CONTENTS

CXO INSIGHTS

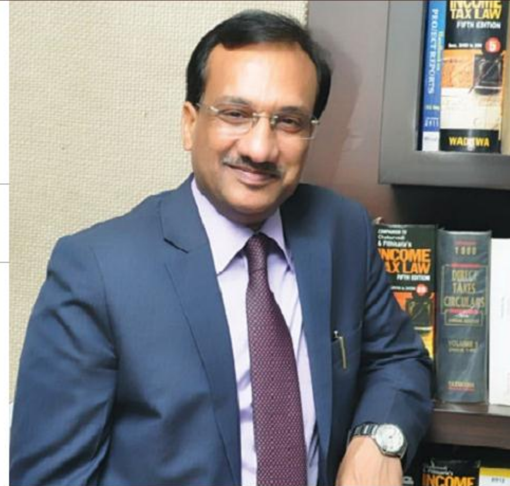
16 Know your fuels and what it can do for you!
Eeshwar Chopraa, VP Group, Creatnet

31 Adopting New Age HR Trends and Technology for Effective HR Functionalities
Delna Dhamodiwala, VP HR, Prime Focus World

38 A Pragmatic View on Debt Management
Pankaj Karna, MD, Maple Capital Advisors

41 Evolution and Future Scope of Accounting & Tax consulting in the Indian market
Deepak Narayanan, Co-founder & Director, MyCFO

CONSULTANT OF THE MONTH



14 ARK Corporate Advisors: Ushering Guidance and Assistance in Debt Advisory Services Through Transparency
Rajneesh Aggarwal, Chairman & MD

COMPANY SPOTLIGHT

18 Indcap Advisors: Bringing in Benchmark Solutions to Debt Management
Rahul Bhutoria, Promoter Director

46 LAST WORD

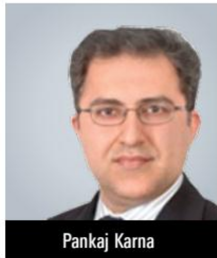
A Pragmatic View on Debt Management

By Pankaj Karna, Managing Director at Maple Capital Advisors

Established in 2010, Maple Capital Advisors Pvt. Ltd. is purely focused on leverage capital and has an established track record of debt syndication in the mid market space. Holding over 20 years of experience in principal debt finance and advisory, Pankaj Karna has executed and advised on over 100 transactions and presently nurturing his experience for the growth of Maple.

In the emerging environment especially when the markets we have seen some challenging times and corporate have got impacted, intensity of which has varied depending on which sector one operates, debt management becomes vital and varies from the sectors one operates and market conditions.

We have seen that proactive debt management has had good dividends and much of this is also driven by discipline, effective communication and having/ using an optimal mix of lenders to get the requisite flexibility.


Pankaj Karna

While I have tried to bucket the broad segments based on the kind of debt that may be at play, debt management given the sector idiosyncrasies needs to be customised and best applied within sectors. Broadly 3 sectoral buckets that cover a big spectrum of debt today are:

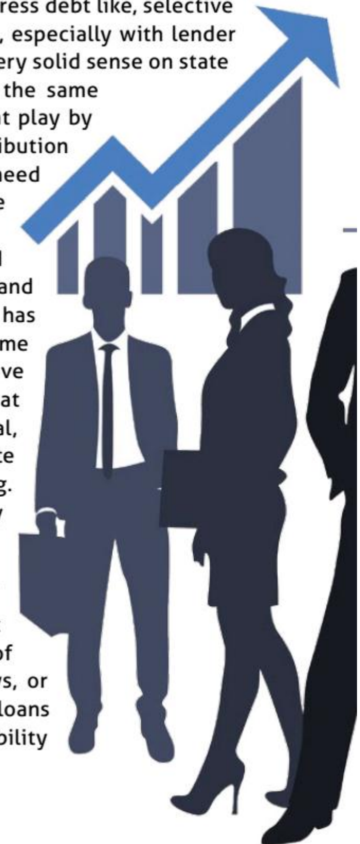
1. Infrastructure and Real Estate
2. Manufacturing and Consumption driven
3. Asset light services and start up/early growth companies.

Infrastructure and Real estate:

Many of the growth plans that got penned in buoyant market conditions (2005-2010) led to plans getting funded often with a healthy mix of debt. With slowing markets, macro factors and regulatory aspects many of the projects especially in the infrastructure space got delayed or suspended and with leverage on the books, it has been one of the most challenging times for such corporate. The scenario has been somewhat similar in real estate as well, where the impact has been largely driven by slowing demand and investor interest.

The predominant focus here would be driven by gaining flexibility, maximising restructuring and in some cases evolving solutions to address debt like, selective asset divestiture. The key here, especially with lender engagement is to be having a very solid sense on state of affairs and communicating the same effectively. Often the capital at play by lender far exceeds equity contribution and in that sense lenders need to be made partners in the solution. Often the solutions lies in synchronising the ground realities to the debt on books and to that extent, environment has been supportive eg: 5:25 scheme by RBI. One of the effective solutions has been looking at alternative sources of capital, with investors with alternate risk and investment horizons eg. Mezzanine funds, Private equity and NBFC's.

In real estate, the situation is driven by velocity of demand, and thereby, debt needs to be managed on back of effective pooling of cash flows, or restructuring/replacement of loans tied to better cash flow visibility



within the group. Some of the approaches of carve out sales to other developers that caught on well, in 2014 are now slowing down. Synchronising loan tenors with new realities is thus the key and often the situation may require solution in conjunction with private equity or NBFC's given the restrictions in the banking systems.

Consumer and Manufacturing:

Largely a segment that has seen predictable cash flows and companies have been performing fairly with selective variations in growth. Capex cycle in typically ongoing and banks have traditionally aggressively prospected this segment. In wake of "Make in India" initiative there is directional positivity as well. Debt management in this segment often is 2 pronged, one being on the working capital side wherein, key is to undertake effective cash management, manage forex risks and ensuring credit lines for seasonalities and business volatilities. Effective use of forex credit for working capital where feasible can result in substantial cost savings while exploring Commercial Paper and Mibor linked products is an effective means to address the short term financing in a cost efficient way apart from off balance sheet factoring etc.

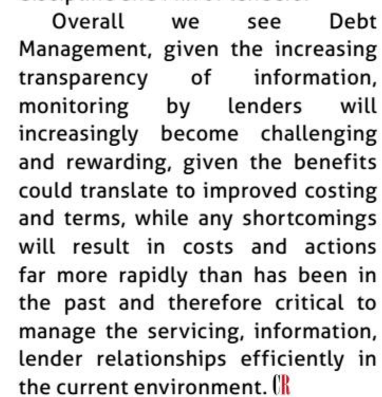
On the term financing for brownfield and greenfield situations, evaluating export credit especially for machinery capex has been very effective giving suitable tenor and pricing efficiency eg Hermes, Coface. Important to continuously evaluate loan pricing; given banks and FI's have been aggressive lenders in this space. Effective structuring, moratoriums and minimising pre payment penalties are key aspects that need to be negotiated well. As for acquisition financing, given M&A's are increasing, exploring with NBFC's is a good option given the flexibility in addition to mezzanine and equity options.

In select cases relationships could commence with select additional collagenisation, even as we have seen in many cases this could fall away with increasing scale, achieving milestones

Asset light businesses and early stage funded businesses

A big segment of the business in India is asset light and profitable, and often under serviced by lenders. The sustainability of cash flows has led to many banks and NBFC's now banking such sectors and exploring credit, often structured around cash flows. In select cases relationships could commence with select additional collagenisation, even as we have seen in many cases this could fall away with increasing scale, achieving milestones. Structures that give cash flow visibility and comfort, effective use of escrows, debt service covers are useful in managing debt in such cases.

There has been another category that has been start ups and early growth companies wherein, the tradition metrics often don't qualify for traditional debt raise; this is often similar in case of asset light companies. There is emerging option of venture debt that addresses, however this is also significantly driven by cash flow comfort or minimising dilution at cost of fixed medium-high yield debt. Apart from the sector specifics, there are some key aspects that go well in effective debt management such as, Credit Ratings, CIBIL Scores and debt discipline and Mix of lenders.



Overall we see Debt Management, given the increasing transparency of information, monitoring by lenders will increasingly become challenging and rewarding, given the benefits could translate to improved costing and terms, while any shortcomings will result in costs and actions far more rapidly than has been in the past and therefore critical to manage the servicing, information, lender relationships efficiently in the current environment. CR