ACQUISORY

Your Growth, Our Business

NEWS CHRONICLE

SEPTEMBER 2020

Stay Connected with Acquisory

www.acquisory.com

ACQUISORY
Your Growth, Our Business

Contents

Disclaimer

Editorial Team: Knowledge Management @ Acquisory

Economy: Uncertain Times Require Fiscal Forbearance

"What is necessary for livelihood and what is necessary for addressing the issue of pandemic does not deserve the kind of constraints which the FRBM places. Certainly, this is the time for forbearance, not rigid adherence to fiscal rectitude"

– N K Singh, Chairman, 15th Finance Commission and FRBM Roadmap Committee

A drastic contraction of 23.9% in quarterly GDP has taken our economy to FY 2014 quarterly levels. With COVID - 19 cases continuing to soar, and no new fiscal stimulus announced by the Government, our economy's short-term decline is set to continue in the foreseeable future.

The pandemic's 'peak' that our government was expecting to reach by now, remains elusive. Making matters worse for the economy is that 5 large states that contribute ~40% of our GDP – Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, and Gujarat – are those where >50% confirmed cases of COVID - 19 remain concentrated as on date. The pandemic has also reached India's rural areas, of the districts with over 1,000 cases, almost half were in rural areas, up from 20% in June, raising concerns.

The problem is a slump in aggregate demand with its repercussions on both the manufacturing and the services sectors and consequent job losses. Services industry contributed >55% to India's GVA, in FY 2020 and 2019, and employed 31.5%of our workforce. With services and manufacturing sector experiencing a grinding halt for last ~ 4 months, most of the job losses of 85 million have been in these sectors. Most importantly, manufacturing is expected to remain in the negative domain till the 4th quarter of FY 2021. Construction activities, including real estate bore the severest brunt of the prolonged lockdown. Even today, it remains far from its pre-Covid-19 level due to labour shortages, slump in demand for both residential and commercial real estate, and re-assessment of capex plans by corporates in light of weakened aggregate demand. Within the services sector travel, tourism, and hospitality have been the most hit.

Our exports and imports fell by almost 20% and 40% respectively. This implies that our domestic demand was worse hit than our overseas demand. This probably explains why India has witnessed the steepest GDP contraction among G-20 economies as per latest data. A small bright spot was that our trade imbalance turned positive and contributed 2.8 per cent to our GDP, instead of shaving off a part of the GDP that it traditionally does.

In the middle of this bleak outlook, one bright spot is the agriculture sector. Often neglected by and paid lip – service by policy makers, our rural economy is expected to grow by 2.5% - 3% depending on the range of estimates provided by several forecasting and rating agencies. Agricultural GVA rose 3.4% in the half year ending September, owing to a bumper Rabi crop and record procurement by FCI and other state players. Still, good performance of agriculture has not been able to save overall consumption demand from a double-digit contraction as other sectors were in the negative. Disposable incomes have also taken a hit as retail inflation continues to be high at 6.69% in August and is expected to inch up.

All these indicators point to a continuing slump in the economy. In order to raise aggregate demand, it will, therefore, be imperative for the government to consider allowing most economic activities to resume with adequate safety measures in addition to amending its strict adherence to FRBM parameters. We believe that strict adherence to the FRBM law may not be feasible and it is the time to bring flexibility without "impairing" overall fiscal consolidation. GoI may need to follow a "range" on issues of fiscal deficit and debt levels, instead of the fixed targets currently prescribed. Following a range on fiscal parameters will provide the GoI some flexibility depending on the evolving macroeconomic situation.

➢ RBI extends Much Needed Relief to Borrowers

Economic fallout due to Covid-19 pandemic has led to significant financial stress for borrowers across the board. Long term business viability has been impacted as corporate debt burden is now disproportionate relative to business's cash flow generation abilities. Such widespread impact could impair the entire recovery process, posing significant financial stability risk. Defaults may lead to higher NCLT flow / loss of business ownership which are built with hard efforts discouraging entrepreneurial spirit. To revive the sectors and mitigate the impact, RBI has decided to provide a window under the Prudential Framework to permit Resolution to eligible borrowers without change in Ownership and without classification of account as NPA.

The RBI notified vide their guidelines RBI/2020-21/16(DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020, the "Resolution Framework for COVID-19-Related Stress". The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of COVID 19.

The lending institutions will be required to assess the viability of resolution plan, subject to the prudential boundaries laid out under this framework. The RBI, based on recommendations of the K.V. Kamath Expert Committee, issued the framework to be followed mandatorily by all the lending institutions while finalizing the resolution plan in respect of eligible borrowers vide their circular RBI/2020-21/34(DOR.No.BP.BC/13/21.04.048/2020-21 dated Sept 7, 2020. The resolution plan may inter alia include sanctioning of additional credit facilities, extension of the residual tenor of the loan with or without payment moratorium by a period not more than two years and conversion of a portion of debt into equity or other marketable non-convertible debt securities.

RBI's much needed relief measures are likely to soften and partially mitigate the adverse impact of COVID – 19 on all business sectors.

➢ RBI's Monetary Policy Committee meeting postponed

In an unprecedented development, the RBI on September 28, 2020 postponed the bi-monthly meeting of the Monetary Policy Committee (MPC) scheduled from September 29 to October 1, after the government failed to nominate its three members to the six-member panel on time.

The 4-year tenure of the three government-nominated members — Ravindra Dholakia, Chetan Ghate and Pami Dua had expired after the previous MPC meeting on August 6. The government had not announced the three new members till Monday. It is for the first time in recent history that the RBI has postponed its monetary policy review. The MPC comprises three external members and three members from the RBI. The RBI Governor heads the MPC, with the Deputy Governor in charge of the Monetary Policy Department, and the Executive Director looking after the policy as the remaining member.

The MPC is a statutory committee that fixes the key policy interest rates and monetary policy stance of the country as well as the inflation target and at this time of uncertain economic outlook, it is necessary that these statutory committees function effectively.

➢ Vodafone wins international arbitration against India in USD 2 bn tax dispute

An international arbitration tribunal in The Hague ruled that India's imposition of a tax liability on Vodafone, as well as interest and penalties, were in a breach of an investment treaty agreement between India and the Netherlands. The tribunal, in its ruling, said the government of India must cease seeking the dues from Vodafone and should also pay GBP 4.3 million pounds to Vodafone as partial compensation for its legal costs. Vodafone's win against the Indian government could set a precedent for similar arbitration cases, including the one initiated by Cairn Energy Plc.

UPA II government had imposed this retroactive tax in the budget of 2012 even after the Indian Supreme Court had ruled in favour of Vodafone. This had led to serious concerns by large foreign / multinational companies as such arbitrary imposition of rules make business decisions untenable. It is to be seen what steps the government of India will take after this ruling. Any decision will have a repercussion on India's attractiveness as an investment decision, especially at a time when our economy is contracting.

➢ 3 top Apple suppliers commit USD 900 million to India for manufacturing smartphones

Foxconn, Wistron, and Pegatron have announced plans to commit investments of USD 900 million to locally manufacture Apple smartphones in India. Recently, India announced a USD 6.65 bn production liked incentive scheme (PLI) that offers companies cash incentives on any increase in sales of locally-made smartphones over the next 5 years, compared to last fiscal year. The scheme aims to help transform India into an export manufacturing hub. Foxconn, Wistron and Pegatron have announced plans to invest INR 40 bn, INR 13 bn and INR 12 bn respectively. With India now featuring prominently in Apple's global expansion plans, the government's PLI scheme comes as an added advantage for Apple to focus on this region. Local manufacturing helps Apple save costly duties levied on imports of fully-built phones and components in India, where the Cupertino, California-headquartered tech giant accounts for just 1% of smartphone shipments.

➢ Tata Sons in talks to buy 18% stake of Mistry family

On 22 September, the Shapoorji Pallonji group, the single largest shareholder of Tata Sons said in a statement that it wants to end its seven-decades-long relationship with the Tata group. The Tatas have reached out to several investors, including sovereign wealth funds, to buy out the Mistry family's stake in Tata Sons Ltd, according to people aware of the developments. N. Chandrasekaran, chairman of Tata Sons, is leading the talks with potential investors. Shapoorji Pallonji (SP) group is likely to broadly decide on the terms of the potential separation, including the final valuation and timelines before 28 October, when the Supreme Court hears the matter next.

The Mistry family's stake, held through two investment firms, is estimated to be Rs 1.5 lacs crores according to the valuations submitted to the Supreme Court. Market intelligence says, Tata group may offer to purchase the Mistry family's 18.4% stake in a staggered manner, given the large size of the transaction. The Shapoorji Pallonji Group has been adversely hit by the pandemic as most construction activities, that contribute largely to the group turnover have come to a grinding halt in the last several months. The windfall may help Shapoorji Pallonji retire some of its debt and bring in much needed cash flow support.

KKR buys 1.28% stake in Reliance Retail for INR 5,550 crores, Silver Lakes pays INR 7,500 crores for 1.75%

Reliance Industries Limited (RIL) and Reliance Retail Ventures Limited (RRVL) announced that global PE giant KKR will invest INR 5,550 crore into Reliance Retail, a subsidiary of Reliance Industries. This investment values Reliance Retail at a pre-money equity value of INR 4.21 lakh crore. KKR's investment will translate into a 1.28% equity stake in RRVL on a fully diluted basis. This marks the 2nd investment by KKR in a subsidiary of RIL, following an INR 11,367 crores investment in Jio Platforms announced earlier this year. This is the second deal by Reliance Retail in two weeks.

Earlier this month, private equity giant Silver Lake Partners had said that it will invest Rs 7,500 crore in Reliance Retail for a 1.75% stake.

Dream Sports raises USD 225 mn from Tiger Global Management, TPG Tech Adjacencies and ChrysCapital

Dream Sports, India's most valuable online gaming startup, has secured USD 225 million in new funding, led by Tiger Global Management, TPG Tech Adjacencies and ChrysCapital. Footpath Ventures also invested in the company that runs the Dream11 fantasy sports platform. Dream11 has recently won the bid for the title sponsorship of the IPL, cementing its position as a leader in the e-sports category. The valuation of Dream Sports has jumped to more than USD 2.5 billion from USD 1.1 billion in April 2019 as per market source familiar with the transaction said on condition of anonymity. Parent Dream Sports was valued at USD 700 million in September 2018, when it raised USD 100 million from Chinese internet giant Tencent.

Silver Lake invests USD 500 million in online learning platform Byju's

Online learning platform Byju's has raised USD 500 million in a fresh round of funding led by US-based PE investor Silver Lake, along with participation from existing investors including Tiger Global, General Atlantic, and Owl Ventures. The new round values Byju's at USD 10.8 billion, up from its last valuation at USD 10.5 billion from its earlier Series F round that was closed in August. In 2020, till date, Byju's has raised around USD 1 billion in funding including its Series F rounds with USD 200 million each from Tiger Global and General Atlantic. On 27th August 2020, the edutech unicorn also raised USD 122 million funding from DST Global, the investment fund headed by technology Israeli – Russian billionaire Yuri Milner. Prior to this in June 2020, Byju's had secured another USD 100 million from another US technology investor, Mary Meeker through her fund Bond.

Unacademy raises USD 150 million from SoftBank and existing Investors

Edutech platform Unacademy raise USD 150 million led by Japan's SoftBank. Apart from SoftBank, which invested from its Vision Fund 2, existing investors General Atlantic, Sequoia Capital, Nexus Venture Partners, Facebook, and Blume Ventures also participated in the round. The Bengaluru-based startup, which was recently named the official partner for the IPL for the next three seasons, had raised money at a valuation of USD 510 million in February from Facebook, General Atlantic, and Sequoia. Unacademy is now India's second-most valued edutech startup after Byju's.

ACQUISORY
Your Growth, Our Business

Glossary

FRBM	Fiscal Responsibility and Budget Management
GDP	Gross Domestic Product
GoI	Government of India
GVA	Gross Value Added
IPL	Indian Premier League
MPC	Monetary Policy Committee
NCLT	National Company Law Tribunal
NPA	Nonperforming Asset
PE	Private Equity
PLI	Production Liked Incentive Scheme

ACQUISORY
Your Growth, Our Business

Contact Us

OUR OFFICES

Delhi NCR

1116, 11th Floor, WTT, C-1,
Sector 16, DND Flyway,
Noida - 201301
T: +91 120 614 3000
Fax: +91 120 6143033

Mumbai

1st Floor, Unit No. 108,
Bandra Kurla Complex, Adani
Inspire, Mumbai - 400051
T: +91 22 68648100
Fax: +91 22 68648132

Bengaluru

7th Floor, BHIVE
WORKSPACE, Mahalakshmi
Chambers, 29, MG Road,
Bengaluru - 560001

info@acquisory.com

OUR SERVICES

M&A Advisory

- Deal Structuring / Negotiation
- Buy Side / Sell Side Advisory
- Due Diligence
- Valuations
- M&A Integration
- Corporate Finance

Asset Management

- Portfolio Management
- Strategic Advice
- Finance Management
- Dispute Resolution and Litigation Management
- Exit advisory
- Asset Management Tool

Operations & Risk Consulting

- Internal Audit
- Risk Management
- IFC Review
- DAS Audit
- Compliance Management
- Process Improvement
- Cost Reduction
- Working Capital Optimization
- Data Analytics
- Physical Verification

Assurance & Regulatory

- Compliances
- Accounting & Reporting
- Regulatory Compliance Audits
- Financial Audits
- FEMA / RBI Regulatory Compliances
- RERA Compliance
- Secretarial

IT Risk, Forensics

- Information Security Management Services
- Forensics
- Technology Risk Solution
- Security Risk Management
- Creative Training Solution

Krishan Goyal	Rajarshi Datta	Divya Vij	Dinesh Pillai
krishan.goyal@acquisory.com	rajarshi.datta@acquisory.com	divya.vij@acquisory.com	dinesh.pillai@acquisory.com