

## NCLT – The fear of the greedy

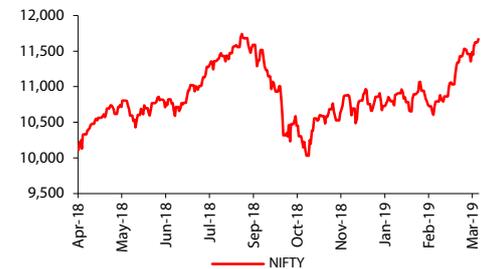
Many Indian promoters, especially errant ones, are having sleepless nights after seeing Naresh Goyal and his wife being jettisoned from Jet Airways' board. Until recently, this was unheard of. Nobody in India could even have imagined such a scenario. Now it is a reality, with many prominent industrialists set to lose control of their companies, either those they set up or those they inherited. Recent events – Essar Steel, Bhushan Steel and now Jet Airways – show the impact of the IBC 2016. Overall, I think this is a potent and appropriate legislation whose time had come. It should improve India's overall RoEs and thus justify its premium valuations.

- **The change in the environment:** First, one needs to understand how the environment has changed from what it was around a few decades ago. At the time, when the Indian economy was unshackled and opened up, it grew rapidly, throwing up huge opportunities, both in consumption and capital expenditure. Whether it was airlines, telecom, retail or any other industry, the whole consumption space boomed as Indian incomes rose. Similarly, India's infra, too, was given a boost, with new power plants and highways sprouting up almost at will.
- **Exploiting the opportunities:** The sad part is, as in most emerging countries, only a handful were allowed to successfully exploit these opportunities. They were the ones with connections and the ability to manipulate the system. Whether it was telecom licences, landing rights for airlines or getting coal mines allocated for power plants, you needed the connections. So you saw promoters setting up businesses in industries though they lacked knowledge about the industry. Given their connections, they were also able to obtain funds for their projects from public and private banks. When the global meltdown in 2008 hit Indian shores, growth slackened considerably. Out went future growth projections and, suddenly, the banks were staring at a mountain of bad debt. This led to the well-chronicled NPA saga of various corporate banks, resulting in the IBC legislation.
- **Impact of the IBC 2016:** Once implemented, it became clear that there were no holy cows in the system. The government of the day, on its part, stood resolute and refused to intervene and let the law take its own course. Of course, many large business houses stood to lose control of their businesses, as their fortunes went downhill weighed by the huge piles of debt. As they started losing control, for the first time, Indian promoters were afraid, afraid of losing their empires. Companies that were run as personal fiefdoms (even those with promoters holding minority stakes) were under threat. Whether it was the Ruias, who are likely to lose Essar Steel, the Singhals, who lost Bhushan Steel, or now Naresh Goyal, forced out of Jet Airways, all are having a hard time. Seeing this, many promoters who had pledged their stakes in their companies to leverage or support their other businesses, are now rushing to lower debt by selling equity. A few examples, Zee plans to sell a substantial stake in its flagship to pare debt; Emami's promoters recently sold a 6% stake to reduce debt. Not a small development at all, considering what was the norm in the past.
- **India coming off age:** I believe this could lead to long-term positive outcomes for India: one, capital allocation by corporates will improve significantly as promoters realise free lunches are over; second, it will ensure that sudden growth in industries in favour will be restricted; and third, it will make banks more careful of their growth strategies. To foreign investors, it could assuage one of their major fears about runaway managements. Overall, I think this is a potent and appropriate legislation whose time had come. It should improve India's overall RoEs and thus justify its premium valuations.

NIFTY 50 11669  
BSE Sensex 38872

Source: NSE, BSE

### Nifty 50



Source: Bloomberg, NSE

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## Appendix A

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