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Business Today

August 9, 2020 ₹100

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WHY KISHORE BIYANI'S FUTURE LOOKS BLEAK

INDIA'S BEST KNOWN RETAILER IS DROWNING IN DEBT. WHAT OPTIONS DOES THE CHAIRMAN OF THE FUTURE GROUP HAVE?

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SCAN HERE TO APPLY

From the Editor

A Felled Retailer

Kishore Biyani, India's best-known retailer, is in trouble. Deep, deep trouble. Already drowning in ₹13,000 crore of debt, Biyani's Future Group was dealt a deathly blow by the coronavirus lockdown, bringing revenues to nil, and crippling its finances. The prolonged slowdown and lockdown double whammy has by now made the business entirely unsustainable. Future Group is struggling to even service debt. On the verge of bankruptcy, Biyani got a lease of life when Centre first allowed EMI moratorium on loans and then deferred the insolvency and bankruptcy code by a year. But with uncertainty staring in the face, Biyani has been forced to get to the negotiating table to attempt a sell-off. A deal is as close as the end of the month. Potential suitors: Rival Reliance Retail and two Amazon-backed consortia of Premji Invest and Samara Capital.

When historians chronicle India's coronavirus-induced business collapses, Biyani's Future Group is unlikely to go unnoticed. An instinctive, intrepid entrepreneur, Biyani has tried his hands at every possible business, besides retail. From restaurants to gyms to beauty salons and consumer finance. He even dabbled in film production.

But eventually, it was the dramatic collapse in share prices of group companies between mid-February and April first week that forced Biyani to pledge almost his entire stake in group companies. With stock prices at the bottom, he has little option to raise more resources through pledges, even as the business empire is crumbling. Biyani went through a similar crisis a decade back but emerged stronger. This time, though, even his staunchest supporters admit that he has given in. In fact, he'll be lucky if the sale proceeds are enough to square off all the loans. So, what next for the fearless entrepreneur? "He's never without a plan," a close associate tells me. "In fact, he has too many." *Ajita Shashidhar* and *Nevin John* take you through Kishore Biyani's roller-coaster ride.

Biyani's plight is symptomatic of what ails India Inc.—as reflected in the latest Business Today-C Fore Business Confidence Index that surveyed 500 CEOs and CFOs across the country. Though business confidence has shown marginal improvement from 46.3 in the January-March quarter to 47 in the April-June quarter, the index has stayed below the 50 mark for six quarters in a row now. No wonder, 82 per cent of the respondents surveyed said the government hasn't done enough to revive the economy; 84 per cent believe interventions like direct cash transfers, interest rate reduction, higher public expenditure and capital injection in businesses can boost economic growth in FY21.

But look at the flip side. Downturns bring opportunities for mergers and acquisitions (M&As). Sectors such as airports, hospitality, tourism, NBFCs, malls and multiplexes, fashion, affordable housing, auto components are facing severe cash and liquidity issues. Many firms will require 'rescue capital'. For entrepreneurs with war chest, new opportunities are opening up faster than ever before. Investment bankers are rightfully salivating at the prospects ahead as M&A outlook looks robust for the next 12 to 36 months. *Anand Adhikari* takes you through that journey.

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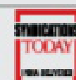

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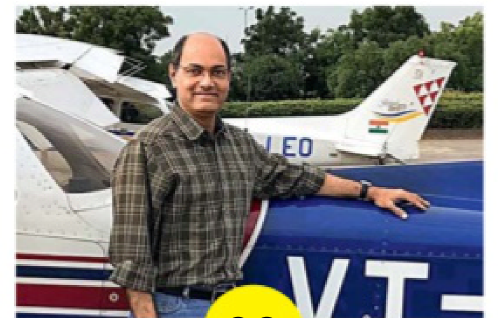

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"Choose your battles wisely, fight the most important ones and let the rest go"

Gerd Hoefner

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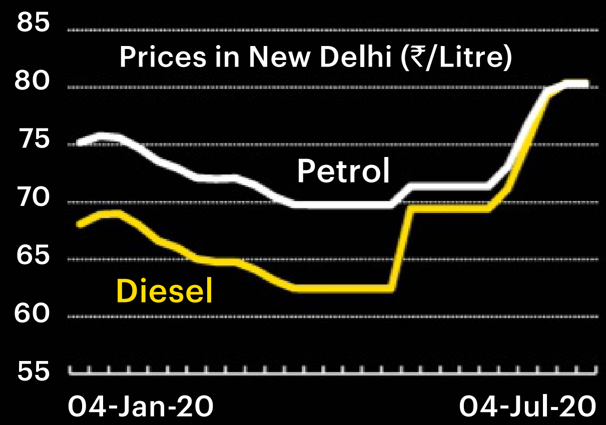
The Point

PAYING THROUGH THEIR NOSE

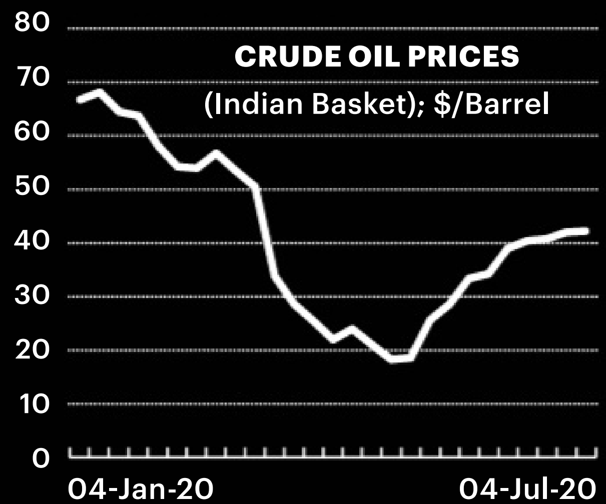
Crude oil is down nearly 33 per cent from January. But Indian consumers continue to pay a bomb for petrol and diesel

By **Shivani Sharma** | Graphics by **Tanmoy Chakraborty**

Petrol/Diesel Prices Rise; Diesel Turns as Pricey as Petrol...



...Despite Crude Oil Being Far From Highs



India Petrol Prices at Global Median Level

PETROL ($/Litre)

- UK 1.36
- France 1.51
- Germany 1.46
- Russia 0.66
- Nepal 0.79
- China 0.85
- South Korea 1.12
- Japan 1.18
- Hong Kong 2.86
- Australia 0.82
- Singapore 1.4
- Thailand 0.92
- Sri Lanka 0.86
- INDIA 1.01
- Pakistan 0.44
- South Africa 0.76
- Brazil 0.74
- USA 0.66
- Canada 0.89
- Spain 1.29

Source: IndianOil, CMIE, Bloomberg, PPAC

70%

The proportion of taxes in retail price of petrol/ diesel

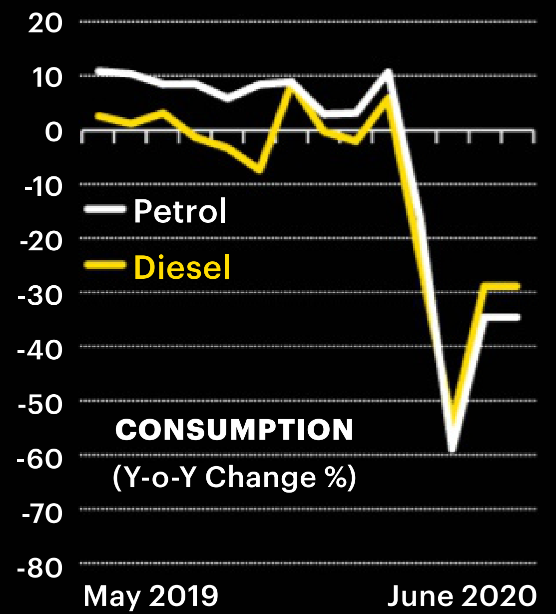
Taxes Form a Big Chunk of Retail Price

	PETROL	DIESEL
Total	80.43	80.53
VAT (including on dealer commission)	18.56	18.83
Excise Duty	32.98	31.83
Dealer Commission	3.64	2.54
Base Price + Freight	25.25	27.33

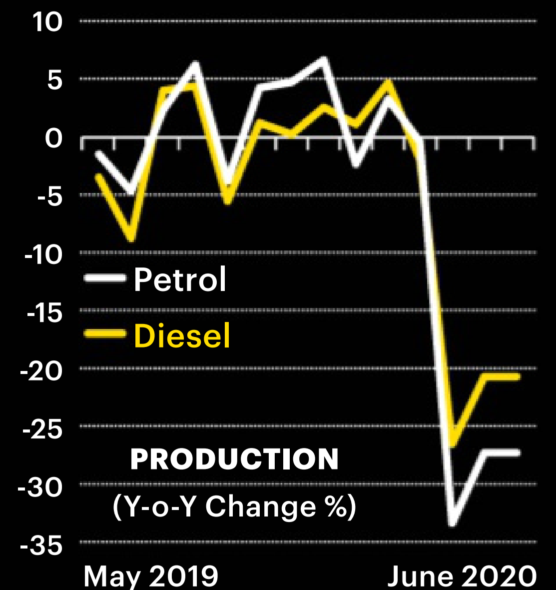
- Base Price + Freight
- Dealer Commission
- Excise Duty
- VAT (including on dealer commission)

Prices In Delhi, from July 1; in ₹/litre

Consumption Dips Sharply...



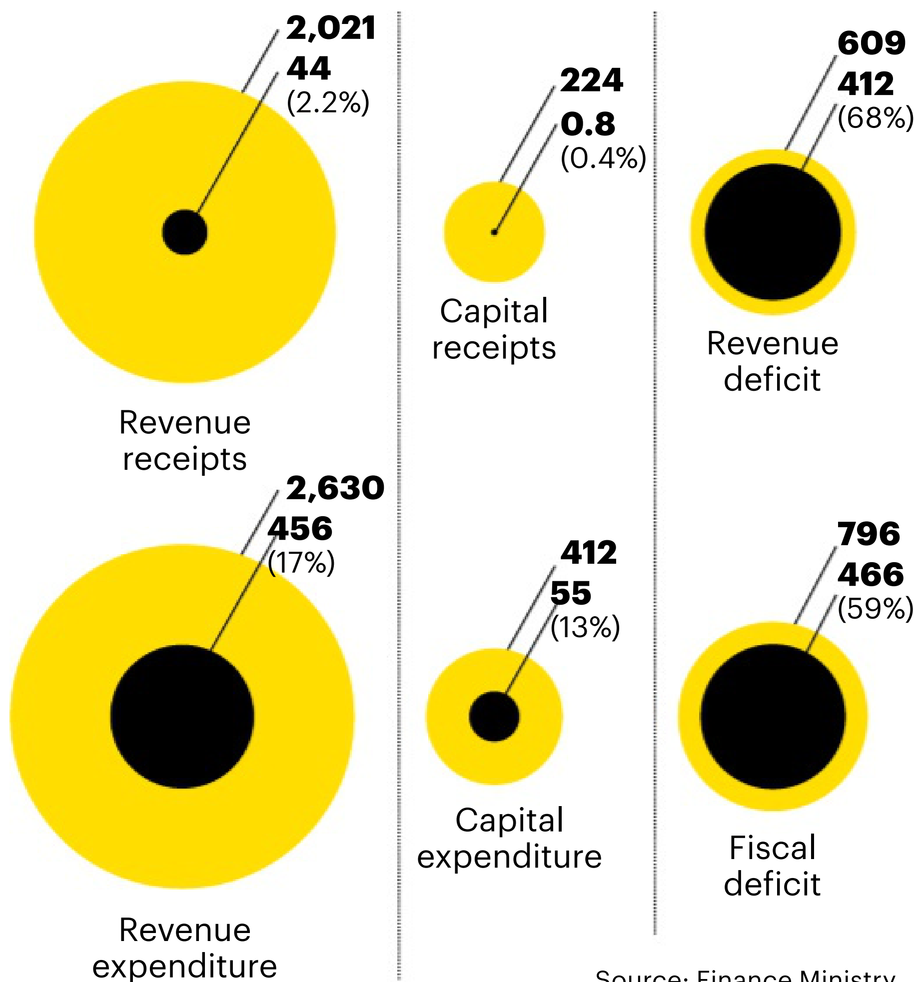
...But So Does Production



CENTRE STARES AT SEVERE FINANCIAL STRESS

- Central government finances came under heavy strain during April and May. Revenue receipts during these two months, at ₹44,667 crore, were merely 2.2 per cent of budget estimate for FY21
- Net tax collections shrank 70 per cent year-on-year to ₹33,850 crore, 2.1 per cent of budget estimate, compared to 7 per cent in April-May 2019
- Fiscal deficit touched ₹4,66,343 crore, 58.6 per cent of annual budget estimate

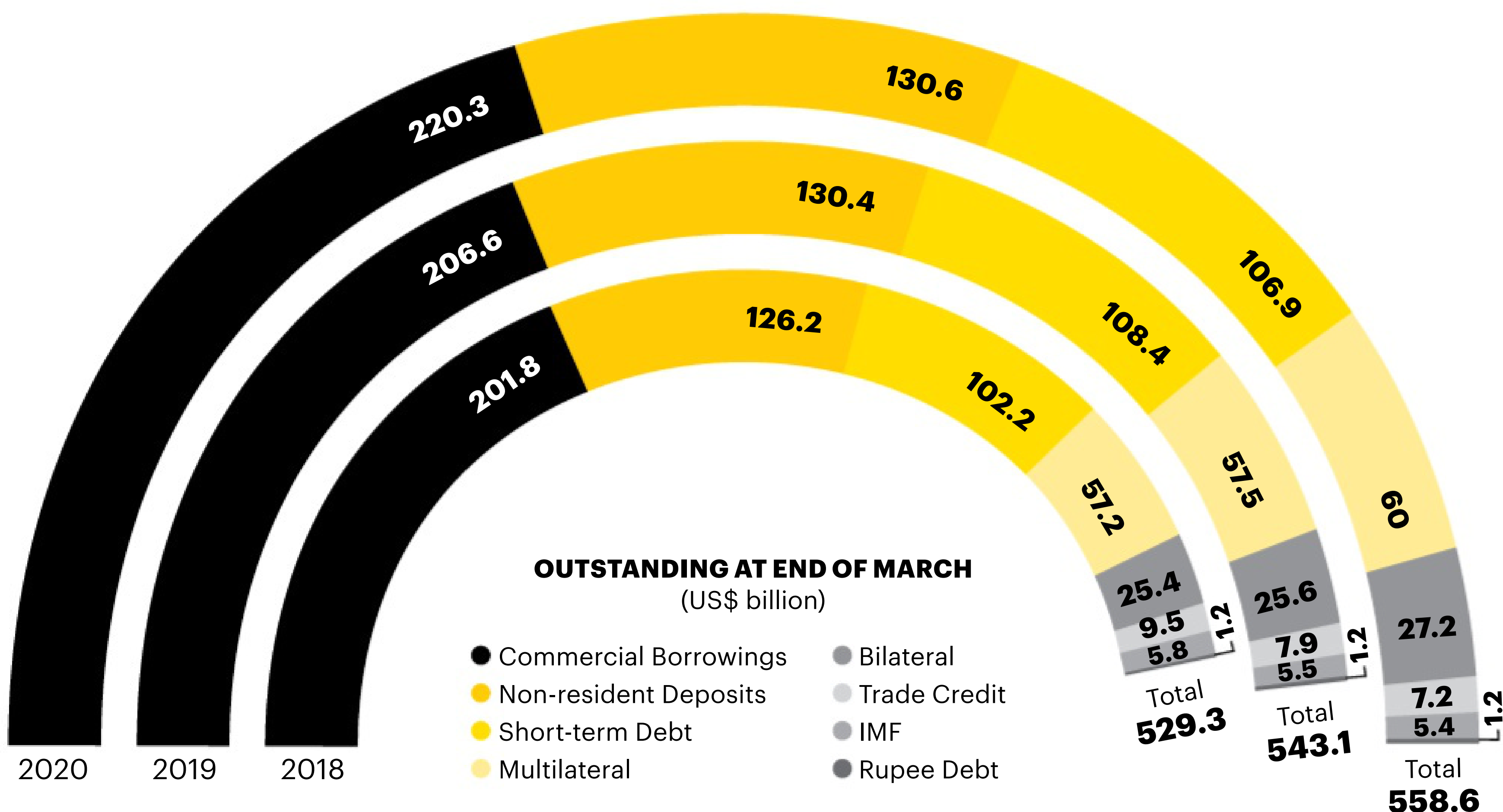
Budget Estimates (FY21)
Actuals up to May 20
(₹ thousand crore)



Source: Finance Ministry

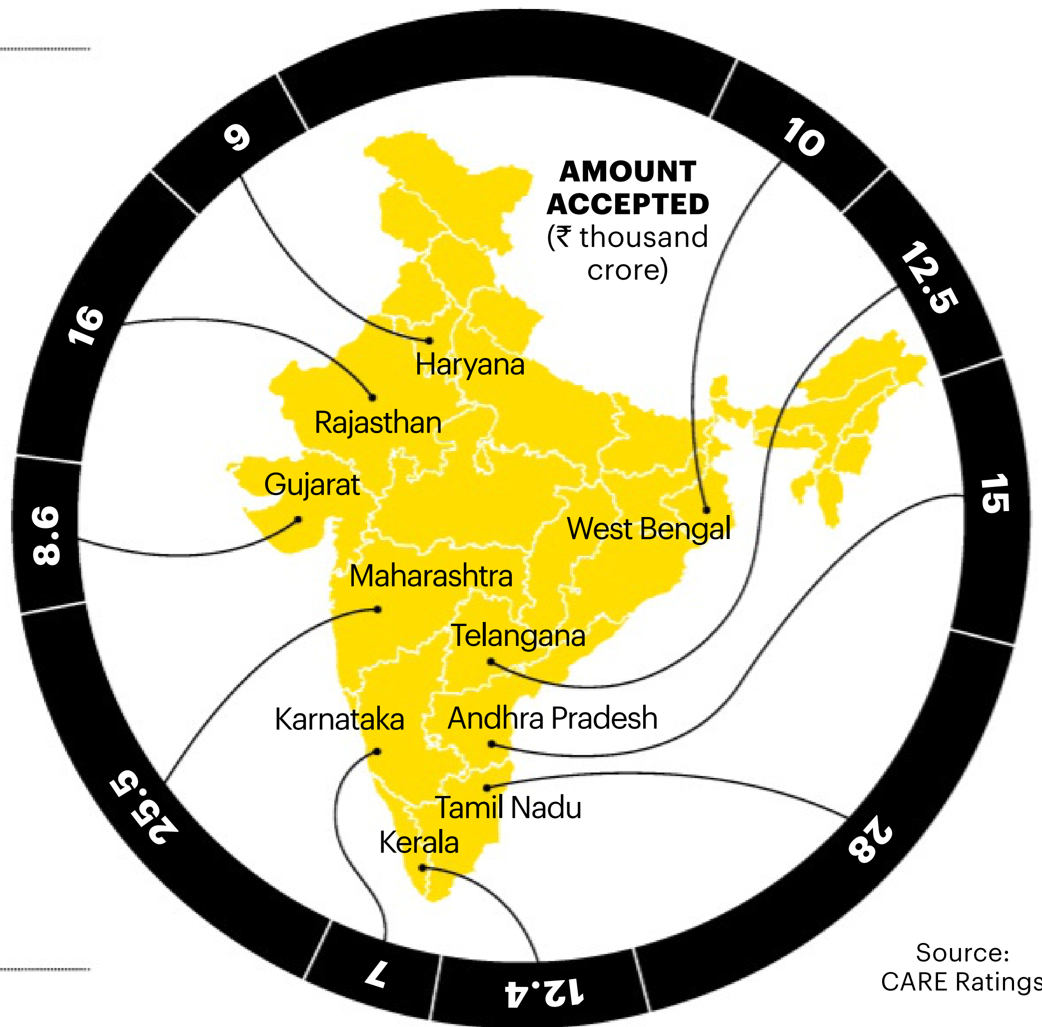
EXTERNAL DEBT UP 2.8% IN FY20

- India's external debt was $558.6 billion at the end of March 2020, an increase of $15.4 billion over end-March 2019
- Commercial borrowings at 39.4 per cent was the largest component followed by non-resident deposits (23.4 per cent) and short-term trade credit (18.2 per cent)
- US dollar denominated debt continued as the largest component with a 53.7 per cent share



10 STATES ACCOUNT FOR 85% MARKET BORROWINGS

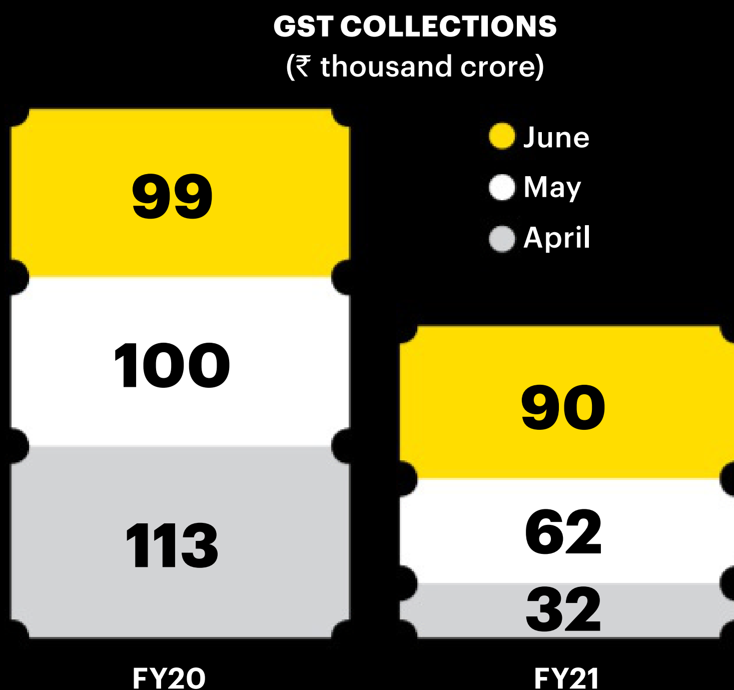
- Tamil Nadu has borrowed the most from the market this year
- It is followed by Maharashtra, Rajasthan, Andhra Pradesh, Telangana, Kerala and West Bengal
- Most states are expected to borrow more this year as their revenues will fall due to the coronavirus-induced slowdown



Source: CARE Ratings

GST Collections Jump in June

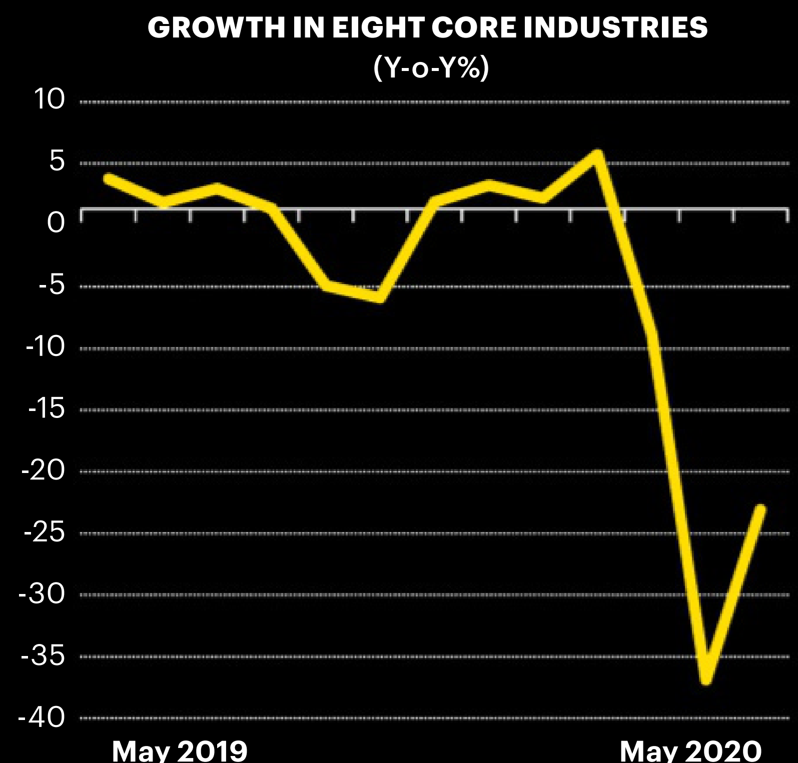
- There was a smart recovery in Goods and Services Tax (GST) collections in June
- Gross GST revenue was ₹90,971 crore, way higher than ₹32,294 crore in April, the first month of the lockdown
- However, first-quarter collections were 59 per cent of what was raised in the year-ago period



Source: PIB

Core Sector Shows Improvement

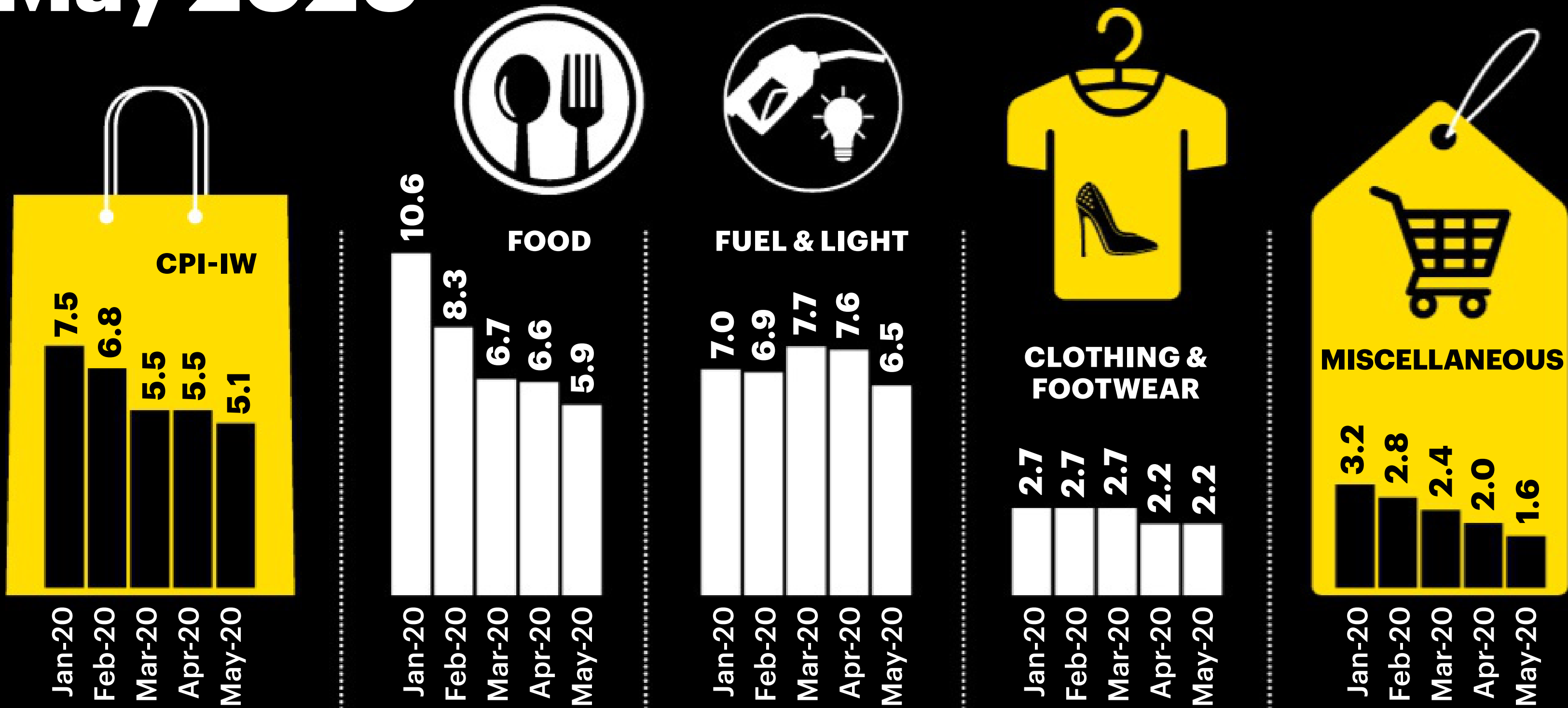
- The output of eight core industries shrank 23 per cent in May compared with 37 per cent in April
- Industries such as coal, cement, steel, natural gas, oil took a substantial hit due to the lockdown



Source: Office of Economic Advisor

CPI-IW inflation falls to 5.1% in May 2020

- Retail price inflation for industrial workers fell to 5.1 per cent in May from 5.5 per cent in April 2020
- It was much higher at 8.7 per cent in the same month a year ago. Food group recorded inflation of 5.9 per cent compared to 6.6 per cent in April

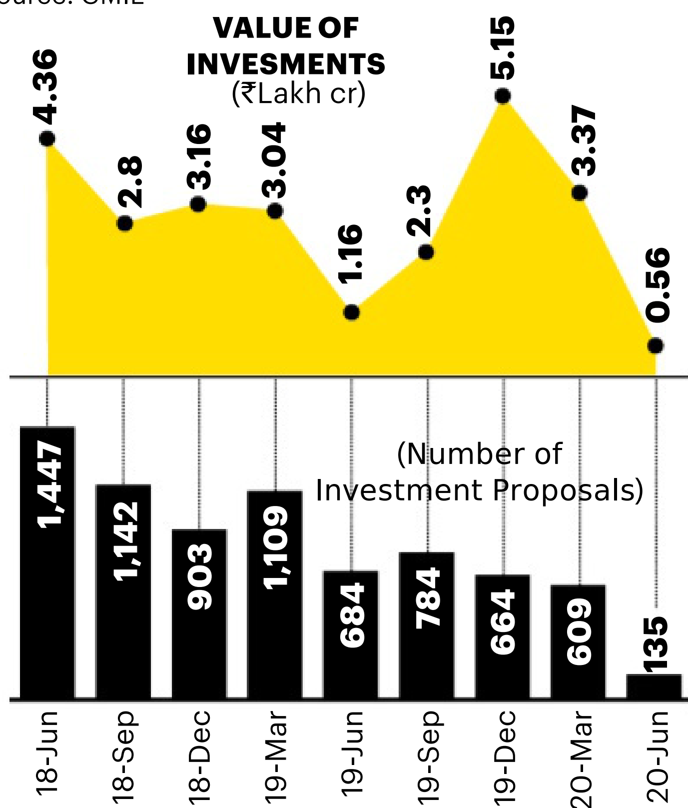


Source: MOSPI

NEW INVESTMENTS DRY UP

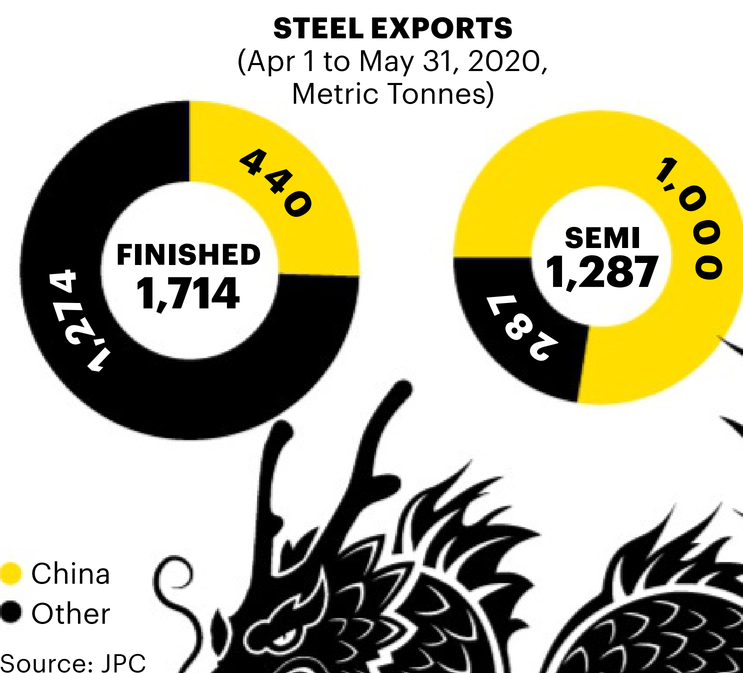
- The June quarter saw 135 new investment proposals, the lowest in any quarter
- The value of these investments (₹56,100 crore) is the lowest in 16 years

Source: CMIE



China Accounts for 48% Steel Exports

- Despite tensions on the border, China accounted for 48 per cent of Indian steel exports in April-May
- Crash in domestic demand forced steel producers to turn to export markets
- With crash in prices globally due to weak demand, China is finding it better to import finished/semi-finished steel



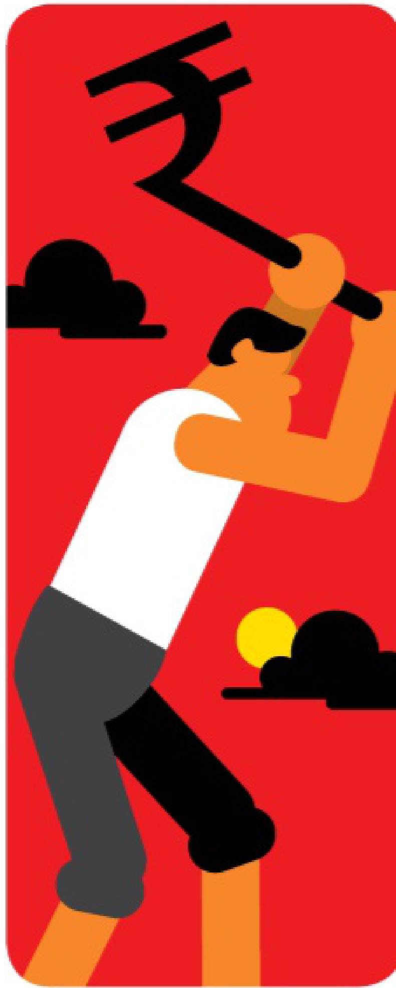
Source: JPC

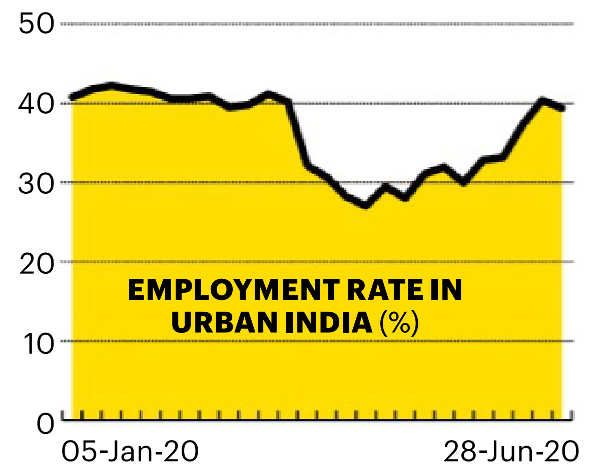
EMPLOYMENT NUMBERS SHOW SMART RECOVERY

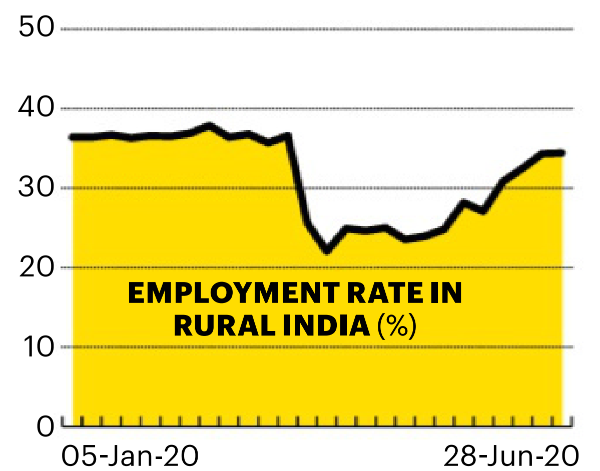
➘ In spite of a minor deterioration in labour conditions in the week ended June 28, there was a dramatic improvement in the employment rate in April and May

➘ The improvement in rural India was on account of higher spending under MGNREGA and rural development schemes to combat the impact of the lockdown (person days of jobs under MGNREGA touched an all-time high in May)

Source: CMIE







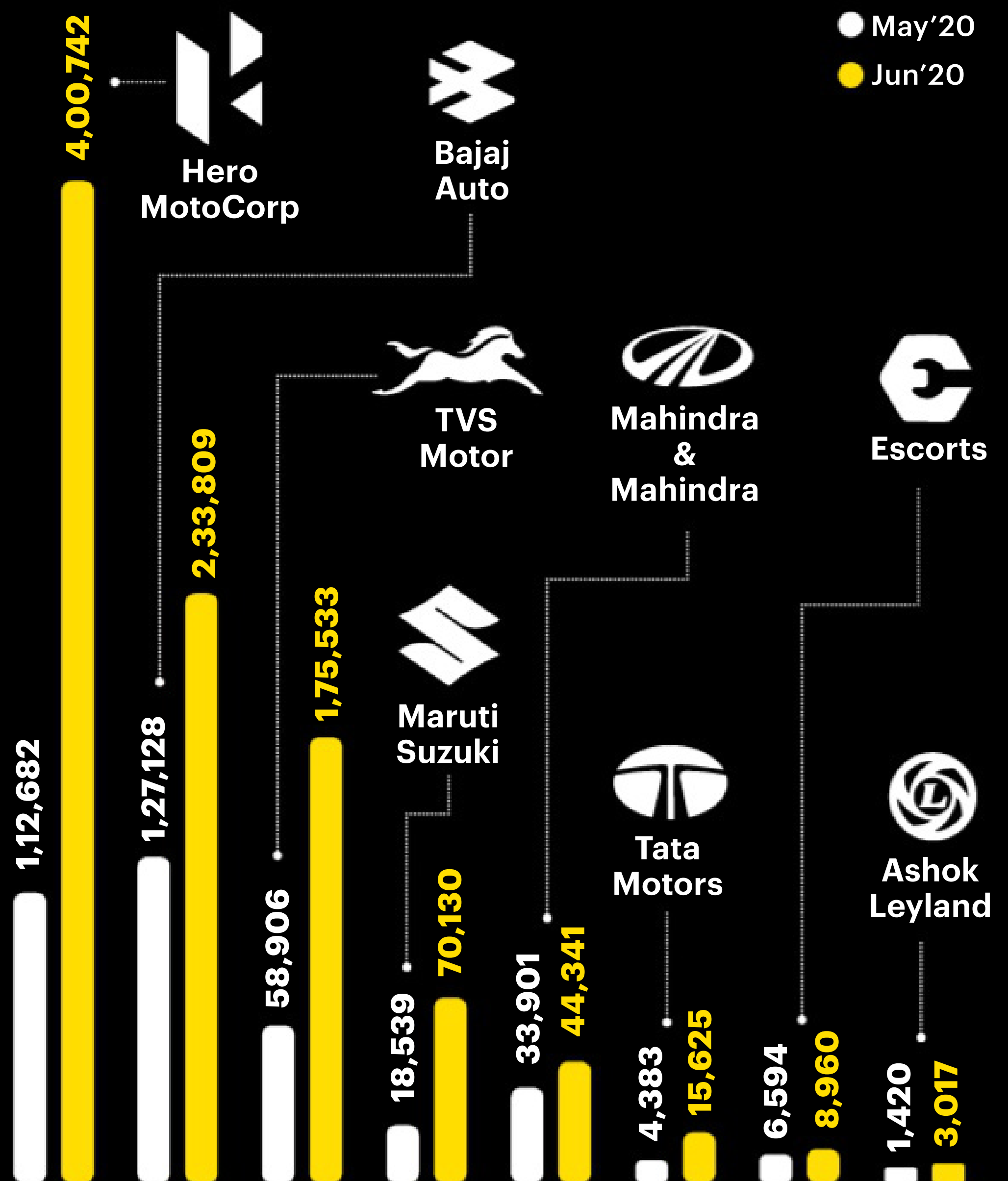
Auto Sales Throw up June Surprise

➘ Demand for automobiles rose sharply in June compared to May as states eased the coronavirus-induced lockdown

➘ The rise was led by rural and semi-urban areas. People bought vehicles to commute as public transport remained dysfunctional; Hero MotoCorp sales rose nearly four times

➘ Tractor demand remained strong due to partial economic recovery in rural markets; Escorts reported a rise in sales

➘ Sales, however, were substantially down year-on-year. This shows it will be months before demand returns to pre-Covid levels



Source: Motilal Oswal

THE BEST IS NOW EVEN BETTER

Further strengthening its SUV portfolio, Mercedes-Benz is offering the GLE LWB in India. It not just packs a tech punch, it also is a luxury vehicle which can tackle any terrain

Redefining luxury has become an everyday word for Mercedes-Benz and the GLE Long Wheel Base is a perfect example of that. The GLE has emerged as one of the best-selling luxury SUVs in the country and Mercedes-Benz has further added new top end variants in form of the GLE 450 4MATIC LWB and 400 d 4MATIC LWB making it even more tempting now.

The GLE – Long Wheel Base to begin with has an aura of its own thanks to the new sleeker design and that's literally the start of the reasons why you want to acquire it. Mercedes has retained traditional design elements like the twin-slat grille, twin eye-brow DRLs and the sleek LED tail lamps. But if you are drooling over the exteriors, the interiors are nothing short of being exhilarating. The twin-screen dash layout which was first seen in the S-Class is now found on this SUV as well. The display is not just rich; it can be tuned to the driver's liking as well. The use of top grade materials within the cabin further enriches the ownership experience. When it comes to features, the GLE LWB impresses yet again. The new GLE LWB features the company's new MBUX system which is essentially a Natural Voice Assistant so that the driver can access details on the go just by speaking to the infotainment system. The unit is extremely well tuned and catches commands without fuss. One can make the GLE LWB perform a multitude of functions and can even request it to guide one to the favorite restaurant. Future is today we see and once again another big reason for you to get yourself a GLE. Other regular features include the Android Auto and Apple CarPlay, a panoramic sunroof, a premium sound system, 64 colour ambient lighting, cruise control, four-zone climate control, AIRMATIC air suspension as well as active parking assist. When it comes to safety, the GLE LWB offers 7 airbags, ABS with EBD, electronic stability control, Auto Park Assist with 360-degree camera (400d 4MATIC LWB and 450 4MATIC LWB). Being the LWB or rather a Long Wheelbase SUV, the GLE offers incredible amount of space within the cabin. Be it the front or especially the rear, the lounge like set up should keep those connoisseurs comfortable after a long day at work.

But the fun element of the GLE lies in the fact that it is not just for passengers. It can deal with the performance seeker as well, another tick in the box. An in-line six-cylinder engine systematically electrified with 48-volt technology powers the Mercedes-Benz GLE 450 4MATIC LWB. The GLE 400 d 4MATIC LWB comes equipped with an OM 656 in-line six-cylinder diesel engine which is the most powerful diesel engine in the history of Mercedes-Benz. The result is that the both motors can propel the SUV to 100kmph in 5.7 seconds. Not to forget the immensely capable 4MATIC System with Variable Torque Distribution which cuts out the fuss while

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- TECH LOADED MBUX VOICE ASSISTANT
- FEATURE RICH & LUXURIOUS INTERIORS
- POWER PACKED YET EFFICIENT MOTORS
- AIRMATIC SUSPENSION FOR ALL TERRAINS
- EASE OF OWNERSHIP

off-roading and makes things look so simple.

Not only is the Mercedes-Benz GLE LWB kinder to the environment, it is also kinder to your pocket. The company's STAR EASE service packages for the new GLE 450 start at Rs 77,600 for 2 years/unlimited km and for GLE 400 d is Rs 89,100 for 2 years/unlimited km. But there is more reason to rejoice. In these times, Mercedes-Benz has taken charge of your safety. All experience centers are being sanitized and not to forget the cars themselves go through a once over before every test drive or delivery. Today, the Mercedes-Benz buying experience is completely hassle free. You can even do it effortlessly while sitting in your house with #MercFromHome.

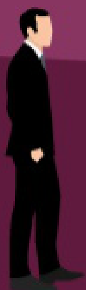
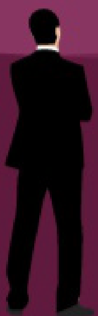
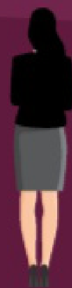
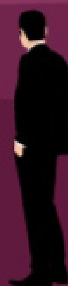
THE NEW GLE LWB FEATURES THE COMPANY'S NEW MBUX SYSTEM WHICH IS ESSENTIALLY A VOICE ASSISTANT SO THAT THE DRIVER CAN ACCESS DETAILS ON THE GO JUST BY SPEAKING TO THE INFOTAINMENT SYSTEM.

The twin-screen layout looks not just cool, it is also ergonomically sound. The GLE LWB also comes with the MBUX voice assistant.

Hoping Against Hope

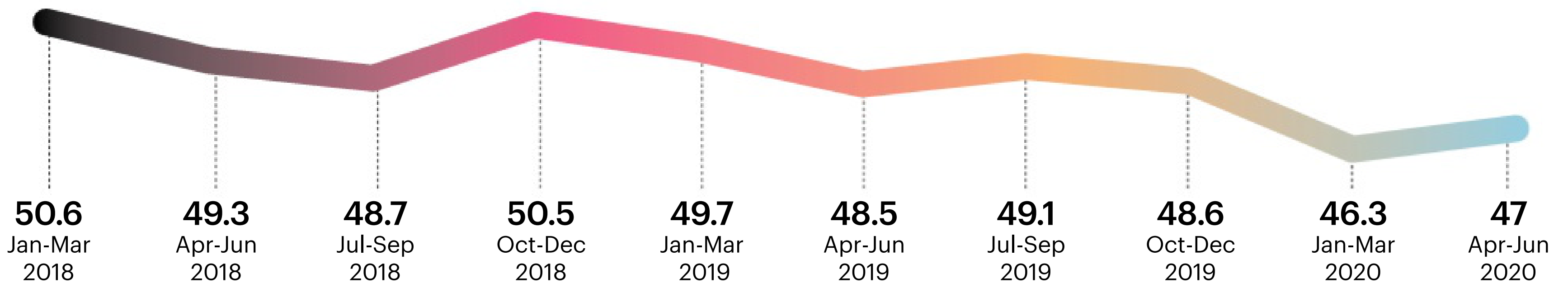
BUSINESS CONFIDENCE BOUNCES A BIT IN THE FIRST QUARTER AS CORPORATE LEADERS REMAIN HOPEFUL OF BIGGER GOVERNMENT INTERVENTION TO REVIVE THE ECONOMY, FINDS THE LATEST BUSINESS TODAY-C FORE BUSINESS CONFIDENCE SURVEY

BY MANU KAUSHIK
ILLUSTRATION BY RAJ VERMA

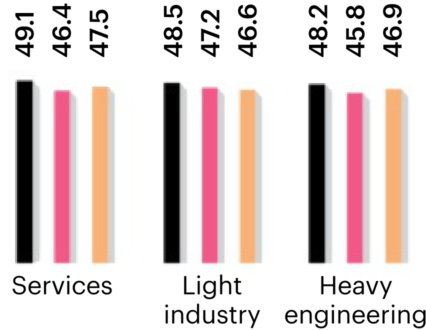
Mild Recovery

Some positive movement but BCI has been below 50 for six straight quarters now



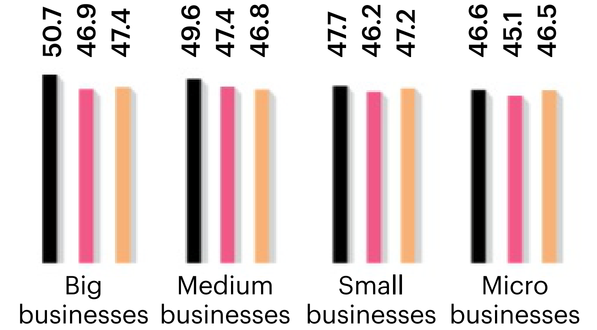
BCI by Sector

Confidence is Low Across Segments



BCI by Size*

Big Businesses Are More Positive Than Others



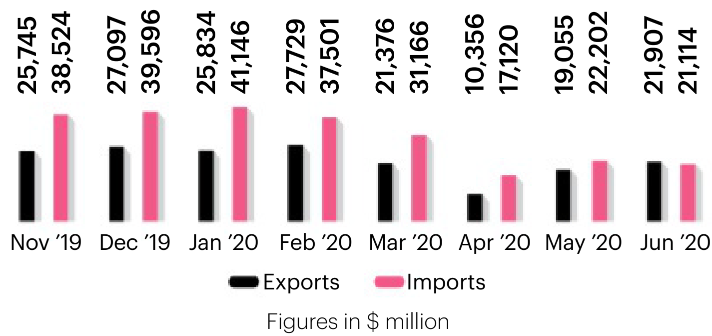
*Big businesses: Turnover > ₹500 crore; Medium businesses: Turnover ₹100-500 crore; Small businesses: Turnover ₹5-100 crore; Micro businesses: Turnover < ₹5 crore

Oct-Dec 2019 | Jan-Mar 2020 | Apr-Jun 2020

Macro Update

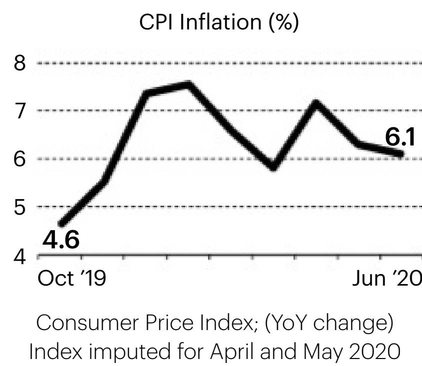
Gap between exports and imports shrinks, inflation another bright spot

Exports rise MoM



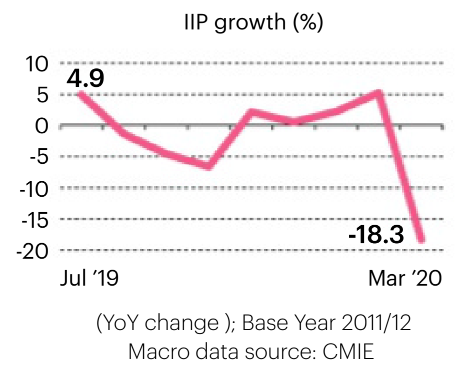
Figures in $ million

Inflation falls off its peak



Consumer Price Index; (YoY change)
Index imputed for April and May 2020

Industrial production shrinks 18 per cent



(YoY change); Base Year 2011/12
Macro data source: CMIE

The exodus of companies from China is not new. It's been happening since the start of the trade war between China and the US in 2018. The only difference this time is that India has a fair chance of attracting companies leaving China. This is in sharp contrast to the earlier situation where almost all companies which moved out of China went to CLMV (Cambodia, Laos, Myanmar, and Vietnam) countries as they were cost efficient and better connected to the global supply chain. The Covid-19 pandemic has changed everything.

As companies look at diversifying away from China, they are looking for not just cost savings but also a captive market for their products and services. India, with its big market, is asking companies to set up base here, reportedly developing a land pool almost double the size of Luxembourg.

"Soon after the pandemic broke out, there was flight of capital from India. Later, investors started coming back as they realised that India is the best bet for them," says Prahalathan Iyer, Chief General Manager (Research and Analysis Group) at state-run Export-Import Bank of India.

The growing prominence of India in eyes of global investors, coupled with slight recovery in key economic indicators, has improved the sentiment of corporate leaders. The Business Confidence Index (BCI) – on a scale of 100 – jumped to 47 in the April-June quarter compared with 46.3 in the previous quarter and 48.6 in the quarter before that. Market research agency C fore quizzed 500 CEOs and chief financial officers across 12 cities for the survey.

Siddhartha Sanyal, Chief Economist and Head of Research at Bandhan Bank, says the reason for this optimism is a lot more clarity in minds of corporate leaders. "Towards the end of March, when the previous survey was conducted, there was a shock ele-

ment about the lockdown. Businesses have now understood that they have to strike a balance between what to prioritise and where to compromise. Even though the key economic indicators are still significantly lower compared to the December quarter, they are better than they were in the previous three months," he says.

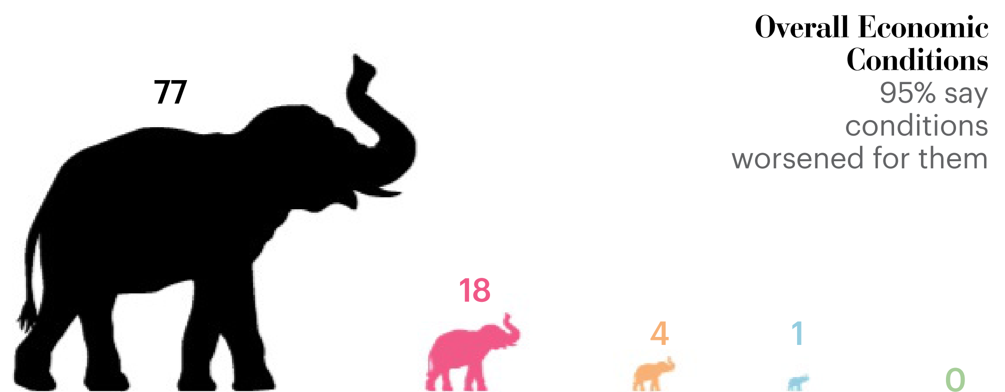
That is why, after several quarters of pessimism, the latest survey shows that things are looking up for corporate India. A large number of respondents are hopeful that the situation will improve in areas like economic prospects, overall economic situation, overall business situation, financial situation, sales, working capital, availability of finance, hiring, production level, order book, inventory, utilisation of production capacity and profits.

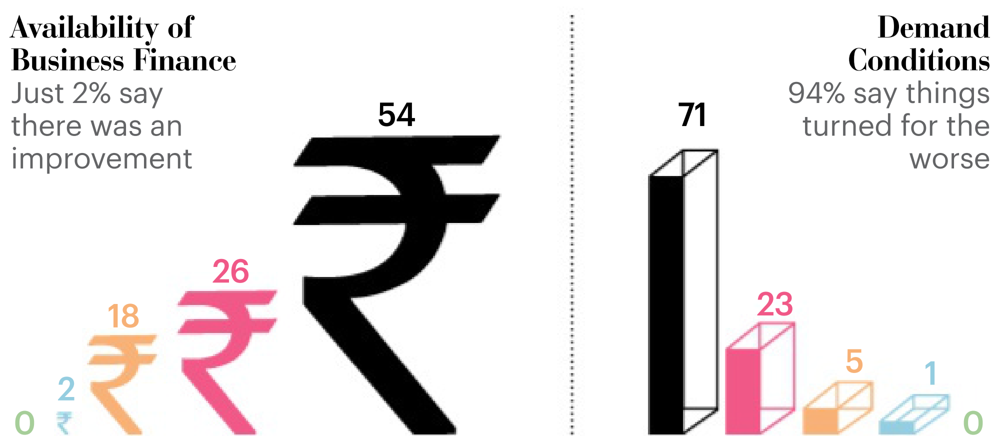
Though a total of 82 per cent respondents believe the government hasn't done enough to revive the economy, 60 per cent expect the overall economic situation to improve in the July-September quarter as compared to just 10 per cent predicting so in the previous survey. Reserve Bank of India (RBI) Governor Shaktikanta Das recently said the economy is showing signs of normalcy with lockdown being eased across the country. Also, 67 per cent respondents hope that their production levels will improve in the September quarter compared to just 9 per cent saying so in the previous survey.

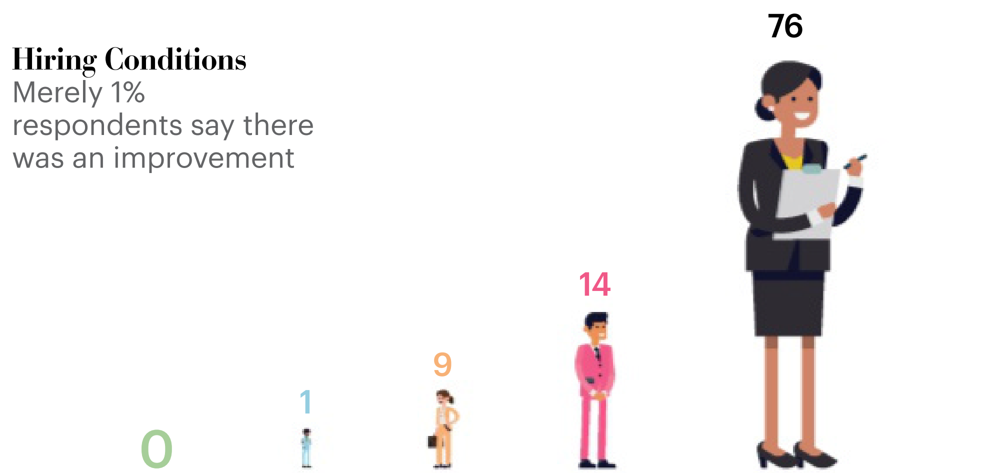
In June, the government had announced a stimulus package worth ₹20 lakh crore (about 10 per cent of GDP) covering social sector and a host of industries. Out of that, about 60 per cent will come through financial institutions and the RBI. Many worry about the low impact of the package as the actual fiscal impact, that is, the direct stimulus, is just 1-2 per cent of GDP. EXIM Bank of India's Iyer says the government might be keeping a cushion. "They have all options available which might not be implemented at one go. I think what the government has done is adequate to start with. If there's a need, they may exercise other options like extending moratorium on loans and deferment of taxes," he says.

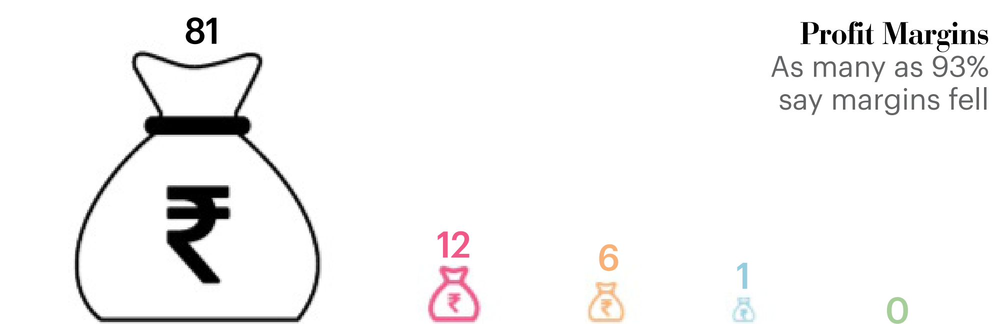
Gloomy Quarter

Businesses Find Hardly any Redeeming Feature in April-June Quarter









● Substantially worse ● Moderately worse ● Same/no change ● Moderately better ● Substantially better

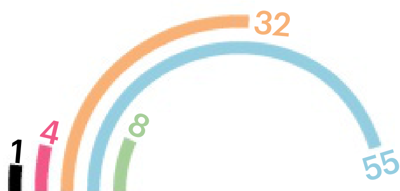
All figures in per cent

Hoping For a Turnaround

Businesses are pinning hope on start of the festive season for things to improve

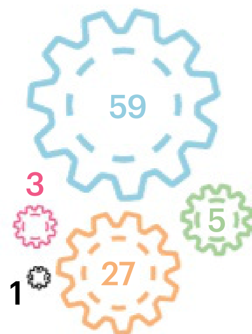
Economic Prospects

As many as 63% respondents expect improvement



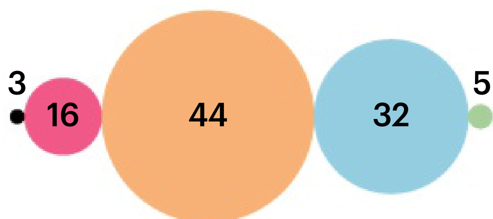
Order Book

Just 4% expect things to worsen



Financial Situation

37% say they see a ray of hope

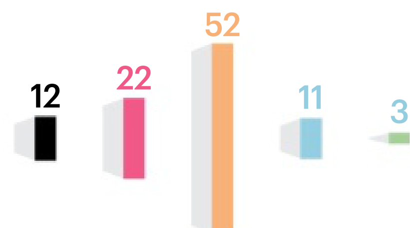


Sales Pickup

65% see higher sales in current quarter

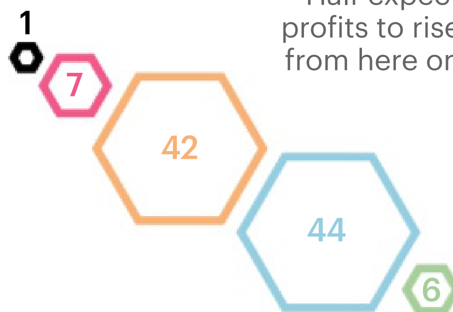
Hiring Pickup

More than half see no change

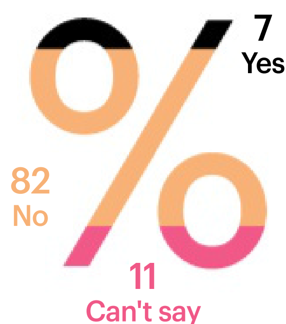


Profit Pickup

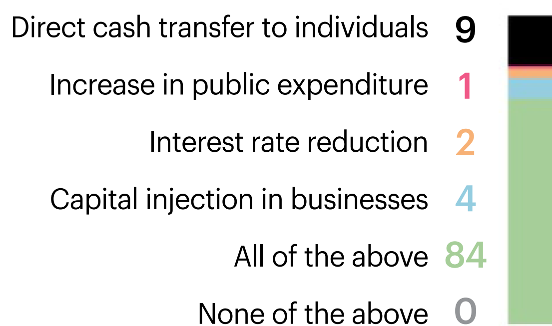
Half expect profits to rise from here on



Has India Done Enough to Revive Economy?



What Kind of Intervention Could Help Revive Economic Growth for FY21 and Beyond?



Substantially worse | Moderately worse | Same/no change | Moderately better | Substantially better | All figures in per cent

Some economists that Business Today spoke with believe that direct capital injection and giving subsidies to businesses are unproductive. "It might help corporates in the short term but will not make them sustainable in the long run. The production-linked incentive scheme that they have launched for the electronics sector will have a long-term impact," says an economist.

The survey points out that 77 per cent of respondents are planning to sell non-core assets and will go for re-structuring in the current financial year. "This is time for consolidation. We expect businesses to focus on their core strengths and de-bottlenecking cash flow issues," says Sanyal. Another 91 per cent are not looking at raising resources for expansion at the moment as most are operating below optimal level of production due to poor demand.

The survey shows that respondents are expecting some deterioration in areas like cost of raw material and selling price. For example, 11 per cent corporate leaders said cost of raw material will fall in the September quarter as against 25 per cent hoping so in the previous survey.

As a supplement to the survey, we do an assessment of other economic indicators. These are trade, index of industrial production (IIP) and consumer price inflation (CPI). The key industrial output indicator, IIP, continued to slide in May. It fell 34.7 per cent compared to the same month last year. This was better than the 57.6 per cent contraction in April. Retail inflation grew 6.09 per cent in June, marginally higher than the RBI's upper margin of 6 per cent.

About the future roadmap, 84 per cent said interventions such as direct cash transfers to individuals, increase in public expenditure, interest rate reduction and capital injection in businesses can boost economic growth for FY21 and beyond. The positive outlook of business leaders in the middle of a global crisis has a surprise element to it. Now, whether they continue to hold on to this optimistic view is as unpredictable as the march of the pandemic. **BT**

@manukaushik

FUTURE UNCERTAIN

KISHORE BIYANI IS STARING AT A MAJOR DEBT CRISIS. HERE IS WHY THE OPTIONS FOR THE FUTURE GROUP CHAIRMAN ARE LIMITED

BY AJITA SHASHIDHAR & NEVIN JOHN
PHOTO MONTAGE BY BANDEEP SINGH

S

cale has always fascinated Future Group Chairman Kishore Biyani. The bigger, the better. In 2017, when he unveiled his ambitious Retail 3.0 strategy, he articulated his dream of creating a $1 trillion business by 2047. At that time, the world's biggest retailer Walmart generated $485 billion in revenue, a little less than half of Biyani's ambition. But Biyani was banking on a modest year-on-year growth of 20 per cent per annum for his then ₹20,000 crore empire.

His recipe for greater scale: service every possible consumer. First with 70,000-1,00,000 sq.ft. big-box retail stores, Big Bazaar. Second, in local areas through 2,000 sq.ft. small-format neighbourhood stores, EasyDay (he targeted 10,000 tech-enabled EasyDay stores by 2020). And third, create an online marketplace where these stores could access Future Group's entire retail inventory. Alongside, he wanted a consumer play as well. His excitement about the group's fledgling FMCG business, Future Consumer, was particularly infectious. He dreamt of scaling up the ₹2,000 crore business to ₹20,000 crore by 2021.

Three years down the road, those dreams lie shattered. With profits dipping 11.24 per cent to ₹619 crore in the first nine months of FY20 (it is yet to declare full-year results), the group's woes came out into the open in the last quarter of FY20. Slowdown and an uncertain future amid lockdowns have crippled his ability to service loans, drowning him in ₹13,000 crore of debt. Biyani is staring at sure-shot bankruptcy.

There is a temporary reprieve, thanks to the loan moratorium and one-year suspension of the Insolvency and Bankruptcy Code(IBC). Had it not been for the coronavirus lockdown, Biyani's companies would have been facing insolvency. He had a March deadline for repayment of dues. But the Reserve Bank of India's loan moratorium has provided a breather. In mid-May, the Centre also exempted all Covid-related debt from the definition of default under the IBC and suspended fresh initiation of insolvency for up to a year. In this one-year period, the lenders will not be able to recommend Future Group companies for insolvency, even if they default on loan repayments. Instead, the loans will have to be restructured, by taking out the unsustainable portion.

But the business is already unsustainable and Biyani is on the negotiating table to exit — in full or in part. While Reliance Retail remains the frontrunner, two Amazon-backed consortia of Premji Invest or Samara Capital may also emerge as dark horses. Sources say a deal is likely as early as end of July. One of the plans discussed by negotiators of Reliance Retail and Future Group is a complete share swap. It is not clear how the swap will be designed as Reliance Retail is not listed while Biyani has six listed entities. The deal will lead to Biyani's exit from the retail business.

This is not the first time Biyani is struggling with debt. Nearly a decade ago, in FY12, he was in an identical ₹12,000 crore debt soup. But he extricated himself by selling his most valuable asset, Pantaloons Retail, to Aditya Birla group for ₹1,600 crore. He also sold Future Capital to Warburg Pincus for ₹4,250 crore and his stake in apparel brands BIBA and AND. But this time, the chances of a comeback are dim. "The big difference this time is that we are in a recession globally. He was able to make a comeback in 2012 as market dynamics were strong. This time, he will be lucky if he gets money to just square off the debt," says the CEO of a leading FMCG company.

In Dire Straits

Things weren't so bad till February. Market buzz about his inability to service debt began in mid-February, sending shares of group companies crashing, triggering rating downgrades, even as lenders sought more shares as collateral against loans to Biyani. Between mid-February and first week of April, shares of Future Retail fell by 83 per cent, Future Lifestyle by 75 per cent and Future Enterprise by 65 per cent. The market cap of all group companies crashed around 75 per cent from ₹33,365 crore on February 1 to ₹8,354 crore on April 1. This forced Biyani to pledge 80-100 per cent of his stakes in group companies. UBS and IDBI Trusteeship tried to invoke the pledge but Biyani got interim relief from the Bombay High Court. The Supreme Court

How Biyani Got Into Debt

Acquired Nilgiris for ₹300 crore (2014); EasyDay for ₹500 crore (2015) and Heritage for ₹295 crore (2016)

Set up 1,100 small format stores; most were non-performers. Consumers were not willing to pay ₹999 annual fee for 10 per cent discount

Aggressive expansion of small-format stores backfired

Private brand strategy failed. Aimed to scale up private brands (Future Consumer) to ₹20,000 crore by 2021. Reached ₹4,040 crore in FY20

Strategy of using stores to distribute private brands and reduce presence of established brands led to dip in footfalls

Private brands constituted 35-40 per cent of inventory, but there were quality issues

While rentals shouldn't exceed 2 per cent of a store's cost, in case of Future Group, they were 10-20 per cent of the cost

Liquidity crisis prior to Covid and complete halt of business during the nationwide lockdown added to the crisis

dismissed the Special Leave Petition filed by UBS AG, London Branch, challenging the high court ruling.

With almost all his equity pledged with lenders, Biyani is desperate to find buyers for his business.

While repeated emails to the company didn't elicit a response, a banker close to the company says when the stock market debacle happened in February, the company had just put together a detailed cost-cutting plan to tide over the crisis. "Kishore had predicted that 2020 would be a tough year globally. He was expecting a recession and was aware that the debt challenge would soon haunt him. Therefore, he decided to shut down any business that was burning cash," says the banker. The company shut 150 non-performing stores, started negotiating for lower rentals and began to slash people costs.

The lockdown hit cash flows badly. With liabilities mounting, Biyani had no option but to exit the business completely. He is in talks with Samara Capital and Premji Invest (which has a 6 per cent stake in Future Retail) to sell his most prized possession, the ₹20,185 crore Future Retail (which houses Big Bazaar, FBB and small-store formats (EasyDay, Nilgiris and Heritage).

However, the only way Biyani can get rid of the debt is by selling the entire business. The banker says Biyani is hopeful that Reliance Industries will come to his rescue and give him a good value by end-July. If Reliance does this, it will buy Future Group along with its debt, which means Biyani will have to exit. He may also have to sign a non-compete pact disallowing him from starting a new retail venture. "He is prepared for a complete exit. In fact, he has no choice, he desperately needs cash. Only a larger group-level deal will give him the liquidity he needs," says the banker.

A senior retail industry expert, who has known Biyani since the late eighties, says if he has a choice, he will never sell to Mukesh Ambani. "When Reliance decided to enter retail in 2007, Biyani and Ambani had met, and the former had invited Ambani to join his business. He opened up every detail of his business but Reliance entered the retail sector on its own. Biyani shared his business model in good faith."

As Biyani dreamt of building scale, his competitor, Radhakishan Damani, the founder of DMart, preferred doing what he did best – focusing on growing his core grocery retail business. With revenues of ₹15,000 crore, DMart was the most profitable retail company in India in 2017. "We shouldn't be compared with DMart. They are a low-cost operator, limited SKUs, they do it very well. We are very complex. That's our specialty, as you can't be the same," Biyani had told ***BT***. On the other hand, the big daddy, Reliance Retail, was racing towards the ₹1,00,000 crore revenue target. Reliance Retail had the backing of cash-rich RIL.

Biyani's FMCG (private labels) brands straddled food, personal care and home care. The idea was to find gaps and offer aspirational products that competition didn't have. He dreamt of challenging global FMCG biggies such as

How Recent Crisis Unfolded

According to ICRA, Future Group's six listed firms had ₹12,778 crore debt in September 2019

The issue surfaced in mid-February when shares of listed firms started crumbling. This led to rating downgrades. Lenders sought more promoter shares as collateral for loans against shares

Pandemic disrupted operations. Cash flow was not enough to pay off debts; what came to the rescue was government's exemption of Covid-related debt from default and suspension of fresh insolvency cases

UBS and IDBI Trusteeship tried to invoke pledged shares but Biyani got interim relief from the Bombay High Court. The Supreme Court dismissed the Special Leave Petition filed by UBS AG London Branch challenging the high court ruling

TILL DEBT DO US PART

Future Enterprises Ltd. — (₹ thousand cr) — 15, 12, 9, 6, 3, 0, -3 — FY14, FY19

Future Market Networks Ltd. — (₹ crore) — 625, 500, 375, 250, 125, 0, -125 — FY14, FY19

Future Lifestyle Fashions Ltd. — (₹ thousand cr) — 6.25, 5, 3.75, 2.5, 1.25, 0, -1.25 — FY14, FY19

Future Supply Chain Solutions Ltd. — (₹ hundred cr) — 15, 12, 9, 6, 3, 0, -3 — FY14, FY19

Future Retail Ltd. — (₹ thousand cr) — 25, 20, 15, 10, 5, 0, -5 — FY14, FY19

Future Consumer Ltd. — (₹ hundred cr) — 35, 28, 21, 14, 7, 0, -7 — FY14, FY19

Total Income
PAT
Total Debt

Debt Rose Far Faster Than PAT for Most Group Companies

GRAPHIC BY TANMOY CHAKRABORTY

Unilever, P&G and Nestle on his home turf by offering own brands at compelling prices and reducing inventory of other FMCG brands. He thought he would get the required scale if he could have a small format store within a radius of every two kilometres selling essentially his own brands. That's why he went shopping for small-format stores across the country. He bought EasyDay from Bharti in 2015. Later, he acquired Nilgiris and Heritage in the South and partnered with US-based 7-Eleven, owner of a chain of convenience stores that was looking to enter (the launch is stalled) India. He also planned to sell his brands to *kirana* stores through cash and carry business Aaadhaar Retail.

But Biyani and Future Group were stretched for cash all along (Pantaloons, sold in 2011, was his best performing asset). Nevertheless, he was confident of pulling off his growth story. "We have the cash flow to make growth happen," he had said in an interview with *BT* in 2017. Three years hence, things have turned out differently.

What Went Wrong?

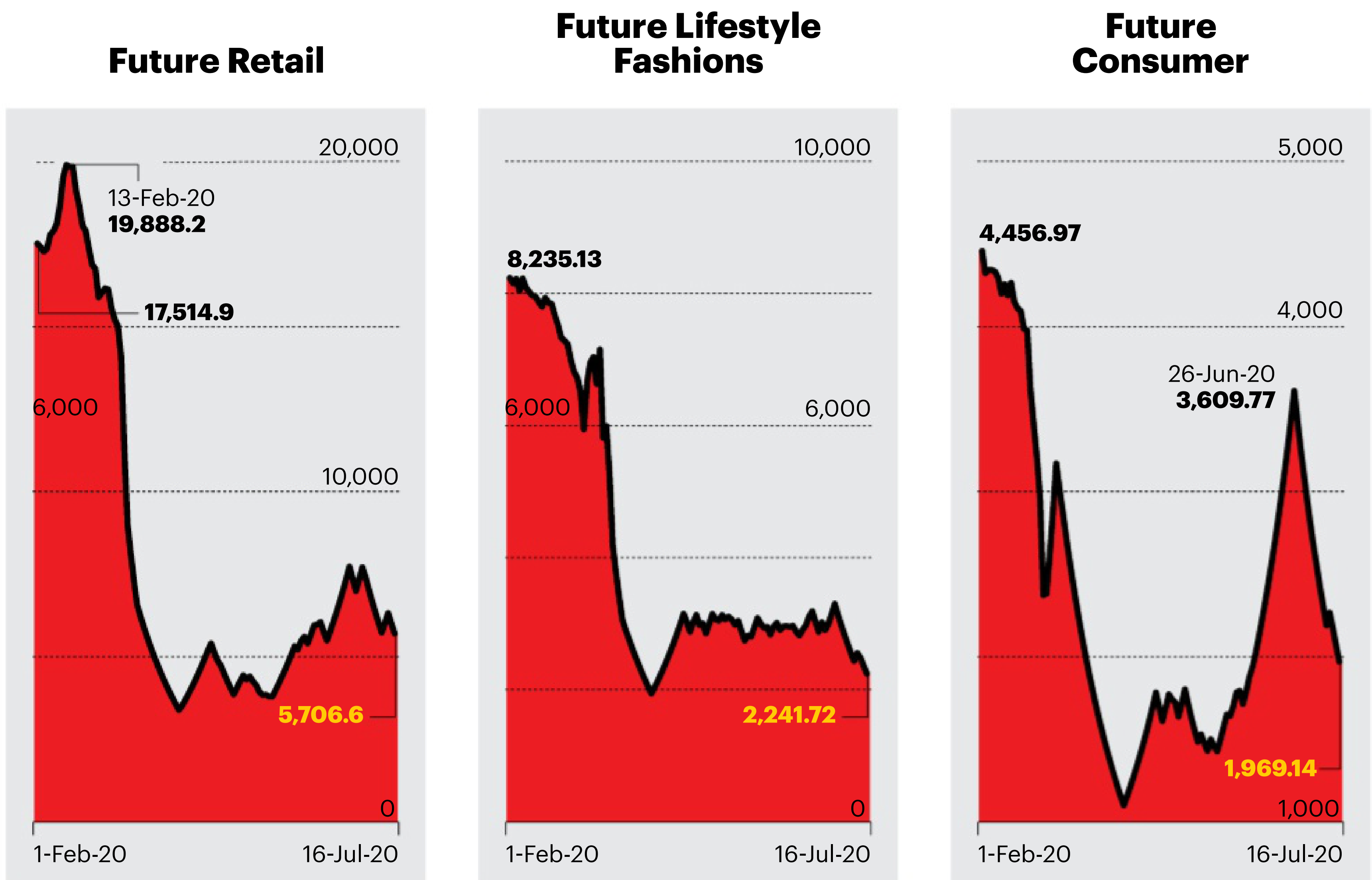
Biyani's ambitious Retail 3.0 strategy never really took off. While Future Group's revenue is around ₹35,000 crore, Future Consumer is just a ₹4,040 crore business (as against the ₹20,000 crore goal). It suffered a loss of ₹215 crore in FY20. The group has 990 EasyDay stores; it shut down 150 in Q3FY20. Same store sales growth (SSSG) of Future Retail formats was just 2.1 per cent in Q3FY20. With coronavirus, it's obvious that SSSG will be negative in Q4FY20.

The unanimous verdict of industry stalwarts is that Biyani 'overleveraged' himself. "He is an outstanding entrepreneur, has broken new ground, and many of his experiments broadened the horizons for Indian retail. However, some of them were not very successful," says former Dabur COO Kannan Sitaram (at present, Venture Partner, Fireside Ventures).

A close family friend, Lalit Agarwal, CMD, V-Mart, says

SHARP FALL IN MARKET CAP

in ₹crore



Losing Control

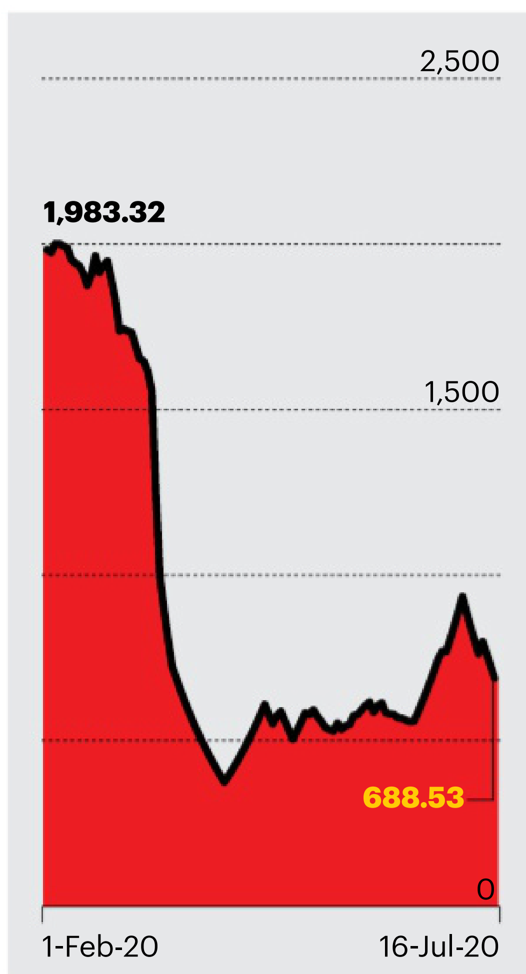
% of Shares Pledged

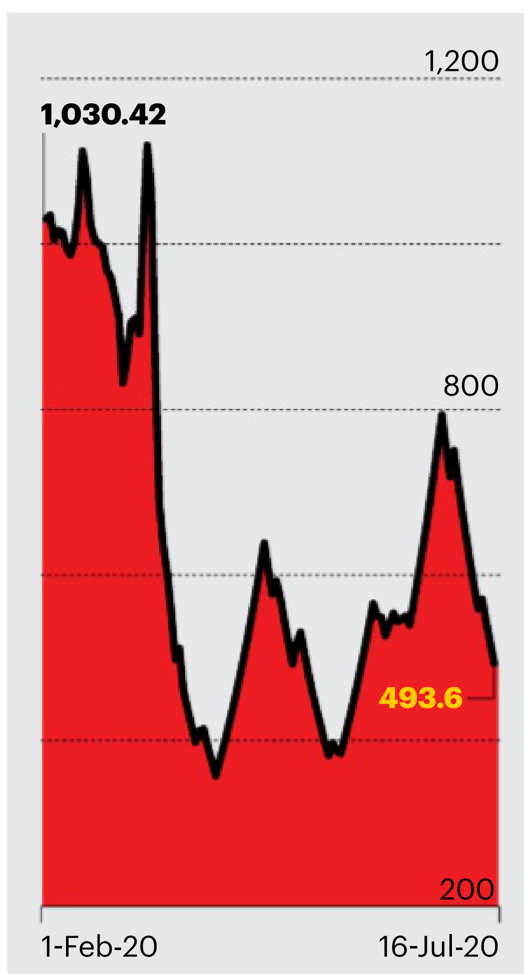
he has known Biyani from the days he set up his first Pantaloons store in Kolkata. "He always had a broad view of business and dreamt of capturing a large market. He has been a hands-on entrepreneur but doing many things at the same time became a problem for him. He got into higher capital intensive projects which gave him lesser return on capital."

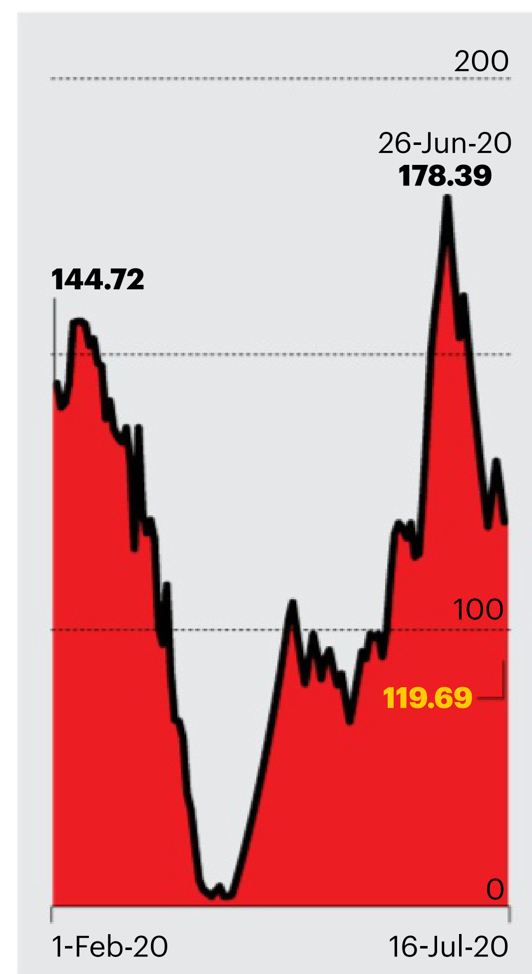
Biyani himself admitted that in his earlier avatar, he was chasing every possible avenue of growth and so ended up with huge debt. Right from restaurants, beauty salons and gyms to consumer finance, he dabbled in everything, even film production. "Earlier, I was focused on growth and doing new things all the time. Now, I am doing 10 days of rigorous review of businesses in a month. Allocation of capital and resources has become the priority. We will not sign for any new store if we don't see profitability there. It was not the case earlier. Now, return on capital employed is important," he had told *BT* in the earlier interview.

So, where did he go wrong? Despite focusing only on retail post the 2011/12 debt crisis, industry feels he became over-ambitious in core retailing too. While Big Bazaar and FBB remained his strong points, his bet on the neighbourhood format, for which he acquired EasyDay, Nilgiris and Heritage, backfired. Biyani hoped to attract loyalty towards his smaller format stores by getting consumers hooked on to a loyalty programme. The idea was to get at least 2,000 members per store and charge them an annual membership of ₹999 which entitled them to 10 per cent discount on every purchase. The model, says a senior analyst, didn't work as Indian consumers were unwilling to pay a fee. "The neighbourhood grocer wasn't asking for a fee and was offering similar services," he says.

"The dynamics of a small store format is quite different and when the company started expanding aggres-







sively, it accumulated huge debt. Consumers didn't find a compelling reason not to shop in a *kirana* store as opposed to EasyDay," says Abneesh Roy, Executive Vice-President (Research), Edelweiss Securities.

A former Future Group executive, who was closely associated with Biyani's Retail 3.0 vision, says had the market not become sluggish and Covid not happened, Biyani would have managed to pull off the small store format. "We anticipated a shorter gestation for small format stores but it turned out to be a longer gestation business. Had the market been good, it would have done well."

Stock Broker Arun Kejriwal says Biyani's biggest drawback is his inability to manage cash. "Biyani realised he can sell stories to the market. He bought one company, then he bought a second one, and kept buying, raising money and selling dreams to the market. He often duplicates businesses and keeps raising money from the market." Kejriwal refers to Future Supply Chain (which is listed under Future Enterprises and has bulk of the debt, close to ₹6,500 crore) where, he says, Biyani raised money to offer supply chain and distribution services to other companies. But that was not to be. "The bulk of its business comes from Future Group. They hardly offer their services to others," says Kejriwal. Biyani is desperate to get rid of Future Supply Chain and is known to have asked Ambit Capital to find a buyer.

Retail Debacle

Biyani is often called India's Sam Walton (Founder of Walmart). But for the fact that both championed value retail, there is nothing common between the two. While Walton took 40 years to move from Bentonville to other cities in the US, Biyani has been a firm believer in aggressive growth. "Walton was patient, focused on cutting costs and building logistics and supply chain. For him, retail was not a real estate play. It was a business which needed planning and execution as any business. What Biyani has done defies common sense. He started in Kolkata and went all over India knowing that the country is too complicated for building a good supply chain," says the CEO of a leading consulting company. He finds Radhakishan Damani more like Walton as he has stuck to the basic principles of grocery retailing. DMart (Avenue Supermarts) is today a ₹24,870 crore company despite the Covid lockdown and the liquidity crisis prior to that. In FY20, it reported 44.15 per cent growth in profits.

Unlike Walton, whose single-minded focus was his hypermarket model, and to an extent Sam's Club (cash and carry), there is no retail format in the world which Biyani has not tried – supermarkets and hypermarkets, small format stores and premium food retail (Foodhall), apparel retail, malls and home products retail. While Walton believed in organic growth, Biyani has grown through acquisitions, most of which were loss-making. The only acquisitions which Walmart has made and that too in recent times have been a handful of online retail companies which it has merged with Walmart.com to take on the likes of Amazon.

"EasyDay was his market concept to take on DMart. At the same time, he also signed with 7-Eleven. There has been no consistency in strategy. It's his attitude of 'I need to do everything in retail' that has led to his doom," says the CEO of a leading lifestyle retail company.

Biyani's small format store strategy (EasyDay, Nilgiris), say experts, has been the major reason for his current

What Future Holds...

Will escape insolvency, but defaults will affect ratings and fund-raising plans

Lenders have sounded out retail majors, including Reliance Retail and PE investors like Blackstone, Samara Capital and Aion Capital. Premji Invest and Amazon also in talks

Premji Invest owns 6 per cent in Future Retail, while Amazon holds about 3.2 per cent. Blackstone has a stake (6 per cent) in Future Lifestyle Fashions and owns $167 million worth of NCDs

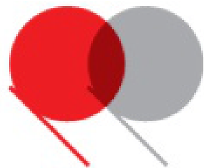
...And What If Reliance Buys Future

RIL may come to Biyani's rescue by acquiring Future Group with debt

Biyani will have to exit retail, as the deal with have a non-compete clause

He could continue as back-end supplier to retailers through his food parks

PHOTOGRAPH BY REUBEN SINGH



He has been a hands-on entrepreneur, but doing many things at the same time became a problem for him. He got into higher capital-intensive projects, which gave him lesser return on capital

Lalit Agarwal, CMD, V-Mart

situation. He wanted to offer an improved version of a *kirana* store with loyalty programmes and discounts. These stores attracted consumers initially but were not sustainable despite discounts. Also, real estate and people costs did not make sense. "Those who owned their *kirana* stores had low costs and loyal customer base and were not impacted," says Roy of Edelweiss.

Biyani set up at the most four-five stores in a city. "You need at least 30 to make an impact," says a senior analyst with a leading brokerage.

A former DMart senior executive says Biyani's cost of doing business is extremely high. He says the rental model is capital intensive and doesn't make sense for value retail. "I don't understand why he didn't convert his good performing stores into the ownership model. Rentals should not be more than 2-3 per cent of your business after the first couple of years but Biyani's rental costs add up to almost 20 per cent of total costs, which is too high."

Failed FMCG Ambition

While experts say Biyani's aggressive retail expansion led to his downfall, FMCG was his big ambition. He wanted to use the multiple retail formats to sell his own private brands.

Almost 35-40 per cent merchandise at Future Group formats was its own brands which, according to experts, didn't go well with consumers. While Tasty Treat pasta, priced ₹30 less than a Del Monte, did have takers, when it came to soaps, detergents and biscuits, consumers were put off when they didn't find brands such as Britannia, Parle, Surf or Ariel. "Private labels work in certain categories. Future Group thought private labels will give it higher margins and it will win customer loyalty through lower prices. But one can't push private labels beyond a point," says Roy of Edelweiss.

A former Future Group executive says Nilgiris and Heritage lost their loyal customer base after Future Group took over. "They removed popular Nilgiris in-store brands and replaced them with their own." In the past few years, the company has acquired juice brand Sunkist and also got into a partnership with New Zealand dairy major Fonterra for stocking its products.

Biyani's private brands also suffer from lack of trust. The company tried to woo customers through deep discounting, but that hasn't worked. "A consumer may get swayed by the 'buy one get one free' offer one time, but if the quality isn't good, she will not go back. Most global retail brands have private labels and they are successful because quality is supreme. Biyani has not focused much on quality," says the former DMart executive. Private brands account for less than 10 per cent of DMart's inventory. It has always believed in offering consumers the best brands at lowest possible price-points.

Governance Issues

Biyani's desire to pull many horses at one go has proved to be detrimental to his group. However, anyone who has interacted with him will agree that he is among the best minds in the retailing business in the country. "He is always thinking about what next, what changes can I make, what else can I offer to consumers? He says the consumer isn't just the king but also the queen. He is always thinking about how to engage more deeply with the Indian middle class,"

What the Buyer Will Get

	Big Bazaar	FBB	Foodhall	Easyday and Heritage	W.H. Smith
Stores	**292**	**94**	**12**	**1,007**	**99**
Cities	**144**	**46**	**3**	**355**	**12**
Area	12.49 Million sq.ft	1 Million sq.ft	1,43,482 sq.ft	2.39 Million sq.ft	57,372 sq.ft

Figures for FY19; Future has shut down 150 stores in the last one year

says Srini Vudaygiri, CEO, Unibic.

A former Future Group employee says Biyani comes up with at least 10 new ideas every day. Often, the dilemma before his team is what to implement and what to ignore. In fact, his vision, more than often, doesn't get translated into action, which leads to governance issues. Industry veterans say Biyani is only a man of ideas and does not follow best business practices.

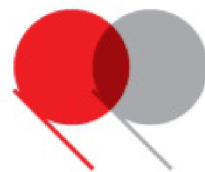
Transparency is a huge issue, says the CEO of a leading personal care company. "If you are launching a new product with Reliance or DMart, the process is simple. You go to central teams at their headquarters where they list the product. It becomes part of their inventory nationally. In Future, even after getting the product listed centrally, one has to go to each and every store and ensure that it is listed. Most stores also have a huge amount of missing inventory."

"The inventory they show on their books isn't right. I visited a Big Bazaar store in Chennai. The store manager came up to me, told me inventory is missing, and requested me to give a credit note to make up for that," says the CEO of a leading FMCG company.

A common complaint is that the group does not pay vendors on time. One frequently gets to read about leading FMCG companies blacklisting Future stores due to payment delays. A Ranchi-based regional rice and *atta* manufacturer says he wants to terminate his contract with Big Bazaar as payments take ages. One reason DMart is a favourite among vendors is that it clears dues in days, unlike Future, which takes months.

Biyani is also infamous for delaying payments to landlords even during good times. "He had a good relationship with Phoenix and there was an understanding that Future would get the option of becoming an anchor tenant in any new mall built by Phoenix. Phoenix ended the relationship when it realised that his reputation is going from bad to worse and that having him as an anchor tenant doesn't bring any advantage," says a senior real estate consultant.

Governance issues have tainted the deal with Amazon, too. According to a former senior Amazon executive, it is on the brink of collapse. Amazon picked up a 1.3 per cent stake in Future Retail last year through Future Coupons, in which it bought a 49 per cent stake. "The deal was aimed at building the retail business together. Amazon was to bring in technology and Future supply chain efficiencies and inventory. The stores are to be used as fulfilment centres. The arrangement is facing a host of operational challenges. When the Amazon delivery staff goes to Big Bazaar stores



When the company started expanding aggressively, it accumulated huge debt. Consumers didn't find a compelling reason not to shop in a *kirana* store as opposed to EasyDay

Abneesh Roy, Executive Vice-President (Research), Edelweiss Securities

PHOTOGRAPH BY DANESH JASSAWALA

to pick up inventory, they are made to wait at the cash counter as stores prioritise their own customers. The aim was to do over a lakh deliveries a day from Big Bazaar stores but they don't do more than 10,000-15,000," the former executive adds. Though there are reports of Amazon increasing its stake in Future Retail, the US retailer will be happy to exit considering that the investment is not reaping fruits, he adds.

Will Ambani Buy Biyani?

While the market is abuzz with talks of the two signing on the dotted line soon, retail experts believe the deal is too good to be true. The CEO of a leading consulting company says stories around Ambani buying out Biyani must be coming from the latter's company. "Reliance buys things at a scrap rate. They bought Alok Industries at a distress price after it went to the NCLT." Alok Industries, by virtue of being a fully integrated textile company with a dominant presence in cotton and polyester, can be a supplier for Reliance's fashion and lifestyle business, he adds. "It has assets in plant and machinery. In retail, there are no assets, and the inventory is perishable. The longer the inventory lies in your stores or warehouses, the more its value diminishes. Real estate is not owned by you, it is leased. If you don't pay rent, the lease is terminated. Your front-end staff does not have unique skills, unlike manufacturing, where you may have highly qualified R&D people. So, when you think about value and valuation, it will be difficult to get Reliance interested, unless it comes at a distress price," he says. "It won't be Biyani who will call the shots but the lenders. If his shares are pledged, lenders will have to see at what price they are being sold. Ambani has no reason to buy Future," says the CEO of a leading FMCG company.

Kejriwal says nobody will buy Biyani's entire business. "It will be piecemeal disposal. Whosoever will buy will have a strong balance sheet. They will say, I will settle your debt and renegotiate terms with lenders and make money on that."

Biyani needs an urgent bailout. One has to wait and watch who will buy him out and how soon, but chances of a comeback appear grim. The only business Biyani is likely to retain is Future Consumer. But then, FMCG is an expensive business and will require huge capital. His friends and associates say Biyani is never without a plan.It remains to be seen if the 'ideas man' has a plan to work around this time. BT

@ajitashashidhar; nevinjl

FOCUS
TECH

SAMSUNG GALAXY Z FLIP IS REVOLUTIONIZING THE SMARTPHONE DESIGN

Retro is cool. With over a 107 million posts on Instagram with the hash tag #throwback, it's evident that we love the nostalgia associated with past trends. In the late nineties, flip phones were all the rage; whether it was teenagers or office goers, everyone wanted one.

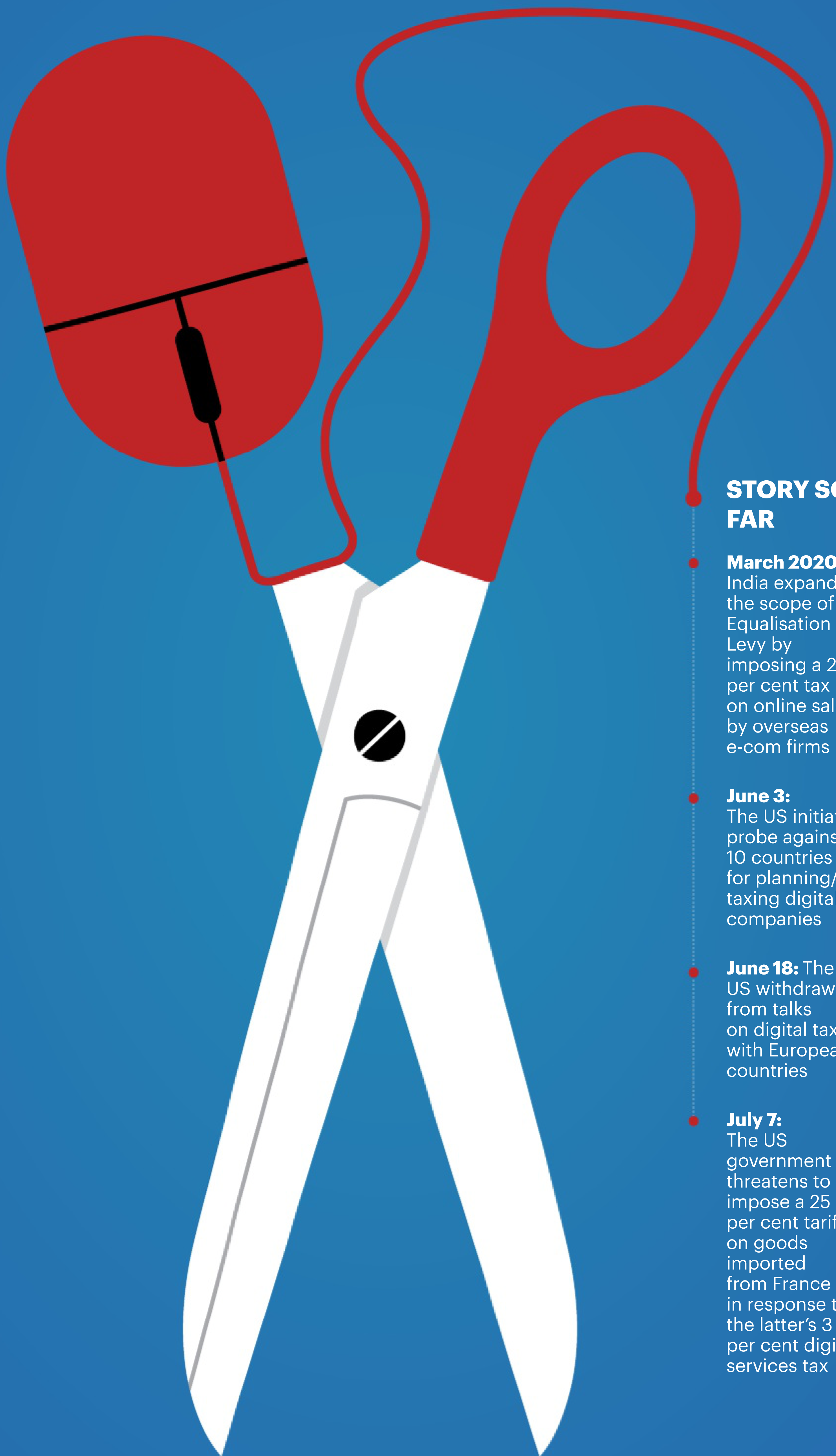
Fast forward to 2020 and Samsung is making flip phones cool again with a foldable glass screen and unparalleled camera experience, all in one compact device.

With a completely re-imagined design concept, Galaxy Z Flip is the stand-out phone that sits in the palm of your hand. The hideaway hinge allows it to stay open in multiple positions and lends an elegant compactness that's designed to smoothly fit into your life.

Galaxy Z Flip's full-size 6.7" display gives you all the advantages of a big screen while allowing for a sleek and stylish form factor and it's symmetrical and smooth rounded design, offers an easy grip with just one hand. It's available in three stunning colours; 'Mirror Purple', "Mirror Gold" and " Mirror Black" giving the device a playful, eye-catching, and premium look. This is a phone, that will make heads turn.

Galaxy Z Flip revolutionizes the user experience while, enabling newer ways in which you can interact with your smartphone. Free stop folding makes it stand by itself in tabletop mode for hands-free 4K video chats and vlogging, or unique selfies (with front ultra-high def). Together with the UI/UX split in Flex mode, you can preview images in one half, while controlling the picture taking with the other.

If you want to know what the future feels like, get your hands on one of these at your nearest Samsung store or buy it online through Samsung e-shop or amazon.in



STORY SO FAR

March 2020: India expands the scope of Equalisation Levy by imposing a 2 per cent tax on online sales by overseas e-com firms

June 3: The US initiates probe against 10 countries for planning/ taxing digital companies

June 18: The US withdraws from talks on digital tax with European countries

July 7: The US government threatens to impose a 25 per cent tariff on goods imported from France in response to the latter's 3 per cent digital services tax

Digital Tax

The Road Ahead

EVEN AS INDIA INCREASES THE SCOPE OF THE EQUALISATION LEVY, THE US HAS INITIATED A PROBE AGAINST 10 COUNTRIES FOR IMPOSING TAXES ON DIGITAL SERVICES. THIS COULD EFFECTIVELY MEAN INDIA, LIKE MANY OTHERS, COULD FACE US REPRISAL, GOING FORWARD

BY DIPAK MONDAL
ILLUSTRATION BY RAJ VERMA

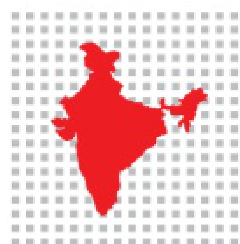
The United States recently threatened France with a 25 per cent tariff on goods imported from the country if the latter went ahead with its 3 per cent tax on digital services provided by foreign-based tech companies. It had slapped a 25 per cent tariff on import of French wine last year for the similar reason, forcing the French government to defer the implementation of its digital services tax by almost a year (from January 1 to December 31, 2020).

The US, home to many tech giants at the receiving end of the digital tax planned by France and other countries, is leaving no stone unturned to ensure that its technology companies don't end up being the worst hit. Barely a month ago, it had pulled out of talks on finalising a framework to tax digital companies, besides initiating probes against 10 countries, including India, which have levied or plan to levy taxes on digital services.

India recently expanded the scope of the Equalisation Levy, or digital tax, to the sale of goods and services in the

HOW THEY STACK UP

Digital Tax Rate In Different Countries



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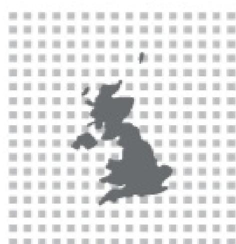

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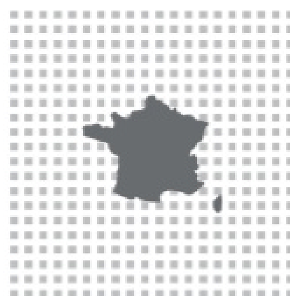

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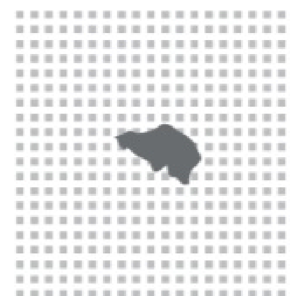


3%
Belgium

country by overseas e-commerce firms.

Responding to US' allegations, the Centre has said the tax is neither discriminatory nor extra-territorial, and is consistent with India's commitments under the World Trade Organisation and global taxation agreements. However, with no consensus on the contentious issue, there could be another round of trade war between countries, especially between the US and European countries.

The Equalisation Levy was introduced for the first time in 2016 as 6 per cent tax on revenues earned by non-residents from online advertising and related services. The burden of this tax eventually fell on local firms advertising on these platforms. In March, the government expanded the scope of this levy to include the sale of goods and services in the country by overseas e-commerce operators. The transactions will be taxed at 2 per cent if businesses earned more than ₹2 crore. The new provision is applicable from April 1, 2020. Globally, the rate of digital tax varies from 1.5 per cent (in Poland and Kenya) to 15 per cent (Paraguay). In Europe, the tax rate varies from 3 per cent (France, UK, Spain) to 7.5 per cent (Hungary).

137

Total number of countries that are part of the OECD talks underway to formulate a global framework on digital taxation

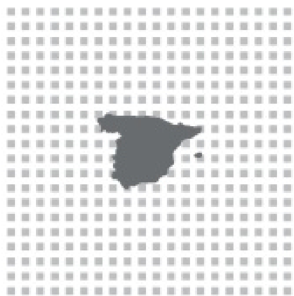
The US Question

The need to tax digital companies — the likes of Amazon, Google and Netflix — arises because these companies collect digital revenues from countries where they do not have significant business presence, which in tax parlance is referred to as permanent establishments. These are new-age companies, which can use virtual infrastructure to operate in another country.

Countries across the globe have felt the need to tax revenues generated by such companies in a particular jurisdiction. Talks began in 2018 under the aegis of the Organisation for Economic Cooperation and Development (OECD) to formalise a framework on what and how to tax revenues earned by such companies in a country in which they have no physical or significant presence. But an abrupt US decision to pull out of the negotiations, involving 137 countries, and threats of retaliatory action against those levying digital taxes have hit the 2020 deadline. For India, it creates enormous uncertainty, since the country has always been at the forefront of adopting the concept of taxing foreign digital companies. It is now subject to a probe initiated by the US.

While tax experts and government officials have called it a bullying tactic, some are also confused by the US' dilly-dallying on the issue. Akhilesh Ranjan, Former CBDT Member, and Principal Chief Commissioner of Income Tax, International, says: "The US is a bit confused. They are not able to decide what they want to do. The proposal, the unified approach that is being discussed, are all based mainly on a US proposal. It was the US which talked about these ways." What baffles Ranjan is the fact that though the US has withdrawn from the talks twice — the first being in December 2019 — it continues to attend the meetings. "So, does that mean that because of the presidential election in November 2020, they are not able to take a decision at this time?" he asks.

Experts hope once the presidential election is over, the US government is likely to make its stand on the issue clearer. OECD Tax Director Pascal Saint-Amans has even



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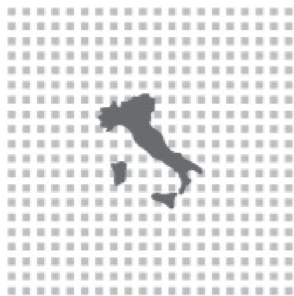

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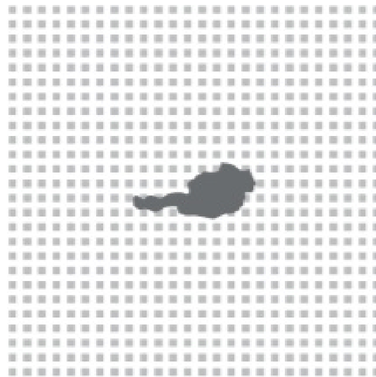

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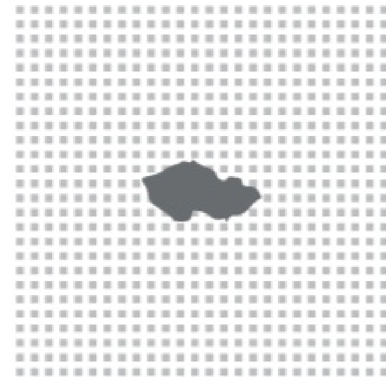

5%
Czech Republic

PHOTOGRAPH BY YASIR IQBAL

"India has not imposed the tax on US companies. It has also not imposed this tax (only) on large technology giants. The threshold for the Equalisation Levy in India is very low"

Mukesh Butani, Founder, BMR Legal

issued a statement that meaningful dialogues on a consensus on digital taxation can only occur after the US elections. Mukesh Butani, Founder, BMR Legal, also thinks any meaningful multilateral talks will happen only after the US elections. He, however, thinks the guidance given by the OECD that there will be a consensus on digital taxes by the end of 2020 is now a distant dream.

Uncertain Future?

The main reason for the US developing cold feet on digital taxation is its apprehension that the same will hit American tech giants the most. Even though there is no consensus yet on what and how to tax the digital economy, many countries have already implemented or plan to implement such a tax. In the absence of a consensus, the rate and scope of the tax varies from country to country.

Unlike in India, where the 2 per cent Equalisation Levy is applicable on a host of e-commerce operators selling goods and services worth ₹2 crore or more in a year, most European countries have levied or plan to levy taxes mainly on big tech giants with global turnovers of $840 million or more in a year. Such a high threshold for turnover means most large US corporations will fall in the tax net.

Says Sunil Arora, Tax Partner at chartered accountancy firm ASA & Associates: "If I was the US, I would have reacted in the same way. I am not saying it is justified, but given that I am the worst affected because I own the Amazons and Googles of the world, there has to be some reaction."

He, however, admits that it (the retaliation and arm twisting) is not good for the future of the talks. "This action of the US (to pull out of the talks) is unilateral and I don't think it will find much support among other countries."

So, what happens if the OECD fails to break the impasse

"The US is a bit confused. They are not able to decide what they want to do. The proposal, the unified approach that is being discussed, are all based mainly on a US proposal. It was the US, which talked about these ways."

Akhilesh Ranjan, Former CBDT member, and Principal Chief Commissioner of Income Tax, International

on digital taxation?

Himanshu Parekh, Partner and Head, Corporate and International Tax, KPMG in India, says if the US does not agree, each country will come out with its own unilateral measure like what India recently did. "It will create a lot of tension as far as global trade is concerned," he says.

The nature of the digital tax, at least the way in which some countries have formulated it in the absence of a global framework, is such that it feels more like a consumption tax than an income tax. And if no solution is arrived at, countries may use it as an import tax. Akash Karmakar, Partner in law firm Panag & Babu, says digital tax has ceased to be a tax in the true sense of the word, it's more of a tariff. "The illogical part of the digital tax is that it is deliberately targeting companies that are outside the country," he adds. He, however, hopes that all 137 countries could get into a discussion with the US and try to convince it that it is in the best interest of the latter to agree to a global framework on digital taxation.

6 per cent

Equalisation Levy introduced by the govt in 2016 on revenues earned by non-residents from online ads, related services

The India Story

These developments are significant for India given its decision to expand the scope of the Equalisation Levy, despite the fact that no such provision was part of the Finance Bill presented with Budget 2020.

The announcement was followed by the US decision to probe 10 countries, including India, for introducing such a tax. Finally, the US pulled out of OECD talks.

Do these developments then make India's case for taxing non-resident digital companies weaker? Irrespective of the fact that most experts believe the government's decision to expand the scope of Equalisation Levy is a not well thought-out move, it may still escape the US ire.

The reason is its wider scope and much lower threshold. Unlike in other countries such as France and the UK, where the focus of the tax in digital services only, in India, the tax will be levied on both goods and services.

Mukesh Butani of BMR Legal says the investigation initiated by the US on India's digital tax falls under the US Trade Act, which gives its government power to impose retaliatory measures against each country that is discriminatory for American business enterprises. "But if you look at the India levy, it is not discriminatory. India has not imposed the tax on US companies. It has also not imposed this tax (only) on large technology giants. The threshold for the Equalisation Levy in India is very low (₹2 crore)," he says.

Akhilesh Ranjan agrees. "The Indian tax is very broad-based and has a very low threshold."

Experts and government sources say the Centre is not unduly perturbed by the US investigation, though it delayed the notification of the law, keeping in mind the US threat. There is almost unanimity among tax experts that India could have waited for the issue to be resolved at the multilateral level before expanding the scope of the tax.

Besides, the suddenness of the move has also not gone down well with businesses. "India has always been criticised for (tax) uncertainty and this only added fuel to the fire. If you could have given companies something to think about, they would have submitted their objections, they could have worked out something or at least would have some indication of what was coming," says Arora of ASA and Associates.

The new 2 per cent levy on the sale of goods and services that have no permanent establishments hereis believed to have been an afterthought by the government, and desperation to find ways of generating revenue. The government had collected around ₹900-1,000 crore from the 6 per cent Equalisation Levy. With a much wider scope of the tax, the figure is expected to be higher.

Meanwhile, the government will keep an eye on the talks at the OECD level, hoping the US shuns its antagonistic approach and agrees to resolve the issue at the earliest. **BT**

@dipak_journo

18+

WHAT IS AVAXHOME?

AVAXHOME -

the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

AvaxHome - Your End Place

We have everything for all of your needs. Just open https://avxlive.icu

Column

Spy In The Room

One of the most fundamental of our rights is the presumption that we are law-abiding citizens living in compliance with the law. State surveillance turns that on its head

BY ABRAHAM C. MATHEWS

Just imagine a new device in your living room — a camera, installed by any of the big global technology giants. But this one doesn't take instructions from you. It just silently sits there, quietly observing you go about your mundane daily activities. Occasionally it will remind you that you are going to be late for office if you don't leave now. It might ask you if the sofa cushions you just bought were comfortable, and even remind you to change it every now and then. If you fight with your spouse, it will suggest therapists you could meet; or even the number of an ambulance service, depending on the seriousness.

But it mostly just observes. It keeps track of the pages of the newspapers you are reading, the tone of your dinner table conversation, and the kind of friends you share a drink with. If it is witness to some criminal activity, it is mandated to inform the police. Needless to say, all of these are designed to make your life more comfortable, and arguably safer.

Would you be okay with such a device snooping on you all day (maybe a less intimidating version of the TV from the novel "1984")? Most of us certainly wouldn't. And yet, we seem to have invited global big tech companies to do the exact same thing, albeit through our phones and other gadgets.

Even as technology companies strive to hide the evidence of their snooping in dense legalese and non-denials whenever questioned, the government seems to have no such compunction. Take for example, the recently released draft Unmanned Aircraft System Rules, 2020, to govern drones. Section 35 of the Rules permit drones to take pictures after ensuring privacy of an individual or property. But there is not a whiff about what steps the drone operator would need to take so as to ensure privacy.

Questions also abound about the data collection practices of the Aarogya Setu app. With the government not releasing the source code of the server, we simply don't know what information the government is collecting, storing and evaluating.

Or take the tender floated by the Ministry of Information and Broadcasting for the empanelment of an agency for the "fact verification and disinformation detection". Some of the services sought in the tender are the identification of suspicious profiles, identifying key influencers behind disinformation, and geo-location analysis of disinformation. These sound innocuous enough, and in fact, essential too; however, it is quite likely to end up being just a tool for targeting dissenters who question the government.

This follows earlier attempts by the Unique Identification Authority of India (which gave us Aadhaar) for setting up a social monitoring hub — aborted after the Supreme Court observed that it was a step towards setting up a surveillance state. Earlier, in December 2018, the home ministry issued a circular authorising 10 security agencies to intercept, monitor, and decrypt any information generated, transmitted, received or stored in any computer or device. While the circular was immediately challenged before the Supreme Court, arguments in the case are still pending.

The government inevitably defends such collection, as it did during the Aadhaar hearings, saying that Indians voluntary give this data, and so much more, to social media companies based abroad. So why frown at the government, which is only looking to protect the public interest? That is a legitimate argument, and needs to be addressed.

ILLUSTRATIONS BY RAJ VERMA

India does not have a privacy law. The Personal Data Protection Bill, 2019, has been held up due to oppostion to one clause

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However, the two are not comparable. Simply put, private companies don't look at you with suspicion — they are morally indifferent. On the other hand, the State can declare you a possible criminal and arrest you. And that's a world of difference. Or speaking as a lawyer, there's a reason for the constitutional protection from being randomly searched by a police officer without a reason. One of the most fundamental of our rights is the presumption that we are decent law-abiding citizens going about our lives in compliance with the law. State surveillance turns that on its head. Every thought, every interaction, every emotion is connected and analysed —because that is what big data analysis does.

Compounding the problem is that India does not have a privacy law. The Personal Data Protection Bill, 2019 has been held up due to opposition to a clause that grants omnibus exemption to security agencies for accessing information without the statutory compliance responsibilities. According to Justice BN Srikrishna, on whose committee report the Bill (which did not have this clause) was based, this single provision could usher in "an Orwellian state, with big brother snooping on citizens".

But mark the irony. In a country where the majority of people are simply not capable of reading legal verbiage, forget understand the privacy intrusions they are consenting to, the government could have been an ally to its citizens — protecting her from intrusions from private data companies. Instead it chooses to be an even bigger predator.

There are three reasons why we should not be comfortable with unrestricted data collection and access by government agencies, even for the stated aim of national security, without a privacy framework in place.

First, mass surveillance is justified on the basis that agencies are analysing anonymised data for undesirable activity — nobody is individually targeted. This is a myth. Researchers have been able to work backwards to identify the person corresponding to the data with alarming accuracy. A study from Carnegie Mellon University in 2000 found that a combination of just data about gender, date of birth and zip-codes was sufficient to arrive at the identity of 87 per cent of the people of the population. Ninety nine per cent accuracy can be achieved with just 15 fields of data. India's 2011 Census collected information under 29 heads.

Joined with this is the fact that large-scale analysis of data through algorithms (or in other words, Artificial Intelligence) is still ridden with inaccuracies and biases — the algorithm might throw up patterns that are wildly off-the-mark.

Second, often what is done in the name of public interest is often merely the interest of the government in power. Decades of India's history has shown that security agencies mostly work at the bidding of the party in power. To give them access to your private and personal conversations would leave citizens in a constant state of fear and would render almost all constitutional protections nugatory.

Finally, and perhaps most importantly, such data collection is simply unlawful. The judgment of the Supreme Court in the phone tapping case (People's Union for Civil Liberties vs Union of India, 1997) declared that the right to hold a telephone conversation in the privacy of one's home can certainly be termed as a fundamental right, which can be breached only according to the procedure established by law. The Court had also laid down procedural safeguards for when the State needed to tap telephones. Sans a law, such mass surveillance perhaps is an outright breach of privacy. BT

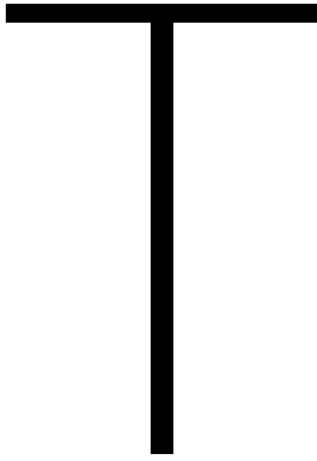
The writer is a Delhi-based advocate and chartered accountant

Markets

DECODING THE RECOVERY

Large, mid and small-cap stocks have all taken part in the recent rally. Is this sustainable?

BY NITI KIRAN
ILLUSTRATION BY RAJ VERMA



he Sensex posted its best quarterly return of 19 per cent in the first three months of the current fiscal. Keeping in step, other broader indices, such as large-cap, mid-cap and small-cap, posted similar returns. But are all constituents of these indices delivering identical returns or are some of them bucking the trend?

The trigger for the rally came from retail investors and domestic institutional investors (DIIs) even as foreign portfolio investors (FPIs) pressed the panic button. DIIs pumped in ₹88,132 crore in Indian stock markets in the first half of 2020, almost double of what they had invested in the entire 2019. Mutual funds invested ₹39,359 crore. On the contrary, FPIs turned net sellers, pulling out over ₹18,000 crore during the period. They had pumped in a little over ₹1 lakh crore last year. Net DII inflows have been positive for the past five years. Rajat Jain, CIO, Principal Asset Management Private Ltd, says this long-term trend indicates the growing importance of DIIs. "We believe flows into mutual funds and insurance companies may continue to grow gradually over the medium term."

Large-caps: Repeat Performers

Large-caps, mid-caps and small-caps have all taken part in the recent rally. But they followed different paths to reach here. In 2019 calendar year, the large-cap index had risen around 11 per cent, while mid-cap and small-cap indices were in the red, falling 3 per cent and 7.2 per cent, respectively. "This was due to polarisation in favour of large-caps," says Deepak Jasani, Head, Retail Research, HDFC Securities.

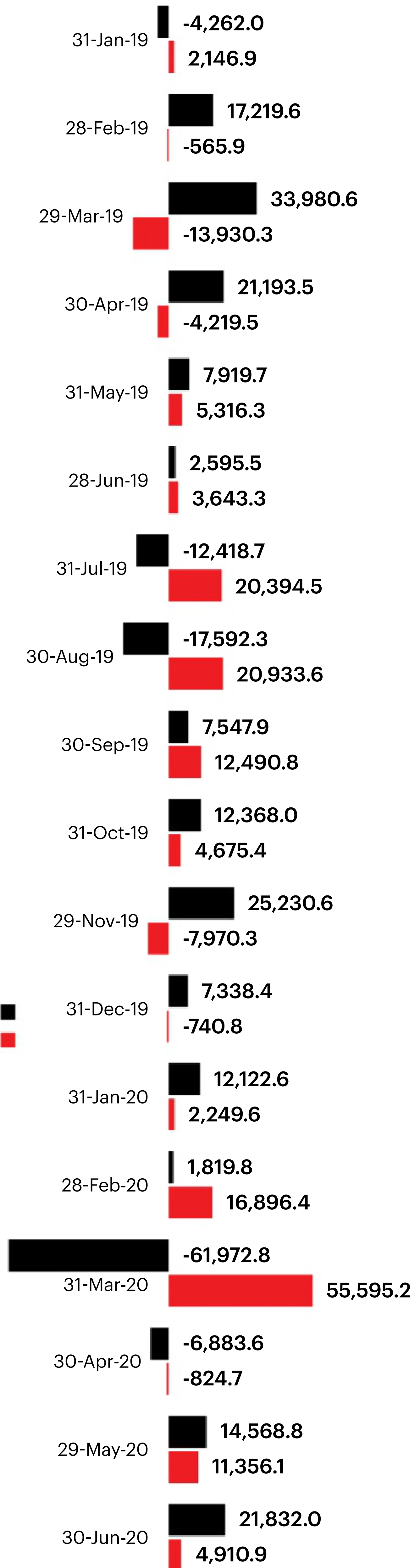
The large-cap index, which covers 34 per cent of Sensex stocks and top 70 per cent of the market, is still down 10.5 per cent since the start of the year (the big slump had come in March when the nation had gone into the lockdown mode). However, some 17 stocks, including leading pharmaceutical names such as Dr Reddy's and Cipla, and FMCG majors HUL and Nestle, bucked the trend due to high demand for their products. Aurobindo Pharma led the pack here with almost 83 per cent year-to-date rise followed by other pharma stocks such as Dr. Reddy's and Cipla.

Altogether, 43 per cent stocks in this space have outperformed the index year-to-date while a little over half beat the benchmark after March (all of these have returned more than 32 per cent since March lows).

FIIs Come Back in May/June

FPIs Net Investments ■
DII Net Investments ■

In ₹ crore
Source: Ace Equity



SMART GAINS

Figures are % change
*Between Jan'01-Jan 30' 2020
Between Jan'30-Mar'24, 2020
Source: Ace Equity

	Year 2019	Pre-Covid*	Towards March lows#	Since March lows	Year-to-date
S&P BSE Sensex	13.8	-0.9	-34.8	38.8	-10.4
S&P BSE LargeCap	10.5	-0.9	-35.4	39.9	-10.5
S&P BSE Midcap	-3.0	3.7	-36.6	37.2	-9.8
S&P BSE SmallCap	-7.2	6.4	-39.5	44.0	-7.3

Moreover, one can buy them for a song as nearly 53 per cent scrips in the large-cap space are trading below their five-year median price-to-earnings (PE) ratio. For instance, ACC Ltd is available at a 40 per cent discount to its five-year median PE ratio. Dr. Reddy's is 39 per cent below its five-year average PE ratio.

Mid cap: Better Performer

The mid-cap index, which represents the next 15 per cent market cap after the large-caps, opened the year on a positive note after last year's 3 per cent decline. However, it declined nearly 37 per cent towards March-end, leaving 48 per cent of the scrips in the red (down 40-80 per cent). The recovery was equally sharp with overall gains of 37.2 per cent.

The year-to-date performance of mid-caps is no different from that of large-caps. The top performers include mostly pharma stocks such as Bayer CropScience (54 per cent) and Ajanta Pharma (49.3 per cent). Almost two-third stocks in this space are trading below their five-year historic PE ratio. Shriram Transport Finance Company and Oil India are trading 50 per cent below their five-year median PE ratios.

Small cap: Show-stopper

The bottom 15 per cent, or the small-cap, segment was the worst performer of 2019. It has fallen the least, 7.3 per cent year to-date. However, it put on a power-packed show in the June quarter with double-digit outperformance over the 30-stock Sensex. The Sensex rose 19 per cent while the small-cap index rose 29 per cent during the period.

Close to 27 per cent, or 191 stocks, in the index are up since the start of 2020. Moreover, prices of around 10 small-cap stocks have risen over 100 per cent during the period. This includes Opto Circuits (India) and Sintex Industries. On the valuation front, almost all small-cap stocks are available at a discount to their five-year average multiples.

Jain of Principal Asset Management says excess liquidity is behind the performance of mid-cap and small-cap indices. "This is likely the result of liquidity which flooded markets globally as central banks increased the size of their balance sheets to support economies and face stresses caused by the lockdown and collapse of demand. This liquidity has driven up prices of risk assets globally. The outperformance of mid-cap and small-cap stocks is likely a part of that picture." The sharp fall in markets at the end of March had made them cheap and amenable to a bounce, he says.

The performance of small-cap and mid-cap stocks has been better in 2020 compared to 2019 as these were beaten down badly. Then, as momentum picked up, participation by non-institutional investors rose. Around six lakh new demat accounts each were opened with the central depository services in March and April. "The cumulative fall in these stocks (including the March 2020 fall) seemed more than required and attracted value buying. Moreover, young new-to-market investors and traders signed up with brokerages and started dabbling in small-cap and mid-cap stocks to make a quick buck," says Jasani of HDFC Securities.

The Penny Party

Penny stocks, or scrips that trade at less than ₹10, too jumped on the bull-market bandwagon. While over a four-fifth of them were in the red in the past year or so, just 5 per cent stocks in this lot have not recovered since the steep fall of March. The advance to decline ratio of the market shot up sharply in early April and first week of June. Moving forward, Jasani is cautious as in any bull run, the momentum passes from large-caps to small-caps and mid-caps in the next stage, before there is reversal in trend. "The fact that a lot of penny stocks have started participating in the run-up is sign of an impending reversal in trend," he says.

There are many things that may upend this recovery and keep markets volatile in the near term. Economic revival is expected to be gradual and uncertain due to caution on part of consumers, weak corporate balance sheets and threat of second wave of coronavirus infection.

Jain of Principal Asset Management says markets may favour companies expected to emerge stronger from the crisis due to dominant position in their industry, balance sheet strength and early resumption of operations. "As the Covid issue settles, the economy gradually moves towards normalcy and earnings recover in FY22, the markets may move up steadily in the next couple of years," he says.

No matter how the market moves, experts say that rather than tracking the benchmark indices, one should go for value buying and take advantage of volatility instead of shying away from it. BT

@niti_kiran

DEALS IN DISTRESS

A slowing economy and widespread stress in India Inc. are creating opportunities for promoters and strategic investors to ink M&As, buy back shares and delist

BY ANAND ADHIKARI
ILLUSTRATION BY RAJ VERMA

ROADMAP 2020 AND BEYOND

Domestic consolidation to be in focus

Smaller players to merge with larger ones

Restructuring of businesses, selling of non-core assets

Over-leveraging to force mergers & acquisitions

Stake sale to financial, strategic players

Buyback and delisting attempts by promoters

A **few months ago,** no one thought remote-controlled drones, used in military warfare, logistics and search and rescue operations, will be used in M&As. But travel restrictions are making investment bankers use drone footage of factories to give prospective buyers a 360-degree view from inside and outside.

"The buyer can visit the plant when the deal reaches the final stages," says an investment banker involved in one such deal. Negotiations are taking place over Zoom or Skype. This is probably one reason why deal street is buzzing despite lockdown since end-March. The investment banking community has found many ways to complete a transaction, including structuring the deal in a way that

it is linked to future deliverables. So far, the M&A deals in 2020 have crossed $32 billion.

A big backlog of pre-Covid deals had smooth sailing in Q1 of FY2021. Jio Platforms, the subsidiary of Reliance Industries, raised over $20 billion from a dozen marquee investors such as Facebook, Google, KKR, General Atlantic, TPG, Silver Lake and Intel, among others. Jio Platforms alone pushed private equity (PE) and venture capital investments in May 2020 to $5.4 billion, compared to $2.8 billion a year ago. GMR Infrastructure, which operates Delhi and Hyderabad airports, sealed a deal to sell 49 per cent in its airport business to France-based ADP. In July this year, Carlyle signed a deal to acquire a 25 per cent stake in Bharti Airtel's data centre business.

"Among the deals under way, a few are in pharma, tech and digital services. Buyers see these as fundamentally good assets, neutral-to-positive in terms of Covid impact, with a favourable market trajectory," says Amitabh Malhotra, Head, Investment Banking, HSBC India.

Similarly, low market valuations in some commodity businesses are providing promoters a once-in-a-lifetime opportunity to buy back shares. Anil Agarwal of Vedanta and Gautam Adani of Adani Power have decided to delist their companies. Promoters are also raising confidence capital for M&A opportunities in an economy which is likely to head into a recession. Uday Kotak of Kotak Mahindra Bank has said that they are open to inorganic opportunities in financial services. V. Ramakrishnan, Chief Financial Officer of IT giant TCS, recently said economic downturns are the best time to strike deals. TCS had struck one after the 2008 financial crisis when it had acquired the Citigroup Global Service business for $505 million. So, how will deal street pan out in the post-Covid world?

Puneet Renjhen, Executive Director, Investment Banking, Avendus Capital, shares his past experience of such events. "M&A and fund raising generally get heightened after a year or so. Hence, the M&A outlook looks very robust in the next 12 to 36 months, especially in sectors hit by Covid," says Renjhen.

Clearly, opportunities are opening up for promoters with a war chest, financial investors and PE players.

MORE INBOUND DEALS

High global liquidity, low interest rates to encourage acquisitions

Investors from China to stay away

US and European investors to look for more opportunities

Covid-hit sectors such as hospitality, tourism, real estate, roads to attract interest

OUTBOUND M&As SET TO LOSE STEAM

Expect a few strategic deals, not for attaining scale

Small-ticket transactions to dominate

Technology, digital capabilities to be main interest areas

Focus on acquiring R&D facilities, innovative products

OTHER DETAILS

Private equity to control deals

Limited exits by PEs via IPOs

Focus on restructuring, cost rationalisation and new markets

Stress on management buyouts

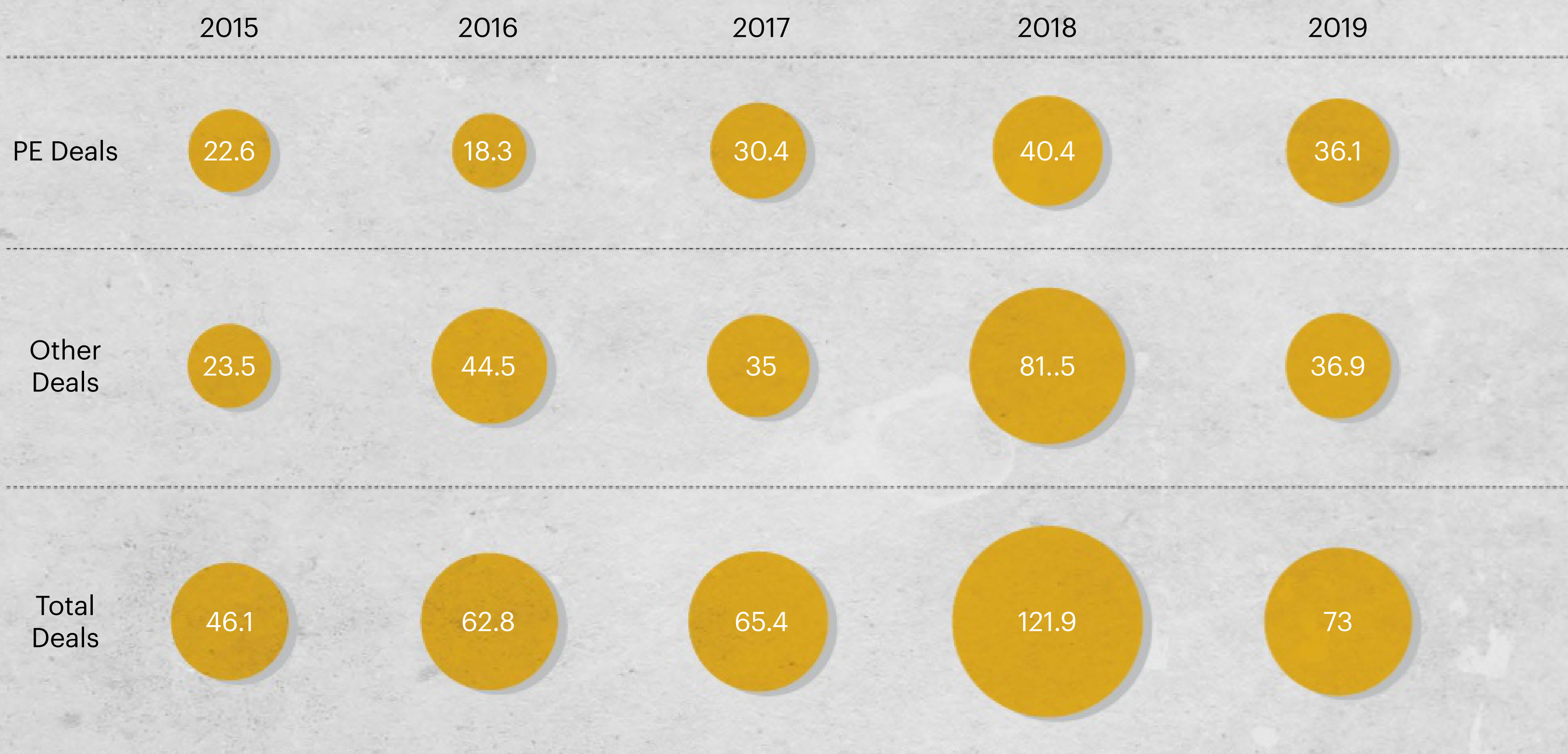
Committed investments worth $80 billion waiting to happen

Domestic Consolidation

Investment bankers say domestic consolidation will be the theme. "Domestic consolidation will have three broad elements; large corporate and private equity deals, PE-to-PE transactions and management buyouts by PE," says Gopal Agrawal, Co-Head, Investment banking, Edelweiss Financial Services. At present, large/strong corporates are focusing on managing their ownership, as they need capital to survive in the post-lockdown world.

Many corporates will require rescue capital or funding support to survive in the challenging operating environment. Consumer discretionary companies (malls, multiplexes, travel, fashion), micro-finance institutions, apart from affordable housing, hospitality, tourism and auto component players, will face liquidity issues. These companies are restructuring to cut costs. Airport, hospitality, tourism, NBFC and micro-finance players are also severely hit. A big transaction of a sovereign fund acquiring a stake in a micro-finance company got stuck because of business disruption and uncertainty in the micro-finance industry. "It is not a question of revised business plan but what is the business plan and how you can draw conviction," says an investment player.

Given the risk aversion among banks, many companies will look to sell non-core assets or raise money by parting with equity. "Companies would try to improve their li-



quidity position, reduce leverage and strengthen balance sheets," says Ajay Arora, Partner, and M&A head, EY India. An EY India 2020 survey says the current economic situation will require companies to raise capital through disinvestments. "Sixty-seven per cent of companies surveyed said they will look to reduce debt through divestments," according to the survey. It says divestments will also be aimed at raising funds for a technologically enabled future.

Last month, billionaire Ajay Piramal, Chairman, Piramal Enterprises, agreed to sell a 20 per cent stake in the pharmaceutical business for $490 million. "This fund infusion will strengthen our balance sheet and provide us a war chest for the next phase," said Piramal. Investment bankers say many corporates are raising confidence capital to face any worst-case scenario in the near future and buy stressed assets. Reliance Industries recently completed a successful ₹53,124-crore rights issue. Many other rights issues are in the pipeline. ICICI Bank, HDFC Bank and Axis Bank have lined up capital-raising plans of over ₹1 lakh crore this year.

"We have too many players in every sector because of the large market. But in the post-Covid world, smaller players may find the going difficult. We may see consolidation in the near future," says Suraj Malik, Partner, M&A and Transaction Tax, at BDO India. There are other non-business issues which will accentuate in a slowing economy. "Smaller enterprises where next generation is not interested will also explore M&A opportunities because of changing business dynamics such as digital acceleration or higher technology adoption, supply chain issues with China and slowing economic growth," says Rajesh Narain Gupta, Managing Partner at SNG & Partners, a full service Law firm. India Ratings and Research has predicted additional stressed loans of ₹1.67 lakh crore, which is over and above the ₹2.54 lakh crore anticipated during the post-Covid period. High promoter pledge is another factor that will encourage M&As. Dish TV and Kishore Biyani's Future Lifestyle Fashion come in this category. There are already murmurs of a deal between Reliance Industries and Future Group.

Low market valuations in some sectors have thrown open new opportunities such as promoter buyback and delisting for those with access to funds. Global markets are flush with funds at near zero interest rates, while Indian banks too are willing to lend to well-established promoters. Vedanta, whose parent Vedanta Resources plans to buy the remaining 49 per cent stake in it, has a market cap of ₹41,000 crore with a low price to book of 0.59 times. Adani Power, whose board has approved the delisting, has a market cap of ₹13,788 crore with price to book of 0.87 times.

But this will happen in rare cases. "Delisting will hap-

pen in select cases as it entails giving money to minority shareholders," says Salil Pitale, Joint MD at Axis Capital Ltd. In the pre-Covid world, the focus was on companies buying back shares, while post-Covid, the focus has shifted to promoter buybacks. "Promoters are risk takers. There is nothing wrong if they want to buy back shares and increase their holding or even delist," says Mahesh Singhi, Founder and MD, Singhi Advisors, which calls itself a global investment banking firm.

Outbound, Inbound & Private Equity

Outbound M&A never recovered post the 2008 global financial crisis. Over-leveraging and costly overseas acquisitions by large Indian corporate houses around the 2008 period kept them away. In the post-Covid world, outbound M&A will be strategic, say investment bankers. There are firms looking to buy new technology to bridge product gaps, R&D facilities and molecules for agri-chemicals. Some are trying to get into newer technologies in packaging due to stringent environment norms. "We would probably see select outbound activity in sectors like technology and life sciences, driven by the need to acquire new technologies and products," says EY's Arora.

Supply chain disruptions in global markets, especially China, will encourage M&As for securing raw materials. "We don't see much action in the short term, but there will surely be a move to own supply chain assets in the future," says a banker. There are several opportunities in European markets where many mid-sized companies are experiencing succession issues. Wealthy clients are also enquiring about buying property in popular tourism destinations such as Spain and France. "There are aspiration-driven buyout possibilities. Some excellent properties are available at a dirt-cheap prices," says an investment banker.

Rupee depreciation has partly reduced outbound deal activity. While low global interest rates are a positive, these rates are not available to every company looking for acquisition abroad.

The inbound M&A space is changing. Many European and US companies are starting to see opportunities in their own countries because of US-China trade tensions.

The third big driver of M&A is PE deals. Many PEs are stuck because of market uncertainty. Everstone Capital in Burger King, CX Partners in Barbeque Nation Hospitality and TPG Capital in Shriram Properties were ready to exit but Covid disrupted their plans. At present, PEs are busy managing their portfolio companies. But the PE industry is flush with funds. The figure quoted for committed capital for India from limited partners such as endowment funds, family offices, pension funds, is to the tune of $80 billion. "It is going to be a buyer's market. You can pick and choose, decide where you want to play and at what valuation," says Malhotra of HSBC India.

"The next two to three quarters will be the right time

"GLOBAL PRIVATE EQUITY FUNDS WOULD BE KEEN TO DO CONTROL TRANSACTIONS IN BUSINESSES, WHICH ARE LIKELY TO BE CARVED OUT OF LARGE CORPORATE AND BUSINESSES HOUSES"

Ajay Arora, Partner, and M&A Head,EY India

to buy due to gap between intrinsic value and potential value. All investors need to do is figure out right businesses, intrinsic value and the right time to buy," says Renjhen of Avendus Capital. Big PE players are scouting for control transactions. "Global PE funds would be keen to do control transactions in businesses which are likely to be carved out of large corporate and businesses houses," says Arora of EY India. US-based KKR is acquiring a majority 54 per cent stake in drug maker JB Chemicals for ₹3,100 crore. The deal was sealed during the lockdown. Another PE player Carlyle Group acquired 74 per cent in an animal healthcare product company SeQuent Scientific in May.

PE players are focusing on pharma, technology, telecom, energy and real estate sectors. "They have a clear 6-7 years to restructure and make money in an acquisition," says Singhi of Singhi Advisors.

A CRISIL study has given a different take suggesting

“THERE WILL BE A LOT MORE STRUCTURED INSTRUMENTS, WHICH WILL PROTECT INVESTORS FROM DOWNSIDE. THESE CAN BE OPTIONALITY OR DEFERRED CONVERSION TYPE OF INSTRUMENTS OR BOTH”

Amitabh Malhotra, Head, Investment Banking, HSBC India

that PEs and VCs will focus on managing existing portfolios and will be less aggressive about new investments over the next one year. It is possible that many PEs will focus on saving the better lot in their portfolio of companies. “They will be a little reluctant to go out versus working around existing deals to sustain and grow the business,” says Malik of BDO, adding, “Once they stabilise operations of existing companies, they will look outside for new acquisitions. The worst hit would be early stage companies without any funding tie-ups.”

“Many early stage companies will close down,” says a player. With the Chinese door almost shut, there will be implications for Chinese origin PE/ VCs as they will also look at monetising or getting out of some investments.

The Sector Cut

The pharma sector is buzzing with two big deals, Piramal and JB Chemicals. If market sources are to be believed, at least a dozen deals ranging from $200 million to $1 billion are under negotiations. “There is a lot of inbound interest in pharma,” says Agrawal. Renewables is another sector with a lot of investor interest. “The yields in renewable operating assets are in the range of 12-13 per cent which works out to 6-7 per cent in dollar terms. There is a lot of interest in low-risk completed assets,” says Renjhen. Agrawal of Edelweiss says, “Some of the latest bids in solar assets saw entry of new players. The interest is from strategic players and sovereign funds.”

The financial sector is also ripe for consolidation with opportunities in NBFCs, fintechs, MFIs and affordable housing. Fintech solution provider Infibeam Avenues recently acquired Bangalore-based Cardpay Technologies, which has a spend management platform for corporate India. Many are expecting deals in the fintech space as founders are short of capital and VC players are not willing to commit more at this stage.

“Consumer tech, edtech and health tech will see heightened deal activity both on account of fund-raising as well as consolidation,” says Arora of EY India. Last but not the least is real estate. “There is going to be unabated interest in yields. We can see this in multiple asset heavy sector transactions that we are working on,” says Renjhen, hinting at sectors like real estate. Similarly, there is lot of interest in data centres and cloud space.

The Big Valuation Challenge

Drones can help in deals but the critical factor is valuation. How do you value a business based on pre-Covid numbers, especially the 2019/20 EBITDA?

Businesses have been disrupted from Q1 FY2021. EBITDA, which shows operating profitability of a business, will not be the right benchmark for 2020/21. “Investment bankers are creating ‘ valuation bridges’ by using innovative deal structures. The alternative structures in the form of earn-outs , stock deals would be an important lever to help bridge valuation gaps,’ says EY’s Arora. The GMR deal for selling 49 per cent stake to Groupe ADP for ₹10,780 crore is the perfect example of deal structuring during Covid uncertainty. GMR received the first tranche of ₹5,248 crore, while the balance ₹4,475 crore is linked to milestones over the next five years. “There will be a lot more structured instruments, which will protect investors from downside. These can be optionality or deferred conversion type of instruments or both,” says Malhotra of HSBC India.

Many deals that were announced in Q1 FY2021 were already in advanced stages before Covid. The stage is now set for post-Covid deals. “The time period to complete a deal and filters have increased tremendously. The risks are also much higher,” says Singhi.

Ultimately, everybody wants a value deal. BT

@anandadhikari

Industry

BRAND: THE X-FACTOR

Branding goes for course correction to reach consumers stuck at home

BY AJITA SHASHIDHAR
ILLUSTRATION BY RAJ VERMA

EMERGING REALITIES

The current crisis is more like a war than a recession, normal rules of business may not apply for a while

Research suggests if firms cut back less on ad budgets now, they will perform better in the long run

The role of advertising is limited because the crisis is restricting both demand and supply

Pay cuts and job losses have led to shortage of funds. Brands need to adapt to a less-affluent world

Brands should change their mix of products and services, or find newer ways of distributing them

Source: adam&eveDDB

xecutives at Godrej Consumer Products were struggling to find ways to make the company's premium hair colour brand Godrej Expert Rich Creme relevant to buyers, when a sudden tweet by filmmaker Karan Johar came to their rescue. Johar had posted a picture of his grey look, with a caption on how the lockdown had made him ready for 'father' roles. Godrej's hair colour team reached out to Johar and requested him to shoot a video of himself colouring his hair and post it with the #ColorLikeKaran hashtag. Godrej Consumer Products, which contributes a large part of the group's total revenues, was grappling with Covid-19 and its impact on the balance sheet. Johar's video got seven million views on Twitter.

Godrej Consumer Products Chief Executive Officer, India and Saarc, Sunil Kataria, did not disclose if Johar's video increased sales of hair colour, but it managed to make DIY (do it yourself) hair colouring fashionable, and a host of similar videos popped up on social media platforms.

It was the 'moment of truth marketing' straight out of books that Kataria had studied decades ago. It also showed the power of digital media. "We engaged with consumers with a product like hair colour, which is of least importance to them during the lockdown. Our effort was to make hair colouring part of the consumer's new habit by encouraging him/her to DIY (do it yourself) at home. We did all of this on social media. If a brand can become a habit, it will be the ultimate prize for marketers," says Kataria.

The Digital Native

From binge watching originals on Netflix and Hotstar to short videos on Instagram and Facebook, and from consuming news on Twitter to taking lessons in cooking and Zumba dancing from YouTube, the lockdown has made the average Indian consumer a digital native. If there is one major takeaway for marketers from this period, it is that digital can no longer be an after-thought in brand-building strategies.

"Earlier, digital engagement used to be for a certain period of time and for a few brands. Be it Maggi, Nescafe, KitKat, Nangrow or Ceregrow, all our brands are enjoying the benefit of our digital-first strategy. This is the play we will be using for a long time because consumers will be digitally far more active than before," says Nestle India Chairman and Managing Director Suresh Narayanan. From a mere 6-7 per cent pre-lockdown, the company's digital ad spend is now at a high single-digit of its overall media expenses.

In fact, digital media spends, at 20 per cent of the overall ₹68,475-crore advertising pie before Covid, have increased by 10-15 per cent during the lockdown period, and are likely to be as high as 35 per cent by the end of 2020. While sectors such as automobiles were already spending a considerable amount on digital marketing, the virus outbreak proved a catalyst for traditional FMCG companies and other sectors as well.

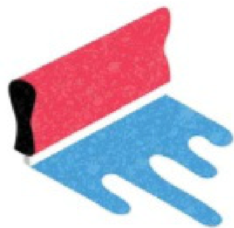
The Indian advertising industry has seen a 60-70 per cent dip in revenues, especially on traditional platforms such as TV and print, while activities such as outdoor

THE BREAK-UP

₹68,475 CRORE : Size of the Indian advertising Industry

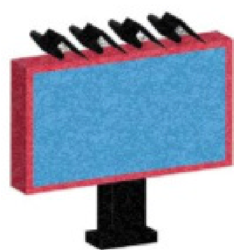
TELEVISION
₹26, 869 CRORE

PRINT
₹20,110 CRORE



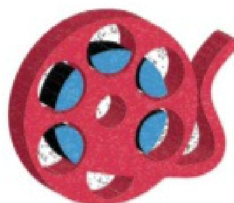
DIGITAL
₹13,683 CRORE

OOH
₹3,887 CRORE



RADIO
₹2,479 CRORE

FILM
₹1,447 CRORE



Source: DAN Digital Report

activation and live entertainment have come to a standstill ever since the lockdown began in March. While marketers can't afford not to have a digital-first strategy anymore, they are still learning to adapt to new consumption mindsets.

Behaviour Changes

Traditionally, marketers increase expenses in a recessionary environment to improve connect with consumers. Not only is media inventory more affordable during a recession, it also gives brands an opportunity to raise their voices and push their not-so-strong competitors (who don't have the wherewithal to advertise) to the fringe or even acquire them. But, Covid-19 is different. Unlike a typical recession when consumption dips due to fall in demand, this time, there has been a massive supply crunch as well. In a recent white paper on the virus outbreak, Les Binet, noted marketing expert and Head of Effectiveness, adam&eveDDB, a communications agency, has called the pandemic a war-like situation, where the normal rules of marketing and business doesn't apply. "If demand is the problem, advertising is an obvious solution. But if people can't buy or use your product right now, then the role of advertising is much more limited," says Binet.

A Whole New Game

The pandemic is set to alter the basic principles of marketing and brand building. To begin with, it has completely transformed the consumer's mental model, says Kataria. "The consumer's life, the way he/she consumes, the concept of leisure, work, in fact, the model of happiness itself has changed. This is not an ordinary situation where one can say that everything will be back to normal post the lockdown. Some habits may go back to what they were earlier, but a lot of them will not be the same, and marketers will need to morph their strategies accordingly."

One of the most obvious changes is people staying indoors, working from home and also entertaining themselves at homes. Socialising at cafes or parks is now a thing of the past, and so are weekend shopping at malls and movie watching at multiplexes. From birthdays to wedding anniversaries, people are finding ways to celebrate special occasions at home and get friends and extended family be part of the celebrations virtually. In fact, virtual video communications platform Zoom grew traffic from 10 million participants a day in December 2019 to 300 million in April 2020. The big fat Indian wedding has now become thinner as well, with new social distancing norms restricting gatherings to 20 people. Even air travel and holidays will never be the same again. All these changes are here to stay and so companies have to rejig their brand architectures to stay relevant. For example, over 15-20 per cent revenues of brands such as Nestle or Amul come from institutional sales, and they are coming up with more cooking options at home.

Anxiety around health and job losses are also affecting consumer behaviour. According to a Deloitte report, 36 per cent of Indians are still very anxious about the future. Around 76 per cent are worried about their health, 80 per cent about their family's health, almost 45 per cent are concerned about their ability to pay EMIs and 57 per cent are anxious about job losses.

"Some of these are going to immediately impact consumption if you look at it from the lens of a marketer. The engagement of

consumers as a consequence of this is going to predominantly drive engagements with brands," says Ajit Kumar, Leader, Customer and Marketing, Consulting, Deloitte India.

Malls and high-street retail stores have opened in most places, but have been able to attract only 20-30 per cent of their pre-Covid footfalls. Eating out and watching movies are still a while away. Fear of pay cuts and job losses have led consumers to downtrade. The average consumer is seeking value products like never before. "The focus is on consuming essentials... People are seeking value and are looking at smaller packs. Popularly positioned products and affordability are becoming important. They want to conserve the last ₹10 as hedge against the future," says Nestle's Narayanan.

There will also be limited uptake in categories such as apparels and beauty products since work from home is here to stay. Covid has taken offices, meetings and socialising to virtual platforms. Consumers no longer feel the urge to buy clothes or shoes. So, while food and personal hygiene brands have a natural advantage by virtue of being essential products, a lot of other brands, which are in the not-so-essential category, will have to strive to make themselves a part of the consumer's new preferences.

Royal Enfield, for instance, is using its digital platforms to get bike enthusiasts share anecdotes. The auto sector was going through a slowdown at least a year prior to Covid-19, and the pandemic added to its problems. Massive job cuts and pay reductions have reduced buying power of consumers significantly. "We are getting bike enthusiasts to share their Royal Enfield story on our social media platforms. Our social media fan following has gone up by over 30 per cent during the lockdown," says Shubhranshu Singh, Chief Marketing Officer, Royal Enfield. "We will surely come back with more gusto, but for the time being, we will need to cater to our consumers by understanding the changed circumstances. We will also offer them easy finance options," he adds.

LOCKDOWN BLUES

Ad volumes fell over 35 per cent of their pre-Covid numbers during the early days of the lockdown. They later recovereds to 23 per cent

The number of brands advertising on television declined from 2,045 to 1,370

Average time spent on smartphones went up by 11 per cent; data usage per day at 1.1 GB

This has led to brands increasing their digital connect with audiences

Digital ad spends set to be 30-35 per cent of the overall ad industry in 2020, against 20 per cent in 2019

Companies such as Nestle, Godrej Consumer or Marico have increased their digital ad spends by up to 30 per cent, from low single-digits

The Trust Factor

Just like in case of individuals, trust is a major factor in brand building as well. During a crisis, consumers depend on brands they can trust. How a brand behaves may have a bigger effect on perceptions than advertising, especially if ad budgets have been cut, points out Binet of adam&eveDDB, in his white paper.

Most brands are doing their bit to win consumers by assuring them about quality and hygiene standards — from manufacturing to last-mile delivery. "What are you, as a brand, doing to help the situation? Are you doing something for the people who are not able to afford food and essentials? In this state of anxiety, it is natural for consumers to engage with a brand that is helping find a solution to the current situation," says Kumar of Deloitte.

Shashank Srivastava, Executive Director, Sales and Marketing, Maruti Suzuki, says the automaker's focus has moved from brand-building and selling to showing greater care towards the society during this time of crisis. "Messaging around selling may not gel well with consumers in current circumstances. If the tonality of communication reflects authenticity and care for society, sales will automatically pick up when times are good."

Consumer durables brand Panasonic is trying to strike a chord with its target audience by promising a better life and a better world. The pandemic has forced people to live indoors and made them realise the importance of having gadgets such as a microwave or a dishwasher that could help them strike a balance between their profession

Suresh Narayanan, CMD, Nestle India

"Be it Maggi, Nescafe, KitKat, Nangrow or Ceregrow, all our brands are enjoying the benefit of our digital-first strategy... This is the play we will be using for a long time"

The trust factor extends to influencers as well. Brands are relying on micro-influencers, who are more relevant now than ever before. Consumers are looking for realistic assurances, as opposed to tall claims by celebrities. So, if a neighbour has ordered grocery on Amazon and received timely delivery, one will also order on Amazon.

"The principles of brand building will continue to be the same. However, the context has evolved today and therefore the task for each brand immediately will be unique and different," says Anusha Shetty, Chairman and CEO, GREY Group.

The Transformation

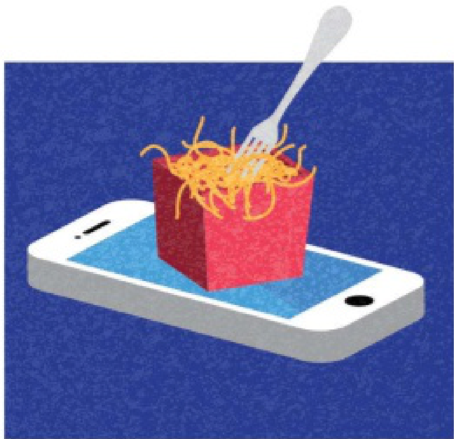
Digital was always the future of business, but a number of companies were reluctant to make the transformation. The lockdown and the change in consumption patterns have forced brands to include digital as a 'must-have' in the new normal. "E-commerce was already a significant development before Covid-19. The crisis has just given it a fresh impetus. Similarly, the role of digital in a brand's communication plan was increasing already and with certain traditional media being hampered by the lockdown, the share was bound to increase. Our narrative with advertisers was already changing. From making the 30-second ad for TV to providing a holistic and integrated approach and intervention through the entire consumer journey — from the consideration stage to last-mile delivery through e-commerce — delivered seamlessly. These conversations will gain momentum," explains Tarun Rai, Chairman and Group CEO, Wunderman Thompson.

and household chores. "Our vision is to create aspirational products which will help our consumers multi-task, and at the same time be cost-efficient and energy-efficient," says Panasonic India Managing Director Manish Sharma.

"Survive, Revive and Thrive is the mantra. You need to first survive as it is not a scripted crisis. Everybody is finding new ways of going ahead... Perhaps a newer way of working will enable us to revive, and if you do this you will thrive," says Madhukar Kamath, Chairman Emeritus, and Mentor and Chairman, DDB Mudra Group.

For example, a person buying a car will have to go through 28 touchpoints before he completes the transaction. "You go to a showroom to see the product, you compare it with other brands, you go to a blog to find out how the product is, you go for a test drive, arrange for finance, etc. While one part of digitalisation is communication, the major part is the need to digitalise all other aspects to give a seamless experience to the consumer. This means the OEM should have a platform which makes it easy for consumers to engage with the brand, even at the process when a consumer is comparing products," explains Maruti Suzuki's Srivastava. The car maker was spending almost 34 per cent of its marketing budget on digital platforms pre-Covid, which is likely to increase to 45-50

WHAT FIRMS ARE DOING



Nestle India's websites Maggi.in and Asknestle.in have lots of recipes that are easy to cook and nutritious. Asknestle's focus has been immunity-building recipes, which has attracted 1.2 million engagements in the last few weeks

Godrej Consumer Products is engaging with consumers digitally almost every day across social media platforms either by giving them DIY hair-colouring tips, or getting celebrities and influencers to talk about its various brands

Raymond has started sending e-catalogues to loyalty programme members. Customers can also place their orders online

Brands are collaborating with social media influencers to come up with innovative ways to reach audiences — like Reebok India's home workout videos with KatrinaKaif, Dettol's20s #Handwash Challenge with Riteish Deshmukh and Philips India's #TrimAtHome initiative with ViratKohli

per cent going forward.

Digital transformation for apparel major Raymond, on the other hand, has been aimed at offering an omni-channel experience to consumers. With buyers shying away from stores due to fear of contracting the virus, an omni-channel presence has become mandatory, says Shantiswarup Panda, Chief Marketing Officer, Raymond. "The idea is to make the brand available at our stores, on e-commerce platforms, as well as on our own website, so that consumers can buy both online and offline." The brand has started sharing e-catalogues on WhatsApp. They can select the product, which will be delivered home.

With online shopping suddenly getting a leg-up, consumer durables major Godrej Appliances is helping its network of 25,000 traditional dealers get their own e-stores. "Dealers are now able to direct customers from WhatsApp to Facebook pages, where they can see the products and shop. Since many consumers are looking for a contactless experience, we have also created videos of product demonstrations that dealers can send to their customers," says Kamal Nandi, Business Head, Godrej Appliances.

Consumer insights play a major role in crafting a perfect marketing plan, but in the Covid era, face-to-face communication is an issue. "Consumers are not coming out of their houses, or meeting unknown people at their homes. We are asking agency partners to come with virtual models to test ads with similar accuracy as in a physical interface model," says Kataria of Godrej Consumer.

Being Agile

Covid has also made businesses far more agile. George Koshy, Chief Marketing Officer, Marico India, claims that most of the company's recent digital campaigns have been made within 10-12 days. "In a normal cycle, it would have taken one month, but right now, speed is of essence," says Koshy. Marico has set up its own digital studio. "Having an agency within our own team reduces the response time. Each time we launch a new product or campaign, we need to come up with 500-odd creatives. Having an in-

FROM CORPORATE TO HUMANE

Coronavirus is primarily a humanitarian crisis. Firms that fail to behave responsibly are likely to find their reputations tarnished for years to come

Companies should put short-term profits aside, and focus on doing what is in public interest

Hindustan Unilever, in collaboration with UNICEF, has launched the #BreakTheChain campaign with three powerful themes — social distancing, handwashing and generosity. In addition, the brand is committed to make essentials like Lifebuoy soaps, hand sanitisers and Domex cleaners available across the country

Reckitt Benckisers's campaign, #DisinfectToProtect, aims at educating people about the need to keep surfaces clean; the brand has pledged to donate 1 million litres of Lizol and Harpic to support frontline workers

Sunil Kataria, CEO, India & Saarc, Godrej Consumer Products

"The pandemic is set to alter the basic principles of marketing and brand building... It has completely transformed the consumer's mental model"

ternal team gives me the flexibility to make alterations. I can change my creative three times a day," he adds.

M.A. Parthasarathy, CEO, Mindshare, agrees that the pandemic has brought about rapid behaviour and habit changes, forcing brands to be on the edge all the time. The media agency has created a dashboard that constantly throws up data on consumer behaviour. "The dashboard gives diverse and disparate data on advertising trends, air pollution, mobility, search patterns and social buzz. It enables us to study trends in one market versus the other. We kickstarted this because of Covid-19, because the pace of change each week is so different."

Changing Relationships

So, how will the role of a traditional creative or media agency change? After all, it is consultancies such as Deloitte, Accenture or EY, which are known for cutting-edge digital marketing solutions. "We earlier called ourselves communications consultants or marketing investment consultants, but now we have to think about the business at large," says Parthsarathy of Mindshare.

For instance, at the beginning of the lockdown, when the distribution network of most brands had come to a halt, Mindshare, claims Parthasarathy, had helped clients partner distribution platforms such as Swiggy and Dunzo to ensure their products reached consumers. "Enabling of distribution is something we wouldn't have done pre-Covid," he says.

In fact, Ashish Bhasin, Chairman, Dentsu, says it is high time agencies bring in consulting efficiencies, and ensure they get paid fairly for their time and services. "Large consulting companies or even lawyers don't do anything for free. In advertising, we never thought that way, and as long as the market was growing at 10-15 per cent year-on-year, it didn't really impact us. But with pressures on costs increasing by the day and growth slowing down, we as an industry need to be more prudent."

Aditya Kanthi, CEO, DDB Mudra, admits remuneration is a challenge and contracts with clients are getting revised. "All good agencies need adaptability and agility in order to thrive. Clients do value scale, yet they expect agility."

Kumar of Deloitte believes building a tech capability for an ad agency is going to be a big shift, for which they need to make bold moves in terms of acquisitions. Over the years, Deloitte has developed products such as Rapid Commerce, which can get any business online in a few weeks. In the past few years, agencies have gone shopping to add to their digital capabilities, essentially in the space of marketing communications.

Marketing and Branding Expert Alpana Parida expects consulting firms and communication agencies to merge going forward. "There has been a lag between business consultants who are mostly product-centric, while advertising and branding agencies only understand consumer behaviour. If the two merge, they can offer far more holistic services."

There is no doubt that coronovirus will bring about a huge shift in the way brands are being built. Digital will surely take the driver's seat. Shashi Sinha, CEO, IPG Mediabrands India, however, has a word of caution. "This is the time for digital to look at measurements, else it will be a short-term gain," he says.

The disadvantage that digital media currently has is the lack of a uniform measurement tool. If the industry doesn't put its act together, brands will be sceptical to invest in digital. After all, in the end, it is all about returns. BT

@ajitashashidhar

Surviving The Pandemic

Evolving regulations and poor infrastructure are turning out to be pain points for the private healthcare sector, already struggling to manage the virus outbreak

BY JOE C. MATHEW
ILLUSTRATION BY RAJ VERMA

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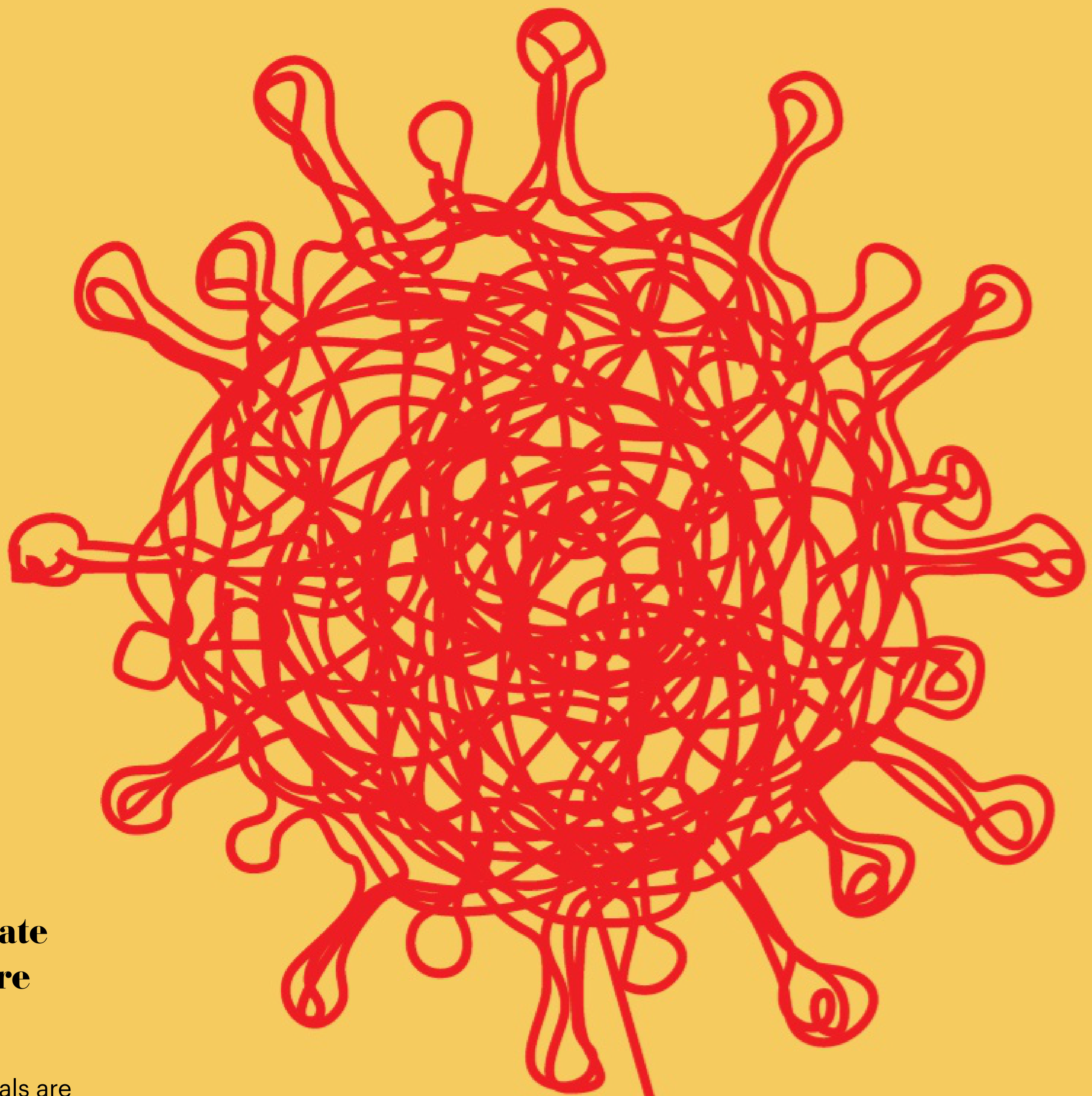
On July 13, in a rare expression of solidarity, representatives of half-a-dozen Indian private healthcare industry associations, at least a dozen heads of leading private hospitals and the Health Services Committee of industry body Ficci announced a virtual press conference. It got postponed at the last minute to July 15, only to get cancelled again, as the central topic of discussion was "sub judice." The topic, which representatives of top ranking private hospitals such as Apollo, Fortis, Hinduja, DM Healthcare and Columbia Asia wanted to discuss, was challenges due to the Covid-19 pandemic. The issue most central to this — price caps on Covid tests and treatments by central agencies, state governments and the General Insurance Council — is also being considered by courts.

Though the event got postponed, there is no relief in sight for private healthcare providers, even as the number of Covid-19 patients in India races past the 10 lakh mark. And 'unsustainable price caps' is just one of their problems.

"Across India, different states and cities are in various stages of lockdown. If we talk of price caps, prices are different in different states and that is a challenge," says Ashutosh Raghuvanshi, Managing



Why Private Healthcare Is Key

Private hospitals are among the country's top five employers

Constitute over 60 per cent of total beds (around 8.5-9 lakh) of the sector, 60 per cent of in-patient visits, 80 per cent of doctors

₹2.4
lakh crore
Annual revenue estimated

₹31,000
crore
Annual EBITDA

₹7,000
crore
Annual profit after tax

Director and CEO, Fortis Healthcare. He says 60-70 per cent cost of running a hospital is fixed and cannot be cut even when occupancies are low. Big or small, no hospital will find these prices sustainable, he says. "The caps don't match the quality of care being given at our hospitals. Our supply chains, medical equipment and hospital systems have also been affected. Manpower is a challenge as for Covid, you need clinicians from critical care, pulmonology, respiratory care. Any hospital will have limited number of these specialists," he says.

The pricing problem arises due to the huge difference in government rates and that charged by private hospitals. Delhi, on June 20, capped Covid treatment charges (for 60 per cent of total Covid bed capacity) at ₹18,000 per day for severely ill patients in intensive care units. The Covid management package announced by Max Healthcare for the same critical patient was ₹72,500 per day at that time. Similarly, Covid-19 RT-PCR test rates are capped at ₹2,400 in Delhi, as against the ₹4,500 charged by diagnostic labs.

With nine lakh beds, Indian private healthcare is a ₹2.4 lakh crore business, accounting for almost 70 per cent of secondary and tertiary care hospital admissions. It has been growing at 16-17 per cent a year for the last five years. The lockdown, and the resultant drop in occupancy in April-June, have broken this growth trajectory. Industry estimates peg operating losses during the three lockdown months at ₹13,400-22,000 crore. Price caps have not been the villain here, though. The main reason was absence of private players from fight against Covid-19 during initial months. The period also saw hardly any non-Covid patients in private hospitals due to fear of infection and logistical problems caused by the lockdown.

Just two examples will illustrate the problem. Bengaluru-based Narayana Health, which owns, manages and operates over 20 hospitals, reported an 11 per cent growth in operational revenue in first 11 months of FY20, but ended the year with 8.6 per cent growth as business shrank in March due to spread of Covid and countrywide lockdown. Fortis Healthcare Ltd, with 28 operational facilities, says its average bed occupancy level of 65-75 per cent fell to 29 per cent in April and 35 per cent in May.

To top this, ever changing regulations, guidelines and orders from central and state governments, court orders and price caps and treatment specifications are keeping them on their toes. There are also allegations of overcharging and violation of treatment norms. Then, some of the facilities are being taken over temporarily by governments for treating Covid patients. The net result is loss of revenue, apart from fear and uncertainty, not just among patients but also among private healthcare providers.

"Our interactions with healthcare providers show that the occupancy level of private hospitals is 25-35 per cent. Outpatient consultations are not happening and tele-consultations have given only a benign push (to business). Elective surgeries have been postponed, and medical tourism, a major source of revenue for several hospital chains, has been substantially hit," says Isha Chaudhary, Director, CRISIL Research. "We expect private hospital industry revenues to contract 10-15 per cent in FY21, which has never happened before," she says.

Why are Indian private healthcare entities so vulnerable? Are they crumbling under pressure? Will they emerge out of Covid wiser, better prepared to face future challenges?

THE SHOCK

As in other parts of the world, Covid-19 took the ₹4.4 lakh crore Indian healthcare system (public and private together) by surprise. It laid bare undersupply of doctors/nurses, inadequacy of infrastructure and import dependence for medical technology. Initially, the private sector was just an enabler on the side. Everything, right from diagnostic kit supplies to approvals to testing to identification of the disease to providing beds to patients, was controlled by the government. The private sector has come into the picture only in the last three to four weeks after the government realised it cannot handle everything on its own.

While district administrations started by taking over private healthcare facilities, the weeks that followed saw some states such as Delhi asking private healthcare players to earmark a certain percentage of beds for Covid patients. Some also imposed cap on treatment costs. The central

Stumbling Blocks

Private hospitals have seen around 40 per cent drop in revenue from pre-Covid days

The government has come up with hundreds of health-related regulatory directives

Increasing complaints of overcharging, non-compliance of guidelines

No stimulus given to augment infrastructure, tide over liquidity crisis

• • • • • •

The Telemedicine Push

500
per cent
growth in online consultations during March 1 to May 31

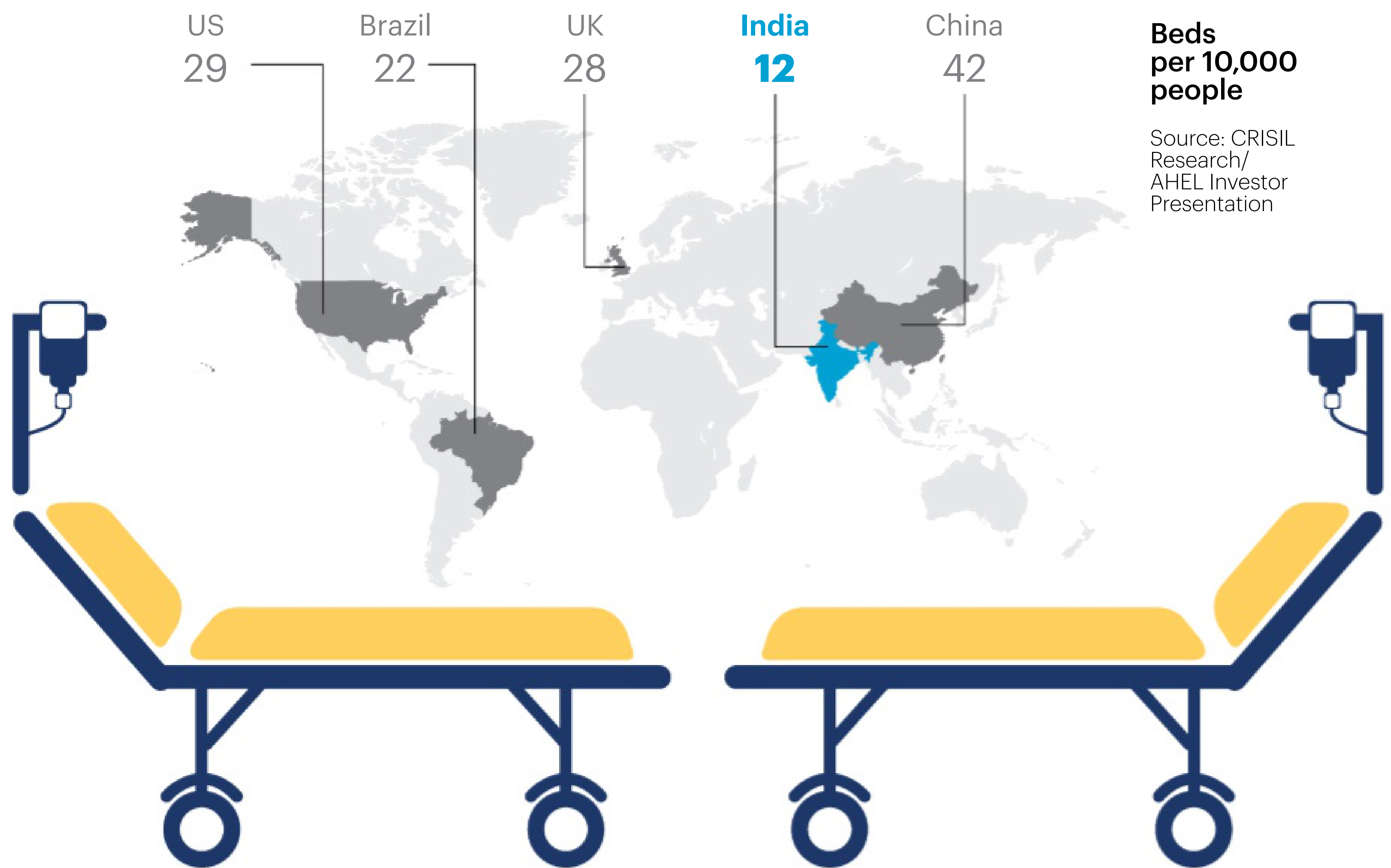
5
crore
people accessed healthcare online during the period

67
per cent
drop in in-person visits

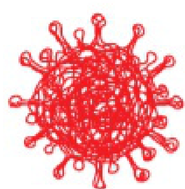
44
per cent
drop in visits from non-metro cities

Source: Practo Report

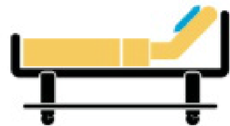
Healthcare Infra - India Vs Others



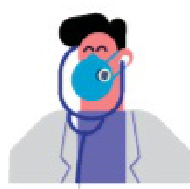
India's Share in Global Disease Burden is 20%; in Health Infra, its Share is Far Less



Disease burden **20%**



Beds **6%**



Doctors **8%**

Nurses **8%**

Community & health workers **9%**

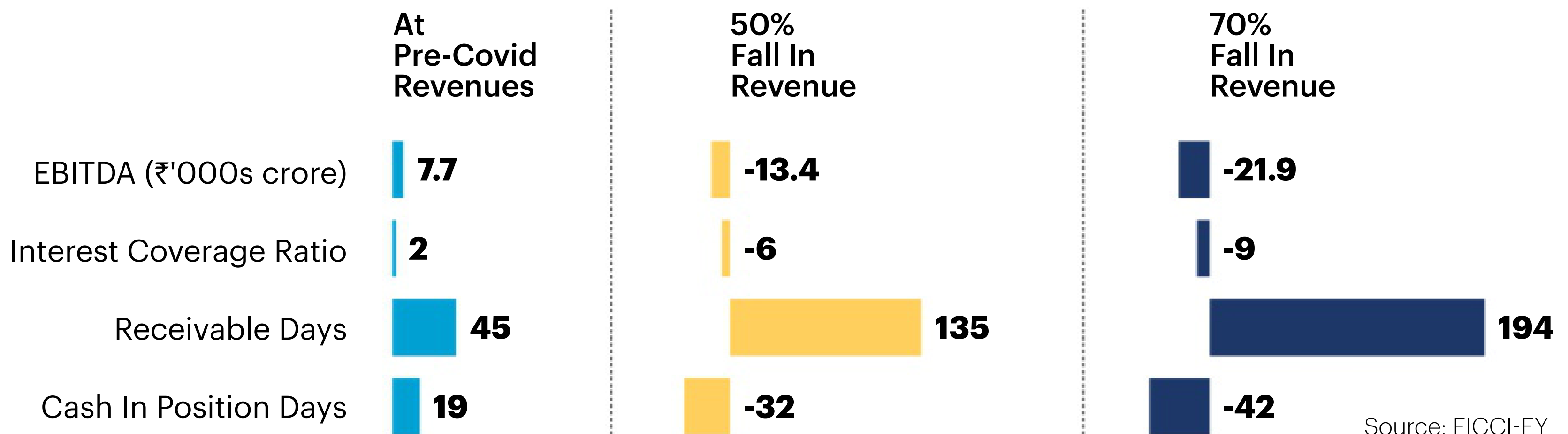
Lab Technicians **1%**

Source: FICCI-EY

government's health assurance packages like Ayushman Bharat fixed their own reimbursement rates for empanelled private hospitals. Private healthcare players, already hit by decline in number of non-Covid patients, found themselves underprepared to take on the massive challenge. "Over the last few decades, given the epidemiological shift in India to non-communicable diseases, the private sector has been scaling up healthcare infrastructure largely towards providing care in key specialities like Cardiac, Neuro, Orthopaedics, Oncology, GI, Urology/Nephrology and Critical Care which was needed to save many lives.

While the world experienced a series of infectious diseases and pandemics like SARS, H5N1, H1N1, Ebola and MERS, the impact of these was marginally felt in India. The private healthcare ecosystem, therefore, did not have to make any significant transformation and investment over the years in infrastructure, technology or clinical acumen to combat the tsunami of an infectious disease like Covid-19," says Vishal Bali, Executive Chairman, Asia Healthcare Holdings. "Our private hospitals are designed to have a few segregated isolation and ICU beds for infectious disease patients but are not designed to handle infectious pandem-

Lockdown is likely to result in operating losses of ₹13,400-22,000 crore in April-June quarter



High Fixed Costs Behind Worsening Financials

Category	No of hospitals	No of beds (in lakhs)	Average revenue per occupied bed (₹)	Fixed cost (as % of total)	Variable cost (in %)	EBITDA (% of revenue)	Quarterly EBITDA loss (in ₹crore)
Tertiary	1500	2.8	**21,000 to 22,000**	65-70	30-35	13	**8,600 to 14,000**
Secondary	42,000 to 43,000	5.8	**5,000 to 6,000**	75 - 80	25-20	14	**4,800 to 8,000**
Overall	44,000 to 45,000	8.6	**10,000 to 11,000**	65-75	25 - 35	13	**13,400 to 22,000**

Source: FICCI-EY

ics. Hence, several of our institutions even had to undergo infrastructure changes to accept Covid patients. This is the critical reason why unlocking of capacity in the private side is low. The amount of infrastructure the private sector has in its current form is extremely limited," he says.

As long as the Covid fight was limited to government hospitals, costs were not considered a problem. However, the moment the load started shifting to the private sector, which started charging the way it does under normal circumstances, complaints started. There were instances of private hospitals asking for advance payments and charging several times more than the rates fixed by state governments. Most said the government rates were too low.

The promoters of hospitals taken over by governments for Covid treatment have their own share of worries. "Out of our 10 hospitals, six, four in Bengal and one each in Bihar and Odisha, have been taken over. In four Bengal hospitals, the government is utilising the existing manpower, while in the other two, they have got their own manpower to run the facility. However, there is lack of clarity on payment," says Sabahat Azim, Founder, Glocal Healthcare Systems. While the company has received some money for part payment of salaries, consumables, etc., there is no clarity when normal revenue flows will resume. "People are scared, patients are scared. They don't want to step out unless it is very, very, critical."

Niira Radia, the Chairperson and Promoter of Mathura-centric hospital chain Nayati Healthcare, considers patients' 'fear' as the biggest challenge before healthcare providers. Radia's less than a decade old hospital chain caters to Western Uttar Pradesh, and is among the few tertiary care facilities serving the 60 million-odd population of Mathura, Agra and Aligarh districts. The demand for tertiary services in these Tier-II and Tier-III cities far surpasses

“Different states/ cities are in various stages of lockdown. If we talk of price caps, prices are different in different states. That is a challenge”

Ashutosh Raghuvanshi,
MD and CEO, Fortis Healthcare

“The pandemic has exposed that we have a fragile healthcare system which was underprepared to detect, respond and contain the spread of the disease”

Vishal Bali, Executive Chairman, Asia Healthcare Holdings

the supply, though none of that is helping Nayati as people avoid other treatments due to fear of contracting the Covid-19 infection. “The occupancy level of non-Covid beds in our flagship hospital in Mathura is less than 25 per cent. Among the 100 beds earmarked for Covid there, hardly 20 are occupied,” says Radia. The company has reworked the salary structure of employees and kept in abeyance its decision to open new hospitals in Northern India, especially in the National Capital Region.

WAY FORWARD

The government has said that it will earmark some funds to fill the viability gap to encourage establishment of healthcare infrastructure in Tier-II and Tier-III cities as part of its economic stimulus package to fight the Covid-induced slowdown. But it is minuscule compared to what other countries, with much better health infrastructure, have done. The US has announced a $150 billion federal funding to help hospitals and healthcare workers fight the pandemic. The UK has announced immediate assistance of £5 billion to strengthen its National Health Service. India does not have the money to spend anything close to these numbers but the industry expects the government to at least clear its estimated dues of ₹1,700 crore for treatment under health assurance schemes like CGHS and ECHS. It is also seeking sops like loans at concessional rates, tax concessions and deferment of statutory liabilities.

Arindam Haldar, CEO, SRL Diagnostics, says a central body should decide the new pricing (for Covid tests) across the country, and it should not be left to each state. “Secondly, while the government has reduced prices of tests, it has not capped prices of inputs. As one of the largest lab chains in the country with sufficient capacity, we are more than willing to reduce prices provided input costs are also capped. Some inputs attract very high tax (as high as 80 per cent), and the government should look at making these inputs tax free,” he says.

While it is nearly impossible to predict what the next pathogen threat will be, from where it will emerge and when it will strike, there is no doubt that the government and the private sector should be better prepared against infectious diseases. “The Covid-19 pandemic has exposed that we have a fragile healthcare system which was underprepared to detect, respond and contain the spread of the disease. It brings to the fore that India needs to priortise and escalate its investment in healthcare infrastructure, implement a multifold increase in medical education to build up the medical and paramedical talent base and provide a supportive regulatory environment and policy ecosystem to scale up indigenous manufacturing of medical technology. Most importantly, we must strengthen our infectious diseases surveillance system to detect early and respond effectively,” says Asia Healthcare’s Bali.

The sector also requires massive capitalisation. A big push by the government, probably pumping in 3-3.5 per cent of GDP into the healthcare sector, can kick-start this infrastructure development.

CRISIL’s Chaudhary, who says the private healthcare sector will see a 10-15 per cent drop in revenues in FY21 due to low occupancy, poor price realisation because of cap on costs and loss of revenues from medical tourism, says it is expected to recover from the third quarter of FY21 (from October 2020). “The average occupancy level for the hospital industry is 65-70 per cent. By Q4 (January-March 2021), we expect this to go back to 60 per cent levels. Further, we expect a rebound next year and whatever is lost (this year), most of it will be gained,” she says, adding: “All depends on a Covid cure coming, and that is our baseline assumption.” BT

@joecmathew

Desi Vs. *Videshi*

A campaign for boycott of Chinese products is opening up opportunities for local brands in smartphones and TVs. But do they have the scale to upstage the Chinese?

BY SUMANT BANERJI
ILLUSTRATION BY RAJ VERMA

the afternoon of June 18, a video featuring a group of men in Coimbatore shouting anti-China slogans and smashing smartphones went viral on social media. The same day, another group of men, this time in Surat, were seen doing the same to a TV set. This beat the earlier one in internet popularity due to its higher drama quotient.

The videos emerged less than 72 hours after the clash between Indian and Chinese forces at Galwan Valley in East Ladakh that led to the death of 20 Indian soldiers. Since then, relations between the two countries have been strained. This has manifested itself in a public campaign to boycott Chinese goods, especially smartphones and TVs, the two segments dominated by companies with Chinese origin. This swirl of nationalism has given fresh wind to local brands steamrolled into dust by the Chinese a few years ago. Companies such as Micromax, Karbonn and Lava in smartphones, and Onida, Weston, Salora, once household TV names, along with new entrants like VU Technologies, are sensing an opening to increase market penetration. Any real dent in demand, howsoever small, for Chinese products in the two categories, will throw up a sizeable opportunity for these local players.

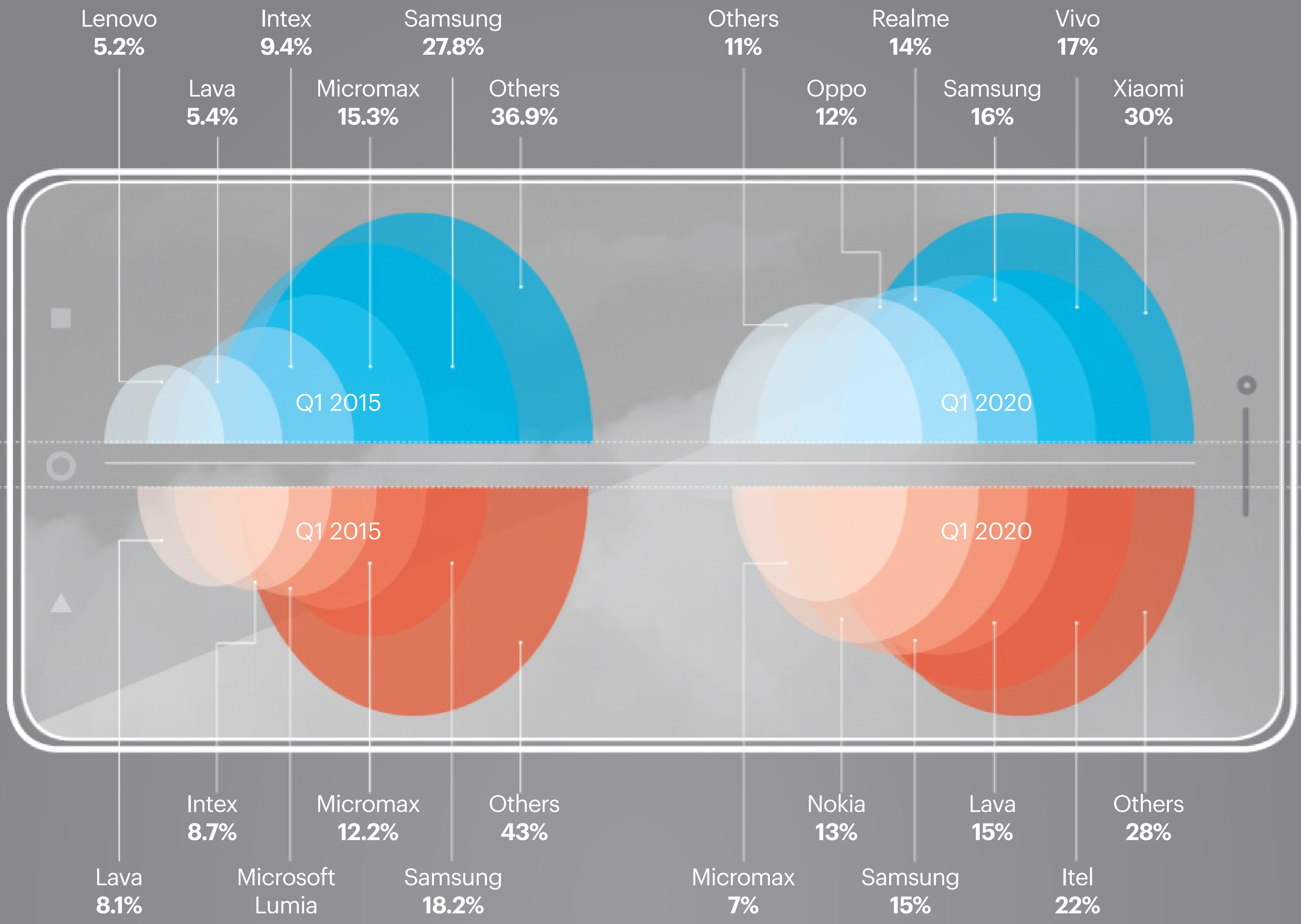
Take smartphones. Around 158 million smartphones were sold in India in 2019. This made it the world's second-largest market behind China with revenues of $8 billion. Four of the top five bestselling brands in the country are Chinese, led by Xiaomi and Vivo and followed by Realme and Oppo. Together, they account for over 80 per cent of the market (Q1 2020). The domestic feature phone market is worth another 130 million units. The market leader is iTel, owned by Shenzhen-based Transsion Holdings. The hold of the dragon is relatively weaker in this segment.

In the nascent smart TV segment, which is in many ways seen as an extension of the smartphone market, China again accounts for the lion's share. Xiaomi is the market leader. It enjoys the company of compatriot TCL in the top five. Others are gearing up for action but more on that later.

In a highly competitive and technology-driven sector like consumer electronics, consumers rarely opt for newer or smaller brands. The anti-China sentiment, however, could provide a springboard for local brands to beat the heavyweights. But do they have the ability to exploit this opportunity or will it be business as usual once winter sets in and dust settles in the cold desert of Ladakh? Or will non-Indian, non-Chinese companies benefit?

Away from the border, a battlefield of another kind is being readied.

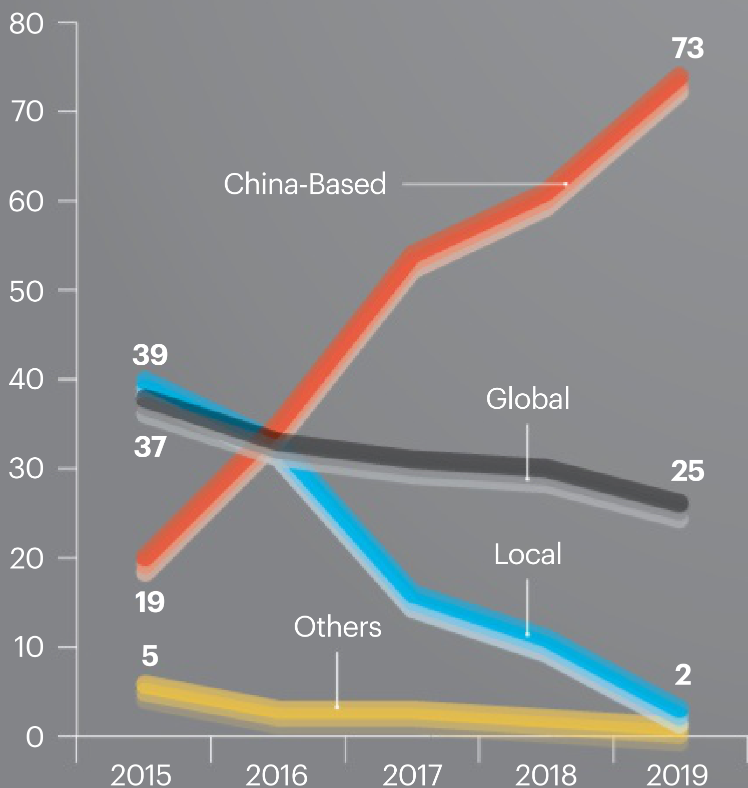
From One in 2015, Four of the Top Five Smartphone Makers are Now Chinese



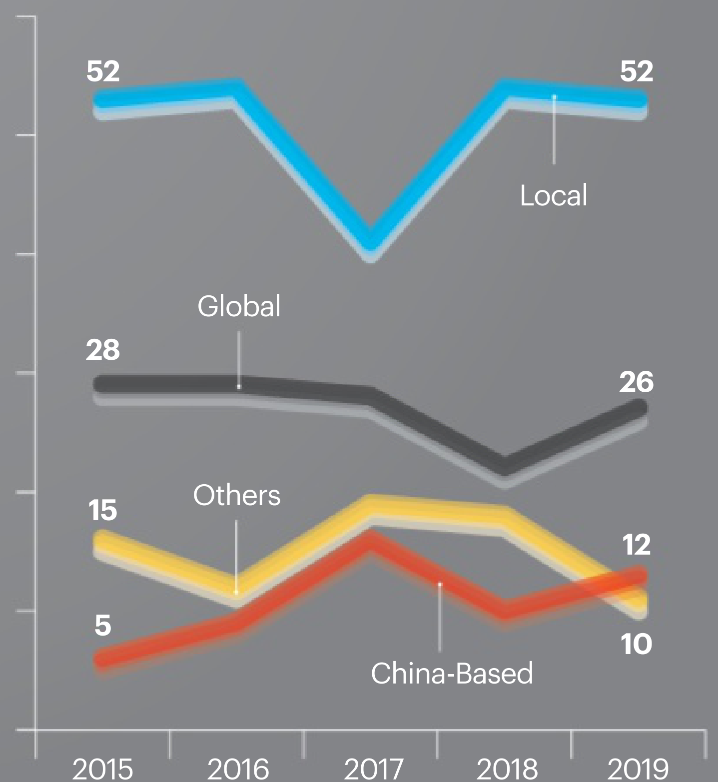
Numbers show marketshare; Source : Counterpoint Research

So is the Largest Feature Phone Brand in the Country

In Smartphones, China-based Companies Have Grown Exponentially at the Cost of Local Brands

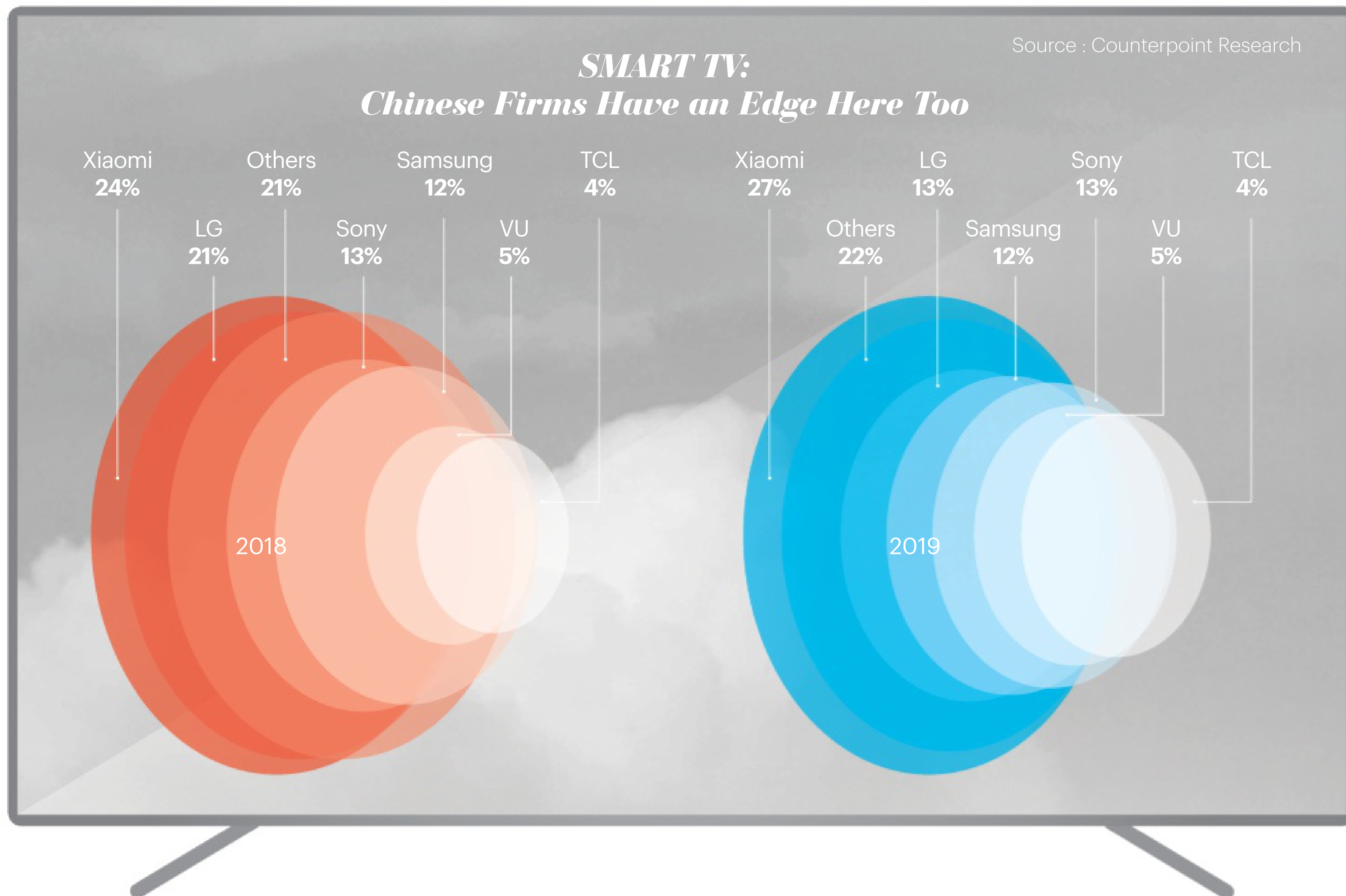


In Low-cost Feature Phones, Local Brands are Far More Resilient



Numbers show marketshare in %; Source: IDC

GRAPHICS BY AMIT SHARMA



The Rise of the Chinese

The Chinese domination of India's mobile handset segment may seem overwhelming statistically but is very recent. In 2015, Chinese brands accounted for less than 20 per cent of the market. The majority pie was with local brands, as Micromax, Intex and Lava, among others, cornered nearly 40 per cent of the market.

Since then, the rise of Chinese brands has been as exponential as it has been relentless. By 2017, they had more than half the market. So much so that towards the fag end of the year, when Xiaomi upstaged Samsung to emerge as India's biggest smartphone maker, it did not feel like a flash in the pan. It has since then consolidated its position at the top.

The rise of the Chinese came at the cost of local brands. The local players were hamstrung by technology (most were sourcing it from China) and did not have pockets deep enough to withstand the onslaught. By 2018, their share had shrunk to 10 per cent.

40

PER CENT

The share held by Indian companies such as Micromax, Intex and Lava in the handset market in 2015; by 2018, it had shrunk to 10 per cent

Today, less than 2 per cent buyers opt for local smartphone brands. "I can't think of any country where the Chinese have dominated like this," says Tarun Pathak, Associate Director, Counterpoint Research. "Everything fell in place perfectly for them from 2016 when they started accelerating. They were ahead of the curve and invested in 4G when local companies were still into 3G. Decline in data prices also helped companies like Xiaomi that had an online-first strategy. They also went for innovation in devices for India. Indian brands, on their part, were facing headwinds such as demonetisation and GST and were vulnerable as the Chinese built momentum."

Opening for Local

More than 75 per cent smartphone volumes come from phones that cost less than ₹15,000. This is also the segment where Lava, Micromax, Karbonn and Intex operate. These brands are supported by government poli-

PHOTOGRAPH BY BANDEEP SINGH

Sunil Raina, President & Business Head, Lava International

Lava plans to take advantage of government incentives for local manufacturing. It is planning R&D investment of ₹800 crore over the next five years

cies. For example, the product linked incentive scheme, launched by the Ministry of Electronics and Information and Technology in April this year, provides a 4-6 per cent incentive on incremental sales over FY20 levels. It favours local brands as, for international companies, a threshold value of ₹15,000 has been stipulated, while there is no such condition for local firms. The investment criteria for local companies are also less stringent. Domestic firms need to invest just ₹50 crore initially and ₹200 crore incrementally over four years to avail the incentives, while for others, it is ₹250 crore initially and ₹1,000 crore over four years.

"Local players like us will get the benefit of various government schemes. It will enable us to build capacity to cater to export markets. This will facilitate building of a cost-efficient mobile manufacturing ecosystem with a huge potential to create employment opportunities," says Tejinder Singh, Head-Product, Lava International. "We plan R&D investment of ₹800 crore over the next five years. We are already among the top five feature phone brands in the world. Our vision is to raise the Indian flag high in global skies."

While the anti-China sentiment is palpable, right from the man on the street to the bureaucrat in government offices, the most vocal voices against Chinese dependence have come from the trading community. Encouraged by policies such as Atma Nirbhar Bharat that aim for bringing down import dependence and catchy slogans like vocal for local, the Confederation of All India Traders (CAIT), the umbrella body of 40,000 trader organisations, is at the forefront of this campaign. CAIT has made a list of 500 products that it wants its seven crore member retailers to stop importing with an aim of reducing Chinese imports by $13.3 billion by December next year.

There is confusion, though, on classification of Xiaomi, Vivo, Oppo, Realme, Poco and One Plus — companies with Chinese origin but manufacturing facilities in India. Like others, their phones are made locally, in factories run by Indians. Besides, their wide retail network provides livelihood to thousands of people across the country. "Anybody who is manufacturing in India should not be considered a foreign company," says Pankaj Mohindroo, Chairman, India Cellular and Electronics Association (ICEA). ICEA has joined hands with CAIT and is assisting the government in framing policies to bring down the import content in mobile phones. CAIT has written to celebrities like Aamir Khan, Virat Kohli, Ranbir Kapoor and Ranveer Singh, who endorse phones from these brands, to stop promoting these Chinese companies.

From toys and T-shirts to handicrafts, coffee mugs, watches and spectacles, Chinese goods are omnipresent in Indian markets, though a lot of them are classified as unorganised merchandise. But the ubiquitous mobile phone has earned the ire of the populace and become a symbol of Chinese domination. "Considering the impact of this movement, it will give impetus to Indian brands which have the capability to build products offering great experience and quality," says Singh of Lava International. "We are in the process of building a robust portfolio, which will have offerings for every segment."

Lava is the second-largest feature phone brand in In-

dia, and while its presence in the smartphone segment is negligible (around 1 per cent share), it is planning to launch a slew of smartphones in the next few months starting with Z61 Pro. It wants to replicate its success in feature phones in the smartphone market.

Similarly, Micromax, which has been testing its "Made in India-Made for India" smartphones, is planning to launch at least three products in the budget to mid-range segment that accounts for a bulk of the volumes. "We have seen a definite uptick in enquiries for our phones even though overall footfalls at stores are relatively low because of the pandemic. It has bolstered our confidence and we are planning to expand our portfolio and expedite our launches," says a Micromax executive. "Indian consumers now want to buy only Indian phones and nobody understands their needs better than us. We need to fulfil their aspirations."

PHOTOGRAPH BY MANDAR DEODHAR

Devita Saraf, Chairman and CEO, VU Televisions

"People buy Chinese products because of their pricing and the fun part is they copy a lot of what we do. And now, they are also copying each other. It is going to be like one big pot where they will step on each other's toes"

A Matter of Scale

The success of local brands is not a given even with so much going in their favour. Experts say lack of scale is a big problem. Further, minimal presence at the present juncture means consumers do not have many choices apart from Chinese in some smartphone segments. "Chinese brands are facing a backlash from the consumer but it is very easy to misread the situation. These brands command more than 80 per cent (Q1 2020) of the market. So, where does he go even if he doesn't want to buy a Chinese phone?," asks Navkender Singh, Research Director, IDC. "In our mystery shopping exercise, we found that 7 out of 10 buyers ask for a non-Chinese phone but only three buy one, because of lack of options."

Another issue is fickle consumer sentiment. A business case built on that can be vulnerable. Pathak of Counterpoint says any real impact will be visible only if this sentiment against Chinese products sustains for another month and beyond. "In case of any event, the first four weeks are always about sentiment, when enquiries do not get converted into purchases. So, consumers are enquiring for non-Chinese phones at stores and realising there are not many options. So, they are not buying. If this sentiment prolongs for, say another month or so, we will start seeing some serious impact on the Chinese," says Pathak.

Past campaigns in favour of locally produced goods have fizzled out after the first few weeks without any fundamental change. Now, the impact is likely to be more permanent, but even then, lack of scale means Indian brands may not be able to fully exploit the opportunity. "Scale doesn't come overnight. Just because the situation is suddenly in your favour doesn't mean you can make two million phones overnight. That needs investments and commitment," says Singh of IDC. "If local brands start this journey and plant the seeds today and remain disciplined, then they can see the fruit of their efforts after two years. Otherwise, it will not mean much, as this sentiment will not last forever."

In the interim, the likes of Samsung, LG, Sony and Nokia may benefit more. These players, like the Indian companies, have lined up multiple launches in the run-up to the festive season starting September. For example, beginning next month, LG plans to launch six phones across price points.

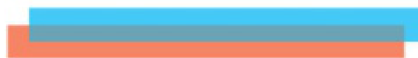
Unlike the Chinese, who are getting flak for their

roots, these companies have nothing to hide and are stressing transparency and data security to entice consumers. "Consumers will not simply look at the name of the brand they are purchasing but also the trust they have for it. With our European roots and proven track record, our phones are well-positioned in this aspect," says Sanmeet Kochhar, Vice President, HMD Global, which makes phones for Nokia.

However, the odds are stacked heavily in favour of Samsung, the only non-Chinese brand in India with big enough operations to cash in on any mistake by the major players. In terms of timing too, it is a god-send for the Korean firm, which just got over taken by Vivo as the second-largest smartphone maker in the country (Q1 2020). In feature phones, too, Lava has caught up with Samsung as the second-largest player. Samsung used to be clear market leader in both these segments in the not-too-distant past. "Samsung is the only mass-market non-Chinese brand with decent scale. So, it can benefit significantly," says Pathak of Counterpoint. "Anecdotal evidence suggests they have benefited a bit in the second quarter of this year. We foresee a close fight between Xiaomi, Samsung and Vivo in the third quarter. Samsung has a real chance of nudging ahead if it can play its cards right."

$13.3 BILLION

The reduction in Chinese imports that CAIT is targeting by December next year; it has made a list of 500 items whose imports it plans to discourage



25 PER CENT

The rate of growth of the smart TV market; here also, Xiaomi leads with a 27 per cent market share

Virgin Territory in Smart TVs

Compared to mobile handsets, the smart TV segment in India is still evolving. In 2019, TV sales in India grew 15 per cent and topped 15 million units, with smart TVs estimated to have cornered a third of the market. It is a segment that is growing much faster than regular TVs at 25 per cent, mirroring the trend of smartphones outpacing feature phones.

Not surprisingly, the Chinese have made an early headstart in this category as well with Xiaomi having a 27 per cent market share. TCL is the only other Chinese player with a significant share (8 per cent). The only local brand of any significance is VU Technologies with a 7 per cent share. Others such as Onida, Salora and Weston are insignificant players. Just like in smartphones, the Chinese caught incumbents Samsung, LG and Sony napping in this segment too. "Brands like Xiaomi, TCL and VU have been expanding over the last few years taking on incumbents such as Samsung. LG, Sony and Panasonic. Furthermore, 2019 was marked by entry of smartphone brands such as Motorola, Nokia, OnePlus with their Smart TVs looking to build a connected device story," says Debashish Jana, Research Analyst for TVs at Counterpoint Research. "These new-age brands from Xiaomi to OnePlus offer high specifications and some unique features at highly affordable price points targeting urban users via e-commerce channels. This has led to some serious price cuts by competition to match the value proposition of these Chinese brands leveraging the cost-effective e-commerce channels."

The floodgates are just opening up. Realme threw its hat in the ring in the middle of the lockdown in May with its first smart TV while OnePlus expanded its range earlier this month with the more affordable U and Y series. Oppo is expected to join the fray in the next few months.

Devita Saraf of VU says the Chinese have similar strategies and will end up unleashing a price war and eating into each other's share, leaving the rest of the market for others. The current negative sentiment also works against them. "People buy Chinese products because of their pricing and the fun part is they copy a lot of what we do. And now, they are also copying each other. It is going to be like one big pot where they will step on each other's toes. It's not my job to jump into that battle," she says. "Of course, the anti-China sentiment is helping us, as at this point people don't want to buy Chinese brands and are seeing value in a brand like us, even though we are more expensive. (But) We are competing with the likes of Sony, Samsung and LG from day one and successfully taking market share. In any case, nobody is going to buy a very high-end product from them."

The lower end of the market is where the likes of Onida and Weston come in. But lack of scale could be a hindrance for them as well. "A smartphone has become a use and throw product but not a TV. Also, it is a bulky product, so manufacturing it on a large scale is capital intensive. I doubt if the fringe players will be able to suddenly light a bulb and beat the Chinese at their own game," says an industry insider.

A chunk of India's consumer electronics market is up for grabs but the consumer isn't really spoilt for choices right now. BT

@sumantbanerji

Management

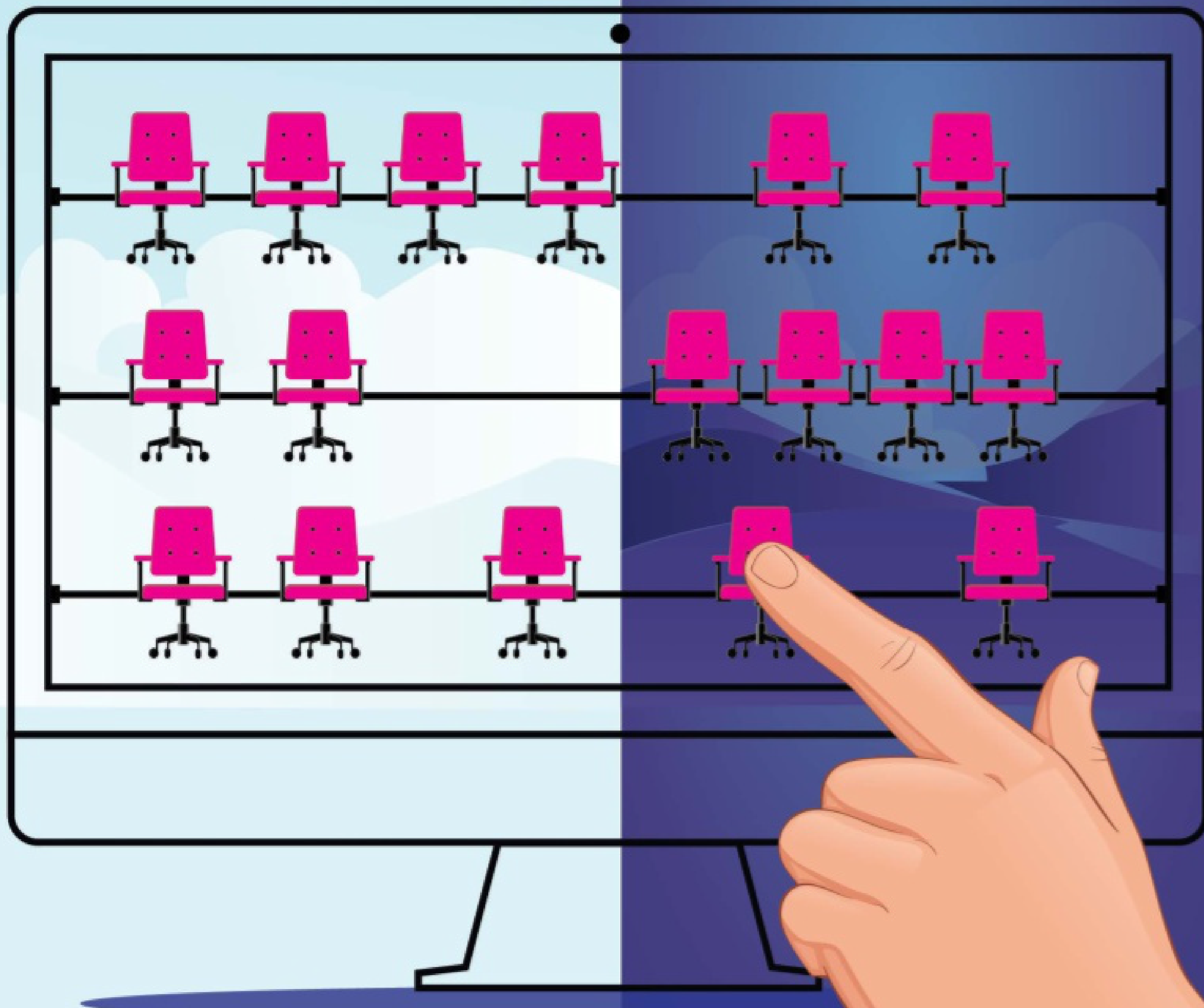
BUCKING THE TREND

IN A SEASON OF LAYOFFS AND PAY CUTS, SELECT COMPANIES ARE NOT JUST HIRING, BUT ALSO COMPENSATING BETTER. HERE'S WHY

BY E. KUMAR SHARMA
ILLUSTRATIONS BY RAJ VERMA

This year has been particularly good for 25-year-old Vignesh Sridharan. The management graduate from XLRI has joined as a trainee in the sales and marketing division of Reckitt Benckiser, a company he interned with last summer and got a job in October. The company held on to the offer even during the pandemic, and Sridharan was onboarded in June. He is currently operating out of Kolkata.

In a season of layoffs and pay cuts, Sridharan is mindful of the happy confluence of three factors — luck, choice of sector and the value of sticking to commitments that recruiters make. All three played out in his case. Among his batch of 180, the majority had no issue of any sort, either in getting a job offer or in onboarding. Sridharan's choice of



WHO ARE HIRING

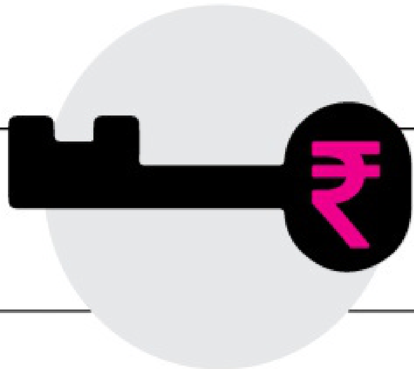
Bigger players in FMCG, E-commerce, Edtech, Small Finance Banks and healthcare.

Among start-ups, players that offer tech-based solutions; are totally digital and include gaming companies, Edtech players, tech-based logistics solution providers and insurance aggregators

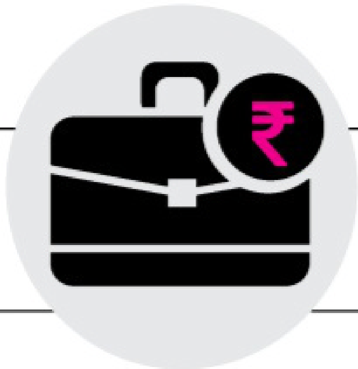
the FMCG sector has helped him too. Irrespective of any crisis, essential items will be in demand.

Some 2,000 km away, in her hometown in Surat, Kiran Sharda, 22, a student of IIM Udaipur, remotely concluded her first summer internship with a leading consumer and specialities chemicals company. "They call us the pioneer batch of this virtual world and it felt good," she says. Sharda is now waiting for her second-year online classes to begin. Her senior and a gold medallist from the Class of 2015, Angad Singh Abrol, after being part of two startup founding teams since 2015, chose this year "to take a pause from an entrepreneurial career and get deeper insights into product management." He recently joined as senior prod-

FACTORS THAT MATTER



Access to capital



Business prospects

Ability to pivot business to new demands

uct manager in FarEye, a SaaS-based solutions provider for logistics players. "If you are skilled enough then every time is a good time to look for a job," says Abrol. The same applies for companies as well. If a company is good and is in a promising space, access to funds is not a challenge even in the middle of a pandemic, he adds. FarEye, he says, "raised $25 million in April 2020 and has expanded its manpower with remote hiring by over 12 per cent amidst the COVID-19 outbreak." He sees a clear trend in more hiring by tech-based solution providing startups.

So, why do some companies see sense in ramping up on quality talent instead of resorting to layoffs? How are managements, in times of cost-cutting, approaching hiring? What are they conveying to graduates, business partners and most importantly their own people? In some cases, it is driven by an expectation of a business rebound and in others, a confidence in respective brands and a simple demand-supply equation where good talent is available. There are companies from FMCG, finance, tech-based startups, healthcare and e-commerce sectors who are rejigging their businesses models to adapt to the new reality.

Much More Broad-based

Clearly, all is not lost. Those with access to deep pockets and in businesses with growth prospects are ready to hire. Amit Karna, Associate Professor of Strategy and the chairperson of placements at the Indian Institute of Management (IIM), Ahmedabad, told ***Business Today***: "Generally, most companies barring one or two have adhered to the commitments made this year. Apart from three offers by one company, all the others among the 394 companies stuck to their commitments and all students are getting onboarded. We are expecting delays by a couple of months. Perhaps by October, all of them will get placed." Normally, around 80 per cent of placements are completed by around July-end, but this time it would be around 60 per cent for most institutions. By October, the remaining would be placed.

Nestle India Chairman and Managing Director Suresh Narayanan agrees. "Broadly, the spend levels on people this year will be comparable with any other year," he says, adding, "the good part this year is that everybody has received their salaries, increments and bonuses. Whatever benefits they were to get have been given. So there has been no change between last year and this year in terms of commitment to people or what they were supposed to be getting."

So, is this year no different from any other? "All the offers we made to summer interns were fully honoured. They spent eight weeks. We usually take in 20-25 students every year, and it continued this year as well. We onboarded them virtually and some of them will be selected by the company," says Narayanan. "In all, 24 management trainees joined in early June. Usually, in a year we take in anywhere between 18 and 25 students. This is something that we had also committed in all the offers at IIMs and other institutions. Those were all completely honoured and we did not renege on a single one. All those who have been given job offers are in the process of joining, virtually at the moment."

Newer Roles

One addition to the hiring scenario is new roles getting created to cater to the changing business needs. Nitin Chugh, Managing Director and Chief Executive Officer of Bengaluru-headquartered Ujjivan Small Finance Bank, who has been hiring at senior levels, too, in the past few months, says roles like head of digital banking are proving out to be good decisions in today's environment. "Another senior role that we have now created is head of TASC (Trusts, Associations, Societies and Clubs). Smaller entities in this are an underserved segment and we could reach out to them now. Other than that, there were at least half a dozen senior-level positions that were replacements, which we also filled in the past couple of months like the head of liabilities, taxation, operational risk and CTO, among others," he adds.

"There were management trainees, too, who normally join in June, but this time are joining us in July in multiple locations. We have not laid off. We have been hiring for the past couple of years and reached a headcount of around 17,500 across the country. We have been at that level for the

past six months and as and when new positions or replacements are needed, they are done. Like, in the past few months, we have added people in front office and senior level roles," he says.

Joining The League

Even biggies in challenging business segments are hiring. Consider construction and engineering major Larsen & Toubro (L&T). "Our construction division as a whole is hiring young engineers to commensurate with business needs. We are not reneging on any offers made in campuses in spite of the difficult economic environment and challenges that the pandemic has posed. We have decided not to renege on offers made and go by the principle in hiring that 'a promise-is-a-promise'," says Yogi Sriram, adviser to CEO and MD, Group HR at L&T.

"We are recruiting healthy numbers relative to others in spite of a challenging year ahead. We have a healthy order book that exceeds ₹3 lakh crore and we will need these young bright, energetic engineerss for the present and the future. GETs (Graduate Engineering Trainees), PGETs (Post Graduate Engineering Trainees) and Build India scholars are the main source for our talent bank," he adds. In just GETs and PGETs, there have been 1,000 and 240 additions, respectively.

More Access To Talent

While companies seem conscious of the current challenges, they also have reasons for onboarding young professionals in times of layoffs. "We understand that in the current uncertain and volatile employment environment, there is an availability of great talent across functions... Currently, we have higher access to talent than we did previously due to the disruption caused in recent months," says Deepti Varma, director HR, Amazon India. "We have recently opened 20,000 seasonal employment opportunities in customer service apart from over 2,000 open positions that we are hiring for, across locations and levels. Some of the key roles we are hiring for include software development, operations, IT and support engineering," Varma adds. "We have honoured all hiring commitments, including internship offers. In March, we started onboarding hires virtually and extended that to launch a virtual student internship programme for corporate teams this summer."

APART FROM THREE OFFERS BY ONE COMPANY, ALL THE OTHERS AMONG THE 394 COMPANIES STUCK TO THEIR COMMITMENTS AND ALL STUDENTS ARE GETTING ONBOARDED

Professor Amit Karna, Associate Professor of Strategy and the Chairperson of Placements, IIM, Ahmedabad

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WE HAVE BEEN HIRING FOR THE PAST COUPLE OF YEARS AND REACHED A HEADCOUNT OF AROUND 17,500 ACROSS THE COUNTRY... IN THE PAST FEW MONTHS, WE ADDED PEOPLE IN FRONT OFFICE AND SENIOR LEVEL ROLES

Nitin Chugh, MD & CEO, Ujjivan Small Finance Bank

Buzz And Business Prospects

One aspect across most hirings today is the perception of healthy business prospects, says Amazon's Varma. "E-commerce is one of the fastest-growing sectors in India, and this presents a unique opportunity for firms to deliver a superior customer experience."

Agrees Nestle's Narayanan. "As a consumer goods company, the blessing that we have is that business is still coming. As a company, we have a fairly clear idea about what costs we can cut such as establishment costs or conference costs or travelling costs, which in any case have got rationalised." Instead, the company is looking to invest more on people. It has just launched a 1,000 'Nesternship' programme to reach out to young professionals. "In the last four years, we offered around 1,000 internships and now under this initiative, we intend to do this in just the next four months. Of course, we will not be recruiting the 1,000, though some might become employees. The idea is to build the capability in them to see employment," says Narayanan.

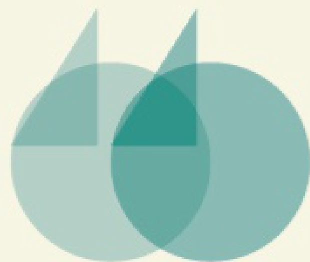
And what about added costs. More importantly, why now? "There will be the cost element to it but that we are willing to absorb and we are confident of being able to digest it," he adds. What is likely to change is the composition of compensation in packages, which would be tuned according to the changing business requirements and will factor in elements like work from home.

Narayanan sums it up. "In a people-centric organisation, I will be betraying the spirit, if I say I am not going to spend on people and cut their salaries."

That, perhaps, is a message companies bucking the trend, are happy sending out. **BT**

@EKumarSharma

Interview



A MECHANISM THAT EXPECTS NPAs TO FIND THEIR OWN SOLUTIONS IS USELESS"

India Inc. and its lenders are in a legal crisis. Pre-empting a financial meltdown due to the Covid-19 lockdown, the Centre has suspended the Insolvency and Bankruptcy Code for a year. In parallel, the Reserve Bank of India has offered moratorium on loan repayments. In the absence of debt resolution mechanisms, the burden has shifted back on banks. Business Today's **Nevin John** speaks to **Shardul Shroff**, Executive Chairman, Shardul Amarchand Mangaldas and Co, on the legal tangle and what this means for businesses and banks. Edited excerpts:

PHOTOGRAPH BY SHEKHAR GHOSH

What are the legal implications of suspending IBC?

The implications of suspending the corporate insolvency resolution (CIR) process indicates lack of capacity of tribunals, inability to deal with lack of market demand for stressed assets in the CIR process, and ban on existing promoters remedying the default. It also indicates excessive litigation slowing down the resolution process. In the absence of a white knight or a third-party promoter stepping in to take over, the ban on existing promoters continuing with the company is deeply problematic. There is a moral dilemma. The expectation that lenders and promoters of companies, which are stressed assets / NPAs for banks, resolving matters without the imperative to find a solution in a time-bound solution, are difficult to handle. A mechanism which expects NPA companies/stressed assets will find their own solution with lenders is totally useless.

You represent various stakeholders. So what does it mean for lenders, defaulters and government?

Lenders would be stressed since they cannot rely upon defaults in the interim (from March 25, 2020) by borrower companies

to seek resolution of bankruptcy of such firms that are in insolvent circumstances. It would open the need for lenders standing outside, winding up and proceeding to enforce security, not as a mere asset sale or a piecemeal sale, but as a sale on a going concern basis with management rights, and which promote creation of adequate cash flows to repay lenders. The suspension of default interest and penal interest together with non-payment of regular interest and the right to recovery will lead to bank balance sheets shrinking and create the need to capitalise banks.

Defaulters also do not have it easy. In the absence of market revival or creation of demand, the lack of production and sale is affecting manufacturing enterprises. Unless there is true restructuring of balance sheets of borrowers, it is difficult for borrowers to resolve their defaults.

For the government also, this is a problematic issue. In the interim period of the moratorium, the government is not able to build capacities or originate novel solutions, which are adaptive to the prevailing circumstances.

It is not able to envisage the massive insolvencies, which would follow the suspension period of between six months to one year (from March 25). Unless innovative thinking with ideators is encouraged, the suspension is not going to take matters further. It will only kick the can down the road.

Does suspension mean that the earlier era of debt restructuring mechanism is back?
Technically, the old methods of recovery will come into play as the remedy of resolution is suspended. In the absence of legal process of compelling stakeholders to adopt a method of resolution, lenders will be driven to harsher recovery mechanisms without results.

Some corporates on the brink of bankruptcy may use the opportunity to default and force lenders to restructure loans. What is the mechanism to prevent misuse of IBC suspension?
In case of wilful defaults by borrowers, there are sufficient mechanisms to take action against them, including punishment for fraudulent trading. Deliberate acts of mismanagement, siphoning funds, removing assets, promoters treating the company as personal fiefdom and personal property are bad behaviours of majority shareholders and managers of defaulter companies. None of these can be condoned. Bankers will have to trace assets and use modern methods to recover misappropriated properties of borrower companies.

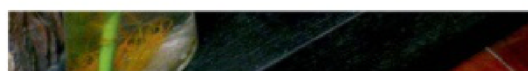
While restructuring loans, lenders have to forgo the unsustainable loan portion and stretch the repayment deadline of defaulters. They also have to grant another set of loans for working capital. So, does the default burden further shifts back to lenders?
It is true that while restructuring loans, lenders do sacrifice. But, the previous regime's policy of requiring at least 30 per cent of the value of sacrifices as new funding from promoters for the benefit of lenders is a saner policy. There is no free lunch and reducing bank loan outstandings and giving new loans has their limitations. Promoters, old or new, have to bring fresh funds to be entitled to remain in charge of their companies. Restructuring has to be equitable and sharing the burden between promoters and lenders of defaulter companies is a fine art requiring great talent. The interest of unsecured creditors and small traders is also to be catered to.

What does it mean for the NPA position of banks?
That may not increase technically as no default is declared during the moratorium period allowed by the RBI. However, once the RBI notifications have lapsed or are withdrawn, there would be a sudden spike in NPA portfolios of banks and financial institutions.

Will enhancing the threshold limit to ₹1 crore affect NPA reduction plans of banks?
The threshold to commence a CIR proceeding has been raised from ₹1 lakh to ₹1 crore so that the IBC focusses on larger claims, which have caused banks to suffer. It is a question of prioritising larger value matters, enhancing recovery from such matters and prosecuting defaulting promoters and their investor companies who have caused the insolvency or are guarantors. This is a matter of fiscal prudence and optimal utilisation of resources in the NCLT/NCLAT to lower NPA defaults.

Economic projections state India could post negative GDP growth this fiscal...

There is no free lunch. Reducing bank loan outstandings and giving new loans have limitations



Yes, based on the Covid-19 pandemic details available, migration of workers, inability of factories to produce more than 60 per cent of their capacity due to lack of demand, inability to have a healthy cash flow to retire debts are all factors responsible for rendering the GDP to a negative value this financial year. This may spill over to the next few fiscals as there will be a time lag. This is a structural problem, the pandemic has worsened the situation. BT

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Money Today

STAY PUT IN MFs

DO NOT GET OVERWHELMED BY THE SMART MARKET RECOVERY AND BOOK PROFITS. THE UPTREND IS LIKELY TO CONTINUE

ILLUSTRATION BY RAJ VERMA

Stay Put in MFs

DO NOT GET OVERWHELMED BY THE SMART MARKET RECOVERY AND BOOK PROFITS. THE UPTREND IS LIKELY TO CONTINUE

BY APRAJITA SHARMA
ILLUSTRATION BY RAJ VERMA

T**he stock market** is on a roll again after falling steeply in March due to spread of coronavirus and the resulting lockdown. The benchmark Nifty has risen 43 per cent since March 24, when it had hit 7,511 (it closed at 10,768 on July 10). Equity mutual fund investors, whose portfolio had crashed 30-40 per cent, have a reason to rejoice.

Not just largecaps, even midcap and smallcap funds have risen up to 35 per cent since March 24, a signal that the recovery is broad-based. Most sectoral indices are also up significantly. Even the worst-performing theme – PSU – is up 27 per cent.

Is the worst behind us? Not necessarily. Coronavirus cases are still rising. While slowdown in the June quarter is a given, there may be negative surprises in the September quarter too. Most importantly, the recent rally has attracted a new breed of stock traders cooped up at home and trying to make a quick buck. A single negative trigger is all it will take for another downward spiral.

Whatever the situation months down the line, this is a good time to take stock of your MF portfolio and answer a key question — should you book profits, if any, or wait for a more opportune

Taking Stock

- Most mutual fund schemes have risen 20-30 from March lows
- This is after a 30-40 per cent fall in Covid-led market crash
- Unlike recent past, when only largecaps were doing well, now mid and smallcap funds too giving good returns
- Pharma, energy and international funds are the market leaders
- PSU, banking and MNC funds are the worst performers, but with 27 to 33 per cent gains
- Experts expect rally to continue in short to medium term

time? It is a tough call, but experts say that broadly, your MF strategy should be long term and not depend on your ability to predict and time the market. It is a different matter if you need funds for an important life goal, though.

Post-Covid Recovery

Smallcap and midcap funds have widely underperformed largecap funds for a couple of years now. However, the recent recovery has been broad-based with largecap, large-midcap, multicap and even midcap and smallcap funds rallying 33-35 per cent. However, this doesn't mean that all midcap and smallcap stocks are up. "Although small & midcap indices have seen a significant move, dispersion in returns across stocks is significant. For instance, a few stocks have fallen 25-30 per cent during this period, while several small-caps have risen 2x or more," says Kaustubh Belapurkar, Director – Fund Research, Morningstar India.

Among sectoral funds, predictably, pharmaceutical funds have led the rally with 43.37 per cent gains, followed by energy and international funds, which are up 41.47 per cent and 39.97 per cent, respectively. Other sectoral funds are only slightly worse off. PSU, banking, MNC and consumption, at the lower end of the pecking order, have returned 27-33 per cent in this rally.

Thus, unlike last year's polarised rally, where top 8-10 stocks were steering the market, a very big chunk of the market universe is taking part in the current rally. "Apart from those such as Reliance Industries and Bharti Airtel, and to an extent HDFC Bank, stocks with top index weights have not rallied very sharply. Others have clocked good gains in past few months. Some stocks with top index weights, especially in financials, have seen a fall in weightage. The trends point to a broader rally than before," says Bhavana Acharya, Co-founder, PrimeInvestor.in.

Why the Rally

Injection of fresh liquidity in markets, especially by the US Federal Reserve, to fight the coronavirus-induced recession, has given confidence to investors. Then there is the economic stimulus by various countries, flattening Covid curve in Europe and parts of Asia and hope about launch of a vaccine. "Market rallies are propelled by global sentiments and liquidity. Currently, our markets are following the global trend, especially the US. Besides, India weightage on MSCI index has been increased by 1 per cent. Additionally, FII net investment, along with investment by DIIs, has absorbed supplies and driven demand," says S. Ravi, Managing Partner of Ravi Rajan & Co and former Chairman of BSE India.

However, in the domestic market, there are hardly any positive triggers, apart from partial lifting of the lockdown. This has made even foreign institutional investors (FIIs) iffy. FIIs, which pumped in a net ₹18,564 crore in Indian equities last month, have sold a net ₹2,210 crore so far this month till July 10. "There is no clear picture of the impact of the lockdown on economy and corporate fundamentals so far. Markets can reassess growth based on factors such as slower improvement in high-frequency indicators, impact on GDP when numbers come out, corporate earnings for the June quarter, credit growth and NPA trends of banks & NBFCs. Drying up of FII flows based on global developments and risk sentiment can also cause a correction," says Acharya of PrimeInvestor.

Arun Kumar, Head of Research at FundsIndia.com, says while bad news may continue for some time, the perception change from 'exceptionally bad' to 'bad' is the point where the recovery starts. "In our view, this perception change (which is already happening), along with continued global central bank stimulus measures, remains the key for market recovery in the near term."As US elections are on the

What You Should Do

Don't sell just because markets have risen

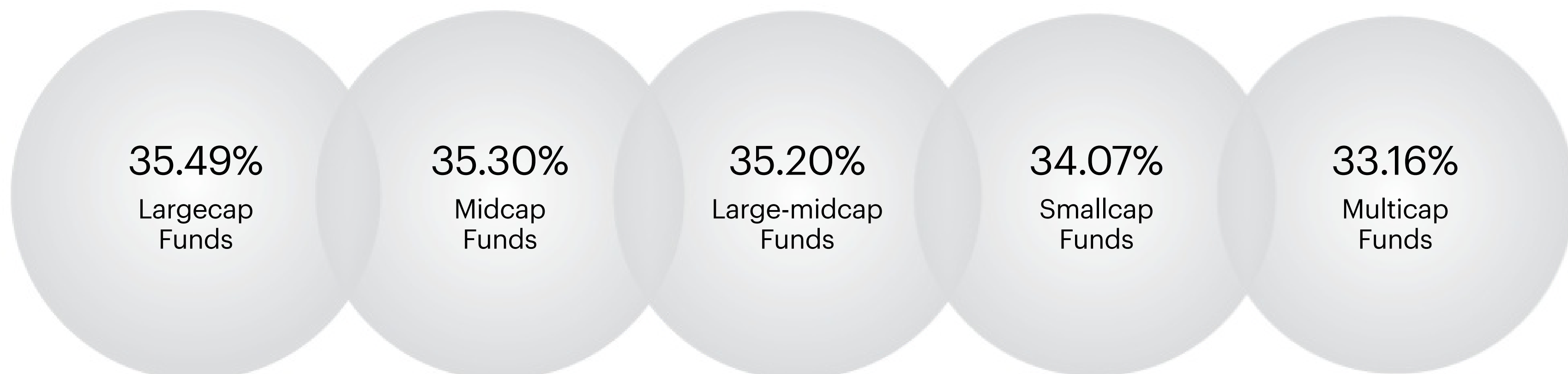
It is wrong to base your exit strategy on timing the market

Book some profits if your life goal is near or you need money

If allocation to equities has risen, sell some units to rebalance your portfolio

Prefer diversified multicap funds over sectoral funds

Resurgence After Big Fall



Sectoral/Thematic funds

Data from Morningstar India, from March 24 (the lowest level of index in 2020) to July 10

horizon, market participants hope that the government will continue its fiscal stimulus and the Federal Reserve will continue to provide easy liquidity. "The odds of the market falling back to previous bottom levels remain low in our view but a structural and sustained recovery needs a medical solution or a continued decline in spread of the virus."

What You Should Do

Whatever the market direction, your exit strategy should always depend on primarily two factors. One, if the life goal for which you have been investing is near or not. Two, if you have to rebalance your portfolio. "We believe investors should plan their exit based on need for funds for life goals rather than market conditions. In our experience, most market timing backtests fail to provide the same level of profits in real life. So, if you have a financial obligation for which you need money in the next three years or less, you should start moving that money to liquid funds or cash. Else, stick to your long-term asset allocation and keep rebalancing the portfolio periodically," says Gaurav Rastogi, Founder and Chief Executive Officer at Kuvera, an online platform for MF investments.

If you are looking at fresh investments, start with any category, but in a staggered manner, that is, through the SIP route. If choosing an MF scheme is an issue as almost all of them are up 30-40 per cent, go for index funds in respective categories, which have low cost and give average category returns. For sectoral/thematic funds, Kumar of FundsIndia says choosing such funds involves getting four things right - picking a winning theme/sector, selecting a fund that is well-placed to harness that theme/sector, valuations which haven't already priced in the theme's/sector's potential and ability to enter and exit the theme/sector at the right time. Since the odds of getting all the four right are slim, experts advise diversified funds over sectoral funds. "Long-term performance of a majority of thematic/sector funds has been mediocre. Given their non-diversified exposure, higher risk profile and need to time entry and exit, we recommend avoiding sector funds and sticking to well-diversified multi-cap equity funds. However, if investors still want to explore sector funds with the hope of boosting returns, they can use them to complement rather than replace core holdings," he says.

However, as we are into a volatile market, this may be a good time to book some profits for efficient tax planning. "Investors should optimise portfolios to take advantage of tax rules. In India, the first ₹1 lakh of long term capital gains (LTCG) every year is exempt from the 10 per cent LTCG tax. Do not wait for February-March of FY21 to harvest gains and reduce LTCG taxes. Do it as early in the financial year as possible; as happened in FY20, you may not have any gains to harvest later," says Rastogi of Kuvera. BT

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Network

The Occasional Flier

In his childhood, Jaideep Devare always dreamt of flying an aircraft. In fact, when he was young, he would often visit the cockpit whenever he flew on holidays. "It was easy talking to pilots then," says the Founding Member and Managing Director of Mahindra Insurance Brokers. His dreams got wings when a friend from the Indian Air Force persuaded him to learn flying. Pilot training and licence followed. Devare, who has been pursuing his hobby for the last three years, says the passion for flying helps him professionally as well. "It helped me develop the ability to take on calculated risks because flying is about taking risks." Manoeuvring a flight requires presence of mind as well as skills, he adds. Devare, who helps his clients manage risks by taking insurance cover for businesses, sees many similarities between insurance and flying; both, he says, involve risk and discipline. With close to three decades of experience in the corporate world, he has flown the Cessna 172R, which does not have an autopilot mode, and dreams of flying fighter jets one day. "I also want to fly over the snow-clad mountains," he says.

– ANAND ADHIKARI

Cooking to De-stress

In between his busy schedule of managing 750 employees and strategising, Ankit Mehrotra, Founder and CEO of Dineout, finds time to de-stress. He cooks two-three times a week, and considers it the best way to take breaks in these times of work from home. While studying in London and then working as an investment banker overseas, Mehrotra, 35, learned six cuisines, including Italian, Spanish, French, Indian and Mexican. "I was learning almost one cuisine every year from my friends at the university. I can cook five-six dishes in each of those cuisines," he says. Mehrotra's personal favourites are pasta and grilled chicken, his go-to dishes because they are the quickest to prepare. "I go to buy groceries, and do elaborate cooking, especially on weekends, for my family of seven," he says. He also frequently puts cooking videos and recipes on the Dineout's Instagram account due to its wide reach.

MANU KAUSHIK

Pushing Oneself with Extreme Sports

GOOGLE + SERGEY BRIN

He is the epitome of living the ultimate American dream. Sergey Brin, the Co-founder of Google, is the son of a Russian immigrant who moved to the US when Sergey was just six. Brin, who is now valued at $64.6 billion, believes in living life to the fullest in his spare time. He loves intense sports that push his body to the limits. His suite of intense sports includes skydiving, roller hockey, ultimate Frisbee, and being on the high trapeze. Much of this – in-line skating, skiing, gymnastics – started while he was studying at Stanford, which is where he met Google Co-founder Larry Page.

Though he stepped down as President of Google's parent company Alphabet in December 2019, Brin will ensure that Googlers have a passion for intense sports. In the early days of Google, he used to have team bonding events at a training facility in San Francisco.

Best Advice I Ever Got

"CHOOSE YOUR BATTLES WISELY, FIGHT THE MOST IMPORTANT ONES AND LET THE REST GO"

GERD HOEFNER, MD AND PRESIDENT, SIEMENS HEALTHINEERS INDIA

Q: What was the problem you were grappling with?
A: In 1999, I was establishing the Manufacturing Execution Systems (MES) business for Siemens automation technology division. Since this was the first time the division was venturing into a software business, we acquired a company in England to accelerate growth. I was appointed to its board. In those days, if I believed in something, I would try to convince and persuade others. But this did not go down well with the leadership team.

Q: Who did you approach and why?
A: I approached Heinz-Jürgen Müller, the then CFO of the Business Unit at Siemens.

Q: What was the best advice you ever received?
A: He told me to try and not fight every battle. Choose your battles wisely, fight the most important ones, and let the rest go. He advised me to hold myself back and let them make their own decisions. While it seems natural to tell others what they should do, sometimes it takes a lot of effort to step back and let others make choices. It helped me recognise that good leaders are not just good decision-makers, they also listen better and encourage others to lead.

Q: How effective was it in resolving your problem?
A: This advice made me a better professional and a more understanding person. Since then, I have encouraged my team to make its own decisions and allow mistakes to happen. However, when required, I coach them in thinking through their decision-making process. BT

–P.B. JAYAKUMAR

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