



# Whether Onetime Restructuring of Large Accounts is an Option or an Inevitability??

Valuation  
Investment Banking  
Restructuring  
Transaction Services  
Transaction Tax

JULY  
2020



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A close-up photograph of a person's hand holding a pen, positioned over a document. The document contains faint, illegible text. A large, bright orange circle is overlaid on the left side of the image, containing the white number '1'. The background is a soft, out-of-focus light brown color.

1

# Executive Summary

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- RBI in Feb 2020 extended the timelines for a one-time restructuring of loans to MSMEs. This was permitted without an asset classification downgrade
- However, Large Accounts continue to be a bone of contention for the lenders
- Lenders are now wooing the Central Bank to even allow for “One Time Debt Restructuring” (“OTDR”) of Large Accounts, on similar lines to the one allowed in 2008, during GFC
- RBI is apprehensive!! such restructuring had led to evergreening of dud loans in 2008-09
- We believe, banking system will be in a very awkward situation if OTDR of large accounts is not allowed, and that RBI’s focus should rather be more on the structure and design of such OTDR.
- The results of PSBs for Q4 FY2020 showed improvement in asset quality, supported by RBI’s moratorium
- There is still uncertainty over extent of slippages in banking sector once the moratorium is lifted
- Canara Bank and PNB have up to 30 per cent of their loan book under moratorium, while it is higher for Bank of Baroda and Bank of India, at 65 per cent and 47 per cent, respectively.
- On an average, ~25% of PSU Bank advances are to BBB and below rated borrowers

# Executive Summary

Net worth of Largest Indian Banks (INR in Cr)	As on 31st March 2020
State Bank of India	2,32,007
Punjab National Bank	62,357
Bank of Baroda	71,856
Canara Bank	39,293
Bank of India	43,816
HDFC Bank	1,70,986
ICICI Bank	1,08,363
Axis Bank	66,676
<b>Total</b>	<b>7,95,355</b>





Worst Covid Impacted Sectors	Banking Exposure as on 31/03/2020 (INR in Cr)
Real Estate	2,29,770
Textiles	1,92,424
Transportation, Tourism, Hotels and Restaurants	1,90,443
Vehicles, Vehicle Parts & Transport Equipment	82,606
<b>Total</b>	<b>6,95,243</b>

- Networth of the 8 largest banks in India is around INR 8 lac Crore.
- PSU Banks have average Tier-1 capital of around 9-10%, which is around couple of percentage points above the threshold regulatory limit
- Large Banking exposure to some of the worst hit Covid sectors is in excess of ~INR 7 lac Crore (below is a limited list)
- Even if 15-25% of such exposure is stressed, it will lead to system level incremental NPAs of 2-3%, which is enough to wipe off the buffer capital at PSU Banks
- We believe, given the current state of Govt. finances to be able to infuse capital in PSBs, onetime debt restructuring is inevitable, however, RBI shall do well to take utmost care to make sure that the same is not Misused.

# Executive Summary

- Soumya Kanti Ghosh, chief economic advisor to SBI, estimates ~35-40% of loan book to be under moratorium for the entire financial system.
- Banks have credit book of Rs 104 trillion, and NBFC another Rs 24 trillion.
- In other words, a whopping Rs 45 trillion to Rs 51 trillion is under moratorium.
- Even if 5% of such exposure is stressed, it will be enough to wipe off the buffer capital at PSU Banks
- Sensing the risk, several Private Banks have already decided to raise Capital. Likes of HDFC Bank, Axis Bank, have already made Board level announcements to raise incremental capital.
- Do PSU Banks, have the balance sheet strength and the Govt. Support to raise additional capital?

## Bank Credit Outstanding

Bank Group	Mar '20 (₹ cr)	Moratorium (Avg. %)	Amount (₹ cr)
Private banks	3,606,192	40 	1,442,477
Public sector banks	6,012,694	41 	2,462,799
NBFC gross advances*	2,354,211	46 	1,082,937
Small finance banks	94,919	70 	66,443

\*As of September 19

Source: SBI Ecowrap





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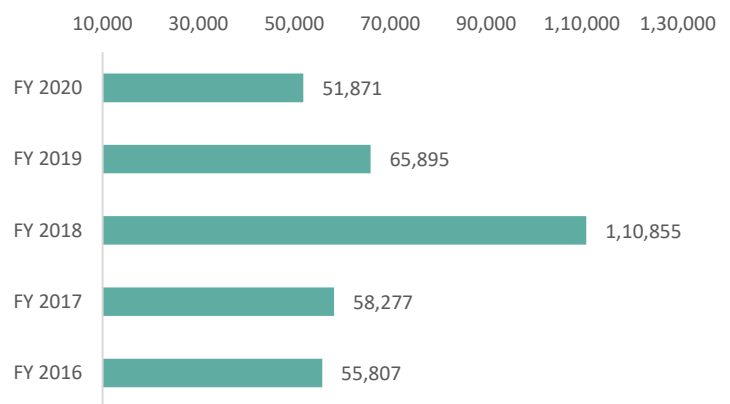
# Assessment of Largest Public Banks



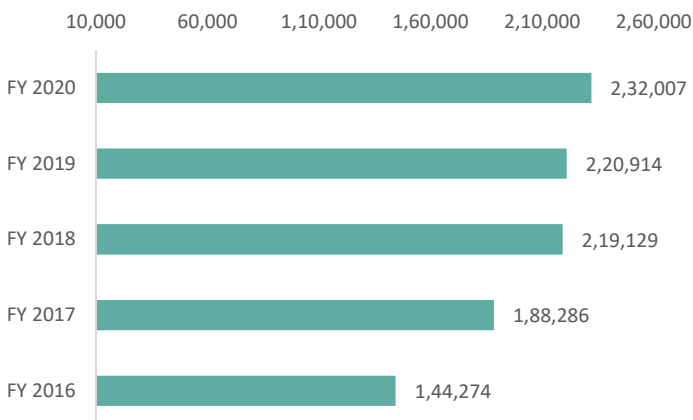
# State Bank of India

- Moratorium availed by 22% of customers & 23% of term loans
- Gross & Net NPA at 6.15% & 2.23% respectively, i.e. ~ INR 1,49,092 Cr and INR 51,871 Cr respectively.
- Exposure to Covid effected Sectors at ~INR 93,483 Cr
- SMA 1 and 2 watchlist at INR 7,266 Cr
- Capital Adequacy Ratio & Tier One Capital is 13.06% & 11% respectively
- **Rating Profile of the Loan Book: 77% "A and Above", BBB =10%, Below BBB = 13%.**

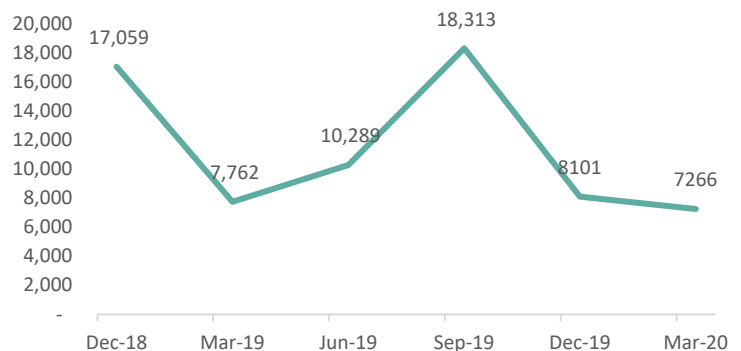
Net NPA (INR in Cr)



Net Worth (INR in Cr)



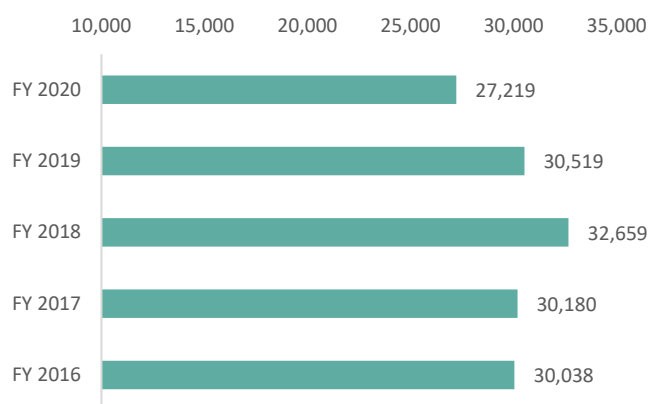
Exposure to SMA 1 and SMA 2 Accounts (INR in Cr)



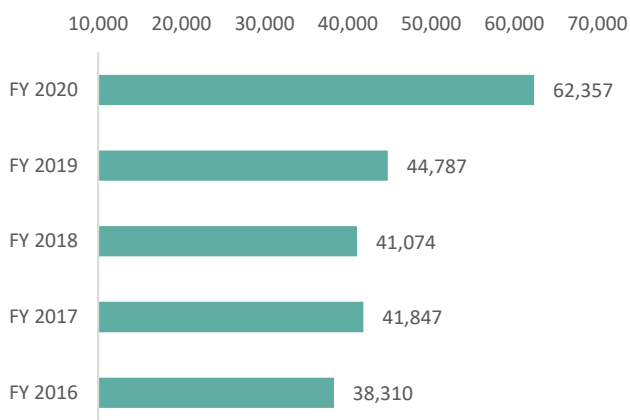
# Punjab National Bank

- Gross & Net NPA at 14.21% & 5.78% respectively, i.e. ~INR 73,479 Cr and INR 27,219 Cr respectively.
- Exposure to NCLT referred accounts ~INR 51,309 Cr. 91% Provision Coverage Ratio against the same.
- Exposure to SMA 2 accounts of ~ 9,608 Cr
- Capital Adequacy Ratio & Tier One Capital is 14.14% & 11.90% respectively
- **Rating Profile of the Loan Book: 68% "A and Above", BBB =10%, Below BBB & unrated = 22%.**

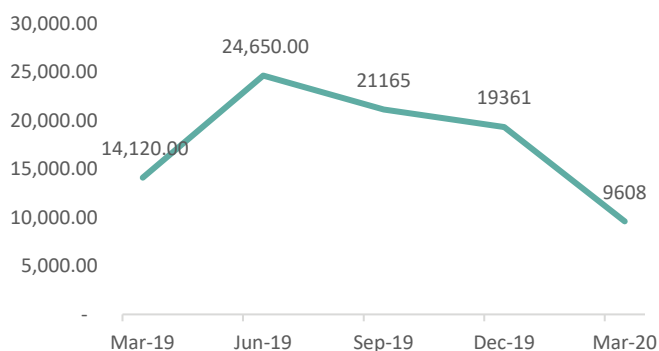
**Net NPA (INR in Cr)**



**Net Worth (INR in Cr)**



**Exposure to SMA 2 Accounts (INR in Cr)**

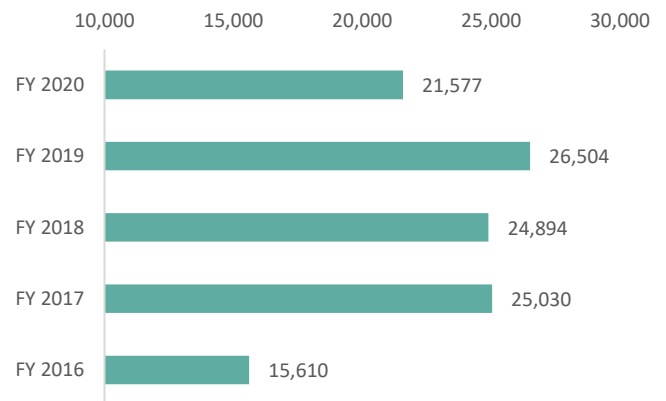




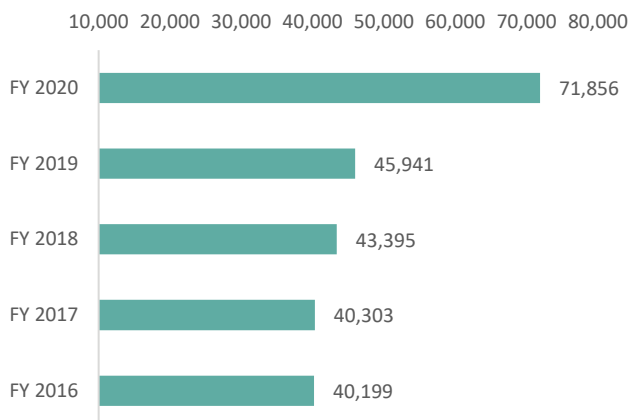
# Bank of Baroda

- The overall moratorium book is at >50% (i.e. ~3.5 lac Crore) and this is the highest among the larger public sector banks.
- Gross & Net NPA at 9.4% & 3.13% respectively, i.e. ~INR 69,381 Cr and INR 21,577 Cr respectively.
- SMA 1 and 2 at 1.2% of total advances each
- Capital Adequacy Ratio & Tier One Capital is 13.3% & 10.7% respectively
- **Rating Profile of the Loan Book: 62% "A and Above", BBB =13%, Below BBB = 13%, unrated =11%.**

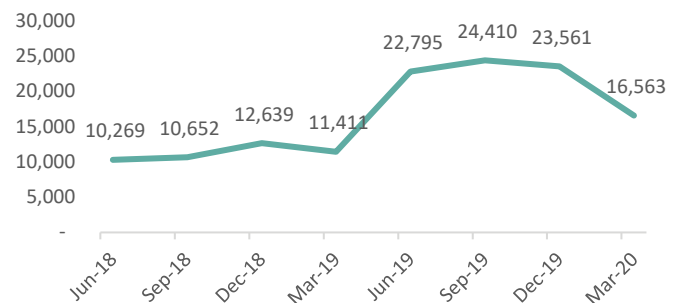
## Net NPA (INR in Cr)



## Net Worth (INR in Cr)



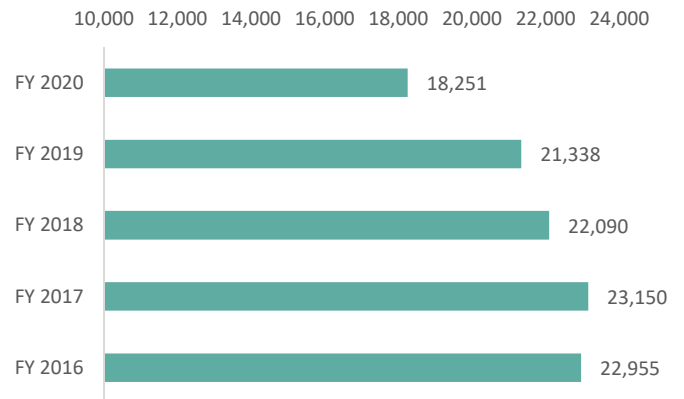
## Exposure to SMA 1 and SMA 2 Accounts (INR in Cr)



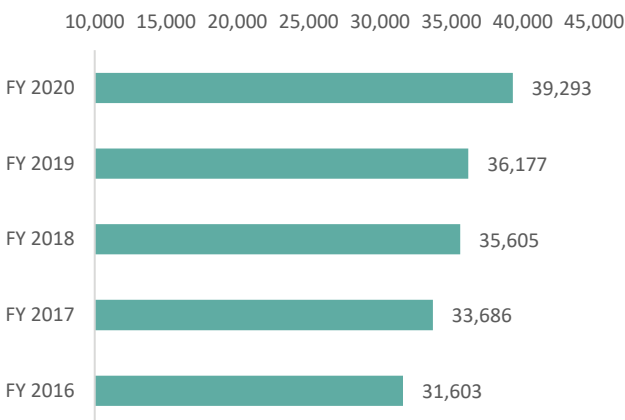
# Canara Bank

- The overall moratorium book is at 17%
- Gross & Net NPA at 8.21% & 4.22% respectively, i.e. ~INR 37,041 Cr and INR 18,251 Cr respectively.
- Accounts referred to NCLT ~INR 34,176 Cr. 83% provision coverage ratio for accounts referred to NCLT.
- SMA 1 and 2 at 8,122 Cr
- Capital Adequacy Ratio & Tier One Capital is 13.65% & 10.12% respectively
- **Rating Profile of the Loan Book: 63.6% "A and Above", BBB =16.98%, Below BBB =19.41%.**

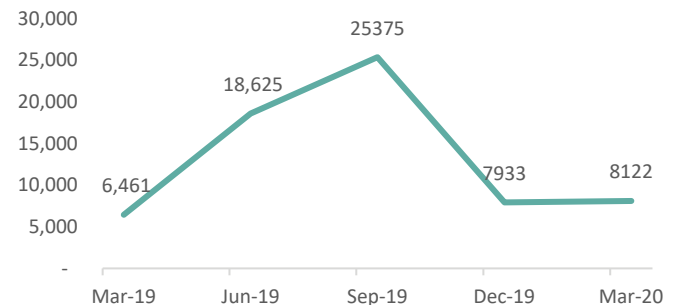
## Net NPA (INR in Cr)



## Net Worth (INR in Cr)



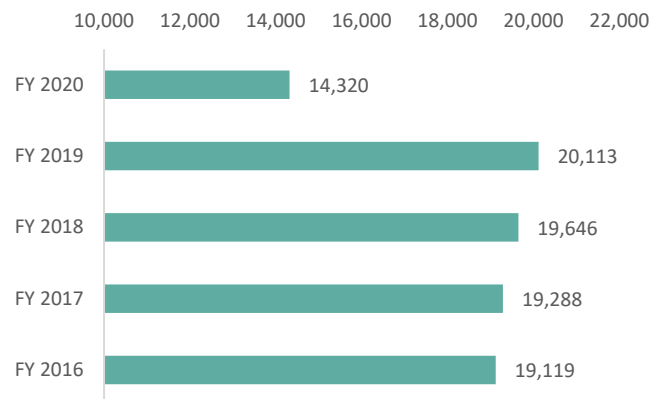
## Exposure to SMA 1 and SMA 2 Accounts (INR in Cr)



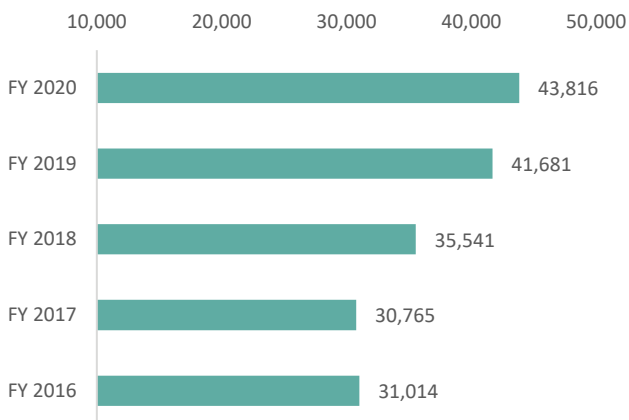
# Bank of India

- Bank reported Gross NPA of INR 61,550 Cr and Net NPA of INR 14,320 Cr i.e. 14.78% and 3.88% respectively.
- Company has high provision coverage ratio of 83.75%
- Gross Exposure to Accounts referred to NCLT stood at INR 37,728 Cr
- Capital Adequacy Ratio and Tier 1 Capital Ratio at 13.10% and 9.90%
- **Rating Profile of the Loan Book: A& Above 59%, BBB 4%, Below BBB 7%, Unrated 9% and Government Exposure 21%**

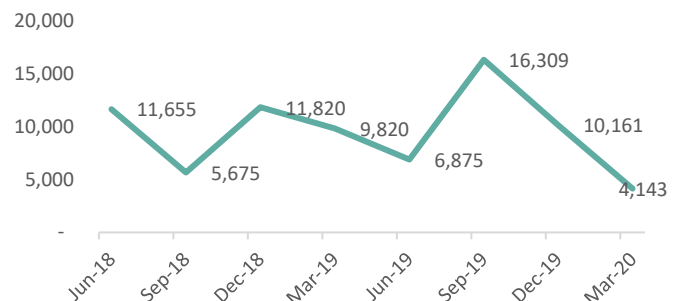
**Net NPA (INR in Cr)**



**Net Worth (INR in Cr)**



**Exposure to SMA 1 and SMA 2 Accounts (INR in Cr)**



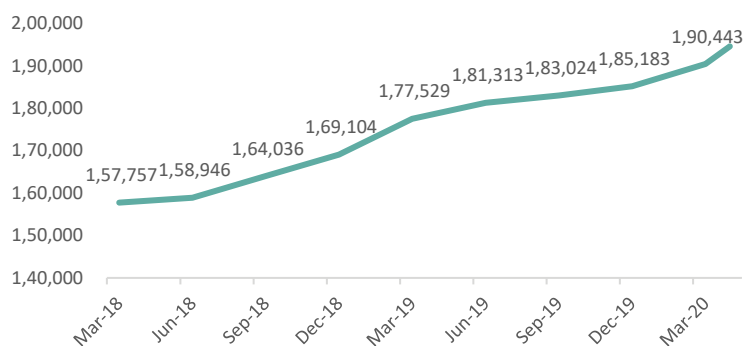


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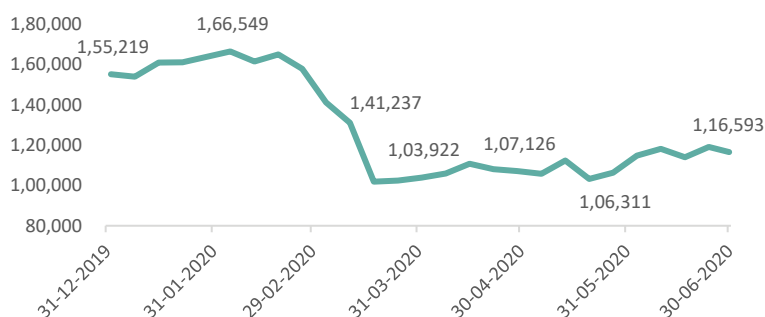
# Covid Worst Hit Sectors

# Transportation, Tourism, Hotels and Restaurants

**Total Bank Credit (INR in Cr)**



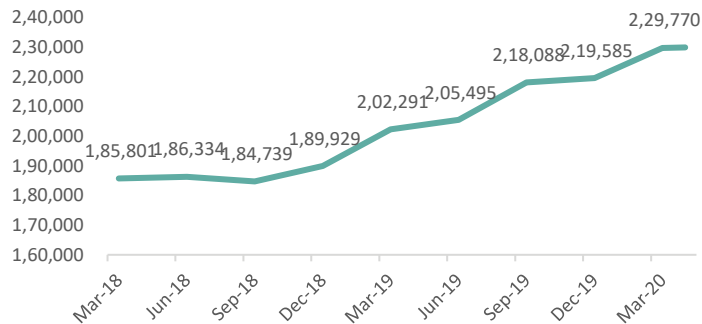
**Market Cap of Top 10 Companies from Transportation, Tourism, Hotels and Restaurants Sector (INR in Cr)**



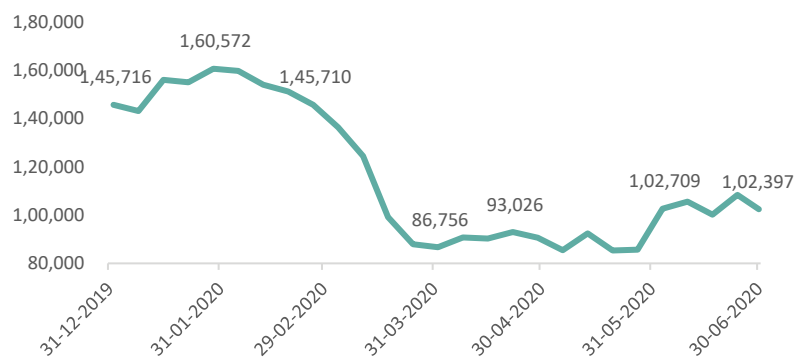
- Aviation, Road Transport, Tourism, Hotels & Restaurants, are among the worst hit sectors due to Covid.
- Aviation sector stares at Rs 25,000 Cr revenue loss due to lockdown. According to Crisil, airlines will be the worst-affected, contributing more than 70% of the losses, or Rs 17,000 crore, followed by airport operators with Rs 5,000-5,500 crore, and airport retailers
- With regards to the roads and highways sector, Crisil estimates suggest that it will see developers/ toll operators incurring toll revenue losses of Rs 3,450-3,700 crore during March-June. The National Highways Authority of India (NHAI) will lose Rs 2,100-2,200 crore in toll over this period. In addition to the loss in toll revenue, stakeholders will suffer losses on account of accrued interest, increase in costs of under-construction projects, time overruns, and a rise in disputes between the private sector and government authorities
- The Indian tourism industry is projected to book a revenue loss of Rs 1.25 trillion in calendar 2020 as a fall out of the shutdown of hotels and suspension in flight operations

# Real Estate

**Total Bank Credit (INR in Cr)**



**Market Cap of Top 10 Real Estate Companies (INR in Cr)**

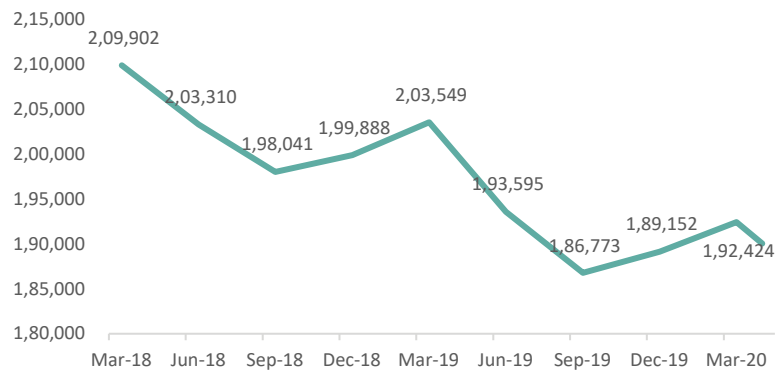


- Real Estate Sector has been one of the worst hit sectors due to Covid-19 pandemic. It has been a Double Whammy for the sector, as it was already facing Inventory buildup in past years whereas certain other issues such as Changing regulations, Delay in project completion, falling demand etc. were also a concern for the Industry.
- Real Estate Sector is also a key consumer of Steel, Cement, Paint, Electrical etc. Impact on this sector shall be felt across various sectors.
- Covid-19 shall impact home buyers sentiment and spending appetite. Another issue shall arise with regards to shortage of construction workers due to large scale return of migrant labour to their villages.
- Going forward, Lending institutions are expected to be risk-averse, thereby accentuating funding challenges for stressed developers.
- Industry players that maintain a strong Balance sheet and possess operations expertise are expected to weather through these uncertain times whereas many other may fall .

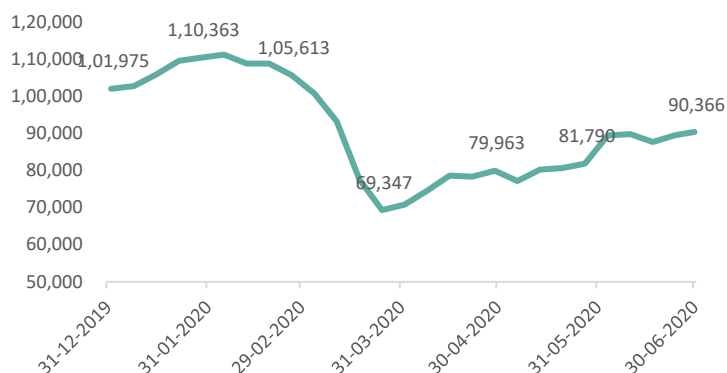


# Textiles

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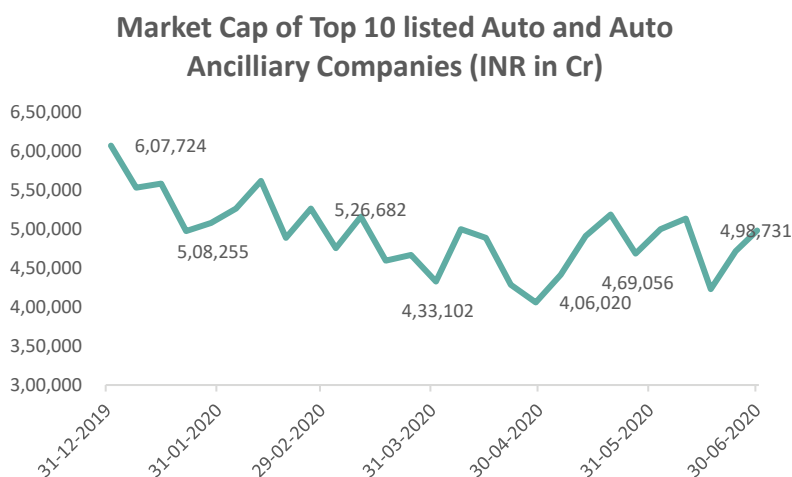
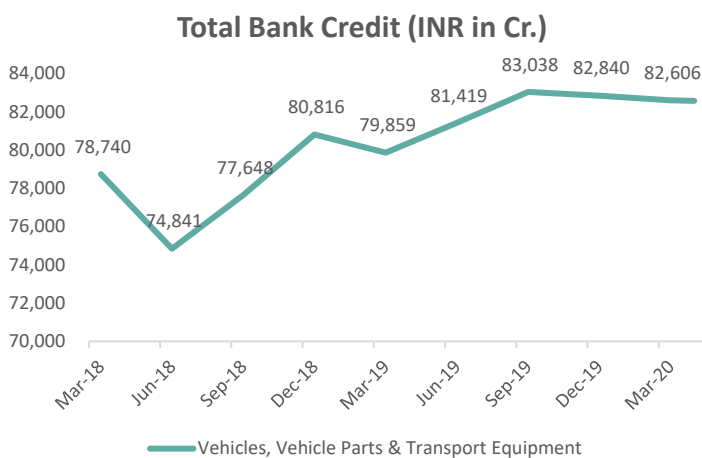


**Market Cap of Top 10 listed Textile Companies (INR in Cr)**



- The Indian textile industry is highly fragmented and is being dominated by the unorganized sector and small and medium industries.
- The Indian textile industry has its own limitations such as accesses to latest technology and failures to meet global standards in the highly competitive export market. There is fierce competition from China, Bangladesh and Sri Lanka in the low-price garment market. In the global market, tariff and non-tariff barriers coupled with quota is posing major challenge to the Indian textile Industry.
- Covid will enlarge the issues already faced by the sector
- Clothes being necessity but not urgency, demand is being pushed back. This is forcing Companies to operate at very low capacity utilization leading to overall erosion of Capital.
- It is important that Structural Changes are made to Government policies with regards to tax structure and export policies, to revive this sector

# Vehicles, Vehicle Parts & Transport Equipment



- After reporting near-zero sales in April, auto companies resumed despatches in May. But the volumes were disappointing with sales of passenger vehicles declining 86 per cent year-on-year for leading players.
- A recovery in demand is expected only from the festival season in the third quarter of this fiscal – and largely for two-wheelers and tractors, which have a higher rural share
- The Indian automotive sector was already struggling in FY20. before the Covid-19 crisis. It saw an overall degrowth of nearly 18 per cent. This situation was worsened by the onset of the Covid-19 pandemic and the ongoing lockdowns across India
- Industry demand is expected to be down by 15-25 per cent in FY21. With such degrowth, OEMs, dealers and suppliers with strong cash reserves and better access to capital will be better positioned to sail through.



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# Conclusion

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\*As of September 19

Source: SBI Ecowrap



# Services

## Valuation

- Business & Equity Valuation
- Valuation of Brands, Goodwill, Other Intangible Assets & Intellectual Property
- Valuation of Financial Securities, Instruments & Derivatives
- Valuation of Industrial Assets and Plant & Machinery
- Valuation of Real Estate
- Valuation of Infrastructure Assets & Specialized Assets
- Purchase Price Allocations (PPA) for Mergers & Acquisition (M&A)
- Impairment Studies for Tangible Assets
- Impairment Studies for Cash Generating Units, Intangible Assets & Goodwill
- Mines, Mineral Advisory and Valuation
- Valuation of ESOPs and Sweat Equity
- Valuation for Tax, Transfer Pricing and Company Law Matters
- Fairness Opinions
- Valuation under Insolvency & Bankruptcy Code (IBC)
- Determination of Swap Ratio under Mergers and Demergers
- Valuation of Inventory / Stocks and Debtors / Receivables
- Litigation and Dispute Valuation Services

## Risk Consulting

### Strategic Risk Advisory Services

- Techno Economic Feasibility Studies & Viability assessment
- Business Plan Review

### Technical Support Services

- Lender's & Investor's /Independent Engineer Services
- Technical Due Diligence, Technical Opinions
- Chartered Engineers Opinion & Certification
- Project Cost Investigation and Monitoring

### Agency for Specialized Monitoring (ASM)

- Term Loan, Working Capital and Cash Flow Monitoring

### Financial & Treasury Risk Advisory

- Assessment of risks – ALM, Credit, Market, Interest Rate & Liquidity Risk
- Asset Quality Review & Stress Testing
- Assessment of Expected Credit Loss

### Business Risk Advisory

- Internal audits, Process and Internal Financial controls review
- SOP, policies and Authority level matrix development
- Supply chain improvement and Working capital optimization
- Enterprise Risk Management
- Regulatory compliance review

## Dispute & Litigation Support

- Valuation Services
- Damages & Loss of Profit Analysis
- Independent Expert testimony
- Anti-trust & Competition Advisory
- Post-Acquisition Disputes, Joint Venture & Shareholder Disputes
- Civil & Construction Disputes, Real Estate Disputes
- Intellectual Property Rights Dispute

## Investment Banking

(Category 1 Merchant Bank)

- M&A Advisory:
  - Sell Side & Buy Side
  - Domestic & Cross Border
- Partner Search, Joint Ventures & Strategic Alliances
- Government Disinvestment & Privatization
- Fund Raising – Equity, Mezzanine, Structured Finance & Debt (Corporate & Project Finance)
- Distressed Investment Banking – One-Time Settlement, Priority and Interim Funding, Rescue Financing, and Buyouts
- Capital Market Advisory

## Transaction Services

- Buy side due diligence and closing due diligence
- Vendor due diligence and vendor assistance
- Setting up and managing dataroom
- Advice on sale and purchase agreements (SPA) and business transfer agreements (BTA)
- Assistance in deal negotiation

## Transaction Tax

### Deal Tax Advisory (Strategic, IBC, PE/VC)

- Tax Due-Diligence
- Tax Structuring
- Deal Negotiation Review
- Transaction Documentation Review
- Post-Deal Integration

### Corporate Restructuring

- Group Restructuring
- Financial/Capital Restructuring

### Succession Planning

### Holistic Implementation Support

- Merger/Amalgamation
- Demerger/Spin-off
- Capital Reduction
- Share Buyback
- Business Transfers
- Liquidation/Wind-up

## Restructuring

- Insolvency Professional Services
- Assistance in the preparation of Resolution Plan
- Independent Bid Evaluation of Restructuring Proposals
- Process Advisor
- Advisor to Committee of Creditors / Creditor Advisory
- CRO services – Chief Restructuring Officer
- Priority and Interim Funding
- Turnaround Advisory and Business Transformation
- Interim Management Services



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