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Conference on

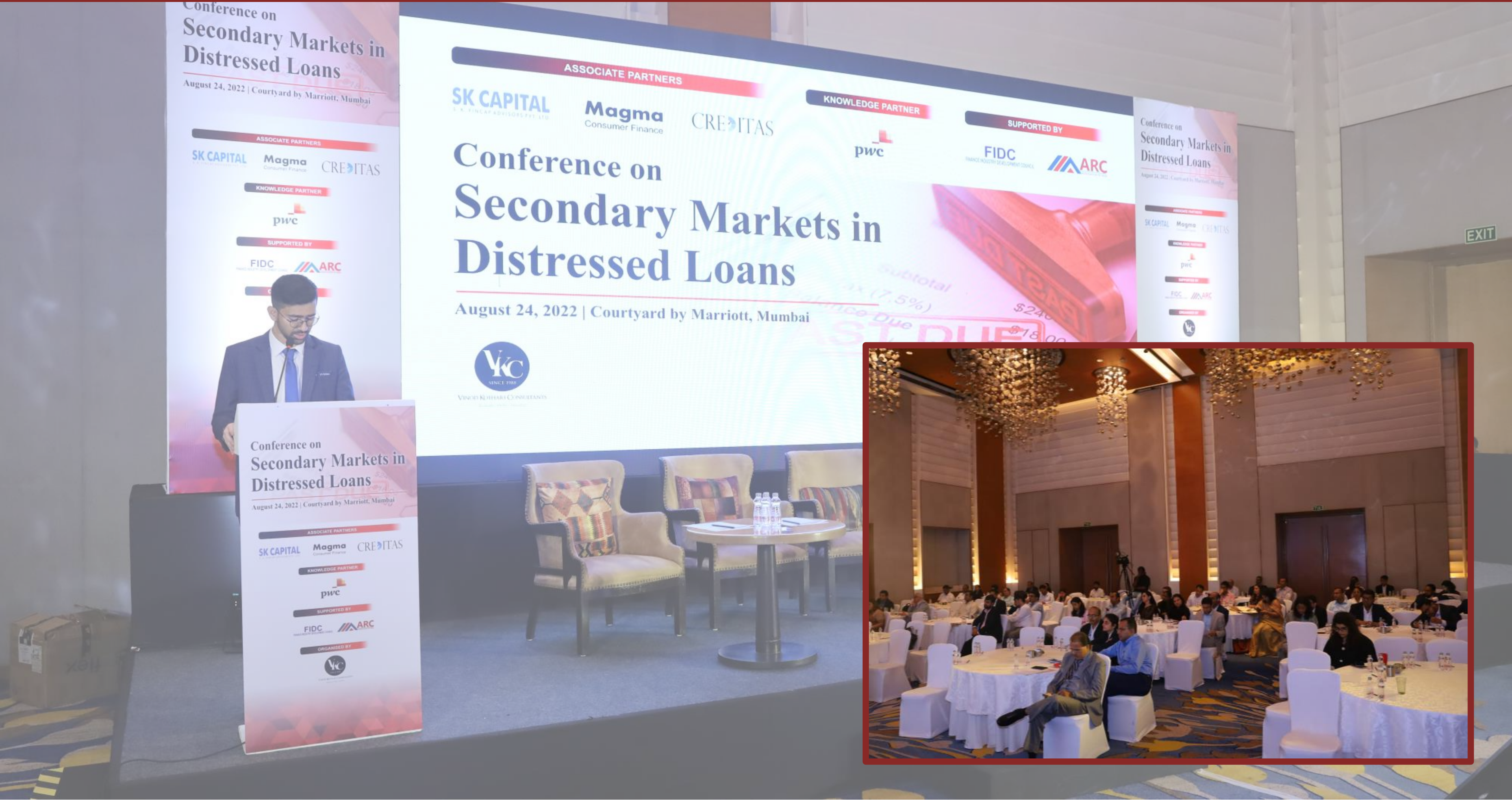
Secondary Markets in Distressed Loans

August 24, 2022 | Courtyard by Marriott, Mumbai

SINCE 1988
VINOD KOTHARI CONSULTANTS
Kolkata | Delhi | Mumbai

Key Findings and Takeaways

Welcome Address



Opening Remarks

Dr. Narendra Mairpady

Member,
Advisory Board of ARC Association

Former Chairman & Managing Director,
Indian Overseas Bank

Session 1: Market and regulatory overview: India and the World

- Dr. M. S. Sahoo gave an overview of the success of IBC; IBC is not a recovery tool - it is a rescue mechanism. Idea is to revive.
    - Freedom to exit a business is one of the objectives of IBC.
- Mr. Shyam Maheshwari underscored the need for developing corporate bond markets.
- Mr. Bahram Vakil highlighted the key positives where India stands today, compared to the global situation. Had several suggestions to offer:
    - Prepacked IBC - extend scope beyond MSMEs;
    - Invite more bidders into the resolution applicants, particularly permit AIFs and special situation funds.
- Timebound resolution - delay leading to reluctance on part of resolution applicants.
- Information database supporting due diligence.
- Foreign Investment and role of Private Equity (especially in long term restructuring), credit and hedge funds (shorter term focus).

Moderator:
Vinod Kothari
Director, Vinod Kothari Consultants

Speakers:

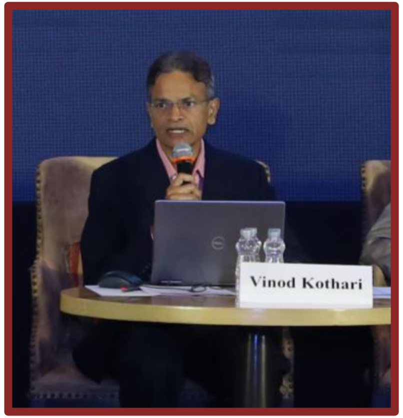
Dr. M. S. Sahoo
Distinguished Professor, NLU, Delhi,
Former Chairperson, IBBI

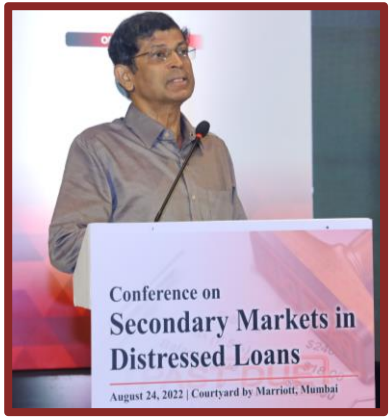
Shyam Maheshwari
Ex-Founder of SSG Capital,
Distressed Debt Expert, Hong Kong

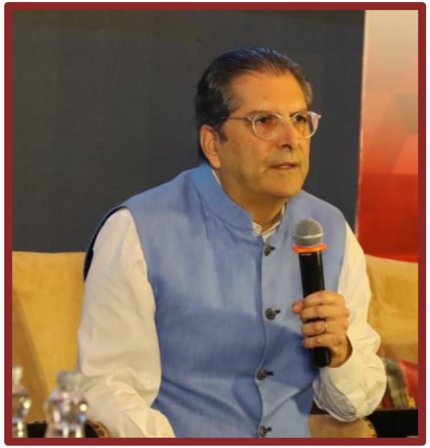
Bahram Vakil
Founder & Senior Partner,
AZB & Partners

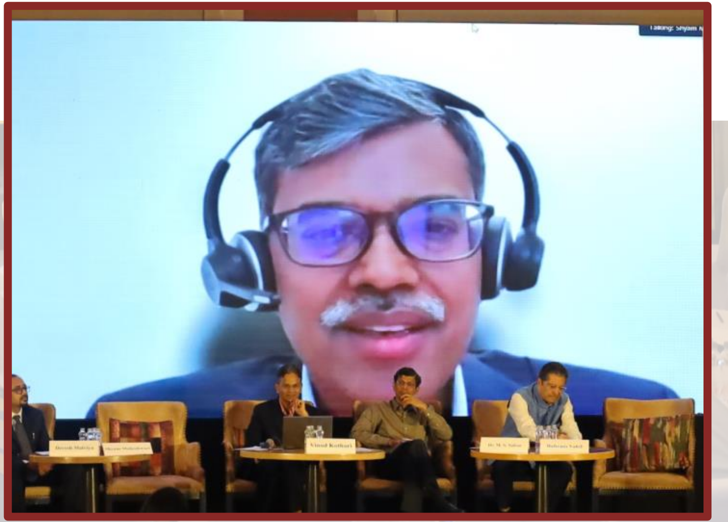
Devesh Malviya
Director, Deutsche Bank AG

Session 1: Market and regulatory overview: India and the World









Session 2: Sell-side and buy-side view of corporate distressed loans

- Seller Motivation - Regulatory prescriptions on NPA recognition and associated provisioning happens to be the biggest motivator.
- Buyer Motivation/ ARC benefit - interest in operating assets, aggregation, resolution and interim finance.
- Non standardisation of practices has been a key deterrent - from the buyers' perspective standardisation is required.
- Unlike global markets, the concept of junk bonds don't exist in India, hence, reducing public participation and tradability of distressed debt.
- Tradability of SR - public trading is not happening, but there have been a lot of bilateral sales.
- Definition of "qualified buyer" needs a change.
- Though the most popular structure in the market is 15-85, however, ARCs face liquidity issues for funding the 15%.
- RBI should increase the scope of bidders - may be special situation funds, large corporates etc. may be brought into frame.
- Tax problems in case of investments by SSFs structured as Category II as there is no tax transparency - a representation may be made in this regard.

Moderator:

Tushar Choudhary
Chief Investment & Strategy Officer, UV ARC

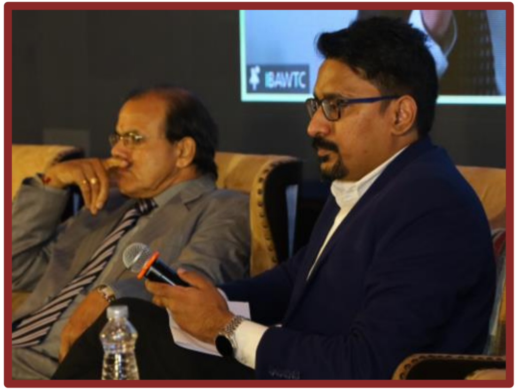
Speakers:

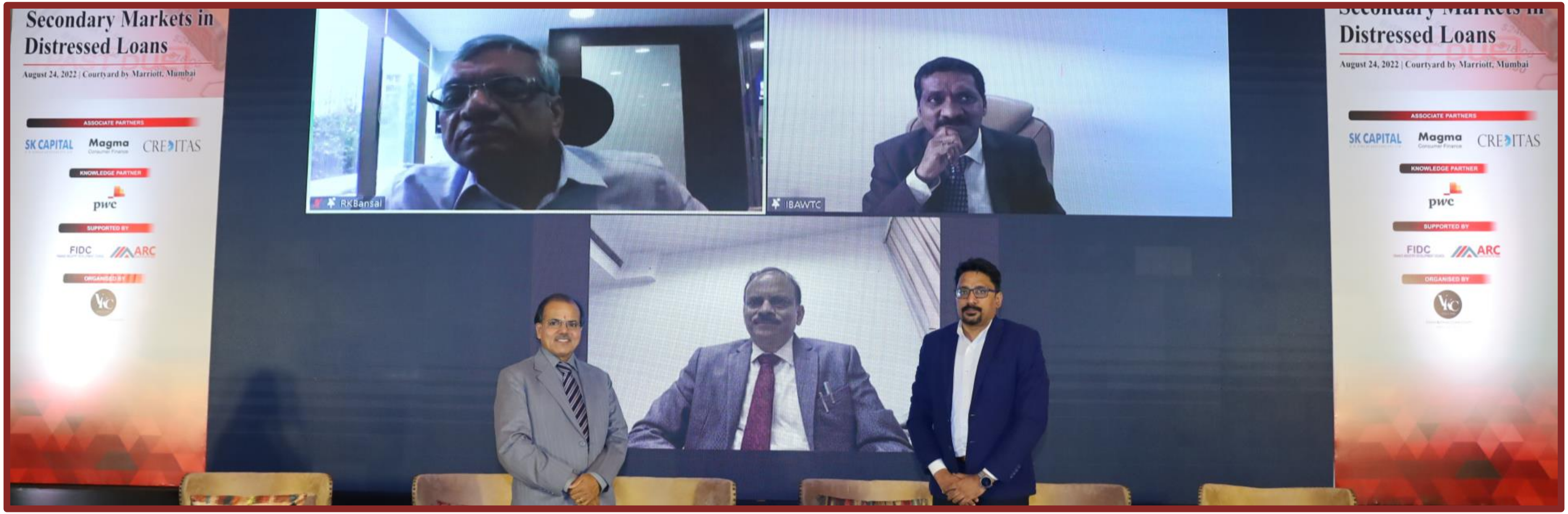
Shiva Kumar Sharma
Senior Advisor, Indian Banks' Association

Sanjeev Pandey
Former Deputy General Manager, State Bank of India

R. K. Bansal
Managing Director and CEO, Edelweiss ARC Limited

Session 2: Sell-side and buy-side view of corporate distressed loans

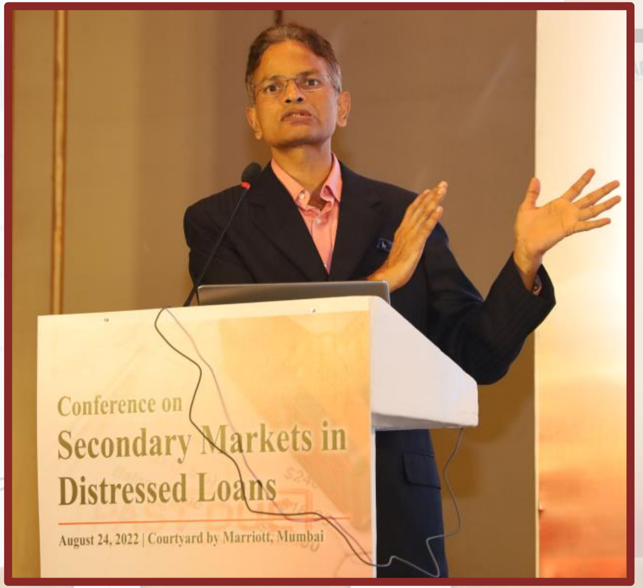




Presentation on Securitisation of Non-Performing Loans

- Currently, the RBI framework on Securitisation deals with securitisation of standard assets only.
- The TLE framework allow transfer of loan exposures between regulated entities only.
- After the 12th November RBI circular, a lot of performing loans may still be classified as NPA for the NBFC.
- Globally, there is no bar on securitisation of NPLs.
  - These transactions may not qualify for STC transactions though.
- For NBFCs it will be crucial to ensure that securitisation transactions pass the derecognition test, else the GNPAs will continue to bother the originators.
  - This can be achieved with the help of external mezzanine investors who can share a part of the risks and rewards associated with the assets with the originator

Presented by:
Vinod Kothari
Director, Vinod Kothari Consultants



Session 3: Sell-side and buy side view of retail distressed loans (1/2)

- Sale of retail loans picked up in the last few years, however, they happen in small lots
- Also, the dynamics are different for different asset classes, be it credit risk assessment or collection patterns
- New investor classes have evolved in the retail space - there are FPIs, HNIs, some ARCs have also built up their capabilities to serve retail pools
- Corporate vs. retail loans are vastly different in intent to pay vs ability to pay - assessment of retail loans in this regard is considerably complex compared to corporate loans
- Currently the retail market does not have sufficient buyers - as the ARCs do not have the ability to handle nuclear, granular loans.
- No leverage is currently available for NPLs:
  - Hence, they are entirely equity funded. The entire leveraging benefit is lost, making it hugely burdensome to hold them on the balance sheet.
  - Collection cost may be about 20% - need for improved collections technologies/ 3rd party service provider

Speaker cum Moderator:
Sriram Ramnarayan
Country Head, India and South East Asia Business, Creditas Solutions

Speakers:

Anshul Jain
Partner, PwC India

Arvind Sampath
EVP and Head Treasury, Poonawalla Fincorp Limited

Sanjay Chamria
Director, Magma Consumer Finance

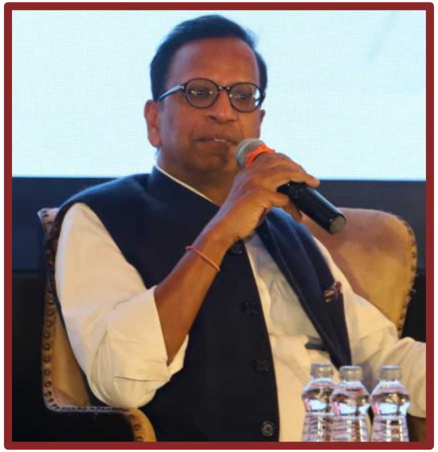
Sanjay Tibrewala
Chief Executive Officer, Phoenix ARC Private Limited

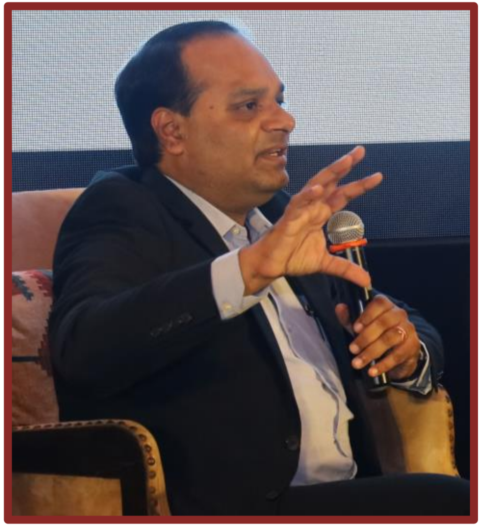
Session 3: Sell-side and buy side view of retail distressed loans (2/2)

- Low interest from foreign investors - information asymmetry, enforcement concerns - personal insolvency threshold/ IBC cost
- Information asymmetry - role of credit bureau, need for credible IU
- Secured retail loan vs credit card defaults - size of credit card default NPLs offered for sale is high but available customer information and enforceability is low
- Peculiar nature of home loans - exposure to both home buyer + real estate developer

- Retail pools have become almost as big as corporate loan
  - Retail pools give cashflows regularly
  - ARCs are now building capability to handle retail NPLs
- The investors in these loans are the alternative investors - whose yield expectation is more than pure fixed income, and less than equity
- With a significant amount of domestic and foreign capital waiting in the sideline, the volumes are likely to get double within a year's time

Session 3: Sell-side and buy side view of retail distressed loans





Session 4: Supporting institutions, technology players and match-makers (1/2)

- SRs - rating agencies have a limited role in valuation. Rating agencies may play a crucial role as they have data, more visibility on probability of recovery, etc. The rating agencies' knowledge can be leveraged. Currently it is only for regulatory compliance.
- Special servicing or third party servicing is the norm in USA, and exists in many jurisdictions. Not still caught up in India.
- Collections are different for different asset classes
- Collections are both art and science. There may be substantial extent of unstructured data; which is different from how it is at the time of granting credit.
  - Customer engagement; loan management system
- Customer data usually received incrementally and repayment projection/ plan need to be redrawn. In debt management systems, the 2 key pieces are the CRM and the ERP.
- High customisation requirements may make SAAS model of a collection technology/ platform unworkable

Moderator:

Hitesh Shah
Director,
S K FinCap Advisors Private Limited

Speakers:

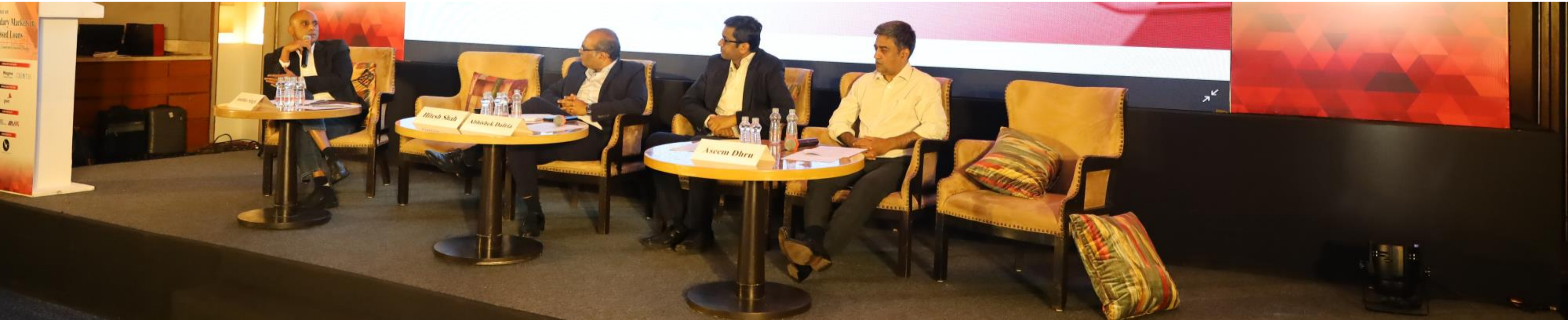
Abhishek Dafria
Vice President and Group Head,
Structured Finance, ICRA

Anubhav Singh
Chief Executive Officer,
Moneytor

Aseem Dhru
MD & CEO,
SBFC Finance

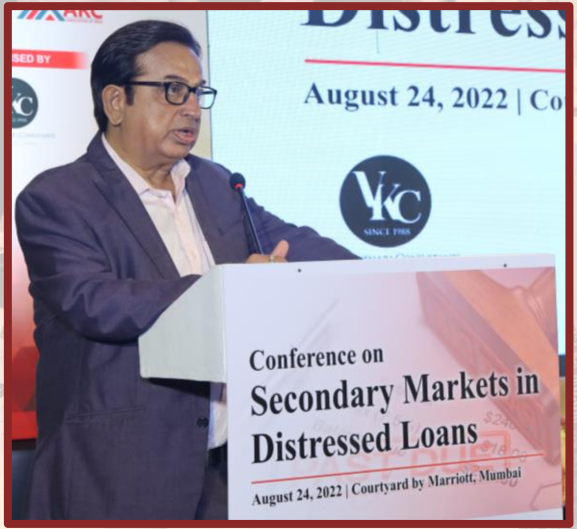
Session 4: Supporting institutions, technology players and match-makers (2/2)

- SARFAESI rights are given to a lender.
  - Assignee? Law is not settled
- Collection are dependent on engagement with the borrower, not just on the basis of property rights
- Rate of returns depends on the nature of the asset class. Corporate loans can be chunky, but retail distressed loans give cashflows over time.
- Retail distressed assets
- If you are lender yourself, no commingling of assets owned vs those serviced



Session 4: Supporting institutions, technology players and match-makers

Closing remarks



Mahesh Thakkar

Director General,

Finance Industry Development Council (FIDC)

Thank You!

Organising Committee
Conference on Secondary Markets in Distressed Loans