DHFL's default cases land in SC

Bombay High Court hearing likely today

DEV CHATTERJEE
Mumbai, 19 November

The default by housing finance company Dewan Housing Finance Corporation (DHFL), to a slew of investors, has landed in the Supreme Court (SC) with a fixed deposit holder moving the apex court seeking dues.

A special leave petition in the SC was filed on Monday and it is expected to be listed in the next few weeks, said a source close to the development. The HFC owes close to ₹15,000 crore to fixed deposit holders and another ₹38,000 crore to banks. The total debt of DHFL is estimated at a whopping ₹88,000 crore, including mutual funds and bondholders.

DHFL is already facing litigation in the Bombay High Court where its lenders, led by State Bank of India (SBI), Canara Bank, Union Bank and HDFC Bank, are seeking their dues. Another case is filed in the debt recovery tribunal, Pune, which had restrained any payments to the creditors. The debt recovery tribunal (DRT) was moved by Catalyst Trustee, on behalf of DHFL bondholders, seeking dues worth ₹26,861 crore.

The SC was moved by one Vijay Kumar Mittal, a Ghaziabad resident and a fixed deposit holder, according to the filings with the SC registry. The special leave petition has challenged the orders of both the Bombay High Court and the DRT, which had restrained repayments to the fixed deposit holders.

As several retail fixed deposit holders of DHFL are spread all over India and are not organised, they are unable to take legal action against the company. The petition in the SC will help the small fixed holders to get back their money, said a source. The Bombay High Court in the petition filed by Reliance Nippon Life AMC against DHFL had passed orders on September 30 and October 10, restraining DHFL from making payments to any of its secured/unsecured creditors, including fixed deposit holders.

In a statement to the stock exchanges on November 3, DHFL said it was making all payments for maturity and interest on all fixed deposits held with the company, on their respective due dates, and there was no delay in making any payment to any fixed deposit holders until the HC orders.

On November 13, the HC lifted the restrictions and allowed Indian lenders to receive payments from troubled housing finance firm against securitised assets. Meanwhile, several other aggrieved parties moved the Bombay HC. The UP government-owned provident fund trusts of UP Power Corporation Limited (UPPCL) and an insurance credit society of the Indian Air Force employees also moved the HC as interveners in the original commercial suit filed by Reliance Nippon Life AMC.

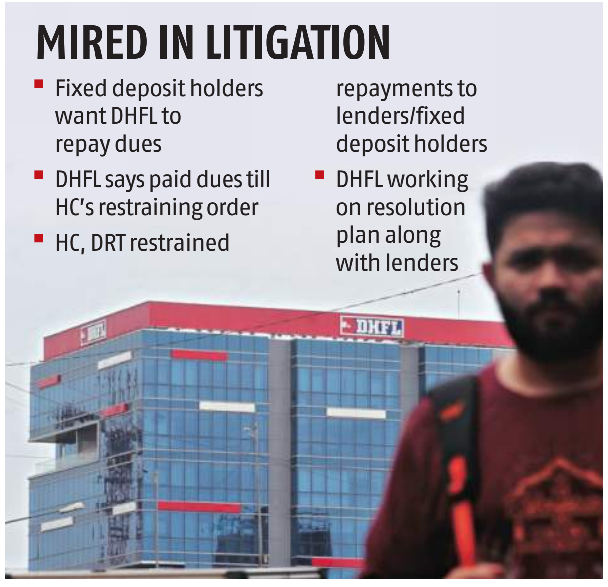
The Bombay HC hearing is expected on Wednesday. The two provident fund trusts of the UP government power corporation want their ₹4,100 crore investments back from DHFL.

The UP government has ordered a Central Bureau of Investigation probe on the investment made by provident fund trusts in DHFL but no further announcement has been made so far by the investigating agency. Since Monday, nearly 45,000 UPPCL employees are protesting in front of the offices of UP power corporation asking the state government to take the responsibility of repayment after DHFL defaulted.

Last month, a forensic audit initiated by Union Bank of India and conducted by KPMG confirmed the promoters of DHFL had diverted funds from the company worth ₹20,000 crore and in several cases there was no proper records kept on the end use of funds lent by DHFL to over 40 entities.

The regulators led by the RBI and the Sebi have also expedited their probe and plan to examine DHFL auditors during the period 2015 to 2019 asking why they failed to detect the fund diversion in time.

The DHFL saga first came to light when web-based media outlet, Cobrapost reported that DHFL floated several shell companies to divert funds from the company. An independent auditor appointed by DHFL — TP Ostwal & Associates — gave the company a clean slate.



Lenders may take insolvency route for DHFL

HAMSINI KARTHIK
Mumbai, 19 November

Within days of Section 227 of the Insolvency and Bankruptcy Code (IBC) being introduced, banks are deliberating using this to resolve loans to stressed non-banking financial companies (NBFCs).

"State Bank of India (SBI), which has the largest exposure of over ₹9,000 crore through term loans to Dewan Housing Finance (DHFL), may consider the IBC route.

The bank is waiting for the Reserve Bank of India (RBI) to notify which companies can be moved to courts through this mechanism," said a source.

Sources also said the RBI was in the process of formulating guidelines to invoke insolvency proceedings for NBFCs and was expected to issue the notification soon.

Banks led by SBI may make a representation to the RBI, stating the current resolution process did not find much success and they would like to opt for resolution under the IBC. "The RBI, if it finds the petition valid, will invoke proceedings," said the source. According to Section 227 of the IBC, only the appropriate regulator can initiate insolvency proceedings against financial service providers.

SBI is being advised by law firm Cyril Amarchand Mangaldas on invoking the IBC for DHFL. Upon admission of the case at the National Company Law Tribunal (NCLT), the RBI will appoint an administrator and is also expected to set up a three-member advisory committee, which will include members of key lenders to DHFL.

Lenders are working on a new resolution plan once the IBC proceedings against DHFL are admitted in the NCLT. Under this plan, banks may convert a part of their loans to equity. Lenders also plan to get private equity investors, who will bring fresh capital.

Banks would own 25 per cent equity, while the PE players would have a stake of 26 per cent of the augmented capital. "Since holding a 51 per cent stake in the company required a lot of regulatory go-aheads, banks have decided to restrict the quantum of debt conversion to 25 per cent," said a source in the banking sector.

He added, "This time, banks will enter into back-to-back agreements with the interested investors to buy out their shares within 12-18 months of conversion. Banks also reserve the right to sell their stake in the open market if the investor fails to do so."

Sources said PE investors such as AION Capital and Cerberus Capital, who had earlier evinced interest in DHFL, are in talks with banks again.

"Since the investment will happen through the IBC route, investors seem more comfortable buying stake in DHFL. This would shield them from litigation in future," said a source.

"A few PE investors new to the NBFC sector are also showing interest," he added. However, since the assets of DHFL cannot be restructured or reorganised immediately, investors will buy stake in the company in totality — that is including retail and wholesale assets.

"It is possible that two PE firms may buy 10–16 per cent stake each in the business," said a source.

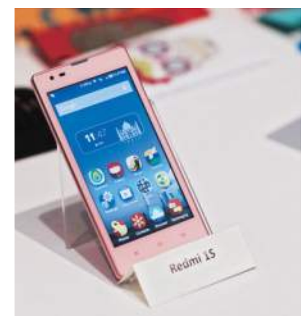
Xiaomi plans 10K shops, eyes 50% sales from offline stores by December-end

GIREESH BABU
Chennai, 19 November

Chinese smartphone maker Xiaomi, which entered the India market in 2014 as an online seller, is expecting half of its total sales to come from offline retail stores by the end of 2019. The company is looking to further expand its offline market presence in the country by doubling the number of its retail stores from the present 10,000.

In the past two years, Xiaomi has expanded its chain of offline stores across formats — 6,000 Mi Preferred Partner stores and 75 Mi Homes on a franchise-based model, besides exclusive small-format Mi Stores added last year to penetrate Tier-II, -III and -IV cities and towns. It has 2,500 Mi Stores across 600 cities and towns of India.

"The offline market is about two-thirds of the total. Over the years, our offline contribution has been growing by leaps and bounds. Given our offline growth, we will probably have a 50-50 offline-online split by the end of this year," said Xiaomi India Chief Operating Officer Muralikrishnan B.



"Offline growth has been extremely successful for us. We want to continue expanding our offline network; this is one area where we want to focus in 2020. We have about 10,000 retail outlets in the country today; we want to more than double that count at some point in the near future," he added. As part of an offline strategy, the firm plans to sell its non-smartphone products through these retail stores.

Offline was a fast-growing segment for Xiaomi this Diwali, up almost 70 per cent on a year-on-year basis. Even as some other segments struggled due to an ongoing slowdown, the firm's sales this festive season stood at 12 million devices. It sold 8.5 million smartphones, 37 per cent more than last year; 600,000 smart televisions, 50 per cent more than in 2018; and 3 million internet-of-things devices.

The firm believes there is a significant headroom for growth in the offline space. "We believe we can gain more market share by growing our offline presence. That will continue to be our focus area. By expanding Xiaomi's network across formats of offline stores, we can also sell other products in the same stores," said Muralikrishnan. Xiaomi announced 99 per cent of the smartphones it sold in the country were made in India. These account for 65 per cent of the total. The firm is looking at localising more components in India by bringing suppliers to the country.

One of its partners has set up a factory in Uttar Pradesh to make camera modules and many more suppliers are at various stages of evaluation and execution. The firm enables these vendors to understand India and connects them with the central and state governments.

Synergy Group gets a month to submit Jet resolution plan

Lenders to Jet Airways have agreed to give the Synergy Group time till December 16 to submit a resolution plan to revive the grounded airline.

The proposal was discussed at the committee of creditors meeting in Mumbai on Tuesday and will be put to vote for a formal approval in the next few days. The Insolvency and Bankruptcy Code (IBC) requires completion of a resolution process within 180 days.

The code also provides for further extension. Jet Airways came under insolvency proceedings in June and the airline's resolution professional Ashish Chhawchharia will make an application to the insolvency court seeking a 90-day extension in the resolution timeline. South America's Synergy Group is the sole contender to revive the grounded airline.

It had been given time till November 15 to submit its bid. However, the group sought more time as it seeks clarity on airport slots in India and London.

The group has been in regular touch with the resolution professional and the airline management, giving hopes of a revival. The Mumbai Bench of the National Company Law Tribunal (NCLT) has sought an interaction with the Synergy Group by December 3 to understand its interest in restarting Jet. ANEESH PHADNIS

Starbucks revenue up 26% in Q2

AVISHEK RAKSHIT
Kolkata, 19 November

Tata Starbucks, the 50:50 joint venture between Tata Global Beverages (TGBL) and US-based Starbucks Coffee, reported 26 per cent revenue growth in the September quarter.

As of September, it had 163 stores in 10 cities. In August, it entered Ahmedabad and Surat in Gujarat, opening five and three stores, respectively.

According to an investor presentation by the company, its consumer connection scores are at a record high. The score is described as a measure of customer satisfaction and the likelihood of a repeat visit. It has closed 2018-19, with 146 stores in eight cities, an addition of 30 stores (the addition was 25 in 2017-18); it entered Chandigarh in the year. In the first quarter of the current financial year, April-June, revenue grew 23 per cent.

"India is one of the fastest-growing emerging markets for Starbucks globally. We believe we are building the business in the right way, being disciplined and positioning for long-term success. We are optimistic for the future; hence our accelerated growth plans, with the recent city expansion to Ahmedabad and Surat," a spokesperson told *Business Standard*.

So far in 2019-20, it has opened 17 stores. The firm have been experimenting with three different formats. In cities where it is already present, like Bengaluru and Mumbai, smaller footprint stores were increased, while new formats like the shop-in-shop store was introduced in Westside, Bengaluru.

Another new format, the Highway store, was tried on the Mumbai-Pune and Bengaluru–Tirupati highway.

The third format is described as high-profile and premium stores, such as on Vittal Mallya Road in Bengaluru.

Metal firms likely to trim capex further

ADITI DIVEKAR
Mumbai, 19 November

To avert cash flow mismatch, have sufficient cushioning and no hiccups in loan repayment, Indian metal companies could further cut their capital expenditure (capex) for this financial year.

Significant revenue decline in the September quarter, an indication of lower cash flow, has already prompted a move in this direction. Tata Steel, JSW Steel, Vedanta and Hindalco Industries have all cut their capex.

"Steel demand revival in the domestic market post monsoon is only marginal so far. Demand from white goods and the automobiles segment (due to revised contract prices) would help only a bit, as they together form 15-20 per cent of total consumption. Overall, the demand picture is still dismal, with no major confidence building indicator," says Sushim Banerjee, director-general at the Institute of Steel Development and Growth.

Tata Steel has revised its planned capex for 2019-20 to ₹8,000 crore, from the earlier ₹12,000 crore. Vedanta has reduced its estimate to ₹8,500 crore, from ₹10,000 crore earlier. Hindalco trimmed its India operations capex to ₹2,000 crore, from ₹2,600 crore. JSW Steel decided to shave its capex by ₹4,700 crore, to ₹11,000 crore.

Aluminium producers also say they do not see a demand revival. "We are hoping that domestic demand looks up in the coming months but there is absolutely no sign," Satish Pai, managing director at Hindalco Industries, said at the latest quarterly earnings conference.

The company's consolidated net sales at ₹29,657 crore in the September quarter was down nine per cent from the same period last year.

"The chance of fast recovery looks remote for overall aluminium demand. Earlier, we were at least relying on export but with the global downturn, that, too, seems dim," said Anil Agarwal, patron of the Aluminium Secondary Manufacturers Association.

October to March, the second half of the financial year, is considered a peak demand season for industrial activity, post monsoon, as construction activity picks up and the festival season brings increased demand in almost all consumption segments. "The capex cycle is directly linked to cash flow. With excess monsoon this time, demand emerging from rural India needs to be watched, as it might get affected. Also, with GDP numbers not being too strong, a further cut in capex is possible," said Hitesh Avchat, group head of corporate ratings with CARE Ratings.

"Cutting capex would mean ensuring sufficient cushioning and smooth loan repayments in tough business conditions," he added.

Severe contraction in factory output has prompted observers of the economy to downsize their estimate of the pace with which it could have grown in the July-September quarter. Most estimate 4.2-4.7 per cent. State Bank of India has lowered its estimate for GDP growth to 4.2 per cent; for all of 2019-20, it has given the lowest estimate so far, at 5 per cent.