

SECTOR WATCH FINANCIAL

₹15K cr of retail investor money stuck in DHFL

Secured debt, mainly banks with over ₹38K cr exposure, have the first charge on recovery

GEORGE MATHEW
MUMBAI, NOVEMBER 25

THE FATE of close to Rs 15,000 crore of retail investors' money stuck in non-convertible debentures (NCDs) and fixed deposits (FDs) of Dewan Housing Finance Corporation (DHFL) remains uncertain, even as the housing finance firm is being taken to bankruptcy proceedings by the Reserve Bank of India.

DHFL owes Rs 6,188 crore towards FD holders, who are mostly retail investors. Chances of nearly one lakh FD holders getting back their money are slim as FDs are unsecured instruments and the firm has been defaulting on secured loans and debt. On the other hand, recovery of Rs 9,000 crore stuck in secured NCDs of around 85,000 retail investors hinges on the IBC proceedings, sources said.

According to Indian banking laws, secured debt — mainly banks which have given over Rs 38,000 crore loans and NCDs — have the first charge on recovery. Repayment of unsecured debt comes after that. The total unsecured debt works out to Rs 9,818 crore. This includes commercial paper (CP) of Rs 100 crore, perpetual debt of Rs 1,263 crore, subordinate debt of Rs 2,267 crore and public deposits of Rs 6,188 crore. Bankers are skeptical about full recovery of debt through the Insolvency and Bankruptcy Code (IBC) process. "We don't expect full recovery in DHFL. There will be a haircut. Look at what happened in Jet Airways, nothing has come so far. In the IL&FS case, they talk of only 50 per cent recovery by March 2020," said an official of a nationalised bank.

Total liabilities of DHFL are Rs 83,873 crore, according to DHFL's draft resolution plan released in September. Of this, it owes banks Rs 27,527 crore, NCD holders (including retail investors, mutual funds and others) Rs 41,431 crore, National Housing Bank (NHB) Rs 2,350 crore and external commercial borrowings (ECB) Rs 2,747 crore. The big question being asked by bankers is: how and from where will DHFL get funds to repay lenders and investors?

Retail investors are now running from pillar to post to recover their money in NCDs and FDs. "Retail investors in NCDs are very small people, including senior citizens, who have very limited resources of income. They should be paid in full before FD holders or any other retailers," tweeted an investor. "My dad who is 64 now and about to have a bypass surgery has kept almost all his life savings in DHFL. Now we are stuck with no money. God

| DHFL BORROWINGS (IN ₹ CRORE) | |
|------------------------------|---------------|
| NHB | 2,350 |
| ECB | 2,747 |
| Banks | 27,527 |
| CP | 100 |
| NCDs (incl Masala Bonds) | 41,431 |
| Perpetual debt | 1,263 |
| Sub-debt | 2,267 |
| FDs | 6,188 |
| Total Borrowings | 83,873 |

| Unsecured loans | |
|------------------|--------------|
| CP | 100 |
| Perpetual Debt | 1,263 |
| Subordinate Debt | 2,267 |
| Public Deposits | 6,188 |
| TOTAL | 9,818 |

Source: DHFL Resolution Plan

knows when we will get our own money. FD holders' priority should be higher, specially senior citizens," said another worried investor who complained to the authorities.

In their complaint to the government, NCD holders said, "In the draft resolution plan, it is proposed to pay NCD and FD holders at par. This is against the law as presently drafted, and against principles of natural justice. Investors have put their hard earned money assuming that they will be repaid on par with banks but now they are junior to banks and MFs, and on par with FD holders."

Investors also blamed the debenture trustees — Catalyst Trusteeship — for slow proceedings in the recovery process. "The debenture trustee will protect the interest of the NCD holders in the event of default by us in regard to timely payment of interest and repayment of principal and they will take necessary action at our cost," DHFL's prospectus had said.

It also said the company will maintain a special corpus called the debenture redemption reserve (DRR). This would be 25 per cent of the NCDs' values outstanding which will be parked in a bank fixed deposit. This money will not be utilised for any other purpose other than repayment of debentures maturing during the year, the prospectus had said.

However, Finance Minister Nirmala Sitharaman proposed to scrap the obligation of DRR, a provision that requires NBFCs to build a reserve over the term of the debt to repay investors, in the Union Budget tabled in July. It was often termed as "a stumbling block for NBFCs to raise money via public bonds". Now, investors are ruing the Centre's decision to scrap DRR which would have ensured at least 25 per cent of NCD repayment.

PLEDGING OF CLIENTS' SECURITIES FOR OTHER PURPOSES A CONCERN

Post Karvy ban, broader issue for Sebi is to bring structural changes: Experts

SANDEEP SINGH
NEW DELHI, NOVEMBER 25

CAPITAL MARKETS regulator Sebi may undertake structural reforms, such as modifying the mechanism of posting collateral and securities for settlement by brokers with a clearing corporation, to prevent misuse as had happened in the case of Karvy Stock Broking Ltd (KSBL).

The Securities and Exchange Board of India (Sebi) had last week banned KSBL from acquiring new clients for stock broking activities.

The regulator's investigation found that the company allegedly pledged securities of its clients with private banks and NBFCs, and used money to the tune of Rs 1,000 crore for other purposes including funding its own real estate subsidiary Karvy Realty.

It was observed by Sebi that Karvy was allegedly using one client's securities to meet the obligation of another. Further, clients' securities were also allegedly used to meet the obligations of the broker on proprietary account. These are not permitted under Sebi regulations.

While the market regulator has already ordered a forensic audit into the misuse of clients' securities by Karvy, there is a need to further tighten norms to prevent such misuse, sources said.

Normally, securities move from client account to trading member pool to clearing member pool and then to the clearing corporation.

"There needs to be a change in the current structure so that brokers don't have the scope of misuse," said a source, who did not wish to be named.

The market regulator may also expand the scope of its investigation beyond Karvy, since it has been learnt that pledging of clients' securities for other purposes is practiced rampantly in the industry.

Earlier this year, Sebi had directed brokers that securities bought in the market through the stock exchange on behalf of a client should be credited to the demat account of the respective client within one working day of the payout.

It had directed that a client's securities lying with the trading member/clearing member cannot be pledged to banks or non-banking finance companies (NBFCs) for raising funds, even with authorisation by client since this was akin to a fund-based activity by the trading member or clearing member, which is not permitted under the regulations.

EXPLAINED

Violations call for stringent surveillance mechanism

WHILE FORENSIC audit has been ordered into the misuse of clients' securities by Karvy, the development points to blatant violations of securities market laws by a broker.

Further tightening of norms to prevent such misuse may be called for. The malpractice not only breaks the trust of retail investors in market, but points to the frailty of the surveillance mechanism.

PRATT AND WHITNEY ENGINE ISSUES

DGCA to IndiGo: For every new A320neo plane, ground one with unmodified engines

ENSECONOMIC BUREAU
NEW DELHI, NOVEMBER 25

AVIATION SAFETY regulator Directorate General of Civil Aviation (DGCA) on Monday instructed IndiGo to ground its old A320neo family aircraft with an unmodified Pratt and Whitney (P&W) engine, for every new A320neo plane with the modified engine that is added to its fleet. Earlier, on November 1, DGCA had instructed IndiGo to replace both engines with modified engines on its entire A320neo fleet — of an estimated 98 aircraft — by January 31, 2020 or else face grounding.

The regulator's order had come in the backdrop of repetitive events of "3rd stage LPT" (low pressure turbine) blade failure of planes causing engine malfunctions on four occasions, potentially compromising passengers' safety. The budget carrier operates a total of 91 new generation A320neos and seven A321neos.

In a fresh directive Monday, the regulator said: "Though DGCA does not wish to interfere with the import of aircraft, however, it is the considered view of DGCA that from now onwards, every aircraft that is added to the existing fleet, should lead to one of those with unmodified engines to be grounded and the new aircraft may be operated on the same schedule as was being operated by the aircraft, which will be grounded. Simply put, the new aircraft will slip into the role of one existing aircraft with unmodified engines."

IndiGo shares closed higher 4.39 per cent at Rs 1,452 on the NSE on Monday. Further, DGCA said efforts undertaken by IndiGo to replace all unmodified P&W engines on its A320neo family aircraft by January 31 next year, as instructed earlier, do not "instill enough confidence with regard to the timely completion of the said task."

The regulator also ordered that IndiGo should now lease only A320/21neos that have modified engines under both their wings.

It said if it grounds all IndiGo planes with unmodified engines

Regulator said efforts undertaken by IndiGo do not "instill enough confidence with regard to the timely completion of the said task"

after January 31, as earlier instructed, it may cause large-scale disruptions. Therefore, DGCA has suggested induction of a new plane with modified engine leading to grounding of an existing plane for engine replacement.

The DGCA also asked IndiGo to present its complete action plan, by January 31, relating to placement of both modified engines on all aircraft.

"The grounded aircraft can be allowed a fresh schedule once its engines are replaced. This process may remain in force till all engines in the fleet, have been replaced. However, in case, the operator manages to procure sufficient engines from OEM (original equipment manufacturer) for replacement, this process can be suitably altered," the DGCA said.

Most airlines operating A320neo or A321neo aircraft powered by P&W engines have faced several engine-related issues, including gearbox failures, combustion chamber distress apart LPT blade failure. These issues have been addressed in the modified engines. The US Federal Aviation Administration (FAA), last week, also issued an alert for certain variants of P&W engines for the neo aircraft. "These conditions, if not addressed, could result in uncontained release of LPT 3rd stage blades, failure of one or more engines, loss of thrust control, and loss of airplane," the DGCA said about the FAA notice.

"The current schedule remains intact. IndiGo is working with P&W and Airbus to adjust inflow of LPT 3 modified engines to meet the DGCA guidelines," IndiGo said in a statement. The DGCA order, however, may impact expansion plans of the airline.

'APAC 20 city list: Bengaluru's MG Road tops office rental growth'

Bengaluru's central business district (CBD) has registered highest office rental growth in Asia Pacific region at 17.6 per cent during July-September quarter of 2019 compared with year-ago period on buoyant demand, according to global property consultant Knight Frank

COMPETITIVE PRICING
Bengaluru has seen continued growth in leasing activities, due to the competitive pricing offered by its CBD, as against its counterparts in New Delhi and Mumbai

MUMBAI CBD continues to be one of the most favourable office destination commanding high rental values

17.6% The highest year-on-year (y-o-y) rental growth in the Asia-Pacific region in July to September quarter this year (Q3 2019) registered by Bengaluru's CBD, comprising areas such as MG Road, Infantry Road and Residency Road

CBD in New Delhi continues to remain attractive, however, low vacancies and lack of Grade-A supply have restricted leasing volumes in this location.

CONNAUGHT PLACE in the National Capital Region (NCR) and Bandra Kurla Complex (BKC) in Mumbai are ranked 7th and 11th in the 20 fastest growing prime office markets in the Asia-Pacific region, respectively

CBDs OF MELBOURNE AND BANGKOK are on the 2nd and 3rd positions, with a y-o-y office rental growth of 15.5 per cent and 9.4 per cent, respectively

RENTALS have risen 4.4 per cent in Connaught Place and 2 per cent in BKC, Mumbai

HONG KONG, with a monthly rental value of \$206.6 per sq metre, was the most expensive office market in Asia-Pacific in Q3 2019, followed by Tokyo (\$110.9 per sq metre) and Singapore (\$80.5 per sq metre)

530-POINT JUMP TO CLOSE AT 40,889.23 Sensex hits new peak on US-China deal hopes, PSU divestment plan

ENSECONOMIC BUREAU
MUMBAI, NOVEMBER 25

THE SENSEX on Monday zoomed nearly 530 points to scale a new closing peak of 40,889.23, aided by renewed optimism over the US-China trade deal and the government's divestment programme to raise resources. The revamp of Sensex and other indices and hopes of rate cut by the Reserve Bank of India in the upcoming monetary policy meet also boosted the investor sentiment.

Led by telecom and metal shares, the 30-share index touched its record intra-day high of 40,931.71, before finally settling 529.82 points, or 1.31 per cent, higher at 40,889.23 — its all-time closing peak. Likewise, the broader NSE Nifty closed with a gain of 159.35 points, or 1.34 per cent, at 12,073.75 — just shy of its life-time closing high. "Cues that US and China will conclude a deal by next month lifted the sentiment across the globe. Reconstruction of Sensex indices and new developments over divestment to curb fiscal deficit provided confidence. Expectations of further cut in interest rate by the RBI, gave advantage to rate sensitive stocks," said Vinod Nair, head of research at Geojit Financial Services.

Sandeep Nayak, ED and CEO of Centrum Broking, said, "The prolonged trade war between US and China was weighing heavily on Indian indices. Positive statements made by both officials last week indicating that a trade pact is likely by the end of December 2019 are being welcomed."

Investor wealth, or market capitalisation of listed firms, rose Rs 1.81 lakh crore to Rs 1,54,55,740.67 crore. The Union Cabinet last week approved the sale of the government's stake in blue-chip oil firm BPL, shipping firm SCL and onland cargo mover Concor as well as decided to cut shareholding in select public sector firms below 51 per cent to boost revenue collections that have been hit by slowing economy. A trade pact between the US and China is likely by the end of December 2019 after positive statements made by both sides last week, analysts said.

Sectorally, BSE telecom index zoomed nearly 7 per cent, lifted by a positive sentiment in the sector in the wake of government's relief measures and plans to raise tariffs by telcos.

Market capitalisation of listed firms rose ₹1.81 lakh crore to ₹1,54,55,740.67 crore

Apple making iPhone XR in India; supplier to buy closed Nokia unit

Salcomp to invest ₹2K cr in 5 years in the facility near Chennai

TECH MAJOR Apple has started production of iPhone XR in India for the domestic market and exports, underlining the government's efforts to bolster mobile manufacturing in the country, Union IT Minister Ravi Shankar Prasad said on Monday.

Prasad added that Salcomp, the world's largest manufacturer and a major supplier of chargers to Apple for iPhone, has reached an agreement to take over a closed facility of Nokia in an SEZ near Chennai.

Salcomp will revive the unit, which was closed for nearly 10 years, and it will become operational from March 2020. The unit will produce charger and other equipment, and will boast of a diversified portfolio. This will entail an investment of Rs 2,000 crore in five years.

"It's a very proud moment for India. Earlier, it (iPhone boxes) used to say designed in California and assembled in China. Now, it says assembled, manufactured and marketed, all in India"

RAVI SHANKAR PRASAD
UNION IT MINISTER

expand your operations in India. That's our expectation," Prasad said, showcasing a 'Made in India' Apple XR device.

Apple, which also works with Taiwanese contract manufacturer Wistron in India, already makes iPhone 6S and 7 here.

In September, Prasad, after a CEOs roundtable with over 50 electronics and phone companies, had exhorted Apple to expand manufacturing base in India and to use the country as export hub, promising to line up fresh incentives and sops to galvanise electronics as well as phone industry.

"We have an ambition to make India a preferred destination for manufacturing. I have also instructed officers to accelerate this," the union minister said. **FE WITH PTI**

\$135-PER SHARE CASH DEAL TO BOOST LVMH'S SMALLEST BUSINESS — JEWELLERY & WATCH

LVMH aims to restore Tiffany's sparkle with \$16.2 bn takeover

REUTERS
PARIS, NOVEMBER 25

LOUIS VUITTON owner LVMH has agreed to buy Tiffany for \$16.2 billion in its biggest acquisition yet, as the French luxury goods maker bets it can restore the US jeweller's lustre by investing in stores and new collections.

The \$135-per share cash deal will boost LVMH's smallest business, the jewellery and watch division that is already home to Bulgari and Tag Heuer, help it expand in one of the fastest-growing industry sections and grow its US presence. It will have challenges to overcome too, as spending patterns shift and Chinese shoppers retreat from the United States to buy more at home, one of the side effects of a Beijing-Washington trade war that has weighed on Tiffany.

And in the US the jeweller is still in turnaround mode as it tries to rejuvenate its image and lure shoppers online. But the New York-based brand, founded in 1837 and known for its signature robin's egg blue boxes, still has a resonance as the go-to purveyor of engagement rings only a handful of rivals can match, such as Richemont-owned Cartier.

"It's an American icon, which is now going to become a little French too," LVMH's chairman and chief executive Arnault said in an interview. "There are some extraordinary things about Tiffany, like the colour. We're now



The Tiffany jeweller shop at the Champs Elysees avenue in Paris, on Monday. AP

the owners of a colour — that's a very rare thing."

The purchase crowns a string of acquisitions through which Arnault, France's richest man, has built up his conglomerate, including fashion brands like Christian Dior, wineries, and beauty retailers like Sephora. Not all are profitable to the same degree — the group is still trying to revive its Marc Jacobs label — but Arnault cited the firm's 2011 acquisition of Bulgari as a model for Tiffany.

The group invested in store revamps, new product ranges and communication at the Italian jeweller, and lifted operating profits fivefold, Arnault said. "I'm not saying we can do that (with Tiffany), but I think the potential is there," he added.

Subhash Chandra resigns as Zee Entertainment Chairman

ENSECONOMIC BUREAU
MUMBAI, NOVEMBER 25

ZEE GROUP founder Subhash Chandra Monday resigned as the chairman of Zee Entertainment Enterprises Ltd (ZEEL), after the promoters offloaded around 16 per cent stake in the company last week to pay off debtors. However, he will continue as a director on the board of the company.

Chandra, who started the Zee TV network in 1992, expressed his intent to step aside as the Chairman of the company, which he founded way back in 1992, at the board meeting on Monday. "The board accepted his resignation with regret and applauded his vision for the company and the industry at large," the company

"However, the entire board requested him to not only continue as a board member but also be the 'mentor' to the executive management and its MD & CEO ..."

ZEE ENTERTAINMENT ENTERPRISES LTD
IN A STOCK EXCHANGE FILING

said in a stock exchange filing. While Chandra stepped aside from the chair, he also expressed the desire to step aside as a board member. "However, the entire board requested him to not only continue as a board member but also to be the 'mentor' to the executive management and its MD & CEO," it said.

ZEEL shares fell by 3.98 per cent to Rs 343.65 on the BSE on Monday. Last week, Essel Group said it was planning to sell around 16.5 per cent stake in ZEEL to financial investors in order to repay loan obligations to certain lenders of the group for whose benefit such shares are currently encumbered.

Promoter ESSEL Media Ventures sold 69.4 million shares while Cyquator Media Services sold 61.6 million shares and ESSEL Corporate LLP sold 11.8 million shares via bulk deals at an average price of Rs 304 per share, according to the NSE data. Government of Singapore bought 28.5 million shares, representing 3 per cent stake, while Societe Generale bought 16.7 million shares or 1.73 per cent stake in ZEEL.