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Govt orders probe into grounded Jet Airways, SFIO summons Naresh Goyal

The government has ordered an investigation into grounded Jet Airways and its group companies for alleged diversion of funds, indulging in malpractices and other financial irregularities found during an inspection. The Ministry of Corporate Affairs has directed the Serious Fraud Investigation Office (SFIO) to probe the stressed company's affairs and summon its founder Naresh Goyal next week, a senior official confirmed.

Jet, with more than Rs 8,000 crore of debt, flew for the last time on April 17 after it ran out of cash. Having failed to revive the airline, the lenders' consortium, led by the State Bank of India (SBI), sent Jet to the bankruptcy court last month in a bid to recover the dues.

The MCA has ordered the SFIO probe under Section 212 (1) C of the Companies Act, based on its inspection report. The report indicated "prima facie" that the company was involved in "malpractices, mismanagement through siphoning of funds…preferential and related party transactions, prejudicial to public interest," according to the order

SFIO has been directed to complete the investigation within six months and submit its report to the government.

Jet's group companies including Jet Lite, Airjet Ground Services Limited, Airjet Engineering Services Limited, Airjet Training Services, Airjet Security and Allied Services and Jet Privilege Private Limited are now under the lens of SFIO according to the order issued on July 4.

There have been allegations of fund diversions of more than Rs 5,000 crore out of the airline by Goyal through questionable transactions. In fact, several instances have come up in the MCA investigation where Jet is suspected to have written off investments in various subsidiary companies without any apparent reason, sources close to the development pointed out.

Amazon plans to shut down 2-hour delivery app 'Prime Now' in India

Global e-commerce giant Amazon is planning to shut down its Prime Now app in India, after failing to gain traction among Prime members and not being able to refine the business and logistics model in the country, sources in the know said.

The Prime Now app sends, at no delivery charge and in two hours, stuff such as groceries, electronics, home, and kitchen essentials in select cities to members of Amazon Prime, a paid subscription service. Amazon India has around 10 million Prime members.

While the fate of Prime Now is still unclear, it will most likely be scrapped and added as a vertical to Amazon India's main shopping app, the sources said. The other option being considered is that the app will be used for certain services for the time being and kept as a standby to be scaled up later when the market is more mature for it, they added.

To a detailed questionnaire, Amazon said, "We do not comment on what we may or may not do."

The company, which was bullish about its two-hour delivery service until recently, is facing a host of problems in running the app. From difficulties in sourcing fresh produce to finding reliable suppliers for groceries, the company has not been able to nail the right set of vendors for the service. "They have been cutting down on the Prime Now service for the last few months. The service was not able to find many takers and the whole idea of delivering fresh produce was not happening. The company plans to shut the service and run the grocery programme through the Amazon India app," said a source who was part of the discussions.

A number of reasons led Amazon to think about Prime Now's scrapping. "While Amazon is used extensively in the country, not many people got the hang of the two-hour delivery service," said a source close to the company. The company also had way too many irons in the fire. It has Prime Now, Amazon Pantry, and the main app. All three sell FMCG products. "This creates confusion in the mind of the user. 'Where do I have to go to buy things? What is the right place?'" said the head of marketing at a major e-commerce company.

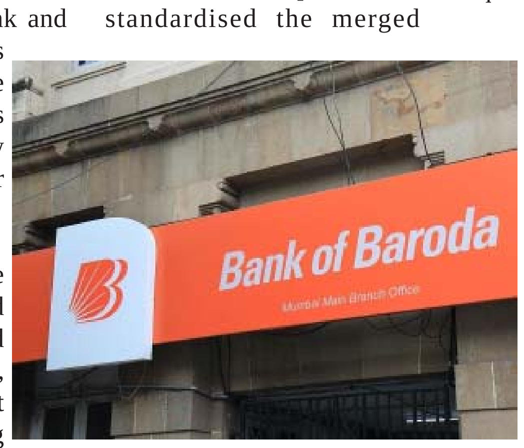
But even when it did manage to hook a few customers on Prime Now, it couldn't convince them to buy enough fresh produce regularly. "Indians want to buy fresh vegetables and fruit from local vendors. It is a matter of trust and habit. It is correct to say people do not have time. They make time for this," said the founder of a now-defunct grocery start-up.

So, if people didn't buy fresh produce, what did they buy? "FMCG. And the margins in those orders are low," said one of the people mentioned above.

Amazon's grocery experiment in India has also been under pressure from the likes of BigBasket, Dunzo, and now Swiggy. All three have been able to hold the customer's attention and wallet share.Amazon now wants to tie up with local retailers to decrease the time and reduce redundancies. It could also take the acquisition route to win back customers.

Bank of Baroda begins post-merger innings on a strong wicket; stock rises

Despite a few misses, the Street seems to be pleased with Bank of Baroda's (BoB's) consolidated numbers. The BoB stock has risen 7.5 per cent in a week. While the merger with Dena Bank and Vijaya Bank was concluded mostly in line with the management's guidance, it does throw up fresh challenges for the bank.



First, reserves of the two banks were marked down by 86 per cent and 24 per cent, respectively, to synchronise the asset quality and accounting practices (particularly retirement-related benefits), with BoB.

This has eaten into the capital adequacy of the consolidated bank, which fell to 9.7 per cent (June quarter) from 11.6 per cent (standalone in Q4FY19). While the write-offs were within the guidance provided by the bank and hence remove investor doubts, analysts at Motilal Oswal Financial Services nevertheless indicate that BoB may be in need of capital in the near term, and could be a beneficiary of a possible recapitalisation exercise undertaken by the government in FY20.

That said, the process has standardised the merged entities' provision coverage ratio to 66 per cent —closer to BoB's standalone number — indicating the bank has taken the required hit on its balance sheet.

However, the combined entity's exposure to non-banking financial companies (NBFC) is now at 16 per cent of the total loan book, with nearly a third in housing finance companies (HFCs), including Dewan Housing.

While BoB is reducing its exposure to the sector by buying out retail assets of HFCs, analysts at Nomura say more clarity on quality of these loans will help crystalise the provision requirement on this portfolio.

Another area in need of urgent attention is the share of the low-cost current account savings account (CASA) deposits. The CASA ratio has dipped from 40 per cent (standalone) to 32 per cent after consolidation.

To keep costs under control, BoB needs to bring the same back to its previous levels, given how other sources of long-term capital have turned expensive and tough to mobilise.

Eventually, these are niggling aspects that will play out for the most of FY20. The major monitorable is integration of information technology, a process that is still work-in-progress.

Yet, at 0.7 times its FY21 book value, BoB appears attractive, given its ability to walk the talk on most merger-related aspects.

YES Bank acquires 9.47% stake in Eveready by invoking pledged shares

YES Bank has acquired a 9.47 per cent stake in Eveready Industries India, part of the B M Khaitan group, by invoking pledged shares.

The shares were acquired on invocation of pledge subsequent to default/breach of terms of credit facilities sanctioned by YES Bank to McLeod Russel India, which is a B M Khaitan group company, the private lender said in an intimation to the stock exchanges on Thursday.

The bank said it had acquired 6,880,149 shares having a nominal value of Rs 5 per share constituting 9.47 per cent of the post-issue paid-up share capital. However, sources indicated the lender would be paid off once the deal for a stake sale in Eveready went through. Promoter holding in Eveready was at 44.11 per cent, according to the March quarter filing.

The B M Khaitan group has been in troubled waters for the past one year and its major firms — Eveready, McLeod Russel India and McNally Bharat Engineering — have been trying to bring down the group level debt.

While McLeod has been selling gardens, Eveready is working on a stake sale. McNally has submitted a restructuring proposal to lenders.

However, according to McLeod's auditor, Deloitte Haskins & Sells LLP, liabilities of the company exceeded assets by Rs 1,435.66 crore as of March 2019 and in the last financial year it was unable to discharge obligations for repayment of loans and settlement of other financial and non-financial liabilities, including statutory liabilities. The auditor also raised concerns on the company's ability to continue as a going concern. Further, rating agency ICRA, has recently downgraded McLeod to 'default' or 'D' category from B-/A4, factoring in recent delays in meeting debt obligations in a timely manner.

Also, last week, Price Waterhouse & Co Chartered Accountants LLP quit as auditor in Eveready, saying it has been unable to obtain sufficient audit evidence of inter-company deposits and its recovery. In its place, Singhi & Co Chartered Accountants has been appointed.

The development was in the wake of a difference of opinion between the auditor and the company on the recoverability of inter-corporate deposits given to group companies and corporate guarantees given on behalf of group entities. These amount to Rs 512.26 crore.

Apart from a stake sale in the company, Eveready has been monetising other assets.

Ambuja Cement scouts for buys in ready-mix concrete to fuel growth

LafargeHolcim-controlled Ambuja Cement is looking to acquire capacities in ready-mix concrete (RMC) and aggregates businesses to fuel growth.

The company is also on the look out for adding cement capacities, if the valuations serve right. "The company continues to look at all growth options in cement and other building materials segments like ready-mix concrete (RMC) and aggregates," a company official told last week. The official added, "Inorganic growth in cement business depends on value-accretive options." Ambuja Cements was one of the firms which had bid for Binani Cement last year, but lost out to UltraTech over a higher valuation.

Analysts see the move as an attempt to move towards being a building materials company and not a pure cement maker."Globally, cement giants have looked at developing a building materials image besides that of a cement maker. The focus for Ambuja looks to be on similar lines," said Nitin Bhasin, head of research — institutional equities — at Ambit Capital. RMC has been a significant revenue and profit generator for ACC, which is now a subsidiary of Ambuja Cement.

In its 2018 annual report, ACC said, "The RMC business has consistently been performing well. RMC sales volume & earnings before interest taxation depreciation and ammortisation or Ebitda rose 16 per cent in 2018 compared to the previous year. During the year, the RMC business expanded its footprint by adding 18 plants."

However, the company may find it difficult to spot acquisition opportunities as RMC is a highly unorganised sector. "However, RMC's capacity in India is largely unorganised. So, it will be difficult for a Holcim entity to make acquisitions in such a market. In addition, the company has so far disappointed in term of growth capital as the Rajasthan greenfield expansion is yet to be complete," Bhasin added.

Ambuja Cements has a consolidated cement capacity of 63 million tones per annum (MTPA), which includes capacity of its arm ACC. Ambuja Cements has 50.05 per cent stake in ACC. People in the know said Ambuja Cements is open to looking at acquisitions through ACC, depending on the geographic advantage of the asset.

Both the firms have also entered into a master supply agreement to unlock synergies in the areas of sales, marketing and logistics. "The master supply agreement is under implementation and savings from the same would be visible from CY 2019," said the official quoted earlier. The agreement looks to unlock synergies in sales, marketing and logistics.

It's time for India's one-brand pharma firms to scale up, diversify

Some of the biggest winners in the country's Rs 1.3-trillion drug market come from its smallest firms, family-run businesses with limited financial and marketing heft that have a superbrand in their portfolio.

Topical disinfectant Betadine (Win Medicare), anti-cold medicine Sinarest (Centaur Pharma), a tonic relabelled as a nutraceutical, Dexorange (Franco Indian Pharma) and multi-vitamin Zincovit (Apex Lab) among many others are all market leaders with enviable recall, often going head-to-head with large, global pharma brands.

Smart, word-of-mouth marketing aided by some deft and nimble distribution practices have helped carve out huge swathes of the market so far. However, while the brand stories embody the power of homegrown marketing tactics, there is a flip side, point out analysts. The small firms have failed to diversify the basket, making them overly reliant on a single brand in a multi-brand universe and susceptible, they added.

Consider the haloed story of Betadine and Win Medicare. The Rs 319-crore-brand has an 86.7 per cent market share in the topical disinfectant category and a five-year compound annual growth rate of 13.3 per cent. The big break for Betadine came when it was launched in the gargle segment where, with 92.5 per cent share, it beats big brands from Wockhardt (Wokadine gargle) and Mankind (Betakind).

Betadine came into the fold of the Umesh Modi-owned Win Medicare in the late eighties after it tied up with Swiss Mundipharma.

But two decades on, the firm does not have another big name in its portfolio. Betadine contributes 58.3 per cent to the overall revenues and the next is Hepa Merz (a liver ailment drug) that contributes only 9.5 per cent to the company's revenues (market data from AIOCD AWACS).

Analysts believe that the one brand success stories are a product of the times they were born in. "Twenty years back, the pharma landscape in India was quite different," explains Amey Chalke, analyst with HDFC Securities, indicating that these categories were untapped by the big brands, which led small firms to step in and dominate.

Similar stories dog the trail of Zincovit, Dexorange, Meftal, Sinarest and other brands. S D Sawant, founder and managing director, Centaur Pharmaceuticals says the Sinarest range contributes around 60 per cent to overall revenues. The brand has been around for over two decades and he adds, "The total anti-cold market is around Rs 1,000 crore and market share of Sinarest is 21 per cent, growing at 12 per cent. The anti-cold category is growing at the rate of 6 per cent."

Chalke says that small companies were able to make small budgets go a long way because big pharma stayed away. "Replicating this today would be difficult," he adds.

Sawant says, "Over-dependence on a major brand is a concern and we have introduced multiple extensions for specific indications to alleviate the risk."

Sinarest contributes over 60 per cent of our domestic sales, it has 20 extensions and each extension is a significant sub brand, he adds. His sales team, he said, has helped keep the brand relevant even as the market has brimmed over, with close to 400 anti-cold brands, he adds.

Analysts point out other hurdles. Many of these brands are not protected against the discovery a new, more efficient molecule as the small firms that own them have not kept pace with the latest research.

"Most of these firms are well below Rs 1,000 crore turnover and bulk of it comes from these one-hit wonders. Perhaps they should focus on other avenues open within the pharma business (contract manufacturing) to de-risk their business models," said an analyst who did not wish to be named.