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ASSOCIATION OF CORPORATE ADVISERS & EXECUTIVES

Highlights

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Capital Markets Update - Q4 of FY 2020-21

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Summary:

The new year 2021 has begun on a strong positive note with vaccination drives in major economies as well as in India. The COVID-19 incidence is seen receding and strong economic recovery was seen. The economic survey and union budget were presented in February and their development orientation was well received by the market.

There is a short case study of Lakshmi Vilas Bank's (LVB) merger with DBS Bank. LVB faced increasing NPAs after its focus changed from retail lending to corporate lending. The bank was merged by RBI to protect depositor interest after LVB's fund raising and M&A efforts failed. Other M&A and PE key deals include TOTAL acquiring stake in Adani Green Energy, Wipro acquiring Capco and TA Associates acquiring significant stake in OmniActive Health Technologies.

Economic Update:

Monetary Policy Committee (MPC) met in 1st week of February, 2021 and voted unanimously to leave the policy repo rate unchanged at 4 per cent. Strong economic recovery was seen in the market and most of the sectors have started registering year on year positive performance.

Table 8: Sector-Wise Corporate Performance

Select Sectors	Net Sales Growth (Y-o-Y, per cent)				Operating Profit Growth (Y-o-Y, per cent)				Net Profit Growth (Y-o-Y, per cent)			
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-20	Jun-20	Sep-20	Dec-20	Mar-20	Jun-20	Sep-20	Dec-20
IT	7.4	4.3	4.5	6.0	20.2	12.5	19.0	24.1	15.4	6.3	12.5	18.4
Refining	-5.0	-49.2	-25.2	-17.4	-170.8	-37.8	65.2	27.5	-143.5	-6.1	85.5	29.2
FMCG	0.2	-6.4	7.5	6.9	-16.7	-13.1	16.2	12.7	-20.2	-2.1	7.4	8.1
Pharmaceuticals	5.5	5.5	9.8	10.2	2.1	28.0	38.8	45.1	9.8	16.2	33.9	63.7
Steel	-18.7	-39.1	10.5	16.8	-28.9	-401.3	n.m.	n.m.	46.3	-604.3	34.2	n.m.
Auto & Auto Ancillaries	-17.2	-65.2	3.4	20.3	-55.0	-198.0	8.5	56.7	-37.5	-157.6	-11.3	50.8
Cement	-11.8	-33.4	4.6	11.2	5.3	-44.8	83.9	107.4	12.7	-36.9	70.6	111.7

Note: Excludes extraordinary items. n.m. is not meaningful.
Sources: Prowess; and RBI staff calculations.

In the non-financial sector, auto, steel and cement have seen a positive performance during Q3:2020-21. Further, during the same period, companies in the information technology (IT) sector have recorded the best quarterly performance of past few years. FMCG and Pharma sectors have also recorded growth in operating margins during Q2 as well as Q3:2020-21

Economic Survey 2020-21 – Highlights:

Finance Minister Nirmala Sitharaman presented the Economic Survey 2020-21, authored by Chief Economic Adviser Krishnamurthy Subramanian and dedicated to Covid warriors, in the Parliament.

- Indian strategy of saving lives by an early intense lockdown in the Covid-19 crisis has paid off.
- Indian economy has shown a V-shaped recovery, as seen in 7.5% decline in GDP in Q2 and recovery across all key economic indicators vis-à-vis the 23.9% GDP contraction in Q1.
- India's real GDP expected to record a 11.0% growth in FY2021-22 and nominal GDP to grow by 15.4% – the highest since independence.

- India's Sovereign Credit Rating of BBB- should be higher considering the forex reserves, low foreign currency denominated debt and zero sovereign default history.
- As long as economy is growing, debt sustainability should not be a problem.
- Accommodative monetary policy has been adopted by RBI and systematic liquidity has been kept in abundance in FY21 by open market operations, LTRO and TLTRO.
- Renewed focus on Indian healthcare sector; health infra should be agile, public healthcare should be increased from 1% to 2.5-3% of GDP and a regulator should be considered for reducing information asymmetry.
- India's private sector needs to significantly ramp up investments in R&D to boost India's innovations.
- India over-regulates its economy, resulting in ineffective regulations. Solution is to simplify regulations, invest in greater supervision and increase transparency.

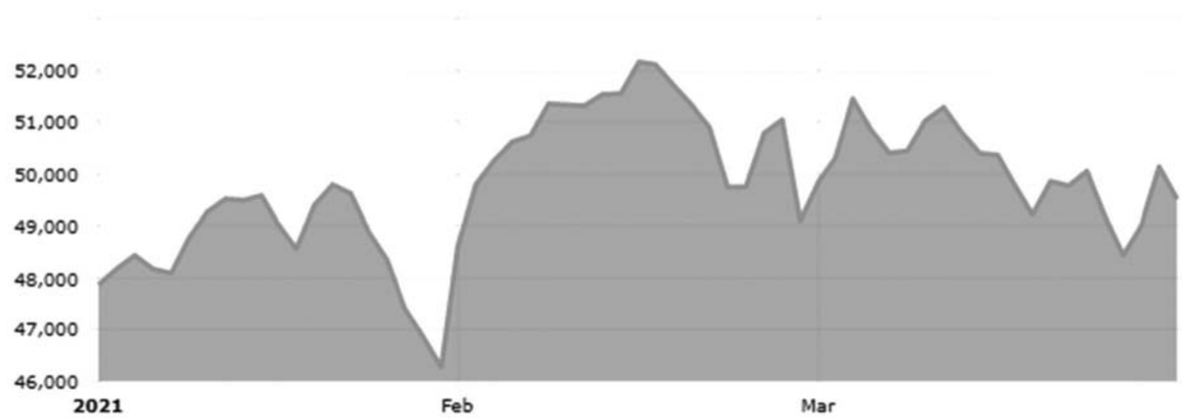
Union Budget 2021 Highlights:

Union Finance Minister Nirmala Sitharaman presented the Budget 2021-22 in February with aim to support the Indian economy hit by the coronavirus pandemic. Following are select highlights:

- Sharp increase in capital expenditure for next fiscal to Rs.5.54 lakh crore, up from Rs.4.39 lakh crore of last fiscal. Health allocations increased.
- In Income Tax, no depreciation to be allowed on goodwill from FY22. However, the amount paid for acquiring goodwill to be allowed as deduction on sale.
- Two PSU banks and one general insurance firm to be disinvested this year. IPO of LIC.
- A Bad bank; the government has decided to set up an asset reconstruction company that will take over bad loans of banks.

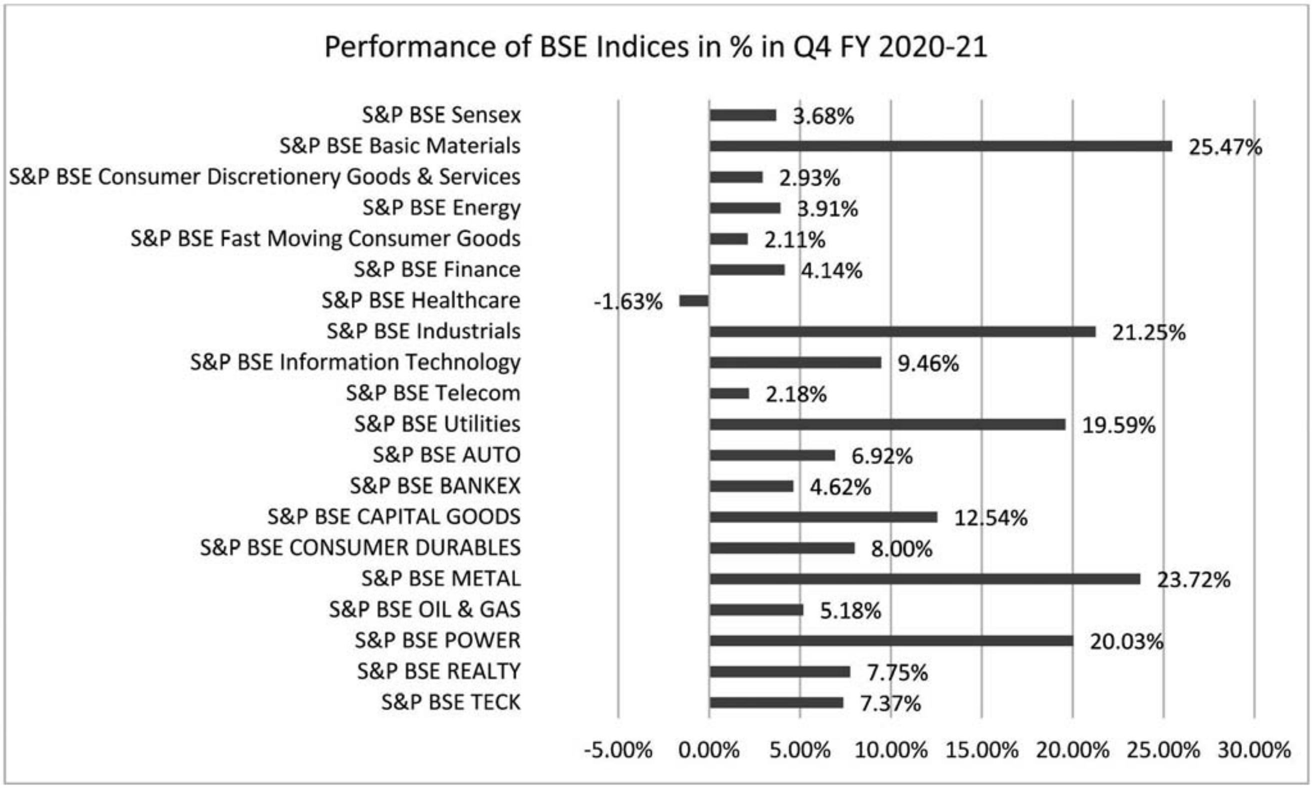
Trends in Secondary Markets:

Markets continued their strong performance and went up by around 4% in Q4. Slowing of Covid19 infections, abundant liquidity, economic revival and favourable union budget were the key reasons for strong performance of market.



Equity Markets	Dec-20	Mar-21	Change%
Sensex	47,751	49,509	3.68%
Nifty 50	13,982	14,691	5.07%
BSE 500	18,300	19,602	7.11%
BSE Bankex	35,888	37,548	4.62%
BSE Consumer Durables	30,394	32,826	8.00%
BSE Healthcare	21,681	21,328	-1.63%
BSE FMCG	12,609	12,875	2.11%

Amongst the BSE sectoral indices almost all indices were good performers from Dec 2020 to March 2021. Basic Materials (25.47%) and Metal (23.72%) were the best performers during this period.



Primary market Update:

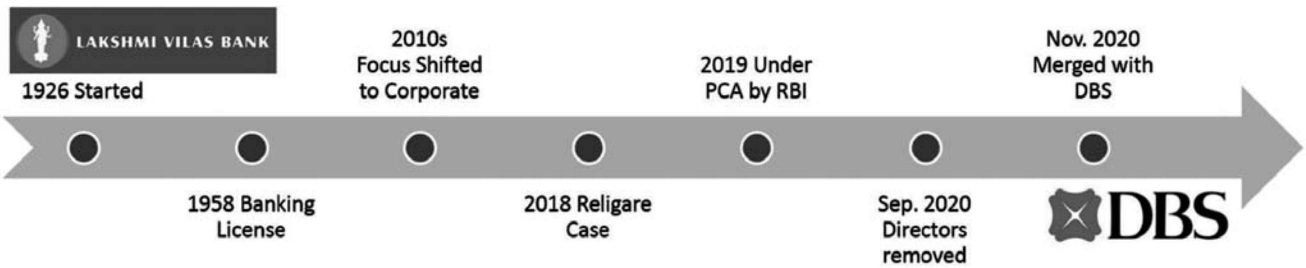
Particulars	Dec-20	Jan-21
A. Funds Mobilisation through Public Issue (I+II)	**1,652.0**	**10,262.0**
I. Equity Public Issue	1,652.0	5,015.0
a. IPOs (i+ii)	1,353.0	4,933.0
i. Main Board	1,351.0	4,933.0
ii. SME Platform	3.0	-
b. FPOs	-	-
c. Equity Rights Issue	299.0	81.0
II. Debt Public Issue	-	5,248.0
B. Funds Mobilisation through Private Placement	**97,335.0**	**62,127.0**
1. QIP/IPP	7,423.0	1,170.0
2. Preferential Allotment	1,782.0	5,333.0
3. Private Placement of Debt	88,130.0	55,624.0
Total Funds Mobilised (A+B)	**98,987.0**	**72,389.0**

Mergers & Acquisitions key deals:

Short Case Study: RBI merges Lakshmi Vilas Bank with DBS:

RBI announced a draft scheme for amalgamation of Lakshmi Vilas Bank (LVB) and DBS India Ltd (DBIL), wholly owned subsidiary of DBS Singapore in November. DBS will infuse Rs. 2500 Crore into DBIL as and when the scheme is approved. DBS is a major Singapore based bank.

The equity share value of the LVB shareholders was reduced to Nil as per the scheme of amalgamation. It read “On and from the appointed date, the transferor bank shall cease to exist by operation of the scheme, and its shares or debentures listed in any stock exchange shall stand delisted without any further action from the transferor bank, transferee bank or order from any authority,”



History:

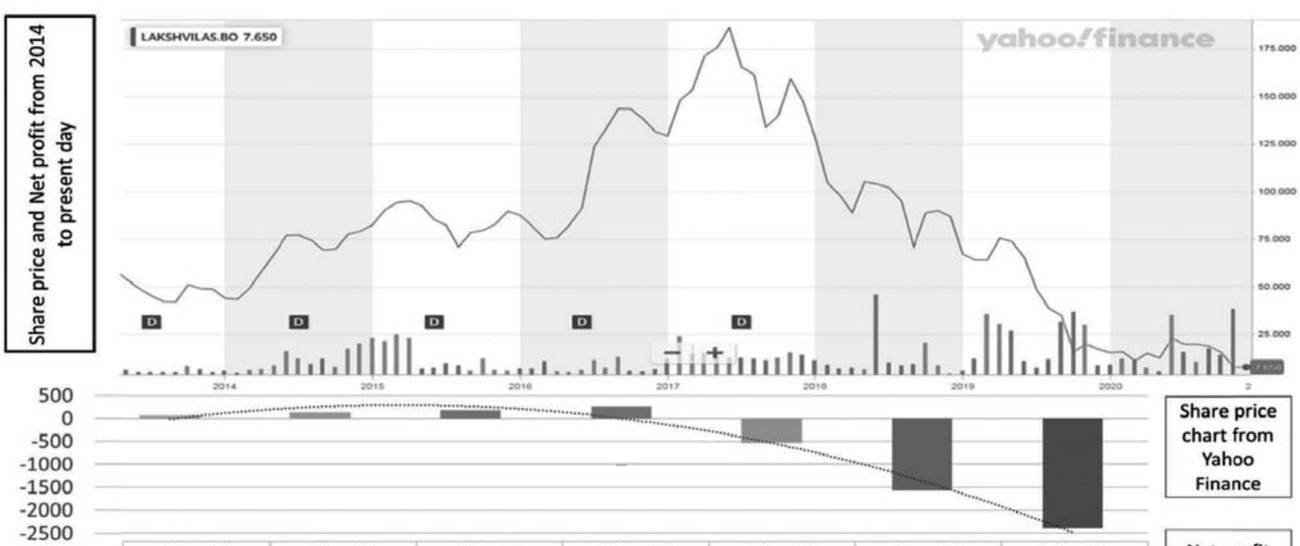
LVB was found in 1926 in Tamil Nadu by a group of businessmen under the leadership of VSN Ramalinga Chettiar to aid small businesses. They received banking license in 1958 and had over 550 branches in India at the time of takeover.

Troubles:

Bank in 2010s started focusing its attention to the large corporate book instead of small retail loans for faster growth. However, this strategy, while it gave short term gains, proved failure for the bank due to high risks associated with the corporate book.

Bank Non Performing Assets (NPAs) went steadily up and crossed 15% in FY 19. While the profits went up till FY 17 (Profit of Rs. 256 Crore), they nosedived from FY 18 (Loss of Rs. 522 Crore) and so did the share price and valuation of the company. (As can be seen in the following chart).

Further troubles came in 2018 when Religare Finvest Ltd. (RFL) accused LVB of liquidating FDs of Rs. 750 Crore and misappropriating the funds. As per the complaint, RFL had created FDs of Rs. 750 Crore with the bank to keep it free from any encumbrances. However, LVB transferred the funds to current account to set it off against dues from RHC holdings, which was earlier the parent company of RFL.



	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Net Profit	59.74	132.35	180.32	256.08	-522.6	-1,565.22	-2,401.33

Recovery Efforts:

LVB was put in Prompt corrective action (PCA) in Sept 2019 by RBI due to continuously deteriorating liquidity position. Being in PCA meant that bank had to raise fresh funds, restrict lending, reduce NPAs and improve the Provision Coverage Ratio.

LVB started fund raising exercise to salvage the situation. It could raise equity multiple times with Rs. 168 Crore Qualified Institutional Placement (QIP) in January 2017 and Rs. 460 Crore through QIP In March 2019.

Bank had plans to raise further Rs. 1500 Crore to strengthen capital base, however that could not be managed.

LVB simultaneously also kept Mergers & Acquisitions (M&A) route open. First proposal came from India Bulls Housing Finance, which also took about 5% share of LVB on preferential basis. However, the merger of LVB and India bulls was not approved by RBI.

Bank till recently also carried out negotiations with Clix capital, but deal did not struck till late which necessitated measures from RBI.

Management Ousted:

In September 2020, in an exceptional move, the shareholders of LVB removed seven directors of bank from the company including MD S Sundar. The shareholders were unhappy with continuously deteriorating position of bank's finances and took this extreme step. After this the bank's control was effectively taken over by RBI.

RBI Action:

In November 2020, RBI announced that with rapidly deteriorating financial position of LVB relating to liquidity, capital and other critical parameters, and the absence of any credible plan for infusion of capital has necessitated RBI to take immediate action in public interest and particularly in the interest of the depositors.

Accordingly, LVB was merged with DBS. The share value of LVB shares and bonds was made Nil as per the scheme, which has been challenged by investors questioning the basis for such evaluation. Examples of Yes Bank is also cited as the Yes Bank shareholders were protected in the scheme of merger.

However, with corporate governance of LVB in question with piling up of NPAs & losses in successive quarters, the RBI move has ensured protection of depositors and employees of LVB and stability of financial system.

M&A: Wipro to acquire Capco:

Transaction:

Wipro Limited has signed an agreement to acquire the Capital Markets Company ("Capco") group, through its holding companies Cardinal US Holdings, Inc. and Cardinal Foreign Holdings S.à.r.l., and its Indian subsidiary Capco Technologies Private Limited. Purchase Consideration is US$ 1.45 billion for 100% stake. The acquisition is subject to customary closing conditions and regulatory approvals and is expected to close by June 2021.

About Wipro Limited:

Wipro Limited is a global information technology, consulting and business process services company. It has over 190,000 dedicated employees serving clients across six continents.

About Capco:

Founded in 1998 and headquartered in London, Capco is a global management and technology consultancy firm to the global banking and financial services industry. Capco has been working in banking, capital markets, wealth, asset management and insurance sectors and has client portfolio of over 100 global organizations. Capco has over 5,000 consultants based in more than 30 global locations across 16 countries. Capco had revenue of $700 million in FY20 with 55% revenue from North America and 41% from Europe.

Rationale:

This acquisition will strengthen Wipro's position as a consulting and IT services provider to the Banking, Financial Services and Insurance (BFSI) sector, provide access to marquee BFSI clients and create a large global financial services practice. Presently 51% of revenue of Capco comes from BFSI sector and 34% from capital markets with 10% from wealth and 5% from insurance. The merger aims to combine Capco's consulting led expertise to Wipro's technology offering. The combined entity will have revenue of $3.2 billion from current $2.5 billion.

M&A: TOTAL to Acquire 20% Stake in Adani Green Energy Limited:

Transaction:

Adani Promoter Group, India and TOTAL, France announce the acquisition of a 20% minority interest by TOTAL in Adani Green Energy Limited (AGEL) via the acquisition of shares held by the Adani Promoter Group in AGEL.

Earlier in 2018, TOTAL and Adani embarked on the energy partnership with investment by TOTAL in Adani Gas Limited, city gas distribution business, associated LNG terminal business and gas marketing business. TOTAL acquired 37.4% stake in

Adani Gas Limited and 50% stake in Dhamra LNG project. TOTAL and Adani agreed the acquisition of a 50% stake in a 2.35 GWac portfolio of operating solar assets owned by AGEL and a 20% stake in AGEL for a global investment of USD 2.5 Billion.

About Adani Green Energy Limited:

Adani Green Energy Limited (AGEL) is a renewable company in India, with a current project portfolio of 13,990 MW. AGEL is part of the Adani Group. The Company develops, builds, owns, operates and maintains utility-scale grid-connected solar and wind farm projects. The electricity generated is supplied to central and state government entities and government-backed corporations.

About TOTAL:

Total is a French multinational integrated oil and gas company founded in 1924. It produces and markets fuels, natural gas and electricity. Its head office is located in La Défense district in Courbevoie, west of Paris. It was declared as the 29th-largest public company in the world in the 2020 Forbes Global 2000.

Rationale:

India has set a policy target of setting up 450 GW of renewable power capacity by 2030. Adani aims to achieve 25 GW of renewable power generation by 2025 and is committed to contribute to India's COP21 goals and to the wider UNFCC goals of sustainability.

Adani group has aggressively expanded with debt till date and this equity infusion from Total will reduce the high debt of the group.

There is a growing demand on all oil majors to curb emissions and go green. This acquisition is part of Total's target of building 35 GW of renewable energy capacity globally by 2025.

Private Equity Key Deals:

TA Associates acquires a significant stake in OmniActive Health Technologies:

Transaction:

TA Associates, a global growth private equity firm, has acquired a significant stake in OmniActive Health Technologies, while Founder and Executive Chairman Sanjaya Mariwala has further increased his personal holding.

About OmniActive health Technologies:

Started in 2004, Omniactive Health Technologies is one of the leaders in the Nutraceutical industry. Its core products include carotenoids, plant extracts and specialty functional ingredients which provide dietary supplementation and nutritional fortification. Omniactive leverages international R&D strengths to deploy an array of state-of-the-art manufacturing technologies in extraction, purification, isolation and delivery of nutritional actives. The company's manufacturing operations are located at multiple sites in India and are cGMP and HACCP system compliant.

About TA Associates:

TA Associates is a leading global growth private equity firm. Focused on targeted sectors within five industries – technology, healthcare, financial services, consumer and business services – TA invests in profitable, growing companies with opportunities for sustained growth, and has invested in more than 500 companies around the world.

Rationale:

TA's global healthcare experience will be valuable in supporting Omniactive's next phase of growth through continued organic growth and strategic acquisitions. TA has deep capabilities and experience investing in companies focused on nutritional ingredients, and shares Omniactive's vision of bringing innovative, natural and science-based solutions to the customers and end consumers. Omniactive intends to leverage its strong management capabilities and TA's distinctive M&A sourcing engine to drive programmatic M&A and in-licensing to continuously deliver innovation to its customers.

TA Associates commented that it expects strong growth in nutritional ingredients space in next decade. TA associates would be counting on Omniactive's capabilities on brand building in this growing healthcare segment.

Acknowledgements: RBI Bulletin (www.bulletin.rbi.org.in), SEBI (www.sebi.gov.in), NSE (www.nseindia.com), BSE (www.bseindia.com)