IN BRIEF

Top 50 corporates cut debt by ₹60,000 crore in H1 FY20

Top 50 corporates in the country have reduced debt by ₹59,600 crore in the first half of this fiscal as part of their strategy to deleverage their balance sheet, according to government sources. This has some bearing on the credit growth of the banks as corporates borrowing from domestic lenders has come down, the sources said. In the last financial year 2018-19, sources said, these companies had reduced their debt burden by about ₹ 43,000 crore. The companies are preferring to raise funds through alternative instruments like external commercial borrowing (ECB), which is available at a lower rate comparatively, the sources said, adding evolving legal framework, including Insolvency and Bankruptcy Code (IBC), is also prompting India Inc to reduce their dependence on debt.India Inc's foreign borrowings grew over two-fold to $3.41 billion in October over the corresponding month a year ago, as per the latest Reserve Bank of India (RBI) data. PTI

Delhi-NCR office leasing jumps to 10.8 mn sqft: Report

Net leasing of office space jumped over two-fold to record 10.82 million sq ft this year in the national capital region, driven by new supply and rising demand for quality workspace from corporates, according to property consultant JLL India. Delhi-NCR had recorded a net office space leasing of 5.31 million sq ft during 2018. New supply of office space also surged more than two times this year in the Delhi-NCR to 13.39 million sq ft against 5.43 million sq ft in 2018. PTI

Centre begins search for next SAIL chairman

The government has started the process to select the next chairman of Steel Authority of India (SAIL). A K Chaudhary, SAIL's current chairman assumed the position in September 2018, is scheduled to retire in December 2020. However, on the government's approval, chairman of a public sector undertaking can get an extension. While the minimum age of an applicant should 45, he or she must be a graduate with good academic record from a recognised university or institution, according to a PESB notification. PTI

Portal for worker grievance redressal to be launched in Jan

The labour ministry has chalked out a plan to launch a new portal 'Santusht' next month for speedy redressal of worker as well as employer grievances and ensuring effective implementation of labour laws at the grassroot level, a source said. Initially, Santusht (Hindi for satisfied) would monitor all services provided by retirement fund body EPFO and health insurance and services provider ESIC to formal sector workers. Later, the portal would cover other wings of the ministry as well. It would also have data on real time basis to assess the performance of each and every official. PTI

DHFL creditors to meet today to discuss resolution

The Reserve Bank of India-appointed administrator of the crippled Dewan Housing Finance (DHFL) called for a meeting of its creditors for the first time on Monday after the mortgage lender was admitted for insolvency proceedings. The third-largest pure play mortgage player is the first non-banking financial company or housing finance company to face the corporate insolvency resolution process. PTI

Green certificate sales down 10% to 504,000 in Dec

Sales of renewable energy certificates fell around 10 per cent to 504,000 units in December, as compared to 559,000 in the same month a year ago due to lower supply, according to official data. Indian Energy Exchange (IEX) and Power Exchange of India (PXIL) are the two power bourses in the country which are engaged in trading of renewable energy certificates (RECs) and electricity. The trading of RECs is conducted on the last Wednesday of every month. But due to Christmas holiday, the trading this month was done on the last Thursday. PTI

Firms will move from hiring to attracting in 2020, says study

With the workforce transformed significantly over the last decade, a study has revealed that hiring is no more about recruitment but about attracting as there are increasing number of dropouts, and attrition rate has peaked beyond 22 per cent. About 78 per cent of companies in a survey admit that hiring and retaining has become more difficult compared to the previous year, according to 'The 2020 Talent Technology Outlook' study by research-backed innovative talent solution provider SCIKEY. PTI

Essar Steel: Making of ₹42K-cr deal

ISHITA AYAN DUTT
Kolkata, 29 December

Aditya Mittal, president and chief financial officer, ArcelorMittal, and chairman, ArcelorMittal Nippon Steel India (AM/NS India), was struck by the potential of Essar Steel's Hazira plant on his very first visit in November 2017.

To make the deal happen, Mittal fought a gruelling battle — in courts and outside — for 865 days. Finally, Essar Steel was bagged under India's new insolvency law, in ₹42,000-crore deal mid-December with secured financial creditors recovering around 90 per cent.

There is no let-up in Mittal's excitement. Today, I remain as excited as I was on that day when, in the company of colleagues from ArcelorMittal, we sketched the future for Essar Steel," Aditya Mittal said in his inaugural newsletter to employees. Essar Steel is now AM/NS India and it is just revving for a new beginning. A management team with members from Arcelor and Nippon is being put in place to drive what Mittal describes a "bold and confident" plan for the company. Dilip Oomen, managing director of Essar, however, will continue to remain with the business as AM/NS India's chief executive officer (CEO).

The start of CIRP

Getting to this point wasn't easy. The road was riddled with challenges as much for ArcelorMittal as it was for stakeholders. From resolution professional (RP), Satish Gupta, to his advisors, Alvarez & Marsal (A&M), to lenders and last but not the least, the management and employees, played their part.

Essar — one of the 12 cases mandated for resolution under the Insolvency and Bankruptcy Code (IBC) by the Reserve Bank of India (RBI) — was admitted to the National Company Law Tribunal (NCLT) on August 2, 2017.

Once the case was admitted, the board of directors was suspended, and the RP and A&M took over operations, cash management and compliance.

For the management and employees of Essar, it was a moment of uncertainty. Suddenly, the team that was used to taking directions from the Ruia family had to take instructions from the RP and A&M.

The insolvency law was still quite fresh and Essar one of the test cases. This made it more complex.

"Given the uncertainty, we had to over-communicate with all stakeholders, internal and external, providing them comfort that Essar Steel was a going concern and how we believed the insolvency resolution process would work," said Nikhil Shah, managing director A&M, leading the firm's turnaround and restructuring practice.

Managing the process

A team of 25-30 people from A&M, at varying times, focused on three broad areas: The first was operationally managing the company so that there was no deterioration in value; the resolution that involved seeking bids from resolution plan applicants; and third was the insolvency administration, which included claims management, avoidance actions and supporting the litigation process.

"We had several town hall meetings with all the employees, one-on-one meetings with the senior management team and with 30 top suppliers and customers. Building confidence in the senior leadership, suppliers and customers was important to allow the company to continue operating as a going concern," said Shah.

One of the initial challenges after taking over was to regularise the appointment and remuneration of senior professionals, managing director, director (technical) and CFO in consultation with the CoC (committee of creditors), as it was pending approval on account of default of Essar Steel to lenders, said Satish Gupta.

Restoring confidence in suppliers and customers were the other important cogs.

The cash management was done by A&M. Vivek Kamra, managing director, A&M, part of the firm's performance improvement and restructuring business, said, "Any payment that was made was approved by A&M and the resolution professional. That meant 500 payment transactions a day, 10,000 payments a month to suppliers and service providers."

Lenders of Essar Steel, led by State Bank of India, however, already had a mechanism of 'Trust and Retention Account' (TRA) for monitoring cash flow to prevent any diversion prior to initiation of insolvency.

Sifting through claims was yet another challenge. The total claims filed by the financial and operations creditors with the RP was about ₹82,000 crore; finally what was admitted was ₹54,500 crore, the rest was either disputed or not substantiated by proper legal documents.

A stellar performance

At the start of the corporate insolvency resolution process (CIRP), Essar was generating ₹1,800-2,000 earnings before interest, tax, depreciation and amortisation (Ebitda) at approximately 50 per cent capacity utilisation. But the numbers climbed eventually.

"While it is not our policy to comment on CIRP process, the trust of customers, confidence of vendors and the commitment and resilience of our employees helped the company tide over this uncertain period with very good performance in production, sales, and profitability," said Dilip Oommen, CEO, AM/NS India.

In FY17, Essar's rolled steel output stood at 5.47 million tonnes, which finally increased to 6.78 million tonnes in FY19.

Banks lent a helping hand here. After NCLT judgments in Amtek Auto and another case, existing lenders stopped tagging from the TRA, and accruals from operations were ploughed back for enhancing operations to take advantage of a buoyant steel market.

As a result, production per month increased from an average of 460,000 tonnes in FY17 to 600,000 tonnes. At the same time, for customers, the on-time delivery performance index improved 25-27 per cent.

Getting ready for bidders

Stabilisation and ramping up operations were important for value maximisation.

"We knew that there was significant value in Essar Steel and carried out a massive outreach programme across Japan, Korea, China, Brazil, Russia to elicit interest from potential bidders," said Nandini Chopra, managing director, A&M, leading the firm's corporate finance practice.

The IBC had very little on how to run a sale process. "The requirements were rudimentary to say the least. A newspaper advertisement, one English and vernacular, the company's website, and a bare bones information memorandum. Unfortunately that's not good enough," Chopra pointed out.

Finally, seven expressions of interest (EOIs) were submitted: Tata Steel, Vedanta, SAIL, ArcelorMittal, Nippon, Numetal and a fund.

But some fell off as there were other steel assets available through insolvency at the same time.

Then just before bidding, the government introduced Section 29A to prevent defaulters from bidding, which made the process tougher not just for the bidders, though.

"We first thought that we would have to vet a few hundred entities like group and associate companies. But it turned out to be an enormous task with close to 3,000 entities that had to be scrutinised on account of the global operations of ArcelorMittal, Vedanta and Numetal and their partners such as VTB, Nippon Steel and others," said Chopra.

As a result, defaulting firms like Uttam Galva Steels and KSS Petron came to light and the Rewant Ruia connection, too. The RP rendered both Arcelor and Numetal ineligible.

Through the court process the rejection was upheld and the Supreme Court provided the bidders a chance to rectify. ArcelorMittal rectified while Numetal did not.

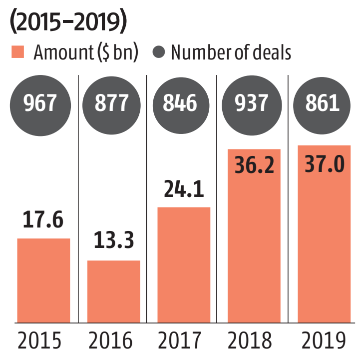
The rest is history dotted with its famous moments.

PE INVESTMENTS TOUCH ALL-TIME HIGH OF $37 BILLION IN 2019

Private equity (PE) investment in India touched $37 billion (₹3.6 trillion) in 2019, across 861 transactions, as against $36.16 billion across 937 deals the year before. These figures include venture capital investments but exclude PE money in real estate. According to Venture Intelligence data, on the back of large Infrastructure sector deals, PE investment in 2019 edged past the previous high of 2018, during which mega deals in the infotech sector, especially e-commerce, had dominated the headlines.

The 2019 investments were led by infrastructure. It saw 74 PE investments worth $100 million or more (74% of the total investment value). Of these, 40 were larger than $200 mn each, with five over $1 bn. Infrastructure-related sectors were 40% of the PE pie, attracting $14.7 billion across 74 deals. Compared to a 20% share in 2018 ($7.8 billion across 83 deals). Energy industry deals, led by Brookfield's $1.9-bn investment in Reliance Pipeline Infra, accounted for 26 investments worth $4.9 bn, compared to $3.2 bn in 31 deals during 2018. Brookfield's partnership with RIL extended to telecom, with the Canadian investor agreeing to invest almost $3.7 bn in a Special Purpose Vehicle that will acquire a controlling stake in Jio's tower infrastructure firm. The airport development arms of GMR and GVK groups also attracted significant capital. T E NARASIMHAN

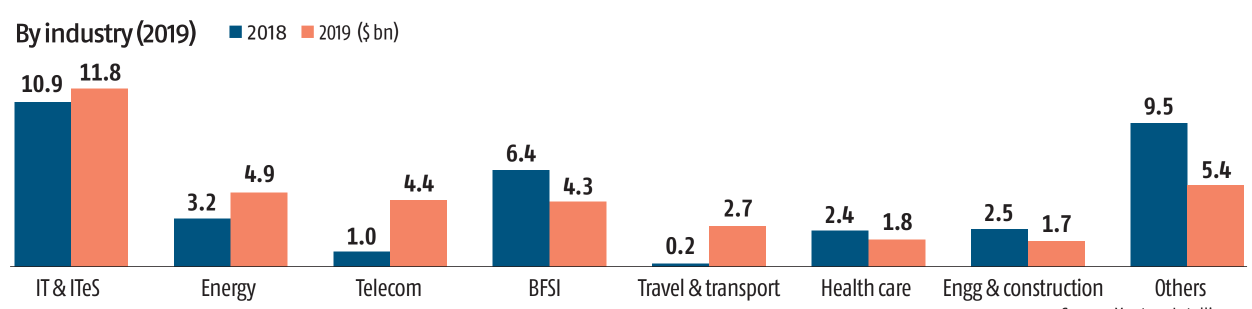
PE-VC investments in India (2015-2019)



Top 10 PE-VC investments in India (2019)

	Sector	Investors	Amount ($mn)
Reliance Tower Infra	Telecom infra	Brookfield	3,660
Reliance Pipeline Infra	Natural gas pipeline	Brookfield	1,875
GMR Airports	Airports	SSG Capital, GIC, others	1,143
GVK Airports	Airports	NIIF, ADIA, PSP Investments	1,075
Paytm	Payments	Alibaba, SoftBank, others	1,000
CitiusTech	Enterprise software - health care	Baring Asia	880
NIIT Technologies	IT services (GIS)	Baring Asia	872
Bharti Airtel	Telecom	GIC	715
NHAI TOT Bundle III	Roads	I Squared Capital, IFC	700
SBI Life Insurance	Insurance	Carlyle	653

By industry (2019)



Source: Venture Intelligence

Housing market down but commercial segment did well

RAGHAVENDRA KAMATH
Mumbai, 29 December

The year 2019 was one of the toughest years for residential real estate — prolonged slowdown, continued liquidity crisis, scores of bankruptcy cases and so on.

Commercial real estate was in much better shape, given overall offtake and jump in rentals.

Consultants and developers say next year is also going to be bad for home developers — prices are expected to remain stagnant and sales to move only slowly.

However, branded developers in this space have done well, with launches which had the right pricing, good locations and strong brand. They are also expected to do well in the coming year.

The year saw Lokhandwala Infrastructure developers become insolvent. The promoters of HDIL — Sarang and Rakesh Wadhawan — were arrested in connection with the PMC Bank scam. Experts predict more developers will go bankrupt in the coming year.

While many housing finance companies (HFCs) have stopped lending, DHFL being one, many others have stopped disbursal to borrowers, creating a liquidity crisis in the sector. The Reserve Bank of India has in its latest financial stability report highlighted the stress in real estate. It said system-wide credit losses to lenders – HFCs, public sector and private banks — jumped to 7.3 per cent in June 2019, from 5.7 per cent in June 2018.

Housing

Residential sales in 2019 saw modest four to five per cent annual growth, with about 258,000 homes sold in the year, says Anarock Property Consultants. New launches in 2019 saw 18-20 per cent annual growth, at a little over 230,000 units, it said. About 22 per cent of the supply was in the affordable housing segment. Of total sales of 261,000 units in the top seven cities, affordable housing comprised 38 per cent.

"We don't see much of traction in the primary residential market and it will take another year to see this sector registering substantial growth. Till then, we will be hovering around a modest growth rate or maybe just the run rate we clocked in 2018," said Samantak Das, chief economist at JLL.

The central government announced a number of measures to revive the sector, especially in the affordable segment. However, sales at large did not move by much and developers have not come out of the woods, experts say.

In the Union Budget for 2019-20, the government announced an additional deduction of up to ₹150,000 for interest paid on loans borrowed up to March 31, 2020, for purchase of a home valued at ₹45 lakh. Further, a goods and services tax rate cut was announced at 1 per cent for affordable houses and 5 per cent for other categories.

The government also set up an alternative investment fund worth ₹25,000 crore for stalled projects.

Office market

Office leasing went up a little over 30 per cent to cross 47 million sq ft during the first three quarters, surpassing its previous peak of 2018, says a report from CBRE.

"Even though the co-working segment has faced some disruption globally, we continue to witness a lot of traction in this space. In terms of supply, some smaller cities have shown a lot of promise," Das of JLL said.

An example is in Hyderabad, where JLL sees equal supply coming in comparison to Bengaluru, which is the largest market in India. "So, in the very short term, we might see a slight increase in vacancy in cities such as Hyderabad where supplies are coming in good quantum," he said.

According to Anarock, commercial spaces attracted the largest number of private equity investment among all classes of real estate, at close to $3 billion funds (₹21,400 crore) in the first three quarters of 2019. In the corresponding period of 2018, total inflow within this segment was nearly $2.1 bn, thus rising 43 per cent.

Bengaluru and the Mumbai central business districts (CBDs) are expected to see rises in office rentals during 2020 on resurgent demand from the information technology sector, UK-based consultancy Knight Frank said recently. The CBD of Bengaluru was the best performing market in the Asia-Pacific during the third quarter, with rental growth of 17.6 per cent, according to the Knight Frank Asia-Pacific Prime Office Rental Index. The CBDs of Connaught Place in Delhi and BKC in Mumbai were the seventh and 11th fastest-growing prime office markets in the Asia-Pacific, respectively.

Blackstone and its partner, Embassy, created history when they listed the country's first real estate investment trust (REIT). "More commercial REITs will be listed in 2020 as more commercial developers will look to unlock the value of their assets to raise capital," said Anuj Puri, chairman of Anarock.

Retail

Though the leasing of retail properties has come down due to economic slowdown, mall developers Prestige Estates, Virtuous Retail South Asia and Inorbit are looking to their mall spaces in a year or two for tapping the growing share of organised retail.

Overall retail leasing activity reduced by as much as 35 per cent in the top seven cities alone — from 5.5 mn sq ft in 2018 to 3.6 mn sq ft in 2019.

"The share of organised retail gained ground in 2019. While it currently still accounts for only eight per cent share of the overall Indian retail market, it is set to reach 13 per cent by 2020-end, on the back of government interventions," said Puri of Anarock.

2019 A MIXED BAG FOR REAL ESTATE

RESIDENTIAL

- Home sales in 2019 saw a 4-5 per cent annual growth with over 258,000 homes sold
- New housing launches in 2019 saw 18-20 per cent annual growth with over 230,000 units

OFFICE

- Office leasing went up by over 30 per cent annually to cross 47 million square feet during Q1-Q3, 2019
- CBD of Bengaluru was the best performing market in Asia Pacific in Q3 2019, with a rental growth of 17.6 per cent

RETAIL

- Retail leasing reduced by as much as 35% in top seven cities – from 5.5 mn sq ft in 2018 to 3.6 mn sq ft in 2019
- The share of organised retail in 2019 accounted for 8%, set to reach 13 per cent by 2020

Source: Anarock, JLL, CBRE, Knight Frank