Business Standard

'The concern is how sacrosanct the IBC process is'

His private equity fund has been at the centre of a storm as it waits for a final call in court on its offer to buy Binani Cement with its partner Bharat Dalmia. His private equity fund and their partners have been involved in a legal battle for acquiring Binani Cement against UltraTech Cement. **SHANTANU NALAVADI**, managing director of India Resurgence Asset Management Business, a joint venture between Piramal Enterprises and Bain Capital Credit, has also been scouting for other stressed asset deals. Edited excerpts of an interview with **Surajeet Das Gupta**:

Q&A

You have been a key player in distressed asset sales. How do you differentiate yourself from competitors?

In this space, at one end of the spectrum you have pure-credit NBFC (non-bank financial corporation) players; on the other side, you have private equity (PE) players that engage in pure-equity transactions. Ours is uniquely positioned in between the two, providing both credit and equity solutions for purchase of assets in the distressed space.

Our focus is distress to control, a combination of acquiring both equity and debt, to drive effective resolution with strong operational and control oversight. Our strength is our ability to write large cheques, both as debt and for equity participation. In addition to our flexible strategic model that allows us to selectively partner with third parties such as mutual funds or NBFCs to raise cheaper domestic debt. Or with equity investors, including strategic ones, to raise larger funds or for joint management. Our focus, in addition to restructuring the capital of the distressed company, is also on operational restructuring to ensure the company turns around and positions itself among the top three or four in the sector it operates in.

How do you leverage the 50:50 partnership between Piramal Enterprises and Bain Capital Credit?

Ajay Piramal, chairman of Piramal Group, has a 30-year history of taking contrarian bets. For example, he acquired over 40 pharmaceutical companies at a time when global entities were moving out of India due to patent issues, and went on to successfully consolidate and integrate the business. When the same global pharma companies came back to the domestic market, he created value by successfully exiting the domestic formulations business.

He then invested in Vodafone, when telecom was going through its consolidation phase, and made a 20 per cent IRR (internal rate of return) in the three years before he exited. Piramal Capital has successfully built a large real estate book; it is considered a challenging sector. Given that they understand the sector well as a group, they have strong processes in place from a control and monitoring perspective. Every deal we look at is discussed with Piramal and he brings his deep insights and rich India, as well as international, experience. Bain Capital Credit, on the other hand, is a $85-billion fund of which $35-billion is in the distressed (assets) space. They have invested successfully in almost every distressed (assets) market in the world. The India Resurgence joint venture effectively leverages this deep global and local expertise of both entities.

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> **Shantanu Nalavadi**, Managing Director, India Resurgence Asset Management Business

Is the whole IBC (insolvency law) process going as you had expected, especially with the huge delays in resolution?

Though the media perception is currently negative, we are very optimistic. Unlike in Europe and Asia where most stressed assets are in the real estate space, in India it is in good quality operating assets across growth sectors, such as steel, cement, pharma, etc. These are underperforming for reasons which are well known. It is a once in a lifetime opportunity for India Inc and investors like us, to invest and consolidate in this space, especially against the backdrop of strong GDP (Gross Domestic Product) growth.

But, are you frustrated with the litigation process? For instance, you bid for Binani Cement and it is in the courts.

One must realise that the IBC law was written in only 19 months, and the Insolvency Board is open to suggestions for amendment. For the stressed asset sale process to stabilise, it took 10 years in the US, and over 50 cases, before precedents were established. The bigger issue is that the IBC and litigation process in India is taking way too much time. It could be resolved if there were more judges in the tribunals. From what one reads in the newpapers, this is being addressed.

What do you see as the most important concern?

About how sacrosanct is the IBC process. Indian strategic players would not have infinite capital for future rounds of stressed assets purchase. They are already leveraged while buying assets in the first round, which are large deals. Also, they will be fairly engaged in consolidating these assets into their existing businesses. So, financial investors will have to come in to meet the large requirement of capital. But, one has to ensure the process of buying a stressed asset is watertight, not open or chaotic, as it is currently. If stressed assets resolution failed in the past 10 years despite numerous attempts, it is because there was no defined and stringent process from start to close. Financial investors work in a structured process. They expect that the highest bidder would get the asset when a tight process is run and closed in a finite timeframe. I find no reason why the other companies that are keen to buy the asset cannot offer their best bid on day one, instead of disrupting the process by improving their offers at a later stage. Because of this you have litigation, which spreads over a long time, also resulting in loss of interest income for banks. Additionally, the value of the stressed asset also depreciates over the duration of the litigation.

Big PE funds seem to have not done too well in the first round. Why?

There are practical problems. There isn't a perfect data-room set up for diligence or indemnities being provided, which PE funds are used to. Also, as seen in the current round, the sale process is not structured and run in line with the rules and framework of the IBC. Consequently, ease of doing business is impacted.

How are you seeing the next 28 assets up for bidding?

We will filter through and bid for the good assets, both from the next list of 28 companies and from the assets emanating from the Reserve Bank's February 12 circular (the first list of big cases for insolvency resolution). So far, we have evaluated 250 potential deals and hope by December to have invested in three to four deals. That is the rigour and process we follow to invest.