



GDA Consulting: The Year That Was

As the financial year draws to a close, Team GDA Consulting looks back at the numerous and varied assignments that we have completed over the past 12 months.

GDA Consulting is empanelled with several PSU Banks for the purpose of conducting Techno-Economic Viability (TEV) studies and Lenders Independent Engineer (LIE) assignments.

One of the most critical TEVs we carried out was for a Rs. 350 crores cold storage units company. Already a well-established player, the company had major expansion plans for which the bank approached us for conducting an extensive viability study before sanctioning and disbursing the loan.

There were several other TEVs that we carried out – from Pharma companies and Hospitals to units in sectors such as Ethanol, Real Estate, Infrastructure, Textiles, Manufacturing and Retail, to name a few.

GDA Consulting has also been carrying out an LIE for a big name in the luxury residences space. This assignment is being carried out on behalf of a consortium of banks with a total exposure of Rs. 4,000 Crores. It is a testament to our work ethic and the goodwill that we've earned through past assignments that we were entrusted with such a large and critical client.

Throughout the year, GDA Consulting also carried out several Valuation and Due Diligence assignments including valuation of assets in the course of business takeover, valuation of shares for exiting an investee company, valuation of a major player in the d2h segment for its merger with another giant Company in the same segment. Advisory Services for the revival plan of a leading automobile and commercial vehicle dealer and Review of Financial Restructuring proposals were among the other services we provided.

After a very fruitful FY 2016-17, GDA Consulting is now gearing up to scale greater heights in FY 2017-18!

SECTOR SNAPSHOT

Auto Industry

- Indian auto industry is one of the largest in the world
- World's 2nd largest two-wheeler manufacturer
- Contribution to India's GDP: 7.1%

Why We're Bullish

Demand for Passenger and Commercial vehicles likely to grow due to:

- New Safety & Emission norms likely to drive replacement demand - Bharat Stage IV compliant engines mandatory post April 1st, 2017 plus ABS/CBS installation mandatory in two-wheelers
- Green Urban Transport Scheme
- Make In India under Auto Mission Plan (AMP) 2016-26
- 100% FDI under Automatic Route
- Rising disposable incomes pushing demands for superbikes and second bikes
- Lower loan interest rates

=====

Real Estate

- Ranked #4 in Developing Asia FDI Inflow
- India RE sector expected to grow to \$180 billion by 2020
- Contribution to India's GDP: 5-6%

Why We're Bearish

- High inventory build-up, esp. post demonetization
- Commercial space demand impacted by slowdown in IT sector
- Reasons to be hopeful:
 - Govt. incentives for projects under Affordable Housing Scheme could offset fall in overall sector
 - Real Estate Investment Trusts (REITs) expected to transform office sector

NEWS AND VIEWS

Bank Capital – Adequate?

The higher the Capital Adequacy Ratio, the better placed banks are for absorbing risks from defaults.

The recent Capital Adequacy Ratios of most PSU banks, which account for more than 2/3rd of all deposits and advances, are worrying. Higher provisioning for bad debts have reduced CARs and they currently lie between 9.68% to 10.88% (with the minimum capital adequacy ratio of around 9%, at the end of September).

On the other hand, Private Sector Banks along with an exceptional SBI are sitting comfortably at 13% to 15%.

While experts believe that the government has to step in with higher allocation of capital (the Govt. has already allocated Rs. 70,000 crores over a period of 4 years starting FY 16), the banks will have to aggressively generate capital out of internal resources. Banks need to tackle the unimaginable NPA numbers, while selling non-core assets like stakes in mutual funds, insurance etc.

If the capital does not come in time, banks will have to make sacrifices in growth and market share.

The GDA Consulting View:

Going forward, banks will have to take pre-emptive measures to preserve their Asset Quality by walking a tight rope between facing competition and ensuring minimum defaults.

About Us:

GDA Consulting is a premier Financial and Management Consulting firm with offices in Mumbai, Pune, New Delhi and Bengaluru. Our promoters are G.D. Apte & Co. Chartered Accountants, a highly respected 80 year old Audit and Advisory Firm.

Big Troubles for Small Startups

The Indian startup sector is bracing for more job losses as some half-a-dozen mid-sized companies issue layoff notices to hundreds of employees in a bid to trim costs and conserve cash in what portends to be a harsh summer for an industry struggling to deal with the effects of fast-paced growth. While industry insiders blame the tough funding environment for the job cuts — startup investments dropped by 28% to \$1.4 billion from a high of \$2 billion in 2015, according to data aggregator Venture Intelligence — others argue that rash decisions by founders and the top management also contributed to the current bloodbath.

Buyback of Shares: The New Normal?

A number of companies have made plans to buyback a portion of their shares outstanding. TCS recently announced India's biggest buyback offer till date (Estimated Size: Rs. 16,000 Crores). Other companies like **Cognizant** have also announced similar schemes with **Infosys** also expected to follow suit.

These announcements come at a time when companies have been sitting on record amounts of cash reserves. Infosys, in particular, came under fire from its founders for "hanging on to surplus cash" which in their opinion has impacted shareholder value.

More such buyback offers are expected from companies across various sectors. State-run entities such as the subsidiaries of **Coal India Limited** (Rs. 5,095 Crores) and **NHPC** (Rs. 2,166 Crores) have already got the go-ahead from their respective Boards to release cash for the buyback of shares.

The GDA Consulting View:

IT companies have found a way to enhance shareholder value by rolling out buyback schemes. Most software majors are facing a slowdown in business due to various factors such as uncertain global macro-economic conditions and fears over restrictive US policies. A buyback scheme benefits the company and shareholders in many ways such as

- Pushing up the share price through a better P/E multiple
- Providing a more tax efficient way to distribute earnings
- Increased Earnings Per Share (EPS) and better Return On Equity (ROE)
- Shareholders who avail of the scheme receive Market Price plus Premium

The most critical factor in a buyback scheme: Valuation

The price fixed for the buyback offer determines the success or otherwise of the scheme. GDA Consulting has carried out several Valuation assignments. We understand the need for proper valuations and deliver results based on a holistic view of the business entity.