

## Daily Economic News Summary: 26 August 2016

### 1. Raghuram Rajan's last hurrah: Changing the way companies borrow

Source: **The Mint** ([Link](#))

“This is my last policy statement, but there are still 28 days in my term which I intend to use fully,” outgoing Reserve Bank of India (RBI) governor Raghuram Rajan had said on 9 August while delivering his last monetary policy review. He wasn't kidding. With just 10 days to go before he steps down, Rajan has unleashed changes that could have a significant impact on the way companies finance themselves. For years, it has been said that the Indian economy is too bank-dependent. The reason cited for this was the lack of depth in the corporate bond market. But it was always a chicken-and-egg situation. Investors complained about the lack of quality credit. Issuers complained about the lack of investors.

Rajan is now attempting to resolve both those issues in one shot. In separate decisions announced on Thursday, the RBI said it will move to cap exposure of banks to large borrowers while also taking steps to deepen the corporate bond market. Starting next fiscal year, banks will have to set aside higher provisions for incremental lending to borrowers who have a certain amount in outstanding loans from the banking sector. The banking regulator suggests the creation of a new segment of borrowers called “specified borrower”. A specified borrower is defined as anyone who has aggregate fund-based credit limits (ASCL) of Rs.25,000 crore in 2017-18, Rs.15,000 crore in 2018-19 and Rs.10,000 crore from 1 April 2019 onwards. When this specified borrower comes back to banks to borrow more, half of any borrowing over and above the ASCL will attract additional provisions and higher risk weights. Banks, however, can subscribe to bonds issued by these specified borrowers subject to a condition that these bonds will be divested over time. The idea, very simply, is to force larger borrowers towards market borrowings and reduce the systemic risk created by the concentration of bank funds in a handful of corporate houses.

### 2. Snapdeal receives \$21 million from Luxembourg's Clouse SA

Source: **Live Mint** ([Link](#))

Jasper Infotech Pvt. Ltd, which runs e-commerce firm Snapdeal, has received more than \$21 million as part of its previously announced funding round from Luxembourg-based firm Clouse SA, according to documents available with the registrar of companies. The money was allotted 10 August. Separately, BlackRock Inc., a mutual-fund investor in Snapdeal, has retained

its valuation of the online marketplace. BlackRock Science & Technology Opportunities Portfolio, a mutual fund run by the financial services giant BlackRock, valued Snapdeal preference shares at an estimated \$24,583.2 per share, as of 30 June, according to a filing with US Securities and Exchange Commission on Wednesday. According to the company, it went through a stock split of 1:10, taking the per share price to \$2,458. BlackRock valued Snapdeal preference shares at \$24,882.7 per share as of 31 December, filings show.

### **3. UPI goes live, banks introduce payment apps on Google Play Store**

Source: **Live Mint** ([Link](#))

India moved closer to a cashless future on Thursday with four banks introducing unified payments interface-based (UPI-based) apps that will make it possible for customers to make everyday payments with just a few taps on their smartphones. Axis Bank Ltd, Union Bank of India, Federal Bank Ltd and Bank of Maharashtra on Thursday went live with National Payments Corporation of India's (NPCI's) UPI apps on the Google Play Store. The UPI system will allow customers to safely and instantaneously transfer funds almost as easily as they send a text message.

The system uses a single identifier that eliminates the need to exchange sensitive information such as bank account numbers or credit card details during a financial transaction. "It is ideal for high-frequency and low-value transactions," said Vivek Belgavi, partner, financial services, fintech and technology consulting leader, PwC India. It "will make peer-to-peer transactions and peer-to-merchant transactions simpler. You will see waves of adoption but education will be critical".

### **4. Banks to issue Masala bonds, RBI opens currency markets**

Source: **The Hindu** ([Link](#))

The Reserve Bank of India (RBI) has announced a raft of measures to boost investor participation and market liquidity in both the corporate bond and currency markets. The central bank will allow commercial banks to issue rupee bonds in overseas markets — known as Masala bonds, both for their capital requirement and for financing infrastructure and affordable housing, according to an RBI statement.

"Accepting many of the recommendations of the Khan Committee to develop the corporate bond market, it has been decided to enhance the aggregate limit of partial credit enhancement (PCE) provided by banks, permit brokers in corporate bond repos, authorise the platform for repo in corporate bonds and encourage credit supply for large borrowers through

market mechanism.” It has been now been decided by the regulator that the aggregate PCE that will be provided by the financial system for a given bond issue will be increased from the present level of 20 per cent to 50 per cent of the bond issue size, subject to the PCE provided by any single bank not exceeding 20 per cent of the bond issue size and the extant exposure limits. RBI said it has also been decided to seek suitable legal amendments to enable it to accept corporate bonds under the Liquidity adjustment Facility (LAF).

## **5. Mahindra group's 'Uber for tractors' at farm gate**

Source: **Business Standard** ([Link](#))

The Mahindra Group’s on-demand farm equipment rental start-up, Trringo, has launched its service out of Karnataka, where it will help farmers book tractors by the hour via a phone call. The ‘Uber for Tractors’ start-up is looking to sign up existing rental providers who own tractors and farm implements on its platform, much like how Uber signs up cabs but does not own the inventory. The service, Mahindra says, will allow it to reach farmers who can’t afford to buy their own tractors. What we’ve done is broaden the definition of a customer. Traditionally, we’ve not looked at a farmer who is not in a position to buy a tractor or an implement. With Trringo, we’ve broadened that pie,” said Arvind Kumar, chief executive of Trringo.

In Karnataka, Kumar estimates the market for tractor rentals to be worth Rs 1,500 crore, with the potential to grow to Rs 2,500 crore. Rather than competing to win all of it, the company will with Trringo participate in the new concept of a sharing economy, charging a 10 per cent commission from its franchise partners. Trringo was launched in March this year. It has been tasked with setting up 101 hubs in Karnataka, after parent Mahindra won a tender from the state government. Each hub will house five tractors and 10 implements, catering to local farmers who can take these on rent.

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