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Deal maker JC Flowers breaks own rules to join India asset sale

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Bloomberg

JC Flowers & Co made a name for itself by investing only in financial companies and eschewing all other industries, but there's one place on Earth where so many bargains abound that the firm is breaking its cardinal rule.

In India, where banks are auctioning off distressed borrowers under the supervision of courts, JC Flowers and its local partner are raising an initial $250 million to take part in the bonanza.

"India is the only country where Flowers is seeking investment opportunities outside the financial services space," said KM Jayarao, executive vice chairman of Ambit Flowers Asset Reconstruction Co. "Investors will get to pick up many good assets cheap as banks have to stick to tight deadlines on resolution and don't have much time to manoeuvre and sometimes have limited alternatives."

It's bargain season in India, where years of excessive borrowing has created a distressed-asset market that at least one banker describes as the opportunity of a lifetime. The vulture investors are swooping in, and JC Flowers will be competing for deals with the likes of Canada's second-largest pension fund Caisse de depot et placement du Quebec and Bain Capital.

JC Flowers was set up in 1998 by J Christopher Flowers, 60, who co-founded the financial institutions merger group at Goldman Sachs Group Inc and was ranked among Wall Street's top dealmakers when it came to banks. Globally, JC Flowers keeps to the financial services sector; it had raised three funds and had $6 billion in assets under management as of August 2017.

Mid-sized firms in sectors such as cement, steel or textiles —with assets on the ground like land and factories and good managements—would be ideal acquisition targets in India, said Jayarao. The ARC won't consider trading, construction or jewellery firms that typically don't own hard assets, he said.

One of the first things Jayarao would do on acquiring a distressed company would be to cut debt through a mix of discounted payments to banks and new equity capital, and he'd bring in new management if needed. The average size of each purchase would be about $40 million and the ARC would look to exit from the investment within three to five years.

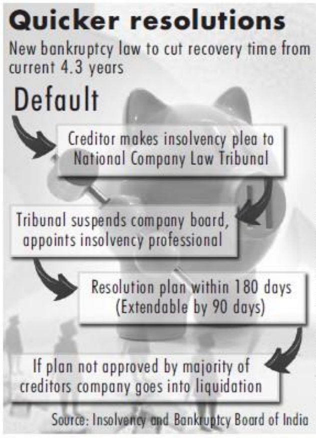
The Ambit Flowers ARC is in talks to top up the fund with more money from overseas investors, which will be used to buy more distressed assets once the initial amount is used up, Jayarao said.

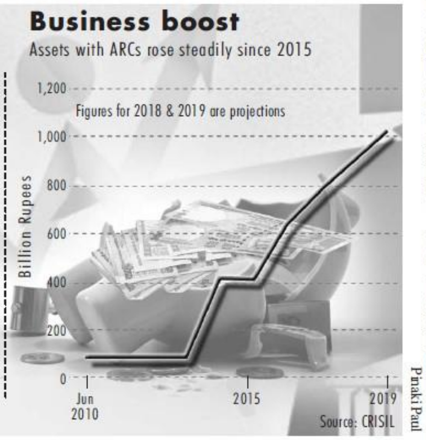
Jayarao had helmed India's first stressed-asset recovery team. It was set up by ICICI Bank when the Mumbai-based lender struggled with soured debt back in 2000, and then again in 2015. Jayarao had a 35-year banking career with ICICI starting in 1982, and he joined Ambit Flowers in his current role in September 2017.

India's bad-loan situation was a murky affair until about two years ago. Since then, there have been a slew of measures to compel banks to resolve all soured loan accounts within 180 days or push debtors into bankruptcy proceedings. While these steps ensure quicker resolution, the strict deadlines mean that banks may be forced to offer deep discounts to dispose off assets -- possibly more than 50 per cent.

Moreover, owners of top delinquent firms aren't allowed to bid for the assets, which stands to further depress prices. That's enthused buyers such as Bain Capital, which won the support of Binani Cement's lenders last week as it seeks to take over the insolvent Indian company. Separately, Montreal-based Caisse and other global investors like SSG Capital Management are backing Indian ARCs.

India's new bankruptcy framework "is skewed in favour of buyers," Jayarao said.





Assets under stress

Sector	Number of companies	Proportion of top 50 corporate stressed assets (percentage)
Metals	7	30
Construction	17	25
Power	11	15
Other sectors	15	30
Total	**50**	**100**