

Andhra okays ordinance to rein in MFIs

Our Bureau
HYDERABAD

THE Andhra Pradesh government on Thursday approved a law that will regulate microfinance firms, complicating efforts to resolve the suddenly resurgent issue of the interest rates poor borrowers need to pay for taking loans.

The state cabinet unanimously okayed a special ordinance that forces microfinance firms and borrowers to compulsorily register with the local authorities. The proposed law will also force the companies to disclose the methods they use to recover money and the interest rates they charge. The penalty for non-compliance is three years imprisonment and ₹1 lakh penalty. The ordinance has now been sent to the governor for his signature.

The move may muddy the waters as MFIs are likely to move court against any law that curb their ability to carry out normal business. Many MFIs are registered as non-banking financial service companies, (NBFCs), with the Reserve Bank and the law does not provide for a separate local registration.

The decision may also pit the state against the centre, which is drafting a separate law to regulate microfinance firms, but has shied away from the incendiary rhetoric of the southern state's politicians. The centre has also denied any plans to cap interest rates, unlike the Andhra politicians who remain strongly in favour of it.

UNDER CONTROL



The proposed law will also force the MFIs to disclose the methods they use to recover money and the interest rates they charge

The state government says that it was forced to move against the MFIs after a spate of suicides allegedly due to harassment by employees of MFIs. The deaths have kicked up a furor with opposition parties and the state human rights commission demanding action from the government.

State chief minister K Rosaiah in the past three days held several meetings with the centre and also with state-level bankers on the issue. He also spoke to collectors and superintendents of police, directing them to check the illegal activities of MFIs and take appropriate action.

Officials at several MFIs in Hyderabad refused to speak to ET saying that they have not seen a copy of the ordinance. Privately, many of them question the government's move and its legal tenability.

Industry insiders whom ET spoke to and who went through the ordinance copy say that under it said that microfinance institutes may soon have to register themselves with the District Rural Development Project Officer at the rural level and with Mission for Elimination of Poverty in Municipal Areas at urban level.

"MFIs will have to register within one month disclosing details of the recovery methods adopted and the details of interest rates charged," said a person familiar with the development.

The ordinance also calls for registering the borrowers with these bodies so that it is ensured that a women borrower chooses strictly between a self help group and an MFI. "If a woman from a self help group wants to borrow from an MFI, she will have to produce a no objection certificate from the project director of these bodies and otherwise too," said a source.

This apart, the ordinance also asks these institutes to refrain from coercive methods of recovery, and MFIs flouting the norms are likely to face jail imprisonments up to three months.

This may, however, affect operations of MFIs as they feel that restricting the borrower to one source will lead them to money lenders. "It will definitely have a socio-economic impact. The government is not differentiating between larger MFIs. Instead there is a perception that any individual who is lending can also be an MFI. Right now the industry cant help much about it as there is no one willing to consider our concerns," said an official of a leading MFI.

Sidbi under flak for poor MFI monitoring

M Rajshekhar
MUMBAI

WITH the microfinance sector turning into a hot potato, Small Industries Development Bank of India (SIDBI), an original investor in many micro finance institutions (MFIs), has come under the glare of the finance ministry and Reserve Bank of India (RBI).

Sources have told ET that, in the past two months, RBI has informally directed Sidbi to not invest in any non-banking finance company without its approval. Many MFIs are structured as NBFCs. SIDBI has also been told by the finance ministry to ensure that MFIs do not levy onerous interest rates. Further, it has been told to commission a study on interest rates and to start a forum where banks can compare notes about MFIs.

Within the RBI, Nabard and the finance ministry, there is a feeling that even though Sidbi doesn't have regulatory powers, it could have done more to keep NBFC & MFIs in line.



OUT OF FAVOUR

In the past two months, RBI has informally directed Sidbi to not invest in any NBFC without its approval

Given that it provided both debt and equity to the MFIs, an SKS Microfinance ex-employee, who now works in a private bank's microfinance business said. He added, "Sidbi was in a position to drive a hard bargain with the MFIs on ensuring responsible lending, good governance, etc." According to a senior RBI official, both the RBI and Sebi have limited mandates. "RBI's remit is restricted to ensuring that priority sector funds are not misused and that NBFC norms are not flouted. And, Sebi can protect only investors."

Instead, says a former employee of Sidbi, now working in the microfinance sector, "As microfinance became a growth vehicle for its portfolio, Sidbi ignored its prudential responsibilities. For instance, did they conduct any studies about micro-finance's impact on clients? About the incidence of indebtedness? Or the jump in number of women taking multiple loans?"

This, says another senior RBI official, prompted other banks to lend to MFIs. In its defence, a senior Sidbi official told ET about the good work that the institution has done. The institution, he said, has helped MFIs become financially sustainable entities not only by providing them debt and equity, but also through capacity building grants for strengthening HR and corporate governance, MIS & automation, development of strong credit delivery and monitoring systems, mentoring, documentation, accounting, audit & internal control etc.

The institution, which was created to meet the debt and equity needs of small and medium enterprises, has been particularly hauled up for its inaction over SKS Microfinance and Share Microfin — two organisations where SIDBI nominees are directors. Adds Ramesh Arunachalam, an independent rural finance professional, "In SKS, a senior Sidbi official was on the board when a loan to Vikram Akula was authorised at no interest for buying shares in SKS itself." This is a violation of corporate governance norms.

Reliance Infra ties up ₹7kcr debt for Mumbai metro

Our Bureau
MUMBAI

RELIANCE Infrastructure said on Thursday it has tied up debt totalling Rs 7,000 crore for developing the second metro rail project in Mumbai connecting the suburbs of Charkop, Bandra and Mankhurd. The total project cost is Rs 11,500 crore.

Mumbai Metro Transport, the special purpose vehicle implementing the Charkop-Bandra-Mankhurd corridor metro project, tied up the debt with seven financiers led by Axis Bank, the Anil Dhirubhai Am-

bani Group company said in a statement. The SPV is owned by the Reliance Infrastructure led consortium, which includes telecom company Reliance Communications and SNC Lavalin of Canada.


"We have tied up the entire Rs 7,000 crore of debt funding and are ready to achieve financial close for the project within the stipulated nine months period in the concession agreement. The average rate of interest on the debt is 10.5-11.0%," Lalit Jalan, chief executive officer, told ET. The project, which is being set up under the public private partnership model, would receive a viability gap funding of Rs 2,298

crore from Government of Maharashtra, while the balance amount would be infused by Reliance Infrastructure through equity contribution. Reliance Infrastructure is executing the project on a build-operate-transfer basis, for a concession period of 35 years with an extension clause of another 10 years.

The project entails setting up a 32 km metro rail line connecting Charkop in northern Mumbai to Bandra in the west and then to Mankhurd in the eastern part of Mumbai. The route would have 27 stations. "We hope to start construction on the second metro line by December. As per our agreement, the project would be

completed in five years from the beginning of construction," Mr Jalan said.

Reliance Infrastructure is also executing the first metro rail project in Mumbai on the Versova-Andheri-Ghatkopar route. That project would be completed ahead of schedule in 2011, the company said. After the transfer of its power generation units, except the 500 mw plant at Dahanu in Maharashtra, and upcoming power projects to group company Reliance Power, infrastructure projects have become the key growth area for Reliance Infrastructure, which distributes electricity in the suburbs of Mumbai and parts of Delhi.



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PAT

From 1.28% to 0.74%

Gross NPA

As on 30th Sept. 2010

LIC HOUSING FINANCE LTD.



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Unaudited Financial Results (Standalone) for the Quarter / Six Months Ended September 30, 2010

Particulars		3 Months ended		6 Months ended		(Rupees in Lacs)
		30/09/2010	30/09/2009	30/09/2010	30/09/2009	Year ended
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
1.	a. Income from Operations	104292.58	78467.97	201447.80	152972.59	328266.56
	b. Other Operating Income	5729.11	5021.39	9819.31	8535.39	17357.56
	Total Income	110021.69	83489.36	211267.11	161507.98	345624.12
2.	Expenditure					
	a. Interest Expenditure	73782.60	59785.01	141505.67	116870.90	239572.65
	b. Employees cost	1652.05	1435.86	3140.92	2425.69	4848.70
	c. Depreciation	156.95	159.36	309.36	303.29	636.95
	d. Advertisement Expenses	268.43	144.21	314.39	359.74	1723.92
	e. Commission and Brokerage	1924.87	1743.89	3204.31	2724.08	6711.52
	f. Provisions / Write off (Net of write back)	27.49	(4173.78)	920.63	(3176.40)	(2843.87)
	g. QIP issue expenses	0.00	957.22	0.00	957.22	960.08
	h. Other Expenditure	1028.96	1076.13	2005.00	1969.18	4226.99
	Total	78841.35	61127.90	151400.28	122433.70	255836.94
3.	Profit from Operations before Other Income & Exceptional Items (1-2)	31180.34	22361.46	59866.83	39074.28	89787.18
4.	Other Income	723.16	418.25	970.78	585.71	1339.44
5.	Profit from ordinary activities before Tax (3+4)	31903.50	22779.71	60837.61	39659.99	91126.62
6.	Tax Expense	8482.61	5655.07	16214.99	10151.66	24909.01
7.	Net Profit after Tax (5-6)	23420.89	17124.64	44622.62	29508.33	66217.61
8.	Paid-up Equity Share Capital (Face value Rs.10/-)	9493.26	9493.26	9493.26	9493.26	9493.26
9.	Paid-up Debt Capital	-	-	3923025.01	2916609.17	3475815.68
10.	Reserves as at 31st March	-	-	-	-	329267.60
11.	Earning Per Share (EPS)					
	Basic and Diluted Earning Per Share before Extraordinary items for the period, for the year to date and for the previous year (Rs.)	24.67	19.96	47.00	34.57	73.46
12.	Debt Redemption Reserve	-	-	-	-	-
13.	Debt Equity Ratio	-	-	10.51	9.45	10.56
14.	Debt Service Coverage Ratio	-	-	0.39	0.35	0.33
15.	Interest Service Coverage Ratio	-	-	1.43	1.34	1.38
16.	Public Shareholding					
	- Number of Shares	60244101	60244101	60244101	60244101	60244101
	- Percentage of shareholding	63.46%	63.46%	63.46%	63.46%	63.46%
17.	Promoters and promoter group Shareholding					
	a. Pledged / Encumbered					
	- Number of Shares	NIL	NIL	NIL	NIL	NIL
	- Percentage of shares (as a % of the total shareholding of promoter group)	NIL	NIL	NIL	NIL	NIL
	- Percentage of shares (as a % of the total share capital of the Company)	NIL	NIL	NIL	NIL	NIL
	b. Non - encumbered					
	- Number of Shares	34688499	34688499	34688499	34688499	34688499
	- Percentage of shares (as a % of the total shareholding of promoter group)	100%	100%	100%	100%	100%
	- Percentage of shares (as a % of the total share capital of the Company)	36.54%	36.54%	36.54%	36.54%	36.54%

Statement of Assets and Liabilities (Standalone)

Particulars	As at 30/09/2010 Unaudited	As at 30/09/2009 Unaudited
SHAREHOLDERS' FUNDS:		
a. Capital	9499.63	9499.63
b. Reserves and Surplus	373890.22	309218.29
LOAN FUNDS	3923025.02	2916609.17
TOTAL	4306414.87	3235327.09
FIXED ASSETS	4774.32	3523.09
LOANS	4338492.02	3188989.09
INVESTMENTS	72536.18	32882.33
DEFERRED TAX ASSET	9535.36	9267.70
CURRENT ASSETS, LOANS AND ADVANCES		
a. Cash and Bank balances	16571.17	81027.27
b. Other Current Assets	28200.49	22512.84
c. Loans and Advances	42033.48	65259.88
Less: Current Liabilities and Provisions		
a. Liabilities	180030.49	144560.51
b. Provisions	25697.66	23574.60
TOTAL	4306414.87	3235327.09

Notes :

- The main business of the Company is to provide loans for purchase or construction of residential houses. All other activities of the Company revolve around the main business and accordingly there are no separate reportable segments, as per the Accounting Standard on 'Segment Reporting' (AS 17) issued by the Institute of Chartered Accountants of India / notified under the Companies (Accounting Standards) Rules, 2006.
- Other Operating Income for the half year ended September 30, 2010 includes Income from Investments in various Liquid schemes of Mutual Funds Rs.2569.51 Lacs (Previous period Rs.2835.16 lacs), Interest on Bank Deposits Rs.6.55 Lacs (Previous period Rs.40.71 Lacs) and Residual income on PTC Rs.11.86 Lacs (Previous period Rs.39.57 lacs).
- The effect of agreement with Nomura Asset Management Strategic Investment Pte. Ltd. for sale of shares of LIC Mutual Fund Asset Management Company Limited and LIC Mutual Fund Trustee Company Private Limited for approved consideration of Rs. 13840.00 lacs approx has not been given pending procedural requirements.
- Current Liabilities include Temporary Book Overdraft of Rs.75654.87 lacs (Previous period Rs.62199.14 Lacs), which represents cheques issued towards disbursement to borrowers and cheques issued for payment of expenses, but not encashed as on September 30, 2010.
- At 21st Annual General Meeting of the Shareholders of the Company held on July 15, 2010, dividend of Rs.15/- per equity share of Rs.10/- each was declared and the same was paid subsequently.
- There were no investor complaints that were unresolved as on July 1, 2010. During the quarter, the Company received 46 investor complaints, all of which have been resolved by the end of the quarter.
- Figures for the previous period / year have been regrouped / reclassified / restated wherever necessary to make them comparable with figures of the current period ended September 30, 2010.
- The above results for the quarter / six months ended September 30, 2010 which have been subject to a Limited Review by the Auditors of the Company, were reviewed and recommended by the Audit Committee of Directors and subsequently approved by the Board of Directors at its meeting held on October 14, 2010, in terms of Clause 29 of the Debt Listing Agreement & Clause 41 of the Equity Listing Agreement.

For and on behalf of the Board
Sd/-
T. S. Vijayan
Chairman

Place : Mumbai
Date : October 14, 2010

Current Rate

LIC HOUSING FINANCE LIMITED

ACCEPTS DEPOSITS FROM PUBLIC UNDER CUMULATIVE AND NON-CUMULATIVE SCHEMES AT ATTRACTIVE INTEREST RATES.
(Interest payable six monthly on 30th September and 31st March)

Rate of Interest applicable to Retail Deposit upto Rs.1 crore.	Term	Rate of interest per annum*	Senior Citizens Upto Rs.50,000/- Rate of Interest per annum*	Senior Citizens above Rs.51,000/- Rate of Interest per annum*
Minimum Deposit Amount Rs.10,000/-	1 YEAR	7.00%	7.10%	7.25%
	18 MONTHS	7.25%	7.35%	7.50%
	2 YEAR	7.40%	7.50%	7.65%
	3 YEAR	7.65%	7.75%	7.90%
	5 YEAR	8.10%	8.20%	8.35%

Crisil Credit Rating FAAA/STABLE

* Payable Half Yearly.

Your Trust in our Performance will keep the momentum going...