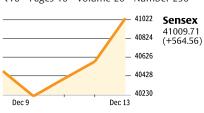
## MONDAY • DECEMBER 16, 2019 **CHENNAI**

₹10 • Pages 16 • Volume 26 • Number 296



	Week's close	Week's change
Nifty 50	12086.70	+165.20
P/E Ratio (Sensex)	28.78	+0.39
US Dollar (in ₹)	70.83	<b>-</b> 0.37
Gold Std 10 gm (in ₹)	37676.00	-346
Silver 1 kg (in ₹)	43880.00	<b>-</b> 235

The life insurance space in India has been

Inside

**BIG STORY Bright prospects** 

analysis of the sector

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Why it may be time to look at

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The initial exuberance in the stock of

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VA Tech Wabag has

fizzled out and the

price has eroded more

than 81 per cent since its peak in FY15. We

take a closer look to understand what went

**STOCK CALLS** 

# Business ine **LONDON CALLING** www.businessline.in Air India may soon launch thrice-a-week **()** businessline flights between Mumbai and London's Stansted airport p11 thehindubusinessline nedabad Bengaluru Chennai Coimbatore Hubballi Hyderabad Kochi Kolkata Madurai Malappuram Mangaluru Mumbai Noida Thiruvananthapuram Tiruchirapalli Tirupati Vijayawada Visakhapatnam Read, TN/ARD/14/2012-2014, RNI No. 55320/9

### IN SINGLE BIGGEST RECOVERY

# Essar lenders get ₹38,896 cr from Arcelor

gaining significant Mumbai, December 15 The ArcelorMittal-Nippon Steel comtraction, with top bine has transferred ₹38,896 crore to private sector players delivering strong lenders for the acquisition of the onceperformances over the Ruias-owned Essar Steel in an insolvpast two or three ency-driven process. For the lenders, years. After several ups recovery comes over two years after and downs and regulatory upheavals, the they initiated a corporate insolvency sector is emerging as an attractive resolution process (CIRP) against the opportunity for investors looking to invest steel-maker. It marks the single biggest recovery made by lenders under a CIRP. in the financial services space. An in-depth

> The operational and other creditors will get the remaining ₹3,104 crore of the ₹42,000-crore bid placed by ArcelorMittal to settle Essar Steel's loan default of ₹49,000 crore.

According to sources, lead lender SBI has received the money, and will distribute it among the banks shortly. Under the initial plan, the opera-

tional creditors were to get ₹196 crore. However, the National Company Law Appellate Tribunal ordered the financial lenders to consider an additional payment. Arcelor Mittal's payment has resulted in a loan recovery of 89.74 per cent. The closure of the deal comes just ahead of the Monday deadline for payment. The winning bidder hadto make the payment within a month of the deal's approval, or shell out interest for the delay. The Supreme Court approved ArcelorMittal's bid for Essar

The new owners then sought immunity from the ongoing investigation against Essar Steel's original promoters. The government amended the Insolvency and Bankruptcy Code to ring-fence the assets and the new owners from punitive actions, paving the

Steel on November 15

way for ArcelorMittal, the world's largest steel company, to enter India.

As on October 24, 2018, 65 financial creditor claims totalling ₹55,440 crore, 1,936 operational creditor claims of ₹27,081 crore, employee/workmen claims of about ₹20 crore, and one claim from 'other creditors' of about ₹24 crore were received.

The amount admitted in the case of financial creditors was ₹49,473 crore; operational creditors, ₹5,074 crore; and employees, ₹18 crore.

SBI had the highest amount admitted, at ₹13,226 crore. The admitted amount of the other large creditors include: Canara Bank (₹3,798 crore), StanChart Bank (₹3,557 crore), PNB (₹2,936 crore), Deutsche Bank (₹2,830 crore), IDBI Bank (₹2,482 crore), ICICI Bank (₹2,294 crore), Union Bank

(₹2,123 crore), Bank of India (₹1,985 crore), EARC TRUST - SC 217 (₹1,698 crore) and Corporation Bank (₹1,567 crore). The recovery is good news for the banks in the third quarter as they may use the proceeds to make provision for their exposure to DHFL and IL&FS, and mark-to-market provisioning towards investment depreciation.

## **Default by Odisha Slurry**

In separate insolvency proceedings, the lenders of Odisha Slurry Pipeline Infra issued a Letter of Intent to ArcelorMittal, which agreed to pay the entire default of ₹2,350 crore. The 253km pipeline carries iron ore slurry from Dabuna, Odisha, to Paradip, where it is converted into pellets before being shipped to the Essarplant in

# Citizens' anger



A man rides his motorcycle past a bus that was set on fire during a protest against the citizenship law, in New Delhi, on Sunday (Reports p16) REUTERS

# Why it may pay to invest in debt accrual funds than bank FDs

### **DHURAIVEL GUNASEKARAN**

Many investors use the systematic investment plan (SIP) to invest in equity mutual funds (MFs) but using this route to invest in debt MFs is not so common.

However, SIPs in some debt mutual funds can be quite rewarding.

A BusinessLine analysis of threeyear SIP returns for all the debt fund categories shows that the funds under the accrual debt categories - including liquid, low duration, money market and ultra short duration - have managed to deliver higher returns than bank term deposit rates in most periods (see graph).

While debt MF returns may not be as volatile as their equity counterparts, the former are influ-

enced by interest rate cycles. As the NAV fluctuates across these cycles, SIP investors have the opportunity to bring down their average cost of investment in debt funds. For this analysis, we have classified debt fund categor-

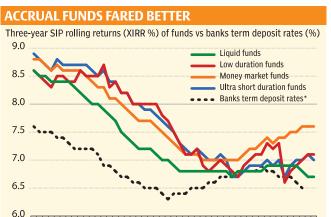
funds and funds following a mix accrual and duration strategies. Accrual funds focus on interest income, while duration funds generate returns from capital appreciation. The former are less

volatile, as they are not impacted

by the interest rate movement.

ies into accrual funds, duration

A comparison of the three-year SIP returns of debt categories against those of banks' term deposits reveals that accrual funds managed to outperform in around 90 per cent of the time



\*Bank Group wise Weighted Average Domestic Term Deposit Rates (WADTDR)

periods while duration funds and

and duration strategies outper-

formed in 67 and 74 per cent of the time periods, respectively. funds following a mix of accrual

Interestingly, the returns gener-

ated by debt funds become more stable as the SIP tenure increases. A comparison of the three-year SIP rolling data with the five-year SIP rolling data of the same scheme shows that the latter set exhibits

lower volatility. The analysis further shows that the SIP returns of some categories of debt MFs were lower when interest rates were at a peak and vice-versa. For instance, when the 10-year G-Sec bond yields hovered at a high of 8 per cent in October 2018, the average three-year SIP returns of the money market, banking and PSU debt and gilt funds were 6.9, 5.9 and 4.5 per cent, respectively. But these funds delivered high returns in December 2016, when the 10-year G-Sec bond yields were around 6.2 per cent.

Investors with a low-to-me-

dium risk profile can channel a small portion of their savings into accrual funds every month based on their investment objectives.

### **Lower taxes**

Debt funds score over FDs and RDs on taxation. The long-term capital gains (redeemed after 36 months) on debt funds are taxable at 20 per cent with the benefit of indexation. As for FDs, the interest income is taxed at the individual's

For this analysis, we used threeyear SIP returns (source: ACEMF and NAVIndia) calculated on a rolling period basis, based on the latest seven-year NAV history.

'Bank Group-wise Weighted Average Domestic Term Deposit Rates' was used as the benchmark (source: RBI).

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