



Industry Notes.....Jan 2018

Dear Friends,

Wish you a very happy new year and it is always good to start again with new resolutions and goals.

2017 has been a very eventful year for everybody, at least in India. The economic reforms in steps like demonetization and introduction of GST had an impact on all businesses, professionals and households. The resolve of the government to push through drastic steps was evident and that is an encouraging sign for the country. In 2017, demonetization impact followed by GST impact and then daily soap-opera kind of coverage proceedings in the NCLT on the Insolvency code was in headlines and the unified approach of political/ judicial class to make a success out of these measures was very evident. The underlying theme of all these measures has been to improve the value system in which businesses are conducted in the country and that should considerably elevate prospects of doing business in India.

The insolvency code has some immediate fall out on the spirit of entrepreneurship in India but in long run, it creates a good balance between lenders/ finance providers and entrepreneurs. World over, the credit costs have direct correlation to strength of the legal system and thereby the ease of recovery of loans. A stronger legal system will help bring down the credit spread which will be beneficial for all stakeholders. For entrepreneurs as well, a platform like the NCLT/ IBC code allows a time bound resolution to accidents in business which disrupts the financial viability. Unlike in the past, where the companies would tend to be wary of disclosing the blips in the business and look for short term alternatives in solving a permanent damage, the new set up allows the management to ring the bell early enough to have a permanent solution in a time bound and cohesive manner. The introduction of ordinance which debars existing promoters in presenting a resolution is relevant for cases which are old and non-performing for more than a year. In case of newer problems, the IBC code is very useful in rectifying the problem at an early stage and keep the spirit of entrepreneurship going. The next few months will be eventful as the outcomes of the larger cases which were referred to NCLT under IBC code will be known and that would set the pace and precedence for rest of the cases.

The action on the IPO offerings is very high and 2017 saw a large number of financial institutions making a debut at the exchange. As the liquidity flow and momentum continues, the sentiment for IPO continues and that allows an opportunity for mid-cap companies in industrial / infrastructure sector to recapitalize themselves or raise growth capital at good valuation. It is like once in ten years kind of phenomenon when beaten down sectors find fancy of the market and allows them to raise large pool of equity capital for them to sustain / grow over the next five years at the least. Equity funds aren't available on tap in industrial or infrastructure sectors unlike the services/ financial sector. Since the industrial sector contributes considerably to the job creation and a follow on economic activity, this particular period of fund raising is very critical for economic growth of the country. At same time, there are a large number of companies referred into NCLT under IBC from industrial/ infrastructure sector. The availability of funds with the survivors helps them consolidate the sector at reasonable valuation which is good both for the acquirer and the target company. This trend should pick up in this year and hopefully we will have lots of smiling management teams/ boards from industrial sector who have really seen some hard times over the past five years.

Coming to IPOs, it is interesting to watch the appetite and valuations of companies like Dixon and Amber, who are into contract manufacturing for consumer durable sector. Historically, we have seen the performance on contract manufacturing companies in pharmaceuticals and automotive, and what capital availability at good valuations can do to transform the companies in the sector on a global scale. A financial/ operational might of companies like Motherson Sumi in automotive and Divi Labs/ Aurobindo Pharma in pharmaceuticals is well known. It is an interesting trend which is spreading out to other industries and we should have shortly home grown large companies in value add/ contract manufacturing for consumer durables on a global scale.

Once again, wish all of you the very best in 2018 and let's travel this journey together!

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