer, Reliance Industries; Vimal Bhandari, MD & CEO, Indostar Capital Finance; and Ramaswamy Venkatachalam, MD (India & South Asia), FIS – chose the exceptional banks in various fields.

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For a Better India

This refers to your 25th Annivesary Issue of *Business Today* (Jan 15). It was a compendium of smart ideas, smarter concepts and smartest presentations of grand strategies and pragmatic solutions for a better India. The editorial sheds light on contemporary economic history, weak economic growth of India in the past, scope for sustaining high growth rates in future and challenges emerging from technological disruptions. The successful industry captains have placed their unequivocal views based on their personal experience. The entire exercise was highly commendable. Indian policy-framers must extrude an inclusive plan to take the nation forward. Even Niccolo Machiavelli has ruled that *nothing can be more difficult to carry out nor more doubtful of success nor more dangerous to handle than to initiate a new order of things*, and it underlines the enormity of efforts required to roll out a road-map for India's development and progress and then adhere to it.

B. Rajasekaran, *Bangalore*

Cashless Society Is Purely a Western Concept

This refers to your article on digital economy (*A Cashless Climate*, Jan 15). The use of Internet makes everything highly dangerous as nothing remains a secret. In a cashless society, if Internet connectivity fails, functioning of the entire country would come to a standstill. The best way out is to use Internet occasionally, especially in money matters. There are more chances of losing your hard-earned money to cyber crimes if you use the Internet on a regular basis for financial transactions. Cashless society is a western concept, which is just not practical in India. Cash is required for basic necessities of life. Not everyone is well versed with online transactions. And corruption cannot be curbed through this route. There are hundreds of other modes to receive and offer bribes in order to get things done. The government must be practical and keep in mind the troubles of the common man resulting from the enforcement of cashless policies. No citizen can be forced to keep cash in banks only. The NDA government must take full care of the *aam aadmi* – not even a single honest person should suffer on account of governent's actions and policies, even in the name of national interest.

Mahesh Kumar, *New Delhi*

Cutting-edge Technology

This refers to your article on IndusInd Bank's performance (*The Innovator*, Jan 1). The biggest advantage of GLDP (globalisation, liberalisation, deregulation, and privatisation), introduced in early '90s, was the advent of new-generation private banks – with cutting-edge technology – that have come to redefine banking and customer service in such a manner that they are difficult to even comprehend. IndusInd Bank in the private banking space holds a consistent track record. This bank has an in-depth understanding of the market. It is incredible that the bank has a gross NPA level of 1.3 per cent of gross advances during a time of economic slowdown. It indicates a robust risk management profile of the bank. The bank has a strong balance sheet to weather any kind of storms and stay ahead of the times. A good leader is one who is able to lead and steer his team with clarity and confidence, even while keeping them well motivated in their tasks to be achieved.

Srinivasan Umashankar, *Nagpur*

Hunt for Black Money

This refers to your article on demonetisation (*Paralysed*, Jan 1). On this front, Prime Minister Narendra Modi had asked for 50 days to normalise banking operations. But even after 50 days (which came to end on December 31, 2016), there is lack of sufficient cash at the banks or in ATMs. People cannot withdraw cash according to the limit set by the government; instead, the bank's branch decides the amount people can take home. It is only in India that an honest citizen is made to beg for his/her money, kept in good faith at banks. Across the country, people are facing problems in meeting their daily expenses. Moreover, the corruption hasn't reduced, with black money in the form of ₹2,000 notes being unearthed daily.

M. Kapasi, *New Delhi*

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Different steps for boosting aviation sector
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Year 2016: A Defining Year for Gaming
2016 was a shining example for many gaming industries
businesstoday.in/gamingindustry-2016

Outlook for Pharma, Education and Microfinance in 2017
Will the business of pharma, education, and microfinance sectors get back on track?
businesstoday.in/outlook-industries

Staff Shortage May Derail PM Modi's Fight Against Black Money
Will PM's hunt for black money yield anything concrete? Only time will tell
businesstoday.in/pm-blackmoney

COLUMNS

How Can a Cashless Economy Help Insurance?
It is time for the insurance industry to start working in areas which would enable a conducive environment for growth, says **Shalabh Saxena**, Director - marketing & customer retention, Canara HSBC Oriental Bank of Commerce Life Insurance
businesstoday.in/cashless-insurance

Indian Markets: With Waning Momentum, Theme to Shift from Growth to Value
The damage the de-mon has inflicted will take a while to heal. But it is not all gloom and doom for momentum theme, says **ArunaGiri N.**, Founder & CEO, TrustLine Holdings
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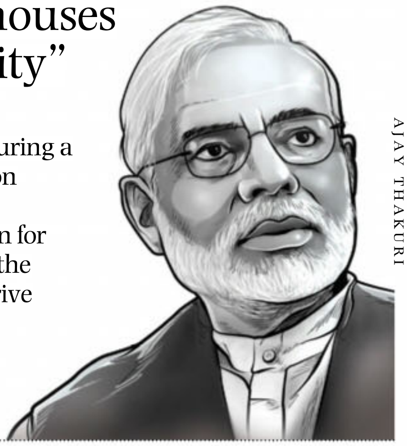
₹570 crore gross earnings for Aamir Khan-starrer Dangal. The film in its second week is closing in on Salman Khan's Sultan, which grossed ₹584.15 crore since its release last July. In the domestic box office Dangal earned ₹410 crore and ₹158.7 crore from international theatres, according to indiatoday.in

$61.44 bn, or about ₹4 lakh crore, was the worth of merger and acquisition (M&A) deals in India in 2016. According to a News CorpVCC Edge report, the deal value is not only at a five-year high, but is 159 per cent more than the $23.71 billion witnessed in 2015

QUOTE

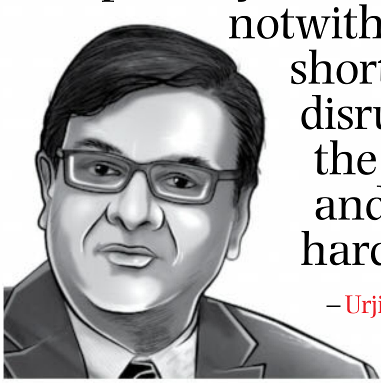
"Only 24 lakh people admit that they earn more than ₹10 lakh a year, even though you see so many big cars, big houses in every city"



AJAY THAKURI

– Prime Minister Narendra Modi, during a televised address on December 31. He thanked the nation for its cooperation in the demonetisation drive and fight against corruption

"It is expected to significantly transform the domestic economy in terms of, efficiency gains, accountability and transparency... notwithstanding short-term disruptions of the economy and public hardship"



– Urjit Patel, RBI Governor, on demonetisation

GST DELAYED

The rollout of the goods and services tax (GST) is likely to be delayed by at least two months. The government will, however, be well within the mandatory deadline of September 2017 – when the central and state governments will lose powers to levy all indirect taxes other than GST. It may introduce the legislation in the first half of the Budget Session

POLL DATES TO 5 STATES

Chief Election Commissioner Nasim Zaidi announced the 2017 poll schedule for five state assemblies – Uttar Pradesh will go to polls in seven phases between February 11 and March 8, Punjab and Goa elections will be held on February 4, polling in Uttarakhand will take place on February 15, and Manipur's two-phase elections will be held on March 4 and 8. The model code of conduct has already come into play, and counting for all states will be held on March 11

INTERNET FOR ALL

The Telecom Regulatory Authority of India released a comprehensive consultation paper on net neutrality, which seeks equal access to all Internet content. It has sought written comments and recommendations from all stakeholders by February 15

CASHLESS BOOST

SBI has decided to do away with transaction charges on point-of-sale terminals for merchants with annual turnover of ₹20 lakh, or less. Currently, SBI charges 0.25 per cent on transactions of less than ₹1,000; 0.5 per cent for ₹1,000-2,000; and 1 per cent for higher values

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AS ONE WOMAN

WHAT: BIMSTEC-SAARC Women Economic Forum
WHEN: January 13, New Delhi
WHAT TO LOOK FOR: The Ministry of External Affairs and Assocham conference will address women's issues through training, information and participation in decision-making and advocacy, and debate gender inequality in South Asia, despite the changing social norms

18

SAFETY NET

WHAT: Securing the Cashless Economy
WHEN: January 18, New Delhi
WHAT TO LOOK FOR: The Assocham event will debate whether India is ready with a full-proof infrastructure and adequate measures for cyber security as the government's demonetisation initiative is expected to speed up deployment of digital services and enable transition towards a cashless economy

20

A NEW DAWN

WHAT: Renewable Energy Summit
WHEN: January 20, New Delhi
WHAT TO LOOK FOR: The conference organised by CII will take note of the potential of renewable energy in India and discuss strategies to scale up rooftop solar deployment, off-grid energy solutions,

investment potential and smart grid implementation, as well as innovative financing models to promote solar equipment manufacturing in the country

20

GROUNDWORK

WHAT: National Conference on GST
WHEN: January 20, Baroda
WHAT TO LOOK FOR: The Assocham event will analyse the draft GST Law and its impact on the industry, IT and accounting systems, supply chains and the business process on the GST portal. It will deliberate on preparatory steps required to be taken by taxpayers for smooth transition to GST

16 - 17

KEY PUBLIC SERVICES

WHAT: Enhancing the Quality of Service Delivery
WHEN: January 16-17, Kuala Lumpur
WHAT TO LOOK FOR: The World Bank conference will have researchers, practitioners and policymakers share their big-picture overviews and reviews of case studies, to explain how capability for effective implementation of key services has been attained, sometimes in unlikely circumstances

18

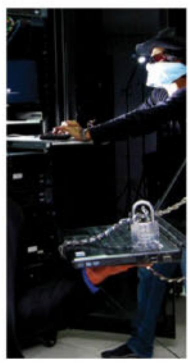
BEYOND BORDERS

WHAT: Making Trade Inclusive
WHEN: January 18, Tokyo
WHAT TO LOOK FOR: The Asian Development Bank symposium will examine what can be done to improve SME participation in global markets and what role multilateral trading systems can play, besides addressing how the resistance to freer trade can be overcome and how trade benefits can be made inclusive

27

GROWTH HACKERS

WHAT: Mentoring Session for SMEs
WHEN: January 27, Bangalore
WHAT TO LOOK FOR: The Nasscom event will provide opportunities to entrepreneurs to have discussions with IT services veterans and mentors, about their business and challenges, and receive the right guidance to help develop a keen sense of what needs to be done to take the business to the next level

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MAKING SEN

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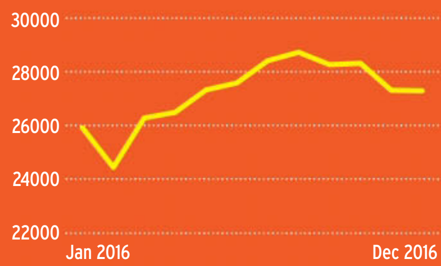
$359.7 BILLION

FOREX RESERVES WERE AT ITS LOWEST LEVELS SINCE APRIL 2016 IN THE WEEK-ENDED DECEMBER 23, 2016

LOSING MOMENTUM

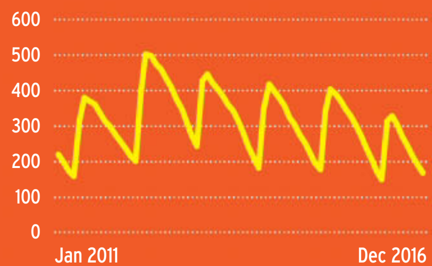
The benchmark **SENSEX** saw rangebound trade



Source: BSE

TAKING A HIT

WHEAT STOCKS held by Food Corporation touched a 5-year low in 2016, a consequence of two successive droughts



Figures in lakh MT; stocks in central pool
Source: FCI

SLIDING AGRI EXPORTS

The year also saw **AGRI EXPORTS** falling to a five-year low because of rupee's comparative strength and collapse in agri prices globally

		%GROWTH*
2011/12	37,452	54.7
2012/13	40,908	9.2
2013/14	42,955	5.0
2014/15	38,722	-9.9
2015/16	32,199	-16.8

Exports in $ million *YoY growth
Source: CMIE

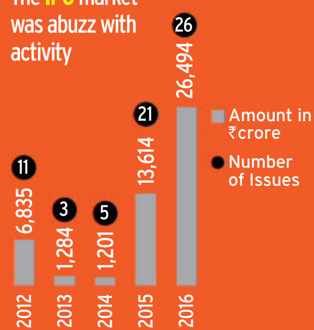
BETTING ON FUNDS

MUTUAL FUNDS found favour with investors. Assets under management touched an all time high of ₹16.5 trillion

Figures in ₹crore.
Source: CMIE

A BEEHIVE

The **IPO** market was abuzz with activity



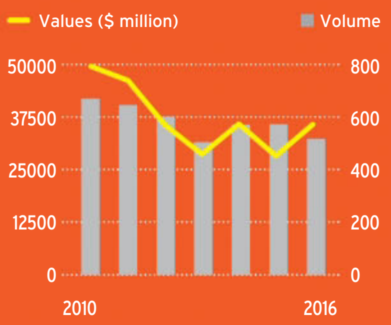
These are main board IPOs
Source: Primedatabase

SE OF 2016

THE YEAR 2016 WAS TURBULENT FOR THE INDIAN ECONOMY WITH HITS AND MISSES, SURPRISES AND DISAPPOINTMENTS GALORE

A MIXED BAG

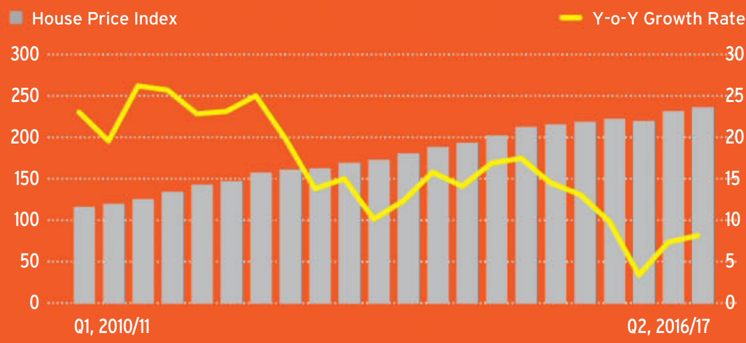
M&As declined in volumes - but not value - after three years of growth



* as on Dec 22, 2016; Source: Grant Thornton

LITTLE CHEER

The HOUSE PRICE INDEX saw modest growth in second quarter of 2016/17



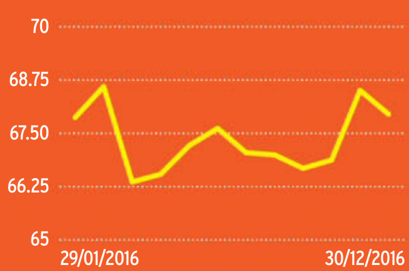
Base Year : 2010-11=100; Source: RBI

85.8%

WHAT THE CENTRAL GOVERNMENT HAS INCURRED OF ITS BUDGETED GROSS FISCAL DEFICIT IN APR-NOV

LOSING GROUND

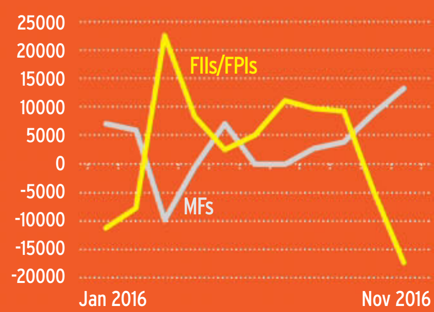
Strengthening dollar, capital outflows and demonetisation weakened RUPEE in the last two months of 2016



Source: RBI

FIIs EXIT

FIIs started and ended the year as net sellers. Mutual funds did the opposite



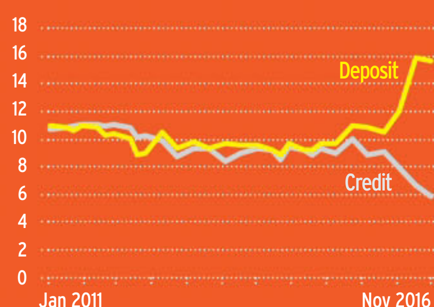
Figures in Rs crore; Source: CMIE

67

HIGHEST EVER NUMBER OF SME IPOS IN 2016

DEPOSITS SURGE

Gap between DEPOSITS AND CREDIT GROWTH rates widened substantially after demonetisation



Y-o-Y % change in weekly numbers
Source: CMIE

REALISING THE DIGITAL DREAM

TELEVISION

What is the vision of HP for a digitally progressive India?

HP believes in creating technology that makes life better for everyone, everywhere and our endeavour is to solve real life problems by touching lives of every Indian. Our vision blends perfectly with the Government's agenda to bridge the digital divide and we have been working closely with the Union Government and various state governments to transform our nation into a knowledge society by making at least one person per family digitally literate. We are also committed to taking technology that ensures quality education, vocational training and access to essential citizen services to the remotest part of the country.

How does HP play a key role in digitizing India?

HP has been a technology partner for the Government for more than 25 years and has been deeply focused on the growth & welfare of the country. So far, we have witnessed successes in projects of core banking, Aadhar, e-Passport, data digitization etc. and we believe that the next 25 years will be dramatically different. This is largely because India is a young country with rapid urbanisation and high degree of globalisation. We have been expanding our portfolio rapidly as to have right devices, application and services to cater to new millennials and their changing demands.

Are consumer demands changing? How is HP bracing itself to such developments?

Technology has blurred the distinction between our professional and personal life. Now, we are able to work at home and network socially at the office. As such the workforce is becoming increasingly global, mobile and multi-cultural; the workplace is increasingly made up of flexi hours, and consists of device agnostic cloud settings, and work styles are more collaborative and social. We understand this trend, and hence have incorporated this in our products – design, security and collaboration. Be it a convertible or 2-in-1 device or a thin and light notebook, HP has delivered the best in class products in the market. Our sustained market leadership is a testament to the commitment towards our customers and we will continue to provide amazing experiences to consumers and businesses.

What are the disruptive trends that you see currently in the market?

Digital transformation is moving deeper into the industrial domain – speeding up manufacturing, establishing new frontiers in artificial intelligence and virtual reality, creating automation that allows businesses to innovate faster and smarter. All this to keep up with changing consumer demands where they are seeking instant gratification. HP is well poised to cater to these needs. We are deeply invested in making sure 3D Printing and immersive computing becomes a new reality.

Nowadays consumer electronics and most households' electronic items come with on demand and on premise serviceability. Why is the computing industry lagging? Are you taking any concrete steps towards this?

HP aspires to be the most caring organisation for its customers and offers to provide amazing post sales service. We help our customers to have the best device experience through robust service network and prompt response from our teams. On a variety of consumer and commercial products, we offer on-spot service as well 24 hours' resolution.

For enterprise customers, we recently launched a device as a service where we are providing a complete product lifecycle support on PCs and Printers (through Managed Print Services) and ensuring entire Capex is converted into Opex. This ensures 100% hassle free experience for our customers and has met with unprecedented success.

Following currency Demonetization, have you taken any steps to help your customers?

We completely support the demonetization initiative of the Government of India. However, to help our customers from cash crunch, we had immediately announced easy financing options with a 50-day payment holiday and no down-payment facility. We understand the challenges our consumers are facing and wanted to give them a smooth cashless experience of owning a HP notebook.

What would be your single largest growth lever going forward?

Social and financial inclusion on digital platforms is a thrust area. To bank on the government's Digital India initiative, we have formed a separate business unit this year and have tied up with over 20 firms to offer turnkey solutions. Currently, we are working with the Union Government and various state governments to support them in their journey of digital transformation. Recently, we have undertaken projects of digitisation of land records, birth and educational certificates, tax documents and insurance policies.

FOCUS

24 Uncertain market
25 Dwindling ECBs

COLLATERAL DAMAGE

Changes in tax treaties will reduce round-tripping and make FDI numbers less impressive than they are now.

By DIPAK MONDAL

RAJ VERMA

India recently amended its tax treaty with Singapore the third such amendment this year after introducing changes to the treaties with Mauritius and Cyprus to plug a loophole that was being used to funnel unaccounted money into the country in the form of foreign direct investments (FDI).

While the government has hailed the move as another milestone in the fight against black money, it could impact the quantum of FDI flowing into India in the short term. A major chunk of investments routed through these destinations were often not genuine FDI, but round-tripping of funds. Therefore, going ahead, FDI data may not look as impressive as it is now. However, future data would reflect genuine investments.

The amended treaties seek to tax any capital gains from sale of shares of any listed or unlisted company based in India from April 1. At present, such share sales were not taxed in India and, since capital gains tax was zero in the resident country such as Mauritius and Singapore, these transactions would not be taxed in both the source (India)

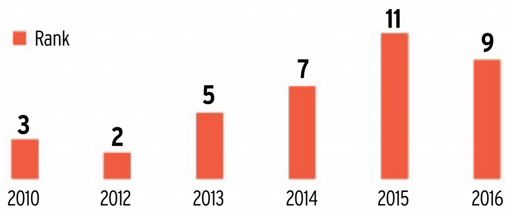
TOP SOURCE

Share of countries with equity inflows into India

Countries	Apr 2000-Sep 2016 ($ mn)	% of total
Mauritius	1,01,760	33
Singapore	50,560	16
UK	24,072	8
Japan	23,760	8
US	19,380	6
Netherlands	18,929	6
Germany	9,217	3
Cyprus	8,933	3
France	5,294	2
UAE	4,385	1

DESTINATION

India's ranking in A.T. Kearney FDI Confidence Index



and the resident country (Mauritius or Singapore).

According to experts, a lot of money that was coming into India in the form of FDI was actually unaccounted money generated in India that was sent to other countries by dubious means, and was being routed back to India through no-tax regimes like Singapore, Mauritius and Cyprus. This, experts say, inflated the overall FDI figure.

No wonder, small countries, including Mauritius (33 per cent) Singapore (16 per cent) and Cyprus (3 per cent) account for 51 per cent of the FDI that came into India since April 2000. Even the white paper on black money released in 2012 by the finance ministry took note of this: "Mauritius and Singapore with their small economies cannot be the sources of such huge investments and it is apparent that the investments are routed through these jurisdictions for avoidance of taxes and/or for concealing the identities from the revenue authorities of the ultimate investors, many of whom could actually be Indian residents, who have invested in their own companies, through a process known as round tripping."

"It is a fact that some of these countries were being used for round-tripping. If these routes were not available, round-trippings would not have happened and FDI inflows into the country would have looked slightly different from what they look today," says Sunil Kumar Sinha, Principal Economist, India Ratings, adding: "Most of it would be genuine, but they were using this route because they wanted to take advantage of the treaty benefits."

Changing Times

Though India is continuously liberalising its economy, and has opened up almost all sectors, including defence, for foreign investors, the perception about emerging markets among investors are changing. According to A.T. Kearney, "investors are turning their attention to developed economies in North America and Europe because of profound uncertainty in many emerging markets".

And this trend is evident from its FDI Confidence Index. In 2016, only two emerging countries –China and India – featured among the top investment destinations, India sitting lowly at No. 9, though this was an improvement over the previous year when it was placed at No. 11. In 2012, India was the second best FDI destination.

Given the changing trend, and considering it would continue for a few more years, some tax incentive would have sweetened the deal for those who invest in India. India would also have to go beyond opening up sectors for foreign investors – ease of setting up and doing business, and how easy it would be to repatriate the profit to the parent country – if it wants to continue attracting FDI. However, despite the government's claims of improving sentiments, India is ranked at 130 in the World Bank Ease of Doing Business ranking.

With return from investments is one of key consideration for foreign investors, and given that India was seen as the fastest growing economy till recently, FDI inflows in dollar term had increased 30 per cent in the April-September 2016 period.

However, the government's decision to demonetise 86 per cent of the currency in circulation has not only raised concerns of a slowdown in economic activities in the lasting two-three quarters of the current fiscal, but has also derailed the roll-out of Goods and Services Tax (GST) – a big reform initiative that could have further increased investors' confidence in India. Besides, the government's reluctance to settle some of the existing tax disputes with companies such as Vodafone and Cairn has further dampened their mood.

"The changes in tax treaties is not just an Indian phenomena. Globally, countries are tightening the noose around tax havens, and it is likely that by doing away with tax incentives, India may not lose much in terms of FDI flow as long as it continues to provide a predictable tax and regulatory regime for investors," says Girish Vanvari, Partner and Head, Tax, KPMG in India.

While India's move to plug loopholes in tax treaties is a bold step in curbing round-tripping of black money, it would certainly have some impact on the quantum of FDI coming into India. The extent of the fall in numbers, however, would be known only by the year-end. ◆

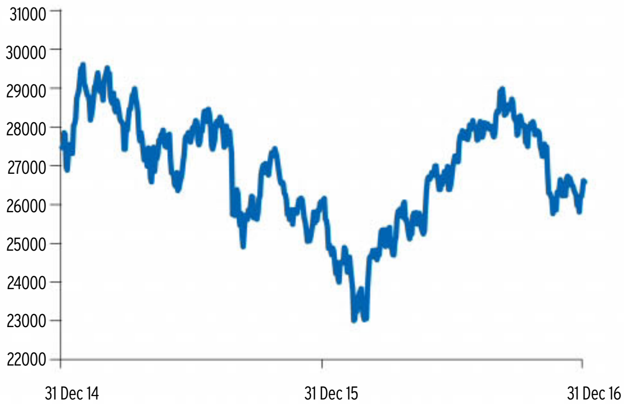
@Dipak_Journo

Gloomy Outlook

The Sensex may underperform for the third year in a row due to uncertainty in the economy. By MAHESH NAYAK

GOING NOWHERE

BSE Sensex performance for the past two years has taken a hit



Two years ago, if one had invested ₹100 in the Sensex, today he could have been left with ₹97 compared to a gain of ₹8 even if the money lay in a savings bank account.

Between December 31, 2014, and December 31, 2016, the BSE Sensex lost over 3 per cent of its value. In fact, this is the first time since 2008 that the combined foreign equity and debt investment into India has turned negative. In 2016, FIIs recorded anoutflow of ₹23,079 crore. While overall equity investments for 2016 remained positive at ₹20,568 crore, between October and December, FIIs sold equity worth ₹30,726 crore. While FIIs, the lifeline of the Indian stock market, have continued to sell into 2017, the big question is whether the equity market will make money for investors this year.

Demonetisation has dampened the market further, and no one is sure when the economy will bounce back. "It will be a difficult year for India and the Indian stock market," says Vijay Singhania, Founder, Trade Smart Online, a discount broking firm, adding: "Brexit, the US Presidential elections and now demonetisation have left us cautiously optimistic about 2017. Investors should expect lower-than-average returns from the equity markets. Key indices could correct 10-15 per cent in 3-6 months if domestic institutional investors sell off."

However, he feels that if the assembly elections favour the BJP, it could be a game changer. "Otherwise markets will remain subdued. I expect the market to end on a positive note, but it will not cross its previous-year highs." Harshad Patwardhan, CIO-Equities, Edelweiss AMC, agrees: "This year the equity market will remain volatile. From an investor's point of view, it will not be a runaway market and they have to be careful when it comes to equity investing. They should be wise in their approach and choose the systematic investment plan (SIP) route to play the market."

The Union Budget, feel experts, will not create ripples in the market. The jury, however, is out on the implementation of general anti avoidance rules (GAAR). While some feel, it would come into effect from April 1 and that could put further pressure on the rupee with FIIs moving away from India, the likes of Singhania do not agree. "I do not see GAAR coming into effect following the ongoing trouble for the government after demonetisation and slowdown in the Indian economy." But concerns over Donald Trump's policies favouring the US economy remains, as it could put pressure on the Indian market, and the rupee could weaken to ₹70-72 against the dollar.

Since the global financial crisis of 2008, companies listed on the Sensex have recorded 6 per cent growth, against the long-term average of 15-16 per cent. The past two years have not been any better. However, analysts expect an uptick in the second half of 2017 and it could be a good time to invest for 2018.

Says Gurunath Mudlapur, MD and CEO, Atherstone Capital: "It would be better to move out of sectors like auto ancillaries and telecom, and get into infrastructure, especially roads and ports, and realty-related sectors like NBFC, housing finance, cement and construction." While Mudlapur prefers IT due to a weak rupee, Patwardhan of Edelweiss is underweight on IT and pharma due to the overall change in their business dynamics. ◆

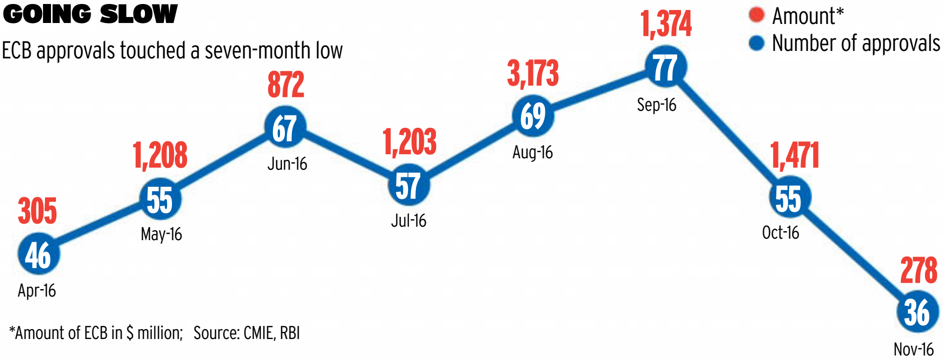
@MaheshNayak

Taper Off

External commercial borrowings dwindle amid lower capex requirements by companies. By NITI KIRAN

GOING SLOW

ECB approvals touched a seven-month low



*Amount of ECB in $ million; Source: CMIE, RBI

India Inc. is going slow on raising funds through external commercial borrowings, or ECBs. In fact, data released by the RBI says the value and number of ECB approvals has touched a seven-month low in November with 36 approvals worth $277.8 million. This is not all. The overall picture is more disappointing with the cumulative value falling sharply by 32 per cent to $11,595 million during the April-November 2016 period, year-on-year. Compared to April-November 2014, the rate of fall almost doubled. "ECBs are coming down as investment cycles are not picking up significantly. Also, the month of November was possibly the peak period of uncertainty both domestically and globally. Moreover, whether these declining trends are sustainable or not still remains to be seen," says Bansi Madhavani, Analyst, Credit and Market Research, India Ratings & Research.

Lower requirement of capital expenditure has led to a drop in overseas borrowings. New investments projects have fallen by 35 per cent in the December quarter, quarter-on-quarter. The drastic fall is being seen as a consequence of the demonetisation drive. However, CMIE estimates suggest that considering the pre-demonetisation rate of new investment proposals, the quarter could still have ended with lower numbers than the preceding quarter.

Close to 60 per cent of ECBs were raised for general corporate purpose, working capital needs and import of capital goods, while only five companies raised money for new projects in November. Analysis of ECB data for the last seven months shows that approvals with maturity period of five years or below dominated the list at 30-40 per cent. The approvals with maturity period of 10 years or more stood at 8-15 per cent. Interest rates played a spoilsport too. "Globally, interest rates are going up and, domestically, they are going down, consequently pulling down their differentials and leaving little incentives to borrow from overseas," says Madhavani

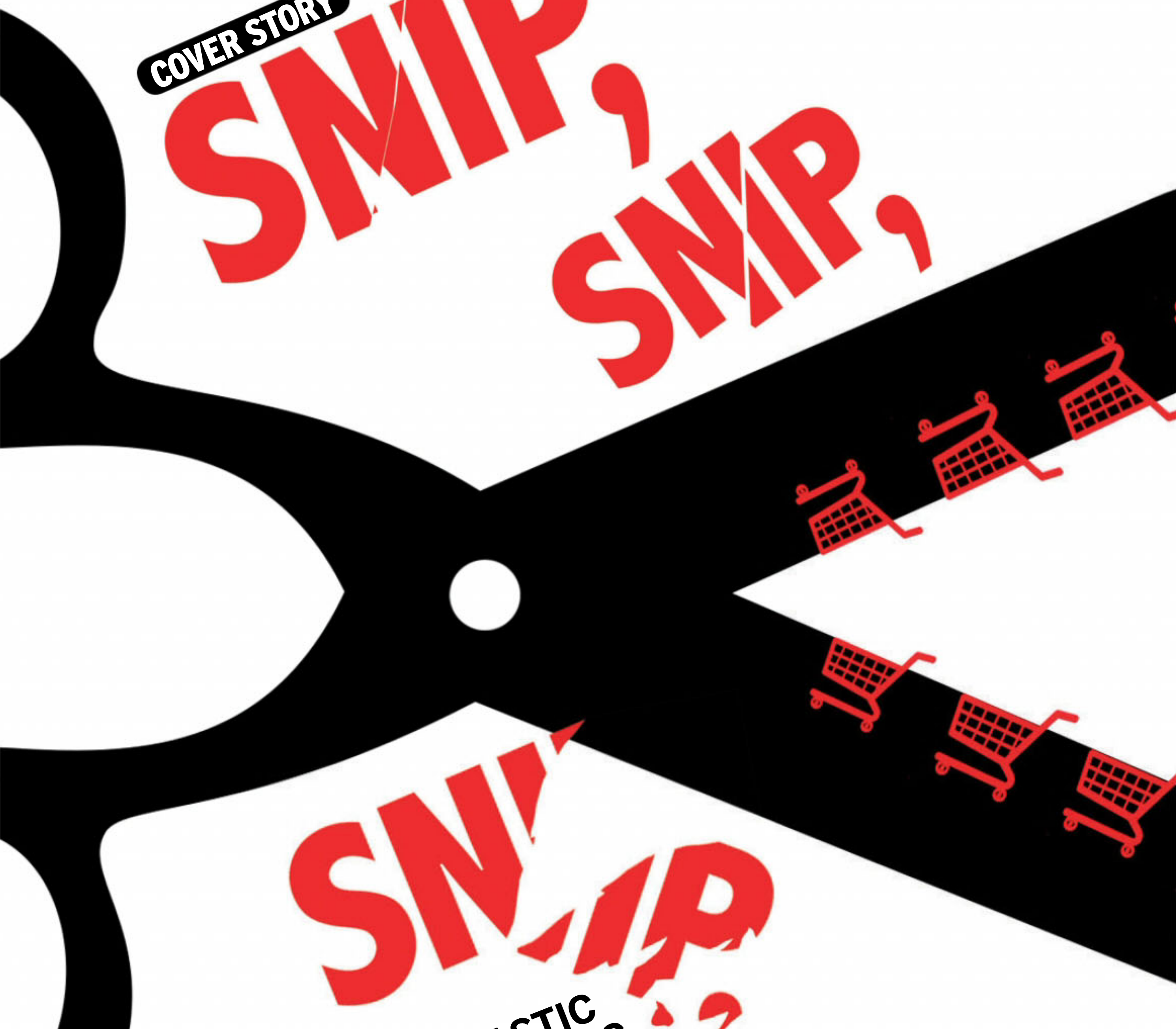
ECBs are popular amongst the oil & gas entities, a trend visible over the last three-four years. But with the fall in the oil prices some oil companies have turned profitable, and this has lowered their requirements for funds. While this remains a conjecture, a recent trend also points towards some on-lending and sub-lending companies raising fund through this instrument.

Last November, the RBI had liberalised the ECB framework by increasing the limit for raising funds by Indian companies. It had also widened the ambit of financers to include long-term lenders like sovereign wealth funds, pension funds and insurance companies. "The regulator is trying to facilitate and augment the avenues of funding, but it may not be sufficient. It is a function of demand and capital expenditure requirements of the companies," Madhavani adds. Let's hope for a better year ahead. ◆

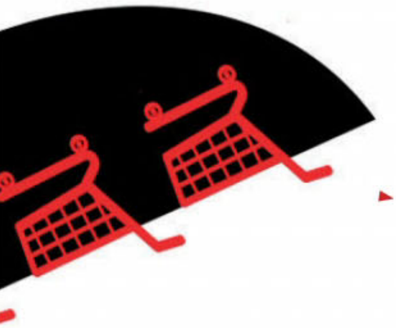
@niti_kiran

COVER STORY

SNIP, SNIP, SNIP



START-UPS GO FOR DRASTIC COST CUTS AS FUND RAISING GETS TOUGHER. BY GOUTAM DAS



At online grocery start-up Grofer's aggregation centre in Gurgaon, Co-founder Albinder Dhindsa shows an orange-coloured delivery bag, one that his delivery boys once carried on their backs, zipping across more than 20 cities in bikes to deliver everything from lemons to detergent powder. From the time the orders were placed by customers, they had two hours to deliver. That's the nature of the hyper-local, on-demand business Grofers played in. But the bag would hold only two crates. As volumes shot up in many cities, the company employed more and more bikers. One delivery boy couldn't do more than nine orders a day; the size of the bag limited the volume they could execute.

Realisation struck Dhindsa early in 2016. The on-demand model would work but at a huge scale. However, investors no longer had the appetite for the amount of capital it could require — in people, aggregation centres, and other parts of the supply-chain. Although Grofers had raised $120 million in November 2015, the funding climate was getting chillier. The online grocery sector, itself, was in a crisis; Grofers closed down operations in nine cities in January last year as scale remained elusive even after a marketing blitz.

In May 2016, the start-up pivoted to a next-day delivery model that gave it more time to plan the delivery. Instead of bikes, it switched to vans that could do 22 orders a day. Vans also accommodated bigger orders with higher margins. The value of goods delivered more than doubled. While a bike delivered orders worth ₹9,000 a day, a van can carry groceries worth ₹25,000. "Our operational costs last year were at 100 per cent of sales. Currently, it is close to 25 per cent," says Dhindsa. "We were running four aggregation centres in Gurgaon alone because you had to get to the customer in two hours. Now, we are running just one." In 2015, Grofers employed 4,000 people. The headcount has halved to about 2,000 at present.

NILANJAN DAS

Not just Grofers — most large and mid-sized consumer Internet businesses, including all e-commerce start-ups — are now focused on stemming their fixed and variable expenses. Myntra, for instance, says it has reduced discounts by 800 basis points over time; Flipkart has been able to arrest the growth of its selling, general and administrative (SG&A) expenses; Snapdeal's net revenues have grown three times over the last year; ShopClues' shipping costs have dropped 20-25 per cent a unit; budget hotel aggregator OYO Rooms has saved up 30 per cent month-on-month in travel expenses; Zomato has reduced its monthly burn by 89 per cent, from about $9 million in mid-2015 to a million by the end of 2016 – as it redirected its geographic focus, cut down on non-discretionary spending, and improved efficiencies.

At an industry level, expenses on logistics may be down 10-20 per cent versus 2015. Manpower is down about 15 per cent, advisory firm RedSeer says. For some e-tailers, 85 per cent of the monthly burn is in marketing. "There is more rationality kicking in discounting and coupons. Television advertisement has significantly gone down. Outdoor and print is much lower. In my view, there is at least 50 per cent decline in advertising on a year-on-year basis," says Sandeep Aggarwal, founder of e-commerce marketplace Shopclues and used vehicle marketplace Droom. He estimates that e-commerce companies, put together, spent between $1.2 billion and 1.5 billion on every type of marketing in 2015. "In 2016, it is more in the $800million-900 million range." Companies did splurge on marketing during the festival season. In the run up to Diwali, Snapdeal said it will spend more than ₹200 crore on marketing campaigns over the next 60 days. But most companies ran low-decibel campaigns or none for most months of the year as wary investors increasingly demand a path to profitability. They want e-commerce companies to reduce cash burn.

Nikesh Arora, former President & Chief Operating Officer of SoftBank, one of the biggest dealmakers in the Indian Internet consumer play with investments in Snapdeal and Olacabs, popularised a new term among its portfolio companies: thinking about the "islands of profitability".

Lawyer Roma Priya, Founding Partner of Burgeon Bizsupport, which represents both start-ups and investors, says that while most 'affirmative rights' — rights investors have a veto power on — haven't changed, increasingly in 2016, some rights that help venture capitalists exert greater control over a start-up's spending and operations have found their way into agreements.

BINNY BANSAL
CEO/Flipkart

E-COMMERCE INDUSTRY LOGISITICS COSTS DOWN **20%** IN 2016

"Investors have tried to control expenditure by saying you need hiring consent above a certain bracket. Or if you take a loan beyond a certain threshold, you need his consent. They could also ask for monthly income statement to see how the money is being spent," she says.

According to data from the Ministry of Corporate Affairs, the combined losses of India's top eight consumer Internet companies, which include Flipkart, Amazon, Snapdeal, ShopClues, Ola, Quikr, Paytm, and Zomato, has more than quadrupled from ₹1,210 crore in the year ending March 2014 to ₹5,885 crore in March 2015. That number would have further bloated in the year ending March 2016 loss data for every company is not yet available. Notably, there is one category of companies that is well capitalised and sustains high decibel marketing campaigns. Paytm (One97, which runs Paytm, had a loss of ₹1,535 crore in 2015/16) is on a marketing overdrive, particularly after the government's demonitisation move in November. Amazon lost ₹3,572 crore in 2015/16. Nevertheless, there is no break in its spending. In a talk widely circulated on YouTube, Scott Galloway, an Adjunct Professor of Marketing at the NYU Stern School of Business, says that no company in the world has ever had access to cheap capital in a way Amazon did and now they are taking advantage of it. "They are going underwater into the world of fulfillment which is very expensive, with the largest oxygen tanks, forcing every other retailer to follow them. But everyone else is following with a smaller oxygen tank and will begin drowning."

WHAT FLIPKART DID

» Flipkart has controlled growth of its sales and general expenses

» Manpower rationalised

(according to former CFO)

NILOTPAL BARUAH

You can sense that pressure when Indian marketplaces talk of "capital dumping" and seek a "level-playing field" from the government. Many of the same companies got carried away by the reckless funding environment of 2014 and 2015 and spent their way into the hearts and minds of the Indian consumer. "It was a lavish organisation in that sense because there is abundance of money," Flipkart's former CFO Sanjay Baweja told *Business Today* on phone. "Unless money is constrained, it gets used up very quickly."

E-tailers and other start-ups may have finally started treating capital as a finite commodity.

SG&A: Caution in the wind

Business Today met Swati Bhargava, the Co-Founder of affiliate marketing company CashKaro.com, a day before Amazon's Great Indian Festival Sale. Her office, in Gurgaon, was being decked up with balloons. "Today, the whole sector is so energised. It almost feels like the battle ground is set," she quipped, gleefully. "It's Amazon and Shopclues tomorrow; Flipkart and Snapdeal come next. Every employee will be here at midnight. There will be pizzas. This Diwali will be bigger than last year," she predicted.

In hindsight, she was correct. October 2016 was a bumper month for the e-tailing industry as festival sales raked in a gross GMV of $2.25 billion versus $1.5 billion in the same month the year before, research from RedSeer states.

But there was a major change in the way discounting added up. E-tailers got banks to fund the discounts, or a part of it. This could have reduced the burn they would have otherwise incurred. "Every retailer negotiated a bank card discount, which is often funded part by the retailer and part by the bank. But never before have we seen every offer accompanied by a card offer," Bhargava says. Just before Flipkart's 'The Big Billion Days Sale' that ran from October 2-6, the company nudged customers to "apply right away for SBI credit cards and debit cards that will fetch you the biggest, juiciest deals". Bank offers went up to ₹2000-3000, where as last year it was much lesser, says Bhargava.

December-end, Flipkart was still sending consumers mailers with the subject line, "We are feeling generous today". However, the company's SG&A expenses are tapering off, Sanjay Baweja told this writer soon after he quit, around October last year. When he joined Flipkart in November 2014, he wrote on LinkedIn: "Moved here to the hugely exciting and the very fast moving world of E- Commerce, the Sunrise industry of today". He said he resigned because "the company is in a different mode and it is a continuous restructuring process. I thought it best that I should move into a different area". Baweja denied rumours of any conflict with the company's board, particularly one that relates to cash burn.

"If you were to look at SG&A expenses, and if you

WHAT SNAPDEAL DID

» Snapdeal stocks goods closest to where they sell, reducing transport costs

» 80% of the goods go through Snapdeal's own fulfilment centres; cuts down incidents of incorrect shipping

were to compare what was the trend two years ago, first I was able to stabilise it as a straight line and then now it is coming off," Baweja says.

"We have been able to stem the growth of that expense completely. It is now about getting the unit economics right and then the scale benefits will continue to come." Baweja says SG&A expenses were controlled because of manpower rationalization. "The only growth in manpower we allowed was in the tech team. There was a contraction in some of the other teams that were over staffed. Other frivolous expenses were done away with," he says.

Accounting in Flipkart was in a "desperate" situation when Baweja joined in 2014. "Now, we are in a place where we are able to get our monthly numbers in quickly. Lot of the numbers are available on a daily and a weekly basis. Taking decisions is therefore much faster and importantly, there were expenses that shouldn't have been there. That is taken care of," Baweja says. He did not want to talk numbers but Flipkart burnt ₹192 crore a month, going by its filings. In the year ending March 2016, Flipkart Internet lost ₹2,306 crore on revenues of ₹1,952 crore.

At some companies, data science is being used effectively to check marketing expenses. Ritesh Agarwal, CEO of OYO Rooms, says his cost of customer acquisition has dived at least by half versus 2015. "We are spending our dollars in a way more intelligent manner than earlier. Data science now says which channels we should be on and at what hour. Data also tells us at what hour of the day we should incentivise a customer for downloads," he says.

Like Flipkart, OYO, too, has built processes around managing SG&A expenses. A case in point is the flight, train, and bus tickets booked by employees travelling on company assignments. A while back, they booked the tickets themselves and applied for reimbursements later. "Now, we have partnered an agency that has a lot of flights they pre-buy. They are able to give us cheaper options," says Agarwal. "Then there are best practices like booking seven days in advance for a flight. And whenever you travel to a new city, there will be a *per diem* and no questions are asked on where you spent it. Earlier, three people spent time approving it," he adds. For OYO, these measures corresponded with the recruitment of the CFO, Abhishek Gupta, in June 2015. "The mandate for him was to help the organisation operate more sanely. He brought in a lot of the systems and processes. We have saved more than 20 per cent on a month-on-month basis in terms of travel expenses," Agarwal says.

OYO recently moved to a spanking new office in

KUNAL BAHL
CEO/Snapdeal

VIVAN MEHRA

Gurgaon's Sector 69. Agarwal had negotiated a rent-free period of six months OYO is the anchor tenant for the builder. One of Agarwal's quirkiness was to move around the office bare-feet. But the day this writer met him, he was wearing shoes. He had important visitors. And this office was too huge to be a fashionable, bare-footed entrepreneur.

MANPOWER DOWN
15%

SUPPLY-CHAIN: Redesigned

Things changed in six months for this large lingerie maker who sells backless bras, balconettes, G-strings and thongs on all marketplaces. Very little commission was initially charged by e-tailers on the category and the seller was encouraged to make prices attractive for customers. They did. However, since March 2016, commissions rose. Marketplaces started charging between 12 and 20 per cent. Many other fees were slapped as well: for the units stored at the e-tailer's warehouse; for the goods that are returned by customers; a cash collection fee; a small component of the marketing fee, even. "None of these were there before March. The storage fee never existed. For any item we sell, these charges take up ₹130-140," says the lingerie maker, who didn't want to be identified.

What's happening here? Many e-tailers, according to Sreedhar Prasad, Partner E-Commerce at KPMG, have worked on reducing logistics expenses. "Today, we see many initiatives. Some have started charging both customers and sellers. Categories where the average order value is small, like in electronics accessories, toys, books etc, have a delivery charge associated with it. Further, e-tailers today are evaluating multiple delivery models and alliances for last mile delivery. If implemented well, these have the potential to reduce the impact due to logistics costs by 20 per cent," he estimates.

ShopClues, for instance, is one company that has started charging for shipping. "Because of the sanity in the marketplace, everyone started paying attention to shipping costs. We were also able to charge for shipping," CEO of ShopClues Sanjay Sethi says. "We will give you free shipping if you buy many products but if you happen to be in a remote place, you may have to pay ₹30 for a shirt. This is on since May 2016," he adds.

ShopClues also tries to avoid air shipping by showing shoppers inventory closer to their location. "As soon as you move away from air shipping, your cost drops by as much as 70 per cent. The distance travelled is less when it is a regional supply-chain," Sethi explains. The company's courier partners now run dedicated trucks. ShopClues also has 48 courier partners; the large number ensures a better bargaining chip, and thereby, better rates. "Our shipping cost per unit is dramatically low and that is because we have a large catchment of suppliers. We have seen about 20-25 per cent drop in shipping costs per unit," the CEO says.

WHAT SHOPCLUES DID

» ShopClues tries to avoid air shipping, far more expensive that road transport

» Shipping costs have dropped 20-25 per cent per unit

Snapdeal is another company to have worked aggressively on reducing supply-chain costs. When *Business Today* met Kunal Bahl, CEO of Snapdeal, in April last year to talk about the influence of Softbank, he said that "Nikesh (Arora) started pushing us to find the islands of profitability in our company"; that the company's gross margins tripled in the last six months and "its fulfilment cost as a percentage of sales is the lowest in the industry".

How did the company achieve this? Snapdeal stocks goods closest to where they sell. "We intelligently use data. If you want to sell something in western India , the goods are stocked in warehouses in the west, not in the north. Goods move much less, which means there is much less transportation cost," says a spokesperson. Second, the company prefers shipping the ordered goods faster. "There is a high level of correlation between fast deliveries and returns. If it is delivered in one or two days, a consumer is still in the purchase mode. After a week, you may change your mind," he explains. Third, almost 80 per cent of the goods now go through Snapdeal's own fulfilment centres. This way, the company is able to scan the goods – either through X-ray machines or even open the packets. It cuts down incidents of incorrect shipping. "Because incidents of returns come down a lot, it helps the seller reduce his costs and also helps us reduce our logistics cost," the spokesperson says.

ADVERTISING DECLINED NEARLY **50%** IN 2016

The pressure on delivery companies for better rates and efficiency has driven them to rethink network design. Ecom Express, for instance, now covers more locations with the same number of fleet it operates. In many cases, the company has preponed the departure time of vehicles by an hour. "Earlier, a vehicle carried three location shipments in Delhi. By preponing the departure time, we have added one more location," says Sanjeev Saxena, Co-founder of Ecom Express. This way, the company requires lesser number of vehicles for a city. Vehicle costs, according to him, are 30 per cent of the logistics cost. "We have cut about 8-10 per cent."

PEOPLE 1: The age of reason

Sanjay Sethi is lean and tall. He explains everything in great detail and smiles a lot. But he is rarely animated. His eyes must have popped after this conversation.

In June 2015, the CEO of ShopClues wanted to hire a head of product. After two rounds of interviews with a candidate, Sethi initiated a chat on salary expectations. The candidate, who lived in the US, said he was paid $3 million a year. Stock options extra.

"There was no conversation to be had after that. I had to tell my recruiters not to introduce me to anybody who is above the ₹1 crore bracket," Sethi recalls. "In the past six months, people have become much more reasonable in their remuneration expectation. A product manager would now cost between from ₹70 lakh and ₹3.4 crore," he adds.

Salary expectations have moderated even at the entry level. Rohan Diwan,

RADHIKA AGGARWAL
Chief Business Officer/ShopClues

SANJAY SETHI
CEO/ShopClues

VIVAN MEHRA

Co-founder of Quickli, a hyper-local delivery start-up, says that a year back, the biggest challenge in doing a start-up in Bangalore or the NCR was finding tech talent. "They were very expensive. Someone who was being paid ₹50,000 by an Infosys or TCS, would expect ₹1 lakh a month from a small start-up like us. These were people with one and half-two years of experience," he says. "They would reject our offers because a Paytm, a Snapdeal, or a Flipkart would offer them a ₹8 lakh package," he adds. This has changed. "We are now getting a massive surge in resumes since the last three months. Earlier, we were running helter-skelter to find an Android guy; I now have a pipeline of 30 guys waiting to join. And a fresher is accepting a ₹12 lakh offer," Diwan says.

The reason is many companies are cutting head-count or aren't hiring in the same breadth they were last year. Grofers went on a hiring spree to build capacity before demand materialised. Many other companies did that too – hired candidates with a one year outlook. But tough times meant tougher calls. They now hire with a three month outlook. In fact, a panel responsible for campus hiring at the Indian Institute of Technology (IIT) blacklisted 31 start-ups in August after many of them revoked job offers or delayed hiring. In 2015, Flipkart hired 250 across business schools, Nitin Seth,

WHAT GROFERS DID

» Pivoted to a next-day delivery model from an on-demand model

» Operational costs in 2015 were at 100 per cent of sales; close to 25 per cent now

the chief administrative officer at Flipkart, told *Business Today's* E. Kumar Sharma recently. The company had deferred joining dates for those picked from June to December since Flipkart "was undergoing a major restructuring" and was not ideally placed to "offer the learning opportunity to the 250." Without citing numbers for hiring in the current fiscal year, Seth said that "the management philosophy is that we want to be lot more prudent in terms of our planning."

Like in marketing or logistics, technology is playing a part in making the workforce more efficient, or even keep employee costs in check. Automation is playing a role in customer service, which can account for upto 25-30 per cent of an e-tailer's workforce. Fashion e-tailer LimeRoad says its 'contact per order' — the number of times a customer contacts the service centre for an order — has dived 35-40 per cent in a year's time. "We have deployed technology so that customers contact you less. For example, if I know your package is running late, I will pre-emptively message so that you don't have to call us," says CEO of LimeRoad Suchi Mukherjee. The company's refund related queries have reduced after it implemented a one-click refund process. LimeRoad's cost per order is down significantly since October 2015 when it was at ₹19.5 per order. In September 2016, it trended at ₹8.8 an order. If first time resolution improves dramatically, it reduces the need for repeat contacts per order. By extension, it can potentially cut the need for customer support employees.

The fact that LimeRoad has an inventory-less model helps in cash preservation. Mukherjee fiercely scribbles


NILOTPAL BARUAH

ALBINDER DHINDSA
CEO/Grofers

on a board. "There are two evils in the P&L," she explains. "Discounting and inventory. These are two bad words, scary." Those building private label businesses will have stock. Some will sell while some may not. Stock, therefore, is a negative drain on the cash. "To clear this stock, you will have to drop prices. Its the biggest folly," Mukherjee says.

To cut down on such follies, consumer Internet businesses have been hiring folks that can carry out surgical strikes.

PEOPLE 2: The rise of CFOs

You could conclude it is a sign of the e-commerce industry's growing maturity. Most large companies have appointed experienced CFOs over the past one year. In October 2016, Paytm appointed former Citigroup executive Madhur Deora as CFO; the former CFO of Wipro, RPG Enterprises and InMobi Manish Dugar joined online healthcare firm Practo in May; Rajiv Bansal joined Ola after many years of working in IT services exporter Infosys; Snapdeal appointed Anup Vikal in 2015, who in his last role was the CFO of mobile network operator Aircel. It is sort of a signal to investors. They are serious

about preserving cash.

This writer met the newly hired CFO of fashion marketplace Voonik Prabhakar Sunder in Bangalore's Manyata Embassy Business Park where the company is located. He joined Voonik after seven years in Myntra's finance wing. Sunder hints at what marketplaces will work on, going ahead, to preserve cash and ensure a healthy working capital. Large companies could increasingly try to create a higher 'float' because India is still a cash market and cash on delivery (CODs) still remains a chunky mode for e-commerce payments. Yes, even after demonitisation.

"Let's say I am able to collect the money from courier companies in three days but the liability to sellers is in five days. I have a two day float. As the company grows, the two day float will keep increasing. This is where cash is generated. You have cash to run your businesses. That is what matters," Sunder says.

Voonik currently has a day's float. "I don't want it to go too high because it sends a wrong message to the sellers. They would feel I am making money at their cost," he says, before adding: "But if I get to a three-four days' float, I will be extremely happy." Third party logistics companies could be squeezed more. Sunder says that cash cycles could improve if courier companies deliver and collect the cash fast enough. "Then push them to give that cash to you in a short service level agreement."

Manish Dugar had implemented a 60-30-10 rule in InMobi; he is doing the same at Practo. 60 per cent of a company's money goes into the bread and butter business, which generates cash. 10 per cent is for moonshots; 30 per cent of the 10 per cent may have the potential to become commercially feasible.

In simpler terms, this rule means shutting down exotic products that don't make much near-term sense or isn't scaling. "It is the finance guy who has to do the surgery. He has to sit with the founders and say this is not working," Dugar says.

No doubt, CFOs are becoming increasingly hefty people in Indian e-commerce. "After the CEO, the second most powerful guy I am starting to see is the CFO," says OYO's Ritesh Agarwal. That is good news for the industry, its employees and investors. If 2016 was a year of realism, 2017 is heading towards Realism 2.0.

CFOs may ensure there is no irrational exuberance, only cautious optimism.◆

@Goutam20

WHAT OYO DID

» Cost of customer acquisition has halved versus 2015

» Processes now built to control Sales and general expenses

RITESH AGARWAL
CEO/OYO Rooms

SHEKHAR GHOSH

INDIA'S BEST BANKS

Indian banks are battling numerous challenges, including digitisation, deteriorating asset quality, disruption from new financial sector players and, now, demonetisation. The 21st edition of the BT–KPMG Best Banks study identifies banks that have flourished despite the odds and raises a toast to those that are the best in class.

By Anand Adhikari

The country's bankers have been battling one challenge after another ever since the 2008 global financial meltdown — deteriorating asset quality, digitisation, disruption from new financial sector players and, now, demonetisation. It wouldn't be wrong to compare them to performers juggling balls in a circus. "You are bound to drop some eventually," says a FinTech player. "Or, you may end up focussing too much on the juggling and lose sight of things around you," he says.

Despite juggling to the best of their ability, most of the country's banks are not in the pink of health. Credit offtake has been poor due to over-leverage in the corporate sector, excess capacity and economic slowdown. Deposit growth was poor, a mere 4 per cent in public sector banks, or PSBs, in 2015/16. Also, higher provisioning for bad assets affected profitability. The banking

BANK OF THE YEAR: HDFC BANK (Private Sector) and STATE BANK OF INDIA (Public Sector)

BANKER OF THE YEAR: ARUNDHATI BHATTACHARYA, CHAIRMAN, STATE BANK OF INDIA

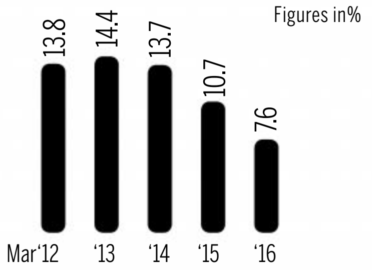
BEST DIGITAL BANK: AXIS BANK

BEST IN FINANCIAL INCLUSION: BANDHAN BANK

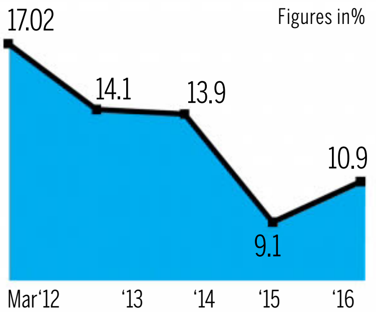
ILLUSTRATION BY RAJ VERMA

THE BIG PICTURE

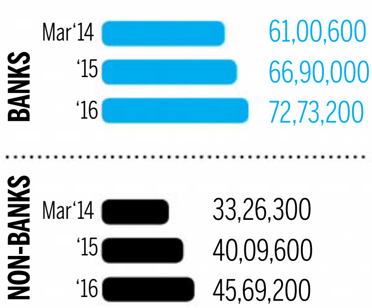
DEPOSIT GROWTH IS FALLING ...
...though demonetisation is reversing the trend



...CREDIT GROWTH IS SUBDUED...
Uncertain outlook as demonetisation is expected to impact economic growth



...AND NON-BANK FUNDING IS SLOWLY RISING
Disruption, liberal lending and bond market to accelerate the trend



Non-bank funding (₹crore) includes ECBs, bond market, NBFCs; Source: RBI

sector as a whole saw a 60 per cent drop in profits. Punjab National Bank, for instance, reported its highest-ever loss of ₹5,376 crore. The Reserve Bank of India, or RBI, said in its recent financial stability report that risks to banks remained elevated due to continuing deterioration in asset quality, falling profitability and liquidity issues.

All these challenges no doubt tested banks. But they also brought out the best in them. The *21st Business Today-KPMG Best Banks Study* zeroed in on those that, in spite of the enormity of the challenges, managed to weather the storm by growing robustly, embracing technology, innovating and, most importantly, reaching out to people at the bottom of the pyramid.

The year 2017 is expected to be full of challenges, some old, some new. Competition is set to increase and leave some behind in the race. The biggest sources of disruption will be new differentiated banks such as payments banks and small finance banks, non-banking financial companies, digital wallet companies and peer-to-peer lenders. For instance, PayTM, whose founder got the RBI's approval for a payments bank last week, has already created a big name for itself in small-value transactions. In a very short period, it has built a user base of over 177 million and plans to cover five million merchants to give users a hassle-free shopping experience. The aggressive stand of the new banking candidates is also evident with Airtel Payment Bank offering an interest rate of 7.25 per cent on savings deposits, way higher than the 4 per cent being paid by the traditional banks. Now, imagine the bloodbath when close to two dozen payments and small finance banks storm the low-cost deposit market and put further pressure on cost of funds of banks, which are anyways struggling with low deposit growth (See *New Age Banking*, a report on payments banks, on *page 80*).

Though demonetisation has given banks some respite by pushing the issue of deteriorating asset quality to the backburner, beneath the surface, things are worsening. The total stressed loans have now crossed the 12 per cent (of advances) mark and now stand at ₹10 lakh crore-plus.

The RBI recently noted that the large borrowers have seen a significant deterioration in asset quality. Many blame banks for the reckless lending that is haunting them now. Banks, however, say they are not at fault. "We are in the business of trust. We are taken for a ride sometimes, but we have to move on," says Arun Tiwari, Chairman and Managing Director of Mumbai-headquartered Union Bank of India.

Loans turning bad, however, isn't an India-only phenomenon. Banks all over the world see a spike in bad loans whenever economic cycles take a turn for the worse. But what is bothering Indian bankers is the weak resolution framework. Asset reconstruction companies, or ARCs, have limited capital to support large stressed loans. The resistance from promoters when lenders try to take over stressed assets is strong and causes delays. The country's largest bank, State

Bank of India (SBI), did sell a lot of bad loans to ARCs three years ago, but the latter haven't got any big returns from these assets so far. "We don't see them doing a quicker job. This is the reason sales to ARCs have come down," says SBI Chairman Arundhati Bhattacharya. Banks are now looking at other options. The new Strategic Debt Restructuring (SDR) route, under which banks can change managements, is also turning out to be a damp squib because of promoters' resistance, difficult operating environment and shortage of buyers (See *Jinxed!*).

There is some hope from S4A (Scheme for Sustainable Restructuring of Stressed Assets) but this involves conversion of debt into equity and so shifts considerable risk to banks' books. The new bankruptcy law that came into force from December last year could be a saviour. But as they say, the proof of the pudding is in the eating — the law is yet to be tested in the market.

Finally, the industry has been hit by the demonetisation tsunami. The cash crunch has the potential of derailing economic growth for a long time. Banks will be hit badly if that happens.

For now, banks have moved to cut interest rates sharply, which could give a fillip to consumer demand. They can do this as they are flush with deposits due to demonetisation. But this could change after the withdrawal limits are removed. But banks are positive. "We expect 20-25 per cent deposits to stay in the banking system," says Tiwari of Union Bank.

Still, there are some concerns related to demonetisation that the banks have been staying away from discussing. One is the cost incurred to facilitate demonetisation. This ranges from staff to ATM calibration costs, apart from transportation/logistics costs. "There is also a cost of pushing digital banking and a cost of lost business. My people were helping the demonetisation drive and not doing any other business," says the CEO of a bank, on condition of anonymity. Secondly, the government's push towards making India a less-cash economy has put a lot of responsibility on banks' shoulders.

The digital push, say bankers, will not be easy. They say the government has to first accelerate the process of setting up digital infrastructure. "There is an issue of connectivity, faster processing and cyber security. Digital transactions have gone up by two-three times but banks have limited processing capacity. They will have to invest more on upgrading systems and processing capacity. Why have only four banks taken up the responsibility of putting up point of sale machines?" asks a private banker.

Last, but not the least, the bankers are worried about cyber risk and say digital push without strong cyber security capabilities and regulations will be a disaster. The cyber attack on Bangladesh's central bank shows vulnerability of even big institutions. Back home, the recent compromise of debit card data also made users nervous. Fortunately, losses weren't high, as in a big country such as India, it will not take much time for the digital gravy train to derail if there is a big cyber attack on banks.

It seems there is no early end to the challenges for the fast-changing banking industry. ◆

@anandadhikari

QUANTITATIVE WINNERS

Best Banks Overall

Best Large Bank
HDFC Bank

Best Mid-Sized Bank
Yes Bank

Best Small Bank
Karur Vysya Bank

Best Foreign Bank
Barclays Bank PLC

Fastest Growing Banks

Fastest Growing Large Bank
HDFC Bank

Fastest Growing Mid-Sized Bank
Kotak Mahindra Bank

Fastest Growing Small Bank
RBL Bank

Fastest Growing Foreign bank
BNP Paribas

BANKER OF THE YEAR

SETTING THE PACE

Arundhati Bhattacharya, SBI's first woman chairman, has shown her mettle by taking challenges head on.

By Anand Adhikari

"It's in our best interest to put some of the old rules outside and create new ones, and follow the consumer – what the consumer wants and where the consumer wants to go"
– Robert Iger, Chairman and CEO, Walt Disney Company.

In her three-year tenure as the Chairman of the country's largest bank, the State Bank of India, Arundhati Bhattacharya seemed to be following in the footsteps of Iger – rewriting the rules of the over two-century-old establishment to serve its existing customers and win over new ones.

ARUNDHATI BHATTACHARYA, Chairman, State Bank of India

"The bank will begin to look different in a year or so. In the next 12 to 18 months, you will see us doing lot more deliveries in the areas of artificial intelligence and robotics"

RACHIT GOSWAMI

Like Iger, who inherited a shrinking business in the mid-2000s, Bhattacharya's entry into the South Mumbai headquarter of the bank was no different. She assumed the role of the Chairman at a time when the economy was slowing down, asset quality was deteriorating, resolution of bad assets was moving nowhere and there was no hope of credit offtake because of an over-leveraged corporate sector.

The three-year stint at the helm has perhaps been too short to make a significant difference to a large entity like SBI, but Bhattacharya surely managed to lay down a solid foundation for growth. She started by setting six strategic goals – digital, technology, improving delivery standards, cost reduction, NPA reduction and risk management – and ensured the bank made considerable progress on all fronts. Given the constraints and challenges, her performance, therefore, was on the top of the mind of the jury when they selected her as the banker of the year.

Bhattacharya's hands-on approach with digital initiatives, such as mobile apps for retail, SME and corporate customers, was well received. So were her efforts to promote digital-only branches – a one-of-its-kind initiative in the Indian banking industry – and artificial intelligence and robotics for credit analysis, risk management and better customer service. She is positioning the bank as 'the banker to digital India'.

"We will be seeing some of the implementations happening in the next six months," she says. The digital journey, in her own words, is actually an ongoing effort. In fact, it is just the beginning. "The bank will begin to look different in a year or so. In the next 12-18 months, you will see us doing lot many more delivery in the areas of artificial intelligence and robotics," she adds. Bhattacharya's extended one year tenure as SBI chief will end in October.

Under her stewardship, the bank has also been working on improving customer relations, increasing the value of accounts and improving processes. "There will be a lot of centralisation of processes and, subsequently, the branches will be reoriented towards advising rather than merely giving small-value services," says Bhattacharya, adding that a customer experience excellence project (CEEP) has been rolled out in 3,000-plus branches for better crowd management and faster processing time for transactions.

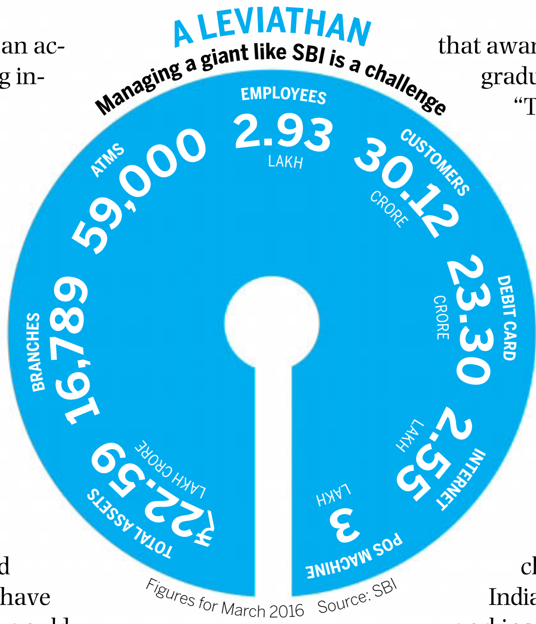
She has also started a training programme for employees and launched a new HR initiative to encourage meritocracy and cut down on subjective evaluation of employees. Under the new system, 65 per cent marks will be based on performance, which will include specific targets, 5 per cent marks will be given to those who successfully complete the training programme and remaining 30 per cent markings will be reviewed by the supervisor. "We have put together a system which clearly reflects the performance and 87 per cent of the roles have been made budgetary," she says. The bank is also focusing on specialisation, which would help in the long run.

Bhattacharya is also making a good beginning towards the less-cash society. She has, in fact, been one of the voices in support of demonetisation. "She has led the transformation of SBI as a modern-age bank. She has been articulating the critical issues impacting the

LEADING FROM THE FRONT

Arundhati Bhattacharya has taken a raft of key initiatives

- Launched digital wallet, Buddy, to take on private banks and non-bank wallet companies
- Started fully digital branches to target young customers
- Evolved a top-of-the-line e-commerce strategy, targeting the entire ecosystem
- HR initiatives to build an organisation based on meritocracy
- Aggressively building PoS terminal business
- Paring bad loans through sale of NPAs to ARCs
- Strategising merger of five associate banks



banking industry. In fact, she is an acknowledged voice of the banking industry at all forums," says Birendra Kumar, MD and CEO, International Asset Reconstruction Company.

She has also done her bit in exploiting the digital opportunity, deploying over 300,000 point-of-sale machines – growth of over 50 per cent in just one year. Not many know that POS is a loss-making business as charges are shared with the card-issuing bank, payment processors, such as VISA or Mastercard, and switching company NPCI. "We have to change it into a business that would yield decent profits," says Bhattacharya.

She says innovation in the POS ecosystem will accelerate deployment of these machines. SBI, in fact, is testing an android-based smartphone with an attached dongle that can operate like a PoS system, and Bhattacharya is hopeful that there will be many more innovations that would promote digital payments.

On cyber security, Bhattacharya says each player has to be very vigilant. "The cyber criminal innovates on a daily basis. The regulator probably needs to start looking at what each player is doing, so that if there is some oversight, everyone is prepared to face any emerging threat," the SBI chief says, adding: "We will also see a lot of work being done in fraud analysis and determining potential of various initiatives."

The area of concern for Bhattacharya, however, is the deteriorating asset quality, which have reached almost ₹1 lakh crore in 2015/16. The mid-corporate segment has seen highest gross NPAs at 17.12 per cent followed by SMEs at 7.82 per cent and 6.93 per cent in agri loans. "SBI is highly levered to macro economic conditions, and improvement in investment climate and interest rates would assuage asset quality fears," says a recent Motilal Oswal report.

In fact, when Bhattacharya moved to the corner room, the agri NPAs were in double digits. "Agri is not easy to manage," admits Bhattacharya. But she hopes that awareness about crop insurance is gradually increasing among farmers. "That will give some stability to agri lending," she says, adding a lot needs to be done in terms of technology, investments in logistics, food processing, etc. "Today, a huge amount of produce gets wasted because of lack of cold chains and processing units."

In 2014, the SBI shed some of its NPAs to ARCs with the hope that they will be able to do a better job with the bad assets. But Bhattacharya is a bit disappointed. "In India, many of these assets are still working assets. The replacement costs are much more than what the ARCs are giving us," she says. Similarly, strategic debt restructuring (SDR), a resolution tool provided by the Reserve Bank of India, has not been very helpful either. "We have not seen too many people coming. Those who came, backed out at the last minute," says Bhattacharya, adding that very few companies would fit into the stringent norms provided by the RBI. "As a result we are not being able to do too much with it." However, she is confident of finding a solution to the problem.

Bhattacharya is also eyeing other business opportunities, including cross selling and forex trade. "We have a huge branch network that can be utilised for cross selling, besides there is a huge FII population to tap." The bank is also trying to shore up its return on capital employed, which is at 7.30 per cent. In comparison, HDFC Bank has an ROCE of 18.26 per cent. SBI's capital adequacy ratio is comfortable at 13.12 per cent, but also needs to be beefed up for meeting the growth requirement as and when the economy bounces back. Finally, the recent merger with five associate banks is likely to keep her occupied with a good part of her remaining tenure. Surely, she can learn a lesson or two from Iger whose daring deal making skills transformed Disney. ◆

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BANK OF THE YEAR

SIZING THE OPPORTUNITY

HDFC Bank is gradually raising the bar in the banking industry with expanding size, unmatched profitability and low delinquencies.

By Anand Adhikari

ICICI Bank has ruled as the largest private bank for almost two decades but now its dominance is under serious threat. Rival HDFC Bank is fast catching up and has actually overtaken it in the current fiscal in terms of balance sheet size or total assets. Indeed, HDFC Bank has closed its balance sheet at ₹7.88 lakh crore in the second quarter of 2016/17 while ICICI Bank was lagging behind at Rs 7.51 crore. It is likely to maintain its lead at the end of the financial year. But Aditya Puri, MD of HDFC Bank, says he doesn't believe in making balance sheet comparisons. His focus in on ensuring that the bank serves its customers better over time. "If in this process, size grows, good for us," he says with a grin, seated comfortably at his fifth floor boardroom at HDFC House in central Mumbai.

The bank is reaping the fruits of following a very consistent strategy of pursuing profitable growth right from its inception. Some private banks followed the strategy of aggressive growth first and stumbled in the process. "I will not try and grow size for the sake of growing size. Our size will grow because the demand for our products is growing," says Puri, the longest serving head honcho at any bank in India.

The 66-year-old Puri is focused on increasing market share. The bank has emerged as a market leader in credit cards – with 7.1 million card holders – though it was relatively a late entrant in the category. The bank has also scaled up its personal loans portfolio that has the lowest delinquencies in the industry. This at a time when many banks and NBFCs shut their personal loan business or downsized it significantly. The bank is one of the top three players in acquiring merchants and installing POS (point of sale) machines. Of late, the bank is betting big on mPOS (mobile

ADITYA PURI
MD , HDFC BANK

"I will not try and grow size for the sake of growing size. Our size will grow because the demand for our products is growing."

RACHIT GOSWAMI

CLEAR WINNER

HDFC Bank outscores other banks on key parameters

PARAMETERS	HDFC BANK	SBI	ICICI BANK	AXIS BANK
Return On Assets	**1.89%**	0.46%	1.39%	1.67%
Return On Capital Employed	**18.26%**	7.30%	11.43%	16.81%
Growth In Operating Profit	**22.75%**	9.41%	21.10%	20.31%
Growth in Advances	**27.11%**	12.59%	12.32%	20.52%
Net NPAs	**0.28%**	3.81%	2.98%	0.80%

Figures for 2015/16 Source: Business Today KPMG Study)

point of sale), a machine connected through mobiles that costs less. At last count, the bank had installed 80,000 mPOS.

Be it costs, capital, returns or asset quality, the bank is miles ahead of other banks. In the BT- KPMG Study 2016 , it has won the jury award for Bank of The Year and also emerged as the quantitative winner and fastest growing among the large banks. HDFC Bank was also the overall winner last year. Ask Puri about the consistency in the bank's performance, and he says , "We want to own the customers by being able to deliver the best product at the best price backed by our trust in a manner most convenient to them." With that end objective, the bank uses technology, data analytics, artificial intelligence, robotics, etc.

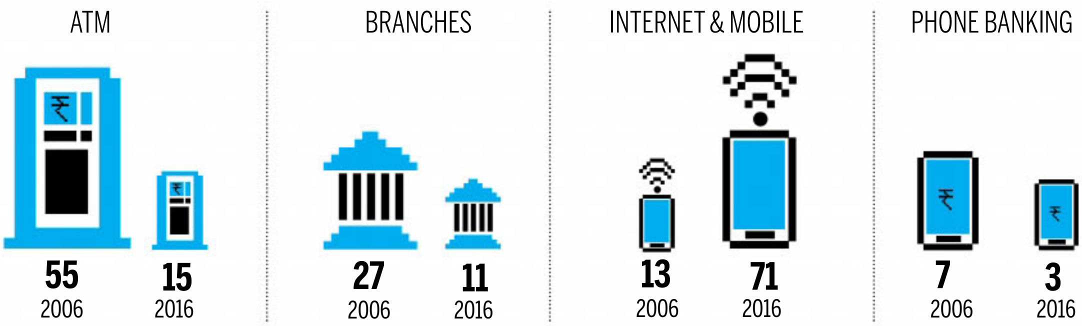
In its two decade journey, the bank has weathered many economic cycles but it never strayed away from the stated objectives of striking a balance between risk and margin. That is something the bank has proved by growing profitably in the period after 2008 when every other bank has been impacted by the slowdown. Today, the big banks are struggling as credit offtake is low, capital is hard to come by and asset quality is deteriorating rapidly. For many peers, retail banking growth has been a saviour as the corporate loan book is hardly showing any growth. HDFC Bank, however, has been growing its loans, revenues and profits at over 20 per cent in the last and most difficult six-seven years. The quality of portfolio reflects in its NPAs (non performing assets). The bank's net NPA at 0.28 per cent is lower than even its 10 year average. This is unparalleled as other banks, including private sector peers, have amassed huge pile of NPAs in a challenging environment. HDFC Bank has managed to build a well balanced mix between retail and wholesale. Even in wholesale, the bank has smartly built a portfolio of working capital loans, emerging corporate & SME (small and medium enterprises), transaction and investment banking. The retail component comprises half of its total loan book and the bank has a sizeable presence in auto, personal and home loans.

The bank's growing market capitalisation (market cap) reflects the way the bank has become the investors' favourite on Dalal Street. In fact, its market cap at ₹3.07 lakh crore is way ahead of State Bank of India (SBI) and ICICI Bank – two large banks in terms of balance sheet and branch network. SBI and ICICI Bank have a market cap of ₹1.92 lakh crore and ₹1.46 lakh crore, respectively. HDFC Bank is now closing in on the largest conglomerate in the country, Reliance Industries Ltd, that has a market cap of ₹3.45 lakh crore.

The big theme for HDFC Bank is digital banking. In fact, post demonetisation, digital transactions of the bank are growing because of cash shortages. In the past few years, the bank has been aggressively using data analytics, artificial intelligence (AI) and software robotics. In fact, the bank has plans to roll out physical robots at branches to help customers make cash deposits, withdrawals, fixed deposits, etc. "Now the customer wants

THE NEW FACE OF BANKING

A majority of customer initiated transactions are now through Internet and mobile



Customer initiated transactions by channel (%) Source: HDFC Bank

24x7 access. He wants convenience and the best product at the best price," reasons Puri. AI and robotics is allowing banks to do a lot more analysis (because of computing capacity) for identifying customer segments better and unveiling superior products. Fundamentally, you can analyse a lot more in areas like credit, marketing etc. This helps in understanding of customers and also understanding your own business," says Puri.

Unlike banks that solely targeted deposits in semi-urban and rural areas, HDFC Bank is exploring the rural markets both for assets (cattle loan, agri credit, etc.) and liabilities (deposits). The bank has launched innovative solutions through technology, such as milk-to-money ATMs and payment solutions for agri procurement. "Overtime, some serious competition will come from payments and small finance banks. The small finance banks are strong on the lending side because of their micro finance background and payments banks will innovate on payments and transaction space," says Kalpesh Mehta, Partner at Deloitte India.

Meanwhile, the disruption is also coming from the regulator's side too. HDFC Bank has its own person-to-merchant digital wallet 'PayZapp' but the recent launch of Unified Payment Interface (UPI) is expected to eliminate digital wallets in the longer run. Experts are divided over their future. Wallets, some believe, will always have utility as customers would not like to expose their bank account directly in an online transaction. Puri isn't bothered too much about the interoperability under the Bharat Bill Payment System (BBPS) – it would make even bill payment services interoperable. "You need a customer base to offer such services," says the ex-Citibanker. But clearly, after the launch of BBPS, there would be fierce price competition among banks to attract customers for such low value transactions.

But digital banking is also not without risks. The recent ATM data fraud in a new generation private bank has exposed the faultlines of the Indian banking system. HDFC Bank has actually come up with a location based, real time ATM fraud detection method. But no bank can claim to have the best cyber security systems in place. And Puri agrees. "It is one of the few thing that worries me and you know very few things worry me (in life) ," he says. ◆

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RANA KAPOOR, Founder and CEO, Yes Bank

"By 2020, we plan to achieve CASA ratio of over 40 per cent, granular deposits of 75 per cent, retail and business banking advances mix of 45 per cent and 3 per cent market share in the industry."

RACHIT GOSWAMI

■ BEST MID-SIZED BANK

DRIVING GROWTH

The next phase of growth of Yes Bank will come from retail and SME

By B.S.S. Reddy

Yes Bank, India's fifth largest private sector bank, has steadily built its business edifice on three pillars corporate, retail and SMEs. Over the past six years, the bank's advances have grown by a compounded annual growth rate (CAGR) of 24 per cent, deposits rose by 21 per cent and total assets grew by 24 per cent CAGR.

In the past three years, its advances grew even faster at 27.85 per cent CAGR, while in 2015/16 it grew by 29.99 per cent, according to BT-KPMG study. Growth in deposits clocked 18.61 per cent CAGR in the three-year period, but picked up pace in 2015/16 to 22.53 per cent. The bank's fee income and operating profits rose by 25.23 per cent and 32.40 per cent during the past three years and in last fiscal, respectively. "Overall FY16, despite challenging headwinds, has proved to be extremely satisfactory for Yes Bank," Rana Kapoor, Managing Director and CEO, Yes Bank, had announced some time ago. In fact, Yes Bank was adjudged the Best Mid-sized Bank for its performance in 2015/16.

STRATEGY

Since it was founded in 2004, Yes Bank's strategy has been to identify focus segments and offer a complete suite of asset and liability products, with an overlay of customer relationship management (CRM) analytics and digital channels for enhancing productivity and servicing. Its three-pronged strategy of customer acquisition, engagement and retention also helped it to gain ground. "Going forward, this will catalyse cross-sell proposition, which is now complete with an entire bouquet of retail asset products," says Kapoor.

Yes Bank has also expanded its branch network on a hub-and-spoke model to boost customer acquisition, increase CASA balances, and share of retail advances and fees. The bank's CASA ratio was at 30.30 per cent last September, against 25.5 per cent in the year-ago period. Savings account deposits posted robust growth of 53.6 per cent year-on-year. "The bank has taken a leadership position in digital banking and social media, through the ART (Alliance-Relationship and Technology) framework, and creating innovative solutions and capabilities to deliver enhanced customer experience for corporate, SME and retail customers," says Kapoor.

CORPORATE BANKING

According to Kapoor, Yes Bank has a seasoned corporate and SME banking franchise, segmented across 12 business units providing an end-to-end, customised solutions across eight to 10 identified focus sectors in each segment. The bank also follows a segmented strategy geographically. "This ensures the bank is well geared to address the entire basket of the economy, and calibrate business development and risk management across

KOTAK MAHINDRA BANK

Fastest Growing Mid-Sized Bank

UDAY KOTAK ,Executive Vice Chairman and MD, Kotak Mahindra Bank

While the whole banking industry was grappling with stressed assets for over two years, Kotak Mahindra Bank had no such worries. The bank's wholesale, commercial and retail arms contributed equally to its total business. However, of late, it has faced some merger pangs following the acquisition of ING Vysya Bank last September. In the past two years, it has also acquired Pinebridge Mutual Fund and BSS Microfinance, and believes as long as acquisitions add value, it is ready to consider opportunities.

Although Kotak Mahindra emerged as the Fastest Growing Mid-Sized Bank of 2015/16, its "primary objective is not growth". "Banking is a business of trust and trust essentially builds up over a period of time. So it is extremely important to do it cautiously and progressively. I think we have grown cautiously," said Dipak Gupta, Joint Managing Director, Kotak Mahindra Bank. Kotak follows the universal bank model, but changed its track after the global financial crisis. "If you see the last four to five years, we have been focusing on the banking part, rather than the universal part of it," Gupta explained.

these sub-segments," Kapoor adds. Consumer banking and MSMEs are the other focus areas that would provide the necessary impetus to the bank's growth and increasing market share.

RESILIENCE

The past few years have been challenging for the banking sector, beginning with currency volatility leading to rate actions by the RBI in July 2013, and the subsequent credit crisis as a result of the global economic slowdown and high corporate leverage. "Despite these challenges, Yes Bank continued to show resilience on all asset quality parameters. This is attributed to our 'knowledge banking' approach with an in-depth understanding of focus sectors, our three-tiered risk management framework, and an ingrained culture of risk management," says Kapoor.

To differentiate itself from peers, Yes Bank has adopted a 'knowledge-driven' approach to offer financial solutions to sectors such as food and agribusiness, telecommunications, information technology, life sciences, renewable energy, media and entertainment, manufacturing and textiles. "The bank's concurrent investment in network, people and technology coupled with stable asset quality outcomes, has resulted in achieving sustained business growth, strong profitability and a stronger and more vibrant brand," says Kapoor.

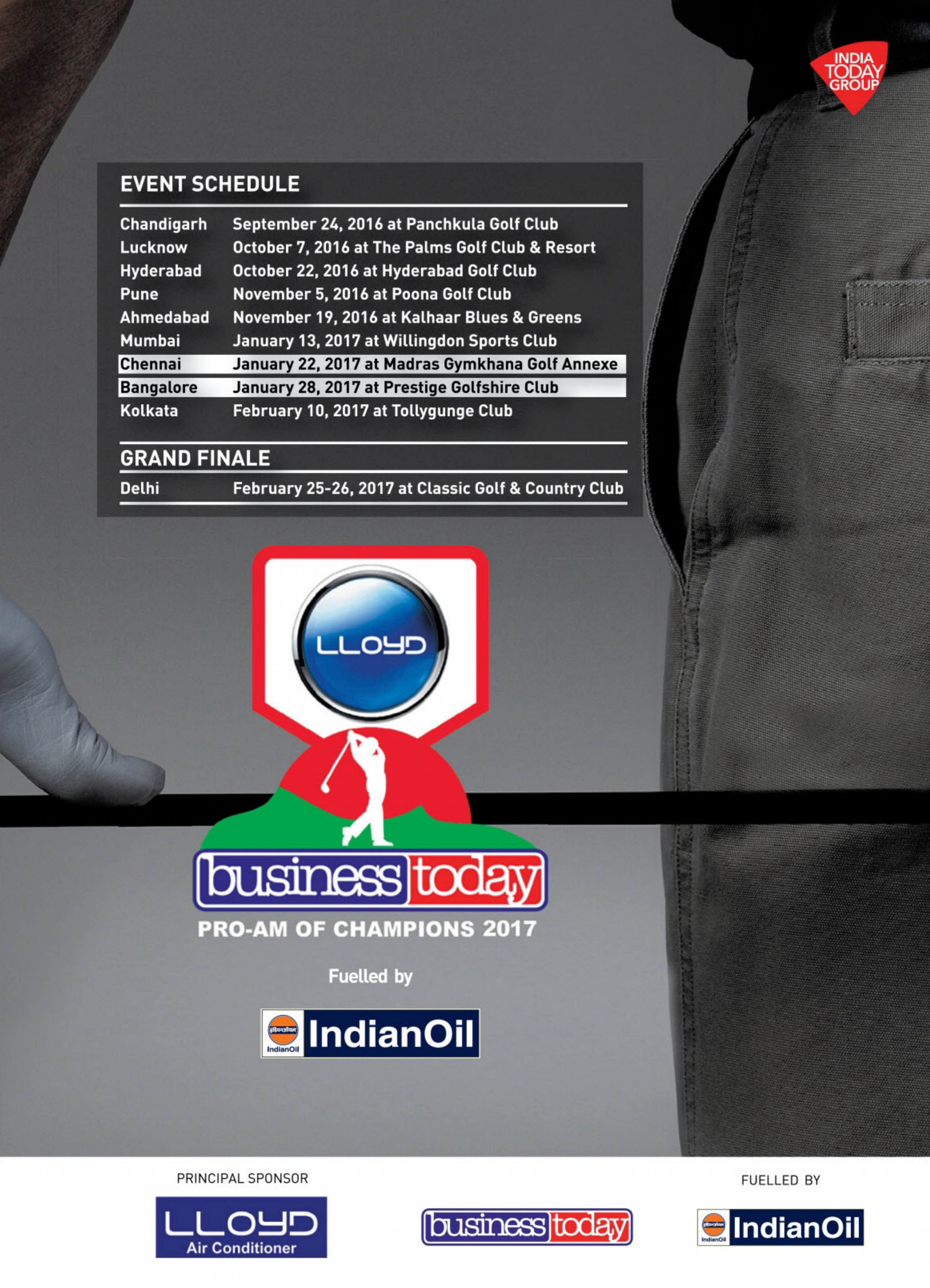
RETAIL

Currently, the bank's retail banking portfolio is at 33 per cent of advances, while corporate banking is at 67 per cent. By 2020, it plans to increase retail to 45 per cent. "The diversity in portfolio will initially be contributed by well established and seasoned SME franchises, while from 2018 consumer retail will generate a multiplier effect and will be a key driver for growth," says Kapoor.

To complement its core banking product suite, Yes Bank has already launched a wholly-owned subsidiary, YES Securities. It has also obtained an in-principle approval from Sebi for its asset management business. "However, capital-intensive businesses like insurance can be a drag on a bank's balance sheet, and value destroyers, and are, therefore, best offered through alliances," Kapoor adds. The bank has tied-up with Max Life for life insurance and Bajaj Alliance for general insurance. "Today, we have all the engines in place to grow at over 30 per cent organically," says Kapoor, adding: "Having said that, we remain open to evaluate any suitable opportunities in specific businesses such as securities and asset management."

WAY FORWARD

Yes Bank's second phase of growth, which ended in 2015, established it as the largest mid-size bank in India. In the next phase, Yes Bank wants to grow into a 'large bank'. "By 2020, we plan to achieve a CASA ratio of over 40 per cent, granular deposits of over 75 per cent, retail and business banking advances mix of over 45 per cent and achieve over 3 per cent market share in the industry. Yes Bank aspires to become the preferred choice of customers in a digital eco-system," adds Kapur. ◆


INDIA TODAY GROUP
EVENT SCHEDULE
Chandigarh September 24, 2016 at Panchkula Golf Club
Lucknow October 7, 2016 at The Palms Golf Club & Resort
Hyderabad October 22, 2016 at Hyderabad Golf Club
Pune November 5, 2016 at Poona Golf Club
Ahmedabad November 19, 2016 at Kalhaar Blues & Greens
Mumbai January 13, 2017 at Willingdon Sports Club
Chennai January 22, 2017 at Madras Gymkhana Golf Annexe
Bangalore January 28, 2017 at Prestige Golfshire Club
Kolkata February 10, 2017 at Tollygunge Club
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Delhi February 25-26, 2017 at Classic Golf & Country Club
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IndianOil

K. VENKATARAMAN, Managing Director and Chief Executive Officer, Karur Vysya Bank

BEST SMALL BANK

NEW CHALLENGER

Another old-generation private sector bank is making it to the top of the heap.

By B.S.S. Reddy

ASSET PLAY

KVB scores well on most parameters, especially its asset base

BANKS	KARUR VYSYA BANK	CITY UNION BANK	RBL BANK	TAMILNAD MERCANTILE BANK	DCB
Total Assets (₹cr)	**57,663**	31,251	39,161	35,266	19,118
Net NPAs (%)	**1**	2	1	0.89	1
Cost to income ratio	**0.5**	0.4	0.59	0.47	0.58
ROCE (%)	**12.87**	15.47	11.21	16.2	11.52
Capital Adequacy (%)	**12.17**	15.58	12.94	12.76	14.11

ROCE is Return on Capital Employed; Source: KPMG

Karur Vysya Bank (KVB), which celebrated its centenary in September 2016, took giant strides in profitability in 2015/16, while keeping non-performing assets, or NPAs, under control.

Riding on its age-old focus areas – small and medium enterprises (SMEs) and retail – it took the top slot among 13 small banks by showing one of the steepest increases in operating profit/total income (27 per cent rise), keeping NPAs around 1 per cent, and maintaining a high NPA coverage ratio of 56 per cent.

"The bank has been focusing mainly on SMEs and retail financing in its 100 years of existence. We recently added the agriculture sector to this mix to broad-base growth," says K. Venkataraman, Managing Director and Chief Executive Officer, KVB.

Fee income accounted for 9.07 per cent income. Only RBL Bank was ahead of KVB on this parameter with a figure of 10.82 per cent.

None of KVB's rankings on various parameters analysed by the BT-KPMG study were less than 10. That enabled it to stand in good stead in the overall performance.

REVAMP PLAN

The seed of the bank's success was sown in 2009 when it embarked upon a seven-year transformational plan ending in the bank's centenary year - 2016. This does not mean there were no tweaks on the way. "Although in the earlier years of the plan, as a growth strategy, the bank increased corporate advances, this resulted in higher levels of stressed assets. This approach has been completely changed," says Venkataraman.

"We introduced a growth model based on SME, retail and agricultural segments to broad-base growth and make liability and asset portfolios more granular," he says.

The bank categorised the business into four segments — corporate and institutional group, commercial banking group, agricultural banking group and personal banking group. The organisation structure was also redesigned with clear focus on business strategy wing, operations wing and other services, and inspection wing. "The segmentation gave the bank focus and helped it develop products/services for a homogeneous group of customers in each segment," says Venkataraman.

"We also developed strong risk management systems, revamped procedures, improved training and introduced a focused appraisal system to foster performance culture," he says.

BALANCE SHEET

As part of the transformational plan, huge investments were made in the technology platform and many digital/technology products and services were

RBL BANK

Fastest Growing Small Bank

Till five years ago, the use of technology at RBL Bank was nil. It had no treasury/foreign exchange operations. Today, technology and partnerships are the biggest drivers, giving it 45-50 per cent a year growth in assets and profits and making it the fastest-growing small bank in 2015/16.

"The year 2015/16 was an important transitional year, as until the previous year, we were putting the building blocks in place," says Vishwavir Ahuja, Managing Director and CEO, RBL Bank. The bank is now at a stage where it can expect high growth when the economy picks up steam.

VISHWAVIR AHUJA,MD and CEO, RBL Bank

Ahuja , earlier with Bank of America, attributes the success to the strategies adopted by the team, which had the experience of handling big businesses in foreign banks. The bank's strong areas include corporate banking, corporate finance and financial markets businesses.

The bank sees a lot of value at the bottom of the pyramid. Considering the prohibitive cost of opening branches, it expanded its reach through business correspondents and complimented this with technology. Today, it is riding the trends in financial inclusion, agriculture banking, payment/remittance services, embassy banking and trust banking, says Ahuja.

The strategy took the number of customers from 2,00,000 a few years ago to 2.1 million today. "We are one of the leading players in terms of micro-payment transaction volumes through our network," says Ahuja.

However, the bank will have to face serious competition from new small finance banks and the peer group, which is also getting its act together.

introduced. "Our efforts have been focused on building a strong balance sheet and position the bank for steady growth with strength and profits," says Venkataraman, adding that over the past seven to eight years, the bank has substantially rebalanced its loan book. "Our corporate book came down from 47 per cent to 33 per cent and retail book rose from 8 per cent to 15 per cent," he says.

As on March 31, 2016, the bank was fifth in balance sheet size (₹57,663.72 crore), behind Federal Bank, State Bank of Mysore, Jammu & Kashmir Bank and South Indian Bank, among small banks.

THE CHALLENGES

Venkataraman says slow economic growth over the past few years and the resulting fall in demand have been challenges for the entire banking industry. "On the one hand, this resulted in a fall in credit demand, which reflected in low credit growth, while on the other hand, the decline in sales of companies led to pressure on their cash flows and so they faced difficulties in servicing loans, causing stress and delinquencies."

In 2015/16, many consortium accounts in large banks faced problems on account of asset quality review by the regulator. Slippages in loan accounts at lead banks resulted in blocking of funds and stalled steps to help the stressed borrowers. This escalated into an industry-wide stress, says Venkataraman. KVB, though, escaped relatively unhurt. "Our bank has been prudent in driving growth under the circumstances. It has been using strong filters to identify and exclude weak accounts from getting on to the books," he says.

"KVB's model of working capital finance has always ensured lower leverage for the borrowing units. This helped many units tide over the situation even in the face of poor cash flows as the servicing liabilities were lower," he says.

LOOKING AHEAD

"The next phase is aimed at positioning the bank as a specialised SME bank," says Venkataraman, adding that the bank's growth will mainly depend on SME and retail loans, and to a certain extent on smaller and middle level corporates.

KVB does not have any plan to enter universal banking areas such as mutual fund and insurance for now, says Venkataraman, adding that it prefers the organic growth model. ◆

BEST FOREIGN BANK

WHOLESOME RETURNS

Barclays Bank has been a standout performer, growing revenues even as it keeps operating costs on a tight leash.

By B.S.S. Reddy

Clear focus on growth, profitability and returns has derived immense benefits for Barclays India. The bank posted an operating profit of ₹840.14 crore and had deposits of ₹15,149.73 crore with a balance sheet size of ₹32,532.23 crore at the end of 2015/16. Barclays balance sheet is not in the league of the big four foreign banks – Citi, Standard Chartered, HSBC and Deutsche – but the bank surpasses competition in terms of CAGR on deposits, advances, fee income and operating profits. The bank is also on top in terms of capital adequacy ratio and asset quality.

"Growing our top line was no doubt critical, but we have done so while maintaining a close watch on our costs. During the year, even as our revenues grew, our operating expenses declined," says Jaideep Khanna, CEO, Barclays India. The bank's cost-income ratio of 32 per cent in 2015/16 is among the lowest in the industry. The outstanding performance has helped the bank emerge as the best bank in the foreign banks category. This is quite a feat as others in the group included the high profile, big four foreign banks. Indeed, last year, Deutsche Bank was the winner. "We've also ensured that our asset quality has not been compromised. Our gross Non-Performing Assets (NPA) at 1.1 per cent and our net NPAs at near-zero, were one of the lowest during FY16," claims Khanna.

RACHIT GOSWAMI

JAIDEEP KHANNA, CEO, Barclays India

WHOLESALE BANKING

Barclays Bank in India has a wholesale business model – a fully integrated 'Corporate and Investment Banking' business. It offers a range of services, including trade finance, working capital and products – both offshore and onshore – and corporate finance. "So, essentially, we meet both the growth and working capital needs of our clients. We do not expect to change this business mix in the foreseeable future," says Khanna.

Prolonged slowdown in business activity, especially in the banking sector, was one of the challenges that Barclays had to handle in recent years. NPAs in the banking system, the extent of leverage on corporate balance sheets and low capacity utilization in many sectors, have formed the crux of this problem. "While business during the last couple of years has indeed been slow, we remained closely engaged with our clients with whom we have had deep relationships for many years now," adds Khanna.

FOCUS ON COPORATES

Barclays set up its first branch in India in 1990. After strengthening its investment banking team in 2001, it attained a leadership position in the debt capital market within a few years.

In 2007, the bank started its retail and commercial operations, but exited both of them in 2011. In the same year a joint 'Corporate and Investment Banking' strategy was embraced. The strategy has allowed Barclays to service the needs of clients more efficiently and has translated into a stronger financial performance, believes Khanna, pointing to the bank's results over the last three years. "Today, we have over a billion dollars of invested capital in India and employ over 28,000 people across our commercial and service businesses,"he says. Some 16,000 are employed by Barclays Technology Centre India (BTCI), 11,000 by Barclays Shared Services (BSS) and about 1,000 by Barclays Securities India Private Limited (BSIPL) and Barclays Bank Plc. (BBPLC), reveals Khanna.

ORGANIC GROWTH

Barclays Bank India does not feel the need to grow its business inorganically. "We believe the business environment over the next few years is going to allow us ample opportunities for organic growth without having to depend on the acquisition route to achieve scale," says Khanna but acknowledges that the bank's fortunes are tied to the progress of the domestic economy. "We believe the policy changes being implemented by the government will galvanise GDP growth over the next few quarters which in turn will benefit banks."

Barclays has defined its strategy as enabling "unrivalled access for our clients in the country to the deeper capital markets of the Europe and the US and likewise helping our European and US clients access the opportunities that India presents," according to Khanna. "Our results have validated our strategy," adds the Barclays India chief. ◆

BNP PARIBAS

Fastest Growing Large Foreign Bank

BNP Paribas, the second oldest foreign bank in India, has been on a rapid expansion pace since 2012/13. Its thrust on wholesale banking has paid off and by 2015/16 its deposits had grown over four times to `22,087 crore while balance sheet size (or assets) rose by over three times to `36,761 crore. It makes BNP the fastest growing foreign bank in India. "Development of local balance sheet is our focus," says Joris Dierckx, CEO and Country Head-India, BNP Paribas.

However, BNP Paribas does not see itself in the big three in terms of assets – Standard Chartered, Citibank and HSBC occupy the top three slots. "We will stay at number five or move up to number four in terms of assets. A lot will depend on our nearest competitors' strategies and plans." Dierckx said. The banks in the fourth and sixth positions currently are Deutsche Bank and DBS Bank respectively.

BNP Paribas is eyeing retail opportunities in India. It plans to synthesise all retail initiatives under the newly acquired equity brokerage, Sharekhan.

India is in a sweet spot right now, says Dierckx, adding that he is not unduly bothered by the impact of demonetisation. "It is a short term phenomenon. We have been here for 156 years and if it (revival in growth) takes one more year, we will wait a year longer."

AJAY THAKURI

BEST DIGITAL BANK

DIGITAL PLAY

Axis Bank has emerged as best bank with best digital initiatives.

By Anand Adhikari

Axis Bank's innovation lab, Thought Factory, in Bangalore is working closely with the bank's business teams and the start-up community to drive cutting edge innovation through collaboration. Set up in June last year, close to a dozen young engineers have been asked to work on blockchain, artificial intelligence, mobility and cloud technologies, to make banking easier for the customer. "Digital experiences and technology are changing very fast. You have the option of building (expertise) on your own or use the route of collaboration," says Rajiv Anand, Group Executive and Head of Retail, Banking, Axis Bank.

These new technologies are all set to disrupt many of the banking functions – credit, deposits, wealth management, customer service, mobile payments and cyber security. Going by the trend, globally, the third largest private bank in India has created an institutional framework for innovation to achieve the next level of growth. Axis Mobile, a digital wallet, for instance, has doubled its user base to 2.4 million in 2015/16, and witnessed transaction volumes of 8 million amounting to ₹7,500 crore. The bank has also launched several digital and mobile services, including the option to open savings accounts on the go. Last fiscal year, it also launched INSTA Personal Loan facility, where eligible customers could get pre-approved loans credited to their accounts instantly through ATMs, Axis Mobile App and Internet banking platforms.

A busy 2015/16 in terms of innovations has earned Axis Bank the 'Best Digital Bank' award in the country. In fact, the bank is among the top three large banks in terms of financial performance. It has scored very high on parameters such as cost-to-income ratio, capital adequacy, return on assets and return on capital employed. The bank is at the top in terms of its fee income contribution to total income (13.76 per cent), followed by HDFC Bank (12.18 per cent) and ICICI Bank (11.30 per cent).

"We are working on a chatbot solution, which uses artificial intelligence. This is an area which is expected to expand very rapidly because anything that is repetitive in nature will come under robotics software," says Anand, adding that the services will soon be ready to roll.

Globally, Royal Bank of Scotland is trying out a virtual chatbot, Luvo. Back home, ICICI Bank has already come out with software robotics and claims there are over 200 robots performing over 10 lakh transactions per day. By the end of the fiscal year, ICICI plans to deploy 500 such robots to help automate 20 per cent of its total transactions. HDFC Bank, too, is in an advanced stage to roll out its robotic offering.

Axis Bank has about 3,000 branches and 12,743 ATMs. "The rate of growth of people will be faster in the front end than the back end. Even if transactions double, the people at the back end will not double. Therefore, you have to use technology and keep killing costs," says Anand. The bank currently has one of the lowest cost-to-income ratio at 0.39. "The bank's retail advances is at 41 per cent of its total advances. As the retail advances grow, the cost-to-income ratio will also move northwards," says a public sector banker.

Anand is also upbeat with the introduction of the Unified Payment Interface (UPI), with Axis Bank witnessing 1.6 million downloads so far. "As a banking system, there are one million transactions a day on UPI. It will only grow big in the days to come," he says. Similarly, Bharat Bill Payment System will also provide a level-playing field to all banks, including those who were lagging in technology. "Customer experience, speed and convenience are going to make a difference and will determine which bank's app the customer is going to use in an interoperable environment," he adds.

Demonetisation has also come as a shot in the arm for many digitally-advanced banks. The average daily debit card transaction volumes of Axis have more than doubled post demonetisation. "We are seeing a fundamental shift in debit card usage from pure ATM withdrawal to shopping," says Anand. While the POS network is still limited in India, Axis Bank is very active in acquiring merchants. "Our transactions at POS machines have also more than doubled post the currency ban," he adds.

Meanwhile, Anand feels the most important thing in digital banking is cyber security. "You have to have the capabilities to detect and respond very quickly," he says. Axis Bank will surely bank on Thought Factory to play an active role in guiding it to stay ahead of hackers. ◆

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BANKING ON INNOVATION

Incubators of India's digital banking initiatives

ICICI Bank
Software robotics to reduce amount of time and human effort in banking transactions

HDFC BANK
Location-based, real-time fraud detection at ATMs and Points-of-Sale

kotak Kotak Mahindra Bank
Mobile-based app allows opening of online accounts

State Bank of India THE BANKER TO EVERY INDIAN
Digital villages to create cashless ecosystem in rural areas

MAKING A

How Bandhan Bank has changed the lives of people.

By Mahesh Nayak

On the first day of its operations – August 24, 2015 Bandhan Bank had 450,000 people queuing up for opening accounts with it. This was an amazing start for a new bank, but it also caused problems as Bandhan had not expected such a windfall. "The first 15 days were terrible for us, especially our IT team," says Chandrasekhar Ghosh, CEO and Managing Director. "We had estimated only 200,000 odd account openings in the first month. But it also showed how well Bandhan is known to people." Bandhan Bank may be just 16 months old, but as a microfinance institution (MFI) since 2001, it had long acquired a formidable reputation as a change agent helping the poor climb out of poverty.

The evidence is visible all over West Bengal. Take Aparna Dhar, 42, resident of Sankhabanik Coloni in Titagarh, Barrackpore, 30-35 km from Kolkata (where Bandhan Bank is headquartered). She started with a loan of ₹5000 from the then MFI in 2004, which she used in buying and selling saris. Her promptness in paying back in time got her a loan of ₹84,000 in 2013, which she used to buy a 'Toto', a six-seat battery powered 'e-rickshaw'. Her husband, Sumit, ferries passengers in the Toto, earning a steady income of around ₹20,000 per month. She has paid back the loan and is now being given another ₹1 lakh towards maintenance and improvement of her Toto. Short and confident, wearing a colourful salwar kameez with a big bindi on her forehead, this mother of two has higher ambitions. "I want to buy a car and use it as a taxi," she says. With her excellent credit history over 12 years, she is on the verge of graduating from the micro credit category – in which the maximum loan eligibility is ₹ lakh – to the small entrepreneur segment, where she

DIFFERENCE

CHANDRASEKHAR GHOSH
CEO & MD, BANDHAN BANK

"I realised that the only way to bring down (lending) rates was to get cheaper funds ... that is why we applied for a universal bank licence"

SHEKHAR GHOSH

can get a loan up to ₹10 lakh.

Numerous others in Dhar's housing colony have similar stories about Bandhan's role in empowering them. Sankhabanik Coloni gets its name from 'sankha' – the white bangle, made from conch shells, which married Bengali women wear – and indicates the colony residents' traditional occupation. Deepali Sur, 44, for instance, Dhar's neighbour, who makes sankhas, earning around ₹3,000 a month, began with a loan of ₹7,000 from Bandhan in 2004, and has subsequently got another loan for ₹55,000 to expand her business. Helped largely by loans from Bandhan, other residents have diversified into selling vegetables, groceries, saris or garments stitched on sewing machines bought on loan.

Another 10-12 km from Barrackpore, at Garulia, Shyamnagar, Bandhan has been backing self help groups. Bulti Burman, member of the self help group, Titalee, has a loan of ₹15,000 from Bandhan, which she is using to buy and sell wooden planks for home construction. The loan, taken barely 45 days ago, has already helped her scale up, adding ₹1,500 to her monthly income. Titalee, started in 2013 with five members, now has 37, all of them women, who meet every Tuesday to make their weekly loan repayments. Most of them sell either fish or, like Burman, material used to build homes. Shyamnagar has 149 groups like Titalee, with a total of 4,500 members who collectively owe Bandhan ₹13 crore.

Bandhan loans to the bottom of the pyramid do not come cheap. The women at Titalee, for instance, pay 19.9 per cent interest. But no one's complaining because other banks would have had nothing to do with them. Ghosh notes that, but for Bandhan, his customers would have been paying far more exorbitant interest rates. "These are people who don't understand percentages," he says. "When I started out, I found people paying ₹5 per day to moneylenders for a ₹500 loan (an interest rate of 365 per cent a year). They were ready to do so because they got the money without questions asked. They were not in a position to provide guarantors or documentation. There was no alternative."

Even so, Ghosh always wanted to make life easier for his customers by lowering the borrowing rate. "I realised that the only way to bring down rates was to get cheaper funds," he says. As an MFI, Bandhan had to borrow from banks to service its customers, while as a bank it would have retail and bulk deposits at its disposal. "Two thirds of our total costs went in paying back the banks and the rest was operational costs," he adds. "It was not possible to bring down operational costs beyond a point. It had to be the borrowing cost. That is why we applied for a universal bank licence." In April 2014, among a host of applicants for new banks, the Reserve Bank of India chose to award permission to only Bandhan and IDFC. The bank opened for business after 16 months. Another 16 months later, Bandhan has 9.8 million customers with total deposits of Rs 20,500 crore. It has a capital adequacy ratio of 26 per cent, much higher than the country's banking average, and a loan book size of ₹19,000 crore.

For Bandhan's MFI customers, its transformation into a bank has also provided them a place where they can easily open savings accounts as well. Titalee member Rumpa Das has done just that. She need not even travel to the bank to deposit her cash – she hands it over to the banking correspondent who comes every week to collect the interest payments due from loan customers,

INCLUSIVE BANKING

Financial Inclusion initiatives by other big banks

- **SBI**: Processed around 13 crore subsidy transactions in 2015/16. Trained over 75,000 youth through rural self employment training institute

- **PNB:** Surpassed targets under PMJDY* for account opening. Some 13.1 million Basic Savings Bank Deposit accounts opened.

- **Union Bank:** The bank has 58 lakh financial inclusion accounts and mobilised low cost deposits of Rs 858.07 crore

- **Bank of Baroda:** Financial literacy initiatives in 3,266 schools with 2.26 lakh participants

* Pradhan Mantri Jan-Dhan Yojana

A Helping Hand: Members of self help group Titalee at Shyamnagar district of West Bengal showing their Bandhan Bank saving bank passbooks

SUBIR HALDER

and gets her bank passbook promptly updated. "Even my husband does not know how much I have saved," she says.

But the makeover has not been easy. "The people working with us had never run a bank before," says Ghosh. "I realised even before our bank opened that a huge cultural shift would be required. We would have to make our existing staff adapt to the new norms. We would have to see to it that the new people we recruited did not compromise our core values." He ensured training sessions and also employed strategies. "The new employees, most of whom have bank experience, have been posted in the urban and metro branches we have opened," he adds. "Managers in the rural and semi rural branches are from the erstwhile MFI. It will take time for the new entrants to adapt to Bandhan's culture and for the old ones to change according to changed needs."

Bandhan Bank, moving beyond MFI activity, has also begun servicing the middle of the pyramid. Indeed many formerly poor customers have risen to middle status, helped by Bandhan. Santanu Sengupta and his wife Shubhra, residents of South Dumdum, Kolkata, who have been making and selling artefacts for the last 20 years, got their first loan in 2007 – a very modest ₹7,000 from Bandhan. Till then, they were forced to manage with loans from friends and a cooperative society which charged 36 per cent interest. "What I like about Bandhan is that it gave us money without making us run from pillar to post," says Sengupta. ". No bank I approached gave me money." The loans from Bandhan, paid back in time, led to larger ones. After Bandhan turned into a bank, Sengupta got a loan of ₹3 lakh in the small entrepreneurs segment at 17 per cent interest. So far, Bandhan Bank has disbursed ₹ 640 crore to 34,511 small entrepreneurs.

In the Micro, Small and Medium Enterprises (MSME) category of Bandhan Bank's customers is Wow Momo Foods, a chain of fast food restaurants with over 100 outlets across seven cities. Bandhan has loaned it ₹12.4 crore at 13.5 per cent interest to buy equipment and land for a base kitchen. "The big advantage of dealing with Ghosh and Bandhan is that they understand entrepreneurship," says Binod Homogai, Co Founder and Director, Wow Momo. "They know the difficulties start-ups face and go all out to help." In all, ₹8,494 crore has been disbursed to 2.99 million customers in the MSME category.

Ghosh is keen to expand the bank's lending into new areas. "I want to get into gold loans, increase financing of second hand vehicles, loans to cab drivers, and affordable housing," he says. "I also want to grow the micro credit book by 30-50 per cent in 2017." Further, he has gone beyond banking to help his customers. Along with his wife, he has set up Bandhan Creation, separate from the bank, which will provide sale outlets for customised products made by his customers. "We will sell garments, artefacts and other products, using a model similar to Fab India," he adds. ◆

@MaheshNayak

TOWARDS DE-STRESSING INDIAN BANKS

The RBI has taken several initiatives to tackle the mounting bad loan problem of banks but their implementation remains a challenge.

By Naresh Makhijani & Shailen Shah

RACHIT GOSWAMI

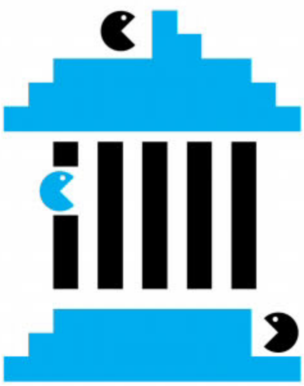
Rising corporate debt and higher default rates have led to a continuous increase in distressed loans in the Indian financial system. The situation has worsened in the last five years with the stressed asset ratio rising from 7.6 per cent in March 2012 to 11.5 per cent in March 2016. This accumulation of bad loans in the banking sector is not the doing of corporates alone. Poor credit appraisal, collateral-based lending, lack of corporate governance and accountability and ambitious credit growth targets led to unwarranted lending by banks. Aiming to clean up stressed balance sheets of banks by March 2017, the Reserve Bank of India (RBI) mandated stricter provisioning requirements under Asset Quality Review, which led to identification of elevated non-performing asset (NPAs) levels in the past 12-18 months. According to an RBI report, the stressed assets ratio stood at 12.2 per cent at the end of June 2016, of which 8.6 per cent of loans are gross non-performing assets (GNPAs) and an additional 3.6 per cent are restructured loans.

To tackle the mounting bad loan problem, RBI has undertaken several initiatives. These include creating an empowered Joint Lenders' Forum for identification of incipient stress, introducing restructuring mechanism under the Strategic Debt Restructuring (SDR) scheme, enabling flexible refinancing under 5:25 scheme, easing norms around sustainable structuring of stressed assets (S4A) and revising guidelines for their sale. In addition to resolving bad loans, these measures also seek to reduce the exclusive reliance of Indian businesses on banks for financing requirements by improving liquidity in the corporate bond market.

No doubt comprehensive measures have been taken to de-stress the troubled banking sector. However, there is no visible improvement as these initiatives face challenges in practical implementation.

IS 'BAD BANK' THE ANSWER?

A 'bad bank', as a solution to the banking sector woes, has been under consideration. A 'bad bank' is basically a bank incorporated to take over bad loans from commercial banks and enable the lender community to focus on lending as stretched non-performing loans prolong the healing process in the organisation. Outside India, developed economies like that of the UK and the US have adopted 'Good Bank Bad Bank' approach as a successful restructuring and accelerated resolution tool. China set up state-owned asset management companies (AMCs) during the banking crisis in the late 1990s to oversee non-performing loans and the process delivered good results. These AMCs helped rejuvenate China's economy by turning delinquent borrowings into state-owned enterprises.



The bad bank concept is not entirely new in India. When IDBI Ltd converted into a bank in 2004, the government set up a Stressed Asset Stabilisation Fund (SASF) to hive off its stressed and non-performing cases worth ₹9000 crore. The idea was to separate stressed loans of the bank through the SASF, which would focus entirely on fund recovery while the bank would continue to function as an entity free of any large bad loans. According to a report by the Comptroller and Auditor General of India, SASF could recover only ₹4000 crore by the end of March 2013. This indicates segregation of good and bad debt isn't enough to solve the bad debt problem. Though it creates a good balance sheet, it does not necessarily solve the ground level problem of recovery. It is sometimes also seen as a 'moral hazard' shielding banks from their own inconsistencies and failure to take proper precautions.

A bad bank may have been a solution in other countries, however, certain aspects will have to be considered while evaluating the need to set up one in India. Stress in the Indian financial sector is concentrated in public sector banks, which would require capitalisation and funding to flow from the government. One could say that a proxy of bad bank exists in India under the S4A scheme, which account-wise segregates healthy and unhealthy portions of a debt. This can be supplemented further by developing a market for stressed asset sale for ARCs. A secondary market for securities issued by ARCs can also be a source of additional capital in the system.

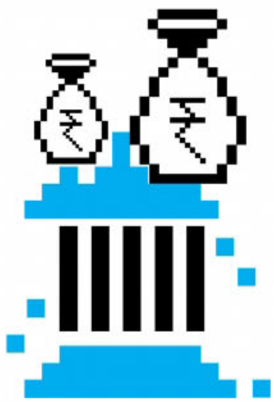
RBI INITIATIVES

Joint Lenders Forum (JLF) is similar to 'London Approach' and focuses on identifying and remedying stress in initial stages and avoiding bad loan write-offs later. It works as an out-of-court settlement mechanism for consortium lending and Multiple Banking Arrangements (MBAs) where lenders come together and form a JLF committee to arrive at a corrective action plan and preserve the economic value of the underlying asset. However, in many cases, decision-making within the stipulated time has been a challenge for JLF committees. The 5:25 refinancing scheme is introduced as a flexible structuring scheme enabling lenders to periodically refinance term loans with a long gestation period. The scheme allows banks to correct the asset liability mismatch for a long term project based on its economic life. This, in turn, helps in easing cash flows and reducing financial stress in the stabilisation phase of the project. Initially only existing and already installed infrastructure and core industry projects were eligible for refinancing under the scheme. This restricted resolution for stalled projects in other sectors as well as new infrastructure projects. In an attempt to address this challenge, the RBI recently revised the scheme, opening it to new pro-

jects in all sectors and reducing the aggregate exposure for existing project loans to ₹250 crores to be eligible for refinancing under the scheme.

The Strategic Debt Restructuring scheme allows lenders to initiate change in management, gain control by converting part of the loan into equity and turn around the ailing company. It was observed in restructuring cases that borrower companies were not able to come out of stress due to operational/managerial inefficiencies. By allowing lenders to change the management and ownership, SDR enabled lenders to remove these operational and management inefficiencies. The success of SDR depends on successful turnaround of the company, which requires a disciplined approach and board oversight function. Even though it has been a popular recourse amongst the lender community, lenders have faced difficulties in its successful implementation due to lack of adequate expertise, time and resources to run the distressed company. Also, a significantly discounted price expected by potential buyers, given the 'fire sale', unsustainable levels of debt and lack of reliable information to make a value assessment have made it difficult for lenders to find new promoters.

Scheme for sustainable structuring of stressed assets (S4A) was formulated by the RBI to give companies a chance for sustainable revival and ensure adequately deep financial restructuring. The scheme provides lenders an option to bifurcate existing debt of stressed borrowers into sustainable and unsustainable portions. It is one of the first initiatives which acknowledged the need of banks to take haircut on the stressed loan by converting unviable portion of debt into equity. Though the scheme has been welcomed by the lender community, banks till recently kept debt ridden accounts on standby, effectively delaying the scheme's implementation in the wake of expected changes for smoother application. The RBI recently revised certain aspects which are expected to push banks to implement the scheme.



EVOLUTION OF ARCs

Under the recently announced guidelines, the RBI has mandated banks to put in place internal policies for asset disposal, conduct periodic review of doubtful assets and set selling targets. Banks will also have to lay down norms for disposal of stressed assets, endorse discount factor and obtain valuation reports to justify the discount factor. These norms will empower banks in asset sale. It will thereby spur distress asset sale transactions as well as result in more deal certainty for buyers.

ARCs have come a long way since their introduction in India. They were introduced under the SARFAESI Act of 2002, which empowered them to take over NPAs and enforce security of the loan without intervention of the court. The regulatory environment has witnessed a gradual transition to facilitate ARCs to play a crucial role in the financial sector and create an active market for distressed asset transactions. Even though steps have been taken, the key challenges of capital constraints and valuation mismatch between banks and ARCs have historically resulted in muted growth in distressed asset sale transactions.

Interest from foreign shores in the ARC market landscape has been growing with many global investors participating in India's distressed debt market space. Recent regulatory changes – allowing 100 per cent FDI in ARCs – and revised guidelines to incentivise proactive sale of stressed assets are expected to further boost the participation of ARCs in the revival of stressed assets.

IMPACT OF DEMONETISATION

Prime Minister Narendra Modi's surprise announcement to scrap ₹500 and ₹1,000 notes may have spiraled a sense of panic and confusion across the country, but it may help banks in resolving their bad loan problem. Even though in a limited manner, there have been instances post November 8, where defaulters are using old notes to settle their overdue debts with the bank. This could set the pace for some good recoveries.

WAY FORWARD

The first step in the direction of addressing the growing debt pile in Indian banks has already been taken by the RBI. Proper implementation of these measures along with the newly ushered Insolvency and Bankruptcy Code, 2016, will give more power to lenders to resolve the distressed assets situation, and is expected to lead to time-bound recovery from stressed assets. ◆

Naresh Makhijani is Partner & Head, Financial Services and Shailen Shah is Director, Deal Advisory at KPMG in India). Views are personal

INDIA'S BEST BANKS

JINXED!

RBI's one-size-fits-all strategic debt restructuring scheme is turning out to be a damp squib.

By Anand Adhikari

A year ago, lenders to engineering and construction major Gammon India Ltd invoked the Strategic Debt Restructuring (SDR) mechanism. A total of 16 banks, led by ICICI Bank, decided to convert a part of their loan into 63.07 per cent equity. The SDR Scheme, an improved version of the erstwhile Corporate Debt Restructuring, or CDR, mechanism, gives lenders sweeping powers to throw out managements of companies whose assets have turned bad. The bankers, however, could not find a buyer for the entire Gammon India and instead decided to restructure it into three parts — power transmission & distribution (T&D), engineering, procurement & construction (EPC), and the residual business. The Thailand-based GP Group has shown interest in the EPC assets while Ajanma Holdings is keen to buy a stake in the T&D business. The banks are fine with these offers. After all, their 80 per cent exposure is getting transferred to these two companies. Gammon India, too, is relieved, as most of its debt is going away with the EPC business.

AJAY THAKURI

Gammon India is among close to two dozen companies where bankers have invoked the SDR Scheme, launched 18 months ago to make the process of debt recovery faster and smoother. The list includes Alok Industries, Usher Agro, Diamond Power, Monnet Ispat, Jaiprakash Power and IVRCL. However, the scheme, like its earlier avatars, has found little success due to its rigid framework, and Gammon India is probably the only case where banks are hopeful of a turn in fortunes. At stake is ₹1,00,000 crore debt where banks have invoked SDR. So, what went wrong? Several things, say experts.

One, the bankers triggered SDR in a hurry, without proper documentation or forensic audit. "They did not prepare themselves," says a private banker. This is evident in case of Jyoti Structures, a mid-sized company where banks, led by State Bank of India, or SBI, invoked SDR but decided to approach buyers without converting their debt into equity. They thought the buyer would just lap up the company. They were wrong. The deal didn't go ahead due to pricing and other issues. The 18-month

ARUNDHATI BHATTACHARYA, CHAIRMAN, SBI

"We have seen people back out at the last minute. Some buyers believe there could be hidden liabilities."

ROADBLOCKS

- Some existing loan agreements do not allow conversion of debt into equity
- Delay in shareholders' approval for increasing the capital base
- Consortium of bankers takes time to clear the SDR package
- Promoters create roadblocks by approaching BIFR
- Unsecured creditors demand their pound of flesh and file petitions

SDR period will lapse in February. In the last one year, Jyoti Structures' losses have risen to 40 times its equity.

Experts say the problem starts at the loan documentation stage itself, which is why in many cases where there is no provision for conversion of loan into equity, the bankers are in the process of creating fresh documentation. "We cannot enforce (the change) if the company doesn't agree with the new terms," says K. Wadhwa , General Manager (Stressed Assets), Dena Bank.

Also, banks get 210 days to convert debt into equity. Here, too, the companies obstruct the process of increasing authorised capital, getting board approval, etc. In the ABG Shipyard case, for instance, shareholders rejected the conversion of debt into equity. ABG has now given the task of finding a strategic investor to investment banker Rothschild. The promoters' resistance to taking new investors on board is also a hurdle. In some cases, unsecured creditors try to thwart the process. In the Usher Agro case, two parties bombarded the company with winding-up petitions for recovery of dues. "These winding-up petitions run concurrently with the SDR process. There may be examples where bankers have to resolve these cases before the sale," says a lawyer.

Another issue is confusion due to the lack of a unified law/framework to deal with the problem. Alok Textile, for instance, is precariously placed for recommendation to the Board for Industrial & Financial Reconstruction, or BIFR, as a sick company. If it is admitted into BIFR, the SDR process could be stopped, though a banker in know of the developments says the company's entire net worth has not been eroded, a prerequisite for being admitted as a BIFR case. "They have not sought BIFR protection so far," he says.

THE CDR WAY?

Expert says the SDR Scheme could go the way of the CDR Scheme and fail to resolve the problem of stressed assets. Under CDR, banks used to accept a moratorium on interest payments and longer period for payment of the principal. Investment banking firm RBSA Advisors said in a recent report that the CDR of 44 firms with a debt of ₹27,015 crore failed in 2014/15. "Only five firms with a total debt of ₹1,399 crore managed to exit the CDR successfully," says the report.

Another issue is bankers' limitations as managers of diverse companies. "Do banks have time, energy and experience to turn around a stressed company?" asks a consultant. "Banks have converted debt into equity without any realistic assessment of how sustainable is the debt," says Abizer Diwanji, Head, Financial Services, EY India. The sustainability of debt, in fact, is a major roadblock, as many stressed asset funds want the lever-

SDR COULD FOLLOW CDR

Over 30 per cent approved corporate debt restructurings have failed

YEAR	FAILURE*	FAILURE RATE (%)
Mar-14	30,000	25.5
Jun-14	38,700	26.7
Sep-14	47,000	28.5
Dec-14	50,100	29.8
Mar-15	57,000	31.1
Jun-15	67,700	33.6
Sep-15	76,300	35.7

*Refers to total debt (₹crore); Source: CDR, RCML Research

ABIZER DIWANJI, HEAD, FINANCIAL SERVICES, EY INDIA

"The banks have converted the debt into equity without any realistic assessment of how sustainable is the debt."

age issue to be sorted out before they go ahead with the deal. SBI Chairperson Arundhati Bhattacharya says not many buyers are showing interest. "We have seen people back out at the last minute. Some buyers believe there could be hidden liabilities," she says.

In companies under SDR, bankers are actually retaining promoters and appointing concurrent auditors. "The change of management is not very easy in the Indian context," says Saurabh Tripathi, Senior Partner and Director at Boston Consulting India.

Some bankers complain that the RBI's one-size-fits-all approach doesn't work in the real world. "The RBI has given strong frameworks that few companies fit in. As a result, we are not able to do much," says Bhattacharya. Bankers are also reluctant to stray away from the regulations due to fear over inquiries by the Vigilance Department. "The real problem with SDR is that you have to cut a deal and a deal is fundamentally a judgment call. And a judgment call cannot be rule-based, and if it not rule-based, the public sector banks cannot feel safe," says Tripathi of Boston Consulting.

A former colleague of Bhattacharya who handled stressed assets at SBI says every company's problem is different. "If it was easy, the problem would have been solved earlier," says M.G. Vaidyan, a former Deputy Managing Director at SBI.

In many cases, the companies are facing temporary problems due to issues such as weak demand, cheap imports and overcapacity. In such a case, changing the management won't yield results. In many power companies, for example, the plant is ready but electricity boards are not signing power purchase agreements as electricity is available at lower prices on exchanges. "Nobody is thinking about innovative financial structures in terms of how to deal with business cycles," says Diwanji of EY India.

So, what's the solution? "The only way out is to take out all the bad debt from banks and park it in a separate vehicle in which all bank are stakeholders," says Boston Consulting's Tripathi. Arun Tiwari , Chairman and Managing Director, Union Bank of India, is optimistic. "The environment is challenging but I'm sure things will improve once the economy picks up," he says.

However, for the time being, banks are staring at losses. They get 18 months to exit the SDR Scheme. For the earliest cases, the period will start ending in the next six months and banks will have to make mark-to-market provisions for any diminution in the value of equity acquired under the SDR Scheme.

Maybe things will worsen before they improve.◆

@anandadhikari

"Narendra Modi has not become PM for the sake of cutting ribbons. He has got this massive mandate to transform India."

Ravi Shankar Prasad - Minister of Law & Justice, Electronics and IT, Govt. of India

"We are in the middle of a bull market which would probably last a few years. People who are patient will come out winners in the stockmarket."

Ridham Desai - MD, Morgan Stanley India

"Only 1 per cent people in India pay taxes. The digital push will curb the black money and help the formal economy grow. This will lead to money going into areas such as health, education and rural."

Amitabh Kant - CEO, NITI AAYOG

"Negotiate interests, not positions. When you shift the conversation, the options to solve problems go up."

Deepak Malhotra - Professor, Harvard Business School

"Imagine a world in which every single person on the planet is given free access to the sum of all human knowledge."

Jimmy Wales - Wikipedia Founder & Internet Entrepreneur

"Our business mantra is: Solve the problems of people, and they will reward you with success."

Acharya Balkrishna - MD, Patanjali Ayurved

SHEKHAR GHOSH

SHASHI ARORA, CEO AND MD,
AIRTEL PAYMENTS BANK

NEW-AGE BANKING

Payments banks can succeed with allied financial products and a strong distribution network provided they avoid falling into the trap of misselling.

By Manu Kaushik

Kamal Kaushik has been running a mobile shop in Jaipur's Shastri Nagar area for over 15 years. After Prime Minister Narendra Modi announced demonetisation of high-value currency notes on November 8, his business was hit. Daily sales dipped from ₹20,000 to ₹12,000. In late November, when Airtel launched its payments bank — the first such bank in the country — in Rajasthan, he got a leg-up. His outlet can also act as a branch of the new bank.

Now, he can offer something extra to his customers, who are still cautious about spending money on phone recharges and mobile devices. The account opening is free and quick. Customers pay him cash, the amount is deposited into their savings accounts, and they can spend as much as they want to. The amount earns 7.25 per cent interest. Airtel has sweetened the offer further by giving free calling minutes for every rupee deposited in the account.

Kaushik says while he operates the Paytm merchant account, too, the Airtel account gives more benefits. For instance, he gets a 0.15 per cent fee for every cash transaction – deposits and withdrawals – done by the customer. Also, there is no cost for transferring money from the Airtel merchant account to his Vijaya Bank account. "The Paytm transfer is free for the time being. In a few weeks, it is going to cost something," he says, adding that he has opened close to 150 accounts till date.

'Payments banks' is the latest buzzword in banking circles, the next big thing, something that has the potential of giving wings to the government's ambitious financial inclusion targets. The Reserve Bank of India, or RBI, has given 11 entities approval in principle to open these banks. So far, Airtel has launched in four states – Rajasthan, Andhra Pradesh, Telangana and Karnataka. It plans to roll out the service in 29 states over the next few days.

The idea behind these new-age banks is revolutionary — to provide financial services to the remotest corners of the country, something that the traditional banking model has failed to do. According to the RBI, the country had 2,15,039 ATMs as of June last year. The number of bank branches was even less – close to 1.3 lakh. As a result, a vast majority of the country is still unbanked and relies on informal credit that comes at a high cost. Telecom services, on the other hand, have near universal penetration — the total subscriber base is one billion-plus. The plan is to ride piggyback on the distribution network of telecom providers/retailers to provide banking services to those in lower income groups.

Airtel alone, for example, has 1.5 million retail outlets that can double up as bank branches. Seamless connectivity ensures a person can transact at any outlet associated with his bank in any corner of the country.

The services of payments banks can also be accessed on feature phones via USSD (quick codes such as *400#) and IVR (interactive voice response) options in 12 languages. This is a big plus as the number of smartphone users in India is only about 35 per cent of the total mobile ownership.

For now, these banks are expected to offer plain vanilla services such cash withdrawal and deposit. Customers can also use payments bank accounts to pay utility bills and buy train/bus tickets, etc, apart from online fund transfers. Airtel has tied up one million merchants for now; it aims to reach the three million figure by January-end.

Shashi Arora, CEO and MD, Airtel Payments Bank, says, "The purpose is to increase financial inclusion. There are over 233 million unbanked people in India."

Airtel says its strength lies in its strong retail network and customer base. At present, it has over 250 million subscribers, of which more than 90 per cent use the pre-paid service and frequently visit the retailer network for top-ups. "Almost 80-85 per cent of India's population has SIM cards but not necessarily a banking relationship," says Arora.

However, there are some concerns as well. The RBI has capped the deposit limit at ₹1 lakh to ensure that payments bank don't start servicing the urban/affluent customers whose banking needs have already been met. Also, to reduce risk, it has not given them permission to lend.

While the ease of access makes payments banks a strong competition to existing banks and mobile wallets, their long-term viability is still under question as the business model is yet to develop. At present, the banks can invest at least 75 per cent deposits in statutory liquidity ratio government securities or treasury bills with maturity of up to one year. These are low-income generating securities. Besides, these banks can earn a fee on cash withdrawal by customers and online fund transfers between them and other banks. For cash withdrawals, Airtel is charging 0.65 per cent, of which 0.15 per cent goes to the retailer (retailers earn 0.15 per cent from cash deposits too). Experts say payments banks will have to look beyond core banking to generate income.

Sucharita Mukherjee, CEO, IFMR Holdings, says payments bank can do a lot more after they build a customer base. For instance, she says, insurance penetration in India is just 2-3 per cent. This can be a great opportunity. "The opportunities are huge. They can sell mutual funds, insurance and pension schemes. Over a period of time, the data with these banks will also be valuable," she says.

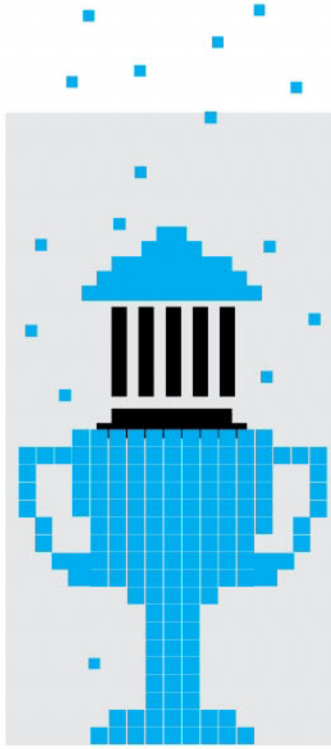
Airtel's Arora says that they will get into referral lending tie-ups with other banks and non-banking financial companies at some point. "We are also looking at bancassurance," he says.

It seems the next big thing in banking has gone off to a good start, though it is too early to say if it will be as successful as is being hoped. In the last decade, microfinance institutions were deemed as the new frontier of financial inclusion. The high interest rates and poor lending practices led to their fall. In a highly competitive market, the payments banks are prone to misselling of products. The regulator has to keep a close watch so that they don't indulge in forced selling of products that consumers may not need.◆

@manukaushik

THE STORY SO FAR

- Payments bank licences given by RBI in August 2016.
- These banks can accept deposits of up to ₹1 lakh. They will work like normal banks, except that they cannot lend money.
- Payments banks are allowed to invest at least 75 per cent demand deposits in SLR-eligible government securities or treasury bills with maturity up to one year.
- Just like pre-paid phone recharges, customers can deposit and withdraw money through retail outlets. They can also use their accounts to pay merchants.
- The payments banks will have to rely on allied financial products such as mutual funds and insurance to generate profits. The core banking business is unlikely to be profitable.



BANK OF THE YEAR • Private Sector Banks

SHORTLIST	GROWTH IN DEPOSITS	GROWTH IN OPERATING PROFIT	NET NPAS*	COST TO INCOME RATIO	ROCE	CAPITAL ADEQUACY
HDFC Bank	21.21%	22.75%	0.28%	0.44	18.26%	15.53%
ICICI Bank	16.56%	21.01%	2.98%	0.35	11.43%	16.64%
Axis Bank	11.02%	20.31%	0.80%	0.39	16.81%	15.29%

BANK OF THE YEAR • Public Sector Banks

SHORTLIST	GROWTH IN DEPOSITS	GROWTH IN OPERATING PROFIT	NET NPAS*	COST TO INCOME RATIO	ROCE	CAPITAL ADEQUACY
SBI	9.76%	9.41%	3.81%	0.49	7.30%	13.12%
PNB	10.31%	2.19%	8.86%	0.45	-10.27%	11.28%
Bank of Baroda	-7.05%	-11.09%	5.06%	0.5	-13.48%	13.17%

*Net NPA to Net Advances

BANKER OF THE YEAR

SHORTLIST	ARUNDHATI BHATTACHARYA, Chairman, State Bank of India	ADITYA PURI, MD, HDFC Bank	ROMESH SOBTI, MD & CEO, IndusInd Bank
HIGHLIGHTS	Faster digital roll-out; aggressively used ARC and SDR to resolve bad assets; HR reforms	Big push in rural and semi-urban areas; digital banking initiatives; lowest NPAs; biggest market cap gainer	Innovations in retail banking; appointed a competent senior management team to transform the bank; diversified the retail book
CHALLENGES	Legacy issues in terms of people and technology; merger of five associate banks and Mahila Bank; deteriorating asset quality	Competition from new small finance banks in rural areas; poaching ground for new banks; mid-level exits	Still a mid-size bank; not capable of exploiting opportunities in the financial services domain

BEST BANK • Digital

SHORTLIST	INITIATIVE	SCOPE	ADOPTION	IMPACT
Axis Bank	Axis Mobile's range of offerings competes with digital wallets	Over 39 lakh mobile banking users	Over 100% increase in number of users	Over 80 lakh transactions; ₹7,500 crore worth of transactions in 2015/16
Kotak Bank	Kotak Now app enables hassle-free opening of account on mobile	Accessible to anyone with a smartphone	Allows opening an account without biometric or any other physical interaction	A path-breaking step in making banking truly digital
SBI	Launched SBI digital village	A big initiative to create a cashless ecosystem in villages	Adopted 21 villages across India	Supports the government's digital India initiative for a cashless society

BEST BANK • Financial Inclusion

SHORTLIST	INITIATIVE	SCOPE	ADOPTION	IMPACT
Bandhan Bank	The entire business model is focused towards serving the poor and the marginalised	A large part of the population in unbanked	A majority of its branches are coming up in rural and semi-urban areas with small loan products	Disbursed over ₹19,000 crore worth of loans
SBI	Extended its online application facilities to all its saving bank products; set up 232 financial literacy centres in rural areas	Opened 9.3 crore financial inclusion accounts	Processed 13 crore subsidy transactions in 2015/16	Significantly increased the financial inclusion of customers in under-banked areas
PNB	Actively participated in PMJDY (Pradhan Mantri Jan-Dhan Yojana) – a government initiative for financial inclusion	Surpassed PMJDY targets by opening 13.1 million accounts	Over 20 lakh accounts opened through e-KYC	Ranked by government as the first bank in deposit mobilisation through PMJDY accounts, and second in overall implementation

Source: KPMG and BT Research; Figures for 2015/16

GROUP-I LARGE INDIAN BANKS with balance sheet size more than or equal

RANKS 2015/16	2014/15	BANK	GROWTH (%) Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Absolute Increase in Mkt. Share (basis points)@ Deposits	Absolute Increase in Mkt. Share (basis points)@ CASA	SIZE (₹ CR) Deposits	Operating Profit	Balance Sheet
1	1	HDFC Bank	21.21 1	22.64 1	27.11 1	24.68 1	17.71 4	15.01 5	22.75 1	23.19 1	0.25 1	0.34 1	5,46,424.19 4	21,363.54 3	7,08,845.57 3
2	2	ICICI Bank	16.56 2	12.93 2	12.32 4	14.46 3	9.59 6	10.97 6	21.01 2	21.82 2	0.04 2	0.21 2	4,21,425.71 7	23,863.53 2	7,20,695.10 2
3	3	Axis Bank	11.02 3	12.32 4	20.52 2	19.81 2	9.06 7	9.33 7	20.31 3	20.07 3	-0.13 3	0.18 3	3,57,967.56 8	16,103.61 4	5,23,770.02 8
4	4	State Bank of India	9.76 5	12.90 3	12.59 3	11.86 4	25.52 2	17.52 2	9.41 4	11.65 4	-0.80 10	0.00 5	17,30,722.44 1	43,257.81 1	22,59,063.03 1
5	7	Punjab National Bank	10.31 4	12.20 5	8.35 5	10.12 7	33.37 1	19.36 1	2.19 6	3.85 6	-0.23 5	-0.07 7	5,53,051.13 3	12,216.35 5	6,67,390.46 5
6	8	Canara Bank	1.26 10	10.47 7	-1.61 9	10.27 6	19.42 3	16.98 3	2.82 5	6.66 5	-0.62 9	-0.14 11	4,79,791.56 6	7,146.66 7	5,52,960.78 7
7	5	Bank of Baroda	-7.05 12	6.60 10	-10.35 11	5.35 10	7.14 9	5.06 8	-11.09 9	-0.68 9	-1.28 12	-0.96 12	5,74,037.87 2	8,815.58 6	6,71,376.48 4
8	9	Union Bank of India	8.16 6	9.12 9	4.58 6	8.71 8	-5.63 11	4.68 9	-3.11 7	0.36 7	-0.21 4	0.18 4	3,42,720.01 9	5,642.62 9	4,04,695.90 9
9	10	IDBI Bank	2.26 9	5.37 12	3.61 7	3.22 11	11.72 5	-2.84 10	-6.25 8	-0.54 8	-0.31 8	-0.14 10	2,65,719.83 11	5,370.07 10	3,74,372.13 10
10	6	Syndicate Bank	2.49 8	12.19 6	-0.67 8	10.92 5	8.82 8	15.32 4	-16.99 10	-1.20 10	-0.30 7	-0.12 9	2,61,735.34 12	3,326.55 11	3,07,967.44 11
11	11	Bank of India	-3.55 11	10.34 8	-10.66 12	7.47 9	-13.42 12	-5.45 12	-19.39 11	-6.81 12	-0.93 11	-0.04 6	5,13,004.52 5	6,035.62 8	6,09,913.93 6
12	12	Central Bank of India	4.15 7	5.60 11	-4.49 10	1.54 12	2.88 10	-3.35 11	-25.74 12	-5.91 11	-0.26 6	-0.12 8	2,66,184.19 10	2,642.94 12	3,05,466.10 12

GROUP-II MID-SIZED INDIAN BANKS with balance sheet size more than

RANKS 2015/16	2014/15	BANK	Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Mkt. Share Deposits	Mkt. Share CASA	Size Deposits	Operating Profit	Balance Sheet
1	1	YES Bank	22.53 3	18.61 3	29.99 2	27.85 2	25.23 5	33.59 2	32.40 4	26.18 2	0.06 3	0.22 2	1,11,719.53 13	4,302.50 1	1,65,263.41 9
2	3	IndusInd Bank	25.45 2	19.78 2	28.54 3	25.89 3	34.88 1	33.79 1	33.67 3	31.04 1	0.07 2	0.12 3	93,000.35 16	4,141.42 2	1,40,056.99 12
3	2	Kotak Mahindra Bank	85.20 1	39.54 1	79.36 1	34.78 1	33.66 2	30.62 3	34.82 2	23.28 3	0.49 1	0.64 1	1,38,643.02 9	4,041.09 4	1,92,259.79 8
4	4	Andhra Bank	12.44 5	12.08 5	3.84 7	9.96 5	28.21 4	16.46 5	20.06 7	12.69 4	-0.04 7	-0.07 13	1,74,302.40 7	3,960.00 5	1,99,961.76 7

Three-year growth is Compound Annual Growth Rate (CAGR); Values in each parameter are rounded off; NPA: Non-performing assets; CASA: Current Account Savings Account; CAR: Capital adequacy ratio; ROCE: Return on capital employed; NIM: Net interest margin; *RA: Restructured assets/Total average loans and advances; ORA: Outstanding restructured assets; @ Rankings are based on the next decimal place number; For explanation of parameters and how total score was arrived at, see *How We Did It*, page 92. NIM parameter was added in the 2016 survey

to ₹3,00,000 crore

STRENGTH: QUALITY OF ASSETS					PRODUCTIVITY & EFFICIENCY				QUALITY OF EARNINGS				CAPITAL ADEQUACY		
Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/ Avg. Loans*@ (%)	ORA/ Outstanding Loans and Advances (%)	Cost/ Income Ratio	Cost/ Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE▼
1.38 1	69.94 1	0.28 1	0.01 1	0.11 1	0.44 4	2.61 12	0.00005 1	-0.61 5	1.89 1	12.18 2	18.26 1	4.58 1	15.53 2	13.22 1	1,045.25
4.06 3	50.56 4	2.98 3	0.56 5	4.54 5	0.35 1	1.82 8	-0.003 5	8.93 1	1.39 3	11.30 3	11.43 3	3.34 3	16.64 1	13.09 2	970.75
2.37 2	55.74 2	0.80 2	0.92 9	3.80 3	0.39 2	2.05 10	-0.0002 2	4.74 2	1.67 2	13.76 1	16.81 2	3.64 2	15.29 3	12.51 3	924.00
4.65 4	43.15 5	3.81 4	0.01 2	0.30 2	0.49 6	1.94 9	-0.002 4	-0.21 4	0.46 4	10.72 4	7.30 4	2.82 4	13.12 5	9.92 5	906.50
10.66 12	35.57 10	8.86 12	0.97 10	7.75 10	0.45 5	1.57 5	-0.01 9	-1.75 6	-0.63 9	9.82 5	-10.27 8	2.38 6	11.28 7	8.41 8	650.25
7.55 8	33.96 11	6.42 8	0.91 8	6.75 8	0.51 8	1.36 3	-0.01 7	1.57 3	-0.51 7	6.45 7	-8.86 7	1.79 11	11.08 9	8.80 7	606.00
6.86 7	52.11 3	5.06 6	0.73 6	7.56 9	0.50 7	1.29 2	-0.01 10	-14.16 9	-0.78 10	5.14 9	-13.48 10	1.78 12	13.17 4	10.79 4	569.63
4.95 5	41.97 6	5.25 7	0.75 7	6.59 6	0.53 9	1.60 6	-0.001 3	-3.71 7	0.34 5	4.85 11	6.34 5	2.18 7	10.56 10	8.14 10	558.88
9.00 10	40.77 7	6.78 9	3.01 12	11.35 12	0.43 3	1.13 1	-0.01 11	-4.14 8	-1.00 12	7.55 6	-14.08 11	1.88 10	11.67 6	8.89 6	466.00
6.04 6	33.77 12	4.48 5	0.35 4	4.16 4	0.61 11	1.69 7	-0.01 8	-23.39 11	-0.54 8	5.74 8	-12.58 9	2.06 8	11.16 8	7.75 11	437.50
9.07 11	40.09 8	8.32 11	1.48 11	6.68 7	0.61 10	1.52 4	-0.01 12	-15.47 10	-0.99 11	4.89 10	-19.10 12	1.96 9	0.12 12	0.09 12	334.25
8.22 9	36.26 9	7.36 10	0.23 3	9.49 11	0.71 12	2.06 11	-0.01 6	-24.47 12	-0.36 6	3.96 12	-6.27 6	2.47 5	10.41 11	8.20 9	331.00

₹1,00,000 crore and less than ₹3,00,000 crore

Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/ Avg. Loans*@ (%)	ORA/ Outstanding Loans and Advances (%)	Cost/ Income Ratio	Cost/ Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE▼
1.05 1	62.02 1	0.29 1	0.72 7	0.32 1	0.41 1	1.97 15	0.001 2	10.99 5	1.68 2	15.20 2	19.94 1	3.25 3	16.50 1	10.70 4	1,418.50
1.08 2	58.58 2	0.36 2	0.26 2	0.61 2	0.47 4	2.92 16	0.0003 3	9.97 6	1.82 1	15.49 1	16.14 2	3.93 2	15.50 3	14.92 2	1,375.75
3.10 4	55.54 3	1.06 3	0.93 10	0.94 3	0.58 15	3.67 17	-0.007 14	-16.62 14	1.40 3	9.97 3	10.97 4	4.95 1	16.34 2	15.28 1	1,233.88
4.93 7	47.26 4	4.61 8	1.92 16	8.71 11	0.42 2	1.52 6	-0.001 7	11.74 4	0.28 8	6.25 9	5.13 8	2.86 5	11.58 8	8.81 10	1,137.13

GROUP-II MID-SIZED INDIAN BANKS with balance sheet size more than

RANKS 2015/16	2014/15	BANK	GROWTH (%) Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Absolute Increase in Mkt. Share (basispoints)@ Deposits	Absolute Increase in Mkt. Share (basispoints)@ CASA	SIZE (₹ CR) Deposits	SIZE (₹ CR) Operating Profit	SIZE (₹ CR) Balance Sheet
5	8	Indian Bank	5.35 9	7.89 9	2.53 9	6.90 10	29.29 3	5.89 10	0.61 10	-0.32 14	-0.16 11	0.02 6	1,78,285.84 6	3,032.09 9	2,03,710.38 6
6	5	State Bank of Bikaner & Jaipur	11.59 6	9.24 6	4.86 5	8.22 7	10.36 11	9.59 7	9.55 8	10.40 7	-0.03 5	-0.02 10	94,004.85 15	2,305.03 12	1,10,336.26 16
7	12	Vijaya Bank	-0.71 15	8.94 7	2.64 8	8.45 6	20.21 6	13.50 6	23.02 6	11.35 5	-0.19 12	0.00 7	1,25,440.72 10	1,548.87 15	1,45,408.74 11
8	14	State Bank of Travancore	11.03 7	6.12 12	-4.74 15	-1.01 17	18.87 7	17.53 4	31.06 5	10.00 8	-0.04 6	0.04 4	1,01,118.80 14	1,798.33 14	1,14,506.78 15
9	NA	Punjab & Sind Bank^	5.23 10	8.91 8	0.07 13	7.51 9	15.38 8	0.33 15	63.76 1	10.59 6	-0.08 8	-0.01 9	91,249.96 17	1,269.90 16	1,02,581.42 17
10	9	Bank of Maharashtra	13.82 4	13.79 4	9.09 4	12.54 4	8.20 12	3.60 13	-0.42 11	2.96 10	-0.02 4	-0.01 8	1,38,989.82 8	2,345.18 11	1,60,957.32 10
11	10	Corporation Bank	2.92 12	7.32 10	-3.27 14	5.73 11	10.49 10	5.79 12	2.23 9	0.63 12	-0.23 14	0.03 5	2,05,170.84 4	3,095.02 8	2,34,863.62 5
12	11	Oriental Bank of Commerce	2.40 13	5.90 14	2.49 10	4.91 13	-16.05 16	-4.60 16	-6.70 12	-0.08 13	-0.24 15	-0.09 15	2,08,914.82 2	3,682.07 6	2,37,541.54 3
13	13	Allahabad Bank	3.73 11	3.93 16	1.66 12	5.57 12	3.26 15	5.85 11	-7.95 13	6.95 9	-0.21 13	-0.04 11	2,00,644.40 5	4,141.00 3	2,35,828.38 4
14	7	UCO Bank	-3.37 16	6.10 13	-14.55 17	-0.62 16	-23.97 17	-6.38 17	-26.61 16	2.39 11	-0.37 16	-0.30 17	2,07,118.24 3	3,603.39 7	2,44,882.53 2
15	17	Indian Overseas Bank	-8.75 17	3.56 17	-6.34 16	0.10 14	13.91 9	8.08 9	-13.15 14	-8.90 16	-0.55 17	-0.16 16	2,24,514.24 1	2,885.46 10	2,74,436.76 1
16	18	Dena Bank	1.29 14	6.50 11	4.30 6	7.77 8	4.19 14	9.43 8	-30.44 17	-18.97 17	-0.15 10	-0.06 12	1,17,430.96 11	925.30 17	1,33,441.64 13
17	16	United Bank of India	6.97 8	4.97 15	1.94 11	-0.41 15	5.56 13	1.15 14	-25.38 15	-4.03 15	-0.08 9	-0.09 14	1,16,401.28 12	1,811.80 13	1,29,431.75 14

GROUP-III SMALL INDIAN BANKS with balance sheet size less than or

RANKS 2015/16	2014/15	BANK	Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Mkt. Share Deposits	Mkt. Share CASA	Size Deposits	Size Operating Profit	Size Balance Sheet
1	5	Karur Vysya Bank	12.06 6	9.02 8	8.24 9	9.86 7	19.76 4	17.64 3	30.97 2	13.33 5	-0.013 6	0.02 3	50,078.90 6	1,235.43 4	57,663.72 5
2	3	City Union Bank	12.81 5	10.18 7	17.21 4	11.36 5	3.47 12	6.14 10	20.30 4	16.76 4	-0.005 5	0.01 5	27,158.13 8	833.28 7	31,251.96 9
3	1	RBL Bank	42.40 1	42.92 1	46.92 1	49.32 1	28.84 1	57.99 1	50.62 1	51.27 1	0.043 1	0.03 2	24,348.65 10	542.41 9	39,161.09 7

Three-year growth is Compound Annual Growth Rate (CAGR); Values in each parameter are rounded off; NPA: Non-performing assets; CASA: Current Account Savings Account; CAR: Capital adequacy ratio; ROCE: Return on capital employed; NIM: Net interest margin;*RA: Restructured assets/Total average loans and advances; ORA: Outstanding restructured assets; @Rankings are based on the next decimal place number; For explanation of parameters and how total score was arrived at, see *How We Did It*, page 92. NIM parameter was added in the 2016 survey; ^Banks have come from Small Indian Banks to Mid-size; NA: not applicable

₹1,00,000 crore and less than ₹3,00,000 crore

STRENGTH: QUALITY OF ASSETS					PRODUCTIVITY & EFFICIENCY				QUALITY OF EARNINGS				CAPITAL ADEQUACY		
Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/ Avg. Loans*@ (%)	ORA/ Outstanding Loans and Advances (%)	Cost/ Income Ratio	Cost/ Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE▼
4.48 6	33.16 11	4.57 6	0.93 9	6.97 9	0.51 9	1.61 9	-0.002 10	-3.91 11	0.36 5	6.44 8	4.58 9	2.31 11	13.20 4	12.08 3	992.00
3.82 5	44.34 5	2.75 4	1.24 15	8.19 10	0.47 6	1.93 14	0.0001 4	2.17 7	0.80 4	7.36 5	13.34 3	3.20 4	10.44 14	8.34 13	953.38
6.64 9	28.71 17	4.81 9	0.01 1	2.42 4	0.57 14	1.45 4	-0.0005 6	24.87 3	0.27 9	4.89 13	5.54 7	2.04 15	12.58 5	9.45 5	946.63
7.80 14	39.68 6	2.77 5	0.74 8	6.53 8	0.51 10	1.73 12	-0.0002 5	28.94 2	0.31 7	7.50 4	5.75 6	2.46 8	11.60 7	9.19 7	933.75
3.07 3	29.95 16	4.61 7	0.61 4	6.32 7	0.52 13	1.38 3	0.002 1	60.11 1	0.34 6	3.26 16	5.81 5	2.32 10	10.91 12	9.29 6	895.88
5.55 8	32.98 13	6.35 10	0.67 6	6.31 6	0.52 12	1.66 10	-0.002 9	-3.26 9	0.07 11	5.55 11	1.19 10	2.67 6	11.20 9	9.02 9	886.75
7.42 11	36.29 9	6.53 12	1.01 12	9.70 13	0.48 7	1.25 2	-0.005 12	1.71 8	-0.22 12	6.52 7	-4.64 12	1.96 16	10.56 13	7.93 14	816.13
7.05 10	32.38 15	6.67 13	1.12 14	13.04 16	0.48 8	1.48 5	-0.001 8	-5.60 12	0.07 10	5.34 12	1.08 11	2.44 9	11.76 6	9.10 8	814.00
8.55 15	33.10 12	6.75 14	1.04 13	5.47 5	0.47 5	1.59 8	-0.01 13	-3.75 10	-0.32 14	6.20 10	-5.37 14	2.66 7	11.02 10	8.41 12	788.50
10.94 16	38.27 8	9.09 16	0.66 5	10.37 14	0.44 3	1.16 1	-0.02 17	-22.23 16	-1.14 17	2.82 17	-22.33 17	2.11 12	9.63 17	7.63 17	572.63
12.63 17	32.43 14	11.94 17	0.40 3	10.71 15	0.64 16	1.80 13	-0.01 15	-13.05 13	-1.04 16	6.98 6	-18.51 16	2.042 13	9.66 16	7.75 16	535.00
7.56 13	38.81 7	6.35 11	0.96 11	9.25 12	0.71 17	1.72 11	-0.009 16	-29.69 17	-0.71 15	4.70 14	-12.83 15	2.038 14	11.00 11	8.59 11	507.13
7.43 12	35.39 10	8.98 15	2.00 17	15.18 17	0.52 11	1.53 7	-0.004 11	-21.95 15	-0.22 13	4.45 15	-4.64 13	1.92 17	10.08 15	7.93 14	490.50

equal to ₹1,00,000 crore

Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/ Avg. Loans*@ (%)	ORA/ Outstanding Loans and Advances (%)	Cost/ Income Ratio	Cost/ Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE
3.01 6	55.75 1	0.55 1	0.87 12	3.48 9	0.50 4	2.26 9	0.001 1	27.27 1	1.02 4	9.07 2	12.87 3	3.38 4	12.17 7	11.26 5	941.63
2.20 4	36.46 9	1.53 6	0.53 8	1.37 3	0.40 1	1.89 3	0.0001 4	11.29 2	1.50 1	8.48 4	15.47 2	3.36 5	15.58 1	15.09 1	927.63
1.12 2	40.19 7	0.59 2	0.00 1	0.44 1	0.59 11	2.32 10	-0.0002 6	9.72 3	0.88 5	10.82 1	11.21 6	2.55 10	12.94 4	11.10 6	915.75

GROUP-III SMALL INDIAN BANKS with balance sheet size less than or

RANKS 2015/16	RANKS 2014/15	BANK	GROWTH (%) Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Absolute Increase in Mkt. Share (basispoints)@ Deposits	Absolute Increase in Mkt. Share (basispoints)@ CASA	SIZE (₹ CR) Deposits	Operating Profit	Balance Sheet
4	NA	Tamilnad Mercantile Bank#	18.40 2	14.51 4	16.77 5	11.57 4	17.27 6	5.99 11	19.46 5	1.70 7	0.008 2	0.01 8	30,368.87 7	725.56 8	35,266.31 8
5	4	DCB Bank	18.37 3	21.30 2	23.47 2	25.19 2	25.70 3	18.91 2	25.80 3	40.39 2	0.004 3	0.00 9	14,925.99 11	349.03 11	19,118.52 11
6	7	Karnataka Bank	9.74 8	11.88 5	7.02 10	10.38 6	25.79 2	12.99 5	10.49 6	10.38 6	-0.024 9	0.01 6	50,488.21 5	854.53 6	56,500.33 6
7	2	Federal Bank	11.78 7	11.18 6	13.27 6	9.62 8	5.95 11	12.31 7	-12.53 11	-0.71 9	-0.023 8	0.04 1	79,171.71 1	1,423.78 2	91,430.03 1
8	6	Lakshmi Vilas Bank	15.78 4	17.64 3	20.13 3	18.84 3	7.39 10	12.93 6	8.15 7	17.47 3	0.001 4	0.01 7	25,430.96 9	407.12 10	28,732.16 10
9	8	South Indian Bank	7.34 9	7.98 9	9.88 8	8.90 9	11.21 7	10.43 8	-0.31 8	1.19 8	-0.038 11	0.01 4	55,720.73 4	879.28 5	63,174.88 4
10	9	Jammu & Kashmir	5.53 11	2.61 12	12.58 7	8.59 10	-25.75 13	3.13 12	-9.15 10	-2.70 11	-0.059 13	-0.014 11	69,390.25 3	1,667.91 1	80,268.07 3
11	10	State Bank of Mysore	6.82 10	7.40 10	3.71 11	6.29 11	8.72 9	9.59 9	-5.97 9	-2.03 10	-0.052 12	-0.023 13	70,568.29 2	1,251.52 3	82,975.00 2
12	12	Dhanalakshmi Bank	-8.30 13	0.45 13	-9.35 12	-3.67 12	8.92 8	-7.06 13	-98.05 12	-78.65 12	-0.027 10	-0.016 12	11,353.76 13	0.50 12	12,462.98 13
13	13	Catholic Syrian	-0.25 12	5.37 11	-17.07 13	-3.91 13	17.65 5	14.87 4	-107.48 13	-133.24 13	-0.021 7	-0.002 10	14,438.40 12	-3.75 13	15,651.94 12

GROUP-IV LARGE FOREIGN BANKS with balance sheet size more than

RANKS 2015/16	RANKS 2014/15	BANK	Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Mkt. Share Deposits	Mkt. Share CASA	Size Deposits	Size Operating Profit	Size Balance Sheet
1	4	Barclays Bank PLC	15.97 4	44.10 2	25.03 4	25.32 2	-0.96 5	38.72 1	-1.32 6	34.38 1	0.001 4	0.001 7	15,149.73 8	840.14 7	32,532.23 8
2	3	JP Morgan Chase Bank	11.87 7	17.09 5	94.85 1	23.46 4	13.17 1	13.61 2	-6.67 8	7.13 6	-0.005 5	0.005 5	16,644.23 7	1,415.42 5	30,747.66 9
3	7	Bank of America N.A	36.00 2	20.90 4	33.28 3	17.44 5	2.16 4	7.58 3	9.52 3	14.70 3	0.018 3	0.006 4	13,038.63 9	1,214.48 6	35,353.66 7
4	2	Citibank N.A	12.71 6	14.62 8	1.07 8	5.76 8	5.20 3	6.53 4	2.13 4	12.91 4	-0.021 7	0.004 6	1,00,215.37 1	6,161.59 1	1,54,116.61 1

Three-year growth is Compound Annual Growth Rate (CAGR); Values in each parameter are rounded off; NPA: Non-performing assets; CASA: Current Account Savings Account; CAR: Capital adequacy ratio; ROCE: Return on capital employed; NIM: Net interest margin;*RA: Restructured assets/Total average loans and advances; ORA: Outstanding restructured assets; @Rankings are based on the next decimal place number; For explanation of parameters and how total score was arrived at, see *How We Did It*, page 92. NIM parameter was added in the 2016 survey; # New bank in 2015/16 survey; NA: not applicable;

equal to ₹1,00,000 crore

STRENGTH															
QUALITY OF ASSETS					PRODUCTIVITY & EFFICIENCY				QUALITY OF EARNINGS				CAPITAL ADEQUACY		
Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/ Avg. Loans*@ (%)	ORA/ Outstanding Loans and Advances (%)	Cost/ Income Ratio	Cost/ Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE▼
2.49 5	52.08 3	0.89 4	0.00 1	3.16 7	0.47 2	2.16 8	-0.001 8	4.63 4	1.36 2	7.16 8	16.20 1	3.76 1	12.76 5	12.16 4	883.00
1.93 3	49.10 4	0.75 3	0.0003 3	0.92 2	0.58 10	2.79 12	-0.002 11	4.11 5	1.10 3	8.55 3	11.52 5	3.73 3	14.11 2	12.79 3	848.88
3.43 8	31.42 10	2.35 8	2.04 13	5.33 11	0.54 5	1.83 1	-0.001 9	3.91 6	0.77 6	8.16 5	11.73 4	2.59 9	12.03 8	10.56 8	743.50
3.47 9	42.00 6	1.64 7	0.14 6	2.06 4	0.57 7	2.14 7	-0.01 13	-14.92 11	0.55 8	6.20 9	6.01 11	3.08 6	13.93 3	13.36 2	741.75
1.09 1	29.00 11	1.18 5	0.71 11	5.05 10	0.57 8	2.03 5	0.001 2	-5.94 9	0.67 7	8.06 6	10.86 7	2.54 11	10.67 11	8.69 12	673.13
4.10 10	22.70 12	2.88 10	0.63 10	3.39 8	0.57 6	1.88 2	0.0001 3	-5.09 7	0.55 9	5.53 11	8.96 8	2.69 8	11.82 9	9.83 9	664.50
5.03 12	48.34 5	4.31 12	0.57 9	6.45 13	0.48 3	1.98 4	-0.002 10	-5.34 8	0.53 10	4.55 13	6.64 10	3.76 2	11.81 10	10.60 7	602.50
6.74 13	37.91 8	4.18 11	0.28 7	5.60 12	0.57 9	2.06 6	-0.001 7	-8.70 10	0.44 11	7.82 7	7.03 9	2.80 7	12.43 6	9.28 11	581.13
3.43 7	55.72 2	2.78 9	0.02 5	2.08 5	1.00 12	2.84 13	0.00002 5	-97.91 12	-1.56 13	5.08 12	-34.01 13	2.46 12	7.51 13	6.12 13	305.25
4.65 11	21.96 13	4.40 13	0.01 4	3.01 6	1.01 13	2.75 11	-0.01 12	-107.88 13	-0.95 12	5.55 10	-16.81 12	2.10 13	10.55 12	9.76 10	273.25

₹25,000 crore

Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/ Avg. Loans*@ (%)	ORA/ Outstanding Loans and Advances (%)	Cost/ Income Ratio	Cost/ Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE
0.02 4	99.69 4	0.003 4	0.00 1	0.00 1	0.32 2	1.21 2	0.002 3	-3.54 6	1.47 5	10.36 2	8.02 7	4.13 5	18.82 1	18.24 1	603.25
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.14 1	0.80 1	-0.01 8	-7.63 9	2.37 1	7.60 6	10.52 5	3.56 6	17.47 3	16.94 2	588.00
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.33 3	1.85 5	-0.001 5	-2.90 5	2.24 2	6.22 8	11.51 2	4.47 4	14.97 6	14.58 5	584.25
1.23 7	65.11 7	0.49 7	0.00 1	0.00 1	0.36 5	2.36 9	-0.004 6	-0.24 4	2.21 3	8.73 5	16.03 1	4.97 2	15.76 5	14.85 4	556.00

LARGE FOREIGN BANKS ▶

GROUP-IV LARGE FOREIGN BANKS with balance sheet size more than

RANKS 2015/16	2014/15	BANK	GROWTH (%) Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Absolute Increase in Mkt. Share (basispoints)@ Deposits	Absolute Increase in Mkt. Share (basispoints)@ CASA	SIZE (₹ CR) Deposits	SIZE (₹ CR) Operating Profit	SIZE (₹ CR) Balance Sheet
5	6	BNP Paribas	54.19 1	58.19 1	40.78 2	37.22 1	-10.87 8	-6.84 7	18.56 1	23.94 2	0.052 1	-0.0001 8	22,087.34 6	666.90 8	36,761.11 6
6	8	HSBC	3.15 9	15.64 6	17.92 6	15.47 6	-7.62 7	-5.20 6	17.75 2	1.88 7	-0.096 9	0.025 2	87,943.82 2	3,481.55 3	1,40,957.65 2
7	1	Deutsche Bank AG	13.14 5	28.10 3	19.69 5	24.57 3	-14.49 9	-0.44 5	-4.50 7	10.31 5	-0.008 6	0.036 1	43,708.79 4	2,445.42 4	69,371.26 4
8	9	DBS Bank	34.68 3	14.79 7	11.53 7	8.40 7	9.94 2	-12.86 9	0.19 5	-13.47 9	0.031 2	0.010 3	23,427.53 5	430.18 9	43,845.42 5
9	5	Standard Chartered	3.22 8	6.56 9	-2.73 9	2.41 9	-5.08 6	-8.85 8	-16.19 9	0.16 8	-0.081 8	-0.022 9	75,193.07 3	4,940.99 2	1,29,861.91 3

GROUP-V MID-SIZED FOREIGN BANKS with balance sheet size less

RANKS 2015/16	2014/15	BANK	Deposits 1-year Growth	Deposits 3-year Growth	Loans & Advances 1-year Growth	Loans & Advances 3-year Growth	Fee Income 1-year Growth	Fee Income 3-year Growth	Operating Profit 1-year Growth	Operating Profit 3-year Growth	Abs. Increase Mkt. Share Deposits	Abs. Increase Mkt. Share CASA	Size Deposits	Size Operating Profit	Size Balance Sheet
1	5	Mizuho Corporate Bank	85.13 3	45.14 3	38.16 1	18.91 5	5.32 3	3.43 3	-4.09 3	-0.25 6	0.019 1	0.007 2	5,330.21 3	379.89 2	14,597.22 2
2	1	Credit Suisse	6.61 6	151.96 1	33.04 3	58.73 1	-37.55 6	16.61 2	-41.81 8	17.61 3	-0.01 7	-0.001 5	6,697.56 2	259.24 4	11,423.02 4
3	2	Shinhan	92.72 2	37.23 4	19.80 5	36.80 2	16.24 2	3.27 4	3.87 2	9.24 4	0.014 2	-0.008 7	3,722.41 5	114.90 6	5,291.80 8
4	6	Societe Generale	18.63 5	37.08 5	-2.34 7	26.42 4	-235.59 8	46.05 1	34.36 1	23.42 1	0.001 5	0.001 4	3,561.21 6	111.49 7	5,970.36 6
5	7	Bank of Tokyo-Mitsubishi UFJ	36.95 4	26.37 6	32.71 4	3.36 6	32.42 1	-1.16 6	-6.34 5	1.68 5	0.012 3	-0.012 8	8,367.13 1	561.67 1	19,360.43 1
6	3	Credit Agricole	95.28 1	51.02 2	33.10 2	32.74 3	-13.31 5	0.30 5	-5.12 4	-1.05 7	0.008 4	0.010 1	2,053.67 8	200.21 5	13,401.66 3
7	9	Bank of Nova Scotia	-9.37 8	-9.31 8	-16.16 8	-12.94 8	-71.23 7	-28.42 8	-28.46 7	-18.30 8	-0.01 8	0.001 3	4,516.26 4	273.36 3	11,260.61 5
8	4	ANZ	-1.64 7	-4.38 7	12.06 6	2.11 7	-7.72 4	-3.41 7	-15.90 6	22.65 2	-0.003 6	-0.004 6	2,193.59 7	82.50 8	5,708.92 7

Three-year growth is Compound Annual Growth Rate (CAGR); Values in each parameter are rounded off; NPA: Non-performing assets; CASA: Current Account Savings Account; CAR: Capital adequacy ratio; ROCE: Return on capital employed; NIM: Net interest margin;*RA: Restructured assets/Total average loans and advances; ORA: Outstanding restructured assets; @Rankings are based on the next decimal place number; For explanation of parameters and how total score was arrived at, see *How We Did It*, page 92. NIM parameter was added in the 2016 survey

₹25,000 crore

QUALITY OF ASSETS					PRODUCTIVITY & EFFICIENCY				QUALITY OF EARNINGS				CAPITAL ADEQUACY		
Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/Avg. Loans*@ (%)	ORA/Outstanding Loans and Advances (%)	Cost/Income Ratio	Cost/Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE▼
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.43 7	1.53 4	-0.001 4	0.27 3	1.04 7	5.38 9	8.98 6	2.80 8	11.76 9	9.88 9	**510.25**
0.67 6	74.72 6	0.38 6	0.00005 8	0.05 8	0.44 8	1.94 6	0.002 2	19.53 1	1.39 6	7.11 7	10.65 4	3.50 7	15.99 4	15.31 3	**510.00**
0.35 5	44.52 9	0.26 5	0.00 1	0.00 1	0.35 4	2.03 7	-0.01 7	-6.23 8	1.81 4	9.57 4	10.75 3	4.72 3	13.73 7	13.03 6	**489.25**
3.83 8	53.05 8	4.34 9	2.96 9	3.50 9	0.58 9	1.51 3	0.01 1	8.12 2	0.05 9	9.83 3	0.50 9	2.20 9	18.64 2	13.01 7	**401.75**
7.65 9	93.40 5	1.07 8	0.00 1	0.00 1	0.37 6	2.23 8	-0.02 9	-6.16 7	0.77 8	13.32 1	3.97 8	5.51 1	12.98 8	12.36 8	**369.75**

than or equal to ₹25,000 crore

Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/Avg. Loans*@ (%)	ORA/Outstanding Loans and Advances (%)	Cost/Income Ratio	Cost/Avg. Asset %	Absolute Increase in Return on Assets@	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/Total Income (%)	ROCE (%)	Net Interest Margin (%)	Capital Adequacy Ratio (%)	TIER I (%)	TOTAL SCORE
0.003 4	100.00 1	0.00 1	0.00 1	0.00 1	0.36 5	1.66 6	0.002 2	-18.49 6	2.05 1	7.68 4	6.44 3	4.23 1	25.80 4	25.37 3	**596.25**
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.23 1	0.69 1	-0.01 8	-29.66 8	1.29 3	0.83 8	8.55 1	2.69 6	26.17 3	25.62 2	**546.50**
20.57 8	100.00 1	0.00 1	0.00 1	0.00 1	0.34 4	1.26 4	-0.01 7	-8.75 3	1.41 2	3.69 7	6.38 4	3.78 2	39.47 1	38.80 1	**520.50**
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.53 7	2.00 7	0.004 1	22.56 1	0.91 6	10.19 2	6.20 5	3.08 5	26.80 2	18.87 6	**499.50**
0.01 5	99.10 6	0.01 6	0.00 1	0.00 1	0.30 3	1.32 5	-0.003 5	-11.72 5	1.05 5	6.92 5	4.87 6	3.21 4	20.71 6	19.14 5	**479.75**
4.81 7	26.11 8	3.12 7	0.00 1	0.00 1	0.37 6	0.88 3	-0.002 4	-8.81 4	0.54 8	8.94 3	3.59 8	3.40 3	12.85 8	11.41 8	**394.25**
3.42 6	50.95 7	3.40 8	0.89 8	2.01 8	0.26 2	0.84 2	-0.004 6	-5.90 2	1.11 4	6.55 6	6.88 2	2.47 7	22.46 5	21.88 4	**369.75**
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.66 8	2.74 8	-0.001 3	-20.27 7	0.82 7	15.79 1	3.79 7	2.26 8	18.26 7	17.97 7	**343.50**

HOW WE DID IT

PHOTOGRAPHS BY RACHIT GOSWAMI

Jurors (from left) Alok Agarwal, CFO, Reliance Industries; Vimal Bhandari, MD & CEO, Indostar Capital Finance; M.D. Mallya, former Chairman & MD, Bank of Baroda; and Ramaswamy Venkatachalam (extreme right), MD, India & South Asia, FIS, with Prosenjit Datta, Editor, *Business Today*

After a huddle lasting well over one and a half hours at *Business Today*'s Mumbai office, the four member jury for India's Best Banks study put their stamp of approval on five awards based on purely qualitative factors. The BT-KPMG study, based on quantitative analysis over decades, had a jury for the second year in a row. Indeed, the eminent jury came from diverse backgrounds. M.D. Mallya , former chairman and managing director of Bank of Baroda, represented banks. Alok Agarwal, Chief Financial Officer at Reliance Industries brought in the voice of the industry, which works very closely with banks. Vimal Bhandari, MD & CEO, Indostar Capital Finance, who had previously worked for infrastructure financing institution IL&FS , provided his insights as a financial services expert. Ramaswamy Venkatachalam, MD (India & South Asia) at FIS, an outfit which works with banks in the realm of technology, brought the inside view on scalability of technological innovations.

The jury was handed over the comprehensive docket covering the qualitative analysis in advance. The five qualitative awards this year are for Overall Bank of the Year (for both public and private sector banks), Banker of the Year, Digital Banking and Financial Inclusion.

For Overall Bank of the Year, the top five banks, based on quantitative analysis in the large and mid-sized banks categories, were put before the jury. The order of rankings for large banks was HDFC Bank, ICICI Bank, Axis Bank, State Bank of India (SBI) and Punjab National Bank (PNB). The top mid-size banks were (in order of rankings) Yes Bank, IndusInd Bank, Kotak Bank, Andhra Bank and Indian Bank. The jury, in its wisdom, decided to create a separate category for the public sector banks (PSBs) because of their nature of ownership and financial inclusion objectives. "Putting PSBs and private bank together is not an apple to apple comparison," it commented. SBI and HDFC Bank were the winners in their respective categories. While it was easy to pick a winner amongst the private banks, the jury had a hard time zeroing in on the winner in the PSB category. They spent a lot of time in analysing the top PSBs, especially with regard to new initiatives, NPA management and, profitability. The top three contenders were SBI, PNB and Bank of Baroda. SBI eventually emerged as the winner amongst the PSBs.

Arundhati Bhattacharya, Aditya Puri, Romesh Sobti and Vishwavir Ahuja emerged as the top choices for the Banker of the Year – a jury award created this year. SBI's Bhattacharya emerged as the winner for transforming the largest bank in the country, especially in the sphere of digitisation, HR reforms and NPA management. "There are no parallels," said the jury.

For financial inclusion, the jury was unanimous in its praise of the newest bank in the market – Bandhan Bank. This bank has carved out a successful model for financial inclusion as a majority of its branches are in rural and semi-urban areas. In fact, the bank has successfully morphed its MFI model into a bank and it lends to the bottom of the pyramid. It was relatively easier to pick the Digital Bank award winner. Axis Bank made it to the top for initiatives such as one click access to relationship manager, instant personal loan, etc.

The various jury members shared invaluable insights about the banking businesses in the meeting. Mallya, who is on the board of SBI as a shareholder director, brought in insights about PSBs and financial inclusion. Agarwal, who manages the treasury of the largest private sector conglomerate, analysed each number on size and scale parameters For more on the outcome of the jury discussions, turn to 'The Rankings –Jury Awards'.

THE RANKING PROCESS

Banks are divided between 'Indian banks' (consisting of public and private sector banks) and 'foreign banks' (branches of foreign banks operating in India) for purpose of determining the categories. The banks in each of the above mentioned categories are further classified based on balance sheet size as on March 31, 2016. Accordingly, we have classified the banks into the following groups:

GROUP I: Indian banks with balance sheet size more than or equal to ₹300,000 crore.

GROUP II: Indian banks with balance sheet size more than ₹100,000 crore and less than ₹300,000 crore.

GROUP III: Indian banks with balance sheet size less than or equal to ₹100,000 crore.

GROUP IV: Foreign banks with balance sheet size more than or equal to ₹25,000 crore.

GROUP V: Foreign banks with balance sheet size less than ₹25,000 crore and more than ₹5,000 crore.

QUANTITATIVE RANKINGS

For the rankings based on pure financial performance, the data was taken from published annual reports of the banks for the period 2012/13 to 2015/16. The survey covers 59 scheduled commercial banks that had annual reports published in public domain or provided their annual reports at the time of conducting the survey prior to October 31, 2016.

Banks which have a balance sheet size of less than ₹5,000 crore as on March 31, 2016 have not been considered for the survey. Further, scheduled commercial banks whose financial statements were not available to us or banks which have not completed four years of operations in India as on March 31, 2016 or which have merged with other banks, did not form part of the survey.

The three broad ranking parameters – divided into 28 sub-parameters – are as follows:

GROWTH

There are five sub-parameters in this category. They are: growth over 2014/15 in deposits, alongside three-year Compounded Annual Growth Rate (CAGR) of total deposits; growth over 2014/15 in loans and advances, alongside three-year CAGR in loans and advances; growth over 2014/15 in fee income (commissions, exchange, brokerage plus miscellaneous income), alongside three-year CAGR in fee income; growth over 2014/15 in operating profit, alongside three-year CAGR in operating profit; and absolute increase in market share of deposits and of Current Account Savings Account (CASA) balances.

SIZE

There are three sub-parameters in this category, which include size of total deposits, size of operating profit and

The KPMG team (L-R): KPMG partners Naresh Makhijani, Shashwat Sharma and chartered accountants Manoj Kumar Vijai and Vaibhav Shah.

size of balance sheet for 2015/16.

STRENGTH

There are four overarching sub-parameters in this category, each with further sub-divisions.

Quality of Assets

Total NPA growth ratio: additions to NPAs during the year as a percentage of average net advances; Provision coverage: provisions for NPA as a percentage of gross NPA closing balance; Net NPAs as a ratio of net advances: gross NPAs net of provisions expressed as a percentage of net advances; Restructured assets as a ratio of total average loans and advances; outstanding restructured assets as a percentage of outstanding loans and advances as on March 31.

For the purpose of determining the rankings based on the provision coverage ratio parameter, banks with zero non-performing assets (NPAs) are assigned the highest rank on that parameter.

Productivity and efficiency

Cost to income ratio: operating expenditure as a percentage of operating income; cost to average asset ratio: operating expenditure as a percentage of average assets; absolute increase in return on assets: basis points increase in return on assets (net profit over total average assets) from 2014/15 to 2015/16; percentage increase in ratio of operating profit to total income from 2014/15 to 2015/16.

Quality of earnings

Return on assets: ratio of net profit to total assets for FY 2015/16; fee income as a percentage of total income; return on capital employed: reported net profit divided by average net worth; net interest margin: total interest income minus total interest expenses as a percentage of average Interest earning assets.

Capital adequacy

Capital adequacy ratio: capital-to-risk weighted assets ratio for 2015/16; tier-I capital: total of equity capital and disclosed reserves.

For each bank a score is assigned to all the 28 sub-parameters, based on its rank on the parameters. The score under each parameter is then multiplied by the parameter's weight to arrive at the final score for a bank. The results are aggregated to arrive at the final rankings based on the total score.

CHANGES OBSERVED FROM PREVIOUS YEAR'S SURVEY

Banks not considered for the 2015/16 survey:

In total, seven banks that were included in 2014/15 survey were not considered for the survey in 2015/16 for reasons mentioned below:

Rabobank International, Abu Dhabi Commercial Bank Ltd., First Rand Bank Ltd, Bank of Bahrain & Kuwait BSC: Balance sheet size was less than ₹5,000 crore, hence they were not considered as per survey methodology.

The Royal Bank of Scotland N.V.: The bank is in the process of selling off its assets and winding up operations in India.

State Bank of Hyderabad and **State Bank of Patiala**: Non-availability of complete financials for 2015/16.

New Banks added in the 2015/16 survey:

Tamilnad Mercantile Bank was included in 2016 survey for the first time as its annual reports are available in public domain for this period. These were not available at the time of the previous years' survey. ◆

By ASHOK V. DESAI

Taking a Broader View

How shortage of money is crippling the economy

Demonetisation caused widespread distress, which the media covered profusely with stories of how common people suffered, and uncommon rulers revelled. It is only now that we have some basic figures about what happened to money supply.

Money consists of currency and bank deposits. There was ₹124.2 trillion of it on October 28 ₹17 trillion in currency, ₹10 trillion in demand deposits, and ₹96 trillion in time deposits. On November 11 three days after demonetisation it was ₹383 billion less. That does not sound much; but currency was ₹1.75 trillion or 10 per cent less, while banks had ₹1.37 trillion more in deposits. People had rushed and deposited a lot of demonetised cash in banks.

By November 25, 17 days after demonetisation, the picture was very different. Money supply had fallen by ₹2.4 trillion, or 2 per cent, in four weeks. Currency in the public's hands had fallen by ₹7.9 trillion, or a whopping 46 per cent. Bank deposits had gone up ₹4.5 trillion 57 per cent of the fall in currency stock. In the beginning, people who had bank accounts had rushed to their banks and deposited their cash. But then there were millions poor people, villagers, itinerant workers without bank accounts. The money in their hands had become useless; they were penniless. And there were businessmen who gave work or business to these people; they could not get enough cash; they could not do business or pay people.

As monetary theory says, shortage of money will reduce economic activity. That is precisely what happened; but the economic contraction was concentrated in the informal sector. This sector is very large. To take the latest available figures for April-September 2016, GDP was ₹71 trillion. The mining, manufacturing, utilities and finance sectors, and government use banks; they would be relatively less inconvenienced by demonetisation. They accounted for about ₹40 trillion, or 55 per cent of the GDP; some ₹31 million or 45 per cent came from the informal sector, which depends on cash. It includes agriculture, construction, trade, transport and other services. They would have borne the brunt of demonetisation; their activity must have shrunk by a half or more. And they give work to a lot more than 45 per cent of the people; the figure could be three-quarters or more.

The foremost sector that uses cash is agriculture; it is little realised how difficult its situation is. After two bad years, the country has seen a good monsoon. That is good news for us consumers of agricultural produce, but not for agriculture. Vegetable prices have been falling since September. More recently, something unheard of has happened: arhar prices have fallen. India is traditionally short of lentils; the normal is for them to go up and up. That era may be coming to a close. If farmers run short of cash, they will do distress selling.

The formal and informal sectors do not live in different worlds: they do business with each other, and the misfortune of one affects the other. The formal sector has not been doing too well either; the proof is in the high level of loans it has not paid back to banks. In the third quarter of 2016, the rise in such bad debt was close to ₹2 trillion. The most dangerously indebted industries are iron and steel, telecommunications, power and transport. Banks may have worse days to come. Foreign portfolio investors saw nothing good in demonetisation and started pulling out money, especially out of the stock market; as a result, shares crashed.

So the way I read the figures, the economy was having problems, to which demonetisation only added. The problems were mainly in the financial sector; now they have spread to the informal sector. There is a ruling elite that looks down on this sector, and thinks it is the home of tax evaders. It may be; but it is also the home of millions whose income is just not sufficient for them to come into the tax net. They will suffer collateral damage from demonetisation.

If that were the only worry, we could try and live as best as we can with what has happened. But the Prime Minister has promised more. He has declared a war against black money, so more campaigns may be expected. But if they are as poorly targeted as demonetisation, we have something to worry about. ◆

The writer is a senior economist and was chief consultant in the Finance Ministry from 1991 to 1993

■ Smriti Irani, union minister of textiles.

■ Kalraj Mishra, union minister of micro, small & medium enterprises.

GLOBALISING INDIAN TRENDS

Playing the perfect host and providing a platform for the who's who of fashion industry, the Mail Today Fashion Summit brought together fashion gurus, eminent designers, policy makers, bureaucrats, aspiring designers, among others, to brainstorm over topics – Swadeshi going global, reinvention of Khadi, academic take on the innovations in the sector, beauty in the details, etc. With participation from some of the popular names in the fashion fraternity such as Sunil Sethi, president of Fashion Design Council of India; well-known designers like Ritu Kumar, David Abraham, Anju Modi, Suket Dhir; socialite Ramola Bachchan; author and yoga expert Ira Trivedi, the event was a tremendous success.

During her opening speech, the chief guest of the summit, Smriti Irani, union minister of textiles, shared that with the prime minister of India promoting Indian fabrics, especially Khadi, the industry has seen an increase in the sales of Indian handlooms and textiles. "Khadi has been made cool by the PM and we see traction across the segment," she said.

She further added, "With the skill development programme, 75 per cent of placements in the sector is a remarkable achievement. Even after the placements are done, the government conducts follow-ups to keep a check."

Kalraj Mishra, union minister of micro, small & medium enterprises, stated, "Since the PM has promoted Khadi, its production and sale has increased by 21 per cent and 29 per cent, respectively, over the last year."

Mishra added that they have varied schemes and initiatives for improving the infrastructure and livelihood of artisans. "We encourage village industries and firmly believe that manufacturing hubs can also be made with small enterprises," he opined.

The session on the great Indian weddings had renowned designers Ritu Kumar, Anju Modi and designer-duo Nikhil and Shantanu Mehra. While Kumar shared the difficulties she faced while designing Kareena Kapoor Khan's joda, which Kareena got from her mother-in-law Sharmila Tagore, who received it from her mother-in-law, especially recreating the odhni which was made of 100 per cent gold zari. Nikhil was of the opinion that with men's fashion blossoming, the grooms are going to be the next big change.

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"About 75 per cent placements, under the skill development programme, is remarkable. Even after placements, the government conducts follow-ups."

— SMRITI IRANI, Union Minister of Textiles

"We encourage village industries and firmly believe that manufacturing hubs can also be made with small enterprises."

— KALRAJ MISHRA, Union Minister of Micro, Small & Medium Enterprises

BEAUTY IN THE DETAILS

■ **David Abraham, designer; Pooja Roy Yadav, founder, Nimai; Palak Shah; founder & CEO, Ekaya and Preetha Hussain, associate professor, NIFT, during the panel discussion.**

Focussing on the details in the handloom and textiles the session 'Beauty in the details', brought Designer David Abraham, Nimai founder Pooja Roy Yadav, Ekaya Founder & CEO Palak Shah and NIFT's Associate Professor Preetha Hussain on one platform. Talking about the need to break the perceptions, Abraham said, "Perception of Beneras has always been about motifs, florals, etc., but we wanted to break the stereotype and therefore we showed geometrics. There is a need to take the traditions and relook at it to make it new and contemporary."

Throwing light on the jewellery and accessories segment, Hussain was of the view that there needs to be more visibility for jewellery designers and believed that handcrafted jewellery can go a long way in that. "The focus should be more on the design, rather than on creating a brand," she urged.

INNOVATIONS AT NIFT

■ **Sarada Muraleedharan, director general, NIFT.**

Addressing the crowd at the summit, Sarada Muraleedharan, director general, National Institute of Fashion Technology (NIFT), briefed the audience on their plans to set up a national e-granthalay by putting all the articles and research works together for people to access in the academics, both inside and outside the country, and the fashion industry. Calling India the alma mater of textiles, Muraleedharan also revealed their plans to join hands with the Biennale Foundation. "We are in talks with the Biennale Foundation for making NIFT a regular feature at the Biennale," she said.

TRAILBLAZERS

■ **Rahul Mishra, designer; Gaurav J. Gupta, designer, Akaaro; Amit Aggarwal, designer and Dr. Banhi Jha, senior professor, NIFT, during the session.**

Calling the present time as the golden period for the Indian handloom, Designer Rahul Mishra opined that owing to its unique and different nature, the handloom segment will flourish. Explaining the craft cluster initiative of NIFT, Dr. Banhi Jha, senior professor at the institute, said, "Since the establishment of the institute, we have had the craft cluster initiative wherein students are required to live in the non-urban clusters for two weeks to learn the nitty-gritty details of the art. It becomes an extended classroom for the students which provide them with experiential learning."

"India has abundant raw materials, manpower and capacity of handmade textiles, which is rare, unique and opens doors to opportunities."

— VIVEK AGGARWAL
MD, Crimsoune Club

REINVENTING KHADI

■ **A.K. Garg, deputy director – marketing and exports (I/C), KVIC and Khusbhoo Agarwal, creative head, Ritu Beri Designs, during the session.**

Terming Khadi as a sentiment, A.K. Garg, deputy director, marketing and exports (I/C), Khadi and Village Industries Commission (KVIC), stressed that since the benefits go directly to weavers and artisans, Khadi cannot be tagged as just a fabric or cloth. "We have been institutional in providing employment for the artisans and weavers, associated with us, by creating workspaces for them in their native villages. We follow the method of online payments to the artisans, therefore eliminating the role of middlemen," Garg informed.

"Khadi and the village productivity became a grand source of nationalism. India showed that our society is founded on the efforts and contributions of rural masses."

— V. K. SAXENA, Chairman, KVIC

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Harvard Business Review

ILLUSTRATIONS BY AJAY THAKURI

NETWORK EFFECTS AREN'T ENOUGH

The hidden traps in building an online marketplace.

By **ANDREI HAGIU** and **SIMON ROTHMAN**

In many ways, online marketplaces are the perfect business model. Since they just facilitate transactions between suppliers and customers rather than take possession of or full responsibility for products or services, they have very low cost structures and very high gross margins – 70 per cent for eBay, 60 per cent for Etsy. And network effects make them highly defensible. Alibaba, Craigslist, eBay, and Rakuten are more than 15 years old, but they still dominate their sectors.

Little wonder that entrepreneurs and investors are rushing to build the next eBay or Airbnb or Uber for every imaginable product and service category. In the past 10 years, the number of marketplaces worth more than $1 billion has gone from two Craigslist and eBay to more than a dozen in the United States, including Airbnb, Etsy, Groupon, GrubHub Seamless, Lending Club, Lyft, Prosper, Thumbtack, Uber, and Upwork. And that number is expected to double by 2020, according to Greylock Partners, a Silicon Valley venture capital firm where one of us (Simon) is a partner.

Yet online marketplaces remain extremely difficult to build. Most entrepreneurs see it as a chicken-and-egg problem: To attain a critical mass of buyers, you need a critical mass of suppliers but to attract suppliers, you need a lot of buyers. This challenge does indeed trip up many marketplaces. But even after a marketplace has attracted a critical mass of both buyers and sellers, it's far from smooth sailing. Our combined experience in evaluating, advising, and investing in hundreds of marketplace businesses (including several mentioned in this article) suggests that other pitfalls can derail marketplaces: growing too fast too early; fostering insufficient trust and safety; resorting to sticks rather than carrots to deter user disintermediation; and regulatory risk. In this article, we discuss how to avoid those hazards.

GROWTH

Once marketplaces reach a critical inflection point, network effects kick in and growth follows an exponential, rather than linear, trajectory. These network effects also create barriers to entry: Once many buyers and sellers are using a marketplace, it becomes harder for a rival to lure them away. As a result, entrepreneurs often mistakenly assume that they need to reach the exponential growth phase as quickly as possible. But a headlong rush to fast growth is often unnecessary and can even backfire, for several reasons.

The importance of first-mover advantage for marketplaces is overstated. Entrepreneurs should really focus on being the first to create a *liquid market* in their segment. The winning marketplace is the first one to figure out how to enable mutually beneficial transactions between suppliers and buyers – not the first one out of the gate. Indeed, many prominent marketplaces were not first movers: Airbnb was founded more than a decade after VRBO; Alibaba was a second mover in China after eBay; and Uber's UberX copied Lyft's peer-to-peer taxi business model.

Why does being the first mover provide less of an advantage than is commonly assumed? The reason is that chasing early growth before a marketplace has proved its value to both buyers and sellers leaves the business vulnerable to competition from later entrants. If either side's users do not derive significant value on a consistent basis, they will readily jump ship. But when buyers have access to a sufficient selection of products or services at attractive prices and sellers earn attractive profits, neither side has an incentive to go elsewhere, and strong network effects kick in rapidly: More buyers bring more sellers and vice versa.

Groupon and LivingSocial – platforms where retailers sell discounted offerings to consumers – provide a cautionary tale. Both companies expanded aggressively, attracting millions of users and thousands of merchants. Their success, however, was short-lived: Once merchants realised that Groupon and LivingSocial discounts did not bring repeat customers, they began to do business on many competing deal sites. As a result, Groupon's value fell from $18 billion at the time of its 2011 IPO to less than $2 billion today; LivingSocial filed for an IPO at $10 billion in 2011, withdrew, and was acquired by Amazon. By the end of 2014, it was worth less than $250 million.

Growing too early puts stress on the business model. A start-up's initial business model inevitably has flaws that must be fixed. But because growth for marketplaces can be so explosive, it puts much more pressure on the business model than does the more linear growth experienced by regular product or service firms, amplifying the impact of the flaws and making them harder to fix. Indeed, trying to change the model while growing very fast increases the risk of a catastrophic breakdown. Thus, premature growth can actually reduce the probability of reaching the inflection point that triggers exponential growth.

For these reasons, marketplace entrepreneurs should resist the temptation to accelerate growth before figuring out an optimal *supply-demand fit* – that is, when buyers are as happy to purchase the products or services as providers are to supply them. This may mean waiting much longer than conventional companies do to scale a new offering. For example, Airbnb took two years to figure

> Growing too early amplifies flaws in the business model, making them harder to fix

out exactly how to allow individuals to rent their homes to complete strangers under conditions and at prices that satisfied both parties. (Recall that the initial service was an air mattress and a cooked breakfast. In most cases, this was either not what travellers wanted or not something hosts were willing to offer.)

The wrong type of growth can hurt performance. Many marketplaces find it tempting to grow through "power sellers" – those who have moved from selling as a hobby or source of supplemental income to running a full-time business on the marketplace. That's because attracting a few power sellers is more cost-effective than attracting many non-professional sellers, and the former tend to be more efficient at carrying out transactions than the latter.

However, growth through power sellers can be undesirable. After building most of its early growth on power sellers, eBay discovered that their dominance forced it to make compromises that favoured those sellers but hurt the buyer experience. For example, power sellers demanded the ability to do "bulk listings" (to automate the listing of many products), which was more efficient from the sellers' point of view. This created problems for eBay: By skewing seller incentives towards commodity goods, bulk listings reduced the diversity of products offered for sale, crowding out unique products and causing the quality of the average listing to go down. Furthermore, bulk listings enabled power sellers to negotiate lower per-listing fees from eBay. Over the years, power sellers came to dominate eBay's supply side and made it difficult for non-professional sellers to compete.

Other types of marketplaces face a similar issue. In the case of Airbnb, multi-property hosts might show pictures of certain apartments on the site but switch travellers to different ones upon arrival to suit the hosts' planning needs. Or hosts that bought property specifically to list on the site might not provide the authentic experience that travellers seek. As a result, Airbnb may have to place some limits on multi-property hosts, even though that would conceivably negatively impact growth in the short run.

The bottom line: Platforms should resist the temptation to use the industrialisation of the supply side to boost growth.

TRUST AND SAFETY

By definition, an online marketplace does not directly control the quality of the products or services that are bought and sold on its platform, so it must put mechanisms in place to ensure that participants have little or no fear about conducting business on the site. The goal is to eliminate (or at least minimise) improper behaviour, such as abusing rented property, misrepresenting products, and outright fraud.

Ratings-and-reviews systems have been the most widely used mechanism for engendering trust between marketplace participants ever since eBay's first successful large-scale implementation of such a system, in 1998. Nearly all prominent marketplaces use R&R systems, which typically allow the two sides of the market to rate and review each other by awarding stars (1 to 5), providing text feedback, or both.

However, research shows that these systems rarely build sufficient trust or provide adequate safety on their own. Many online R&R systems suffer from significant biases: People who voluntarily rate a product or service tend to be either very happy or very unhappy with it. This severely undermines the value of the information provided and skews results.

For instance, a recent study estimated that more than 50 per cent of eBay sellers have received positive feedback for 100 per cent of the transactions rated by their buyers, and 90 per cent of sellers have received positive feedback for more than 98 per cent of the transactions rated by their buyers. There are several reasons for this. Many buyers want to be nice, so they leave exceedingly generous reviews. Some fear that sellers will harass them by e-mail if they leave negative feedback. Many unhappy buyers simply leave and do not return to the site. And a few take extreme (and comical) measures: A good example of an R&R system gone awry is the phenomenon of sarcastic reviews on Amazon's marketplace. Fake reviewers take over the comments for a product or service, awarding four or five stars and then writing ironically scathing, often hilarious comments.

Even reliable ratings and reviews systems are not enough to overcome potential users' fears that something bad might happen, especially when the stakes are high. It's hard to imagine buying or renting cars or houses from complete strangers solely on the basis of positive user reviews. And when things go wrong, users often hold the marketplace at least partly responsible, even though technically it is merely an enabler of transactions. A buyer who has a bad experience may blame the corresponding seller and leave a bad review, but he or she may also blame the marketplace and never return, which hurts all other sellers.

To properly engender trust and overcome fears, marketplaces must go beyond R&R systems and accept some de facto responsibility for transactions. This can take several forms:

Provide insurance to one or both parties in a transaction. Turo (formerly RelayRides), a marketplace where individuals can rent their cars to other people, offers specially designed insurance policies that provide coverage to both parties. Airbnb now insures hosts against property damage of up to $1 million. Lyft and Uber provide insurance coverage to their drivers for damage done to others.

Vet and certify participants. Upwork (formerly Elance-oDesk) has developed hundreds of proprietary certification tests that it administers to freelance contractors on its platform to assure buyers that the workers they hire are qualified.

Offer dispute resolution and payment security services. Airbnb holds the money paid by the traveller in escrow for 24 hours after the traveller has checked in; Alibaba holds the money paid by the buyer in escrow until the buyer confirms receipt of the goods from the seller. And both Airbnb and Alibaba have comprehensive dispute resolution procedures that offer recourse to both sides of the market.

AIRBNB'S REMARKABLE GROWTH

It didn't take long for Airbnb to surpass conventional hotel chains in the number of rooms available worldwide to travellers. Its explosive growth and huge market cap are testaments to the outsize potential of online marketplaces

COMPANY	NUMBER OF ROOMS	FOUNDED	MARKET CAP	TIME TO 1M ROOMS	REAL ESTATE ASSETS
Airbnb	1M+	2008	$25B	7 YRS	$0
Marriott	1.1M	1957	$16B	58 YRS	$985M
Hilton	745K	1919	$19B	N/A	$9.1B
Intercontinental Hotel Group	727K	1988	$9B	N/A	$741M

Source: Reuters, Marriott, Intercontinental Hotels Group, Wikipedia, *New York Times*, BAMSEC. Data as of end of 2015

DISINTERMEDIATION

Many marketplaces fear that once they facilitate a successful transaction, the buyer and the seller will agree to conduct their subsequent interactions outside the marketplace. This risk is greatest for marketplaces that handle high-value transactions (eBay Motors, Beepi) or recurring transactions (Airbnb, CoachUp, Handy, HourlyNerd, Upwork). But in our experience, entrepreneurs tend to overestimate the threat of disintermediation and choose the wrong approach to prevent it.

The instinct is often to impose penalties, such as temporarily suspending accounts, if attempts to take transactions off a platform are detected. The fact of the matter is that all marketplaces that facilitate high-value or recurring transactions suffer some disintermediation: Some hosts and guests take their transactions off Airbnb, as do some contractors and employers that first connected on Upwork. But we have yet to see a promising marketplace that has been severely hindered – let alone put out of business – by this behaviour, and we've found that carrots are more effective deterrents than sticks. For example, algorithms for detecting transactions initiated online but completed offline are difficult and costly to implement and can create user resentment.

Participants usually prefer to conduct business in a "well-lit showroom" that reduces search or transaction costs and allows deals to be conducted securely and comfortably. As long as a marketplace provides value, there should be sufficient incentive for one or both sides to conduct all their transactions through the platform. If users find it onerous to do so, then either the marketplace does not create enough value or its fees are too high.

One company that has successful incentives to combat disintermediation is eBay Motors. It provides an automatic purchase-protection service against certain types of fraud (for example, non-delivery of the vehicle), facilitates car inspections through partner shops at discounted rates, and uses its bargaining power to help sellers obtain lower shipping costs. Another example is Upwork. In addition to providing worker certifications, it allows employers to audit and monitor the work being done by contractors in real time. It also allows them to process online payments in many currencies at discounted exchange fees. As these examples show, some of the mechanisms that make transactions safer to conduct also help reduce the risk of disintermediation, killing two birds with one stone.

REGULATION

Online marketplaces that provide radically new alternatives to conventional business models test the limits of existing regulatory frameworks almost by definition. They enable new types of transactions, such as peer-to-peer lending or property rentals. As a result, marketplaces face serious regulatory challenges much more frequently than traditional product or service companies do. Should homeowners renting out their properties be subject to hotel taxes? Under what conditions should individuals be allowed to sell rides in their cars? When should marketplaces for services be allowed to treat their service providers as independent contractors and when should they be compelled to treat them as employees?

With respect to regulatory risks, most entrepreneurs have one of two reflexes: ignore them or try to fix everything upfront. Neither is a good idea. Unwinding a regulatory problem late tends to be much more difficult than preventing it early. Furthermore, ignoring regulations can generate bad press, which may alienate users. At the other extreme, attempting to clear all regulatory hurdles from the beginning is unrealistic. Regulatory time frames are too long for most young companies to work within, and it is very hard to gain clearance for a business concept that has not yet been proved in the market.

The right approach, not surprisingly, is somewhere in the middle: Strive to engage regulators without breaking stride or slowing down to the decision-making speed of governments. No marketplace we know of has dealt with all its regulatory challenges perfectly, but four interconnected guiding principles – developed by David Hantman, Airbnb's former head of global public policy – can help.

1. Define yourself before your opposition or the media does. Marketplace entrepreneurs should develop a clear vision of their business model and find the most positive – yet accurate – way to describe it to the outside world. Then they should engage regulators and the media to ensure that they are understood on their own terms.

2. Pick the time and place to engage with regulators. Entrepreneurs operating in industries subject to heavy and national regulation should consult an industry attorney before launch in order to fully understand all relevant laws. As soon as their buyer-seller proposition is clear, they should initiate a dialogue with regulators in order to obtain either explicit legal clearance (ideal) or an implicit safe haven (second best) for continuing to develop the service.

The examples of Lending Club and Prosper, the two leading peer-to-peer lending marketplaces in the United States, illustrate the importance of smoothing regulatory frictions before they grind you to a halt. Prosper was launched first, in 2005, followed by Lending Club a year later. Lending Club, however, was first to tackle the difficult regulatory issues. Less than two years after its launch, it established a partnership with an FDIC-insured bank so that the loans it facilitated were subject to the same borrower protection, fair lending, and disclosure regulations as regular bank loans. In early 2008, it became the first peer-to-peer lending marketplace to voluntarily go through a quiet period during which it did not accept any new lenders and focused on completing its registration with the US Securities and Exchange Commission (SEC) as an issuer of public investment products.

Entrepreneurs tend to overestimate the threat of disintermediation

In contrast, Prosper ignored regulatory issues until scrutiny by the SEC forced it, too, to enter a quiet period. The results of these differing approaches were significant: Prosper's quiet period lasted nine months, whereas Lending Club's lasted just six. And Lending Club was allowed to continue to serve the borrower side of its marketplace during its quiet period; Prosper had to shut down both the investor and the borrower sides. Lending Club eventually overtook Prosper to become the largest peer-to-peer lending marketplace: In 2012, it made $718 million in loans, compared with $153 million for Prosper.

At the other end of the spectrum, marketplaces operating in spaces that are regulated lightly and only at the city or state level can afford to wait until they reach supply-demand fit in their first city before engaging with regulators. While regulatory issues at the national level are usually a matter of life and death for companies, local regulators are typically less powerful and can be more easily circumvented if necessary.

3. Don't just say no; offer constructive ideas. When confronted with regulatory gray areas – an all-too-common occurrence – marketplace entrepreneurs have an opportunity to turn a potentially adversarial relationship with regulators into a partnership. For example, Getaround, the peer-to-peer car rental platform, pre-empted a collision by working directly with the California state government to enact a law that allows private individuals to rent out their cars to strangers under separate insurance coverage designed for this purpose. Getaround's approach is remarkable because peer-to-peer car rentals were not explicitly illegal beforehand – meaning that the company incurred a significant risk by drawing regulatory attention to its service.

Even when existing regulations are merely inconvenient for new marketplaces, entrepreneurs should resist the temptation to ignore or thumb their noses at the relevant authorities and strive instead to find an area where their interests align. For example, a major concern for governmental bodies that regulate taxis is ensuring the safety of passengers and drivers. Ridesharing companies should want the same thing. The marketplaces could use their data on driver and passenger

identity and on trip times and paths to work constructively with state regulators to create a safer environment than traditional taxi companies provide.

4. Speak softly and carry a big stick. Entrepreneurs should avoid engaging in acrimonious disputes with regulators; at the same time, they should have effective weapons at their disposal to defend their position. They can use two means of leverage when fighting potentially adverse regulation. The first is the power of satisfied buyers and sellers, who are voters and taxpayers likely to resent government interference with a service they value. To harness the support of users, companies should develop a credible infrastructure for running lobbying campaigns in their own behalf: social media, dedicated websites, and so on. For example, Airbnb helped its San Francisco hosts organise rallies around city hall and testify in public hearings, which eventually swayed the city's regulators to legalise short-term rentals in people's homes in 2014 (the "Airbnb law").

The second lever is tax revenue. Marketplaces that generate sizable revenues for local governments have some leverage in regulatory negotiations. For instance, as part of its ongoing efforts to persuade city governments to legalise its service, Airbnb has offered to collect hotel taxes from its hosts and remit them to local authorities in several cities worldwide. This offer, still pending approval, is clearly a powerful negotiating instrument: According to conservative estimates, the taxable revenue generated by Airbnb hosts was more than $5 billion in 2015. This is an interesting case, since few marketplaces have proactively offered to take responsibility for ensuring that their users pay taxes.

Sometimes, if regulatory uncertainty is unlikely to be resolved in the immediate future (a time frame measured in months for start-ups) and the repercussions of non-compliance are severe, then the right response is to comply with the worst-case scenario, even if that means incurring higher costs. One of the most serious regulatory issues now faced by service marketplaces concerns the legal status of their workers. Several prominent service marketplaces (Handy, Lyft, Postmates, Uber, and Washio) are currently contending with class-action lawsuits that accuse them of improperly classifying their workers as independent contractors rather than employees. The cost implications are substantial: Changing a worker's status from independent contractor to employee increases costs by 25 per cent to 40 per cent. While the outcomes of the lawsuits and the corresponding regulation are still uncertain, some marketplace start-ups, including Alfred, Enjoy Technology, Luxe, and Managed by Q, have pre-empted the issue by voluntarily turning their workers into employees. Early stage start-ups that simply cannot afford to operate under uncertain regulatory status may need to do the same. In most cases, however, an intermediate status somewhere between employee and independent contractor would be the ideal approach.

> Gray areas offer an opportunity to turn a potentially adversarial regulator into a partner

ONLINE MARKETPLACES are profoundly changing the nature of work and of companies. Since the early days when marketplaces made it possible to sell and buy simple products like PEZ dispensers and handicrafts, the assortment and price range of goods available online has exponentially increased. Over the past five years, platforms for a remarkable variety of task-oriented services have arisen. New technologies such as 3-D printing and virtual reality will continue to open up opportunities for individuals and small firms to directly sell increasingly complex products and services previously provided only by large firms.

The growing number of products and services available through online marketplaces will cause traditional corporate structures to gradually shrink and coexist with overlapping networks of independent workers who come together for limited periods of time to perform specific tasks. The result will be a much more fluid and flexible work environment that empowers both workers and customers. But the challenges of managing growth, building trust and providing safety, minimising disintermediation, and shaping regulation won't go away. The solution is not to follow the pack. It is to deeply understand the needs of customers, regulators, and society as a whole and, in a disciplined fashion, become an active player in shaping the future. ◆

Andrei Hagiu *is an associate professor in the strategy group at Harvard Business School.* **Simon Rothman** *is a partner at Greylock Partners. He was formerly the head of operations at eBay and founded eBay Motors. He has served as an adviser to a number of start-ups, including Lyft, TaskRabbit, Tango, and Fiverr. This article was published in* HBR, *April 2016.*

PERSONAL TECH

TECH TRENDS

A coffee machine that knows exactly how much milk you want in your coffee or a phone that unlocks only when you look at it – 2017 will see companies walking the tech talk, a bit farther than they have. Several technology concepts that have piqued our curiosity – artificial intelligence, autonomous cars, connectivity standards, and more – are expected to be evolved and developed into products. As Sandeep Aurora, Director, Marketing and Market Development, Intel South Asia, says, "If 2016 was the year that concepts such as the Internet of Things (IoT) and Artificial Intelligence (AI) became mainstream for consumers, 2017 will be the year when commercial application of this synergy of hardware and software becomes real, to make novel experiences possible."

Here's what 2017 has in store

AI INVASION: Artificial Intelligence isn't restricted to enterprise or commercial use anymore. From personal assistant software such as Siri, Google Now and

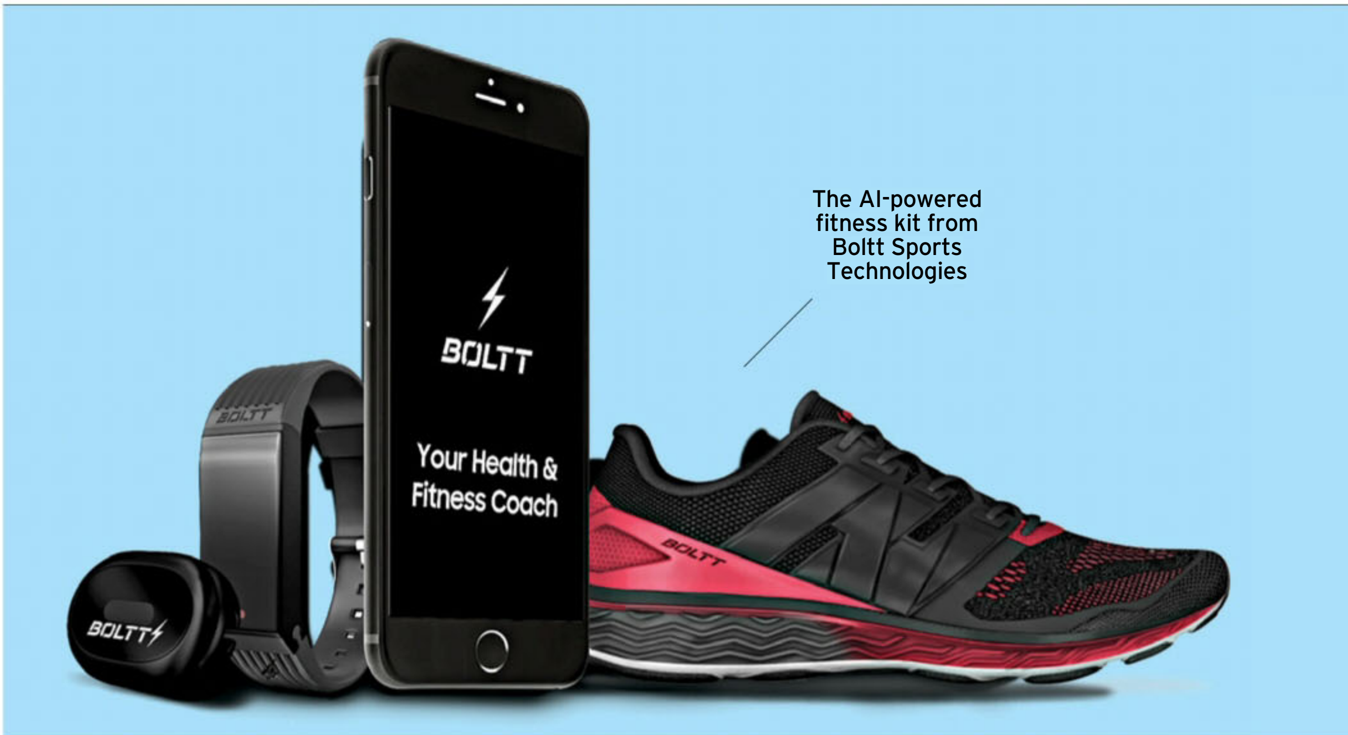
2017

CONCEPTS SUCH AS MERGED REALITY, MACHINE LEARNING, AND DIGITAL TWINS ARE SET TO BECOME MORE MAINSTREAM THIS YEAR. HERE'S WHAT ELSE IS IN STORE... By NIDHI SINGAL

AJAY THAKURI

Cortana, to movie and music recommendations on the basis of past interests on apps such as Netflix and Spotify, our lives are already influenced by AI. Going forward, it will have a bigger and better role to play. Prashant Pradhan, Watson Business Leader, IBM India-South Asia, says, "In the next five years, almost every decision in business and our day-to-day lives will be touched by AI. This will happen through systems that can understand, learn and reason, and interact naturally with human beings. Promising applications of AI are already visible in our lives. India, in particular, holds a lot of potential for cognitive use, due to the scale and complexity in areas such as education, healthcare and commerce." AI's role in high impact areas such as healthcare will be noteworthy – for instance, IBM's Watson is augmenting the expertise of oncologists to take on cancer. Tech giants such as Google, Facebook and Microsoft are heavily investing in AI along with its variations such as machine learning and robotics. Closer home, wearable tech company Boltt Sports Technologies will be introducing a fitness kit comprising a pair of smart shoes, a smart band and health and training apps, powered by AI.

DIGITAL TWINS: Touted as the one of the key technology trends in the coming years, digital twins are virtual representations of a physical product. This dynamic software model relies on sensor data to understand the state of the



The AI-powered fitness kit from Boltt Sports Technologies

product, respond to changes, improve operations, and add value. It is a cloud-based virtual representation of a physical asset that can be used for asset optimisation, product design, simulation, monitoring, and improved user experience in nearly all industries. Gartner estimates that by 2020, there will be more than 21 billion connected sensors and endpoints, and digital twins will exist for potentially billions of things. Initially, businesses will use digital twins for more complex, high-value assets, but eventually, they will use them for lower-value assets based on the model. D.D. Mishra, Research Director, Gartner, says, "Today, digital twins are used by only a few professional communities, such as product engineers and data scientists in select industries such as manufacturing and utilities. The idea of modelling the much larger number of common things – cars, buildings, and consumer products – from virtual models with functional behaviour embedded to make day-to-day decisions about the physical world is only just emerging."

MERGED REALITY: Even as augmented reality and virtual reality become popular, merged reality will rise to prominence. Also referred to as 'mixed reality', this technology merges the real and virtual worlds in a way that objects can interact with each other. Intel's Project Alloy, a wireless headset that allows you to bring real objects into the virtual world using 3D cameras, is a fine example. Another example is Windows Holographic Shell, an immersive virtual reality interface that allows users to manage all aspects of the Windows 10 operating system using a head-mounted display. "Towards the end of next year, we also expect merged reality to come to the forefront with five technological advances – six degrees of mobility, integrated tracking, more natural manipulation, and untethered, digitised real-world content," adds Aurora of Intel.

IRIS SCANNERS: As the world progresses towards digital transactions, our smartphones and tablets become increasingly vulnerable to security threat and data theft. While fingerprint scanners add a layer of security, the next generation security measures will entail iris and retina authentication. Companies are focusing on adding more secure ways of authentication such as embedding iris scanning for unlocking devices. Salil Prabhakar, President and CEO, Delta ID Inc., says, "2017 is expected to be the year when iris-enabled consumer mobile devices will hit the market. This is based on the groundwork that has been done in 2016 by both government agencies and private enterprises. Iris-enabled consumer mobile devices will allow apps to integrate Aadhaar authentication and eKYC." Chip makers such as Qualcomm have been focusing on integrating security layers in the chipsets. Qualcomm's Secure Execution Environment is a controlled and separated environment outside high-level operating system that is designed to allow trusted execution of code, and reduce damage from viruses, Trojan and rootkits. Going forward, iris scanning will be integrated in the next generation of Snapdragon 800 and 600 series processors, but for this, device makers will also need to add a separate iris scanner module.

CONNECTIVITY STANDARDS: New connectivity standards such Bluetooth 4.1, USB 3.1 and Type C will become prominent this year. The USB 3.1, also known as

Tesla's Model X with Falcon Wing doors comes with the hardware needed for full self-driving capability

USB 3.1 gen 2, is the successor to USB 3.0. Although introduced a while back, its adoption has been very slow. But Rajesh Gupta, Country Manager - India & SAARC, SanDisk India, believes that USB 3.1 will be of great importance in 2017, and expects advanced products to be launched around it. "Tech enthusiasts across the globe looking for superfast performance have been anxiously waiting for USB 3.1 because of its ability to shuffle data between host devices and peripherals at speeds of up to 10 Gbps – which is two times that of the existing USB 3.0 protocol." Type C interface, which is yet to go mainstream, will also gain some traction this year. New devices boasting USB Type C interface across smartphones, tablets and laptops will be launched, and it is expected to become the universal port in future. In the wireless connectivity space, Bluetooth 5.0 is creating buzz. Rumour has it that Samsung is adopting the same for its upcoming Galaxy S8. Bluetooth 5.0 can offer up to double the speed, of up to 2 Mbps, without consuming much power, and can offer a range of up to 200 metres, which means paired devices need not be in very close vicinity.

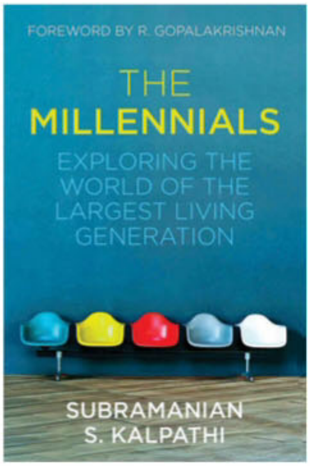
AUTONOMOUS CARS: Significant advancements are being made to not only further the operation of driverless cars, but also every part of the infrastructure – from connectivity to use of AI to data processing. After successful testing of its self-driving car project last year, Google aims to offer it to consumers in 2020. Companies are now looking at developing fully automated cars over semi-automated cars which will not rely on a human to take over the wheel in an emergency. Advanced systems such as LIDAR are also being considered to scan the area and generate a 3D map to avoid any collisions. Tesla's Model S, Model X, and future Model 3 – all under production – will have hardware that can enable them to be fully driverless, though a regulatory approval is pending.

MACHINE LEARNING: A variation of AI, machine learning is attracting investments from enterprises and IT players. Machine learning is a method of data analysis that automates analytical model building. Using algorithms that iteratively learn from data, machine learning allows computers to find hidden insights without being explicitly programmed where to look. Banking, supply chain management, healthcare, consumer services, etc, stand to gain extensively from machine learning. Manish Choudhary, Senior VP, Global Innovation, and MD, Pitney Bowes India, explains, "Machine learning can help companies take the billions of data points they have and boil them down to what's really meaningful. It includes technologies such as deep learning, neural networks and natural-language processing, and is supporting to encompass more advanced systems that understand, learn, predict, adapt and potentially operate autonomously. Machine learning has been helping to creating intelligent systems that learn, adapt and potentially act autonomously, rather than simply execute pre-defined instructions, and that is going to be the primary battleground for technology vendors through at least through 2018." There will be many industry wide applications that could enable process innovations and efficiency of organisations. ◆

@nidhisingal

Less Than What Meets the Eye

While the book offers some insight into millennial businesses, it does not explore the world of millennial people. By Rama Bijapurkar



The Millennials: Exploring the World of the Largest Living Generation

By Subramanian S. Kalpathi

PAGES: 256

PRICE: ₹299

Penguin Random House

This book has a lot of scattered nuggets of information about a lot of things that are in themselves interesting and useful: stories of how new-age businesses (let us call them millennial businesses) came into being, novel business practices that they have invented and adopted, useful expositions of old and new management ideas and theories, and biz speak from millennial start-up stars on how they see this new world of theirs. As you read it, you are likely to think "Really? I didn't know this before" or "Why didn't it occur to me before" or "Thank you for explaining xyz theory to me". But you are equally likely to wonder why a book that talks of a radically different world of millennials, written by a millennial, is so 'yesterday' in structure and style!

As you wade through the myriad topics, you are also likely to check the title page wondering if you were mistaken in your expectation that it is a book about "exploring the world of the largest living generation". It could just as aptly have been titled 'Inside the world of 10 millennial start-ups' or "How HR practices must change in the new knowledge and digital economy". The frustration is that the book lays out a lot of stuff on each, but doesn't connect any of these themes deeply enough. The author's voice is sorely missed in this reportage of ideas and happenings. One wishes for some more analytical or editorial comments – for instance, when reporting the millennial entrepreneurs' talk "The main thing is purpose...to change the world and have impact...and profit will follow", some reflection on how it matches up to their short term, often expedient, valuation-driven walk. Or, for example, the story of Ola's vision – "back in 2010, the founding team (of Ola) identified a clear gap in value: thousands of cabs were lying idle as unused inventory across Mumbai... the team wanted to bridge this gap" – could have been accompanied by some editorial comment about the Uber model invented a year before, which Ola took further.

More than half of Indians are millennials. This age cohort is doubly discontinuous in India because it consists solely of liberalisation children, the first generation of Indians not raised in an isolated socialist India, but in a capitalist globally connected one. But a book that says it looks inside the world of millennials and is set in India must acknowledge that there are 'haves' and 'have-nots' millennials; the business advice offered in the book is based on the former. The book exhorts employers to design organisations that have world-changing impact and (purpose), and offer a lot of autonomy which, it says, is of paramount importance to millennials. But in the section that follows titled 'For Millennials', it says "working with a sense of autonomy may not come easily to everyone, especially to those who are not used to it: Don't be afraid to ask for guidance until you are comfortable". What was that again? HR managers in large Indian services business, of which we will see many more in future, have to deal with the 'have-nots' millennials who are a 'lost' generation – underconfident, unexposed, desperate for a job, and unable to cope with a work world that is impersonal and outcome-driven, and a personal world that requires so much daily struggle. Some advice for them would have been helpful.

There is a lot of very useful and informative discussion in the book, only it isn't often about the world of millennials. It is around design thinking, innovation, coaching, culture building, impact of technology in the workplace, what to do with knowledge specialists who don't want to be people managers, etc. There are of course interesting insights about the world of millennials, too, like their need for instant gratification fuelled by the digital world they are steeped in.

There are a lot of research-based books about millennials in America that provide deeper insights into their workplace behaviour by discussing the social dimension that made them the way they are. Their growing up years with parents who tell them that they can achieve anything they dream of; a growing-up culture where they got "medals for participation, medals for even coming last"; and the instant gratification digital world and how it impacts the way they cope with the workplace and adult life in which they struggle with a lot of stress and strains. I would have loved to read about this dimension in the context of Indian millennials.

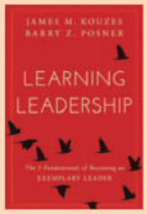
The author's voice is sorely missed in this reportage of ideas and happenings

The book, quite unambiguously, drives home the point that there is a new world of work that needs radically new ways in which organisations should function. The discussion around this is rich, and that's what makes it valuable to legacy companies and newbies, oldies and millennials alike. Were this presented as a collection of essays titled 'The new world of work', I would have felt more satiated and less disappointed, because my expectations would have been more appropriately set. ◆

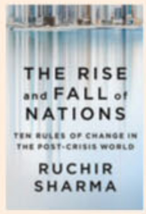
The reviewer is a market strategy consultant

Learning Leadership

THE FORTNIGHTLY PICK

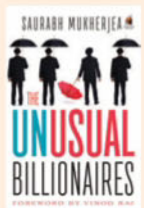


By James M. Kouzes
Price: ₹499
The book offers a concrete framework to help individuals of all levels, functions and backgrounds take charge of their own leadership development and become the best leaders.



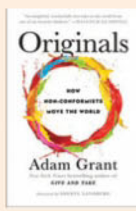
The Rise and Fall of Nations
By Ruchir Sharma
Penguin UK
Price: ₹799

Shoe Dog
By Phil Knight
Simon & Schuster
Price: ₹599



The Unusual Billionaires
By Saurabh Mukherjea
Penguin
Price: ₹499

Alibaba: The House that Jack Ma Built
By Duncan Clark
Ecco
Price: ₹599



Originals: How Non-Conformists Change the World
By Adam Grant
WH Allen
Price: ₹699

*Top books by sales for Dec 19-Jan 1, 2017; Includes only books released after Jan 1, 2015; Information provided by amazon.in

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Asiapower Overseas Employment Services
Designation: Managers Material Control
Location: Cochin / Kochi / Ernakulam
Job ID: 19872498
Description: Responsible to manage all aspects of materials flow and to maintain control and accuracy over all goods inventories.

Datamatics Staffing Services
Designation: Head Finance and Accounts
Location: Chennai
Job ID: 19891478
Description: 7-10 years of experience in finance and accounts in manufacturing setup.

WEPS
Designation: Sales Head
Location: Ahmedabad
Job ID: 19843324
Description: Develops and Initiates all actions necessary and appropriate to achieve established sales.

Golden Opportunities Private Limited
Designation: VP - Commercial Banking Operations
Location: Hyderabad / Secunderabad
Job ID: 19895837
Description: He / She will be spear heading the BPO operations in the commercial banking space for Hyderabad Business Unit completely.

ABC Consultants Private Limited
Designation: Sales Head
Location: Gurgaon
Job ID: 19879060
Description: Must have 10-15 years of relevant years of experience in IT services sales.

Synergy HRD Consultant Private Limited
Designation: Head – Regulatory Affairs
Location: Gurgaon
Job ID: 19450634
Description: Leading all regulatory and safety activities in India to ensure product compliance.

Sampoorna Computer People
Designation: HR Head - IT / ITES
Location: Chennai
Job ID: 19897855
Description: Will take care of recruitment, performance appraisals, Rewards , recognition, payroll, organisation development, Learning development etc.

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dEEVOiR Consulting Services Private Limited
Designation: Senior .Net Developer
Location: Pune
Job ID: 19374193
Description: Computer Science or equivalent degree with 3 to 8 years of development experience.

Sungard Solutions India Private Limited
Designation: Senior Engineer - Product Development
Location: Pune
Job ID: 19593485
Description: Strong knowledge of any programming languages (Python/Perl), Strong Knowledge of Linux operating system.

Tech Mahindra Limited
Designation: Angular, CSS, UI
Location: Bengaluru / Bangalore
Job ID: 19900433
Description: Opportunity for angular,CSS,UI, having Experience 4 - 10 years in Bengaluru / Bangalore location.

Black & White Business Solutions
Designation: iOS Developer
Location: Bengaluru / Bangalore
Job ID: 19858070
Description: iOS and C# with knowledge on web applications (html, javascript) and open source tools.

Hexaware Technologies Limited
Designation: BODS Professionals
Location: Chennai, Mumbai
Job ID: 19898401
Description: An opportunity with Hexaware Technologies_Chennai for SAP BODS professionals.

UST Global
Designation: Sr. Systems Analyst - SAG
Location: Gurgaon, Cochin / Kochi / Ernakulam
Job ID: 19899679
Description: 6+ years development experience in Middleware and Integration.

TIBCO Software India Private Limited
Designation: Software- C C++ Dev
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Description: To drive productivity for the savings account team of the region, To strategize sales activities to increase the branch SA book for the region.

Pathfinder Management Consulting (India) Ltd
Designation: Deputy Manager BD
Location: Gurgaon
Job ID: 19892167
Description: Should have 4-5 years experience in pre sales /Business Development.

2COMS Consulting Private Limited
Designation: Sales Executive
Location: Bengaluru / Bangalore
Job ID: 19899920
Description: Responsible for all sales activities, Identifying Potential Clients for auto sector.

Piramal Enterprises
Designation: Sr. Executive/Asst. Manager - Domestic Marketing
Location: Roorkee
Job ID: 19832291
Description: Meeting Sales Budget, Meeting Collection Target, New Product Development, Interaction with existing customers.

Vanderlande Industries Software Private Limited
Designation: Sales Engineer-Parcel and Postal
Location: Pune
Job ID: 19897630
Description: Minimum 2 years relevant working experience, Analytical ability to structure and solve logistics problems, Good command of English.

CRY-Child Rights and You
Designation: Associate General Manager – Communications
Location: Mumbai
Job ID: 19725425
Description: Contribute to the process of defining brand positioning and communication guidelines to ensure the brand is projected in a consistent manner across mediums.

Husys Consulting Limited
Designation: Business Development Manager
Location: Delhi, Gurgaon
Job ID: 19894074
Description: Looking candidates from fertiliser industry, ceramics industry, communication equipment industry.

IDC Technologies Solution Private Limited
Designation: Social Media Marketing Manager
Location: Mumbai
Job ID: 19877749
Description: Looking for a Social Media Marketing Manager who will build and execute social media strategy through competitive research, platform determination.

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Job ID: 19277190
Description: Supporting senior management team by providing timely MIS and relevant business analysis.

Eaton Technologies Private Limited
Designation: Analyst - Financial Planning & Analysis
Location: Pune
Job ID: 19892371
Description: 3-5 years of financial reporting experience in forecasting, Budgeting and Variance Analysis.

Multi Recruit
Designation: Lead / Manager - Event Marketing & Fund raising
Location: Chennai
Job ID: 19875808
Description: Strategies, and execute marketing initiatives and communication campaigns for Bhumi events.

New Era India Consultancy Private Ltd
Designation: Executive / Sr. Executive Accounts
Location: Mumbai
Job ID: 19892236
Description: Candidate will be handling Accounts & Finance activities like General Accounting, Taxation, payables & Recievables, Accounts Finalisation etc.

Vitasta Consulting Private Limited
Designation: Asst Manager/Manager-Finance
Location: Gurgaon
Job ID: 19895962
Description: Preparing & Reviewing MIS Reports, Formulating budgets, conducting variance analysis, Prepare basic cost-benefit analysis.

Quinnox Consultancy Services Limited
Designation: Finance Accounts Executive
Location: Mumbai
Job ID: 19890109
Description: Accounts Receivable Function, Accounts Payable, Customer Invoicing, Bank Receipts, Bank Reconciliation.

WNS Global Services Private Limited
Designation: Accounts Payable/Acc.Rec/ General Ledger
Location: Mumbai
Job ID: 19279768
Description: Candidates should have worked upto finalization of accounts or assisted in finalization.

Black Turtle India Private Limited
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Description: Looking for candidate with experience into model validation, Candidates with experience into market risk.

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AZIM PREMJI
Chairman, Wipro Limited

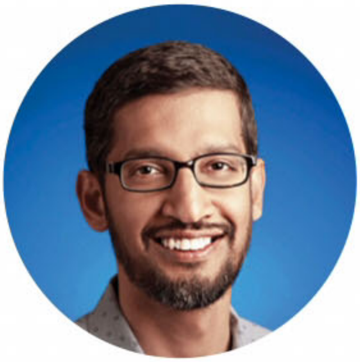
VIVAN MEHRA

Bracing for the Storm

In letters issued on New Year's Eve, **Azim Premji** and **Vishal Sikka**, the heads of India's two largest IT companies, Wipro and Infosys, respectively, warned employees about the challenging times ahead. "I must say that the year 2016 seems to have raised questions and obstacles, on the path to a better world, which cannot be ignored," Premji said in his letter. He asked employees to increase their commitment to others, and find a common ground rather than focusing on conflicts. Sikka evoked a similar sentiment in his letter. "We must remember that operational excellence is an imperative for each one of us," he said. He urged employees to focus on delivering the best solutions in the smartest, fastest way possible, and "not give up or give in to weaker instincts."

VISHAL SIKKA
CEO, Infosys

DEEPAK G. PAWAR



SUNDAR PICHAI
CEO, Google Inc

Digital Ambassador

Google CEO, **Sundar Pichai**, while on a short trip to India, announced the launch of 'Digital Unlocked' – a training programme for small and medium businesses (SMBs) in India which will help them understand how digital works. "With Internet, even small businesses can become large," Pichai said at the event. He announced the GoogleMyBusiness initiative which will enable SMBs to list on Google, even if they don't have a website. He also launched the Primer app, designed to teach SMBs digital marketing skills. Pichai visited his alma mater IIT Kharagpur, where he interacted with students. He regaled the audience with his hostel tales and shared insights about his journey so far.

Banking on Change

Banks Board Bureau Chief and former Comptroller and Auditor General of India, **Vinod Rai**, said that the bureau is planning to bring in major changes in the banking system, including improved pay structures and bonuses. "By next fiscal, we are looking at a far more attractive package for public sector banks with bonus, ESOPs, performance-linked variables – monetary or non-monetary benefits – to make it more attractive for professionals to enter PSBs," he said at an ASSOCHAM event in New Delhi. Rai informed that the bureau is considering the appointment of a full-time Director or Executive Director in public sector banks, besides the current posts of Chairman and Managing Director (CMD).

VINOD RAI
Chairman, Banks Board Bureau

VIRAL ACHARYA
Deputy Governor, RBI

Banker Goes Viral

Viral Acharya, has been appointed the Deputy Governor of the Reserve Bank of India. A New York University professor, Acharya's appointment was much talked about on Twitter. While some were amused by his name, others appreciated his background, drawing similarities to that of former RBI Governor Raghuram Rajan. In fact, he has also co-authored several papers with Rajan. Acharya, 42, will take over as Deputy Governor for a three-year term, effective January 20, and will head the monetary policy and research cluster. The Central bank has four deputy governors; Acharya filled the place left vacant by Urjit Patel who was appointed as the RBI Governor.

Second Innings

Former Deutsche Bank co-CEO **Anshu Jain** has made a comeback. He has joined the US-based financial services firm Cantor Fitzgerald LP (CFLP) as President. Jain had left Deutsche Bank in June 2015 after struggling to rejuvenate the bank. "He has a deep understanding of the global capital markets, and strong expertise built over decades of leadership in the industry, making Anshu my ideal partner to drive growth during the next era of Cantor's development," said Cantor's Chairman and CEO, Howard Lutnick. Jain will be based in CFLP's headquarters in New York.

ANSHU JAIN
President, Cantor Fitzgerald LP

COMPILED BY DEVIKA SINGH

"India and China driving growth in mainline market"

VIVAN MEHRA

Jean-Francois Beaudoin, Senior VP, Asia Pacific, Alstom, talks to **Anilesh S. Mahajan** about the scope India offers for the freight industry.

How have Europe, China and North America, fared vis-a-vis freight and passenger traffic?

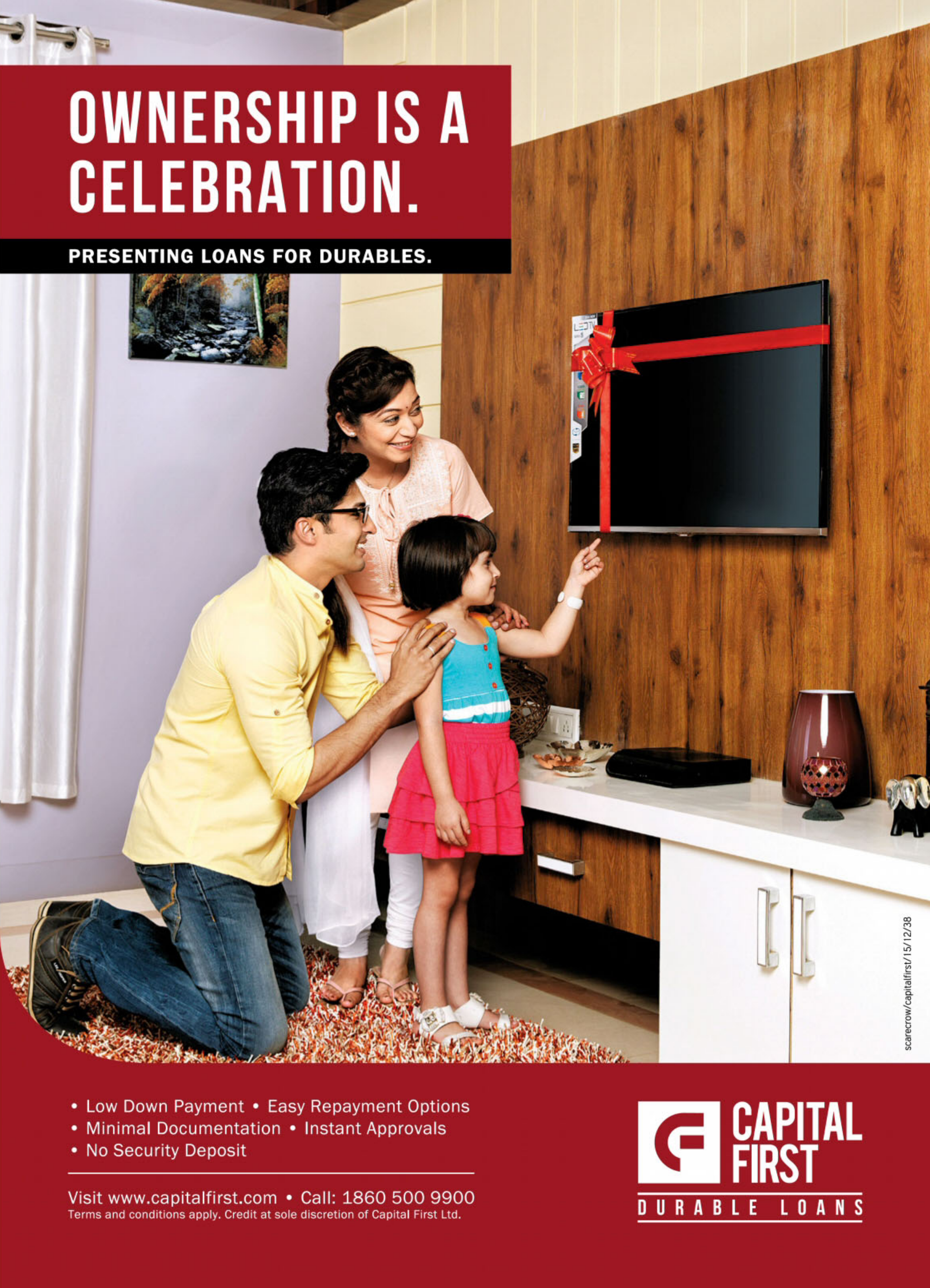
North America has traditionally been a freight market, given the oil prices in the region. As per UNIFE 2016, the market has declined over the last year. China also has a large freight market. Globally, the freight market has registered a decline driven by these two large markets. The Indian freight market in comparison has seen a steady growth of 2.4 per cent compared to the previous year. Europe is more driven by passenger/ mainline traffic rather than freight, which has increased marginally. Maximum growth in mainline market has been driven by China and India (6.5 per cent average growth over 2007-2015); not surprising, given the growth in population and urbanisation in these countries.

How can India cater to European countries looking at opportunities here?

India should continue its strong focus on 'Make in India', and incentivise that process by building in some elements in the evaluation criteria that require companies to invest in India and deliver solutions with high Indian content. That way we create more jobs in India, and also improve supply chain delivery.

Alstom will be manufacturing locomotives in India. How do you plan to source equipments?

Under the contract, Alstom will supply 800 electric double locomotives to the Indian Railways. We will invest 200 million euros to set up a factory in Madhepura for the manufacturing of locomotives and two maintenance depots. Proximity to customers and localisation is central to our strategy for growth. In line with the 'Make in India' policy, Alstom has been localising its supply chain in India extensively, and aims for 80-90 per cent of indigenisation in the contract. Some of the components for the first five locomotives will actually be sourced and manufactured from Europe, after which the level of Indian content will be maximised. This plan is actually even more local than what the contract requires. ◆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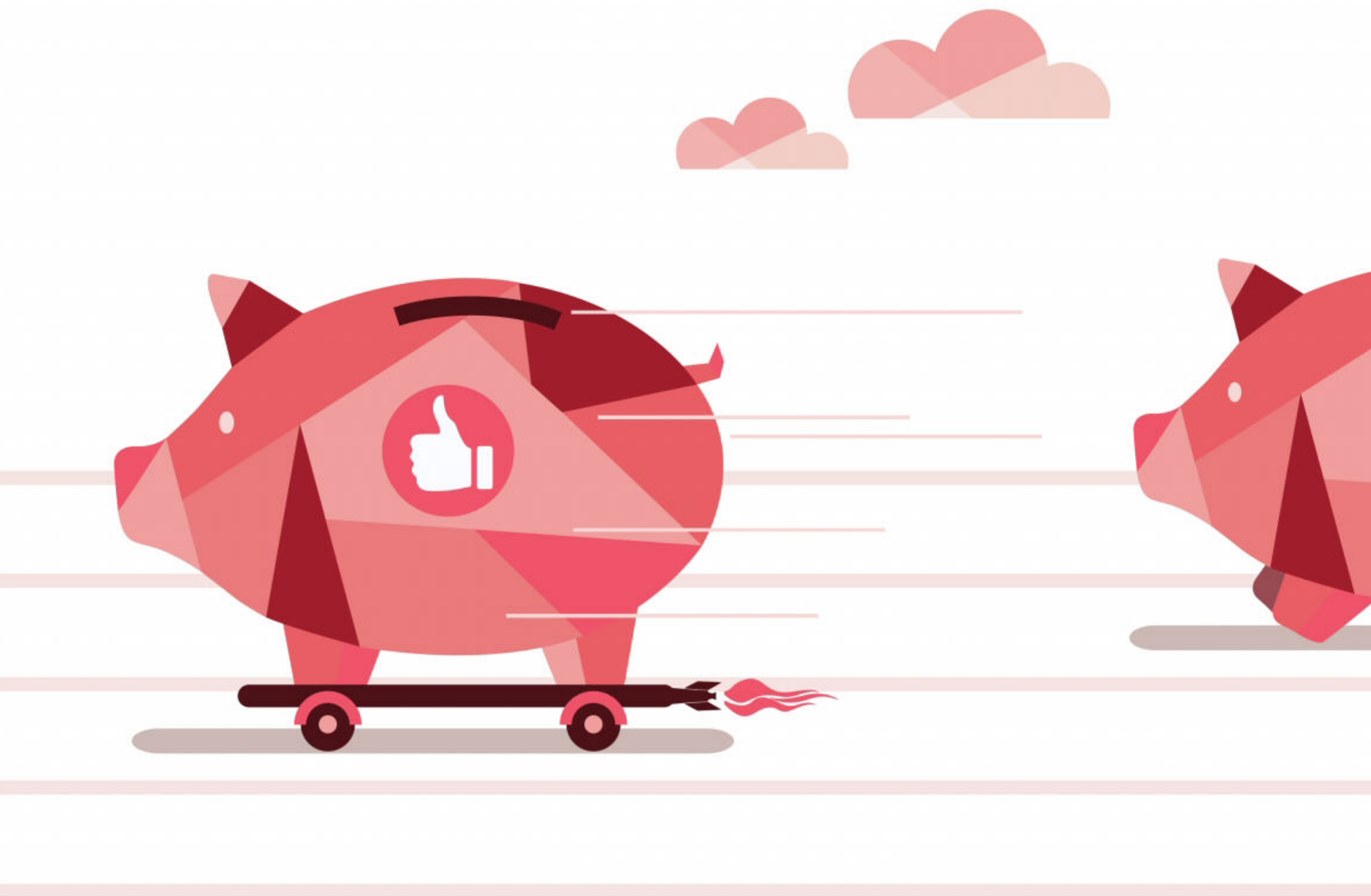
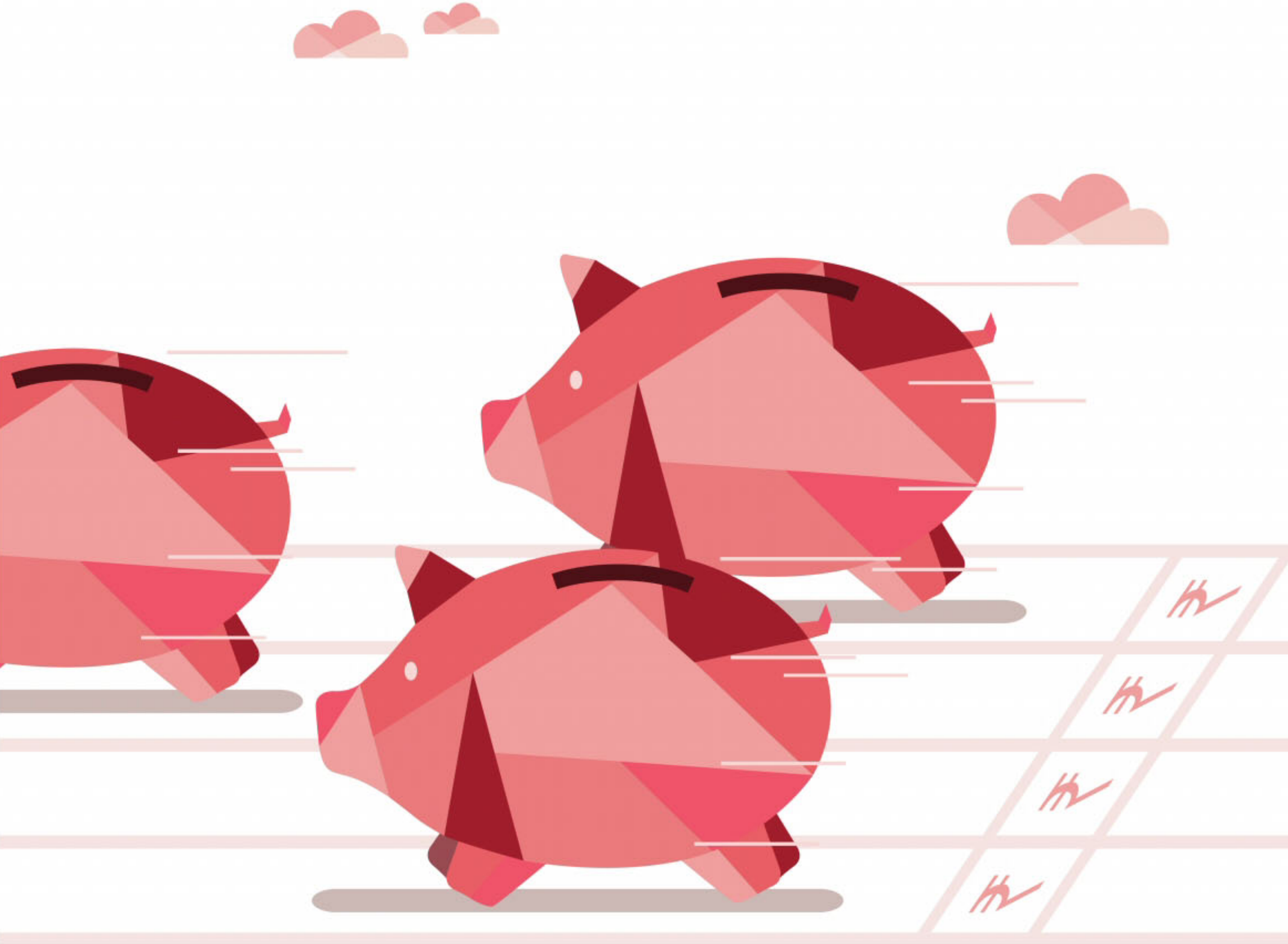


THE TOP BETS

We give you tips to choose mutual funds that have the best chance of giving decent returns next year.

BY RENU YADAV



Illustrations by RAJ VERMA

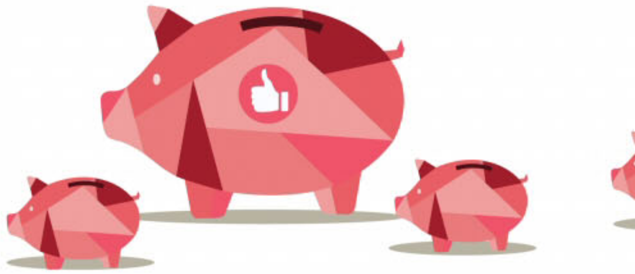
The broad equity market indicator, the S&P BSE Sensex, fell around 5 per cent in November. Still, equity mutual funds received a net inflow of Rs 8,068 crore. Was this due to demonetisation, which made people look for alternatives to park cash? Or was this an indication of the changing behaviour of mutual fund investors, who now react to market dips in a much more mature manner and don't panic? Experts say though it is too early to know if demonetisation was behind the surge in inflows, the behaviour of investors is definitely changing.

"Retail investors have learnt from their experience. They now prefer investing for the long term with maturity. That is why we received inflows in November in spite of a correction," says Nilesh Shah, CEO and MD Kotak Mahindra Asset Management Company.

Others agree. "Investors have become mature. They don't resort to panic selling when the market falls," says Jimmy Patel, CEO, Quantum Asset Management Company.

In fact, they buy more during market falls, says Prateek Pant, Head of Products and Solutions, Sanctum Wealth Management. "We get a lot more calls during market dips. Investors don't rush to sell their holdings during corrections, which used to be the case earlier," he added.

Since April 2014, net inflows (people invested more than what they redeemed) in equity mutual funds have been positive in all months barring just two. Equity mutual funds received a net investment of Rs 1.72 lakh



BEST DEBT FUNDS

	Return (%)			
SCHEME NAME	6-Month	1-Year	3-Year	5-Year
DEBT: SHORT TERM				
Franklin India Low Duration Fund	5.63	10.00	10.03	9.94
HDFC Short Term Fund	6.03	10.85	10.50	9.68
Indiabulls Short Term Fund - Regular Plan	4.92	9.19	9.08	-
Reliance Medium Term Fund	5.29	9.58	9.27	9.20
Birla Sun Life Short Term Fund	6.56	11.37	10.41	10.05
DEBT: LIQUID				
Taurus Liquid Fund - Regular Plan	3.62	7.85	8.56	8.97
Franklin India Treasury Management Account Fund - Super Institutional Plan	3.58	7.78	8.55	8.94
Indiabulls Liquid Fund	3.69	7.95	8.54	8.91
Peerless Liquid Fund - Regular Plan	3.68	7.86	8.52	8.97
Birla Sun Life Floating Rate Fund - Short Term Plan	3.61	7.84	8.50	8.92
DEBT: INCOME				
Birla Sun Life Treasury Optimizer Fund - Regular Plan	8.84	14.19	11.74	10.94
ICICI Prudential Banking & PSU Debt Fund	8.88	14.24	11.19	10.25
HDFC Medium Term Opportunities Fund	7.13	11.82	10.53	9.90
ICICI Prudential Advisor Series - Dynamic Accrual Plan	7.54	12.23	11.78	10.09
DHFL Pramerica Banking & PSU Debt Fund	6.15	10.54	10.08	-
DEBT: GILT MEDIUM & LONG TERM				
SBI Magnum Gilt Fund - Long Term Plan	14.10	18.63	15.17	12.83
Birla Sun Life Gilt Plus - PF Plan	15.04	20.55	15.30	12.44
BNP Paribas Government Securities Fund	14.29	18.87	14.30	-
L&T Gilt Fund - Investment Plan	13.98	19.72	14.51	13.48
Reliance Gilt Securities PF	14.58	20.05	14.78	12.43
DEBT: DYNAMIC BOND				
ICICI Prudential Long Term Fund	12.82	18.78	14.84	12.74
UTI Dynamic Bond Fund	12.99	17.19	12.88	11.63
Birla Sun Life Dynamic Bond Fund - Retail Plan	13.03	18.45	13.66	11.75
DSP BlackRock Strategic Bond Fund - Institutional Plan	11.57	16.31	12.39	10.83
Tata Dynamic Bond Fund - Regular Plan	10.56	14.80	11.86	10.73
HYBRID: DEBT-ORIENTED CONSERVATIVE				
ICICI Prudential Child Care Plan - Study Plan	9.61	12.94	18.54	16.40
ICICI Prudential Regular Income Fund	5.70	10.28	11.35	9.197
Birla Sun Life Monthly Income Plan II - Savings 5 Plan - Direct Plan	11.1647	16.54	14.05	-
SBI Magnum Monthly Income Plan	9.89	14.97	13.67	11.87
SBI Magnum Monthly Income Plan - Floater	5.25	10.36	12.50	11.27

Data as on November 30, 2016; Top schemes based on 3-year rating score by Value Research

crore during this period.

The faith shown by investors in mutual funds was not entirely misplaced as most managed to do well and beat their benchmarks in spite of operating in a challenging market. And, 2016 was the year of debt funds. Almost all debt fund categories delivered double-digit returns as falling interest rates, accompanied by demonetisation, led to a rally in bond prices. The category of Debt: Gilt and Medium Term, highly sensitive to interest rates, was the best performer and delivered an average return of around 15 per cent (as on December 27, 2016). The other debt categories returned 10-13 per cent.

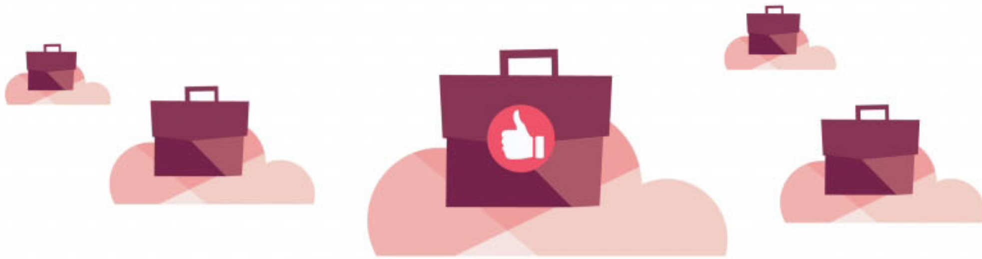
Equity mutual funds returned 4-5 per cent, though most were able to beat their benchmarks. In equities, small-cap funds outperformed the large- and mid-cap peers by delivering 5 per cent returns. Among sector and thematic funds, banking funds were the best performing with a return of 10 per cent.

SIP POPULARITY

Not only are investors staying put during downturns, they are also increasingly investing through systematic investments plans, or SIPs, considered one of the best ways of taking exposure to equity funds. A SIP ensures that the investor doesn't have to time the market. It also averages out costs. "A lot of money coming into mutual funds is through the SIP route. SIP folios have crossed the one crore mark and now account for 20 per cent of existing folios," says Suresh Soni, Chief Executive Officer, DHFL Pramerica Asset Management Company.

"SIP has become a generic brand, which means it is now counted among traditional savings options such as Public Provident Fund and recurring deposits, with greater benefits," says Anjaneya Gautam, National Head, Mutual Funds, Bajaj Capital.

The Association of Mutual Funds in India (AMFI) data show that the mutual fund indus-



BEST EQUITY FUNDS

	Return (%)			
SCHEME NAME	1-Year	3-Year	5 -Year	10-Year
EQUITY: LARGE CAP				
SBI Bluechip Fund	7.89	20.68	19.42	10.03
Birla Sun Life Top 100 Fund	7.71	18.34	17.87	11.05
Birla Sun Life Frontline Equity Fund	8.45	17.84	17.57	13.22
Quantum Long Term Equity Fund	15.69	18.39	17.44	14.23
UTI Equity Fund	3.63	16.94	15.86	12.19
SBI Magnum Equity Fund	6.97	17.14	15.41	11.15
Reliance NRI Equity Fund	5.89	15.54	15.70	11.28
Reliance Focused Large Cap Fund	1.90	15.12	16.11	7.69
Kotak Classic Equity Regular Plan	8.98	14.43	14.88	10.11
Principal Large Cap Fund	7.11	16.83	15.16	11.10
EQUITY: MID CAP				
Franklin India Prima Fund	11.27	29.94	25.20	13.71
BNP Paribas Midcap Fund	4.35	26.68	24.90	9.91
SBI Magnum Global Fund	4.54	25.00	22.04	12.23
UTI Mid Cap Fund	6.46	32.54	25.03	14.05
Sundaram Select Midcap Fund - Regular Plan	13.73	33.24	24.01	15.94
ICICI Prudential Midcap Fund	6.24	30.42	23.71	10.76
Tata Midcap Growth Fund - Regular Plan	1.44	28.87	22.26	13.04
Kotak Mid-Cap Regular Plan	13.77	30.79	22.57	12.28
Birla Sun Life Mid Cap Fund	11.42	30.10	21.36	14.56
DSP BlackRock Small and Mid Cap Fund - Regular Plan	14.58	31.01	22.79	15.10
EQUITY: MULTI CAP				
ICICI Prudential Value Discovery Fund	5.40	27.15	23.63	16.30
SBI Magnum Multicap Fund	10.62	24.57	20.49	8.68
Birla Sun Life Equity Fund	18.49	25.62	21.10	12.12
SBI Magnum Multiplier Fund	4.78	21.20	18.90	12.20
Franklin India Prima Plus Fund	6.13	21.83	18.21	13.32
ICICI Prudential Multicap Fund	10.18	21.82	18.94	10.93
Birla Sun Life Advantage Fund	13.63	25.81	19.98	10.19
BNP Paribas Dividend Yield Fund	5.92	19.69	17.49	12.95
Principal Growth Fund	7.82	20.45	19.51	7.66
Tata Ethical Fund - Regular Plan	-1.02	15.78	15.93	10.09

Data as on November 30, 2016; Top schemes based on 10-year rating score by Value Research

try added about 6.3 lakh SIP accounts per month in the current financial year; the average account size was Rs 3,200.

"If we were to highlight one big trend, it would be people taking the correct way of investing in mutual funds. In 2016, most investments came in existing open-ended equity funds and not close-ended funds or new fund offers. Almost all investments were in diversified funds (not in sector or thematic funds). And inflows into equity funds rose when markets corrected (not when they were peaking). Fresh SIP registrations rose 30-35 per cent," says Manoj Nagpal, MD and CEO, Outlook Asia Capital.

In essence, 2016 was a copybook year where investors followed all the right rules. This will help them significantly. It also reflects the growing maturity of both investors and mutual fund distributors.

BUILDING TRUST

Indians prefer parking their money in bank fixed deposits due to safety and guaranteed returns. To convince them to put money into mutual funds, which is a market-linked product and doesn't guarantee any return, is a herculean task. But fund houses are making progress by building trust among investors.

A part of the credit for this should also go to the Securities and Exchange Board of India, or Sebi, which has been introducing new investor-friendly norms to ensure transparency and protect investors' interest.

"Investors are showing confidence in mutual funds because of the transparency norms introduced by Sebi. This has made sure that people know where they are investing, at what cost they are investing, and what all comprises their portfolio," says Patel of Quantum Asset Management Company. Sebi has been tightly regulating mutual funds, which has helped prevent scams and hiccups, he says.

SEBI POWER

Sebi has been way ahead of other regulators in introducing forward-looking norms. Despite the fact that India's mutual fund industry is still at a nascent stage, it introduced norms on a par with those that govern some of the world's most developed markets. It, for instance,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BEST EQUITY FUNDS

	Return (%)			
SCHEME NAME	1-Year	3-Year	5-Year	10-Year
EQUITY: SMALL CAP				
Franklin India Smaller Companies Fund	14.19	35.05	30.05	15.29
SBI Magnum Midcap Fund	11.26	31.80	27.86	11.76
Canara Robeco Emerging Equities Fund - Regular Plan	5.53	36.21	27.22	15.42
L&T Midcap Fund	12.60	34.17	24.90	14.38
Sundaram S.M.I.L.E. Fund - Regular Plan	0.46	35.43	23.18	14.94
HSBC Midcap Equity Fund	6.48	33.20	22.14	8.08
EQUITY: TAX PLANNING				
Birla Sun Life Tax Relief 96	5.01	22.40	19.45	10.89
Reliance Tax Saver Fund	7.12	27.18	22.03	13.17
Birla Sun Life Tax Plan	4.58	21.45	18.84	10.11
Franklin India Taxshield Fund	5.89	21.56	18.01	13.49
ICICI Prudential Long Term Equity Fund (Tax Saving)	5.79	19.84	18.87	12.23
Tata India Tax Savings Fund	7.03	22.21	18.03	11.38
Principal Tax Savings Fund	7.71	20.41	19.67	8.40
BNP Paribas Long Term Equity Fund	-1.09	18.12	17.27	7.90
L&T Tax Saver Fund	11.75	22.10	17.52	7.87
HDFC Long Term Advantage Fund	12.78	18.10	16.81	11.23
HYBRID: EQUITY-ORIENTED				
SBI Magnum Balanced Fund	8.10	19.66	19.13	11.34
ICICI Prudential Balanced Fund	14.68	20.87	18.74	12.04
Tata Balanced Fund - Regular Plan	6.87	20.82	18.15	13.89
HDFC Balanced Fund	11.88	22.03	17.94	14.14
HDFC Childrens Gift Fund - Investment Plan	11.09	19.03	17.24	14.00
Franklin India Balanced Fund	9.36	19.98	16.82	11.87
Birla Sun Life Balanced '95 Fund	11.75	20.51	16.72	13.47
ICICI Prudential Child Care Plan - Gift Plan	10.00	20.55	18.37	10.98
Reliance Regular Savings Fund - Balanced Option	6.54	19.64	16.79	14.26
Principal Balanced Fund	11.61	17.33	16.26	10.10

Data as on November 30, 2016
Top schemes based on 10-year rating score by Value Research

The Rating Score is a single composite measure which gives an indication of a fund's risk-adjusted return. It is a purely quantitative measure. It is a unified performance measure which captures how a fund has performed, relative to the other funds in its category, for the risks it has taken.

banned entry load and introduced a transaction charge of Rs 100 for existing customers and Rs 150 for new customers. It also asked fund houses to plough the exit load back into the scheme to compensate those who stay invested. The introduction of direct plans was a big step in bringing down costs for those who invest on their own.

Apart from these steps, fund houses were asked to make public the annual commission paid to distributors. At the same time, distributors were expected to disclose all the commissions — upfront, trail, or any other, to bring in more transparency.

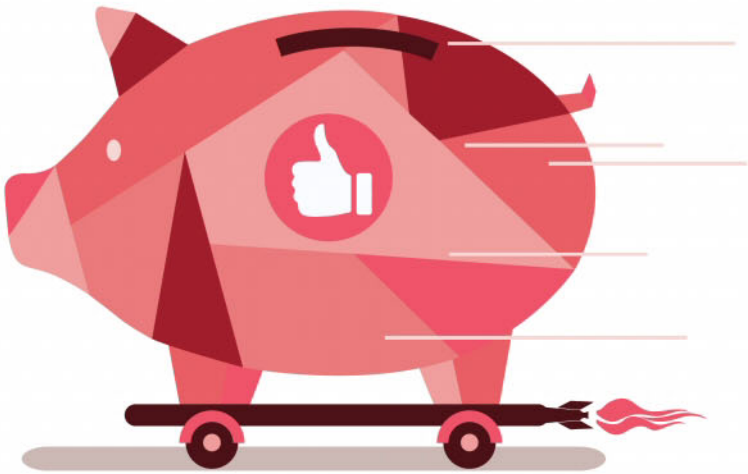
Sebi has also proposed norms for separating the advisory business from the distribution business in order to curb mis-selling. The proposed regulations bar distributors, who earn commission from mutual fund companies, from advising people. For advisory services, they will have to register themselves separately with Sebi.

Though most industry players have welcomed the step, they say it will be premature to implement this regulation at this juncture as the mutual fund industry is at a very nascent stage.

"For a market such as India, we tend to oversimplify. If you really want to penetrate beyond top-15 cities, you need a strong distribution network. If the incentives for advisory are uneconomical it would be difficult for distribution to shift completely to advisory models. Also, retail investors don't understand the difference between an advisor and a distributor. If the current proposal is accepted, it will likely have a significant impact on the distribution business," said Prateek Pant, Co-Founder and Head of Products and Solutions, Sanctum Wealth Management.

B-15 CITIES GROW

The mandatory investor awareness campaigns run by mutual fund companies made lakhs of people aware about mutual fund investing. As per AMFI data, assets from B-15 (beyond top 15 cities) locations increased from Rs 2.12 lakh crore in November 2015 to Rs 2.81 lakh crore in November 2016. The rate of growth in assets for B-15 locations was 32.41 per cent (26 per cent for the industry as a whole) during the period.



The increased contribution of B-15 cities can also be attributed to the higher incentives that fund houses get if they service customers in these locations. In 2012, Sebi had allowed fund houses to charge an additional 30 basis points as expense (100 basis points is equal to one per cent) if 30 per cent inflows or 15 per cent average assets under management, whichever is higher, in the scheme are from B-15 cities.

But not everybody is in favour of paying more to increase the reach of mutual funds. "The present regulatory model of tapping into Tier-II cities involves higher brokerage. In my view, this is an incorrect model. Though this has increased the percentage of assets from these cities, there has not been a proportionate rise in the number of investors," says Nagpal of Outlook Asia Capital. "This is a fallacious approach. One needs to remove this different pricing model under which a Tier-I city investor has to pay for the commission for the business done in a Tier-II city," he says.

"This should be changed to incentivise the addition of investors. Once the goal changes to bringing in new investors, it will be more helpful for the industry as a whole," he says.

The introduction of various other market-linked products has also helped more people understand mutual funds. "The understanding of market-linked products is increasing with the introduction of the National Pension System (NPS) and the equity option in the Employee Provident Fund (EPF)," says Pant of Sanctum Wealth Management.

ONLINE PUSH

The whole country is in the midst of a digitisation wave. Mutual funds, too, have been at the forefront of enabling digital/online transactions. Online investments are beneficial for both investors (less paper work) and fund houses (lower costs). This has the potential to increase the reach of mutual funds manifold.

Soni of DHFL Pramerica Asset Management Company says there has been a huge increase in online investments over the past four-five years. But if you want people to adopt digital in a big way, the onboarding process has to be made simpler, he added.

At present, almost all mutual funds have the online option for transacting. But the rigorous KYC (know your customer) processes still prevent several investors form completing the process online.

"Account opening is still a challenge as it requires paper movement if the investor is not KYC-compliant. This is the case even if the investor is a bank account holder," says Anjaneya Gautam of Bajaj Capital.

So, you can't sit at your home or office and invest in mutual funds, as the norms require investors to complete the KYC process in person at the fund's office or the registrar and transfer agent's office. However, some mutual funds are using innovative ways such as web cameras to get the KYC done online. Aadhaar-based e-KYC has been introduced but comes with an investment limit of Rs 50,000 a year.

Sebi, along with the Reserve Bank of India, or RBI, has introduced centralised KYC for all financial institutions. But this, too, has limitations. The centralised KYC, in the current form, has not been a game changer for mutual funds. This is because for an existing customer to shift to centralised KYC, a whole lot of data will be required, which again will be a big hurdle.

"As of now, even in centralised KYC, there are two different forms of KYC, with very low fungibility of KYC

Retail investors have learnt from experience. They now prefer investing for the long term with maturity. That is why we received inflows in November.

Nilesh Shah
CEO and MD, Kotak Mahindra Asset Management Company

from banks to mutual funds. From mutual funds to banks, though, the fungibility is 100 per cent. This, in our view, is a significant limitation for mutual funds," says Nagpal.

"This has rendered the current KYC process of mutual funds redundant. It needs to be re-drawn. There should be single KYC for the entire financial sector and that should be enough to invest in mutual funds too. That should be the goal. We are still far away from that," he added.

LONG WAY TO GO

Mutual funds' average assets surged to an all-time high of around Rs 17 lakh crore in November. Although the number may look impressive on a standalone basis, it is minuscule on a relative basis. "Mutual funds' assets are just 5 per cent of bank deposits," says Prateek of Sanctum Wealth Management.

This confirms what we are all well aware of — that most household savings are in physical assets such as gold and real estate.

"The mutual fund industry has a long way to go. Mutual fund is a product for the masses and we have reached just 1 per cent of the population. A lot more needs to be done," says Rajiv Shastri, MD and CEO, Peerless Asset Management Company.

SIGNS ARE GOOD

The number is likely to rise further. The exposure of households to financial assets such as shares and debentures is rising. Indian households invested 0.7 per cent financial savings in mutual funds in 2015/16 compared to 0.4 per cent in 2014/15.

The trend is likely to continue. There are many reasons for that. One is that real estate and gold have failed to make money for investors over the past two-three years.

The S&P Sensex, the indicator of the broad equity market, has delivered an annualised return of close to 10 per cent over the past five years. Equity large-cap funds have returned 13 per cent during the period. And these returns are mostly tax-free as there is no capital gains tax on equities after one year.

Apart from the returns, it is much easier to invest in an equity instrument than in an asset such as real estate. To buy property, one has to do multiple checks. There is also a far higher likelihood of getting cheated. Finding a property with a good chance of appreciation is also not a easy task. In contrast, you can easily find a good mutual fund by doing some basic research as a lot of data is publicly available (we have shortlisted some top performing funds in various categories with the help of Value Research, a mutual fund ratings agency).

Also, now, demonetisation will make the traditional assets more unattractive, especially real estate.

"Demonetisation will be an indirect catalyst for the shift of household savings to market-oriented financial instruments such as mutual funds, equities and other capital market instruments. We say an indirect-catalyst as demonetisation, per se, does not create favourable conditions for capital market instruments. However, it does create unfavourable conditions for physical assets and fixed return financial instruments by lowering their attractiveness," says Nagpal of Outlook Asia Capital.

The overall outlook, however, is upbeat but challenges to increase investor awareness about mutual funds being a low-cost investment remain. ◆

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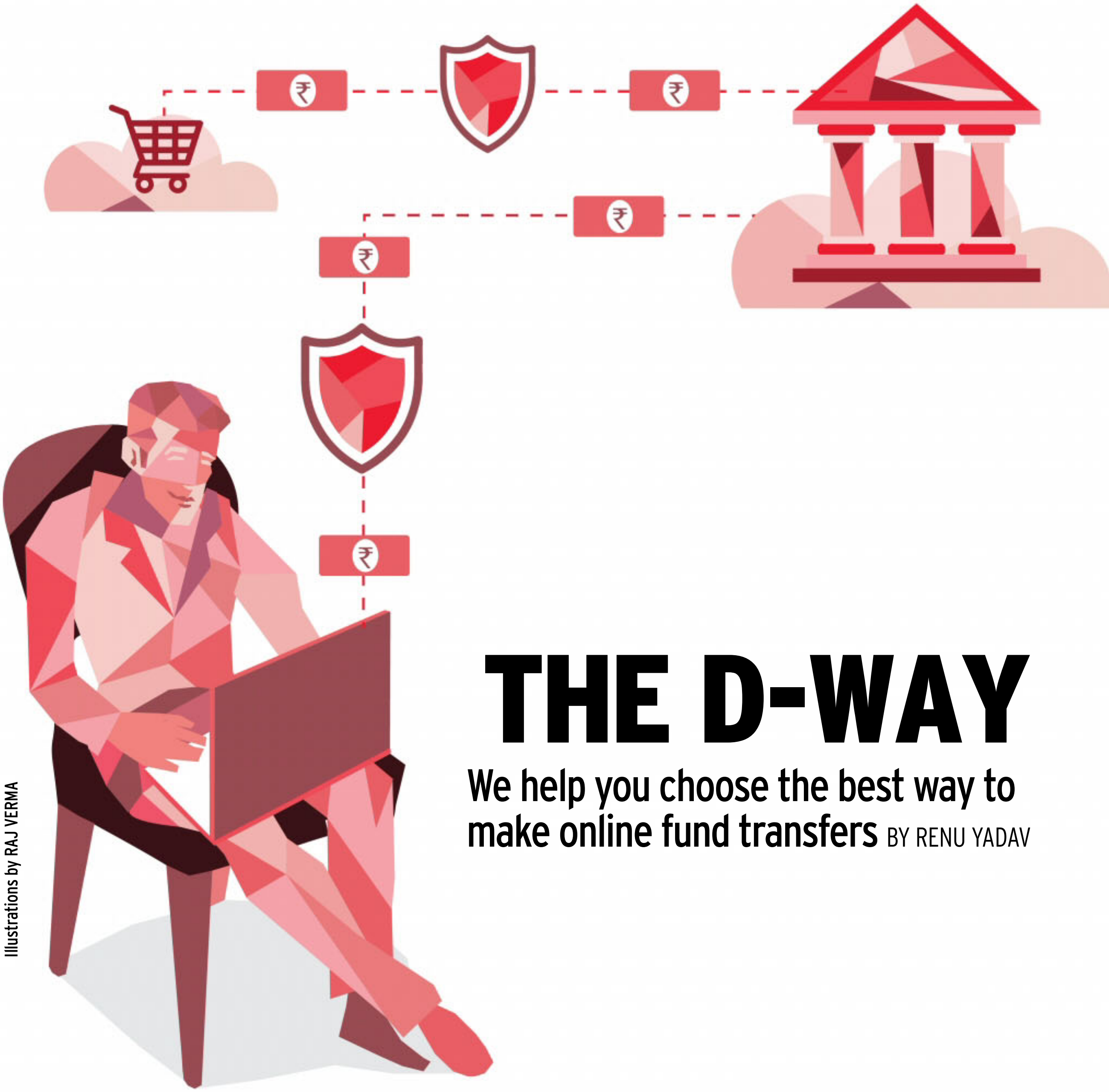

Illustrations by RAJ VERMA

THE D-WAY

We help you choose the best way to make online fund transfers BY RENU YADAV

Digital transactions have increased sharply after demonetisation. The trend has been helped by the plethora of options available today for online transfer of funds. But there is a flip side to this too. The sheer number of options makes it difficult to people to decide which one is best for them.

So, we did a comparative analysis of the various methods for transferring money online if you have a bank account, based on factors such as cost, transfer limits, etc, to help you make the right choice.

THE NEFT WAY

The National Electronic Fund Transfer, or NEFT, is one of the most commonly-used ways of transferring money online from one bank account to another. The system is based on a deferred settlement basis. This means the money is transferred in batches. At present, there are 12 settlements between 8am and 7pm on weekdays and six settlements between 8am and 1pm on Saturdays.

There is no cap on the amount of money that can be transferred. However, individual banks may set a limit. State Bank of India, for example, has capped the NEFT transfer amount under retail banking at Rs 10 lakh.

The Process

1. Your bank branch has to be NEFT-enabled. You can check on the Reserve Bank of India's (RBI's) website if it is so.
2. Get a net banking login id and password. Also, register your mobile number with the bank.
3. Add the details of the beneficiary to whom you want to transfer money. For this, you need the name of the person, his or her account number and 11-digit alphanumeric IFS (Indian Financial System) code for the bank branch. The IFSC is printed on the cheque leaf. It is also available on the RBI website.
4. After adding the beneficiary, you may have to wait for some time before you can transfer money. For instance, in case of ICICI Bank, you can transfer money after half an hour of the addition of the beneficiary. In case of SBI, it is four hours.
5. Log in to your net banking account, go to 'Transfer Funds', select the beneficiary (you can add multiple beneficiaries) and transfer money by entering the one-time password that you will get on your mobile phone.
6. The money will be transferred to the beneficiary's account when the next settlement is scheduled.

The Cost Factor

The cost ranges between Rs 2.50 and Rs 25, plus service tax, depending upon the amount.

The Limitations

You can't transfer money under NEFT any time you want to. Praveen Kutty, Head, Retail & SME Banking, DCB Bank, says, "The transfer is not instantaneous. Also, the facility is available only on bank working days, and that excludes weekends and bank holidays."

THE RTGS OPTION

The Real Time Gross Settlement, or RTGS, is for high-value transactions. The minimum amount is Rs 2 lakh. There is no cap. The transfer happens on a real-time basis throughout the RTGS business hours. The bank of the person to whom the money is transferred gets 30 minutes to credit it to his or her account.

Any person who has a smart phone can opt for UPI as it can be used 24x7. Organisations that want to transfer large funds can opt for RTGS or NEFT.

The RTGS window is open from 9am to 4.30pm on weekdays and 9am to 2pm on Saturdays.

The Process

You have to make sure that your as well as the beneficiary's branch is RTGS-enabled. The rest of the process is the same as NEFT's.

The Cost Factor

The RTGS costs more than the NEFT. The charges may differ from bank to bank but can't exceed Rs 30 for transfers of Rs 2-5 lakh and Rs 55 for transfers above Rs 5 lakh.

The Limitations

The branches of both the account holder and the beneficiary have to be RTGS-enabled. Not all bank branches offer this facility. The list of RTGS-enabled branches is available on the RBI's website. You can't use the facility on Sundays and holidays.

THE IMMEDIATE SERVICE

The immediate payment service, or IMPS, is an instant fund transfer service. It is a 24x7 facility. You can use it anytime during 365 days of the year. It was launched by National Payments Corporation of India in 2010. Just like NEFT and RTGS, it can be used through mobile as well as internet banking.

If you have the net banking facility, you don't have to register separately for IMPS. Once you initiate the transaction, you are given different options such as NEFT, RTGS and IMPS. You can just click on IMPS.

For using IMPS through internet banking, you need the beneficiary's account number and the IFS code of the bank branch for registering him or her. In case of mobile transfer, you have to know the beneficiary's account number as well as the MMID (Mobile Money Identifier) code, a seven-digit number issued by the bank if the person is using mobile banking as a beneficiary. In case of IMPS through mobile, there is no need to register the beneficiary.

The charges

The charges are decided by banks. Generally, the charge is Rs 5 for transfer up to Rs 1 lakh and Rs 15 for Rs 1-2 lakh. A service tax is also levied.

The limitations

The transaction limit is Rs 2 lakh through internet banking.

MAKING A CHOICE

	NEFT	RTGS	IMPS	UPI	USSD
Transfer limit (Rs)	No limit	< Rs 2 lakh	Rs 2 lakh per day	Rs 1 lakh per day	Rs 5,000 per day
Information Required	Account number and IFS code	Account number and IFS code	Account number and IFS code/ MMID and mobile number	VPA of recipient and MPIN	Bank account and IFS code/ MMID and mobile number
Fund transfer timing	Generally on the same day	Real time, generally within 30 minutes	Instant	Instant	Instant
Cost as per the amount of transfer**	Rs 2.50 < Rs 10,000 Rs 5 for Rs 10,000- 1 lakh Rs 15 for 1-2 lakh Rs 25 for above Rs 2 lakh	Up to Rs 30 for Rs 2-5 lakh Up to Rs 55 for above Rs 5 lakh	Rs 5 for up to Rs 1 lakh Rs 15 for Rs 1-2 lakh	Free of charge	0.50 paise
What you need	Internet connection	Internet connection	Internet connection	Smartphone with internet connection	GSM phone
Beneficiary registration	Yes	Yes	Yes/no if using MMID and mobile number	No	No
USP	Commonly used platform	For real-time transaction above Rs 2 lakh	Instant transfer	Don't need account number and IFSC	Transfer without internet or smartphone

* In the wake of demonetisation, as a temporary measure, the RBI has asked banks not to charge anything for fund transfer of up to Rs 1,000 through IMPS, UPI and USSD. This will be effective between January 1 and March 31, 2017; ** Plus service tax

UNIFIED PAYMENTS INTERFACE

UPI-enabled apps allow transactions to be done through any smart phone using VPA (Virtual Payment Address). The aim is to enable people to complete transactions in less time by reducing the number of steps. The transactions can be done 24/7; the transfer happens on a real-time basis. The best thing is that there is no need to share personal details such as bank account or credit/debit card number. UPI-enabled apps allow transfers up to Rs 1 lakh.

Steps to use UPI

1. Download a UPI-enabled bank app or update existing bank app to make it UPI-enabled.
2. Login using bank details
3. Create an email-like virtual payment address (VPA).
4. To create the virtual id, after logging in, go to the 'UPI' option, click on 'manage' and then select 'create virtual payment address'
5 After entering your account number, select 'create new VPA' option and type in the desired virtual id address (eg: xyz@bankname) and click on the 'submit' option.
6 You have successfully created the VPA and are ready to transact using UPI.

Sending Money Using UPI

1 Login to the UPI-enabled bank app and select the UPI option.
2 Click on 'pay to virtual payment address'; make sure you have the receiver's virtual id.
3 Enter the receiver's virtual ID, the amount that needs to be sent and the account from where the money is to be sent.
4 After the confirmation screen appears, review the payment details and select 'submit' to make the final payment.

The Cost Factor

"No fee is charged for use of the UPI platform in case a person transfers money to another person. In case a person pays to a merchant, around Rs 15 is charged, which is to be paid by the merchant. But this, too, has been waived after demonetisation," says Vivek Lohcheb, Co-founder, Trupay.

The Limitations

"The transaction cap is Rs. 1,00,000. This is subject to the UPI guidelines. Certain banks may levy additional per-day limits based on other transactions carried out via the mobile banking app," says

Praveen Kutty, Head- Retail & SME Banking, DCB Bank.

USSD-BASED *99# SERVICE

The National Payment Corporation, the umbrella organisation for the retail payments system in India, offers the Unstructured Supplementary Service Data (USSD) technology-based *99# service, which allows a person to do mobile banking transactions such as generating mini-statement, checking account balance, sending/receiving funds, etc, without downloading any app.

"Considering that basic services such as balance enquiry and fund transfer are available in all phones (feature and smart phones), it can be the most universal e-payment mechanism in the country," says A.P. Hota, Managing Director and CEO, National Payments Corporation of India.

USSD is the service that allows you to check your mobile phone balance. The USSD-based *99# service was launched to help those without smart phones. It can be used 24x7, even on holidays. The only requirements are that your mobile phone number should be registered with your bank and you should have a GSM phone.

You can do mobile banking through sms also but for that you need to remember the different codes for different banks. In the *99# service, the same codes can be used for every bank.

Ways to transfer funds using the *99# service

1) Get the MMID number, a seven-digit unique number issued by the bank to the account holder for using mobile banking.

2) Get the IFS code and the account number of the beneficiary.

3) Use of the beneficiary's Aadhaar number.

How to use

Step 1) To perform any function using this service, dial *99# from your GSM phone.

Step 2) The welcome screen will ask you to enter the first three digits of your bank name or the first four letters of your IFS code.

Step 3) After you enter the IFS code, a service menu will appear

Step 4) You can key in 1 to know the balance in your bank account, 2 for getting mini-statement, 3 for fund transfer using MMID and mobile number, 4 for fund transfer using account number and IFSC, 5 for fund transfer using the beneficiary's Aadhaar number, and 6 to know your MMID.

Step 5) If you are doing a non-financial transaction such as checking the account balance or getting a mini-statement, a confirmation screen will appear. If you are doing fund transfer, you will be asked to enter the IFS code and the account number of the beneficiary or the MMID number along with the mobile number of the beneficiary.

Charges for using *99# service

You will be charged for using this service just like you use the sms service on your phone.

The charges will depend on your telecom service provider but the Telecom Regulatory Authority of India, the telecom regulator, had set a limit of Rs 1.50 per transaction. This has been reduced to 0.50 paise. There are no additional charges for using the facility in roaming.

The limitations

Poor network can play a spoilsport. Also, the maximum amount you can transfer through this service is Rs 5,000 per day.

WHICH ONE TO CHOOSE?

You can select the option considering the charges and the time you have. "Any person who has a smart phone can opt for UPI simply because it can be used 24/7, including on weekends & holidays, and from anywhere. Organisations that want to transfer large funds can opt for RTGS or NEFT. In the end I would say that while we have a wide range of options for payments, each one has its unique benefits," says Kutty of DCB Bank. ◆

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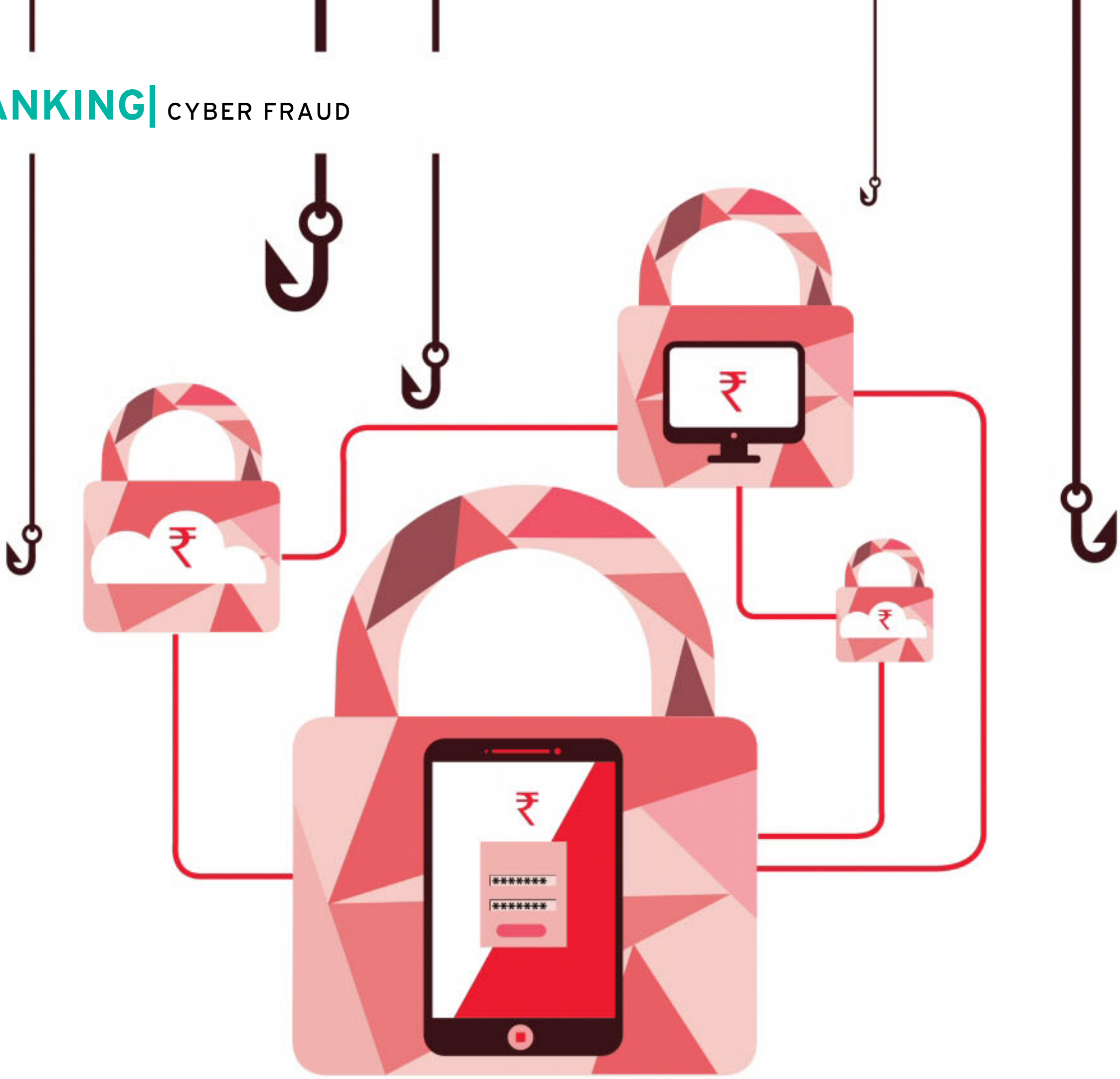

Illustration by RAJ VERMA

WEB OF FRAUDS

The thrust on cashless transactions has led to a rise in digital theft and frauds. Here's how you can stay safe. BY PRIYADARSHINI MAJI

Post demonetisation, while the use of online payment platforms has gone up, so has the fraudulent use of payment networks, and data theft. The drive towards a cashless economy has compelled people to switch either to digital banking or electronic transactions. The sharpest rise has been in the use of mobile wallets. "E-commerce and m-wallet trends are so new that associated unknown risks are inevitable, more so, because the Internet is now an outstanding fraud battleground," says Amit Nath, Head of Asia Pacific - Corporate Business at F-Secure Corporation, an online security firm.

A study by ASSOCHAM-Mahindra SSG reveals that there has been a six-fold increase in such cases over the past three years. Credit and debit card fraud cases top the cybercrime charts – about 42 per cent complaints of online banking. The study further noted that mobile frauds are an area of concern for companies as 35-40 per cent of financial transactions are done via mobile devices. How safe are digital transactions really?

TYPES OF ONLINE FRAUDS AND THEFTS

Identity theft: Fraudsters illegally obtain the person's banking details and get access to his or her account. "Unless one understands and owns the game of identity, companies will continue facing growth constraints because of frauds and attacks, resulting in lack of confidence," says, Nath. As people become more comfortable with mobile wallets and banking through apps and smartphones, Wi-Fi networks continue to have major security flaws that can make it very dangerous to conduct transactions using mobile devices, he adds.

SIM swap: A fraudster gains details about a person's credentials, purchases a duplicate SIM with fake ID proofs, and blocks the person's current SIM. Financial transactions are then carried out in the name of the owner as one-time passwords, or OTPs, are received in the new SIM.

Social engineering: Used by cyber criminals to extract confidential information from the victim. For instance, they could pose as a representative of your mobile wallet company and ask you to disclose your credentials under the pretext of updating their systems and records.

Phishing attacks: The user is entrapped using fake emails or websites, and is made to part with account-related sensitive information.

Vulnerable payment technology: Cyber criminals search for vulnerability within a payment technology and use it to their advantage. Some of these security breaches are relatively hard to detect, and can only be identified using advanced security systems.

Ransomware: In this, the hacker gains remote access to the device as well as the data of the victim, and can block access to the device until he or she is paid.

Brute force: Hackers crack the password by using all permutations and combinations. Those with weak or common passwords are at risk. Use of public Wi-Fi networks is an additional risk.

Malware: These are specifically designed mobile applications and programmes that give cyber criminals access to the sensitive data on the device. This malicious software can make way into one's mobile device via an email attachment or when downloading an unauthorised app. Sometimes, even fraud apps from Google Play Store get installed on a device and transmit confidential data to the attacker. "Though banks have secured their connection from the browser to the bank, as well as the online banking servers, it is still one of the weakest links in any online banking session," says Nath.

EXERCISING CAUTION

As a precaution, it is advisable to monitor your accounts regularly, and check for any unusual activity. One should never link the payment wallets to one's debit/credit cards or bank accounts. Only one card should be used to recharge these wallets, as it limits the risk to a single card if the account is hacked. Common passwords should not be used. Also, passwords should be changed on a regular basis. It would be wise to lock your phones with strong passwords, patterns or PINs to prevent unauthorised access. Also, ensure that the card number is not visible to retailers at the time of purchase.

"Users can set up a PIN on Android apps that they will be asked before all transactions. In the iOS app, fingerprint approval is required. We are also launching a PIN with which users will be able access their account through an alternative number in case their phone is lost," says Upasana Taku, Co-founder of MobiKwik.

ONLINE FRAUDS HAVE BEEN SHOWING A STEADY RISE OVER THE YEARS

Area of operation	April 2013-March 2014		April 2014- March 2015		April 2015-March 2016		April 2016-June 2016	
	No. of cases	Amount (in Rs crore)	No. of cases	Amount (in Rs crore)	No. of cases	Amount (in Rs crore)	No. of cases	Amount (in Rs crore)
Credit Cards	7,890	55	10,382	42	9,849	46	1,927	7
ATM/debit cards	1,307	8	2,498	14	6,585	31	1,328	6
Internet banking	303	15	203	24	34	2	18	1

Source: Ministry of Finance

People should also be careful while downloading apps, and abstain from downloading them from sites that are not credible. One should not respond to request from apps which do not look trustworthy. Enable maximum security protection available on the smartphone as well as mobile wallet. Installing an anti-virus on phones is crucial, as it makes the phone less vulnerable to virus or malware attacks. "Use of good antivirus software is the foremost step towards defending yourself against cyber criminals. Also, one should befriend people online very cautiously; it's best to not accept requests from unknown people," says Nath.

Creating separate email accounts for different purposes could prove to be helpful, as after cracking the password for the main email ID, the hacker will have the key to the user's personal data such as bank account number, passport details, and date of birth. "A separate account for your bank and other financial accounts, one for shopping, and another for social networks is a good idea," says Nath. One must also be wary of online pop-ups as these could contain malicious software for tricking users.

Mobile banking through wallets allows people to view transaction history and get an alert every time there is any activity. Keep a track of all the messages and notifications that you receive from your bank or wallet providers to be sure of all the transactions made. "There are millions of users who have poor awareness of security features in their devices. Attackers can easily target them to carry out frauds – these will be low value per individual, but the volume will be high. This will reduce the level of trust that people have in online transactions," says Rajat Mohanty, CEO, Paladion Networks.

It is a good practice to log out of mobile wallets, even if it may be inconvenient to key in the details again, so that you do not lose money in case the mobile is stolen. A phone without proper security and password is like an open purse – loaded with cash. Storing card details on websites is asking for trouble; taking a few extra seconds to feed in card details while paying online is a small price to pay for peace of mind.

"It is essential to increase awareness about these matters as many mobile wallet subscribers in India are first-time users. One can also look at adding the extra protection of app-level passwords using a password manager as an additional security measure," says Mohanty. There are a lot of other secondary-level locking apps that allow you to put these mobile wallet and banking apps in a separate folder with a password. "The government is supporting mobile wallets and their usage. Mobile wallets are somehow considered safer than plastic money like debit and credit cards. This is because the payment method is secure as financial information is transmitted between the bank and the application via a token (encryption) and not the consumer's account number," says Nath. The token is an encryption that is understood only by the application provider.

IN CASE OF AN ATTACK

The first and foremost thing to do is inform the payment wallet provider and get in touch with the bank concerned. Change your credentials immediately. Providing information to the wallet provider helps it investigate the fraud and preventing it from recurring. If a phone is stolen, the SIM card needs to be blocked first, and then the bank and the wallets service provider informed for blocking transactions. "For protection of critical IT infrastructure, where the attacks will be of advanced nature and hence difficult to detect, we are applying big data and machine learning methods; and for the mass market segment, to improve the security baseline, we have created a cloud-based technology that provides security with low cost and simplicity," says Mohanty.

If your phone is attacked by malware, do a factory reset. Visit a cyber crime cell and file a complaint. All banks and wallet companies have their own cybercrime units, and online and banking fraud cells. For example, cybercell@paytm.com is the cyber cell contact of Paytm. ◆

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Illustrations By RAJ VERMA

INVEST IN YOUR CHILD'S FUTURE

With every passing year, the cost of education is growing by leaps and bounds. So, take control and invest right to give your child the very best.

BY SARABJEET KAUR

Parents, the world over, willingly shun luxuries to pay for a good education for their children. And with the cost of education growing at a fast clip it only adds to their woes, but that can never be an excuse to give up on it. Says Suresh Sadagopan, Founder, Ladder7 Financial Advisories: "Children's education is a costly affair today. It makes sense to start early. Also, it pays to be pragmatic. Parents may get sucked into funding more and more ambitious and costly education that can jeopardise their finances. It makes sense to be realistic and prudent, and ensure the funding is only up to a certain level. If education costs go above that level, one should consider loans and self-funding by the student (for post graduation and higher courses)." However, the most difficult part of the long journey lies in picking the right products to invest in. So, here's the lowdown on how to give wings to your child's dreams.

THE STRATEGY

The first and most important step towards building an education corpus is to have a definitive goal – the educational qualification one seeks to achieve and the cost it involves to get there – before making a realistic assessment of how much one can afford to save every month over and above your other expenses. Says Ajit Narasimhan, Category Head, Savings and Investments, BankBazaar.com: "Proper planning and investment can help you save for your children's education. However, remember that it does not all have to be your burden alone. There are education loans to help you out. So make sure you don't cut corners on saving up for other life events, including your own retirement and medical expenses." If you are not realistic with your targets, the entire plan might fall through despite all your efforts. Says Tanwir Alam, MD, Fincart: "One must start investing through SIPs from the month the child is born, because the longer the time horizon the more effective is the power of compounding – it really does not work if it is less than five years." As your goal approaches, reduce risk by cutting down your equity exposure because if the market were to tank, funding the goal might become a challenge.

- For girls, the Centre's Sukanya Samriddhi scheme provides 8.6 per cent annually. At the current rate, investments of Rs 1.5 lakh every year become Rs 65 lakh in 18 years
- For boys, parents can invest in Public Providend Fund. At present, it gives 8.1 per cent returns
- Invest in equity MFs for 10 years or more. It will give returns of 10-12 per cent. The proceeds are tax-free
- Debt provides both stability and liquidity. Invest fixed amounts every month in PPF, and equity and debt mutual funds
- If you are planning for overseas courses, invest a part of your savings in dollar-denominated assets, such as international MF schemes through Indian feeder funds

INFLATION COUNTS

Fees at the Indian Institutes of Technology (IITs) and Indian Institutes of Management (IIMs), for instance, increase every four to six years. But inflation contributes significantly to the rising cost as it goes up steadily year after year. Says Anil Rego, CEO and founder, Right Horizons: "Some of the very best professional institutions are not very expensive, compared to average colleges, as they are often able to provide scholarships and on-campus jobs to the brightest, enabling them to pay for their education. The hike seems to be coming from inflation when considered over a period of a few years." Cost of private education even at the school level, however, is high and the costs often rise faster than inflation. Therefore, saving for educational goals must be planned and executed based on the time to the expense. "The amount likely to be required must be adjusted

FUTURE-READY

KNOW THE FUTURE VALUE OF RS 10 LAKH TO FUND YOUR CHILD'S EDUCATION

Number of years	6%	7%	8%	9%	10%
5	13,38,226	14,02,552	14,69,328	15,38,624	16,10,510
10	17,90,848	19,67,151	21,58,925	23,67,364	25,93,742
15	23,96,558	27,59,032	31,72,169	36,42,482	41,77,248
20	32,07,135	38,69,684	46,60,957	56,04,411	67,27,500
25	42,91,871	54,27,433	68,48,475	86,23,081	1,08,34,706

for inflation. Education that costs Rs 10 lakh, today, will be about Rs 32 lakh after 15 years with an inflation rate of 8 per cent, or Rs 42 lakh at 10 per cent. It is better to be safe and consider inflation at 10 per cent, because good education costs grow at above normal rates of inflation. For foreign degrees the requirement could be greater if the rupee depreciates 4-5 per cent during the same period, considering its pastperformance," says Rego. One should always consider the risk and time horizon before investing. Depending on the requirement, the products could be chosen between debt and equity. Consistent investment and patience are essential to building the required corpus for the child's future. "While planning for children's education, conventional investment choices such as fixed deposits and life insurances may not be the best options. One has to look at growth assets such as balanced funds, equity funds or direct stocks. However, for the common man who has a full-time job, it would be advisable to take the mutual fund route," says Alam.

INVESTMENT OPTIONS

If the education fund is required within, say, five years, debt schemes of mutual funds are ideal. They are liquid and are likely to provide inflation-beating returns. For the long-term, a portfolio could be created with a combination of suitable investments. Says Lovaii Navlakhi, founder and CEO, International Money Matters: "The key to achieving this goal is to start as early as possible and have the discipline to keep those funds untouched till the goal is achieved. If overseas education is planned, invest in products which could provide a hedge against the currency. If the period over which the investment is being made is over five years, you can invest the funds in equity or equity funds – reduce the entry risks by staggering the investments." Sadagopan agrees: "PPF is a good instrument if you start early and do it consistently. Mutual funds are a good way of investing small amounts. Also, MFs allow one to invest regularly in equity assets, which are desirable for getting real, inflation-adjusted returns."

The biggest investment is also to teach your children to save right and inculcate the habit of saving from their childhood. As they grow older, explain the basics of financial planning and involve them in the planning process. Take guidance of a certified financial planner, if necessary, to ease your way to the education fund you desire for your child's better and secure future. ◆

@kaursarabjeet

IS YOUR RETIREMENT ON TRACK?

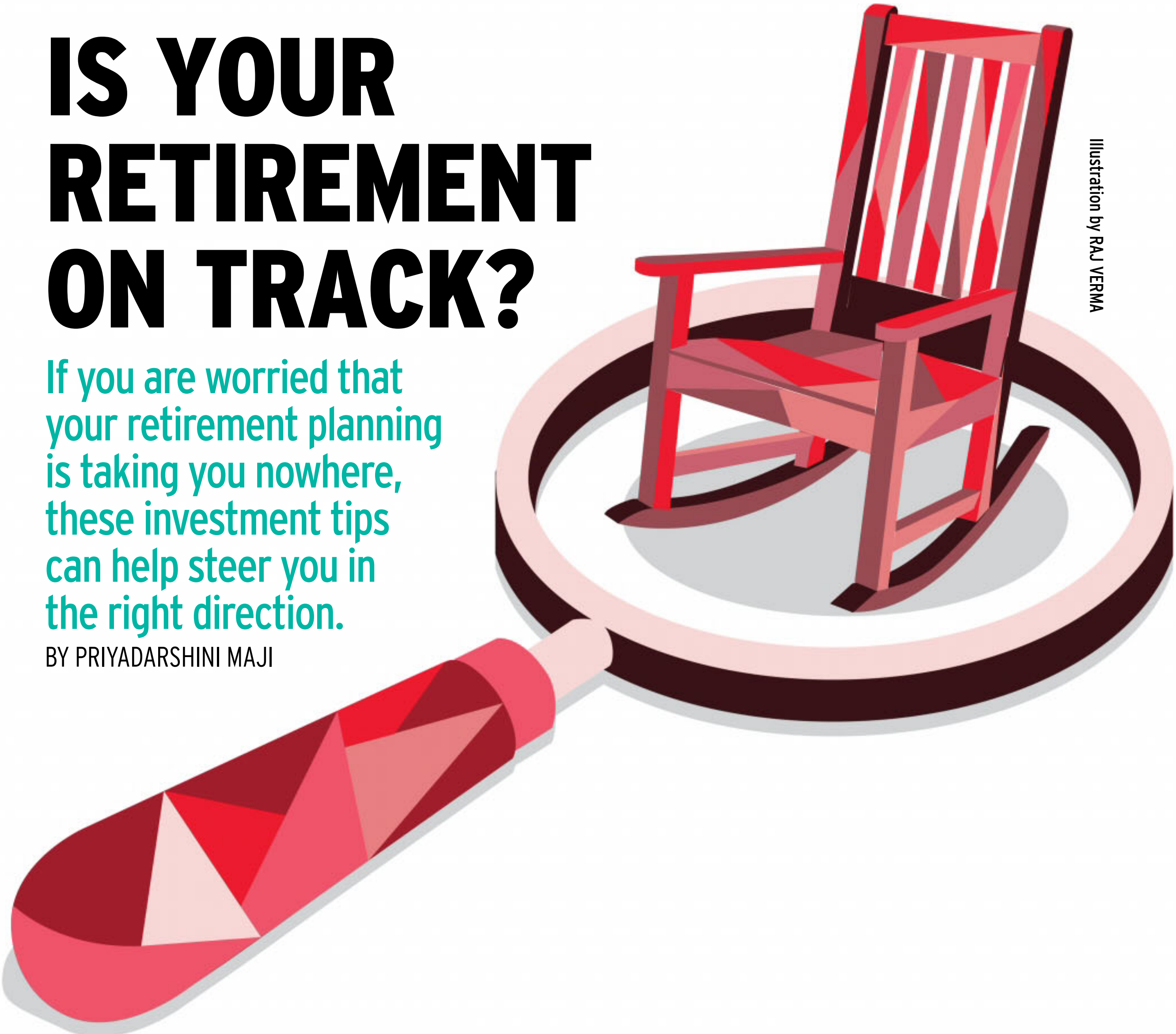

Illustration by RAJ VERMA

If you are worried that your retirement planning is taking you nowhere, these investment tips can help steer you in the right direction.

BY PRIYADARSHINI MAJI

With life expectancy increasing by a fair margin over the past decade, and inflation and healthcare costs growing at 5.88 per cent and 18 per cent, respectively, it is important to make sure that investments to secure your golden years do not fall short. According to the Union Ministry of Health and Family Welfare, life expectancy in India has gone up by over five years, from 62.3 years for men and 63.9 years for women in 2001/05 to 67.3 years and 69.6 years, respectively, in 2011/15.

However, considering most people retire at 60, one must secure one's nest egg for at least another 20 years, or more. "Most investors tend to look at the age group of 55-60 years when they wish to retire," says Vishal Dhawan, certified financial planner and founder, Plan Ahead Wealth Advisors. Besides, you must also have a contingency plan if you were to outlive your retirement plan.

TAKE CONTROL

If you think your retirement funds are going to be inadequate, working for a few more years can make a huge difference. Starting early is, however, the best solution for lowering the risks of outliving your savings. "The important thing is to be aware in advance that such a situation may arise and the only answer from the investment planning perspective is to add some equity through the mutual fund route to the fixed income portfolio," says Kalpesh Asher, a certfied financial planner. Therefore, one must take stock of one's savings from time to time to ensure that the retirement corpus is adequate.

While early- and mid-career professionals have significant time to retire and, therefore, have the chance to build a large retirement corpus through equity investments, for those who start planning their finances later in life must have a higher proportion of their savings in growth assets but slowly move to debt instruments as they near retirement. Equity is more likely to deliver returns to beat inflation over the long-term, despite its volatile nature in the short-term.

If you are approaching retirement or have already hung up your boots, opportunities could be limited. So, focus on greater tax efficiency on your retirement income, cut down on luxury expenditures and decrease unnecessary expenses. You may also allocate a small portion of your investible surplus in inflation-beating assets, while considering reverse mortgage or relocating to a cheaper location or smaller residential home. "In case of a shortage, there are three ways to deal with it – increase the amount of investments; aim to generate higher returns; reduce the amount of expenses," says, Lovaii Navlakhi Founder and CEO, International Money Matters.

EARLY RETIREMENT

For those of you who are considering early retirement, it is critical to be clear about your post-retirement financial goals, including sufficient corpus for annuity income, adequate investments to take care of your medical expenses and life expectancy. Apart from starting early and investing larger sums in a shorter time span, you must also have specific and time-bound goals with how you want your retirement corpus to grow, and tweak your investment portfolio accordingly. At the same time, you must also ensure that your existing cash-flows do not suffer.

If you have other responsibilities, such as your children's higher education or wedding, do a back-of-the-envelope calculation for these specific goals and invest for each of these goals separately. "It is also critical to have adequate risk coverage – life insurance, health insurance, critical illness and disability covers so that the risks to a long retirement can be mitigated significantly" says Dhawan.

Since an early retirement could mean much more availability of time, expenses need to be controlled so that the monies earmarked for retirement are not spent on discretionary items, including travel and entertainment, if separate funds are not reserved for the purpose. "It is also critical to appropriately understand what one would do with the time available as a result of an early retirement," adds Dhawan.

HOW MUCH FOR RETIREMENT

It is always better to get professional help before calculating the retirement corpus. You can also take help of financial calculators to determine how much you will need to save today for your sunset years. But before that you will need to know the inflation-adjusted future value of your existing monthly expenses, estimated rate of return on your investments, inflation post retirement, the rate of return after retirement and life expectancy.

"If you have already hung up your boots, focus on greater tax efficiency on your retirement income, cut down on unnecessary expenses, allocate a portion of your investible surplus in equity and consider relocating to a cheaper location or smaller residential home"

Moreover, one should determine the ideal product mix between debt and equity. Instruments, such as Public Provident Fund, fixed deposits and equity funds, among others, must be considered. Even in your retirement years you must also have a mix of both growth and fixed income investments, as the period in retirement could be long. As suggested by financial planners, proportion of EPF and PPF as debt for retirement should progressively increase as you approach your retirement. "The contribution to PFs in the early stages of one's career could be 25-30 per cent, which should be gradually increased to 80-85 per cent by the time the individual reaches 55 years," says Arvind Rao, CFP and founder, Arvind Rao & Associates. ◆

@PriyadarshiniM9

NILOTPAL BARUAH

GO FOR GROWTH

Lovaii Navlakhi, certified financial planner, says the early-bird advantage can give the couple a headstart with higher equity allocations.

Newly-weds, Suhas K.M, 28, and Sheetal, 27, from Bangalore are both IT professionals. Like any Indian couple, buying a house, planning for their child's education and wedding are part of their financial goals. Both Suhas and Sheetal like to travel and are planning to go on a foreign trip next year.

Though their family goals are well thought out, given the current financial situation, they need to cut back a bit on their plans of buying a house. Suhas is an aggressive investor, but he must buy a personal health plan and a life cover, in addition to the health insurance cover provided by his company. The couple brings home an annual salary of Rs. 8.64 lakh, while their annual expenses, including insurance premiums, amount to Rs. 3.61 lakh.

PLAN OBSERVATIONS GOALS

• Given the current financial situation, they might have to consider

FINANCIAL GOALS OF SUHAS

Goal	Year
1. Purchase of house	2019-2020
2. Dream vacation	2017-18
3. Child	2018
4. Child's education	2030
5. Retirement	2045

scaling down their near-term goal of buying a house. However, financial planning is not a one-time exercise; yearly reviews will help you know if the goal can be increased or not.

• It is recommended that 3-6 months of expenses should be maintained as an emergency corpus at all times. For now, it has been earmarked at Rs. 90,000.

• The goal to purchase a property in 2020 for Rs. 50lakh (today's value) has been scaled down to Rs. 45 lakh. This has been done so that the accumulated assets till date, projected savings and the income generated is not majorly used to service the property loan. The debt servicing ratio (proportion of your EMI payments serviced from your income) should not be high.

• Would be good to review the situation once again a few years after the property is purchased – to take stock of the situation then and, if there is a possibility, consider revising the goal value.

• Currently, for the purchase of a house, 30 per cent of the house value is recommended to be paid as down payment and the rest to be funded through a loan.

• The corpus required at the time of retirement for your post retirement needs has been bifurcated into two main component – monthly expense requirement and post retirement vacation.

• Earmarked an annual expense of Rs. 50,000 for post-retirement vacation needs for 20 years.

• The goals for the child can be met in full.

• The expected increase in income for this year (2017) has been taken at 8 per cent for both. However, for the next few years it is important that Suhas maintains an annual income growth rate of 7 per cent (from 2018 until 2021).

• With a new member in the family in the near future, overall expenses will increase. Since the maternity benefits are covered under the corporate health insurance plan, there is no specific need to create a separte corpus for the same. However, maintaining an emergency corpus to take care of any unforseen requirements is recommended.

• An additional increase of 10 per cent for household expenses from 2018 has been taken into account. However, it is important that the expenses are reviewed to the actual expenses to realign the savings and investments.

ASSET ALLOCATION AND INVESTMENTS

• Risk profiling is an important element of investment planning. The purpose of saving and duration of investment are one side of the coin, while understanding one's willingness to be exposed to riskier asset classes is another. It is important to strike the right balance to arrive at an appropriate investment strategy and asset allocation that may vary from person to person.

• Suhas is an aggressive investor, therefore, the allocation being considered is 60 per cent in growth and 40 per cent in stable asset class.

• Important to invest all available savings into a combination of assets yielding returns of 10 per cent p.a. to achieve long-term goals.

• Considering that in 2020, there is a heavy payout in the form of down payment for a self-occupied house, the focus should be to invest a major part of your surplus in a less volatile asset class and to ensure that the funds can be liquidated any time over the next few years.

• Currently, investments in growth assets are about 70 pe cent. With plans of purchasing a home in the next four years, its recommended to reduce exposure towards growth assets.

• For the next few years, an allocation of 30-40 per cent to growth assets can be considered until your house purchase; after that it can be increased.

• For the property goal, recommended investments could be in hybrid or balanced mutual funds and debt funds. With a view on the current taxibility on Suhas' income; fixed deposits and recurring deposits can also be considered.

• Your savings rate is healthy at 55 per cent. A good savings rate along with a prolonged accumulation phase are major drivers in building the required corpus.

• Focus on systematic future investments of surplus income to meet your goals.

• Build a well-diversified financial asset portfolio to manage liquidity and portfolio growth.

NETWORTH

Particulars	Amount (Rs.)
Assets	
Mutual Funds - Equity	4,60,000
Equity Shares	20,000
Mutual Funds - Debt	60,000
Bank Balance	15,000
EPF - Suhas	75,000
EPF - Sheetal	35,000
Sub Total (A)	6,65,000
Liabilities	-
Sub Total (B)	0
NET WORTH (A-B)	6,65,000


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GOALS, ASSETS MAPPING AND REQUIRED SAVINGS

Requirements	Year	Today's value (in Rs.)	Future value in goal year (in Rs.)	Assets mapped	Future savings required (monthly / in Rs.)
Emergency corpus	2017	90,000	90,000	Bank Balance - 100%, Equity Shares- 100%, Mutual Fund - Equity - 12%	-
International vacation	2017	1,50,000	1,50,000	Mutual Fund - Debt/Hybrid - 100%	22,000 (Jan- April 2017)
House for self-occupation	2020	45,00,000	57,00,000	Mutual Fund - Equity - 88%	26,000 - to be stepped up by 7 per cent yearly (Jan 2017-Dec 2019)
Child's graduation	2036	12,00,000	74,00,000	Insurance Maturity Proceeds - 100%	7,500 - to be stepped up by 5 per cent yearly (Jan 2021-Dec 2035)
Child's wedding	2043	7,00,000	31,85,000	-	2,500 - to be stepped up by 5 per cent yearly (Jan 2021-Dec 2042)
Retirement	2045	Rs. 20,000 per month	Corpus required Rs. 3.7 crore	EPF - Suhas and Sheetal - 100%	15,000 (May 2017-Dec 2044)
Post-retirement vacation	2045-65	Rs. 50,000 annually	Corpus Required Rs. 49 lakh	-	2,800 - to be stepped up by 5 per cent yearly (Jan 2021-Dec 2044)
Annual vacation	2018-44	Rs. 50,000 annually	Step up by 6 per cent annually	-	4,500 - to be stepped by 6 per cent yearly (Jan 2018-Dec 2044)

INSURANCES

• Company health insurance is available. However, it's important to have a personal health cover to protect in times of switching jobs and retirement medical exclusions. For now, we recommend Rs. 3 lakh cover for both. It can be increased over the course of time

• On existing personal insurance, continue paying premiums.

• Additional life cover is recommended to ensure the family continues to maintain similar lifestyle in case anything was to happen to Suhas or Sheetal. Insurance Requirement is calculated after taking into account the requirement for expense protection, goal protection and liability protection. Based on the details provided, additional life cover must be of Rs. 1.2 crore for Suhas and Rs. 1 crore for Sheetal. We recommend a pure-term plan. With increase in income Suhas can increase the insurance cover later.

• Important to have adequate personal and critical illness covers. For now, critical cover of Rs. 10 lakh and a personal accident cover of Rs. 25 lakh is recommended for both.

TAX AND ESTATE PLANNING

• Benefits under Section 80C are being availed through life insurance premiums and EPF contributions.

• Section 80D benefits can be availed once the health and critical insurances are purchased.

• Recommend an estate plan to safeguard interests of dependents.

RISKS AND CRITICAL POINTS

• Life Insurance is not aligned to current requirement.

• High dependency on corporate-sponsored health cover.

• It is imperative that Suhas's salary grows at 7 per cent per annum till 2021, and at 5 per cent every year, after that, and till retirement) to realise the stated goals.

• Savings plan will require a judicious approach, actuals should be aligned with budgeted expenses.

• Advisable not to link insurance protection with investments.

• It's of paramount importance that the portfolio grows at 10 per cent p.a until retirement.

• It is extremely important to understand the risk appetite while planning investments, which should be aligned to the requirements.

• Until the house purchase is complete, savings need to be diverted more towards stable asset classes. After that, exposure in growth assets can be increased aligned to the risk profile.

• The income generated by you should not be used majorly for EMI payments. The debt servicing ratio (proportion of your EMI payments being serviced from your income) is a critical component and must not be ignored while finalising the loan amount. ◆