GM Corporate Solutions

Financial & Strategic Advisors

India-Snapshot 2019 and Outlook for 2020

Global Economy

The year 2019 bore witness to various interesting events. The trade war between China and the US seems like the tip of the iceberg with more trade negotiations in line for 2020 across the globe. This varying scenario has prompted countries to look to protect their own economies from the effects of the trade tensions.

As per the IMF, global growth in 2019 reached its slowest since the global financial crisis. Growth is expected to revive in 2020 with the IMF expecting global GDP growth to increase to 3.4 percent compared to 3 percent in 2019. The global outlook for 2020 rests on uncertainties about international trade, the policy stance of central banks and geopolitical risks (particularly in the Middle East).

Indian economy

The Indian economy posted slower growth in 2019 than in 2018 as various industries navigated through multiple challenges. As per experts, reasons could be several- slowing demand due to credit freeze, ripple effect of policy decisions (GST/demonetisation), real estate debacle and ongoing NPA issue with banks etc. The year saw a fallout of few NBFCs. This led to constrained funding access, rising borrowing costs and recalibration and de-risking of loan book. On the positive side, the bad loan recognition cycle finally posted a decline with a lesser gross non-performing loan ratio.

The Government has been consistently taking measures to bring it back on track, which includes policy reforms and even tax reduction. USD 10 billion allocation for the banking sector and mergers of 10 public sector banks into four are steps towards improving credit availability. The expectation for 2020 is further improvement in recoveries of bad debts through the NCLT route and better monitoring of the lending process going forward. Further, the PSBs have also planned to dilute their stakes in non-core businesses to raise further capital.

Manufacturing in India decelerated during 2019. This was primarily due to shrinkage of credit flow which trapped the growth and was further fuelled by a decline in demand. Few reasons for credit shrinkage could be attributed to:

- Defaults on debt servicing by corporate houses
- Crisis in the NBFC sector due to overexposure to real estate & automobile markets
- The Inability of SMEs to service debt commitments in the aftermath of demonetization

The consumer goods sector including the FMCG grew at a slower pace. However, certain segments such as air-conditioner and smartphones had some respite. The general consensus is that the second half of 2020 would see an upswing in growth rates. It remains to be seen how other factors such as GDP growth, commodity inflation and monsoon would turn out to fuel this growth.

The Media & Entertainment sector which reached USD 23 billion in FY19 is expected to achieve around USD 27 billion in FY20. Television faced major headwinds and grew at a slower rate due to delayed implementation of the new tariff order. The April-May General Elections and the Cricket World Cup bolstered the ad spends. The print industry stayed buoyant due to growth in regional media. The year witnessed growth in regional audiences and their demand for content in local languages. The increasing penetration of the internet has led to Indians consuming more content across digital platforms.

The media & entertainment sector is expected to grow @ 13.5% annually from FY19 to FY24 to reach USD 43 billion in FY24. This would be driven by a greater focus on monetization of emerging digital business models, strong regional opportunities and favourable regulatory & operating scenarios across traditional businesses. Digital is poised to become the second-largest segment and will attract much larger advertising spend in 2020.

A snapshot of 2019 and the takeaways for 2020

India's first Real Estate Investment Trust was launched in 2019, thus opening new avenues for investing in A-grade commercial office spaces. Branded developers fared better with some listed players performing exceptionally well on sales and commensurate revenue growth. The overall funding in the sector remained consistent against last year at USD 5 billion.

Office leasing increased by more than 30% annually in the first three quarters of 2019. Commercial spaces continued to be the most sought-after asset class, receiving about USD 3.3 billion funds. The retail segment drew nearly USD 1 billion in funding against USD 355 million in 2018 due to high demand for organized retail spaces.

The residential segment still recorded funds infusion of USD 395 million against USD 295 million in 2018. Investors showed keen interest in last-mile funding for stuck housing projects. The housing sales recorded a modest annual growth of 4-5% in 2019; new launches grew by 18-20% with about 40% in the affordable segment.

The logistics & warehousing segment saw leasing activity increased by about 30% in the first half of 2019. The segment has attracted USD 200 million funding, a decline of 50% vis-à-vis 2018. Mixed used developments also saw similar trends in funding, with total funding at USD 155 million in 2019.

Overall the real estate sector did remain affected by NBFC debacle, liquidity squeeze and slow pace of recovery. The effect was especially prevalent in residential real estate. The Government came to the rescue with an alternative investment fund of USD 3.6 billion for last-mile funding of stalled housing projects. GST rates were also slashed to 5% to make under-construction projects more attractive. In 2020, would be interesting to watch out for the benefits the real estate sector can reap as a result of Government initiatives.

The auto sector and ancillaries saw a decline in all segments ranging from 13% to 17%. However, premium SUVs still recorded a growth in sales. Launch of the British brand Morris Garages and Korea's Kia Motors in such a market still scripted textbook entries into the country. The Government's focus on electric vehicles, the transition from BS-IV to BS-VI norms from 1st Apr 2020 and increased focus towards CASE vehicles are going to drive the industry in 2020. India is still expected to emerge as the world's third-largest passenger vehicle market by 2021.

The telecom industry saw the operators locked in battles for the large part of the year. A lot of major decisions were taken by the TRAI and DoT. In the biggest blow to the telecom operators, Bharti Airtel and Vodafone Idea were saddled with dues totalling USD 12.8 billion. This came as a result of the Hon'ble Supreme Court's judgment on the definition of adjusted gross revenue. Towards the end of the year, the telecom companies raised tariffs by about 40%. The tariff hike is expected to increase the average revenue per user and improve the overall financial state of the telecom industry.

Foreign Investment inflow: While the Indian economy grew at a slower pace, foreign investors continued to remain optimistic. FDI in the first half of FY20 surged to USD 25.7 billion from USD 22 billion, a 17% y-o-y growth. FDI inflow in the second half of FY20 is expected to further rise. Foreign Institutional Investors put more than USD 14 billion net in Indian stocks, which is the highest in six years.

Policy decisions and regulations: Debt resolutions continued to be one of the highlights of 2019. Jet Airways was admitted to bankruptcy and a landmark resolution was reached in the case of Essar Steel. The IBC turned out to be a gamechanger in 2019. Till Nov 2019, IBC has resolved 167 cases amounting to approx. USD 53 billion of unpaid dues, helping recover 42% of this amount. Another impact of the IBC has been the settlement of cases even before being admitted at the NCLT.

The liberalization of FDI policy continued with relaxation in conditions of single brand retail trade and coal mining. To provide a level playing field for Indian news publishers and news aggregators, FDI up to 26% for digital media is mandated under the government approval route. The end-use norms of funds raised by ECBs were also relaxed further.

A snapshot of 2019 and the takeaways for 2020

To improve the ease of doing business, the government introduced integrated incorporation form which extends eight services from three ministries through a single form. This has expedited the setting up of new businesses in India. The government also amended the provisions relating to issue of shares with Differential Voting Rights. These now enable promoters of Indian companies to retain control even as they raise equity capital from global investors.

Impact of these policy measures by the Government in 2019 is to be watched out for in 2020.

Taxes: The Government slashed corporate tax by almost 10% in Sep 2019 which is the biggest reduction in 28 years. Companies now have the option to pay corporate tax at 25.17 percent, subject to certain conditions. To provide a fillip to indigenous manufacturing, the tax rate has been further reduced to effective 17.16 percent for new manufacturing units that start production before FY23. With this India becomes one of the lowest tax regimes for manufacturing units globally.

In another move, the so-called 'angel tax' is dispensed with for start-ups which are registered with the DPIIT. This has provided a big relief to start-ups and the investors.

GST rates were modified/lowered many times in 2019 on several items including housing, electric vehicle, hotel accommodation, diamond job work and outdoor catering. In 2020, further rationalization may be underway for GST rates.

M&A/deal highlights:

Despite global headwinds, M&A deals in 2019 remained stable at over USD 52 billion across 1,024 deals. Some big-ticket announcements in the M&A space in India in 2019 were:

- **Banking:** The Government announced a mega-merger plan to merge 10 public sector banks into four which is expected to be completed in Q1 this year.
- **Telecom**: The telecom sector saw the merger of the state-owned operators BSNL and MTNL as well as that of Vodafone and Idea.
- **Infrastructure**: Canada's Brookfield Infrastructure Partners acquired Reliance Industries' Reliance Jio Infratel unit for USD 3.66 billion, making it the single-biggest PE deal ever in India. Proceeds from the investment by Brookfield would be used to repay financial liabilities.

- **Media & Entertainment**: Inveso Oppenheimer and Essel Group signed an agreement in July to acquire an 11% stake in Zee for USD 614 million. HT media acquired a 51% stake in Radio One parent Next Mediaworks.
- **Real Estate**: Blackstone and Salarpuria Sattva Group acquired Café Coffee Day's Global Village Tech Park at a value of USD 390 million. The proceeds of the deal would be used to repay Café Coffee Day's debts.

Since January 2018, Blackstone has invested approx. USD 1.5 billion across six deals. Its total investment in the country now stands at USD 6 billion across 34 transactions. Twenty of these transactions are in office space, valued at USD 4.4 billion, while the rest are in malls and residential spaces.

- **Automotive:** Mahinda & Mahindra entered into 51-49 JV with Ford Motors to develop, market and distribute the latter's vehicles in India. Ford will transfer its India operations to the JV. Meanwhile, leading auto companies also invested in e-mobility companies, e.g. Bajaj Auto Ltd.'s investment in Yulu Bikes, Hero MotoCorp's investment in Ather Energy, etc.

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Funding trends among Start-ups: The funding amount and deal count have stabilized over 2017 to 2019 with total USD 12.7 billion raised across 766 deals, recording a 15% increase from 2018. Bridge funding and growth-stage funding grew at a high pace while seed-stage funding plummeted. Sector-wise, fintech, enterprise tech, e-commerce and consumer services saw the most deals.

The year also witnessed many new India-focused fund launches. Some prominent ones are SoftBank's USD 108 billion fund for new-age technologies, Accel Partner's USD 550 million India-focused fund, A91 Partner's USD 351 million fund, etc.

M&As in Start-ups: Until November end, 86 acquisition deals were signed. Reliance lead the charts having acquired 11 start-ups in 2019. Enterprise tech, Fintech and media & entertainment led the tally in the number of deals. Some of the notable deals are Ebix's USD 338 million acquisition of Yatra, Pine Labs' USD 110 million acquisition of Qwicksilver and Oyo's USD 32 million acquisition of Innov8.

The Outlook for 2020:

To provide stimulus to slowing economy, the Indian government has taken a flurry of initiatives like corporate tax reduction, financial sector restructuring and relaxations in regulations, etc. The focus of the Government remains on improving the credit flow, growth of core sectors and further improving the investment climate in the country. Bracing for an exciting time in 2020 full of new opportunities in this market!

Glossary

Abbreviation	Description
BS IV	Bharat Stage Four (emission standard)
BS VI	Bharat Stage Six (emission standard)
B2B	Business to Business
CBDT	Central Board of Direct Taxes, Department of Revenue, Ministry of Finance
CASE	Connected, Autonomous, Shared and Electrified
DPIIT	Department for Promotion of Industry and Internal Trade, Ministry of Commerce & Industry
DoT	Department of Telecommunications, Ministry of Communications
ECB	External Commercial Borrowing
FMCG	Fast Moving Consumer Goods
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
GST	Goods and Services Tax
GDP	Gross Domestic Product
HFC	Housing Finance Company
FY19	Indian FY 2018-19
FY20	Indian FY 2019-20

Abbreviation	Description
IBC	Insolvency and Bankruptcy Code
JV	Joint Venture
M&A	Mergers and Acquisitions
NCLAT	National Company Law Appellate Tribunal
NCLT	National Company Law Tribunal
NBFC	Non-Banking Financial Company
PSB	Public Sector Bank
SME	Small and Medium Enterprise
SUV	Sports Utility Vehicle
TRAI	Telecom Regulatory Authority of India
EU	the European Union
IMF	the International Monetary Fund
US	the United States of America
USD	United States Dollar
y-o-y	year on year

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