3 years of IBC: Only 6% of cases resolved so far

Long delays leading to erosion in value of assets; sale proceeds remain poor

RADHIKA MERWIN
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The latest data put out by the Insolvency and Bankruptcy Board of India (IBBI), for the July-September 2019 quarter, underline the growing concerns over the slow progress under the Insolvency and Bankruptcy Code (IBC), 2016.

Of the 2,542 cases admitted till date, 186 have been closed on appeal/review, while only 156 have seen the approval of the resolution plan. In a substantial 587 cases, liquidation has been ordered. What is interesting is the fact that of the 1,497 cases undergoing resolution, 535 have been in the system for over 270 days (existing timeline for resolution is 330 days), and even cases under liquidation are seeing undue delays.

Of the 587 cases where liquidation has been ordered, only 24 have been closed by dissolution. Nearly half have been awaiting closure for over 270 days.

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Undue delays

Under the IBC, the stipulated time for resolution of cases was initially set at 180 days (with 90 days extension). However, the extended 270-day deadline did not include the time taken for interim litigation that caused undue delays in the IBC process.

In the amendment to the Code made in August, the resolution time was capped at 330 days. Importantly, this deadline includes the time taken for interim legal proceedings. The amendment is aimed at bringing in more timely resolution. While it needs to be seen if the timeline is adhered to, for now, the track record of cases under resolution has been poor.

Low realisation from IBC cases

	Realisations by FCs (₹ cr)	Claims of FCs (₹ cr)	Realisation by FCs %
Oct-Dec 2017	1,854	5,524	33.6
Jan - Mar 2018	3,070	4,405	69.7
Apr- June 2018	42,885	76,239	56.3
July - Sept 2018	11,079	42,270	26.2
Oct - Dec 2018	7,303	8,447	86.4*
Jan - March 2019	9,551	39,643	24.1
Apr- June 2019	6,983	41,484	16.8
July-Sept 2019	27,065	78,592	34.4#

*About 88 per cent of the realisation in the quarter pertains to Binani Cements, where the recovery rate was 100%; #about 60% of the claims pertain to Bhushan Power & Steel which is still stuck in litigation. Source: Compiled from quartely data on IBBI website **FC:** Financial creditor

According to IBBI data,over 850 cases under resolution have been in the system for more than 180 days. The average time taken for completion of the 156 resolutions thus far is 374 days. Long delays in the resolution process lead to erosion in the value of underlying assets. A company goes into liquidation if resolution fails. Even the process of liquidation has been long-drawn, further eroding the sale value due to stakeholders.

As of September 2019, of the 587 liquidation orders initiated, eight cases have been in the system for over two years. The sale proceeds from the liquidation process has been poor. In the July-September 2019 quarter, in the case of Orchid Health Care Pvt Ltd, which owes lenders ₹3,500 crore, there has been no realisable asset for liquidation — even to cover the ₹5.98 lakh incurred by the CoC (Committee of Creditors).

Poor recoveries

One of the other key concerns has been the poor rate of recovery under IBC in most of the cases. Data compiled for cases where the resolution plan has been approved, from the October-December 2017 quarter to the July-September 2019 quarter, reveal that in about 38 per cent of the 156 resolved cases, realisation has been less than 30 per cent (as against claims). A fifth of the cases have less than 20 per cent recovery rate. Most of the cases where the recovery rate is high, at over 70 per cent, are small-ticket cases of under ₹100 crore (claims).

The overall recovery rate so far works out to a dismal 37 per cent. If we exclude big cases such as Electrosteel Steels, Bhushan Steel, Binani Cements and Bhushan Power & Steel, the recovery rate falls further to 24 per cent.

Important to note is the fact that the data put out by the IBBI pertain to cases where the resolution plan has been approved by the CoC. These may not have translated to actual recoveries for banks as many of the cases have been stuck in endless litigation. Bhushan Power & Steel is a case in point.

'New biz volumes in export credit, investment down; claims paid rise'

M SOMASEKHAR
Hyderabad, October 28

Global insurers have reported declining volumes of new commitments alongside a 21 per cent increase in claims paid, citing uncertainty fuelled by increasingly negative trade policies and deteriorating macroeconomic conditions.

The latest global data for the export credit and investment insurance industry confirms a challenging trade environment in the first half of 2019. It was presented at a meeting of 220 senior executives of the export credit and investment insurance industry, who had gathered here for the 2019 annual general meeting of the Berne Union, hosted by ECGC India (formerly Export Credit Guarantee Corporation of India Ltd).

The Berne Union is a global association for the export credit and investment insurance industry.

According to the trends, insurers of short-term (ST) trade credit reported $1.7 trillion aggregate credit limits issued at the end of June — no real change since the end of 2018. Insurers of medium and long-term (MLT) export credits reported a significant 27 per cent drop in new commitments, compared to 2018 — $59 billion in new cover and lending in the first half of the year.

Export of capital goods suffered due to investment uncertainty, financial constraints on emerging economies and a decline in the number of 'mega-deal' project transactions, said the Berne Union

Exports of capital goods have suffered due to investment uncertainty, financial constraints on emerging economies and a decline in the number of 'mega-deal' project transactions since last year, a statement from the Berne Union Secretariat said.

Berne Union members paid just over $3 billion in claims for H1 2019 — $1.5 billion for MLT, $1.3 billion for ST and the remaining for political risk insurance. Overall, this is 21 per cent up on H1 2018. In the ST business, Latin America and Europe saw the largest percentage increases in claims payments. North America was the only region not to see an increase in the claims/exposure ratio.

Notable in the MLT business is the continued increase in political claims (as opposed to commercial non-payment) which, although still only accounting for 31 per cent, have risen steadily from just 10 per cent in 2016, said the statement.

The Hyderabad meet was the fourth general meeting of the Berne Union hosted in India by state-owned ECGC, which has been a member since the Union's founding in 1957.

Geetha Muralidhar, Chairman and Managing Director, ECGC, said: "The countercyclical role of ECAs (export credit agencies) is the need of the hour to mitigate the heightened risk situation affecting world trade today and the deliberations in this AGM will enable augmentation of the specific role."

Flipkart FY19 loss widens 40% to ₹1,625.7 crore

OUR BUREAU
Bengaluru, October 28

Flipkart Internet's net loss widened 40 per cent to ₹1,625.7 crore for FY19 thanks to spiralling logistics and customer acquisition costs.

Total income of the company — which runs Flipkart's e-commerce platform — rose 57 per cent to ₹4,804.7 crore.

This includes other income of ₹570 crore, which more than doubled compared with the previous year, according to documents sourced from data intelligence platform *paper.vc*.

Spiralling costs

The e-tailer's continued customer acquisition costs, rising supply chain and logistics costs, and the government's amendment of e-commerce regulations earlier this year, have all contributed to the e-commerce major's spiralling losses.

"While Flipkart is making margins at the product level, it is losing a lot in logistics and warehousing costs, payment gateway costs, cash handling and returns costs."

"Costs associated with Press Note 2, from the government earlier this year, created extra costs for Flipkart as it had to create many intermediary entities and billing structures with additional losses incurred toward reconstructing contracts to comply with the new regulations," said an e-commerce analyst from a top management consulting firm, who did not wish to be named.

Rising logistics cost and customer acquisition costs have led to the mounting losses ISTOCK/DEVRIMB

Fighting Amazon

A large part of Flipkart's losses in FY19 can be attributed to costs incurred to compete with its arch rival Amazon, especially in its entry into the food retail business. Add to this the continued customer acquisition cost, which is around $20 per customer, and customer retention costs, and it doesn't paint a very pretty picture, said another analyst.

E-commerce companies in India haven't yet figured out the right financial business model and will continue to bleed till they figure it out, said Arvind Singhal, CMD of Technopak.

Sumeru eyes larger slice of frozen foods market with launch of 'disruptive' snacks

RUTAM VORA
Ahmedabad, October 28

The frozen snacks category will dominate transformation in the frozen food market, which is expected to grow at 17 per cent, led by disruptive innovations.

The domestic frozen food market includes frozen snacks, frozen meat, poultry and seafoods, frozen fruits and vegetables, among others, of which frozen snacks dominate the demand. It is expected to continue its dominance through 2021, thanks to a wide variety of products.

Bengaluru-based Innovative Foods Ltd, which markets frozen food products under the Sumeru brand, is looking to capitalise on the "innovative disruptions" it is bringing in.

"There are a lot of disruptive innovative products being introduced in different categories," Mithun Appaiah, CEO of Innovative Foods, told *BusinessLine*. "At Sumeru, we have launched (ready-to-eat) millet khichdi. Also, a few months back, we launched momos. The frozen foods category is buoyant and likely to see big growth, driven by newer and innovative sub-categories. This will also disrupt the market and, in the next few years, this market is going to explode." Sumeru also offers products such as frozen peas and corn.

It may be recalled that Amul had launched six products under the 'Happy Treats' frozen potato snacks category last year, including aloo tikki, French fries, potato wedges and 'Veggie Stix'.

Sumeru is currently the market leader in the frozen parathas category with an about 50 per cent market share, while it gets the majority of its revenues from frozen chicken. The two products together contribute about 25 per cent of the company's revenues.

Though frozen food is gaining popularity, it still has a limited audience since it is not considered particularly healthy.

Sumeru has been trying to correct the image with standard manufacturing processes and healthier ingredients, said Appaiah.

RBI slaps ₹35-lakh fine on TMB

PRESS TRUST OF INDIA
Mumbai, October 28

The Reserve Bank, via an order dated October 24, has imposed a penalty of ₹35 lakh on Tamilnad Mercantile Bank (TMB) for violating norms on frauds classification and notification.

"This action is based on the deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers," the RBI said.

The RBI had conducted a statutory inspection of TMB on its financial position as on March 31, 2017, based on which a show-cause notice was issued to the bank as to why penalty should not be imposed for non-compliance with the directions.

South Indian Bank to raise ₹500 cr via tier-II bonds this fiscal year

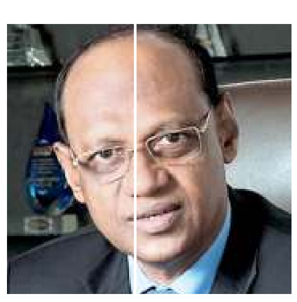
V SAJEEV KUMAR
Kochi, October 28

Thrissur, Kerala-based South Indian Bank (SIB) is going ahead with its capital-raising plans, and its Board has approved the issue of ₹500-crore worth tier-II bonds. The board has also approved the dilution of the basic equity by 30 crore shares.

VG Mathew, the bank's MD and CEO, told *BusinessLine* that SIB plans to launch the bond issue and consider various options for raising equity in the second half of this fiscal.

Auto sector, rate cuts

On the muted demand for automobile loans, he said SIB's exposure to vehicle loans is limited and the bank still has the opportunity for growth in that sector. "The strategy of bringing down the corporate exposure and increasing the retail, MSME and agri portfolios has strengthened the balance-sheet. The pure retail portfolio has grown at 20 per cent and is already accounting for 30 per cent of the loan book, taking the bank closer to its stated objective of becoming a retail banking powerhouse," he said.



VG Mathew, MD and CEO, South Indian Bank

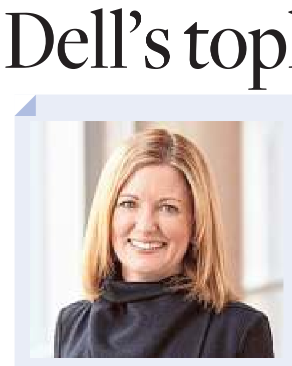
When asked about the RBI's rate cut being passed on to customers, Mathew said that 30 basis points (bps) has been passed on to the borrowing customers through reduction in the marginal cost of funds-based lending rate (MCLR) over the last one year.

Mathew further said SIB has been able to meet the targeted levels of NPA (non-performing assets) recovery and upgrades that helped reduce the gross NPA level from 4.96 per cent to 4.92 per cent on a sequential basis. "We could bring down the corporate exposure from 35 per cent of the loan book to 31 per cent during the last one year in line with the strategy of reducing large corporate exposure," he said.

Chief Customer Office organisation key to driving Dell's topline: EVP & CCO

SANGEETHA CHENGAPPA
Bengaluru, October 28

Karen Quintos joined Dell in 2000 as an executive and rose to become the Chief Marketing Officer in 2010. Three years ago, Michael Dell, Chairman and CEO of Dell Technologies, had chosen Quintos to start the company's first-ever Chief Customer Office organisation. In her role as EVP & Chief Customer Officer, Quintos leads a global organisation devoted to customer advocacy and helps define as well as develop Dell's customer experience strategy and programmes. Quintos is also responsible for Dell's strategy and programmes for diversity and inclusion and corporate social responsibility. In a chat with *BusinessLine* during her recent visit to Bengaluru, Quintos said that the Chief Customer Office organisation has a key role to play in driving Dell's topline.



It is important how we respond when we mess up with customers. Customer NPS is up by 10-20 per cent since I took over as CCO in 2016

KAREN QUINTOS
EVP & CCO, Dell Technologies

How long did it take you to get to the executive leadership team?

I joined Dell as an executive in 2000 and ran our supply chain for about two years. Though my boss was trying to convince me to run all of manufacturing, I really wanted to get back in front of customers because that's where I get my energy and my passion from. That was when Dell was going through a major expansion and I was in charge of all sales and technical support centres in Central America and North America. So we started off with Oklahoma city, numerous sites in Canada, Panama City, El Salvador and I did that role for a couple of years. After a while in marketing, I moved ultimately into the CMO (Chief Marketing Officer) role in 2010. Then, when we brought Dell and EMC together. Michael (Dell) asked me to start our first-ever Chief Customer Office organisation in 2016.

Was the Chief Customer Officer's role conceived with you in mind?

The thinking behind conceiving this role was three-fold. First, Michael certainly saw how the customer experience paradigm was changing at a fast pace, given what was going on in digital transformation. So, it was the recognition around the role that customer experience was going to play. Second, he just wanted somebody on his leadership team to take care of our customers. He wanted that voice that would ask customers what they want from Dell Technologies when we bring Dell and EMC together. And lastly, I asked him the question when he offered me the CMO role, why me? And one of the things he said is, 'because you are the most customer-centric executive that we have'.

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I understand Dell is targeting to add $3 billion to its topline this year. What part of it will come from your organisation?

A lot of it, because we continue to drive improvements in Customer NPS (net promoter score). My team has directly contributed to actually winning business that our sales team says, "I would have never gotten that business had your team not come in". It is important how we respond when we mess up with customers; we are not perfect." Customer NPS is up by 10-20 per cent since I took over as CCO in 2016.