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Non-performing assets may give law firms good business

While some law firms expect restructuring of assets to emerge as a major business area, others are eyeing opportunities that may arise for M&As related to companies that are under financial stress

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Mumbai: Sensing a business opportunity with bad loans, or non-performing assets (NPAs), on the rise across sectors in a slowing economy, at least half a dozen law firms, including J. Sagar Associates, Nishith Desai Associates, Wakhariya and Wakhariya, and FoxMandal are in the process of setting up special cells to handle such cases.


People working in a law firm. File photo

This even as other law firms such as Majmudar and Co., Economic Laws Practice (ELP) and Ara Law, which have existing teams, are preparing for increased activity in this space.

While some law firms expect restructuring of assets to emerge as a major business area, others are eyeing opportunities that may arise for mergers and acquisitions (M&As) related to companies that are under financial stress.

"With the economy slowing and key sectors taking a hit, we are expecting bad assets in the system to rise considerably," said Dina Wadia, partner at Mumbai-based J. Sagar Associates. "We have a strong presence in banking- and finance-related law mandates, and have now created a cell within the organization to handle these cases."

Wakhariya and Wakhariya, too, is exploring "a couple of situations, and within the financial services group in the organization some people will take care of such distressed sale and restructuring mandates", according to Neeta Sanghavi, a partner with the firm. According to her, opportunities will emerge from the restructuring of foreign currency convertible bonds and overseas debt repayments by companies.

Shuva Mandal, managing partner, south India, at FoxMandal, said the firm will increase team sizes as and when such mandates rise. "Currently, we are working on a couple of mandates, but are yet to see a steep rise in such assignments, though there are indications of an increase in bad assets in the industry next year," he added.

Poor asset quality (loans that run the risk of turning bad) was the biggest concern, even ahead of market volatility and global risks, of respondents to a survey in the *Financial Stability Report* published

OPPORTUNITY IN DISTRESS

- Some law firms expect asset restructuring to emerge as a major business area, while others are counting on M&A opportunities.
- Law firms are setting up special teams and expanding existing ones to handle mandates related to distressed assets.
- More companies are expected to approach corporate debt restructuring cells this year.

by the Reserve Bank of India (RBI) in December.

Bad assets have grown considerably in the recent past and are slated to increase manifold in future, the report said. “If the economy slows, there could be a downstream impact on asset quality,” the report added, identifying agriculture, power, real estate and telecom as the sectors responsible for most bad loans.

An 11 November analysis by *Mint*, based on the results of 36 listed banks, showed that gross NPAs, or bad loans as a percentage of loans disbursed, have grown to Rs 1.07 trillion, up 33% from the previous year. The rise in bad loans has been the fastest, quarter-on-quarter, in at least the past five years.

The report showed that the gross NPA ratio of banks rose from 2.3% at the end of March to 2.8% at the end of September. The net NPA ratio, or proportion of bad debts after provisioning, rose from 0.9% to 1.2% in the same period, while the slippage ratio, or fresh accretion of bad debts, increased from 1.6% to 1.9%. The latest data from RBI shows the asset base of the Indian banking system at Rs 42.35 trillion. The asset base has shrunk in recent months due to the slump in company borrowing.

Suhail Nathani, partner at ELP, a Mumbai-based law firm that has its roots in tax law practice, said consolidation will be rampant in the industry, and his firm can handle “clients’ needs in any phase of consolidation or restructuring that they may require in future”.

Akil Hirani, managing partner at Majmudar, said his firm has “a very strong restructuring and M&A department since the collapse of Lehman Brothers”.

Majmudar has assisted Wockhardt in its corporate debt restructuring (CDR) process and is also advising the administrators of MF Global in restructuring its India joint venture. “Going forward, owing to weak economic conditions, we expect a rise in distressed asset and business sale transactions, as also CDR issues,” said Hirani.

According to B. Ravindranath, executive director at IDBI Bank Ltd, who also heads the CDR cell that includes all the banks, more firms approached to be admitted to the CDR cell last year and he expects the trend to continue this year too.

“Though the number of companies would be more, the volume of bad debt has been low and it would be the case going forward also. We’re expecting stress in sectors like textile, sugar, and oil and gas to increase further, resulting in more number of companies being admitted for CDR,” he said.

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