Webinar: Outlook for Distressed Investing in India

6:00 p.m. to 7:30 p.m., 18th May, 2021

BACKGROUND PAPER

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Private Equity Pro Partners

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Webinar on Outlook for Distressed Investing in India

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A. Introduction

India and the rest of the world is facing a black swan pandemic, the scale of which has not been seen before. Besides the huge human cost, an array of businesses are experiencing declining revenues and cash flow, leading to defaults on bank borrowing, debentures and bonds. In addition, lower economic activity has also triggered rising unemployment. In turn, this is leading to greater stress on bank capital adequacy.

The need for additional long-term risk capital inflows has never been greater for India. Fortunately, India has embraced an open market economy. Distressed and turnaround investing is one accepted form of risk capital which provides a solution for distressed businesses with sustainable and creative business models and a growing market.

Renowned investors like Ares Capital, Goldman Sachs, JC Flowers, Varde Capital, Cerberus, Bain Credit, HDFC Capital, Edelweiss, Kotak Special Situations Fund, Swamih Fund and many others have been investing, or announcing creative new investment programs, platforms or joint ventures in distressed situations in India, even during the current pandemic.

The *modus operandi* of some leading investors has been to form joint ventures. Five major joint ventures include: Varde-Aditya Birla; Cerberus-HDFC; CDPQ-Edelweiss; Bain Credit-Piramal ; and JC Flowers-Eight Capital.

This string of joint ventures, is a clear testament of the the strong long term fundamentals of the Indian economy, where many hidden gems of viable distressed investments can be uncovered. In addition, the regulators have also played a constructive role in attracting high-calibre

investors. Given that nothing like the pandemic has been experienced before, investors will need to tread new territory and structure novel solutions.

The webinar is being held in the above backdrop and will focus on issues, opportunities and strategies for distressed investing in India. The webinar will address these topics from the buy-side perspective i.e. from the vantage point of distressed investors.

B. Indicative Agenda

The agenda will encompass:

1. Types of businesses which are attractive to distressed investors;

2. Banking best practices in systemic crises of the magnitude currently being encountered;

3 Improvements needed in the regulatory framework;

4. Latest developments in the institutional framework in India e.g, the role of the bad banks and asset reconstruction companies (ARCs);

5. Experience of distressed investing in India and elsewhere during systemic crisis;

6. Lessons which India can learn to encourage high-calibre private equity and distressed investors; and

7. Actions that corporates can take to help stave of the crisis.

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C. The Rise of Distressed Investing in India

For many years, Indian GDP grew at above 7 to 8 percent per annum with no major systemic nationwide distress as experienced by other countries like USA (2007-2009) , ASEAN (1997) , Japan (1997) among others.

Historically, India has experienced only limited pockets of distress due to competitive forces such that only selected individual corporates became distressed, rather than entire industries, or the entire economy. These presented only selective distressed investing opportunities in a range of sectors. For example, in 2011, TPG Capital invested in Vishal Retail and Bain Capital invested in a stressed bank in 2014.

As the Indian economy suffered stress the key metric of distress, namely the level of non-performing loans steadily increased from 2013 onwards.

To help incentivize both creditors and debtors to resolve bad debt, five sets of measures were introduced:

(i) A creditor-in-control, resolution regime in December, 2016 called the **Insolvency & Bankruptcy Code, 2016;**

(ii) A debtor-in-control fast-track, pre-pack resolution regime for medium and small scale enterprises;

(iii) Reserve Bank of India (RBI) notification dated 7th June, 2019 to enable banks to resolve bad debt and provide going-concern investment opportunities to distressed investors;

(iv) Creation of a $ 3.5 billion alternative investment fund to provide financing to incomplete residential properties; and

(v) RBI's stricter non-performing assets recognition regime.

These bold steps have been the potent levers which paved the way for meaningful success in distressed investing in India.

The measures helped attract world class investors like Apollo Capital, Ares Capital, Bain Capital, Blackstone, Cerberus, Goldman Sachs, KKR, Lone Star, JC Flowers, TPG, Varde Partners and others to invest, or consider investing, in the Indian distressed space.

Domestic fund managers also raised billion dollar funds for distressed investing, the prominent ones being Kotak Special Situations, Edelweiss-CDPQ partnership and the Bain Credit- Piramal partnership.

In addition, a range of cash-rich domestic and foreign corporates also began investing in distressed opportunities such as Areclor Mittal, Nippon Steel, the Tatas, the Liberty Group,Jindals and others either within the framework of IBC, 2016 or in out-of-court one-time settlements and pre-IBC processes.

Distressed investing opportunities will rise dramatically. Moreover, the Government is considering further measures such as pre-packs and bad banks to make the distressed investing process speedier and more efficient.

D. Invited Speakers

We expect about 6 to 8 speakers at the 90 minute webinar.

We have received confirmations from :

KKR: Confirmed
Apollo: Confirmed
Cerberus Capital: Confirmed
JC Flowers JV: Eight Capital: Confirmed
Deloitte: Confirmed

We are awaiting confirmations from a couple of other panelists.

E. Audience

The audience will comprise of a diverse array of interested sell-side and buy-side participants from the distressed and private equity investment space. These will include banks, which are the primary motivated suppliers of distressed investments, asset reconstruction companies, private equity fund managers, mutual fund managers, auditors, accountants, resolution professionals and corporate honchos.

F. Conclusion

Speakers with a commitment to professional excellence in distressed investing have been invited to engage in a dialogue at the webinar. Participation of respected fund managers, distressed investors and private equity fund managers is strongly justified in the current pandemic, the scale of which has not been seen before. Any reforms suggested during the webinar to help lay the path out of the distress, will be very well received by the audience and regulators in India. Like a lighthouse, the webinar will beam an important ray of hope which India needs now.

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