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Business Standard

Ambani Sold A Tech Dream For $27 bn; Now He Has To Deliver

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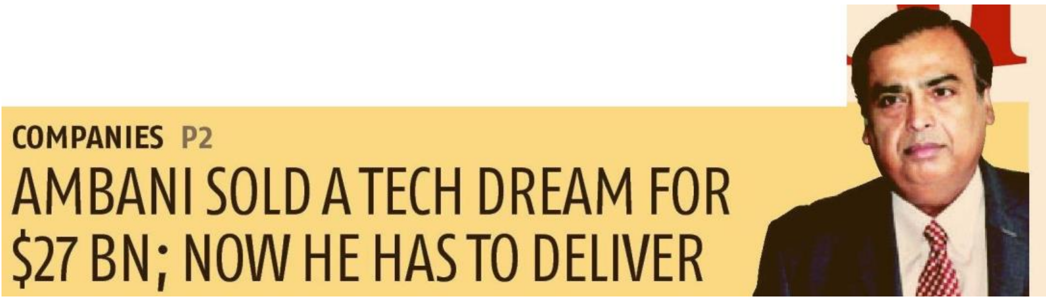


COMPANIES P2

AMBANI SOLD A TECH DREAM FOR $27 BN; NOW HE HAS TO DELIVER

Ambani sold a dream for $27 billion. Now he has to deliver

ANTO ANTONY, P R SANJAI & SARITHA RAI
29 December

Mukesh Ambani spent much of 2020 convincing Facebook Inc., Google and a clutch of Wall Street heavyweights to buy into his vision for one of the world's most ambitious corporate transformations. Now flush with $27 billion in fresh capital, Asia's richest man is under pressure to deliver. The 63-year-old Indian tycoon is focused on a handful of priorities as he tries to turn Reliance Industries from an old-economy conglomerate into a technology and e-commerce titan, according to recent public statements and people familiar with the firm's plans.

These include developing products for the anticipated roll-out next year of a local 5G network; incorporating Facebook's WhatsApp payments service into Reliance's digital platform; and integrating the company's e-commerce offerings with a network of physical mom-and-pop shops across the country.

Ambani is also pushing forward with plans to sell a stake in Reliance's oil and petrochemical units, a deal he had originally hoped would reduce debt and finance his high-tech pivot earlier this year.

Every move

Investors are watching Ambani's every move as he overhauls his empire — with a market value of $179 billion — in the middle of a pandemic, wading into highly competitive industries and taking on rivals from Amazon.com to Walmart Inc. Reliance shares rose as much as 55 per cent this year to an all-time high in September, but they've since pared gains as stakeholders look for more evidence that Ambani can execute.

"The jury is out," said Nandan Nilekani, who co-founded Infosys in 1981 and now serves as chairman of the Bangalore-based software services provider valued at about $72 billion. "There's a lot of work to be done." A spokesman for Reliance Industries declined to comment for this story.

While Ambani has publicly embraced his new partnerships with investors including Facebook (he and Mark Zuckerberg traded compliments during a livestreamed conversation on December 15), the Indian tycoon's fundraising spree was initially meant to be more of a Plan B. His original goal was to sell a 20 per cent stake in Reliance's oil and petrochemicals division to Saudi Arabian Oil Co., at an enterprise value of $75 billion, implying a $15 billion valuation for the stake.

The Aramco deal, first announced in August 2019, was supposed to help Ambani deliver on a pledge to get rid of his company's $22 billion in net debt in 18 months. But as talks with the Saudis stalled, Reliance investors grew more anxious. The stock tumbled more than 40 per cent in the three months through March 23.

Hit a wall

Ambani, who had begun exploring stake sales in his digital services and retail units months earlier, decided to accelerate those talks after the Aramco deal hit a wall, people familiar with the matter said. The response from investors exceeded the company's expectations, one of the people said, with big-name backers including KKR & Co., Silver Lake and Mubadala Investment Co. committing more than $20 billion to the digital business and $6.4 billion to retail. Reliance declared itself free of net debt in June, nine months before its self-imposed deadline and Reliance's shares surged.

At Reliance's annual shareholder meeting in July, Ambani and his eldest children Isha and Akash sketched out the broad thrust of their high-tech ambitions. Among the new services they touted was a 5G wireless network as early as next year and a video-streaming platform that will bring Netflix, Disney+ Hotstar, Amazon Prime Video and dozens of TV channels under one umbrella.

Reliance's digital unit, Jio Platforms, will also develop a portfolio of technology solutions and apps for India's millions of micro, small and medium businesses, Ambani said, adding that he plans to expand the platform overseas.

"The time has come for a truly global digital product and services company to emerge from India," Ambani told shareholders. The company's biggest priority for 2021 is 5G, people familiar with the matter said. While regulators have yet to auction rights to India's next-generation airwaves, Ambani said this month that his company "will pioneer the 5G revolution in India in the second half of 2021."

$54 smartphone

Reliance is planning to showcase its line-up of 5G products at next year's shareholder meeting, which typically takes place sometime between July and September, one of the people said. The company is also working with Google on an Android-based $54 smartphone, part of the strategy to get more Indians to use mobile data for services, including streaming video, online games and shopping.

Reliance views the integration with WhatsApp's recently approved payments system as a crucial step in the development of its online shopping services, the people said. The companies are working together as Reliance's e-commerce platforms look to tap hundreds of millions of Facebook, WhatsApp and Instagram users. Ambani's biggest challenge now is to earn a return on these investments, said James Crabtree, author of *The Billionaire Raj: A Journey Through India's New Gilded Age*. The industries Ambani is targeting are constantly evolving, much more so than the refining and petrochemicals businesses that still comprise the bulk of Reliance's revenue. "He's got to get it right over and over again," Crabtree said.

'Key man' risk

There's also the challenge of "key man" risk. Ambani — the face of Reliance — isn't getting any younger. While the company hasn't publicly disclosed a succession plan, India's Mint newspaper reported in August that Ambani, whose net worth is about $77 billion, is setting up a family council and aims to complete succession planning by the end of next year.

"Any large, single-pillar edifice has major inherent risks," said Kavil Ramachandran, executive director of the Thomas Schmidheiny Centre for Family Enterprise at the Indian School of Business. Ambani supporters point to his recent track record of disruption. He famously upended India's telecommunications industry four years ago by offering free calls and cheap data, pushing some rivals into bankruptcy. His wireless carrier, Reliance Jio Infocomm, now has over 400 million subscribers.

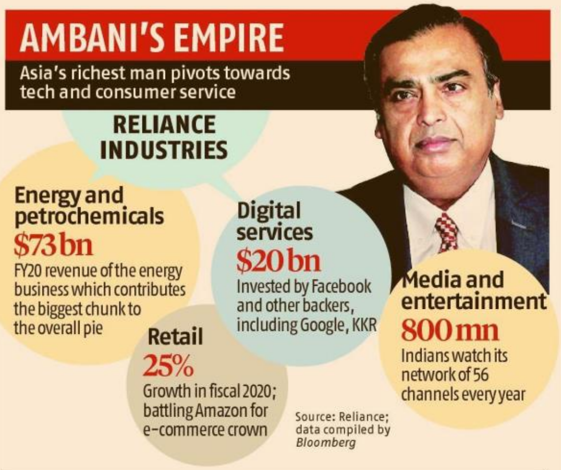
"Mukesh has been a big part of this wave of innovation," said Sundar Pichai, chief executive officer of Alphabet Inc., which owns Google. "His vision and focus of a future where every Indian can benefit from the opportunities technology creates is really exciting to us and we are glad to be a partner in that work."

Countering China

Ambani has also positioned his empire as a potential asset for the government that's keen for ways to counter the growing technological might of China, especially after deadly border clashes between the long-time rivals this year.

Ambani has repeatedly highlighted how Reliance's goals align with those of Prime Minister Narendra Modi's government, which has called for homegrown solutions to bridge the country's yawning digital divide. While Infosys's Nilekani cautions that it's too early to declare Reliance's transformation a success, he's optimistic that Ambani will pull it off. "He has a terrific eye for execution," Nilekani said. "He looks at the big picture while at the same time getting into every minor detail, much like Jeff Bezos. They are both unique. Neither man is known to give up."

BLOOMBERG



Mint
Govt's stake sale goal hits a roadblock
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Govt's stake sale goal hits a roadblock

Poor valuation of PSUs may lead the Centre to miss disinvestment target

Asit Ranjan Mishra
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NEW DELHI

Depressed share value of public sector undertakings—despite markets hitting new highs—has crimped government options as it looks to offload shares of government-owned companies to meet disinvestment target for the year.

"PSU shares are not doing very well. They are doing well compared to six months ago. However, if you compare with their value one year ago or their book value, they are not doing well. This is limiting disinvestment options," a finance ministry official said under condition of anonymity.

The book value per share of the Steel Authority of India Ltd (SAIL) stands at ₹100.50 while the current share price stands at ₹64.50. For Power Finance Corporation, the book value of ₹187.10 apiece is again higher than its current share price of ₹116.10. Besides, though the share prices of Coal India Ltd and NMDC Ltd are higher than their book values, they are lower than year-ago levels.

"The share price is best in one year in stocks such as SAIL, but is lower than book value, which is holding us back from opting for offer for sale (OFS)," he said.

Govt will opt for offer for sale in some PSU stocks and list IRFC and RailTel in the next three months to meet the target

Promoters of listed companies sell part of their shareholding using exchange platforms through the OFS method. It has been a popular method of disinvestment of listed PSUs for the government.

"The market movement is largely for specific stocks, especially Nifty 50 and Sensex 30. Apart from these handpicked stocks, there is no big movement in other stocks, sectors. Some PSU stocks are doing well but most of them have not benefitted from the market boom," said Dipti Lavya Swain, a cross-border corporate and mergers and acquisitions lawyer and partner at HSA Advocates.

Centre missed the disinvestment target of ₹65,000 crore for 2019-20 by ₹14,701 crore as it had to defer a number of OFS such as Coal India, SAIL, NMDC, PFC, IRCON, and Hindustan Aeronautics, which were planned towards the end of the financial year because of the volatility in equity market.

Govt missed disinvestment target of ₹65,000 cr for FY20 due to market volatility. MINT

However, the government will opt for OFS in some PSU stocks and list the Indian Railway Finance Corporation (IRFC) and RailTel in the next three months in a last-ditch effort to bridge the gap shortfall with regard the disinvestment target, said the official mentioned above. The government is likely to garner close to ₹5,000 crore and ₹700 crore from listings of IRFC and RailTel.

The pandemic has derailed the government's disinvestment plans for FY21. It has so far got ₹12,225 crore via minority stake sales and an initial public offer of Mazagon Dock Shipbuilders Ltd against a record target of ₹2.1 trillion for FY21.

Mint reported on 24 December that the Centre's plan to sell off Bharat Petroleum Corporation Ltd to a private entity is unlikely to be sealed in the financial year ending 31 March 2021 though the transaction adviser has completed the technical evaluation of the three interested parties. This could be due to regulatory clearances needed for completing the transaction. Similarly, the privatization of Air India is behind schedule and is likely to be completed only in the next financial year.

India may Impose Duty on Chinese PET Resin

NEW DELHI India may impose anti-dumping duty on imports of Polyethylene Terephthalate (PET resin) originating in or exported from China based on an application led by IVL Dhunseri Petrochem Industries Pvt Ltd and Reliance Industries. The Directorate General of Trade Remedies (DGTR) has recommended anti-dumping duty of $15.54-200.66 per MT of the imported product for 5 years. **–Our Bureau**

Returns may moderate in 2021

Experts say markets have already priced in a lot of positives

PUNEET WADHWA
New Delhi, 29 December

After a stupendous rally in the market from March lows, experts say returns may moderate in the new year. The market's trajectory in the calendar year 2021 (CY21), they believe, will be guided more by developments surrounding Covid-19 and its vaccine, oil prices, global central bank policies, and the US dollar's movement at the global level.

2020 THE YEAR THAT WAS
MARKETS

Back home, corporate earnings and the government's policies to revive economic growth (within and outside the scope of the Budget) amid rising inflation will be keenly watched.

The expectations of moderate returns are linked to the fact that the markets are currently pricing in a lot of positives as they enter 2021 at record highs.

The Nifty50 and Sensex targets of some brokerages for 2021 (see table) also indicate just 5-7 per cent upside from the current levels, compared to about 15 per cent delivered by these benchmarks in 2020 thus far.

ICICI Securities, for instance, expects the Nifty50 to hit 14,900 levels in 2021 in a bull-case scenario. "However, if market bullishness reverts to average sentiment, the base case fundamental value is around 13,500, which indicates flat returns for CY21," wrote Vinod Karki and Siddharth Gupta of ICICI Securities in a December 22 note. But, if a risk-off environment materialises, they expect Nifty50 to touch 11,600 on the downside.

Interestingly, even though the new virus strain has triggered a fresh wave of lockdowns across major European cities and created a flutter in global financial markets recently, analysts say the vaccines should be able to counter the impact and the markets should stabilise soon.

"The 'big' difference this time is that there are vaccines being rolled out and therefore the narrative is that it is only a matter of time before we get through this virus," explains Andrew Holland, chief executive officer at Avendus Capital Alternate Strategies. "So, throw in more government and central bank stimulus throughout the first half of 2021 and the outlook for both the global economy and markets looks positive," adds Holland.

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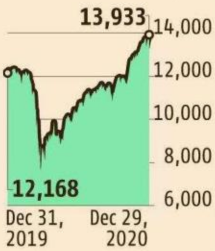
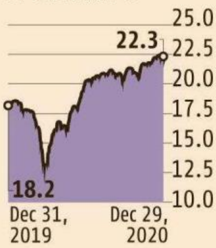
THE MARKET ROLLER COASTER OF 2020

NIFTY 50



BLENDED FORWARD 12-MONTH PE



BROKERAGE RADAR

2021 target

	Sensex	Nifty	Upside (%)
BNP Paribas	50,500	NA	6
Axis Securities	NA	14,600	5
ICICI Securities	NA	14,900	7

Source: Brokerage reports; Bloomberg

Business Standard

Returns may moderate in 2021

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Returns...

From their March 2020 lows, the S&P BSE Sensex and the Nifty50 have gained 83 per cent each. While mid-caps have risen in line with the leading indices, small-caps have seen a sharper surge of 102.5 per cent during this period. A large part of this broad rally has been on account of the gush of liquidity from foreign institutional investors, who have invested ₹1.66 trillion thus far in CY20.

Jigar Shah, chief executive officer at Maybank Kim Eng Securities, who believes that the frontline indices are overvalued, says: "As long as the ultra-low interest rates continue, foreign flows, too, would continue to flood the emerging markets (EM). India being a large market with diverse sector/stock opportunities, flows are likely to be robust in 2021."

The Nifty50 index is trading at a one-year blended forward price-to-earnings (P/E) multiple of 22.3 compared with its 10-year average of 15.8 and 5-year average of 17.5. At the start of 2020, the P/E multiple was 18.2.

Corporate earnings: A key trigger

Another key driver for the markets in 2021 will be how soon corporate earnings beat pre-Covid-19 levels. Earnings in July-September 2020 quarter (Q2FY21) got a boost from lower raw material prices and cost-cutting measures adopted by companies against the backdrop of the Covid-19 pandemic, and surprised the Street. But, sustaining the surprise may not be easy. If Sensex/ Nifty earnings rise by over 30 per cent in FY22, as estimated by brokerages, valuations would turn reasonable. Analysts believe earnings growth over FY20-23 will largely be driven by normalising depressed earnings in corporate banks, telecom, auto, commodities and pharma sectors.

Neelkanth Mishra, MD, co-head of Asia Pacific Strategy and India equity strategist at Credit Suisse, believes that Indian equities are no longer cheap: On PE/ versus their own history, relative to global and EM equities, and versus domestic bond yields. "We find the near-term cyclical recovery to be priced in. Market upside may only come from upgrades to FY23 EPS, and better medium-term growth prospects," Mishra wrote in a note earlier this month. Some experts, however, believe that there will be pockets that will stand out as the bullish sentiment spreads.

With Indian economy set for a sharp rebound in 2021, Holland believes the market returns will become increasingly broad-based with banking, industrials, energy and consumer discretionary to lead the markets. The other more thematic growth areas can be healthcare and telecom.

Shah of Maybank expects sector rotation to be a big theme in 2021. Software services, pharmaceuticals, telecom, cement, private banks, are likely to outperform, he said.

Key risks

Steadily rising inflation and oil prices are key worries for India's fiscal health and markets. From a low of $17 a barrel in April 2020, Brent crude has surged 195 per cent to $51.2.

According to Barclays' estimates, a $10/barrel increase in oil price (implies ₹5.8 per litre increase at the pump) would add 34 basis point to headline inflation over 3-6 months, assuming no change to petroleum taxes. "Not only crude oil, but prices of most metals and vegetables are rising. 2021 could see both demand and supply-side pressures. All this will weigh on the already fragile economy," cautions G Chokkalingam, founder and CIO, Equinomics Research. "The stock market, as of now, is ignorant of this. Sooner or later, the markets will realise the stark reality."

THE COMPASS

SBI Cards' fast growth overshadows its book quality

Potential to expand penetration, shift to digitisation are long-term triggers

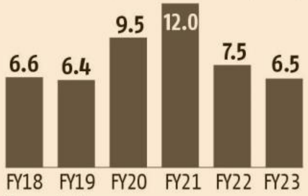
Compiled by BS Research Bureau

HAMSINI KARTHIK

SBI Cards and Payment Services, or SBI Cards, was the most anticipated public issue of 2020. While it was a laggard after listing and the lockdown aggravated its underperformance, with year-to-date gains of 8.5 per cent, the stock hasn't outperformed its banking peers. Given the superior growth rates though, SBI Cards has an attractive investment narrative.

Calling it the quintessential India opportunity, analysts at Macquarie Capital expect the company to deliver a 32 per cent compound annual growth rate (CAGR) in earnings and an average return on equity (RoE) of 28 per cent during FY20-FY23, primarily driven by 25 per cent-plus growth in the number of cards outstanding. These growth estimates are very difficult for any

PLOTTING THE CREDIT COST MOVEMENT (in %)



Source: Brokerages

bank or non-banking lender under the current circumstances, thereby making the credit card issuer a formidable play in the segment.

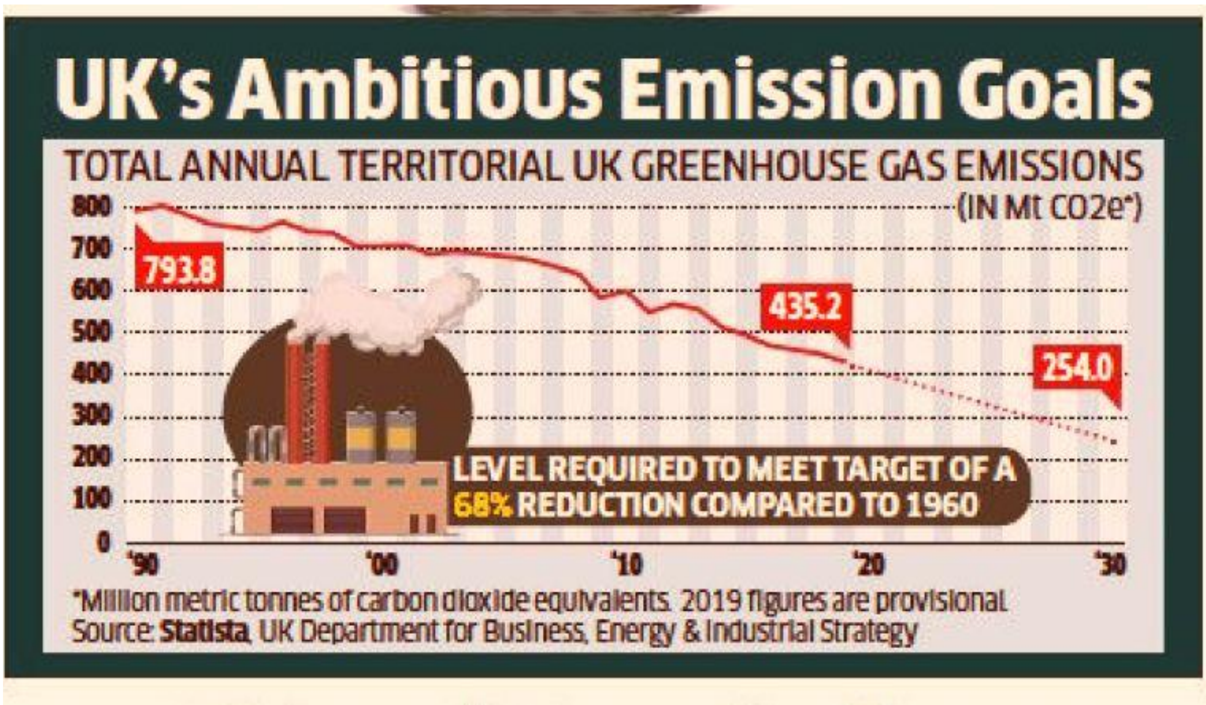
Even those at Kotak Institutional Equities agree. "These return ratios are one of the highest across our coverage universe and represent the nature of the underlying business, which has a high share of fee income, as well as a high-yielding lending book," they note.

SBI Cards is a non-banking finance company and subsidiary of State Bank of India. This corporate structure positions it as a niche player in the segment — that of being the only non-banking card issuer and not just another card division of a bank.

At 10x FY21 estimated book, SBI Cards is the most expensive stock in the financials space and enjoys valuations far superior to a bank-driven credit card business. Positioned as Number 2 player (11 million as of September quarter or Q2) — only after HDFC Bank in terms of total cards outstanding — its long-standing partnerships with IRCTC, Air India, and Bharat Petroleum to name some makes it the market leader in the co-branding segment — an important sourcing strategy for the company.

That said, there are some headwinds to note. After Q2's gross non-performing assets (NPA) ratio increased multifold to 7.5 per cent, analysts expect FY21 and FY22 gross NPA ratios at 8 per cent and 4 per cent, respectively. Credits costs will remain a sore point in the next two-three years for the company. Average spend per transaction may also remain muted at ₹3,300-3,500, given the economic downturn, compared to ₹4,000-5,000 during pre-Covid times.

Yet, despite these concerns, SBI Cards may grow faster than the banking sector (as seen historically) and this justifies its tall valuations. So, any stock price correction presents a good buying opportunity for investors who have missed lapping up SBI Cards during its public issue.


UK's Ambitious Emission Goals
TOTAL ANNUAL TERRITORIAL UK GREENHOUSE GAS EMISSIONS
(IN Mt CO2e*)
800
700
600
500
400
300
200
100
0
793.8
435.2
254.0
LEVEL REQUIRED TO MEET TARGET OF A 68% REDUCTION COMPARED TO 1960
'90
'00
'10
'20
'30
*Million metric tonnes of carbon dioxide equivalents. 2019 figures are provisional
Source: Statista, UK Department for Business, Energy & Industrial Strategy

What bosses gave up this year

From gourmet dinners to business class seats, here's what these leaders relinquished in 2020, sans regret

etpanache@timesgroup.com

Most executives had to alter their routines after being exiled from their glass-skinned offices this spring. But they adapted to the new normal, whilst retaining vestiges of their former lives. Here's looking at the habits they kicked in 2020:

Fine dining
Ravi Chawla,
MD, Gulf Oil Lubricants India

"I am a foodie and have always loved eating out. During the lockdown, my family and I learnt to cook different cuisines at home from YouTube channels. We made everything—from sizzlers inspired by our neighbourhood Yokos/Kobe, to healthy smoothie bowls and different types of biryanis. My 13-year-old son also helped my older daughter create a dish called 'Dynamite Chicken', something we loved eating at the popular eatery PF Changs during our travels.

"In 2021, we have vowed to skip one meal outside in a month and instead, cook something new together at home. We plan to invite friends to savour our creations. I might even try my hand at a culinary business later in life."

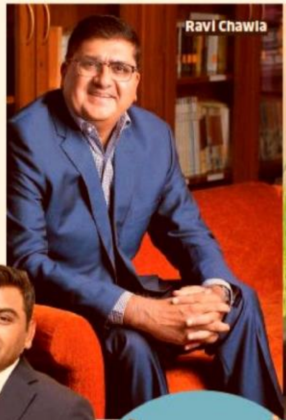
'Roadshows'
Mangesh Ghogre,
Executive Director - Equity Capital Markets, Nomura

"2020 forced us to recognise that our physical presence in the office is not a prerequisite to service our clients and execute transactions. I experienced how smoothly the team transitioned from a physical workspace to a digital workspace. We were able to coordinate with global teams in multiple time zones and complete blockbuster IPOs. The term 'roadshow' gave way to 'screenshow' and the team adapted to the new normal."

Corner office
Rahul Agarwal,
MD, Lenovo India

"In the first few months of the pandemic, we shut our offices and seamlessly transitioned to WFH. I miss the in-person interactions. However, I feel that remote work and the flexibility it affords, results in greater time savings.

"In the next year, I don't see the need to go to the office daily. I intend to adopt a hybrid model, with 3-4 days in office, and 1-2 days of WFH. The pandemic has forced me to think about ways to optimise time for me and my team. I'm on this drive to minimise the number and duration of reviews to reserve time for strategic thinking. In 2021, I'd like to do even fewer reviews."


Ravi Chawla


Rahul Agarwal

PICS: GETTY IMAGES

Dependency
Milind Kothari,
Managing Partner, BDO India

"Before the pandemic, I was hugely dependent on my support staff and team for nearly everything: Personal banking, tracking investments, complying with tax-payment deadlines, fixing appointments and, of course, being chauffeured to office every day. During the lockdown, I had no access to support staff and had to manage all these tasks myself.

"While I am thankful to those who helped me with the business of living, I am in a good space, for now, having realised that with better time management, I can have greater control over my life."

Screen time
Nithin Kamath,
CEO, Zerodha

"I turn off all my devices by 8 pm every night now to stop the constant distraction that otherwise has been an issue with WFH and the pandemic. I intend to stick with that forever."


George Mitra

Business travel
George Mitra,
CEO, Fintso

"Travelling to a different city every week had become a part of my life over the last 15 years. I didn't think much before hopping onto a plane for even a two-hour-long meeting. This has changed. With time and practice, interactions over video conferencing apps have become more efficient. It has also resulted in shorter, to-the-point meetings.

"Without any early morning or late-night flights to catch, I have been able to spend more time at home. Breaking bread with the family, on the dinner table and without a screen in front of us, is something that I wish for in 2021."

Junk food
Kunal Rawal, designer

"One thing that I've stuck to during the pandemic and hope to continue even in 2021 is eating healthier. Another thing that I've worked on is cleaning my room. My room is usually messy, but the pandemic has me spending a lot more time at home. So I've started cleaning up after myself. That's another thing I want to try and maintain in 2021."


Mangesh Ghogre


Milind Kothari


Nithin Kamath


Kunal Rawal

The Times of India

200 petrol pumps in Mum to support strike call on Jan 4

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200 petrol pumps in Mum to support strike call on Jan 4

Mumbai: All petrol, diesel and CNG pumps in Mumbai metropolitan region have extended support to the January 4 strike call by private CNG pump owners to protest against Mahanagar Gas Limited 'forcing' them to sign 15-year lease agreements.

Said M Venkatrao of Petrol Dealers' Association (PDA), "We had an urgent meeting of all pump owners on Tuesday and have given 100% support to the strike call. The MGL cannot arm twist these private CNG pump owners and take their land on lease." The unconditional support by PDA indicates that over 200 pumps will support the call. TNN

Indian Oil gears up to meet fuel demand recovery

Crude oil throughput of Indian Oil refineries rose to 100% in November 2020, as consumption of all petroleum products reached almost pre-COVID times. In October 2020 this figure was 88%, and last year for the same period it was 99%. As the Indian economy prepares to bounce back, Indian Oil has gradually raised the throughput of its refineries to the maximum capacity in six months from about 55% of rated capacity at the beginning of May 2020. During November 2020, the sale of Motor Spirit (petrol) was 1.06 MMT, which is higher by 4% as compared to the same period last year.

Indian Oil launches XP100 – India's first 100 octane petrol

In a move that can be a potential game-changer in the petroleum fuel retail market in India, Indian Oil recently launched a world-class premium grade petrol (100 octane) in the country. Branded as XP100, the premium grade petrol was launched across 10 cities by Dharmendra Pradhan, minister of petroleum and natural gas and steel, in the virtual presence of Tarun Kapoor, secretary, ministry of petroleum and natural gas and steel; Shrikant Madhav Vaidya, chairman; D SSV Ramakumar, director (R&D) Indian Oil; Gurmeet Singh, director (Marketing), Indian Oil and other senior officials